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# Official Transcript of Proceedings

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*Before the*

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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 35

DATE: Thursday, March 19, 1998

PLACE: Washington, D.C.

PAGES: 18547 - 19195

ANN RILEY & ASSOCIATES, LTD.  
1250 I St., N.W., Suite 300  
Washington, D.C. 20005  
(202) 842-0034

16 The above-entitled matter came on for hearing,  
17 pursuant to notice, at 9:31 a.m.

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

25

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1 APPEARANCES:

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4 ERIC KOETTING, ESQUIRE

5 RICHARD COOPER, ESQUIRE

6 MICHAEL TIDWELL, ESQUIRE

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	C O N T E N T S				
2	WITNESS	DIRECT	CROSS	REDIRECT	RECROSS
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4	BY MR. REITER	18565			
5	BY MR. LEVY		18601		
6	BY MR. RICHARDSON		18637		
7	BY MR. LEVY		18731		
8	JOHN T. PICKETT				
9	BY MS. DOCHEK	18754			
10	BY MR. WELLS		18785		
11	BY MR. BERGIN		18827		
12	BY MR. WELLS		18841		
13	BY MR. FELDMAN		18842		
14	JAMES D. YOUNG				
15	BY MS. DUCHEK	18849			
16	BY MR. WELLS		18865		
17	BY MR. BERGIN		18921		
18	BY MR. FELDMAN		18937		
19	MICHARL R. McGRANE				
20	BY MR. REITER	18945			
21	BY MR. MAY		18972		
22	BY MR. WIGGINS		18982		
23	BY MR. McKEEVER		18997		
24	JEFFERY W. LEWIS				
25	BY MR. REITER	19013			

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1	C O N T E N T S [continued]			
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4	BY MR. HOLLIES	19028		
5	BY MR. McKEEVER		19039/19054	
6	TIMOTHY D. ELLARD			
7	BY MR. TIDWELL	19056		
8	BY MS. DREIFUSS		19173	
9				
10	DOCUMENTS TRANSCRIBED INTO THE RECORD:			PAGE
11	Rebuttal Testimony and Exhibits of M. Richard			
12	Porras, USPS-RT-11			18567
13	Cross-Examination Exhibit No. ANM-XE-1			18635
14	Cross-Examination Exhibit No. ANM-XE-2			18636
15	Cross-Examination Exhibit No. OCA-XE-1			18660
16	Cross-Examination Exhibit No. OCA-XE-2			18664
17	Cross-Examination Exhibit No. PO-XE-1			18730
18	Rebuttal Testimony and Exhibits of John T.			
19	Pickett, USPS-RT-2			18757
20	Rebuttal Testimony and Exhibits of James D.			
21	Young, USPS-RT-3			18851
22	Rebuttal Testimony and Exhibits of Michael			
23	R. McGrane, USPS-RT-12			18947
24	Cross-Examination Exhibit No. RIAA/USPS-XE-1			18996
25	Cross-Examination Exhibit No. UPS-McGRANE-XE-1			19011

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	DOCUMENTS TRANSCRIBED INTO THE RECORD: [continued]	PAGE
1	Rebuttal Testimony and Exhibits of Jeffery W.	
2	Lewis, USPS-RT-9	19015
3	Rebuttal Testimony and Exhibits of Julie F.	
4	Rios, USPS-RT-10	19030
5	Rebuttal Testimony and Exhibits of Timothy	
6	D. Ellard, USPS-RT-14	19058
7		

**E X H I B I T S**

	EXHIBITS AND/OR TESTIMONY	IDENTIFIED	RECEIVED
10	EXHIBITS AND/OR TESTIMONY	IDENTIFIED	RECEIVED
11	Rebuttal Testimony and Exhibits of		
12	M. Richard Porras, USPS-RT-11	18566	18566
13	Cross-Examination Exhibit No.		
14	ANM-XE-1	18630	18634
15	Cross-Examination Exhibit No.		
16	ANM-XE-2	18631	18634
17	Cross-Examination Exhibit No.		
18	OCA-XE-1	18647	18659
19	Cross-Examination Exhibit No.		
20	OCA-XE-2	18655	18663
21	Cross-Examination Exhibit No.		
22	PO-XE-1	18720	18729
23	Rebuttal Testimony and Exhibits of		
24	John T. Pickett, USPS-RT-2	18755	18755
25			

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

2     EXHIBITS AND/OR TESTIMONY                   IDENTIFIED   RECEIVED

3     Rebuttal Testimony and Exhibits of

4         James D. Young, USPS-RT-3                   18849       18849

5     Rebuttal Testimony and Exhibits of

6         Michael R. McGrane, USPS-RT-12           18946       18946

7     Cross-Examination Exhibit No.

8         RIAA/USPS-XE-1                           18988

9     Cross-Examination Exhibit No.

10      UPS-McGRANE-XE-1                           19010

11      Rebuttal Testimony and Exhibits of

12         Jeffery W. Lewis, USPS-RT-9           19014       19014

13      Rebuttal Testimony and Exhibits of

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15      Rebuttal Testimony and Exhibits of

16         Timothy D. Ellard, USPS-RT-14       19057       19057

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1

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

2

[9:31 a.m.]

3

CHAIRMAN GLEIMAN: Good morning.

4

We continue hearings to receive testimony in  
rebuttal to direct cases of participants other than the  
Postal Service.

7

We're scheduled to receive testimony of United  
States Postal Service Witnesses Porras, Pickett, Young,  
McGrane, Lewis, Rios, and Ellard and CTC Distribution  
Services Witness Clark, who was originally scheduled to  
appear after Witness Porras but has been rescheduled and  
will appear at the last -- as the last witness on tomorrow,  
Friday, March the 20th.

14

On March 12th, the Office of the Consumer Advocate  
submitted a motion asking that official notice be taken of  
certain Postal Service reports, specifically financial and  
operating statements from AP1 1996 through AP5 1998 and the  
1997 annual report of the Postal Service.

19

The motion is essentially unopposed, and I will  
grant it.

21

OCA contends that it is appropriate to take  
official notice of regular filed reports pursuant to the  
Commission's rules, such as financial and operating  
statements. These documents are matters peculiarly within  
the general knowledge of the Commission as an expert body.

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1                 Similarly, the Postal Service annual report is  
2 largely self-authenticating.

3                 The Alliance of Non-Profit Mailers filed a reply  
4 supporting the OCA motion. It notes these documents are  
5 public records which can be accepted into evidence under the  
6 Federal Rules of Evidence.

7                 The Postal Service also filed a reply which  
8 recognizes that these documents are of the type which the  
9 Commission may take official notice.

10                The Postal Service includes the caveat that the  
11 Commission should recognize that the weight due information  
12 contained in these documents must be determined with due  
13 regard to the nature of the documents.

14                Let me assure the Postal Service that the  
15 Commission will exercise care to accord the proper weight  
16 that these documents deserve.

17                During yesterday's hearing, I requested that  
18 responses to a Postal Service motion to strike a portion of  
19 the rebuttal testimony of Magazine Publishers of America  
20 witness Cohen be filed by noon today.

21                Late yesterday afternoon, a joint opposition to  
22 that motion was submitted by eight parties.

23                Additionally, the Magazine Publishers of America  
24 submitted a work paper providing additional explanatory  
25 information on the development of a table appearing at page

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1       13 of Witness Cohen's testimony.

2                 I want to thank counsel for responding so  
3 promptly. Cooperation is tremendously important if we're to  
4 complete this round of hearings as scheduled and conclude  
5 the development of the evidentiary record.

6                 I will deny the Postal Service motion to strike.

7                 The Postal Service contends that the referenced  
8 portion of Witness Cohen's testimony is not true rebuttal  
9 because it reiterates a point made in direct testimony filed  
10 by Witnesses Cohen and Stralberg.

11                The Postal Service also contends that Witness  
12 Cohen failed to provide adequate documentation for the table  
13 on page 13 of her testimony.

14                Witness Cohen's testimony addresses a point raised  
15 by United Parcel Service Witness Sellick. Rebuttal to that  
16 testimony is permissible, and the Postal Service itself has  
17 submitted rebuttal testimony which tends to support its  
18 initial filing at the same time it controverts points raised  
19 by intervenors.

20               My ruling striking a portion of Witness Degen's  
21 rebuttal testimony was not premised on the fact that Degen  
22 argues that the analysis in the testimony he filed as part  
23 of the Postal Service direct case is valid. A vast majority  
24 of his rebuttal testimony makes that argument and it remains  
25 in the record.

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1           My ruling yesterday hinged on Degen's use of  
2 information withheld from other participants.

3           I commented yesterday that the calculations  
4 contained in Witness Cohen's Table 1 did not seem to be  
5 thoroughly explained. By submitting the work-paper fully  
6 detailing the derivation of the table, NPA appears to have  
7 met the Postal Service concern on that point.

8           Obviously, it would have been more helpful had the  
9 information been made available on the date that the Cohen  
10 testimony was filed. However, it does not appear that any  
11 participant will have been prejudiced by the delay in  
12 providing the information.

13          Should it appear that this work-paper, as  
14 clarified by reasonable cross examination, does not  
15 adequately explain the reference table, I will entertain a  
16 renewed motion to strike.

17          Does any participant have a procedural matter to  
18 raise before we begin this morning?

19           [No response.]

20          CHAIRMAN GLEIMAN: If not, then, Mr. Reiter, could  
21 you please identify your first witness so that I can swear  
22 him in?

23          MR. REITER: Yes, Mr. Chairman. Our next witness  
24 is Richard Porras.

25          CHAIRMAN GLEIMAN: Mr. Porras, if you could please

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1 stand and raise your right hand.

2 Whereupon,

3 RICHARD PORRAS,  
4 a rebuttal witness, was called by counsel for the United  
5 States Postal Service and, having first been duly sworn, was  
6 examined and testified as follows:

7 CHAIRMAN GLEIMAN: Please be seated.

8 Counsel, you may proceed to introduce the witness'  
9 testimony.

10 DIRECT EXAMINATION

11 BY MR. REITER:

12 Q Mr. Porras, I will hand you a copy of a document  
13 entitled "Rebuttal Testimony of M. Richard Porras on Behalf  
14 of United States Postal Service," which has been designated  
15 USPS-RT-11. Was this testimony prepared by you or under  
16 your direction?

17 A Yes.

18 Q And if you were to testify here orally today,  
19 would your testimony be the same?

20 A Yes.

21 MR. REITER: Thank you.

22 Mr. Chairman, I will hand two copies of his  
23 testimony to the reporter and ask that it be accepted into  
24 evidence.

25 CHAIRMAN GLEIMAN: Are there any objections?

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1 [No response.]

2 CHAIRMAN GLEIMAN: Hearing none, the testimony and  
3 exhibits of Witness Porras are received into evidence, and I  
4 direct that they be transcribed into the record at this  
5 point.

6 [Rebuttal Testimony and Exhibits of  
7 M. Richard Porras, USPS-RT-11, was  
8 received into evidence and  
9 transcribed into the record.]

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USPS-RT-11

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON DC 20268-0001

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POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

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REBUTTAL TESTIMONY OF  
M. RICHARD PORRAS  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE

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Rebuttal Testimony  
of  
M. Richard Porras

AUTOBIOGRAPHICAL SKETCH

1        My name is M. Richard Porras, and I am Vice President, Controller, for the  
2    United States Postal Service. I have held the Controller position since March  
3    1986; my previous title was Assistant Postmaster General, Department of the  
4    Controller. My responsibilities include the establishment, direction and control of  
5    the financial management operations of the Postal Service, including budget,  
6    payroll, accounting systems and operations in the Accounting Service Centers. I  
7    also direct the Postal Service's capital investment program. I received a  
8    Master's Degree in Business Administration from the University of California at  
9    Los Angeles. I have completed the Advanced Management Program at Harvard  
10   University. I began my career with the Postal Service in 1963 as a post office  
11   clerk in Los Angeles, California. I was selected as a management trainee in  
12   1970, and subsequently served as a general foreman of mails, Manager of  
13   Accounting and Reporting Systems, and Director of Finance. I then served as  
14   General Manager of the Budget and Cost Division in the Postal Service's  
15   Southern Region, Regional Director of Finance in the Northeast Region, and  
16   District Manager of the Northern New Jersey District. I have also served in detail  
17   assignments as Officer-in-Charge of the Bronx, New York, Post Office and as  
18   Regional Director of Customer Services in the Northeast Region. I have

1 represented the Postal Service in Exchange Programs with the Federal Republic  
2 of Germany since 1984 and with the Japanese Post since 1992. In October  
3 1994, I was named Chairman of the Postal Development Action Group, an  
4 international committee of the Universal Postal Union.

1    I.     PURPOSE OF TESTIMONY

2               Dr. John Stapert, testifying on behalf of the Coalition of Religious Press  
3    Associations, has characterized the Postal Service's revenue requirement in this docket  
4    as out of touch with reality. He urges the Commission to "prompt disclosure, on the  
5    record, of the Postal Service's rapidly improving financial health and of the Service's  
6    prospect—even under current rates—for continued robust surpluses."<sup>1</sup> My testimony  
7    rebuts Dr. Stapert's assertions by demonstrating the reasonableness of the Postal  
8    Service's revenue requirement, and explaining why changing the revenue requirement  
9    in this case, other than to reflect actual FY 1997 results in the recovery of prior years'  
10   losses calculation, is neither appropriate nor necessary. I also provide a summary of  
11   test year revenue requirement changes that result from the use of actual inflation data  
12   and other known significant test year changes.

13

14   II.    FLAWS IN DR. STAPERT'S VIEWS

15               Dr. Stapert states that as a practicing clinical psychologist he meets  
16   people "whose perception of reality is significantly distorted"<sup>2</sup> and that "the Postal  
17   Service's revenue requirement reminds me of such patients."<sup>3</sup> He bases his diagnosis  
18   on the fact that the Postal Service has restored a significant amount of its negative

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<sup>1</sup> CRPA-T-1, page 10, line 23.

<sup>2</sup> CRPA-T-1, page 10 line 3.

<sup>3</sup> CRPA-T-1, page 10, line 8.

1 equity over the past three years and the fact that it did better financially in FY 1997 than  
2 the net income reflected in its operating budget.

3 Dr. Stapert asserts that because the Postal Service did better financially in FY  
4 1997 than was estimated in its operating budget, the test year revenue requirement is  
5 no longer reasonable. Just as a doctor would not diagnose a patient's condition merely  
6 on the basis of one symptom, ignoring the patient's other conditions and medical  
7 history, neither can the financial condition of the Postal Service be assessed so  
8 superficially. Further examination reveals that Dr. Stapert's views suffer from serious  
9 flaws.

10 First, Dr. Stapert has done no analysis to ascertain what factors contributed to  
11 better-than-estimated performance in FY 1997 or if the differences between actual  
12 results and the rate case estimates carry forward into the test year. He has ignored  
13 evidence showing that several significant variances which contributed to the favorable  
14 financial outcome in FY 1997 will not recur in the test year.<sup>4</sup> I discuss these more fully  
15 below.

16 Second, Dr. Stapert has also not addressed other critical factors affecting the  
17 Postal Service's financial condition that were raised by witness Tayman in his  
18 testimony. "Without the proposed rate increase, the Postal Service cannot meet the  
19 Board of Governors' policy on equity restoration, nor can it fund expenditures critical to

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<sup>4</sup> Tr. 9/4437-40.

1 the future viability of the Postal Service." USPS-T-9, at 9. Dr. Stapert also does not  
2 take into account Mr. Tayman's explanation that, because of the hypothetical nature of  
3 the test year, the proposed rates and additional net revenue were intended to and will  
4 endure beyond the test year in this case. Tr. 9/4458. The net revenue generated by the  
5 requested rate increases is intended to fund, among other things, programs "designed  
6 to continue service improvements, improve responsiveness to customers, maintain and  
7 improve our infrastructure, and reduce costs in the future." *Id.* Any proposal which  
8 could result in a substantial reduction in the net revenue requested by the Postal  
9 Service must address the issue of how the Postal Service can carry out programs and  
10 policy choices determined by management and the Board to be in the best interests of  
11 the Postal Service and the public without the rates and revenue requested. Dr.  
12 Stapert's overly simplistic analysis has failed to address these issues, which I also  
13 discuss in more detail below.

14 Finally, in his testimony Dr. Stapert refers to the variance between rate case  
15 estimates and the FY 97 operating budget as a basis for criticizing the Postal Service's  
16 revenue requirement. Tr. 22/11745. He does not take account of the fact that the  
17 operating budget was developed prior to the FY 1997 estimate developed for the rate  
18 case and reflected significantly less net income (\$55 million in the Operating Budget  
19 versus \$636 million in the rate case). Dr. Stapert has reconsidered his position, stating  
20 in response to an interrogatory that "within the context of this proceeding, variances  
21 from the rate-case estimate of \$636 million FY 97 net income are more relevant than

1 are variances from the Postal Service's FY 97 plan of \$55 million net income." Tr.

2 22/11765.

3

4 III. THE POSTAL SERVICE'S REVENUE REQUIREMENT AND MANAGEMENT'S  
5 GOALS AND OBJECTIVES.  
6

7 It is essential that the Commission's Recommended Decision not undermine the  
8 goals and objectives set by postal management. Management's financial goals and  
9 objectives are established as part of an extensive process. These goals, and the future  
10 of the Postal Service, could be compromised by significant changes to the amount of  
11 net revenue requested by the Postal Service. In this respect, I endorse and adopt the  
12 response that witness Tayman provided to DMA/USPS-T9-39, which was apparently  
13 not included in the record thus far. As witness Tayman, explained, and as I also  
14 believe:

15 If changes to the revenue requirement were to result in a Recommended  
16 Decision that significantly changed the amount of net revenue requested by the  
17 Postal Service in this filing, management's current goals and objectives could  
18 be undermined, especially if the revisions were to result in significant departure  
19 from the Postal Service's proposals. As I have tried to explain, management's  
20 assessment of the overall revenue requirement is the result of balancing a  
21 complex array of quantitative and subjective considerations. The entire filing,  
22 furthermore, including the specific pricing and classification proposals,  
23 embodies management's judgment about how those considerations should be  
24 balanced, and about the appropriate financial policy goals for the Postal  
25 Service. This is not to say that any departure from specific proposals or

1       estimates would necessarily compromise management's financial policy. I do  
2       believe, however, that any mechanical adjustment of the revenue goals in the  
3       case due to more recent information, in a way that would lead to substantial  
4       change in the Postal Service's pricing and other proposals, would be a mistake  
5       and would likely subvert the Postal Service's policy objectives. Accordingly,  
6       any changes in estimates due to actual performance or other events should be  
7       assessed comprehensively, and not selectively, and should be evaluated in the  
8       context of the entire filing. In this respect, it would not be unreasonable, nor  
9       unprecedented, for the Postal Service to conclude that the effects of particular  
10      changes, including actual financial performance, caused a reassessment of the  
11      elements of the revenue requirement in a way that permitted the Postal Service  
12      to determine that its financial and other policy objectives were still best served  
13      by adherence to its original revenue requirement. In fact, this is exactly the  
14      reasoning that has led the Postal Service to conclude in past cases that  
15      unforeseen expenses or liabilities that came to light during the litigation did not  
16      alter its proposals. For example, this is what happened in Docket No. R90-1,  
17      with the passage of the Omnibus Budget Reconciliation Act (OBRA) of 1990.  
18      In that case, the Postal Service evaluated the effects of the change and  
19      decided that the increased expenses in the interim and test years should not  
20      alter the overall amount of revenue sought in the case. Rather, the Postal  
21      Service would settle for a reduction in the amount available for contingencies,  
22      which in the context of the entire filing was judged to be a reasonable  
23      adjustment. A similar reassessment might be appropriate on the particular  
24      facts of this case.

25

26       Reducing the revenue requirement would undermine the Board's financial policy  
27       with respect to program initiatives, the size and frequency of rate increases, and the

1 restoration of equity. I agree completely with Mr. Tayman's assessment and urge the  
2 Commission to evaluate the impact of any potential revenue requirement changes so  
3 as not to subvert the policy objectives of management and the Board, should it decide  
4 to update the Postal Service's original estimates despite the compelling reasons not to  
5 update, which I now present.

6

7 IV. THE PITFALLS OF CHANGING ORIGINAL ESTIMATES

8

9 A. Conceptual Flaws and the Issue of Fairness

10 Due to the time it takes to develop and litigate a rate case, it is inevitable  
11 that some of the factors upon which the original estimates were based will change  
12 subsequent to the filing, and this case is no exception. However, when looked at  
13 comprehensively, the revenue requirement requested by the Postal Service in this case  
14 remains a reasonable basis upon which to base new rates and the Postal Service  
15 believes that no adjustments are necessary.

16 The practice of substituting updated information for original estimates  
17 complicates the ratemaking process. I believe such an approach is unwise for a  
18 number of reasons. Updated information does not receive the thorough analysis and  
19 review by interested parties that the ratemaking process provides for original estimates.  
20 It seems unfair for intervenors to spend months evaluating the Postal Service's  
21 estimates only to have them changed after the fact. A Recommended Decision based

1 on information substituted for original estimates at the end of the case does not afford  
2 rate case participants the opportunity to review, analyze and comment on the  
3 ramifications of the changes. Without a complete update of all affected testimonies,  
4 workpapers, and a re-running of the rollforward model (i.e. starting over again from  
5 scratch), updating also increases the odds of errors and a flawed revenue requirement.  
6 When major changes are made to the original filing, issues that might otherwise have  
7 been resolved during the process of discovery and hearings would not even surface  
8 until after the Commission's Recommended Decision is a fait accompli.

9

10       B.     FY 1997 Actual Results

11           Before I discuss other potential problems that could result from updating, I  
12 will address FY 1997 actual results and their potential effect on Test Year expense  
13 estimates. (See Exhibit A). It must first be noted that most of the favorable variance to  
14 FY 1997 estimated net income was related to revenue, which was higher than  
15 estimated, primarily because of the UPS strike. Actual FY 1997 expenses were only  
16 0.3 percent under the amount estimated in the filing. This relatively minor difference is  
17 a strong indication that the substitution of actual FY 1997 expenses for the FY 1997  
18 estimates reflected in this filing would add needless complexity to the case and is  
19 unnecessary. Because the FY 1997 expense estimates were very close to the actual  
20 results, the adjustment of FY 1997 estimates to reflect actual FY 1997 expenses into  
21 the rollforward model should not have a significant effect on test year segment costs. In

1 addition, the substitution of actual FY 1997 expenses for the amounts currently  
2 reflected in the filing carries the significant risk, which I will discuss below, that invalid or  
3 insufficient test year estimates could result.

4

5 C. Technical Problems

6 Technical problems could also result from the substitution of actual FY 1997  
7 results as the base from which expenses are rolled-forward into the test year. The UPS  
8 strike had a dramatic effect on FY 1997 finances. While approximations of how much  
9 revenue and expense related to the strike should or should not be rolled-forward into  
10 the test year might be made, the accuracy and validity of such estimates would be  
11 questionable. I believe reliance on the FY 1996 actual base provides a representative  
12 and valid test year revenue requirement.<sup>5</sup>

13 Another technical issue relates to the fact most of the other program change  
14 factors used to develop test year cost component estimates reflected in the rollforward  
15 were zero based. Even though some programs incurred less expense than estimated  
16 for FY 1997, this does not reduce the amount required for other programs in the test  
17 year. If the Commission were to update FY 1997 to reflect actual expenses, the

---

<sup>5</sup> Any effects on FY 1996 operational experience arising from changes due to classification reform have been considered in the rollforward model and addressed elsewhere in the record of these proceedings. These adjustments are discussed in the testimony of witness Patelunas, USPS-T-15, pages 14-15. The calculation of the adjustments is presented in USPS LR-H-126.

1 application of the original other program change factors would in many cases result in  
2 underestimated cost component totals for the test year and would have a detrimental  
3 impact on the future life of the programs. For example, the cost of component 174,  
4 ADP supplies and services, was estimated to be approximately \$426 million for FY  
5 1997 and \$721 million in the test year due to a major emphasis on new and upgraded  
6 computer systems including Point of Service, Corporate Call Management, Associate  
7 Office Infrastructure, Air Reservation System, and Year 2000 Software. The actual FY  
8 1997 expenses for component 174 were less than estimated. Thus the addition of the  
9 original test year other program change factor of \$295 million to actual FY 1997  
10 component 174 costs would result in a test year estimate that is insufficient to support  
11 the Postal Service's program plans during the test year and in future years during which  
12 the proposed rates might be in effect. This effect would apply to other programs as  
13 well. As witness Tayman testified, these initiatives are "designed to continue service  
14 improvements, improve responsiveness to customers, maintain and improve our  
15 infrastructure, and reduce costs in the future." USPS-T-9, at 9. They are critical  
16 elements in carrying out the Board of Governors' policy determinations.

17 Another similar example of this situation relates to workers' compensation  
18 expense. As witness Tayman testified, the reduction to FY 97 workers' compensation  
19 expense relates mainly to prior year injury costs and is not expected to be repeated in  
20 the test year. Tr. 9/4439. Consequently, the addition of the original workers'

10

1 compensation other program change factor for the test year to the actual expense for  
2 FY 1997 would result in a total test year expense that is too low.

3 As the discussion above makes clear, virtually all change factors for other  
4 programs would require recalculation in order to present accurate Test Year estimates if  
5 FY 1997 actual results are substituted for the current FY 1997 estimates. While this  
6 could be done, it would be time consuming and would not be superior to relying on the  
7 original estimates, in light of the overall appropriateness of the Postal Service's  
8 proposals.

9 A related technical issue which warrants examination is the complexity and  
10 difficulty of substituting FY 1997 actual results into the Rollforward Expense Factor  
11 Model(s) contained in Library Reference H-12. Incorporating these changes would  
12 involve not only the development and incorporation of updated actual data, but would  
13 also require changes to the models themselves in order to accommodate FY 1997 as  
14 the base year. Such changes would require a significant amount of re-programming  
15 and manual intervention, including revisions of numerous supporting schedules and  
16 workpapers. The time required to identify and calculate the required adjustments,  
17 substitute the results into the rollforward factor development model, make any needed  
18 adjustments to other model components, and produce updated rollforward factors  
19 would be substantial. The need to update for actual data could also be construed to  
20 apply to actual FY 1997 mail volume. Such an exercise would for all practical purposes  
21 result in completely redoing the revenue requirement. In my opinion, it is both unwise

1 and unwarranted to attempt such major revisions at the eleventh hour. This is  
2 particularly true when the factors produced by such an exercise and their use in  
3 developing updated test year costs are untested and would not be subjected to scrutiny  
4 as part of this proceeding. When one considers the relatively minor differences  
5 between the expenses estimated for FY 1997 and actual FY 1997 expenses, and the  
6 relatively minor effect on test year expenses of the changes which are identified in  
7 Exhibits B and C, it becomes intuitively obvious that updating should have a negligible  
8 impact on the overall test year revenue requirement if calculated correctly and properly  
9 applied. However, updated factors and changes could result in errors and a deficient  
10 revenue requirement if calculated incorrectly or improperly applied. In the final analysis,  
11 updating for FY 1997 actual results would not be superior to relying on estimates  
12 founded on the original FY 1996 base year.

13

14       D.     Impact of Other Changes on the Revenue Requirement

15       In addition to FY 1997 actual results, a number of other changes have occurred  
16 that affect test year accrued costs. In total, these changes have a relatively minor  
17 impact and for that reason I would argue that there is no compelling reason to make the  
18 adjustments, particularly when the numerous problems associated with updating are  
19 considered. The identified changes to test year accrued cost are calculated in my  
20 workpapers and exhibits and summarized in Exhibit B. The revenue requirement is

1 summarized in Exhibit C. I will briefly discuss each of the changes that have been  
2 identified.

3 The July 1997 and January 1998 cost-of-living allowances (COLA) paid to  
4 bargaining unit employees beginning August 30, 1997 and March 14, 1998 were  
5 estimated to be \$333 and \$270 per eligible employee, based on the DRI forecast for the  
6 CPI-W used for this filing. The actual COLAs were lower than estimated at \$166 and  
7 \$167 per eligible employee. This reduces the test year personnel cost level change by  
8 \$207.8 million, CSRS Unfunded Liability expense by \$17.8 million, and repricing of  
9 annual leave expense by \$3.2 million.

10 The employer contribution rate for employees covered by the Federal  
11 Employees' Retirement System (FERS) was reduced from 11.4 percent to 10.7 percent  
12 of basic pay, effective October 1, 1997. This change was not known at the time the  
13 revenue requirement was developed and reduces the test year personnel cost level  
14 change by \$102.3 million.

15 The effect of actual Federal Employee Health Benefit Program premiums has  
16 also been calculated. The Office of Personnel Management had estimated that the  
17 employer share of health benefit premiums effective on January 3, 1998 would increase  
18 by an average 5.0 percent, and this assumption was used to develop personnel cost  
19 level factors and annuitant health benefit costs in this filing. The actual change in  
20 average Postal Service annuitant health benefit premiums was 4.6 percent. This  
21 amount was calculated from the December, 1997 and January, 1998 annuitant health

1 benefit bills from the Office of Personnel Management. The actual increase in average  
2 premiums per active employee was 3.72 percent based on the USPS health benefits  
3 enrollment status report, which reflects the actual cost of premiums and the number of  
4 covered employees both before and after the open season. These changes decrease  
5 test year personnel costs by \$23.0 million.

6 In addition to cost level, the personnel cost changes discussed above also  
7 impact personnel related cost reductions, other programs, workload, and the workyear  
8 mix adjustment. The net test year impact of these changes is a decrease of \$3.6  
9 million.

10 The test year effect of actual FY 1997 inflation indices on non-personnel costs  
11 and CSRS annuitant COLAs has also been calculated. CSRS annuitant COLA costs  
12 are reduced by \$27.2 million when actual calendar year third quarter CPI indices are  
13 substituted for the estimated third quarter indices. Test year transportation costs are  
14 reduced by \$57.6 million as a result of substituting actual FY 1997 inflation indices for  
15 the DRI inflation estimates used in the filing and the net impact of similar changes on all  
16 other non-personnel costs is an increase of \$0.7 million. The non-personnel cost level  
17 changes are quantified in Exhibit G.

18 Note interest will be lower in the test year by \$116.3 million as a result of  
19 borrowing less than estimated at the end of FY 1997. Test year note interest was  
20 updated to reflect this change. Tr. 19C/9199-9204. This decrease is partially offset by  
21 the capitalization of less interest expense than originally estimated in this filing. The

1 original capitalized interest estimate of \$67.4 million has been reduced by \$29.4 million  
2 to reflect FY 1997 actual results. Projects are being closed out in a more timely manner  
3 than originally assumed and a significant amount of building improvement projects are  
4 under \$5 million (interest on which is not subject to capitalization).

5 The Postal Service assumed the liability for Post Office Department Workers'  
6 Compensation costs as required by recently-enacted budget reconciliation legislation  
7 (P.L. 105-33). This increases test year costs by \$14.3 million as calculated in the  
8 response to OCA/USPS-T10-1, which I have included in my workpapers.

9 The Postal Service has also been required to comply with Financial Accounting  
10 Standards Board Statement (FASB) 121 which relates to the treatment of impaired  
11 assets. FASB 121 requires that impaired buildings be revalued to the lower of the  
12 building's fair market value or undepreciated balance. This resulted in \$56.8 million of  
13 additional depreciation expense in FY 1997 and is estimated to increase test year  
14 depreciation expense by \$15.0 million.

15 I have also included a reduction of \$55.3 million to reflect a correction to the  
16 calculation of the FY 1997 volume variability adjustment calculated by witness  
17 Patelunas. The corrected amounts were calculated in the response to Presiding  
18 Officer's Information Request No. 12, question 7.

19 There are also several significant changes to programs. Program cost changes  
20 are summarized in Exhibit E.

1        Through accounting period five of FY 1998, highway transportation costs are  
2    11.6 percent higher than the same period in FY 1997. This trend is expected to  
3    continue through the end of FY 1998. More stringent two- and three-day service goals  
4    and an increased emphasis on achieving those goals has resulted in additional highway  
5    transportation costs. As reflected in Exhibit F, highway transportation costs are  
6    estimated to add an additional \$115.8 million to test year costs.

7        The establishment of most of the new Mail Transportation Equipment Centers  
8    has been deferred until FY 1999. The program manager has indicated that most of  
9    these costs will not be incurred in FY 1998. This reduces test year costs by a net of  
10   \$52.2 million.

11       The Year 2000 Software program has been better defined since the rate case  
12   estimates were made and it was determined that a more aggressive posture is  
13   necessary in order to ensure that the Postal Service's systems are upgraded to deal  
14   with year 2000 issues. This increases test year costs by \$298.0 million and represents  
15   a critically important need for the future.

16       While some other programs are currently behind on their spending plans, their  
17   program managers have indicated that they will catch up as the year progresses. They  
18   have indicated that approved FY 1998 program expenses will be incurred. The rate  
19   increase requested by the Postal Service is intended to fund investments in equipment,  
20   facilities, and systems necessary to hold down costs and continue to improve service  
21   quality. These programs and the revenue requirement level necessary to support them

1 have been carefully reviewed and approved by management and the Board of  
2 Governors. There is no justification for any reduction of these planned expenses from  
3 the levels included in the revenue requirement. In my opinion, any adjustment of these  
4 estimates in the nature of predicting expenses based on actual experience for FY 1997  
5 or the first part of FY 1998, would constitute inappropriate interference with the  
6 execution of the Board's policy in choosing to fund these programs.

7 The effect of all of the changes discussed above is summarized on Exhibit B.  
8 These changes result in a net decrease to test year expenses of \$195.0 million or 0.3  
9 percent of the original amount estimated for test year accrued costs. In my opinion  
10 changes of this magnitude do not warrant updating the Postal Service's revenue  
11 requirement for reasons on which I elaborate below.

12

13 V. GIVEN ALL RELEVANT FACTS, THE REVENUE REQUIREMENT SHOULD  
14 NOT BE ADJUSTED

15 A. Balancing Conflicting Goals

16 The Postal Service opted to assume additional risk by requesting the smallest  
17 percentage contingency provision ever in this filing because of an overriding desire to  
18 keep rate increases as low as possible and below the rate of inflation. Faced with  
19 balancing the conflicting goals of providing adequate protection against unforeseen  
20 events during the test year and beyond, and keeping rate increases below the rate of  
21 inflation, the Postal Service chose to emphasize the latter in this case. The Postal

1 Service opted to live with a level of protection below what it normally would have  
2 considered adequate in order to accommodate its rate level goals. As witness Tayman  
3 testified, "the Postal Service might have opted for a larger contingency if the test year  
4 costs projected for this filing had been lower." Tr. 9/4458. Let me reinforce Mr.  
5 Tayman's testimony by stating that had the moderately lower expenses I have  
6 documented in my testimony been known, I would have recommended a slightly larger  
7 contingency to the Board.

8 While improved financial results may have diminished the amount of risk  
9 associated with such a small contingency provision, the rates requested by the Postal  
10 Service in this filing remain reasonable. They represent an overall increase that is less  
11 than half the rate of general inflation; and by waiting until the fourth quarter of FY 1998  
12 or later, their implementation will have been deferred for at least a year and a half  
13 longer than was originally anticipated. The goals of extending the rate cycle and  
14 keeping the rate increase below the rate of inflation are being accomplished without  
15 jeopardizing the progress that has been made in recovering prior years' losses.

16

17       B.     Other Considerations

18       Another factor that contributed to the original decision to opt for a lower  
19       contingency provision was the favorable economic environment that existed at the time  
20       the rate case was developed. Although the Postal Service's recent financial results

1 have been favorable, the economic outlook is currently considerably more uncertain  
2 due to the recent Asian and Latin American financial crises.

3 I am also aware of draft Congressional legislation which would require the Postal  
4 Service and other Federal agencies to absorb the cost of correcting financial inequities  
5 suffered by employees who were placed in the wrong retirement plan during the period  
6 1984 to 1987 when the Government established the Federal Employees Retirement  
7 System. Rough preliminary estimates indicate that the Postal Service could incur  
8 significant unanticipated costs during the test year.

9 Were the rate case filing being made at this time, the increased potential for  
10 adverse economic and legislative impacts during the test year would clearly support the  
11 need for more protection during the test year in the form of a larger contingency  
12 provision. For example, an amount equaling 1.5 percent of accrued expenses would  
13 still be less than the 2.0 percent requested in Docket No. R94-1 and the 3.5 percent  
14 contingencies requested in the three rate cases prior to that.

15 The Postal Service remains satisfied with its filing based on its original estimates  
16 and its requested revenue requirement and does not believe changes are necessary or  
17 warranted. Recommending the revenue requirement requested by the Postal Service  
18 could be viewed as the recognition of moderately lower expense levels that are offset  
19 by a slightly larger contingency. However, should the Commission be inclined to make  
20 significant changes or attempt to update the Postal Service's revenue requirement, it  
21 should consider the practice followed in prior cases where it refrained from explicitly

1 incorporating evidence of increased costs based on actual experience. The resulting  
2 revenue requirement effectively provided less for contingencies than originally  
3 requested. In this case, the revenue requirement requested by the Postal Service to  
4 carry out Board policies leaves more for contingencies if the Commission reduces  
5 estimates based on actual experience. The resulting effective contingency in the range  
6 of 1.5% would be very reasonable.

7           C.     Lessons from Docket No. R90-1  
8

9           The Commission should be mindful of the adverse consequences that resulted  
10 from changes to the Docket No. R90-1 revenue requirement. In that case the Postal  
11 Service took the position that its revenue requirement remained at an appropriate level  
12 despite changes that had taken place after the filing. These changes included the  
13 additional test year costs related to the OBRA of 1990 which only became known very  
14 late in the proceeding. At the time the impact of OBRA became known, the Postal  
15 Service advised the Commission that the additional OBRA costs would have a large  
16 negative effect on the Postal Service's financial condition and would effectively reduce  
17 the Postal Service's contingency provision from the 3.5 percent it had requested to 2.3  
18 percent. Recognizing the practical constraints involved in dealing with updated  
19 information, especially after the record had closed, the Postal Service made a decision  
20 to live with the rates and revenue requirement it had requested even though they were  
21 now considered to be deficient as a result of the OBRA of 1990. Instead of accepting

1 the Postal Service's compromise position, the Commission opted to adjust the Postal  
2 Service's revenue requirement in such a way as to include the costs of the OBRA of  
3 1990 and still balance back to a revenue requirement that was close to the amount  
4 originally requested. According to the Commission, the revenue requirement they  
5 recommended "differs from that proposed (and adhered to in the face of subsequent  
6 developments) by the Postal Service, but since it rests on recognition of established  
7 facts we consider it a more soundly-based revenue requirement figure."<sup>6</sup> The  
8 Commission also reduced the rate increases requested by the Postal Service and then  
9 claimed, based on its view of updated information, that their revised rates would  
10 produce the same amount of revenue estimated by the Postal Service to result from the  
11 rates it requested. The Commission estimated that the net impact of its changes to  
12 rates and the revenue requirement would produce a test year net income very close the  
13 amount estimated by the Postal Service in its filing.

14 If the Commission's changes had been valid, the Postal Service would have  
15 realized a net income during the test year (FY 1992). Instead the Postal Service  
16 incurred a sizable net loss. While part of the contingency provision had to be used to  
17 offset the cost of restructuring, even with that un-anticipated cost the Postal Service  
18 should have been able to realize a net income if the Commission's estimates had been  
19 reliable. Exhibit D compares the Commission's Docket No. R90-1 Recommended

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<sup>6</sup> Docket No. R90-1, Postal Rate Commission Opinion and Recommended Decision, Volume 1, Page II-1 (January 4, 1991).

1 Decision to actual FY 1992 results. The Commission's updated revenue estimate was  
2 \$885 million more than the revenue that actually resulted from the reduced rates it  
3 recommended. The Commission's accrued cost estimate was \$743 million lower than  
4 actual Postal Service expenses. The Commission's changes clearly did not result in  
5 estimates that were closer to actual results than would have resulted if the Postal  
6 Service's filing had been left unchanged as the Postal Service had urged. The  
7 Commission's changes and mis-estimates resulted in a combined revenue shortfall and  
8 cost overrun of \$1.628 billion which effectively consumed the entire 3.5 percent  
9 contingency provision recommended by the Commission. The amount requested for  
10 contingencies in this case is much smaller and would therefore not be able to  
11 compensate for mis-estimates of the same magnitude experienced in the Docket No.  
12 R90-1 test year.

13

14 VI. CONCLUSION

15 For all these reasons, I believe that the revenue requirement underlying the  
16 current filing remains reasonable and does not require any adjustment. On behalf of  
17 the Postal Service, I urge the Commission not to repeat the mistake it made in Docket  
18 No. R90-1 when it substantially changed the Postal Service's revenue requirement.  
19 These changes seriously compromised management's financial goals and objectives  
20 and contributed to the occurrence of a loss in the test year. My testimony has clearly  
21 demonstrated that the revenue requirement requested by the Postal Service remains a

- 1 reasonable basis for determining new rates, and the amount of revenue required to
- 2 support the goals and objectives established by Postal Service management and the
- 3 Board of Governors. I encourage the Commission to render a Recommended Decision
- 4 that is supportive of, and consistent with, these initiatives.

**EXHIBITS**

STATEMENTS OF REVENUE AND EXPENSE- FY 97 ACTUAL COMPARED TO ESTIMATE	USPS-RT-11A
IMPACT OF KNOWN CHANGES ON DOCKET R97-1 TEST YEAR ACCRUED COSTS	USPS-RT-11B
UPDATED DOCKET R97-1 TEST YEAR REVENUE REQUIREMENT	USPS-RT-11C
COMPARISON OF DOCKET R90-1 PRC RECOMMENDED DECISION TO ACTUAL RESULTS	USPS-RT-11D
MAJOR PROGRAM CHANGES IMPACTING DOCKET R97-1 TEST YEAR	USPS-RT-11E
ESTIMATED FY 1998 HIGHWAY TRANSPORTATION EXPENSE	USPS-RT-11F
IMPACT OF FY 97 ACTUAL NON-PERSONNEL INFLATION FACTORS ON R97-1	USPS-RT-11G

EXHIBIT  
USPS-RT-11A

**STATEMENTS OF REVENUE AND EXPENSE  
(\$ IN MILLIONS)**

COST SEGMENT		FY 1997 ESTIMATE	FY 1997 ACTUAL	Over (Under) Estimate Amount	Over (Under) Estimate % %
<b>REVENUES</b>					
OPERATING REVENUE		57,707.7	58,132.0	424.4	0.74%
APPROPRIATIONS		83.4	83.4	0.0	0.00%
INTEREST INCOME		100.2	115.3	15.1	15.08%
<b>TOTAL REVENUES</b>		<b>57,891.3</b>	<b>58,330.8</b>	<b>439.5</b>	<b>0.76%</b>
<b>EXPENSES</b>					
1 POSTMASTERS		1,668.9	1,707.2	38.3	2.29%
2 MANAGERS, SUPERVISORS & TECHNICAL PERSONNEL		3,355.5	3,387.2	31.7	0.94%
3 CLERKS & MAILHANDERS		17,062.7	17,287.7	225.0	1.32%
4 CLERKS, CAG K POST OFFICES		9.7	9.1	(0.6)	-6.45%
6&7 CITY DELIVERY CARRIERS		11,816.3	11,818.5	2.1	0.02%
8 VEHICLE SERVICE DRIVERS		433.5	441.2	7.8	1.79%
9 SPECIAL DELIVERY MESSENGERS		109.7	103.3	(6.4)	-5.80%
10 RURAL CARRIERS		3,575.8	3,528.3	(47.6)	-1.33%
11 CUSTODIAL & MAINTENANCE SERVICES		2,188.9	2,220.5	31.6	1.44%
12 MOTOR VEHICLE SERVICES		619.3	651.1	31.8	5.14%
13 MISCELLANEOUS LOCAL OPERATIONS		279.1	292.5	13.5	4.83%
14 CONTRACTURAL TRANSPORTATION OF MAIL		4,112.7	4,053.1	(59.6)	-1.45%
15 BUILDING OCCUPANCY		1,412.2	1,328.0	(84.3)	-5.97%
16 SUPPLIES & SERVICES		2,707.1	2,368.6	(338.4)	-12.50%
17 RESEARCH & DEVELOPMENT		54.2	68.4	14.2	26.13%
18 HQ & AREA ADMIN. & CORPORATEWIDE PERSONNEL COSTS		4,166.3	3,999.7	(166.6)	-4.00%
19 EQUIPMENT MAINT. & MANAGEMENT TRAINING SUPPORT		36.4	29.1	(7.3)	-19.93%
20 DEPRECIATION, WRITE-OFFS, CLAIMS, & INTEREST		3,647.3	3,772.7	125.4	3.44%
<b>TOTAL ACCRUED COSTS</b>		<b>57,255.7</b>	<b>57,066.4</b>	<b>(189.4)</b>	<b>-0.33%</b>
<b>NET INCOME (LOSS)</b>		<b>635.6</b>	<b>1,264.4</b>		

EXHIBIT  
USPS-RT-11B

Impact of Known Changes on Docket R97-1 Test Year Accrued Costs  
(\$000)

Description	Cost Segment	Component	COLAs 1/	Oct. 1, 1997 FERS Cont. Rate Chg. 2/	Jan. 3, 1998 Health Ben. Prem. Chg. 3/	Actual Inflation Indexes	Other	Totals 10/
Employee Personnel Cost Level (FY 97)	Various	Various	(12,396)					(12,396)
Employee Personnel Cost Level (FY 98)	Various	Various	(195,400)	(102,348)	(23,059)			(320,807)
CSRS Unfunded Liability Principal	18	203	(9,615)					(9,615)
CSRS Unfunded Liability Interest	20	1436	(8,251)					(8,251)
CSRS Annuitant COLA Principal 4/	18	1435				(27,159)		(27,159)
Annuitant Health Benefits	18	208			(1,749)			(1,749)
Repricing of Annual Leave	18	199	(3,218)					(3,218)
Personnel Related Cost Reductions (FY 97) 5/	Various	Various					281	281
Personnel Related Cost Reductions (FY 98) 5/	Various	Various					7,430	7,430
Personnel Related Other Programs (FY 97) 5/	Various	Various					(131)	(131)
Personnel Related Other Programs (FY 98) 5/	Various	Various					(3,911)	(3,911)
Workload 5/	Various	Various					(6,365)	(6,365)
Mix Adjustment 5/	3,6,7	253,256,257					(874)	(874)
POD Workers' Compensation 9/	18	205					14,330	14,330
Note Interest (actual borrowing) 6/	20	587					(116,320)	(116,320)
Capitalized Interest 7/	20	587					29,400	29,400
Transportation 11/	14	Various				(57,560)		(57,560)
All Other Non-Personnel 11/	Various	Various				654		654
Other Programs 12/	Various	Various					361,609	361,609
FY 97 Volume Variability Adjustment 13/	3,11	253,75					(55,298)	(55,298)
Building Depreciation (FASB 121) 8/	20	236					15,000	15,000
<b>Totals</b>			(228,880)	(102,348)	(24,808)	(84,065)	245,151	(194,950)

Notes:

- 1- August 30, 1997 COLA estimated at \$333 vs. actual of \$166. March 14, 1998 COLA estimated at \$270 vs. \$167 actual. See my workpapers.
  - 2- FERS Contribution rate decreases from 11.4% to 10.7% on 10/1/97. See my workpapers.
  - 3- Employer share of health benefit premiums to increase 3.72% for employees and 4.6% for annuitants versus estimate of 5.0%. See my workpapers.
  - 4- CSRS annuitant cola revised to reflect actual PQ IV 1997 actual CPI-W. See my workpapers.
  - 5- Cost reductions, other programs, workload (mail volume, non-volume workload and additional workday) and mix adjustment recalculated to reflect updated cost level factors due to revised cola, health benefit premiums and FERS contribution rate. See my workpapers.
  - 6- Note interest adjusted to reflect impact of actual borrowing in FY 1997. See OCA/USPS-106 and LR H-12 Vb.
  - 7- Interest capitalized revised to reflect actual experience in estimation methodology. See my workpapers.
  - 8- Building depreciation revised to reflect anticipated write off of impaired assets (FASB 121). Judgementally determined by technical staff.
  - 9- FY 98 POD workers' compensation cost reflects liability transfer to USPS under Public Law 105-33. See OCA/USPS-T10-1.
  - 10- These amounts adjust the test year after rates expenses contained in the Docket R97-1 filing.
- FY 97 impacts of these changes which carryover into the test year have also been estimated.
- 11- Substitution of actual FY 97 inflation indexes for DRI forecast used in rate filing. See Exhibit USPS-RT-11G.
  - 12- Net impact of deferred/accelerated programs. See Exhibit USPS RT-11E.
  - 13- Correction of error in USPS-T-15 Appendix A. See response to POIR 12.7.

EXHIBIT  
USPS-RT-11C

**Impact of Updating on Docket R97-1 Test Year Revenue Requirement**  
**Dollars in Millions**

	Original Filing 1/	Updates	Revised Test Year
Total Revenue	61,651.8		61,651.8
Total Accrued Costs	60,563.6	(195.0)	60,368.7
Contingency	605.6	299.9	905.5
Expenses With Contingency	61,169.3	104.9	61,274.2
Prior Years' Loss Recovery	446.9	(69.9)	377.1
Total Revenue Requirement	61,616.2	35.1	61,651.3
Net Surplus (Deficiency)	35.6	(35.1)	0.6

Prior Years' Loss Recovery Calculation	Original Filing 2/	Updates	Revised Test Year
Deficit from Operations FY 72 - FY 96	5,658.0		5,658.0
FY 97 Net Income	635.6	628.8	1,264.4
Less: Funds from PL No. 94-421	1,000.0		1,000.0
Amount of Recovery Required	4,022.4	(628.8)	3,393.6
Annual Increment @ 1/9	446.9	-69.9	377.1

1/ USPS-9A

2/ Table 53, USPS-T-9

**EXHIBIT**  
**USPS-RT-11E**
**Major Program Changes Impacting Docket R97-1 Test Year**  
**Dollars in Thousands**

Segment	Component	Deferred Mail Transportation Equipment Centers	Accelerated/New			Totals
			Year 2000 Software		Highway Service Improvement	
14	143	(9,981)	1/			115,763
15	165	(3,368)	1/			(3,368)
16	175/177	(133,685)	1/			(133,685)
16	184	20,000	4/			20,000
16	174			298,000	3/	298,000
<b>Costs</b>		<b>(127,034)</b>		<b>298,000</b>		<b>115,763</b>
						<b>286,729</b>
3	253	41,431	2/			41,431
11	75	7,922	2/			7,922
16	184	24,285	2/			24,285
14	143	1,241	2/			1,241
<b>Savings</b>		<b>74,879</b>				<b>74,879</b>
<b>Total changes</b>		<b>(52,154)</b>		<b>298,000</b>		<b>115,763</b>
						<b>361,609</b>

1/ Library Reference H-10 Exhibit B (81% of non-personnel costs estimated to slip by program manager).

2/ Library Reference H-10 Exhibit C (96% of non personnel cost savings and 100% of personnel cost savings estimated to slip by program manager).

3/ Additional ADP contractual services required to accelerate Year 2000 Software Program. Estimate developed by program managers.

4/ Additional mail transportation equipment required due to delay in opening of Mail Transportation Equipment Support Centers. Estimate developed by program managers.

5/ Highway transportation service initiatives. See Exhibit F.

**IMPACT OF FY 1997 ACTUAL NON-PERSONNEL INFLATION FACTORS ON R97-1**  
(\$ 000)

Seg	Comp	Name	Inflation Driver	R97-1 FY 97 Est Inflation	R97-1 FY 96 Base Amt	R97-1 FY 97 Calc Cost Lvl <sup>11</sup>	R97-1 FY 97 Calc WL, NV, ADD <sup>11</sup>	R97-1 Total Increase w/ Est. Infl.	FY 97 Actual Inflation	R97-1 FY 97 Calc Increase w/ Actual Infl.	FY 97 Increase/ (Decrease)	R97-1 FY 98 Est Inflation	R97-1 FY 98 Calc Cost Lvl Impact
10	73	Rural Carrier EMA	Anal of EMA Change	4.4291%	302,628	13,404	6,814	20,218	4.2406%	19,635	(583)	2.1357%	(12)
11	81	Contract Cleaners	Rents	2.9700%	49,765	1,478	(495)	983	2.8400%	919	(64)	3.1900%	(2)
12	99	Vehicle Supplies & Materials	Supplies & Materials	0.6200%	303,058	1,665	2,454	4,319	0.1500%	2,897	(1,422)	0.1900%	(3)
108		Rental of Motor Vehicles	Transportation Services	3.3700%	26,831	906	424	1,330	3.0900%	1,252	(78)	2.8800%	(2)
13	115	Individual Awards	CPI	2.9100%	38,306	1,115		1,115	2.5900%	992	(123)	2.6100%	(3)
111		Contracts Stations	Rents	2.9700%	67,986	2,019	2,417	4,436	2.8400%	4,345	(91)	3.1900%	(3)
112		Rental Allowance-Postmasters	Rents	2.9700%	48	1	(2)	(1)	2.8400%	(1)	0	3.1900%	0
113		Tolls & Ferriage	Public Transportation	5.5800%	3,631	203		203	4.6100%	167	(36)	4.4200%	(2)
117		Freight-Supplies & Materials	Transportation Services	3.3700%	1,511	509	(7)	502	3.0900%	41	(461)	2.8800%	(13)
125		Banking Fees	CPI	2.9100%	31,126	906		906	2.5900%	806	(100)	2.6100%	(3)
135		Carfare	Public Transportation	5.5800%	46,704	2,599	117	2,716	4.6100%	2,269	(447)	4.4200%	(20)
141		City Carrier Driveout	Public Transportation	5.5800%	5,259	290	114	404	4.6100%	355	(49)	4.4200%	(2)
14	142	Domestic Air	Air Transportation	6.6300%	1,253,695	83,119	66,896	150,015	3.6200%	110,391	(39,624)	-2.9400%	1,165
143		Domestic Highway	Highway Transportation	3.5100%	1,541,650	54,113	61,233	115,346	2.8800%	105,260	(10,086)	1.4000%	(141)
144		Domestic Rail	Rail Transportation	1.1900%	250,228	2,978	10,939	13,917	0.2800%	11,541	(2,376)	2.8600%	(68)
145		Domestic Water	Transportation Services	3.3700%	24,119	811	1,237	2,048	3.0900%	1,979	(69)	2.8800%	(2)
146		International	Weighted Air/Water	2.3568%	666,121	15,699	(58,500)	(42,801)	1.3024%	(49,222)	(6,421)	-0.9726%	62
15	500	Rents	Rents	2.9700%	570,106	16,932	31,729	48,661	2.8400%	47,880	(781)	3.1900%	(25)
166		Heating Fuel	Weighted Oil/Gas	10.6281%	51,307	5,453	(548)	4,905	7.8800%	3,509	(1,396)	0.1438%	(2)
167		Utilities	Electricity	0.1300%	362,243	471	(3,503)	(3,032)	0.7700%	(736)	2,296	0.1600%	4
168		Communications	WPI for Industrial Commod	1.1900%	136,289	1,622	(59)	1,563	0.7000%	895	(668)	0.2400%	(2)
169		Building Projects Expense	WPI for Industrial Commod	1.1900%	175,214	2,085		2,085	0.7000%	1,226	(859)	0.2400%	(2)
170		Moving Expense	Transportation Services	3.3700%	4,482	151		151	3.0900%	138	(13)	2.8800%	(0)
171		Reimbursements	WPI for Industrial Commod	1.1900%	24				0.7000%	0	0	0.2400%	0
16	174	ADP Supplies & Services	Supplies & Materials	0.6200%	202,995	1,259		1,259	0.1500%	304	(955)	0.1900%	(2)
175		Equip Repair & Maint Exc ADP	Supplies & Materials	0.6200%	31,108	193		193	0.1500%	47	(146)	0.1900%	(0)
176		Custodial Supplies & Services	Supplies & Materials	0.6200%	129,486	803		803	0.1500%	194	(609)	0.1900%	(1)
177		Misc Supplies & Services	Supplies & Materials	0.6200%	900,929	5,586		5,586	0.1500%	1,351	(4,235)	0.1900%	(8)
179		Printing & Reproduction	Printing Services	5.8200%	46,350	(2,698)	(2,698)	(2,698)	-0.0691%	(32)	2,666	2.8800%	77
180		Stamps & Acct Paper	Printing Services	5.8200%	191,201	(11,129)	1,060	(10,069)	-0.0691%	993	11,062	2.8800%	319
181		Money Orders	Printing Services	5.8200%	3,996	(233)	73	(160)	-0.0691%	75	235	2.8800%	7
184		Operating Equip & Supplies	Supplies & Materials	0.6200%	474,052	2,938	6,341	9,279	0.1500%	7,022	(2,257)	0.1900%	(4)
189		Reimbursements	Supplies & Materials	0.6200%	(5,546)	(34)		(34)	0.1500%	(8)	26	0.1900%	0
248		Stamped Envelopes	Printing Services	5.8200%	12,208	(711)	(1,170)	(1,881)	-0.0691%	(1,250)	631	2.8800%	18
18	1429	Individual Awards	CPI	2.9100%	2,790	81		81	2.5900%	72	(9)	2.6100%	(0)
210		Supplies & Services	Supplies & Materials	0.6200%	155,309	963		963	0.1500%	233	(730)	0.1900%	(1)
212		Inspection Svc Expense	CPI	2.9100%	2,594	75		75	2.5900%	67	(8)	2.6100%	(0)
213		Reimbursements	CPI	2.9100%	(4,303)	(125)		(125)	2.5900%	(111)	14	2.6100%	0
244		Commission on Non-US MO	CPI	2.9100%	101	3		3	2.5900%	3	(0)	2.6100%	(0)
19	220	Contract Training Support	CPI	2.9100%	31,155	907		907	2.5900%	807	(100)	2.6100%	(3)
20	239	Domestic Indem	CPI	2.9100%	15,981	465	561	1,026	2.5900%	973	(53)	2.6100%	(1)
240		International Indem	CPI	2.9100%	1,101	32	17	49	2.5900%	45	(4)	2.6100%	(0)
242		Claims & Losses	CPI	2.9100%	94,380	2,746		2,746	2.5900%	2,444	(302)	2.6100%	(8)
	Total				8,198,218	209,850	128,142	337,992		279,771	(58,221)		1,315

<sup>11</sup> Amount calculated by the Rollforward Model for Cost Level, Workload, Non-volume Workload, and Additional Workday.

1 CHAIRMAN GLEIMAN: Two participants requested oral  
2 examination of Witness Porras, the Alliance of Non-Profit  
3 Mailers and the Office of the Consumer Advocate.

4 Does any other party wish to cross examine this  
5 witness?

6 [No response.]

7 CHAIRMAN GLEIMAN: Mr. Levy, are you prepared at  
8 this point to proceed?

9 MR. LEVY: Yes, Mr. Chairman.

10 CHAIRMAN GLEIMAN: If that is the case, would you  
11 please begin?

12 MR. LEVY: Thank you.

13 CROSS EXAMINATION

14 BY MR. LEVY:

15 Q Mr. Porras, good morning.

16 A Good morning.

17 Q I'm David Levy for the Alliance of Non-Profit  
18 Mailers, and I want to ask some questions about projected  
19 loss amounts.

20 The Postal Service, in Fiscal Year 1995, made a  
21 profit, didn't it?

22 A Yes, it did.

23 Q Approximately 1.7 billion?

24 A Approximately \$1.8 billion.

25 Q And it also made a profit in Fiscal Year '96?

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1 A Yes.

2 Q And how much was that amount?

3 A Approximately \$1.6 billion.

4 Q So, about 200 million less than the year before?

5 A Yes.

6 Q And in Fiscal Year '97, the Postal Service made a  
7 profit?

8 A *\$1.264 billion.*  
Of ~~1 billion 264.~~

9 Q And that's about how much less than the year  
10 before?

11 A Approximately -- a little over \$300 million.

12 Q And if we -- in Fiscal Year 1998, if the same  
13 trend continued, what would the Postal Service's profits be?

14 A I'm not looking at the same trend to continue.

15 Q I understand. I'm just asking for the arithmetic,  
16 so we can talk about the deviation.

17 A I'm not sure I can take any number. I don't know  
18 what that's relative to.

19 Q All right.

20 Now, the Postal Service told the Commission at the  
21 beginning of this rate case that it would lose over \$2.4  
22 billion in Fiscal Year 1998 unless the Commission allowed a  
23 rate increase.

24 A We said that we had a revenue deficiency of \$2.4  
25 billion. The actual projected loss was between 1.3 and 1.4

1 billion dollars. Then, on top of that, we added a  
2 contingency, and on top of that, of course, you have the  
3 prior year loss recovery.

4 Q And how much of the 2.4 is the prior year loss  
5 recovery?

6 A At the time we did the filing, it was about, I  
7 believe, \$447 million. ~~Our~~ In my rebuttal, written  
8 testimony, it's \$377 million.

9 Q The Postal Service is still asking the Commission  
10 to accept the 2.4 billion value?

11 A Yes.

12 Q As well as its individual components?

13 A I'm not sure I understand the question on  
14 individual components.

15 Q I'm not sure I do either. I'll withdraw it.

16 On what date did Fiscal Year 1998 begin?

17 A For the Postal Service, ~~the Government, we have~~  
18 we use two years to manage, but the official fiscal year  
19 starts October 1, 1998.

20 Q And that's the test year in the rate --

21 A Excuse me, 1997, October 1, 1997.

22 Q And that's the test year in the rate case?

23 A Yes, it is.

24 Q And that period -- the rate case test year will  
25 end on September 30, 1998?

1           A     Yes.

2           Q     And so we are nearly halfway through the test  
3       year?

4           A     Yes, we're just about halfway through it.

5           Q     And through the first five accounting periods of  
6       the test year, how much money did the Postal Service make,  
7       surplus?

8           A     I can look it up. I brought the AP5 results.

9           Year to date, we have, ~~to AP5,~~ a net income of  
10      \$1,155,000,000.

11          Q     Now, Accounting Period 6 ended in late February?  
12          Is that correct?

13          A     Somewhere in that time-frame.

14          Q     And what's your best estimate of how much the  
15       Postal Service gained or lost during that accounting period?

16          A     AP6?

17          Q     Yes.

18          A     We had a plan, I believe, to lose \$70 million, and  
19       we made approximately \$78 million for the AP, so we did  
20       better than planned by about \$148 million. So, on a  
21       year-to-date basis, we're a little over \$1.2 billion net  
22       income.

23          Q     And would you tell me again, in the \$2.4 billion  
24       loss that you originally projected, how much of that was  
25       projected to be a current loss?

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1           A     At the time we did this, it was between 1.3 and  
2     1.4 billion dollar loss.

3           Q     So, if the Postal Service were to suffer that loss  
4     by the end of the test year, it would have to lose  
5     approximately \$2.5 billion between February 28th and  
6     September 30th?

7           A     If, I go back -- I'm not sure I understand that  
8     question, ~~If~~ because I'm dealing with the test year.  
9     That's the numbers we have in there in terms of the losses,  
10    and hypothetically, that says that we changed prices October  
11    1st.

12           You're talking to me in two different time-frames.  
13    One's an actual year. ~~what's going on here.~~ In terms of the  
14    test year, that's what we have in there. I'm not sure I  
15    fully understand that question.

16           Q     The \$2.4 billion loss -- is that based on before  
17    rates or after rates?

18           A     The revenue deficiency is before rates, but it  
19    includes -- it's not a loss, by the way, going back to  
20    correct that. The \$1.4 billion -- 1.3 to 1.4 -- in the  
21    hypothetical test year was our estimate for the entire year  
22    without changing rates.

23           Q     Okay, 1.4.

24           Now, without changing rates, so far in the test  
25    year the Postal Service has earned a surplus of about --

1           A     Year to date, we have \$1.2 billion net income.

2           Q     So assume for -- assume that the rates currently  
3     in effect remain in effect through the end of the test year.  
4     Do you follow that assumption?

5           A     Okay.

6           Q     In order for the Postal Service to lose \$1.4  
7     billion by the end of the test year under the existing  
8     rates, it would have to lose if my math is right  
9     approximately \$2.5 billion from February 28 through  
10   September 30.

11          A     Um-hum.

12          Q     Is that correct?

13          A     Yes, but let me clarify a point in terms of the  
14   total year just to make certain we're on the same wavelength  
15   to understand the question. When you go back and take my  
16   written testimony, I've gone back and said if you took all  
17   of the underruns that the Postal Service has today --  
18   because I think it's important to take the -- half the year  
19   and understand what's going on there -- and then what we're  
20   projecting for end of the year. I said in my written  
21   rebuttal testimony that the cost at this point would be less  
22   by \$638 million, and I've identified all of those particular  
23   underruns of cost.

24                 Now at the same time I've said that we've got some  
25   other things that have hit the Postal Service that are going

1 to now increase those costs on an annual basis. First of  
2 all, the year 2000. We had in our estimate \$45 million.  
3 It's now up to 300<sup>additional</sup> ~~million~~ dollars. And I'm going to  
4 clarify a few points on that in a moment. ~~but that's~~ <sup>that's</sup> where  
5 costs that we're projecting ~~now~~ to be spent between now and  
6 the end of the year. ~~the~~ <sup>The</sup> \$45 million that we had originally  
7 was insufficient.

8                 The second one is the transportation. We have an  
9 estimate that's going to go up by \$115 million. If you take  
10 ~~all of the~~ <sup>the</sup> ~~these two~~ items combined, that would reduce the deficit that  
11 we talked about by \$195 million.

12               Q      Mr. Porras, between February 28 and September 30,  
13 do you think the Postal Service is going to have a deficit  
14 during those accounting periods of \$2.5 billion?

15               A      We have adjusted for what I just went through. We  
16 have plans in place to spend money to manage a number of  
17 major programs in the Postal Service. I think Bill Tayman  
18 covered those particular programs. Those moneys are to be  
19 spent the rest of the year. Those are the moneys we've  
20 talked about for investments in the organization to improve  
21 service, to improve ~~our~~ customer satisfaction,  
22 infrastructure changes, and cost reductions for the future.

23               A lot of those programs have contracts signed  
24 already. We now have processes in place to have managers  
25 accountable. We've put program managers in charge of a

1       number of these programs. The way that they're set up is  
2       that the moneys are going to be spent between now and the  
3       end of the year. I think we're going to be very close to  
4       that number.

5           Q       My question is a simple one. Do you believe that  
6       the Postal Service is going to suffer a deficit of \$2.5  
7       billion between February 28 and September 30 of this year?

8           A       If I go back to my \$200 million, take that away for  
9       a moment, that would get you to a little <sup>lower</sup> ~~less~~ number. The  
10      program managers have told us -- now I can't get out here  
11      and say they're going to spend it exactly the way they've  
12      said, but they told us they're going to spend that money.  
13      So I have to assume that we're going to end up with these  
14      losses for the rest of the year.

15                  Now some of these program managers may not spend  
16      that money this year. I don't know that. But they're going  
17      to -- it may carry over to next year. It's going to get  
18      spent.

19           Q       Mr. Porras, you're a CPA, aren't you?

20           A       No, I'm not. I'm an MBA.

21           Q       As an MBA, you are aware of the difference between  
22      a cash flow statement and an income statement?

23           A       Yes, I am.

24           Q       And you understand the difference between a cash  
25      outflow and a loss?

1           A     Yes.

2           Q     Is your testimony that all of these program  
3     investments you just talked about are to be booked as losses  
4     in the current fiscal year?

5           A     They're investments, and the investments have more  
6     cash and expense outflow. These are not -- a lot of these  
7     are not just purely capital investments. You take the  
8     priority redesign project, for example. What I'm talking  
9     about are the major expense portions which not only have a  
10    cash flow, but the expense flows exactly with that. That  
11    will hit your books.

12          Q     Of all of these cash outflows you're talking  
13    about, are there benefits -- are the benefits of those  
14    expenditures going to cease at the end of the fiscal year?

15          A     Oh, no, these are investments for the future.  
16    That's my point. You're making expense investments today --  
17    you may in fact get a little bit of revenues. *for example,*  
18    *and Priority* *But*  
19    *delivery confirmation, priority redesign.* but when you take  
20    the additional revenues, the additional costs, the first  
21    year or so, in fact the first couple of years, you're losing  
22    a little bit of money.

23          Now, you'll make it up in the future. It's like  
24    other types of investments. The difference, though, this is  
25    an expense or cash investment. And they flow together.  
26    They don't go differently.

1           Q     The Postal Service expects that these investments  
2     will glean benefits over a number of years into the future?

3           A     Absolutely.

4           Q     If I were a private business, and I make an  
5     investment in year 1 that is expected to yield benefits in  
6     year 1 through 10, is it customary to treat the entire  
7     expenditure as a cost of year 1, or does one amortize it  
8     over the full period?

9           A     It depends. Now we follow generally accounting  
10    principles, and these are laid out to us in particular  
11    financial accounting standards. We follow those completely.  
12    You don't have a choice. It depends what type of expense  
13    you have. Okay? It depends.

14                 *let me*  
15                 Now ~~do we~~ give you one example where you can see  
16    it clearly, which we went through the last time I was here.  
17    *When* ~~was when~~ we had the refinancing of our debt, and we took a  
18    hit in 1993. We had no choice. We had to write off the \$857  
19    million, I believe. Yet it gave us a \$2.2 billion benefit  
   over 20 years.

20                 I had no choice. I had to book it the way I was  
21    told to book it. We have external auditors, outside  
22    auditors that go through these things. I don't have a  
23    choice to do what I want. We've got to comply with  
24    generally accepted accounting principles. I don't have a  
25    choice.

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1           Q     Let me ask you a different question. Of all of  
2     the expenditures of the type we are discussing -- that is,  
3     expenditures planned to be made in this fiscal year that are  
4     projected to have benefits beyond the end of the fiscal  
5     year --

6           A     Most of the major --

7           Q     I'm sorry, I haven't finished my question.

8           A     Okay, I'm sorry.

9           Q     Of all those expenditures that you have included  
10    in the \$1.4 billion loss projection for the test year, how  
11    many of those expenditures are expected to produce benefits  
12    over a period of multiple years?

13          A     I don't know if I could go to the specifics. I  
14    would basically conclude that generally most of them, even  
15    if I take for example -- and let me give you a good example  
16    here -- if I take the <sup>Year</sup> 2000, and we have to do that or  
17    we are going to have some problems with our financial  
18    systems, our payroll systems -- I think that's of benefit to  
19    the organization, of course, because we have to pay our  
20    employees. We have got to do some things.

21           I would say that generally gives you a benefit in  
22    the future. We have got some infrastructure changes going  
23    on like <sup>Point of Service</sup> ~~point of service~~. That is in infrastructure.

24           You will have benefits to your infrastructure in  
25    the future, so almost every major program we have carries --

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1 I mean I don't know if we have too many that just happen for  
2 one year and go away. Everything we basically do is --  
3 carries over in the Postal Service like any other business.

4 Q Okay. Of all the expenditures included in the  
5 \$1.4 billion projection that are expected to have benefits  
6 over multiple years into the future, how many of those  
7 dollars have you expensed 100 percent or recognized 100  
8 percent in the test year?

9 A I am not sure I have that answer, but let me  
10 clarify a point, because some of these programs have capital  
11 expenditures along with expenditures with them, and we do  
12 with the capital portion spread that over a depreciated  
13 period, the time life of the equipment or whatever it is.

14 We are talking -- it's an expense portion and  
15 these are unique. For example, *Delivery Confirmation*,  
*Priority Mail Redesign*  
16 priority redesign -- these are different than the capital  
17 type investments we have made in the past.

18 I don't have the detail for every single one of  
19 the programs, to answer that question.

20 Q Well, would you repeat the names of those two  
21 examples?

22 A What I said was delivery confirmation and Priority  
23 Mail redesign.

24 Q And you expect that the money you are spending  
25 this year on delivery confirmation and the other program

1 will have benefits beyond the end of the year?

2 A Absolutely.

3 Q If you were to take those kinds of expenditures  
4 included in the \$1.4 billion figure and spread them out over  
5 the expected life of the benefits, how much would it change  
6 the \$1.4 billion figure?

7 A I could not do what you said to do. These are  
8 operating expenses associated with these programs. You  
9 can't do that. That is just making up mathematics.

10 Q So your accounting includes -- treats as operating  
11 expenses cash flows that produce benefits over multiple  
12 years?

13 A Like any other business.

14 Q And do you have any order of magnitude of how much  
15 of the \$1.4 billion includes current cash flows that are  
16 expected to produce multiple year benefits?

17 A The increases in most of the expenses that we have  
18 for the major programs will carry over, so I would end up  
19 saying most of that -- if I understand your question --  
20 gives you benefits in the future.

21 Q The Postal Service is allowed to borrow money,  
22 isn't it?

23 A Yes, it is.

24 Q What is its current debt ceiling?

25 A The current debt ceiling is \$15 billion.

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1           Q     And how much are its outstanding borrowings below  
2     that debt ceiling?

3           A     How much are we below it?

4           Q     Yes.

5           A     I would have to look it up but I believe we are  
6     about \$8 billion, I believe.

7           Q     Does the Postal Service make investments whose  
8     expected benefits are anticipated to be less than the  
9     expected costs?

10          A     Could you repeat that, please?

11          Q     Yes. Does the Postal Service make investments  
12     whose expected benefits are anticipated to be less than the  
13     expected costs of the investment?

14          A     I think every organization and the Postal Service  
15     included makes a number of investments that may not have an  
16     immediate ROI, if that is your question --

17          Q     No, it is not. I mean over the life of the  
18     investment -- present value.

19          A     Yes. I am giving you an example.

20                 We have a lot of projects that will give you a  
21     negative cash flow, a negative net present value.

22                 You have got a lot of infrastructure type projects  
23     you may do to support your organization for the future -- a  
24     facility type project of replacement because of safety and  
25     health and all those kind of things, you may get a negative

1 present value.

2               Not every single investment will give you an  
3 immediate ROI. You have got others to improve service.  
4 Call Centers, for example, is another project that we are in  
5 a pilot with. That project will be going before the Board  
6 at their next meeting for an expansion of it.

7               You may not be able to look at an ROI because it's  
8 ~~a service~~  
~~an inservice~~ improvement in terms of customer satisfaction.

9               Q     Well, does the Postal Service -- then the Postal  
10 Service currently makes investments -- let me back up.

11               When you say the Postal Service makes investments  
12 that don't have a positive ROI, are you including the  
13 savings or costs avoided by those investments?

14               A     A lot of these programs and investments we make,  
15 we do reduce some cost when there is cost associated with  
16 that, but the net could be a negative ROI or some of them  
17 have positive.

18               We have a lot of them that are positive ROIs --  
19 our automation program, equipment programs, those kinds of  
20 things are very good examples<sup>of</sup> where we get positive return  
21 on investments.

22               Q     Well, of the expenditures that you say need to be  
23 financed by your proposed revenue requirement to be spent  
24 this year, which of those are expected to have a negative  
25 ROI?

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1       A     Those that -- and when I say that<sup>are</sup> tied to service  
2     improvement, Call Centers is a good example.

3                 You will get some customer satisfaction. Maybe  
4     customers will use the Postal Service more, but you can't  
5     quantify that. I can't sit here and say revenue will go up  
6     one percent or this is going to happen, so we call that an  
7     infrastructure investment.

8                 The Associate Office infrastructure system -- we  
9     laid out a communications network -- those are very, very  
10    large projects -- so that we can take our <sup>Point of Service</sup> point of service,  
11    which is our new cash registers. That will ~~not~~ be <sup>an</sup> ROI in  
12    terms of the organization. It is an infrastructure change  
13    in the organization.

14                 Other things can then be done that will <sup>result</sup> be applied  
15    from <sup>so</sup> to that, that in fact we may get some additional returns.

16                 Let me give you a specific example, just for a  
17    moment. Take <sup>Point of Service, which is</sup> point of service new cash registers. That  
18    project is based on us having updated technology so we can  
19    serve the customer better.

20                 We have plans in place in the future -- it is not  
21    even in this particular rate case, but I am thinking out  
22    there five, six, seven years what I am going to do to make  
23    the accounting and the payroll systems more efficient, so we  
24    are going to be looking at taking that infrastructure and  
25    how do we reduce some costs of accounting.

1           I have no idea yet. I was just talking to you  
2       about some of the thoughts I am going through with my staff  
3       to look at how we make the Postal Service more efficient.

4           Q     Sir, could you confine your answer to the question  
5       I asked, which was about the projects that were included in  
6       the \$1.4 billion?

7           A     This is included in there, but I am trying to  
8       relate it to you because you are asking me can I give you a  
9       yes/no answer and they're not. They're ~~kind of~~ technical  
10      kinds of things.

11          Q     Does the Postal Service think these projects, like  
12       point of service investments, will increase customer demand?

13          A     There's partially -- they're looking at they could  
14       increase customer demand, mostly because we want to get  
15       customer satisfaction so that when you come in a post office  
16       we can handle your business and let you go do whatever else  
17       you wanted to do.

18          Q     Does the Postal Service expect that increased  
19       customer happiness in a post office will ultimately increase  
20       its demand?

21          A     There are studies that say that may happen.

22          Q     Does the Postal Service think that some of its  
23       other expenditures that you say have a negative ROI may  
24       cut -- avoid other costs?

25          A     I think there's a lot of that that goes on.

1           Q     Would the Postal Service deliberately make an  
2     investment where it doesn't think that the present value of  
3     the increased demand or the avoided costs exceeds the  
4     amount -- the present value of the cost of the investment?

5           A     I hope we not only will do it, we'll continue to  
6     do it. I can go back and give you examples of asbestos.  
7     We've got to do some investments. You've got a bad roof --

8           Q     Let's stop with asbestos.

9           A     Okay. You're just talking these programs.

10          Q     Let's talk with asbestos. Asbestos removal avoids  
11     costs like liability?

12          A     No, the added -- the cost to do it, I'm not going  
13     to maybe get a return. You're asking am I getting a return.  
14     I'm saying there's going to be investments that you're not  
15     going to get a return, you have to do them for safety and  
16     health and other reasons.

17          Q     I think we're talking -- we've got a definitional  
18     problem. When you remove asbestos, you're avoiding  
19     potential future liability?

20          A     But it may -- initially I'm spending more money,  
21     and I'm not sure it's going to do that.

22          Q     Yes or no, please.

23          A     I don't know. It's a possibility that it could.

24          Q     You wouldn't include that avoided future liability  
25     in your ROI calculations?

1           A     No, because you can't just -- you can't estimate  
2       it.

3           Q     Okay. If you were to, in the broader sense of an  
4       expected return, to include avoided liabilities of those  
5       kinds, even if you can't measure them precisely, does the  
6       Postal Service make investments that it doesn't think will  
7       cover their costs?

8           A     As I said before, there are some when it's  
9       infrastructure, some service improvements. It may not cover  
10      its cost. I think I've answered that.

11          Q     Even when you include avoided liabilities that you  
12       can't measure precisely and even when you include customer  
13       satisfaction that may result in increased demand?

14          A     We note them. We say it. But we don't include  
15       them in our calculated cash flows or the calculation of the  
16       net present value in most cases.

17          Q     If you were to include them, does the Postal  
18       Service deliberately make investments that don't pay --  
19       aren't expected to pay for themselves in the long run,  
20       either by any kind of avoided costs or increased revenues?

21          A     If I included all those kind of what I call  
22       intangible benefits, the answer would be absolutely not,  
23       everything that we do is for a benefit.

24          Q     If the benefits of the project are expected in the  
25       broad sense to exceed the costs, then the Postal Service

1       ought to be able to cover the cost of borrowing money to pay  
2       for it, shouldn't it?

3           A       Yes, but you've got to look at it over time.

4       These are not linear and they're not all in one year.

5       You've got to measure that over time.

6           Q       Well, over time the Postal Service can borrow  
7       money, can't it?

8           A       Yes.

9           Q       Does the Postal Service have a -- has adopted a  
10      policy of paying for these multiyear benefit investments out  
11      of current cash flow?

12          A       The Board -- and let me cover a couple of  
13      policies, since you've asked me this question.

14          Q       Sir, before you talk about policy, could you  
15      answer the question? I won't stop you from explaining after  
16      that.

17          A       We use multi policies and choices in terms of what  
18      we're going to pay for to invest. I won't say we do one or  
19      the other. We use multi type policies. In the past at one  
20      time we decided we weren't going to borrow. Today we  
21      borrow. In this particular instance, what's in the rate  
22      case today, with all these major programs, the Board and the  
23      senior management of the Postal Service said we will file a  
24      rate change to help us finance these programs. That's the  
25      policy. That's what we're <sup>doing</sup> ~~going~~ in terms of this rate

1 filing today.

2 Q But if the increased revenue were disallowed, you  
3 could finance the amounts out of borrowing, couldn't you?

4 A I'm not sure about that.

5 Q Well, have you done any calculation to indicate  
6 that you couldn't?

7 A Again, the policy that we're driving to is to do  
8 this. I mean, we're looking at all the major capital  
9 investments in the future. These are expense investments.  
10 Remember, since these are expense investments, we have  
11 borrowed for capital. Now we're talking about operating  
12 expenses. We have not borrowed other than in a few  
13 instances for operating purposes, long term. We have a line  
14 of credit today where we can manage pay period to pay  
15 period, but we have not borrowed operating expenses for the  
16 long-term investments of the Postal Service. We have not  
17 done that.

18 Q Is it your testimony, sir, that the Postal Service  
19 couldn't finance the investments you say are necessary in  
20 the test year by debt whose life is matched to the expected  
21 life of the benefits produced by the investments?

22 A The way they're accounted for today, they would be  
23 an operating investment, and we do not do that. And the  
24 answer is no, we have to manage our large capital  
25 investments, and we would not do that.

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1           Q     Sir, I don't think I asked you how it's accounted  
2 for today. I asked you could the Postal Service do it.

3           A     I said the way it's accounted for, we could not do  
4 that. The answer is no the way it's accounted for.

5           Q     Let me make sure I understand that. You are  
6 saying that if an expenditure is accounted for on your books  
7 as an expense rather than a capital investment, you cannot  
8 borrow money whose maturity equals the expected payoff of  
9 the investment even if as a matter of economic reality the  
10 investment is likely to have a payoff over several years?

11          A     We have the maximum borrowing of \$3 billion on an  
12 annual basis -- \$2 billion for capital, \$1 billion for  
13 operating expenses.

14                 We have not done that. We have a long-term  
15 capital budget of \$17 billion. It's about \$3.5 billion  
16 year. We have plans in place to help finance that through  
17 working capital ~~depreciation~~, through long-term borrowing,  
18 and depreciation and those kind of things.

19          Q     Sir, I am not asking you again about your plans.  
20 I am asking you about whether you could do what I just asked  
21 in the last question.

22          A     I think I cannot answer that in isolation. I  
23 think you have got to look at it in totally managing the  
24 Postal Service and you are trying to make me answer that as  
25 one particular issue and I can't.

1           I have got to look at the total business of the  
2 Postal Service, the total debt of the Postal Service, the  
3 total capital investments of the Postal Service, the total  
4 expenditures of the Postal Service -- I can't do it the way  
5 you are saying.

6           Q     So you can't tell me as you sit here whether you  
7 could or you couldn't borrow money as I have just described?

8           A     I said based on everything I said I would say no.

9           Q     Is this a law that prohibits you from doing it?

10          A     Again, I said based on everything. We have the  
11 limit on the law in terms of the maximums, the billion  
12 dollars and the \$2 billion.

13          Q     And those maximums would prevent you from the  
14 borrowing that I have described?

15          A     Again, I mean you are asking Management and me to  
16 make choices that I am not even sure why I am having this  
17 discussion, why we have to make these choices or what are  
18 these choices, and why should Management have to make this  
19 choice? I am not sure I understand it.

20           CHAIRMAN GLEIMAN: Mr. Porras, excuse me.

21           He is not asking you, as I understand it, to make  
22 a decision for the Postal Service. He is asking you a  
23 question and you have an obligation to respond to the  
24 question, and the question is could you --

25           THE WITNESS: And my answer --

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1 CHAIRMAN GLEIMAN: It isn't will you. It isn't is  
2 it a good idea or anything else. It is could you, are you  
3 allowed under the existing law to do something, and I think  
4 you have an obligation to respond to the question.

5 THE WITNESS: My answer to that -- in that  
6 isolated instance I just don't know.

7 BY MR. LEVY:

8 Q Have you ever tried to find out?

9 A No.

10 MR. REITER: Mr. Chairman, could I ask Mr. Levy to  
11 clarify the last question -- find out what? I didn't follow  
12 that.

13 MR. LEVY: What he said he didn't know in response  
14 to my previous question.

15 BY MR. LEVY:

16 Q Does that change your answer, sir?

17 A No.

18 Q Thank you. Now let's go back to my original line  
19 of questioning.

20 You are unable to say as you sit here that the  
21 Postal Service will suffer a deficit in the sense of your  
22 own accounts as that term is defined.

23 A I don't understand that question. Sorry.

24 Q The Postal Service produces for each accounting  
25 period a statement of income and loss, doesn't it?

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1           A     Yes.

2           Q     And in producing those statements, you have  
3     certain definitions of what constitutes income and what  
4     constitutes loss?

5           A     Yes.

6           Q     Using that definition, do you expect the Postal  
7     Service to lose \$2.5 billion between February 28th and  
8     September 30th of this year?

9           A     It goes back to my -- I thought I answered that  
10   but I will clarify that again.

11           In my testimony I show that we will be better by a  
12   couple hundred million dollars. I said that we have  
13   programs in place -- we have created accountability for the  
14   program managers. They have told us that they are going to  
15   spend these monies. The monies are planned to be spent the  
16   rest of the year, and my answer to that, based on that  
17   information, we could lose that amount of money the rest of  
18   the year.

19           Q     I'm sorry. I am not sure I heard an answer to my  
20   question. Using the definition of income and loss not in  
21   your testimony but as those terms as defined in the  
22   financial and operating statements for each accounting  
23   period, do you sitting here state that the Postal Service is  
24   going to be losing \$2.5 billion between February 28th and  
25   September 30th -- using that definition?

1           A     Using what I said in my testimony I have already  
2     said it won't be \$2.5 billion. That's -- that's what  
3     bothers me with what you are saying.

4           Q     Please listen to my question again. I am focusing  
5     on the period between February 28th and September 30th.

6           A     Right.

7           Q     And I am using the definition of income and loss  
8     not as those terms are defined in your testimony but as  
9     those terms are defined in the Postal Service's financial  
10    and operating statements.

11           Do you follow that assumption?

12           A     And I -- if I go back -- sorry for doing this, but  
13    I have got to go back -- that our plans assume a rate  
14    change, so I don't see us -- you know, in the hypothetical  
15    test year we got the \$2.4 billion of revenue deficiency ~~plus and~~  
~~billion loss.~~  
16    the \$1.4<sup>A</sup> From actual -- if you are talking about our  
17    fiscal year, in our plans we do have a price change in  
18    there. We do have plans to spend these monies with the  
19    programs.

20           I have said in my written testimony I think we are  
21    going to be slightly below by a couple hundred million  
22    dollars because of the reductions we had in terms of less  
23    expenditures, adding back some of the others.

24           Q     Sir, I don't think I heard an answer to my  
25    question.

1           Do you understand that the Postal Rate Commission  
2   in theory has the right to deny your request for rate  
3   changes?

4           A    I understand that.

5           Q    Assume hypothetically that they decide for  
6   whatever reason not to approve the rate changes and that the  
7   current existing rates stay in effect through the end of the  
8   fiscal year.

9           Do you understand that assumption, sir?

10          A    Yes.

11          Q    If that assumption holds and if we use the  
12   definition of financial -- of income and loss in the  
13   financial and operating statements, focusing on the period  
14   from February 28th through September 30th, would you expect  
15   that the Postal Service would suffer a loss as large as \$2.5  
16   billion?

17          A    And I will go back to my answer -- accepting these  
18   adjustments I made in here and if the program managers, who  
19   have assured us they are going to spend these monies, we  
20   could have a loss that is of that magnitude.

21          Q    Now, let me go to a different line of question  
22   then. The Postal Service -- I want to focus on accounting  
23   periods 10 through 13. Those are the accounting periods  
24   when the Postal Service traditionally loses the most money?

25          A    Yes, the seasonality of the business.

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1           Q     The loss projections that the Postal Service has  
2     offered the Commission in this case reflect that  
3     seasonality?

4           A     I'm not -- is this the one we've sent over in  
5     terms of the accounting period spreads? Can I see the  
6     document just to make certain we're talking about the same  
7     document?

8           Q     I'm not asking about a document. I'm asking a  
9     more general question. You expect that the loss you project  
10    for the test year -- let me back up. You would expect that  
11    if there were no rate increase before the end of the test  
12    year, that the loss would be concentrated in accounting  
13    periods 10 through 13?

14          A     I'd have to look, but we've included a price  
15    change, and we would have losses. If we went to the  
16    hypothetical test year, I did not do a spread of that. I  
17    don't know what that would be.

18          Q     I'm not asking for numbers. I'm asking for a  
19    qualitative answer. If there were no rate increase before  
20    the end of the test year, you would expect the Postal  
21    Service to suffer the greatest losses during accounting  
22    periods 10 through 13, wouldn't you?

23          A     Well, let me clarify this. When you say test  
24    year, I think about the hypothetical test year, and I assume  
25    prices change on October 1. If you're talking about our

1 actual fiscal year, if that's what you are talking about,  
2 what we have in the plan today?

3 Q I'm talking about no price changes.

4 A For this actual fiscal year?

5 Q Either the Government or the Postal Service fiscal  
6 year, whichever you prefer.

7 A Okay, but the test year does have a price change  
8 in there. I just need to clarify. That's a different  
9 question, I think.

10 Q No price changes. I'm assuming no price change in  
11 my question.

12 A We assume losses the latter part of the year.

13 Q Heaviest in the latter part of the year?

14 A Yes.

15 Q Now, the \$2.4 billion loss figure that you've put  
16 in this case is a before rates figure, isn't it? Is that  
17 earlier?

18 A Go back to what we had as the estimated loss in  
19 the test year, it's about \$1.3 to \$1.4 billion.

20 Q And that assumes no rate changes during the test  
21 year, right?

22 A Right, and it included a contingency and a  
23 provision for prior year loss recovery.

24 Q And that's what bumps it up to \$2.4 billion?

25 A Revenue deficiency; yes.

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1           Q     Of the \$1.4 billion component of that, how much  
2     did the Postal Service project would occur during accounting  
3     periods 10 through 13, approximately?

4           A     I don't believe we did those calculations.

5           Q     Well, as you sit here now, approximately what  
6     would be the break down of that \$1.4 billion between  
7     accounting periods 10 to 13 and the other accounting  
8     periods?

9           A     I did not do those calculations. I just don't  
10   know what that is.

11          Q     The Postal Service has in recent years projected  
12   large deficits during accounting periods 10 to 13 as well,  
13   hasn't it?

14          A     The Postal Service has had not only projected but  
15   we've had losses with the seasonality of the business, the  
16   latter part of the year.

17                MR. LEVY: Mr. Chairman, I would like to have  
18   marked as cross examination exhibit one, an one page  
19   document marked USPS projected earnings:

20                CHAIRMAN GLEIMAN: Mr. Levy, can we make that  
21   ANM-XE-1? I'm prepared to -- okay.

22                            [Cross-Examination Exhibit No.  
23                            ANM-XE-1 was marked for  
24                            identification.]

25                BY MR. LEVY:

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1           Q     Mr. Porras, do you recognize the numbers on  
2     Cross-Examination ANM-XE-1?

3           A     I mean these are estimates and it has a number of  
4     the Postal Service plan. I cannot verify those were the  
5     actual plan numbers.

6           Q     Would you accept them subject to check? I would  
7     be happy to show you a photocopy?

8           A     No problem at all.

9           Q     And assuming these are in fact as I have  
10    represented them, then the Postal Service projected that for  
11    Fiscal Year '96 it would lose approximately \$1.26 billion,  
12    is that correct?

13          A     \$1,262,000,000.

14          Q     And in Fiscal Year 1997, again, for the same four  
15    accounting periods, it projected a loss of \$900 million, is  
16    that correct?

17          A     Yes.

18           MR. LEVY: Now, Mr. Chairman, I would like to pass  
19    out Cross-Examination Exhibit No. 2.

20           CHAIRMAN GLEIMAN: Certainly.

21                    [Cross-Examination Exhibit No.

22                    ANM-XE-2 was marked for  
23                    identification.]

24                   BY MR. LEVY:

25          Q     Mr. Porras, I am going to walk you through these

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1       columns one by one. Would you first, in the second exhibit,  
2       would you first confirm that the first two columns of the  
3       second exhibit are identical to the two columns of the first  
4       exhibit?

5           A      Confirmed.

6           Q      And would you confirm that the third column of the  
7       second exhibit, actual result, or would you accept subject  
8       to check, that those are in fact the Postal Service's actual  
9       results for the same -- for those accounting periods  
10      indicated?

11          A      We'll accept those subject to check.

12          Q      And would you confirm that the column marked  
13       improvement over plan, at least based on an eyeball  
14       inspection, is the difference between the second and third  
15       columns?

16          A      Yes.

17          Q      And that the final column, actual loss divided by  
18       plan loss, is the actual result column divided by the US  
19       plan -- USPS plan column?

20          A      I confirm that is the calculation done. I would  
21       never do that, but I can say that is what it is.

22          Q      Mr. Porras, who at the Postal Service signed off  
23       on the Postal Service's projected earnings for Fiscal Year  
24       '96 and '97 shown in the two exhibits?

25          A      In terms of the -- you are talking the plan or the

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1       actuals?

2           Q     The plan.

3           A     The plan goes to the Board of Governors. The  
4     management signs off on it. The Board of Governors signs  
5     off on it. We use an extensive process, and I am not going  
6     to spend your time going through this. <sup>Under</sup> Customer  
7     Perfect, which is a management cycle, there's a lot of  
8     management input, a lot of management debate, and a lot of  
9     projections and programs included in that.

10          Q     And that is essentially the same review process  
11     that resulted in the Postal Service's test year loss  
12     projection of \$2.4 billion?

13          A     Loss projection of the \$1.3 to \$1.4 billion?

14          Q     Yes.

15          A     Part of it was in that -- has been through that  
16     process.

17                   MR. LEVY: Thank you. That's all I have, Mr.  
18     Porras.

19                   Thank you, Mr. Chairman.

20                   CHAIRMAN GLEIMAN: Mr. Richardson.

21                   MR. LEVY: I'm sorry. I would move those two  
22     exhibits into evidence.

23                   MR. REITER: Mr. Chairman, I would object to that.

24                   If Mr. Levy had wanted to do that, he should have  
25     provided them to us ahead of time. We could have actually

1 authenticated the numbers. Mr. Porras accepted them either  
2 subject to check or by eyeballing them. I don't think the  
3 proper foundation's been laid for them at this point.

4 CHAIRMAN GLEIMAN: Well, in light of the fact that  
5 they were accepted subject to check, and if they turn out  
6 not to be the right numbers, and the source is indicated --  
7 and I have to assume that just as witnesses are providing us  
8 full and truthful responses, that counsel attempt to provide  
9 equally full and truthful presentations of Postal Service  
10 numbers that come out of Postal Service publications -- I'm  
11 going to direct that they be transcribed into the record and  
12 admitted into evidence at this point.

13 If you choose to follow this ruling with a written  
14 motion objecting, I will consider it.

15 [Cross-Examination Exhibit Nos.

16 ANM-XE-1 and ANM-XE-2 were received  
17 into evidence and transcribed into  
18 the record.]

19

20

21

22

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ANM-XE-1

## Porras Cross-Examination Exhibit ANM-CX-1

**USPS PROJECTED EARNINGS  
Accounting Periods 10-13  
(\$ in 000,000)****Fiscal Year 1996**

Accounting Period	USPS Plan
10	\$ -343.6
11	\$ -299.7
12	\$ -291.5
13	\$ -327.2
Sum	\$ -1,262.0

**Fiscal Year 1997**

Accounting Period	USPS Plan
10	\$ -217.2
11	\$ -226.2
12	\$ -202.4
13	\$ -254.2
Sum	\$ -900.0

Source: USPS Financial & Operating Statements for Accounting Periods 10-13, PFY 1996 and 1997.

ANM-XE-2

## Porras Cross-Examination Exhibit ANM-CX-2

**USPS PROJECTED VS. ACTUAL EARNINGS**  
**Accounting Periods 10-13**  
 (\$ in 000,000)

## Fiscal Year 1996

Accounting Period	USPS Plan	Actual Result	Improvement Over Plan	Actual Loss/Planned Loss
10	\$ -343.6	\$ -25.1	\$ 318.5	7.3%
11	\$ -299.7	\$ -80.1	\$ 219.6	26.7%
12	\$ -291.5	\$ -36.6	\$ 254.9	12.6%
13	\$ -327.2	\$ -271.8	\$ 55.4	83.1%
Sum	\$ -1,262.0	\$ -413.6	\$ 848.4	32.8%

## Fiscal Year 1997

Accounting Period	USPS Plan	Actual Result	Improvement Over Plan	Actual Loss/Planned Loss
10	\$ -217.2	\$ -9.1	\$ 208.1	4.2%
11	\$ -226.2	\$ -28.1	\$ 198.1	12.4%
12	\$ -202.4	\$ 111.1	\$ 313.5	NMF
13	\$ -254.2	\$ -227.2	\$ 27.0	89.4%
Sum	\$ -900.0	\$ -153.3	\$ 746.7	17.0%

Source: USPS Financial & Operating Statements for Accounting Periods 10-13, PFY 1996 and 1997.

1 CHAIRMAN GLEIMAN: Mr. Richardson?

2 MR. RICHARDSON: Thank you, Mr. Chairman.

3 CROSS EXAMINATION

4 BY MR. RICHARDSON:

5 Q Good morning, Mr. Porras.

6 A Good morning.

7 Q Before I begin the questions I was going to ask,  
8 I'd like to follow up on a couple of questions that Mr. Levy  
9 asked you and your responses. You were discussing the  
10 program year 2000 expenditures that you've added to the  
11 estimates and that appear in one of your exhibits, and just  
12 for clarification, you indicated that those are amounts that  
13 you expect to expend this year. Is that correct? That your  
14 program managers have said that that's what they intend to  
15 spend this year?

16 A That's correct.

17 Q I thought you suggested that if they couldn't  
18 spend it this year, that they would spend it next year in  
19 any event.

20 A Let me give you a clarification on the ~~year~~ 2000,  
21 and just so it's clear, I was very concerned when I  
22 initially got the number of \$45 million, and I had talked to  
23 a number of First Class mailers, talked to outside  
24 organizations, including reading about the Federal  
25 Government's estimates, which were over a billion dollars,

1 and I just concluded that number was just too low.

2               I sat down with Mike Coughlin, who's our Deputy  
3 Postmaster General, and said Mike, we've got to get a  
4 process in place to really look at this ~~year~~ 2000. We went  
5 out with our ~~Vice President, Information Systems~~  
6 contacted an outside firm to come in who's worked with other  
7 postal administrations to help us and give us some real  
8 estimates or more accurate estimates in terms of what needed  
9 to be done, how much would that cost us. ~~and we~~ had in fact  
10 about the same amount of money -- I believe 45 million for  
11 1998, another 40 million for 1999 -- and when they came  
12 back, the estimate was over \$600 million in total, and  
13 including -- which we haven't even included in these  
14 numbers, ~~are~~ a contingency of 25 percent. ~~so~~ we've actually  
15 had an outside firm to do this.

16               I've sat down with the vice-president and the  
17 program manager staff and the outside consulting group  
18 that's working with us, and that is their estimate.

19               Funny, I think I mentioned it last week at a  
20 postal forum to a group of customers we were having lunch  
21 with, and they were shocked at our \$45 million number. ~~and~~  
22 ~~that they~~ <sup>They</sup> said the estimate that we had was probably  
23 reasonable, because they've gone through extensive costs  
24 themselves and will go through extensive costs for the year  
25 2000 conversions that have to take place.

1           Q     Now to be clear, though, the estimate you have for  
2     1998 is \$298 million in your Exhibit 11-E.  Is that the  
3     amount that you're estimating for 1998 for the test year?

4           A     That's the additional cost of that, besides the  
5     \$45 million we had in the original test year.  So<sup>to get</sup> the total  
6     costs, you have to add them together.

7           Q     And the entire amount is now expected to be spent  
8     in the test year in 1998 before October 1.

9           A     That's what we've been told.

10          Q     I was concerned where you suggested that if they  
11     couldn't spend it this year, they would spend it next year,  
12     and that perhaps you thought they may not be able to spend  
13     it all this year because it is only a few months away.

14          A     I don't know at this time.  The program managers  
15     have said that that's their estimate.  As much as last week  
16     they said they thought they pretty much were going to spend  
17     that money.

18          Q     And you agree that if it weren't going to be spent  
19     in the test year then it would not be appropriate to include  
20     it in the test year estimate?

21          A     I think it will be spent.  I have some beliefs  
22     about that -- some of these, if you know that monies are  
23     going to in fact be spent in 1999 and you know it's going to  
24     be spent -- there's contracts signed -- you should account  
25     for it.

1           I don't know if I am disagreeing in terms of the  
2       whole ratemaking process but I just feel that you ought to  
3       be accounting for these things.

4           Q     You mean you believe that expenses that will be  
5       incurred in the 1999 fiscal year ought to be included in the  
6       1998 test year?

7           A     I believe that the test year -- you are asking me  
8       for my personal beliefs on this -- ~~that~~ that is a  
9       hypothetical year.

10           The Postal Service though has to manage over  
11       time. Part of what my testimony said<sup>1</sup> in terms of the  
12       contingency and part of<sup>1</sup> not making the adjustment in the  
13       revenue requirement. I mean we are talking about  
14       implementing rates differently than what is in the test  
15       year, number one, and 1999 has to in fact be considered in  
16       anything that we do.

17           I mean there's a lot of unknowns out there. We  
18       have got the labor settlement coming up.

19           What I said is if you can identify the costs in  
20       1998 they should be included.

21           Q     So you have included some expenses you plan to  
22       make in 1998 and 1999 in the 1998 test year?

23           A     No.

24           Q     Is that your testimony?

25           A     No, that is not my testimony.

1           What we have is the estimate for the '98 portion  
2       of that. We have got another \$300 million in 1999.  
3       ~~The~~ ~~additional or~~ total cost would be over \$600 million over  
4       three years.

5           We have included what we were told was the 1998's  
6       estimate in the rate case.

7       Q     And there was some discussion about your investing  
8       \$3.5 billion per year in your investment program over the  
9       next five years and those are investment dollars, I gather,  
10      for capital expenditures as opposed to expenses? Is that  
11      correct?

12      A     If I said that, I need to clarify that point.

13           What I meant to say was that the \$3.3 to \$3.4  
14      billion is the cash flow associated with our capital  
15      program. Our capital program over the next five years is  
16      \$17 billion. <sup>So</sup> I believe for example next year at this  
17      point we have a capital preliminary plan that may be over \$5  
18      billion, but the cash flow from ~~the~~ what we call capital  
19      expenditures ~~cash flow~~ will be about the \$3.5 billion.  
20      rounded.

21       Q     The other programs that are included in your rate  
22      filing -- there is a whole category of other programs which  
23      I believe Mr. Tayman testified to and I believe they amount  
24      to about \$2.5 billion additional over and above --  
25      additional expenses for the 1998 test year over and above

1       the 1997 test year.

2                  Are you familiar with that group of, quote, "other  
3       programs" expenditures generally?

4       A      That's part of the programs I have been talking  
5       about.

6       Q      And do some of those other programs include  
7       capital expenditures as opposed to expenses?

8       A      They have no capital included in the calculations,  
9       with  
of the dollars associated<sup>with</sup>, what's in the rate change.

10                 There's capital associated with that over time and  
11       ~~there's -- if we~~ of course have some depreciation associated  
12       with that, ~~which it would be in there, but you have some projects,~~

13                 Let me give you a particular example. If you take  
14       Call Centers. What we have shown you is the operating  
15       expense portion and some of the contracting expense.

16                 There's another couple hundred million that's not shown in  
17       the rate case because that is under the capital category.

18       Q      I see. Thank you. Turning to another area of my  
19       questions, as the Comptroller I assume you are familiar with  
20       the financial and operating statements of the Postal Service  
21       that Mr. Levy has discussed with you already?

22       A      Yes.

23       Q      And those are filed with the Commission every  
24       accounting period, every four week period, is that correct?

25       A      We send them to the Commission.

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1           Q     Now I have the operating statement here for  
2 Accounting Period 5. I see you have one on your table. Is  
3 there any particular period that you have there? What is  
4 that?

5           A     I have AP -- I have Accounting Period 5 here.

6           Q     Fine. It will just be easier to have a discussion  
7 with you about that.

8                 I notice that this includes references to  
9 budget -- the variation to budget is referenced but it does  
10 not seem to include anywhere a budget for the year or in the  
11 raw numbers except with respect to revenues on page 5-A of  
12 this particular Accounting Period 5 report. It does refer  
13 to the budget numbers for revenues.

14                 Is there anyplace in these financial statements  
15 that include the budget for expenses?

16           A     If you look on page -- the following page, page 6,  
17 we have personnel compensation, transportation, supplies and  
18 services in those line items. Those are to budget of the  
19 expense side.

20           Q     That has variation to budget, but I don't see any  
21 heading which says "budget." It compares the actual to the  
22 variation, so it could be calculated, is that how it would  
23 be determined?

24           A     Right. Just because of the space requirements on  
25 the page, <sup>In</sup> some cases, we will put actual budget<sup>and</sup> percent

1 change to budget. In some cases, because we want to ~~put show~~  
2 last year's data, we'll put actual percent or dollar change  
3 to budget variance in that, but you could calculate those  
4 very simply.

5 Q Is there any place where the budget for the entire  
6 year is set forth, prospectively or retroactively, in these  
7 statements that you know of?

8 A We don't include the total budget in this report  
9 here. We have it in other reports.

10 Q Is there another report that you make to the  
11 Commission that would include that budget routinely?

12 A We show the -- I believe we sent the package that  
13 was prepared ~~to~~ <sup>for</sup> the Board of Governors when they approved  
14 the budget that was submitted.

15 Q And when is that in terms of the fiscal year, what  
16 part of the year?

17 A It's normally in September, sometimes in October.

18 Q For that particular year beginning within a week  
19 or two or a few weeks?

20 A Yes, normally beginning October 1, when we do the  
21 Government fiscal year, but for Postal, we are on a little  
22 bit slightly different schedule.

23 Q Now, is that budget changed once it's approved by  
24 the Board of Governors?

25 A . We do not change the budget once it's approved by

1 the Board of Governors.

2 Q So as earnings may change over the course of the  
3 year and vary from the budget, you don't update the budget  
4 during the course of the 13 accounting periods?

5 A That's correct. We will update forecasts but not  
6 the budget.

7 Q Do the forecasts appear anywhere in these  
8 financial or operating statements?

9 A No.

10 Q Do they appear anywhere else, in any specific  
11 filing you make with the Commission on a regular basis?

12 A We don't do those regularly.

13 Q Are they public, the updated forecasts?

14 A We don't do those regularly at all.

15 Q Have you updated them for this fiscal year?

16 A Part of my rebuttal here included our update for  
17 what information we had at this point.

18 Q You mean the detailed numbers where you have  
19 several million dollars adjusting for various things, such  
20 as interest expense and COLA's and things of that nature?

21 A Correct.

22 Q Apparently you didn't answer my question, I don't  
23 believe. Are those updated adjustments to the budget  
24 public?

25 A We don't make any adjustments to the budget.

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1 Q Well, your forecasts, if you make a forecast.

2 A Well, in this particular case here, we in fact  
3 showed where we thought adjustments we had. Sometimes we'll  
4 go make presentations to different mailer organizations or  
5 to the Board, and we'll say based on what we know today,  
6 here's where we think we may end the year.

7 Q Does your testimony represent the latest forecasts  
8 of the Postal Service?

9 A This is the latest update that we have at this  
10 time.

11 MR. RICHARDSON: Mr. Chairman, may I approach the  
12 witness? I have a cross examination exhibit I'd like to  
13 show him.

14 CHAIRMAN GLEIMAN: Certainly.

15 BY MR. RICHARDSON:

16 Q Mr. Porras, I'd just like to identify this for  
17 you. This is, I believe, the information --

18 CHAIRMAN GLEIMAN: Mr. Richardson, excuse me. Can  
19 we mark this OCA-XE-1?

20 MR. RICHARDSON: Yes.

21 CHAIRMAN GLEIMAN: For purposes of record  
22 identification.

23 MR. RICHARDSON: And I'll provide two copies to  
24 the Reporter.

25 CHAIRMAN GLEIMAN: Thank you.

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1 [Cross-Examination Exhibit No.  
2 OCA-XE-1 was marked for  
3 identification.]

4 BY MR. RICHARDSON:

5 Q Mr. Porras, this is the interrogatory of OCA to  
6 the U.S. Postal Service, which I spoke to your counsel about  
7 yesterday. Are you familiar with this document?

8 A Yes, I am.

9 Q This is the response, the Postal Service response  
10 to an OCA interrogatory requesting the budget numbers of the  
11 Postal Service which are of the type referenced by Chief  
12 Financial Officer Riley at his public meetings with the  
13 Board of Governors, when he is reporting the earnings of the  
14 Postal Service for each accounting period.

15 If you'll refer to page two of the cross  
16 examination exhibit, it's entitled U.S. Postal Service FY'98  
17 Operating Plan. Would you, please, explain to me how this  
18 relates to the budget estimates which are included in the  
19 financial and operating statements we've just discussed?

20 A This is the accounting periods' plan of revenues  
21 and expenses and net incomes that are eventually put in here  
22 on the current period. <sup>So</sup> they go into this report as we do  
23 an accounting period to date.

24 Q When you say "here," you mean the financial and  
25 operating statement report?

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1           A     Right, into the financial and operating statement  
2     report, the plans go there, and we include of course the  
3     actuals in here so we can see how we are doing to plan.

4           Q     The line in the exhibit, net income loss,  
5     represents the budget numbers which are used in calculating  
6     the financial and operating statement variance to budget?

7           A     It's the accounting period portion of that net  
8     income, yes, that's in the plan.

9           Q     Under this operating plan or budget, I guess it's  
10    an interchangeable term in that respect; correct?

11          A     That's correct. This is the budget of the Postal  
12    Service.

13          Q     And you show there for the total for the net  
14    income, after conversion to the Government fiscal year, of a  
15    loss of \$228 million for the year; is that correct?

16          A     That's correct.

17          Q     And as I understand it from the response to the  
18    interrogatory, this assumes that rates will become effective  
19    -- would not be effective until the fourth quarter of FY'98;  
20    is that correct?

21          A     Approximately June 1 is included in this plan.

22          Q     That was my next question, as to what is the  
23    fourth quarter in your jargon.

24          A     We use June 1 in our financial plan.

25          Q     Just so the record is clear on some of these dates

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1 as to what accounting periods relate to, accounting period  
2 five, I notice on the financial and operating statements,  
3 ended January 30, 1998. By my calendar, that was a Friday.  
4 Is that the date of the accounting periods' end?

5 A The accounting periods are normally 28 day periods  
6 and that's why we have 13 of them.

7 Q And so it's a Friday, it just happens to be a  
8 Friday?

9 A They are always Fridays, and that's exactly the  
10 way they end, so their time frames are always ended on a  
11 particular Friday.

12 MR. RICHARDSON: Mr. Chairman, may I approach the  
13 witness? I would like him to just read something into the  
14 record?

15 COMMISSIONER HALEY: Sure, you may do so.

16 MR. RICHARDSON: Thank you.

17 THE WITNESS: I can't see this. I am going to  
18 need my glasses. This is a calendar?

19 MR. RICHARDSON: Yes.

20 THE WITNESS: I can normally read a calendar but I  
21 might have to borrow somebody's reading glasses, but I could  
22 see the dates ~~circled~~  
~~see the dates circled.~~

23 BY MR. RICHARDSON:

24 Q Mr. Porras, all I wanted to do was clarify the  
25 ending day of the accounting periods. I am sure it's public

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1 knowledge but just for the record I had started with January  
2 30th and circled that date on that calendar and then moved  
3 four weeks through the year.

4 A Right.

5 Q And I just wanted you for clarification just to  
6 read the ending date of each of the accounting periods or I  
7 would be happy to do it.

8 A Well, we do publish schedules of these. We put  
9 them in the Postal Bulletins. We announce them to our  
10 employees -- although I do not think they need to know ~~more than~~  
11 ~~but they know their paydays. -- and these tie, by the way,~~ <sup>these</sup>, to  
12 two pay periods, and we pay our employees every two weeks  
13 and that is why we have this.

14 Since at one time over 80 percent of our costs  
15 were associated with salaries and benefits, the Postal  
16 Service does get a lot of data this way and manages this  
17 way. ~~and I think we have all heard Postmaster Generals come~~  
18 in and say you manage by 13 periods but let me give you the  
19 dates that are here.

20 AP-6 ended February 27th. AP-7 is March 27th.  
21 AP-8 is April 24th. AP-9 is May 22nd. June the 19th is  
22 AP-10. I feel like I am taking an eye exam -- I apologize.

23 AP-11 ends July 17th. AP-12 is August 14th.  
24 AP-13 is September 11th and included in this period here is  
25 we do have to convert back to a Government fiscal year to do

1 our annual reporting.

2 I do have to stipulate -- I may have read the dates  
3 wrong because I just cannot see them very clearly.

4 Q Thank you, Mr. Porras -- and the difference  
5 between the end of the Accounting Period 13, which would end  
6 on September 11th through to the first of October would be  
7 the correction period, is that correct?

8 A It's not a correction period. We refer to it in  
9 the Postal Service as Accounting Period 14 and we actually  
10 make the revenues <sup>and</sup> expense, adjustments and those kind of  
11 things during that period.

12 Q You indicated to Mr. Levy that the Accounting  
13 Period 6 numbers, net income numbers are available now. Are  
14 those numbers public?

15 A ~~We have sent~~ I am not sure we have completed  
16 this report. We have sent them out to the leadership and  
17 other individuals in the organization.

18 Q So they are complete?

19 A They are complete and they are putting this book  
20 together now. I am not sure when it is going to be issued.

21 We try to do this before the end of the next  
22 accounting period and we have got a schedule for that.

23 Q And for instance then Accounting Period 7, which  
24 ends March 27th, when would you expect to have those numbers  
25 available for release?

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1           A    We normally have them internally about one week  
2            ~~the financial portion~~  
3            ~~the period.~~    ~~There's~~  
4            ~~after^and then the financial portion -- there's other things~~  
5            that we extract also and normally within the month ~~of the~~ --  
6            or what is in the accounting period after the end of the  
7            previous accounting period we have that data available.

8           Q    Within the four-week period?

9           A    Right.

10          Q    Can you tell me when the Accounting Period 7  
11         numbers would be available then? You said they'd be  
12         available internally after a week, but when would you expect  
13         them to be available to this Commission if it requested that  
14         data?

15          A    Well, I think the bottom line P&L is normally a  
16         week later. If you want the detail of this, it normally  
17         takes us three to four weeks later to get this.

18          Q    And then Accounting Period 8, which ends on April  
19         24, a week after that would be May 1. Two weeks after that  
20         would be May 8. You would expect perhaps by May 8 they  
21         might be available for Accounting Period 8?

22          A    Correct. Barring no systems problems or anything  
23         else they should be available.

24          Q    Thank you.

25          CHAIRMAN GLEIMAN: Mr. Richardson, do you have a  
26         sense of how much longer you're going to go?

27          MR. RICHARDSON: I don't believe it'll be very

1 long.

2 CHAIRMAN GLEIMAN: Well, we'll wait until you  
3 finish before we take our break.

4 Just let me mention at this point, though, because  
5 I know that we have a long list of witnesses today, and  
6 there are a variety of parties who plan to cross-examine  
7 other witnesses, that it is my guess that we may get through  
8 Postal Service Witness Young, who is our third witness,  
9 before lunch. I have my doubts about that, but we will  
10 probably -- it's highly unlikely that we're going to get  
11 beyond Witness Young before the lunch break.

12 So to the extent anyone is here because they are  
13 focused on witnesses McGrane, Lewis, Rios, or Ellard, they  
14 can pretty much be assured that they don't have to be around  
15 in the hearing room until after lunch.

16 Mr. Richardson, I apologize for the interruption.

17 BY MR. RICHARDSON:

18 Q Mr. Porras, on page 11 of your testimony, lines 15  
19 through 19, you state in addition to FY 1997 actual results  
20 a number of other changes have occurred that affect test  
21 year accrued costs. In total, these changes have a  
22 relatively minor impact, and for that reason I would argue  
23 that there is no compelling reason to make the adjustments,  
24 particularly when the numerous problems associated with  
25 updating are considered.

1           Are the changes you're referring to those that  
2   appear in your Exhibit 11-B which show a total net change of  
3   \$194,950,000?

4           A     Yes.

5           Q     And those are the amounts which you consider  
6   relatively minor impact, if there was a reduction in  
7   estimated expenditures of about \$195 million, that that  
8   would be a relatively minor impact in the revenue  
9   requirement?

10          A     In the aggregate, yes.

11          Q     Is it your testimony the Commission should not  
12  make that adjustment in its revenue requirement?

13          A     That's correct.

14          Q     Because it's too minor?

15          A     Part of it is that, and part of it is -- I just  
16  believe the revenue requirement -- what we asked for is a  
17  4-1/2-percent price change -- is very, very reasonable.

18          Q     The -- also on 11-B, your Exhibit 11-B, you have a  
19  footnote 10 which refers to test year after rate expenses.  
20  It's also applied to before rate expenses?

21          A     I'm not sure.

22          Q     The footnote 10 applies to the totals column on  
23  that exhibit.

24          A     Correct.

25          Q     And is there any reason why it wouldn't apply to

1 before rate expenses? That's the amount that you're asking  
2 the Commission to establish its rate adjustments on.

3 A The only -- I really don't know that, but I would  
4 speculate, because of the volume variability issue, that  
5 that's why that's in there, but I'm not sure.

6 MR. RICHARDSON: Mr. Chairman, I have another  
7 document here which I would like to have marked for cross  
8 examination, OCA Cross-Examination Exhibit 2.

9 CHAIRMAN GLEIMAN: Sure.

10 MR. RICHARDSON: I'll distribute it.

11 CHAIRMAN GLEIMAN: You can distribute it.

12 [Cross-Examination Exhibit No.

13 OCA-XE-2 was marked for  
14 identification.]

15 BY MR. RICHARDSON:

16 Q Mr. Porras, this is a copy of a Internet report  
17 which we just picked up yesterday, and I apologize for not  
18 having made it available to your counsel. We just actually  
19 found out about it yesterday, and I just wanted to ask you a  
20 brief question on it.

21 This relates to a report of Postmaster General  
22 Runyon's comments that he made in Las Vegas relating to the  
23 rate case, and there is a clarification, I suppose, that  
24 needs to be made.

25 It quotes him as saying we have a \$17 million

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1 capital investment program down there in the second  
2 paragraph, if you see that. I presume that's a  
3 typographical error and it should be \$17 billion.

4 A Absolutely.

5 Q Also in that article, it indicates that --  
6 Postmaster General indicates that it's important to  
7 implement the rates beginning in June. Is that consistent  
8 with your testimony here?

9 A In the plan that we have, the financial plan, the  
10 budget plan, we had June 1st there. I think I've got to  
11 reiterate what Mr. Runyon says, that that's really a Board  
12 decision.

13 Q And when you say June, is that a flexible date,  
14 sometime during that accounting period, or would it be June  
15 1st?

16 A In our budget plan, we use June 1st, but it's  
17 definitely flexible. It's something that -- the Board will  
18 make that decision on an implementation date.

19 Q What is the lead time you need once the decision  
20 is made in terms of this Commission, if it issued a decision  
21 on May 9th or 10th? Then the Board presumably would require  
22 two or three weeks as a minimum to reach a final decision.  
23 What type of lead time would management need to implement a  
24 rate increase?

25 A That's a very, very good question. When we first

1 did the plan, we were hoping that we could get a decision  
2 back in nine months, and I understand that we went through  
3 that last time, and I know -- but I had to say this, why the  
4 June 1st date.

5 ~~We have a lot of~~ <sup>of</sup> course, if we got a  
6 decision back from the Rate Commission mid-May, the next  
7 Board meeting is June. We would have to talk to the Board  
8 at that time. Whether they would have enough information to  
9 make a decision, I don't know. They could have a special  
10 meeting.

11 I want to make a point, though, because I think  
12 it's very, very important. I don't know the particulars of  
13 all of our systems. I've had some internal people say we  
14 need 30 days.

15 But we met with the customers last week, and we  
16 had, to me, a tremendous lunch with them, and we went over  
17 why we needed the rate change and really emphasized the  
18 investments of the future. ~~and I'm saying me -- Mike Riley~~  
19 and myself having lunch with a number of customers, and they  
20 were adamant about we need some time to change our systems,  
21 and you need to be sensitive to us on those issues. ~~and what~~  
22 I'm saying is I think, whatever time-frame we have internal,  
23 we have to also be aware of what the customers' issues are  
24 and try to work together, and I believe the Board will, in  
25 fact, consider all of those things.

1           Q     That would be more like a matter of weeks or maybe  
2     two or three months, just my layman's thinking on that. I  
3     would assume that's what it would require.

4           A     It would be a Board decision. They're going to  
5     have to look at that. Some of our internal people, as I've  
6     said, have told me some of their systems may take 30 days.  
7     I just don't know that at this point.

8                 I should add, too -- ~~and believe me, I'm not~~  
9     ~~trying to be~~ one of the comments were, gee, if we could  
10    give you a price discount, could you do them a lot faster,  
11    and then they kind of got upset with us. <sup>But</sup> ~~but~~ really, the  
12    systems -- we all need to be sensitive to those systems, and  
13    they are important for us to understand.

14          Q     Would those be within the terms of the  
15    Commission's decision?

16          A     No, and my lawyer's looking at me, and I  
17    apologize. But I'm being frank in terms of a conversation  
18    we had with the customers, and the bottom line is they said  
19    you need to give us some time to change our systems.

20                 CHAIRMAN GLEIMAN: While Mr. Richardson is  
21    deciding whether he has some other questions he wants to  
22    ask, let me ask you, you just said the Board makes the  
23    decision. You did mean to say the Governors make the  
24    decision.

25                 THE WITNESS: The Governors, yes.

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1 CHAIRMAN GLEIMAN: I just wanted to make sure that  
2 the people who sent me the letter were the proper people.

3 THE WITNESS: The Governors will make the  
4 decision.

5 CHAIRMAN GLEIMAN: By the way, we can give you a  
6 decision in nine months if you want.

7 Mr. Richardson, do you have more questions?

8 MR. RICHARDSON: No, those are all the questions I  
9 have, Mr. Chairman. I do want to move the introduction into  
10 evidence of these two cross-examination exhibits. Although  
11 the interrogatory which is Cross-Examination Exhibit No. 1  
12 is really part of a group of interrogatories that we had  
13 asked and which have not yet been designated and intend to  
14 designate sometime next week. It's --

15 CHAIRMAN GLEIMAN: Would you like to move it into  
16 evidence now or simply have it transcribed into the record  
17 at this point, inasmuch as you're going to move it into  
18 evidence as part of a package next week?

19 MR. RICHARDSON: Excuse me. I think that would be  
20 preferable.

21 CHAIRMAN GLEIMAN: We'll direct that OCA-XE-1 be  
22 transcribed into the record at this point.

23 [Cross-Examination Exhibit No.  
24 OCA-XE-1 was received into evidence  
25 and transcribed into the record.]

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OCA-XE-1  
7/1/98

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

**OCA/USPS-120.** Please provide the Postal Service budget numbers for total Postal Service expenses, revenues and volumes, by accounting periods, for FY 1998 of the type which are referenced by the Chief Financial Officer in his earnings expense, revenue and volume comparisons during presentations at public meetings to the Board of Governors.

**RESPONSE:**

A copy of the FY 1998 operating plan is attached. Please note that the FY 1998 operating budget is not comparable to the Docket R97-1 rate filing because of timing differences. In particular, the Docket R97-1 FY 98 estimate was hypothetical in nature, assuming that new rates were implemented on October 1, 1997, while the FY 98 operating budget assumed that new rates would not be effective until the fourth quarter of FY 1998.

ATTACHMENT TO  
CCA/USI ) 120

U.S. POSTAL SERVICE  
FY 1998 OPERATING PLAN  
(THOUSANDS)

	AP 1	AP 2	AP 3	AP 4	AP 5	AP 6	AP 7	AP 8	AP 9	AP 10	AP 11	AP 12	AP 13	TOTAL
OPERATING REVENUE	4,769,360	4,810,160	4,688,002	4,738,739	4,766,694	4,565,390	4,724,597	4,645,966	4,514,455	4,514,262	4,431,531	4,563,307	4,698,447	60,430,910
APPROPRIATIONS	5,161	5,161	5,161	5,160	5,161	5,161	5,161	5,160	5,161	5,161	5,161	5,160	5,161	67,090
INVESTMENT INCOME	8,079	2,079	2,079	2,079	2,079	2,079	2,079	2,079	2,079	2,079	2,079	2,077	2,077	33,025
TOTAL REVENUE	4,782,600	4,817,400	4,695,242	4,745,978	4,773,934	4,572,630	4,731,837	4,653,205	4,521,695	4,521,502	4,438,771	4,570,546	4,705,685	60,531,025
TOTAL EXPENSE	4,440,399	4,462,100	4,521,289	4,716,337	4,635,754	4,642,407	4,669,061	4,700,420	4,683,435	4,679,501	4,675,173	4,793,006	5,084,118	60,723,000
NET INCOME (LOSS)	342,201	355,300	173,953	29,641	138,180	(69,777)	52,776	(47,215)	(161,740)	(157,999)	(236,402)	(222,460)	(378,433)	(191,975)
CONVERSION TO GFY NET INCOME (LOSS)														(36,025) (228,000)
TOTAL MAIL VOLUME	15,950,570	16,315,842	15,337,581	14,762,922	15,622,747	15,131,447	15,304,526	15,102,037	14,630,420	13,888,559	13,608,529	14,145,168	14,900,793	194,701,081
CONVERSION TO GFY TOTAL GFY VOLUME														940,654 195,641,735

1 CHAIRMAN GLEIMAN: And what's your intention with  
2 respect to Cross-Examination Exhibit No. 2?

3 MR. RICHARDSON: I would move that into evidence  
4 also.

5 MR. REITER: Just a clarification, since mine  
6 weren't marked. Which one was 2?

7 CHAIRMAN GLEIMAN: No. 2 is the newspaper article  
8 or Media Central printout live from the National Postal  
9 Forum, Don't Count on a Rate Delay, dated 3/19, Catalog Age  
10 Weekly.

11 MR. REITER: And I'm not sure that other than the  
12 statements Mr. Porras made specifically about some of the  
13 things in here that we've authenticated the entire document.

14 CHAIRMAN GLEIMAN: I'm not sure I understand what  
15 you mean by authenticate. I mean --

16 MR. REITER: I am objecting to it being designated  
17 into evidence because we have not authenticated most of this  
18 document. Mr. Porras was asked about one or two statements  
19 he in fact needed to correct, one of the statements in this  
20 document. I think that to the extent Mr. Porras has  
21 testified as to what he knows about these matters, that  
22 that's sufficient evidence for the record.

23 CHAIRMAN GLEIMAN: I misunderstood. I thought you  
24 were suggesting that it was a doctored document or  
25 something. You weren't?

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1 MR. REITER: No, I did not say that.

2 CHAIRMAN GLEIMAN: Mr. Richardson, would you be  
3 satisfied for your purposes, since you didn't ask about each  
4 and every line in this one-page press report, that it be  
5 included as a -- that it just be transcribed into the record  
6 rather than admitted into evidence?

7 MR. RICHARDSON: That would be satisfactory, Mr.  
8 Chairman. I would ask, if the Postal Service would have a  
9 copy of the Postmaster General's remarks, could provide that  
10 to OCA.

11 CHAIRMAN GLEIMAN: Do you think you could avail  
12 us?

13 MR. REITER: I will look into it. I don't know if  
14 we have those.

15 [Cross-Examination Exhibit  
16 No. OCA-XE-2 was received into  
17 evidence and transcribed into the  
18 record.]

19  
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## CATALOG AGE WEEKLY

March 9, 1998

### Live From National Postal Forum: Don't Count On Rate Delay

By Paul Miller

Las Vegas -- Remember the recent statements from postal observers about a possible delay in the implementation of new rates until at least October? Forget about it. Amid a plethora of warm sendoffs here at the **National Postal Forum**, Postmaster General Marvin Runyon, in commenting on the state of the current postal rate case on March 9, warned mailers that they should expect to begin paying the new rates beginning in June. If the rate case is approved as expected, Standard A catalog rates will increase an average of 4.5%.

"We're not quite in the position to delay the increase," said Runyon, who plans to leave the USPS by mid-May. "We have a \$17 million capital investment program and some \$4 billion in negative equity to pay off." Runyon noted, however, that the implementation decision won't be in his hands. The USPS Board of Governors, which just last week turned down a request by the Postal Rate Commission to delay the case so that the USPS could submit updated fiscal data, will make the decision in its June board meeting.

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1 CHAIRMAN GLEIMAN: I am convinced he was speaking  
2 extemporaneously.

3 If there's nothing further, Mr. Richardson, then  
4 we're at the point where we'll do some followup if someone's  
5 got some followup.

6 Mr. Levy, do you have any followup?

7 If not, we're going to take our ten-minute  
8 midmorning break now, and when we come back I believe there  
9 may be a few questions from the bench.

10 [Recess.]

11 CHAIRMAN GLEIMAN: Mr. Porras, the Postal Service  
12 filed a response to the OCA motion on official notice on  
13 March the 17th. I mentioned these documents earlier on --  
14 the accounting period documents and the Annual Report of the  
15 Postmaster General.

16 In the second paragraph of the motion or the  
17 response as it were it reads as follows, "Generally in these  
18 proceedings facts are presented, explained, and evaluated in  
19 the context of expert opinions."

20 Are you an expert who can give us some opinions?

21 THE WITNESS: I am one of the senior officers of  
22 the Postal Service. I think I have a lot of input and I  
23 think I can in fact give you my opinions.

24 CHAIRMAN GLEIMAN: It then goes on to say, "The  
25 information from these documents" -- and I am not concerned

1 about the accounting period reports here, I am just focusing  
2 on the Postmaster General's Annual Report -- "The  
3 information from these documents upon which OCA wishes to  
4 rely is not presented in such context" -- and that is in the  
5 context of expert opinions.

6                 I am going to give you a copy of the Postmaster  
7 General's Annual Report -- "The Annual Report of the United  
8 States Postal Service," as it is titled here, for 1997.

9                 Could you tell me if there is something in there  
10 that we shouldn't pay attention to because it is not  
11 authenticated or we shouldn't rely on it in the absence of  
12 expert opinions or are there any numbers anywhere in there  
13 that we should not take notice of and rely heavily on?

14                 MR. REITER: Mr. Chairman, since I am the one who  
15 wrote what you quoted to Mr. Porras, perhaps I should  
16 clarify it, and I apologize if it wasn't clear.

17                 That sentence you read was referring to the  
18 financial and operating statements.

19                 CHAIRMAN GLEIMAN: Okay. In that case then, I  
20 just want to make sure that I understand correctly. It's  
21 the Postal Service's position that we can take notice of the  
22 audited Annual Report of the United States Postal Service?

23                 MR. REITER: Yes. There was absolutely no  
24 intention in that document to indicate otherwise and I  
25 apologize if that was not clear.

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1 CHAIRMAN GLEIMAN: Okay. I just get confused  
2 sometimes. I think it's better to ask questions than to  
3 continue my usual confused state.

4 Mr. Porras, you have heard of RPW, haven't you?

5 THE WITNESS: Yes -- Revenue Pieces and Weight.

6 CHAIRMAN GLEIMAN: Is it an important part of the  
7 Service's financial data collection and planning system?

8 THE WITNESS: It's an important part of it, yes.

9 CHAIRMAN GLEIMAN: Can you tell us what the status  
10 is of the inspection service report on the RPW? It was  
11 mentioned in the most recent semi-annual Report of  
12 Inspection Service?

13 THE WITNESS: No, I can't.

14 CHAIRMAN GLEIMAN: You haven't seen it?

15 THE WITNESS: I don't believe I have. If I have,  
16 I don't recall.

17 CHAIRMAN GLEIMAN: Can you tell us anything about  
18 the report, whether Westat did some studies for the  
19 Inspection Service?

20 THE WITNESS: No.

21 CHAIRMAN GLEIMAN: Do you use the RPW?

22 THE WITNESS: I use it but I don't manage the  
23 program itself. It is on another side of the house. They  
24 don't report to me.

25 CHAIRMAN GLEIMAN: And if the Inspection Service

1 or some outside party is critical of a report that you used  
2 for financial planning would it be your expectation that  
3 someone on the other side of the shop, wherever that is,  
4 would let you know about that so that you might take that  
5 into account?

6 THE WITNESS: I am aware of the report. I just  
7 don't recall if I have even seen the final or the Inspection  
8 Service Report.

9 CHAIRMAN GLEIMAN: Let me ask you a few questions  
10 about the operating budget for FY '98, as I understand it.

11 Now some of this is material that was touched on  
12 in one way, shape or form earlier today, but I need to get  
13 it in context of my mindset so that I can understand a  
14 little bit better.

15 The operating budget for Fiscal Year '98  
16 anticipates a loss of \$228 million, is that correct?

17 THE WITNESS: That's correct.

18 CHAIRMAN GLEIMAN: The budget assumes that the  
19 rates go into effect, the new rates go into effect on June  
20 the 1st?

21 THE WITNESS: That's correct.

22 CHAIRMAN GLEIMAN: The Postal Service filing in  
23 R97 indicates the annual increase in net income from new  
24 rates is \$2.4 billion, is that correct?

25 THE WITNESS: The total revenue requirement made

1 up, yes, \$2.4 billion. It was a revenue deficiency.

2 CHAIRMAN GLEIMAN: The annual increase in net  
3 income from new rates is \$2.4 billion in the rate case, yes  
4 or no?

5 THE WITNESS: ~~I'm not -- that's --~~ I am not sure  
6 that is -- what we said was the \$2.4 is the revenue  
7 deficiency. I am not sure that's net income. That is why I  
8 am having trouble understanding your question.

9 I am not being difficult about it. I just --

10 CHAIRMAN GLEIMAN: Okay. The Postal Service's R97  
11 filing anticipates a net deficit for the test year of \$2.4  
12 billion and it proposes an array of rates and fees which  
13 when projected out based on volume projections would give  
14 the Postal Service the money to cover that projected  
15 deficit, is that not correct?

16 THE WITNESS: I am going to clarify my answer,  
17 which is yes, but it has to be clarified.

18 We had a projected loss --

19 CHAIRMAN GLEIMAN: I understand.

20 THE WITNESS: Okay --

21 CHAIRMAN GLEIMAN: But I am just asking you  
22 about --

23 THE WITNESS: If you include the contingency in  
24 the revenue requirement, that is true.

25 CHAIRMAN GLEIMAN: Let's, you know, not muddy the

1       waters. It was \$1.4 plus a contingency plus a revenue  
2       requirement. The bottom line number was \$2.4.

3                 THE WITNESS: The revenue deficiency, yes.

4                 CHAIRMAN GLEIMAN: And if you divided that by 12  
5       it comes out to how much -- \$2.4 billion divided by 12? Two  
6       hundred million a month?

7                 THE WITNESS: \$200 million a month.

8                 CHAIRMAN GLEIMAN: So basically \$200 million a  
9       month, okay. Are we in agreement so far?

10                THE WITNESS: Yes. Yes.

11                CHAIRMAN GLEIMAN: Now, if new rates are  
12       implemented on June 1st, they should add about \$800 million  
13       to the Postal Service during this year?

14                THE WITNESS: That's correct.

15                CHAIRMAN GLEIMAN: If this is so, this implies  
16       that budget forecasts -- that the budget would forecast  
17       about a \$1 billion deficit without new rates for the fiscal  
18       year; yes?

19                THE WITNESS: With the \$228 and the --

20                CHAIRMAN GLEIMAN: And the \$800 in additional  
21       revenue from the new rates that would go into effect on June  
22       1st, that would give you a \$1 billion deficit, without  
23       rates?

24                THE WITNESS: Without rates, yes.

25                CHAIRMAN GLEIMAN: Now, tell me how much net

1 income from the new rates is included in the FY'98 budget?  
2 Is the \$800 million?

3 THE WITNESS: It was somewhere -- \$800 or \$900  
4 million. I don't recall the exact number but it was  
5 somewhere in that amount.

6 CHAIRMAN GLEIMAN: This means that you anticipate  
7 a flat line in terms of the same amount of additional  
8 revenue each month under the increased rates that you didn't  
9 take into account, that you were putting those rates into  
10 effect on June 1st, which is -- I will mischaracterize what  
11 you said before -- it's kind of the Summer slump season, and  
12 then you just threw out \$900 million, so maybe you  
13 anticipate more revenue in these Summer months?

14 THE WITNESS: You asked me whether it was \$800  
15 million exactly. I don't recall. Let me go back just to  
16 clarify the point. Let's take your \$800 million. We added  
17 revenues in, in AP-10, 11, 12 and 13. Now, it's not a  
18 slump, it's the seasonality of the business, and that's why  
19 each AP may be slightly different in terms of what mail  
20 volumes you would have, and that's what we did.

21 CHAIRMAN GLEIMAN: For accounting periods 10, 11,  
22 12 and 13, how much revenue from the new rates did you  
23 include in your budget?

24 THE WITNESS: I said I thought it was  
25 approximately \$900 million. I may not be exact. I can

1 verify exactly what the number was. I just don't recall.

2 CHAIRMAN GLEIMAN: So, unlike past years where you  
3 have had a down turn, a seasonal down turn in the Summer,  
4 this year you are going to have a seasonal up turn in the  
5 Summer?

6 THE WITNESS: In the past, we have had rate  
7 increases that were included earlier in the year and they  
8 were incorporated in the latter part of the year exactly the  
9 way this is. If you are asking what's different, it's the  
10 early part of the years. If you go back to the last rate  
11 change we had, which was in January, you had the revenues  
12 going up at that time, which carried over into the latter  
13 part of the year.

14 CHAIRMAN GLEIMAN: I think we are talking at cross  
15 purposes. I want you to listen very carefully to me. This  
16 rate case calls for \$2.4 billion in additional revenue for  
17 the Postal Service. Don't talk to me about whether it's  
18 part of PYL or the contingency or part of deficit from  
19 costs. There is \$2.4 billion in additional revenue in the  
20 rate case as filed. Do we agree?

21 THE WITNESS: Right.

22 CHAIRMAN GLEIMAN: And if there were no  
23 seasonality in the Postal Service, you would expect to get  
24 \$200 million a month in new revenue under the new rates as  
25 proposed by the Postal Service; is that not correct?

1                   THE WITNESS: On average, yes.

2                   CHAIRMAN GLEIMAN: If there were no seasonality  
3 and no changes, as the economists say, ceteris paribus, all  
4 things equal, you'd get \$200 million a month?

5                   THE WITNESS: Correct.

6                   CHAIRMAN GLEIMAN: But we know that all things are  
7 not equal, that there is seasonality, and that perhaps in  
8 November and December, you would get more new revenues than  
9 \$200 million a month out of this rate adjustment that's been  
10 proposed, and maybe in the Summer, you would get less than  
11 \$200 million a month?

12                  THE WITNESS: Correct. That's the point I was  
13 trying to make.

14                  CHAIRMAN GLEIMAN: But yet you've told me that  
15 it's going to be \$800 or \$900 million in additional revenue  
16 for those four Summer months or four accounting periods,  
17 however you want to characterize them?

18                  THE WITNESS: Well, if you are asking me the exact  
19 calculation, my staff went through and estimated the mail  
20 volumes for each of those periods and then figured out the  
21 average price change. You are acting or making it sound as  
22 if I'm making up some numbers. Those were done based on  
23 calculated volumes. I'm not sure I understand your point.

24                  CHAIRMAN GLEIMAN: Do you agree that under normal  
25 circumstances, revenue is up in accounting periods two,

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1 three, four, each year?

2 THE WITNESS: Yes.

3 CHAIRMAN GLEIMAN: Seasonality?

4 THE WITNESS: Yes.

5 CHAIRMAN GLEIMAN: Above the average?

6 THE WITNESS: Yes.

7 CHAIRMAN GLEIMAN: For the year. Do you agree  
8 that in most years for accounting periods 10, 11, 12 and 13,  
9 that you are below the average for the year?

10 THE WITNESS: Yes.

11 CHAIRMAN GLEIMAN: The question I asked you was a  
12 simple question. It was assuming you put those rates into  
13 effect on June 1st, how much net income would there be  
14 during June, July, August and September together, from the  
15 new rates that were put into effect?

16 You've just told me that the Summer months are  
17 generally below average, the average, but a moment ago, you  
18 told me that in effect, this Summer, we are going to be  
19 above average because there's going to be \$900 million in  
20 net revenue from the rate increase.

21 I'm willing to accept that but I just want to make  
22 sure that we are talking on the same plane.

23 THE WITNESS: I think we are. I was talking about  
24 we take the seasonality of the volumes in revenue. ~~on top~~  
25 ~~of that, why I say~~ <sup>maybe</sup> maybe I used a poor choice of words --

1       on top of our baseline, we've added a price change to that  
2       and calculated it based on the seasonality, what that would  
3       be.

4                 I'm not saying that we are going to get more mail  
5       volume than normal.

6                 CHAIRMAN GLEIMAN: I didn't ask you about mail  
7       volume. I asked you about net revenue, net income from  
8       implementing the rates on June 1st. How much additional  
9       money is the Postal Service going to have in its coffers as  
10      a consequence of raising rates on June 1st until the end of  
11      the year?

12               It's a simple question. I want a simple answer.  
13               Give me a number.

14               THE WITNESS: I think I estimated 800 to 900  
15      million. I really don't remember the number. I apologize  
16      for that.

17               CHAIRMAN GLEIMAN: Well, let's use the 900 million  
18      number. If you're going to get 900 million in additional  
19      revenue, and I think that 900 million number is a little  
20      high, and I would be receptive to a corrected number being  
21      submitted after this hearing today --

22               THE WITNESS: For discussion purposes we can use  
23      the 800. That's fine with me.

24               CHAIRMAN GLEIMAN: Fine. So we've got 900 million  
25      in new revenue, according to you, and we've got a projected

1       deficit when we put those rates into effect in June 1 of 228  
2       million. Right?

3                     THE WITNESS: Yes.

4                     CHAIRMAN GLEIMAN: 228 million, and the 900  
5       million in new revenue, if you didn't have that new revenue,  
6       it would give you a deficit for the year of \$1.128 billion.  
7       Is that correct?

8                     THE WITNESS: Yes.

9                     CHAIRMAN GLEIMAN: Now, turning back to your R97  
10      or the Postal Service's R97 filing, it had a before rates  
11      deficit of \$1.4 billion excluding the contingency and PYL.  
12      Can you reconcile the difference between 1.128 and 1.4?  
13      Which number is correct?

14                    THE WITNESS: Well, when we go --

15                    CHAIRMAN GLEIMAN: Or are either of them correct?

16                    THE WITNESS: Well, you're using two different  
17      periods of time here, and let me go back in the test --

18                    CHAIRMAN GLEIMAN: No, sir, I am not using two  
19      different periods of time. I'm using your rate case and  
20      your projected revenue for the test year.

21                    THE WITNESS: But, Mr. Gleiman, the test year  
22      shows revenues taking effect on October 1, and looking at  
23      that, we have projected before that ~~that~~ we would have a  
24      loss that was close to \$1.3 billion to \$1.4 billion. We  
25      have now come back with my rebuttal and said that may be

1 less by a couple hundred million dollars.

2 CHAIRMAN GLEIMAN: So that's how you reconcile it.  
3 Your rebuttal testimony now tells us that all things being  
4 equal, putting rates into effect on June 1, that rather than  
5 a 1.4 you'll have a \$1.1 billion budget -- deficit? In the  
6 absence.

7 THE WITNESS: We had <sup>a</sup>\$228 million loss.

8 CHAIRMAN GLEIMAN: And it's changing.

9 THE WITNESS: In the rates.

10 CHAIRMAN GLEIMAN: And in the absence of putting  
11 the rates into effect, you would have a 1.1 rather than a  
12 \$1.4 billion deficit.

13 THE WITNESS: Yes.

14 CHAIRMAN GLEIMAN: Okay. Now we've reconciled  
15 that. Now we can move on. But I would be interested in if  
16 indeed that \$900 million number that we used for this  
17 example is a correct number. I have difficulty  
18 understanding how this summer is going to be different than  
19 other summers.

20 THE WITNESS: And it's not. I apologize. I just  
21 don't recall the exact calculation, but the staff did in  
22 fact do it, and they did it by the amount of volumes that  
23 were estimated for each period.

24 CHAIRMAN GLEIMAN: Well, it does become rather  
25 critical, because you see if in fact the number is what you

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1 might expect it to be, which would be something less than  
2 the 12-month average, then your deficit would be much less  
3 than 1.1. For example, if it was \$700 million in new  
4 revenue that you were anticipating rather than 900, then  
5 your deficit would only be \$900 million without rates as  
6 opposed to the 1.4. So this is a critical number for us,  
7 because we need to understand how much or I need to  
8 understand, maybe others don't, but I need to understand  
9 what the real deficit would be without rates. And at this  
10 figure that I think is somewhat high of 900 million then it  
11 comports with your rebuttal testimony.

12 On the other hand, if the seasonally adjusted  
13 volumes are as they have been or seasonal volumes are as  
14 they have been in the past, then that number would be 700,  
15 maybe even only 600 million, in which case your deficit sans  
16 rates would be substantially smaller at the end of this year  
17 than either the 1.4 you originally projected or the 1.1  
18 you're now saying we're going to have.

19 Now, returning to the FY '98 budget, through  
20 Accounting Period 5 the Postal Service's net income is \$136  
21 million higher than planned. That's 330 million greater  
22 than the same period last year. Do we agree on that?

23 THE WITNESS: Yes.

24 CHAIRMAN GLEIMAN: Now you have a copy of the  
25 Postal Service's institutional response to OCA Interrogatory

1 120.

2 I believe it was marked as Cross-Examination  
3 Exhibit Number -- OCA Number 1. For anybody who would like  
4 a copy of it, there are more copies over on the table but I  
5 don't think that it is necessary that you have it to follow  
6 this.

7 Inasmuch as that OCA cross-examination exhibit is  
8 going to find its way into the record as designated written  
9 cross, institutional cross, I am not going to attempt to  
10 move it into the record at this point in time.

11 Number 120 lays out budgeted net income for each  
12 accounting period in FY '98. You have the copy, right?

13 THE WITNESS: Yes.

14 CHAIRMAN GLEIMAN: Do I understand correctly that  
15 you had a hand in developing the material contained in this  
16 response?

17 THE WITNESS: Well, let me -- the summary of this  
18 information, this is done through a number of managers in  
19 the field, headquarters. People make their plan spreads of  
20 the revenues and expenses. That is what this is, a summary  
21 of the revenue and expense plan spreads, and that ends up ~~in with~~  
22 <sup>who</sup> my people<sup>do</sup> the consolidation of this data.

23 CHAIRMAN GLEIMAN: So then you had a hand in  
24 putting -- your people, your staff had a hand in putting it  
25 together and I would assume, knowing the good manager that

1 you are, that you reviewed all this?

2 THE WITNESS: We review quite a bit and we have a  
3 lot of debates with the program managers and people who put  
4 their plan spreads together, yes.

5 CHAIRMAN GLEIMAN: Okay. Now will you notice that  
6 on there that beginning at Accounting Period 9, which  
7 coincidentally is just after a 10-month recommended decision  
8 would be issued by the Commission, net losses are projected  
9 to exceed \$158 million every accounting period and range as  
10 high as \$378 million in Accounting Period 13?

11 THE WITNESS: That's correct.

12 CHAIRMAN GLEIMAN: The losses for those five  
13 accounting periods total \$1.3 billion, correct?

14 THE WITNESS: Close to that number.

15 CHAIRMAN GLEIMAN: This is \$1.2 billion greater  
16 than the same period in FY '97. Also, this \$1.3 billion  
17 cumulative loss for those accounting periods exists despite  
18 the fact that the budget that you are looking at assumes  
19 that rate increases are going to go into effect in  
20 Accounting Period 10. Is that correct?

21 THE WITNESS: That's correct.

22 CHAIRMAN GLEIMAN: Okay. Could you please explain  
23 the basis for the large negative net income estimates?

24 THE WITNESS: Sure. Let me start off too by the  
25 point you made in terms of last year and how well we are

1 doing compared to last year --

2 CHAIRMAN GLEIMAN: I just want -- I don't want to  
3 talk about that. I want to talk about an explanation of the  
4 large negative net income estimates that you have in this  
5 U.S. Postal Service FY 1998 operating plan --

6 THE WITNESS: Okay. It goes back to our  
7 discussion or the discussion I had earlier and part of what  
8 was in Mr. Tayman's testimony and <sup>mine</sup> myself that we have a lot  
9 of programs, a lot of investment monies and a lot of that is  
10 being planned to be spent in the remainder of the year, the  
11 latter part of the year.

12 We have some major, major projects and programs  
13 that we have underway. Some of those started a year ago.  
14 Some started a little bit later.

15 We now have contracts in place. We now have  
16 program managers responsible for these particular programs.  
17 They have told us -- we have gone back and talked to them --  
18 that they are going to spend these monies and this plan  
19 reflects those particular assumptions.

20 CHAIRMAN GLEIMAN: Does any benefit accrue to  
21 managers who don't spend all the money that they have  
22 committed to you that they are going to spend?

23 THE WITNESS: Hopefully all of our managers  
24 understand just don't spend money uselessly or waste of  
25 monies, but in ~~these~~ terms of these programs the benefits

1       that we lose by not spending the money are more important.

2           We made corporate decisions. We have had --

3           CHAIRMAN GLEIMAN: I didn't ask you that. I asked  
4       you whether any of the managers stood to benefit by not  
5       spending all of the money that they have told you for  
6       purposes of your appearance here today that they are going  
7       to spend.

8           THE WITNESS: I am not sure I understand that. If  
9       you are talking from an incentive standpoint, if you are  
10      talking about missing a program schedule or -- there's -- we  
11      are now tracking up in one of our conference rooms, we are  
12      tracking the schedules of each of these programs, trying to  
13      get these managers to be accountable to do what they said  
14      they were going to do.

15           If they underrun the budgets a little bit this  
16      year or I am not sure what the benefit is in terms of a --

17           CHAIRMAN GLEIMAN: Did you mention the word  
18      "incentive" before?

19           THE WITNESS: Yes.

20           CHAIRMAN GLEIMAN: Thank you. So the large  
21      negative net incomes are due to the spending programs that  
22      you have in place for capital and other types of  
23      investments?

24           THE WITNESS: Primarily the operating investments.

25           CHAIRMAN GLEIMAN: Now budget expenses, budgeted

1 expenses during the last five accounting periods of FY '98  
2 are much greater than actual expenses for the same period in  
3 '97, as I pointed out a moment ago.

4                 The '98 expenses are in fact 11 percent greater  
5 than in '97.

6                 In your long experience with the Postal Service,  
7 do you recall total expenses exceeding SPLY, Same Period  
8 Last Year, by so great a percentage?

9                 THE WITNESS: I had, and I almost believe it was  
10 one time before this Rate Commission explained how our  
11 expenses went up 10.8 percent bottom line with the OBRAs and  
12 that --

13                 CHAIRMAN GLEIMAN: Other than OBRAs and years when  
14 there was substantial inflation --

15                 THE WITNESS: Yes, let me just clarify the point  
16 though, in terms of the program costs so far this year, even  
17 though we are showing bottom line and we are doing slightly  
18 better than planned, we are over SPLY -- Same Period Last  
19 Year -- by 22 percent.

20                 CHAIRMAN GLEIMAN: Let me try again. In your long  
21 experience with the Postal Service do you recall total  
22 expenses exceeding SPLY by such a great percentage, the  
23 percentage being 11 percent?

24                 THE WITNESS: I have got to go back -- and I  
25 know -- you've just got to give me the time to explain that

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1 we have put a lot of processes in place in this  
2 organization --

3 CHAIRMAN GLEIMAN: I understand that. You have  
4 told us that. That is on the record -- and you will have an  
5 opportunity, I promise you, to talk about that with me in a  
6 few minutes.

7 THE WITNESS: Okay -- my point is I am not  
8 convinced we ~~have process~~ <sup>had processes in the past</sup> in place that we could spend that  
9 money.

10 My experience has shown we have not spent --

11 CHAIRMAN GLEIMAN: I'll get -- I'll get --

12 THE WITNESS: -- that amount of money.

13 CHAIRMAN GLEIMAN: I'll get to that question later  
14 on. In your long experience with the Postal Service, do you  
15 recall expenses exceeding SPLY by such a great percentage,  
16 11 percent?

17 THE WITNESS: No.

18 CHAIRMAN GLEIMAN: Okay. Thank you.

19 Thank you. Have you had discussions or exchanged  
20 written documents with your staff about the likelihood of  
21 the Postal Service ending the fiscal year with a net income  
22 better than budgeted or than your revised rate case  
23 estimate? That is the estimate included in your rebuttal  
24 testimony shows assuming either or both of the following  
25 scenarios, a rate increase in FY'98 or no rate increase in

1        '98?

2              Did you understand my question? I'll do it again.

3              THE WITNESS: Please do it again.

4              CHAIRMAN GLEIMAN: Have you had any discussions or  
5        exchanged any memoranda with your staff about the likelihood  
6        of the Postal Service ending the fiscal year with a net  
7        income that's either better than what was in the budget or  
8        then the figure in your revised rate case estimate, your  
9        rebuttal testimony, that is, assuming either one of the  
10      following scenarios; no rate increase in '98 or rate  
11      increase in '98?

12             THE WITNESS: We've had discussions in terms of  
13      program management performance and if the program managers  
14      are managing those programs and are they in fact going to  
15      expend those monies. We've gone back and had that dialogue,  
16      and as you have that dialogue, it could affect your bottom  
17      line and we do have that kind of discussion.

18             I don't recall sending a memo out to them or  
19      anything like that to discuss that.

20             CHAIRMAN GLEIMAN: Or seeing a memo that was sent  
21      to you?

22             THE WITNESS: Right. I don't recall that.

23             CHAIRMAN GLEIMAN: All right. Have you or any  
24      other financial management officials discussed the same  
25      subject with members of the Board of Governors, either the

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1 management members or the non-management members?

2 THE WITNESS: I have not. Mr. Riley may have. I  
3 have not.

4 CHAIRMAN GLEIMAN: I hope that the letter we sent  
5 provokes some discussion. I'd like to think it did.

6 Now, you get a chance here to say what you want to  
7 say.

8 THE WITNESS: Can I ask you one question? You  
9 mentioned something about a letter. I have no idea what you  
10 are talking about.

11 CHAIRMAN GLEIMAN: Oh. We collectively sent a  
12 letter to the Board of Governors.

13 THE WITNESS: Okay.

14 CHAIRMAN GLEIMAN: I mean, if you are real  
15 interested and you aren't aware of the existence of it, I'm  
16 prepared to --

17 THE WITNESS: No, I am aware of that. I'm sorry.  
18 Yes, I am.

19 CHAIRMAN GLEIMAN: I really got worried there for  
20 a minute.

21 THE WITNESS: No, no. I'm sorry. I thought you  
22 just said another letter was sent over. I apologize.

23 CHAIRMAN GLEIMAN: No, no. No other letters have  
24 been sent over. We know when not to waste another piece of  
25 paper.

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1           You are a respected financial official by all  
2 accounts. I think my colleagues would agree that you are.

3           THE WITNESS: Thank you.

4           CHAIRMAN GLEIMAN: Now, separate and apart from  
5 your recommendation on the revenue requirement, please give  
6 me your own personal opinion about FY'98. Do you believe  
7 that the Postal Service will actually lose \$1.3 billion in  
8 the last five accounting periods of this year, assuming that  
9 rates are put into effect in June, or that the Postal  
10 Service will lose upwards of \$2 billion, assuming there is  
11 no rate increase this year?

12           Here's where you get to say all those things you  
13 want to say.

14           THE WITNESS: I guess first of all, I appreciate  
15 your asking me that question.

16           CHAIRMAN GLEIMAN: And I promise not to interrupt.

17           THE WITNESS: I think the Postal Service -- well,  
18 let me say this. The Postal Service has been very, very  
19 successful managing, staying the course, laying out a  
20 strategic direction for the organization. One of the things  
21 that we did was laid out a management process called  
22 customer perfect, which has driven us to lay out and do the  
23 things that make sense for this organization.

24           We've also created what we call a management  
25 cycle, where we are laying out to the established process,

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1       the sub-goals, the indicators and the targets for this  
2 organization.

3                  We then deploy those. We have come up with four  
4 particular strategies that are in our strategic plan. I  
5 believe for the first time, we are working together to  
6 address these things. I say that with 35 years of  
7 experience.

8                  I had mentioned to you when I was here the last  
9 time about one of the major strategies of the organization  
10 had to be to go after the prior year loss recovery, which we  
11 were not making up. We added some other particular  
12 strategies to improve service, to increase customer  
13 satisfaction, to improve our infrastructure and to lower our  
14 costs by investments so that we can be a very strong Postal  
15 Service in the future.

16                  I believe we are now heading in that direction.  
17 One of the things we have done simultaneously is we wanted  
18 to make people accountable.

19                  You mentioned the incentive system. Our incentive  
20 system is not to just pay monies to people, it's to make  
21 them think differently about the decisions they make and how  
22 they manage.

23                  Let me just give you an example, and you are going  
24 to give me just two seconds, and then I'll stop.

25                  CHAIRMAN GLEIMAN: I'm going to let you go on as

1 long as you want.

2                 THE WITNESS: Because a few years ago, we had the  
3 ice storm and the blizzard and all these things that  
4 affected us, and I'm reading the Washington Post, gee, the  
5 Postal Service ran out of tire chains. In the past, we  
6 would have bought tire chains to last for the next 40 years.  
7 Now, we are trying to manage it almost like we manage our  
8 own personal finances, where we are saying if it makes  
9 sense, you spend that extra money for the inventory. If you  
10 don't, you don't.

11                 None of us in this room go out and buy five car  
12 batteries and keep them in our garage so<sup>we have one</sup> when our battery  
13 goes dead. —<sup>We</sup> are trying to get the Postal Service  
14 managers to think this way in terms of managing this  
15 organization, and I think we've been very, very successful.

16                 One of the other things we have done through our  
17 customer perfect and our management cycle is this thing  
18 called "review." We are trying to create more  
19 accountability in this organization. As late as this week,  
20 I've had a conversation with Mr. Runyon. We have all these  
21 programs laid out on the wall. We have schedules. We show  
22 if it's green or red. Red means it's behind plan. We are  
23 saying why, why are you behind plan.

24                 When we talk about some of these investments and  
25 we say it adds costs, when you delay it, it's not an

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1 incentive because you are cutting out future revenues. ~~for~~ ~~for~~  
2 example, if you delay priority redesign or if you ~~do~~ ~~delay~~  
3 delivery confirmation, you are actually hurting yourself,  
4 not benefitting yourself. You may save a few bucks this  
5 year but in the future, you are going to lose some revenues.  
6 You are going to hurt yourself.

7                 Part of our incentive program, why we have a  
8 reserve account, is to get people to think long term so they  
9 don't make the narrow focused short term decisions and  
10 affect themselves.

11                 Just because you benefit this year, you don't get  
12 the full pay out of an incentive system. Now, with that, if  
13 you were to ask me three or four years ago, would this  
14 organization be geared up to spend this amount of money for  
15 programs, I would ~~say~~ <sup>sit</sup> here and agree with you, absolutely  
16 not, but I can't say that today because we have new  
17 executive positions. We have a program manager position.  
18                 We've ~~got~~ <sup>got</sup> some of these programs, 40 or 50 people  
19 managing these programs.

20                 Now, they are massive and we need to admit that.  
21                 If you take the ~~point of service~~, it's the largest cash  
22 register project probably in the world. Now, I can't tell  
23 you here they are going to do it every month but they have  
24 told us, and they are being accountable, including going  
25 back to the Board, because the Board wants more

1 accountability with us also. *If* you say you are going to do  
2 these programs, do them and do them in the time frame,  
3 because you are in fact going to have some longer term  
4 benefits to the organization.

5           In the past, I would have said to you, I don't  
6 think we can spend this money. Today, I cannot do that.  
7 I'm looking at a totally different organization today. We  
8 are doing what we said. I was in this room and Mr. LeBlanc,  
9 you and I had a heck of a discussion the last time, just  
10 about going back and capturing the prior year's loss  
11 recoveries. I walked out of here saying that we already had  
12 started that effort. I was going to convince the senior  
13 managers, the Board of Governors, that we in fact had to do  
14 that.

15           I think I was quite successful doing that. I've  
16 sat here and sat with the management of this organization,  
17 pushing back, raising holy hell in some cases, trying to get  
18 them to say we've got to set this direction, we've got to do  
19 the things that makes more sense for this organization.

20           My bottom line -- I sat there, by the way, and  
21 have all these debates, including pushing back on Mr. Runyon  
22 and the other senior managers, so I can say I've been into  
23 that battle and the heat of that. So, today my bottom line  
24 is the program managers are going to expend this money. We  
25 have the processes in place to let them do that. I think

1 it's going to get done.

2 CHAIRMAN GLEIMAN: Okay?

3 THE WITNESS: Thank you.

4 CHAIRMAN GLEIMAN: You ran out of tire chains. We  
5 ran out of time. That was MC95. I think we issued the  
6 decision three days late because of all that weather.

7 It sounds to me like you've implemented a  
8 management-by-objectives system over there with your red  
9 lozenges and your green diamonds I would bet.

10 THE WITNESS: It's actually following the Baldrige  
11 criteria, but I'm saying this, it really makes you manage in  
12 an integrated system.

13 CHAIRMAN GLEIMAN: I think it was about 28 years  
14 ago that when I worked for Secretary Richardson, then  
15 Secretary Weinberger at HEW that we had that kind of system  
16 in place. It worked reasonably well. I wish you well with  
17 it. It's good to know that you're doing that. And I don't  
18 doubt any of what you've said about your effort to convince  
19 people, to convert people to the importance of good  
20 management controls.

21 Well, let's talk about some particulars for a  
22 minute. You mention that, you know, three or four years ago  
23 you didn't think the Postal Service was geared up to spend  
24 this money, but now you think they are. Do you think they  
25 were geared up to spend it a year ago?

1                 THE WITNESS: We -- in fact, that's another  
2 excellent question.

3                 CHAIRMAN GLEIMAN: Just a yes or no.

4                 THE WITNESS: I need to clarify that, please.

5                 We --

6                 CHAIRMAN GLEIMAN: Clarify a year -- I just asked  
7 a simple question.

8                 THE WITNESS: But I think it's important because I  
9 was part of a team of officers that wanted to look at -- you  
10 know, we're committing to do all these programs, and we were  
11 finding we weren't doing them. We weren't spending the  
12 money. We even brought in an outside consulting group which  
13 told me what was our problems with program management. And  
14 so yes, we were geared up a year ago. Yes, we've underspent  
15 some money --

16                 CHAIRMAN GLEIMAN: Okay. That's good.

17                 THE WITNESS: But we're addressing the issue.

18                 CHAIRMAN GLEIMAN: Good. You were geared up a  
19 year ago. Okay.

20                 Let's go back a couple years. In FY '96 the  
21 Postal Service spent \$203 million on ADP supplies and  
22 services. Would you accept that subject to check?

23                 THE WITNESS: Okay.

24                 CHAIRMAN GLEIMAN: For FY '97 the Postal Service  
25 budgeted \$426 million for ADP supplies and services. Would

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1 you accept that subject to check?

2 THE WITNESS: Yes.

3 CHAIRMAN GLEIMAN: But in FY '97, the year -- a  
4 year ago -- less than a year ago -- not three or four years  
5 ago -- the Postal Service only spent \$156 million of the  
6 budgeted \$426 million on ADP supplies and services. Would  
7 you accept that subject to check?

8 THE WITNESS: Yes.

9 CHAIRMAN GLEIMAN: Now your testimony estimates --  
10 excuse me, skip the year. Let's look at the current year.  
11 For FY '98. The rate filing estimated that you were going  
12 to spend \$721 million on ADP supplies and services. Does  
13 that number sound familiar?

14 THE WITNESS: I think that's correct.

15 CHAIRMAN GLEIMAN: Okay. Now your testimony,  
16 rebuttal testimony, estimates an increase of yet another  
17 \$298 million for FY '98 on top of the original FY '98  
18 estimate of \$721 million, for a total planned budgeted ADP  
19 expenditure for the FY '98 of \$1.019 billion. Is that  
20 correct?

21 THE WITNESS: That's correct.

22 CHAIRMAN GLEIMAN: Do you have any idea of how  
23 much money has been spent on ADP supplies and services  
24 through Accounting Period 5?

25 THE WITNESS: No, I don't.

1 CHAIRMAN GLEIMAN: Would you like to know? Would  
2 you like to know?

3 THE WITNESS: Well, I look at it differently.

4 CHAIRMAN GLEIMAN: Would you like to know the  
5 number?

6 THE WITNESS: I'm not sure. Fine, if you want to  
7 share that with me, but I'll give you what I look at.

8 CHAIRMAN GLEIMAN: I didn't ask you what you  
9 looked at.

10 THE WITNESS: Okay.

11 CHAIRMAN GLEIMAN: I asked you whether you knew  
12 the number. You said you didn't. And I asked you whether  
13 you would like to know. If you're not interested in how  
14 much they've spent out of the \$1.019 billion that's been  
15 budgeted, we'll stop here and go on to another line of  
16 questions.

17 THE WITNESS: No, I am very interested. I am very  
18 interested. You're looking at the one line item. I like to  
19 look at the bottom-line programs.

20 CHAIRMAN GLEIMAN: I understand.

21 THE WITNESS: And that's what we look at.

22 CHAIRMAN GLEIMAN: Okay.

23 Well, you know, when you get to the bottom line,  
24 it's the sum of everything above the bottom line. You're  
25 telling me that we shouldn't look above the bottom line. If

1       that's the case, then -- and I suspect that you and some of  
2       your colleagues might be perfectly happy to just walk out of  
3       here with \$2.4 billion and split it up any way you want  
4       ratewise, I know. But that's not the way the process works.  
5       You don't look only at the bottom line. You look above the  
6       bottom line. So today we'll look above the bottom line.

7                  Looking above the bottom line through Accounting  
8       Period 5, you've spent \$56 million out of the now \$1.019  
9       billion that you say you're going to spend this year on ADP.  
10       Could you first describe why your estimate has grown so much  
11       from \$200 million to \$426 million to \$721 million for the  
12       current year of a few weeks or months ago and now to \$1.01  
13       billion for the current year?

14                  THE WITNESS: Yes, let me clarify that point.  
15       When we do the rate categories, we tie in the total  
16       expenditures of the project under ADP. When you're looking  
17       at a line in terms of our current performance, that may not  
18       be the total program cost. You have to go pull it out of  
19       supplies and services, and I don't think we're looking at  
20       the same thing, because I could -- I don't have it with me,  
21       but I can go back and show you the total program cost, which  
22       some of it may be -- for example, <sup>Priority Redesign</sup> ~~priority redesign~~ is a  
23       supplies and service cost.

24                  CHAIRMAN GLEIMAN: Well, I'll tell you what.

25                  THE WITNESS: And your category here it may be

1 ADP. I just don't know.

2 CHAIRMAN GLEIMAN: I just took this out of Postal  
3 Service documents. You know, I don't know, maybe I have  
4 different Postal Service documents than you. But I have a  
5 feeling that we'll be ripe for a lunch break in a little  
6 bit, and you during the lunch break can go get those  
7 documents or numbers that you don't have and come back and  
8 you can show me what the real figure is both in terms of the  
9 total -- if you wish to do this. It's not a directive by  
10 any stretch of the imagination.

11 But if you want to show me that indeed there's a  
12 whole bunch more ADP supply and service money squirreled  
13 away on a whole bunch of other lines, which will raise the 1  
14 billion and some odd cents figure, and then show me that  
15 there's a whole lot of expenditures squirreled away on all  
16 these other lines that show that this -- a greater  
17 percentage of this increased amount than \$56 million is of  
18 1.019 billion has actually been spent, I'll be delighted to  
19 accept that information.

20 THE WITNESS: But give me one minute, though,  
21 because I've got to clarify your point about squirreled  
22 away. You know as well as I do --

23 CHAIRMAN GLEIMAN: I didn't mean that in a  
24 pejorative sense.

25 THE WITNESS: Okay.

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1           CHAIRMAN GLEIMAN: It's included in other  
2 programs.

3           THE WITNESS: No. No. We manage -- the Postal  
4 Service's internal management uses slightly different line  
5 items to manage our organization than what we report over  
6 here in the rate case. Those categories -- we make the  
7 adjustments for them. The number that I've seen bottom line  
8 at this point I think it was through A.P. 5, we were about  
9 \$50 million below the plan for these programs at this time.

10          CHAIRMAN GLEIMAN: By the way, I think that these  
11 figures, this \$56 million, it comes out of your accounting  
12 period reports, which as I understand it are not prepared  
13 specifically for the Postal Rate Commission.

14          THE WITNESS: They are not.

15          CHAIRMAN GLEIMAN: And which the Postal Rate  
16 Commission gets sometimes four weeks late, sometimes four  
17 months late. But that's neither here nor there, I guess.  
18 But be assured, these are numbers that come out of your  
19 accounting period reports. I don't know what you use your  
20 accounting period reports for, if not management.

21          THE WITNESS: Let me give you another example.  
22 When you say programs in your definition you include  
23 transportation. In our internal management, transportation  
24 is a separate line item. We don't include it under program  
25 cost. In your ADP, yours is broader than ours that we're

1 managing day to day with. That's all I'm saying.

2 CHAIRMAN GLEIMAN: It's not my -- sir --

3 THE WITNESS: I have to do a tremendous  
4 reconciliation for you to do that.

5 CHAIRMAN GLEIMAN: Well, you may have to do it.

6 It's not my program. It's not my definition. It's not my  
7 line. And it's not my document. These are the numbers, the  
8 documents, the programs, and the definitions that are used  
9 by the United States Postal Service. If you're telling me  
10 that we're being given information that's different than  
11 what we ought to be given, then I really -- I mean, I'm just  
12 flabbergasted, because I don't know how to assess all the  
13 financial data you've given us. But let's try and move on a  
14 little bit here.

15 How much do you plan to spend accounting period by  
16 accounting period between now and the end of the year on ADP  
17 supplies and services, which is a line in the Postal Service  
18 document. The line currently has \$1.019 budgeted and \$56  
19 million spent.

20 THE WITNESS: I don't have that detail with me,  
21 that information.

22 CHAIRMAN GLEIMAN: Do you believe it's possible to  
23 efficiently spend approximately \$1 billion on ADP supplies  
24 and services in the remainder of the year?

25 THE WITNESS: I go back, when the system is geared

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1 up, the plans are in place to spend this money.

2 CHAIRMAN GLEIMAN: Do you know whether there are  
3 any knowledgeable individuals or individuals lacking  
4 knowledge in the U.S. Postal Service management team, who  
5 have expressed doubt as to whether you can spend \$1.019  
6 billion on ADP supplies and services in the remainder of  
7 this year?

8 THE WITNESS: That question is so broad. There's  
9 one great thing about the Postal Service. We have a diverse  
10 organization with a lot of diverse views, and there's always  
11 going to be an opinion different than --

12 CHAIRMAN GLEIMAN: Let's limit it to  
13 knowledgeable.

14 THE WITNESS: That's what I'm talking about. I  
15 consider the senior officers very knowledgeable and they  
16 challenge and question the same way you did to me. I don't  
17 know if they have spoken to specific program managers or not.  
18 We have and they've told us they are going to spend the  
19 monies.

20 CHAIRMAN GLEIMAN: More than three-quarters of the  
21 way through FY'97, at the point in time when it sent in the  
22 R-97-1 rate case filing, the Service overestimated its ADP  
23 services and supplies' expenses for that year by 173  
24 percent, and you are now telling me that you've got  
25 something in place this year that you didn't have in place

1 three or four years ago, but that was in place last year  
2 maybe, which should instill in me confidence in your revised  
3 \$1 billion estimate?

4 You've spent five percent of this \$1 billion  
5 through accounting period five. You've got 95 percent of  
6 that money to spend between now and the end of the year or  
7 between accounting period five and the end of the year, and  
8 you, please, tell me again why it is I should be confident  
9 that after last year's performance and the year before, and  
10 the growth from year to year in the ADP budget, that I  
11 should have some confidence that you can spend 95 percent  
12 between AP-6 and AP-13?

13 THE WITNESS: I'll go back and repeat some of the  
14 same things I've said. A lot of these projects and programs  
15 today, we now have contracts in place. I mean, contracts  
16 have been signed. We're gearing up to spend the monies.

17 CHAIRMAN GLEIMAN: There are a few people who are  
18 my age and maybe a teeny bit older who remember how things  
19 used to be in the Federal Government when agencies used to  
20 spend all that money in the last quarter of the year. I  
21 guess that's what we are looking at with the Postal Service.

22 If you were able to do this, and I don't know that  
23 you will be able to do it, I hope not to see stories such as  
24 those we used to see about the Pentagon and some other  
25 agencies around town, are you familiar with library

1 reference H-10, explanation of cost reductions in other  
2 programs?

3 THE WITNESS: I have reviewed that.

4 CHAIRMAN GLEIMAN: There are a series of three  
5 exhibits at the back that list each and every program  
6 described in the document, and the estimated cost increases  
7 in FY'97, in the test year. I've left copies on your  
8 counsel's desk. There are copies on the table near the  
9 door. I'm going to provide a copy to you.

10 MR. RICHARDSON: Mr. Chairman, just for  
11 information, this is part of the record. When I was cross  
12 examining Witness Tayman, I entered library reference H-10  
13 into the record.

14 CHAIRMAN GLEIMAN: Thank you. I appreciate that.  
15 I'm not going to enter this into the record. I think we  
16 actually may have known that, just for purposes of asking a  
17 few questions here.

18 How many of the 81 test year programs did you  
19 review for your rebuttal testimony?

20 THE WITNESS: I'm sorry?

21 CHAIRMAN GLEIMAN: How many of the 81 programs did  
22 you review for your rebuttal testimony?

23 THE WITNESS: I had my staff go back and talk to  
24 program managers and they've gone back, I think, pretty much  
25 and reviewed every single one of these or had discussions

1 with just about every one of them.

2 CHAIRMAN GLEIMAN: Can you give me in more detail  
3 how you went about this?

4 Was a memo sent out to all the program managers,  
5 inviting them to meetings with your staff? Did you do a  
6 telephone survey? Did you catch the heads of the programs  
7 or were they out sick or on travel or whatever and maybe you  
8 caught somebody further down the line?

9 How did this process work?

10 THE WITNESS: Okay. The process ties back to what  
11 I said before in terms of the whole -- the management cycle,  
12 the part of our review process, and we did a number of  
13 different things, just not one particular thing.

14 First of all, I think we went out with a mid-year,  
15 asking the program managers and the managers to give us an  
16 update on everything.

17 CHAIRMAN GLEIMAN: When?

18 THE WITNESS: Oh, I can't recall -- maybe a month  
19 and a half ago or so.

20 We also have had discussions with the big  
21 program -- the program managers that have these large, large  
22 programs, asking them to look at it, and if you will look at  
23 my rebuttal, for example, you see where I got a letter  
24 back -- I remember that -- in terms of the MTE, the Mail  
25 Transport Equipment Project, where they said we are going to

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1     be delayed, and so I also have asked my staff to go back and  
2     personally talk to all the program managers.

3                 They are also making commitments to Mr. Runyon and  
4     the senior officers of the Postal Service -- that is up  
5     there on that board -- and we have gone up and helped  
6     monitor that. In fact, we helped set up that board. We  
7     also have a Vice President, Darrah Porter, whose job now is  
8     to manage these projects overall to make certain that  
9     program managers are in place and they are doing the things  
10    that they are doing, so it is a number of different things.

11                CHAIRMAN GLEIMAN: So you are confident that you  
12    did a systematic review and that each and every program  
13    manager was contacted?

14                THE WITNESS: Yes. Let me --

15                CHAIRMAN GLEIMAN: By the way, let me ask you, I  
16    mean that was my summation of that you said, that it was  
17    done and done well in terms of reviewing the 81 programs.

18                In either the Baldridge setup or the MBO setup,  
19    the Management By Objectives setup that I referred to, do  
20    you know whether the textbook approach provides an  
21    opportunity to either adjust milestones or modify goals or  
22    once you commit to something are you locked in and you have  
23    to do it regardless?

24                THE WITNESS: Well, eventually you get back to the  
25    management cycle where you do the *Establish phase* established again, and

1 there is an opportunity to do that but you try to hold  
2 every -- that is what the review process is all about is you  
3 are holding people accountable on an ongoing basis and --

4 CHAIRMAN GLEIMAN: But the milestones and the  
5 goals are not immutable, is that right?

6 THE WITNESS: Unless there's a dramatic kind of  
7 change -- and that's possible. You have got to have, of  
8 course, sometimes some flexibility.

9 I did want to --

10 CHAIRMAN GLEIMAN: So it is conceivable then that  
11 some of these firm commitments that were made, you know, we  
12 wouldn't want it to happen, but it is conceivable that there  
13 could be some changes?

14 THE WITNESS: Yes, and I think the perfect example  
15 is that Mail Transport Equipment -- now I need to clarify  
16 one point also.

17 These programs that<sup>have</sup> a lot of the cost reduction  
18 projects and that, we not only go back and talk to the  
19 program managers, they go out and talk to the field people,  
20 these that apply to the field --

21 CHAIRMAN GLEIMAN: You don't know that first-hand,  
22 though?

23 THE WITNESS: Well, I know they go talk to them.  
24 I don't know what their discussions are but they do actually  
25 have meetings and go over all of these programs with them.

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1 CHAIRMAN GLEIMAN: I'll take your word for it that  
2 it was done systematically and thoroughly.

3 Can you tell me how many of the listed programs  
4 have been cancelled?

5 THE WITNESS: No, I cannot tell you that.

6 CHAIRMAN GLEIMAN: Can you tell me how many of the  
7 listed programs have been deferred?

8 THE WITNESS: I do know like the Mail Transport  
9 Equipment has been delayed and that is in my rebuttal  
10 testimony to you.

11 CHAIRMAN GLEIMAN: You are not aware of any others  
12 that have been deferred?

13 THE WITNESS: No, not at this point.

14 CHAIRMAN GLEIMAN: All right. Which programs are  
15 now estimated to have lower costs than in the R97 filing?

16 THE WITNESS: Which ones? Nobody has given me  
17 anything that reflects lower costs at this point other than  
18 the Mail Transport Equipment that I showed you.

19 CHAIRMAN GLEIMAN: So it's conceivable that some  
20 others have lower costs, but that information just hasn't  
21 been given to you?

22 THE WITNESS: Correct.

23 CHAIRMAN GLEIMAN: In Docket MC97-5, that's the  
24 docket for the Postal Service's request for professional  
25 packaging, the Postal Service stated that a number of POS 1,

1 I think they're called, POS terminals, were to be installed  
2 in FY '98. And then we learned that there was a figure that  
3 was less than the originally proposed level of installation  
4 in FY '98. Has the Postal Service lowered its estimate of  
5 expenses for the POS 1 terminal installation for the test  
6 year?

7 THE WITNESS: I received a letter for 1997 where  
8 they in fact told me that they were going to <sup>be</sup> under, I  
9 believe the number was like \$18 million. This year we have  
10 not gotten any change because of the expenditure number at  
11 all. I do know that they are going to prepare an investment  
12 analysis exception report, because on the capital side we  
13 are going to overspend.

14 CHAIRMAN GLEIMAN: That would mean that you would  
15 get more POS 1 terminals installed than you thought in this  
16 year?

17 THE WITNESS: No. To continue, the project -- we  
18 do have a deployment plan and --

19 CHAIRMAN GLEIMAN: Well, we are talking about this  
20 year.

21 THE WITNESS: Yeah, I am talking 1998. In fact,  
22 1998.

23 CHAIRMAN GLEIMAN: Well, what has the capital  
24 investment plan got -- I mean I asked you if that meant you  
25 were going to have more terminals that you were going to buy

1 and install this year than originally planned. The capital  
2 investment plan or proposal for the future doesn't have  
3 anything to do with this year, does it?

4 THE WITNESS: Yeah, I -- excuse me, I  
5 misunderstood. But I am talking about part of what we  
6 already have committed. We need some more money because it  
7 is costing us more than we had thought originally from the  
8 capital side of the house, and we will be going back to the  
9 Board with that explanation. We do have a deployment  
10 schedule that they are working on. I have not received any  
11 notice from them that the number will be different at this  
12 point.

13 CHAIRMAN GLEIMAN: When MC97-5 was filed, the  
14 Postal Service indicated that these terminals, which were  
15 crucial to this packaging proposal, would be installed in  
16 3500 facilities that -- of a particular type. These are  
17 facilities that met some demographic conditions, because we  
18 wouldn't want to offer services in places where people don't  
19 make a lot of money or anything like that. We just want to  
20 offer these services to the American public in the high  
21 income areas.

22 We found out right toward the end of the case, in  
23 a Postal Service document, that only 3,084 of the facilities  
24 were going to get POS 1 terminals, and we were told that the  
25 reason was that there just weren't going to be as many POS 1

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1      terminals available in FY '98. Did you cut back on the cost  
2      of the POS 1 terminals in this list of 81 programs?

3                THE WITNESS: I don't know if they made the  
4      adjustment last year that tied into the rate case, I really  
5      don't know that. They did have less expenditures in 1997,  
6      and that they told us that, and it would be affected in the  
7      '98. I really don't know that.

8                CHAIRMAN GLEIMAN: Okay. Let's try International  
9      Service Centers being installed as scheduled. Are they on  
10     schedule?

11               THE WITNESS: They may be, they are pretty close,  
12     I understand.

13               CHAIRMAN GLEIMAN: Okay. Corporate Call  
14     Management Program on schedule?

15               THE WITNESS: That's going to the Board next  
16     month. They are gearing up to sign contracts so it could,  
17     in fact, be pretty close to schedule.

18               CHAIRMAN GLEIMAN: Geared up? The contracts are  
19     going to the Board?

20               THE WITNESS: No, no. The approval of the  
21     project. If the Board approves expanding it, we have got  
22     the test going in Denver, which has added a lot of cost, but  
23     this expanded nationwide.

24               CHAIRMAN GLEIMAN: When was it supposed to go to  
25     the Board?

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1           THE WITNESS: I don't recall the exact date.

2           CHAIRMAN GLEIMAN: Can you tell us which programs  
3 are currently behind or ahead of schedule, and how much,  
4 more or less, is expected to be spent on them in FY '98 than  
5 estimated in the rate filing?

6           THE WITNESS: I don't have that information with  
7 me. As I mentioned previously, from what I had seen before,  
8 we were about \$50 million at that point below. I have not  
9 had any other information other than what I have in my  
10 rebuttal testimony that we are going to be delayed on those  
11 programs.

12          CHAIRMAN GLEIMAN: Your testimony provides us with  
13 a list, and I use the words in quote, "Known", close quote,  
14 Changes for FY '98 Test Year Accrued Costs. It is Exhibit  
15 11-B. Now, some of these changes reflect the fact that  
16 estimates have been replaced by actuals. For example,  
17 COLAs, health benefits, POD workers comp., et cetera.

18          Now, as I understand it, these types of items are  
19 outside the control of the Postal Service pretty much. On  
20 the other hand, some of these changes are simply revised  
21 estimates such as the Transportation Program that you spoke  
22 to and the ADP Supply and Services Program which I spoke to.  
23 They are very much subject, these other programs, ADP and  
24 Transportation, are very much subject to the control of the  
25 Postal Service, is that not correct?

1           THE WITNESS: Correct.

2           CHAIRMAN GLEIMAN: Now, I would like to read your  
3 comments at page 6 and 7 of your testimony. I don't have a  
4 line number and I apologize. And I will quote, hopefully  
5 correctly, "Updated information does not receive the  
6 thorough analysis and review by interested parties that the  
7 ratemaking process provides for original estimates. It  
8 seems unfair for Intervenors to spend months evaluating the  
9 Postal Service's estimates only to have them changed after  
10 the fact."

11           Do you think these comments are applicable to both  
12 types of revisions, those outside of the U.S. Postal  
13 Service's control and those subject to the U.S. Postal  
14 Service's control?

15           THE WITNESS: I do believe that, yes.

16           CHAIRMAN GLEIMAN: Don't you think there is a  
17 difference in kind between the controlled and the  
18 uncontrolled changes?

19           THE WITNESS: I just don't think we ought to  
20 adjust for them.

21           CHAIRMAN GLEIMAN: Could you possibly see how some  
22 mailer might view it as unfair to pay higher rates than  
23 indicated in the rate filing because there was a lower  
24 uncontrolled cost which wasn't taken account of?

25           THE WITNESS: But I think we have to look at it

1 bottom line.

2 CHAIRMAN GLEIMAN: I didn't ask you that. I asked  
3 you whether you could see how some mailer might be exercised  
4 at paying a rate that was higher than that mailer might  
5 otherwise have to rate pay because this Commission did not  
6 take notice of a change in an uncontrolled cost?

7 THE WITNESS: Again I would say not to make a  
8 change.

9 CHAIRMAN GLEIMAN: I didn't ask you whether you  
10 were recommending a change or not. I asked you whether you  
11 thought some mailer somewhere might be happy or unhappy at  
12 the prospect of paying higher rates than might otherwise be  
13 warranted if you took into account the change.

14 THE WITNESS: I guess I'm still just having  
15 problems understanding that comment.

16 CHAIRMAN GLEIMAN: If you were a mailer, would you  
17 like to pay higher rates than were indicated by the cost to  
18 the Postal Service? Would you be happy at that?

19 THE WITNESS: I guess I would have to look at it  
20 over time. You're asking me a very complex question.

21 CHAIRMAN GLEIMAN: Well --

22 THE WITNESS: Trying to relate it back to one line  
23 item.

24 CHAIRMAN GLEIMAN: That's a good answer. I'm  
25 going to use that answer when I get criticized when we issue

1       a recommended decision and somebody's unhappy because their  
2       rates are higher than what they would like them to be. I'm  
3       going to remind them that Witness Porras said to look at it  
4       over time and don't be upset.

5                 THE WITNESS: Well, and I'll go back to the -- Mr.  
6       Porras said back in two previous rate cases that we thought  
7       17 and 25-percent price changes were way out of line, and we  
8       were going to manage this organization to keep the prices  
9       under inflation, and the Board has now directed that to the  
10      senior management of the Postal Service. We're very  
11      concerned about price changes with our customers.

12                CHAIRMAN GLEIMAN: I have no idea what you're  
13      talking about when you talk about 25 and 17 percent.

14                THE WITNESS: For some classes of mail, and we are  
15      committed to keep our costs down.

16                CHAIRMAN GLEIMAN: Let's -- you know, what I like  
17      to -- I like to keep things in the context of current  
18      history, which is AE -- After Ed --

19                [Laughter.]

20                Which is from February 23 on of 19 and 94.

21                THE WITNESS: And you know I cannot let you get  
22      away with that, because I've got to look at the total Postal  
23      Service, and we need to do that. We need to look beyond  
24      just one year. And then, you know, I know you're going  
25      to --

1 CHAIRMAN GLEIMAN: I was giving you -- I was  
2 giving you four years to look at.

3 THE WITNESS: Yeah, but I would want to go back to  
4 the 1980s, because -- if you let me do that, I'll do that,  
5 because I think we really made some mistakes. We made some  
6 net incomes and we reversed the organization.

7 CHAIRMAN GLEIMAN: Well, I'll tell you what.  
8 There's a gentleman who comes here and participates in every  
9 rate case from Niagara Telephone who tells us about local  
10 mail that used to be available to him way back when in the  
11 forties, and it may have been into the fifties, I don't  
12 recall. And, you know, everybody wants to set their own  
13 bench mark about how far back we go. If we're going to look  
14 at it over time, let's look at it prospectively, because  
15 that's really what we're dealing with, the financial  
16 well-being of an institution that's important to all of us,  
17 not only as employees and regulators but as users of the  
18 mail.

19 THE WITNESS: I agree with you. We need to look  
20 prospectively and learn from some of our mistakes of the  
21 past.

22 CHAIRMAN GLEIMAN: Your review in your rebuttal  
23 testimony focused only on certain selected expenses. Why  
24 didn't you take into account other important factors such as  
25 productivity and mail volume and actual revenue-per-piece

1 changes?

2 THE WITNESS: We did look at the revenues, and  
3 they were pretty essentially on --

4 CHAIRMAN GLEIMAN: Revenue per piece was --

5 THE WITNESS: I didn't get into the revenue per  
6 piece.

7 CHAIRMAN GLEIMAN: That's --

8 THE WITNESS: I mean, the bottom-line revenues  
9 were pretty close.

10 CHAIRMAN GLEIMAN: Let me try again. Why did you  
11 not take into account other important factors such as  
12 productivity, mail volume, or actual revenue per piece?

13 THE WITNESS: We did look at the mail volumes and  
14 the revenues and thought that would be pretty close to what  
15 we had originally estimated. The productivity -- I'm not  
16 sure we looked at that individually. I'm not sure --

17 CHAIRMAN GLEIMAN: Did you look at revenue per  
18 piece?

19 THE WITNESS: I did not.

20 CHAIRMAN GLEIMAN: Do you know -- you didn't look  
21 at it, and you're the rebuttal witness. Okay.

22 Now you told Mr. Levy that the Service now has  
23 accountable managers in place who are committed to spending,  
24 and I think that you both agreed that the spending involved  
25 somewhere between -- somewhere around \$2-1/2 billion give or

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1 take a couple of shekels on a number of projects between now  
2 and the end of the year. Now if these managers don't spend  
3 all that money, the Service is going to have a smaller  
4 deficit. Is that not in fact the case?

5 THE WITNESS: I'm not sure if I understand that.

6 CHAIRMAN GLEIMAN: If the managers don't spend all  
7 the money that you said they were going to spend, the Postal  
8 Service deficit is going to be smaller than it would  
9 otherwise be.

10 THE WITNESS: If you're looking in only terms of  
11 1998 --

12 CHAIRMAN GLEIMAN: That's what I'm looking at.

13 THE WITNESS: Those --

14 CHAIRMAN GLEIMAN: That's what we're --

15 THE WITNESS: Investments will affect the future.

16 CHAIRMAN GLEIMAN: Here talking about.

17 THE WITNESS: You have to look beyond 1998 with  
18 those investments. If you don't spend the money in 1998,  
19 the deficit would be less.

20 CHAIRMAN GLEIMAN: It's conceivable if a whole lot  
21 less money wasn't spent, you might even come up with a  
22 surplus. Is that not correct?

23 THE WITNESS: I don't see that.

24 CHAIRMAN GLEIMAN: If no money was spent between  
25 now and the end of the year on any of these programs, would

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1 there be a surplus at the end of the year?

2 THE WITNESS: We have contracts in place, and  
3 that's why I say that we do in fact have contracts in place  
4 and money is being spent. I was talking about if you spend  
5 a little less than what you had anticipated.

6 CHAIRMAN GLEIMAN: Well, if you spent even a  
7 little less than that amount, is it conceivable that you can  
8 get to the point where the Postal Service has a surplus?

9 THE WITNESS: I don't see that at this time.

10 CHAIRMAN GLEIMAN: It's not -- okay. You don't  
11 see it. It's not conceivable. That's fine.

12 Are bonuses for the current year based on -- in  
13 part on the Postal Service's situation financially at the  
14 end of the year?

15 THE WITNESS: Can you repeat that? I'm sorry, I  
16 missed the first part.

17 CHAIRMAN GLEIMAN: Are bonuses for Postal Service  
18 employees and officials based at least in part on meeting  
19 financial plan for the rest of the year?

20 THE WITNESS: No, the incentive system, which we  
21 call economic value added, is predicated on positive EVA  
22 performance. It has nothing to do with the plan. We must  
23 have positive EVA results.

24 CHAIRMAN GLEIMAN: What are the EVA results? I  
25 think there are three legs or something like that of EVA.

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1           THE WITNESS: Well, the calculation, and everybody  
2 has to excuse me for a moment, in terms of calculating the  
3 pool of money, we can have a plan -- if we hit the plan  
4 deficit today, there's no money to give out in bonuses,  
5 period, because you have to do a positive EVA. So you  
6 create a pool of money, and then what you do is take that  
7 money and apply it one-third, ~~one-third~~, to the three  
8 voices, voice of the customer, voice of the employee, voice  
9 of the business. If in fact we have negative results, the  
10 payout is zero. So we have to have positive EVA or there's  
11 no money that we will give to any employees.

12           CHAIRMAN GLEIMAN: One of those legs was the  
13 business which means the financial picture at the end of the  
14 year?

15           THE WITNESS: Right. That's what creates the pool  
16 for the other bonuses.

17           CHAIRMAN GLEIMAN: So if you spend less money on  
18 capital equipment, even though you are one of these highly  
19 accountable managers, the pool of bonus money increases?

20           THE WITNESS: Capital is done based on over time  
21 and the depreciation and that, cost of capital. That's not  
22 directly into the account, the way you said that.

23           CHAIRMAN GLEIMAN: I don't want to belabor the  
24 point but you've been telling us for the past couple of  
25 hours, three of us who have cross examined you, that you

1 have all this commitment to spend all this money, whether  
2 it's a capital investment or a program investment. Let's  
3 get out of the capital game and let's look at the program  
4 investment.

5 If you don't spend all the program money in one or  
6 another of the areas that one or another of these new  
7 accountable managers has agreed to, then there's going to be  
8 more money left at the end of the year than would have  
9 otherwise have been the case; right?

10 THE WITNESS: That's correct.

11 CHAIRMAN GLEIMAN: Therefore, the base from which  
12 the bonus pool is drawn is going to be larger?

13 THE WITNESS: It could be but again, you have to  
14 look, as I said before, we don't give you 100 percent pay  
15 out. This year, for example, you only get 40 percent.

16 CHAIRMAN GLEIMAN: I understand.

17 THE WITNESS: If you short change yourself and  
18 kill an investment that's going to give you a savings in the  
19 future, you're going to hurt yourself.

20 CHAIRMAN GLEIMAN: But if you are a short timer,  
21 you don't care.

22 THE WITNESS: That goes back to the accountability  
23 and all of the other goals and managing the programs to  
24 support them and you have to do those things.

25 CHAIRMAN GLEIMAN: You've never heard the phrase

1 "take the money and run?"

2 THE WITNESS: Yes, I have. I've heard it.

3 CHAIRMAN GLEIMAN: I'm almost done. I'm going to  
4 hand you what I've marked as Presiding Officer's  
5 Cross-Examination Exhibit No. 1. I'm going to ask for some  
6 help from one of the staff people to make sure that folks  
7 over here at counsel's table get copies.

8 [Presiding Officer's

9 Cross-Examination Exhibit No. XE-1  
10 was marked for identification.]

11 CHAIRMAN GLEIMAN: Now, this is a page that comes  
12 out of the electronic version of your workpapers furnished  
13 to the Commission, the document was entitled Docket R97-1  
14 Revenue Requirement Updating Strategy for Rebuttal  
15 Testimony.

16 Would you like a moment to read through the  
17 document?

18 THE WITNESS: I'm reading it. I've not seen this  
19 before.

20 CHAIRMAN GLEIMAN: It was in your workpapers.

21 THE WITNESS: I just do not recall reviewing it.  
22 I did go through the workpapers, too. I just don't recall  
23 this.

24 CHAIRMAN GLEIMAN: I am just interested in the  
25 first three paragraphs, by the way.

1           THE WITNESS: That's almost the whole page.

2           CHAIRMAN GLEIMAN: You will be pleased that I'm  
3 only interested in the first three.

4           THE WITNESS: Okay.

5           CHAIRMAN GLEIMAN: Let me know when you are ready.

6           THE WITNESS: Oh, I'm ready.

7           CHAIRMAN GLEIMAN: Okay. Now paragraph 1 says  
8 that the revenue requirement will be updated for known and  
9 quantifiable actual elements. It then lists them and we  
10 know that the items on the list reduce expenses by \$556.6  
11 million. Okay? Are you with me?

12          THE WITNESS: Okay.

13          CHAIRMAN GLEIMAN: The first sentence in paragraph  
14 2 states, quote -- and this is a strategy document -- that  
15 is outside the quote, Mr. Reporter. We have to make it  
16 clear what this document is.

17          But paragraph 2 states, "Provide updated  
18 information on cost increases to offset the decreases  
19 included under number 1." Is that not correct?

20          THE WITNESS: I cannot see that statement you just  
21 made.

22          CHAIRMAN GLEIMAN: Look at the first sentence of  
23 paragraph 2.

24          THE WITNESS: Paragraph -- I'm sorry, paragraph 1  
25 or 2?

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1 CHAIRMAN GLEIMAN: Paragraph 2, number 2, second  
2 paragraph on the page, the first sentence.

3 THE WITNESS: Okay, yes, I see that.

4 CHAIRMAN GLEIMAN: It seems that this strategy  
5 document is advising that the Service should include in your  
6 testimony selected lists of revised cost estimates that are  
7 within the control of the Postal Service to offset known and  
8 generally uncontrolled cost decreases.

9 Would you care to comment?

10 THE WITNESS: No. I think we just showed costs,  
11 whether they were in our control or not, that came down, and  
12 particular costs, and you know, I really use the ~~year~~ <sup>Year</sup> 2000.  
13 I know that is a management problem. It's an organization  
14 problem, but every organization -- you could almost say that  
15 is universal -- is going to address that issue and has to  
16 address that issue.

17 As I mentioned to you, we have underestimated that  
18 and all we were doing was just showing you the major cost  
19 increases we had.

20 CHAIRMAN GLEIMAN: So then you are saying that it  
21 was not the strategy of the Postal Service to offset known  
22 decreases by locating some increases, as is indicated under  
23 paragraph 2?

24 THE WITNESS: We did have a major -- a couple of  
25 major increases and we wanted to show those.

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1 CHAIRMAN GLEIMAN: Look at the last sentence of  
2 paragraph 2 -- in order to balance back to the original  
3 revenue requirement an argument will be made for an increase  
4 in the contingency from 1 to 2 percent.

5 Now you have only argued for an increase in the  
6 contingency, as I recall from your rebuttal testimony, to  
7 one and a half percent. How do you feel about a strategy  
8 that tries to wipe out known quantifiable minuses with --  
9 I'll give you the benefit of the doubt -- known or unknown  
10 but perhaps quantifiable increases, and then tries to come  
11 up with some way to balance out by upping the contingency?

12 THE WITNESS: Let me clarify what I said in my  
13 rebuttal -- I have to do that because it ties back to your  
14 comment.

15 CHAIRMAN GLEIMAN: Okay.

16 THE WITNESS: I said not to make any changes, and  
17 I know I am going to -- I hate to say what I am going to say  
18 but I said if you thought you had to, here's a way to do it,  
19 but my recommendation is not to make any changes.

20 CHAIRMAN GLEIMAN: But your alternative is if you  
21 make those changes you have to take into account these other  
22 things that I am showing you, and we are sitting here with a  
23 document that says find enough offsets -- find enough  
24 increases to offset those decreases.

25 It doesn't say find all the increases and all the

1       decreases. It says find enough to offset.

2                    MR. REITER: Mr. Chairman, could you tell me where  
3       you are reading from? That would help us, I think -- where  
4       it says that.

5                    CHAIRMAN GLEIMAN: I'll read the sentence again:  
6       "Provide updated information on cost increases to offset the  
7       decreases included under Number 1."

8                    That is fairly plain English from where I come  
9       from.

10                  THE WITNESS: Again, we were looking at did we  
11       have any particular costs that were majorly going up. We  
12       weren't trying to go through every single line item. In  
13       fact, when you look at the bottom line, there's a difference  
14       of the \$195 million.

15                  CHAIRMAN GLEIMAN: That's fine. I understand.

16                  Look at paragraph three. In the middle of  
17       paragraph three, there's a sentence, or slightly below the  
18       middle of paragraph three, there's a sentence that starts  
19       with the phrase "a complete revenue..." can you find that  
20       sentence? Counsel, can you find that sentence? Let's all  
21       get on the same score card here.

22                  MR. REITER: I see that. Thank you.

23                  THE WITNESS: I see that.

24                  CHAIRMAN GLEIMAN: Mr. Porras, do you see that  
25       sentence?

1           THE WITNESS: Yes, I do.

2           CHAIRMAN GLEIMAN: Do you want to read it into the  
3 record or should I read it into the record?

4           THE WITNESS: You can read it. That's fine.

5           CHAIRMAN GLEIMAN: This is a Postal Service  
6 strategy document.

7           MR. REITER: Mr. Chairman, I don't know that's  
8 been established.

9           CHAIRMAN GLEIMAN: Are you suggesting that someone  
10 else inserted this document into the electronic version of  
11 Witness Porras' workpapers?

12          MR. REITER: I have no idea, and I think that's  
13 part of the problem here. I've never seen this document.  
14 Mr. Porras told you he never saw this document. Somehow,  
15 yes, it was in that electronic version. That is one of the  
16 problems with providing electronic versions, that sometimes  
17 it's impossible to know exactly what is on there.

18          You've made a presumption about the status of this  
19 document. It's been labeled electronic version. It was not  
20 filed as an electronic version of anything.

21          CHAIRMAN GLEIMAN: I will entertain a motion and  
22 arguments from the Postal Service that this is either not a  
23 Postal Service document or was not considered by officials  
24 developed a strategy for rebuttal on the issue of the  
25 revenue requirement.

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1           MR. REITER: I appreciate that.

2           CHAIRMAN GLEIMAN: The Commission will  
3 consequently give appropriate weight based on the arguments  
4 that you submit in a motion.

5           MR. REITER: Thank you.

6           THE WITNESS: I could say here, I just read this  
7 sentence, nobody talked to me personally about this  
8 statement at all, period.

9           CHAIRMAN GLEIMAN: This is a statement. It's not  
10 a direction to anybody. It's a statement. I think we ought  
11 to read it into the record.

12           The complete revenue requirement update would be  
13 time consuming. Let's take a moment out for an editorial  
14 comment. We don't disagree on that, do we?

15           THE WITNESS: All right.

16           CHAIRMAN GLEIMAN: I finally found something we  
17 agree on. Let me continue the sentence now. And, would  
18 probably result in a further reduction in test year costs.  
19 Do we agree on that half of the sentence?

20           THE WITNESS: I think I showed you -- again,  
21 nobody showed me this particular comment, but I could look  
22 at what we said in terms of my rebuttal, and that's the net  
23 ~~of~~ ~~is~~ \$195 million less expenses. I mean, that does show you  
24 do have a difference of about \$200 million, regardless of  
25 what this is implying or saying.

1 CHAIRMAN GLEIMAN: One last question. When Mr.  
2 Richardson was cross examining you on behalf of OCA, you  
3 said something to the effect that rebuttal figures reflect  
4 an update for what we had or have. I don't remember whether  
5 it was "had" or "have," at this point. Did you say that?  
6 Do you recall saying that?

7 THE WITNESS: Yes, I said something to that  
8 effect.

9 CHAIRMAN GLEIMAN: Is it conceivable that if this  
10 case went on another two or three months beyond the expected  
11 and required deadline of ten months, that we might have more  
12 at that point which would result in further adjustments?

13 THE WITNESS: We could have adjustments -- of  
14 course. That's true in any case. You could have ups or  
15 downs for that matter.

16 CHAIRMAN GLEIMAN: I recognize that. There could  
17 be other adjustments. That's all I have. I think my  
18 colleagues may have a couple of questions and perhaps we can  
19 get through that and then we can let you get together with  
20 your lawyers for the rebuttal phase during what -- oh, we  
21 have to do some follow up. I'm sorry, Mr. Levy. Please, I  
22 apologize.

23 COMMISSIONER LeBLANC: Mr. Levy?

24 CHAIRMAN GLEIMAN: Mr. Levy, before you ask your  
25 follow-up questions, I recognize that you have concerns

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1 about this document that I have read from that came from the  
2 electronic version of USPS-RT-Exhibit 11-B and C.XLS. I  
3 would like to have this document transcribed into the record  
4 and entered into evidence subject, of course, to the  
5 objection that you lodged earlier.

6 MR. REITER: Do you need further written  
7 explanation of that, Mr. Chairman? Is that what you said  
8 earlier?

9 CHAIRMAN GLEIMAN: I think that if you want to  
10 make some arguments about this document not being a Postal  
11 Service document or not being a document that anybody  
12 considered, or whatever, and that therefore we should give  
13 it little or no weight, that you should put those arguments  
14 in writing. We only have what the Postal Service sends us.

15 MR. REITER: Just so it's clear, I am objecting to  
16 your entering it into evidence.

17 CHAIRMAN GLEIMAN: I understand that.

18 MR. REITER: I just wanted to clarify that part of  
19 it.

20 CHAIRMAN GLEIMAN: I understand that, and I am  
21 going to direct that this document, Presiding Officer's  
22 Cross-Examination Exhibit No. 1 be transcribed into the  
23 record and entered into evidence at this point, and I am  
24 giving two copies to the reporter, and it is done with the  
25 understanding that the Postal Service has their reserved --

1 has objected and reserved its right to file a motion with  
2 regard to that objection.

3 [Cross-Examination Exhibit No.  
4 PO-XE-1 was received into evidence  
5 and transcribed into the record.]

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**Source: Electronic version of USPS RT-11**  
**Exh11b&c.xls**

Docket R97-1 Revenue Requirement Updating Strategy for Rebuttal Testimony

1- Provide updated test year cost changes for known, quantifiable, actual events that have been raised on the record. These include the impact of the August 1997 and February 1998 Colas on personnel costs and the CSRS Unfunded Liability, the impact of the actual 1997 calendar quarter III CPI on annuitant Cola, FY 1998 POD workers' compensation cost, and the impact of actual FY 1997 borrowing on FY 1998 note interest expense. The impact of FY 1997 actual results on the prior year loss recovery has also been reflected. Although not currently on the record, the impact of the following actual information has been reflected: 1) actual January 1998 health benefit premiums, 2) the FY 1998 reduction in the FERS contribution rate, 3) actual January 1998 health benefit premiums on annuitant health benefits and, 4) actual FY 1997 non-personnel cost inflation indices.

2- Provide updated information on cost increases to offset the decreases included under number 1. These include building depreciation for the write off of impaired assets (FASB 121), and a more realistic estimate of capitalized interest. In order to balance back to the original revenue requirement an argument will be made for an increase in the contingency from 1.0% to 2.0%.

3- Maintain FY 1996 as the base and do not change forecasted indices. In order to accurately determine the impact of changing the base to FY 1997, all cost factors would have to be updated and the rollforward model would have to be re-run. This would constitute a total update to the revenue requirement which would defeat the purpose of the current rate case process where the estimates supporting the rate request are reviewed on the record. Changing the base without changing the cost change factors would result in erroneous and understated test year costs. FY 98 program cost factors were zero based relative to estimated FY 97 costs and they do not relate logically to FY 1997 actual costs. Servicewide personnel cost change factors were developed using computer models which project from FY 96 actual data as the base. FY 98 change factors for these costs do not relate logically to FY 97 actual costs. A complete revenue requirement update would be time consuming and would probably result in a further reduction in test year costs. The Commission may also request that we calculate an FY 1997 adjustment for UPS strike costs that would not rollforward into the test year. We should argue against updating due to its complexity and the amount of work involved and because it makes the entire rate review process that has occurred up to that point largely irrelevant. While arguing against updating we should recommend updating to reflect actual data (with the exception of the base year), but not forecasts, as an alternative.

4- Another alternative would be not to file rebuttal testimony and make these arguments in the brief. Since there was little intervener testimony filed that relates to the revenue requirement, there is little on the record to rebut. The risk is that the brief provides less support for our position than would be provided by the Controller making these arguments. However, there is also risk in exposing the rebuttal witness to cross examination which could result in even more impetus for updating and reducing the revenue requirement.

1                   CHAIRMAN GLEIMAN: Is there a comment or a  
2       clarification that anyone wishes to make at this point in  
3       time?

4                   Mr. Levy, you had some follow-up questions.

5                   MR. LEVY: Yes, thank you, Mr. Chairman.

6                   FURTHER CROSS EXAMINATION

7                   BY MR. LEVY:

8                   Q     Mr. Porras, you were asked some questions by  
9     Chairman Gleiman about the attachment to the response to  
10   OCA-USPS-120, the fiscal year 1998 operating plan. Do you  
11   recall that?

12                  A     Yes.

13                  Q     And you were asked some questions about a \$228  
14   million loss; do you recall that?

15                  A     Yes.

16                  Q     Now each of the entries in this document were made  
17   when? Each of the plan projections were made when?

18                  A     We normally make those during the first part of  
19   the year as we are spreading all of the budgets, whether  
20   it's personnel cost, whether it's program cost, by the  
21   particular accounting periods. So we are normally doing  
22   that the first part of the year.

23                  Q     So approximately what dates would that encompass?

24                  A     Well, sometimes we have gone as far as Christmas  
25   or even later, but it's normally the first part of the year.

1           Q     So these numbers were prepared before the filing  
2     of this rate case?

3           A     No. The budget just got approved in October.  
4     Once you get the budget approved, then you spread it over  
5     the 13 periods, so it's definitely after.

6           Q     Okay. I want to follow up on another question  
7     that the Chairman asked you. It was the question that  
8     prompted a rather long answer, and the question was, do you  
9     really think that the Postal Service will lose in the order  
10    of 2-1/2 billion during the remainder of the year if it  
11    doesn't get a rate increase? Do you recall that question?

12          A     I don't recall him saying that amount of money.  
13     He mentioned this amount of money that added up here, these  
14    four particular periods and their losses was the number that  
15    he used.

16          Q     Do you recall him saying whether -- do you really  
17    think the Postal Service will lose two plus billion dollars  
18    for the rest of the test year if it doesn't get a rate  
19    increase?

20          A     I don't recall that. I recall these four periods  
21    and he added up those. I don't know.

22          Q     Let me ask you a question directly then. You have  
23    already spoken in response to Chairman Gleiman your reasons  
24    why you believe that Postal Service management has improved  
25    over the past years, and why these expenditures that are

1 planned are desirable because they are going to have good  
2 results. I am not asking you to repeat that.

3 I am asking you a bottom-line question: Do you,  
4 sir, believe, really think that the Postal Service is going  
5 to lose \$2-1/2 billion from the end of February through the  
6 end of the year if it doesn't get a rate increase?

7 MR. REITER: Mr. Chairman, could I ask Mr. Levy to  
8 clarify the source of that number? I think that would help.

9 CHAIRMAN GLEIMAN: Certainly.

10 MR. LEVY: Yes. I don't want to put words in  
11 Chairman Gleiman's head, but when I cross examined the  
12 witness, the -- I think we determined that based on the  
13 amount by which the Postal Service was above plan so far  
14 this year, they would need to lose that amount of money in  
15 order to reach the targeted \$1.4 billion that was projected  
16 for at the beginning of the case, before the rate increases,  
17 before you added in the contingency and the prior year loss.  
18 But my question isn't premised on the source of the number.  
19 I'm asking him whether he really thinks the Postal Service  
20 is going to lose that amount during the rest of the year if  
21 it doesn't get a rate increase.

22 THE WITNESS: My response to that, I think that is  
23 the same question you asked me this morning, was that I show  
24 that we would be \$200 million better. We have the processes  
25 in place that that amount of money could in fact be spent.

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1 BY MR. LEVY:

2 Q Your answer to my question was that you had the  
3 processes in place that the money could have been spent. My  
4 question isn't whether something could happen; it is whether  
5 it is likely to happen.

6 Do you really think that the Postal Service is  
7 going to lose 2-1/2 billion?

8 A I've got to say that based on the plans in place,  
9 we could lose up to the about 2.2 billion. I mean I have to  
10 say that.

11 Q Do you understand the difference between something  
12 could happen and something is likely to happen?

13 A Oh, absolutely I understand that. I can do  
14 financial projections. What I cannot do is<sup>predict</sup> management's  
15 behavior and management response to issues. What I'm trying  
16 to say is I can sit here and predict, but if management  
17 decides, and we've got processes in place to do things, I've  
18 got to make the assumption that will get done.

19 Q You worked in the Postal Service for approximately  
20 35 years?

21 A Yes.

22 Q And I assume you talked to the Postmaster General  
23 and the Board of Governors on occasion?

24 A Yes.

25 Q Do you think that it is likely that the behavior

1 of those individuals and other important decision-makers is  
2 going to cause the Postal Service to lose \$2-1/2 billion in  
3 the rest of the year?

4 A It's not the behavior. It's that we have approved  
5 programs and projects to spend that amount of money. And  
6 let me just -- and I apologize for doing this, because I've  
7 got to put this in context. I was here in 1994 where I said  
8 we were going to lose close to the \$1.3 billion, and I was  
9 being challenged that the loss was going to be a lot more.  
10 And I said, you know, I could project that, but we have put  
11 some processes in place to turn things around.

12 This case here, it's an investment. It's not a  
13 waste of money. It's an investment. Do I think those  
14 investment monies are going to be spent? They will be  
15 spent.

16 What I was trying to say earlier to you is they  
17 may carry over to '99, but I at this point have no other  
18 data to tell me they will not be spent.

19 Q Let me try one more time.

20 We have a test year in this case, don't we?

21 A Yes, we do.

22 Q That test case was chosen by the Postal Service,  
23 wasn't it?

24 A Yes, it was.

25 Q During that test year, as a result of the

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1 contracts that are in place, the discretionary spending that  
2 hasn't been locked down, and anything else that is within or  
3 without the control of the Postal Service, it is your  
4 testimony, as you sit here and look at the Commission, that  
5 you believe it is likely the Postal Service is going to lose  
6 \$2-1/2 billion during the rest of the year. And I would  
7 like a yes-or-no answer before you give any explanation.

8 A I just -- I think it will be slightly less, I said  
9 that, than the \$2.4 billion. The answer is just slightly  
10 less than the 2.4.

11 Q How much less?

12 A I showed in my testimony ~~2-billion~~ <sup>\$200 million</sup>. I cannot tell  
13 you whether or not -- I just cannot tell you that, whether  
14 or not those program managers -- they have said they are  
15 going to spend this money. I cannot tell you whether they  
16 are going to do it. We have got processes in place to  
17 assure they do what they said they were going to do.

18 Q If you can't tell us whether they're going to do  
19 it, they are going to spend that money, then how is the  
20 Postal Service -- how is the Commission to know whether they  
21 are going to spend that money?

22 A Well, it goes back, these programs, a number of  
23 them have gone to the Board of Governors, they have been  
24 approved, <sup>and therefore</sup> ~~there's~~ contracts in place. That's why my  
25 bottom-line testimony says don't make the change. I mean

1 we've got these things in place to get them done. I'm  
2 saying to you from my knowledge of what I have seen over the  
3 last couple of years, the processes ~~that~~ are in place, that  
4 these can be spent.

5           I don't know at this point whether they will or  
6 not. They have told us, they have assured us that the  
7 programs are in place. Where they didn't feel comfortable,  
8 they told us that, and that's what you saw with that one  
9 program.

10          Q     Do you think the Commission should base, as a  
11 matter of policy, should base its revenue requirement that  
12 it approves on what can be spent or what is likely to be  
13 spent during the test year?

14          A     Oh, I think -- I think the whole process is that  
15 evaluation, and our point is that I think we have proven it.  
16 I told you that we have contracts. We have identified those  
17 costs in the test year. I think we have ~~made~~ shown over  
18 the last few years that we are trying to stay the course for  
19 this organization. I believe what the Commission has to do  
20 is say ~~is~~ management assured in terms of the processes they  
21 have in place to do what they say they are going to do.

22           I know this is a long answer. I'll go back to Mr.  
23 LeBlanc and my discussion before about <sup>what</sup> you've said ~~it~~ on the  
24 prior year loss recovery, you haven't shown that. We now  
25 can say we have shown it because we went after that issue.

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1           I believe in this Postal Service when we make up  
2 our mind that we are going to do something, we do it.

3           I have to answer in that context. I apologize for  
4 going so long with you.

5           MR. LEVY: Mr. Chairman, I would ask the reporter  
6 reread the question and the witness be directed to give a  
7 yes-or-no answer.

8           CHAIRMAN GLEIMAN: Can you ask the question over  
9 again and save us a moment?

10          MR. LEVY: I think so.

11          BY MR. LEVY:

12          Q     Do you believe that the Commission should base its  
13 revenue requirement determination in this case on what the  
14 Postal Service can spend during the test year, or what the  
15 Postal Service is likely -- I'm sorry, let me back up.

16          Do you believe that the Commission should base its  
17 revenue requirement determination in this case on what the  
18 Postal Service can spend during the test year, or what it is  
19 likely to spend during the test year? And I would like a  
20 yes-or-no answer to that question.

21          A     There's two questions in that, and they both are  
22 yes. For once, I'll say yes, but there was two questions.

23          MR. LEVY: I think to proceed any further would be  
24 to beat a dead horse and I will not.

25          CHAIRMAN GLEIMAN: Just -- I know that you didn't

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1 have a specific number in mind when you were asking the  
2 question, but just to make sure the record is fairly clear  
3 on this point, Mr. Porras told me that the budget assumed,  
4 and wasn't sure of the exact number, something on the order  
5 of \$900 million in new revenue, that is rate case revenue,  
6 from June 1 through the end of the year, and with that  
7 revenue, the Postal Service was still going to have a  
8 deficit at the end of the year of \$228 million.

9                 Without that new revenue, that \$900 million, which  
10 as I indicated, I think is a suspect figure, I think it is  
11 way, way on the high side, given the seasonality of the mail  
12 and the fact that we will be dealing with the Summer, but a  
13 worse case scenario, accepting his figure, is that without a  
14 rate increase, the Postal Service would only have a deficit  
15 at the end of the year of \$1.1 billion, not the \$1.4 that  
16 they thought.

17                 As I said, that suspect number gets smaller and  
18 closer to probably what it should be, the smaller the  
19 deficit gets without a rate increase, and that assumes they  
20 are going to spend all the money.

21                 The numbers just don't sort out for me. I think  
22 my colleague may have a clarification or follow up question  
23 that he wants to ask.

24                 COMMISSIONER LeBLANC: Mr. Porras, I guess it's my  
25 time to beat a dead horse. You keep talking about contracts

1       in the future and what they are worth. Let me back it down  
2       a minute so I can understand just one way of putting it.

3                 If you will take a vice president, and I believe  
4       his approval rate is about \$6 million. You go up to Mr.  
5       Henderson, it's about \$7.5. You go up to the PMG, I think  
6       it's \$10 million. Anything over \$10 million goes to the  
7       Board. That's close. It may be a little different now.

8                 THE WITNESS: The vice president's level is \$5  
9       million.

10                COMMISSIONER LeBLANC: Okay, it's \$5 million,  
11       \$7.5, \$10, whatever it may be. At each phase, at each step,  
12       if XYZ corporation comes in and they sign a contract or if  
13       they commit, that individual or the Board, Mr. Henderson or  
14       the PMG or whomever it is, what happens? Is that contract  
15       not tracked? Is it not followed through on?

16                I get the feeling that everybody is talking about  
17       they don't know what the contracts are worth. Well, if you  
18       sign a contract, you ought to know what that contract is  
19       worth, number one, and number two, how then can you not  
20       project it into the future as to knowing that okay, I have  
21       committed for the next five years, seven years or ten years  
22       at \$25 million a year to do -- whether it's ADP or whatever  
23       it may be, whether it's highway transportation, it can be  
24       anything; is that not tracked?

25                THE WITNESS: Yes, and let me clarify that point.

1 The Board approves the project. They approve the program  
2 and they approve capital spending levels<sup>that are</sup> associated and we  
3 show them the expense levels associated with the programs.

4                   After it's approved -- they don't approve the  
5 contract. They approve the program. Then you put contracts  
6 in place to achieve, in some of the cases, to achieve what  
7 you are going to achieve. In some cases -- maybe I'm not  
8 being clear here.

9                   Once you go back and you get the approval, you  
10          start laying out contracts to get things done. For example,  
11          we are saying --

12 COMMISSIONER LeBLANC: No, no. I think you are  
13 missing my point here. What I'm trying to get out is let's  
14 suppose it's ADP or whatever it may be. Somebody accepts  
15 the fact that the United States Postal Service is going to  
16 spend X million of dollars.

17 THE WITNESS: Right. I understand that.

18                   COMMISSIONER LeBLANC: The Board signs off on that  
19       or Mr. Winters or somebody signs off on that contract. Now,  
20       as an accounting individual, somebody then ought to say,  
21       okay, \$25 million in a year, you divide 25 by 12, you are  
22       going to spend X dollars per month, and you ought to be able  
23       to track whether you spend X dollars per month.

24 THE WITNESS: The capital or contract costs are  
25 normally not a problem. It's the operating variances that

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1        drive the expenses. Let me give you one example. It's volume  
2        related, the Priority Mail Redesign contract. That contract  
3        says we will spend \$1.7 billion, I believe, and this is  
4        expense money -- over ten years. It's volume variable.

5 Now, we signed a contract that we are going to pay  
6 them for providing service to us. Now, the contractor may  
7 have some gearing up problems. We are monitoring the  
8 contracts. It may not ramp up at the same speed that we  
9 say. That's what we are trying to hold the managers  
10 accountable to do, to try to make certain that gets done.

11                   In other cases, it may happen sooner than we  
12   expected.

13 COMMISSIONER LeBLANC: The Chairman's time, I  
14 quess.

15 CHAIRMAN GLEIMAN: Let me understand something.  
16 You keep talking about the Governors having approved this,  
17 that and the other. To paraphrase my colleague here to my  
18 right, I'm not an accountant, but am I correct you don't  
19 book those expenses when the Governors approve a capital  
20 investment project or any other type of project, that they  
21 are booked when you make a contract commitment?

22 THE WITNESS: No. That's called the capital  
23 commitment. Let's say the Board approves -- let me make up  
24 a number, \$100 million project.

25 CHAIRMAN GLEIMAN: We don't need a number. We

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1 just need to know when it shows up on the balance sheet.

2 THE WITNESS: Let's say it's the construction of a  
3 project, until it's actually completed. If it's an expense  
4 project, it happens right away, but if it's capital, you  
5 show it as a capital commitment, so you know that I signed a  
6 contract for \$100 million.

7 CHAIRMAN GLEIMAN: The Board approves an  
8 expenditure for automated mail sorting equipment.

9 THE WITNESS: Right.

10 CHAIRMAN GLEIMAN: The Board approves a contract  
11 for -- let's back away from that one, get away from anything  
12 that would be a capital investment that would be  
13 depreciated. The Board approves a contract for ADP services  
14 to fix the Year 2000 problem for the Postal Service. The  
15 Board meets today and they approve an expenditure of \$289  
16 million.

17 THE WITNESS: Right.

18 CHAIRMAN GLEIMAN: Do you book that as an expense  
19 right then and there?

20 THE WITNESS: No, it's when the services are  
21 provided. Now, that may be geared up to 65 subcontracts or  
22 other contracts, but the answer is no.

23 CHAIRMAN GLEIMAN: Don't muddy the water. It's  
24 not booked when the Governors approve it?

25 THE WITNESS: No.

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1 CHAIRMAN GLEIMAN: Is it booked when you sign the  
2 contract?

3 THE WITNESS: No.

4 CHAIRMAN GLEIMAN: It's booked when you have the  
5 outlays?

6 THE WITNESS: The service is rendered, for the  
7 contract you just explained.

8 CHAIRMAN GLEIMAN: How long does the contracting  
9 take usually? When the Board approves something, do people  
10 run downstairs, have a contract in their hand and then run  
11 out and sign it, like that, and the next day, there's  
12 somebody in there doing the work?

13 THE WITNESS: In some cases, contracts are signed  
14 right away. Others, there could be some delay. It could be  
15 a few months' delay before a contract is signed.

16 CHAIRMAN GLEIMAN: I have no further attempts to  
17 clarify and understand.

18 COMMISSIONER LeBLANC: I have to come back, Mr.  
19 Porras. Let me take an example. Let's suppose that there  
20 is a company, XYZ Corporation, and they have got a widget,  
21 here we come to the widgets again, and this widget is  
22 inserted on all the automation equipment throughout the  
23 Postal Service, a retrofit of some kind, and there's a  
24 contract signed for \$100 million.

25 Now, if I'm understanding you right, you are

1 effectively on a cash basis, is what you are telling me,  
2 because you don't do anything, you don't book it, you don't  
3 -- even though the Governors have signed off on that  
4 contract to commit to \$100 million, that is not in any way,  
5 shape or form spent or booked until that first widget is put  
6 on that piece of equipment and you get a bill from somebody  
7 that says, okay, now, we have finished one quarter of them,  
8 you owe us \$25 million, and then it is put on the books?

9                 THE WITNESS: If it's capital, that's when it goes  
10 on -- well, yes. That portion will go on the books,  
11 although you are tracking the capital commitments in terms  
12 of your balance sheet as an asset, let's say, that you are  
13 going to depreciate, that's when it becomes put into use, if  
14 it's capital equipment.

15                 Let me give you -- you are shaking your head and  
16 this is so common, I just want to be patient -- you need to  
17 be patient with me.

18                 You have a building. The Board approves \$100  
19 million building. That building will not be built for five  
20 years.

21                 We pick up the capital commitment of \$100 million.  
22 Now the payment schedule, we signed a contract with somebody  
23 to go out and do the design, build the building. The flow  
24 of that will take place over five years.

25                 When we finally pay the final payment and we start

1 using the building, the building becomes in use, it's then  
2 put on your balance sheet, and that is just standard  
3 accounting what we are talking about.

4 Now if it is an expense contract for services,  
5 even though we signed a contract -- for example, ~~we just~~  
6 ~~signed~~ we have agreed to buy a bunch of supplies and we  
7 have signed a contract that we are going to buy \$100 million  
8 of supplies. That doesn't go on our books at that point,  
9 okay? It's when we receive and use the supplies that in  
10 fact we start going through our P&L, so these are all  
11 standards.

12 I mean you are kind of frowning at me, and to --  
13 [Laughter.]

14 THE WITNESS: -- and I apologize --

15 CHAIRMAN GLEIMAN: He is looking at me frowning.  
16 I am not frowning. I am just shaking my head in wonderment.

17 THE WITNESS: Why? You can't understand that?

18 CHAIRMAN GLEIMAN: Well, you know, I'm just not as  
19 smart as a lot of other people around town. What can I tell  
20 you?

21 THE WITNESS: Well, let me give you one more  
22 example --

23 CHAIRMAN GLEIMAN: Let me ask you one more  
24 question.

25 THE WITNESS: Just give me one more example,

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1 though, please -- because --

2 CHAIRMAN GLEIMAN: Sure.

3 THE WITNESS: -- because I want to be clear here.

4 I spent \$100 million for those and let's give you  
5 a good example. What I said before -- those tire chains.  
6 That is not an expense. Once I buy it and they deliver it  
7 to me, okay? -- the contract's signed. Six months later it  
8 gets delivered to me. I put it in inventory on my balance  
9 sheet.

10 Now you as a user start using it -- that's when it  
11 runs through my P&L.

12 I mean these are --

13 CHAIRMAN GLEIMAN: Let me -- let me just make sure  
14 I understand, going back to my good old ADP supplies and  
15 services, that billion dollars and change that is laying  
16 there, \$56 million of which you have spent so far.

17 Somewhere between now and the end of this year,  
18 end of the test year, you are going to spend -- you are  
19 going to take \$950 million on Postal Service money out of  
20 the coffers and give it to somebody for supplies that are  
21 delivered. We are not talking here about you are going to  
22 make contracts or the board is going to approve.

23 For it to count this year, it's going to be spent  
24 this year.

25 THE WITNESS: Right. That is exactly right.

1 CHAIRMAN GLEIMAN: You are going to get almost a  
2 billion dollars worth of supplies and services between now  
3 and the end of the year.

4 THE WITNESS: Right.

5 CHAIRMAN GLEIMAN: After only spending \$56  
6 million, okay? I just wanted to make sure I wasn't'  
7 confused and this wasn't carrying over to next year.

8 Do you have any idea how much of that you have  
9 already contracted for?

10 THE WITNESS: I think most of it has been  
11 contracted. I mentioned the Call Centers have not been but  
12 that's going before ~~beard~~ <sup>the Board</sup> -- part of the Call Centers is  
13 ADP. That's why I'm saying we have got a little difference.

14 CHAIRMAN GLEIMAN: Well, wait a minute. Call  
15 Centers hasn't gone before the board yet?

16 THE WITNESS: The second portion. The initial one  
17 in Denver -- and that is what I said before -- the  
18 additional expansion of that pilot will be going --

19 CHAIRMAN GLEIMAN: So it is going to go before the  
20 board and then you are going to have a contract modification  
21 so it's got to go to the board and it's got to go through  
22 the contract modification.

23 The board hasn't approved it yet. The next  
24 meeting is, oh, in a couple, three weeks, I guess.

25 THE WITNESS: It's in the April schedule.

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1 CHAIRMAN GLEIMAN: It's in the April schedule and  
2 the board approves it and then you will sign a contract or  
3 modify an existing contract and that is how you will spend  
4 some of that money during this current year?

5 THE WITNESS: Yes, and they have it planned over  
6 the next three years, I believe, in terms of the outflows of  
7 the monies, so ~~you have only got~~ what we have here is the  
8 1998 portion. That includes the current project and the  
9 expansion of the project.

10 CHAIRMAN GLEIMAN: So there's a whole lot of  
11 contracts just waiting there for the board to approve  
12 expenditures or, you know --

13 THE WITNESS: They have already approved a lot of  
14 the major ones.

15 CHAIRMAN GLEIMAN: Okay. I just wanted to make  
16 sure I understood that that money actually had to go out the  
17 door this year for it to count in this rate case.

18 COMMISSIONER LeBLANC: Just to make sure everybody  
19 is on the same sheet of music, as the Chairman just said,  
20 once it goes out, then it is booked into the rate case for  
21 the portion that is going to be spent this year.

22 THE WITNESS: It's in the rate case. That's  
23 correct.

24 COMMISSIONER LeBLANC: All right. Well, then let  
25 me come back to something I was going to ask earlier but I

1 got sidetracked with it.

2 It goes back to -- and I wasn't going to ask it  
3 but I'll bring it up now. Then how do you adjust for the  
4 cost of the UPS strike? It's a little bit different but  
5 it's not different.

6 You have got that cost in there and we are hearing  
7 through the grapevine and some of the postal press that you  
8 received I think the figure was \$150 million extra in  
9 revenue -- well, then what did you do with the cost? I mean  
10 it has to go in tandem some kind of way.

11 THE WITNESS: Yes, but I guess we -- we --

12 COMMISSIONER LeBLANC: Did you book that in this?  
13 Did you book that in '97?

14 THE WITNESS: Costs were in fact booked in '97.

15 COMMISSIONER LeBLANC: Then they will roll  
16 forward?

17 THE WITNESS: No. I think we just -- you know, we  
18 did not plan on it in the rate case and they weren't in  
19 there at all.

20 COMMISSIONER LeBLANC: Thank you. Thank you, Mr.  
21 Chairman.

22 CHAIRMAN GLEIMAN: We don't want to beat a dead  
23 horse but we have got somebody who is probably getting a  
24 little hoarse at this point.

25 THE WITNESS: Yes.

1           CHAIRMAN GLEIMAN: So I think we will break for  
2 lunch now and come back at two o'clock and during that  
3 period to help your digestive system your counsel can talk  
4 with you about the need for redirect.

5           THE WITNESS: Thank you.

6           MR. REITER: Just to clarify, Mr. Chairman, we  
7 will be ready for redirect after lunch.

8           CHAIRMAN GLEIMAN: I would like that to be the  
9 case. I don't know whether you will or not. Are you asking  
10 me or telling me?

11          MR. REITER: I am asking you whether --

12          CHAIRMAN GLEIMAN: I would like you to be.

13          MR. REITER: That is the next procedural stage.

14          CHAIRMAN GLEIMAN: Yes.

15          MR. REITER: Thank you.

16          [Whereupon, at 12:59 p.m., the hearing was  
17 recessed, to reconvene at 2:00 p.m., this same day.]

18

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1                   AFTERNOON SESSION

2                   [2:00 p.m.]

3       Whereupon,

4                   M. RICHARD PORRAS,

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

8                   CHAIRMAN GLEIMAN: Before we begin this afternoon,  
9       I have one housekeeping matter. Earlier this week I granted  
10      NNA a motion to compel a response to its request for  
11      admission No. 1 to the Postal Service, and I directed that  
12      the answer be provided by close of business yesterday.

13                  To the best of our ability to determine, we have  
14      not seen a response, and if during the next break, and there  
15      will be one, or two or three today, before we're out of  
16      here, I'd appreciate it if counsel could obtain the status  
17      of progress being made on providing the answer to NNA's  
18      request for admissions No. 1.

19                  MR. REITER: We'll do that, Mr. Chairman.

20                  CHAIRMAN GLEIMAN: I appreciate it.

21                  Mr. Reiter, the ball's in your court.

22                  MR. REITER: We have no redirect.

23                  [Laughter.]

24                  CHAIRMAN GLEIMAN: I'm only -- the only reason I'm  
25      sorry about that, it means that, you know, you could have

1 left earlier and not had to hang around here today.

2                   Mr. Porras, we really do appreciate your  
3 appearance here today and your willingness to put up with at  
4 least the Bench's questions, and your contributions to the  
5 record. And if there's nothing further, sir, you're  
6 excused.

7                   THE WITNESS: Thank you very much.

8                   [Witness excused.]

9                   CHAIRMAN GLEIMAN: Ms. Duchek, if you could  
10 introduce your witness, I'll swear him in.

11                  MS. DUCHEK: Thank you, Mr. Chairman.

12                  The Postal Service calls John T. Pickett.

13                  CHAIRMAN GLEIMAN: You know, I found out that I've  
14 been here too long, because I can't remember -- I know I've  
15 seen the faces before on the witness stand, but I can't  
16 remember which docket I've seen them in, and it seems to me  
17 like I've sworn everybody in at least once or twice already.  
18 But apparently we haven't gotten you yet, Mr. Pickett, on  
19 this one.

20 Whereupon,

21                  JOHN T. PICKETT,

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

25                  CHAIRMAN GLEIMAN: You'll be pleased to know at

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1 the outset that I don't have any questions for you.

2 [Laughter.]

3 COMMISSIONER LeBLANC: He's also been known to  
4 lie, so you've got to watch him.

5 THE WITNESS: Can I go now?

6 CHAIRMAN GLEIMAN: I didn't say no one had any  
7 questions for you. I don't have any questions for you.

8 DIRECT EXAMINATION

9 BY MS. DUCHEK:

10 Q Mr. Pickett, I'm handing you two copies of a  
11 document entitled Rebuttal Testimony of John T. Pickett on  
12 behalf of United States Postal Service.

13 This document has been designated as USPS-RT-2.

14 Are you familiar with this document?

15 A Yes, I am.

16 Q Was it prepared by you or under your supervision?

17 A Yes, it was.

18 Q Do you have any corrections to make?

19 A Yes, I do.

20 Q Would you please go through them one by one.

21 A Okay. On page 10, line 2, the citation to page  
22 22/11826 should read ~~22/823~~. ~~22/11823~~.

23 On line 13, about -- near the end of the line,  
24 "periodicals" should be capitalized, or the "p" in  
25 "periodicals" should be capitalized.

1                   Turning to Exhibit 2-C, at the very end of the  
2 document, Mr. Wells was kind enough to point out this  
3 morning under the second column where it says zero percent,  
4 in the line where the FACCAT is 3, the number 9 should be  
5 changed to 3.

6 Moving across that same row, the percentage 29  
7 should be 10.

8                   And then down along the total rows for all  
9 facilities the number 350 should be 344, and the number 21  
10 percent should be 20 percent.

11 Q With those changes, if you were to testify orally  
12 today, would this still be your testimony?

13 A Yes, it would.

14 MS. DUCHEK: Mr. Chairman, the two copies include  
15 the changes Mr. Pickett just read into the record, and I  
16 will take the two copies, hand them to the reporter, and I  
17 ask that Mr. Pickett's rebuttal testimony be entered into  
18 the record of this proceeding.

19 CHAIRMAN GLEIMAN: Are there any objections?

20 Hearing none, Mr. Pickett's testimony and exhibits  
21 are received into evidence, and I direct it be transcribed  
22 into the record at this point.

23 [Rebuttal Testimony and Exhibits of  
24 John T. Pickett, USPS-RT-2, was  
25 received into evidence and

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1    transcribed into the record.]  
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USPS-RT-2

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

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

REBUTTAL TESTIMONY OF  
JOHN T. PICKETT  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE

1

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1

2

### Autobiographical Sketch

3

4 My name is John T. Pickett. I am an economist in the Cost Attribution  
5 section of Product Finance at Postal Service Headquarters. I have been  
6 employed as an economist by the Postal Service since 1984. From 1984 to  
7 1986, I worked in the Revenue and Cost Analysis Division on transportation  
8 costing issues. I supported the Postal Service's attorneys and witnesses on  
9 transportation issues in Docket No. R84-1 and worked on a task force that  
10 addressed plant load policy. From 1986 to 1989 I worked in the Information  
11 Analysis Division on a wide range of projects. I analyzed third-class service  
12 performance measurement, supported the rates staff on rate level policy in  
13 Docket No. R87-1, and participated in the Integrated Mail Handling System and  
14 Pallet Advisory task forces. From 1989 to 1992, I moved to the Demand  
15 Research Division where I worked on econometric demand analysis and revenue  
16 and volume forecasting. In this capacity, I supported the Postal Service's  
17 volume forecasting efforts in Docket No. R90-1 and developed the Postal  
18 Service's forecast in Docket No. MC93-1. From 1992 through 1996, I worked in  
19 the Pricing office, focusing primarily on second-class mail. In February 1996, I  
20 returned to Product Finance and transportation costing.

21

22

Prior to joining the Postal Service, I was employed as a consulting  
economist by Charles River Associates, the firm of Kennan and Rohr, and Brown

1 University Professor George Borts. I also taught economics and statistics to  
2 students at Brown University, Salve Regina College and the Naval War College.

3 I have testified three times on economic issues before the Postal Rate  
4 Commission. In Docket No. MC95-1, I presented the Postal Service's proposal  
5 to reclassify regular rate second-class mail. In Docket No. R90-1, I testified on  
6 rebuttal on econometric demand analysis and forecasting issues. In Docket No.  
7 MC86-3, I testified on parcel post rates and costs. In addition, while working for  
8 Kennan and Rohr, I testified on earnings loss due to wrongful death in Rhode  
9 Island Superior Court.

10 I received a B.A. in economics from Boston University in 1977 and an  
11 M.A. in economics from Brown University in 1980. While at Brown, I completed  
12 all the requirements for a Ph.D. except the dissertation.

## Purpose of Testimony

2 The purpose of my testimony is to rebut arguments made by witnesses Haldi  
3 (ANM-T-1), Merewitz (FGFSA-T-1), and Ball (FGFSA-T-2). My testimony  
4 demonstrates that:

- 5           1) The influence of TRACS on increases in highway transportation  
6           costs for noncarrier route nonprofit Standard A Mail has been  
7           greatly overstated.  
8  
9           2) The TRACS expansion process that accounts for the full space  
10          taken up by containers is sound.  
11  
12          3) The argument about the TRACS empty space allocation algorithm  
13          is a red herring.  
14  
15          4) Differences in the incidence of TRACS tests at various facilities do  
16          not impart bias.  
17  
18          5) Sampling by route trip destination day is necessary to solve  
19          practical data collection problems and is not the same as sampling  
20          by segment.  
21  
22          6) Peak volume loads occur on inbound route trips as well as  
23          outbound route trips. Truck size is not determined only by  
24          outbound trips.

1

2       1. Dr. Haldi overstates the increases in transportation costs between  
3       Fiscal Year (FY) 1995 and FY 1996 and erroneously blames the increase on  
4       the TRACS highway system, specifically on the empty space allocation in  
5       TRACS.

6

7       Dr. Haldi (Tr. 22/11816) notes an increase in transportation costs of nearly  
8       \$11.5 million for noncarrier route Nonprofit Standard A (NCRNPSA) mail from FY  
9       1995 to FY 1996. This increase, he claims, is evidence of problems with the  
10      TRACS highway sampling system.

11       Dr. Haldi's argument is not supported by the facts. As page 1 of Exhibit  
12      USPS-RT-2A to my testimony shows, almost one-third of the cost increase  
13      (nearly \$3.7 million) between FY 1995 and FY 1996<sup>1</sup> is the result of cost  
14      increases in NCRNPSA in other transportation modes. Obviously, none of this  
15      cost change has anything to do with the TRACS highway sampling system.

16       With regard to the remaining \$7.6 million in highway cost increases for  
17      NCRNPSA mail, about 40% of the increases are the result of the higher volume  
18      variabilities associated with Dr. Bradley's testimony (USPS-T-13)<sup>2</sup>. As page 2 of  
19      Exhibit USPS-RT-2A shows, Dr. Bradley's analysis increases the volume  
20      variability of purchased highway transportation by 14 percent. Once again, none  
21      of this cost change has anything to do with TRACS highway sampling.

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<sup>1</sup> As Exhibit USPS-RT-2A shows, FY 1996 and Base Year (BY) 1996 highway costs are slightly different. BY 1996 costs reflect minor changes to TRACS resulting from data encryption required to meet Commission filing requirements.

<sup>2</sup> The FY 1996 CRA as well as BY 1996 used in this case incorporate Dr. Bradley's new variability analysis. See the testimony of Postal Service witnesses Alexandrovich (Tr. 13/6957,6959, and 7156) and Patelunas (Tr. 13/7196).

1       The remaining increase of \$3.653 million in highway costs, which amounts  
2 to about 0.04 cents per piece, is the result of the combination of TRACS highway  
3 distribution keys, inflation, and additional cost incurred from additional highway  
4 capacity.

5       **2. Dr. Haldi finds fault with the container portion of the highway**  
6 **expansion process. This process is sound.**

7

8       The TRACS highway sampling process expands sampled mail cube to the  
9 cube of the containers in which the mail travels, a procedure with which Dr. Haldi  
10 disagrees (Tr. 22/11820). The purpose of this procedure is to account for the  
11 space that mail actually takes up on the truck, which is greater than the actual  
12 cubic volume of mail. In TRACS, mail in containers is assessed the full cube of  
13 the container, because the container and its contents use the space occupied by  
14 the container. That space thus becomes unavailable for use by other mail.

15       To some, it may seem like the Postal Service is charging mailers for  
16 inefficiency, because containers are not filled. However, there are a number of  
17 practical reasons for partially filled containers.

18       A. Container contents are sampled in TRACS at destinations after the  
19 load has settled.

20

21       A container can be filled at origin and, because of settling, appear  
22 to be less than 100 percent full at its destination, where the TRACS  
23 sample is taken. Since the Postal Service does not offload

1           containers to "top them off" in route, this container was and should  
2           be considered filled.

3           B.     A container may be only partially loaded at dispatch time (i.e.,  
4           when the truck is leaving).

5           When a truck is dispatched, the Postal Service faces a choice:  
6           either delay the mail and fill the container to the top or send a  
7           partially filled container. Failure to dispatch the mail can result in  
8           an uneven workload for downstream facilities or delays and service  
9           degradation. Obviously, the preference is to dispatch the mail.

10          C.     A container may only be partially loaded because of its weight.

11          Safety is a crucial consideration for the Postal Service. When a  
12         postal employee believes a container is becoming too heavy to be  
13         handled safely, he or she will dispatch that container and start  
14         loading another one. This container takes up the same floor space  
15         on the truck as a container that is filled with lighter items.

16          TRACS also expands to the full vertical space of the truck above the  
17         container. This is appropriate because containers effectively take up the entire  
18         vertical space in the truck. Containers preclude the use of the entire vertical  
19         cube of the truck for a number of reasons. First, allowance must be made for  
20         mail protruding from the top of the container. Second, allowance must be made  
21         for the small rise in the platform caused by the retractable metal bridge that

1 spans the gap between platform and trailer. Third, certain containers,<sup>3</sup> such as  
2 postal paks and gaylords, must be loaded with a forklift. In these cases,  
3 additional allowances must be made for the few inches of rise caused by the  
4 forks and the few inches of overhanging door on the truck.

5 There are additional restrictions associated with wiretainers. Two  
6 wiretainers can be stacked, but they must be stacked inside the truck since a  
7 double stack will not clear the truck opening. This stacking can only take place  
8 when one of the containers is not loaded over the level of its top and when the  
9 destination facility has a forklift that can offload the top container. When these  
10 two conditions are not met, wiretainers must be loaded unstacked, taking up  
11 twice the floorspace of a double stack.

12 There are similar restrictions with regard to pallets. In addition,  
13 pallets generally can be stacked only when they are top-capped. The Postal  
14 Service does not require a top cap on the top pallet in a stack or on a pallet that  
15 is not stacked. Pallets without a top cap generally cannot be used as the bottom  
16 pallet in a stack at downstream facilities and take up whatever floor space they  
17 occupy.

18 In summary, by assigning the full cube effectively occupied by containers  
19 and pallets, TRACS correctly assigns cube to those classes of mail that use up

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<sup>3</sup> Dr. Merewitz claims that the Postal Service never loads mail over six feet (Tr. 22/11417). Not only is this untrue for bedloaded mail (Tr. 7/3310), but the Domestic Mail Manual expressly permits pallet boxes, combined (stacked) pallets, and single pallets as high as 77 inches (DMM 041). A double stack of wiretainers is considerably taller than 6 feet.

1 truck space and, to use Dr. Haldi's phrase, "transportation services" (Tr.  
2 22/1182<sup>3</sup>).  
2 22/1182<sup>3</sup>.

3 **3. The empty space allocation problem is a red herring.**

4  
5 Drs. Haldi (Tr. 22/11822) and Merewitz (Tr. 22/11417) claim that TRACS  
6 improperly assigns costs of unoccupied vehicle space to the mail on the vehicle  
7 at the time of sampling. They each claim this imparts a bias that raises their  
8 clients' costs. These claims grossly exaggerate the magnitude of "empty space"  
9 costs. Moreover, in the case of parcel post, the empty space allocation algorithm  
10 actually slightly reduces subclass costs. This fact can be demonstrated using  
11 data already provided by Dr. Merewitz<sup>4</sup>. My Exhibit USPS-RT-2B shows the  
12 effect of removing the TRACS empty space algorithm for inter- and intra-BMC  
13 highway costs on six categories of mail (parcel post, <sup>P</sup>periodicals, Priority and  
14 Express Mail, First-Class Mail, Standard A, and Other Domestic Mail<sup>5</sup>). These  
15 calculations show that the empty space allocation algorithm has very little impact  
16 on costs. Specifically, for parcel post, as Dr. Merewitz already has confirmed (Tr.  
17 22/11639-11640), the removal of the empty space allocation algorithm raises  
18 parcel post costs, albeit by less than 1/2 cent per piece. For Periodicals, the  
19 removal of the empty space allocation raises Periodicals costs by less than 0.01  
20 cents per piece. Similar insignificant changes are shown for Priority and

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<sup>4</sup> See FGFSA Library Reference H-3.

<sup>5</sup> What Dr. Merewitz refers to as Priority Mail includes both Priority and Express Mail. His designation of Standard B other than parcel post includes Free Mail and U.S. Postal Service Mail; I call this "Other Domestic Mail".

1 Express Mail, First-Class Mail, Standard A, and Other Domestic Mail. These  
2 calculations clearly indicate that the empty space allocation algorithm cannot be  
3 the source of significant highway cost increases in this proceeding.

4 **4. TRACS facility sample selection does not impart bias.**

5 Mr. Ball (Tr. 22/11365) claims that the TRACS sample design imparts bias  
6 because a higher percentage of TRACS tests are conducted at facilities on  
7 inbound runs. Although Ms. Nieto testified to this point<sup>6</sup>, a clarification needs to  
8 be made. The relatively heavy inbound sampling and the relatively light  
9 outbound sampling are compensated for in the expansion process. The process  
10 is simple -- the costs associated with inbound and outbound sampled  
11 movements are multiplied by an expansion factor which reflects the actual  
12 occurrence of the movements. The concept can be thought of as calculating a  
13 weighted average. Before the expansion, there are costs associated with  
14 sampled inbound movements, and costs associated with sampled outbound  
15 movements. Using a very simple example, assume that the sampled cost for a  
16 particular subclass of mail on inbound movements is \$150, and that the total  
17 sampled cost for that same subclass of mail on outbound movements is \$50. At  
18 this point, these costs reflect the relative percentages of the sample. If we were  
19 to simply add these two costs up without weighting and calculate the distribution  
20 key, this would reflect bias because there is no accounting for the actual  
21 occurrence of these movements in the population. However, the TRACS

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<sup>6</sup> See Tr. 7/3266-3268.

1 occurrence of these movements in the population. However, the TRACS  
2 expansion factors (as described by witness Nieto in Tr. 7/3266-3268) weight  
3 these two costs before combining them so that the total reflects the occurrence  
4 of these movements in the population.

5 To continue our example, let us assume, like Drs. Haldi and Merewitz,  
6 that inbound movements and outbound movements occur on a one-to-one basis,  
7 such that there were 500 inbound movements and 500 outbound movements. If  
8 we sampled 75 inbound movements and 25 outbound movements, the  
9 expansion factor for inbound movements would be 500/75, or 6.66, and the  
10 expansion factor for outbound movements would be 500/25, or 20. Thus, to  
11 calculate the costs that would go into the calculation of the distribution key, we  
12 multiply our sampled costs by the expansion factors:

13  $\$150 * 6.66 + \$50 * 20 = \$1000 + \$1000 = \$2000$

14 So although the sampling percentages were 75% inbound and 25% outbound,  
15 the costs that go into the distribution key calculations are 50% inbound and 50%  
16 outbound, which reflects the actual occurrence of these movements in our  
17 example.

18 **5. TRACS samples route trip destination days, not segments. This  
19 sampling strategy is a practical solution to a complex data collection  
20 problem.**

21 Dr. Haldi protests the use of segments as the basis for the TRACS  
22 primary sampling unit (Tr. 22/11818). The costs of a contract are caused, he  
23 )

1 claims, by mail in general, not mail moving on any segment of a contract. This  
2 criticism may be based on a misconception. TRACS uses route trip destination  
3 days, not segments, as the primary sampling unit. The calculated cubic foot  
4 miles of unloaded mail are based on the point of origin of the mail on the contract  
5 route trip that day, which is not necessarily the previous stop. For example, if a  
6 TRACS test is taken on the second stop (C) of a two-stop trip (A to B to C) and  
7 all the mail was loaded at the origin facility (A), the cubic foot miles are based on  
8 the total movement of the mail (A to B to C), not the last segment (B to C).

9 To better understand why TRACS uses route trip destination days as its  
10 primary sampling unit, it is helpful to review some alternative sampling  
11 strategies. Another method that could address Dr. Haldi's criticisms would be to  
12 sample all the mail on the trucks at all points on a given contract on a given day.  
13 Let me explore why that methodology is not used.

14 Once mail is loaded on the truck, it is not available for sampling without  
15 causing disruption to postal operations. Unloading mail specifically for TRACS  
16 sampling is out of the question; it must be sampled as it is normally loaded or  
17 unloaded. Sampling mail as it is loaded at the origin cannot be used because  
18 trucks are loaded over significant periods of time. Origin sampling would greatly  
19 extend the length of TRACS highway tests and would raise data collection costs  
20 unless some other compensating adjustments (like reducing the sample size)  
21 were made. Also, origin sampling cannot be used because the mail loaded at  
22 the last minute would be unavailable for sampling. It is only at destinations that

1 the data collector can be confident that he can draw a sample of all the mail that  
2 has received transportation on a vehicle without disrupting operations.

3 In theory, the Postal Service could follow a truck around its route and  
4 collect a "moving sample" of mail as it is unloaded at each destination. The  
5 difficulty of this proposition is clear; each TRACS highway test can take hours to  
6 conduct. So, a single data collector would be unable to conduct the test and  
7 keep up with the truck as it moves to the next destination. It would be necessary  
8 to deploy data collectors at every site along a route. Of course, we could  
9 purchase additional vehicles specifically for data collection personnel or hire  
10 additional data collection personnel, but this would cause data collection costs to  
11 increase substantially. Also, a moving TRACS sample strategy would create a  
12 peak workload problem for our field data collection staffs, resulting in significant  
13 disruption to other data collection systems<sup>7</sup>. Reviewing these alternatives, the  
14 best available option is sampling mail at a sample of route trip destination days  
15 as it is unloaded.

16 Given that mail must be sampled at destinations, TRACS makes the most  
17 of the information at hand. Rather than base cubic foot miles of mail on the last  
18 segment, it records the origin of the mail and calculates total cubic foot miles of  
19 transportation service.

20

---

<sup>7</sup> On a recent trip to a BMC, I observed a TRACS test being conducted by an experienced data collector. During the course of the TRACS test, the same data collector conducted three IOCS tests.

1       6.     **Dr. Merewitz claims that truck size is determined by peaks that occur**  
2     **on outbound route trips. This claim is incorrect.**

3

4              As Mr. Young demonstrates, the size of a truck is determined, in part, by  
5     anticipated peak-day volumes. And peaks occur on inbound runs as well as  
6     outbound runs<sup>8</sup>. As Exhibit USPS-RT-2C<sup>9</sup> shows, in about 16 percent of the  
7     inbound TRACS tests used in FY 1996, trucks arrived full. Another 7 percent  
8     were filled to 90 percent of capacity. (There were actually more intra-BMC  
9     TRACS tests taken on inbound runs that were full to capacity than on outbound  
10    runs.) These data indicate that it is wrong to conclude that the size of trucks is  
11    determined by the flow of mail that TRACS defines as "outbound" from facilities,  
12    as Dr. Merewitz claims (Tr. 22/11504).

---

<sup>8</sup> It should be noted that the inbound and outbound definitions in TRACS do not necessarily correspond to inbound and outbound operations. Dr. Haldi alludes to this when he refers to a run as mixed (Tr. 22/11857). A truck that runs outbound from a BMC to one SCF and continues on to a second SCF before returning has one outbound leg (BMC to SCF1) and one inbound leg (SCF2 to BMC). The middle or "mixed" leg is defined in TRACS depending on how the route trips are specified in the contract. This specification does not mean that TRACS necessarily defines this leg in an operationally meaningful way.

<sup>9</sup> This exhibit is based on output from a SAS program which is included in Library Reference H-347, Programs and Spreadsheets Used in Creation of Exhibits in USPS-RT-2.

**Exhibit USPS-RT-2A**

**Breakdown of Attributable/Volume Variable Costs for  
Fiscal Year 1995, Base Year 1995, Fiscal Year 1996,  
and Base Year 1996**

Exhibit  
USPS-RT-2A

Cost Segment 14				
Purchased Transportation				
Attributable/Volume Variable Cost				
Non-Carrier Route Nonprofit Third-Class/Standard A				
(Thousands)				
Mode	Fiscal Year 1995	Base Year 1995	Fiscal Year 1996	Base Year 1996
Highway	\$ 25,162	\$ 28,087	\$ 32,723	\$ 32,729
Air	\$ 4,053	\$ 3,905	\$ 5,406	\$ 5,170
Rail	\$ 9,145	\$ 9,145	\$ 11,476	\$ 11,476
Water	\$ 1,126	\$ 1,119	\$ 1,332	\$ 1,331
Total	\$ 39,486	\$ 42,256	\$ 50,937	\$ 50,706
Difference with FY 1996	\$ 11,451	\$ 8,681	\$ -	\$ (231)
Difference with BY 1996	\$ 11,220	\$ 8,450	\$ (231)	\$ -
Highway Difference with FY 1996	\$ 7,561	\$ 4,636	\$ -	\$ (6)
Highway Difference with BY 1996	\$ 7,567	\$ 4,642	\$ 6	\$ -
Nonhighway Increase to BY 1996	\$ 3,653			

Exhibit  
USPS-RT-2A

Cost Segment 14				
Purchased Transportation				
Highway Attributable/Volume Variable Cost				
(Thousands)				
	Fiscal Year 1995	Base Year 1995	Fiscal Year 1996	Base Year 1996
Total Attributable/Volume Variable	\$ 996,896	\$ 1,138,451	\$ 1,223,869	\$ 1,223,869
Total Costs	\$ 1,432,363	\$ 1,432,363	\$ 1,541,650	\$ 1,541,650
Percent Attributable/Volume Variable	69.60%	79.48%	79.39%	79.39%
Increase in 1995 Attributable Cost		\$ 141,555		
Percentage Increase Due to Bradley		14.2%		
Difference with BY 1996	\$ 226,973	\$ 85,418	\$ -	\$ -
Percent Increase to BY 1996	22.8%	7.5%		

**Exhibit USPS-RT-2B****Calculation of Changes Due to Removal of TRACS Empty Space Allocation Algorithm**

Exhibit  
USPS-RT-2B  
Parcel Post

All Costs and Volumes in Thousands	Including Empty Space Allocation (ESA)					Excluding Empty Space Allocation (ESA)				
	1996Q1	1996Q2	1996Q3	1996Q4	1996	1996Q1	1996Q2	1996Q3	1996Q4	1996
Intra BMC										
Parcel Post Distribution Factors	31.71%	29.66%	26.75%	28.83%		34.32%	29.63%	27.66%	28.70%	
Volume Variable Costs	\$ 55,012	\$ 60,045	\$ 54,805	\$ 74,225		\$ 55,012	\$ 60,045	\$ 54,805	\$ 74,225	
Parcel Post Volume Variable Cost	\$ 17,444	\$ 17,809	\$ 14,660	\$ 21,399	\$ 71,313	\$ 18,880	\$ 17,791	\$ 15,159	\$ 21,303	\$ 73,133
Inter BMC										
Parcel Post Distribution Factors	23.39%	23.72%	19.21%	19.63%		24.12%	23.52%	18.01%	18.35%	
Volume Variable Costs	\$ 49,800	\$ 53,910	\$ 52,403	\$ 74,832		\$ 49,800	\$ 53,910	\$ 52,403	\$ 74,832	
Parcel Post Volume Variable Cost	\$ 11,648	\$ 12,787	\$ 10,067	\$ 14,690	\$ 49,192	\$ 12,012	\$ 12,680	\$ 9,438	\$ 13,732	\$ 47,861
Total Inter & Intra BMC Parcel Post Cost					\$ 120,505					\$ 120,994
Difference with and without ESA										\$ 489
Parcel post volume										212,828
Change in Unit Parcel Post Cost										\$ 0.00230
Sources:	Distribution Factors: Including ESA from Library Reference FGFSA-H-3, Y96A11d Excluding ESA from Library Reference FGFSA-H-3, Y96A11b Volume Variable Costs: USPS Witness Alexandovich, USPS-T-5, Workpaper B14.1.2 Parcel Post Volume Variable Costs = Volume Variable Costs x Parcel Post Distribution Factor Volume: USPS Library Reference H-2, FY 1996 Cost and Revenue Analysis									
Note:	All Costs and Volumes in Thousands									

Exhibit  
USPS-RT-2B  
Periodicals

All Costs and Volumes in Thousands	Including Empty Space Allocation (ESA)					Excluding Empty Space Allocation (ESA)				
	1996Q1	1996Q2	1996Q3	1996Q4	1996	1996Q1	1996Q2	1996Q3	1996Q4	1996
Intra BMC										
Periodicals Distribution Factors	10.67%	9.81%	8.92%	10.28%		7.77%	9.32%	9.44%	10.89%	
Volume Variable Costs	\$ 55,012	\$ 60,045	\$ 54,805	\$ 74,225		\$ 55,012	\$ 60,045	\$ 54,805	\$ 74,225	
Periodicals Volume Variable Costs	\$ 5,870	\$ 5,890	\$ 4,889	\$ 7,630	\$ 24,279	\$ 4,274	\$ 5,596	\$ 5,174	\$ 8,083	\$ 23,127
Inter BMC										
Periodicals Distribution Factors	21.74%	21.41%	20.36%	18.15%		20.54%	21.86%	21.12%	18.84%	
Volume Variable Costs	\$ 49,800	\$ 53,910	\$ 52,403	\$ 74,832		\$ 49,800	\$ 53,910	\$ 52,403	\$ 74,832	
Periodicals Volume Variable Costs	\$ 10,827	\$ 11,542	\$ 10,669	\$ 13,585	\$ 46,623	\$ 10,229	\$ 11,785	\$ 11,068	\$ 14,098	\$ 47,180
Total Inter & Intra BMC Periodicals Cost					\$ 70,902					\$ 70,307
Difference with and without ESA										\$ (595)
Periodicals volume										10,126,195
Change in Unit Periodicals Cost										\$ (0.00006)
Sources:	Distribution Factors: Including ESA from Library Reference FGSA-H-3, Y96A11d Excluding ESA from Library Reference FGSA-H-3, Y96A11b Volume Variable Costs: USPS Witness Alexandovich, USPS-T-5, Workpaper B14.1.2 Periodicals Volume Variable Costs = Volume Variable Costs x Periodicals Distribution Factor Volume: USPS Library Reference H-2, FY 1996 Cost and Revenue Analysis									
Note:	All Costs and Volumes in Thousands									

Exhibit  
USPS-RT-2B  
First-Class Mail

All Costs and Volumes in Thousands	Including Empty Space Allocation (ESA)					Excluding Empty Space Allocation (ESA)				
	1996Q1	1996Q2	1996Q3	1996Q4	1996	1996Q1	1996Q2	1996Q3	1996Q4	1996
Intra BMC										
First-Class Distribution Factors	6.08%	11.40%	14.97%	12.73%		6.27%	12.65%	11.72%	13.08%	
Volume Variable Costs	\$ 55,012	\$ 60,045	\$ 54,805	\$ 74,225		\$ 55,012	\$ 60,045	\$ 54,805	\$ 74,225	
First-Class Volume Variable Costs	\$ 3,345	\$ 6,845	\$ 8,204	\$ 9,449	\$ 27,843	\$ 3,449	\$ 7,596	\$ 6,423	\$ 9,709	\$ 27,177
Inter BMC										
First-Class Distribution Factors	10.86%	9.75%	14.99%	7.98%		9.49%	8.50%	15.42%	6.34%	
Volume Variable Costs	\$ 49,800	\$ 53,910	\$ 52,403	\$ 74,832		\$ 49,800	\$ 53,910	\$ 52,403	\$ 74,832	
First-Class Volume Variable Costs	\$ 5,408	\$ 5,256	\$ 7,855	\$ 5,972	\$ 24,491	\$ 4,726	\$ 4,582	\$ 8,081	\$ 4,744	\$ 22,133
Total Inter & Intra BMC First-Class Cost					\$ 52,334					\$ 49,310
Difference with and without ESA										\$ (3,024)
First-Class volume										98,216,074
Change in Unit First-Class Cost										\$ (0.00003)
Sources:	Distribution Factors: Including ESA from Library Reference FGFSA-H-3, Y96A11d Excluding ESA from Library Reference FGFSA-H-3, Y96A11b Volume Variable Costs: USPS Witness Alexandovich, USPS-T-5, Workpaper B14 1.2 First-Class Volume Variable Costs = Volume Variable Costs x First-Class Distribution Factor Volume: USPS Library Reference H-2, FY 1996 Cost and Revenue Analysis									
Note:	All Costs and Volumes in Thousands									

Exhibit  
USPS-RT-2B  
Priority & Express Mail

All Costs and Volumes in Thousands	Including Empty Space Allocation (ESA)					Excluding Empty Space Allocation (ESA)				
	1996Q1	1996Q2	1996Q3	1996Q4	1996	1996Q1	1996Q2	1996Q3	1996Q4	1996
Intra BMC										
Priority & Express Mail Distribution Factors	4.63%	6.48%	4.43%	4.62%		3.09%	7.36%	3.88%	3.96%	
Volume Variable Costs	\$ 55,012	\$ 60,045	\$ 54,805	\$ 74,225		\$ 55,012	\$ 60,045	\$ 54,805	\$ 74,225	
Priority & Express Mail Volume Variable Costs	\$ 2,547	\$ 3,891	\$ 2,428	\$ 3,429	\$ 12,295	\$ 1,700	\$ 4,419	\$ 2,126	\$ 2,939	\$ 11,185
Inter BMC										
Priority & Express Mail Distribution Factors	3.50%	0.95%	1.42%	1.56%		3.83%	0.84%	1.42%	1.37%	
Volume Variable Costs	\$ 49,800	\$ 53,910	\$ 52,403	\$ 74,832		\$ 49,800	\$ 53,910	\$ 52,403	\$ 74,832	
Priority & Express Mail Volume Variable Costs	\$ 1,743	\$ 512	\$ 744	\$ 1,167	\$ 4,167	\$ 1,907	\$ 453	\$ 744	\$ 1,025	\$ 4,130
Total Inter & Intra BMC Priority & Express Mail Cost					\$ 16,462					\$ 15,314
Difference with and without ESA										\$ (1,147)
Priority & Express Mail volume										994,846
Change in Unit Priority & Express Mail Cost										(0.0012)
Sources:	Distribution Factors: Including ESA from Library Reference FGFSA-H-3, Y96A11d Excluding ESA from Library Reference FGFSA-H-3, Y96A11b Volume Variable Costs: USPS Witness Alexandovich, USPS-T-5, Workpaper B14.1.2 Priority & Express Mail Volume Variable Costs = Volume Variable Costs x Priority & Express Mail Distribution Factor Volume: USPS Library Reference H-2, FY 1996 Cost and Revenue Analysis Priority & Express Mail are shown as Priority Mail in FGFSA-H-3									
Note:	All Costs and Volumes in Thousands									

Exhibit  
USPS-RT-2B  
Standard A

All Costs and Volumes in Thousands	Including Empty Space Allocation (ESA)					Excluding Empty Space Allocation (ESA)				
	1996Q1	1996Q2	1996Q3	1996Q4	1996	1996Q1	1996Q2	1996Q3	1996Q4	1996
Intra BMC										
Standard A Distribution Factors	30.94%	27.53%	34.20%	27.89%		32.82%	26.03%	35.44%	27.92%	
Volume Variable Costs	\$55,012	\$60,045	\$54,805	\$74,225		\$55,012	\$60,045	\$54,805	\$74,225	
Standard A Volume Variable Costs	\$17,021	\$16,530	\$18,743	\$20,701	\$ 72,996	\$18,055	\$15,630	\$19,423	\$20,724	\$ 73,831
Inter BMC										
Standard A Distribution Factors	29.67%	31.55%	31.19%	37.59%		30.72%	32.79%	30.64%	39.49%	
Volume Variable Costs	\$49,800	\$53,910	\$52,403	\$74,832		\$49,800	\$53,910	\$52,403	\$74,832	
Standard A Volume Variable Costs	\$14,776	\$17,009	\$16,344	\$28,129	\$ 76,258	\$15,299	\$17,677	\$16,056	\$29,551	\$ 78,583
Total Inter & Intra BMC Standard A Cost					\$149,254					\$ 152,414
Difference with and without ESA										\$ 3,160
Standard A volume										71,686,135
Change in Unit Standard A Cost										\$ 0.00004
Sources:	Distribution Factors: Including ESA from Library Reference FGFSA-H-3, Y96A11d Excluding ESA from Library Reference FGFSA-H-3, Y96A11b Volume Variable Costs: USPS Witness Alexandovich, USPS-T-5, Workpaper B14.1.2 Standard A Volume Variable Costs = Volume Variable Costs x Standard A Distribution Factor Volume: USPS Library Reference H-2, FY 1996 Cost and Revenue Analysis									
Note:	All Costs and Volumes in Thousands									

Exhibit  
USPS-RT-2B  
Other Domestic Mail

All Costs and Volumes in Thousands	Including Empty Space Allocation (ESA)					Excluding Empty Space Allocation (ESA)				
	1996Q1	1996Q2	1996Q3	1996Q4	1996	1996Q1	1996Q2	1996Q3	1996Q4	1996
Intra BMC										
Other Domestic Mail Distribution Factors	14.21%	14.73%	10.26%	15.26%		14.93%	14.64%	11.57%	15.15%	
Volume Variable Costs	\$ 55,012	\$ 60,045	\$ 54,805	\$ 74,225		\$ 55,012	\$ 60,045	\$ 54,805	\$ 74,225	
Other Domestic Mail Volume Variable Costs	\$ 7,817	\$ 8,845	\$ 5,623	\$ 11,327	\$ 33,612	\$ 8,213	\$ 8,791	\$ 6,341	\$ 11,245	\$ 34,590
Inter BMC										
Other Domestic Mail Distribution Factors	9.80%	11.61%	12.13%	14.27%		10.43%	11.40%	12.81%	15.07%	
Volume Variable Costs	\$ 49,800	\$ 53,910	\$ 52,403	\$ 74,832		\$ 49,800	\$ 53,910	\$ 52,403	\$ 74,832	
Other Domestic Mail Volume Variable Costs	\$ 4,880	\$ 6,259	\$ 6,356	\$ 10,679	\$ 28,174	\$ 5,194	\$ 6,146	\$ 6,713	\$ 11,277	\$ 29,330
Total Inter & Intra BMC Other Domestic Mail Cost					\$ 61,786					\$ 63,920
Difference with and without ESA										\$ 2,134
Other Domestic Mail volume										1,146,120
Change in Unit Other Domestic Mail Cost										\$ 0.00186
Sources:	Distribution Factors: Including ESA from Library Reference FGFSA-H-3, Y96A11d Excluding ESA from Library Reference FGFSA-H-3, Y96A11b Volume Variable Costs: USPS Witness Alexandovich, USPS-T-5, Workpaper B14.1.2 Other Domestic Mail Volume Variable Costs = Volume Variable Costs x Other Domestic Mail Distribution Factor Volume: USPS Library Reference H-2, FY 1996 Cost and Revenue Analysis Other Domestic Mail includes Standard B except parcel post, free mail, and USPS mail									
Note:	All Costs and Volumes in Thousands									

**Exhibit USPS-RT-2C****Percent Empty by TRACS Facility Type**

Exhibit  
USPS-RT-2C  
Percent Empty by TRACS Facility Type

FACCAT	Number of Tests			Percent by FACCAT	
	0%	1-10	Total	0%	1-10
1	160	72	1013	16%	7%
2	29	9	128	23%	7%
3	3 -9-	2	31	10 29%	6%
4	136	52	425	32%	12%
5	16	5	84	19%	6%
All Facilities	344 350	140	1681	20 21%	8%
<b>FACCAT Key:</b>					
1=	Inbound to BMC, Test taken at BMC				
2=	Inbound to BMC, Test taken at SCF				
3=	Inbound to BMC, Test taken at another facility				
4=	Outbound from BMC, Test taken at SCF				
5=	Outbound from BMC, test taken at another facility				

1                   CHAIRMAN GLEIMAN: Three participants requested  
2 oral cross-examination: the Alliance of Nonprofit Mailers,  
3 Florida Gift Fruit Shippers, and McGraw-Hill and Companies.

4                   Does any other participant wish to cross-examine  
5 the witness?

6                   Mr. Levy, Alliance of Nonprofit Mailers?

7                   It appears that Mr. Levy is taking a pass.

8                   MS. DUCHEK: Mr. Chairman, Mr. Levy informed me  
9 that he had nothing for Mr. Pickett.

10                  CHAIRMAN GLEIMAN: I guess, Mr. Pickett, you and  
11 the others are lucky. Both Mr. Levy and I burned out this  
12 morning.

13                  [Laughter.]

14                  If that is the case, Mr. Wells, you can begin your  
15 cross-examination when you're ready.

16                  MR. WELLS: Thank you, Mr. Chairman.

17                   CROSS EXAMINATION

18                  BY MR. WELLS:

19                  Q     Mr. Pickett, turn your testimony to page 6, if you  
20 will.

21                  A     Okay.

22                  Q     And at lines 11 through 15, will you confirm that  
23 TRACS samples highway, air, and rail transportation?

24                  A     Yes, it does.

25                  Q     You refer to a 3.7 million increase. Am I correct

1       that the air portion of that is 1.353, rail is 2.331, and  
2       water is .106?

3           A     I don't have those numbers in front of me, but  
4       I'll accept them subject to check, sure.

5           Q     Do these increases in the rail and air portions of  
6       the total increase give further evidence of some problem  
7       with how TRACS analyzes transportation costs?

8           A     I don't believe so, no.

9           Q     All right.

10              On line 17, you talk about higher volume  
11       variabilities. Did you make any analysis or determination  
12       concerning the variability of cost with changes in mail  
13       volume?

14           A     I'm sorry. Are you on page 7, line 17?

15           Q     Page 6, line 17.

16           A     Okay. Sorry. No, I haven't done any analysis of  
17       that, no.

18           Q     Do you know if Mr. Bradley made any analysis to  
19       determine variability of cost with changes in mail volume?

20           A     No. His analysis was the variability of cost with  
21       respect to cubic foot miles of transportation capacity.

22           Q     Turn, if you will, to your Exhibit 2-A.

23           A     Okay, I have it.

24           Q     For Fiscal Year '95 and base year '95, what are  
25       the differences in period of time covered by those two?

1           A     They're the same Government Fiscal Year, October 1  
2     through September 30, '94 through '95.

3           Q     Fiscal Year '95 and base year '95 are the same  
4     period.

5           A     Yes.

6           Q     For the same period, why is there a difference in  
7     the amounts in the two columns?

8           A     The Fiscal Year '95 column deals -- uses the  
9     volume variabilities that were, I think, pretty much in  
10   place since Docket R94-1. The base year '95 number is from  
11   Docket MC97-2, which some people call the parcels re-class  
12   case, and in that case, we introduced new highway  
13   variabilities, and just glancing at this, there is a minor  
14   change in air, but I'm not, as I'm sitting here, sure what  
15   that change might have been. But the big change was in the  
16   highway variabilities.

17          Q     Is that variability change reflected on page 2 of  
18     your Exhibit 2-A?

19          A     Yes, it is.

20          Q     In the third line, where it increased from 69.6  
21     percent to 79.48 percent?

22          A     That's correct.

23          Q     Now, the first figure, the 69.6 percent, was  
24     derived from what source?

25          A     It's the ratio of the volume variable cost,

1        996,896, to total cost, 1,432,363, the two numbers above it.

2            Q     Well, where did the numbers of total attributable  
3        volume variable costs derive from?

4            A     For the fiscal year -- this is true for both '95  
5        and '96 -- when the Postal Service sends over the CRA report  
6        and the cost segments and components to the Commission, it  
7        sends over what I call the transportation model, which is  
8        sometimes referred to when it appears in a rate case as the  
9        cost segment 14-B work-papers.

10          Q     All right.

11          A     So, those two columns were provided in the normal  
12       course of reporting.

13              The column base year '95 was filed as B  
14       work-papers in Docket MC97-2, and the column base year '96  
15       was filed as part of the B work-papers in Alexandrovich's  
16       testimony in this case.

17          Q     Okay.

18              The Fiscal Year '95 attribution percentage comes  
19       from the CRA.

20          A     Yes. Well, it comes from the model that feeds the  
21       CRA. That's the way I think of it. And the only reason  
22       --you looked at me kind of funny. The only reason I say  
23       that I don't have much to do with the actual production of  
24       the CRA itself. The transportation model kind of stands  
25       alone separately from that, and I deal with just the model,

1       the transportation model.

2           Q     Well, on page 1 of that Exhibit 2-A, the numbers  
3     that appear there in Fiscal Year '95, base year '95, Fiscal  
4     Year '96, and base year '96 -- what is the source of those  
5     numbers?

6           A     The same source.

7           Q     The CRA?

8           A     Well, the transportation work-papers that support  
9     the CRA.

10          Q     All right.

11              On page 7, line 9, would you provide the record  
12     with your definition of the word "containers" as you use  
13     that word here?

14          A     Generally, when I use the term "container," I'm  
15     thinking about things like BMC over-the-road containers,  
16     APCs, wire-tainers, and I'm not sure if, in this discussion,  
17     I also refer -- I think I separately refer to pallets and  
18     Postal Paks.

19          Q     What about trays and sacks?

20          A     Well -- in this section, I don't think I refer -- I  
21     include them in the discussion, no.

22          Q     You do not include them?

23          A     I do not.

24          Q     Does TRACS include trays and sacks when it expands  
25     the quantity of mail in a tray or a sack?

1           A     Sort of by definition, yes. You can't expand the  
2     size of the tray unless you've got a tray.

3           Q     Is there a reason that you did not address trays  
4     and sacks in your testimony?

5           A     No, not that I can think of.

6           Q     On line 10, you say that this is to account for  
7     the space that mail actually takes up on a truck, which is  
8     greater than the actual cubic volume of mail. How do you  
9     define space that mail actually takes up on the truck?

10          A     The space as it's -- essentially, the floor space.

11          Q     The what?

12          A     The floor space and the vertical space above it.  
13     The effective cube utilization of the truck is affected by  
14     how the mail is containerized.

15          Q     Well, how is that greater than -- how is the space  
16     that mail actually takes up on the truck different from the  
17     actual cubic volume of mail?

18          A     Let's take for an example a Postal Pak that's  
19     half-full. Well, the cubic volume of mail is the actual  
20     --half the space of the Postal Pak, and the cubic volume of  
21     space that it uses on the truck is the entire space the  
22     Postal Pak takes up on the truck.

23          Q     The entire cubic space?

24          A     Yes.

25          Q     Including the empty space above it.

1           A     Yes.

2           Q     So, when you say space that mail actually takes up  
3     on the truck, do you mean that to include what the mail  
4     occupied together with the unoccupied space above it.

5           A     Yes.

6           Q     So, are you including empty space within this  
7     terminology, space that mail actually takes up?

8           A     Yes.

9           Q     If a container is the sack and if it is a  
10    partially filled sack, does the actual cubic volume of mail  
11    expand to the capacity of the sack?

12          A     Yes.

13          Q     So, the actual cubic volume of mail is a  
14    meaningless term.

15          A     I don't follow you.

16          Q     Well, you don't measure -- you expand it up to the  
17    size of -- the maximum size that the sack could contain,  
18    correct?

19          A     Right.

20          Q     And if there's one sack on the floor of the  
21    vehicle, you would expand that up to the entire height of  
22    the truck.

23          A     True.

24          Q     And if there were three sacks stacked on top of  
25    one other, those three sacks combined would measure that

1 empty space.

2 A That's right.

3 Q What is the rationale of including empty,  
4 unoccupied space in determining space utilized by actual  
5 mail?

6 A The rationale is that, basically, that space can't  
7 be used for anything essentially on the next stop. As  
8 you're loading the mail, once you've put a container on the  
9 truck for that destination, you've occupied that space.

10 Q The floor space.

11 A The floor space. And that's the way it's treated  
12 in the field.

13 Q If a container is an OTR -- that's an  
14 over-the-road BMC container, right?

15 A Right.

16 Q -- is partially filled, how is the actual contents  
17 of that OTR measured?

18 A Well, first of all, it might not -- I mean we'd  
19 take a sample of the container.

20 Q I assume that the OTR is a sample.

21 A Right.

22 Q How is the cubic volume of mail actually in the  
23 OTR measured?

24 A We ask the data collectors to collect what  
25 percentage of mail occupies that container by item type.

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1 Q That's by --

2 A Sacks ---

3 Q -- class of mail.

4 A -- loose pieces. No, sacks, loose pieces, and  
5 various kinds of trays.

6 Q If the OTR had 15 pieces of parcel post mail loose  
7 in the OTR, you would sample one piece, wouldn't you?

8 A If that's all it had in it?

9 Q Had 15 pieces of parcel post, but the sample would  
10 be to measure one piece.

11 A That's true.

12 Q And they would not measure the other 14 pieces.

13 A No.

14 Q How would they determine the percentage of the OTR  
15 that was occupied by parcels?

16 A Well, if there's nothing else in the OTR, all of  
17 it is occupied by parcels. That's the way TRACS treats it,  
18 because that OTR is not going to get unloaded to get topped  
19 off. That space is taken.

20 Q If an OTR was loaded with 15 parcels, one try and  
21 one sack, how do they ascribe total cube for parcels?

22 A It varies. The data collectors have an option.  
23 They can -- depending on the particular situation in the  
24 test, they can either specify percentages of the load or  
25 actual numbers of the load, and the rationale behind that is

1       that they're under some time constraint to get this mail  
2       sampled, collect their data, and get it back into the  
3       system, and sometimes it's easier for them to use  
4       percentages, and sometimes they use numbers.

5           Q     If they determine through their estimate that a  
6       third of the ORT was parcels and a third was sack and a  
7       third freight, then the entire cube of the ORT would be  
8       assigned to each one of them.

9           A     A third, a third, a third, yes.

10          Q     Would this mail actually occupy less floor space  
11       if it were bed-loaded?

12          A     Probably not.

13          Q     You mean bed-loaded doesn't take up less space  
14       than a container?

15          A     I think I misunderstood you. It would take up  
16       less space if it were bed-loaded. But if it isn't, it is  
17       taking up what space it is taking up, and that's -- the  
18       purpose of TRACS is to report what is actually happening.  
19       So when we see a BMC container that is taking up floor  
20       space, we don't sort of philosophize about whether it could  
21       have, would have, should have, it is what it is, is what we  
22       do.

23          Q     What are the reasons for a partially filled  
24       container?

25          A     There's a list of them in my testimony starting on

1 the bottom of page 7.

2 Q In A you said the loads settle.

3 A Sure.

4 Q How often does that occur?

5 A I couldn't tell you. I mean what I can tell you,  
6 just to give you an example, a lot of BMC transportation  
7 nowadays uses Postal Pak loaders. Postal Paks are these big  
8 corrugated boxes on pallets and those get loaded by a  
9 conveyor belt and as the conveyer belt feeds this big box,  
10 the box kind of tilts forward and it fills up to the extent  
11 that the machinery can fill it, and then the machine cuts  
12 off and that Postal Pak is loaded onto a truck. Now, when  
13 the truck is going down the road, that Postal Pak, which has  
14 not been systematically loaded, it has been loaded by this  
15 machine, those contents are going to settle. So when we  
16 take a TRACS test, they are not going to be sticking up to  
17 the top of the Postal Pak.

18 Q On page 8, you talk about partially loaded at  
19 dispatch time. Is there other available mail that could be  
20 loaded in that container?

21 A I think sort of, by definition, that there isn't.  
22 What I am trying to say is that at dispatch time, you don't  
23 have the option of doing anything but taking that mail and  
24 putting it on a truck, unless you want to delay it.

25 Q But even if there was mail stacked up waiting to

1       be loaded, you wouldn't load it, you would meet the dispatch  
2       time?

3           A     No. If mail were stacked up ready to be loaded at  
4       dispatch time, it would be loaded, by definition.

5           Q     All right. And if you waited to load that  
6       available mail, then you are going to delay the dispatch  
7       time, is that right?

8           A     I don't understand your question.

9           Q     Well, at dispatch time a container is partially  
10      loaded and there is additional mail in the stream waiting to  
11      be loaded but you would not hold the container to load that  
12      mail, you would dispatch the container?

13          A     Yes.

14          Q     So it could have been loaded but for the Postal  
15      Service's time scheduling?

16          A     Well, I don't know how -- I mean my mental picture  
17      of what you are describing says that it could not have been  
18      loaded. If it could have been loaded, it would have been  
19      loaded. And it wasn't loaded, so they dispatched the  
20      container.

21          Q     We are talking about intra-BMC transportation,  
22      aren't we?

23          A     Any transportation, it works that way.

24          Q     Well, let's look at intra-BMC and the container is  
25      loaded at the BMC.

1           A     Right.

2           Q     And the container is loaded from a spinoff chute  
3     from the computer track.

4           A     Okay.

5           Q     And if there is mail piled up on the unloading  
6     chute waiting to go in the container, it could be, except  
7     for the fact that you pull the container to meet a dispatch  
8     time.

9           A     Correct.

10          Q     Is that right?

11          A     Yes.

12          Q     If partially loaded containers are a frequent  
13     occurrence -- are they?

14          A     Well, I don't know what frequent is. I imagine  
15     TRACS would -- well, TRACS wouldn't even tell you that  
16     necessarily. I couldn't tell you.

17          Q     TRACS doesn't tell you how often it occurs?

18          A     No.

19          Q     Would partial loading of containers convert to a  
20     more efficient utilization of vehicle space if the contents  
21     were bed-loaded?

22          A     Could be and pretty much my recollection from 10  
23     years ago is you would see more of that, but you don't  
24     today.

25          Q     Even though the bed-loading would be a more

1 efficient utilization of a trailer, the Postal Service uses  
2 the containers for other reasons?

3 A It would be -- it could be a more efficient  
4 utilization of the trailer, however it would be a much less  
5 efficient utilization of the labor in the plant on both  
6 ends, the origin and the destination.

7 Q Do you have any studies to identify or quantify  
8 that difference?

9 A No, I don't, but -- well, actually I don't have  
10 any studies, but I think the IMHS program is partly  
11 ~~predicated~~  
predicted on that.

12 I would also say that -- I don't want to -- I mean  
13 to me it is obvious on its face when you go to a BMC these  
14 days you see one forklift driver handling multiple shoots of  
15 loaders, loading trucks really fast, whereas before you  
16 would see a mail handler with an extendable conveyer going  
17 all the way into the truck, laboriously stacking one stack  
18 or one parcel or one tray after another on the floor and  
19 he'd be in there for several hours.

20 On the other end of it, I was recently -- I think  
21 <sup>P and DC</sup>  
it was in Dallas, a Dallas PMDS, and I asked about the  
22 loading and unloading time. The dock supervisor told me  
23 that to unload a bedloaded truck would take several hours.  
24 To unload a truck loaded with postal packs takes under a  
25 half an hour, so there's a lot of benefits to this

1     containerization, partly just in terms of getting the stuff  
2     off the truck and into the system and getting it processed.

3           Q     Processing the mail at origin and destination is  
4     one thing but efficient utilization of the capacity of the  
5     truck would be enhanced by bedloading the material?

6           A     Could be enhanced by bedloading the material.

7           Q     is the scheduling time, the time for departure,  
8     the controlling factor as to when the container is full for  
9     loading?

10          A     Well, there are dispatch times, yes, and that's --  
11     the dispatch times are determined by the various mail  
12     processing schedules on the route.

13          Q     And the dispatch time is the controlling time to  
14     determine when a container is full to be loaded on the  
15     vehicle?

16          A     Yes.

17          Q     Than again on page 8 you say that weight may be a  
18     factor in partial loading. Explain how weight affects  
19     partial loading of a container.

20          A     Okay. This again -- this is -- part of this  
21     section of my testimony is based on my recent tour of  
22     facilities. A lot of these container issues have been  
23     coming up during the case and I thought that while I am out  
24     at facilities I should ask people.

25                 So I saw this one -- think it was an APC, which is

1 not as big as a BMC container but a little more user  
2 friendly, and the postal employee was pushing this APC away  
3 from the sorting equipment and I said why are you doing  
4 that? Why don't you wait to fill it up? He said it's so  
5 filled and it's so heavy that I can't push it. I have to  
6 push it now just to get it out of here.

7 Q You indicate that safety is the consideration but  
8 an example you just gave safety was not the consideration.  
9 It's the physical inability of this weak employee to push a  
10 container.

11 A No, it's not, because you are talking to somebody  
12 who has had disk surgery so I can understand when somebody  
13 knows enough not to want to injure themselves pushing a  
14 heavy load.

15 Q So your one example of an all purpose container  
16 being too heavy is the only example you know of where weight  
17 is a factor in determining the extent to which a container  
18 is loaded?

19 A It is the one time that I have asked, yes.

20 Q And you know of no other times?

21 A No, I haven't asked everybody I have seen whether  
22 it's too heavy or not, no.

23 Q Do OTRs become too heavy?

24 A I imagine they do in some circumstances.

25 Q That is pure speculation on your part, isn't it?

1           A     All I know is I have tried to push one and they  
2     can be very heavy so -- then again, I am an economist and I  
3     don't move mail every day so --

4           Q     Aren't OTRs moved around through mechanical  
5     devices?

6           A     Sometimes they are and a lot of BMCs -- I think  
7     you are talking about the towveyer lines? -- they are built  
8     into the floor. A lot of them have welded those over. They  
9     don't operate in some of the BMCs, so in some cases they are  
10    and in some cases they are pulled along. In some cases they  
11    are pushed.

12          Q     At what weight does an OTR become too heavy?

13          A     I think that is a subjective judgment for the  
14    person pushing it.

15          Q     And you do not have any idea as to how frequently  
16    that occurs?

17          A     No.

18          Q     Nor do you have any idea that it has ever  
19    occurred?

20          A     Oh, I do. I know -- well, on OTR?

21          Q     On OTR.

22          A     No.

23          Q     Then at line 14, you say that once it becomes too  
24    heavy, that he starts loading another one. Does that space  
25    become available for use by other mail?

1           A     Which space?

2           Q     The empty space in that container.

3           A     The first one or the second one?

4           Q     The first one.

5           A     No. That will be dispatched. As I understand it,  
6     it was dispatched to the dock.

7           Q     If a container is only partially loaded, at the  
8     time of loading, is that empty space such that it could be  
9     loaded with other mail?

10          A     Could you repeat that? Sorry.

11          Q     If a container is only partially loaded, is the  
12     empty space available for loading by other mail?

13          A     Not unless it's returned to some place where mail  
14     is being processed, and my understanding is it wouldn't be,  
15     it would be moved out.

16          Q     If there were other mail available to be loaded,  
17     but dispatch time required it to be taken away, the empty  
18     space could have been loaded with other mail?

19          A     It could have but it was not.

20          Q     The failure to fully load the container is  
21     controlled by the need to meet the scheduled vehicle  
22     departure time?

23          A     I wouldn't say it's a failure but it is controlled  
24     by the dispatch time, and that's controlled by the vehicle  
25     departure time.

1           Q     Is there any other reason for removing a partially  
2     filled container?

3           A     I don't know.

4           Q     At the bottom of page eight, there it's talking  
5     about the expansion process of TRACS. TRACS expands the  
6     quantity of mail in a container up to the size of the  
7     container?

8           A     Right.

9           Q     Even though the container is not fully used for  
10    transportation of mail?

11          A     Well, by being on the truck, it's fully used for  
12    the transportation of mail.

13          Q     If the container has empty space in it, then the  
14    TRACS program expands and assigns the empty space to mail  
15    that is actually there?

16          A     It's either the TRACS program or the data  
17    collector on site.

18          Q     The data collector is inputting data for the TRACS  
19    program, isn't it?

20          A     Yes, and he has the option of entering what we  
21    call either a relative percentage, which is -- let me give  
22    you an example. Let's say a container is half filled with  
23    parcels and nothing else. He could enter 50 percent. The  
24    TRACS program, the computer programs, would expand that to  
25    100 percent, or he could enter 100 percent and the TRACS

1 program would leave it alone.

2 Q Do you mean that the clerical enters the notation  
3 if there is a half full container, that he would record it  
4 as being 100 percent full?

5 A He had that option, yes.

6 Q Isn't that inflating the data?

7 A No, it's just recording what's using the  
8 container. It's doing the same thing the computer program  
9 does.

10 Q If there is a container that is not subject to  
11 being stacked one on top of another, is the space above the  
12 container useable space?

13 A If the container is not subject to being stacked?  
14 What do you mean by that?

15 Q If the container is such that it could not be  
16 stacked one on top of another, is the space above the  
17 container then unusable space?

18 A It's treated as unusable space.

19 Q It's treated as unusable space?

20 A Theoretically, you could go in and somehow or  
21 other rig the inside of a truck to hold mail up there, but  
22 we don't do that.

23 Q The mail that is below this unusable space is  
24 being charged with occupying it?

25 A Yes.

1 Q What is your rationale for doing that?

2 A Because we can't use that space as a matter of  
3 practice.

4 Q If the mail in the vehicle were bed loaded, it  
5 could be bed loaded all the way to the top, couldn't it?

6 A Yes, it could.

7 Q And that would be a more efficient use of the  
8 space in the vehicle?

9 A Could be.

10 Q Any circumstance when it would not be?

11 A I'm just reluctant to say always or never, so I  
12 can't think of one off the top of my head.

13 Q The use of containers is for the convenience of  
14 the Postal Service, not of the mailer?

15 A I don't know about the word "convenience." I  
16 think it's for the overall efficiency of the Postal Service  
17 and for expediting the mail through and between facilities.  
18 That's why we use containers.

19 Q Does the mailer request that it be containerized?

20 A I can think of circumstances where they do. I  
21 recall Dow Jones asking for a container discount years ago,  
22 so there are circumstances where the mailers want to be able  
23 to use -- they don't want to be dragging sacks around, a lot  
24 of them. They want to be able to use pallets. They want to  
25 be able to use whatever containers. These containers are

1 very expensive.

2 Q Do you know of any circumstance when a mailer has  
3 requested that his parcels or mail be deposited into a OTR?

4 A Into an OTR? No. You mean by the Postal Service?

5 Q Where the mailer requests it.

6 A Mailers request containers from us all the time.  
7 They put the mail in OTR's or APC's to some extent. I know  
8 the people that manage our mail equipment inventory aren't  
9 real happy about that, but if you walk into a printing  
10 plant, you'll see Postal rolling stock in there.

11 Q Where the mailer has loaded it in there, not the  
12 Postal Service?

13 A Yes.

14 Q Intra-BMC transportation, what is the extent of  
15 wiretainers?

16 A I don't know.

17 Q Do you know if they are used at all in intra-BMC  
18 transportation?

19 A I just don't know.

20 Q What is the extent of the use of pallets in  
21 intra-BMC transportation?

22 A I don't know the relative percentages.

23 Q If a pallet is used, does it require the use of a  
24 forklift to unload it?

25 A Can you repeat that?

1           Q     If a pallet is used in intra-BMC transportation,  
2     does the presence of the loaded pallet require a forklift  
3     for the pallet to be removed from the vehicle?

4           A     No.

5           Q     How else do you get the pallet off?

6           A     A hand truck.

7           Q     You unload the pallet onto hand trucks?

8           A     No, no. The hand truck is like a forklift except  
9     it's manual. There's another device, I forget what the name  
10    of it is, but it's not a forklift and it's not a hand truck,  
11    but it is like a hand truck, like a riding mower. You bring  
12    it in behind it.

13          Q     That's a hydraulic, manually operated forklift?

14          A     Yes. They don't call it a forklift, there's a  
15    distinction between those things.

16          Q     But it serves the same purpose?

17          A     Some of the same purposes; yes.

18          Q     As far as lifting a pallet off the floor, it  
19    serves the same purpose?

20          A     Off the floor, yes.

21          Q     Is there any requirement of other loading on  
22    intra-BMC vehicles that require a forklift at a destination  
23    facility?

24          A     Can you repeat that again? You lost me.

25          Q     Is there any container used in intra-BMC

1 transportation that requires the use of a forklift at the  
2 destination facility?

3 A I'm not -- well, I know that when you stack  
4 wiretainers or pallets, if you want to remove the top half  
5 of the stack, you need a forklift.

6 Q But you don't know if a wiretainer is used in  
7 intra-BMC transportation?

8 A I'm tempted to say I'm certain they are, because  
9 you see them in facilities, but I can't think of an instance  
10 where I've seen them, but I've seen them all over the place  
11 in the Postal Service. I can't imagine why they wouldn't  
12 use it.

13 Q Now going back to bed-loaded mail, I believe we  
14 agreed that if you bed-loaded it, you could then stack it  
15 higher.

16 A Yes, you can.

17 Q And thus use the available space on the interior  
18 of the vehicle.

19 A Yes.

20 Q And bed-loading would maximize the utilization of  
21 the space in the vehicle?

22 A What do you mean by maximize?

23 Q Well, it would use up the available space inside  
24 the vehicle.

25 A Well, within limits, yes.

1           Q     On an intra-BMC transportation that is sampled at  
2     TRACS, is the vertical space above a bed-loaded parcel  
3     expanded to the height of the trailer?

4           A     Yes, it is.

5           Q     Why?

6           A     Because that parcel takes up the floor space.

7           Q     Takes up floor space, but is there a reason why  
8     other mail wasn't placed on top of it?

9           A     Because it wasn't available at the time.

10          Q     At the time of the departure to meet the service  
11     standard?

12          A     For whatever reason that departure was  
13     established, yes.

14          Q     If there were two parcels side by side, could one  
15     have been stacked on top of the other?

16          A     Could have been.

17          Q     But it wasn't.

18          A     But it wasn't.

19          Q     So those two parcels get charged with twice the  
20     cubic feet?

21          A     Yes.

22          Q     Is a consequence of expanding for empty space  
23     above a bed-loaded parcel that the parcel is then charged  
24     with the utilization of empty space that it did not use?

25          A     That's a long one. Can you try that again?

1           Q     You say a parcel that's bed-loaded on the floor of  
2     the vehicle is charged with the utilization of empty space  
3     to the height of the vehicle, and is the consequence of that  
4     charging of that piece of mail with the utilization of empty  
5     space that it did not use?

6           A     It's charging it with the utilization of empty  
7     space that no one can use.

8           Q     On page 11, under your Section 4, you explain  
9     these, quote, weighting, end quote, factors. Is it correct  
10    that, from your testimony, that the imbalance in sampling,  
11    sampling is 70 percent on the in-bound and 30 percent on the  
12    outbound; is that right?

13          A     Those numbers ring a bell, yes.

14          Q     So if there is an imbalance, the weighting is such  
15    that the sampling is equalized inbound and outbound. That's  
16    the example you give; is that right?

17          A     It's not that the sampling is equalized; it's that  
18    the sample totals are adjusted in such a way that you  
19    represent the population according to the proportions that  
20    things occur in the population.

21          Q     Well, where there's an inbound movement, there's  
22    an outbound movement, so they're one to one, right?

23          A     Generally, that's true, but there are some  
24    exceptions yes.

25          Q     And you say that the total effects of the

1 occurrence of these movements in the population which --  
2 would be one to one?

3 A No, that's not what I'm saying. All I'm saying in  
4 this part of my testimony is that when we sample 70 percent  
5 on one type of movement and 30 percent on the other, if  
6 those movements occur with the same frequency in total, the  
7 samples get re-weighted to reflect that frequency. So just  
8 because we sampled 30 percent doesn't mean that it  
9 represents 30 percent of, in essence, the mail in the  
10 distribution key. That gets adjusted. There is a  
11 compensation for that.

12 Q The number of samples is weighted; is that right?

13 A Well -- the number of samples -- the samples  
14 itself are weighted.

15 Q Well, but they're weighted -- if they're inbound,  
16 they're weighted higher than they are if they were outbound,  
17 or the reverse of that -- if they were outbound, they're  
18 weighted higher because the incidence of sampling is lower?

19 A That's right.

20 Q And it's weighted in order to equalize the  
21 sampling with the occurrences?

22 A Basically that's right.

23 Q And assume, if you will, that the transportation  
24 outbound is equal to and offset by a comparable  
25 transportation inbound, then the objective of the weighting

1       is to make it one to one?

2           A     No. We don't assume anything. What we do is we  
3       sample the entire population of regular contracts as they  
4       occur at every destination and on every day, and we take  
5       that total, whatever it is, whether it's one to one or 1,000  
6       to one to 999, and that's what we control to. So to the  
7       extent that there are not one to one movements, that's also  
8       reflected in this expansion process.

9           Q     Is the weighting designed to address any bias that  
10      might result or be in existence because of an imbalance in  
11      utilization inbound or outbound?

12          A     No.

13          Q     Assume if you will that the mail flow analysis is  
14      such that the ratio of cubic feet of one class of mail is  
15      four to one to another class of mail.

16          A     Okay.

17          Q     Is there any explanation of how TRACS develops a  
18      ratio of only one to one for those two classes of mail?

19          A     Other than to say that all TRACS records is what  
20      the data collectors see. If the data collectors don't see  
21      something, it doesn't show up in the TRACS sample.

22                 Having seen many TRACS tests and I'm aware of the  
23      criticisms of TRACS, I can't think of anything that I've  
24      seen that indicates a systematic under-representation or  
25      over-representation of any particular class of mail, and I

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1 have looked.

2 There are circumstances -- and this happens, for  
3 example, on an air test, where I have observed a data  
4 collector -- an experienced data collector who is about to  
5 make a mistake, and I correct him.

6 Now, that's going to happen no matter, you know,  
7 what data system you're talking about. People are human.  
8 But I don't see any systematic bias in terms of how the data  
9 -- the items are being sampled in TRACS or the containers  
10 from which they're being sampled or anything like that, no.

11 Q Beginning at the bottom of page 12 -- actually, at  
12 the top of page 13 -- you use a terminology of route trip  
13 destination days and a terminology of route segments. Would  
14 you please distinguish those term terminologies?

15 A Okay. A route segment is a movement -- or a leg,  
16 sometimes called that -- is a movement between any two  
17 points, say between Washington BMC and Merrifield. A route  
18 trip destination day is Merrifield on a certain contract, on  
19 a certain trip in that contract, on a certain day.

20 Q Well, a route trip destination is the end of a  
21 route segment. Is that correct?

22 A Well, it's -- on a particular day, yes.

23 Q On a particular day --

24 A Right.

25 Q -- a route trip destination is the end of a route

1 segment.

2 A Or segments.

3 Q Or segments?

4 A That's the point of this part of the testimony, is  
5 to point out that, if mail is off-loaded at Merrifield on  
6 Thursday and that contract route trip is selected for  
7 sampling and that mail got on the truck in Baltimore and the  
8 truck went Baltimore, Washington BMC, Merrifield, TRACS  
9 samples that mail and recognizes the mail got on in  
10 Baltimore.

11 So, it's not just the trip from Washington to  
12 Merrifield; it's the whole route trip.

13 Q You say the mail got on in Baltimore?

14 A I'm talking hypothetically. I don't know that a  
15 contract actually does this route.

16 Q And then it went to the Washington BMC?

17 A Correct.

18 Q And then it went to Merrifield?

19 A Could have.

20 Q And it's sampled in Merrifield?

21 A Well, let me give you another example.

22 Q Please do, because what you've given me is not an  
23 intra-BMC movement.

24 A It could be. It absolutely could be.

25 Q From the Baltimore BMC to the Washington BMC could

1       be intra-BMC?

2           A     No. From the Baltimore PMDC to the Merrifield  
3       facility could be on an intra-BMC contract. There's a  
4       distinction here between trips that are on contracts and how  
5       the contracts get classified.

6                   Just because a contract falls in that account,  
7       that intra-BMC account, doesn't necessarily mean that all  
8       the trips on that contract move to or from a BMC or that all  
9       the destinations or origins on that contract, all the stops,  
10      are one stop away from a BMC.

11                  Let me give you another example.

12                 I was at a TRACS test in Easton, Maryland, which  
13       is on the eastern shore, and a truck was running from  
14       Baltimore to Easton to Salisbury, which is farther down on  
15       the eastern shore, and if we had done the TRACS test in  
16       Salisbury, the mail that was being tested in Salisbury --  
17       there would be a differentiation between mail that  
18       originated in Easton and mail that originated in Baltimore,  
19       and that's the clarification this section of my testimony  
20       makes.

21                Q     When mail is sampled on an intra-BMC movement --

22                A     Okay.

23                Q     -- it's sampled either as in-bound or out-bound  
24       mail. Is that right?

25                A     Correct.

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1           Q     And if it's on an out-bound mail, is there any  
2     distance involved beyond the originating BMC, the  
3     destinating BMC?

4           A     I'm not sure I follow the question. You've got me  
5     confused.

6           Q     Well, if mail originates and goes to a BMC, is  
7     sorted, and then goes out-bound to a destinating SCF and is  
8     sampled at the destinating SCF, the mileage factor would  
9     begin with the destination BMC, wouldn't it?

10          A     If that's where it got on the truck, yes.

11          Q     So, any mileage before it got to the destination  
12     BMC would not be taken into account.

13          A     Not for that mail, but for any other mail that got  
14     on before and got off at that SCF, it would be.

15          Q     Assume if you will that we have an intra-BMC  
16     contract that goes from BMC to SCF A to SCF B, and each of  
17     these facilities are 50 miles apart. And that this contract  
18     calls for a return from B -- SCF B to SCF A to BMC at a  
19     round-trip cost of \$200.

20                 If the sampling occurs on the outbound portion at  
21     SCF A, does TRACS assign a transportation cost for the  
22     sampled mail?

23          A     The sampled mail gets treated at a cost of a  
24     dollar per -- well, a dollar per mile depending on the size  
25     of the truck would be per cubic foot mile.

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1           It's a 200-mile -- well, I hate to do this to you,  
2 but the outbound trip would probably represent one route  
3 trip in TRACS, and an inbound trip would represent another  
4 route trip in TRACS. So it kind of complicates things.

5           Q     But my assumption stipulated was that the round  
6 trip had a total cost of \$200. So that --

7           A     Okay.

8           Q     The outbound trip has a cost of \$100 and the  
9 inbound trip has a cost of \$100.

10          A     Okay.

11          Q     And that the cost between the BMC and Point A is  
12 \$50.

13           My question is, does TRACS assign a transportation  
14 cost to the sample mail on the outbound movement at SCF A?

15          A     It in effect treats the cost of the outbound  
16 movement as \$50. Is that what you're asking?

17          Q     It assigns a cost of \$50 to the sampled mail?

18          A     Well, it's based on a cost per cubic foot mile,  
19 but \$50 is what's used. Or more -- actually what's used is  
20 the total cost of the route trip divided by the cubic foot  
21 miles on each trip.

22          Q     You mean the total cost of the round trip divided  
23 by the cubic foot miles of the round trip. Is that what  
24 you're telling me?

25          A     I'm a little -- the reason I keep double-clutching

1 here, if you will, is that TRACS doesn't -- you wouldn't see  
2 a round trip like this. You would see an outbound trip and  
3 an inbound trip. And TRACS samples those separately. So on  
4 the outbound trip in your example TRACS would effectively  
5 assign \$50 to the -- well, essentially the cost of the whole  
6 trip would be the same on a per mile basis. Put it that  
7 way.

8 Q The cost --

9 A \$50 for the first part, \$50 for the second part.

10 Q The cost of the entire trip, combined trip, would  
11 be equal on a per mile basis.

12 A In the example you gave me, yes, by definition.

13 Q Now how does TRACS determine cost on the basis of  
14 floor space unloaded at the point of sampling?

15 A It assesses how much floor space is empty, how  
16 much is assigned to unloaded mail, and how much is assigned  
17 to loaded mail.

18 Q Well, how --

19 A And then it assigns, roughly speaking -- I'm not  
20 talking about the exact calculation -- but it assigns the  
21 space occupied by the unloaded mail to the unloaded mail and  
22 a proportionate share of the empty space.

23 Q The empty space is allocated according to the  
24 space of unloaded compared to the space of the loaded?

25 A That's right.

1           Q     Is the cost of the entire outbound trip  
2     considered?

3           A     In the sense that it goes into the calculation of  
4     the cost per cubic foot miles, yes.

5           Q     It goes in there only to take the total contract  
6     cost and divide it by the total cubic foot miles, right?

7           A     Not -- no, it is the cost of the trip, it is not  
8     the cost of the total contract, as I understand it.

9           Q     The contract cost of the trip is divided by the  
10    cubic foot miles of the trip to determine the cost per cubic  
11    foot mile, is that right?

12          A     Basically, yes.

13          Q     And if a truck goes out and retraces its route  
14    going back to the BMC, those two trips would be the same,  
15    wouldn't they?

16          A     By definition, yes.

17          Q     Is the cost of the entire outbound movement taken  
18    into consideration when the sampling occurs at the first  
19    stop on the outbound movement?

20          A     No.

21          Q     Is the cost of the return movement, the return  
22    trip, taken into consideration in determining the cost of --  
23    transportation cost for the mail unloaded and sampled at the  
24    first outbound point?

25          A     Implicitly, it is.

1 Q What?

2 A Implicitly, it is.

3 Q How?

4 A The costs of the transportation that is being  
5 provided, those costs include -- basically, some of them are  
6 fuel and labor and some of them are capital costs and they  
7 are spread over the whole contract route. So if you could  
8 include, for example, more mileage or more stops in a  
9 contract, you can lower your cost per mile. So the costs of  
10 that whole round trip that you are describing are jointly  
11 determined.

12 Q But the entire cost is then broken down to a cost  
13 per cubic foot mile, is that right?

14 A That's right.

15 Q And my question, is the cost of the return trip,  
16 the inbound portion, taken into account, in any manner, in  
17 allocating or determining the transportation cost for mail  
18 unloaded at the first stop on the outbound movement?

19 A Implicitly, it is. Because the cost per cubic  
20 foot mile is affected by how far that truck goes in total.

21 Q You mean it is reduced?

22 A It is -- well, yes, it is reduced.

23 Q If the sampling occurs at the second SCF on the  
24 outbound movement, is there any difference in the manner in  
25 which the costs are allocated?

1           A     Well, the costs are allocated to mail, and it  
2 depends on where the mail got on the truck.

3           Q     Well, for simplification, let's assume that all of  
4 the mail that was unloaded at either point was loaded at the  
5 BMC.

6           A     Okay.

7           Q     Would the methodology be the same?

8           A     Yes.

9           Q     How would the percent of empty floor space at  
10 point A be determined when you were calculating the empty  
11 floor space at point B?

12          A     You mean for the mail that got off at B?

13          Q     Yes.

14          A     That started at the BMC. Well, on the leg between  
15 A and B, we would observe the empty floor space. On the  
16 prior leg, we would not observe it and we would apply the  
17 average space utilization as to how that enters into the  
18 calculation. It's the best data that we have. We have  
19 nothing else to use, and it is the best information we have  
20 for that kind of facility type, FACCAT.

21          Q     Somewhere you said that you could 14 OTRs on a  
22 trailer.

23          A     So I am told.

24          Q     You can't stack them?

25          A     No.

1 Q All right.

2 A You can, but you are going to <sup>get</sup> hurt.

3 Q Let's assume that we have 14 OTRs and that seven  
4 of them are unloaded at point A.

5 A Okay.

6 Q And the truck then proceeds to point B with the  
7 seven remaining OTRs and at point B it is sampled. So at  
8 that point, all of the empty space would be assigned to the  
9 mail and unloaded at point B, is that right?

10 A No.

11 Q Why not?

12 A Only the empty space associated with the mileage  
13 between A and B would. Okay. We would impute empty space  
14 for the previous leg, and in your example, there would be an  
15 error in that. However, you can think of other examples  
16 where there's nothing on there and it averages out.

17 Q Is the sampling process and the assignment of  
18 transportation cost calculated on the same manner on the  
19 inbound movement?

20 A Yes.

21 Q Most of your contracts for transportation are for  
22 a round -- two trips, an outbound and an inbound trip?

23 A Right.

24 Q Is that right? Do you agree that the entire  
25 contract cost inbound and outbound is a joint cost?

1           A     Yes. That's what I meant by saying that the cost  
2     per cubic foot mile is affected by the fact that you have  
3     multiple stops on the trip.

4           I should also point out that just because the trip  
5     is outbound or inbound doesn't mean that the mail is  
6     outbound or inbound.

7           Q     But the trip is.

8           A     The trip is. That's the sort of way TRACS keeps  
9     track of them. It's not operationally necessarily  
10    one-to-one mapping the operation.

11          Q     Well, intra-BMC mail or mail that was placed on  
12    the truck at the BMC, all of the mail on the outbound leg is  
13    outbound, isn't it?

14          A     On the first leg, yes. On the second leg, it  
15    depends.

16          Q     Well, if it's mail going from A to B, it's still  
17    outbound, isn't it?

18          A     I think we're talking semantics. All I'm saying  
19    is that from A to B, mail can be loaded at A to be brought  
20    to B. TRACS will treat that as outbound mail, but  
21    operationally you might think of that some other way.  
22    That's all.

23          Q     It's still outbound from the BMC.

24          A     In TRACS, yes.

25          Q     On page 15 at line 7 you say that the trucks

1 arrive full. What does "full" mean?

2 A They were recorded as loaded 100 percent. In the  
3 judgment of the data collector, when they opened the door,  
4 there was no more room.

5 Q You're speaking of floor space.

6 A Yes.

7 Q You do not mean that it was full of mail. The  
8 vehicle was not full of mail.

9 A It was fully occupied with -- well, with  
10 containers or with mail. But the containers were all  
11 carrying mail. So for my purposes it was full of mail.

12 Q When you say that the truck was full, you mean  
13 that the floor space was occupied either by a container,  
14 with or without mail, and bed-loaded mail?

15 A Or a pallet; right.

16 Q On line 8 you make in your parenthetical expression  
17 there are actually more inbound tests that were full to  
18 capacity than outbound tests.

19 Since there are more than twice as many tests on  
20 the inbound movement, that's not surprising, is it?

21 A No.

22 Q And if you weight these samples as you have  
23 previously described, then you get the reverse of that,  
24 don't you?

25 A I don't know. I haven't done the weighting.

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1           Q     Referring to your Exhibit 2-C with the corrections  
2     that you make, does this show that on the inbound movement  
3     at the BMC sampling that 77 percent of the vehicles were  
4     less than 90 percent full?

5           A     I am not sure that I follow where you are getting  
6     the numbers from.

7           Q     Well, is it correct to say that 23 percent of the  
8     samples were at least 90 percent full?

9                 That is the 16 plus the 7 -- 23.

10          A     Correct.

11          Q     And that necessarily means that on 77 percent of  
12     the time the truck was less than 90 percent full?

13          A     That's right.

14          Q     Similarly, on the outbound movement if you look at  
15     the initial SCF destination, 56 percent of the vehicles were  
16     less than full.

17          A     That's right -- of mail, that's right.

18          Q     That's --

19          A     Full of mail.

20          Q     Full of containers.

21          A     With mail in them.

22          Q     With or without mail in them, right?

23          A     No. With mail in them.

24          Q     If you have a vehicle that has 14 OTR containers,  
25     and one OTR container has mail in it, and that's the OTR

1       that is sampled, how is it treated for TRACS?

2           A     How is what treated for TRACS?

3           Q     Isn't it treated as -- you don't count the empty  
4        containers then, do you?

5           A     The empty containers are treated as empty space.  
6        There is no mail in them.

7           Q     There is no mail in them?

8           A     Right.

9           Q     So isn't the entire truck allocated to the sample  
10      that was made?

11        A     That's right.

12        Q     Witness Young says in RT-3 that containerization  
13      increases the amount of space used and makes less efficient  
14      use of vehicle space with resulting additional costs, and  
15      further, that the use of pallets increases transportation  
16      capacity requirements.

17                  How are these factors and these additional costs  
18      handled or analyzed by TRACS?

19        A     In the same way that we have just been talking  
20      about. If you fill up a truck with containerized mail and  
21      you are only filling up those containers partially, the  
22      truck is full. It gets dispatched. TRACS would treat the  
23      truck as full. If you want to send more mail, you have to  
24      get another truck or bigger truck or you have to make some  
25      accommodation, and that costs more money. I think that's

1 the point Mr. Young was making.

2 Q The pallet then, with the additional cost and the  
3 less efficient utilization, it would be reflected in the  
4 same way that a partially filled container was?

5 A Yes.

6 MR. WELLS: Mr. Chairman, that's all the questions  
7 I have.

8 CHAIRMAN GLEIMAN: Mr. Bergin?

9 CROSS EXAMINATION

10 BY MR. BERGIN:

11 Q Good afternoon, Mr. Pickett.

12 A Good afternoon.

13 Q For the record, my name is Tim Bergin. I  
14 represent the McGraw-Hill Companies, and I have just a few  
15 questions for you.

16 If I could refer you, please, to page ten of your  
17 testimony, lines eight and nine. You state that Intervenor  
18 witnesses grossly exaggerate the magnitude of empty space  
19 costs?

20 A Correct.

21 Q You don't ~~agree~~ <sup>disagree</sup> with Postal Service Witness Nieto  
22 regarding the extent of empty space as measured by TRACS, do  
23 you?

24 A No.

25 Q Have you reviewed her testimony?

1 A Yes.

2 Q I believe she testified that a rough average was  
3 that about 50 percent of all floor space was unused,  
4 according to TRACS?

5 A That sounds familiar; yes.

6 Q Of course, when you consider it on a cubed basis,  
7 then the percentage of unused capacity is much higher,  
8 depending upon how high on average the trucks are loaded?  
9 How much vertical space --

10 A I wouldn't consider it any different. You might.  
11 I consider -- as I said to Mr. Wells, once the vertical --  
12 once ~~like~~ an OTR is in place, the vertical space is unusable  
13 to us, so it's occupied for all intents and purposes.

14 Q But in terms of the cube of the truck, if the  
15 truck is 50 percent -- 50 percent of the floor space is  
16 being used and the truck is only loaded to one-half of the  
17 vertical space, then 75 percent of the cube is unused?

18 A 75 percent of the cube has no mail in it.

19 Q Pardon?

20 A It has no mail in it. It has no containers in it.

21 Q So in trying to understand what you mean on page  
22 ten, lines eight and nine, when you state that the magnitude  
23 of empty space cost has been exaggerated, I mean, you don't  
24 deny that there is substantial empty space as measured by  
25 TRACS?

1           A     No. What I'm saying is the effect of the  
2 algorithm in TRACS to allocate that empty space on mail  
3 sub-classes has been greatly exaggerated. It really does  
4 not affect sub-class costs much at all, and I think I show  
5 that in my exhibits. Not only that, the effect goes  
6 opposite to what people claim the effect is.

7           Q     Let's turn to that for a moment. You state that  
8 your Exhibit 2B shows the effect of removing the TRACS'  
9 empty space algorithm.

10          A     Right.

11          Q     However, your Exhibit 2B does not remove any costs  
12 for empty space, does it?

13          A     Well --

14          Q     I mean you're working with the same volume  
15 variable costs as Witness Nieto?

16          A     Right. I tie it back to the same attributable  
17 costs.

18          Q     You distribute that same amount of cost as Witness  
19 Nieto?

20          A     That's right. TRACS does not deal with volume  
21 variability at all.

22          Q     So basically you simply distribute the cost of the  
23 empty space in a different way, somewhat different way than  
24 Witness Nieto?

25          A     In effect, it gets distributed -- I don't know --

1       the way I think of it is it's distributed sort of in  
2       proportion to the -- in the same proportions as the cubic  
3       foot miles of mail, of the distribution key that results.

4           Q     And that is based upon the percentages of mail  
5       that happen to be sampled by TRACS?

6           A     That's right.

7           Q     And finally, just to follow up on the discussion  
8       you had a moment ago with Mr. Wells, you were discussing how  
9       empty space which is above mail on a truck is allocated. I  
10      believe you attempted to explain why.

11         It is also true that if half the floor space is  
12      used, only half of the floor space, then the empty space  
13      allocation will include the 50 percent of the floor space  
14      that is unused, correct?

15         A     Well, the empty space allocation that this refers  
16      to, this part of my testimony refers to only refers to the  
17      floor space part. That is what the algorithm deals with.

18         Q     Okay.

19         A     Okay.

20         Q     My question to you is what is the rationale for  
21      allocating empty space on the 50 percent of the truck that  
22      is -- the truck bed that is not containing mail?

23         A     Well, the rationale in TRACS is that if mail  
24      received the transportation service that we observe then  
25      it's the full cost of that transportation service that needs

1 to be allocated to that mail, and that is the way TRACS  
2 keeps track of it.

3 Q But you don't disagree with Witness Nieto that  
4 neither TRACS nor the Postal Service in this regard is  
5 making assumptions about cost causality?

6 A What it is doing is it is using what it observes  
7 on the truck -- what it observes on the truck and how far  
8 that -- what mail has come off that truck and how far that  
9 mail has been moved on that truck as the key bit of  
10 information in terms of deriving cost for those classes of  
11 mail that are unloaded.

12 Q But you wouldn't say that if there were just a  
13 few, relatively few items of mail on a large truck that  
14 those items of mail caused the cost of the unused capacity  
15 on that truck?

16 MS. DUCHEK: I would like to interject a comment  
17 here. I think I am going to object -- and I could have  
18 objected earlier to some of Mr. Wells' questions on the same  
19 basis.

20 Mr. Pickett's discussion in his rebuttal testimony  
21 of the empty space allocation was directly solely to a very  
22 narrow point, which is that certain Intervenor witnesses  
23 complained about this and argued either expressly or  
24 implicitly that this was affecting their cost.

25 The sole purpose of Mr. Pickett's rebuttal

1 testimony here is to show, which I think he has, that that  
2 simply is not the case. How TRACS allocates empty space  
3 costs, why TRACS has the rationale it does for allocating  
4 empty space costs has been covered repeatedly in this docket  
5 through cross examination of Ms. Nieto, and I think we are  
6 going to be here till quite late this evening if we continue  
7 on down this line.

8                 The parties had their opportunity and in fact did  
9 question Ms. Nieto extensively on this point, and that is  
10 not the point to which Mr. Pickett's rebuttal testimony is  
11 addressed.

12                 MR. BERGIN: First of all, I don't intend to  
13 pursue this indefinitely but I have to disagree.

14                 I don't think Mr. Pickett's discussion of the  
15 algorithm on page 10 addresses the Intervenors' concerns at  
16 all.

17                 That was the point of my initial questions and my  
18 follow-up questions relate to subjects that Mr. Picket has  
19 testified earlier this afternoon. I'm seeking  
20 clarification.

21                 CHAIRMAN GLEIMAN: Well, you know, if you had  
22 objected to the questions that Mr. Wells raised that you  
23 felt were outside the bounds of appropriate questioning  
24 under rebuttal then they wouldn't have been asked and then  
25 Mr. Bergin wouldn't have had any questions to follow up on,

1 because as it stands now I think that I can't very well  
2 limit his right to seek some clarifications through  
3 follow-up, so I am going to allow him to continue and I know  
4 we will probably be here late tonight and some of us were  
5 late the other night and we are going to be real late  
6 tomorrow night, I'm afraid, but that's just the name of the  
7 game.

8 BY MR. BERGIN:

9 Q Sir, do you have the question in mind?

10 A No, I lost it.

11 Q You're not testifying that mail that happens to be  
12 on a truck necessarily causes the unused space on that truck  
13 which may be ascribed to it by TRACS?

14 A I'm -- unused space -- what causes unused space?  
15 All I'm testifying to is two things. One is that the way  
16 TRACS allocates that empty space and the way both Dr. Haldi  
17 and Merewitz have said to unallocate it doesn't amount to  
18 anything in terms of the costs in this case. The only  
19 information that TRACS collects is the mail that's observed.

20 We don't, as Ms. Nieto said, we do not speculate  
21 about what might have caused that contract to be sized or  
22 routed or anything else. All we do is take how that  
23 contract appears in our routing software, sample it. The  
24 basic assumption is that if the mail got off that truck,  
25 that mail received transportation services and that cost of

1       that leg has to be in some way attributed to the mail that  
2       was on the truck. I think that's a pretty straightforward  
3       procedure. It does not require a data collector to try to  
4       evaluate why the truck was or the contract was configured or  
5       sized or anything.

6               I don't know anybody who can figure that out. I  
7       haven't heard anybody who can give me a straight answer  
8       about how they would do it. I've heard a lot of people  
9       complaining about it, but nobody has given us a straight  
10      answer of how a particular contract on a particular day  
11      might have been sized or routed. The most straightforward  
12      way that I know of dealing with the cost of that contract is  
13      to attribute it to the mail that was on -- that was  
14      offloaded from that truck.

15       Q       But you have testified that Postal Service  
16      commitments, for example, cause trucks to leave less than  
17      fully loaded when they otherwise could have been fully  
18      loaded.

19       A       They cause truck schedules to -- they affect the  
20      scheduling of the truck. They can affect all manner of  
21      things on the truck.

22       Q       Sure. As opposed to the mail that's on the truck  
23      causing the incidence of unused space.

24       A       Well, the mail on the truck is getting a  
25      transportation service that's being provided. Whether it

1       was intended to be provided at some point maybe four years  
2       earlier for some other mail processing schedule, it still  
3       gets that transportation. It's not going to get a free  
4       ride. What TRACS does is assigns it the cost of the  
5       transportation.

6           Q     Well, if the small amount of mail that was on the  
7       truck happened to be the peak load, then obviously the  
8       Postal Service would not be sending out a truck that was 90  
9       percent empty space; correct?

10          A     If the small amount of truck happened to -- in  
11       what sense is it a peak load?

12          Q     If that was the maximum load that went on that  
13       route for a given week, you wouldn't be sending it out in a  
14       truck that large; correct?

15          A     No.

16          Q     And isn't it fair to say that apart from service  
17       commitments, the peak load requirements of the Postal  
18       Service are responsible for unused space on a truck when  
19       it's sampled?

20          A     They're a part of the decision process, but  
21       they're not solely responsible for it. There are a lot of  
22       other factors that go into the consideration.

23           MS. DUCHEK: Could I ask counsel to define -- I'm  
24       confused here by what he means by peak load.

25           MR. BERGIN: That would be the maximum volume of

1 mail anticipated to be shipped on a route during a given  
2 period, say a week, that would determine what size of truck  
3 the Postal Service elected to use on that route.

4 THE WITNESS: Well, the route and the size of the  
5 truck are interrelated. I mean, a peak on one point might  
6 not coincide with a peak at another point. The point I'm  
7 trying to make is that it's not as clear cut an issue as you  
8 are making it out to be. It's a lot more complicated.

9 I don't have the volumes to determine when those  
10 peaks occur, so I can't really tell you what the causality  
11 of the peak is. What I can tell you is what mail received  
12 the transportation service. I can observe that. That's the  
13 basis for TRACS.

14 The counter example is on a TRACS air test, we  
15 know the volume and all TRACS does is tie to that volume.  
16 On highway, we don't know the volume. We can't even guess  
17 at what it's going to be in advance because there's just no  
18 volumetric information out there.

19 I don't want to speculate about any particular  
20 contract on any particular day, whether it could have or  
21 would have been or was meant to be the peak, because we just  
22 don't know. To say that the peak caused something on a  
23 particular contract sample in TRACS is, I think,  
24 speculative, and I wouldn't support doing it.

25 BY MR. BERGIN:

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1           Q     Well, is it fair to say then that what you are  
2     saying consistently with Witness Nieto is that there is no  
3     causal connection beyond speculation between the unused  
4     costs and the mail that happens to be sampled?

5           A     What I'm saying is what I just said, that the cost  
6     of the truck, the services that were provided for the mail  
7     and the truck, are observed, and that's what TRACS records.  
8     It doesn't record the thought process of the contracting  
9     official or the routing specialist or the transportation or  
10    logistics person that might have been working on the  
11    contract three years before who is no longer there.

12               It simply records what's being observed. To my  
13    mind, it's the most straightforward way of keeping track of  
14    what mail receives the transportation services on the  
15    contract.

16           Q     I thought you stated a moment ago that because you  
17    had done your analysis removing the empty space algorithm  
18    from the TRACS' calculation that the empty space allocation  
19    is somehow less significant?

20           A     No. All I'm saying is that the effect of the  
21    empty space allocation algorithm in TRACS has very little  
22    impact on the final sub-class costs. That algorithm, which  
23    distributes mail according -- the cost of the empty space  
24    according to the mail that's on the truck, it has virtually  
25    -- I don't want to say no effect, but it's relatively an

1 insignificant effect. It's not a big deal like Dr. Haldi  
2 made it out to be.

3 Q When you say not a big deal, you are referring to  
4 the algorithm itself, not to the allocation of empty space  
5 per se?

6 A That's how it's allocated. To my mind, they are  
7 the same thing.

8 Q You have allocated the empty space in a different  
9 way? I think you stated that earlier. You haven't taken  
10 the empty space out of the calculus?

11 A I don't know how to do that other than to take the  
12 costs and call them institutional, which Dr. Bradley has  
13 already demonstrated they aren't.

14 Q Those costs amount to about 50 percent of the  
15 total costs that we are talking about here?

16 A I don't know that it's the total costs. That's a  
17 percentage of space, roughly.

18 Q Right.

19 A That's the number you gave me.

20 Q Well, subject to check, if you accept that --

21 A Of some contracts, I don't know which ones you are  
22 talking about. I'm not going to assign a cost number to  
23 that. There's empty space on trucks. Trucks cost money.  
24 Sometimes we don't use all the space but mail does get  
25 transportation service on those trucks and it gets charged

1 for it to the extent that it does. That's TRACS.

2 Q If you accept my assumption that on average, the  
3 empty space on these trucks approximate 50 percent, then  
4 that translates into 50 percent of the transportation costs  
5 that are allocated?

6 A No, it does not. No, it does not.

7 Q Why do you say that?

8 A 50 percent on one type of truck may cost more than  
9 50 percent on another kind of truck. That hasn't been  
10 established.

11 Q Well, if you assume that across contracts, that 50  
12 percent is the average on each contract, I'm just trying to  
13 establish a principle here, then basically 50 percent of  
14 empty space would translate into 50 percent of the costs,  
15 which are based on cubic foot miles?

16 A If I assume something we don't do, the answer to  
17 that is yes, but we don't do it, so it's no.

18 Q Don't do what?

19 A What you just described. All we do --

20 Q I'm making an assumption about the amount of empty  
21 space on the trucks.

22 A Right, and you are assigning costs to them, if I  
23 heard you right.

24 Q Well, I am simply trying to make the point that  
25 the amount of empty space affects the amount of costs that

1       are allocated, either through TRACS or otherwise.

2           A     I think we've established that. And I think the  
3       way we treat it makes very little difference in the subclass  
4       costs. That's what my testimony is.

5           Q     But if the amount of empty space is significant,  
6       then the effect on costs will be significant.

7           A     I can't -- I don't know what you mean by  
8       significant. I mean, that's just a loaded term. What I'm  
9       saying is it's not significant. To the extent that we have  
10      a pool of volume variable costs, the allocation of empty  
11      space is insignificant, and it's demonstrated in those  
12      exhibits in my testimony.

13          Q     But you've simply removed an algorithm that had  
14      been used to allocate empty space and you've allocated empty  
15      space in a different manner. And you're saying that the  
16      results -- that there is an insignificant difference in the  
17      results of these two alternate allocations of empty space.

18          A     Yes.

19          Q     That's not to say that the empty space allocation  
20      done one way or the other is insignificant by comparison  
21      with allocations of costs for used space.

22          A     Somebody could do the analysis a completely  
23      different way and come up with a completely different number  
24      and say that it's significant. That's not what I'm  
25      testifying to. I don't know how any other way to say it. I

1 think I've answered you four or five times.

2 I don't know anybody else who said anything else  
3 to do with those costs on the case. I mean, I'm ~~not~~ trying  
4 to respond to what's on the record in the case, and I -- I  
5 mean, Dr. Haldi ends his testimony on TRACS by saying, you  
6 know, the first thing you ought to do is take this  
7 allocation algorithm out. That's what I did.

8 Q If the empty space costs were treated as  
9 institutional, then the volume variable -- remaining volume  
10 variable costs would be significantly less. Is that not  
11 correct?

12 A That's by definition.

13 MR. BERGIN: I have nothing further, Mr. Chairman.

14 CHAIRMAN GLEIMAN: Is there any followup?

15 Mr. Wells.

16 MR. WELLS: Just a couple items, Mr. Chairman.

17 FURTHER CROSS EXAMINATION

18 BY MR. WELLS:

19 Q Look at Exhibit 2-B. For my clarification, did  
20 you say that they were distributed on the basis of cubic  
21 feet or cubic foot miles?

22 A These are intra and inter-BMC. They're all in  
23 cubic foot miles.

24 Q The Parcel Post distribution factors are on the  
25 basis of cubic foot miles?

1 A Yes, for those two cost accounts; yes.

2 Q All right. And talking about different sizes of a  
3 truck, the same size of truck is used on a specific route  
4 each day, isn't it? The size --

5 A Yes, by definition.

6 Q Doesn't vary.

7           A     Right. Well, actually it can, but it's a minor  
8 point. The contractor's free to provide a bigger truck if  
9 he wants to, but we tie to what's in the contract.

10 Q And TRACS does not establish volume variability.

11 A No, no at all.

12 Q Okay.

13 MR. WELLS: Nothing further, Mr. Chairman.

14 CHAIRMAN GLEIMAN: Mr. Feldman.

15 MR. FELDMAN: Thank you, Mr. Chairman. Stephen  
16 Feldman, American Business Press.

17 CROSS EXAMINATION

18 BY MR. FELDMAN:

Q A couple of followup questions, Mr. Pickett.

20 You mentioned Postal Paks I think in a response to  
21 one of Mr. Wells' questions, and to your knowledge, what  
22 kinds of mail currently are within Postal Paks?

23           A     Well, not having looked at the data, I mean  
24        there's data in TRACS that would tell you that, but let me  
25        tell you where they're loaded, and that can help you out, I

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1 think. It's -- Postal Paks are loaded automatically at BMCs  
2 from both the sack sorter and the parcel sorter. So  
3 whatever mail actually got processed gets loaded into a  
4 Postal Pak.

5 Q When you say processed, are you talking about  
6 distribution so that would be parcels -- Standard A,  
7 Standard B mail primarily.

8 A Primarily, but there's exceptions to that.

9 Q You asked I think it was Mr. Bergin perhaps  
10 rhetorically, perhaps not, to give alternative examples to  
11 TRACS.

12 A Rhetorically.

13 Q Thank you. Are you familiar -- you're familiar  
14 with the phrase "plant load costs"?

15 A Yes.

16 Q Do you -- what is your understanding of that term?

17 A It means different things to different people.  
18 Let me give you the definition in the context of the costs  
19 in the proceeding. Plant load costs are costs of contracts  
20 that serve mailers' plants and go -- and essentially start  
21 at a mailer's plant and go to a postal facility. So they're  
22 either highway or rail contracts that are like that.

23 Q Does the Postal Service know on a vehicle-by-  
24 vehicle basis what is inside of those trucks insofar as  
25 subclass identification is concerned?

1           A     The Postal Service -- well, first of all, the  
2     plant load contracts are generally not sampled in TRACS.  
3     There might be an off occasion where a plant is included on  
4     an interfacility contract and shows up in our routing  
5     software, but the contracts that we're talking about, the  
6     plant load contracts, those costs are distributed based on a  
7     special study. They're not part of TRACS. And the only  
8     information we have on their contents is the special study.

9           Q     Do you know if the special study does involve  
10    identification by postal employees of the contents of the  
11    trucks as they depart the printing plant?

12          A     I don't know where the sample is taken. The study  
13    itself predates my recent involvement in transportation.

14          Q     Well, then, yes, just to close the line of  
15    questioning then, there's been no -- none of the data  
16    presented by you or to your knowledge, Ms. Nieto or Mr.  
17    Bradley or Mr. Young, is based on any updated study of plant  
18    load costs.

19          A     That's correct.

20          Q     Towards the end of Mr. Bergin's cross examination,  
21    you and he got into a dialogue about the significance or  
22    lack of it thereto of I think it was the cost of empty  
23    space. It wasn't empty space per se. It was trying to  
24    relate cost to empty space.

25          A     Right.

1           Q     Okay. The existence of space as such on a truck  
2 is driven, wouldn't you agree, by the assessments made by  
3 postal managers such as for example Mr. Young as to what the  
4 various needs of facilities around the country are in terms  
5 of transporting the mail?

6           A     That's safe to say. Yes.

7           Q     On page 5 of his direct testimony, Mr. Young  
8 stated, "Generally speaking, a contract contains pairs of  
9 trips. Each trip pair contains an outbound trip and an  
10 inbound trip. When the BMC processes mail for its service  
11 area, it is likely particularly on its peak weekly volume  
12 day to dispatch vehicles full, although it is certainly  
13 possible that the last dispatch of the day will be less than  
14 full."

15                 In terms of your discussion with Mr. Bergin about  
16 the relation of a peak load day to the need to purchase  
17 space on a truck, would you agree that Mr. Young's testimony  
18 indicates that peaking requirements for mail on a particular  
19 route or routes does drive the decision as to how much space  
20 to purchase on a truck?

21           A     It affects the whole -- essentially it affects the  
22 whole routing and specifications to the contract -- how much  
23 mail you have got to handle, how fast you have got to get it  
24 to where it needs to go. They are all inter-related is the  
25 way I look at it.

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1           Q     Well, the question though was is it the  
2 requirement of the peak day or days that drive the decision  
3 to purchase a certain amount of cubic capacity or space on a  
4 particular route.

5           MS. DUCHEK: Perhaps Mr. Feldman would be better  
6 off directing these questions to Mr. Young since he is up  
7 next and this is right out of Mr. Young's testimony.

8           MR. FELDMAN: It is out of Mr. Young's testimony  
9 and the only reason I am mentioning this as follow-up is  
10 because Mr. Pickett I believe expressed some uncertainty  
11 about what peak load meant in this context and contested Mr.  
12 Bergin's assumptions that there is a significant cost to  
13 empty space.

14           CHAIRMAN GLEIMAN: I guess there is a two-parter  
15 there.

16           One is that he seemed not to understand Mr.  
17 Bergin's reference to peak load, and the other has to do  
18 with the space cost issue.

19           I think quite frankly the space cost issue got  
20 beat to death and I am not sure how much more blood you are  
21 going to get out of the turnip.

22           MR. FELDMAN: I will reserve --

23           CHAIRMAN GLEIMAN: And I suspect that if you raise  
24 the question in the absence of confusion that this witness  
25 may have had over Mr. Bergin's presentation of the question

1       that there wouldn't be an objection from Postal Service  
2       counsel when you raise it with the next witness.

3            MR. FELDMAN: I will try an alternative approach.

4            CHAIRMAN GLEIMAN: Proceed.

5            BY MR. FELDMAN:

6           Q      Mr. Pickett, do you agree with the statement of  
7       witness Young that I read to you several minutes ago -- or I  
8       can read it again --

9           A      Yes, let's start over.

10          Q      I would be delighted to. "Generally speaking, a  
11       contract contains pairs of trips. Each trip pair contains  
12       an outbound trip and an inbound trip. When the BMC  
13       processes mail for its service area, is it likely,  
14       particularly on its peak weekly volume day, to dispatch  
15       vehicles full, although it is certainly possible that the  
16       last dispatch of the day will be less than full."

17           Do you agree with that statement?

18          A      Yes.

19          MR. FELDMAN: Thank you. That concludes my  
20       follow-up.

21          CHAIRMAN GLEIMAN: Any further follow-up?

22           There are no questions from the bench.

23           Would you like some time with your witness, Ms.  
24       Duchek?

25          MS. DUCHEK: Mr. Chairman, if we could take 10

1 minutes and sort of combine redirect with a short break, we  
2 would appreciate it.

3 CHAIRMAN GLEIMAN: I think we can manage that.

4 MS. DUCHEK: Thank you.

5 [Recess.]

6 CHAIRMAN GLEIMAN: Ms. Duchek?

7 MS. DUCHEK: Mr. Chairman, the Postal Service has  
8 no redirect.

9 CHAIRMAN GLEIMAN: If that is the case, then Mr.  
10 Pickett, we want to thank you. We appreciate your  
11 appearance here today and your contributions to the record.  
12 If there is nothing further, you are excused.

13 THE WITNESS: Thank you, Mr. Chairman.

14 [Witness excused.]

15 CHAIRMAN GLEIMAN: Ms. Duchek, if you would  
16 identify your next witness?

17 MS. DUCHEK: Yes, Mr. Chairman. The Postal  
18 Service calls James D. Young.

19 Whereupon,

20 JAMES D. YOUNG,  
21 a rebuttal witness, was called for examination by counsel  
22 for the United States Postal Service and, having been first  
23 duly sworn, was examined and testified as follows:

24 CHAIRMAN GLEIMAN: Please be seated. Counsel, you  
25 can proceed.

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## 1 DIRECT EXAMINATION

2 BY MS. DUCHEK:

3 Q Mr. Young, I'm handing you copies of a document,  
4 two copies of a document, entitled Rebuttal Testimony of  
5 James D. Young on Behalf of United States Postal Service.  
6 It's been designated USPS-RT-3. Are you familiar with this  
7 document?

8 A Yes, I am.

9 Q Was it prepared by you or under your supervision?

10 A Yes, it was prepared under my direction.

11 Q Were you to testify orally today, would this still  
12 be your testimony?

13 A Yes, it would be.

14 MS. DUCHEK: Mr. Chairman, I will hand two copies  
15 of the Rebuttal Testimony of James D. Young on Behalf of the  
16 United States Postal Service, USPS-RT-3, to the Reporter,  
17 and I ask that Mr. Young's testimony be entered into  
18 evidence in this proceeding.

19 CHAIRMAN GLEIMAN: Are there any objections?

20 [No response.]

21 CHAIRMAN GLEIMAN: Hearing none, Mr. Young's  
22 testimony and the exhibits are received into evidence and I  
23 direct that they be transcribed into the record at this  
24 point.

25 [Rebuttal Testimony and Exhibits of

1                   James D. Young, USPS-RT-3, was  
2                   received into evidence and  
3                   transcribed into the record.]

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USPS-RT-3

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

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

REBUTTAL TESTIMONY OF  
JAMES D. YOUNG  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE

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## **Autobiographical Sketch**

2

3 My name is James D. Young. My postal career began in the Chicago  
4 Main Post Office as a distribution clerk in November 1970. During the 27+ years  
5 since 1970, I have held various staff and management positions throughout Mail  
6 Processing, Transportation Operations, and Purchasing and Materials

7 Examples include the following:

Position Title	Facility
• Transportation Dock Clerk	Washington BMC
• Transportation Analyst	Washington BMC
• Transportation Specialist	Washington TMSC
• Senior, Transportation Specialist	Washington TMSC
• Transportation Specialist	Postal Headquarters
• Program Manager, Transportation Planning	Postal Headquarters
• Manager, Transportation Policies	Postal Headquarters
• Manager, National Mail Transportation Purchasing	Purchasing and Materials, Postal Headquarters

8 In my current position as Manager, National Mail Transportation

9 Purchasing, my group has responsibility for the purchasing and contract

management for \$4 billion worth of transportation services annually. The modes

of transportation include air, rail, highway (transport and delivery), boats, even

12 mules and wheelbarrows that are used in specialized situations.

1

**Purpose of Testimony**

2       The purpose of my testimony is to rebut several statements made in the  
3   testimony of intervenor witnesses regarding purchased transportation,  
4   particularly rail and highway transportation. In the course of my remarks, I will try  
5   to provide some additional information and perspective on the Postal Service's  
6   transportation procurement policy and procedures for which I am responsible.

1    1.    The Postal Service buys highway transportation capacity to meet  
2    weekly peak mail volumes.

3

4           Dr. Haldi for the Alliance of Nonprofit Mailers uses TRACS data to support  
5    the proposition that the Postal Service sizes trucks "for the segment with the  
6    highest average volume" (Tr. 22/11848). There are a number of considerations  
7    that go into purchasing transportation capacity, but average utilization on a  
8    segment is not one of them.

9           When the Postal Service purchases transportation capacity, it generally  
10   operates from an historical knowledge base. We know, for example, the  
11   requirements of downstream mail processing and delivery facilities. These  
12   requirements are determined by service commitments to customers. We also  
13   know how many containers of mail each downstream facility normally receives  
14   on the busiest day or night of the week. Finally, we know what plants can handle  
15   which types and sizes of highway equipment.

16           Using this historical knowledge, the Postal Service has a good idea of the  
17   times of day and days of the week for which we need maximum transportation  
18   capacity on a given route. Let me give you an example. Beginning in the  
19   evening, a BMC will begin to process mail for its service area. This intra-BMC  
20   mail is sorted to containers to be loaded onto intra-BMC highway trucks. These  
21   trucks in turn will be dispatched to local processing and distribution centers

1 (PDCs) and their large subordinate offices. Dispatch times will fall in a window of  
2 time that is determined by the downstream facilities' operating plans.

3 Dr. Merewitz, for the Florida Gift Fruit Shippers, describes postal  
4 transportation in terms of linehauls and backhauls, where the linehauls are  
5 outbound trips and the backhauls are inbound trips. (Tr. 22/11504). This is an  
6 oversimplification. Generally speaking, a contract contains pairs of trips. Each  
7 trip pair contains an outbound trip and an inbound trip<sup>1</sup>. When the BMC  
8 processes mail for its service area, it is likely, particularly on its peak weekly  
9 volume day, to dispatch vehicles full, although it is certainly possible that the last  
10 dispatch of the day will be less than full. This last scheduled dispatch, called the  
11 dispatch of value, must be met since any further delay would result in mail being  
12 unavailable to meet downstream processing and delivery schedules. The same  
13 truck is likely to return in mid-morning less than full, often carrying empty  
14 equipment.

15 In the evening, the same activity occurs, but moving in the opposite  
16 direction. (Moreover, the actual routing may not be the same as those on the  
17 early morning "outbound" trips.) Vehicles run routes that load mail at P&DCs  
18 and other subordinate facilities, and unload at the BMCs. On the inbound peak  
19 day of the week, these vehicles typically are full on arrival at the BMC. A return  
20 trip from the BMC carries smaller volumes of mail. Generally speaking, these  
21 two routings are independent of each other. That is, a large outbound load from

---

<sup>1</sup> The inbound trips do not necessarily retrace the path of the outbound runs. It should also be noted that there are numerous one way trips that are exceptions to this rule of thumb.

1 the BMC on Thursday night has little to do with a large inbound load to the BMC  
2 on Friday morning.

3 In some situations, the size of the truck itself is driven by factors other  
4 than mail volume. For instance, certain facilities cannot handle tractor trailers.  
5 Other facilities require special tailgate equipment to allow the truck to access the  
6 platform. Certain roadways restrict the maximum weight a vehicle may carry.  
7 Aside from these considerations, for any given routing, the Postal Service will  
8 buy as big a truck as we need to meet peak weekly volumes, since there is very  
9 little difference in cost between, for example, a 40-foot trailer and a 45-foot  
10 trailer.

11 For this reason, I disagree with Mr. Ball's assertion, made on behalf of  
12 the Florida Gift Fruit Shippers, that it is necessarily more efficient to add trips  
13 than to increase truck size or make other routing adjustments when additional  
14 capacity is needed. ("Peak volumes could be handled by extra trips, probably at  
15 lower total cost." Tr. 22/11381.) I do not dispute that this may be Mr. Ball's  
16 experience when purchasing transportation for his association's members, but,  
17 as I explain below, the transportation service he is buying is inherently different  
18 from the transportation the Postal Service buys. If the Postal Service were to  
19 purchase additional transportation to meet anticipated and unanticipated peaks, I  
20 am confident, based on my experience, that our transportation costs would  
21 increase. In addition, the administrative complexity of such a strategy would add  
22 cost and confusion to the procurement of this transportation, and would almost

1 certainly lead to service problems. The fact that we have less than full loads on  
2 some legs of transportation is not evidence of inefficiency. Rather, unused  
3 capacity is an inherent by-product of the provision of reliable, economical  
4 service.

5 The size of the truck selected by the Postal Service is not independent of  
6 other routing considerations, however. Truck size is dependent on service  
7 requirements (i.e., the processing window), the distance between and number of  
8 downstream facilities served, and the number of containers of mail expected to  
9 be transported.<sup>2</sup>

10 Let me give you another example. An intra-BMC trip runs between the  
11 Washington BMC, the Merrifield (VA) P&DC, and the Norfolk (VA) P&DC.  
12 Suppose the transportation needs of Norfolk increase because the Norfolk P&DC  
13 begins to receive two more containers on the peak night. In the short term, this  
14 may require an extra trip, but over time, we can re-work the routing of this truck  
15 to skip a stop at the Merrifield P&DC and divert Merrifield's mail to another  
16 contract (or another trip on the same contract). That second contract (or trip)  
17 might need a bigger truck, but the first one simply alters its mileage. Total cubic  
18 feet of truck space may be increased, but the effect on cubic foot miles is  
19 complicated, because we have reduced mileage on one route and increased  
20 cube (and perhaps also mileage) on another.

---

<sup>2</sup> A 40-foot trailer can carry a maximum of 14 BMC over-the-road (OTR) containers.

1      2.   **The Postal Service's highway contractors provide a fundamentally  
2    different service than that available in the private sector.**

3  
4       Mr. Ball (Tr. 22/11387) compares Postal Service purchased highway  
5    transportation to the transportation generally available in the private sector. As  
6    James Orlando (Docket No. R84-1, USPS-RT-6) pointed out very clearly, such  
7    comparisons fail to take into account significant differences between our  
8    operations and private sector carriers. The Postal Service requires its highway  
9    transportation contractors to provide consistent, reliable and secure service  
10   everywhere, every day.

11           Precise scheduling of postal transportation is required in order to make  
12   efficient use of postal employees who account for about 80 percent of postal  
13   operating costs. Our highway contract routes operate at all hours of the day  
14   and night, year-round. Our schedules include time-definite dispatch and arrival  
15   times. These schedules are considerably more demanding than those generally  
16   used in the motor freight industry.

17           Another characteristic of our contract transportation system that differs  
18   from the private sector is our commitment to keep mail secure. Unlike many  
19   products carried by motor freight providers, mail is not replaceable. And we  
20   must have confidence that it is kept secure at all times. For this reason, the  
21   Postal Service requires security clearances for its contractors and contract  
22   drivers.

1       The Postal Service makes extraordinary demands on our highway  
2 contractors. In return, the Postal Service includes certain provisions in its  
3 highway contracts to ensure the viability of the carriers we use. Our contracts  
4 provide competitive compensation with assurances to the contractor that a  
5 secure income will be forthcoming for the life of the contract. Included in these  
6 assurances is our standard indemnification in the event the contract is canceled.  
7 We also provide some protection against fuel and wage inflation. The resulting  
8 symbiotic relationship between the Postal Service and its highway carriers  
9 assures that we maintain the most economical, reliable and secure highway  
10 transportation available.

11  
12     **3. Highway costs adjusted for capacity have not increased faster than**  
13     **the rate of inflation. However, we have increased our highway capacity as**  
14     **a result of numerous operational programs and other events.**  
15

16       Dr. Merewitz has testified that the Postal Service highway transportation  
17 spending has increased much faster than the rate of inflation (Tr. 22/11410-  
18 11412). Similarly, Dr. Haldi notes "disproportionate" increases in the  
19 transportation cost for certain nonprofit mail (Tr. 22/11816). And Mr. Hehir notes  
20 a similar finding for Periodicals mail (Tr. 27/14712). While I cannot speak to the  
21 distribution of costs to mail classes, I can explain the overall increase in highway  
22 spending that the Postal Service has experienced.

1       On a per mile basis, I believe we have bettered inflation and I fully expect  
2       to continue to do so. Each year, the Postal Service reports its spending on  
3       regular and emergency highway contracts by state to the United States  
4       Department of Transportation. Comparing these costs to the mileage driven on  
5       these contracts, we find that our cost per mile in FY 1996 was about \$1.27. In  
6       FY 1991, this cost was about \$1.15 per mile. These numbers compare very  
7       favorably with Dr. Merewitz's non-local motor freight cost increases (Tr. 22/  
8       11410-11411), even though many Postal Service costs relate to local  
9       transportation which is relatively more expensive.

10       Cost increases above the rate of inflation are due to a variety of programs  
11      and operational changes that are difficult to separate and quantify. Here are  
12      several changes that have likely contributed to the increase.

13       A.     Increase in number of facilities.

14       As the number of postal facilities increases, the number of  
15      transportation links between these facilities must also expand. Over time, due to  
16      population flows, for example, the Postal Service adds new facilities, including  
17      carrier stations and retail and other facilities, that must be integrated into the  
18      existing transportation network. This adds to our highway costs each year.

19       B.     Changes in distribution schemes.

20       With the advent of delivery point sequencing for letter mail, we  
21      have added capacity to the surface transportation network. Thousands of

1 delivery point sequencing (DPS) machines and carrier route sequencing barcode  
2 sorters (CSBCS) have been deployed. Each machine potentially alters the  
3 location of mail processing activities for letter mail. For instance, in the case of  
4 CSBCS sorting activity, additional delivery annex facilities have been added.  
5 Regardless of the type of sorting equipment, delivery point sequencing of mail  
6 has resulted in tighter windows of service. With less time to reach downstream  
7 facilities, highway contract routes must be altered either by reducing the number  
8 of offices per trip or by adding trips. This adds to purchased capacity and costs.

9           C. HASPS.

10           The Postal Service has made an effort to divert some mail,  
11 particularly Priority Mail and First-Class Mail, to hub and spoke processing  
12 facilities (HASPS). These changes are driven by both service and cost  
13 considerations, and the transportation involved in the diversion of this mail has  
14 added capacity and costs to the surface network.

15           D. EXFC.

16           The Postal Service has made a concerted effort to improve local  
17 mail service to meet EXFC goals. These efforts have resulted in additional  
18 transportation capacity in the network, particularly at the local level.

19           E. Containerization.

20           The Postal Service has moved to increase the use of  
21 containerization of mail in transit; this containerization is an integral part of our

1 efforts to reduce labor costs and improve service. Containerization of automated  
2 flat and letter mail results in increased use of trays which make less efficient use  
3 of space in vehicles. Containerization of trays, sacks and loose mail using rolling  
4 stock, postal paks and pallets generally increases the amount of vehicle space  
5 used for a given amount of mail compared to bedloading. Both kinds of  
6 containerization tend to increase capacity requirements for the transportation  
7 network and add costs. These cost increases, however, should be more than  
8 offset by reductions in labor costs associated with loading and unloading  
9 vehicles and the overall cost savings from automated sortation.

10 F. Changes in palletization.

11 Twice in the last five years (April 1993 and January 1996) minimum  
12 pallet weights were reduced. In general, lighter pallets can increase  
13 transportation capacity requirements and costs to the extent that they cannot be  
14 stacked.

15 G. Problems with rail service.

16 Over the last few years the rail industry has undergone significant  
17 change as a result of mergers. The consolidation of merging rail networks from  
18 time to time has caused service disruptions. When this occurs, some shift in  
19 volume from rail to highway is required.

20 Each of these factors has contributed to recent changes in purchased  
21 transportation capacity as the highway network evolved and responded to

1 changes in postal operations and in the availability and reliability of rail and air  
2 transportation.

3 **4. Choice of mode is not based on "rules of thumb".**

4 Dr. Merewitz noted a "rule of thumb" that inter BMC mail traveling over  
5 400 miles is carried by rail. (Tr. 22/11619). While it is true that rail can be an  
6 economical alternative for long hauls, I cannot shed any light on this "rule". The  
7 Postal Service contracts for transportation based on service and operating  
8 requirements. In the event that economical, reliable rail service that meets our  
9 requirements is available, we will use it. We do, however, use highway for many  
10 long hauls, several over 2000 miles.

11 **5. References to a nonpreferential transportation network can give the**  
12 **misleading impression that we operate distinct surface networks.**

13

14 Dr. Merewitz (Tr. 22/11411) makes reference to the "nonpreferential  
15 highway transportation system". This historical notion is an oversimplification.  
16 Transportation capacity on inter- and intra- BMC runs often is used for  
17 "preferential mail" not processed at BMCs. This may result from picking up or  
18 loading mail at P&DCs (or other postal facilities) en route or from facilities co-  
19 located with BMCs<sup>3</sup>. The blurring of historic notions is evidence of the flexibility  
20 of our transportation system.

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<sup>3</sup> The Washington BMC is co-located with two facilities, the Southern Maryland P&DC and the Capital Beltway Facility. The latter primarily processes Priority and Periodicals. The Springfield (MA) BMC is co-located with the Springfield P&DC.

1 CHAIRMAN GLEIMAN: Three participants have  
2 requested oral cross examination of Witness Young, the  
3 Alliance of Non-Profit Mailers, Florida Gift Fruit Shippers  
4 and McGraw-Hill Companies, Inc. Alliance of Non-Profit  
5 Mailers apparently has taken a pass, so Mr. Wells, you may  
6 begin on behalf of Florida Gift Fruit Shippers when you are  
7 ready.

8 MR. WELLS: Thank you, Mr. Chairman.

9 CROSS EXAMINATION

10 BY MR. WELLS:

11 Q Mr. Young, turn, if you will, to page four of your  
12 testimony, at lines five through eight, on line eight and on  
13 page six, line eight, you refer to peak weekly volume day.  
14 How is that peak volume determined?

15 A In the experience of the Postal Service, peak  
16 volumes are determined by mail flow patterns or during a  
17 given week, and typically what happens is as it indicates  
18 here, those peak days are toward the end of the week,  
19 typically Wednesday, Thursday and Friday.

20 Q Is this the peak day of the year?

21 A Peak day of the week.

22 Q Of the week?

23 A Yes, which are typically peak days each week every  
24 year.

25 Q The volume of mail is seasonal, is it not?

1       A     To some degree, it is seasonable. As an example,  
2     you typically will get more mail obviously during the months  
3     of November and December than any other time of the year.  
4     It usually slacks off some during the Summer.

5       Q     Is the peak weekly volume determined in the  
6     summertime or November or December?

7       A     November and December are unique months for the  
8     Postal Service as far as peak is concerned. Typically, what  
9     will happen is we will increase our transportation capacity,  
10    both air and surface, by in excess of 30 percent during the  
11    months of November and December, in order to handle the  
12    Christmas mail volumes that are typically there.

13              Historically, in the movement of mail, as far as  
14    transportation is concerned, you always are going to get --  
15    during a week, your volumes will peak out on the Wednesday,  
16    Thursday, Friday time window.

17       Q     Is there a time of year when this peak volume is  
18    determined?

19       A     Not a specific time of the year, in my experience.  
20    You don't take one accounting period, if that's what you are  
21    asking me, and let me just paraphrase it to be sure I  
22    understand.

23              You don't take one or two accounting periods of  
24    the year and say okay, this is the peak days, if you will,  
25    for the entire year, but as you look and gain experience, as

1       this testimony here indicates, over time, with the flow of  
2       mail, what you will find is that whether it's Summer or  
3       Winter or Spring or Fall, that typically what happens is  
4       that you will have an increase in volume during a given week  
5       and that will peak out somewhere in the neighborhood of  
6       Friday afternoon as far as BMC's and SCF's are concerned.

7           Q     So that when you enter into contracts for surface  
8       transportation, you are buying a size of a truck designed to  
9       handle the peak volume other than in November and December?

10          A     Yes, the truck is not really based -- we buy  
11       typically tractor-trailer trucks, as you probably know, to  
12       transport mail, and we buy those same trucks for the month  
13       of December, November/December, but we buy more of them.

14               To answer your question, if I understand it  
15       correctly, we buy or lease or put contracts together for  
16       trucks based on those peak volume days of the week.

17          Q     In your contract, it provides that same vehicle  
18       will be used year round?

19          A     Yes, it does. Might I add, that makes good  
20       business sense to us.

21          Q     Then you contract for additional trips in November  
22       and December?

23          A     Yes.

24          Q     Do you determine peak volume to be volume of mail  
25       or volume of containers regardless of mail volume?

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1           A     To be based on volumes of mail that are moving  
2     through the system.

3                 In listening to some of the discussions earlier, I  
4     heard you talk about containers versus mail. Just to give  
5     you an example of what drives this, using the Washington BMC  
6     as an example, they have there about 280 container runouts  
7     to serve the Washington Bulk Mail Center intra-BMC network.  
8     And based on historical experiences in mail volumes over  
9     time, you will assign so many of those containers to  
10   Norfolk, Virginia, to Richmond, Virginia, to Farmville,  
11   Virginia, or Petersburg, Virginia, as the case might be.

12               And what you know will happen is that you'll maybe  
13   run 50 containers a day going to Richmond. That typically  
14   will happen day in and day out. And the majority of them  
15   will in fact have a good load of mail in them. But what  
16   will also happen during the months of November and December,  
17   when the Christmas volumes begin to come in, is that that  
18   number may go up by 30 or 40 percent to each one of those  
19   destinations. And it makes good sense from our perspective  
20   then to put some additional trucks in there to carry those  
21   additional volumes during that period of time, and that's  
22   typically how we move the excess volumes during the year.

23           Q     But those are relatively short-term temporary  
24   contracts to handle the extraordinary mail.

25           A     Well, in reality what happens is that the

1 contractor that we have year-round contracts with, these are  
2 long-term business partnerships in our view, and typically  
3 what happens is we'll make a modification to those contracts  
4 at Christmastime. To the extent that that contractor can  
5 take on the additional business and add a truck or two or  
6 three, whatever's appropriate, to an existing contract,  
7 that's what typically happens.

8 Q Can you identify the difference between the peak  
9 volume and the average volume?

10 A I really don't deal a lot in average volumes. I  
11 deal with the mail as we typically know it's going to flow.  
12 And when there's a drop in volume. Let's just maybe go to  
13 that issue just a bit.

14 As I mentioned to you initially, in my experience  
15 the Postal Service is going to peak out on a BMC --  
16 intra-BMC route, the volume is going to peak toward  
17 Wednesday, Thursday, Friday. Now what will happen on a  
18 Saturday, Sunday, and Monday is that yes, we'll have the  
19 same type of truck assigned to that contract, but we will  
20 cut back on the number of trips that will actually operate  
21 on Saturday, Sunday, and Monday, and that's the way in which  
22 we're able to address those peak days and at the same time  
23 be able to not just run transportation for the sake of  
24 running it if you will on Saturday, Sunday, when we're not  
25 going to have the volumes that were available on Wednesday,

1 Thursday, and Friday. That's how we address that  
2 fluctuation in volume, if that's what you're getting to.

3 Q On lower volume days you reduce the number of  
4 trips.

5 A That's correct.

6 Q If there is a situation where there is but a  
7 single trip out from the BMC to various routes, you can't do  
8 that, though, can you?

9 A If that situation were to exist, but as I  
10 visualize the BMCs that I have worked with, we typically  
11 don't have coming out of a BMC a single trip to a facility,  
12 because in reality what happens is you're running  
13 transportation not to very, very small places out of a BMC,  
14 but to SCF-type facilities, and making some intermediate  
15 stops at these small facilities. And so almost in all  
16 cases, and really I can't think of an example, any case  
17 where there's just one trip from a BMC to one of its intra  
18 facilities within a 24-hour period -- just as an example,  
19 there may be 40 trips a day running from the Washington Bulk  
20 Mail Center to Baltimore, an additional 40 trips to the MSC  
21 Northern Virginia, Merrifield, I heard you all talking  
22 about, 25-30 trips running to Norfolk, Virginia, with some  
23 intermediate stops in places like Farmville and Richmond and  
24 so forth.

25 Q On your page 4, lines 9 through 15, you enumerate

1 the factors that you consider in purchasing transportation.

2 A Yes.

3 Q And service commitments, number of containers, on  
4 the busiest day of the week, and the downstream facility  
5 ability.

6 How do changes in mail volume impact the contracts  
7 for highway transportation?

8 A It doesn't necessarily have an immediate impact.  
9 It's not a system that will respond to a change in mail  
10 volume, a downward change especially within one day or some,  
11 but typically what will happen is this.

12 As an example, if we have a trip running from the  
13 Washington Bulk Mail Center to Norfolk, Virginia, we have  
14 the ability to have it stop in places such as Williamsburg  
15 and other down-line offices and if we as an example have a  
16 half a load that is going to Norfolk and we have maybe three  
17 or four containers going to Williamsburg or some other  
18 facility that is on that line of travel, we have the ability  
19 and we do that quite frequently as a matter of fact, to have  
20 that truck made intermediate stops and call those folks at  
21 those offices and say, hey, this truck doesn't normally stop  
22 at your place but it's going to stop there today -- in order  
23 to utilize the space as well as get the mail down-line to  
24 the customers in a timely way.

25 Now, you know, back to the point here that you

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1 were making about commitment to customers and it kind of  
2 goes really back to the discussion you were having earlier.

3                 Our customers expect the postman to come by with  
4 their mail at a certain time of the day and the idea is that  
5 in order for the mailman to get to these individuals' homes  
6 at generally the same time every day, he or she has got to  
7 leave his office and go out and deliver mail.

8                 Now if you take that time and you back out the  
9 transportation time, the local processing time, the  
10 processing time at the BMC, the transportation time from the  
11 other facility to the BMC, it gives you a window for moving  
12 mail and getting it down to the facilities where it is going  
13 to be delivered.

14                 You were talking earlier about schedules and so  
15 forth, but really ultimately what drives schedules and  
16 dispatches and pull-down times is in fact the commitments  
17 that have been made to the customers in terms of when we  
18 will get their mail to them. Either it's an overnight  
19 product or a two-day product, three-day or one or the other  
20 product services that we offer, so those things are in fact  
21 what drive all of those schedules that you were referring to  
22 earlier.

23                 Q      In intra-BMC, and if we can if can limit your  
24 responses to transportation involving intra-BMC  
25 transportation, to what extent are tractor-trailers not

1 used?

2 A In intra-BMC?

3 Q Yes.

4 A They are used extensively in intra-BMC  
5 transportation.

6 Q And there are very few vehicles other than  
7 tractor-trailers that are used for intra-BMC transportation,  
8 is that right?

9 A Yes, that's true for two business reasons.

10 One is that intra-BMC transportation either is  
11 long-haul transportation typically, or it is very high  
12 volume transportation.

13 As an example, as I mentioned a minute ago, we may  
14 have 30, 40 tractor-trailer trips a day running between the  
15 Washington BMC and Baltimore, but there is volume there to  
16 justify doing that.

17 There may be 30 or 40 trips a day running over to  
18 Merrifield, Virginia from the Washington BMC and the volumes  
19 justify doing that.

20 In the longer haul, both in the Postal Service and  
21 in the private sector, you don't typically run straight  
22 trucks, if that is what you are going to, long distances,  
23 and there are a lot of operational as well as financial and  
24 business reasons for running straight trucks on short-haul  
25 operations and tractor-trailers on the longer-haul

1 operations. They are built for it and maybe as you go down  
2 95 in a long trip typically what you will see out there is  
3 tractor-trailers and there are operational and business  
4 reasons that tractor-trailers are using those long-hauls and  
5 use straight trucks as most provide private sector companies  
6 do for the local short-term deliveries.

7 Q You listed as one of the factors the downstream  
8 facility ability to handle type and size of highway  
9 equipment.

10 To what extent are downstream facilities served by  
11 the intra-BMC transportation not able to handle  
12 tractor-trailers?

13 A Some of the towns that we go into on our intra  
14 transportation even though ultimately those trips end up at  
15 typically large facilities, they do serve some smaller  
16 offices en route in a number of different instances.

17 Two issues you run into. One is that some of  
18 those facilities in these small towns, and we are providing  
19 the universal service and we have to hit them all, they have  
20 turn-around yards and so forth. They cannot accommodate  
21 45-foot and 53-foot trailers and therefore we have to use a  
22 40-footer in there.

23 Also in addition to that, many of these buildings  
24 were built many years ago and they have low docks that don't  
25 really match up to the truck that is coming in, and the

1 issue that we were talking about earlier in terms of the  
2 equipment that is put on the truck, you have to not load  
3 those containers to the maximum that they can be loaded,  
4 because you have got 3 o'clock in the morning one person  
5 down there who is trying to get these containers off a truck  
6 at a dock that is not level to his truck, and we have had  
7 experiences with contract employees as well as our own  
8 employees who have injured themselves in those cases.

9           So two things in terms of equipment that really  
10 drive the type truck that you are going to send down  
11 down-line on intra-BMC, one is the ability of the facility's  
12 yard and dock to handle the truck that is coming in, and the  
13 ability of the employee, the driver, who typically is the  
14 only individual out there at two or three o'clock in the  
15 morning to get those containers off that truck and on the  
16 dock and put them in the post office waiting on the folks to  
17 come in about four o'clock and start sorting that mail.

18           So those are the two equipment considerations that  
19 have to be taken into account in placing the type of  
20 equipment on the intra-BMC trucks.

21       Q      The number of transportation trips to that  
22 restrictive type of facility is relatively small, is it not?

23       A      On the intra service I would say that it is  
24 relatively small.

25       Q      In intra-BMC, have the number of routes and the

1 movements changed very much in the last five years?

2 A When you say change, what do you mean?

3 Q Well, I mean have you increased the number of  
4 trips or --

5 A I would think that they probably have. They have  
6 increased in the last three, four or five years.

7 Q What about the scheduled routes? Have they  
8 changed significantly?

9 A And when -- you mean in terms of the number of  
10 trips or something of this kind, is that what you mean?

11 Q Yes.

12 A Yes, I think they have changed. I wouldn't say  
13 significantly -- in some instances, and I would say they  
14 have changed significantly in some others, and by that I  
15 mean this.

16 A route running from the Washington Bulk Mail  
17 Center to Farmville, Virginia, it ran three trips, two trips  
18 five years ago, 10 years ago and it is still running two or  
19 three trips down there a day, but a route running from  
20 Baltimore to the Washington BMC in a large metropolitan area  
21 such as this, that is an intra route, an intra route from  
22 the Washington BMC to Merrifield, Virginia, that's an intra  
23 route -- yes, those are changed very dramatically over the  
24 time.

25 The reason is this. You have got an area where

1 more and more people are moving in. The volume goes up.  
2 The need for service goes up. New Communities come in and  
3 the old ones have to be served so for those kinds of reasons  
4 in these large metropolitan areas there's been probably a  
5 significant change but there are also examples, as I just  
6 mentioned, to the Farmvilles and the Petersburg, Virginias  
7 where there has not been significant change.

8 Q The two instances that you mentioned,  
9 Washington-Baltimore and Washington-Merrifield, to what extent  
10 are they also impacted by the addition of preferential mail  
11 being carried on the intra-BMC transportation system?

12 A I have never really looked at that issue as far as  
13 intra moving on the Baltimore to Washington BMC or  
14 Washington BMC to Merrifield, but I can say this to you.

15 Typically those are BMC routes for the most part,  
16 when they are running a short distance that way, and  
17 typically you run them from a BMC with BMC type mail on them  
18 for those short routes.

19 There are some other routes that maybe run from  
20 inter-BMC routes that will run from Washington to St. Louis  
21 or some other city that will have some type of preferential  
22 mail on them, and we do that in order to utilize the  
23 capacity of the truck as much as possible.

24 Q What about trips, for example, out of the  
25 Jacksonville BMC which would serve Lake City and

1       Tallahassee?

2           A     I don't think -- they would not be there to serve  
3     Lake City and Tallahassee. We have a route that runs from  
4     the Washington Bulk Mail Center to Jacksonville Bulk Mail  
5     Center, and I haven't checked that route recently, but what  
6     could happen and does happen on some of those BMC routes,  
7     once again, in order to move mail and utilize the space,  
8     there might be some mail other than bulk mail that gets on  
9     what we call tailgating a truck. Maybe we will save ten  
10   percent at the end of the truck leaving the Jacksonville BMC  
11   and it might pick up some mail coming north and make a stop  
12   at Merrifield to drop it off and then come on into the  
13   Washington BMC.

14           The same could be true in the reverse, from  
15     Washington down to Jacksonville, but now I can give you an  
16     example that I'm familiar with. We have a route that's been  
17     running for some time from the Washington BMC, stops in  
18     Northern Virginia, stops in Baltimore, and then it goes to  
19     St. Louis, Missouri, and the reverse is true. We save  
20     typically about 10 to 15 percent of tailgated space, and  
21     make a call before the trip leaves and they tell us that  
22     Merrifield will save us ten percent of that truck today,  
23     they have some mail they want to put on there.

24           We do have those kinds of situations that develop  
25     where there is a little bit of a mix, but typically

1 speaking, especially in the short haul high volume areas,  
2 Baltimore, Washington, Washington/Merrifield, what you are  
3 going to get is BMC traffic on those trucks.

4 Q That's the reason I cited an example of the  
5 Jacksonville BMC to Lake City, which is an SCF and a smaller  
6 facility and Tallahassee, which is an SCF. Isn't it typical  
7 that preferential mail would be tailgated on the intra-BMC  
8 truck for those points?

9 A When you use the word "typical," I would say that  
10 90 percent or better of the mail traveling on BMC trips is  
11 in fact BMC type mail and not preferential mail, a high  
12 percentage of it is. What might very well happen, just as I  
13 mentioned to you a minute ago, you might have some product  
14 coming out of Florida, if you will, that you want to get up  
15 to Merrifield, and they will load it on the end of the  
16 truck, tailgate it on the end of the truck. That's  
17 typically what happens in my experience.

18 Q Have you actually had the use of intra-BMC for  
19 preferential mail increase to the point where it is now in  
20 excess of six percent?

21 A I'm not in a position to verify that, to confirm  
22 that number.

23 Q On page five, line seven, and referring to the  
24 footnote, to what extent does the path and routing of the  
25 inbound trip not trace the path and routing of the outbound

1 trip?

2 A Page five, line six, you said?

3 Q It refers to line seven and footnote one.

4 A Yes, to give you an exact percentage or number,  
5 I'm not able to do that, but I can tell you what happens in  
6 actual practice. As we mentioned before, you may very well  
7 have a trip that goes from Washington to Merrifield and  
8 Northern Virginia on an outbound from the Washington Bulk  
9 Mail Center, and you very well can have the return trip that  
10 will come back and even maybe stop in Williamsburg or  
11 Richmond, Virginia because these people communicate with  
12 each other and they know that they either have mail or  
13 something there that needs to be picked up and brought back  
14 to the BMC.

15 Typically, you can get mail on occasions at these  
16 facilities that are not part of the regular scheduled  
17 return, and you will detour and pick those up and bring it  
18 on back to the bulk mail center.

19 Q Do you agree that the inbound trip, the return  
20 trip to the BMC, will stop at the same places that the  
21 outbound trips stopped at and perhaps some additional stops?

22 A It could or in many cases, especially if you are  
23 going out, let's say the last trips of value, as we talk  
24 about in here, early in the morning, and you have to return  
25 that truck and re-position for the evening's activity,

1 sometimes what we happen is it won't stop at any of those  
2 offices on the way back. It will come straight back to the  
3 bulk mail center, knowing there is not mail or equipment at  
4 any of those places to be picked up.

5 It can in fact run, as you said, but also it can  
6 come straight back to the bulk mail center on the return as  
7 well, depending on what time of day it is, what the volumes  
8 are and so forth.

9 Q Isn't it generally true that the inbound truck  
10 will stop at the same places that the outbound truck would?

11 A If I had to give you a definitive answer, I would  
12 say this to you; if we are running a trip 2:00 or 3:00 in  
13 the morning out of a bulk mail center and it's going down to  
14 Norfolk, it's going to get down there -- if it leaves at  
15 3:00, it's about three or four hours to get down there,  
16 about three hours to get down there, three, four five, he's  
17 going to come straight back to the bulk mail center, if I  
18 had to give you an answer.

19 Once again, it does both. Sometimes the trip goes  
20 out and it will re-trace the outbound trip and on other  
21 occasions, it will come straight back to the bulk mail  
22 center and in still other occasions, it will make some stops  
23 that were not outbound or planned to be part of the inbound  
24 trip.

25 Q Again in your testimony you use the term "full."

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1       What do you mean when you say the vehicle is full?

2           A     Can you tell me what line you're on so I can --

3           Q     Well, in line 9 you use the term "full," in line  
4     10, line 19.

5           A     Okay. Hold on one second. I'm just going to read  
6     this for a second.

7                   The full that's mentioned there on line 9, in that  
8     case when I'm using the term "full," I mean that it is full  
9     of typically containers that are full of mail. That's what  
10   I mean on line 9.

11          Q     You mean is the truck full of containers, or are  
12   the containers full of mail?

13          A     I mean that it's full of containers that are full  
14   of mail. And by that I mean this, if you look at what I'm  
15   saying here, it says on the peak weekly days, right? And at  
16   the peak time of the weekly days, what I'm referring to  
17   here, typically as those 280 runouts that we have at the  
18   Washington BMC, you pull them when they're full, and you  
19   stage those containers by the outbound dock, and as these  
20   trucks become available, you push them on there and they go.  
21   And they're full for the most part, on that particular line  
22   10 reference anyway. And by that I mean full containers on  
23   trucks that have 14 containers on them typically is what a  
24   40-foot truck will take. That's what I mean by that.

25          Q     Well, what about on Monday?

1           A    What --

2           Q    Would the truck be full?

3           A    From which direction?

4           Q    Out.

5           A    Outbound from the BMC?

6           Q    Yes.

7           A    It depends on what time you run it. No. 1,  
8 remember what we said earlier. We should not be running,  
9 we're not running, a whole lot of trips on Monday morning  
10 out of the BMC, and the reason is that there were no  
11 collections and very little processing on Sunday, and  
12 therefore the mail's not available to load those trucks. So  
13 the trips are cut back significantly.

14          Q    Why don't you use Tuesday instead of Monday then.

15          A    Okay. Tuesday at what time of the day, going out  
16 early in the morning --

17          Q    Whenever your intra-BMC moves.

18          A    Yes. Tuesday morning they should be pretty close  
19 to full, and I'll tell you the reason I'm saying that.  
20 Starting on Monday what happens is you get your inter-BMC  
21 traffic that comes in from the rail yards and by highway on  
22 Sunday night and Monday morning, and as you start to process  
23 that inter-BMC traffic, it's destinating in your  
24 intra-service area, and therefore as we get into Monday  
25 night and Tuesday morning, the question you're asking, those

1       trucks load up, and they should go out fairly well full come  
2       Tuesday morning. That's in the 12 o'clock to the four or  
3       five o'clock Tuesday morning range.

4           Q     The trailer is full of containers.

5           A     That are full of mail.

6           Q     But the volume of mail is reduced; is that not  
7       correct?

8           A     I would say it is not as much as it will be on  
9       Friday morning and Thursday morning, but they're fairly full  
10      even on Tuesday morning. Now where you're going to get your  
11      dropoff is on Tuesday night and Wednesday, and the reason  
12      for that is once again that you've run through your inter  
13      traffic, which is your large volume of mail that's going to  
14      destinate in this BMC service area.

15          Q     When you say the vehicle is full, are you speaking  
16      of the cube of the vehicle?

17          A     Speaking of full containers that fill up the cube  
18      of the vehicle to within two feet of the top. The  
19      discussion you were having earlier, the truck's about, what  
20      is it, 8 foot 3? And a container is about 6 foot -- about 6  
21      foot tall. And so you've got about two feet of space up top  
22      there that's unusable for all practical purposes.

23          Q     When you say full, are you talking about floor  
24      space of the vehicle?

25          A     I'm talking about full containers covering the

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1       entire floor with 14 containers in a 40-foot truck that on  
2       most days are going to be fairly full.

3           Q     How do you account for bed-loaded mail?

4           A     When you say "account for," what do you mean?

5           Q     Well, I mean, how high is it stacked?

6           A     Typically we don't move a lot of mail in the intra  
7       service area using bed load -- the conversation you were  
8       having earlier. And there are some reasons for that.

9                          No. 1, our customers prefer the use of containers,  
10      as a matter of fact. We supply mailers, fruit shippers,  
11      others, mailers, with containers, just like they request  
12      them, and the reason they want them is, they want to be able  
13      to reduce their labor cost in their facilities and move  
14      product out fast. They don't want it stacked on top of each  
15      other and get it damaged. They want it in containers so  
16      it's protected.

17                          Or, another technique that we're using that John  
18      mentioned is this idea of shrink-wrapping on a pallet. It  
19      gives you the ability to move a lot of pieces of whatever it  
20      is, mail or boxes, whatever it might be, in a short period  
21      of time, which reduces cost to our customers, reduces cost  
22      to the Postal Service.

23                          And in reality when we talk about transportation  
24      cost and this excess capacity issue that we keep going back  
25      and forth to, the reality is that if I buy a tractor-trailer

1       in a competitive market and I buy a straight truck in a  
2       competitive market, the difference in cost is marginal, is a  
3       marginal difference in the cost between a straight truck in  
4       the same type of operation as a tractor-trailer. If I'm  
5       running a tractor-trailer here in the metropolitan area, the  
6       difference in cost is going to be in what I pay the employee  
7       and a little bit of a difference in the amount of fuel that  
8       one truck will use versus the other.

9                  When you think about the cost of transportation,  
10      it's driven basically by four things: the cost of the  
11      people running the trucks, that is, their wages, fringe  
12      benefits, and those types of things, the cost of the fuel in  
13      the truck, and the cost of other benefits that have to be  
14      taken care of a part of the contract. The equipment and  
15      resulting with the space is not going to be a big driver one  
16      way or the other as far as actual contract pricing is  
17      concerned.

18           Q     But there is a higher contracting price per mile  
19      cost for a 45 foot trailer than there is for a 40 foot  
20      trailer, isn't it?

21           A     It depends on where you are using it.

22           Q     On the same route.

23           A     No, not in our business, no; not a marginal  
24      difference.

25           Q     You are saying there is no difference. Is there

1 any difference between a 40 foot trailer and a straight  
2 truck?

3 A Not a significant difference in the price at which  
4 we are able to buy it.

5 Q Is there any difference?

6 A There's a marginal difference.

7 Q Is there any difference between a 45 foot trailer  
8 and a 40 foot trailer?

9 A Not in terms of the price at which I'm able to buy  
10 it.

11 Q You mean you can contract for a 45 foot trailer at  
12 the same unit price as a 40 foot trailer?

13 A Or cheaper. It's a competitive market, and in my  
14 experience, I can buy one just as cheap as the other.

15 Q On line 18, you refer to the inbound trip being  
16 full. Is it full because of the need to return containers  
17 from the downstream facilities to the BMC?

18 A No, it's really because of where mail flows; maybe  
19 to explain a little bit. What people typically do, as you  
20 get near the Wednesday, Thursday, Friday of the week, they  
21 get paid or they otherwise do business that's going to  
22 generate mail, and they mail it, give it to the postman,  
23 take it to the post office, whatever the case may be, in the  
24 afternoon. That mail gets into the local postal facility,  
25 using Norfolk or Richmond as an example, and it gets

1 processed and gets ready to go to the BMC.

2               Typically what happens is Norfolk or Richmond or  
3 some of those other towns down in Virginia or Baltimore,  
4 they have a clearance time by which all the mail they are  
5 sending to the Washington Bulk Mail Center has to be ready.

6               They load those trucks in the late afternoon,  
7 early evening, typically once again, full of mail, because  
8 that's the way mail flows. People mail it in the day time,  
9 in the afternoon, it gets into the local post office, it's  
10 processed to some degree there, and if it's bulk mail, it's  
11 going to the BMC. If it's first class or some other  
12 product, priority mail, it's going to the SCF and being  
13 processed there.

14               In using the term "full" here, I'm making  
15 reference to the fact that mail flows out of origin places  
16 in the late afternoon, early evening, as you get on into the  
17 night, and typically by 8:00 at night, most of those trips  
18 coming from those places to the BMC are gone.

19               I haven't checked it lately but the Washington  
20 BMC, when I was there anyway, had a cutoff time. If you  
21 wanted that mail processed and turned around, I think it was  
22 2200, last time I was working out there personally.

23               What I'm referring to here and the reason I say  
24 these trucks arrive most times with full containers, full  
25 trucks, is in that early evening as a result of mail coming

1 out of the Norfolk and Richmond area.

2 Q Is it your testimony that the volume of mail  
3 outbound from the BMC is no greater than the volume of mail  
4 inbound to the BMC?

5 A I don't know the answer to that question.

6 Q You don't know that?

7 A No.

8 Q Would it surprise you to know that the volume of  
9 mail outbound from the BMC is much greater than the inbound  
10 volume?

11 A The volume of mail outbound is greater than the  
12 volume of the mail inbound? I wouldn't -- I can't be  
13 surprised or not be surprised because I haven't looked at  
14 those numbers lately.

15 Q Do you know there is a lot of drop shipping,  
16 destination BMC drop shipping?

17 A Yes, I'm familiar with that.

18 Q Does that increase the outbound intra-BMC  
19 movement?

20 A If you are saying that mailers are bringing mail  
21 to the BMC and inserting it into the system at that point  
22 rather than inserting it at the origin BMC, I would think  
23 that would have some impact on the intra-outbound service  
24 from the BMC, but I have not been involved in that as of  
25 late and don't know what the impact is.

1           Q     But you believe that the volume of mail inbound  
2 and outbound are virtually the same?

3           A     No, I didn't say I believed that. What I said was  
4 that in using the term "full" here on line 19 on page five,  
5 I was making reference to the fact that trips coming out of  
6 these origin cities into a BMC and an intra-BMC network, are  
7 typically full in the afternoon/early evening, and that's  
8 because folks in those places are mailing things that are  
9 going into the BMC network. That's what I said. I did not  
10 say that I thought the volumes were equal in both  
11 directions, because I'm not familiar with that right now.

12          Q     Each container that leaves the BMC leaves via an  
13 intra-BMC transportation vehicle; is that correct?

14          A     With some exceptions. As an example, running from  
15 Washington BMC to Philadelphia, we use some containerized  
16 movements in that corridor and the reason being it's a short  
17 haul, 157 miles, and the fact that you are able to get those  
18 loads off, because you have pallets that run in that  
19 network, so in those cases, which are exceptions typically,  
20 we would have some container movements on some of those  
21 short haul inter-BMC runs.

22          Q     On every container that moves outbound from the  
23 BMC using intra-BMC transportation, is that container  
24 returned to the BMC using intra-BMC transportation?

25          A     Typically, it comes back on intra-BMC

1 transportation, but what will happen in some instances is  
2 that you may put a temporary contract -- sometimes you get  
3 imbalances of containers and you may have to run something  
4 temporarily to get those containers back in position.

5 Sometimes, you do. It's a rare exception to the rule, but  
6 typically they come back together.

7 Q You keep referring to the high volume movement  
8 between the Washington BMC and Baltimore. Let's go down to  
9 Florida and go from the Jacksonville BMC to Lake City to  
10 Tallahassee, neither of which is high volume.

11 Are there any circumstances in which a BMC  
12 container would move to Lake City other than by intra-BMC  
13 transportation?

14 A I hadn't really worked Lake City so I can't really  
15 say -- use the term "any" or "all" in that case. I can  
16 really give you some examples as it relates to Washington,  
17 Philadelphia, New York, Chicago. I've been to those places  
18 and worked at them for periods of time. Those are the  
19 places I can talk to you about in specifics.

20 If we needed to talk about Jacksonville or Lake  
21 City, I have some people who can get that information for me  
22 in short order.

23 Q Similarly, between Atlanta, Georgia and Macon,  
24 Georgia, the outbound movement is by intra-BMC  
25 transportation, isn't it?

1           A     It would seem reasonable to me that it would be,  
2     but once again, I can get the information if you need it.

3           Q     You just don't know?

4           A     I don't know firsthand as I know Washington  
5     firsthand, but Macon should be an intra-facility associated  
6     with the Atlanta BMC, as we typically structure things, but  
7     I don't know for certainty, but I have an individual, Dan  
8     Starnes, in Atlanta, who can tell me whatever you might need  
9     to know about it.

10          Q     Assume that Macon is a facility served by the  
11     Atlanta BMC. Is there any way for a BMC OTR container  
12     transporting intra-BMC mail to get from Atlanta to Macon  
13     other than on intra-BMC transportation?

14          A     Can I think of any scenario that's reasonable?  
15     Yes, I can, if that's what your question is. As I mentioned  
16     to you before, we may have a trip, and I can use Washington  
17     again as an example, and you can apply this to Atlanta or  
18     Jacksonville, we may have an intra-BMC trip leaving the  
19     Washington Bulk Mail Center going to St. Louis, Missouri,  
20     and he tells me to save him 20 percent of the truck.

21           What I will do, I'm not going to let that 20  
22     percent go over to Merrifield, in this case, empty. I'm  
23     going to put four containers on the end of it going to  
24     Merrifield and he will take them off, and then he will load  
25     his St. Louis mail on there and keep on going.

1           Theoretically, I don't have a life experience  
2        answer for your Jacksonville/Lakeland, or your Atlanta/Macon  
3        question, but theoretically, that same thing could in fact  
4        happen in Jacksonville or in Atlanta, if you follow what I'm  
5        saying.

6           Q     But you don't know that it does happen?

7           A     And I don't know that it doesn't.

8           Q     In the footnote you refer to their numerous  
9        one-way trips. Can you quantify that?

10          A     Where are you now again?

11          Q     I am on page 5 in the footnote.

12          A     Let me go back and find out where my note is.

13                 It ties back to line 7 I believe it is.

14          Q     The footnote is mentioned on line 7, that's  
15        correct.

16          A     And that ties back to the comments -- let me just  
17        read this one second. I'll be with you in just one second.

18                 Okay. Yes, that's a reference back to testimony  
19        that had been given about line hauls and backhauls, and what  
20        I was attempting to get to there, that yes, postal  
21        transportation on the intra-BMC network -- any one of our  
22        networks -- typically has pairs of trips, one going out and  
23        one coming back, but they are not necessarily related to  
24        each other.

25                 Each one has a mission within itself as it relates

1 to moving the mail either when the volumes are going out of  
2 the BMC or as we talked about early afternoon or evening  
3 when they are coming back into the BMC, and that is what  
4 that reference is intended to indicate.

5 Q And my question relates to your citation of  
6 "numerous one-way trips" and I asked you if you can quantify  
7 "numerous" one-way trips.

8 A No, I don't have a number that I can attach to  
9 that.

10 Q It's a very low number though, isn't it?

11 A I haven't looked at it and i wouldn't want to  
12 comment but I can take a look and give you some information  
13 if you need it.

14 Q If there is a one-way trip out from the BMC, it is  
15 carrying OTR containers, isn't it?

16 A Typically most trips going out from the BMC carry  
17 OTR containers so that is probably a valid assumption on  
18 your part.

19 Q And if you take containers out, those containers  
20 have to get back to the BMC, don't they?

21 A They would have to get back to the BMC.

22 Q So every time there is a one-way trip, there's  
23 another one-way trip to get the containers back, is that  
24 right?

25 A Not necessarily.

1           Q     If they all go out full and they all come back  
2     full, and you have got one one-way trip delivering OTR, how  
3     do the OTR containers get back from a one-way trip?

4           A     What can happen and does happen is that -- two  
5     things. As I mentioned to you earlier, we sometimes will  
6     put a supplemental piece of transportation to move some  
7     containers.

8                 Another thing that will happen -- if I have got a  
9     backlog of containers in Richmond, Virginia, as an example,  
10    I have transportation that runs to Richmond. I have  
11    transportation that runs to Farmville and runs to Petersburg  
12    and I will say to my Farmville guy, stop by Richmond tonight  
13    and pick me up five containers -- stop by Petersburg and  
14    tell the Petersburg trip to come by Richmond and pick up  
15    five more, and so we get them out of there by a number of  
16    different means and just because I send some down does not  
17    mean that I have to run a one-way trip back to get them back  
18    into the BMC because you have a network out there, and even  
19    in a push if I needed to and we have on occasions, we'd have  
20    the Norfolk people come by and pick up some of them.

21          Q     What is the reason for a typical one-way trip?

22          A     On intra?

23          Q     Intra-BMC -- reason for a one-way trip.

24          A     If I get 2000 boxes of something at the BMC all of  
25     a sudden, which happens sometimes, that need to get to

1       Norfolk, I've got nothing coming back, I will get Thompson  
2       Brothers to run a load down there and they won't necessarily  
3       have to come back.

4           Q     That is a special run.

5           A     Oh, sure, yes. I don't normally run one-way trips  
6       in the sense of a contractual one-way trip, but as I  
7       mentioned before and as it says here, each trip it typically  
8       has a return trip, but each one has a driver that made it go  
9       for a business reason.

10          Q     Are these one-way trips used to handle peak  
11       volume?

12          A     Not in the sense of peak days of the week, but in  
13       the sense that I just mentioned to you.

14           If I get 2000 boxes of something that needs to get  
15       to Norfolk, a special shipment, and I may need to call  
16       Thompsons right in the middle of the day or whenever, and  
17       there is nothing coming back from Norfolk at 11 o'clock in  
18       the morning period, and I'll send them down there to get  
19       those things down there because two things are going to  
20       happen.

21           You know, if there's some kind of perishable  
22       product what will happen is the people want them delivered  
23       that next day and if I send them down there on the scheduled  
24       trip at 3 o'clock tomorrow morning, they will not get them  
25       processed and they will sit in the post office there in

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1 Norfolk for another 24 hours and then we get complaints from  
2 our customers, both the people we are delivering to and the  
3 one we are delivering for, so in a situation like that is  
4 one where I can think of that we might do something like  
5 that, and it has in fact happened before that we have made  
6 those special one-way moves on occasions for some special  
7 requirement that way -- typically unexpected, but having  
8 nothing to do with Wednesday, Thursday and Friday of the  
9 week.

10 Q An inbound return trip to the BMC would typically  
11 carry the same number of containers as the outbound trip,  
12 wouldn't it?

13 A We try to do that, yes.

14 Q On page six, line six, you refer to the maximum  
15 weight of a vehicle. To what extent do intra-BMC vehicles  
16 approach the maximum weight limit?

17 A Typically, they don't.

18 Q On line nine, you say there's little difference in  
19 cost between a 40 foot trailer and a 45 foot trailer, but  
20 there is a cost difference, isn't there?

21 A That gives you some room for discussion there, but  
22 I'm here to tell you, I can give you contract after  
23 contract, one by one, for the same price as the other, or  
24 even cheaper. It depends on what the market will bear.

25 Q If on March 20, 1998 you want to contract for two

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1       trailers, one, a 40 foot trailer, and one, a 45 foot  
2       trailer, going from Washington, D.C. BMC to Richmond,  
3       Virginia, would the cost be the same for those two trailers?

4           A      The cost to me?

5           Q      Yes.

6           A      Probably so, not a significant difference  
7       whatsoever.

8           Q      But there would be a difference?

9           A      Minimal difference if any at all and it could go  
10     in either direction. The 40 footer could cost more than the  
11     45, depending on what -- you know, it's a supply and demand  
12     kind of a situation. If I have a contractor with 45 foot  
13     trailers sitting in his yard, needing to put them to work,  
14     and he's paying a bank note on them, he's going to sell them  
15     to me cheap enough for me to get them out on the road and  
16     start paying him some money for them.

17                  Vice versa, if I have an individual with 40 foot  
18     trailers sitting there, he's going to put a price on them  
19     that's going to make me want to contract with him.

20                  It's a market driven kind of a situation and  
21     theoretically, you can say, yes, there's a difference, but  
22     in reality, I can show you example after -- we have 16,000  
23     contracts out there and I can show you example after example  
24     after example where I can buy a 45 footer as cheap as a 40  
25     footer or vice versa in any place in this country.

1           Q     On line 20 on page six, you say our transportation  
2     costs will increase. Have you made any study to support  
3     your belief that the costs would increase?

4           A     Line 20? If we tried to use extra service --

5           Q     I'm asking you -- you made a statement, our  
6     transportation costs would increase. My question is have  
7     you made a study to support your belief that costs would  
8     increase?

9           A     What I will say to you is that I made that  
10    statement in the context of my actual 28 years of experience  
11    in buying transportation services and loading trucks and  
12    those kinds of things, and I can speak to you based on that  
13    experience and explain to you why I believe that if I were  
14    to go out and try to handle peak volumes buying extra  
15    service, that it would cost me more, and my service would  
16    deteriorate.

17                 The reason that I'm saying that is this; a  
18    contractor has a truck sitting in a yard, as an example, and  
19    I go by and want to use it one day, he's got a certain  
20    amount of costs that he or she has to recover on that  
21    vehicle. Now, if I use it seven days or 365 days a year, he  
22    can spread that cost over time and yes, it will increase my  
23    cost based on my experience, to go out and use something for  
24    one day's worth of work versus using it over time when the  
25    cost between the two is really marginal anyway.

1           Now, in a network, and that's the other point that  
2 I'd make here, the Postal Service is not like making an  
3 isolated shipment of something for a short period of time,  
4 but we have to get as mentioned in our mission, to be sure  
5 that people are able to have their mail in their homes day  
6 in and day out. That's the mission.

7           To try and manage a network with over 250,000  
8 pieces of equipment in it, to manage peak and manage  
9 unexpected activities within a network of that size and  
10 complexity by going out and hiring a truck in a spot  
11 situation, would in fact make me not be able to meet the  
12 needs of my customers on an ongoing basis.

13          Q      On page seven, line two, the sentence that begins  
14 there with the word "rather," you are talking about the  
15 unused capacity. Is the cost of unused capacity caused by  
16 the mail volume?

17          A      Not in my opinion.

18          Q      Is the cost of the unused capacity a consequence  
19 of purchasing transportation for the peak weekly volume day?

20          A      No, I don't think it's a consequence of purchasing  
21 for the peak weekly volume day, and I say it for this  
22 reason, that we have to have out there a network that can  
23 accommodate the peak weekly volume day with a view toward  
24 meeting the mission of being reliable, being able to get  
25 people their mail day in and day out on a timely value --

1 timely fashion, rather.

2                 And also, as I mentioned to you a minute ago,  
3 there's not in my experience, in the marketplace, a bean's  
4 worth of difference between a 45-foot truck, a 40-foot  
5 truck, and one even smaller than that when you really talk  
6 about rate per mile operating a truck and what a supplier is  
7 willing to sell it to me for. So it only makes sense to me  
8 to buy to meet my peak when I know that there's not going to  
9 be in the marketplace -- you might be able to do some  
10 analysis that tells you something a little bit different  
11 than that, but in the marketplace as far as contract prices  
12 are concerned, it's not going to make a big difference in  
13 life one way or the other.

14                 Q     Mr. Young, you contract for cubic capacity for  
15 your peak day of the week; correct?

16                 A     I contract for trucks to move mail with the view  
17 toward being able to meet that Wednesday, Thursday, Friday  
18 peak.

19                 Q     All right. Now when you do that, is there unused  
20 capacity on Monday and Tuesday?

21                 A     In some cases there is, and in some others there  
22 is not.

23                 Q     Well, in the cases that there is unused capacity  
24 on Tuesday --

25                 A     Okay.

1           Q     Is that unused capacity a consequence of your  
2     having purchased the size of a truck to handle your peak  
3     weekly volume?

4           A     Once again, my answer to that question is, it is a  
5     consequence of me or us putting in place a network that is  
6     capable of not only meeting that peak volume, but also being  
7     reliable, able to handle fluctuations in volume, and  
8     fundamentally once again in the marketplace the price of one  
9     versus the other is not significant.

10          Q     Beginning on line 6 there, you say that truck size  
11    is dependent on service requirements. Please explain that.

12          A     In some instances, as you know, and I think as  
13    someone mentioned -- Porras mentioned earlier today -- the  
14    Postal Service has implemented certain programs to improve  
15    its ability to once again meet its mission of reliable,  
16    consistent, high performance to the customer. And we've  
17    instituted some programs that do have some impact on  
18    transportation.

19                In the old days, if you will, 15 years ago or so,  
20    you'd take mail and you'd sort it and you'd run it down here  
21    to the destinating office and you'd have people there  
22    sorting mail at 3:00 o'clock in the morning, 4:00 o'clock,  
23    2:00 o'clock in the morning, trying to get it ready for the  
24    carrier to come in and carry it out. But due to the  
25    introduction of automation into not only the Postal Service

1       but in general, you now have mail processing equipment that  
2       can make a finer sort on that mail and reduce the time that  
3       a carrier needs to have it down at his station in order to  
4       get it ready for the street. Not only reduce the sort time  
5       at the station, but also increase the accuracy of the  
6       delivery.

7                   So in cases like that there has been some need to  
8       increase -- not to increase but to put trucks in there, in  
9       the transportation window, more of them in the  
10      transportation window in order to move that mail in a  
11      shorter time frame. And one of the examples that we cite  
12     down in this paper is this idea of a two-pass mail where  
13     they make a double sort on it, sort it to the station and  
14     then down to the carrier. So some of those types of  
15     programs have in fact had an impact not only on the size of  
16     the vehicle that we will buy but also on the number of trips  
17     that we will run.

18           Q     How do the service requirements affect the truck  
19       size for intra-BMC?

20           A     Is that in here, one of the lines here?

21           Q     Line 6. How is the truck size of a truck used in  
22       intra-BMC transportation dependent on service requirements?

23           A     As I mentioned, in some instances we have a  
24       shorter transportation window for the mail moving from the  
25       BMC down to the delivery or to the SCF for that matter or

1 even on down to the delivery unit. And in some instances we  
2 will put a larger truck in there to accommodate that, or if  
3 the window is shorter, same volume of mail or more, we will  
4 put more trips in to accommodate that same volume.

5 Q Well, if you've got a service window of one  
6 o'clock in the morning, how does that affect the truck size?

7 A Well, I can't say that I have a service window of  
8 one o'clock in the morning.

9 Q Well, if you have a service window at three  
10 o'clock in the morning, how does that affect the truck size?

11 A And I can't say that either. What I'm saying to  
12 you is that in certain instances, due to changes in  
13 processing arrangements, the Postal Service has made what we  
14 think is a good decision to shorten the transportation  
15 window, which is what a lot of companies do, in order to get  
16 a finer distribution and have less work down at the station,  
17 have a finer sort of the mail, a more accurate sort when it  
18 gets down there. And for those types of reasons, we have in  
19 some cases put a larger truck in and in some other cases put  
20 more trips in to move the same volume of mail in a shorter  
21 period of time.

22 Maybe you had three hours to move mail at one  
23 point in time, and maybe now because of processing changes,  
24 you have two hours. And therefore, in order to get the same  
25 amount of volume moved, or more volume, you have to put more

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1       trucks in or a larger truck in.

2           Q     You're talking about the same number of  
3       containers?

4           A     Same number of containers that are full of mail.

5           Q     Whether or not the containers are full of mail;  
6       correct?

7           A     They were -- typically should be fuller, in that  
8       if you compressed the window for transportation, you have an  
9       opportunity to put more in them, so that should in fact fill  
10      them up more.

11                  I haven't done a study of that, but intuitively  
12      that seems, you know, like what would happen based on my  
13      experience.

14           Q     Do you disagree with the contention that the  
15      service -- commitment with the service commitment and the  
16      need for meeting a dispatch time will reduce the quantity of  
17      mail in the containers? You disagree with that; correct?

18           A     I need you to restate that question.

19           Q     Do you disagree with the contention that the need  
20      to make a dispatch time will result in a less-than-full  
21      container?

22           A     Dispatch times are not end results. Dispatch  
23      times are put into an operating plan for basically two  
24      reasons. One is that you have to leave at this time in  
25      order to get the product to the next place in time for it to

1       be whatever has to be done to it. That's why you have  
2       dispatch time. So you don't -- dispatch times are driven by  
3       the -- ultimately by the commitment to the customer and the  
4       time it takes to do the things necessary to have the product  
5       capable of being delivered to the customer. So dispatch  
6       times, you know, you back into dispatch times. It's not  
7       something you just kind of set in some arbitrary  
8       environment, but you back into them because they're  
9       necessary to get product down to your customer.

10           But also in setting a dispatch time, you set a  
11       start-processing time, because typically if I run 100 trucks  
12       through the Washington Bulk Mail Center on the inbound dock  
13       and they're inter-BMC trucks, they came from other BMCs,  
14       what's going to happen is that an intra-BMC network is going  
15       to fill up, and those containers by those -- I know it takes  
16       me, if it's a containerized truck, going to take me 20  
17       minutes to unload it. If it's a truck that's bed-loaded  
18       like we talked about here today and there's sacks in there,  
19       1,000 of them, it's going to take me about four hours to get  
20       that sucker unloaded. So that's the idea there of the  
21       containerization versus the deck loading. But I know how  
22       long it's going to take me to run that mail through that  
23       facility.

24           If it's an automated facility and we've got 12  
25       years, 15 years, 20 years worth of history now, 21 years

1 worth, 23 years worth of history. And we know how long it's  
2 going to take you to run it through there and we know when  
3 it's going to come out those SCFs -- into intra-BMC network.  
4 And what happens is those dispatch times are geared to the  
5 fact that we're going to start unloading these inter-BMC  
6 trucks at 2 o'clock this afternoon and they're going to be  
7 done about 7:00 or 8:00 or 9:00 tonight, and that truck over  
8 there on the intra network is going to be ready to go full  
9 of mail. And so you tell them to pull it down at this time.

10                 And then also you're back in from the customer's  
11 side, where he's saying that, okay, in order to get all this  
12 mail down to Norfolk and give those folks down there an  
13 opportunity to get it ready for the carrier tomorrow  
14 morning, we've got to start getting it into Norfolk at 1  
15 o'clock this morning, and then flow it in until about 6  
16 o'clock in the morning.

17                 Q      I hear your response. Now my question is do you  
18 agree with the contention that a dispatch time results in a  
19 reduced volume of mail being loaded in a container, and I  
20 suggest that may be answered either yes or no.

21                 A      It could be either.

22                 Q      All right. So you neither agree with it nor  
23 disagree with it.

24                 A      It could be either. And --

25                 Q      Okay.

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1           A     I can explain why if you want me to.

2           Q     No, you've explained why. We don't need it  
3 explained again.

4           A     Okay.

5           Q     On page 8 you refer to the R84 testimony. Has the  
6 Postal Service transportation system changed since 1984?

7           A     That's page 8. What line was it?

8           Q     On page 8, in the third line you refer to some  
9 testimony in Docket No. R84-1. And my question to you is  
10 has the transportation provided by the Postal Service  
11 changed since 1984?

12          A     It would -- in terms of highway transportation?

13          Q     Has the transportation system, contracting  
14 ability, utilization of vehicles changed since 1984? It  
15 either has or it hasn't. Yes or no.

16          A     And are we talking about highway transportation?

17          Q     I'm talking about highway purchased  
18 transportation.

19          A     Okay. In terms of change, the contracting  
20 process, the philosophy about meeting the needs of the  
21 customers, and how we drive to do that, that has not changed  
22 since 1984.

23          Q     Has the transportation utilization changed?

24          A     I can't answer that question.

25          Q     Okay. On line 10 you use the term "every day."

1           A     Right.

2           Q     Is it your testimony that intra-BMC contracts call  
3     for seven-days-a-week transportation?

4           A     On intra-BMC transportation contracts there is a  
5     movement seven days of the week, but there is variations in  
6     the number of trips that would move on a given day, as we  
7     talked about a little earlier. I may have 10, 20, or 30  
8     trips moving between some facilities on Thursday, Friday,  
9     and Saturday morning, whereas you drop to Sunday, it may be  
10    two or three, because there's little or no activity at those  
11    facilities down the line. So we have activity every day to  
12    the very best of my knowledge on every intra-BMC contract,  
13    but the level of activity changes consistent with the mail  
14    that's typically moving in those segments.

15          Q     Is there an intra-BMC contract trip made from  
16    Jacksonville to Orlando, Florida, every seven days a week?

17          A     I would have to check to verify that.

18          Q     Is there one from Atlanta to Macon seven days a  
19    week?

20          A     I can check and verify.

21          Q     If there's any testimony in here that says that  
22    contracts typically are for six days a week, you contend  
23    that that testimony is false; right?

24          A     No, I couldn't make that presumption. And the  
25    reason that I couldn't is because I don't have the firsthand

1 information to make that call. But generally speaking we  
2 have movement on intra-BMC contract transportation seven  
3 days a week, and typically what happens is that the volume  
4 of transportation goes up or down to meet the changes in our  
5 experience of mail flows.

6 Q On line 11 you say precise scheduling of postal  
7 transportation.

8 A That's right.

9 Q Is that dispatch and arrival times?

10 A That is what I am referring to, yes.

11 Q And are those necessary to meet service  
12 requirements?

13 A Yes, they are, and the reason once again is that  
14 we have time that those carriers take the mail out, take so  
15 much time to put it through the plants for people to get it  
16 ready for the carrier to take it out, and when you add all  
17 of that up together those dispatch times for those trucks  
18 and the arrival times for those trucks are very very  
19 important in order for us to get the mail to the customer  
20 and not to mention the fact that we may have people waiting  
21 at those down-line offices to sort this mail so that the  
22 time sensitivity is very critical in our minds.

23 Q Is the arrival time precise schedule dependent on  
24 mail volume?

25 A Typically it fits the volume of mail in that most

1 of those trucks carry good loads for the reasons that we are  
2 running them.

3 Q Does the precise schedule of dispatch and arrival  
4 time change with changes in mail volume?

5 A Typically volumes do not change that significantly  
6 in my experience anyway.

7 Q Is it your testimony that the volume of mail does  
8 not change?

9 A Not in the sense that we need to change the time  
10 of a trip. We may reduce the number of trips. We may add  
11 trips. We do those kinds of things but not in terms of  
12 changing the times typically that trips operate.

13 Now we have got a number of experimental projects  
14 that we work in that area that might add some increased  
15 flexibility but typically we don't need to change the times  
16 of them.

17 Q Beginning on page 10 you list some changes that  
18 have contributed to cost increases, and for each of these I  
19 would like for you to explain to me how each change impacts  
20 intra-BMC transportation.

21 Let's start with number (a) which is increase in  
22 number of facilities.

23 A What happens in any number of instances is that --  
24 in instance we have communities that we serve today and the  
25 Postal Service in cases will increase the number of

1 facilities in a given area in order to meet shifts in  
2 population. New communities come on line and we at times  
3 add to even the intra-BMC network in order to accommodate  
4 those changes in the demographics of the community.

5 Q Aren't the changes in the intra-BMC transportation  
6 network as a result of the increase in facilities very, very  
7 limited?

8 A I would say it is limited. I don't know about  
9 very limited.

10 Q What about changes in distribution schemes that  
11 you have in (b) -- how does that impact intra-BMC  
12 transportation?

13 A As I mentioned earlier, some of our sorting  
14 patterns and schemes, we have changed them to do a finer  
15 sort at the BMC, at our SCFs as well, and that does have  
16 some impact on the amount of transportation you might buy or  
17 even in some cases as we mentioned the size of the vehicle  
18 that you might put on a given route.

19 Q And next is (c), HASPF -- how does that -- that's  
20 the hub-and-spoke processing facility for Priority Mail and  
21 First Class mail.

22 A Right.

23 Q How does that impact intra-BMC transportation?

24 A In including that one there, if the discussion is  
25 limited exclusively to that, I will pull that one back.

1           Q     What about (d), EXFC? How does that impact  
2     intra-BMC --

3           A     Just like First Class mail, our two-day and  
4     three-day product and our bulk mail product, as I mentioned  
5     earlier we instituted a number of programs in terms of how  
6     we sort and deliver that mail that does have some impact on  
7     the amount of transportation that we might put within a  
8     given network.

9           Q     You mean it would reduce intra-BMC?

10          A     No, I don't think it would.

11          Q     Would it increase intra-BMC?

12          A     It very well could, yes.

13          Q     It could, but you don't know?

14          A     Not in the sense that I have done a study on it,  
15     but I know we have made certain changes in the distribution  
16     of mail that will in fact in some instances increase the  
17     amount of transportation that we buy.

18          Q     (e) is containerization. You refer to  
19     containerization of automated flat letter mail. How does  
20     that impact intra-BMC?

21          A     Perhaps a better selection of the mail type there  
22     would have been appropriate but the same concept is true as  
23     it relates to the intra-BMC network as we have talked about,  
24     and you have talked with other about.

25                 In response to our customer, in response to our

1 own work load issues and labor costs, we have moved toward  
2 the use of more containers and other means of transporting a  
3 big volume of mail on a truck rather than bed-loading it,  
4 and so that has had and continues to have some impact on the  
5 amount of transportation that is in a network, including  
6 intra-BMC.

7 Q Do trays of automated letter mail use the  
8 intra-BMC transportation system?

9 A Not other than the examples that I cited earlier  
10 where we would tailgate some of that mail and that is  
11 something that does happen within the system.

12 Q Changes in palletization -- intra-BMC?

13 A Yes. Ideally, and I don't know how familiar you  
14 are with pallets, ideally in a pallet operation what you  
15 would like to see happen is that a mailer would in fact put  
16 his or her product on a pallet, shrink wrap it and strap it  
17 and put a cap on the top of it so that you can stack them,  
18 and you can get two to three of them -- stack them two to  
19 three high, and use that truck all the way to the top.

20 But the reality of life is though you work with  
21 mailers and other customers to get them to do this, they  
22 will stack them a little bit unlevel. They won't cap them.  
23 Therefore, it limits the ability of the Postal Service to  
24 stack pallets and completely utilize the upper cube in the  
25 truck.

1                 But nevertheless we can't throw the customer away,  
2     as it were. We have got to work with them and what you do  
3     is you get 26 pallets in a 40 foot truck, and it is loaded  
4     about waist high, and that is what you are going to get in  
5     there because they are not stackable in a number of  
6     instances, and that creates the issue of having to put more  
7     transportation in in order to move our mailers' pallets and  
8     various other ones that give them to us and they are not  
9     capped properly, as you would like them to be, but  
10    nevertheless you work with the customer.

11               Q     Would it be a correct summary to say that from  
12    your testimony that the utilization of pallets and  
13    containers have resulted in increased transportation costs?

14               A     I think they have had some impact on it, yes.

15               Q     And then you mention problems with rail service.

16               A     Right.

17               Q     What is the extent to which rail is used for  
18    intra-BMC transportation?

19               A     We use it in Florida as a matter of fact -- coming  
20    out of -- what is the Florida rail --

21               Q     Jacksonville BMC?

22               A     No, Florida, east coast, right? Florida East  
23    Coast Railroad. We use them for intra-Florida movements as  
24    a matter of fact.

25               As far as the intra-BMC and the rail are

1 concerned, we have moved away from the use of rail carriers  
2 to a great degree.

3 Let's say three years ago we had about 350,000  
4 loads a year that we would ship with rail carriers, and,  
5 true, most of that was inter-BMC but some of it in the West  
6 and Midwest was in fact some of the intra stuff moving  
7 between large -- over long distances.

8 But what has happened, and I know you have seen it  
9 in the newspapers, is that the railroad companies especially  
10 east of the Mississippi River, they have had significant  
11 problems in their consolidations and so forth from running  
12 the system, and I think even in Mr. Ball's testimony he  
13 talked about the problems with the rail carriers in moving  
14 his product and they had to shift to highway and that is the  
15 impact.

16 That is how it has impacted highway  
17 transportation. Though it is not a major issue, it deserved  
18 to be mentioned because it has had some impact.

19 Q Would I be correct if I told you I understand you  
20 to tell me that the use of rail service for intra-BMC  
21 transportation is very limited?

22 A You would be correct.

23 Q And what is the extent to which rail service is  
24 used for inter-BMC transportation?

25 A As I mentioned, we moved about 350,000 loads with

1 them this past 1997. That is down about 50 percent and what  
2 we do today in order to once again try and meet the needs of  
3 our customers, both mailers and others, that use BMC -- mail  
4 things that go through the BMC is I have in place now  
5 long-haul transportation, maybe using Jacksonville as an  
6 example, Jacksonville to Seattle, Washington, Jacksonville  
7 to Los Angeles, Jacksonville to San Francisco, Atlanta to  
8 Seattle through Denver, Atlanta to Los Angeles and San  
9 Francisco. We have those kinds of contracts in there now  
10 for the inter-BMC transportation.

11 There is almost no destination -- and I can't  
12 really think of one really -- where we use exclusively rail  
13 anymore, and the reason is the service problems that we have  
14 had with them.

15 Now you get a better situation, as you probably  
16 know, on the East Coast here dealing with Conrail and some  
17 of those folks who are well-established and have real good  
18 networks, but once you go west of the Mississippi as far as  
19 rail is concerned right now -- and it will get better -- but  
20 it's going to take several years for that to happen, the  
21 service and even to find your mail is a difficulty.

22 We have had loads out there with the Santa Fe and  
23 with the UP that have been lost for periods of time longer  
24 than I care to put on the record.

25 Q Would it be a correct summary to say that rail

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1 service and inter-BMC is limited and reducing?

2 A Is limited?

3 Q And reducing. Getting smaller.

4 A When you say that, what do you mean?

5 Q Well, I mean that your projection is that next  
6 week will be less than it was last week, your use of rail  
7 service and inter-BMC.

8 A That may be true next week, but also what I was  
9 just saying to you is that I fully expect that they are  
10 going to recover. And it's just a matter of a period of  
11 time here where they are going through a downsizing and a  
12 consolidation process which is causing them difficulties to  
13 integrate those big networks.

14 Like, you know, our guys are meeting with the  
15 whole rail industry down in Florida right now, but they have  
16 a short-term problem. Maybe in the next three to four  
17 years, I figure that they are going to be one of the best  
18 opportunities available, not just as a rail service, but as  
19 an intermodal service. And the reality is, in our view,  
20 anyway, that as time goes by, we are going to make greater  
21 use of intermodal transportation, which will include part  
22 rail.

23 So there may be less next week, but a year from  
24 now, or two years from now, we are expecting that they are  
25 going to recover and we continue to work with them with that

1 view in mind, because we see them as a critical player in  
2 the long haul transportation in the intermodal fashion in  
3 the years to come.

4 Q During the past two fiscal years of the Postal  
5 Service, is it true that the use of rail service and  
6 inter-BMC transportation has been limited?

7 A Yes, for the short-term service problems that they  
8 have had.

9 Q And during that same two fiscal year period, has  
10 the use of rail also been declining?

11 A Yes, due to the short-term service problems that  
12 they have had.

13 Q Is piggyback rail service currently used in  
14 intra-BMC?

15 A The only example I can think of, we have a little  
16 activity we are doing right now with the Florida East Coast  
17 Railroad, that's one that immediately comes to mind. And  
18 there are no doubt some others out in the West, but I can't  
19 just rattle them off the top of my head.

20 Q But you don't know what they are?

21 A No.

22 Q Are you using piggyback rail service in inter-BMC?

23 A Yes, we do.

24 Q To what extent?

25 A We moved 154,000 loads with them last year.

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1 Q And it also is declining?

2 A In the short-term, due to some service issues,  
3 but, as I mentioned previously, we fully expect that they  
4 will be a very good mode of transportation in the next few  
5 years, especially from an intermodal perspective.

6 Q And that is something that the Postal Service has  
7 no control over, isn't it?

8 A Well, we think we do have some control over it  
9 from --

10 Q If they don't improve, you won't use it?

11 A If they don't improve as we expect they will, then  
12 certainly we would use them because it would be detrimental  
13 to our meeting our customers' needs. But as we talk with  
14 them, with UPS, they use them quite extensively in  
15 intermodal transportation. We think that the combination of  
16 what the Postal Service brings to the table, UPS and J.B.  
17 Hunt, Schneider and a few others, that will be enough to  
18 keep them very much interested in the piggyback business and  
19 it will get better in the next few years.

20 MR. WELLS: Thank you, Mr. Young.

21 That's all, Mr. Chairman.

22 THE WITNESS: Thank you.

23 CHAIRMAN GLEIMAN: Would everybody like to take a  
24 seventh inning stretch? Let's take five minutes. A quick  
25 five minutes.

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1 [Recess.]

2 CHAIRMAN GLEIMAN: Ms. Duchek, are you ready for  
3 redirect now?

4 MS. DUCHEK: Yes, I am.

5 CHAIRMAN GLEIMAN: No harm in trying.

6 MS. DUCHEK: Well, I'm ready with the  
7 understanding, then, that Mr. Feldman and Mr. Bergin have no  
8 questions.

9 CHAIRMAN GLEIMAN: Mr. Bergin.

10 MR. BERGIN: I have just a few.

11                           CROSS EXAMINATION

12                           BY MR. BERGIN:

13 Q Good afternoon, Mr. Young.

14 A How are you doing?

15 Q For the record, I'm Tim Bergin, I represent the  
16 McGraw-Hill Companies, and there are a few additional points  
17 I'd like to cover with you, please.

18 A Okay.

19 CHAIRMAN GLEIMAN: Can you pull the mike in a  
20 little closer? Thank you.

21                           BY MR. BERGIN:

22 Q Mr. Young, referring you to page 7, lines 2  
23 through 4, your statement that unused capacity is an  
24 inherent by-product of the provision of reliable economic  
25 service, is my understanding correct that your reasons for

1 saying that relate to the fact that Postal Service  
2 transportation is somewhat unique vis a vis transportation  
3 in other sectors?

4 A Yes. In my experience and opinion, it is unique,  
5 and I say that for these reasons.

6 The Postal Service, dating back to when it was  
7 created, was put in place at a post office and the Postal  
8 Service was put in place to be able for people to be bound  
9 together, if you will, by hard copy communications and  
10 products and those things moving between them, and what the  
11 Postal Service has attempted to do is to put up a network of  
12 transportation that, every day, has the ability to and does,  
13 in fact, move mail between origin-destination pairs in order  
14 for people to get things or get communications in a  
15 time-definite kind of an environment.

16 Now, if you take that and compare it with what  
17 typically happens in a private sector freight shipping  
18 environment or something of this kind, it is very different  
19 in that, as an example -- some of the examples that have  
20 been cited here, you may have a freight shipper that wants  
21 to move a certain product to a certain series of  
22 destinations and he or she will have control of that product  
23 and they'll set up a series of trips to move it within a  
24 time-frame, and it's moved, and it goes away.

25 But the Postal Service has set up a network and --

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1 which it really is required to do, in our view, as part of  
2 its mission -- it has the ability on an ongoing basis, day  
3 in and day out, to move products between origin-destination  
4 pairs based on the times that generally people put those  
5 products into the system.

6                 The example that I cited about, you know, mail  
7 intra-BMC, once again -- the same is essentially true  
8 regarding first-class mail. People mail it in the  
9 afternoon, the evening, and it gets dealt with locally and  
10 then gets transported out.

11                 Mail coming into that area is processed somewhere  
12 else during the early evening, and it comes in, and that  
13 kind of a relationship exists, you know, day in and day out  
14 as far as mail is concerned, but in a private sector freight  
15 environment, it's very different in that it does not have  
16 that day-to-day total network kind of a responsibility nor  
17 does it match even closely the Postal Service's need for  
18 time-definite movement of product via the transportation  
19 network.

20                 Now, some people think about just in time, is a  
21 concept here that's been talked about a lot in the last few  
22 years and been implemented in the private sector, but even  
23 in a just-in-time environment, based on my knowledge of it  
24 anyway, we're not talking about an environment where, if a  
25 truck is late 15 minutes, there's an irregularity issued to

1       the truck driver, which is what's true in the Postal  
2       Service's transportation network.

3                  Just in time typically refers to the fact that,  
4       okay, I'll get it to you on Friday afternoon not later than  
5       five o'clock and you have that window of time, but with our  
6       transportation network, every truck that's moving moves on a  
7       time-definite schedule with the minor exception of a plant  
8       load movement that might have a bit more flexibility in it  
9       because the mailer might want that kind of flexibility.

10                 But all of our normal transportation, scheduled  
11       transportation, moves on a time-definite schedule down to  
12       the minute, and so, I see that as being very, very different  
13       from what you will see in the transportation of freight in  
14       the private sector.

15                 Some other differences, as we mentioned here, you  
16       know, the security issues -- the screening requirements that  
17       we have for our drivers are more stringent, if you will,  
18       than what you would typically find in a private sector  
19       company of freight haulers, if you will.

20                 Q       And it's my understanding that your testimony in  
21       this regard is consistent with the testimony of your  
22       predecessor, Mr. Orlando, in Docket R84-1?

23                 A       I think it should be consistent. I haven't really  
24       read his testimony in detail. I've had an opportunity to  
25       briefly look at it, and I don't see where things have

1 changed dramatically, so I think it should be very  
2 consistent.

3 Q And you do rely upon it on page 8 of your  
4 testimony? Is that correct?

5 A I make reference to it, yes.

6 MR. BERGIN: Mr. Chairman, may I approach the  
7 witness?

8 CHAIRMAN GLEIMAN: Certainly.

9 BY MR. BERGIN:

10 Q Mr. Young, I'd like to show you a copy of Mr.  
11 Orlando's testimony in Docket R84-1 and ask you a few  
12 questions about that.

13 MS. DUCHEK: May I have a copy, as well, please?

14 MR. BERGIN: Certainly.

15 THE WITNESS: Thank you.

16 BY MR. BERGIN:

17 Q Mr. Young, I'd like to refer you to page 25 of Mr.  
18 Orlando's testimony. Mr. Orlando on page 25 refers to  
19 latent capacity. Do you see that?

20 A Yes, I see it.

21 Q On line 17, he also describes the term as "unused  
22 capacity." My question to you is is my understanding  
23 correct that latent capacity and unused capacity, as  
24 referred to in Mr. Orlando's testimony, is the same concept  
25 as you use on page seven of your testimony?

1 MS. DUCHEK: If I could interject here for a  
2 minute, just so the record is clear. Mr. Young cited Mr.  
3 Orlando's testimony on page eight of his testimony for the  
4 proposition that there are significant differences between  
5 Postal Service operations and private sector carriers.

6 If Mr. Bergin wants to pursue a line of  
7 questioning, that's fine, but from his earlier comment, it  
8 made it seem as if Mr. Young was referring to Mr. Orlando  
9 earlier in his discussion on a previous page on another  
10 topic and I just want the record to be clear that is not the  
11 case.

12 MR. BERGIN: I would note that --

13 CHAIRMAN GLEIMAN: I followed you up until the  
14 point where you made reference to the previous page, was it  
15 Mr. Bergin who was making the reference?

16 MS. DUCHEK: Mr. Bergin, a question or so back,  
17 before he pulled out Mr. Orlando's testimony, was talking to  
18 Mr. Young about statements made on page nine of Mr. Young's  
19 testimony and then he flipped --

20 MR. BERGIN: Page seven.

21 MS. DUCHEK: I'm sorry, page seven. Then he  
22 flipped back to page eight, talking about Mr. Orlando. I  
23 just wanted the record clear what Mr. Orlando's testimony  
24 was cited for by Mr. Young. It wasn't the comments that he  
25 made on page seven, it was the comments that he, Mr. Young,

1 made on page eight. I thought the record might be a little  
2 confused because of Mr. Bergin's earlier reference.

3 CHAIRMAN GLEIMAN: I think the record is probably  
4 a lot confused, but be that as it may, I also recall that  
5 Mr. Young said that he did a cursory review of Mr. Orlando's  
6 testimony and to the extent that Mr. Bergin is going to ask  
7 questions about it, he probably should limit himself to  
8 those portions of Mr. Orlando's testimony that are  
9 specifically related to the rebuttal testimony of the  
10 witness.

11 MR. BERGIN: I intend to do that, Mr. Chairman.

12 CHAIRMAN GLEIMAN: Sure. Well, then, proceed.

13 BY MR. BERGIN:

14 Q Do you have the question in mind?

15 A Perhaps you better repeat it.

16 Q Certainly, a simple foundation question. Mr.  
17 Orlando, on page 25, refers to latent capacity, which he  
18 appears to use interchangeably with unused capacity, and I  
19 just would like to confirm that it is the same concept that  
20 you use on page seven of your rebuttal testimony, where you  
21 refer to unused capacity as an inherent by-product of the  
22 provision of reliable economic service.

23 A Conceptually, I don't see a problem here. I'm  
24 just reading through what Jim said. Let me just mention, he  
25 says here on page 25, he uses the terms "latent" and

1 "unused," I can't really talk to those two terms  
2 specifically, but let's go to the reasoning that he uses  
3 here.

4 He says managing the interface between mail  
5 processing and transportation, meeting the needs of our  
6 customers, at lines 11, 12 and 13, without buying to the  
7 peak, not having the flexibility to meet the needs of the  
8 customer, those are basically the same rationales and  
9 reasoning that I offered for what I'm saying today.

10 Whether I use the term "latent" and "unused," you  
11 mentioned down here, I can't speak to those words, but  
12 conceptually from what I see here, he's saying essentially,  
13 as I interpret it anyway, essentially the same thing that  
14 I've said to you a little bit earlier, that in order to have  
15 a network there that every day meets the needs of the  
16 customers, even on the peak days, that it's necessary that  
17 we buy transportation to cover those days, and ultimately,  
18 financially, I don't think it makes a real big difference, a  
19 significant difference at all, really; my personal view of  
20 it.

21 The same rationale that he expresses here, the  
22 three items that I've circled, I can see my thinking  
23 agreeing with that even though I haven't really looked at  
24 what he means when he says "latent capacity." I understand  
25 the definition of it, but what he had in mind when he used

1       that term, and "unused capacity," I can't comment on that,  
2       but the three reasons that he cites here, those are fine.

3           Q     Is it fair to say in your view, in light of your  
4       testimony, that unused capacity in your view results from  
5       the Postal Service's obligation to provide prompt, reliable  
6       and efficient services to customers throughout the nation?

7           A     I think it does. It's tied to that; yes.

8           Q     Referring to page 27, lines one through three, of  
9       Mr. Orlando's testimony, do you agree with the statement  
10      there that unused capacity is the result of managing  
11      transportation from a system-wide perspective and is  
12      incurred on behalf of all classes of mail?

13          A     Our discussion here has been limited to the  
14      intra-BMC network. That was the limit of the discussion. I  
15      can see conceptually where what he says here is correct, but  
16      there also, as we have talked about today, both with the  
17      intra-BMC and the other networks that we have, there are  
18      more specific drivers than what he mentions here. This is  
19      kind of an encompassing statement to say system-wide,  
20      managing from a system-wide perspective.

21           As we talked about earlier today, you are going to  
22      have mail that's going to generate orders at a certain time  
23      of the day, which in order to get it to the end customer in  
24      the next place where it is going, it has to leave that  
25      afternoon and move on. You are going to have mail coming

1       into a destinating area that is going to arrive early  
2       morning, late at night, in that time frame, which must be  
3       processed and sent down line, either intra-BMC, intra-SCF,  
4       whichever network it might be, and those two things,  
5       although they run in pairs, so to speak, they do have some  
6       drivers that are very clear from our standpoint in terms of  
7       meeting the requirements that we set for ourselves with the  
8       customer.

9                  There is a system-wide issue there and I can  
10      understand, I think, what he's getting to, but there are  
11      also those specific drivers, as I talked about a little bit  
12      earlier today.

13               Q      What about the second portion of that statement,  
14      that unused capacity is incurred on behalf of all classes of  
15      mail? Do you agree with that portion of the statement?

16               A      Once again, in the big scheme of things, I can say  
17      that I do because you are going to have some unused capacity  
18      in every network because of those specific drivers that we  
19      talked about today. Once again, the discussion, I guess,  
20      and what I have been allowed to comment on is limited to  
21      intra-BMC.

22                  Any network that we have, given the drivers that  
23      we talked about today, you are going to have some capacity  
24      in there that is the result of our effort to provide a  
25      consistent reliable service day in and day out, which means

1 a network designed to meet that commitment every day.

2 Q If I could just interject, I do not wish to limit  
3 the discussion to intra-BMC. I understand that you and Mr.  
4 Wells discussed that aspect of it. But I'm referring to  
5 your testimony more broadly, which I understand is more  
6 broad than intra-BMC. And would the answer you just gave  
7 hold if we broadened the scope to cover inter-BMC and  
8 inter-SCF and so forth?

9 A You're going to have some differences in intra-SCF  
10 and, I mean, just to maybe talk to you about it a little  
11 bit. What you're going to find in intra-SCF is the use of a  
12 mixture of tractor-trailer and straight trucks, more of a  
13 mixture in that environment, and therefore some of the  
14 issues are going to be a bit different in that environment  
15 versus an intra-BMC as Mr. Wells was talking about earlier  
16 was basically a tractor-trailer-type environment. So there  
17 will be some differences, but once again, you're always  
18 going to find some capacity that goes unused because of the  
19 drivers that make those trucks move.

20 When mail originates in a place on a given day in  
21 the afternoon, it has to be sorted to some degree locally  
22 and transported out. When mail is coming into that same  
23 facility or area, it's going to come in there from midnight  
24 to early in the morning. So you've got something that's  
25 driving it at point A, if you will, going toward point B,

1 and you have mail volumes that at a later time are going to  
2 drive it at point B and make a truck have to move back to  
3 point A. Do you follow what I'm saying?

4 So in both cases in order to be reliable, to get  
5 quality service in there every day, which is what the  
6 mission is, you're going to have some capacity that is not  
7 as fully utilized as if I were to be able to sit here and  
8 wait until I get a full load, as a freight shipper does, and  
9 ship it. Do you follow what I'm saying? See, I don't have  
10 that luxury. The mission is every day. There are people  
11 looking for the postman to come with the mail at a certain  
12 time, generally speaking, and we have to design and have  
13 designed, really, a network that's able to meet that, you  
14 know, day in and day out. So that's the difference, if that  
15 makes sense to you.

16 Q I think so. And if I could refer you to page 27,  
17 lines 12 to 15 of Mr. Orlando's testimony, in light of what  
18 you've told us this afternoon, do you agree with the  
19 statement there that from a systemwide perspective the  
20 amount of latent capacity in the entire system at any given  
21 time tends to be a constant amount? Having reference to the  
22 statement in your testimony that unused capacity is an  
23 inherent byproduct.

24 A I don't know about it being constant. When you  
25 use the term -- or did you maybe read this close enough to

1 know what did he mean when he said it was constant. I  
2 didn't -- I haven't read it that closely.

3 Q Well, you might review the entire paragraph. I  
4 think he's referring to constant over time and balancing out  
5 over the system.

6 MS. DUCHEK: Mr. Chairman, Mr. Young said he  
7 reviewed this testimony very cursorily. He cited it for a  
8 very specific thing in his testimony. I think this is  
9 getting really far afield. Mr. Young has already -- he's  
10 saying he's not clear what he meant by the term "constant."  
11 I really think we ought to move on.

12 MR. BERGIN: I would note, Mr. Chairman, this is  
13 my last line of questioning. I think it's directly related  
14 to the testimony that Mr. Young provided in his rebuttal  
15 piece.

16 CHAIRMAN GLEIMAN: How so?

17 MR. BERGIN: Pardon?

18 CHAIRMAN GLEIMAN: How so?

19 MR. BERGIN: Well, Mr. Young has testified that  
20 unused capacity is an inherent byproduct of economic,  
21 reliable service, and then he tied that into the unique  
22 nature of Postal Service transportation vis-a-vis private  
23 transportation. Then on page 8 he cited Mr. Orlando for the  
24 point that postal transportation differs from private  
25 transportation. In response to Mr. Wells' question he

1 indicated that the situation of postal transportation  
2 fundamentally had not changed since 1984. So I think I'm  
3 entitled to explore his reference to Mr. Orlando's testimony  
4 in light of its --

5 CHAIRMAN GLEIMAN: Well, his reference to Mr.  
6 Orlando's testimony is just that there are significant  
7 differences between our -- the Postal Service's operation  
8 and private-sector carriers, and I don't believe that, you  
9 know, that that means that it opens up every line and  
10 paragraph of Mr. Orlando's testimony, which may or may not  
11 have validity, given its age, but I think that we are  
12 getting somewhat far afield here.

13 MR. BERGIN: Well, if I could just note one of the  
14 key differences between the postal transportation network  
15 and other networks according to both Mr. Orlando and Mr.  
16 Young is this notion that unused capacity is an inherent  
17 aspect of postal transportation.

18 MS. DUCHEK: But, Mr. Chairman, it's clear from  
19 Mr. Young's statement on page 8 that what he -- he gives a  
20 list of the differences in -- between private sector and  
21 postal operations, and latent capacity isn't anything he  
22 discusses in that section.

23 MR. BERGIN: Well, I disagree.

24 CHAIRMAN GLEIMAN: Well, I'm not going to have  
25 oral arguments or debating societies here today unless I get

1 to be in charge of the debate and do all the debating on  
2 both sides.

3 [Laughter.]

4 And that's what I get to do when I'm Presiding  
5 Officer. And I think it is getting far afield. You asked  
6 him to look at a sentence at page 28 was it?

7 MR. BERGIN: 27, Mr. Chairman.

8 COMMISSIONER HALEY: 25.

9 CHAIRMAN GLEIMAN: 25. I'm flipping back and  
10 forth, lost count. It was a short sentence that just, you  
11 know, related to Mr. Orlando's assertion of some 14 years  
12 ago. It's not an assertion that this witness has made, and,  
13 you know, he said there's space on trucks. I think that's  
14 been established ad infinitum. Whether he agrees that it's  
15 constant over time, and he says he's not sure what that term  
16 "constant" means, I think that's it, Mr. Bergin. I think  
17 I'd -- if you've got more, you can move on. If not --

18 MR. BERGIN: Well, Mr. Chairman, in lieu of  
19 pursuing any additional questions in this line, I would move  
20 that Mr. Orlando's testimony in Docket R84 be admitted into  
21 evidence in this case. I believe the witness has relied  
22 upon it to some degree. I think it's in the nature -- same  
23 situation as when a witness cites a library reference, and  
24 further I would note that it is a fairly common procedure to  
25 incorporate in the record of one proceeding the testimony

1       that is relevant from another proceeding. I know there's a  
2       deadline for doing that.

3                     CHAIRMAN GLEIMAN: I'll accept a written motion  
4       from you requesting that we insert Mr. Orlando's testimony  
5       in toto into the record. However, as an alternative, you  
6       may want to consider finding the specific section of Mr.  
7       Orlando's testimony that Mr. Young refers to on page 8 of  
8       his testimony, where he talks about significant differences  
9       between our operations and private-sector operations, and  
10      just move to insert that, because that's more likely to  
11      be -- receive a positive response from the Presiding  
12      Officer.

13                  MS. DUCHEK: And, Mr. Chairman, if Mr. Bergin so  
14      moves, the Postal Service would like to request a chance to  
15      respond in writing, and we will do so on an expedited basis.

16                  CHAIRMAN GLEIMAN: I would certainly entertain  
17      both Mr. Bergin's request that the Orlando testimony from  
18      1984 be inserted and the Postal Service's response thereto,  
19      and I suggest that if you want to do that, that you do it in  
20      fairly short order. You ought to consider doing it by close  
21      of business tomorrow.

22                  MR. BERGIN: Yes, Mr. Chairman; I think that can  
23      be done.

24                  CHAIRMAN GLEIMAN: Okay. Do you have other  
25      cross-examination?

1                   MR. BERGIN: With that, I have nothing further,  
2 Mr. Chairman.

3                   CHAIRMAN GLEIMAN: Is there follow-up  
4 cross-examination? Mr. Feldman?

5                   MR. FELDMAN: Thank you, Mr. Chairman.

6                   CROSS-EXAMINATION

7                   BY MR. FELDMAN:

8                   Q       Mr. Young, if you don't mind, on page 9 you  
9 discuss the --

10                  CHAIRMAN GLEIMAN: Mr. Feldman, before you get  
11 started, I just want to point out that, to the best of my  
12 recollection, and I am not going to do a word search of the  
13 laser fiche right now, Mr. Orlando's testimony has been the  
14 subject of discussions in this hearing room in this docket  
15 earlier on in the proceedings, and there has been  
16 opportunity for parties to move that testimony into evidence  
17 at that point if they thought it was important.

18                  I am making that comment. It does not prejudice  
19 your opportunities, I assure you, but this is not the first  
20 time I have heard about Mr. Orlando's testimony in this  
21 proceeding. I just wanted to make reference to that.

22                  BY MR. FELDMAN:

23                  Q       Mr. Young, on page 9, you reviewed with Mr. Wells  
24 the various differences between Postal Service and freight  
25 transportation. On the bottom of page 9 you claimed that on

1       a per mile basis you believe that the Postal Service has  
2       bettered inflation and you give several examples of that. I  
3       just wanted to ask you, have you had an opportunity to  
4       review, in addition to Postal Service cost data, any freight  
5       price data over the last few years so that you could make  
6       that comparison?

7           A      We look at data, we look at motor freight data, we  
8       look at CPI data. Not any hard studies that I can pass on  
9       to you, but here on page -- the bottom of page 9, and you go  
10      on into page 10, is that where we --

11          Q      Yes, sir.

12          A      Okay. The way we look at cost, we don't look at  
13       the bottom line dollars, but I look at the volume of what I  
14       am buying. As an example, back in 1991, like it mentions  
15       here, I think we were doing something in the neighborhood of  
16       nine-hundred-and-some-odd-million miles per year. In '96,  
17       we did about a billion-and-two on contract transportation.  
18       And as I look at the change in rate per mile, which is  
19       typically how we look at highway transportation, it went  
20       from \$1.15 to \$1.27, and over that period of time that comes  
21       out to about -- I think about 1.9 percent per year, if my  
22       numbers are correct, from \$1.15 to \$1.27. That's about 1.9  
23       percent per year. Which beats the index that was referenced  
24       in some previous testimony.

25               And, interestingly, to me, I haven't look at this

1 particular index, but if it is the long haul motor freight  
2 index, it typically would have less of a change, the cost  
3 there should be less. Now, if you look at the Postal  
4 Service's number, the number that I am referring to here,  
5 that includes both long haul and short haul, and so, having  
6 been able to continue to have the network that we have and  
7 costs not go up anymore than 1.9 percent on average for that  
8 period of time, per year for that period of time, it really  
9 beats the index to which they are referring here because of  
10 the fact that non-local long haul is really what they are  
11 referring to, this particular index here, typically, you are  
12 going to get less cost increase there than you will get in  
13 local transportation, which is included in our number.

14 So, and just looking at those two numbers, my 1991  
15 number, my '96 number, and this freight index that they are  
16 referring to here, 1.9 percent per year for that period of  
17 time, it seems pretty good to us.

18 Q You would agree, however, since you refer to an  
19 overall increase in highway spending, that USPS has  
20 experienced that on a year to year basis, there have been  
21 increases certainly in the highway as well as other segments  
22 of purchased transportation, have there not been?

23 A There have been increases geared to the amount of  
24 transportation we are buying.

25 Q Total dollars.

1           A     Total dollars that we are buying. More so than a  
2     1.9 percent increase, which is well below the rate of  
3     inflation for every year that we have been out there. So if  
4     I look at that, and look at the people that are working in  
5     my group and managing that activity, I say you are doing  
6     real good in that you are beating standards typically  
7     accepted from that perspective, even though the bottom line  
8     dollars, yes, have increased significantly because we are  
9     buying so much more, for all those reasons that are cited  
10    down there on pages 10, 11 and 12.

11          Q     Are the percentages, year to year, of increase, in  
12     highway spending for the Postal Service significantly above  
13     the CPI, year to year, let's say since 1995?

14          A     I don't remember off the top of my head what CPI  
15     was for '95, '96. If you had a number, I can tell you.

16          Q     Has the Postal Service increase, year to year,  
17     been more than 3 percent a year, in the highway segment?

18          A     In total dollars spent?

19          Q     No, sir. In percentages spent. Paid to  
20     contractors.

21          A     You mean in total dollars paid to contractors?

22          Q     That's right.

23          A     It has because we are buying more from  
24     contractors.

25          Q     Would you agree that there have been some years

1 where the number has increased by 10 percent a year?

2 A Because we are buying more from contractors.

3 Q I didn't ask you why. I said yes or no, has it  
4 increased 10 percent in certain years, the cost?

5 A The cost of transportation --

6 Q Yes.

7 A -- has increased 10 percent in year?

8 Q Yes.

9 A And my answer would still have to be the same.

10 Q Yes or no?

11 A Because we are buying more, yes, it has.

12 Q That is not responsive. I'll move on to another  
13 question.

14 A Okay. Fine.

15 Q Has the volume of mail year to year increased 7 to  
16 10 percent in the last five years?

17 A I don't have the numbers available, I don't have  
18 them off the top of my head, what the volume increases have  
19 been for the past 7 to 10 years -- I mean the past several  
20 years.

21 Q Thank you. That's an answer. Now, so, therefore,  
22 you don't know whether or not the increases in total highway  
23 spending year to year have matched the volume increases year  
24 to year?

25 A I can't make that comparison, but I can tell you

1 why it is going why it is going --

2 Q Thank you very much.

3 A You're welcome.

4 Q Next question. EXFC, you give that as a reason,  
5 and you discussed it with Mr. Wells, as far as efforts to  
6 put on more transportation capacity in the local network.  
7 Is there a similar system for Second Class or periodical  
8 mail, to your knowledge? Yes or no?

9 A I am not in a position to answer that specific  
10 question related to that.

11 Q Thank you. Next question. Containerization. Do  
12 you have any written or documented study of how  
13 containerization of any of the types that you describe on  
14 page 12 of your testimony has caused increases in  
15 expenditures in highway transportation?

16 A Not here today.

17 Q Thank you. One last question. When you discuss  
18 the changes in distribution schemes resulting in some  
19 increase in capacity for transportation and added  
20 transportation, is all of that transportation you are  
21 referring to purchased transportation or is some of it PVS,  
22 Postal Vehicle Service transportation?

23

24

25

1

## EVENING SESSION

2

[6:00 p.m.]

3

THE WITNESS: I think it would be some of both.

4

BY MR. FELDMAN:

5

Q Can you identify in your testimony here those places where your references are to purchased highway transportation, which was the subject of the testimony that you are rebutting versus in-house PVS, which is a totally different cost segment?

10

A I think it would be some of both in most all the places that we are referring to today.

12

Q And that would be in particular true of local transportation?

14

A Particularly true of local transportation.

15

Q In other words, inter-SCF and inter-BMC is practically all purchased highway or in some cases rail transportation, is it not?

18

A I wouldn't say practically all. The reason is that we have intra-BMC transportation running in large metropolitan areas both PVS and contract, and if we need to we can break down how much there is of each running.

22

But just to give you a few examples, in the city of Chicago we have intra-BMC transportation running from the Chicago Bulk Mail Center to a number of different places in Chicago, both contract as well as some of it being run on

1 PVS and the same is true in the Washington metropolitan area  
2 as well, and various other large metropolitan areas where  
3 you typically have BMCs and large SCFs that are close by.

4 Q Are you aware, Mr. Young, that the rates that  
5 periodical customers pay that are in part distance-based are  
6 derived from cost increases in the purchased transportation  
7 category and not the PVS category?

8 A I am not really qualified to comment on that.

9 Q I understand that. I understand.

10 MR. FELDMAN: I have no more follow-up.

11 CHAIRMAN GLEIMAN: There are no questions from the  
12 bench.

13 MS. DUCHEK: I just need about two minutes.

14 CHAIRMAN GLEIMAN: Certainly. You've got it.

15 [Recess.]

16 MS. DUCHEK: Mr. Chairman, no redirect.

17 CHAIRMAN GLEIMAN: If there is no redirect, Mr.  
18 Young, then that completes your appearance here today.

19 We appreciate your contributions to our record and  
20 your appearance.

21 THE WITNESS: Thank you.

22 CHAIRMAN GLEIMAN: If there is nothing further,  
23 you are excused.

24 [Witness excused.]

25 CHAIRMAN GLEIMAN: We may as well dive in and get

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1 started.

2 Our next witness appearing on behalf of the United  
3 States Postal Service, Mr. McGrane, is already under oath.

4 We'll give the attorneys the opportunity to  
5 shuffle around over there.

6 Mr. Reiter, when you are ready.

7 MR. REITER: Our next witness is Michael McGrane.

8 CHAIRMAN GLEIMAN: Would you like to introduce his  
9 testimony? I believe Mr. McGrane is already under oath,  
10 although I tend to get confused about which docket we are  
11 in.

12 Whereupon,

13 MICHAEL R. McGRANE,  
14 a rebuttal witness, was called for examination by counsel  
15 for the United States Postal Service and, having been  
16 previously sworn, was examined and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. REITER:

19 Q Mr. McGrane, I am handing you a copy of a document  
20 entitled, "Rebuttal Testimony of Michael R. McGrane on  
21 behalf of the United States Postal Service" designated  
22 USPS-RT-12.

23 Was this testimony prepared by you or under your  
24 direction?

25 A Yes, it was/

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

3           A     Yes, it would.

4           MR. REITER: Thank you. Mr. Chairman, I will hand  
5     two copies of this document to the reporter. I note that  
6     they contain the revisions that were filed on March 10th and  
7     I would ask that they be entered into evidence as the  
8     rebuttal testimony of Michael McGrane.

9           CHAIRMAN GLEIMAN: Are there any objections?

10          Hearing none, Mr. McGrane's testimony and exhibits  
11     are received into evidence and I direct that they be  
12     transcribed into the record at this point.

13                       [Rebuttal Testimony and Exhibits of  
14                       Michael R. McGrane, USPS-RT-12, was  
15                       received into evidence and  
16                       transcribed into the record.]

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**USPS-RT-12**

**BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON DC 20268-0001**

**POSTAL RATE AND FEE CHANGES, 1997**

**Docket No. R97-1**

**REBUTTAL TESTIMONY OF  
MICHAEL R. MCGRANE  
ON BEHALF OF THE  
UNITED STATES POSTAL SERVICE**

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**Direct Testimony  
of  
Michael R. McGrane**

## AUTOBIOGRAPHICAL SKETCH

6 My name is Michael R. McGrane. I am a senior economist with Christensen  
7 Associates of Madison, Wisconsin. I have been employed by Christensen Associates  
8 for eleven years. I previously provided testimony before the Postal Rate Commission  
9 on Periodicals costs in Docket No. MC95-1, and on Standard (A) Mail weight related  
10 costs and ECR costs in Docket No. R97-1. In addition, I have performed research and  
11 provided support for many other analyses presented in Docket Nos. R94-1, MC95-1,  
12 MC96-2, MC97-2, and R97-1. This work has included mail volume estimation using the  
13 PERMIT and BRAVIS bulk mail systems, cost estimation using the IOCS and other  
14 CRA databases, surveys of mail piece characteristics and makeup practices, field  
15 surveys of operational practices, and labor rate forecasting.

16 I received a B.S. in economics from the University of Wisconsin-Madison in May  
17 of 1987. I have also completed further courses in economics and computer science at  
18 the University of Wisconsin-Madison.

1    **I.      Purpose Of Testimony**

2                 The purpose of this testimony is to rebut certain portions of the testimony of  
3       witness Luciani on behalf of United Parcel Service regarding costs avoided by  
4       destination entered Standard (B) Parcel Post, and to rebut witness Andrew on behalf of  
5       RIAA et al. and witness Jellison on behalf of Parcel Shippers Association, regarding the  
6       comparison between Standard (A) Mail parcel costs and revenues.

7    **II.     Mail Preparation Costs Should Not Be Excluded from the Cost Avoidance  
8       Calculation for DBMC Parcel Post Mail.**

9  
10                Postal Service witness Crum included outgoing mail preparation costs at AOs  
11       and SCFs as costs that can be avoided by DBMC Parcel Post. United Parcel Service  
12       witness Luciani argues that these \$2,735,000 (LR-UPS-1-IV-A) in costs should be  
13       excluded from the avoidance calculation. Mr. Luciani's basic argument for this  
14       exclusion is simply that this was how it had always been done (lines 4-6, page 6 of  
15       UPS-T-4 and response to USPS/UPS-T4-1). Tradition notwithstanding, outgoing mail  
16       preparation costs at AOs and SCFs are costs that are avoided by DBMC Parcel Post.

17                When DBMC Parcel Post was successfully introduced as a rate category in  
18       Docket No. R90-1, witness Acheson was extremely conservative and excluded mail  
19       preparation costs from the pool of outgoing costs that DBMC avoids. He did this  
20       because of uncertainties as to how DBMC would work and the controversial nature of  
21       the then new worksharing option. Now that DBMC is a well-established worksharing  
22       rate category, there is no longer a need to be so conservative. The most accurate  
23       DBMC cost estimate is obtained by including mail preparation costs at outgoing non-

1    BMC facilities as avoided costs for DBMC Parcel Post. Mail preparation activities  
2    include opening and dumping sacks and rolling containers, culling mail, canceling,  
3    separating and breaking down mail, and transporting mail within a facility. These  
4    activities are required prior to distribution at each processing facility through which a  
5    piece of Parcel Post mail travels. Parcels entered at BMC facilities, such as DBMC  
6    Parcel Post, do not pass through these facilities and do not incur these costs. In  
7    particular, DBMC Parcel Post will not travel through outgoing SCFs and will not origi-  
8    nate in AOs, so it will not incur any outgoing mail preparation costs at AOs and SCFs.

9              In support of his desire to exclude these costs, Mr. Luciani speculates that, "...it  
10   is likely that outgoing mail preparation costs at non-BMCs are associated with local  
11   intra-BMC parcels that do not travel to the BMC" (Tr. 26/14368). To the contrary, any  
12   Parcel Post mail that is entered at AOs and SCFs, local or not, will incur outgoing mail  
13   preparation, since much of the costs for Parcel Post in these facilities falls under the  
14   description of mail preparation.

15              At the SCF parcels that are deposited at the window and put in hampers or  
16   sacks will be combined into a BMC container for transportation to the SCF's parent  
17   BMC. If local parcels are separated, the address of every parcel that is consolidated for  
18   transportation to the BMC must be examined. As witness Hatfield explained,  
19   separation of local parcels is often not performed even at the local office (Tr. 8/3973).  
20   Regardless of whether or not outgoing mail preparation costs at AOs and SCFs are for  
21   local parcels, DBMC parcels will not incur these costs.

1 III. Mr. Luciani Overstates Outgoing ASF Parcel Costs  
2

3 Witness Luciani argues that outgoing mail processing costs at ASF facilities are  
4 incorrectly included as costs avoided by DBMC Parcel Post. He asks the Commission  
5 to reduce the Postal Services estimate of DBMC avoided outgoing costs by over \$3.3  
6 million, which he estimates to be the outgoing ASF costs included in the Postal  
7 Service's total of almost \$24 million. In the next section I will discuss why outgoing ASF  
8 costs include costs that will be avoided by DBMC Parcel Post. In this section I will  
9 explain why witness Luciani's estimate of outgoing ASF costs is too high, in part  
10 because he uses a method inconsistent with the way the Postal Service estimates  
11 outgoing mail processing costs at non-BMC facilities.

12 Witness Crum estimates outgoing non-BMC costs using IOCS data in his Exhibit  
13 C. His total of approximately \$24 million in outgoing mail processing costs can be  
14 decomposed between ASFs and non-ASFs using IOCS data. I identify the ASFs by  
15 finance number and develop separate keys for the distribution of volume variable costs  
16 for ASFs and non-ASFs within each cost pool. The results of my analysis appear as  
17 Exhibit USPS-RT-12A.

18 The estimate of outgoing ASF costs included in the Postal Service's outgoing  
19 non-BMC mail processing total is \$1,981,000. Witness Luciani develops an outgoing  
20 unit cost using flow models presented by witness Daniel, which he multiplies by  
21 volumes originating in ASF service areas to obtain an estimate of \$3,371,728.

1        Whatever the merits of witness Luciani's modeling effort may be, he cannot  
2        subtract his estimate from the Postal Service's estimate of outgoing non-BMC costs.  
3        The two methods are clearly inconsistent as evidenced by the results of my analysis. It  
4        does not make sense to subtract more ASF costs (as witness Luciani attempted to do)  
5        than are included in the base total. Clearly, witness Luciani's estimate of \$3,371,728 is  
6        overstated. As I show in the next section, only a fraction of the \$1,981,000 should be  
7        subtracted from the costs avoided by DBMC Parcel Post, because much of the time  
8        ASFs function more like an SCF than a BMC.

9

10      **IV. Mr. Luciani Misunderstood the Meaning of ASF Parcel Post Volumes, and**  
11      **Therefore Overstates the ASF Cost Excluded from the Avoidance Calculation**

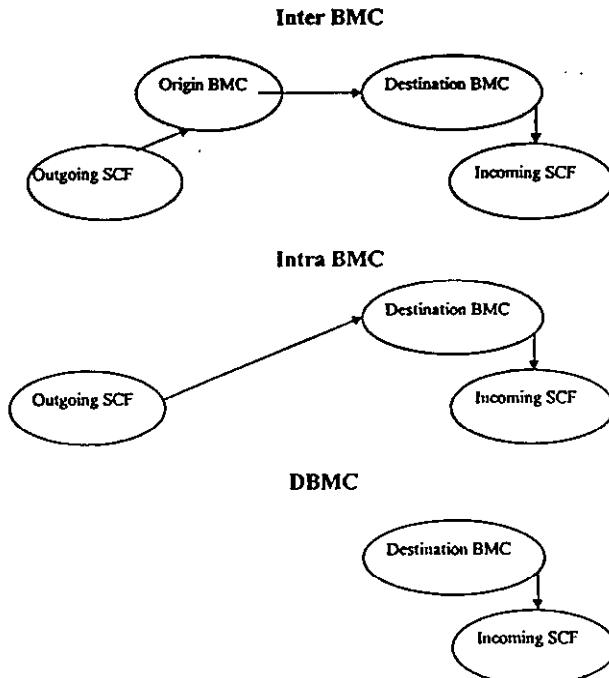
12

13        Mr. Luciani estimates outgoing mail processing costs for Parcel Post at ASFs  
14        and then argues that these costs should be excluded from the cost avoidance  
15        calculation. Because of his improper use of mail volumes, in making this argument he  
16        is effectively assuming that for all Parcel Post mail encountered in an outgoing  
17        operation at an ASF, that the ASF is acting as a BMC. This is an erroneous  
18        assumption. For much of the mail originating in ASF service areas, the function of the  
19        ASF facility is more like an SCF than a BMC. I will demonstrate that at a minimum,  
20        \$918,000 of the \$1,981,000 in outgoing ASF costs should be included in the costs that  
21        DBMC Parcel Post avoids.

22        Let us review why all BMC mail processing costs are excluded from the cost  
23        avoidance calculation for DBMC Parcel Post. The cost avoidance for DBMC Parcel

- 1 Post is calculated relative to intra-BMC Parcel Post costs. Postal Service witness
- 2 Daniel develops the cost difference between inter-BMC and intra-BMC Parcel Post

**Figure 1**  
**PARCEL POST MAIL FLOWS**



- 3
- 4 (Exhibit USPS-T-29E). As shown in Figure 1 above, inter-BMC Parcel Post travels
- 5 through an origin BMC and a destination BMC, while intra-BMC will only travel through
- 6 a destination BMC. DBMC Parcel Post is similar to intra-BMC Parcel Post in that it only
- 7 travels through one BMC. Since the Postal Service assumes that the difference in BMC
- 8 costs between DBMC Parcel Post and inter-BMC Parcel Post is the same as the
- 9 difference in BMC costs between inter and intra-BMC Parcel Post, no further
- 10 accounting of BMC costs are necessary.<sup>1</sup>

---

<sup>1</sup> The Postal Service is actually being conservative when asserting that the BMC costs of intra-BMC and DBMC parcels are the same, because witness Luciani has shown in his Exhibit UPS-T-4B that the unit

1        As shown in Figure 1, DBMC Parcel Post is different than intra-BMC Parcel Post  
2        in that it is deposited at the BMC that serves the destination address, thus avoiding the  
3        outgoing SCF. Intra-BMC Parcel Post is entered at various AOs and SCFs within the  
4        BMC service territory, and incurs costs at these AOs and SCFs before being  
5        transported to the BMC. Thus to calculate the additional mail processing costs avoided  
6        by DBMC Parcel Post relative to intra-BMC Parcel Post, all outgoing basic function  
7        costs at non-DBMCs are considered avoided by DBMC Parcel Post. This is simply the  
8        difference between the intra-BMC and the DBMC portions of Figure 1.

9            UPS witness Luciani argues that ASF costs should be excluded from the costs  
10      avoided by DBMC Parcel Post because ASFs function as BMCs, and that the cost  
11      difference between inter and intra-BMC parcels is already estimated by witness Daniel.  
12      Where witness Luciani is wrong is in his assumption that ASFs always function as  
13      BMCs. The ASF volumes witness Luciani uses from Tr. 8/4121-31 are all volumes  
14      originating in ASF service areas, regardless of destination. The ASF serves as a BMC  
15      for only a portion of these volumes.

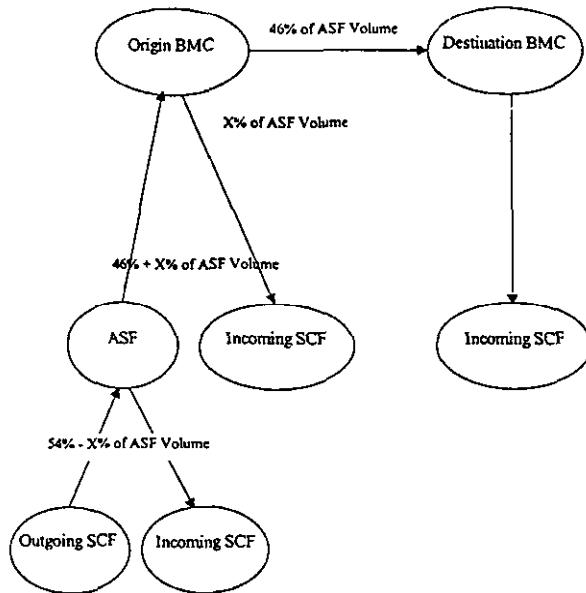
16           Consider a parcel entered at a post office in the Fargo ASF service area and  
17      destinatting in the Seattle BMC service area. This parcel will travel through an  
18      originating SCF (if Fargo is not the originating SCF), the Fargo ASF, the Minneapolis  
19      BMC, and the Seattle BMC. These are shown in Figure 2 below as the outgoing SCF,  
20      the ASF, the origin BMC and the destination BMC. If the mailer now enters this parcel  
21      at the DBMC rate at the Seattle BMC, the parcel avoids the Minneapolis BMC which is

---

cost of processing DBMC Parcel Post in outgoing operations is lower than intra-BMC Parcel Post by 7.9 cents (Tr. 26/14415).

1 represented by the origin BMC in figure 2. The costs that the parcel avoids at the  
 2 Minneapolis BMC are accounted for by the cost difference between inter and intra-BMC  
 3 Parcel Post, as shown in witness Daniel's testimony. Although this parcel also avoids  
 4 the Fargo ASF, in this example the Fargo facility serves as an additional originating  
 5 SCF rather than as a BMC. Witness Luciani would have us improperly exclude this  
 6 cost from the costs avoided by DBMC Parcel Post.

**Figure 2**  
**ASFs ADDED TO PARCEL POST MAIL**



8 When an ASF acts as an SCF, the outgoing mail processing costs should be  
 9 fully included in witness Crum's DBMC cost avoidance. When an ASF acts as a BMC,  
 10 the issue is more complicated since outgoing mail processing costs may or may not be  
 11 avoided by DBMC Parcel Post. While it is true that the Postal Service did not include  
 12 any DBMC savings at BMCs in the cost avoidance calculation presented in witness

1 Crum's testimony, witness Luciani's 7.9 cent figure referenced above supports the  
2 contention that this was a very conservative choice.

3 The Fargo ASF to Seattle BMC example described above represents the  
4 function of ASFs for most of the inter-BMC Parcel Post volume originating in ASF  
5 service areas. Witness Luciani shows the volume of inter-BMC Parcel Post originating  
6 at ASF service territories to be 46 percent of the total volume of Parcel Post originating  
7 in ASF service areas (Exhibit UPS-T-4B). This portion of the ASF outgoing mail  
8 processing cost should be treated as outgoing SCF costs in the DBMC cost avoidance  
9 calculation. ASFs can also act as SCFs for both Intra-BMC and DBMC mail. In Figure  
10 2 this is represented by the X% which travels from the ASF to the BMC to the incoming  
11 SCF. This X% represents intra-BMC mail that originates in an ASF service area, but  
12 destinates in another portion of the ASFs parent BMC service area that is not served by  
13 that ASF. Unfortunately, we do not know this proportion. Thus, a conservative  
14 approach to deal with the complicated ASF issue would be to take the 46 percent of  
15 ASF outgoing mail processing costs of \$1,996,000 (i.e. \$918,000) as the minimum that  
16 should be included in the outgoing costs that DBMC avoids.

17

18 **V. To Compare Standard Mail (A) Costs by Shape to Standard Mail (A)**  
19 **Revenue by Shape, the Costs and Revenues Should Both Be Adjusted or Neither**  
20 **Be Adjusted for Differences in Presortation and Dropshipping.**

21  
22 Witness Moeller uses witness Crum's stated cost difference between parcels and  
23 flats in Standard Mail (A) to support the Residual Shape Surcharge (USPS-T-36, pages  
24 11-15). However, witness Andrew on behalf of RIAA, et al and witness Jellison on  
25 behalf of Parcel Shippers Association have chosen to compare the revenues and costs

1 of Standard (A) parcels and flats included in witness Crum's testimony to evaluate the  
2 appropriateness of a residual shape surcharge (RIAA, et al-T-1, at 4 and PSA-T-1 at 27  
3 and 28). Regardless of whether this is an appropriate method to evaluate the  
4 surcharge, my testimony demonstrates that if one wishes to make this comparison, the  
5 methodology that witness Andrew uses is illogical and his conclusion is unfounded. He  
6 compares *unadjusted* revenue to *adjusted* costs, an "apple to orange" comparison. I  
7 will demonstrate that an "apples to apples" comparison, using either *unadjusted* costs  
8 and revenues or *adjusted* costs and revenues refutes Andrew's contention.

9 Given the available data, an uncomplicated approach to make this comparison  
10 between revenues and costs of Standard (A) parcels is to use the estimated actual  
11 Base Year 1996 costs shown in Table 3 and the estimated actual Base Year 1996  
12 revenues shown in Tables 1 and 2 of Exhibit USPS-T-28K of witness Crum's testimony.  
13 These data represent the Postal Service's best possible estimates of the actual costs  
14 and revenues inclusive of all the dropshipping, presorting, or any other activity that  
15 occurred in 1996. The result of this comparison is that in Base Year 1996 parcels cost  
16 40.3 cents<sup>2</sup> per piece more than flats and brought in 24.6 cents<sup>3</sup> per piece more  
17 revenue than flats. The 15.7 cent difference between unit costs and unit revenues  
18 rebuts witness Andrew's contention that the 10 cent surcharge on parcel-shaped  
19 Standard (A) mail is excessive. This is a simple, logical comparison of "an apple to an  
20 apple."

---

<sup>2</sup> USPS-T-28, page 11. As previously testified by witness Crum this is a conservative estimate.

<sup>3</sup> The unadjusted unit revenue of 24.6 is derived from Table 1 and 2, Exhibit USPS-T-28K.

1       Witness Crum compares the actual 1996 entry profile for parcels and flats. The  
2   weights and volumes presented in Exhibit USPS-T-28K, Table 7 show the degree to  
3   which flats are more finely presorted and more deeply dropshipped than parcels. Since  
4   witness Crum's goal is to estimate the shape-related cost difference between flats and  
5   parcels, he adjusts his cost difference to eliminate any difference caused by dropship  
6   and presort. Witness Crum bases his cost difference on the estimated test year presort  
7   and dropship savings in USPS-T-29 and LR-H-111, respectively. By making this  
8   adjustment, witness Crum estimates that 7.3 cents<sup>4</sup> of the 42.4-cents<sup>5</sup> test year cost  
9   difference between parcels and flats is not due to shape, but is due to the differing  
10   levels of dropship and presort. Therefore, witness Crum's *adjusted* unit costs are unit  
11   costs with the effect of dropship and presort removed.

12       Witness Andrew states that his *unadjusted* unit revenues can be compared to  
13   witness Crum's *adjusted* unit costs (RIAA, et al - T-1, page 7). In other words, witness  
14   Andrew takes *actual* 1996 revenues (that include the effect of presort and dropship)  
15   and compares them to witness Crum's *adjusted* costs (that do not include the effect of  
16   presort and dropship). Although witness Andrew claims his results are evidence that  
17   the 10 cent surcharge on Standard (A) parcels is too large; his conclusion is misleading  
18   because he uses an illogical comparison of "an apple to an orange."

19       As can be seen in Exhibit USPS-T-28K, Tables 1 and 2 of witness Crum's  
20   testimony, Standard Mail (A) parcels pay more revenue per piece than flats. However

---

<sup>4</sup> Exhibit USPS-T-28K, table 7

<sup>5</sup> 42.4 cent test year cost difference is derived by multiplying the 40.3 cent base year cost difference by the test year/base year wage rate adjustment factor of 1.053.

1 as previously discussed, parcels are less finely presorted and less deeply dropshipped  
2 than flats. Since Standard Mail (A) pieces receive discounts for both increasing levels  
3 of presort and dropship, one of the reasons that parcels pay more revenue per piece  
4 than flats is that they are receiving fewer discounts for the above activities. Therefore  
5 both cost differences and revenue differences are affected by the varying levels of  
6 presort and dropship between flats and parcels. Witness Andrew does not incorporate  
7 this fact into his methodology. While he acknowledges that a portion of the cost  
8 difference is due to varying levels of dropship and presort, he ignores the fact that a  
9 portion of the revenue difference is due to varying levels of dropship and presort. It  
10 does not make sense to compare costs that *do not include* the effects of dropship and  
11 presort to revenues that *do include* these effects.

12 As mentioned above, if one were to consider revenues along with costs, the  
13 most straightforward way would be to compare the Base Year *unadjusted* costs and  
14 Base Year *unadjusted* revenues. If one still insisted on using the *adjusted* unit costs for  
15 the comparison, it is possible to perform a similar analysis with revenues parallel to the  
16 Table 7 witness Crum presents for costs. Once a table with adjusted unit revenue  
17 difference is constructed, one could evaluate witness Andrew's criticism of the  
18 proposed 10-cent surcharge by seeing whether the adjusted unit cost difference  
19 exceeds the adjusted unit revenue difference by at least 10 cents.

20 Exhibit-USPS-RT-12B contains the analysis I performed to estimate the adjusted  
21 revenue difference. To make this analysis closely parallel witness Crum's Table 7, a

1 few simplifications had to be made.<sup>6</sup> The results of the adjusted revenue analysis are  
2 shown in the Table 1 below. As shown in the table below, the estimated revenue  
3 difference between Standard (A) parcels and flats caused by dropship and presort is  
4 6.8 cents. Subtracting this number from the unadjusted revenue difference, shows that  
5 adjusted parcel unit revenue exceeds the flat unit revenue by 17.8 cents. To be  
6 consistent with witness Andrew's testimony, I used Andrew's estimate of the base year  
7 cost differential between parcels and flats. He calculated this number by dividing  
8 witness Crum's adjusted test year cost differential, 35.1 cents,<sup>7</sup> by the base year/test  
9 year wage adjustment factor. Witness Andrew's adjusted cost differential, 33.4 cents,  
10 exceeds the adjusted rate differential by 15.6 cents per piece. Note that this figure is  
11 strikingly similar to the 15.7 cent differential that we derived from the comparison of  
12 unadjusted costs to unadjusted revenues. Again, since both figures comfortably  
13 exceed the rate differential by more than 10 cents, this analysis can be used to refute  
14 witness Andrew's conclusion that the 10 cent surcharge is excessive.

---

<sup>6</sup> The exhibit is simplified in respect that it assumes that all of the weight is in pound rated flats and parcels for the calculation of revenue difference due to destination entry discounts. This will underestimate the actual adjustment to revenue if separate minimum rate and pound rate weight are used, because all pieces below the breakpoint receive the discount at the breakpoint regardless of weight.

<sup>7</sup> This number is the difference between 42.4 and 7.3 as discussed on pages 9 and 10 of this testimony.

**Table 1: Adjusted Base Year Revenue/Cost Comparison<sup>8</sup>**

Rates	[1] Adjusted unit costs difference between parcels and flats	[2] Unadjusted unit revenue difference between parcels and flats <sup>9</sup>	[3] Estimated revenue difference caused by dropship and presort	[4] Adjusted unit revenue difference between parcels and flats	[5] Difference between adjusted unit revenues and adjusted unit costs
Current Rates	33.4	24.6	6.8	17.8	15.6

[1] Derived by dividing the test year adjusted cost difference 35.1 (USPS-T-29 page 12) by the test year/base year wage adjustment factor of 1.053.

[2] This number is estimated by Andrew in RIAA et al, T-1, page 7, line 20 and can be derived from Table 1 and 2, Exhibit USPS-T-28K.

[3] Exhibit USPS-RT-12B, page 3.

[4] Column [2]-Column [3]

[5] Column [1] - Column [4]

1

2

My testimony rebuts witness Andrew's contention that the 10-cent residual surcharge on Standard (A) mail is too high based on a comparison of costs and revenues. In my testimony, I have shown that the methodology witness Andrew uses to reach this conclusion is illogical. He compares *unadjusted* costs to *adjusted* revenues, an 'apple to orange' comparison. I have also demonstrated that the simplest of all comparisons, unadjusted costs to unadjusted revenues, results in evidence to refute witness Andrew's contention. In addition, I have performed an adjusted revenue

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<sup>8</sup> This analysis is done in BY1996 and uses current rates. Since rates changed midyear of 1996, I also performed the analysis using pre-classification rates. The result of this analysis was that the difference between adjusted unit revenues and adjusted unit costs is 13.7 as shown in Exhibit USPS-RT-12C. Since this difference is greater than 10 cents, it could also be used as evidence to refute witness Andrew's contention that the 10 cent surcharge is too large.

<sup>9</sup> Unadjusted unit revenue difference between parcels and flats is derived from Table 1 and 2, Exhibit USPS-T-28K. These numbers reflect revenue for the entire year, and therefore reflect a mix of pre-reclassification rates and current rates.

- 1 analysis similar to witness Crum's adjusted cost analysis, and have shown that these
- 2 results can also be used to refute witness Andrew's contention.

## Development of Standard (B) Parcel Post Mail Processing Costs by Basic Function

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)											
Group	Pool	Direct Tally IOCS Costs by Basic Function: Non-DBMC Parcel Post										Variable Mail Proc. Costs w/ Piggyback	$\approx 1/9^*10$		$\approx 2/9^*10$		$\approx 3/9^*10$		$\approx 4/9^*10$		$\approx 5/9^*10$		$\approx 6/9^*10$		$\approx 7/9^*10$		$\approx 8/9^*10$				
		At Non-ASFs				At ASFs				Outgoing		Incoming		Transit		Outgoing		Incoming		Transit		Other		Outgoing		Incoming		Transit		Other	
		Outgoing	Incoming	Transit	Other	Outgoing	Incoming	Transit	Other	Total		Outgoing	Incoming	Transit	Other	Outgoing	Incoming	Transit	Other	Outgoing	Incoming	Transit	Other	No Key	No Key	No Key	No Key	No Key			
1	mods bcs/	-	-	-	-	-	-	-	-	-	40	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	40				
2	mods express	-	-	-	-	-	-	-	-	-	13	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	13				
3	mods fsm/	265	291	-	-	-	-	-	-	556	1,264	602	662	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
4	mods lsm/	51	-	-	-	-	-	-	-	51	90	90	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
5	mods manf	157	338	-	-	-	-	-	-	494	688	217	468	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
6	mods manl	63	458	-	-	-	-	-	-	521	603	73	530	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
7	mods manp	955	2,947	-	-	66	63	-	-	4,032	3,271	775	2,391	-	-	-	54	52	-	-	-	-	-	-	-	-	-				
8	mods meparc	-	842	-	-	-	-	-	-	842	1,177	-	1,177	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
9	mods ocr/	-	-	-	-	-	-	-	-	-	5	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	5				
10	mods priority	79	208	-	-	-	-	-	-	287	356	98	257	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
11	mods spbs Oth	303	326	-	-	-	-	-	-	628	679	327	352	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
12	mods spbsPrio	129	126	-	-	84	-	-	-	339	994	378	369	-	-	-	247	-	-	-	-	-	-	-	-	-	-				
13	mods BusReply	-	68	-	-	-	-	-	-	68	152	-	152	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
14	mods INTL	52	21	48	-	-	-	-	-	121	227	97	39	91	-	-	-	-	-	-	-	-	-	-	-	-	-				
15	mods LD15	-	-	-	-	-	-	-	-	-	0	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	0				
16	mods LD41	-	-	-	-	-	-	-	-	-	62	22	22	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
17	mods LD42	62	-	-	-	-	-	-	-	-	5940	10,081	888	6,446	112	101	-	534	-	-	-	-	-	-	-	-	-				
18	mods LD43	524	4,977	66	59	-	315	-	-	-	114	163	-	163	-	-	-	-	-	-	-	-	-	-	-	-	-				
19	mods LD44	-	114	-	-	-	-	52	-	-	283	9	-	8	-	-	-	2	-	-	-	-	-	-	-	-	-				
20	mods LD48 Exp	-	231	-	-	-	-	-	-	-	538	346	64	282	-	-	-	-	-	-	-	-	-	-	-	-	-				
21	mods LD48 Oth	99	439	-	-	-	-	-	-	-	58	34	-	34	-	-	-	-	-	-	-	-	-	-	-	-	-				
22	mods LD48_SSv	-	58	-	-	-	-	-	-	-	395	590	443	147	-	-	-	-	-	-	-	-	-	-	-	-	-				
23	mods LD49	286	98	-	-	-	-	-	-	-	111	445	238	-	-	-	208	-	-	-	-	-	-	-	-	-	-				
24	mods LD79	59	-	-	-	51	-	-	-	-	72	248	-	246	-	-	-	-	-	-	-	-	-	-	-	-	-				
25	mods MAILGRAMS	-	72	-	-	-	-	-	-	-	37	34	4	28	4	-	-	-	-	-	-	-	-	-	-	-	-				
26	mods Registry	4	-	28	4	-	-	-	-	-	3	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	3				
27	mods REWRAP	-	-	-	-	-	-	-	-	-	15	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	No Key	15				
28	mods 1Bulk pr	-	-	-	-	-	-	-	-	-	877	885	726	159	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
29	mods 1CancMPP	555	121	-	-	-	-	-	-	-	68	748	746	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
30	mods 1EEQMT	68	-	-	-	-	-	-	-	-	142	732	373	359	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
31	mods 1MISC	72	70	-	-	-	-	-	-	-	731	1,951	1,068	886	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
32	mods 1OPbulk	399	332	-	-	-	-	-	-	-	1,435	3,096	1,050	2,046	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
33	mods 1OPpref	487	949	-	-	-	-	-	-	-	808	2,814	1,819	883	-	-	-	264	249	-	-	-	-	-	-	-	-	-			
34	mods 1Platfrm	1,534	2,480	384	-	255	312	-	-	-	4,985	23,539	7,271	11,759	1,821	-	1,208	1,479	-	-	-	-	-	-	-	-	-	-			
35	mods 1POUCHNG	356	153	-	-	-	-	-	-	-	509	2,084	1,443	621	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
36	mods 1SackS_h	370	781	61	25	-	-	-	-	-	1,238	3,403	1,018	2,150	168	67	-	-	-	-	-	-	-	-	-	-	-				
37	mods 1SackS_m	350	148	-	-	57	54	-	-	-	3	47	47	-	-	-	-	-	264	249	-	-	-	-	-	-	-	-			
38	mods 1SCAN	3	-	-	-	-	-	-	-	-	214	887	546	341	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
39	mods 1SUPPORT	132	82	-	-	-	-	-	-	-	7,365	20,917	5,862	12,484	2,771	-	-	-	-	-	-	-	-	-	-	-	-	-			
40	BMCs nmo	3,877	1,510	-	-	-	-	-	-	-	5,387	8,158	5,871	2,287	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
41	BMCs psm	3,098	5,568	-	-	-	-	-	-	-	8,866	12,191	4,358	7,832	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
42	BMCs spb	1,777	806	-	-	-	-	-	-	-	2,583	3,710	2,552	1,158	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
43	BMCs ssm	552	893	-	-	-	-	-	-	-	1,444	3,489	1,333	2,157	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
44	BMCs Othr	6,446	5,171	41	113	-	-	-	-	-	11,771	23,723	12,892	10,421	82	228	-	-	-	-	-	-	-	-	-	-	-	-			
45	BMCs Pla	1,993	4,395	976	-	-	-	-	-	-	-	7,365	20,917	5,862	12,484	2,771	-	-	-	-	-	-	-	-	-	-	-	-			
46	Non Mods	1,086	10,632	203	-	-	-	-	-	-	11,920	19,183	1,747	17,110	326	-	-	-	-	-	-	-	-	-	-	-	-	-			
Total		26,251	45,703	1,806	201	513	798	-	-	75,271	153,081	54,740	88,175	5,397	400	1,978	2,316	-	-	-	-	-	-	-	-	78	0.000				

## Exhibit USPS-RT-12A, Page 2 of 2

**Variable Mail Processing Cost for Zone Parcel Post  
by Basic Function and Office Type**

	Outgoing	Incoming	Transit	Other	Total	Percent of Costs
MODS	20,249	34,769	2,220	172	57,410	37.5%
ASFs	1,981	2,319	-	-	4,300	2.8%
BMCs	32,769	36,338	2,853	228	72,188	47.2%
Non-MODS	1,747	17,110	326	-	19,183	12.5%
<b>Total</b>	<b>56,746</b>	<b>90,536</b>	<b>5,399</b>	<b>400</b>	<b>153,081</b>	
Non-BMC Costs	23,977	54,198	2,546	172	80,893	
BMC Costs	32,769	36,338	2,853	228	72,188	

**Calculation of Revenue Difference Due to Differences In Presorting and Drop Shipment  
FY 1996 Standard Mail (A) Regular and Commercial**

Exhibit USPS-RT-12B  
Page 1 of 3

**1) Weight by Entry Discount**

(Table A-1 of CD/ROM version of LR-H-108 printed copy provided in response to NDMS/USPS-T28-25(A))

	None	BMC	SCF	DDU	Total
Flats	1,209,819	1,357,705	2,093,648	962,762	5,623,935
Parcels	351,584	106,122	35,905	2,078	495,688

**2) Per pound discounts (Ratefold Notice 123, October 12, 1997)**

	None	BMC	SCF	DDU
	\$0.000	\$0.064	\$0.085	\$0.111

**3) Discounts (= 1) \* (2)**

	None	BMC	SCF	DDU	Total	vg. Discount per Piece
Flats	\$0	\$86,893	\$177,960	\$106,867	\$371,720	0.014 (3a) = (3) total / (4) total
Parcels	\$0	\$6,792	\$3,052	\$231	\$10,074	0.011 (3b) = (3) total / (4) total

**4) Pieces by Presort Level (Exhibit USPS-T-28K Table 1)**

	Basic	Basic-Auto	3/5 Digit	3/5-Auto	Carrier	125 Walk	Saturation	Total
Flats	1,178,231	162,210	2,405,130	6,460,139	8,290,968	742,221	7,269,917	26,508,816
Parcels	266,451		602,983		54,488	1,815	13,161	938,898

**5) Presort Rate differences \$ / pc (Ratefold, Notice 123 October 12, 1997)**

(from piece/pound pieces weighing more than .2068 pounds)

Basic	Basic-Auto	3/5 Digit	3/5-Auto	Carrier	125 Walk	Saturation
\$0.000	\$0.029	\$0.081	\$0.117	\$0.148	\$0.156	\$0.166

**6) Presort Rate Differences (= (4) \* (5))**

	Basic	Basic-Auto	3/5 Digit	3/5-Auto	Carrier	125 Walk	Saturation	Total	Discounts per Piece
Flats	\$0	\$4,704	\$194,816	\$755,836	\$1,227,063	\$115,786	\$1,206,806	\$3,505,012	\$0.132 (6a) = (6) total / (4) total
Parcels	\$0	\$0	\$48,842	\$0	\$8,064	\$283	\$2,185	\$59,374	\$0.063 (6b) = (6) total / (4) total

**7) Rate/Revenue Difference Due to Differences in Entry and Presort Profile**

7a) \$0.003 \$ / piece discounts due to entry profile relative to parcels. (= (3a) - (3b))

7b) \$0.069 \$ / piece discounts due to presort profile relative to parcels. (= (6a) - (6b))

7c) \$0.072 \$ / piece of difference in revenues of flats and parcels are explained by differences in presorting and entry profiles. (= (7a) + (7b))

**Calculation of Revenue Difference Due to Differences in Presorting and Drop Shipment**  
**FY 1996 Standard Mail (A) Nonprofit Mail**

**1) Weight by Entry Discount**

(Table A-1 of CD/ROM version of LR-H-108 printed copy provided in response to NDMS/USPS-T28-25(A))

	None	BMC	SCF	DDU	Total
Flats	205,574	45,811	74,668	8,040	334,093
Parcels	13,910	1,936	1,290	30	17,167

**2) Per pound discounts (Ratefold Notice 123, October 12, 1997)**

	None	BMC	SCF	DDU
	\$0.000	\$0.062	\$0.088	\$0.114

**3) Discounts (= (1) \* (2))**

	None	BMC	SCF	DDU	Total	Avg. Discount per Piece
Flats	\$0	\$2,840	\$6,571	\$917	\$10,328	\$0.005 (3a) = (3) total / (4) total
Parcels	\$0	\$120	\$114	\$3	\$237	\$0.005 (3b) = (3) total / (4) total

**4) Pieces by Presort Level (Exhibit USPS-T-28K Table 2)**

	Basic	Basic-Auto	3/5 Digit	3/5-Auto	Carrier	125 Walk	Saturation	Total
Flats	374,716	25,368	586,414	584,210	430,455	4,231	178,126	2,183,520
Parcels	18,260		24,100		1,099	0	290	43,749

**5) Presort Rate differences \$ / pc (Ratefold, Notice 123 October 12, 1997)**

(from piece/pound pieces weighing more than .2068 pounds)

Basic	Basic-Auto	3/5 Digit	3/5-Auto	Carrier	125 Walk	Saturation
\$0.000	\$0.024	\$0.052	\$0.076	\$0.087	\$0.094	\$0.100

**6) Presort Rate Differences (= (4) \* (5))**

	Basic	Basic-Auto	3/5 Digit	3/5-Auto	Carrier	125 Walk	Saturation	Total	Discounts per Piece
Flats	\$0	\$609	\$30,494	\$44,400	\$37,450	\$398	\$17,813	\$131,162	\$0.060 (6a) = (6) total / (4) total
Parcels	\$0	\$0	\$1,253	\$0	\$96	\$0	\$29	\$1,378	\$0.031 (6b) = (6) total / (4) total

**7) Rate/Revenue Difference Due to Differences in Entry and Presort Profile**

7a) -\$0.001 \$ / piece discounts due to entry profile relative to parcels. (= (3a) - (3b))

7b) \$0.029 \$ / piece discounts due to presort profile relative to parcels. (= (6a) - (6b))

7c) \$0.028 \$ / piece of difference in revenues of flats and parcels are explained by differences in presorting and entry profiles. (= (7a) + (7b))

**Calculation of Revenue Difference Due to Differences in Presorting and Drop Shipment**  
**Sum of Regular, Commercial, and Nonprofit**

**3) Discounts (Sum over Regular and Nonprofit)**

	None	BMC	SCF	DDU	Total	Avg. Discount per Piece	
Flats	\$0	\$89,733	\$184,531	\$107,783	\$382,047	\$0.013	(3a) = (3) total / (4) total
Parcels	\$0	\$6,912	\$3,165	\$234	\$10,311	\$0.010	(3b) = (3) total / (4) total

**4) Pieces by Presort Level (Exhibit USPS-T-28K Tables 1 & 2)**

	Basic	Basic-Auto	3/5 Digit	3/5-Auto	Carrier	125 Walk	Saturation	Total
Flats	1,552,947	187,578	2,991,544	7,044,349	8,721,423	746,452	7,448,043	28,692,336
Parcels	284,711	0	627,083	0	55,587	1,815	13,451	982,647

**6) Presort Rate Differences (Sum over Regular and Nonprofit)**

	Basic	Basic-Auto	3/5 Digit	3/5-Auto	Carrier	125 Walk	Saturation	Total	Discounts per Piece
Flats	\$0	\$5,313	\$225,309	\$800,236	\$1,264,513	\$116,184	\$1,224,619	\$3,636,174	\$0.127 (6a) = (6) total / (4) total
Parcels	\$0	\$0	\$50,095	\$0	\$8,160	\$283	\$2,214	\$60,752	\$0.062 (6b) = (6) total / (4) total

**7) Rate/Revenue Difference Due to Differences in Entry and Presort Profile**

- 7a) \$0.003 \$ / piece discounts due to entry profile relative to parcels. (= (3a) - (3b))
- 7b) \$0.065 \$ / piece discounts due to presort profile relative to parcels. (= (6a) - (6b))
- 7c) \$0.068 \$ / piece of difference in revenues of flats and parcels are explained by differences in presorting and entry profiles. (= (7a) + (7b))

**Calculation of Revenue Difference Due to Differences in Presorting and Drop Shipment**  
**FY 1996 Standard Mail (A) Regular and Commercial**

Exhibit USPS-RT-12C  
 Page 1 of 3

**1) Weight by Entry Discount**

(Table A-1 of CD/ROM version of LR-H-108 printed copy provided in response to NDMS/USPS-T28-25(A))

	None	BMC	SCF	DDU	Total
Flats	1,209,819	1,357,705	2,093,648	962,762	5,623,935
Parcels	351,584	106,122	35,905	2,078	495,688

**2) Per pound discounts (Ratefold Notice 123, January 1995)**

	None	BMC	SCF	DDU
	0	0.066	0.092	0.119

**3) Discounts (= 1) \* (2)**

	None	BMC	SCF	DDU	Total	vg. Discount per Piece
Flats	0	89,609	192,616	114,569	396,793	0.015 (3a) = (3) total / (4) total
Parcels	0	7,004	3,303	247	10,555	0.011 (3b) = (3) total / (4) total

**4) Pieces by Presort Level (Exhibit USPS-T-28K Table 1)**

	Basic	Basic-Auto	3/5 Digit	3/5-Auto	Carrier	125 Walk	Saturation	Total
Flats	1,178,231	162,210	2,405,130	6,460,139	8,290,968	742,221	7,269,917	26,508,816
Parcels	266,451		602,983		54,488	1,815	13,161	938,898

**5) Presort Rate differences \$ / pc (Ratefold, Notice 123 January 1995)**

(from piece/pound pieces weighing more than .2068 pounds)

	Basic	Basic-Auto	3/5 Digit	3/5-Auto	Carrier	125 Walk	Saturation
	0	0.029	0.052	0.071	0.104	0.10900	0.121

**6) Presort Rate Differences (= (4) \* (5))**

	Basic	Basic-Auto	3/5 Digit	3/5-Auto	Carrier	125 Walk	Saturation	Total	Discounts per Piece
Flats	0	4,704	125,067	458,670	862,261	80,902	879,660	2,411,263	0.091 (6a) = (6) total / (4) total
Parcels	0	0	31,355	0	5,667	198	1,592	38,812	0.041 (6b) = (6) total / (4) total

**7) Rate/Revenue Difference Due to Differences in Entry and Presort Profile**

7a) 0.004 \$ / piece discounts due to entry profile relative to parcels. (= (3a) - (3b))

7b) 0.050 \$ / piece discounts due to presort profile relative to parcels. (= (6a) - (6b))

7c) 0.053 \$ / piece of difference in revenues of flats and parcels are explained by differences in presorting and entry profiles. (= (7a) + (7b))

**Calculation of Revenue Difference Due to Differences in Presorting and Drop Shipment**  
**FY 1996 Standard Mail (A) Nonprofit Mail**

**1) Weight by Entry Discount**

(Table A-1 of CD/ROM version of LR-H-108 printed copy provided in response to NDMS/USPS-T28-25(A))

	None	BMC	SCF	DDU	Total
Flats	205,574	45,811	74,668	8,040	334,093
Parcels	13,910	1,936	1,290	30	17,167

**2) Per pound discounts (Ratefold Notice 123, January 1995)**

	None	BMC	SCF	DDU
	0	0.06	0.084	0.108

**3) Discounts (= (1) \* (2))**

	None	BMC	SCF	DDU	Total	Avg. Discount per Piece
Flats	0	2,749	6,272	868	9,889	0.005 (3a) = (3) total / (4) total
Parcels	0	116	108	3	228	0.005 (3b) = (3) total / (4) total

**4) Pieces by Presort Level (Exhibit USPS-T-28K Table 2)**

	Basic	Basic-Auto	3/5 Digit	3/5-Auto	Carrier	125 Walk Saturation	Total
Flats	374,716	25,368	586,414	584,210	430,455	4,231 178,126	2,183,520
Parcels	18,260		24,100		1,099	0 290	43,749

**5) Presort Rate differences \$ / pc (Ratefold, Notice 123 January 1995)**

(from piece/pound pieces weighing more than .2068 pounds)

	Basic	Basic-Auto	3/5 Digit	3/5-Auto	Carrier	125 Walk Saturation
	0	0.026	0.014	0.032	0.047	0.04900 0.054

**6) Presort Rate Differences (= (4) \* (5))**

	Basic	Basic-Auto	3/5 Digit	3/5-Auto	Carrier	125 Walk Saturation	Total	Discounts per Piece
Flats	0	660	8,210	18,695	20,231	207 9,619	57,622	0.026 (6a) = (6) total / (4) total
Parcels	0	0	337	0	52	0 16	405	0.009 (6b) = (6) total / (4) total

**7) Rate/Revenue Difference Due to Differences in Entry and Presort Profile**

7a) -0.001 \$ / piece discounts due to entry profile relative to parcels. (= (3a) - (3b))

7b) 0.017 \$ / piece discounts due to presort profile relative to parcels. (= (6a) - (6b))

7c) 0.016 \$ / piece of difference in revenues of flats and parcels are explained by differences in presorting and entry profiles. (= (7a) +

**Calculation of Revenue Difference Due to Differences in Presorting and Drop Shipment**  
**Sum of Regular, Commercial, and Nonprofit**

**3) Discounts (Sum over Regular and Nonprofit)**

	None	BMC	SCF	DDU	Total	Avg. Discount per Piece	
Flats	0	92,357	198,888	115,437	406,682	0.014	(3a) = (3) total / (4) total
Parcels	0	7,120	3,412	251	10,782	0.011	(3b) = (3) total / (4) total

**4) Pieces by Presort Level (Exhibit USPS-T-28K Tables 1 & 2)**

	Basic	Basic-Auto	3/5 Digit	3/5-Auto	Carrier	125 Walk	Saturation	Total
Flats	1,552,947	187,578	2,991,544	7,044,349	8,721,423	746,452	7,448,043	28,692,336
Parcels	284,711	0	627,083	0	55,587	1,815	13,451	982,647

**6) Presort Rate Differences (Sum over Regular and Nonprofit)**

	Basic	Basic-Auto	3/5 Digit	3/5-Auto	Carrier	125 Walk	Saturation	Total	Discounts per Piece
Flats	0	5,364	133,277	477,365	882,492	81,109	889,279	2,468,885	0.086 (6a) = (6) total / (4) total
Parcels	0	0	31,693	0	5,718	198	1,608	39,217	0.040 (6b) = (6) total / (4) total

**7) Rate/Revenue Difference Due to Differences in Entry and Presort Profile**

- 7a) 0.003 \$ / piece discounts due to entry profile relative to parcels. (= (3a) - (3b))
- 7b) 0.046 \$ / piece discounts due to presort profile relative to parcels. (= (6a) - (6b))
- 7c) 0.049 \$ / piece of difference in revenues of flats and parcels are explained by differences in presorting and entry profiles. (= (7a) + (7b))

1 CHAIRMAN GLEIMAN: Five participants requested  
2 oral cross examination of this witness: Florida Gift Fruit  
3 Shippers; Nashua District, et al.; Parcel Shippers  
4 Association; the Recording Industry Association of America;  
5 and United Parcel Service.

6 It's my understanding that Florida Gift Fruit  
7 Shippers and Nashua do not plan to cross examine the  
8 witness.

9 Does any other party have oral cross examination?  
10 If not, Mr. May -- the patient Mr. May.

11 CROSS EXAMINATION

12 BY MR. MAY:

13 Q Mr. McGrane, this I hope will be brief.

14 On page 1 of your rebuttal testimony -- it's  
15 actually page 7, I believe -- of your rebuttal testimony, if  
16 you have that, you state that RIA Witness Andrew and PSA  
17 Witness Jellison have chosen to compare the revenues and  
18 costs of Standard A parcels and flats to evaluate the  
19 appropriateness of a residual surcharge.

20 Do you see that section of your testimony?

21 A Except that it is page 9 in the copy that I am  
22 looking at.

23 Q Excuse me -- all right, page 8 and 9. Yes. You  
24 then proceed to criticize Witness Andrew's methodology as  
25 being, quote, "illogical" and "unfounded" -- do you see

1       that?

2           A     Yes.

3           Q     Your stated reason for this is that Witness Andrew  
4     uses adjusted costs but not use adjusted revenues to make  
5     the comparison, basically.

6           A     That's correct.

7           Q     Now the remainder of your testimony does not  
8     address at all Mr. Jellison's testimony. It doesn't say  
9     anything about his testimony.

10              Is it your intention to similarly criticize his  
11    testimony as you do Mr. Andrew's or did you just  
12    gratuitously include Mr. Jellison's -- a reference to his  
13    testimony? If your answer is yes, then I can go home  
14    immediately.

15           A     Well, to the best of my understanding Mr. Jellison  
16    made the same comparison that Mr. Andrew made.

17           Q     Well, Witness Andrew addressed base year parcel  
18    costs by using the 7.3 cent cost reduction that was  
19    calculated by Postal Service Witness Crum in his Schedule K,  
20    does he not?

21           A     Yes.

22           Q     Mr. Jellison did not do that, did he?

23           A     That may be the case. I don't have Mr. Jellison's  
24    testimony in front of me.

25           Q     Well, let me give it to you because you do

1 reference his testimony and presumably you are rebutting his  
2 testimony with this section of your testimony.

3 CHAIRMAN GLEIMAN: This is not from 1984, is it?

4 MR. MAY: No. No, this is not --

5 CHAIRMAN GLEIMAN: Just making sure.

6 MR. MAY: No, this is not BE.

7 CHAIRMAN GLEIMAN: Oh --

8 [Laughter.]

9 BY MR. MAY:

10 Q And what I have handed the witness, Mr. Chairman,  
11 are excerpts from the transcript, specifically pages 12,969  
12 through 12,973, which I believe you will find is the section  
13 of Mr. Jellison's testimony to which you referred. Is that  
14 correct?

15 A It appears to be so, yes.

16 Q Now, if you will look at the transcript page in  
17 front of you -- that is page 12,972 -- is it not the case  
18 that Mr. Jellison did not reduce costs by the 7.3 cents  
19 calculated by Mr. Crum but, rather, only by 1.4 cents?

20 A Regardless of the magnitude of the adjustment,  
21 making an adjustment for the purpose of the comparison isn't  
22 the correct way to do it.

23 Q Well, would you please answer the question?

24 A Yes.

25 Q It's only 1.4 cents, correct?

1           A     Yes.

2           Q     Now, I take it that, based on your testimony, you  
3     believe that the best comparison is that of unadjusted costs  
4     to unadjusted revenues.

5           A     Yes, that's correct.

6           Q     And addressing Mr. Jellison's Exhibit A, which is  
7     in front of you, transcript 12,971, which itemizes base year  
8     data supplied by the Postal Service for standard A letters,  
9     flats, and parcels, does not that data show that, for that  
10    category of parcels, regular commercial parcels, about which  
11    Mr. Jellison was testifying, the costs are 33.1 cents per  
12    piece more for parcels than for flats?

13          A     So, you're comparing the 51.3 cents to the 9.7  
14    cents?

15          Q     No. I assume you're familiar with Mr. Jellison's  
16    testimony, since you purport to rebut it in this section of  
17    your testimony.

18                 Mr. Jellison testified exclusively about the cost  
19    of -- comparison of the cost of commercial regular standard  
20    A parcels and flats, that separate sub-class. That's his  
21    testimony. He didn't testify about anything else.

22                 Now, in that table, which you have in your hand,  
23    I'm simply asking you to confirm that that table and Mr.  
24    Jellison's testimony shows that the differences in costs  
25    between standard A parcels and standard A flats for the

1 regular sub-class is 33 cents. Is that not the case?

2 A Yes, it appears to be so.

3 Q Un-adjusted revenues for those parcels, on the  
4 other hand, are 22.15 cents more per piece than the revenues  
5 for flats. Is that not what that also shows?

6 A Yes, it does.

7 Q Thus, is it not the case that the actual cost  
8 revenue relationships for flats and parcels in that  
9 sub-class shows that, while parcels cost 33.1 cents more per  
10 piece to handle than flats, they also earn 22.15 cents more  
11 revenue, leaving a difference of only 11 cents. Is that not  
12 correct?

13 A Yes, those are the numbers, yes.

14 Q Now, in that calculation of those numbers, Mr.  
15 Jellison has not adjusted costs, he has not reduced his cost  
16 by the 1.4 cents, right?

17 A Yes.

18 Q And so, the difference -- comparing what you say  
19 should be compared, the un-adjusted costs and the  
20 un-adjusted revenues, we have a difference of 11 cents  
21 between parcels and flats in that sub-class. Is that  
22 correct?

23 A Yes, assuming all the numbers on the table are  
24 correct.

25 Q Well, we got them from the Postal Service. So, I

1 don't know whether that's a safe assumption or not, but that  
2 is our source.

3 Now, again, directing your attention to Witness  
4 Jellison's Exhibit A, where he lists the costs and revenue  
5 separately for regular standard A and flats and parcels, the  
6 Postal Service data used there show that, in the base year,  
7 parcel costs were 51.3 cents and parcel revenues were 46.45  
8 cents, leaving a shortfall of 4.85 cents per piece. Is that  
9 correct?

10 A Yes, assuming your math is correct. I'm not  
11 willing to do it in my right here.

12 Q Now, assuming the accuracy of the Postal Service  
13 data that Mr. Jellison was using, assuming that that's  
14 accurate -- and many parties have challenged this data, by  
15 the way, but assuming that it's correct, assuming Mr. Crum's  
16 correct, that you're all correct, assuming that, is it still  
17 not the case that a 5-cent surcharge on regular standard A  
18 parcels would produce sufficient revenues to cover 100  
19 percent of the attributable costs of regular standard A  
20 parcels?

21 A If that's the objective of the rate design.

22 Q Yes or no. Yes or no, it would cover them 100  
23 percent according to these numbers, would it not?

24 A According to these numbers, yes, it would.

25 Q Now, is it not the case that a five cent surcharge

1       is exactly what several of the Commissioners on this  
2       Commission recommended be the surcharge in the bulk small  
3       parcel case?

4                    MR. REITER: Mr. Chairman, at this point, we  
5       really are beyond the subject of this witness' testimony.

6                    CHAIRMAN GLEIMAN: Would you care to respond, Mr.  
7       May?

8                    MR. MAY: I believe it was this witness' testimony  
9       that was challenging Mr. Jellison's section of his  
10      testimony. That's why I asked him, are you challenging Mr.  
11      Jellison's testimony.

12                  MR. REITER: The portion that he's challenging is  
13      concerning a comparison of revenues and costs that were  
14      made, not to ask him about what the Commission said in other  
15      cases and what that may --

16                  CHAIRMAN GLEIMAN: Well, in the interest of moving  
17      along, and Mr. May is moving at a pretty good clip here, if  
18      the witness can answer that question, I don't know the  
19      answer to the question because that was B.E. Let's see if  
20      the witness knows, and if he doesn't know, he will tell us  
21      he doesn't know.

22                  MR. REITER: I'm not sure it was.

23                  MR. MAY: It wasn't B.E. It was A.E.

24                  CHAIRMAN GLEIMAN: Did you say the bulk small  
25      parcel case?

1                   MR. MAY: No, excuse me, in the first  
2 reclassification case, MC-95.

3                   CHAIRMAN GLEIMAN: I thought you said bulk small  
4 parcel.

5                   MR. MAY: Thank you for the correction, Mr.  
6 Chairman.

7                   CHAIRMAN GLEIMAN: That case was before my time.

8                   MR. MAY: Yes, the first reclassification case,  
9 MC-95.

10                  THE WITNESS: Honestly, I don't recall.

11                  BY MR. MAY:

12                  Q      Fine. Mr. Andrew, whose testimony you also rebut,  
13 asserted that there was another 5.6 cents of costs that was  
14 improperly assigned to parcels for various reasons. You do  
15 not rebut that contention, do you?

16                  A      Not specifically in my testimony; no.

17                  Q      Now, if he is right on that, if he's right and you  
18 haven't rebutted it, then that would be a reduction of at  
19 least five cents in the cost, meaning that for the base  
20 year, if he's correct, this sub-class of parcels covered at  
21 least 100 percent of its attributable costs; would that not  
22 be the case if Mr. Andrew is correct?

23                  A      Well, first of all, Witness Degen does rebut one  
24 portion --

25                  Q      2.3 cents. No one from the Postal Service rebuts

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1       the 3.3 cents over assignment, do they, to your knowledge?  
2       You don't and Mr. Degen doesn't. I'm just asking you to  
3       assume for the sake of discussion that indeed the Postal  
4       Rate Commission finds that Mr. Andrew's contention is  
5       correct, as to that over assignment of costs, then it would  
6       also be the case, would it not, that in fact standard A  
7       parcels covered 100 percent of their attributable costs,  
8       according to that math? Yes or no?

9           A     You know, I don't recall specifically at this  
10      moment. I believe Witness Andrew was not talking about  
11      regular parcels only, but about the combined ECR and non-ECR  
12      for both regular and non-profit.

13          Q     Are you aware that the regular comprises 88.5  
14      percent of the total?

15          A     That sounds approximately correct, yes.

16          Q     If it were the case that Mr. Andrew's testimony is  
17      believed and it is believed that therefore the costs for  
18      standard A parcels have been over attributed by five cents  
19      per piece, then does it not follow that that means with no  
20      surcharge at all, in the base years standard A parcels were  
21      covering 100 percent of their costs?

22          A     Yes, if you make all those assumptions.

23          Q     Well, there is only one assumption that I'm asking  
24      you to make and that assumption is the Commission believes  
25      Mr. Andrew's testimony is correct. Is there any other

1 assumption I'm asking you to assume in that formulation?

2 A Well, but Mr. Andrew's testimony consists of two  
3 separate items, so you have to accept both of them in order  
4 to --

5 Q Yes, both his 2.3 cents argument and the 3.3  
6 cents, not having anything to do, mind you, with Mr.  
7 Andrew's adjustment of 7.3 cents. We are not talking about  
8 that. We are talking about an entirely separate cost  
9 attribution issue raised by Mr. Andrew, one of 2.3 cents  
10 over attribution of costs, and another, 3.3 cents, and you  
11 admit yourself that neither you nor anybody else in the  
12 Postal Service has rebutted his contention on the 3.3 cents  
13 cost over; is that not the case?

14 A No one specifically rebuts it, but I don't think  
15 it will go uncontested in later phases of this --

16 Q Then I'm back to asking you, apart from the  
17 assumption that the Commission gives credibility to Witness  
18 Andrew's contention on this 5.6 cents, I'm not asking you to  
19 assume anything else that is not in evidence in this case,  
20 am I?

21 A Yes, if you subtract five cents of costs, then --

22 Q It is paying its way?

23 A Yes.

24 MR. MAY: That's all, Mr. Chairman.

25 CHAIRMAN GLEIMAN: Mr. Wiggins.

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1 MR. WIGGINS: Thank you, Mr. Chairman.

2 CROSS EXAMINATION

3 BY MR. WIGGINS:

4 Q Mr. McGrane, I'm Frank Wiggins, here today for the  
5 Recording Industry Association of America. I think you  
6 established with Mr. May that part of the mission of this  
7 rebuttal testimony is to rebut the testimony submitted --  
8 entered into the record under the name RIAA et al. 1 from  
9 Dr. Andrew.

10 A Yes.

11 Q And you told Mr. May what parts of the Andrew  
12 testimony you didn't deal with. You didn't deal with the  
13 portion of Dr. Andrew's testimony in which he asserts that  
14 owing to an error in the calculation of density of parcels,  
15 the Postal Service overstates transportation costs by 3.3  
16 cents per --

17 A That's not addressed in my testimony.

18 Q That's not part of your testimony. And it equally  
19 is not part of your testimony to rebut that portion of Dr.  
20 Andrew's testimony in which he asserts that through an error  
21 in the distribution of non-MODS office mail processing  
22 costs, there is an overstatement of parcel costs of 2.3  
23 cents.

24 A No, I believe that's addressed in Mr. Degen's  
25 testimony.

1           Q     I understand. That's tomorrow, though, and this  
2     is still tonight.

3           A     Yes.

4           Q     And you don't take up that issue.

5           A     Yes.

6           Q     Okay. You do say that there is an analytic  
7     infirmity in Dr. Andrew's testimony and that he fails  
8     adequately to segregate his apples and his oranges. Right?

9           A     That's correct; yes.

10          Q     And you say there are two cures to that infirmity.  
11     One could either compare, as you did with Mr. May with  
12     regard to Mr. Jellison's testimony, one could compare  
13     unadjusted costs with unadjusted revenues; right?

14          A     Right. And I believe that's the superior  
15     comparison.

16          Q     Okay. I got that from your testimony. What I  
17     didn't get from your testimony was the punch line. I never  
18     saw the number. Did I miss it?

19          A     Which number are you referring to?

20          Q     A number that compares the unadjusted costs of  
21     flats and parcels with the unadjusted revenues of flats and  
22     parcels.

23          A     Well, I believe that all that evidence is on the  
24     record already, and --

25          Q     I'm just asking whether it's in your testimony and

1       that I've overlooked it.

2           A     No, I don't believe that those numbers are  
3     specifically side by side somewhere in my testimony.

4           Q     Witness Andrew calculated by subtracting from 33.4  
5     cents 24.6 cents, 2.3 cents, and 3.3 cents that the maximum  
6     justifiable surcharge would be 3.2 cents. But that is  
7     comparing an unadjusted revenue number with an adjusted cost  
8     number; correct?

9           A     Could --

10          Q     That's what you criticize him for.

11          A     I criticize him for comparing the adjusted cost  
12     number to the unadjusted revenue --

13          Q     Well, the sum that he comes down to after  
14     subtracting out, adding the revenue difference back in and  
15     subtracting out the other costs, he says 3.2 cents. Do you  
16     remember that part of his testimony? It says the maximum  
17     surcharge you could justify is 3.2 cents. Do you remember  
18     that?

19          A     Not the specific words or sentence, no.

20          Q     Can you explain to all of us what numbers you  
21     would compare if you wanted to compare unadjusted revenues  
22     with unadjusted costs?

23          A     Certainly. You would compare the cost number in  
24     table 3 of Witness Crum's Exhibit K with the unit revenue  
25     that you can derive from the combinations of table 1 and 2

1       of Crum's Exhibit K.

2           Q     Are those numbers anywhere in your testimony?

3       Un-adjusted unit revenue is column 2 of your Table 1, is it  
4       not?

5           A     Yes.

6           Q     And do we -- but we don't have an un-adjusted unit  
7       cost number there, correct?

8           A     No, but it's clearly right at the bottom of Table  
9       3, page 2 of Crum's Exhibit K.

10          Q     Let's just make sure that we have the same number  
11       in mind here. Your number in column 2, the un-adjusted unit  
12       revenue number, is 24.6 cents, correct?

13          A     Yes.

14          Q     And you say I need to look at Table 3 of Mr.  
15       Crum's Exhibit K?

16          A     Yes, that's correct.

17          Q     And can you give me a line number, a page number  
18       or something where I'm going to see the number that you  
19       think I ought to be looking at?

20          A     Well, I don't have page numbers here, but I  
21       believe it's the second page of Table 3, and there's a line  
22       called attributable cost per piece, and then you would  
23       compare the flats and the IPP and parcels.

24           MR. REITER: If it would help, if I could jump in,  
25       I think there's a number -- and if I'm not mistaken, this is

1       the one you're looking for, page 9, line 16, Mr. McGrane's  
2       testimony.

3                   COMMISSIONER LeBLANC: That's his original  
4       testimony, Mr. Reiter?

5                   MR. REITER: No, his rebuttal testimony.

6                   COMMISSIONER LeBLANC: Okay. Just to make sure  
7       the record's clear. Thanks.

8                   MR. WIGGINS: I'd be happy if the witness could  
9       confirm that.

10                  COMMISSIONER LeBLANC: Do you need the cite again,  
11       Mr. McGrane?

12                  THE WITNESS: That would help, but actually, what  
13       seems to be occurring is that I have different page  
14       numbering on the copy of testimony I have here.

15                  COMMISSIONER LeBLANC: Mr. Wiggins, so we're all  
16       on the same sheet of music, would you have an objection if  
17       Mr. Reiter --

18                  MR. WIGGINS: Absolutely not.

19                  COMMISSIONER LeBLANC: -- lets him take a look at  
20       his copy, and that way we'll be on the --

21                  MR. WIGGINS: Absolutely.

22                  THE WITNESS: Where I have it is on page 10 at  
23       line 11, where --

24                  COMMISSIONER LeBLANC: Can you give us some  
25       indication so we can all be on there, Mr. McGrane?

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1                   THE WITNESS: The sentence reads, "The result of  
2 this comparison is that, in the base year, 1996, parcels  
3 cost 40.3 cents per piece more than flats and brought in  
4 24.6 cents per piece more revenue than flats."

5                   MR. WIGGINS: Let me just make sure -- I'm still  
6 operating under the previous incarnation of this, and I just  
7 want to make sure that I'm tracking -- okay, got it.

8                   COMMISSIONER LeBLANC: Okay, Mr. Wiggins, are we  
9 back on go now?

10                  MR. WIGGINS: Yes, sir.

11                  COMMISSIONER LeBLANC: Okay. Thank you.

12                  BY MR. WIGGINS:

13                  Q     You also testify, Mr. McGrane, that another way,  
14 the way you least -- less prefer, for matching up apples and  
15 applies instead of apples and oranges, is to compare an  
16 adjusted cost number with an adjusted revenue number.

17                  A     If you insist on making that comparison, yes, you  
18 would have to adjust both the cost and the revenue number.

19                  Q     And you purport to show us the outcome of that  
20 comparison, don't you, in your Appendices B and C, and then  
21 you reflect one of those in your Table 1.

22                  A     Yes, that's correct.

23                  Q     You reflect Appendix B. Is that right?

24                  A     Yes. I reflect Appendix B because Appendix B  
25 represents the rates on which this case is being built upon.

1           MR. WIGGINS: May I approach the witness, Mr.  
2 Chairman?

3           COMMISSIONER LeBLANC: Certainly.

4                            [Cross-Examination Exhibit No.  
5                            RIAA/USPS-XE-1 was marked for  
6                            identification.]

7           BY MR. WIGGINS:

8         Q    I have placed in front of the witness a document  
9    that has been marked as RIAA/USPS-XE-1 that was previously,  
10   many days ago, provided to counsel for Mr. McGrane.

11                  Have you had a chance to review that, Mr. McGrane?

12         A    Yes, I certainly have.

13         Q    It is a restatement of your Table 1, right?

14         A    Yes, that's correct.

15         Q    And in the fourth column of that restatement,  
16   there is a reflection of the two parts of cost difference  
17   reduction that you and I talked about at the very onset of  
18   this colloquy, which is in Dr. Andrew's testimony that you  
19   do not rebut. Correct?

20         A    Yes, but that doesn't mean that I agree with his  
21   statement.

22         Q    Oh, no, I understand. I am just trying to get  
23   sources straight here so we are talking about common  
24   ground -- and the 33.4 cent number in column 2 is a number  
25   from your Table 1, right?

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1           A     Yes, and it is also -- yes.

2           Q     So if one goes from your restated adjusted unit  
3     cost number 33.4, reduce it by the two numbers from Dr.  
4     Andrew's testimony, you get the restated number in column 3  
5     of 27.8 if the arithmetic is right?

6           A     Yes.

7           Q     And the next number down in Row 2, the 24.6  
8     number -- that is the unadjusted revenue difference and that  
9     too is a number taken from your table, so you endorse that  
10    number, correct?

11          A     Yes.

12          Q     Now the next row down, Row 3, accurately reflects  
13    in column 2 the 6.8 cents that you show there, but in the  
14    restated column is 4.9 cents.

15                 That is the difference -- those two numbers are  
16    the difference between your analysis in Appendix B, the 6.8  
17    cent number, and Appendix C, the 4.9 cent number, correct?

18          A     Yes, it is the difference between using  
19    pre-reclassification rates and post-reclassification rates.

20          Q     Right. At the top of your Table 1 you say it is  
21    the adjusted base year and you also say that on lines 13 and  
22    14 of page 11. You say you are talking about the base year?  
23    Do you have that?

24          A     Well, again, I am having trouble finding the --

25          Q     Oh, I'm sorry, because of the difference in

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1 pagination.

2 Look only at your Table 1, would you please? That  
3 states it clearly enough.

4 It says at the very top adjusted base year  
5 revenue.

6 A Yes.

7 Q Is it your impression that Mr. Crum was using base  
8 year numbers?

9 A If I recall Witness Crum's testimony correctly,  
10 most of his calculations were done using base year numbers  
11 and then he makes projections to the test year at the end.

12 Q You have that testimony in front of you, don't  
13 you?

14 A I only have a very limited portion of it.

15 Q Do you have Table 1?

16 A Yes, I have Table 1.

17 Q What does it say at the top of Table 1, the label  
18 there?

19 A It says FY 1996 Standard Mail A Bulk Regular Rate.

20 Q I believe if you look at the substances of Mr.  
21 Crum's testimony, he tells you that he is using Fiscal Year  
22 1996 numbers. Accept that with me, subject to check, would  
23 you please?

24 A Well, right, yes. And to the best of my  
25 understanding, the base year is consisting of Fiscal Year

1       1996 numbers, in terms of volumes and revenues.

2           Q     And Fiscal Year 1996 is the period beginning on  
3     October 1, 1995 and ending on September 30, 1996, is that  
4     right?

5           A     Yes.

6           Q     And give me your impression of when the 4.9 cent  
7     rate that is reflected in your Exhibit C, when was that in  
8     effect, or when did it cease being in effect?

9           A     Well, reclassification ceased to be in effect July  
10    1st of 19 -- or was implemented July 1st, 1996. But,  
11    regardless, if you are comparing the costs and the revenues,  
12    the revenues that are in place that the rates on this case  
13    will be built upon are the post-reclassification rates. The  
14    rates from two cases prior really aren't germane.

15          Q     Well, I am trying to get a handle -- what we are  
16    trying to do, it seems to me, what you criticize Dr. Andrew  
17    for not doing, is matching up a series of costs with a  
18    series of revenues during a single time period, correct?

19          A     No, I criticized Dr. Andrew for using the  
20    adjustment that makes the unit costs for parcels look like  
21    they had been mailed in the same pattern for flats, but not  
22    doing to the similar adjustment to revenue.

23          Q     I understand. But in your analysis, you are  
24    comparing adjusted unit costs with adjusted unit revenues,  
25    are you not?

1           A     Yes, I present that, yes.

2           Q     And it is important, isn't it, for your analysis,  
3     that the adjusted costs be from a period in time which is  
4     the same as the period in time from which you are measuring  
5     the unit revenues, isn't it? You have to have a temporal  
6     match?

7           A     But the adjustment in costs are based upon the  
8     cost estimates presented in this case, and the  
9     post-reclassification rates more closely match those  
10    adjustments in costs. The reason that it is appealing to  
11    use the Exhibit B rather than the Exhibit C figures is that  
12    the adjustment in costs matches the adjustment in revenue  
13    most closely, and that shows that the adjustments in costs  
14    are equal to the adjustment in revenues, which seems to be  
15    the goal of ratemaking, is that you make your revenues  
16    equivalent to your costs.

17          Q     Let me put it a slightly different way. Where did  
18    you get the adjusted unit cost number that you use? Column  
19    1 of Table 1. Where did you find that?

20          A     From Witness Crum's testimony. It's the  
21    application of -- I don't have a page number cite unless --  
22    I must cite it in the testimony here.

23          Q     I believe you did. I think you tell me that it is  
24    page 12, isn't it? Isn't it the Footnote 1 to your Table 1?  
25    And he, in turn, tells us in his testimony where that number

1       comes from, and I think if you match up that testimony with  
2       the tables in his testimony, you will see they are Fiscal  
3       Year 1996 numbers, aren't they? That Mr. Crum is using  
4       here.

5           A      I don't have Mr. Crum's table in front of me, but  
6       --

7           Q      Well, accept that for me, subject to your own  
8       check, if you would, please. And now I need to understand,  
9       if you are using Fiscal Year 1996 numbers, and we said those  
10      are the numbers from September 1 -- I'm sorry, October 1 of  
11      '95 through September of '96, correct?

12       A      Yes.

13       Q      Wouldn't I want to look -- if I truly were trying  
14      to compare apples with apples, wouldn't I want to look at  
15      revenues for that same time period?

16       A      If you truly want to compare apples to apples,  
17      compare the un-adjusted costs to the un-adjusted revenue.

18       Q      If I wanted to compare adjusted apples with  
19      adjusted apples, wouldn't I want to do that in the same time  
20      period?

21       A      But -- all the numbers, I accept, are from FY  
22      1996, except for the numbers used in Table 7 of Witness  
23      Crum's testimony to adjust the numbers, and those  
24      adjustments are based upon the evidence presented in this  
25      case.

1           Q     In October of 1995, which is the beginning point  
2     of Fiscal Year 1996, correct?

3           A     October 1995, yes.

4           Q     That's the beginning of fiscal year 1996?

5           A     Yes.

6           Q     Were the discounts that are displayed on your  
7     tables 12-C in effect on October 1 of 1995, or were the  
8     discounts that you display on your Exhibit B in effect?

9           A     In October 1 of 1995 the discounts in Exhibit C  
10    were in effect; yes.

11          Q     Right. And they remained in effect until July 1  
12    of 1996 or roughly for three quarters of the fiscal year  
13    1996 period.

14          A     Yes.

15          Q     And only after that did the discounts which you  
16    display in your Exhibit B come into effect. Correct?

17          A     Yes.

18                MR. WIGGINS: Mr. Chairman, I have nothing  
19    further.

20                Oh, I do have --

21                CHAIRMAN GLEIMAN: Too late.

22                MR. WIGGINS: One thing further, Mr. Chairman. We  
23    have had marked, and I have put in front of the reporter  
24    what I've marked as Cross-Examination Exhibit 1. For the  
25    sake of clarity of the record, I'd like to have it entered

1       into the record at this point.

2           CHAIRMAN GLEIMAN: Transcribed into --

3           MR. WIGGINS: Transcribed into the record, not  
4       entered as evidence.

5           CHAIRMAN GLEIMAN: I'll direct that RIAA/USPS-XE-1  
6       be transcribed into the record at this point.

7                            [Cross-Examination Exhibit No.

8                            RIAA/USPS-XE-1 was transcribed into  
9                            the record.]

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**USPS-RT-12 Table 1 (Adjusted)**  
**Comparison of Base Year Revenue and Costs**

**Parcels and Flats**

Item (1)	USPS-RT-12 (2)	Restated (3)	Source of Restated Value (4)
[1] Adjusted unit cost difference between parcels and flats	33.4	27.8	Adjustments for Density bias (-3.28) and Non-MODS variability (-2.33) shown by Dr. Andrew $(33.4 - 3.28 - 2.33 = 27.8)$
[2] Unadjusted unit revenue difference between parcels and flats	24.6	24.6	Same
[3] Estimated revenue difference caused by dropship and presort	6.8	4.9	Use the correct rates for 1996 shown in USPS-RT-12C.
[4] Adjusted unit revenue difference between parcels and flats (line 2 - line 3)	17.8	19.7	
[5] Difference between adjusted unit revenues and adjusted unit costs (line 1. - line 4)	15.6	8.1	
Source: Columns 1 & 2 : USPS-RT-12, page 13, Table 1.			

1           CHAIRMAN GLEIMAN: I didn't mean to say it was too  
2 late for you, it's just too late for us all to be here.

3           Mr. McKeever.

4           MR. MCKEEVER: Thank you, Mr. Chairman.

5           MR. REITER: Mr. Chairman, before Mr. McKeever  
6 begins, and I'm sorry to interrupt, may I give the witness a  
7 copy of the testimony that has the right page references?  
8 It might expedite things.

9           CHAIRMAN GLEIMAN: Certainly. And while you're  
10 doing that, just let me make a note of something. Florida  
11 Gift Fruit Shippers had earlier indicated that it wished to  
12 cross Witness Lewis. Mr. Wells advises me that he has no  
13 cross-examination for Witness Lewis.

14          MR. REITER: All right. Thank you for --

15          CHAIRMAN GLEIMAN: So I don't know whether anyone  
16 else does or not, but hopefully we'll be able to move along  
17 a little bit more quickly, since we won't have cross of that  
18 one witness.

19          Mr. McKeever.

20          MR. MCKEEVER: Thank you, Mr. Chairman.

21                   CROSS EXAMINATION

22                   BY MR. MCKEEVER:

23          Q        Mr. McGrane, could you turn to page 1 of your  
24 testimony, please.

25          A        I have it.

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1           Q     At lines 17 to 19 there you state that in  
2     Docket R90-1 Mr. Atchison excluded mail preparation costs  
3     from the pool of outgoing costs that DBMC avoids in order to  
4     be conservative. Is that right?

5           A     Yes, that's my understanding.

6           Q     Why do you think that if he wanted to be  
7     conservative he picked those particular costs as opposed to  
8     some other costs to exclude from his calculation of DBMC  
9     avoided costs.

10          A     I can't really speculate as to why he chose those  
11    particular costs.

12          Q     Okay. On lines 10 and 11 of page 1 you state that  
13    Mr. Crum included outgoing mail preparation costs at AOs and  
14    SCFs as costs that can be avoided by DBMC Parcel Post. Do  
15    you see that?

16          A     Yes, I do.

17          Q     Why did you use the word "can" there?

18          A     Well, you could use the word "are" as well. I  
19    mean --

20          Q     You didn't intend any difference.

21          A     No.

22          Q     Do DBMCs incur -- DBMC parcels incur outgoing mail  
23    preparation costs at DBMCs?

24          A     Yes.

25          Q     Okay. If you turn to page 2 of your testimony at

1       lines 1 to 3, you state that mail preparation activities  
2       include opening and dumping sacks and rolling containers,  
3       culling mail, canceling, separating and breaking down mail,  
4       and transporting mail within a facility. Is that correct?

5           A     Yes, that's correct.

6           Q     Do you know if mail preparation activities also  
7       could include occasionally rewrapping parcels that become  
8       unwrapped in transit or during handling? Is that a mail  
9       preparation activity?

10          A     Yes, that is a mail preparation activity.

11          Q     Anything that prepares the mail for distribution  
12       is a mail preparation activity. Is that right?

13          A     As it's labeled in the IOCS; yes.

14          Q     Okay. Do you know what separating and breaking  
15       down mail consists of? Can you describe that process for  
16       me?

17          A     Well, generally in SCF-like plants as containers  
18       are offloaded transportation in an opening-unit-like  
19       operation they open the container and they sort the sacks or  
20       trays or other mail that's in the container to the various  
21       operations in which they're going to be distributed, and  
22       they usually refer to that as breaking down the container.

23          Q     Okay. And that does -- that operation is  
24       performed on DBMC parcels at the DBMC. Is that right?

25          A     Well, at the DBMC it's usually much simpler in

1       that you're just unloading the vehicle and directing the  
2       parcels to the parcel-sorting machine so they can be sorted.

3           Q     They're not separated and broken down?

4           A     In BMCs it generally consists of moving the  
5       container and then dumping it into the loading mechanism of  
6       the parcel-sorting machine.

7           Q     Well, I'm not clear, are they separated and broken  
8       down?

9           A     They could be, you know, if there was a mixture of  
10      nonmachineable and machineable parcels. Yes.

11          Q     Okay. When DBMC parcels are entered at a DBMC, do  
12      the mail preparation activities performed on them include  
13      opening and dumping sacks and rolling containers?

14          A     Yes, they have to be removed from their containers  
15      in order to be distributed.

16          Q     And they are also transported within the facility.  
17      Is that right?

18          A     Yes.

19          Q     Mr. McGrane, you do agree, don't you, that ASFs  
20      sometimes serve the same function as a BMC?

21          A     In some cases they do, yes.

22          Q     Could you turn to page 3 of your testimony,  
23      please? On that page, at line 15, you state that, to adjust  
24      Mr. Luciani's adjustment of DBMC costs, you used IOCS data  
25      and identified ASFs by finance number and developed separate

1       keys for the distribution of volume variable costs for ASFs  
2       and SCFs. Do you see that?

3           A     Yes.

4           Q     Are you aware, Mr. McGrane, that in R90-1, Mr.  
5       Atchison testified that he could not do what you said you  
6       did in this case, because an ASF's finance number is not  
7       --or at least, then, was not unique to the facility?

8           A     No, I was not aware that he had testified as such.

9           Q     Okay.

10              When Mr. -- my understanding is that, when Mr.  
11       Luciani tried in this case to isolate IOCS tallies for ASFs,  
12       the data that we received from the Postal Service was such  
13       that the ASF finance numbers were masked or garbled or  
14       covered over.

15              When you first worked with the data, did you have  
16       to un-mask it or un-garble or do anything in any way so you  
17       could have access to that information? Do you recall?

18           A     Well, the data, in the way that I worked with it,  
19       is the same data set that the Postal Service works with the  
20       finance number field as it originally appears in the data.  
21       So, I can look directly at the finance number.

22           Q     Well, did you have to do anything special to get  
23       access to the number, or are you telling me that you used  
24       something other than what was filed in this case?

25           A     Well, I used the 1996 IOCS tape as it's used in

1       the Postal Service. The tape that's released in this case  
2       is -- comes from the same set of data, but it has the  
3       finance numbers masked in a way so that individual  
4       facilities can't be identified.

5           Q     Okay. So that the tape that was supplied to the  
6       parties in this case did, in fact, have the ASF finance  
7       numbers masked? Is that what you just said?

8           A     Well, yes. I mean all they are are changed or  
9       randomly coded so that they're different than the actual  
10      numbers that are used within the Postal Service, but if I  
11      understand the coding process correctly, there's still  
12      one-to-one mapping from the original finance numbers to the  
13      numbers that were filed in the publicly-available copy.

14          Q     Do you know if the publicly-available copy gives  
15      one a key so that one can identify what information is ASF  
16      information as opposed to information for other facilities?

17          A     No, I'm not aware if that information was  
18      available.

19          Q     Okay.

20               Now, on page 4 to 8 of your testimony -- well,  
21      let's maybe go to page 4. Well, let's go to -- yes, page 4,  
22      lines 10 to 11. The heading there is "Mr. Luciani  
23      misunderstood the meaning of ASF parcel post volumes and,  
24      therefore, overstates the ASF cost excluded from the  
25      avoidance calculation." Do you see that?

1           A     Yes, I do.

2           Q     And the way I understand your testimony, under  
3     your adjustment or your view of this issue, the best  
4     estimate of ASF costs that you could come up with that  
5     should be excluded from DBMC avoided costs is a little over  
6     a million dollars. Is that right?

7           A     That's correct, yes.

8           Q     Actually, you show, at least in my copy of the  
9     testimony, two different numbers for your outgoing ASF  
10    costs. On page 4, at line 20, you use the number  
11    \$1,981,000. Do you see that?

12          A     Yes.

13          Q     If you could turn to page 8, at line 15, you use  
14    the number \$1,996,000. Am I reading that wrong, or are you  
15    using two different numbers for the -- that should be the  
16    same?

17          A     They should be the same.

18          Q     Okay. Which one is right?

19          A     Well, if you look in Exhibit A, page 2, the number  
20    is 100,981 million.

21          Q     And the number in that exhibit is the correct  
22    number then?

23          A     Yes.

24          Q     Okay. Now you have a footnote 1 on pages 5 and 6  
25    of your rebuttal testimony and there you indicate that Mr.

1       Luciani's Exhibit 4-B shows that, quote, "The unit cost of  
2 processing DBMC Parcel Post in outgoing operations is lower  
3 than intra-BMC Parcel Post by 7.9 cents.

4                  Do you see that?

5       A      Yes.

6       Q      Mr. Luciani derived his Exhibit 4-B numbers from  
7 Ms. Daniel's testimony, didn't he?

8       A      That is my understanding, yes.

9       Q      And Ms. Daniel's figures don't attempt to take  
10 into account any density differences between DBMC Parcel  
11 Post and non-DBMC Parcel Post, does it -- do they?

12      A      I am not aware if they do or not.

13      Q      You don't know one way or the other?

14      A      Yes.

15      Q      Could you turn to page 8 of your testimony?

16                  At lines 5 to 9, you state that Mr. Luciani shows  
17 the volume of inter-BMC Parcel Post originating at ASF  
18 service territories to be 46 percent of the total volume of  
19 Parcel Post originating in ASF service areas, is that right?

20      A      Yes.

21      Q      Do you have Mr. Luciani's Exhibit 4-B with you?

22      A      I actually left it in my briefcase but --

23      Q      Well, I can either supply you with a copy or  
24 whichever one you are more comfortable with. I do have  
25 extra copies which I will distribute in any event to the

1 bench and counsel.

2 CHAIRMAN GLEIMAN: In the interest of time, why  
3 don't you just distribute your copies. If Mr. McGrane is  
4 uncomfortable with the copy you give him, he can head for  
5 his briefcase.

6 BY MR. McKEEVER:

7 Q Now can you tell me -- that exhibit does show ASF  
8 volumes, inter-BMC, intra-BMC and DBMC, is that right?

9 A Yes, that is correct.

10 Q Can you tell me how you derived your 46 percent  
11 number from those volumes?

12 A Well, it would be line 6 divided by the sum of  
13 lines 6, 13, and 20.

14 Q Well, I did that and I came up with 34 percent.

15 Do you want a calculator? It's a pretty simple  
16 calculation that could be done in a minute, with a  
17 calculator, that is.

18 I would be happy to provide one to you.

19 COMMISSIONER LeBLANC: Mr. McGrane.

20 MR. McKEEVER: The Chairman beat me to it.

21 CHAIRMAN GLEIMAN: Mr. McGrane, be careful. That  
22 calculator when I use it for my checkbook for some reason it  
23 always gives me the wrong answer.

24 [Laughter.]

25 [Pause.]

1                   THE WITNESS: I believe you are correct, Mr.  
2   McKeever.

3                   BY MR. McKEEVER:

4   Q   It is really 34.4 percent?

5   A   Well, 34.3, but I didn't round off the numbers.

6   Q   34 percent is good enough, is that right? 34  
7   percent?

8   A   Yes.

9   Q   Okay, so the 46 percent number in your testimony  
10   should be 34 percent?

11   A   Yes.

12   Q   Now if we use that percent, the minimum that  
13   should be included in the outgoing cost that DBMC avoids  
14   falls from your figure of \$918,000 to \$686,624 --

15   A   Accepting that the calculation that you did was  
16   correct, yes.

17   Q   Yes, I applied that percentage just as you did to  
18   the \$1,981,000. Well, okay -- that is not how I did it but  
19   that is the right number.

20                  If you want to check it, feel free to do so.

21   A   So what was the number?

22   Q   \$686,624.

23   A   I don't get exactly the same number but --

24   Q   What do you get?

25   A   -- but it is similar. 1981 times 34.4 you said --

1       681, okay.

2           Q     What did you get?

3           A     681.

4           Q     681. I probably used 34.4 but we are in the same  
5     ball park -- 680,000 let's call it, okay?

6           A     Yes.

7           Q     So then the little over a million dollars that  
8     should be taken out of the calculation of DBMC avoided costs  
9     increases to about \$1.3 million, is that correct?

10          A     Yes, the minimum.

11          Q     Now, the calculation that we just did, that you  
12     did in your testimony, of the percent of originating ASF  
13     volume that is inter-BMC assumes that all of such volume  
14     goes to the originating ASF's parent BMC, doesn't it?

15          A     Yes, but it also recognizes the fact that there is  
16     a possibility that maybe not all of that volume goes to the  
17     originating BMC's parent or ASF's parent BMC, but that some  
18     of the inter-BMC volume also does go to the ASF's parent  
19     BMC.

20          Q     Try me one more time on that. I'm not sure I  
21     caught it. Could you state that again? You said it also  
22     recognizes something else.

23          A     What you are trying to point out is that there is  
24     a possibility that some of the inter-BMC volume does not  
25     travel through the ASF's parent BMC, if I understand your

1 point.

2 Q That's exactly right. You agree with that, don't  
3 you?

4 A But there's also a countervailing phenomenon in  
5 that of the intra-BMC volume that originates at ASF --

6 Q Did you say intra or --

7 A Intra, yes.

8 Q Okay. Go ahead.

9 A Some of that volume also will travel through the  
10 ASF's parent BMC, which is the X percent that I reference in  
11 my testimony at page eight, line ten.

12 Q That's not generally the case, is it? Normally,  
13 if a parcel post piece is entered at an ASF for delivery  
14 within the service area of the ASF, it's generally not sent  
15 to the parent BMC of the ASF, is it?

16 A Well, but intra-BMC parcel post includes parcels  
17 that also designate outside of the ASF surface territory.  
18 For example, the Fargo ASF and the Phoenix ASF all belong to  
19 the Denver BMC. I wouldn't expect that Fargo has direct  
20 transportation all the way down to Phoenix.

21 Q But you do agree that mail entered at an ASF  
22 sometimes does not go to that originating ASF's parent BMC;  
23 is that correct?

24 A And I would suspect that it's a small proportion  
25 given the likely circumstances that it goes to the next

1       nearest BMC and there is 21 other BMC's that inter-BMC  
2       parcels could travel to.

3           Q       Those situations, to whatever extent they occur,  
4       represent additional instances where an ASF functions as a  
5       BMC; is that correct?

6           A       In those small portion of instances; yes.

7           Q       Have you ever studied the size of those instances?

8           A       Well, I think you can make the logical conclusion  
9       that it's probably near the proportion of 1 to 21, and since  
10      you don't know that there's also additional parcels in the  
11      intra-BMC mail stream, where the ASF is not functioning as a  
12      BMC --

13          Q       With the Chair's permission, I'd like to show you  
14      a document that was an attachment to a Postal Service  
15      interrogatory to Mr. Luciani. It is the attachment to  
16      USPS-UPS-T4-42.

17           MR. McKEEVER: If I may, Mr. Chairman.

18           CHAIRMAN GLEIMAN: Certainly.

19           BY MR. McKEEVER:

20          Q       Now, as I mentioned, Mr. McGrane, this was a  
21      document that was produced by the Postal Service in  
22      connection with a discovery request directed to Mr. Luciani,  
23      and it represents a listing of auxiliary service facilities,  
24      their parent BMCs and some of the splits made at the ASF.  
25      That indicates instances where an ASF does not send mail to

1 the parent BMC, but rather sends it either directly to  
2 another BMC or to another ASFs, is that correct?

3 A That's what it appears to be, yes.

4 MR. McKEEVER: Mr. Chairman, that concludes my  
5 cross-examination, except I would like to move that the  
6 document I just provided to Mr. McGrane be transcribed into  
7 the record of today's hearing to make the discussion clear.  
8 I would mark it as UPS-McGRANE-XE-1.

9 CHAIRMAN GLEIMAN: We are talking about the  
10 document that has a chart on it that is entitled "Auxiliary  
11 Service Facility Outgoing Parcel Splits"?

12 MR. McKEEVER: Yes, Mr. Chairman. It is labeled  
13 as Attachment to USPS/UPS-T4-42.

14 CHAIRMAN GLEIMAN: I just wanted to make sure,  
15 because you also handed another document earlier.

16 MR. McKEEVER: Yes.

17 CHAIRMAN GLEIMAN: I want to make sure we are  
18 getting the right one in. I will direct that it be  
19 transcribed into the record.

20 [Cross-Examination Exhibit No.  
21 UPS-McGRANE-XE-1 was marked for  
22 identification and transcribed into  
23 the record.]

24

25

USPS - MFG RANE - XE-1

**Auxiliary Service Facilities Outgoing Parcel Splits**

Auxiliary Service Facility (ASF)	Portland BMC	Other Outgoing Splits (BMCs and ASFs)
Fargo	Minneapolis	Bismarck ASF, Sioux Falls ASF
Buffalo	Pittsburgh	Springfield BMC
Oklahoma City	Dallas	Denver BMC, Kansas City BMC, Memphis BMC, St Louis BMC
Seattle City	Denver	Los Angeles BMC, Phoenix ASF, San Francisco BMC, Seattle BMC
Sioux Falls	Des Moines	Denver BMC, Fargo ASF, Minneapolis BMC

Attachment to USPSUPS-T442

SENT BY:

1-29-98 : 13:05 : Schneider, Harrison, -

215 751 2587:#13/31

1                   MR. McKEEVER: Thank you, Mr. Chairman. I have no  
2 further questions.

3                   CHAIRMAN GLEIMAN: Is there any follow-up?  
4 Questions from the bench?

5                   [No response.]

6                   CHAIRMAN GLEIMAN: Would you like some time with  
7 your witness for redirect?

8                   MR. REITER: Yes, a few minutes, Mr. Chairman.

9                   CHAIRMAN GLEIMAN: Okay. When you say a few, you  
10 mean just a couple, right? Because if not, we'll take 10  
11 now, and we are going to take a minute break now.

12                  MR. REITER: That would be fine with us if you  
13 would like to.

14                  CHAIRMAN GLEIMAN: Okay. We can take the 10  
15 minute break now and go right through after that without any  
16 breaks if we possibly can.

17                  [Recess.]

18                  CHAIRMAN GLEIMAN: Mr. Reiter?

19                  MR. REITER: Mr. Chairman, we have no redirect.

20                  CHAIRMAN GLEIMAN: It gets better and better, not  
21 that I, you know, would want to deny anybody the  
22 opportunity, mind you.

23                  Mr. McGrane, that being the case, we appreciate  
24 your appearance here today, your contributions to our  
25 record, and if there's nothing further, you're excused.

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1           THE WITNESS: Thank you, Mr. Chairman.

2           [Witness excused.]

3           CHAIRMAN GLEIMAN: Yes, sir.

4           MR. REITER: Are we ready for our next witness?

5           CHAIRMAN GLEIMAN: We're ready for our next  
6 witness.

7           MR. REITER: Who is Jeffery Lewis.

8           CHAIRMAN GLEIMAN: Mr. Lewis, before you settle  
9 in, if you could please raise your right hand.

10          Whereupon,

11                    JEFFERY W. LEWIS,

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

15            CHAIRMAN GLEIMAN: Please be seated.

16                    DIRECT EXAMINATION

17            BY MR. REITER:

18           Q       Mr. Lewis, I handed you a copy of a document  
19          entitled "Rebuttal Testimony of Jeffery W. Lewis on Behalf  
20          of United States Postal Service," designated USPS-RT-9. Was  
21          this testimony prepared by you or under your direction?

22           A       Yes, it was.

23           Q       And if you were to testify here orally today,  
24          would your testimony be the same?

25           A       Yes, it would.

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1 MR. REITER: Thank you.

2 Mr. Chairman, I will hand two copies of this  
3 document to the reporter and ask that it be entered into  
4 evidence as the rebuttal testimony of Jeffery Lewis.

5 CHAIRMAN GLEIMAN: Are there any objections?

6 [No response.]

7 CHAIRMAN GLEIMAN: Hearing none, Mr. Lewis'  
8 testimony and exhibits are received into evidence, and I  
9 direct that they be transcribed into the record at this  
10 point.

11 [Rebuttal Testimony and Exhibits of  
12 Jeffery W. Lewis, USPS-RT-9, was  
13 received into evidence and  
14 transcribed into the record.]

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USPS-RT-9

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON DC 20268-0001

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POSTAL RATE AND FEE CHANGES, 1997

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Docket No. R97-1

REBUTTAL TESTIMONY OF  
JEFFERY W. LEWIS  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE

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1   **AUTOBIOGRAPHICAL SKETCH**

2   My name is Jeffery W. Lewis. I provided testimony before the Postal Rate  
3   Commission previously in conjunction with the Classification Reform I case,  
4   Docket No. MC95-1.

5   I began working for the Postal Service as a part-time flexible letter carrier in  
6   1974. Presently I serve as an Operations Specialist at Postal Service  
7   Headquarters in Delivery Policies and Programs (DPP). I have held this position  
8   since 1992. I am currently responsible for providing program leadership in  
9   enhancing on-street performance and functional program support for the Delivery  
10   Confirmation program.

11   I was assigned the functional lead on both DPP's street management efforts and  
12   the Delivery Confirmation program because the programs will share common  
13   infrastructure and are the front end of many technology-based changes in  
14   delivery unit processes and tools. I began serving on the Delivery Confirmation  
15   program development team in April of 1996. I participated in the development of  
16   functional requirements of the Mobile Data Collection Device (MDCD) system,  
17   which is the formal name for the information system that uses the hand-held  
18   scanners addressed in Postal Service witness Treworgy's direct testimony,  
19   USPS-T-22. I represented Operations on the MDCD technical review team that  
20   pre-qualified proposed MDCD vendors, analyzed vendor proposals, and made  
21   the recommendation for contract award. I am currently a co-chair of the Delivery

1 Confirmation Advisory Group and heavily involved in field implementation  
2 activities.

3 Previously, I helped coordinate the national implementation and management of  
4 the Delivery Point Sequencing (DPS) program. Before coming to DPP, I was a  
5 program manager for delivery automation in the Automation Implementation  
6 Management Department from 1990 to 1992. In that assignment, I provided  
7 planning support for the field implementation of the letter mail automation  
8 program.

9 Before working in Operations, I served in the Special Projects Department from  
10 1988 to 1990. There, among other assignments, I participated in the Joint  
11 Industry-Postal Service Worksharing Project. From 1982 to 1988 I held positions  
12 in the Finance Department at Postal Service headquarters.

13 I received a Master of Business Administration degree from the George  
14 Washington University. I also have a Bachelor of Science degree in Public  
15 Administration from George Mason University.

1    **1. PURPOSE OF TESTIMONY**

2    My testimony describes Postal Service Operations' objectives regarding the use  
3    of the Mobile Data Collection Device (MDCD) system. I am providing this  
4    information to rebut United Parcel Service witness Luciani's proposal to attribute  
5    the costs of the MDCD system solely to Priority Mail and Standard B Mail. My  
6    testimony will show that the Postal Service does not intend to use the MDCD  
7    system solely for Priority Mail and Standard B Mail. Operations, in addition to  
8    other functional organizations, intends to use the MDCD system to enhance both  
9    our services and our management processes.

10    **2. BROAD PERSPECTIVE**

11    The Postal Service designed the MDCD system with architecture, memory  
12    capacity, and communications capabilities that significantly exceed today's  
13    identified requirements. Operations intends to use the MDCD system as a  
14    platform for a number of applications. Some of those applications are nearing  
15    implementation already. Others are in the development process or are still being  
16    defined. Engineering has initiated the Delivery Improvement Program to begin  
17    exploring still other potential uses for the MDCD system within the realm of  
18    Delivery Operations.

19    The system also presents many other opportunities to replace or enhance  
20    procedures for inventory management and warehousing activities in Customer  
21    Service functions and retail clerk operations (stamps and postal products) that I

1 will not address in my testimony. The Customer Service organization is no  
2 longer within Operations Support in the current organizational structure, so I am  
3 not aware of their specific plans to exploit the MDCCD system.

4 **3. OPERATIONS MANAGEMENT APPLICATIONS**

5 **3A. Vehicle Management Accounting System (VMAS)**

6 Upon deployment, the MDCCD system will encompass some aspects of the  
7 existing Vehicle Management Accounting System (VMAS). The MDCCD system  
8 will capture the daily assignment of vehicles to particular routes, and thus the  
9 linkage of employees and workloads to particular vehicles, and electronically  
10 transfer those data to the VMAS. The VMAS currently captures data regarding  
11 the assignment of vehicles to routes and the use of particular vehicles by specific  
12 employees via time clock rings or manually keyed data from carrier-completed  
13 Forms 4570. The VMAS captures vehicle mileage manually via the Form 4570  
14 and data entry. After the deployment of the MDCCD system, carriers will have  
15 one standardized way to key VMAS data into the system. This enhancement will  
16 also relieve carrier supervisors of a substantial amount of manual data entry.

17 **3B. Collection Box Management System (CBMS)**

18 By this summer, the Postal Service will have completed upgrades to the existing  
19 Collection Box Management System (CBMS) to allow use of the MDCCD  
20 technology. The 1997 Annual Report of the Postal Service has a picture  
21 showing this use of the MDCCD on page 42. (The type of scanner shown in that

1 picture will support Delivery Confirmation as well as all the other applications I  
2 describe in my testimony.)

3 Since 1994, when the Postal Service introduced the CBMS, service scores have  
4 increased to record levels: from 83% pre-CBMS to the current 93%. Field  
5 managers attribute a significant amount of the increase to CBMS. The system  
6 allows managers to ensure all collection boxes are "tapped," or collected by the  
7 carrier, according to the schedule we present to customers. The original CBMS  
8 system relies upon touch memory technology. Managers place touchbutton  
9 devices inside mail collection boxes. Carriers use touch memory wands to "read"  
10 the devices and record when they opened the collection boxes to retrieve the  
11 mail. The system has suffered from problems with the mechanical probe in the  
12 touch wand, and electrostatic discharge. By placing barcodes, rather than touch  
13 memory buttons, inside collection boxes, and reading those barcodes with the  
14 MDCCD, the Postal Service will eliminate the technology-based problems  
15 experienced with the CBMS. Additionally, using a barcode-based system via the  
16 MDCCD simplifies the system data structure and makes its ongoing maintenance  
17 easier than it is today.

18 The MDCCD system will permit a more universal deployment of CBMS. Senior  
19 management deemed full coverage using a one-application system too  
20 expensive and the CBMS touch memory technology can not support a range of  
21 applications. However, using the more flexible MDCCD system technology, the  
22 Postal Service is now able to implement the CBMS nationally.

1   **3C. Enhanced Street Performance (ESP) system**

2   The MDCCD will be an integral part of the planned Enhanced Street Performance  
3   (ESP) system. Carriers will use the MDCCD to scan barcodes that managers  
4   place at strategic locations throughout a delivery route. The ESP system will to  
5   allow delivery unit managers to monitor delivery performance by integrating  
6   Global Positioning Satellite (GPS) system data with data captured using the  
7   MDCCD. The Postal Service expects to realize both service and street operation  
8   productivity improvements through the use of this system. Operations expects to  
9   deploy the ESP system later this year.

10   **3D. Carrier Emergency Alert**

11   The data collection devices used at many of the ESP test sites during 1996 and  
12   1997 also supported a Carrier Emergency Alert feature that is part of the ESP  
13   system. Carrier Emergency Alert is an important safety initiative intended to  
14   permit prompt assistance to carriers confronted with situations such as vehicle  
15   breakdowns, injury, health or public safety emergencies, or threatening behavior.

16   **3E. Distribution and Transportation Networks**

17   Across the country managers use a variety of applications to map local mail  
18   distribution and transportation networks, then match them with operating plans to  
19   integrate processing and logistical operations better. Plant and delivery unit  
20   managers are using various hardware configurations and software applications  
21   to capture vehicles' departure and arrival times at facilities in order to measure

1 and manage performance against schedules. Once deployed, the MDCD  
2 system will serve as an infrastructure platform with a consistent hardware and  
3 software configuration available to address that need. Such consistency will  
4 enable national support, and thereby facilitate broader, Service-wide  
5 implementation of this type of application.

6 **4. SERVICE MANAGEMENT APPLICATIONS**

7 **4A. Accountable Mail**

8 The Postal Service will use the MDCD system for mail services other than  
9 Delivery Confirmation of Priority Mail and Standard B Mail. The MDCD  
10 technology will enable us to upgrade and enhance our signature-capture  
11 capabilities for accountable mails and the operational procedures that support  
12 them. This conversion will enhance the reliability of these services, make data  
13 storage and retrieval quicker and more efficient, and reduce the workload  
14 associated with those services in delivery units. The Postal Service expects to  
15 implement this changeover in early 1999, after completing the deployment of the  
16 MDCD system.

17 **4B. Advance Notification and Monitoring System (ADVANCE)**

18 The current ADVANCE system provides information to mailers regarding the  
19 delivery of bulk mailings. The Postal Service uses ADVANCE as one of the key  
20 indicators for assessing service provided to Standard A Mail. Plans are  
21 underway to expand the system to include Periodicals and to incorporate the use

1 of the MDCCD system for data capture to eliminate manual data entry  
2 requirements. ADVANCE will also benefit from converting to the MDCCD  
3 system's automated communication and electronic data access. The Postal  
4 Service expects to make these revisions to the ADVANCE system during FY  
5 1999.

6 **4C. Service Indicators**

7 For a long time the Postal Service has endeavored to provide scheduled carrier  
8 route deliveries to businesses prior to 12 noon. The Postal Service is developing  
9 indicators to measure "before noon" deliveries to business and the consistency  
10 of delivery time to both business and residential customers. Based upon early  
11 discussions, the Postal Service is likely to use the MDCCD system to capture and  
12 communicate the data necessary to support those indicators. In the likely  
13 scenario, managers will provide businesses with barcode labels that carriers will  
14 scan when they deliver mail to the business. The application will be functionally  
15 similar to the CBMS or ESP programs. Operations intends to begin collecting  
16 data regarding before noon deliveries to business customers during calendar  
17 1998.

18 **4D. On-Demand Pickup and Redelivery Services**

19 During 1996 and 1997, as part of the ESP system testing, the Postal Service  
20 tested the use of data collection devices for two-way communications to support  
21 on-demand pick-ups and re-deliveries. While there are no plans, as yet, to

1      1 initiate feasibility testing of these types of services, the Postal Service designed  
2      2 both the MDCCD system and the ESP system with the capacity to support this  
3      3 type of enhanced functionality.

4      **5. CONCLUSION**

5      5 For a long time, Operations has recognized a need to develop or enhance  
6      6 systems to better support the applications described above. However, we were  
7      7 unable to justify the costs of broad implementation of single application systems.

8      8 In 1995, the Postal Service stood back, took a broad view of operating system  
9      9 requirements, and developed a platform — the MDCCD system — that would  
10     10 support a number of identified applications with room for expansion to satisfy  
11     11 new requirements.

12     12 With the deployment of the MDCCD system, the Postal Service is placing a  
13     13 powerful data collection and communication infrastructure into delivery units. Its  
14     14 application will go significantly beyond support of any specific product offering.

15     15 The introduction of this system into what has been a technologically barren part  
16     16 of the Postal Service is a significant and welcome opportunity. Since 1995,  
17     17 Operations has been exploring and developing applications that will use this  
18     18 infrastructure to enhance our ability to manage our delivery operations and  
19     19 expand or improve the services we offer to our customers. The applications I  
20     20 have described above are a start. I have no doubt that after deployment in the  
21     21 field, our field managers will discover many additional ways to use the MDCCD  
22     22 system to better manage various postal operations and improve service to all

- 1 customers. These benefits of the MDCCD system are independent of any related
- 2 to customer use of Delivery Confirmation service.

1 CHAIRMAN GLEIMAN: As I indicated, we only had one  
2 request for oral cross examination in advance of today and  
3 that was for Florida Gift Fruit Shippers, and I've been  
4 advised that they no longer feel the need to cross examine  
5 Mr. Lewis.

6 Does any other party wish to cross examine Mr.  
7 Lewis?

8 [No response.]

9 CHAIRMAN GLEIMAN: If not, Mr. Lewis, I want to  
10 thank you for your patience, for sitting around here today.  
11 I appreciate your appearing and your contributions to the  
12 record.

13 I hope you understand that, sometimes, when we  
14 have short deadlines and turn-around times like we've had  
15 recently in this case and we've got parties who are located  
16 out of town, things take a little bit longer to get to them  
17 than we might like, and as a consequence, they sometimes  
18 make requests for oral cross and then -- without having had  
19 the full opportunity to review testimony, and I think that  
20 that's what may have happened in this case, but again, we  
21 appreciate your patience with us today, and if there's  
22 nothing further, you're excused.

23 THE WITNESS: Thank you.

24 [Witness excused.]

25 CHAIRMAN GLEIMAN: Mr. Hollies, call your next

1 witness?

2 MR. HOLLIES: The Postal Service calls Julie F.  
3 Rios.

4 CHAIRMAN GLEIMAN: Ms. Rios, before you settle in,  
5 if I could get you to raise your right hand.  
6 Whereupon,

7 JULIE F. RIOS,  
8 a witness, was called for examination by counsel for the  
9 United States Postal Service and, having first been duly  
10 sworn, was examined and testified as follows:

11 CHAIRMAN GLEIMAN: Please be seated.

12 DIRECT EXAMINATION

13 BY MR. HOLLIES:

14 Q Ms. Rios, I've handed you a document entitled  
15 "Rebuttal Testimony of Julie F. Rios on Behalf of United  
16 States Postal Service." It's also identified as USPS-RT-10.  
17 Can you identify this?

18 A Yes.

19 Q Was this testimony prepared by you or under your  
20 direction?

21 A Yes, it was.

22 Q And were you to testify orally today, would you  
23 testimony be the same?

24 A Yes, it would.

25 MR. HOLLIES: With that, Mr. Chairman, I'd like to

1 hand two copies to the court reporter, and I ask that Ms.  
2 Rios' testimony, USPS-RT-10, be admitted into the record as  
3 evidence and transcribed into the record at this time.

4 CHAIRMAN GLEIMAN: Are there any objections?

5 [No response.]

6 CHAIRMAN GLEIMAN: Hearing none, the witness'  
7 testimony and exhibits are -- I direct that the witness'  
8 testimony and exhibits be transcribed into the record and  
9 admitted into evidence at this point in time.

10 [Rebuttal Testimony and Exhibits of  
11 Julie F. Rios, USPS-RT-10, was  
12 received into evidence and  
13 transcribed into the record.]

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USPS-RT-10

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

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

REBUTTAL TESTIMONY  
OF  
JULIE F. RIOS  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE

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Rebuttal Testimony

of

Julie F. Rios

AUTOBIOGRAPHICAL SKETCH

- 1      My name is Julie F. Rios. I am employed by the U. S. Postal Service as Manager, Expedited
- 2      and Package Information Services. I am responsible for the development, implementation,
- 3      and customer support for expedited and package information based services. I have had
- 4      these responsibilities since October, 1995.
  
- 5      I have been employed by the Postal Service since 1972. In field operations, I have been a
- 6      clerk, carrier, and supervisor. Since joining Postal Headquarters in 1983, I have worked in
- 7      Strategic Planning, Distribution Operations, Delivery Operations, and Marketing. The
- 8      primary focus of my work has been developing services and policies that improve the ways
- 9      the Postal Service meets customer needs.
  
- 10     I have a Bachelor of Arts degree in Studio Art from the University of California, Irvine. I
- 11     completed graduate courses in Business Administration at San Diego State University.

1       I. PURPOSE AND SCOPE OF TESTIMONY

2       The purpose of my testimony is to rebut witness Luciani's (USPS-T-4) alternative proposals  
3       for delivery confirmation service. My testimony also emphasizes the Postal Service  
4       commitment to offering delivery confirmation service as proposed by the testimonies of  
5       witnesses Treworgy (USPS-T-22), Sharkey (USPS-T-33), and Plunkett (USPS-T-40). My  
6       testimony addresses the business judgment underlying the proposed delivery confirmation  
7       fees and fee structure. Extensive formal and informal market research was conducted to  
8       identify the fees and fee structure customers prefer. The formal research was documented  
9       in USPS-LR-H-166 and USPS-LR-H-163, which were both filed on July 10, 1997. The  
10      informal research derives from my professional responsibilities and consists of discussions  
11      with customers held over many years. It is my belief that if witness Luciani's proposed rates  
12      and rate structure were implemented, demand for delivery confirmation would be  
13      substantially less, thus jeopardizing the significant customer and internal Postal Service  
14      benefits that the service and system were designed to provide.

15      II. IMPORTANCE TO THE POSTAL SERVICE OF INFORMATION SYSTEM

16      I cannot overemphasize the importance to the Postal Service of the Mobile Data Collection  
17      Device (MDCD) information system in which it has invested and which will enable the Postal  
18      Service to offer delivery confirmation service, in addition to many other applications. The  
19      MDCD information system represents a major investment, approved by the Board of  
20      Governors on May 6, 1997, of up to \$704.3 million. The system is intended to support  
21      several important Postal Service initiatives: the provision of new services such as delivery  
22      confirmation; a means of updating and automating the handling of data relating to existing  
23      services, particularly special services; and the collection of information needed to accurately  
24      monitor, manage, and improve the provision of collection, processing, and delivery services

## USPS-RT-10, Docket R97-1, page 3

1 generally. Details concerning uses of the scanners other than for delivery confirmation are  
2 contained in the testimony of witness Lewis (USPS-RT-9).

3 The specific proposals for delivery confirmation made in this docket are a crucial beginning  
4 to the Postal Service's ability to recoup its investment in this system and should not be  
5 modified, either as proposed by witness Luciani or in any other significant way. Adoption of  
6 witness Luciani's proposals could potentially threaten the Postal Service's ability to  
7 generate the expected return on its investment in this system and would be inconsistent  
8 with management's goals in meeting customers' needs.

9           **III. IMPORTANCE OF PROPOSED DELIVERY CONFIRMATION FEES AND FEE  
10          STRUCTURE**

11          The delivery confirmation fees and fee structure proposed in witness Plunkett's testimony  
12          (USPS-T-40) are consistent with the following three principles that the Postal Service has  
13          adopted as part of its strategy to meet the needs of expedited and package services  
14          customers.

- 15          • **Standard Features** - Provide customers with the standard marketplace features.  
16          • **Appropriate Price** - Set a price that meets marketplace demands and expectations,  
17              increases the overall value of the services, and covers costs.  
18          • **Reliable and Consistent Service** - Provide the reliable and high quality service that is  
19              essential for customers in the marketplace.

20          In the following three sections, I describe how the proposed delivery confirmation fees and  
21          structure are consistent with the adoption of these three principles.

1           A. Standard Features

2       The ready provision of information about delivery status has become a standard feature in  
3       delivery companies' overnight and 2-day products. The Postal Service, however, provides  
4       this service only for Express Mail. Based on market research and discussions with  
5       customers, it is clear that delivery confirmation is a necessary service. In addition to  
6       providing information about the delivery status of a package, the supporting infrastructure  
7       for delivery confirmation has been set up so that customers can easily access information  
8       electronically, another important customer need. Delivery confirmation provides customers  
9       with a number of ways to access delivery information. Among these are downloading  
10      electronic files from the Postal Service, calling the Postal Service call center through a toll-  
11      free number, and querying the status of specific mail items through the Internet.

12       B. Appropriate Price

13      The fee structure for Priority Mail delivery confirmation, as presented in witness Plunkett's  
14      testimony (USPS-T-40), is intended to be consistent with the standard features of expedited  
15      services, by providing Priority Mail customers with the electronic delivery confirmation  
16      service at no additional charge. Retail (manual) delivery confirmation customers would pay  
17      a surcharge in addition to Priority Mail postage, thus benefiting from the ability to access  
18      delivery information while paying for the greater costs they impose. In contrast, and  
19      keeping, perhaps, with the competitive interests of the intervenor on whose behalf he  
20      appears, UPS witness Luciani's proposal to impose a per-use fee on users of Priority Mail  
21      electronic delivery confirmation service fails to reflect this market reality.

22      Through discussions with bulk customers, the Postal Service learned that they expect  
23      delivery confirmation to be included in the base rate for Priority Mail. I expect that many bulk  
24      customers will not use delivery confirmation if it requires a surcharge over Priority Mail rates.  
25      Indeed, faced with a surcharge, many customers would instead use a non-postal delivery  
26      company (which could be exactly why UPS structured its proposals as it did.)

1      Although delivery confirmation is provided to bulk Priority Mail shippers for no additional fee,  
2      those mailers who want to take advantage of it must incur the additional costs associated  
3      with applying barcodes, manifesting, downloading and uploading information, and  
4      integrating information into their systems. Accordingly, while no additional fee is required of  
5      bulk Priority Mail shippers using delivery confirmation, they nonetheless incur additional  
6      costs not borne by shippers who do not use delivery confirmation. Notwithstanding, all  
7      customers will benefit from information collected by delivery confirmation, as discussed in  
8      the next section.

9      Boxes provided by the Postal Service at no charge for Priority Mail are comparable to the  
10     proposal that electronic delivery confirmation for Priority Mail should not require a separate  
11     fee. Both pertain to a feature paid for by all Priority Mail users, although use by customers is  
12     by no means universal, and both amount to strategic business decisions regarding the  
13     standard features of Priority Mail.

14     Through discussions with ground parcel (Standard B) customers, the Postal Service has  
15     learned that even among bulk customers, some customer segments have a need for  
16     delivery confirmation while others do not. Until recently, optional delivery confirmation was  
17     the standard in the ground parcel delivery market. Because both bulk and non-bulk  
18     Standard B customers want to apply delivery confirmation barcodes selectively, the Postal  
19     Service proposal that these customers pay only when opting to use the service is consistent  
20     with market expectations. In order to meet respective retail and electronic customers'  
21     information access needs, the Postal Service proposes two levels of delivery confirmation  
22     service for Standard B, each with an appropriate fee.

23            C. Reliable and Consistent Service

24     Consistent and reliable service is the most important service attribute for customers. While  
25     delivery confirmation provides customers with delivery information, the information system

1 that supports delivery confirmation is the same system that has been designed to provide  
2 the Postal Service with valuable diagnostic and service performance information. The  
3 Postal Service will use this information to improve the consistency and reliability of service  
4 for all Priority Mail and Standard B mail items. Information derived from the delivery  
5 confirmation system will constitute a vast improvement on the limited end-to-end and  
6 diagnostic service information now available. The limited information has hampered the  
7 Postal Service's ability to provide the level of service currently expected by customers in the  
8 expedited delivery market and, increasingly, in the ground parcel market.

9 A portion of the cost of Priority Mail delivery confirmation is incorporated into the base rate  
10 for Priority Mail, which is consistent with customer expectations and the fact that customers  
11 who choose not to use delivery confirmation will nonetheless benefit from it. Delivery  
12 confirmation will provide service and diagnostic information which will help the Postal  
13 Service identify and fix service problems. In this regard, all customers who incur any costs  
14 associated with delivery confirmation, whether from Priority Mail rates, fees paid by retail  
15 customers, or the associated overhead costs borne by electronic users, will realize benefits.

16 IV. POSTAL SERVICE INVESTMENT IN MOBILE DATA COLLECTION DEVICES (MDCD)  
17 SYSTEM

18 The Postal Service's investment in the MDCD information system was intended to support a  
19 multiplicity of uses. The system enables carriers to use a single device to collect  
20 information that serves many purposes. The variety of expected uses are described in the  
21 direct testimony of Postal Service witness Treworgy, USPS-T-22, at 2-4.

22 Witness Luciani asserts: "It is clear that the onset of delivery confirmation precipitated the  
23 purchase of the scanners." Tr. 26/14533. The justification for investing in the system,  
24 however, is stated in USPS-LR-H-247, which consists of the documentation relied upon by  
25 the Board of Governors in approving the investment. See also Tr. 3/1226. The very first

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1 paragraph of the executive summary identifies three primary justifications for the  
2 investment: delivery confirmation services, operational and service performance indicators,  
3 and increased value of accountable mail through improved access to information. Further  
4 elaboration of the applications other than delivery confirmation are presented in the rebuttal  
5 testimony of witness Lewis, USPS-RT-9. Accordingly, witness Luciani's recommendation  
6 that all volume variable MDCC system costs be borne by Priority Mail and Standard (B) Mail  
7 is not consistent with the facts.

8 V. SUMMARY AND CONCLUSION

9 The structure for delivery confirmation proposed by the Postal Service soundly reflects  
10 features that have become marketplace standards, and an appropriate fee structure and  
11 fees. The MDCC information system which supports delivery confirmation service will  
12 benefit all mailers by providing management better tools for improving the reliability and  
13 quality of service. The lack of a separate fee for electronic delivery confirmation for Priority  
14 Mail reflects a strategic positioning of Priority Mail in the expedited delivery market that is  
15 consistent with customer expectations and marketplace standards. The fee structure  
16 proposed by the Postal Service is also consistent with the additional workload expected of  
17 electronic delivery confirmation Priority Mail customers, the treatment of Priority Mail boxes  
18 in the existing rate structure, and more generally with the expected system-wide service  
19 benefits. Given the distinct customer preferences, similar structuring of the delivery  
20 confirmation fees for Standard B is not warranted.

21 The Postal Service continually evaluates customer needs as a means of determining how  
22 best to improve service. This includes monitoring the costs of technology and determining  
23 the best match of features, customer expectations, and rate and fee structure for delivery  
24 confirmation. I believe that the rates and fees, and rate and fee structures, proposed in the  
25 testimonies of witnesses Plunkett and Sharkey are fair, appropriate, and necessary for  
26 providing the features customers desire at the service level they deserve.

1 CHAIRMAN GLEIMAN: One participant, United Parcel  
2 Service, has requested oral examination of the -- oral cross  
3 examination of the witness.

4 Does any participant have oral cross examination?

5 [No response.]

6 CHAIRMAN GLEIMAN: If not, then, Mr. McKeever --

7 MR. MCKEEVER: Thank you, Mr. Chairman.

8 CROSS EXAMINATION

9 BY MR. MCKEEVER:

10 Q Ms. Rios, the purpose of your testimony is to  
11 rebut or respond to Mr. Luciani's alternative proposals for  
12 delivery confirmation service. Is that correct?

13 A That's correct.

14 Q Do you know -- can you describe for me what Mr.  
15 Luciani's proposal is?

16 A Basically, the part of his testimony that I was  
17 rebutting was the pricing for priority mail.

18 Q And could you tell me what he recommends with  
19 respect to the pricing for priority mail?

20 A He was recommending pricing that -- for priority  
21 mail the same as it was for standard B.

22 Q And do you know specifically what that pricing  
23 would be?

24 A At retail or for -- it would be 25 cents and 60  
25 cents.

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1 Q Okay.

2 Could you turn to page 2 of your testimony,  
3 please?

4 Now, I'd like to direct your attention to lines 11  
5 and 14.

6 There you state that, if Mr. Luciani's proposed  
7 rates and rate structure were implemented, demand for  
8 delivery ~~compensation~~<sup>confirmation</sup> would be substantially less, thus  
9 jeopardizing the significant customer and internal Postal  
10 Service benefits that the service and system were designed  
11 to provide. Do you see that?

12 A Yes, I do.

13 Q Now, I take it that the internal Postal Service  
14 benefits that you're referring to there include the  
15 collection of information needed to accurately monitor,  
16 manage, and improve the provision of collection, processing,  
17 and delivery services generally, as you state on page 2 of  
18 your testimony at lines 23 to 24. Is that correct?

19 A Generally and specifically for priority mail.

20 Q The internal Postal Service benefits, are they  
21 confined to benefits having to do only with priority mail?

22 A No.

23 Q You are referring to some internal Postal Service  
24 benefits other than in the area of priority mail; is that  
25 right?

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1           A     This particular section of my testimony dealt  
2 primarily with priority mail.

3           Q     Right, but you state there that if Witness  
4 Luciani's proposed rates and rate structure were  
5 implemented, demand for delivery confirmation would be  
6 substantially less, thus jeopardizing the significant  
7 customer and internal Postal Service benefits that the  
8 service and system were designed to provide. Now --

9           A     There --

10          Q     Go ahead.

11          A     No, go ahead.

12          Q     I take it that the internal Postal Service  
13 benefits that the system is designed to provide include  
14 those things that are discussed in Mr. Lewis' testimony; is  
15 that right?

16          A     There is some of those but another internal  
17 benefit of the Postal Service is obviously meeting customer  
18 needs and having more customers buy our services. It's an  
19 internal benefit to the Postal Service.

20          Q     I think you indicated at the beginning of your  
21 answer that those internal benefits include the benefits  
22 that Mr. Lewis described in his testimony; is that correct?  
23 It includes priority mail ones, plus the ones Mr. Lewis  
24 describes; is that right?

25          A     This particular section of my testimony most

1 directly relates to benefits of priority mail.

2 Q So it's not your testimony then that if Mr.  
3 Luciani's fees and rate structure were implemented, all of  
4 the benefits that Mr. Lewis says would occur, would be  
5 jeopardized; is that right? That is not your testimony?

6 MR. HOLLIES: I'm going to object to the form of  
7 the question. It's compound. I wonder if counsel would be  
8 willing to break it down?

9 MR. McKEEVER: I'm not sure what the two compound  
10 elements are, Mr. Chairman. I'll try to ask it one more  
11 time more simply, maybe with less words, if I can.

12 BY MR. McKEEVER:

13 Q What I'm trying to get at, Ms. Rios, is if you are  
14 testifying that if Mr. Luciani's proposals were adopted, the  
15 Postal Service would not get any of those benefits that Mr.  
16 Lewis says will accrue from the system in question here.

17 A I would say that's not true. Those benefits would  
18 still be achieved.

19 Q Okay. Well, I wanted to be clear, so those  
20 benefits are not jeopardized by Mr. Luciani's proposals,  
21 right?

22 A Yes, but right now to say that I can remember  
23 every other benefit that Mr. Lewis described, I cannot do  
24 that this second. I don't have his testimony in front of  
25 me, to make sure that I would look down the list and say

1 there were none that were linked to priority mail.

2 Q It's only to the extent that Mr. Lewis describes  
3 something that relates to priority mail in particular that  
4 the benefits that you are referring to there would be  
5 jeopardized; is that right? Let me try to make it more  
6 concrete.

7 Mr. Lewis says that this system would benefit the  
8 Postal Service by being useful in their vehicle management  
9 accounting system. Now, would that use of the system be  
10 jeopardized if Mr. Luciani's proposals were adopted?

11 A No.

12 Q Mr. Lewis says that the Postal Service would  
13 benefit by using this system in connection with its  
14 collection box management system. Would that use of the  
15 system be jeopardized if Mr. Luciani's proposals were  
16 adopted?

17 A No.

18 Q Mr. Lewis says that the system will be used in  
19 connection with the Postal Service's enhanced street  
20 performance system. Would that use be jeopardized if Mr.  
21 Luciani's proposals were approved?

22 A No.

23 Q He says that the system can be used in connection  
24 with a carrier emergency alert system. Would that be  
25 jeopardized if Mr. Luciani's proposals were approved?

1           A     No.

2           Q     He says that the system can be used in a variety  
3     of applications in the distribution and transportation  
4     networks to map local map distribution and transportation  
5     networks. Would that use be jeopardized if Mr. Luciani's  
6     proposals were approved?

7           A     I am not sure on that one, I don't know enough  
8     about that one.

9           Q     Okay. Could you turn to page 3 of your testimony,  
10    please? And I would like to direct your attention in  
11    particular to lines 3 and 4. There you state that the  
12    specific proposals for delivery confirmation made in this  
13    docket are a crucial beginning to the Postal Service's  
14    ability to recoup its investment in this system and should  
15    not be modified either as proposed by Witness Luciani or in  
16    any other significant way, is that correct?

17          A     Yes.

18          Q     And you also state on page 3, at lines 5 to 7,  
19    that adopting Mr. Luciani's proposals could potentially  
20    threaten the Postal Service's ability to generate the  
21    expected return on its investment, is that correct?

22          A     Yes.

23          Q     Now, one of the Postal Service's proposals for  
24    delivery confirmation, one of the two that Mr. Luciani  
25    proposes to modify, is that there would be no charge for

1 electronic delivery confirmation for bulk priority mail  
2 users, is that correct?

3 A That Luciani proposed?

4 Q Pardon me?

5 A Can you re-do that question?

6 Q Yes. Yes. Mr. Luciani proposes a change in two  
7 aspects of the Postal Service's delivery confirmation  
8 proposal. You describe them at the beginning, is that  
9 right?

10 A I believe so.

11 Q Okay. And one of the Postal Service's proposals  
12 that he would modify, the Postal Service proposal now, is to  
13 charge nothing for electronic delivery confirmation for bulk  
14 priority mail users, is that correct?

15 A Correct.

16 Q Can you explain to me how providing a service that  
17 costs the Postal Service 15 cents to provide, for no charge,  
18 providing that service for no charge, will help the Postal  
19 Service recoup its investment and generate a return on that  
20 investment?

21 A My responsibility in developing these proposal is  
22 to bring to the proposals what does the market place need.  
23 And in the expedited market, and priority mail is a product  
24 that is considered by our customers as an expedited product,  
25 expedited commercial shippers who use expedited products

1 expect delivery confirmation to be included as the total  
2 product. We have done that for Express Mail and it is  
3 appropriate also for commercial -- Priority Mail service  
4 that is most likely to be used by commercial customers.

5 Q Well, my question was, how does the Postal Service  
6 expect to recoup its investment by charging nothing for a  
7 service that Mr. Treworgy says costs it 15 cents. You say  
8 Mr. Luciani's proposal to charge something would jeopardize  
9 that. And I am asking you to explain how charging nothing  
10 for a service that costs 15 cents somehow or other helps the  
11 Postal Service recoup its investment?

12 A We did market research that supports that  
13 hypothesis.

14 Q So the only answer you can give me is that your  
15 market research tells you that customers want it for free,  
16 is that right? Bulk customers want it for free?

17 A It also talks about volumes associated with it at  
18 that price level.

19 Q That price level being zero, right?

20 A Being zero.

21 Q Okay. ~~Mr.~~ Rios, could you turn to page 5 of your  
22 testimony, please? At lines 11 to 13, you state that  
23 delivery confirmation, and I am focusing now on page -- on  
24 lines 12 to 13, amount to strategic business decisions  
25 regarding the standard features of Priority Mail, is that

1       correct?

2           A     Yes.

3           Q     Ms. Rios, I define a standard feature of a product  
4     as something that everybody gets when they buy the basic  
5     product. Do you agree with that definition?

6           A     Not necessarily.

7           Q     Pardon me?

8           A     Not necessarily.

9           Q     How would you define the standard feature of a  
10    product?

11          A     Okay. When we look at products, we look at  
12    different customer segments, and different customer segments  
13    have different expectations about standard features in  
14    products.

15           What we have found in talking with customers is  
16    that the commercial customers have an expectation that is  
17    different and that they do have an expectation for Priority  
18    Mail that delivery confirmation is part of the base price.

19          Q     Well, it is the case that not everybody who buys  
20    Priority Mail could get electronic delivery confirmation, is  
21    that correct?

22          A     That is correct.

23          Q     So it is only a standard feature for some  
24    customers and not a standard feature for other customers?

25          A     There are a variety of ways to do it and so if a

1 customer chose to do it there -- it will be relatively easy  
2 to do it.

3 Q Electronic delivery confirmation?

4 A Uh-huh.

5 Q Okay, could I -- could I --

6 THE REPORTER: Electronic delivery confirmation --  
7 should I carry it as a yes?

8 THE WITNESS: I said more than yes.

9 MR. McKEEVER: Well, and then I said "Electronic  
10 delivery confirmation?"

11 MR. HOLLIES: I believe the problem here is that  
12 there was an affirmative answer in the form an "um-hum"  
13 which is a little difficult to transcribe.

14 THE WITNESS: Okay. I will try not to do that.

15 BY MR. McKEEVER:

16 Q Now by the way, do all users of Express Mail have  
17 delivery confirmation available to them?

18 A Yes.

19 Q At a charge or at no charge?

20 A It is part of the base price of the product.

21 Q And that is available to all users at no charge,  
22 is that right?

23 A It's part of the base price of the product.

24 Q It is available to all users at no charge --

25 A Yes.

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1           Q     -- is that what that means?

2           A     Yes.

3           Q     When you say that?

4           A     Yes.

5           Q     Okay. So in that sense Express Mail is different  
6 from the Priority Mail proposal here, is that correct?

7           A     Yes, it is.

8           Q     Okay. Ms. Rios, again I would like to direct your  
9 attention to page 5 at lines 9 to 13.

10                 There you draw an analogy between boxes provided  
11 by the Postal Service at no charge for Priority Mail and  
12 electronic delivery confirmation for bulk mail Priority Mail  
13 users, is that right?

14           A     That's correct.

15           Q     Am I correct that every Postal Service customer is  
16 eligible to obtain a Postal Service provided Priority Mail  
17 box at no charge?

18           A     That's correct.

19           Q     So I can walk into a post office off the street  
20 and get a box for Priority Mail at no extra charge?

21           A     Yes, you may.

22           Q     That is not true in the case of electronic  
23 delivery confirmation, is it? Only some customers can get  
24 that for free and others have to pay for it. They have to  
25 use manual delivery confirmation, right?

1           A     Not necessarily so.

2           Q     Well, I guess if I set up the computer links with  
3     the Postal Service in my home, et cetera, then I could get  
4     electronic delivery confirmation for free, is that what you  
5     are telling me?

6           A     If you meet the requirements, which is send and  
7     receive information electronically, yes, you can get  
8     electronic delivery confirmation for free.

9           Q     Don't you have to be a bulk user?

10          A     No. There is no minimum requirements.

11          Q     Okay. Ms. Rios, could you turn to page 4, please?  
12         At line --

13          A     Which page, excuse me?

14          Q     Page 4, I'm sorry.

15          A     We are going back?

16          Q     Yes.

17          A     Okay.

18          Q     At lines 16 to 18 you state that retail or manual  
19     delivery confirmation customers would pay a surcharge in  
20     addition to Priority Mail postage, thus benefiting from the  
21     ability to access delivery information while paying for the  
22     greater costs they impose. Is that correct?

23          A     Yes.

24          Q     And as we've established, bulk Priority Mail  
25     users, on the other hand, will benefit from the ability to

1 access delivery info, but would not pay for the greater  
2 costs they impose. Isn't that correct?

3 A Like I say, I'm not really a costing witness. I'm  
4 not sure how -- I mean, I guess basically the answer to that  
5 is yes, but I'm not a costing witness, I'm not a costing  
6 person here.

7 Q Okay. In order to make you more comfortable, let  
8 me represent to you that Mr. Treworgy said in his testimony  
9 that it cost 15 cents per transaction -- it cost the Postal  
10 Service 15 cents per transaction for an electronic Priority  
11 Mail delivery confirmation transaction. So I think you're  
12 correct in saying yes.

13 Now again on page 4 at lines 22 to 23 you state  
14 and you said that earlier this evening that bulk customers,  
15 quote, expect delivery confirmation to be included in the  
16 base rate for Priority Mail.

17 A Um-hum.

18 Q Now that means the way this proposal is structured  
19 that they expect delivery confirmation to be included in the  
20 base rate paid by all Priority Mail users; is that right?

21 A What I'm saying here when I go out and I talk to  
22 customers, we segment them by types, and customers,  
23 commercial customers who are typically bulk customers say  
24 that they have this expectation.

25 Q Is it the Postal Service's usual policy to give

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1 certain customers an extra service at no extra charge while  
2 it recovers the cost of that -- providing that service from  
3 customers who don't get it?

4 A I am not a pricing expert. What my responsibility  
5 is is understanding the marketplace needs and designing  
6 service that meets the marketplace needs.

7 MR. McKEEVER: I have no further questions, Mr.  
8 Chairman.

9 CHAIRMAN GLEIMAN: Is there any followup?  
10 I just have one question, Ms. Rios. I kind of  
11 need to understand this. You said a couple of times that  
12 it's the expectation of the commercial customers that  
13 delivery confirmation is part of the standard, basic --

14 THE WITNESS: Um-hum.

15 CHAIRMAN GLEIMAN: Package of Priority Mail. When  
16 you say that it is their expectation, what do you -- do you  
17 mean that this is what they would like to have or that this  
18 is what they assume is in there already?

19 THE WITNESS: When you go into the marketplace,  
20 you segment in different ways, and one of the ways you  
21 segment it is whether it's expedited or ground parcels, and  
22 then whether it's a commercial customer or more of a retail  
23 household customer.

24 CHAIRMAN GLEIMAN: Um-hum.

25 THE WITNESS: If you look at the segment of

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1       customers that are in the expedited and the commercial  
2       quadrant --

3                     CHAIRMAN GLEIMAN: Okay.

4                     THE WITNESS: They expect when they use expedited  
5       services that delivery confirmation is part of the package.

6                     CHAIRMAN GLEIMAN: So that's something that they  
7       like to have as part of the package, but it's different than  
8       saying is your expectation that Priority Mail or Express  
9       Mail offered by the U.S. Postal Service has delivery  
10      confirmation in it. I mean, this is not something that they  
11      assume is there. It's kind of a wish list.

12                  THE WITNESS: When we talk to customers we tend to  
13      talk to them in general what are your expectations when you  
14      have needs in the expedited market and what are your needs  
15      for information. They expect the two things to come  
16      together.

17                  CHAIRMAN GLEIMAN: So expectations are -- the word  
18      "expectations" as you use it equates with what are your  
19      needs?

20                  THE WITNESS: Yes.

21                  CHAIRMAN GLEIMAN: What would you like to have in,  
22      you know, the best of all situations.

23                  THE WITNESS: It's basically what others provide  
24      in their -- it's a standard -- it's the standard product  
25      offering in the marketplace. That's --

1 CHAIRMAN GLEIMAN: But it's not a standard product  
2 offering with the Postal Service. I mean, if you went into  
3 somebody and you said would you like to have our Priority  
4 Mail product, they wouldn't assume that it had delivery  
5 confirmation in it -- now.

6 THE WITNESS: Not currently.

7 CHAIRMAN GLEIMAN: Okay.

8 THE WITNESS: Because we do not offer it  
9 currently.

10 CHAIRMAN GLEIMAN: So it's what they would like to  
11 have, not what they assume is there now.

12 I have a problem between expectation and assume,  
13 and I just wanted to clarify it in my own mind. Thank you.

14 I have no further questions. I don't know whether  
15 there are any others from the bench.

16 Mr. McKeever, do you have a followup?

17 MR. MCKEEVER: Yes, Mr. Chairman, I do.

18 FURTHER CROSS EXAMINATION

19 BY MR. MCKEEVER:

20 Q Ms. Rios, you said that this is patterned on what  
21 other providers do in the market?

22 A Yes.

23 Q Do you know if other providers charge some users  
24 for the service but not others?

25 A In which marketplace?

1           Q     In the marketplace that -- in which Priority Mail  
2     competes.

3           A     No, the other carriers offer delivery confirmation  
4     as part of the total service.

5           Q     They treat everybody the same who uses that  
6     product of theirs?

7           A     I wouldn't say they treat everyone the same.

8           Q     Well, with respect to delivery confirmation,  
9     that's all we're talking about.

10          A     With -- there's various levels of service  
11     offerings. In basic information I would say yes, they treat  
12     each other the same.

13                MR. McKEEVER: Thank you.

14                CHAIRMAN GLEIMAN: Is there anything further?

15                If not, that brings us to redirect.

16                Mr. Hollies, would you like some time?

17                MR. HOLLIES: Yes, we'd like a few minutes to  
18     discuss this. I'd like to ask for ten.

19                CHAIRMAN GLEIMAN: That's longer than the witness  
20     was on the stand, but go ahead, you've got your ten.

21                MR. HOLLIES: We will be back sooner if we can.

22                [Recess.]

23                MR. HOLLIES: The Postal Service has no redirect.

24                CHAIRMAN GLEIMAN: There is no redirect, Ms. Rios,  
25     so I want to thank you. We appreciate your appearance here

1 today and your contributions to our record, and if there's  
2 nothing further, you're excused.

3 [Witness excused.]

4 CHAIRMAN GLEIMAN: Mr. Tidwell.

5 MR. TIDWELL: The Postal Service calls Timothy  
6 Ellard to the stand.

7 Whereupon,

8 TIMOTHY D. ELLARD,

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

12 CHAIRMAN GLEIMAN: Counsel?

13 DIRECT EXAMINATION

14 BY MR. TIDWELL:

15 Q Mr. Ellard, I have handed you a copy of a document  
16 which is entitled the Rebuttal Testimony of Timothy D.  
17 Ellard on Behalf of the United States Postal Service. It  
18 has been designated for purposes of this proceeding as  
19 USPS-RT-14. Have you had a chance to review that document?

20 A Yes, I have.

21 Q And was it prepared by you or under your  
22 supervision?

23 A It was.

24 Q Do you have any changes you wish to offer to that  
25 document at this time?

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1           A     Yes. I have identified two transcription errors,  
2 both on table 7, which is on page 21. Line 8, the number 14  
3 should be changed to 17; on line 13, 324 should read 314.

4           Q     With those changes, if you were to give this  
5 testimony orally today, would it be the same?

6           A     Yes, it would be.

7           MR. TIDWELL: Mr. Chairman, with that, the Postal  
8 Service would move that the rebuttal testimony of Mr. Ellard  
9 be entered into the evidentiary record.

10          CHAIRMAN GLEIMAN: Are there any objections?

11          [No response.]

12          CHAIRMAN GLEIMAN: Hearing none, Mr. Ellard's  
13 testimony and exhibits are received into evidence and I  
14 direct that they be transcribed into the record at this  
15 point.

16                         [Rebuttal Testimony and Exhibits of  
17                         Timothy D. Ellard, USPS-RT-14, was  
18                         received into evidence and  
19                         transcribed into the record.]

20

21

22

23

24

25

USPS-RT-14

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

---

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

REBUTTAL TESTIMONY  
OF  
TIMOTHY D. ELLARD  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE

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TABLE 1 ..... 15

- Respondent has primary/shared responsibility/little or no responsibility for paying household bills. (Q.P1)
- Number of bill payments mailed from household in an average month. (Q.1A)
- Number of bill payments mailed from household in an average month using envelopes enclosed with statement. (Q.P2)

TABLE 2 ..... 16

- Compared with the current system, level of convenience to use different stamp denominations/value if the reduced rate approved. (Q.P3)
- Level of convenience of buying, stamps of two denominations/values compared with the current system. (Q.P4)

TABLE 3 ..... 17

- Likelihood of buying and using both stamp denominations/values (Q.P5)
- Knowing the amount they could save, likelihood of buying and using both stamp denominations/values. (Q.P6)

TABLE 4 ..... 18

- Knowing the amount they could save, likelihood of buying and using both stamp denominations/values. (Q.P6)

TABLE 5 ..... 19

- Places have purchased stamps in past year – Aided (Q.P7)
- Likelihood of buying and using both stamp denominations if could only obtain the discounted stamps through the Postal Service and they were not available through grocery stores or other retail outlets, including ATMs. (Q.P8)

**CONTENTS**  
(continued)

TABLE 6 ..... 20

- Preference between a one-stamp pricing system as it is now or a two-stamp pricing system as proposed. (Q.P9)
- Preference between one-stamp pricing system and two-stamp pricing system if two-stamp pricing contributed, to some degree, to an increase in rates for regular First-Class letters. (Q.P10)

TABLE 7 ..... 21

- Calculation of combined preference with consideration of potential effect on basic

APPENDIX: The CARAVAN Report

AUTOBIOGRAPHICAL SKETCH

1  
2        My name is Timothy D. Ellard. I am Executive Vice President of  
3        Opinion Research Corporation International (ORC). I joined ORC at its  
4        Princeton, New Jersey headquarters in 1964, was named Vice President in  
5        1968 and Senior Vice President in 1970. In 1982, I became Manager of  
6        ORC's West Coast operations, based in San Francisco. In 1991, I returned  
7        to Princeton, assuming the role of Chief Methodologist. My title was changed  
8        to Executive Vice President in 1993. At various times, I have also been  
9        responsible for ORC's marketing research and government research  
10      practices.

11        In addition to my broad management responsibilities, I have been  
12      directly responsible for the design, management and reporting of a wide  
13      range of large-scale survey research projects. Since 1972, I have been in  
14      charge of ORC's work with the Postal Service. In that period, we have  
15      conducted surveys on a variety of subjects, covering both household and  
16      nonhousehold populations.

17        I have testified on behalf of the Postal Service in Docket No. R83-1 on  
18      the subject of market potential for the proposed E-Com service and have  
19      appeared as a witness in three other cases, No. R90-1, No. MC91-1 and No.  
20      MC96-3. In the 1990 and 1991 cases, ORC provided estimates of the  
21      nonhousehold market's reaction to proposed rate changes. In the 1996 case,

- 1     ORC provided data on post office box holder reactions to proposed fee
- 2     changes.
- 3                 From 1961 to 1964, I worked in brand management for The Procter &
- 4     Gamble Company in Cincinnati, Ohio. From 1958 to 1961, I was on active
- 5     duty as an officer in the Finance Corps, United States Army Reserve.
- 6                 I hold an MBA from the Wharton School of the University of
- 7     Pennsylvania, with a major in statistics and industrial management, and an
- 8     AB from Harvard College.
- 9                 Opinion Research Corporation International, founded in 1938, is one of
- 10    the country's larger survey research organizations. Since 1991, it has been
- 11    an independent corporation and has been publicly traded since 1993.

1    I.    PURPOSE AND SCOPE OF TESTIMONY

2           The purpose of my testimony is to sponsor and explain research,  
3         conducted on behalf of the Postal Service, that determines household  
4         customers' reactions to a proposed two-stamp system for First-Class letter  
5         mail. The proposed two-stamp system is set forth in the testimony of the  
6         Office of the Consumer Advocate witness Willette (OCA-T-400). Under this  
7         proposal, the basic rate for a First-Class letter would remain, but a lower rate  
8         would be available for payments mailed in return envelopes that meet certain  
9         addressing standards. The research results are intended to provide a current  
10       reading of public opinion on this subject.

11           I will describe both the design and execution of the research and then  
12         present and characterize the research results.

13

14    II. THE RESEARCH DESIGN

15    A.    OVERVIEW

16           ORC conducted telephone interviews with a representative sample of  
17         members of the general public to determine their attitudes toward and  
18         reactions to a proposed two-stamp system for First-Class Mail. In the  
19         Overview, I address the research vehicle, the population studied, the sample  
20         design and the telephone survey. Following the Overview, I will address the  
21         questionnaire, weighting, and data processing.

1           **1. The Research Vehicle**

2           The research vehicle was ORC's CARAVAN® survey. This is a  
3       shared-cost research vehicle that provides state-of-the-art sampling and  
4       interviewing of representative samples of households in the 48 contiguous  
5       states on a weekly basis. Because the fixed costs of each survey are shared  
6       by a number of clients, the cost of conducting brief surveys can be kept low,  
7       with no decrease in sampling, interviewing, or data processing quality. The  
8       process is also rapid. Question series are finalized on Thursday and reports  
9       delivered the following Tuesday morning.

10          Since the Postal Service questions were intended for submission in  
11       the regulatory process, they were placed first in order on the CARAVAN  
12       survey of January 29, 1998. This first placement avoids any possible effect  
13       from other questions in that survey.

14          While the sampling, interviewing, and data processing were conducted  
15       by CARAVAN, I acted as the project director and participated at all stages of  
16       the process.

17           **2. The Population Studied**

18          The population studied included 502 men and 503 women,  
19       representatives of households in the 48 contiguous states. Screening  
20       questions were asked to determine if respondents had primary or shared  
21       responsibility for paying household bills, if they mailed bill payments in an

1 average month, and if any of those mailed bill payments utilized a reply  
2 envelope enclosed with the statement.

3 About 80 percent of the respondents, (401 men and 401 women)  
4 passed the screening questions and were then asked questions about the  
5 two-stamp system.

6 **3. The Sample Design**

7 ORC has an annual license for GENESYS, a custom random digit  
8 dialing sample generation system developed by Marketing Systems Group.  
9 CARAVAN uses this sampling system. The sample generation process is  
10 described in the CARAVAN report included in the Appendix.

11 **4. The Telephone Survey**

12 The CARAVAN sample is fully replicated and stratified by region. The  
13 replication process creates subsets of the full sample. The use of such  
14 replicates is intended to eliminate any systematic bias in approaching the  
15 sample. An analogy would be drawing samples from a telephone book. If we  
16 started with the letter A and interviewed until we were finished, we would  
17 probably be done before we got to Z, thereby introducing a bias. Using small  
18 replicates that represent the entire sample greatly reduces such bias because  
19 all letters have an equal probability of being represented in each replicate.

20 The administration of the telephone interviews is greatly enhanced by  
21 the use of ORC's Computer Assisted Telephone Interviewing (CATI) system.  
22 The CATI system provides control over many aspects of the interviewing  
23 process. In the background, it maintains records of how the sample is

1 released and used, ensures that calls to different time zones are made at the  
2 appropriate local time, and sets times to call back numbers that are busy or  
3 not answered as well as for callbacks that respondents schedule for specific,  
4 more convenient times.

5 The CATI system also controls the questionnaire logic that is  
6 programmed into it. No matter how complex an interview structure may be,  
7 the complexity is invisible to the interviewer and to the respondent. The  
8 system simply displays the appropriate next question for the interviewer to  
9 ask.

10 The CATI system also identifies illogical responses and displays a  
11 message to the interviewer to repeat a question when appropriate.

12 **B. THE TELEPHONE QUESTIONNAIRE**

13 The questionnaires are included in the CARAVAN report in the  
14 Appendix. It should be noted that there were two forms of the questionnaire,  
15 differing only in the rates cited for First-Class Mail. In designing the  
16 questionnaire, we were faced with the choice of using the current rate, 32  
17 cents, with a reply mail rate of 29 cents, or the requested rate of 33 cents,  
18 with a reply mail rate of 30 cents. Neither of these represents the only correct  
19 approach. Indeed, it appeared that to select one would leave us open to  
20 questions concerned with why we did not select the other. Therefore, we  
21 used both. Each respondent was exposed to one set of rates. No one was  
22 exposed to both. A process employed by the CATI system determined which  
23 questionnaire was used for each respondent.

1       The decision to use two different rate structures in the questionnaires  
2   led to some differing answers to some of the questions we asked. These  
3   differences will be discussed in the Findings section of my testimony.  
4   However, in reporting I have generally presented the survey results as if they  
5   are for one survey. In other words, the results represent the average of the  
6   reactions to the two sets of rates. The results for the two sets of rates are  
7   reported separately in the detailed tabulations in the CARAVAN report in the  
8   Appendix.

9       The questionnaire draft was pretested with 26 respondents before a  
10   final version was prepared. At all points in the questionnaire preparation and  
11   testing process, representatives of the Postal Service were involved.

12       In brief, the questionnaire included questions on bill payments mailed,  
13   bill payments mailed in reply envelopes, perceived convenience of using and  
14   acquiring two stamps as compared to the current system, likelihood of using  
15   the two stamps, likelihood of using in light of annual savings, places where  
16   stamps are purchased, likelihood of using if stamps of the second value were  
17   available only through post offices, overall preferences for a one-stamp or  
18   two-stamp system, and overall preference if the two-stamp system  
19   contributed to the need for a higher rate.

20       The study's findings are summarized following the discussion of data  
21   processing and weighting.

1           **C. DATA PROCESSING AND WEIGHTING**

2         Following procedures followed for CARAVAN surveys and other  
3         general public surveys, completed interviews are weighted by four variables:  
4         age, sex, geographic region, and race, to ensure reliable and accurate  
5         representation of the total population, 18 years of age or older. The raw data  
6         are weighted by a proprietary program which assigns a sample weight to  
7         each respondent based on the relationship between the actual proportion of  
8         the population with its specific combination of age, sex, geographic  
9         characteristics, and race and the proportion in the specific CARAVAN sample  
10        for that week.

11           Tabulation results show both weighted and unweighted bases.

12           Percentages are calculated using weighted data.

13           The standard CARAVAN output provides two pages of demographic  
14         cross tabulations for each question asked. For this study, an additional page  
15         of cross tabulations shows which rate was presented to each respondent, the  
16         number of reply bills mailed each month, likelihood of using the two-stamp  
17         system, system preference, system preference if a higher basic rate resulted,  
18         and places where stamps are purchased.

1     III. FINDINGS

2         Tables 1-7 provide summary information from the questions asked in  
3         the CARAVAN survey\*. Each table includes a paraphrase of the question or  
4         questions asked, a description of the population asked the question and  
5         tabular results for the question. The results include descriptions of the  
6         unweighted and weighted bases and the question responses in the form of  
7         percentages of the weighted bases. All tables read from top to bottom.

8         Some of the tables are only in terms of total population, others also  
9         include selected cross tabulations. The selection of the cross tabulations to  
10      be presented was intended to focus on findings of interest for each question.

11         Table 1 summarizes the questions that were used to qualify  
12      respondents for the balance of the question series.

13         First, respondents were asked if they had primary responsibility,  
14         shared responsibility, or little or no responsibility for paying household bills.  
15         By saying they had primary or shared responsibility, they became qualified to  
16         proceed to the next question. Approximately 13 percent of the respondents  
17         did not qualify on this question. Eight hundred and seventy-one of the  
18         original weighted base of one thousand respondents went on.

19         The next question asked the number of bill payments mailed from the  
20      household in a average month. At least one mailed bill payment was

---

\* A full data set, with map, in electronic format has been provided in USPS LR-H-349.

1 required for the respondent to proceed. Here, we lost about two percent of  
2 those who were asked the question who said there were no mailed payments  
3 and about three percent who did not know if there were mailed payments. Of  
4 the 871 asked the question, 828 went on.

5 The final qualifying question asked how many of the payments mailed  
6 used a return envelope that was enclosed with the statement. Four percent  
7 of those asked this question said that none of the payments used such return  
8 envelopes and a fractional percentage said that they did not know.

9 The 802 weighted respondents who remained, 80% of the original  
10 population, were then asked the questions reported in Table 2. All  
11 respondents to these and subsequent questions had some responsibility for  
12 paying household bills in households from which at least one bill payment per  
13 month was mailed in a reply envelope provided with the bill statement. The  
14 respondent population is qualified to discuss reactions to the two-stamp  
15 program.

16 The two questions reported in Table 2 concern perceptions of the  
17 convenience of, first, using and, next, buying, two different stamp  
18 denominations. The service was described in this way:

19 The Postal Service has been asked to consider a two-stamp system  
20 where there would be a three cent difference between the postage  
21 charged for reply envelopes that meet Postal Service requirements  
22 and the postage charged for all other First-Class letters.

1           VERSION A

2         For example, you pay 32 cents for First-Class letters and would pay 29  
3           cents for reply envelopes

4           VERSION B

5         For example, last year the Postal Service requested a 33 cent rate for  
6           First-Class letters. If the 33 cent rate is approved, the rate for reply  
7           envelopes would be 30 cents.

8         Here, it is clear that the choice of present or proposed rates in our  
9           question wording affects public response. The lower pair of rates, i.e. the  
10          current rate of 32 cents and a discounted rate of 29 cents, were seen as  
11          more convenient to use than were the higher rates, i.e., the requested rate of  
12          33 cents and a discounted rate of 30 cents.

13          As discussed earlier, a respondent saw only one pair of rates.

14          There is no implied comparison here, but there is an indication that mention  
15          of an increased price and an accompanying discount affects respondent  
16          perceptions of convenience of use more negatively than mentioning a  
17          discount without an increase in price.

18          The different responses provide a good reason to use the average  
19          response to each question. Therefore, while I will continue to show the  
20          populations for the two price sub-groups where it might be of interest, my  
21          focus will be on the total population.

1        Twenty-three percent of the population say that a two-stamp system  
2    would be more convenient to use than the present system. Thirty-six percent  
3    of them see it as less convenient.

4        The next question was in a similar format and asked about the  
5    perceived convenience of buying two denominations of stamps. Few (8%)  
6    saw buying two stamps as more convenient than the current system and  
7    almost half (47%) saw it as less convenient.

8        The difference between the two populations who were presented  
9    different price levels is less evident as we get further removed from the  
10   description of the rates involved. There is no significant difference between  
11   the proportions saying that two denominations would be more convenient to  
12   buy, but those hearing the proposed rates were significantly more likely to  
13   see two stamps as less convenient to buy than were those hearing the  
14   current rate and discount.

15       In all, these findings illustrate the subjective nature of measures of  
16   convenience. The fact that higher prices can contribute to making things less  
17   convenient in the eyes of potential customers indicates that the concept of  
18   convenience is not necessarily the same for everyone.

19       Table 3 presents two questions that are concerned with reported intent  
20   to use both stamp denominations.

21       The first question is an unqualified question of intent. Once again, an  
22   effect of asking some respondents about rates based on the current rate and  
23   some questions based on the requested rate can be seen. Those asked

1 about the higher rates were less likely to say that they would use the two  
2 denominations. Overall, about three-fifths (61%) of the population say they  
3 are very likely (38%) or somewhat likely (23%) to use the two denominations.  
4 Over a third (37%) say that they are unlikely to use the two denominations;  
5 15% somewhat unlikely and 22% very unlikely.

6 This question was repeated, but with the addition of a calculation  
7 performed by the CATI system that provided the expected monthly and  
8 annual saving for each responding household that might be expected from  
9 the two-stamp system. For example, our data, as reported in Table 1, show  
10 that the average number of reply envelopes mailed by a household that mails  
11 any such envelopes in an average month is reported to be 7.3. The monthly  
12 saving with a three-cent discount would be 22 cents and the annual saving  
13 would be \$2.64. That average does hide the fact that savings are correlated  
14 with household income and that similar calculations show potential annual  
15 savings ranging from \$1.80 for households with annual incomes under  
16 \$15,000 to \$3.60 for those with annual incomes over \$50,000. Even these  
17 numbers somewhat overstate the benefits for low-income households since  
18 they are for households that mail payments in reply envelopes and members  
19 of the lowest income households are significantly less likely to mail any  
20 payments and, therefore, to get any benefit.

21 While there is reason to believe that some respondents had already  
22 made this calculation before answering the previous question, the inclusion  
23 of actual savings in the question wording still resulted in a small reduction in

1 enthusiasm. Although the total saying that they would be likely to use two  
2 denominations remained about the same (60%), the proportion who said they  
3 would be very likely to use the two-stamps fell from 38% to 35% and the  
4 those very unlikely to use two stamps increased from 22% to 27%.

5 We may conclude that while many people can be positive about saving  
6 money, the amount they stand to save with the two-stamp system is, at best,  
7 unlikely to enhance these positive feelings, and may even detract from them.

8 Looking at Table 4, we can see that those in households with higher  
9 incomes are slightly more likely to say they will buy and use both stamp  
10 denominations than are those with lower incomes. Of course, this may also  
11 reflect the fact that the saving for consumers are regressive since those with  
12 higher incomes are likely to be mailing more bill payments in an average  
13 month and, proportionately, even more reply envelopes.

14 Table 5 explores the subject of where people buy stamps and the  
15 effect on purchase intent if the second stamp denomination were available  
16 only through the Postal Service.

17 Nine out of ten (90%) of respondents report buying stamps at post  
18 offices in the past year while four out of ten (40%) report purchasing stamps  
19 at other outlets, including Automated Teller Machines (ATMs). The total adds  
20 to more than one hundred percent because the question was designed to  
21 permit multiple responses.

22 Those who had purchased stamps at outlets other than post offices in  
23 the past year were asked how likely they would be to use the two-stamp

1 system if the second stamp denomination could be purchased only through  
2 the Postal Service. The results show a substantial reduction in intent to use.  
3 This table presents data only for the sub-population that was asked this  
4 question, those who had purchased stamps at non-postal outlets in the past  
5 year. For comparison purposes, the response to the earlier intent question by  
6 those who were asked this question is also included in the Table.

7 Table 6 looks at the two-stamp system from another point of view, one  
8 that is often overlooked in product and service research. Rather than  
9 convenience and expectation to use, the subject turns to user preference.

10 A substantial majority (60%) of representatives of reply envelope  
11 mailing households would prefer the one-stamp system. In fact almost half  
12 (45%) of those who say they would be likely to use the two-stamp system if it  
13 is implemented would prefer a one-stamp system.

14 These data imply that the two-stamp system is more likely to be seen  
15 as an imposition than it is a benefit to household mailers.

16 Finally, we took the preference question one step further, asking those  
17 who expressed a preference for the two-stamp system or did not know which  
18 they preferred, which system they would prefer if the presence of the two-  
19 stamp system contributed, to at least some degree, to an increase to the  
20 regular rate for First-Class letters. This is, of course, a very complex question  
21 to pursue, but early indications are that any resulting rate increase, like all  
22 rate increases, would not be well received by the household public.

1       The proportion of this group preferring the two-stamp system dropped  
2 from one hundred percent to 30%. Indeed, if we perform the calculation that  
3 combines those who originally said they preferred the one-stamp system (Q.  
4 P9) with those who said they preferred the one-stamp system after hearing of  
5 a potential impact on basic First-Class letter rates (Q.P10), we can see that  
6 about 86% of the public prefer the one-stamp system under these conditions.  
7 An explanation of this calculation is presented in Table 7.

8

#### 9       **IV. CONCLUSIONS**

10       The public does not find the two-stamp system attractive. While well  
11 over half (61%) of the public say they would use the two-stamp system if it  
12 existed, what is more telling is that 60% of the public say that they would  
13 prefer to stay with the one-stamp system. This 60% includes almost half of  
14 those who say they would use the two-stamp system.

15       When the possibility of the two-stamp system contributing to a future  
16 increase in the basic rate for First-Class letters is raised, 86% of the public  
17 say that they would prefer to stay with the one-stamp system

Table 1

Respondent has primary/shared responsibility/little or no responsibility for paying household bills. (Q.P1)

	Total	Male	Female
Unweighted total	1,005	502	503
Weighted total	1,000	480	520
Primary responsibility	53%	51%	55%
Shared responsibility	34	38	32
Little or no responsibility	13	12	14
Don't know	*	0	*

\*Less than 0.5%.

	Number of bill payments mailed from household in an average month. (Q.P1A)	Number of bill payments mailed from household in an average month using envelopes enclosed with statement. (Q.P2)
Base = Have primary/shared responsibility for paying household bills.		Base = Those having primary/shared responsibility for paying bills who mail at least one bill payment in an average month.
	Total	Total
Unweighted total	881	839
Weighted total	871	828
1- 5	27%	42%
6-10	43	38
11-15	16	12
16 or more	8	4
None	2	4
Don't know	3	*
Mean (Excluding None)	9.1	7.3

**Table 2**

Compared with the current system, level of convenience to use different stamp denominations/value if the reduced rate approved. (Q.P3)

**Base = Those having primary/shared responsibility for paying household bills and mail at least one bill payment with a reply envelope in an average month.**

	Total	Rate Seen by Respondent	
		32 cents/ 29 cents	33 cents/ 30 cents
Unweighted total	802	405	397
Weighted total	790	398	392
More convenient	23%	27%	18%
About as convenient	40	43	37
Less convenient	36	29	43
Don't Know	2	1	2

Level of convenience of buying stamps of two denominations/values compared with the current system. (Q.P4)

	Total	Rate Seen by Respondent	
		32 cents/ 29 cents	33 cents/ 30 cents
More convenient	8%	9%	7%
About as convenient	44	47	40
Less convenient	47	43	52
Don't Know	1	1	1

**Table 3****Likelihood of buying and using both stamp denominations/values (Q.P5)**

**Base = Those having primary/shared responsibility for paying household bills and mail at least one bill payment with a reply envelope in an average month.**

	Total	Rate Seen by Respondent	
		32 cents/ 29 cents	33 cents/ 30 cents
Unweighted total	802	405	397
Weighted total	790	398	392
Very likely	38%	44%	32%
Somewhat likely	23	24	22
Somewhat unlikely	15	13	17
Very unlikely	22	18	27
Don't Know	1	1	2

**Knowing the amount they could save, likelihood of buying and using both stamp denominations/values. (Q.P6)**

	Total	Rate Seen by Respondent	
		32 cents/ 29 cents	33 cents/ 30 cents
Unweighted total	802	405	397
Weighted total	790	398	392
Very likely	35%	42%	28%
Somewhat likely	25	22	28
Somewhat unlikely	12	13	11
Very unlikely	27	22	31
Don't Know	1	1	1

Table 4

Knowing amount they could save, likelihood of buying and using both stamp denominations. (Q.P6)

Base = Those having primary/shared responsibility for paying household bills and mail at least one bill payment with a reply envelope in an average month.

	Total	Household Income				
		\$15,000	\$25,000	\$37,000	Less Than \$50,000	\$50,000 Or More
		Less Than \$15,000	Less Than \$25,000	Less Than \$35,000	Less Than \$50,000	
Unweighted total	802	67	91	138	155	258
Weighted total	790	77	90	144	147	237
Very likely	35%	33%	25%	36%	38%	34%
Somewhat likely	25	23	27	27	26	26
Somewhat unlikely	12	4	16	11	17	11
Very unlikely	27	40	31	27	18	28
Don't know	1	0	0	1	1	1
Number of Bills Mailed in Reply Envelopes Each Month						
	Total	1-5	6-10	11 or More		
Unweighted total	802	342	317	143		
Weighted total	790	344	313	133		
Very likely	35%	26%	39%	48%		
Somewhat likely	25	26	26	20		
Somewhat unlikely	12	13	14	6		
Very unlikely	27	33	20	26		
Don't know	1	1	1	1		

**Table 5**

Places have purchased stamps in past year – Aided (Q.P7)

Base = Those having primary/shared responsibility for paying household bills and mail at least one bill payment with a reply envelope in an average month.

	<u>Total</u>
Unweighted total	802
Weighted total	790
At a post office	90%
At a grocery or other retail store/At an ATM (Net)	40
At grocery or other retail stores	35
At an automatic teller machine (ATM)	10
Don't Know	2

Likelihood of buying and using both stamp denominations if could only obtain the discounted stamps through the Postal Service and they were not available through grocery stores or other retail outlets, including ATMs. (Q.P8)

Base = Those having primary or shared responsibility for paying household bills and mail at least one bill payment with a reply envelope in an average month and purchase stamps at grocery or other retail stores/ATMs in the past year.

	Response to earlier question of those qualifying for this question (Q.P6)	Response to this Question
Unweighted total	323	323
Weighted total	317	317
Very likely	36%	24%
Somewhat likely	27	18
Somewhat unlikely	10	17
Very unlikely	25	39
Don't Know	1	1

**Table 6**

Preference between a one-stamp pricing system as it is now or a two-stamp pricing system as proposed. (Q.P9)

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment with a reply envelope in an average month.

	Total	Rate Seen by Respondent		Likelihood of Using Two-Stamp System	
		32 cents/ 29 cents	33 cents/ 30 cents	Likely	Unlikely
Unweighted total	802	405	397	495	298
Weighted total	790	398	392	485	296
A one-stamp system	60%	53%	68%	45%	85%
A two-stamp system	38	45	30	53	13
Don't know	2	3	2	2	2

Preference between one-stamp pricing system and two-stamp pricing system if two-stamp pricing contributed, to some degree, to an increase in rates for regular First-Class letters. (Q.P10)

Base = Those having primary/shared responsibility for paying household bills and mail at least one bill payment with a reply envelope in an average month and prefer the two-stamp system (Q.P9) or don't know.

	Total	Rate Seen by Respondent		Likelihood of Using Two-Stamp System	
		32 cents/ 29 cents	33 cents/ 30 cents	Likely	Unlikely
Unweighted total	324	191	133	281	42
Weighted total	314	189	126	269	44
A one-stamp system	66%	70%	61%	69%	46%
A two-stamp system	30	26	35	27	46
Don't know	4	4	5	4	8

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**Table 7**

Revised 3-19-98

Calculation of combined preference with consideration of potential effect on basic rates.

In Q.P9, we asked a weighted total of 790 respondents their preference for a one-stamp or two-stamp system.

476 (60%) said they preferred the one-stamp system  
 297 (38%) preferred the two-stamp system, and  
 17 (2%) said they did not know

In Q.P10 we then asked those who said they preferred the two-stamp system (297) or did not know which they preferred (17) –

"If the two-stamp pricing system contributed, to some degree, to an increase in the rates for regular First-Class letters, would you still prefer the Postal Service to offer the two-stamp system or would you prefer the one-stamp system?"

<sup>314</sup>  
 Of the ~~324~~ respondents, 207 (66%) said a one-stamp system, 94 (30%) a two-stamp system and 14 (4%) don't know.

If we assume that all those who said they would prefer a one-stamp system in response to Q.P9 (476) would continue to prefer the one-stamp system under the conditions of P10, we can add those respondents to the 207 respondents who had said they would prefer the two-stamp system in response to Q.P9, but would prefer the one-stamp system in response to Q.P10.

The total (476 + 207 = 683) represents an approximation of the way the total population would have responded to Q.P10 if all had been asked.

683 divided by the weighted total of 790 is 86%.

## APPENDIX

Caravan® Report: Interest in Two-Stamp System of Postage

# CARAVAN

## INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

Prepared For:

**UNITED STATES POSTAL SERVICE**

**JANUARY 29, 1998**

**OPINION RESEARCH CORPORATION INTERNATIONAL**

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DETAILED TABULATIONS OF  
CARAVAN

INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

Prepared for:

UNITED STATES POSTAL SERVICE

JANUARY 29, 1998

Prepared by:

OPINION RESEARCH CORPORATION INTERNATIONAL  
Princeton, New Jersey

ORC Study #70705

19087

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## INTRODUCTION

This report presents the findings of a telephone survey conducted among a national probability sample of 1005 adults comprising 502 men and 503 women 18 years of age and older, living in private households in the continental United States.

Interviewing for this CARAVAN® Survey was completed during the period January 29 - February 1, 1998. All data collection efforts took place at Opinion Research Corporation's Central Telephone Facility in Tucson, Arizona. The core of our telephone center is the interviewers. All Opinion Research Corporation's interviewers complete an intensive training and test period. Additionally, they attend follow-up training classes that cover advanced screening techniques, in-depth probing and the art of refusal avoidance. Interviewers are continuously supervised, monitored and reviewed in order to maintain the highest quality interviewing standards.

All CARAVAN interviews are conducted using Opinion Research Corporation's computer assisted telephone interviewing (CATI) system. The system is state-of-the-art and offers several distinct advantages such as: full-screen control which allows multi-question screens, fully-programmable help and objection screens to aid interviewing, an extremely flexible telephone number management system and powerful data checking facilities. CATI ensures that interviews are conducted in the most efficient manner and allows interviewers easy response recording. This interviewing method also allows for the most accurate form of data entry by guiding the interviewer through the programmed question flow and by providing on-screen interviewer instructions.

The most advanced probability sampling techniques are employed in the selection of households for telephone interviewing. Opinion Research Corporation utilizes an unrestricted random sampling procedure that controls the amount of serial bias found in systematic sampling to generate its random-digit-dial sample. The sample is fully replicated and stratified by region. Only one interview is conducted per household. All sample numbers selected are subject to up to four attempts to complete an interview.

Completed interviews are weighted by four variables: age, sex, geographic region, and race, to ensure reliable and accurate representation of the total population, 18 years of age and older. The raw data are weighted by a custom designed program which automatically develops a weighting factor for each respondent. Each respondent is assigned a single weight derived from the relationship between the actual proportion of the population with its specific combination of age, sex, geographic characteristics and race and the proportion in our CARAVAN sample that week. Tabular results show both weighted and unweighted bases.

The use of replicable sampling, standardized interviewing procedures and representative weighting provides that all CARAVAN studies are parallel to one another. Thus, CARAVAN usage is appropriate both for point-in-time analysis as well as tracking and trend comparisons.

Included in the Technical Information which follows are tables of sampling tolerances of survey results, and a copy of the question series as it appeared in the survey questionnaire.

As required by the Code of Standards of the Council of American Survey Research Organizations, we will maintain the anonymity of our respondents. No information will be released that in any way will reveal the identity of a respondent. Our authorization is required for any publication of the research findings or their implications.

Opinion Research Corporation's CARAVAN is a syndicated, shared-cost data collection vehicle. Opinion Research Corporation has exercised its best efforts in the preparation of this information. In any event, Opinion Research Corporation assumes no responsibility for any use which is made of this information or any decisions based upon it.

## CARAVAN Telephone Sampling Methodology

Opinion Research Corporation's national probability telephone sample is an efficient form of random-digit-dialing. The sample is designed to be a simple random sample of telephone households. Unlike published directories, Opinion Research Corporation's national probability telephone sample includes both unlisted numbers and numbers issued after publication of the directories. The following procedure was used to create the sample:

- Opinion Research Corporation has an annual license for GENESYS, a custom RDD sample generation system developed by Marketing Systems Groups.
- The methodology for generating random digit dialing (RDD) telephone samples in the GENESYS system provides for a single stage, EPSEM (Equal Probability of Selection Method) sample of residential telephone numbers. It is updated twice a year.
- When a national probability sample is needed, a random selection is made from approximately 40,000 exchanges in two million working banks.
- Each telephone number is transferred to a separate call record. The record shows the computer-generated telephone number to be called, as well as the county, state, MSA (if applicable), band and time zone into which the telephone number falls. Our computerized interviewing system (CATI) uses this information to keep track of regional quotas. The CATI interviewing program also keeps track of the disposition categories for each call attempt.

### **Reliability Of Survey Percentages**

Results of any sample are subject to sampling variation. The magnitude of the variation is measurable and is affected by the number of interviews and the level of the percentages expressing the results.

The table below shows the possible sample variation that applies to percentage results reported from Opinion Research Corporation's CARAVAN sample. The chances are 95 in 100 that a CARAVAN survey result does not vary, plus or minus, by more than the indicated number of percentage points from the result that would be obtained if interviews had been conducted with all persons in the universe represented by the sample.

<u>Size of Sample on Which Survey Results Is Based</u>	Approximate Sampling Tolerances Applicable to Percentages At or Near These Levels				
	<u>10% or 90%</u>	<u>20% or 80%</u>	<u>30% or 70%</u>	<u>40% or 60%</u>	<u>50%</u>
1,000 interviews	2%	2%	3%	3%	3%
500 interviews	3%	4%	4%	4%	4%
250 interviews	4%	5%	6%	6%	6%
100 interviews	6%	8%	9%	10%	10%

#### Additional Sampling Tolerances for Samples of 1,000 Interviews

<u>9% or 91%</u> 2%	<u>8% or 92%</u> 2%	<u>7% or 93%</u> 2%	<u>6% or 94%</u> 1%	<u>5% or 95%</u> 1%
<u>4% or 96%</u> 1%	<u>3% or 97%</u> 1%	<u>2% or 98%</u> 1%	<u>1% or 99%</u> .2%	

### **Sampling Tolerances When Comparing Two Samples**

Tolerances are also involved in the comparison of results from independent parts of any one Opinion Research Corporation's CARAVAN sample and in the comparison of results between two independent CARAVAN samples. A difference, in other words, must be of at least a certain number of percentage points to be considered statistically significant. The table below is a guide to the sampling tolerances in percentage points applicable to such comparisons, based on a 95% confidence level.

<u>Size of Samples Compared</u>	Differences Required for Significance At or Near These Percentage Levels				
	<u>10% or 90%</u>	<u>20% or 80%</u>	<u>30% or 70%</u>	<u>40% or 60%</u>	<u>50%</u>
1,000 and 1,000	3%	4%	4%	4%	4%
1,000 and 500	3%	4%	5%	5%	5%
1,000 and 250	4%	6%	6%	7%	7%
1,000 and 100	6%	8%	9%	10%	10%
500 and 500	4%	5%	6%	6%	6%
500 and 250	5%	6%	7%	7%	8%
500 and 100	6%	9%	10%	11%	11%
250 and 250	5%	7%	8%	9%	9%
250 and 100	7%	9%	11%	11%	12%
100 and 100	8%	11%	13%	14%	14%

## INTRODUCTION TO DETAILED TABULATIONS

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### **How To Read The Tables**

The following pages present the detailed tabulations of survey results. The data are percentaged vertically and, therefore, should be read from top-to-bottom. The total number of interviews, both weighted and unweighted, appears at the top of each column. Percentages are calculated on the weighted bases. Percentages may not add to 100% due to weighting factors or multiple responses. Where an asterisk (\*) appears, it signifies any value of less than one-half percent.

### **Definition Of Classification Terms**

The following definitions are provided for some of the standard demographics by which the results are tabulated. Other demographics are self-explanatory.

#### **Income**

The income groupings refer to the total household income for 1997 before taxes.

#### **Metro Size**

Metro --	In Center City of Metropolitan Area Outside Center City, Inside Center City County Inside Suburban County of Metropolitan Area In Metropolitan Area with No Center City
----------	--

Non-Metro --	In Non-Metropolitan Area
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#### **Children in Household**

None --	No children under 18 years of age living in household
Total --	Have children under 18 years of age living in household
Under 12 --	Have children under 12 years of age living in household
12 - 17 --	Have children ages 12 to 17 living in household

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## **Geographic Region**

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The continental states are contained in four geographic regions as follows:

### North East

New England: Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut

Middle Atlantic: New York, New Jersey, Pennsylvania

### North Central

East North Central: Ohio, Indiana, Illinois, Michigan, Wisconsin

West North Central: Minnesota, Iowa, Missouri, North Dakota, South Dakota, Nebraska, Kansas

### South

South Atlantic: Delaware, Maryland, District of Columbia, Virginia, West Virginia, North Carolina, South Carolina, Georgia, Florida

East South Central: Kentucky, Tennessee, Alabama, Mississippi

West South Central: Arkansas, Louisiana, Oklahoma, Texas

### West

Mountain: Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada

Pacific: Washington, Oregon, California

## **Occupation (Optional)**

The occupation classification refers to the occupation of the respondent. The types of positions included in each category are:

Professional/Manager/Owner	-	Executives, Professionals, Technical and Kindred Workers, Managers, Officials, and Proprietors
White Collar - Sales/Clerical	-	Clerical, Office and Secretarial Workers, and Sales Agents and Workers
Blue Collar - Craftsmen/Foremen	-	Craftsmen, Foremen, Kindred Workers, Carpenters, Plumbers, Electricians, Mechanics, and Bakers
Blue Collar - Semi-Skilled/Unskilled	-	Apprentices, Laborers, Assembly Line Workers, Motormen and Fishermen
Service Workers	-	Housekeepers in Private Households, Police, Beauticians, Barbers, Security Guards, Waitresses and Waiters

### Significance Testing

When results from sub-groups of a CARAVAN sample appear in the detailed tabulations, an indicator of statistically significant differences is added to the tables run on our standard demographic banners. The test is performed on percentages as well as mean values. Each sub-sample is assigned a letter. When the percentage of one sub-sample is significantly different from the percentage of another sub-sample, the letter representing one of the two samples appears next to the percentage (or mean) of the other sample.

For instance the percentage of males answering yes to a particular question may be compared to the percentage of females answering yes to the same question. In the example on the next page, the male sample is assigned the letter A, and the female sample is assigned the letter B. Here, respondents were asked whether a certain business practice is acceptable. 67% of women said that it was -- a proportion significantly greater than the 57% of males who believe that the practice is acceptable. To indicate that women are significantly more likely to find the practice acceptable than are men, the letter A -- the letter assigned to the male sub-sample -- appears next to the "67%" in the female column. Similarly, the 37% of men that find the practice unacceptable is significantly greater than the 29% of women who do so and, therefore, the letter "B" -- the letter assigned to the female sub-sample -- appears next to the "37%" in the male column.

## Significance Testing (continued)

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### Acceptability of [practice]

	Total	Sex	
		Male (A)	Female (B)
Unweighted Total	977	488	489
Weighted Total	967	464	503
Acceptable	611 63%	274 59%	337 67%A
Not Acceptable	319 33%	171 37% <b>B</b>	148 29%
Don't Know	37 4%	18 4%	19 4%

---

Significance testing is done to the 95% confidence level. The columns compared are listed at the bottom of each table.

A number of factors need to be considered when determining which type of t-test should be applied, such as whether the samples being compared overlap, whether they are means or percentages, etc. Opinion Research Corporation's software has the capability to perform the appropriate test.

Note that any statistical test becomes less reliable when the sample sizes are small. Even though the test mathematically can be performed on samples as low as thirty, sixty respondents is the reasonable lower bound on the size of the sample.

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DETAILED TABULATIONS

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CARAVAN® OPINION RESEARCH CORPORATION INTERNATIONAL

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ORC STUDY #70705                    CARAVAN                    JANUARY 29, 1998  
 INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

Question P1

Respondent has primary responsibility/shared responsibility/little or no responsibility for paying household bills

	Sex		Age							Region						Race			Hispanic (R)
	Total (A)	Male (B)	Fe-	18-	25-	35-	45-	55-	64	65+	North- east	North- central	South	West	Non- Metro	Metro	White	Black	
			male (C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)	(P)	(Q)		
Unweighted Total	1005	502	503	113	228	255	167	113	121	210	250	343	202	738	267	838	68	86	
Weighted Total	1000	480	520	131	216	215	160	108	163	201	234	354	211	733	267	833	116*	63	
Primary responsibility/ Shared responsibility (Net)	871	423	448	78	189	198	146	100	155	172	203	313	184	635	236	733	95	50	
	87%	88%	86%	60%	88%D	92%D	91%D	92%D	95%DE	85%	86%	89%	87%	87%	89%	88%	82%	80%	
Primary responsibility	526	243	284	24	98	121	91	70	118	92	127	186	121	390	136	443	59	29	
	53%	51%	55%	18%	46%D	56%DE	57%DE	64%DE	72%DE	46%	54%	53%	57%J	53%	51%	53%	50%	47%	
PG																			
Shared responsibility	345	180	165	54	91	77	55	30	36	79	75	127	63	245	100	290	37	21	
	34%	38%	32%	41%HI	42%HI	36%I	34%I	28%	22%	39%	32%	36%	30%	33%	37%	35%	32%	34%	
Little or no responsibility	127	57	70	52	27	17	14	8	9	28	32	41	27	97	31	98	21	12	
	13%	12%	14%	40%EF	12%I	8%	9%	8%	5%	14%	14%	11%	13%	13%	11%	12%	18%	20%	
GHZ																			
Don't know	1	0	1	1	0	0	0	0	0	1	0	0	0	1	0	1	0	0	
*	0	*	1%	0	0	0	0	0	0	1%	0	0	0	*	0	*	0	0	

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F/G/H/I - J/K/L/M - N/O - P/Q

\* small base

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ORC STUDY #70705      CARAVAN      JANUARY 29, 1998  
INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

Question P1

Respondent has primary responsibility/shared responsibility/little or no responsibility for paying household bills

	Household Income								Dual Income (G)	H.H. Size (H)	Children In H.H.				Education							
	\$15K- LT (A)		\$25K- LT (B)		\$35K- LT (C)		\$50K Or More (D) (E) (F)				1 (I)	2 (J)	3 Or More (K)	None (L)	Total (M)	Under 12- 12 (N)	HS Incom- plete (O)	HS Grad (P)	Coll Incom- plete (Q)	Coll Grad (R)		
	\$15K (B)	\$25K (C)	\$35K (D)	\$50K (E)	More (F)																	
Unweighted Total	1005	90	108	173	195	306	461	148	328	525	558	442	323	195	102	308	237	324				
Weighted Total	1000	102*	110*	178	186	283	442	157	360	500	581	415	304	183	113*	310	237	305				
Primary responsibility/ Shared responsibility (Net)	871	93	102	155	157	250	402	154	311	403	518	349	257	152	90	264	210	280				
	87%	91%	93% E	87%	84%	88%	91%	98% I	91% J	81%	89% L	84%	64%	83%	80%	85%	88%	92% OP				
Primary responsibility	526	65	73	96	84	146	183	151	171	203	333	191	133	89	53	162	131	168				
	53%	64% E	67% DE	54%	45%	52%	41%	96% I	50% J	41%	57% L	46%	44%	49%	47%	52%	55%	55%				
Shared responsibility	345	28	29	58	73	104	220	3	140	200	185	158	124	63	37	102	79	112				
	34%	27%	27%	33%	39% C	37%	50%	2%	41% H	40% H	32%	38%	41%	34%	33%	33%	33%	37%				
Little or no responsibility	127	9	7	23	29	33	40	3	29	96	61	66	47	31	23	46	27	25				
	13%	9%	7%	13%	16% C	12%	9%	2%	9% H	19% H	11%	16% K	16%	17%	20% QR	15% R	11%	8%				
Don't know	1	0	0	0	0	0	0	0	0	1	1	0	0	0	0	0	1	0				
	*	0	0	0	0	0	0	0	0	*	*	0	0	0	0	0	1%	0				

Proportions/Means: Columns Tested (5% risk level) - B/C/D/E/F - H/I/J - K/L - O/P/Q/R

\* small base

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ORC STUDY #70705      CARAVAN      JANUARY 29, 1998  
INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P1A

Number of bill payments mailed from household in an average month

Base = Have primary/shared responsibility for paying household bills

	Sex			Age						Region						Race			
	Total	Male	Female	18-24	25-34	35-44	45-54	55-64	65+	North-east	North-central	South	West	Non-Metro	Metro	White	Black	Hispanic	
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)	(P)	(Q)	(R)	
Unweighted Total	881	442	439	68	199	236	152	104	115	181	217	308	175	645	236	741	57	73	
Weighted Total	871	423	448	78*	189	198	146	100*	155	172	203	313	184	635	236	733	95*	50	
Any (Net)	828	402	426	76	177	194	142	95	138	159	192	298	179	610	218	695	91	48	
95%	95%	95%	95%	98%I	94%	98%EI	97%I	95%	89%	93%	95%	95%	98%J	96%O	92%	95%	96%	96%	
1 - 5 (Sub-net)	236	124	112	41	48	45	19	32	48	39	66	79	52	169	67	186	35	12	
	27%	29%	25%	52%EF	26%O	23%G	13%	32%G	31%G	23%	32%J	25%	28%	27%	28%	25%	37%	24%	
1	9	7	2	2	1	2	1	0	2	1	2	5	1	6	2	8	0	1	
	1%	2%	*	3%	*	1%	1%	0	2%	1%	1%	2%	1%	1%	1%	1%	0	2%	
2	23	12	11	7	0	5	1	4	5	5	7	7	4	19	4	18	4	1	
	3%	3%	2%	9%EFG	0	3%E	1%	4%E	3%E	3%	4%	2%	2%	3%	1%	2%	4%	1%	
3	46	25	21	10	9	10	2	5	9	11	8	15	13	36	10	34	11	2	
	5%	6%	5%	12%G	5%	5%	2%	5%	6%	6%	4%	5%	7%	6%	4%	5%	11%P	3%	
4	51	27	24	3	15	9	5	7	12	9	19	15	8	39	13	40	8	2	
	6%	6%	5%	4%	8%	5%	3%	7%	8%	5%	9%	5%	4%	6%	5%	5%	8%	4%	
5	106	53	53	18	23	19	10	16	19	13	30	37	26	69	38	86	13	7	
	12%	13%	12%	24%EF	12%	9%	7%	16%O	12%	9%	15%J	12%	14%	11%	16%N	12%	14%	14%	
6 - 10 (Sub-net)	376	166	210	26	84	91	69	38	68	78	85	129	84	269	107	308	48	23	
	43%	39%	47%B	33%	44%	46%	47%	38%	44%	45%	42%	41%	46%	42%	45%	42%	50%	46%	
6	116	50	66	13	25	26	21	9	22	28	21	46	22	81	36	97	13	7	
	13%	12%	15%	16%	13%	13%	15%	9%	14%	16%	10%	15%	12%	13%	15%	13%	14%	14%	
7	43	21	22	6	10	9	7	4	7	4	16	15	8	32	11	35	5	2	
	5%	5%	5%	7%	6%	5%	5%	4%	4%	2%	8%J	5%	4%	5%	5%	5%	5%	3%	
8	75	34	41	3	18	19	10	9	17	19	15	22	18	55	21	59	12	6	
	9%	8%	9%	3%	10%	10%	7%	9%	11%	11%	8%	7%	10%	9%	9%	8%	12%	12%	

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F/G/H/I - J/K/L/M - N/O - P/Q

\* small base

ORC STUDY #70705      CARAVAN      JANUARY 29, 1998  
INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P1A

Number of bill payments mailed from household in an average month

Base = Have primary/shared responsibility for paying household bills

	Sex		Age						Region						Race				Hispanic (R)
	Total (A)	Male (B)	Female (C)	18-	25-	35-	45-	55-	65+	North- east	North- central	South	West	Non- Metro	Metro	White	Black		
				24 (D)	34 (E)	44 (F)	54 (G)	64 (H)	65+ (I)	(J)	(K)	(L)	(M)	(N)	(O)	(P)	(Q)		
Weighted Total	871	423	448	78*	189	198	146	100*	155	172	203	313	184	635	236	733	95*	50	
9	12	5	7	0	4	2	1	1	4	1	8	3	0	9	3	7	5	2	
	1%	1%	2%	0	2%	1%	1%	1%	2%	*	4%JLM	1%	0	1%	1%	1%	5%P	5%	
10	130	56	73	5	26	35	29	15	19	27	25	42	36	93	37	111	13	6	
	15%	13%	16%	7%	14%	18%D	20%D	15%	12%	15%	12%	13%	19%	15%	16%	15%	13%	13%	
11 - 15	143	76	67	7	34	42	27	17	13	22	28	62	30	115	28	132	7	7	
	16%	18%	15%	9%	18%I	21%DI	19%I	17%	8%	13%	14%	20%	16%	18%O	12%	18%Q	7%	14%	
16 or more	73	37	37	2	11	16	27	8	9	20	12	27	14	56	17	69	2	6	
	8%	9%	8%	3%	6%	8%	19%DEF	8%	6%	12%	6%	9%	7%	9%	7%	9%Q	2%	12%	
None	19	12	6	1	7	2	2	2	5	6	4	7	1	9	9	18	0	1	
	2%	3%	1%	1%	4%	1%	1%	2%	3%	3%	2%	2%	1%	1%	4%N	2%	0	3%	
Don't Know	25	9	16	*	5	2	2	4	12	7	7	8	3	16	9	20	4	*	
	3%	2%	4%	1%	3%	1%	1%	4%	8%FG	4%	3%	3%	2%	3%	4%	3%	4%	1%	
Mean (Including None)	8.9	8.8	9.0	6.2	8.6D	9.4D	11.7DE	8.8D	7.6	9.3K	8.1	9.2K	9.0	9.1	8.4	9.2Q	6.9	9.2	
					I	FHI													
Standard Deviation (Including None)	6.0	6.0	6.0	4.1	5.2	5.8	7.8	6.0	4.7	6.7	4.9	6.2	5.8	6.1	5.6	6.2	3.3	5.7	
Standard Error (Including None)	0.2	0.3	0.3	0.5	0.6	0.6	0.6	0.6	0.5	0.5	0.3	0.4	0.4	0.2	0.4	0.2	0.4	0.7	
Median (Including None)	8	7	8	5	8	8	10	8	6	8	7	8	8	8	7	8	6P	8	
Mean (Excluding None)	9.1	9.1	9.2	6.3	8.9D	9.5D	11.8DE	9.0D	7.8D	9.7K	8.3	9.4K	9.1	9.3	8.7	9.5Q	6.9	9.4	
					I	FHI													
Standard Deviation (Excluding None)	5.9	5.8	5.9	4.1	5.0	5.7	7.7	5.9	4.6	6.6	4.8	6.1	5.7	6.0	5.4	6.1	3.3	5.6	
Standard Error (Excluding None)	0.2	0.3	0.3	0.5	0.4	0.4	0.6	0.6	0.4	0.5	0.3	0.4	0.4	0.2	0.4	0.2	0.4	0.7	

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F/G/H/I - J/K/L/M - N/O - P/Q

\* small base

ORC STUDY #70705

CARAVAN

JANUARY 29, 1998

INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P1A

Number of bill payments mailed from household in an average month

Base = Have primary/shared responsibility for paying household bills

	Sex		Age						Region						Race			Hispanic (R)
	Total (A)	Male (B)	Female (C)	18- (D)	25- (E)	35- (F)	45- (G)	55- (H)	65+ (I)	North- east (J)	North- central (K)	South (L)	West (M)	Metro (N)	Non- Metro (O)	White (P)	Black (Q)	
				24	34	44	54	64	65+									
Weighted Total	871	423	448	78*	189	198	146	100*	155	172	203	313	184	635	236	733	95*	50
Median (Excluding None)	8	8	8	5	8	8	10	8	6	8	7	8	8	8	7	8	6P	8

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F/G/H/I - J/K/L/M - N/O - P/Q

\* small base

A16

ORC STUDY #70705

CARAVAN

JANUARY 29, 1998

INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P1A

Number of bill payments mailed from household in an average month

Base = Have primary/shared responsibility for paying household bills

	Household Income										Education										
	\$15K- LT					\$25K- LT					\$35K- LT					\$50K Or More					
	Total (A)	\$15K (B)	\$25K (C)	\$35K (D)	\$50K (E)	More (F)	H.H. (G)	1 (H)	2 (I)	3 Or More (J)	None (K)	Total (L)	Under 12 (M)	12- 17 (N)	Incom- plete (O)	HS Grad (P)	Incom- plete (Q)	HS Grad (R)	Incom- plete (S)	HS Grad (T)	Incom- plete (U)
Unweighted Total	881	83	101	149	165	273	420	145	299	433	497	379	279	165	83	263	208	299			
Weighted Total	871	93*	102*	155	157	250	402	154	311	403	518	349	257	152	90*	264	210	280			
Any (Net)	828	84	94	150	154	247	385	149	289	386	492	332	244	147	85	245	199	274			
1 - 5 (Sub-net)	236	50	40	46	29	44	87	65	70	100	151	83	67	33	41	71	58	56			
		50 27%	40 39%EF	46 30%EF	29 19%	44 18%	87 22%	65 42%I	70 23%	100 25%	151 29%	83 24%	67 26%	33 22%	41 46%PQ	71 27%	58 28%	56 20%			
1		9 1%	1 1%	1 1%	2 2%	1 1%	2 1%	3 1%	3 2%	2 1%	6 1%	7 1%	2 1%	2 1%	1 1%	0 0	5 2%	1 1%	*		
2		23 3%	8 9%DEF	4 4%	3 2%	1 1%	3 1%	5 1%	5 3%	8 3%	9 2%	15 3%	8 2%	7 3%	3 2%	6 7%R	7 3%	7 3%	3 1%		
3		46 5%	19 21%CDE	6 6%D	2 1%	5 3%	9 4%	15 4%	13 8%I	10 3%	26 6%	28 5%	19 5%	18 7%	5 3%	8 9%	16 7%	9 4%	11 4%		
4		51 6%	7 8%	11 11%EF	14 9%	6 4%	11 4%	19 5%	13 9%	21 7%	17 4%	34 7%	16 5%	10 4%	8 5%	6 7%	12 5%	18 9%R	12 4%		
5		106 12%	15 16%F	18 17%F	25 16%F	16 10%	19 8%	45 11%	30 20%IJ	29 9%	46 11%	67 13%	39 11%	31 12%	17 11%	21 23%PQ	29 11%	24 11%	28 10%		
6 - 10 (Sub-net)		376 43%	26 28%	38 37%	80 52%BC	80 51%BC	104 41%B	165 41%	70 45%	139 45%	167 41%	228 44%	147 42%	101 39%	68 45%	33 37%	111 42%	91 43%	133 47%		
6		116 13%	14 15%	16 16%	24 15%	21 14%	23 9%	41 10%	29 19%I	35 11%	51 13%	71 14%	44 13%	34 13%	17 11%	14 16%	42 16%	22 16%	33 12%		
7		43 5%	2 2%	3 2%	17 11%BCF	9 6%	8 3%	16 4%	9 6%	15 5%	20 5%	25 5%	18 5%	10 4%	9 6%	1 1%	12 5%	15 7%	15 5%		

Proportions/Means: Columns Tested (5% risk level) - B/C/D/E/F - H/I/J - K/L - O/P/Q/R  
 \* small base

ORC STUDY #70705      CARAVAN      JANUARY 29, 1998  
INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P1A

Number of bill payments mailed from household in an average month

Base = Have primary/shared responsibility for paying household bills

	Household Income												Education											
	\$15K- LT		\$25K- LT		\$35K- LT		\$50K Or More		Dual Income		H.H. Size		Children In H.H.				HS Incom- plete		HS Grad		Coll Incom- plete		Coll Grad	
	Total (A)	\$15K (B)	\$25K (C)	\$35K (D)	\$50K (E)	More (F)	H.H. (G)	1 (H)	2 (I)	3 Or More (J)	None (K)	Total (L)	Under 12 (M)	12- 17 (N)	(O)	(P)	(Q)	(R)						
Weighted Total	871	93*	102*	155	157	250	402	154	311	403	518	349	257	152	90*	264	210	280						
8	75 9%	6 6%	8 7%	13 8%	16 10%	22 9%	30 7%	10 7%	34 11%	31 8%	47 9%	28 8%	20 8%	13 9%	8 9%	25 10%	17 8%	24 9%						
9	12 1%	0 0	4 4%	3 2%	1 1%	4 2%	5 1%	4 2%	5 2%	3 1%	6 1%	5 2%	3 1%	3 2%	1 1%	2 1%	1 1%	2 1%	6 3%	2 1%	2 1%	2 1%		
10	130 15%	5 5%	8 8%	23 15% <sup>B</sup>	34 22% <sup>BC</sup>	46 18% <sup>BC</sup>	73 18%	18 12%	50 16%	62 15%	77 15%	53 15%	34 13%	25 16%	9 10%	30 11%	30 14%	58 21% <sup>OP</sup>						
11 - 15	143 16%	6 7%	15 15%	19 12%	31 20% <sup>B</sup>	57 23% <sup>BD</sup>	88 22%	9 6%	57 18% <sup>H</sup>	75 19% <sup>H</sup>	75 14%	67 19%	50 19%	24 16%	5 5%	49 18% <sup>O</sup>	34 16% <sup>O</sup>	52 18% <sup>O</sup>						
16 or more	73 8%	1 1%	1 1%	5 3%	13 8% <sup>BC</sup>	43 17% <sup>BC</sup>	46 11%	6 4%	23 8% <sup>H</sup>	44 11% <sup>H</sup>	39 7%	35 10%	25 10%	21 14%	6 6%	15 5%	16 6%	33 12% <sup>P</sup>						
None	19 2%	7 8% <sup>EF</sup>	2 2%	4 3%	*	2 1%	5 1%	2 1%	8 3%	9 2%	9 2%	10 3%	8 3%	3 2%	5 6% <sup>R</sup>	6 2%	5 2%	3 1%						
Don't Know	25 3%	2 2%	6 6% <sup>DF</sup>	*	3 2%	2 1%	11 3%	3 2%	13 4%	8 2%	17 3%	8 2%	6 2%	3 2%	0 0	13 5% <sup>R</sup>	6 3%	4 1%						
Mean (Including None)	8.9	5.2	7.0 <sup>B</sup>	7.6 <sup>B</sup>	10.0 <sup>B</sup>	11.4 <sup>B</sup>	10.2	6.8	9.1 <sup>H</sup>	9.6 <sup>H</sup>	8.6	9.4	9.2	10.0	6.8	8.50	8.90	10.0 <sup>OP</sup>						
Standard Deviation (Including None)	6.0	3.7	3.8	4.1	6.0	7.1	6.4	4.3	5.8	6.5	5.9	6.1	5.9	6.6	5.0	5.9	6.2	6.0						
Standard Error (Including None)	0.2	0.4	0.4	0.3	0.5	0.4	0.3	0.4	0.3	0.3	0.3	0.3	0.4	0.5	0.5	0.4	0.4	0.3						
Median (Including None)	8	5	6	7	10	10	10	6	8	8	7	8	8	8	5	7	8	10						
Mean (Excluding None)	9.1	5.6	7.1 <sup>B</sup>	7.8 <sup>B</sup>	10.0 <sup>B</sup>	11.5 <sup>B</sup>	10.3	6.9	9.4 <sup>H</sup>	9.8 <sup>H</sup>	8.8	9.7 <sup>K</sup>	9.5	10.2	7.2	8.70	9.10	10.1 <sup>OP</sup>						
Standard Deviation (Excluding None)	5.9	3.5	3.7	3.9	6.0	7.1	6.3	4.2	5.7	6.4	5.8	5.9	5.7	6.5	4.8	5.8	6.1	5.9						

Proportions/Means: Columns Tested (5% risk level) - B/C/D/E/F - H/I/J - K/L - O/P/Q/R

\* small base

ORC STUDY #70705                    CARAVAN                    JANUARY 29, 1998  
 INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P1A

Number of bill payments mailed from household in an average month

Base = Have primary/shared responsibility for paying household bills

	Household Income						Dual Income (G)	H.H. Size (H)	Children In H.H.					Education					
	\$15K- LT		\$25K- LT		\$35K- LT				1 (I)	2 (J)	3 Or More (K)	None (L)	Total (M)	Under 12- (N)	12- 17 (O)	HS Incom- plete (P)	HS Grad (R)	Coll Incom- plete (Q)	Coll Grad (S)
	Total (A)	\$15K (B)	\$25K (C)	\$35K (D)	\$50K (E)	More (F)													
Weighted Total	871	93*	102*	155	157	250	402	154	311	403	518	349	257	152	90*	264	210	280	
Standard Error (Excluding None)	0.2	0.4	0.4	0.3	0.5	0.4	0.3	0.4	0.3	0.3	0.3	0.3	0.4	0.5	0.5	0.4	0.4	0.3	
Median (Excluding None)	8	5	6	7	10	10	10	6	8	8	7	8	8	8	6	7	8	10	

Proportions/Means: Columns Tested (5% risk level) - B/C/D/E/F - H/I/J - K/L - O/P/Q/R

\* small base

A21

ORC STUDY #70705      CARAVAN      JANUARY 29, 1998  
INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P2

Number of bill payments mailed from household in an average month that use a reply envelope enclosed with statement

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment in an average month

	Sex		Age						Region						Race			Hispanic (R)
	Total (A)	Male (B)	Female (C)	18- 24 (D)	25- 34 (E)	35- 44 (F)	45- 54 (G)	55- 64 (H)	65+ (I)	North- east (J)	North- central (K)	South (L)	West (M)	Metro (N)	Non- Metro (O)	White (P)	Black (Q)	
Unweighted Total	839	420	419	66	187	231	148	98	103	168	204	295	172	620	219	704	55	70
Weighted Total	828	402	426	76*	177	194	142	95*	138	159	192	298	179	610	218	695	91*	48
Any (Net)	790	385	406	70	167	185	140	90	133	155	182	280	174	581	210	669	83	46
95% 96% 95% 92% 94% 95% 98%D 95% 96% 97% 95% 94% 97% 95% 96% 96% 91% 96%																		
1 - 5 (Sub-net)	344	173	171	50	72	71	43	39	66	56	93	119	76	230	114	286	39	17
42% 43% 40% 65% EFG 41% GHI				36%	30%	41%	48%G	35%	69%J	40%	42%	38%	52%N	41%	63%	43%	34%	
1	21	11	10	1	5	3	5	2	5	2	6	12	1	15	6	18	3	3
3% 3% 2% 2% 3% 2% 3% 2% 4% 1% 3% 4% 1% 3% 3% 3% 4% 3% 6%																		
2	54	31	23	12	6	10	5	10	12	12	17	16	9	38	16	46	7	1
7% 8% 5% 16% EPG 3% 5% 3% 10% EPG 8% 8% 9% 5% 5% 6% 7% 7% 8% 2%																		
3	81	47	34	14	16	19	10	11	11	13	16	31	22	55	26	64	12	5
10% 12% 8% 18%G 9% 10% 7% 12% 8% 8% 8% 10% 12% 9% 12% 9% 13% 11% 11%																		
4	76	35	41	8	20	15	11	6	16	11	27	22	15	52	24	64	7	2
9% 9% 10% 10% 11% 8% 8% 6% 11% 7% 16% JL 8% 8% 9% 11% 9% 7% 6%																		
5	112	49	63	15	25	24	12	11	23	18	27	38	29	70	42	94	10	6
13% 12% 15% 20%G 16% 12% 9% 12% 17% 11% 14% 13% 16% 12% 19%N 14% 11% 11% 12%																		
6 - 10 (Sub-net)	313	144	169	15	69	76	60	34	56	72	66	111	64	242	71	257	41	21
38% 36% 40% 20% 39%D 39%D 42%D 36%D 41%D 45% 35% 37% 36% 40% 32% 37% 45% 44%																		
6	91	43	48	8	24	17	16	8	18	21	14	42	14	68	23	74	10	5
11% 11% 11% 11% 14% 9% 11% 8% 13% 13% 7% 14% K 8% 11% 10% 11% 11% 10%																		
7	42	19	23	5	5	13	7	5	7	8	9	13	12	34	9	34	6	2
5% 5% 5% 6% 3% 7% 5% 5% 5% 5% 5% 4% 4% 7% 4% 5% 7% 4% 4%																		
8	80	35	44	2	13	23	15	9	19	17	16	29	18	64	16	66	11	10
10% 9% 10% 2% 7% 12%D 11%D 9% 14%D 11% 8% 10% 10% 11% 7% 9% 12% 21%																		

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F/G/H/I - J/K/L/M - N/O - P/Q

\* small base

A22

ORC STUDY #70705      CARAVAN      JANUARY 29, 1998  
INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P2

Number of bill payments mailed from household in an average month that use a reply envelope enclosed with statement

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment in an average month

	Sex			Age						Region						Race				Hispanic (R)
	Total (A)	Male (B)	Female (C)	18- (D)	25- (E)	35- (F)	45- (G)	55- (H)	65+ (I)	North- east (J)	North- central (K)	South (L)	West (M)	Non- Metro (N)	Metro (O)	White (P)	Black (Q)			
				24	34	44	54	64	65+	North- east (J)	North- central (K)	South (L)	West (M)	Non- Metro (N)	Metro (O)	White (P)	Black (Q)			
Weighted Total	828	402	426	76*	177	194	142	95*	138	159	192	298	179	610	218	695	91*	48		
9	29	15	14	1	11	6	5	3	3	4	6	11	6	23	6	20	8	1		
	3%	4%	3%	1%	6%	3%	3%	3%	3%	4%	6%	2%	4%	3%	3%	9%	9%	1%		
10	72	31	40	*	16	18	18	10	8	20	17	22	13	56	18	63	6	4		
	9%	8%	10%	1%	9%	9%	9%	10%	6%	12%	9%	7%	7%	9%	8%	9%	7%	8%		
11 - 15	96	52	44	4	22	31	22	9	8	16	18	37	25	78	19	89	3	6		
	12%	13%	10%	5%	12%	16%DI	16%DI	10%	6%	10%	9%	13%	14%	13%	9%	13%Q	3%	12%		
16 or more	37	16	21	1	4	8	15	6	3	11	4	13	8	30	7	37	0	3		
	4%	4%	5%	1%	2%	4%	10%DEF	7%	2%	7%K	2%	6%	5%	5%	3%	5%	0	5%		
I																				
None	34	15	19	6	8	7	3	5	5	3	10	17	5	26	8	23	8	2		
	4%	4%	4%	8%	4%	4%	2%	5%	4%	2%	5%	6%	3%	4%	4%	3%	9%	4%		
Don't Know	4	3	1	0	2	2	0	0	0	2	0	1	1	3	1	4	0	0		
	*	1%	*	0	1%	1%	0	0	0	1%	0	*	1%	*	*	1%	0	0		
Mean (Including None)	7.0	7.0	7.1	4.6	6.8D	7.4DI	9.0DE	7.2D	5.9D	7.9K	6.3	6.8	7.4K	7.30	6.3	7.3Q	5.4	7.1		
Standard Deviation (Including None)	5.2	5.3	5.1	3.6	4.5	5.0	6.8	5.9	3.6	5.7	4.4	5.1	5.5	5.4	4.5	5.4	3.2	4.5		
Standard Error (Including None)	0.2	0.3	0.2	0.4	0.3	0.3	0.6	0.6	0.4	0.4	0.3	0.3	0.4	0.2	0.3	0.2	0.4	0.5		
Median (Including None)	6	6	6	4	6	7	8	6	5	6	5	6	6	6	5	6	5P	7		
Mean (Excluding None)	7.3	7.2	7.4	5.0	7.1D	7.7DI	9.2DE	7.6DI	6.1	8.0K	6.6	7.2	7.6	7.60	6.6	7.6Q	5.9	7.4		
Standard Deviation (Excluding None)	5.1	5.2	4.9	3.5	4.3	4.8	6.7	5.8	3.5	5.7	4.2	5.0	5.4	5.2	4.4	5.3	2.8	4.3		
Standard Error (Excluding None)	0.2	0.3	0.2	0.4	0.3	0.3	0.6	0.6	0.4	0.4	0.3	0.3	0.4	0.2	0.3	0.2	0.4	0.5		

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F/G/H/I - J/K/L/M - N/O - P/Q

\* small base

ORC STUDY #70705            CARAVAN            JANUARY 29, 1998  
 INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question F2

Number of bill payments mailed from household in an average month that use a reply envelope enclosed with statement

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment in an average month

	Sex		Age						Region						Race				Hispanic
	Total (A)	Male (B)	Fe-	18-	25-	35-	45-	55-	North- east	North- Central	South	West	Metro	Non- Metro	White	Black			
			male (C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)	(P)	(Q)		
Weighted Total	828	402	426	76*	177	194	142	95*	138	159	192	298	179	610	218	695	91*	48	
Median (Excluding None)	6	6	6	5	6	7	8	6	6	7	5	6	6	6	5	6	6P	7	

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F/G/H/I - J/K/L/M - N/O - P/Q

\* small base

A24

ORC STUDY #70705      CARAVAN      JANUARY 29, 1998  
INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P2

Number of bill payments mailed from household in an average month that use a reply envelope enclosed with statement

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment in an average month

	Household Income										Education									
	\$15K- \$25K- \$35K- \$50K					Dual Income					H.H. Size					Children In H.H.				
	LT	LT	LT	LT	Or More	H.H.	1	2	3 Or More	None	Total	Under 12	12-17	HS	Incom-	HS	Coll	HS	Incom-	Coll
Total	\$15K (A)	\$25K (B)	\$35K (C)	\$50K (D)	More (E)	(F)	(G)	(H)	(I)	(J)	(L)	(M)	(N)	(O)	(P)	(Q)	(R)	(S)	(T)	(U)
Unweighted Total	839	74	95	144	161	269	403	141	280	414	473	361	264	160	78	245	198	292		
Weighted Total	828	84*	94*	150	154	247	385	149	289	386	492	332	244	147	85*	245	199	274		
Any (Net)	790	77	90	144	147	237	367	145	281	361	474	311	227	140	76	234	192	263		
1 - 5 (Sub-net)	344	60	52	70	54	75	139	83	112	146	214	127	100	50	47	106	89	88		
	42%	71%CD	55%EF	47%F	35%	31%	36%	56%I	39%	38%	44%	38%	41%	34%	56%R	43%R	45%R	32%		
1	21	5	2	5	2	6	7	6	8	7	15	7	6	1	2	6	6	3%	5	2%
	3%	6%EF	2%	4%	1%	2%	2%	4%	3%	2%	3%	2%	2%	1%	2%	3%	3%	3%	5%	2%
2	54	12	12	12	7	7	18	14	17	23	36	19	17	7	9	25	12	5	10%R	5%R
	7%	14%EF	13%EF	8%F	4%	3%	5%	9%	6%	6%	7%	6%	7%	5%	11%R	10%R	12%	6%R	2%	
3	81	17	9	15	15	19	33	20	22	38	48	33	28	12	14	23	18	24		
	10%	20%DEF	9%	10%	10%	8%	9%	14%	7%	10%	10%	10%	11%	8%	17%	9%	9%	9%		
4	76	11	13	15	11	20	29	18	30	27	50	24	16	11	8	20	22	22		
	9%	13%	13%	10%	7%	8%	7%	12%	10%	7%	10%	7%	6%	7%	9%	8%	11%	8%		
5	112	14	16	23	19	25	52	25	36	50	66	45	34	19	14	32	31	32		
	13%	17%	17%	16%	12%	10%	14%	17%	12%	13%	13%	13%	14%	13%	17%	13%	16%	12%		
6 - 10 (Sub-net)	313	15	28	61	67	96	139	53	127	133	197	117	74	62	22	95	66	123		
	38%	18%	30%	40%B	44%BC	39%B	36%	36%	44%J	34%	40%	35%	30%	42%	26%	39%	32%	45%Q		
6	91	6	10	18	18	20	37	16	37	38	59	32	27	11	9	38	12	30		
	11%	7%	11%	12%	12%	8%	10%	11%	13%	10%	12%	10%	11%	8%	11%	15%Q	6%	11%		
7	42	1	3	14	10	10	14	6	20	16	28	14	5	11	1	10	13	17		
	5%	1%	3%	9%B	7%	4%	4%	4%	7%	4%	6%	4%	2%	7%	1%	4%	6%	6%	6%	
8	80	5	7	17	17	24	39	18	27	34	50	30	18	16	8	23	21	26		
	10%	6%	7%	12%	11%	10%	10%	12%	9%	9%	10%	9%	7%	11%	10%	10%	10%	10%		

Proportions/Means: Columns Tested (5% risk level) - B/C/D/E/F - H/I/J - K/L - O/P/Q/R

\* small base

ORC STUDY #70705      CARAVAN      JANUARY 29, 1998  
INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P2

Number of bill payments mailed from household in an average month that use a reply envelope enclosed with statement

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment in an average month

	Household Income										Education										
	\$15K- \$25K- \$35K- \$50K					Dual Income	H.H. Size					Children In H.H.					Education				
	LT (A) (B)	LT (C) (D)	LT (E) (F)	Or (G)	H.H. (H)		1 (I)	2 (J)	3 Or More (K)	None (L)	Total (M)	Under 12 (N)	12- 17 (M)	17 (N)	HS (O)	Incom- plete (P)	HS Grad (Q)	Incom- plete (R)	Coll Grad (S)		
Weighted Total	828	84*	94*	150	154	247	385	149	289	386	492	332	244	147	85*	245	199	274			
9	29 3%	1 1%	4 5%	6 4%	5 3%	8 3%	12 3%	7 5%	12 4%	10 3%	21 6%	8 2%	5 2%	4 3%	1 1%	3 1%	7 4%	16 6%			
10	72 9%	3 3%	6 4%	6 4%	16 11% D	33 13% BC	37 10%	6 4%	31 11% H	35 9%	39 8%	33 10%	19 8%	19 13%	3 3%	20 8%	11 6%	34 12% Q			
11 - 15	96 12%	2 3%	10 10%	11 7%	20 13% B	42 17% BD	66 17%	3 2%	30 10% H	61 16% HI	43 9%	51 15% K	40 16%	20 14%	3 3%	25 10%	29 15% O	37 13% O			
16 or more	37 4%	0 0	0 2%	2 6%	26 10% BCD	23 6%	5 3%	12 4%	20 5%	20 4%	17 5%	13 5%	9 6%	4 4%	8 3%	10 5%	15 6%				
None	34 4%	6 7%	5 5%	6 4%	5 3%	8 3%	15 4%	5 3%	8 3%	21 6%	17 3%	17 5%	14 6%	6 4%	9 10% PQR	10 4%	6 3%	10 4%			
Don't Know	4 *	1 1%	0 0	0 0	1 1%	2 1%	3 1%	0 0	0 0	4 1%	1 1%	3 1%	3 1%	0 0	0 0	2 1%	1 1%	1 1%	*		
Mean (Including None)	7.0	4.1	5.58	5.98	7.6BC D	8.8BC DE	7.9	5.6	7.2H	7.5H	6.8	7.4	7.2	7.8	5.3	6.60	7.30	7.9OP			
Standard Deviation (Including None)	5.2	2.7	3.5	3.6	5.7	6.1	5.7	3.7	5.3	5.5	5.2	5.1	5.3	5.1	4.4	4.9	5.7	5.2			
Standard Error (Including None)	0.2	0.3	0.4	0.3	0.5	0.4	0.3	0.3	0.3	0.3	0.2	0.3	0.3	0.4	0.5	0.3	0.4	0.3			
Median (Including None)	6	4	5	5	6	8	6	5	6	6	6	6	6	7	5	6	6	7			
Mean (Excluding None)	7.3	4.4	5.68	6.28	7.9BC D	9.1BC DE	8.3	5.7	7.4H	7.9H	7.0	7.8K	7.7	8.2	5.9	6.8	7.50	8.2OP			
Standard Deviation (Excluding None)	5.1	2.5	3.3	3.5	5.6	6.0	5.6	3.7	5.2	5.3	5.1	4.9	5.1	4.9	4.2	4.8	5.6	5.0			

Proportions/Means: Columns Tested (5% risk level) - B/C/D/E/F - H/I/J - K/L - O/P/Q/R

\* small base

ORC STUDY #70705                   CARAVAN                   JANUARY 29, 1998  
 INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P2

Number of bill payments mailed from household in an average month that use a reply envelope enclosed with statement

Base - Have primary/shared responsibility for paying household bills and mail at least one bill payment in an average month

	Household Income						Dual Income	H.H. Size	Children In H.H.					Education				
	\$15K- LT		\$25K- LT		\$35K- LT				1	2	3 Or More	None	Total	Under 12-	HS Incom- plete	HS Grad	Coll Incom- plete	Coll Grad
	Total (A)	\$15K (B)	\$25K (C)	\$35K (D)	\$50K (E)	More (F)	H.H. (G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)	(P)	(Q)	(R)
Weighted Total	828	84*	94*	150	154	247	385	149	289	386	492	332	244	147	85*	245	199	274
Standard Error (Excluding None)	0.2	0.3	0.3	0.3	0.5	0.4	0.3	0.3	0.3	0.3	0.2	0.3	0.3	0.4	0.5	0.3	0.4	0.3
Median (Excluding None)	6	4	5	6	7	8	7	5	6	6	6	6	6	7	5	6	6	7

Proportions/Means: Columns Tested (5% risk level) - B/C/D/E/F - H/I/J - K/L - O/P/Q/R

\* small base

ORC STUDY #70705

CARAVAN

JANUARY 29, 1998

INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P3

Compared with the current system, level of convenience to use two different stamp denominations/values if the Postal Service approved the reduced rate for reply envelope postage

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment with a reply envelope in an average month

	Sex			Age						Region						Race			
	Total (A)	Male (B)	Fe- male (C)	18-	25-	35-	45-	55-	North- east	North- central	South	West	Non- Metro	White (P)	Black (Q)	His- panic (R)			
				24 (D)	34 (E)	44 (F)	54 (G)	64 (H)	65+ (I)	(J)	(K)	(L)	(M)	(N)	(P)	(Q)	(R)		
Unweighted Total	802	401	401	61	178	220	145	93	99	163	195	278	166	591	211	677	50	67	
Weighted Total	790	385	406	70*	167	185	140	90*	133*	155	182	280	174	581	210	669	83*	46	
More convenient	179 23%	79 20%	101 25%	25 36%EG I	35 21%	46 25%	25 18%	22 24%	25 19%	45 29%KM	33 18%	71 26%	31 18%	138 24%	42 20%	139 21%	28 33%P	15 32%	
About as convenient	318 40%	152 39%	166 41%	29 41%	70 42%	71 39%	67 40%I	34 37%	44 33%	61 39%	68 37%	122 44%	66 38%	231 40%	86 41%	278 42%	29 35%	16 35%	
Less convenient	281 36%	149 39%	133 33%	15 21%	62 37%D	68 37%D	45 32%	34 37%D	56 42%D	45 29%	78 43%JL	82 29%	76 44%JL	204 35%	78 37%	242 36%	26 31%	15 33%	
Don't know	12 2%	5 1%	7 2%	1 2%	0 0	0 0	3 2%F	1 1%	7 5%EF	5 3%	2 1%	4 1%	1 1%	8 1%	4 2%	11 2%	0 0	0 0	

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F/G/H/I - J/K/L/M - N/O - P/Q

\* small base

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ORC STUDY #70705 CARAVAN JANUARY 29, 1998  
 INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P3

Compared with the current system, level of convenience to use two different stamp denominations/values if the Postal Service approved the reduced rate for reply envelope postage

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment with a reply envelope in an average month

	Household Income										Education									
	\$15K- \$25K- \$35K- \$50K					Dual Income					H.H. Size					Children In H.H.				
	LT	LT	LT	LT	Or More	H.H.	1	2	3 Or More	None	Total	Under 12-17	12	17	Incom-	HS	HS	Incom-	Coll	Coll
Total	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(L)	(M)	(N)	(O)	(P)	(Q)	(R)	(S)	(T)	
Unweighted Total	802	67	91	138	155	258	384	137	271	390	456	341	248	153	70	233	192	281		
Weighted Total	790	77*	90*	144	147	237	367	145	281	361	474	311	227	140	76*	234	192	263		
More convenient	179	19	17	37	42	43	88	32	63	84	107	72	52	35	18	52	41	64		
	23%	25%	19%	25%	28%	18%	24%	22%	22%	23%	23%	23%	23%	25%	24%	22%	21%	24%		
About as convenient	318	30	39	60	63	90	149	51	108	157	175	141	104	64	27	95	72	112		
	40%	39%	46%	42%	42%	38%	41%	35%	38%	43%	37%	45%	46%	46%	36%	40%	38%	43%		
Less convenient	281	27	30	46	41	103	126	58	105	119	184	97	71	40	27	86	76	85		
	36%	35%	34%	32%	28%	44%DK	34%	40%	37%	33%	39%L	31%	31%	29%	36%	37%	40%	32%		
Don't know	12	1	3	1	2	1	4	4	5	2	9	2	1	1	4	2	2	2		
	2%	2%	4%	1%	1%	*	1%	3%	2%	1%	2%	1%	*	1%	5%PR	1%	1%	1%		

Proportions/Means: Columns Tested (5% risk level) - B/C/D/E/F - H/I/J - K/L - O/P/Q/R

\* small base

bca

ORC STUDY #70705                    CARAVAN                    JANUARY 29, 1998  
 INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P4

Level of convenience of buying stamps of two denominations/values compared with the current system

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment with a reply envelope in an average month

	Sex			Age						Region						Race			
	Total (A)	Male (B)	Fe- male (C)	18- 24 (D)	25- 34 (E)	35- 44 (F)	45- 54 (G)	55- 64 (H)	65+ (I)	North- east (J)	North- Central (K)	South (L)	West (M)	Non- Metro (N)	Metro (O)	White (P)	Black (Q)	His- panic (R)	
Unweighted Total	802	401	401	61	178	220	145	93	99	163	195	278	166	591	211	677	50	67	
Weighted Total	790	385	406	70*	167	185	140	90*	133*	155	182	280	174	581	210	669	83*	46	
More convenient	63	33	30	7	18	13	11	6	8	14	12	24	13	50	13	48	12	5	
	8%	9%	7%	10%	11%	7%	8%	7%	6%	9%	7%	9%	7%	6%	6%	7%	15%	10%	
About as convenient	345	146	199	28	70	87	63	45	50	74	72	123	75	253	92	289	39	19	
	44%	38%	49% <sup>B</sup>	40%	42%	47%	45%	50%	38%	48%	40%	44%	43%	44%	44%	43%	47%	41%	
Less convenient	375	200	175	35	80	86	64	37	71	63	97	129	86	271	104	326	31	22	
	47%	52% <sup>C</sup>	63%	49%	48%	46%	45%	42%	54%	41%	53% <sup>J</sup>	46%	49%	47%	49%	49%	37%	48%	
Don't know	7	5	2	0	0	0	2	2	4	3	0	4	0	6	1	5	2	0	
	1%	1%	1%	0	0	0	1%	2%	3%EF	2%	0	1%	0	1%	*	1%	2%	0	

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F/G/H/I - J/K/L/M - N/O - P/Q

\* small base

A30

ORC STUDY #70705 CARAVAN JANUARY 29, 1998  
 INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P4

Level of convenience of buying stamps of two denominations/values compared with the current system

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment with a reply envelope in an average month

	Household Income							H.H. Size	Children In H.H.				Education					
	\$15K- \$25K-		\$35K- \$50K		Dual Income				3 Or More	Under 12	HS Incomplete	HS Grad	Incom-plete	Coll				
	LT (A)	\$15K (B)	LT (C)	LT (D)	LT (E)	Or (F)	H.H. (G)	1 (H)	2 (I)	None (J)	Total (L)	12 (M)	17 (N)	(O)	(P)	(Q)	(R)	
Unweighted Total	802	67	91	138	155	258	384	137	271	390	456	341	248	153	70	233	192	281
Weighted Total	790	77*	90*	144	147	237	367	145	281	361	474	311	227	140	76*	234	192	263
More convenient	63	8	7	15	16	12	30	12	16	35	30	33	25	12	7	29	11	15
	8%	11%	8%	11%F	11%F	5%	8%	9%	6%	10%	6%	11%K	11%	8%	9%	12%QR	6%	6%
About as convenient	345	36	35	54	66	104	154	65	122	156	210	133	95	66	36	91	78	130
	44%	47%	40%	38%	45%	44%	42%	45%	43%	43%	44%	43%	42%	47%	47%	39%	41%	49%P
Less convenient	375	32	46	70	65	120	180	66	140	167	229	143	106	62	32	111	101	118
	47%	42%	51%	49%	44%	51%	49%	46%	50%	46%	48%	46%	47%	44%	42%	48%	53%	45%
Don't know	7	0	1	4	0	1	4	1	3	3	5	2	1	1	2	4	1	1
	1%	0	1%	3%EF	0	*	1%	1%	1%	1%	1%	1%	*	1%	2%	2%	1%	*

Proportions/Means: Columns Tested (5% risk level) - B/C/D/E/F - H/I/J - K/L - O/P/Q/R

\* small base

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INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P5

Likelihood of buying and using both stamp denominations/values

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment with a reply envelope in an average month

	Sex			Age						Region						Race				Hispanic (R)
	Total (A)	Male (B)	Female (C)	18- (D)	25- (E)	35- (F)	45- (G)	55- (H)	65+ (I)	North- east (J)	North- central (K)	South (L)	West (M)	Non- Metro (N)	Metro (O)	White (P)	Black (Q)			
					24	34	44	54	64	east (J)	Central (K)	South (L)	West (M)	Metro (N)	Non- Metro (O)	White (P)	Black (Q)			
Unweighted Total	802	401	401	61	178	220	145	93	99	163	195	278	166	591	211	677	50	67	Hispanic (R)	
Weighted Total	790	385	406	70*	167	185	140	90*	133*	155	182	280	174	581	210	669	83*	46		
Very likely/Somewhat likely (Net)	485 61%	208 54%	278 68% <sup>B</sup>	42 60%	109 65%	119 64%	89 64%	52 58%	71 53%	101 65%	109 60%	173 62%	103 59%	362 62%	123 59%	419 63%	46 55%	30 64%		
Very likely	303 38%	121 31%	182 45% <sup>B</sup>	17 24%	61 36%	71 39% <sup>D</sup>	62 45% <sup>D</sup>	37 42% <sup>D</sup>	53 40%	68 44% <sup>K</sup>	54 30%	110 39% <sup>K</sup>	71 41% <sup>K</sup>	227 39%	76 36%	268 40% <sup>Q</sup>	19 23%	20 44%	Hispanic (R)	
Somewhat likely	182 23%	87 23%	96 24%	25 36% <sup>G</sup>	48 29% <sup>H</sup>	47 26% <sup>I</sup>	27 19%	15 17%	18 14%	34 22%	54 30% <sup>M</sup>	63 22%	31 18%	135 23%	47 22%	151 23%	26 32%	9 20%		
Somewhat unlikely/Very unlikely (Net)	296 37%	172 45% <sup>C</sup>	124 31%	28 40%	59 35%	66 35%	48 34%	34 38%	61 46%	53 34%	71 39%	102 36%	71 41%	211 36%	85 41%	242 36%	36 43%	16 34%		
Somewhat unlikely	120 15%	65 17%	54 13%	19 27% <sup>E</sup>	24 15%	23 13%	18 13%	13 15%	21 16%	22 14%	30 17%	38 13%	30 17%	86 15%	34 16%	96 14%	15 18%	5 11%	Hispanic (R)	
Very unlikely	176 22%	106 28% <sup>C</sup>	70 17%	9 13%	34 21%	42 23%	29 21%	21 23%	40 30% <sup>D</sup>	31 20%	41 22%	64 23%	41 24%	125 22%	51 24%	146 22%	21 26%	11 23%		
Don't know	9 1%	5 1%	6 1%	0 0	0 0	1 *	3 2%	3 4% <sup>E</sup>	1 1%	1 1%	2 1%	6 2%	0 0	7 1%	2 1%	8 1%	1 2%	1 2%		

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F/G/H/I - J/K/L/M - N/O - P/Q

\* small base

A32

ORC STUDY #70705                    CARAVAN                    JANUARY 29, 1998  
INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question PS

Likelihood of buying and using both stamp denominations/values

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment with a reply envelope in an average month

	Household Income										Education									
	\$15K- LT		\$25K- LT		\$35K- LT		\$50K Or More		Dual Income		H.H. Size		Children In H.H.				HS		Col	
	Total (A)	\$15K (B)	\$25K (C)	\$35K (D)	\$50K (E)	More (F)	H.H. (G)	(H)	1 (I)	2 (J)	3 Or More (K)	None (L)	Total (M)	Under 12 (N)	12- 17 (O)	Incom- plete (P)	HS Grad (Q)	Incom- plete (R)	Coll Grad (S)	
Unweighted Total	802	67	91	138	155	258	384	137	271	390	456	341	248	153	70	233	192	281		
Weighted Total	790	77*	90*	144	147	237	367	145	281	361	474	311	227	140	76*	236	192	263		
Very likely/Somewhat likely (Net)	485 61%	36 47%	48 53%	94 65% <sup>B</sup>	98 67% <sup>C</sup>	150 63% <sup>B</sup>	236 64%	77 53%	168 60%	237 66% <sup>H</sup>	273 58%	210 67% <sup>K</sup>	155 68%	93 67%	44 57%	126 54%	115 60%	185 70% <sup>PQ</sup>		
Very likely	303 38%	18 23%	26 29%	58 41% <sup>B</sup>	58 39% <sup>B</sup>	97 41% <sup>B</sup>	147 60%	54 37%	109 39%	138 38%	184 39%	118 38%	84 37%	53 38%	22 29%	68 29%	73 38%	131 50% <sup>OPQ</sup>		
Somewhat likely	182 23%	18 24%	21 24%	36 25%	41 28%	53 22%	89 24%	23 16%	59 21%	99 27% <sup>H</sup>	89 19%	92 30% <sup>K</sup>	72 32%	41 29%	21 28%	58 25%	42 22%	53 20%		
Somewhat unlikely/Very unlikely (Net)	296 37%	40 52% <sup>DE</sup>	40 44% <sup>F</sup>	48 33%	48 33%	86 36%	127 34%	68 47% <sup>J</sup>	105 37%	123 34%	193 41% <sup>L</sup>	101 32%	71 31%	47 33%	33 43% <sup>R</sup>	106 45% <sup>R</sup>	72 38%	76 29%		
Somewhat unlikely	120 15%	16 21%	18 21%	18 12%	24 16%	29 12%	47 13%	21 14%	47 17%	51 14%	77 16%	41 13%	25 11%	19 14%	10 14%	43 18% <sup>R</sup>	30 16%	29 11%		
Very unlikely	176 22%	24 31% <sup>E</sup>	21 24%	30 21%	24 16%	57 24%	79 22%	47 32% <sup>I</sup>	58 20%	72 20%	116 24%	60 19%	45 20%	28 20%	22 29% <sup>R</sup>	63 27% <sup>R</sup>	42 22%	47 18%		
Don't know	9 1%	1 1%	2 3%	2 2%	1 1%	2 1%	5 1%	0 0	8 3% <sup>J</sup>	1 *	8 2%	1 *	1 *	0 0	0 0	2 1%	5 2%	2 1%		

Proportions/Means: Columns Tested (5% risk level) - B/C/D/E/F - H/I/J - K/L - O/P/Q/R

\* small base

A33

ORC STUDY #70705                    CARAVAN                    JANUARY 29, 1998  
INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P6

Knowing the amount could save, likelihood of buying and using both stamp denominations/values

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment with a reply envelope in an average month

	#	Sex		Age						Region						Race			
		Total (A)	Male (B)	Fe- male (C)	18- (D)	24- (E)	35- (F)	45- (G)	55- (H)	65+ (I)	North- east (J)	North- central (K)	South (L)	West (M)	Non- Metro (N)	Metro (O)	White (P)	Black (Q)	His- panic (R)
					24	34	44	54	64	65+	North- east (J)	North- central (K)	South (L)	West (M)	Non- Metro (N)	Metro (O)	White (P)	Black (Q)	His- panic (R)
Unweighted Total		802	401	401	61	178	220	145	93	99	163	195	278	166	591	211	677	50	67
Weighted Total		790	385	406	70*	167	185	140	90*	133*	155	182	280	174	581	210	669	63*	46
Very likely/Somewhat likely (Net)		475 60%	202 53%	272 67% <sup>B</sup>	43 61%	102 61%	116 63%	87 62%	53 59%	72 54%	109 70%KL	97 53%	163 58%	106 61%	354 61%	120 57%	399 60%	54 65%	28 61%
Very likely		276 35%	114 30%	162 40% <sup>B</sup>	19 28%	51 31%	67 36%	51 36%	36 40%	50 37%	69 44%KL	50 28%	92 33%	66 38%K	206 36%	70 33%	241 36%	21 25%	18 38%
Somewhat likely		198 25%	89 23%	110 27%	24 33% <sup>I</sup>	50 30% <sup>I</sup>	48 26%	36 26%	17 19%	22 17%	40 26%	47 26%	71 25%	40 23%	148 26%	50 24%	158 24%	33 40% <sup>P</sup>	11 23%
Somewhat unlikely/Very unlikely (Net)		309 39%	180 47% <sup>C</sup>	129 32%	27 39%	66 39%	67 36%	52 37%	36 40%	59 44%	46 30%	83 45%J	113 40%J	68 39%	221 38%	88 42%	263 39%	29 35%	17 37%
Somewhat unlikely		97 12%	52 13%	45 11%	11 15%	23 14%	23 12%	13 9%	11 13%	15 11%	18 11%	26 14%	33 12%	20 12%	76 13%	21 10%	79 12%	11 13%	3 6%
Very unlikely		212 27%	129 33% <sup>C</sup>	84 21%	17 24%	42 25%	44 24%	39 28%	25 28%	44 33%	28 18%	57 31%J	80 29%J	47 27%	145 25%	67 32%	185 28%	18 22%	14 31%
Don't know		6 1%	2 1%	4 1%	0 0	0 0	2 1%	1 1%	1 1%	3 2%	0 0	2 1%	4 1%	0 0	5 1%	1 1%	6 1%	0 0	1 2%

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F/G/H/I - J/K/L/M - N/O - P/Q  
\* small base

A34

ORC STUDY #70705      CARAVAN      JANUARY 29, 1998  
INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P6

Knowing the amount could save, likelihood of buying and using both stamp denominations/values

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment with a reply envelope in an average month

	Household Income								H.H. Size								Children In H.H.								Education												
	\$15K-		\$25K-		\$35K-		\$50K+		Dual Income		H.H. 1		3 Or More		None		Total		Under 12		12-17		18+		Incom-		HS Grad		Coll Incom-		Coll Grad						
	Total (A)	LT (B)	LT (C)	LT (D)	LT (E)	Or (F)	More (G)	H.H. (H)	1 (I)	2 (J)	More (K)	None (L)	Total (M)	Under 12 (N)	12-17 (O)	18+ (P)	Incom-	HS (Q)	Grad (R)	Incom-	HS (S)	Grad (T)	Incom-	HS (U)	Grad (V)	Incom-	HS (W)	Grad (X)									
Unweighted Total	802	67	91	138	155	258	384	137	271	390	456	341	248	153	70	233	192	281	76*	234	192	263	70	233	192	281	76*	234	192	263							
Weighted Total	790	77*	90*	144	147	237	367	145	281	361	474	311	227	140	76*	234	192	263	76*	234	192	263	76*	234	192	263	76*	234	192	263							
Very likely/Somewhat likely (Net)	475	43	47	91	93	143	228	60	170	223	275	198	143	98	47	128	115	173	56%	52%	54%	60%	56%	52%	54%	60%	56%	52%	54%	60%	56%	52%	54%	60%			
Very likely	276	26	23	52	56	81	130	57	98	121	173	103	72	55	26	70	64	110	35%	33%	30%	33%	35%	33%	30%	33%	35%	33%	30%	33%	35%	33%	30%	33%	35%		
Somewhat likely	198	17	24	39	38	62	98	23	73	102	102	96	71	42	22	57	50	63	25%	23%	27%	26%	25%	23%	26%	24%	25%	23%	26%	24%	25%	23%	26%	24%	25%		
Somewhat unlikely/Very unlikely (Net)	309	34	43	51	52	92	137	62	108	137	195	112	83	42	28	104	76	89	39%	44%	48%	36%	39%	45%	40%	34%	36%	45%	40%	34%	36%	45%	40%	34%	36%		
Somewhat unlikely	97	3	15	16	25	26	47	12	37	47	53	43	29	16	8	39	17	28	12%	4%	16%	11%	13%	12%	10%	17%	9%	11%	12%	10%	17%	9%	11%	12%	10%	17%	
Very unlikely	212	31	28	35	27	67	90	51	70	91	161	69	53	26	20	66	59	61	27%	40%	31%	24%	28%	26%	24%	28%	31%	23%	26%	24%	28%	31%	23%	26%	24%	28%	
Don't know	6	0	0	1	2	2	2	2	3	1	5	1	1	1	1	2	1	1	1%	0	0	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%

Proportions/Means: Columns Tested (5% risk level) - B/C/D/E/F - H/I/J - K/L - O/P/Q/R

\* small base

A35

ORC STUDY #70705      CARAVAN      JANUARY 29, 1998  
INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P7

Places have purchased stamps in the past year - Aided

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment with a reply envelope in an average month

	Sex		Age						Region						Race				Hispanic (R)
	Total (A)	Male (B)	Female (C)	18- (D)	25- (E)	35- (F)	45- (G)	55- (H)	65+ (I)	North- east (J)	North- central (K)	South (L)	West (M)	Non- Metro (N)	Metro (O)	White (P)	Black (Q)		
				24	34	44	54	64	65+	Central (J)	South (L)	West (M)	Metro (N)	Non- Metro (O)	White (P)	Black (Q)			
Unweighted Total	802	401	401	61	178	220	145	93	99	163	195	278	166	591	211	677	50	67	
Weighted Total	790	385	406	70*	167	185	140	90*	133*	155	182	280	174	581	210	669	83*	46	
At a post office	715 90%	354 92%	361 89%	58 83%	148 88%	171 92%	133 95%DE	86 95%DI	115 87%	145 94%	165 91%	253 90%	152 88%	516 89%	199 95%N	605 90%	74 90%	41 89%	
At grocery or other retail stores/At an automated teller machine (ATM) (Net)	317 40%	133 35%	184 45%B	35 49%HI	83 49%HI	73 40%	55 39%	28 31%	42 32%	59 38%	74 41%	104 37%	79 46%	262 45%O	55 26%	259 39%	39 46%	22 48%	
At grocery or other retail stores	280 35%	113 29%	167 41%B	30 43%	70 42%H	67 36%	47 33%	24 27%	40 30%	49 32%	71 39%	86 31%	73 42%L	232 40%O	48 23%	228 34%	36 43%	17 37%	
At an automated teller machine (ATM)	77 10%	39 10%	39 9%	8 12%I	31 19%FHI	13 7%	16 11%I	6 7%	3 2%	13 8%	15 8%	27 9%	23 14%	67 12%O	10 5%	64 10%	7 8%	9 19%	
Don't know	13 2%	6 2%	6 2%	0 0	1 1%	3 1%	1 1%	3 3%	6 4%E	2 1%	3 2%	2 1%	5 3%	7 1%	6 3%	13 2%	0 0	0 0	

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F/G/H/I - J/K/L/M - N/O - P/Q

\* small base

A3C

ORC STUDY #70705      CARAVAN      JANUARY 29, 1998  
INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

Question P7

Places have purchased stamps in the past year - Aided

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment with a reply envelope in an average month

	Household Income						H.H. Income	H.H. Size				Children In H.H.				Education											
	\$15K- LT		\$25K- LT		\$35K- LT			\$50K+ Or More		Dual Income		H.H. 1 2 3 Or More None		Total (L)		Under 12 (M)		12-17 (N)		HS Incom- plete (O)		Coll HS Grad (P)		Coll Incom- plete (Q)		Coll Grad (R)	
	Total (A)	\$15K (B)	\$25K (C)	\$35K (D)	\$50K (E)	More (F)	H.H. (G)	1 (H)	2 (I)	3 Or More (J)	None (K)	Total (L)	Under 12 (M)	12-17 (N)	HS Incom- plete (O)	Coll HS Grad (P)	Coll Incom- plete (Q)	Coll Grad (R)									
Unweighted Total	802	67	91	138	155	258	384	137	271	390	456	341	248	153	70	233	192	281									
Weighted Total	790	77*	90*	144	147	237	367	145	281	361	474	311	227	140	76*	234	192	263									
At a post office	715	66	78	126	135	221	335	130	254	328	429	282	206	128	64	205	177	246									
	90%	86%	87%	87%	92%	93%	91%	90%	90%	91%	90%	90%	91%	91%	84%	87%	92%	94%OP									
At grocery or other retail stores/At an automated teller machine (ATM) (Net)	317	37	39	57	54	96	166	54	104	159	177	138	99	57	27	100	84	98									
	40%	48%	44%	39%	37%	41%	40%	37%	37%	44%	37%	44%	64%	41%	35%	43%	44%	37%									
At grocery or other retail stores	280	36	32	51	45	87	128	49	93	137	155	123	87	54	26	89	75	82									
	35%	47%*	36%	35%	31%	37%	35%	34%	33%	38%	33%	39%	39%	38%	34%	38%	39%	31%									
At an automated teller machine (ATM)	77	1	10	10	15	29	35	11	25	41	45	33	23	12	2	17	20	36									
	10%	1%	11%*	7%	10%*	12%*	10%	7%	9%	11%	9%	10%	10%	9%	3%	7%	11%	14%OP									
Don't know	13	1	2	3	2	3	4	4	7	2	11	2	0	2	1	8	0	2									
	2%	2%	2%	2%	2%	1%	1%	3%*	2%*	1%	2%	1%	0	1%	2%	4%QR	0	1%									

Proportions/Means: Columns Tested (5% risk level) - B/C/D/E/F - H/I/J - K/L - O/P/Q/R

\* small base

A37

ORC STUDY #70705      CARAVAN      JANUARY 29, 1998  
 INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P8

Likelihood of buying and using both stamp denominations if could only obtain the discounted stamps through the Postal Service and were not available through grocery stores or other retail outlets, including ATMs

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment with a reply envelope in an average month and purchased stamps at grocery/other retail stores/ATMs in the past year

	Sex		Age						Region						Race				Hispanic
	Total (A)	Male (B)	Female (C)	18- (D)	25- (E)	35- (F)	45- (G)	55- (H)	65+ (I)	North- east (J)	North- central (K)	South (L)	West (M)	Non- Metro (N)	White (O)	Black (P)	Metro (Q)		
Unweighted Total	323	140	183	30	89	84	58	29	31	61	82	104	76	265	58	262	23	33	
Weighted Total	317	133	184	35**	83*	73*	55*	28**	42*	59*	74*	104*	79*	262	55*	259	39**	22	
Very likely/Somewhat likely (Net)	135 43%	53 40%	82 44%	14 41%	34 41%	33 45%	19 35%	16 35%	19 44%	33 55%LN	33 44%	40 38%	29 37%	108 41%	27 49%	115 44%	13 35%	7 30%	
Very likely	77 24%	23 18%	54 29% <sup>B</sup>	4 12%	19 23%	18 24%	9 17%	12 42%	15 35%	22 37%LM	18 24%	23 22%	14 18%	59 23%	18 32%	66 26%	5 12%	4 19%	
Somewhat likely	58 18%	30 23%	28 15%	10 28%	15 18%	15 21%	10 18%	4 14%	4 9%	11 18%	15 21%	17 16%	15 19%	49 19%	9 16%	48 19%	9 23%	2 10%	
Somewhat unlikely/Very unlikely (Net)	179 57%	78 59%	101 55%	21 59%	49 59%	40 54%	36 65%	12 41%	22 53%	26 43%	41 56%	63 60%	50 63%J	152 58%	28 50%	142 55%	25 65%	16 70%	
Somewhat unlikely	54 17%	23 17%	31 17%	12 36%	11 13%	15 20%	10 17%	3 10%	4 10%	13 22%	9 12%	16 16%	16 20%	46 18%	9 16%	40 16%	11 28%	4 18%	
Very unlikely	125 39%	55 42%	69 38%	8 23%	38 46%	25 34%	26 48%	9 32%	18 43%	12 21%	32 44%J	46 44%J	34 43%J	106 40%	19 34%	102 39%	15 38%	12 53%	
Don't know	3 1%	1 1%	1 1%	0 0	0 0	*	0 1%	0 0	1 3%	1 3%	1 2%	0 0	2 2%	0 0	2 1%	1 2%	2 1%	0 0	

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F/G/H/I - J/K/L/M - N/O - P/Q  
 \* small base; \*\* very small base (under 30) ineligible for sig testing

A36

ORC STUDY #70705                    CARAVAN                    JANUARY 29, 1998  
 INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P8

Likelihood of buying and using both stamp denominations if could only obtain the discounted stamps through the Postal Service and were not available through grocery stores or other retail outlets, including ATMs

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment with a reply envelope in an average month and purchased stamps at grocery/other retail stores/ATMs in the past year

	Household Income										Education												
	\$15K- \$25K- \$35K- \$50K					Dual	H.H. Size					Children In H.H.					HS						
	LT	LT	LT	LT	Or	Income	H.H.	1	2	3 Or	More	None	Total	Under 12	12	17	Incom-	HS	Coll	Grad	Grad		
Total	\$15K	\$25K	\$35K	\$50K	More	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)	(P)	(Q)	(R)
Unweighted Total	323	31	41	53	59	107	155	51	102	169	172	149	106	64	25	98	84	107					
Weighted Total	317	37**	39*	57*	54*	96	146	54*	104*	159	177	138	99	57	27**	100*	84*	98*					
Very likely/Somewhat likely (Net)	135	17	18	21	17	44	67	20	49	66	76	59	44	24	15	41	34	40					
Very likely	77	10	7	14	10	27	37	15	29	34	46	31	22	16	10	22	20	20					
Somewhat likely	58	7	11	7	7	17	30	5	20	32	30	28	22	8	5	19	14	16	20				
Somewhat unlikely/Very unlikely (Net)	179	20	20	34	37	52	77	33	54	91	99	78	55	33	12	59	47	57					
Somewhat unlikely	54	9	3	9	15	16	17	9	19	26	30	24	18	10	6	16	16	15					
Very unlikely	125	11	18	26	22	36	60	25	34	66	69	54	37	23	7	43	31	42					
Don't know	3	0	1	1	0	*	2	0	1	1	2	*	*	0	0	*	2	0					
	1%	0	2%	2%	0	*	1%	0	1%	1%	1%	*	*	0	0	*	3%	0					

Proportions/Means: Columns Tested (5% risk level) - B/C/D/E/F - H/I/J - K/L - O/P/Q/R

\* small base; \*\* very small base (under 30) ineligible for sig testing

A39

ORC STUDY #70705      CARAVAN      JANUARY 29, 1998  
 INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P9

Preference between a one-stamp pricing system as it is now or a two-stamp pricing system as proposed

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment with a reply envelope in an average month

	Sex			Age						Region						Race														
	Total (A)	Fe- male (B)		18- 24 (D)	25- 34 (E)	35- 44 (F)	45- 54 (G)	55- 64 (H)	65+ (I)	North- east (J)		North- central (K)		South (L)		West (M)		Non- Metro (N)		Metro (O)		White (P)		Black (Q)		His- panic (R)				
		Male (C)	Female (C)							North- east (J)	North- central (K)	South (L)	West (M)	Non- Metro (N)	Metro (O)	White (P)	Black (Q)	His- panic (R)												
Unweighted Total	802	401	401	61	178	220	145	93	99	163	195	278	166	591	211	677	50	67												
Weighted Total	790	385	406	70*	167	185	140	90*	133*	155	182	280	176	581	210	669	83*	46												
A one-stamp system	476	246	230	43	96	101	88	56	90	73	116	180	107	336	140	400	53	32												
	60%	66%	57%	61%	57%	54%	63%	62%	68%	47%	64%	64%	62%	58%	67%	60%	63%	69%												
A two-stamp system/Don't know (Net)	314	138	176	28	71	84	52	34	43	82	66	100	67	246	70	269	30	14												
	40%	36%	43%	39%	43%	46%	37%	38%	32%	53%	36%	36%	38%	42%	33%	40%	37%	31%												
A two-stamp system	297	128	169	27	65	82	50	32	40	81	60	94	62	232	65	253	29	14												
	38%	33%	42%	38%	39%	44%	36%	35%	30%	52%	33%	34%	36%	40%	31%	38%	35%	31%												
Don't know	17	11	7	1	6	3	2	2	2	1	6	6	4	13	5	16	2	0												
	2%	3%	2%	2%	4%	1%	1%	2%	2%	1%	3%	2%	2%	2%	2%	2%	2%	0												

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F/G/H/I - J/K/L/M - N/O - P/Q

\* small base

A40

ORC STUDY #70705                    CARAVAN                    JANUARY 29, 1998  
 INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P9

Preference between a one-stamp pricing system as it is now or a two-stamp pricing system as proposed

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment with a reply envelope in an average month

	Household Income						Dual Income (G)	H.H. Size (H)	Children In H.H.				Education					
	\$15K- LT (B)		\$25K- LT (C)		\$35K- LT (D)				1 (I)	2 (J)	3 Or More (K)	None (L)	Under 12- (M)	12- (N)	HS Incom- plete (O)	HS Grad (P)	Coll Incom- plete (Q)	Coll Grad (R)
	Total (A)	\$15K (B)	\$25K (C)	\$35K (D)	\$50K (E)	More (F)												
Unweighted Total	802	67	91	138	155	258	384	137	271	390	456	341	248	153	70	233	192	281
Weighted Total	790	77*	90*	144	147	237	367	145	281	361	474	311	227	140	76*	234	192	263
A one-stamp system	476	55	57	87	81	141	217	89	173	212	292	181	129	83	54	152	114	137
	60%	72% E	63%	60%	55%	60%	59%	62%	61%	59%	61%	58%	57%	59%	70% R	65% R	59%	52%
A two-stamp system/Don't know (Net)	314	22	33	57	66	96	151	56	108	150	183	131	98	58	23	82	78	126
	40%	28%	37%	40%	45% B	40%	41%	38%	39%	41%	39%	42%	43%	41%	30%	35%	41%	48% OP
A two-stamp system	297	20	29	53	63	92	149	49	104	143	172	124	91	57	23	76	71	122
	38%	26%	32%	37%	43% B	39%	41%	34%	37%	40%	36%	40%	40%	40%	30%	33%	37%	46% OPQ
Don't know	17	2	4	4	3	4	1	7	4	7	11	7	7	1	0	6	7	4
	2%	2%	4%	3%	2%	2%	*	5%	1%	2%	2%	2%	3%	1%	0	2%	4%	1%

Proportions/Means: Columns Tested (5% risk level) - B/C/D/E/F - H/I/J - K/L - O/P/Q/R

\* small base

A4

ORC STUDY #70705

CARAVAN

JANUARY 29, 1998

INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P10

Preference between one-stamp pricing system and two-stamp pricing system if the two-stamp pricing system contributed, to some degree, to an increase in rates for regular First-Class letters

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment with a reply envelope in an average month and prefer two-stamp system/don't know

	Sex		Age						Region						Race					
	Total (A)	Male (B)	Fe- male (C)		18- (D)	25- (E)	35- (F)	45- (G)	55- (H)	65+ (I)	North- east (J)	North- central (K)	South (L)	West (M)	Non- Metro (N)	Metro (O)	White (P)	Black (Q)	Bis- panic (R)	
			Male (B)	Female (C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)	(P)	(Q)	(R)	
Unweighted Total	324	143	181	24	76	98	53	37	33	86	71	103	64	251	73	275	19	23		
Weighted Total	314	138	176	28**	71*	84*	52*	34*	43*	82*	66*	100*	67*	244	70*	269	30**	14		
A one-stamp system	207 66%	80 58%	127 72% <sup>B</sup>	14 52%	48 68%	54 64%	37 72%	20 60%	31 73%	45 55%	48 73% <sup>J</sup>	66 66%	48 73% <sup>J</sup>	160 65%	47 68%	183 68%	16 53%	8 57%		
A two-stamp system	94 30%	50 36% <sup>C</sup>	43 25%	13 48%	19 27%	26 31%	14 27%	11 32%	10 24%	31 38% <sup>K</sup>	15 23%	32 32%	15 23%	75 31%	19 27%	74 28%	13 42%	6 43%		
Don't know	14 4%	8 6%	6 3%	0 0	4 5%	4 5%	1 2%	3 8%	1 3%	6 7%	3 4%	2 2%	3 5%	10 4%	4 6%	12 5%	1 5%	0 0		

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F/G/H/I - J/K/L/M - N/O - P/Q

\* small base; \*\* very small base (under 30) ineligible for sig testing

A42

ORC STUDY #70705                    CARAVAN                    JANUARY 29, 1998  
 INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P10

Preference between one-stamp pricing system and two-stamp pricing system if the two-stamp pricing system contributed, to some degree, to an increase in rates for regular First-Class letters

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment with a reply envelope in an average month and prefer two-stamp system/don't know

	Household Income						H.H. Size	Children In H.H.				Education								
	\$15K- LT		\$25K- LT		\$35K- LT			Dual Income	1 H.H. (G)	2 (H)	3 Or More (I)	None (J)	Total (L)	Under 12- 13 (M)	12- 17 (N)	HS Incom- plete (O)	HS Grad (P)	Coll Incom- plete (Q)	Coll Grad (R)	
	Total (A)	\$15K (B)	\$25K (C)	\$35K (D)	\$50K (E)	More (F)														
Unweighted Total	324	18	35	56	70	104	161	54	105	164	180	143	107	64	20	81	81	135		
Weighted Total	314	22**	33*	57*	66*	96*	151	56*	108*	150	183	131	98	58	23**	82*	78*	126		
A one-stamp system	207	16	22	33	48	63	93	40	67	99	118	88	63	37	16	46	59	81		
	66%	75%	67%	59%	72%	66%	62%	72%	62%	66%	65%	67%	65%	64%	72%	56%	76% <sup>P</sup>	64%		
A two-stamp system	94	5	9	24	17	27	50	12	36	46	54	40	32	20	6	33	18	36		
	30%	25%	26%	41%	25%	28%	33%	22%	33%	30%	29%	31%	32%	34%	28%	40% <sup>Q</sup>	23%	28%		
Don't know	14	0	2	0	2	6	8	3	6	5	11	3	3	1	0	3	1	10		
	4%	0	7%	0	3%	6%	5%	6%	5%	3%	6%	2%	3%	1%	0	4%	1%	8% <sup>Q</sup>		

Proportions/Means: Columns Tested (5% risk level) - B/C/D/E/F - H/I/J - K/L - O/P/Q/R

\* small base; \*\* very small base (under 30) ineligible for sig testing

A43

ORC STUDY #70705                    CARAVAN                    JANUARY 29, 1998  
INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

Question P1

Respondent has primary responsibility/shared responsibility/little or no responsibility for paying household bills

	Number of Bills Mailed In Reply Env. per month						Likelihood of Using Two Stamp System		Prefer Which System		If Increase In Reg. Rates		Past Year Stamp Purchasing Locations			
	Cur- rent posse (32- (33- 29)		1-5		6-10 or more		Un- likely	Likely	One Stamp	Two Stamp	One Stamp	Two Stamp	Total (M)	Retl/ ATM only	Retl/ ATM	Both
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(N)	(O)		
Unweighted Total	1005	405	397	342	317	143	495	298	478	307	213	97	323	60	263	
Weighted Total	1000	398	392	344	313	133	485	296	476	297	207	94*	317	62	255	
Primary responsibility/ Shared responsibility (Net)	871 87%	398 100%	392 100%	344 100%	313 100%	133 100%	485 100%	296 100%	476 100%	297 100%	207 100%	94 100%	317 100%	62 100%	255 100%	
Primary responsibility	526 53%	246 62%	229 59%	214 62%	180 57%	82 62%	286 59%	185 62%	282 59%	179 60%	138 67%	47 51%	185 59%	38 61%	147 58%	
Shared responsibility	345 34%	152 38%	163 41%	130 38%	133 43%	51 38%	199 41%	111 38%	194 41%	118 40%	69 33%	46 49%	132 41%	24 39%	107 42%	
Little or no responsibility	127 13%	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	
Don't know	1 *	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	0 0	

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L

\* small base

hhv

ORC STUDY #70705      CARAVAN      JANUARY 29, 1998  
INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P1A

Number of bill payments mailed from household in an average month

Base - Have primary/shared responsibility for paying household bills

	Total (A)	Number of Bills Mailed In Reply Env. per month						Likelihood of Using Two Stamp System		Prefer Which System		If Increase In Reg. Rates Preferred		Past Year Stamp Purchasing Locations				
		Cur- rent posse (32- (33- 29)		1-5 (B) (C)		6-10 (D) (E)		more (F)		Likely (G)	Un- likely (H)	One Stamp (I)	Two Stamp (J)	One Stamp (K)	Two Stamp (L)	Total (M)	Retl/ ATM only (N)	Retl/ ATM & P.S. (O)
																Both		
Unweighted Total	881	405	397	342	317	143	495	298	478	307	213	97	323	60	263			
Weighted Total	871	398	392	344	313	133	485	296	476	297	207	94*	317	62	255			
Any (Net)	828 95%	398 100%	392 100%	344 100%	313 100%	133 100%	485 100%	296 100%	476 100%	297 100%	207 100%	94 100%	317 100%	62 100%	255 100%			
1 - 5 (Sub-net)	236 27%	108 27%	104 27%	213 62%EF	0	0	114 24%	95 32%G	143 30%J	62 21%	45 22%	22 23%	84 27%	29 46%	55 22%			
1	9 1%	0 0	5 14%	5 2%	0	0	3 1%	2 1%	4 1%	1 *	0 0	1 1%	1 *	1 1%	0 0			
2	23 3%	7 2%	11 3%	18 5%EF	0	0	13 3%	5 2%	10 2%	5 2%	6 3%	1 1%	8 2%	3 5%	5 2%			
3	46 5%	19 5%	22 6%	41 12%EF	0	0	18 4%	23 8%G	26 5%	13 4%	8 4%	7 7%	21 7%	6 10%	15 6%			
4	51 6%	29 7%	18 5%	46 13%EF	0	0	24 5%	21 7%	30 6%	16 5%	11 5%	5 6%	16 5%	6 9%	11 4%			
5	106 12%	54 14%	48 12%	102 30%EF	0	0	57 12%	44 15%	73 15%J	28 9%	20 10%	8 9%	38 12%	13 21%	25 10%			
6 - 10 (Sub-net)	376 43%	179 45%	184 47%	119 35%F	244 78%DF	0	229 47%	131 44%	219 46%	138 46%	99 48%	40 42%	144 46%	20 32%	124 49%			
6	116 13%	57 14%	56 14%	57 17%F	56 18%F	0	64 13%	49 17%	72 15%	38 13%	23 11%	17 18%	44 14%	7 11%	37 15%			
7	43 5%	21 5%	20 5%	13 4%F	29 9%DF	0	28 6%	13 4%	18 4%	23 8%I	19 9%	5 5%	18 6%	4 6%	14 6%			
8	75 9%	29 7%	43 11%	19 6%F	53 17%DF	0	43 9%	29 10%	47 10%	25 9%	20 10%	4 5%	27 9%	3 5%	24 9%			

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L

\* small base

445

ORC STUDY #70705      CARAVAN      JANUARY 29, 1998  
INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P1A

Number of bill payments mailed from household in an average month

Base = Have primary/shared responsibility for paying household bills

	Rates Cur- rent posed (32- (33- 29) 30)	Number of Bills Mailed In Reply Env. per month						Likelihood of Using Two Stamp System		Prefer Which System		If Increase In Reg. Rates		Past Year Stamp Purchasing Locations		
		1-5		6-10		more		Likely (G)	Un- likely (H)	One Stamp (I)	Two Stamp (J)	One Stamp (K)	Two Stamp (L)	Total ATM (M)	Retl/ ATM only (N)	Both ATM & P.S. (O)
		Total (A)	(B)	(C)	(D)	(E)	(F)									
Weighted Total		871	398	392	344	313	133	485	296	476	297	207	94*	317	62	255
9		12	5	6	0	11	0	8	2	7	3	3	1	4	0	4
		1%	1%	2%	0	4%DF	0	2%	1%	1%	1%	1%	1%	1%	0	2%
10		130	66	59	29	95	0	86	38	75	49	34	13	50	6	44
		15%	17%	15%	9%F	30%DF	0	18%	13%	16%	16%	17%	13%	16%	10%	17%
11 - 15		143	70	72	7	59	75	93	46	76	64	40	22	60	8	52
		16%	17%	18%	2%	19%D	56%DE	19%	16%	16%	22%	19%	24%	19%	13%	20%
16 or more		73	42	32	5	10	58	49	24	38	33	23	10	28	5	23
		8%	10%	8%	1%	3%	44%DE	10%	8%	8%	11%	11%	10%	9%	8%	9%
None		19	0	0	0	0	0	0	0	0	0	0	0	0	0	0
		2%	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Don't Know		25	0	0	0	0	0	0	0	0	0	0	0	0	0	0
		3%	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Mean (Including None)		8.9	9.4	9.2	5.7	9.6	18.1DE D	9.8H	8.6	8.8	10.2I	10.0	10.0	9.2	7.9	9.5
Standard Deviation (Including None)		6.0	5.6	6.2	3.1	3.2	6.9	6.2	5.4	5.2	6.8	6.6	7.1	5.3	5.5	5.3
Standard Error (Including None)		0.2	0.3	0.3	0.2	0.2	0.6	0.3	0.3	0.2	0.4	0.5	0.7	0.3	0.7	0.3
Median (Including None)		8	8	8	5	10	15DE	8	7	8	9	8	8	8	6	8
Mean (Excluding None)		9.1	9.4	9.2	5.7	9.6	18.1DE D	9.8H	8.6	8.8	10.2I	10.0	10.0	9.2	7.9	9.5
Standard Deviation (Excluding None)		5.9	5.6	6.2	3.1	3.2	6.9	6.2	5.4	5.2	6.8	6.6	7.1	5.3	5.5	5.3

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L

\* small base

ORC STUDY #70705      CARAVAN      JANUARY 29, 1998  
 INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P1A

Number of bill payments mailed from household in an average month

Base = Have primary/shared responsibility for paying household bills

	Number of Bills Mailed In Reply						Likelihood of Using Two Stamp System	Prefer Which System	If Increase In Reg. Rates			Past Year Stamp Purchasing Locations			
	Rates Env. per month		Cur- rent posed (32- (33-		1-5 or 6-10 more				One Stamp		Two Stamp		Stamp		
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)
Weighted Total	871	398	392	344	313	133	485	296	476	297	207	94*	317	62	255
Standard Error (Excluding None)	0.2	0.3	0.3	0.2	0.2	0.6	0.3	0.3	0.2	0.4	0.5	0.7	0.3	0.7	0.3
Median (Excluding None)	8	8	8	5	10	15DE	8	7	8	9	8	8	8	6	8

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L

\* small base

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 INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P2

Number of bill payments mailed from household in an average month that use a reply envelope enclosed with statement

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment in an average month

	Number of Bills Mailed In Reply Env. per month						Likelihood of Using Two Stamp System		Prefer Which System		If Increase In Reg. Rates Purchasing		Past Year Stamp Purchasing Locations				
	Cur- rent pos- ed		1-5 or more		Un- likely		One Stamp (I)		Two Stamp (J)		One Stamp (K)		Two Stamp (L)		Total (M)	Retl/ ATM only (N)	Retl/ ATM & P.S. (O)
	Total (A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)		
Unweighted Total	839	405	397	342	317	143	495	298	478	307	213	97	323	60	263		
Weighted Total	828	398	392	344	313	133	485	296	476	297	207	94*	317	62	255		
Any (Net)	790	398	392	344	313	133	485	296	476	297	207	94	317	62	255		
95%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%		
1 - 5 (Sub-net)	344	170	174	344	0	0	192	148	232	102	77	32	130	39	91		
	42%	43%	44%	100%EF	0	0	40%	50%G	49%J	34%	37%	34%	41%	62%	36%		
1	21	5	16	21	0	0	7	12	17	3	4	1	8	4	4		
	3%	1%	4% <sup>b</sup>	6%EF	0	0	1%	4%G	3%J	1%	2%	1%	2%	6%	2%		
2	54	27	27	54	0	0	31	23	34	18	10	10	21	6	17		
	7%	7%	7%	16%EF	0	0	6%	8%	7%	6%	5%	10%	6%	6%	7%		
3	81	38	43	81	0	0	40	41	59	21	15	7	40	12	28		
	10%	10%	11%	24%EF	0	0	8%	14%G	12%J	7%	7%	7%	12%	19%	11%		
4	76	43	32	76	0	0	45	28	55	18	15	5	30	9	21		
	9%	11%	8%	22%EF	0	0	9%	9%	12%J	6%	7%	6%	9%	14%	8%		
5	112	57	55	112	0	0	69	43	68	41	33	9	33	11	22		
	13%	14%	14%	33%EF	0	0	14%	15%	14%	14%	16%	10%	10%	17%	9%		
6 - 10 (Sub-net)	313	156	157	0	313	0	201	108	180	128	86	41	132	16	116		
	38%	39%	40%	0	100%DF	0	41%	37%	38%	43%	42%	44%	42%	26%	46%		
6	91	48	43	0	91	0	57	33	53	36	23	16	37	3	34		
	11%	12%	11%	0	29%DF	0	12%	11%	11%	12%	11%	15%	12%	5%	13%		
7	42	20	22	0	42	0	26	17	16	26	15	9	15	3	12		
	5%	5%	6%	0	13%DF	0	5%	6%	3%	9%I	7%	10%	5%	5%	5%		
8	80	39	40	0	80	0	47	31	55	23	17	8	39	5	33		
	10%	10%	10%	0	25%DF	0	10%	11%	11%	8%	8%	8%	12%	8%	13%		

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L

\* small base

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INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P2

Number of bill payments mailed from household in an average month that use a reply envelope enclosed with statement

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment in an average month

	Number of Bills Mailed In Reply Env. per month							Likelihood of Using Two Stamp System		If Increase In Reg. Rates Prefer Which System		Past Year Stamp Purchasing Locations				
	Cur- rent posed		Pro- 1-5 or more		Stamp System		Prefer Which System		Total Retl/ ATM only		Both ATM & P.S.					
	Total (A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)	
Weighted Total	828	398	392	346	313	133	485	296	476	297	207	94*	317	62	255	
9	29	13	15	0	29	0	21	7	15	12	11	3	15	0	15	
	3%	3%	4%	0	9%DF	0	4%	2%	3%	4%	5%	3%	5%	0	6%	
10	72	35	37	0	72	0	51	20	42	30	20	7	27	5	22	
	9%	9%	9%	0	23%DF	0	10%	7%	9%	10%	10%	8%	9%	8%	9%	
11 - 15	96	48	48	0	0	96	62	33	48	47	30	15	42	5	37	
	12%	12%	12%	0	0	72%DE	13%	11%	10%	16%I	15%	16%	13%	8%	15%	
16 or more	37	23	14	0	0	37	30	7	16	20	14	6	12	2	10	
	4%	6%	3%	0	0	28%DE	6%H	2%	3%	7%I	7%	6%	4%	3%	4%	
None	34	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
	4%	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Don't Know	4	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
	*	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Mean (Including None)	7.0	7.5	7.2	3.6	7.8	15.8DE	7.9H	6.5	6.7	8.4I	8.2	8.3	7.3	6.0	7.6	
	D															
Standard Deviation (Including None)	5.2	4.8	5.3	1.3	1.5	5.8	5.5	4.2	4.3	5.9	5.4	6.8	4.5	4.4	4.5	
Standard Error (Including None)	0.2	0.2	0.3	0.1	0.1	0.5	0.2	0.2	0.2	0.3	0.4	0.7	0.3	0.6	0.3	
Median (Including None)	6	6	6	4	8	14DE	6	6	6	7	7	7	6	5	7	
Mean (Excluding None)	7.3	7.5	7.2	3.6	7.8	15.8DE	7.9H	6.5	6.7	8.4I	8.2	8.3	7.3	6.0	7.6	
	D															
Standard Deviation (Excluding None)	5.1	4.8	5.3	1.3	1.5	5.8	5.5	4.2	4.3	5.9	5.4	6.8	4.5	4.4	4.5	

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L  
\* small base

ORC STUDY #70705                    CARAVAN                    JANUARY 29, 1998  
 INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P2

Number of bill payments mailed from household in an average month that use a reply envelope enclosed with statement

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment in an average month

	Number of Bills						If Increase						Past Year Stamp		
	Rates		Mailed In Reply		Likelihood		In Reg.		Purchasing		Locations				
	Env. per month		of Using Two		Stamp System		Prefer Which		Stamp System		Both				
	Cur- rent pos- (32- Total (A)	Pro- (33- (B)	Env. 1-5 (C)	6-10 (D)	more (E)	or (F)	Un- likely (G)	Likely (H)	One Stamp (I)	Two Stamp (J)	One Stamp (K)	Two Stamp (L)	Total Retl/ ATM (M)	Retl/ ATM (N)	Both & P.S. (O)
Weighted Total	828	398	392	346	313	133	485	296	476	297	207	94*	317	62	255
Standard Error (Excluding None)	0.2	0.2	0.3	0.1	0.1	0.5	0.2	0.2	0.2	0.3	0.4	0.7	0.3	0.6	0.3
Median (Excluding None)	6	6	6	6	8	14DE	6	6	6	7	7	7	6	5	7

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L

\* small base

ASO

ORC STUDY #70705

CARAVAN

JANUARY 29, 1998

INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P3

Compared with the current system, level of convenience to use two different stamp denominations/values if the Postal Service approved the reduced rate for reply envelope postage

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment with a reply envelope in an average month

	Number of Bills Mailed In Reply						Likelihood of Using Two Stamp System		Prefer Which System		If Increase In Reg. Rates		Past Year Stamp Purchasing Locations		
	Rates Env. per month		Cur- Pro- rent posed		1-5 or more		Un- Likely	Likely	One Stamp	Two Stamp	One Stamp	Two Stamp	Total ATM	Retl/ ATM only	Both ATM & P.S.
	Total (A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)
Unweighted Total	802	405	397	342	317	143	495	298	478	307	213	97	323	60	263
Weighted Total	790	398	392	344	313	133	485	296	476	297	207	94*	317	62	255
More convenient	179 23%	108 27% <sup>C</sup>	72 18%	73 21%	74 24%	33 25%	156 32% <sup>H</sup>	23 8%	59 12%	120 40% <sup>I</sup>	70 34%	44 47% <sup>K</sup>	83 26%	12 20%	71 28%
About as convenient	318 40%	173 43%	145 37%	135 39%	127 41%	55 41%	230 47% <sup>H</sup>	86 29%	163 34%	143 48% <sup>I</sup>	113 54% <sup>L</sup>	38 40%	124 39%	25 40%	99 39%
Less convenient	281 36%	114 29%	167 43% <sup>B</sup>	128 37%	109 35%	44 33%	97 20%	179 61% <sup>G</sup>	244 51% <sup>J</sup>	33 11%	25 12%	12 13%	107 34%	22 35%	85 33%
Don't know	12 2%	6 1%	8 2%	8 2%	3 1%	1 1%	2 *	8 3% <sup>G</sup>	11 2%	1 *	0 0	0 0	6 1%	4 6%	0 0

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L

\* small base

ASI

ORC STUDY #70705

CARAVAN

JANUARY 29, 1998

INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P4

Level of convenience of buying stamps of two denominations/values compared with the current system

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment with a reply envelope in an average month

	Rates Cur- rent posed  Total (A)	Number of Bills Mailed In Reply Env. per month						Likelihood of Using Two Stamp System						If Increase In Reg. Rates Prefer Which System						Past Year Stamp Purchasing Locations								
		(B) (C)			(D) (E)			(F)			(G)			(H)			One Stamp (I)		Two Stamp (J)		One Stamp (K)		Two Stamp (L)		Total (M)	Retl/ ATM only (N)	Retl/ ATM & P.S. (O)	Both
		Cur- rent posed  (32- (33- 29) (30)						1-5 (D) (E)						6-10 (F)						more (H)						Likely (G)		
Unweighted Total	802	405	397	342	317	143	495	298	478	307	213	97	323	60	263													
Weighted Total	790	398	392	344	313	133	485	296	476	297	207	94*	317	62	255													
More convenient	63 8%	35 9%	29 7%	21 6%	27 9%	15 11%	53 11%H	11 4%	19 4%	43 14%I	24 11%	17 18%	36 11%	4 7%	32 12%													
About as convenient	345 44%	187 47%	157 40%	143 42%	140 45%	62 46%	282 58%H	60 20%	139 29%	195 66%I	139 67%	58 62%	139 44%	23 36%	116 46%													
Less convenient	375 47%	172 43%	203 52% <sup>B</sup>	173 50%	146 47%	56 42%	148 31%	223 75%G	310 65%J	59 20%	45 22%	19 20%	137 43%	32 51%	105 41%													
Don't know	7 1%	6 1%	3 1%	6 2% <sup>E</sup>	0 0	1 1%	3 1%	2 1%	7 2%J	0 0	0 0	0 0	5 2%	4 6%	2 1%													

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L

\* small base

A52

ORC STUDY #70705                    CARAVAN                    JANUARY 29, 1998  
INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

Question P5

Likelihood of buying and using both stamp denominations/values

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment with a reply envelope in an average month

	Rates Cur- rent posed	Number of Bills Mailed In Reply Env. per month						If Increase In Reg. Rates						Past Year Stamp Purchasing Locations						
		1-5 or more			11			Likelihood of Using Two Stamp System		Prefer Which System		One Stamp		Two Stamp		One Stamp		Two Stamp		Both ATM only & P.S.
		(A) (B)	(C) (D)	(E) (F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)							
Unweighted Total		802	405	397	342	317	143	495	298	478	307	213	97	323	60	263				
Weighted Total		790	398	392	344	313	133	485	296	476	297	207	94*	317	62	255				
Very likely/Somewhat likely (Net)	485 61%	272 68%C	213 54%	192 56%	201 64%D	92 69%D	485 100%H	0	216 45%	258 87%I	186 90%L	73 78%	197 62%	32 50%	166 65%					
Very likely	303 38%	177 44%C	126 32%	96 28%	142 45%D	65 49%D	303 62%H	0	101 21%	198 67%I	133 64%	60 64%	123 39%	17 27%	106 42%					
Somewhat likely	182 23%	95 24%	87 22%	95 28%K	59 19%	27 21%	182 38%H	0	115 24%	60 20%	52 25%L	13 14%	76 23%	14 23%	60 23%					
Somewhat unlikely/Very unlikely (Net)	296 37%	126 31%	172 44%B	148 43%K	108 35%	40 30%	0	296 100%G	252 53%J	38 13%	21 10%	20 22%K	117 37%	29 46%	88 35%		F			
Somewhat unlikely	120 15%	52 13%	68 17%	65 19%F	44 14%	11 8%	0	120 60%G	100 21%J	19 6%	6 3%	14 14%K	51 16%	11 18%	40 16%					
Very unlikely	176 22%	72 18%	104 27%B	83 24%	64 20%	29 22%	0	176 60%G	152 32%J	19 6%	14 7%	7 7%	66 21%	17 28%	48 19%					
Don't know	9 1%	2 1%	7 2%	4 1%	4 1%	1 1%	0	0	8 2%	1 *	1 *	0	3 1%	2 4%	1 *					

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L  
 \* small base

A53

ORC STUDY #70705      CARAVAN      JANUARY 29, 1998  
 INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P6

Knowing the amount could save, likelihood of buying and using both stamp denominations/values

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment with a reply envelope in an average month

	Rates Cur- rent posed	Number of Bills Nailed In Reply Env. per month						Likelihood of Using Two Stamp System		Prefer Which System		If Increase In Reg. Rates		Past Year Stamp Purchasing Locations		
		1-5 (B) (C)			6-10 (D) (E) or (F)			Likely (G)	Un- likely (H)	One Stamp (I)	Two Stamp (J)	One Stamp (K)	Two Stamp (L)	Total (M)	Retl/ ATM only (N)	Retl/ ATM & P.S. (O)
Unweighted Total		802	405	397	342	317	143	495	298	478	307	213	97	323	60	263
Weighted Total		790	398	392	344	313	133	485	296	476	297	207	94*	317	62	255
Very likely/Somewhat likely (Net)	475 60%	254 64% C	220 56%	181 53%	203 65%D	91 68%D	410 85%K	63 21%	192 40%	270 91%I	190 92%	81 86%	201 63%	31 50%	170 67%	
Very likely	276 35%	166 42% C	110 28%	90 26%	121 39%D	64 48%D	254 52%K	21 7%	71 15%	202 68%I	133 64%	63 67%	114 36%	16 26%	98 38%	
Somewhat likely	198 25%	88 22%	110 28%	91 26%	81 26%	26 20%	156 32%K	42 14%	121 25%	68 23%	57 28%	18 19%	87 27%	15 24%	72 28%	
Somewhat unlikely/Very unlikely (Net)	309 39%	141 35%	168 43% B	159 46% E	109 35%	42 F	75 15%	229 77%Q	278 58%J	27 9%	17 8%	13 14%	113 36%	29 46%	84 33%	
Somewhat unlikely	97 12%	52 13%	45 11%	44 13%F	45 14%F	8 6%	40 8%	56 19%Q	79 17%J	17 6%	8 4%	10 11%K	33 10%	10 15%	23 9%	
Very unlikely	212 27%	89 22%	123 31% B	114 33% E	64 20%	34 26%	34 7%	173 59%G	199 42%J	9 3%	9 4%	3 3%	60 25%	19 31%	60 24%	
Don't know	6 1%	3 1%	3 1%	4 1%	2 1%	1 1%	0 0	3 1%G	6 1%	0 0	0 0	0 0	3 1%	2 3%	1 1%	

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L

\* small base

AS4

ORC STUDY #70705      CARAVAN      JANUARY 29, 1998  
 INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

Question P7

Places have purchased stamps in the past year - Aided

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment with a reply envelope in an average month

	Rates Cur- rent posse (32- (33- Total (A)	Number of Bills Mailed In Reply Env. per month						Likelihood of Using Two Stamp System		Prefer Which System		If Increase In Reg. Rates Prefer Which		Past Year Stamp Purchasing Locations			
		Env. per month		Un- likely		One Stamp		Two Stamp		One Stamp		Two Stamp		Total (K)	Retl/ ATM only (M)	Retl/ ATM & P.S. (N)	Both (O)
		(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)		
Unweighted Total	802	405	397	342	317	143	495	298	478	307	213	97	323	60	263		
Weighted Total	790	398	392	344	313	133	485	296	476	297	207	94*	317	62	255		
At a post office	715 90%	362 91%	353 90%	298 87%	291 93%D	126 95%D	447 92%	262 89%	423 89%	274 92%	190 92%	88 94%	255 80%	0 0	255 100%		
At grocery or other retail stores/At an automated teller machine (ATM) (Net)	317 40%	159 40%	158 40%	130 38%	132 42%	54 41%	197 41%	117 39%	186 39%	125 42%	91 44%	36 39%	317 100%	62 100%	255 100%		
At grocery or other retail stores	280 35%	141 35%	139 35%	120 35%	111 35%	48 36%	176 36%	101 34%	162 34%	112 38%	84 40%	32 34%	280 88%	59 95%	221 87%		
At an automated teller machine (ATM)	77 10%	36 9%	41 10%	22 6%	40 13%D	16 12%D	50 10%	28 9%	43 9%	32 11%	24 12%	8 9%	77 24%	8 12%	70 27%		
Don't know	13 2%	8 2%	5 1%	7 2%	6 2%	0 0	7 1%	5 2%	9 2%	4 1%	4 2%	0 0	0 0	0 0	0 0		

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L

\* small base

A55

ORC STUDY #70705      CARAVAN      JANUARY 29, 1998  
 INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P8

Likelihood of buying and using both stamp denominations if could only obtain the discounted stamps through the Postal Service and were not available through grocery stores or other retail outlets, including ATMs

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment with a reply envelope in an average month and purchased stamps at grocery/other retail stores/ATMs in the past year

	Rates ----- Cur- rent posse (32- (33- 29) Total (A)	Number of Bills Mailed In Reply Env. per month						Likelihood of Using Two Stamp System		Prefer Which System		If Increase In Reg. Rates		Past Year Stamp Purchasing Locations		
		1-5		6-10		more		Likely (G)	Un- likely (H)	One Stamp (I)	Two Stamp (J)	One Stamp (K)	Two Stamp (L)	Total (M)	Retl/ ATM only (N)	Both Retl/ ATM & P.S. (O)
		(B)	(C)	(D)	(E)	(F)										
Unweighted Total	323	162	161	130	134	59	204	116	187	130	94	38	323	60	263	
Weighted Total	317	159	158	130	132	54*	197	117	186	125	91*	36*	317	62	255	
Very likely/Somewhat likely (Net)	135 43%	73 46%	62 40%	48 37%	64 48%	23 42%	109 55%H	25 21%	53 28%	80 64%I	58 66%	21 57%	135 43%	14 22%	121 48%	
Very likely	77 24%	39 25%	38 24%	25 19%	36 27%	17 31%	63 32%H	14 12%	26 14%	50 40%I	34 38%	14 40%	77 24%	4 6%	73 29%	
Somewhat likely	58 18%	33 21%	25 16%	24 18%	28 21%	6 12%	47 24%H	10 9%	27 14%	30 24%I	24 26%	6 17%	58 18%	10 16%	48 19%	
Somewhat unlikely/Very unlikely (Net)	179 57%	84 53%	95 60%	80 62%	68 51%	31 58%	88 45%	91 78%G	131 70%J	45 36%	33 36%	16 43%	179 57%	47 76%	132 52%	
Somewhat unlikely	54 17%	28 18%	26 17%	30 23%F	19 14%	5 10%	37 19%	18 15%	25 14%	25 20%	22 24%	8 21%	54 17%	8 14%	46 18%	
Very unlikely	125 39%	56 35%	69 44%	50 39%	49 37%	26 48%	51 26%	73 62%G	105 57%J	20 16%	12 13%	8 22%	125 39%	39 62%	86 34%	
Don't know	3 1%	2 1%	*	2 1%	1 1%	0 0	0 0	1 1%	3 1%	0 0	0 0	0 0	3 1%	1 2%	1 1%	

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L  
 \* small base

ASV

ORC STUDY #70705      CARAVAN      JANUARY 29, 1998  
 INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P9

Preference between a one-stamp pricing system as it is now or a two-stamp pricing system as proposed

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment with a reply envelope in an average month

	Number of Bills Mailed In Reply Env. per month						Likelihood of Using Two Stamp System	Prefer Which System	If Increase In Reg. Rates			Past Year Stamp Purchasing Locations			
	Cur- Rent posed		Pro- (32- (33-		11 or more				One Stamp		Two Stamp		Stamp		
	Total (A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)
Unweighted Total	802	405	397	342	317	143	495	298	478	307	213	97	323	60	263
Weighted Total	790	398	392	344	313	133	485	296	476	297	207	94*	317	62	255
A one-stamp system	476 60%	210 53%	266 68% <sup>B</sup>	232 68% <sup>E</sup>	180 57%	64 48%	216 45%	252 85% <sup>G</sup>	476 100% <sup>J</sup>	0	0	0	186 59%	44 70%	142 56%
A two-stamp system/Don't know (Net)	314 40%	189 47% <sup>C</sup>	126 32%	112 32%	133 43% <sup>D</sup>	70 52% <sup>D</sup>	269 55% <sup>H</sup>	44 15%	0	297 100% <sup>I</sup>	207 100%	94 100%	131 41%	19 30%	112 44%
A two-stamp system	297 38%	178 45% <sup>C</sup>	119 30%	102 30%	128 41% <sup>D</sup>	67 50% <sup>D</sup>	258 53% <sup>H</sup>	38 13%	0	297 100% <sup>I</sup>	191 92%	94 100% <sup>K</sup>	125 39%	19 30%	106 42%
Don't know	17 2%	11 3%	7 2%	9 3%	5 2%	3 2%	11 2%	6 2%	0	0	16 8% <sup>L</sup>	0	6 2%	0	6 2%

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L

\* small base

ORC STUDY #70705      CARAVAN      JANUARY 29, 1998  
 INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

## Question P10

Preference between one-stamp pricing system and two-stamp pricing system if the two-stamp pricing system contributed, to some degree, to an increase in rates for regular First-Class letters

Base = Have primary/shared responsibility for paying household bills and mail at least one bill payment with a reply envelope in an average month and prefer two-stamp system/don't know

	Number of Bills Mailed In Reply						Likelihood of Using Two Stamp System		Prefer Which System		If Increase In Reg. Rates		Past Year Stamp Purchasing Locations		
	Rates Env. per month		1-5 6-10 more				Likely	Unlikely	One Stamp	Two Stamp	One Stamp	Two Stamp	Total	Retl/ ATM only	Both Retl/ ATM & P.S.
	Total (A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)
Unweighted Total	324	191	133	110	137	77	281	42	0	307	213	97	136	18	118
Weighted Total	314	189	126	112	133	70*	269	44*	0**	297	207	94*	131	19	112
A one-stamp system	207 66%	131 70%	76 61%	77 69%	86 65%	44 63%	186 69% <sup>H</sup>	21 46%	0	191 64%	207 100% <sup>L</sup>	0 0	91 70%	13 69%	78 70%
A two-stamp system	94 30%	50 26%	44 35%	32 29%	41 31%	21 30%	73 27%	20 46% <sup>G</sup>	0	94 31%	0 0	94 100% <sup>K</sup>	36 28%	6 31%	31 27%
Don't know	14 4%	8 4%	6 5%	3 2%	6 4%	5 7%	10 4%	4 8%	0	13 4%	0 0	0 0	4 3%	0 0	4 3%

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L  
 \* small base; \*\* very small base (under 30) ineligible for sig testing

ASC

ORC STUDY #70705

CARAVAN

JANUARY 29, 1998

INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

Base = HAVE PRIMARY/SHARED RESPONSIBILITY FOR PAYING HOUSEHOLD BILLS AND MAIL AT LEAST ONE BILL PAYMENT IN AN AVERAGE MONTH

Question S1

Are you the male/female head of this household

	Number of Bills Rates Mailed In Reply Env. per month						Likelihood of Using Two Stamp System	Prefer Which System	If Increase In Reg. Rates		Past Year Stamp Purchasing Locations				
	Cur- rent posed		1-5 or (32- (33- (29) 30)		6-10 more (E) (F)				One Stamp	Two Stamp	One Stamp	Two Stamp	Total ATM	Retl/ ATM	
	Total (A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(K)	(L)	(M)	(N)	(O)		
Unweighted Total	839	405	397	342	317	143	495	298	478	307	213	97	323	60	263
Weighted Total	628	398	392	344	313	133	485	296	476	297	207	94*	317	62	255
Yes	792 96%	381 96%	377 96%	324 94%	305 97%	130 97%	469 97%	280 95%	459 96%	282 95%	199 96%	87 93%	299 94%	57 91%	242 95%
No	35 4%	16 4%	15 4%	20 6%	8 3%	3 2%	15 3%	16 5%	17 4%	14 5%	7 3%	7 7%	17 5%	5 9%	12 5%
Refused/No response	1 *	1 *	0 0	0 0	1 1%	1 *	1 0	0 0	0 *	1 *	1 0	0 *	1 0	0 *	1 *

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L

\* small base

A59

ORC STUDY #70705

CARAVAN

JANUARY 29, 1998

INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

Base = HAVE PRIMARY/SHARED RESPONSIBILITY FOR PAYING HOUSEHOLD BILLS AND MAIL AT LEAST ONE BILL PAYMENT IN AN AVERAGE MONTH

Question Six

Employment status

	Rates Total (A)	Number of Bills Mailed In Reply Env. per month						Likelihood of Using Two Stamp System		Prefer Which System		If Increase In Reg. Rates		Past Year Stamp Purchasing Locations		
		Cur- rent posed (32- (33- 29) 30)		1-5 (C) (D)		6-10 (E) (F)		Un- likely (G)	likely (H)	One Stamp (I)	Two Stamp (J)	One Stamp (K)	Two Stamp (L)	Total (M)	Retl/ ATM only (N)	Retl/ ATM & P.S. (O)
Unweighted Total	839	405	397	342	317	143	495	298	478	307	213	97	323	60	263	
Weighted Total	828	398	392	344	313	133	485	296	476	297	207	94*	317	62	255	
Employed full time	516 62%	254 64%	239 61%	195 57%	197 63%	101 76%DE	301 62%	188 64%	298 63%	181 61%	129 62%	57 61%	206 65%	38 61%	168 66%	
Employed part time	82 10%	48 12%	31 8%	35 10%	35 11%	9 7%	58 12%H	20 7%	38 8%	41 14%I	30 14%	9 10%	31 10%	10 17%	21 8%	
Retired	157 19%	70 18%	80 21%	72 21%F	62 20%	17 13%	84 17%	64 21%	97 20%	50 17%	36 17%	16 17%	49 15%	8 13%	41 16%	
Not employed	71 9%	26 6%	39 10%	40 12%EF	19 6%	6 5%	41 8%	22 7%	41 9%	24 8%	13 6%	10 10%	29 9%	6 10%	23 9%	
Not reported	3 *	1 *	2 1%	2 *	1 0	0 *	1 1%	2 *	2 *	1 *	0 0	1 1%	2 1%	0 0	2 1%	

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L  
 \* small base

ACD

ORC STUDY #70705

CARAVAN

JANUARY 29, 1998

INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

Base = HAVE PRIMARY/SHARED RESPONSIBILITY FOR PAYING HOUSEHOLD BILLS AND MAIL AT LEAST ONE BILL PAYMENT IN AN AVERAGE MONTH

Question S2

Occupation

(Asked only of those who are employed)

	Number of Bills Mailed In Reply						Likelihood of Using Two Stamp System	Prefer Which System	If Increase In Reg. Rates			Past Year Stamp Purchasing Locations				
	Rates Cur- rent posed		Env. per month		Un- likely				One Stamp		Two Stamp		One Stamp		Two Stamp	
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)	
Unweighted Total	839	405	397	342	317	143	495	298	478	307	213	97	323	60	263	
Weighted Total	828	398	392	364	313	133	485	296	476	297	207	94*	317	62	255	
Percent asked	598 72%	302 76% C	270 69%	230 67%	232 74%	110 83%D	359 74%	209 70%	336 71%	222 75%	158 76%	67 71%	237 75%	49 78%	188 74%	
White collar - Prof/Mngrl/ Ownr	309 37%	151 38%	150 38%	105 30%	126 40%D	71 53%DE	195 40%	103 35%	166 35%	125 42%I	91 44%	37 40%	110 35%	21 34%	89 35%	
White collar - Sales/Circl	92 11%	52 13%	35 9%	34 10%	38 12%	16 12%	58 12%	27 9%	46 10%	61 14%	33 16%	8 9%	53 17%	10 16%	43 17%	
Blue collar - Craftsmen/ Foreman	77 9%	39 10%	30 8%	34 10%	25 8%	10 8%	36 7%	34 11%	44 9%	25 8%	18 9%	6 7%	25 8%	2 3%	23 9%	
Blue collar - Semi/ Unskilled	68 8%	35 9%	32 8%	39 11%F	25 8%	4 3%	44 9%	24 8%	50 10%J	16 5%	10 5%	7 8%	30 9%	10 16%	20 8%	
Service worker	48 6%	24 6%	20 5%	17 5%	17 5%	10 7%	24 5%	20 7%	30 6%	14 5%	6 3%	7 7%	18 6%	6 10%	12 5%	
Other	1 *	0 0	1 *	1 0	0 0	0 0	1 *	0 0	1 *	0 0	0 0	0 0	1 *	0 0	1 *	
Not reported	2 *	0 0	2 *	1 *	1 *	0 0	1 *	1 *	1 *	1 *	0 0	1 1%	1 *	0 0	1 *	

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L

\* small base

A61

ORC STUDY #70705

CARAVAN

JANUARY 29, 1998

## INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

Base = HAVE PRIMARY/SHARED RESPONSIBILITY FOR PAYING HOUSEHOLD BILLS AND MAIL AT LEAST ONE BILL PAYMENT IN AN AVERAGE MONTH

Question 83

Marital status

	Rates Cur- rent posed (32- (33- 29) Total (A)	Number of Bills Mailed In Reply Env. per month						Likelihood of Using Two Stamp System		Prefer Which System		If Increase In Reg. Rates Prefer Which System		Past Year Stamp Purchasing Locations										
		(B)		(C)		(D)		(E)		(F)		(G)		(I)		(J)		(K)		(L)		Total (M)	Retl/ ATM only (N)	Both Retl/ ATM & P.S. (O)
		or (E)		or (F)		Un- likely (H)		One Stamp (I)		Two Stamp (J)		One Stamp (K)		Two Stamp (L)		Total (M)	Retl/ ATM only (N)	Both Retl/ ATM & P.S. (O)						
Unweighted Total	839	405	397	342	317	143	495	298	478	307	213	97	323	60	263									
Weighted Total	828	398	392	344	313	133	485	296	476	297	207	94*	317	62	255									
Married	481 58%	237 60%	223 57%	180 52%	177 56%	103 77%DE	303 62%H	150 51%	271 57%	183 62%	116 56%	61 66%	177 56%	31 50%	146 57%									
Living as married	28 3%	12 3%	16 4%	11 3%	15 5%	2 2%	20 4%	8 3%	18 4%	11 4%	7 3%	4 4%	12 4%	1 2%	10 4%									
Single and never been married	133 16%	64 16%	59 15%	71 21%E	61 13%	11 8%	66 14%	57 19%G	75 16%	43 15%	33 16%	15 16%	51 16%	18 28%	34 13%									
Divorced	107 13%	51 13%	51 13%	41 12%	67 15%	14 11%	51 10%	50 17%G	65 14%	33 11%	25 12%	9 9%	39 12%	6 10%	32 13%									
Separated	17 2%	4 1%	11 3%	7 2%	7 2%	1 1%	10 2%	6 2%	7 1%	9 3%	7 3%	2 2%	9 3%	1 1%	8 3%									
Widowed	61 7%	29 7%	31 8%	31 9%F	27 9%F	1 1%	33 7%	25 8%	39 8%	18 6%	17 8%	2 2%	29 9%	5 9%	24 9%									
No response	2 *	1 *	1 *	2 *	0 0	0 0	2 *	0 0	2 *	0 0	0 0	0 0	0 0	0 0	0 0									

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L

\* small base

A62

ORC STUDY #70705

CARAVAN

JANUARY 29, 1998

INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

Base = HAVE PRIMARY/SHARED RESPONSIBILITY FOR PAYING HOUSEHOLD BILLS AND MAIL AT LEAST ONE BILL PAYMENT IN AN AVERAGE MONTH

Question S3a

Dual-income household

(Asked only of those who are married or living as married)

	Number of Bills Mailed In Reply						Likelihood of Using Two Stamp System		If Increase In Reg. Rates		Past Year Stamp Purchasing Locations					
	Rates Env. per month		Cur- rent posed				One likely		Two likely		Stamp System		Stamp System		Both	
	Total (A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)	
Unweighted Total	839	405	397	342	317	143	495	298	478	307	213	97	323	60	263	
Weighted Total	828	398	392	344	313	133	485	296	476	297	207	94*	317	62	255	
Percent asked	509 61%	250 63%	239 61%	192 56%	191 61%	105 79%DE	323 67%H	158 54%	289 61%	194 65%	124 60%	65 70%	189 60%	32 52%	156 61%	
Yes	385 47%	192 48%	175 45%	139 40%	139 45%	89 67%DE	236 49%	127 43%	217 46%	149 50%	93 45%	50 53%	146 46%	29 46%	117 46%	
No	121 15%	55 14%	63 16%	51 15%	51 16%	16 12%	86 18%H	30 10%	69 15%	45 15%	31 15%	15 16%	41 13%	3 6%	37 15%	
Refused/No response	3 *	2 *	1 *	2 1%	1 *	0 0	1 *	2 1%	3 1%	0 0	0 0	0 0	2 1%	0 0	2 1%	

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L  
 \* small base

A63

ORC STUDY #70705

CARAVAN

JANUARY 29, 1998

INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

Base = HAVE PRIMARY/SHARED RESPONSIBILITY FOR PAYING HOUSEHOLD BILLS AND MAIL AT LEAST ONE BILL PAYMENT IN AN AVERAGE MONTH

Question S3b

Own/rent dwelling in which you live

	Number of Bills Mailed In Reply Env. per month						Likelihood of Using Two Stamp System		Prefer Which System		If Increase In Reg. Rates		Past Year Stamp Purchasing Locations		
	Cur- rent pos- ed		11 or more		Likely	Likely	One Stamp	Two Stamp	One Stamp	Two Stamp	Total (M)	Retl/ ATM only	Retl/ ATM	Both & P.S. (O)	
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(N)	(O)	
Unweighted Total	839	405	397	342	317	143	495	298	478	307	213	97	323	60	263
Weighted Total	828	398	392	344	313	133	485	296	476	297	207	94*	317	62	255
Own	556 67%	273 68%	261 67%	199 58%	227 73%	108 81%	336 69%	191 64%	325 68%	199 67%	138 66%	62 66%	196 62%	35 55%	162 64%
Rent	266 32%	124 31%	127 32%	142 41%	84 27%	25 19%	147 30%	103 35%	151 32%	93 31%	69 33%	28 30%	117 37%	27 44%	90 35%
Not reported	5 1%	2 *	4 1%	3 1%	2 1%	1 1%	3 1%	3 1%	1 *	5 2%I	1 *	3 3%K	4 1%	1 1%	3 1%

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L

\* small base

ORC STUDY #70705 CARAVAN JANUARY 29, 1998  
 INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

Base = HAVE PRIMARY/SHARED RESPONSIBILITY FOR PAYING HOUSEHOLD BILLS AND MAIL AT LEAST ONE BILL PAYMENT IN AN AVERAGE MONTH

Question 84

Household size

	Rates Cur- rent posed (32- (33- 29)	Number of Bills Mailed In Reply Env. per month						Likelihood of Using Two Stamp System		If Increase In Reg. Rates Prefer Which System		Past Year Stamp Purchasing Locations				
		1-5		6-10		or more		Un- likely (G)	likely (H)	One Stamp (I)	Two Stamp (J)	One Stamp (K)	Two Stamp (L)	Total ATM (M)	Retl/ ATM only (N)	Both ATM & P.S. (O)
		(B)	(C)	(D)	(E)	(F)										
Unweighted Total		839	405	397	342	317	143	495	298	478	307	213	97	323	60	263
Weighted Total		828	398	392	344	313	133	485	296	476	297	207	94*	317	62	255
One		149 18%	74 19%	70 18%	83 24% <sup>E</sup>	53 17% <sup>F</sup>	8 6%	77 16%	68 23% <sup>G</sup>	89 19%	49 16%	40 19%	12 13%	54 17%	11 17%	43 17%
Two		289 35%	131 33%	149 38%	112 33%	127 41% <sup>D</sup>	42 31%	168 35%	105 35%	173 36%	104 35%	67 32%	36 38%	104 33%	20 32%	84 33%
Three		169 20%	80 20%	73 19%	71 21%	51 16%	31 23%	96 20%	57 19%	91 19%	58 20%	43 21%	16 18%	75 24%	16 25%	59 23%
Four		136 16%	73 18%	59 15%	50 15%	54 17%	29 21%	84 17%	47 16%	76 16%	56 19%	38 18%	16 17%	59 19%	12 19%	47 19%
Five		57 7%	26 6%	28 7%	19 6%	18 6%	16 12% <sup>DE</sup>	41 8% <sup>H</sup>	12 4%	30 6%	22 7%	16 7%	7 7%	18 6%	4 7%	13 5%
Six		15 2%	8 2%	5 1%	4 1%	7 2%	2 2%	10 2%	4 1%	7 1%	6 2%	2 1%	5 5% <sup>K</sup>	3 1%	0 0	3 1%
Seven		4 *	2 *	2 1%	*	2 1%	2 1%	2 *	2 1%	3 1%	1 *	1 0	0 0	2 1%	0 0	2 1%
Eight		2 *	0 0	2 1%	0 0	1 *	1 1%	2 *	0 0	1 *	1 0	0 0	1 1%	0 0	0 0	0 0
Nine		1 *	*	1 *	1 *	*	0 0	*	1 *	1 0	0 0	0 0	0 0	1 *	0 0	1 *
Ten or more (10)		2 *	2 *	0 0	0 0	0 0	2 1% <sup>D</sup>	2 *	0 0	2 *	0 0	0 0	0 0	2 *	0 0	2 1%
No response		4 *	2 *	2 *	2 1%	0 0	2 1% <sup>E</sup>	3 1%	1 *	3 1%	1 *	1 0	0 0	1 *	0 0	1 *

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L

\* small base

A65

ORC STUDY #70705

CARAVAN

JANUARY 29, 1998

INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

Base = HAVE PRIMARY/SHARED RESPONSIBILITY FOR PAYING HOUSEHOLD BILLS AND MAIL AT LEAST ONE BILL PAYMENT IN AN AVERAGE MONTH

Question S4

Household size

	Total (A)	Cur- rent posess (32- (33- 29) 30)	Number of Bills Mailed In Reply Avg. per month			Likelihood of Using Two Stamp System		Prefer Which System		If Increase In Reg. Rates		Past Year Stamp Purchasing Locations			
			1-5 or more			Likely	Un- likely	One Stamp	Two Stamp	One Stamp	Two Stamp	Total (K)	Retl/ ATM only	Both ATM & P.S.	
			(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(L)	(M)	(N)	(O)
Weighted Total	828	398	392	344	313	133	485	296	476	297	207	94*	317	62	255
Mean	2.7	2.7	2.7	2.5	2.7	3.2DE	2.8H	2.5	2.7	2.7	2.7	2.9	2.7	2.7	2.7
Standard Deviation	1.4	1.4	1.4	1.3	1.3	1.5	1.4	1.3	1.4	1.3	1.3	1.5	1.4	1.2	1.4
Standard Error	*	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L  
 \* small base

ACC

19151

ORC STUDY #70705 CARAVAN JANUARY 29, 1998

INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

Base = HAVE PRIMARY/SHARED RESPONSIBILITY FOR PAYING HOUSEHOLD BILLS AND MAIL AT LEAST ONE BILL PAYMENT IN AN AVERAGE MONTH

Question 85a

Children under 6 years of age

(Asked only of those with two or more household members)

	Number of Bills Mailed In Reply Env. per month						Likelihood of Using Two Stamp System	Prefer Which System	If Increase In Reg. Rates			Past Year Stamp Purchasing Locations			
	Cur- rent posed		1-5 or (E) (F)		6-10 more (D) (G)				One Stamp (I)	Two Stamp (J)	One Stamp (K)	Two Stamp (L)	Total (M)	Retl/ ATM only (N)	Retl/ ATM & P.S. (O)
	Total (A)	(B)	(C)	(D)	(E)	(F)	(H)								
Unweighted Total	839	405	397	342	317	143	495	298	478	307	213	97	323	60	263
Weighted Total	828	398	392	344	313	133	485	296	476	297	207	94*	317	62	255
Percent asked	675 82%	322 81%	320 82%	259 75%	260 83% D	123 93% DE	406 84% H	227 77%	384 81%	247 83%	166 80%	81 87%	263 83%	52 83%	211 83%
Yes	156 19%	76 19%	68 17%	58 17%	53 17%	33 25%	106 22% H	38 13%	81 17%	59 20%	41 20%	20 21%	66 21%	13 21%	53 21%
No	519 63%	245 61%	252 64%	200 58%	206 66% D	91 68% D	299 62%	188 64%	302 64%	188 63%	125 60%	62 66%	196 62%	38 62%	157 62%
Don't know/No response	1 *	1 *	0 0	1 0	0 0	0 0	0 *	1 *	1 0	0 0	0 0	0 0	1 *	0 0	1 *

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L

\* small base

AC7

ORC STUDY #70705

CARAVAN

JANUARY 29, 1998

INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

Base = HAVE PRIMARY/SHARED RESPONSIBILITY FOR PAYING HOUSEHOLD BILLS AND MAIL AT LEAST ONE BILL PAYMENT IN AN AVERAGE MONTH

Question 85b

Children aged 6 through 11

(Asked only of those with two or more household members)

	Number of Bills Mailed In Reply Env. per month						Likelihood of Using Two Stamp System		Prefer Which System		If Increase In Reg. Rates		Past Year Stamp Purchasing Locations		
	Cur- rent posed		11 or Un- likely		likely		One Stamp	Two Stamp	One Stamp	Two Stamp	Total Retl/ ATM	Retl/ ATM only	Both & P.S.		
	Total (A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)
Unweighted Total	839	405	397	342	317	143	495	298	478	307	213	97	323	60	263
Weighted Total	828	398	392	344	313	133	485	296	476	297	207	94*	317	62	255
Percent asked	675 82%	322 81%	320 82%	259 75%	260 83% <sup>D</sup>	123 93% <sup>DE</sup>	406 84% <sup>H</sup>	227 77%	384 81%	247 83%	166 80%	81 87%	263 83%	52 83%	211 83%
Yes	150 18%	76 19%	64 16%	61 18%	43 14%	37 28% <sup>DE</sup>	92 19%	47 16%	88 19%	50 17%	32 15%	20 21%	55 17%	12 19%	43 17%
No	524 63%	245 62%	255 65%	197 57%	217 69% <sup>D</sup>	86 64%	313 65%	179 61%	295 62%	197 66%	134 65%	61 66%	207 65%	40 64%	167 66%
Don't know/No response	1 *	1 *	0 0	1 *	0 0	0 0	0 0	1 *	1 0	0 0	0 0	0 0	1 *	0 0	1 *

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L

\* small base

468

ORC STUDY #70705

CARAVAN

JANUARY 29, 1998

## INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

Base = HAVE PRIMARY/SHARED RESPONSIBILITY FOR PAYING HOUSEHOLD BILLS AND MAIL AT LEAST ONE BILL PAYMENT IN AN AVERAGE MONTH

Question S5a/85b

Children under 12 years

(Asked only of those with two or more household members)

	Number of Bills Rates Mailed In Reply Env. per month						Likelihood of Using Two Stamp System		Prefer Which System		If Increase In Reg. Rates		Past Year Stamp Purchasing Locations		
	Cur- rent posed		11 or more		Un- likely likely		One Stamp	Two Stamp	One Stamp	Two Stamp	Total ATM	Retl/ ATM only	Retl/ ATM & P.S.		
	Total (A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)
Unweighted Total	839	405	397	342	317	143	495	298	478	307	213	97	323	60	263
Weighted Total	828	398	392	344	313	133	485	296	476	297	207	94*	317	62	255
Percent asked	675 82%	322 81%	320 82%	259 75%	260 83% <sup>D</sup>	123 93% <sup>DE</sup>	406 84% <sup>H</sup>	227 77%	384 81%	247 83%	166 80%	81 87%	263 83%	52 83%	211 83%
Yes	244 29%	121 30%	106 27%	100 29%	74 24%	53 40% <sup>DE</sup>	155 32% <sup>H</sup>	71 24%	129 27%	91 31%	63 31%	32 34%	99 31%	21 34%	78 31%
No	431 52%	201 50%	214 54%	158 46%	186 59% <sup>D</sup>	70 53%	250 52%	156 53%	254 53%	156 52%	103 50%	50 53%	163 51%	30 49%	132 52%
Don't know/No response	1 *	1 *	0 0	1 0	0 0	0 0	0 *	1 *	1 0	0 0	0 0	0 *	1 0	0 *	1 0

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L

\* small base

A69

ORC STUDY #70705

CARAVAN

JANUARY 29, 1998

INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

Base = HAVE PRIMARY/SHARED RESPONSIBILITY FOR PAYING HOUSEHOLD BILLS AND MAIL AT LEAST ONE BILL PAYMENT IN AN AVERAGE MONTH

Question S6

Children aged 12 through 17

(Asked only of those with two or more household members)

	Number of Bills Mailed In Reply Env. per month							Likelihood of Using Two Stamp System		Prefer Which System		If Increase In Reg. Rates		Past Year Stamp Purchasing Locations		
	Cur- rent posed		Pro- posed		11 or more			Likely	Likely	One Stamp	Two Stamp	One Stamp	Two Stamp	Total	Retl/ ATM only	Both Retl/ ATM & P.S.
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)	
Unweighted Total	839	405	397	342	317	143	495	298	478	307	213	97	323	60	263	
Weighted Total	828	398	392	344	313	133	485	296	476	297	207	94*	317	62	255	
Percent asked	675 82%	322 81%	320 82%	259 75%	260 83% <sup>D</sup>	123 93% <sup>E</sup>	406 84% <sup>H</sup>	227 77%	384 81%	247 83%	166 80%	81 87%	263 83%	52 83%	211 83%	
Yes	147 18%	74 19%	67 17%	50 14%	62 20%	29 22%	93 19%	47 16%	83 17%	57 19%	37 18%	20 21%	57 18%	10 17%	47 18%	
No	528 64%	248 62%	253 65%	208 61%	198 63%	95 71% <sup>D</sup>	312 64%	180 61%	301 63%	191 64%	129 62%	61 66%	204 66%	41 66%	163 64%	
Don't know/No response	1 *	1 *	0 0	1 0	0 0	0 0	0 0	1 *	1 0	0 0	0 0	0 0	1 *	0 0	1 *	

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L

\* small base

A70

ORC STUDY #70705

CARAVAN

JANUARY 29, 1998

INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

Base = HAVE PRIMARY/SHARED RESPONSIBILITY FOR PAYING HOUSEHOLD BILLS AND MAIL AT LEAST ONE BILL PAYMENT IN AN AVERAGE MONTH

Question 85b/86

Children aged 6 through 17

(Asked only of those with two or more household members)

	Number of Bills Mailed In Reply						Likelihood of Using Two Stamp System		Prefer Which System		If Increase In Reg. Rates		Past Year Stamp Purchasing Locations		
	Rates Env. per month		Cur- rent posed (32- (33- Total (A)		1-5 or (B) (C) 30)		Un- likely (G)	Likely (H)	One Stamp (I)	Two Stamp (J)	One Stamp (K)	Two Stamp (L)	Total (M)	Retl/ ATM only (N)	Retl/ ATM & P.S. (O)
															Both
Unweighted Total	839	405	397	342	317	143	495	298	478	307	213	97	323	60	263
Weighted Total	828	398	392	344	313	133	485	296	476	297	207	94*	317	62	255
Percent asked	675 82%	322 81%	320 82%	259 75%	260 83% D	123 93% DK	406 84% R	227 77%	384 81%	247 83%	166 80%	81 87%	263 83%	52 83%	211 83%
Yes	246 30%	121 30%	111 28%	87 25%	91 29%	54 40% DK	151 31%	80 27%	142 30%	89 30%	59 28%	31 33%	97 31%	18 30%	78 31%
No	428 52%	200 50%	209 53%	171 50%	169 54%	69 52%	254 52%	147 50%	242 51%	159 53%	107 52%	51 54%	165 52%	33 53%	132 52%
Don't know/No response	1 *	1 *	0 0	1 *	0 0	0 0	0 *	1 *	1 0	0 0	0 0	0 0	1 *	0 0	1 *

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L  
 \* small base

1671

ORC STUDY #70705

CARAVAN

JANUARY 29, 1998

## INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

Base = HAVE PRIMARY/SHARED RESPONSIBILITY FOR PAYING HOUSEHOLD BILLS AND MAIL AT LEAST ONE BILL PAYMENT IN AN AVERAGE MONTH

Question S5a/S5b/S6

Children under 18 years

(Asked only of those with two or more household members)

	Number of Bills Mailed In Reply Env. per month						Likelihood of Using Two Stamp System		Prefer Which System		If Increase In Reg. Rates		Past Year Stamp Purchasing Locations		
	Cur- rent pos- (32- (33- Total (A)		Pro- - - - (B)		1-5 or more (C) (D) (E) (F)		Un- likely (G)	likely (H)	One Stamp (I)	Two Stamp (J)	One Stamp (K)	Two Stamp (L)	Total ATM (M)	Retl/ only (N)	Both ATM & P.S. (O)
Unweighted Total	839	405	397	342	317	143	495	298	478	307	213	97	323	60	263
Weighted Total	828	398	392	344	313	133	485	296	476	297	207	94*	317	62	255
Percent asked	675 82%	322 81%	320 82%	259 75%	260 83%	123 93%DK	406 84%H	227 77%	384 81%	247 83%	166 80%	81 87%	263 83%	52 83%	211 83%
Yes	332 40%	161 40%	150 38%	127 37%	117 37%	68 51%DK	210 43%H	101 34%	181 38%	124 42%	88 42%	40 43%	138 44%	28 45%	110 43%
No	343 41%	160 40%	170 43%	131 38%	143 46%	55 42%	196 40%	126 43%	202 43%	123 41%	78 38%	41 44%	124 39%	24 38%	100 39%
Don't know/No response	1 *	1 *	0 0	1 *	0 0	0 0	0 0	1 *	1 0	0 0	0 0	0 0	1 *	0 0	1 *

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L

\* small base

A72

ORC STUDY #70705 CARAVAN JANUARY 29, 1998  
 INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

Base = HAVE PRIMARY/SHARED RESPONSIBILITY FOR PAYING HOUSEHOLD BILLS AND MAIL AT LEAST ONE BILL PAYMENT IN AN AVERAGE MONTH

Question 97

Education

	Total (A)	Number of Bills Mailed In Reply Env. per month						Likelihood of Using Two Stamp System	Prefer Which System	If Increase In Reg. Rates		Past Year Stamp Purchasing Locations					
		Cur- rent posed (32- (33- 29) 30)			1-5 or more (E) (F)					One Stamp (I)		Two Stamp (J)		Both ATM only & P.S. (N) (O)			
		(B)	(C)	(D)	(E)	(F)	(G)	(H)		(K)	(L)	(M)	(N)	(O)			
Unweighted Total	839	405	397	362	317	143	495	298	478	307	213	97	323	60	263		
Weighted Total	828	398	392	344	313	133	485	296	476	297	207	94*	317	62	255		
8th grade or less (8)	15 2%	3 1%	11 3% <sup>B</sup>	11 3% <sup>E</sup>	2 1%	1 1%	5 1%	9 3%	11 2%	3 1%	1 1%	1 2%	8 3%	3 5%	5 2%		
High school incomplete (10)	70 8%	27 7%	35 9%	37 11% <sup>F</sup>	20 6%	6 4%	38 8%	24 8%	42 9%	20 7%	15 7%	5 5%	19 6%	8 13%	11 4%		
High school complete (12)	245 30%	119 30%	116 29%	106 31%	95 30%	33 25%	126 26%	106 36% <sup>G</sup>	152 32%	76 26%	46 22%	33 35% <sup>K</sup>	100 32%	21 34%	79 31%		
Some college (14)	199 24%	106 27%	85 23%	89 26%	64 20%	39 29% <sup>E</sup>	115 24%	72 24%	114 24%	71 24%	59 28%	18 19%	84 26%	15 23%	69 27%		
College graduate (16)	166 20%	85 21%	74 19%	54 16%	75 24% <sup>D</sup>	30 23%	113 23% <sup>H</sup>	46 15%	83 17%	73 25% <sup>I</sup>	50 24%	20 22%	56 18%	9 14%	48 19%		
Postgraduate work (18)	108 13%	47 12%	57 15%	34 10%	48 15% <sup>D</sup>	22 17% <sup>D</sup>	72 15%	30 10%	54 11%	49 16%	31 15%	15 16%	41 13%	7 11%	35 14%		
Professional/Technical school	22 3%	11 3%	12 3%	12 3%	9 3%	2 1%	14 3%	8 3%	16 3%	5 2%	5 3%	1 1%	8 3%	1 1%	8 3%		
Refused/No response	3 *	1 *	2 1%	2 0	0 0	1 1%	2 *	1 *	3 1%	0 0	0 0	0 0	0 0	0 0	0 0		
Mean	13.9	14.0	13.8	13.5	14.2	14.4 <sup>D</sup>	14.2 <sup>H</sup>	13.5	13.7	14.3 <sup>I</sup>	14.3	14.1	13.8	13.2	14.0		
Standard Deviation	2.5	2.3	2.6	2.5	2.5	2.3	2.5	2.4	2.5	2.5	2.4	2.5	2.5	2.6	2.4		
Standard Error	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.2	0.3	0.1	0.3	0.2		

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L  
 \* small base

A73

ORC STUDY #70705

CARAVAN

JANUARY 29, 1998

INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

Base = HAVE PRIMARY/SHARED RESPONSIBILITY FOR PAYING HOUSEHOLD BILLS AND MAIL AT LEAST ONE BILL PAYMENT IN AN AVERAGE MONTH

Question S8

Age

	Total (A)	Number of Bills Mailed In Reply Env. per month						Likelihood of Using Two Stamp System		If Increase In Reg. Rates				Past Year Stamp Purchasing Locations		
		Cur- rent posse (32- (33- 29) (30)			1-5 & 6-10 more			Likely (G)	Un- likely (H)	One Stamp (I)	Two Stamp (J)	One Stamp (K)	Two Stamp (L)	Total (M)	Retl/ ATM only (N)	Retl/ ATM & P.S. (O)
		Rates Env. per month	1-5 & 6-10 more	11 or more	1-5 & 6-10 more	1-5 & 6-10 more	1-5 & 6-10 more									
Unweighted Total	839	405	397	342	317	143	495	298	478	307	213	97	323	60	263	
Weighted Total	828	398	392	344	313	133	485	296	476	297	207	94*	317	62	255	
18 - 20 (19)	24 3%	12 3%	10 2%	18 5%EF *	1 1%	2 1%	12 2%	9 3%	13 3%	9 3%	4 2%	4 4%	12 4%	8 12%	4 2%	
21 - 24 (22.5)	53 6%	24 6%	25 7%	32 9%EF	14 5%	3 3%	30 6%	19 6%	30 6%	18 6%	10 5%	9 10%	23 7%	5 7%	18 7%	
25 - 29 (27)	95 11%	43 11%	45 12%	41 12%	33 11%	14 10%	63 13%	25 9%	50 11%	35 12%	26 12%	9 10%	45 14%	10 16%	35 14%	
30 - 34 (32)	82 10%	44 11%	35 9%	31 9%	36 11%	12 9%	45 9%	33 11%	46 10%	30 10%	22 11%	10 10%	38 12%	9 14%	29 12%	
35 - 39 (37)	91 11%	49 12%	38 10%	38 11%	32 10%	17 13%	53 11%	34 11%	47 10%	38 13%	22 11%	17 18%	37 12%	8 12%	29 11%	
40 - 44 (42)	103 12%	50 12%	48 12%	33 10%	44 14%	21 16%D	66 14%	32 11%	54 11%	43 15%	32 16%	9 10%	36 11%	4 7%	32 13%	
45 - 49 (47)	83 10%	36 9%	45 12%	25 7%	35 11%	21 16%D	52 11%	28 9%	51 11%	29 10%	21 10%	9 10%	24 8%	1 1%	23 9%	
50 - 54 (52)	59 7%	34 9%	24 6%	18 5%	25 8%	16 12%D	37 8%	20 7%	36 8%	21 7%	16 8%	5 5%	30 10%	5 9%	25 10%	
55 - 59 (57)	51 6%	22 5%	28 7%	22 6%	20 6%	8 6%	28 6%	21 7%	32 7%	16 5%	10 5%	5 6%	15 5%	0 0	15 6%	
60 - 64 (62)	44 5%	18 5%	21 5%	18 5%	14 5%	8 6%	24 5%	14 5%	24 5%	16 5%	10 5%	6 6%	13 4%	1 2%	12 5%	
65 or older (65)	138 17%	64 16%	69 17%	66 19%F	56 18%F	11 8%	71 15%	61 21%G	90 19%	40 14%	31 15%	10 11%	42 13%	12 19%	30 12%	

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L

\* small base

ORC STUDY #70705                    CARAVAN                    JANUARY 29, 1998  
 INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

Base = HAVE PRIMARY/SHARED RESPONSIBILITY FOR PAYING HOUSEHOLD BILLS AND MAIL AT LEAST ONE BILL PAYMENT IN AN AVERAGE MONTH

Question 58

Age

	Rates Env. per month	Number of Bills						Likelihood of Using Two Stamp System	Prefer Which System	If Increase In Reg. Rates			Past Year Stamp Purchasing Locations			
		Cur- rent posse (32- (33-			1-5 or (30) (29)				One Stamp (I)	Two Stamp (J)			Total Stamp (K)			
		Pro- (33- 11			6-10 more (E) (D)					likely (G)			likely (H)			
(A)	(B)	(C)	(D)	(E)	(F)					(I)	(J)	(K)	(L)	(M)	(N)	(O)
Weighted Total	828	398	392	344	313	133	485	296	476	297	207	94*	317	62	255	
Refused/No response	5	2	3	3	2	0	3	1	3	2	2	0	2	1	1	
	1%	*	1%	1%	1%	0	1%	*	1%	1%	1%	0	1%	1%	*	
Mean	43.9	43.6	44.5	43.0	45.2	44.0	43.3	44.9	44.8	42.9	43.6	41.2	41.8	39.1	42.5	
Standard Deviation	14.5	14.2	14.5	15.7	13.7	12.0	14.1	14.8	14.6	13.9	13.9	14.2	14.3	16.2	13.8	
Standard Error	0.5	0.7	0.7	0.9	0.8	1.0	0.6	0.9	0.7	0.8	1.0	1.4	0.8	2.1	0.9	

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L

\* small base

A75

ORC STUDY #70705

CARAVAN

JANUARY 29, 1998

## INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

Base = HAVE PRIMARY/SHARED RESPONSIBILITY FOR PAYING HOUSEHOLD BILLS AND MAIL AT LEAST ONE BILL PAYMENT IN AN AVERAGE MONTH

Question 59

Race

	Rates Cur- rent posse (32- (33- 29)	Number of Bills Mailed In Reply Env. per month					Likelihood of Using Two Stamp System		If Increase In Reg. Rates Prefer Which System				Past Year Stamp Purchasing Locations			
		1-5 (B) (C)		6-10 (D) (E)		more (F)	Likely (G)	Un- likely (H)	One Stamp (I)	Two Stamp (J)	One Stamp (K)	Two Stamp (L)	Total (M)	Retl/ ATM (N)	Retl/ ATM (O)	Both & P.S. (P)
Unweighted Total		839	405	397	342	317	143	495	298	478	307	213	97	323	60	263
Weighted Total		828	398	392	344	313	133	485	296	476	297	207	94*	317	62	255
White		695 84%	348 87% C	320 82%	286 83%	257 82%	126 94% DE	419 86%	242 82%	400 84%	253 85%	183 88% L	74 79%	259 82%	51 82%	208 82%
Black		91 11%	33 8%	50 13% B	39 11% F	41 13% F	3 2%	46 9%	36 12%	53 11%	29 10%	16 8%	13 14%	39 12%	9 14%	30 12%
Asian		4 *	1 *	2 1%	2 *	1 *	*	2 *	2 1%	2 *	2 1%	1 *	1 1%	1 *	0 0	1 1%
Other		27 3%	11 3%	14 4%	12 3%	11 4%	3 2%	14 3%	12 4%	16 3%	10 3%	6 3%	4 4%	14 4%	3 4%	11 4%
Refused/No response		11 1%	5 1%	5 1%	6 2%	3 1%	1 1%	5 1%	4 1%	7 1%	3 1%	1 1%	2 2%	4 1%	0 0	4 2%

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L

\* small base

A76

ORC STUDY #70705

CARAVAN

JANUARY 29, 1998

INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

Base = HAVE PRIMARY/SHARED RESPONSIBILITY FOR PAYING HOUSEHOLD BILLS AND MAIL AT LEAST ONE BILL PAYMENT IN AN AVERAGE MONTH

Question S9a

Respondent or anyone else in your household Hispanic

	Number of Bills Rates Mailed In Reply Env. per month						Likelihood of Using Two Stamp System						If Increase In Reg. Rates Purchasing Locations									
	Cur- rent posse (32- (33- Total 29) 30)			1-5 6-10 or more			One Stamp likely			Two Stamp likely			One Stamp System			Two Stamp System			Total	Retl/ ATM only	Retl/ ATM & P.S.	Both
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)							
Unweighted Total	839	405	397	342	317	143	495	298	478	307	213	97	323	60	263							
Weighted Total	828	398	392	344	313	133	485	296	476	297	207	94*	317	62	255							
Yes	48 6%	22 6%	24 6%	17 5%	21 7%	9 6%	30 6%	16 5%	32 7%	14 5%	8 4%	6 7%	22 7%	5 8%	17 7%							
No	776 94%	375 94%	366 93%	325 95%	292 93%	124 93%	454 94%	279 94%	442 93%	281 95%	199 96%	86 92%	295 92%	57 93%	237 93%							
Refused/No response	3 *	1 *	2 1%	2 0	0 1%	1 *	2 *	1 *	2 *	1 *	*	1 1%	0 0	0 0	0 0							

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L

\* small base

A77

ORC STUDY #70705

CARAVAN

JANUARY 29, 1998

INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

Base = HAVE PRIMARY/SHARED RESPONSIBILITY FOR PAYING HOUSEHOLD BILLS AND MAIL AT LEAST ONE BILL PAYMENT IN AN AVERAGE MONTH

Question S10

Total household income for 1997

	Rates Cur- rent posed	Number of Bills Mailed In Reply						Likelihood of Using Two Stamp System		Prefer Which System		If Increase In Reg. Rates		Past Year Stamp Purchasing Locations		
		Env. per month		More				Un- likely	Likely	One Stamp	Two Stamp	One Stamp	Two Stamp	Total ATM	Retl/ ATM only	Retl/ ATM & P.S.
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)
Unweighted Total	839	405	397	342	317	143	495	298	478	307	213	97	323	60	263	
Weighted Total	828	398	392	344	313	133	485	296	476	297	207	94*	317	62	255	
Less than \$25,000	190 23%	79 20%	100 25%	118 34%	47 15%	13 10%	90 18%	85 29%	120 25%	53 18%	41 20%	15 16%	78 24%	21 33%	57 22%	
Under \$10,000 (10.0)	43 5%	12 3%	25 6%	36 10%EF	*	1 1%	15 3%	21 7%	26 5%	11 4%	7 3%	5 5%	16 5%	6 9%	10 4%	
\$10,000 - \$14,999 (12.5)	41 5%	18 5%	22 6%	24 7%F	15 5%	1 1%	21 4%	19 6%	29 6%	9 3%	10 5%	1 1%	21 7%	4 6%	18 7%	
\$15,000 - \$19,999 (17.5)	50 6%	23 6%	23 6%	30 9%EF	11 4%	4 3%	26 5%	18 6%	30 6%	14 5%	11 5%	3 3%	16 5%	5 8%	11 4%	
\$20,000 - \$24,999 (22.5)	45 5%	17 4%	27 7%	21 6%	17 5%	5 4%	21 4%	22 7%	26 6%	16 5%	11 5%	5 6%	23 7%	5 8%	18 7%	
Less than \$25,000 (Unspecified)/No response	12 1%	9 2%	2 1%	7 2%	3 1%	1 1%	6 1%	6 2%	8 2%	4 1%	2 1%	1 1%	1 *	1 2%	0 0	
\$25,000 or more	590 71%	299 75%	270 69%	210 61%	248 79%	111 83%	370 76%	194 65%	337 71%	221 74%	153 74%	70 75%	223 70%	38 61%	185 73%	
\$25,000 - \$29,999 (27.5)	77 9%	42 10%	33 8%	40 12%F	32 10%F	3 2%	49 10%	25 9%	62 9%	28 9%	18 9%	14 15%	28 9%	5 9%	22 9%	
\$30,000 - \$34,999 (32.5)	73 9%	34 9%	35 9%	30 9%	29 9%	11 8%	45 9%	22 8%	45 9%	25 8%	15 7%	10 10%	29 9%	9 15%	20 8%	
\$35,000 - \$39,999 (37.5)	55 7%	34 8%	20 5%	21 6%	30 10%F	4 3%	36 7%	18 6%	33 7%	21 7%	20 9%	2 2%	22 7%	3 6%	18 7%	
\$40,000 - \$49,999 (45.0)	99 12%	48 12%	45 11%	33 10%	37 12%	23 17%D	62 13%	30 10%	48 10%	43 14%	28 14%	14 15%	32 10%	6 10%	26 10%	

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L  
 \* small base

ORC STUDY #70705

CARAVAN

JANUARY 29, 1996

INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

Base = HAVE PRIMARY/SHARED RESPONSIBILITY FOR PAYING HOUSEHOLD BILLS AND MAIL AT LEAST ONE BILL PAYMENT IN AN AVERAGE MONTH

Question S10

Total household income for 1997

	Rates Cur- rent posed (32- (33- Total (A)	Number of Bills Mailed In Reply Env. per month						Likelihood of Using Two Stamp System		Prefer Which System		If Increase In Reg. Rates Preferred		Past Year Stamp Purchasing Locations			
		(B) (C) (D)			(E) (F) (G)			Un- likely (H)	Likely (I)	One Stamp (K)	Two Stamp (L)	One Stamp (M)	Two Stamp (N)	ATM only (O)	Both Retl/ ATM & P.S. (P)		
Weighted Total		828	398	392	344	313	133	485	296	476	297	207	94*	317	62	255	
\$50,000 - \$74,999 (62.5)	146 18%	80 20%	61 16%	51 15%	58 19%	31 23%DE	92 19%	49 17%	84 18%	55 18%	37 18%	17 18%	60 19%	10 16%	50 20%		
\$75,000 - \$99,999 (87.5)	57 7%	28 7%	26 7%	13 4%	21 7%	20 15%DE	36 7%	18 6%	30 6%	23 8%	17 8%	6 6%	22 7%	3 4%	19 7%		
\$100,000 or more (100.0)	44 5%	14 4%	27 7%DE	11 3%	16 5%	15 11%DE	22 4%	18 6%	28 6%	14 5%	9 5%	4 4%	15 5%	1 2%	13 5%		
\$25,000 or more (Unspecified)/No response	40 5%	18 5%	22 6%	10 3%	24 8%DE	6 4%	28 6%	12 4%	27 6%	13 4%	9 4%	3 4%	16 5%	0 0	16 6%		
Don't know/Refused/No response	48 6%	21 5%	23 6%	16 5%	19 6%	9 7%	25 5%	17 6%	19 4%	23 8%DE	13 6%	8 9%	17 5%	3 5%	13 5%		
Mean	44.3	45.0	44.1	36.9	46.9	59.3DE	45.5	43.0	43.7	46.4	45.6	44.8	43.4	37.3	45.0		
Standard Deviation	25.5	23.8	27.0	23.6	24.0	25.7	24.5	26.7	26.0	24.6	24.8	23.6	25.3	22.8	25.7		
Standard Error	0.9	1.3	1.4	1.3	1.5	2.3	1.2	1.6	1.3	1.5	1.8	2.6	1.5	3.0	1.7		

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L  
 \* small base

A79

ORC STUDY #76705

CARAVAN

JANUARY 29, 1998

## INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

Base - HAVE PRIMARY/SHARED RESPONSIBILITY FOR PAYING HOUSEHOLD BILLS AND MAIL AT LEAST ONE BILL PAYMENT IN AN AVERAGE MONTH

Cable subscriber/Satellite dish

	Number of Bills Mailed In Reply Env. per month						Likelihood of Using Two Stamp System		Prefer Which System		If Increase In Reg. Rates		Past Year Stamp Purchasing Locations		
	Cur- rent posse (32- (33- 29)		1-5 (30)		6-10 (E) more (F)		Likely (G)	Likely (H)	One Stamp (I)	Two Stamp (J)	One Stamp (K)	Two Stamp (L)	Total (M)	Retl/ ATM only (N)	Both Retl/ ATM & P.S. (O)
	(A)	(B)	(C)	(D)	(E)	(F)									
Unweighted Total	839	405	397	342	317	143	495	298	478	307	213	97	323	60	263
Weighted Total	828	398	392	344	313	133	485	296	476	297	207	94*	317	62	255
Yes	643 78%	313 78%	302 77%	251 73%	245 78%	118 88%DE	378 78%	230 78%	374 79%	229 77%	161 78%	72 77%	252 79%	46 74%	205 81%
No	183 22%	86 22%	89 23%	91 27%F	68 22%F	16 12%	106 22%	66 22%	101 21%	69 23%	46 22%	21 23%	65 21%	16 26%	49 19%
Don't know	2 *	0 0	1 *	1 0	0 0		1 *	0 0	1 *	0 0	0 0	0 0	0 0	0 0	0 0

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L

\* small base

A80

ORC STUDY #70705            CARAVAN            JANUARY 29, 1998  
 INTEREST IN TWO-STAMP SYSTEM OF POSTAGE  
 Base = HAVE PRIMARY/SHARED RESPONSIBILITY FOR PAYING HOUSEHOLD BILLS AND MAIL AT LEAST ONE BILL PAYMENT IN AN AVERAGE MONTH

Sex

	Number of Bills Mailed In Reply Env. per month						Likelihood of Using Two Stamp System		Prefer Which System		If Increase In Reg. Rates		Past Year Stamp Purchasing Locations			
	Cur- rent posed (32- (33- Total (A)			11 or Un- likely (F)			One Stamp likely (G)		Two Stamp likely (H)		One Stamp Stamp (I)		Two Stamp Stamp (J)		Both ATM only (N)	
													Total (B)	Retl/ ATM (M)	Retl/ ATM & P.S. (O)	
Unweighted Total	839	405	397	342	317	143	495	298	478	307	213	97	323	60	263	
Weighted Total	828	398	392	344	313	133	485	296	476	297	207	94*	317	62	255	
Male	402	178	206	173	144	68	208	172	246	128	80	50	133	25	108	
		49%	45%	53% <sup>B</sup>	50%	46%	51%	43%	52% <sup>J</sup>	43%	39%	54% <sup>K</sup>	62%	39%	43%	
Female	426	220	186	171	169	66	278	124	230	169	127	43	184	38	146	
		51%	55% <sup>C</sup>	47%	50%	54%	49%	57% <sup>H</sup>	42%	48%	57% <sup>I</sup>	61% <sup>L</sup>	46%	58%	61%	

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L  
 \* small base

184

ORC STUDY #70705

CARAVAN

JANUARY 29, 1998

INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

Base = HAVE PRIMARY/SHARED RESPONSIBILITY FOR PAYING HOUSEHOLD BILLS AND MAIL AT LEAST ONE BILL PAYMENT IN AN AVERAGE MONTH

Metro/Non-Metro

	Number of Bills Mailed In Reply Env. per month						Likelihood of Using Two Stamp System		Prefer Which System		If Increase In Reg. Rates		Past Year Stamp Purchasing Locations		
	Cur- rent posed (32- (33- 29)		1-5 or (33- 30)		6-10 more (34- (35)		Likely	Likely	One Stamp (I)	Two Stamp (J)	One Stamp (K)	Two Stamp (L)	Total (M)	Retl/ ATM (N)	Retl/ ATM & P.S. (O)
		(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)	(O)
Unweighted Total	639	405	397	342	317	163	495	298	478	307	213	97	323	60	263
Weighted Total	828	398	392	344	313	133	485	296	476	297	207	94*	317	62	255
Metro (Net)	610 74%	303 76%	277 71%	230 67%	242 77%D	108 81%D	362 75%	211 71%	336 71%	232 78%I	160 77%	75 80%	262 83%	58 93%	204 80%
In Center City of Metropolitan Area	271 33%	123 31%	128 33%	123 36%	89 28%	38 29%	151 31%	96 33%	142 30%	101 34%	69 33%	35 37%	119 38%	35 55%	85 33%
Outside Center City, Inside Center City County	150 18%	88 22%C	57 15%	46 13%	73 23%D	26 19%	91 19%	53 18%	88 19%	56 18%	39 19%	16 17%	58 18%	10 16%	48 19%
Inside Suburban County of Metropolitan Area	157 19%	79 20%	75 19%	54 16%	66 21%	35 26%D	101 21%	51 17%	91 19%	62 21%	39 19%	21 22%	71 22%	14 22%	57 22%
In Metropolitan Area with No Center City	31 4%	14 3%	17 4%	7 2%	14 5%	9 7%D	20 4%	10 3%	15 3%	14 5%	12 6%	3 3%	14 6%	0 0	14 5%
In Non-Metropolitan Area	218 26%	95 24%	115 29%	114 33%E	71 23%	25 19%	123 25%	85 29%	140 29%J	65 22%	47 23%	19 20%	55 17%	4 7%	51 20%

Proportions/Mean: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L

\* small base

A82

19167

ORC STUDY #70705                    CARAVAN                    JANUARY 29, 1998  
 INTEREST IN TWO-STAMP SYSTEM OF POSTAGE  
 Base - HAVE PRIMARY/SHARED RESPONSIBILITY FOR PAYING HOUSEHOLD BILLS AND MAIL AT LEAST ONE BILL PAYMENT IN AN AVERAGE MONTH

Region

	Rates	Number of Bills Mailed In Reply Env. per month						Likelihood of Using Two Stamp System	Prefer Which System	If Increase In Reg. Rates			Past Year Stamp Purchasing Locations					
		Cur- rent posed			(32- (33- or more)					One Stamp	Two Stamp	One Stamp	Two Stamp	Total ATM	Retl/ ATM only	Both ATM & P.S.		
		(A)	(B)	(C)	(D)	(E)	(F)			(I)	(J)	(K)	(L)	(M)	(N)	(O)		
Unweighted Total		839	405	397	342	317	143	495	298	478	307	213	97	323	60	263		
Weighted Total		828	398	392	344	313	133	485	296	476	297	207	94*	317	62	255		
New England	42 5%	21 5%	19 5%	17 5%	14 5%	9 7%	29 6%	11 4%	18 4%	22 7% I	12 6%	9 10%	14 5%	3 5%	12 5%			
Middle Atlantic	118 14%	54 14%	61 15%	39 11%	57 18%	18 14%	73 15%	41 14%	55 12%	59 20% I	33 16%	22 24%	45 14%	5 8%	40 16%			
East North Central	136 16%	69 17%	61 15%	67 20% F	49 16%	13 10%	79 16%	48 16%	79 17%	47 16%	33 16%	15 16%	53 17%	11 17%	42 17%			
West North Central	56 7%	23 6%	29 7%	26 7%	17 5%	9 7%	30 6%	23 8%	36 8%	13 4%	15 7% L	0 0	21 7%	3 5%	18 7%			
South Atlantic	167 20%	77 19%	82 21%	64 19%	66 21%	30 22%	100 21%	57 19%	104 22%	54 18%	36 17%	19 20%	66 21%	19 31%	47 18%			
East South Central	49 6%	25 6%	20 5%	28 8% E	13 6%	4 3%	28 6%	15 5%	30 6%	13 4%	11 6%	4 4%	12 4%	1 2%	11 4%			
West South Central	81 10%	43 11%	33 8%	27 8%	33 10%	16 12%	45 9%	30 10%	46 10%	27 9%	19 9%	10 10%	26 8%	4 6%	22 9%			
Mountain	82 10%	42 10%	39 10%	41 12%	29 9%	10 7%	55 11%	25 8%	45 9%	33 11%	24 12%	9 9%	36 11%	5 8%	31 12%			
Pacific	98 12%	45 11%	49 12%	35 10%	35 11%	23 17% D	47 10%	46 16% G	62 13%	30 10%	24 12%	7 7%	43 14%	11 18%	32 12%			

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L

\* small base

A  
8  
Z

ORC STUDY #70705 CARAVAN JANUARY 29, 1998

## INTEREST IN TWO-STAMP SYSTEM OF POSTAGE

Base - HAVE PRIMARY/SHARED RESPONSIBILITY FOR PAYING HOUSEHOLD BILLS AND MAIL AT LEAST ONE BILL PAYMENT IN AN AVERAGE MONTH

Question 511

Number of telephone numbers in household

	Total (A)	Number of Bills Mailed In Reply Env. per month						Likelihood of Using Two Stamp System		If Increase In Reg. Rates		Past Year Stamp Purchasing Locations			
		Cur- rent posse (32- (33- 29) 30)			1-5 or (D) (E) 6-10 more (F)			Likely (G)	Un- likely (H)	Prefer Which System	Prefer Which System	Total (M)	Retl/ ATM only (N)	Both ATM & P.S. (O)	
		Rates (B)	(C)	(D)	(E)	(F)	(I)	(J)	(K)	(L)	(M)	(N)	(O)		
Unweighted Total	839	405	397	342	317	143	495	298	478	307	213	97	323	60	263
Weighted Total	828	398	392	344	313	133	485	296	476	297	207	94*	317	62	255
1	656 79%	323 81%	300 77%	294 86% E	242 77% F	87 66% F	379 78%	238 80%	376 79%	234 79%	166 80%	72 77%	263 83%	53 85%	210 83%
2	134 16%	60 15%	69 18%	36 10%	61 20%D	32 24%D	85 18%	43 15%	75 16%	51 17%	35 17%	17 18%	37 12%	7 11%	30 12%
3	25 3%	12 3%	13 3%	11 3%	6 2%	7 5%	14 3%	8 3%	17 4%	8 3%	3 2%	3 3%	10 3%	0 0	10 4%
4	6 1%	2 1%	4 1%	0 0	*	6 4%DE	5 1%	1 *	3 1%	3 1%	3 1%	*	3 1%	0 0	3 1%
5 or more	4 *	1 *	3 1%	0 0	3 1%	1 1%	0 0	4 1%G	3 1%	1 *	0 0	1 1%	3 1%	2 1%	1 0
Don't know/Refused/No response	3 *	0 0	3 1%	3 1%	0 0	0 0	2 *	1 *	2 *	1 *	0 0	1 1%	1 *	1 1%	0 0
Mean	1.3	1.2	1.3	1.2	1.3D	1.5DE	1.3	1.3	1.3	1.3	1.2	1.3	1.2	1.2	1.2
Standard Deviation	0.60	0.56	0.66	0.46	0.61	0.84	0.57	0.67	0.62	0.60	0.54	0.67	0.65	0.78	0.62
Standard Error	0.02	0.03	0.03	0.02	0.03	0.07	0.03	0.04	0.03	0.03	0.04	0.07	0.04	0.10	0.04

Proportions/Means: Columns Tested (5% risk level) - B/C - D/E/F - G/H - I/J - K/L

\* small base

A84

POSTAL STAMPS

P

JANUARY 29, 1998

70705

1

P1 Are you the person who has primary responsibility for paying household bills, do you share the responsibility with someone else, or do you have little or no responsibility for paying household bills?

- |   |                                    |                         |
|---|------------------------------------|-------------------------|
| 1 | <u>PRIMARY RESPONSIBILITY</u>      | -->CONTINUE             |
| 2 | <u>SHARED RESPONSIBILITY</u>       |                         |
| 3 | <u>LITTLE OR NO RESPONSIBILITY</u> |                         |
| 4 | <u>DON'T KNOW</u>                  | -->SKIP TO NEXT SECTION |

P1A How many BILL PAYMENTS are MAILED from this household in an average month? (PROBE: Your best guess will do.) (RECORD NUMBER 0-98)

IF P1A IS "0" OR "DON'T KNOW," SKIP TO NEXT SECTION.  
OTHERWISE CONTINUE.

Some companies that send you bills include a reply envelope for sending the payment back to the company. For example, utilities and credit card companies often enclose a reply envelope with your monthly statement. These reply envelopes REQUIRE YOU TO PUT A STAMP ON THEM before you deposit them in the mail.

P2 How many of the (NUMBER FROM P1A) bill payments mailed from this household in an average month use a reply envelope that was enclosed with your statement? (PROBE: Your best guess will do.) (RECORD NUMBER 0-98)

IF P2 IS "0" OR "DON'T KNOW," SKIP TO NEXT SECTION.  
OTHERWISE CONTINUE.

The Postal Service has been asked to consider a TWO-STAMP SYSTEM where there would be a three-cent difference between the postage charged for reply envelopes that meet Postal Service requirements and the postage charged for all other First-Class letters.

#### VERSION A

For example, you pay 32 cents for First-Class letters and would pay 29 cents for reply envelopes.

#### VERSION B

For example, last year the Postal Service requested a 33 cent rate for First-Class letters. If the 33 cent rate is approved, the rate for reply envelopes would be 30 cents.

A85

POSTAL STAMPS

P

JANUARY 29, 1998

70705

2

- P3 If the Postal Service approved the reduced rate for reply envelope postage, how convenient do you think it would be for you, compared with the current system, to USE two different stamp denominations or values? Would it be more convenient, about as convenient, or less convenient?
- 1 MORE CONVENIENT  
 2 ABOUT AS CONVENIENT  
 3 LESS CONVENIENT  
 4 DON'T KNOW
- P4 Now, think about BUYING stamps of two denominations or values. How convenient would that be compared with the current system -- would it be more convenient, about as convenient, or less convenient?
- 1 MORE CONVENIENT  
 2 ABOUT AS CONVENIENT  
 3 LESS CONVENIENT  
 4 DON'T KNOW
- P5 How LIKELY is it that you would buy and use both stamp denominations or values? Would it be very likely, somewhat likely, somewhat unlikely or very unlikely?
- 1 VERY LIKELY  
 2 SOMEWHAT LIKELY  
 3 SOMEWHAT UNLIKELY  
 4 VERY UNLIKELY  
 5 DON'T KNOW
- P6 Based on the (NUMBER FROM P2) reply envelopes that you indicated that you mail each month, your monthly savings could be [(NUMBER FROM P2) X (3)] (dollars/cents). This could translate into an annual savings of [((NUMBER FROM P2 X (3)) X 12)/100] (dollars/cents). Now, I'd like to ask the question you just answered, again. Knowing the amount you could save, how likely is it that you would buy and use both stamp denominations or values? Would it be very likely, somewhat likely, somewhat unlikely, or very unlikely?
- 1 VERY LIKELY  
 2 SOMEWHAT LIKELY  
 3 SOMEWHAT UNLIKELY  
 4 VERY UNLIKELY  
 5 DON'T KNOW
- P7 In the past year, at which of these places have you purchased stamps? (READ LIST. RECORD AS MANY AS APPLY)
- 1 At a post office  
 2 At grocery or other retail stores  
 3 At an Automated Teller Machine (ATM)  
 4 DON'T KNOW

A86

POSTAL STAMPS

P

JANUARY 29, 1998

70705

3

(IF 2 OR 3 ON P7, ASK:)

- P8 How likely is it that you would buy and use both stamp denominations if you could ONLY obtain the discounted stamps through the Postal Service and they were not available through grocery stores or other retail outlets, including Automated Teller Machines (ATMs)? Would it be very likely, somewhat likely, somewhat unlikely, or very unlikely?

- 1 VERY LIKELY
- 2 SOMEWHAT LIKELY
- 3 SOMEWHAT UNLIKELY
- 4 VERY UNLIKELY
- 5 DON'T KNOW

- P9 All things considered, which would you prefer the Postal Service to offer, a one stamp pricing system as it is now or a two stamp pricing system as proposed?

- 1 A ONE-STAMP SYSTEM -- > SKIP TO NEXT SECTION
- 2 A TWO-STAMP SYSTEM
- 3 DON'T KNOW -- >CONTINUE

- P10 If the two-stamp pricing system contributed, to some degree, to an increase in rates for regular First-Class letters, would you still prefer the Postal Service to offer the two-stamp system or would you prefer the one-stamp pricing system?

- 1 A ONE-STAMP SYSTEM
- 2 A TWO-STAMP SYSTEM
- 3 DON'T KNOW

A87

1 CHAIRMAN GLEIMAN: The OCA is the only party that  
2 has requested oral cross examination of the witness. Does  
3 any other party wish to cross this witness?

4 [No response.]

5 CHAIRMAN GLEIMAN: If not, Ms. Dreifuss, you're  
6 on.

7 CROSS EXAMINATION

8 BY MS. DREIFUSS:

9 Q Good evening, Mr. Ellard.

10 A Good evening.

11 Q I wanted to ask you some general questions about  
12 how the survey was conducted.

13 A Okay.

14 Q I would like to start at page A-5, which is found  
15 in the appendix. In the fourth paragraph from the top, you  
16 state that, we will maintain the anonymity of our  
17 respondents. No information will be released that in any  
18 way will reveal the identity of a respondent. Is that true?  
19 Do you say that?

20 A Yes, we do.

21 Q What types of specific identifying information do  
22 you ask of the respondents?

23 A Identifying information in the sense of  
24 identifying information is never asked of the respondent for  
25 the study. However, we do determine whether the respondent

1     -- we have gender, we have income, we know their phone  
2     number, but we do not ask the name of the respondent, for  
3     example. All this information together with the phone  
4     number will be quite identifying. We do not release the  
5     phone number.

6           Q     Now, you say you know the income. Do you ask the  
7     respondent their income?

8           A     We ask the respondent the income, we get answers  
9     in something well over 80 percent of the cases, and for this  
10    study, we impute missing data, which is a standing procedure  
11    in statistical operations.

12          Q     So you'll use responses even if they refuse to  
13    give their income; is that correct?

14          A     We certainly do.

15          Q     Do you ask specific income, their exact income, or  
16    do you give them a range of income?

17          A     I believe that if you look at the income questions  
18    -- well, maybe you don't have the income questions, but we  
19    ask ranges, and the ranges are readily answered.

20          Q     I see at page A-9 in the appendix, you do indicate  
21    that you ask about income groupings.

22          A     Uh-huh.

23          Q     And I presume those are the income groupings that  
24    we see in some of the tables in the body of the testimony.

25          A     That's correct.

1           Q     And you, again on page A-9, you seem to ask  
2 whether there are children in the household?

3           A     Yes, we do.

4           Q     And you ask the ages of the children in the  
5 household?

6           A     Yes, we do.

7           Q     On page 10, it looks like you ask about  
8 occupation?

9           A     That's right.

10          Q     And what you're asking is whether the occupation  
11 of the respondent falls into one of those general categories  
12 on the left-hand side at the bottom of page 7?

13          A     That's right.

14          Q     I'm sorry, at the bottom of page A-10.

15          A     Yes.

16          Q     And at page 6 of your testimony, lines 3 to 4, you  
17 -- do you also ask them about age, sex, geographic region  
18 and race?

19          A     We do ask them about age. We note geographic  
20 region. We do ask about race.

21          Q     Do many of the people that you contact find some  
22 of these questions to ask about factors that are just too  
23 personal or confidential -- for example, age or race?

24          A     We generally get a relatively low non-response. I  
25 could give you -- if I looked it up, I could find the

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1 non-response figures. The one that comes to mind is income,  
2 which is the highest non-response we get, and that seldom  
3 exceeds 15 percent. You must recall, we've asked this  
4 person a fairly lengthy series of questions, we've  
5 established rapport, we've also established a certain degree  
6 of legitimacy. We don't simply call you up and say, what's  
7 your income? The income is at the end of the questionnaire  
8 for the very reason it is the most sensitive question we  
9 ask.

10 Q I see. Now, you said that 80 percent of  
11 respondents -- I think you gave the figure 80 percent. Does  
12 that mean that the 80 percent will answer all of these  
13 questions with regard to age, income, race and so on?

14 A Most of them will answer all of the questions. A  
15 few of them will select out on a few. When I said 80  
16 percent, I probably was being very conservative. It's a  
17 higher number than that. And the one most likely not to be  
18 answered is the income question.

19 Q But 80 percent of the respondents answer every  
20 question? Eighty percent or more answer every question; is  
21 that right?

22 A Yes. A respondent who loses patience with us and  
23 walks off is not used. There are a few of those, but many  
24 fewer than you might believe.

25 Q About how much time does the survey take?

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1           A     The survey is as described a service, and this  
2     question series is a six-minute question series. However,  
3     the survey itself generally runs approximately 30 minutes.

4           Q     Were these questions about postal issues, the ones  
5     that I see presented in your testimony, were they  
6     piggy-backed onto still other survey questions on another  
7     subject or was this the only set of questions asked for the  
8     respondents?

9           A     No. I believe as I stated in my testimony, this  
10    is a cooperative process. There can be all sorts of other  
11    questions. However, because we knew we would be using it in  
12    a regulatory proceeding, we put these questions first. So  
13    they might have affected other questions in the survey, but  
14    the other questions would not have affected them.

15          Q     I see.

16           I guess I'm going to make a comment. I think from  
17    your answer previously, you would tell me that this happens,  
18    but frankly, I was surprised that 80 percent or more of the  
19    people you contact are willing to give out confidential  
20    information, and that they are willing to spend a fairly  
21    long period of time with a stranger on the phone.  
22    Nevertheless, you find that you do get as high a response  
23    rate as you mentioned a moment ago, 80 percent or more?

24          A     I've been in the business now for 35 years, and I  
25    sometimes am surprised, but I make a living at it.

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1 CHAIRMAN GLEIMAN: Was that surprise at the  
2 response rate or surprise that you make a living at it?

3 [Laughter.]

4 THE WITNESS: Sometimes both. But the beauty of  
5 the fact that it works is always reassuring.

6 BY MS. DREIFUSS:

7 Q Those people that are contacted to answer these  
8 questions, had they previously indicated any interest in  
9 participating in a survey?

10 A Not through us because one of the rules of our  
11 process is that this is approximately as close to a random  
12 draw as one can encounter in survey research. We never know  
13 their names, much less that they are on our list.

14 Q In addition, you don't offer any material  
15 inducement to them to answer these questions, do you?

16 A There is no incentive.

17 Q I expected these answers; I just wanted to be  
18 sure. I wanted to get that out of the way.

19 You number the questions that are presented in  
20 your testimony. Does that reflect the order in which they  
21 were asked of the respondent?

22 A That is precisely the order in which they're  
23 asked.

24 Q Could you turn to page 9 of your testimony,  
25 please. Beginning at line 14, you state that there is an

1 indication that mention of an increased price and an  
2 accompanying discount affects respondent perceptions of  
3 convenience of use more negatively than mentioning a  
4 discount without an increase in price.

5 You said that, correct?

6 A I said that, yes.

7 Q If we wanted to get an idea of the percentage of  
8 respondents that viewed let's say a two-stamp system in a  
9 positive manner without the negative effect of mentioning a  
10 price increase, we would look at the questions that limited  
11 the discussion of rates to the 32 cent and 29 cent  
12 combination; is that correct?

13 A It may be correct, but in previous engagements  
14 before the Postal Rate Commission, they have been extremely  
15 specific that rates that should be used in surveys be rates  
16 that are under consideration in the case at hand and that I  
17 should not come up with some sort of arbitrary number to  
18 place in a survey.

19 Q Do you believe that your questions about 32 cents  
20 and 29 cents are arbitrary questions and arbitrary numbers?

21 A They aren't pertinent to the rate case at hand.

22 Q They are not pertinent to the rate case?

23 A No.

24 Q The rates 33 cents and 30 cents are pertinent to  
25 this rate case only to the extent that the Commission

1 actually recommends those figures; is that true?

2 A Yes, that's my understanding.

3 Q Now, if respondents react negatively to the  
4 mention of a price increase, is it possible to ask them --  
5 well, let me back up just for a second.

6 You state on page 9 -- this is the phrase you use:  
7 mentioning a discount.

8 A Uh-huh.

9 Q Did your interviewers actually use the term  
10 "discount"?

11 A You have the questionnaire and seem to be familiar  
12 with it. I can look it up. This is what the interviewer  
13 said, precisely what the interviewer said.

14 Q Well, I didn't see the word "discount" when I  
15 looked over the questionnaire. I just wanted to make sure I  
16 hadn't overlooked something.

17 A No. If it's not there, the interviewer did not  
18 say that.

19 Q Okay. So if I don't find the word discount, then  
20 the word discount was not used?

21 A That's right.

22 Q Do you believe that if the 33 cent and 30 cent  
23 question were couched in terms of a discount, the word  
24 discount was actually used, that that might have changed or  
25 reduced the amount of negativity in the responses given to

1       that question?

2           A     I have no reason to believe it or not to believe  
3     it. I have no evidence.

4           Q     How did you decide on the actual wording of the  
5     questions that were was used by the interviewers?

6           A     These are evolutionary. If you look at previous  
7     research that's presented before the Commission, the  
8     questionnaire that we started with was a questionnaire that  
9     had been used before and presented before, and we tried to  
10    essentially follow that and to make minor adjustments as we  
11    went along to bring in the final question that we were  
12    interested in, and that was the preference or acceptability  
13    of the rate.

14          Q     Let's assume hypothetically that CEM, which was  
15    the subject of this survey, that CEM were to be recommended  
16    by this Commission to the Postal Service and the Postal  
17    Service did, indeed, adopt that recommendation and they  
18    implemented the rates, and the Postal Service then promoted  
19    the service as a discount -- that is, the CEM rate as a  
20    discount or a way to save money.

21          Do you think that some of the percentage figures  
22    that we see for the 33-30 cent combination might actually be  
23    higher if CEM is presented in that light?

24          A     I don't know. The way the survey proceeded with  
25    six questions or ten questions total implied that the more

1 people think about this, the less they're going to like it.  
2 So I would say that, you know, we have here one of these --I  
3 think I've used the term impositions that the government  
4 sometimes produces, you know, the story of the great  
5 oxymoron, "I'm from the government, I'm here to help you."  
6 This sometimes hits. People are suspicious of the motives  
7 of the government. They're suspicious of where this is  
8 coming from, and they just aren't very excited about the  
9 discount.

10 Q It is true, however, that on page 17 in your table  
11 3 --

12 A Okay.

13 Q -- that the weighted response rate of those likely  
14 to buy and use both stamp denominations is 61 percent.

15 A Uh-huh.

16 Q That is, 61 percent would be very likely or  
17 somewhat likely to use both the CEM stamp and the regular  
18 first class stamp; is that correct?

19 A That's correct.

20 Q Did it ever come up in your conversations with the  
21 Postal Service whether to present the option to respondents  
22 that they might be able to purchase CEM stamps and regular  
23 first class stamps in a single stamp booklet and then ask  
24 respondents whether they would find such an option  
25 convenient and likely to use?

1           A     It never came up.

2           Q     Do you think that if that had been presented as an  
3       option, that you might have seen even higher or greater  
4       interest in using two stamps?

5           A     I can only speak of my reaction, and that is that  
6       I can't imagine there's enough consistency of usage to  
7       justify such a booklet. You have to first find some sort of  
8       average level of behavior, or else you'll have a drawer full  
9       of booklets of one set of stamps and empty of the other set.

10          Q     Right. Well, I know we're just speculating now,  
11       but certainly a booklet could reflect the average usage of  
12       each. In other words, it wouldn't need to be a 50/50  
13       inclusion of each type of stamp; it could be 20 percent and  
14       80 percent, could it not?

15          A     Oh, it could, but average what?

16          Q     Well, presumably the Postal Service might be able  
17       to see over time or even do surveys such as this to  
18       determine what likely use would be.

19          A     No, averages are measures of central tendency, but  
20       there also are measures of dispersion, and I just have the  
21       funny dispersion is a key factor here.

22          Q     Could you turn to page 16? That question  
23       concerns, compared with the current system, level of  
24       convenience to use different stamp denominations if the  
25       reduced rate is approved, and there, 63 percent of

1       respondents viewed the level of convenience to use different  
2       stamp denominations as more convenient or about as  
3       convenient. Is that true? The weighted average, that is.

4           A      That's right.

5           Q      Could you turn to page 20, please? That question  
6       seems to ask about a preference between the one-stamp  
7       pricing system and the two-stamp pricing system if two-stamp  
8       pricing contributed to some degree to an increase in rates  
9       for regular first-class letters.

10          A      Now you're talking about question 10 at the bottom  
11       of the page.

12          Q      Yes.

13          A      Okay.

14          Q      Yes, I am.

15                 If the Postal Rate Commission were to determine  
16       that it was appropriate to recommend a CEM rate but that  
17       this would not result in higher first-class rates for  
18       letters, then where would we look to find the preference for  
19       the one-stamp or two-stamp system?

20          A      I have an interesting attitude towards question  
21       10.

22                 Question 10 is a very difficult question to ask  
23       people. We spent a lot of time to make it as balanced and  
24       as straightforward as possible, and I was very interested to  
25       see how quickly the public understood this question. I did

1 not expect anything but confusion. But they all headed in  
2 one direction with it.

3 I would look at question 9, because we had not  
4 brought up the subject. I think the subject is always  
5 underlying what you call the CEM proposal but not  
6 necessarily in this case.

7 Q I think I am right here. When do you first  
8 introduce the notion that that other stamp price -- that is,  
9 the regular first-class letter rate -- might increase?

10 A Only on question 10.

11 Q Only on question 10?

12 A Yes.

13 Q I was puzzled by one figure I see in this table at  
14 the bottom of page 20.

15 A Uh-huh.

16 Q On the extreme right-hand side --

17 A Uh-huh.

18 Q -- at the bottom of the page, this is the  
19 likelihood of using the two-stamp system, and you divide  
20 responses into likely and unlikely.

21 A Yes.

22 Q And I see here that the third line down, 46  
23 percent indicate that they are unlikely to use the one-stamp  
24 system. Does that mean that they are likely to use the  
25 two-stamp system?

1           A     Likely and unlikely -- this goes back to an  
2     earlier question, how likely are you to use it, I believe  
3     question 3, but I'll go back and take a look.

4                 Yes, if we look at Table 3 and question 5,  
5     likelihood of buying and using both stamp denominations,  
6     that's where we've identified the people for this cross-tab.

7                 So, if they said they were very or somewhat  
8     likely, they're in the likely, and if they're very or  
9     somewhat unlikely, they're in the unlikely column on the  
10    table that you're looking at on page 6 -- on page 20.

11           Q     This is page 20 --

12           A     Yes.

13           Q     -- bottom of the page.

14           A     Now, this -- getting to this is a very elaborate  
15    process, and if you don't read tables all the time and you  
16    don't look at all the little bits and pieces, but this  
17    question was asked only of people who had already, in the  
18    previous question, said they preferred the two-stamp system,  
19    and it's very clearly spelled out there, so you'll see some  
20    things happen.

21                 This is a group that's already self-selected  
22    itself.

23           Q     The 46 percent for the one-stamp system is 46  
24    percent of what?

25           A     It's 46 percent of the people who said they were

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1 unlikely to us the two-stamp system, who also said they  
2 would prefer the two-stamp system. It's a very small number  
3 of people. It's 42 human beings rather than 281 on the  
4 likely side.

5 Q If I multiply the 46 percent for the one-stamp  
6 system times the appropriate figure, will I come up with a  
7 different answer than if I multiply the 46 percent in the  
8 unlikely column, 46 percent for the two-stamp system, or  
9 will I come up with different numbers by multiplying 46  
10 percent times the respective number of respondents?

11 A The 46 percent is 46 percent of 44 weighted  
12 respondents.

13 Q And that 44 weighted respondents relates equally  
14 to the 46 percent for the one-stamp system and the 46  
15 percent for the two-stamp system?

16 A Well, there just so happens -- if they had divided  
17 their answers 90 percent/10 percent, but they made it  
18 confusing, because half of them liked one and half of them  
19 liked the other, and they both -- it came out to 46 on both  
20 sides.

21 MS. DREIFUSS: I have no other questions, Mr.  
22 Chairman.

23 CHAIRMAN GLEIMAN: Is there any follow up? I have  
24 a couple of questions. Why did you ask question ten at all?  
25 Before you answer, let me just say that I thought you said

1       earlier on that the reason you asked the 33 and 30 cent  
2       question was because it was in the rate case, and I  
3       understood you to say that you -- I use the term advisedly,  
4       may have been admonished at some point in the past to ask  
5       survey questions that were based on the reality of a rate  
6       case.

7                 Is there anything in this rate case, either  
8       proposed by the Postal Service or proposed by one of the  
9       parties that we should increase the basic one ounce rate  
10      above 33 cents to pay for the reduced rate stamp, the CEM  
11      stamp?

12               THE WITNESS: Not only is there nothing that I  
13       know of but that was never the intent of the question.

14               CHAIRMAN GLEIMAN: Well, why did you ask it?

15               THE WITNESS: Because, first, as I say, the  
16       question I would focus on is question nine.

17               CHAIRMAN GLEIMAN: I understand that. I heard  
18       you.

19               THE WITNESS: As an aside, an important one, this  
20       questionnaire is my questionnaire. When the Postal Service  
21       engages me as a witness, I decide -- I would not have asked  
22       question ten in any place except as the last question, and I  
23       don't consider question ten the important question.

24               CHAIRMAN GLEIMAN: But you ask it. Why did you  
25       ask it? If it's not important, they didn't tell you to ask

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1 it --

2 THE WITNESS: The Postal Service requested I ask  
3 this question.

4 CHAIRMAN GLEIMAN: The Postal Service requested  
5 it?

6 THE WITNESS: Yes. I had no objection to asking  
7 it.

8 CHAIRMAN GLEIMAN: The rest of the survey is yours  
9 but question ten is theirs?

10 THE WITNESS: They wanted it and I don't object to  
11 it. They can have it.

12 CHAIRMAN GLEIMAN: I understand. I just wanted to  
13 know why you asked it, because I looked at it and I  
14 understood the flow of your questions, and I found it to be  
15 a very peculiar question.

16 I might add that I would have loved to have had  
17 you here to help us parse the subsets of a questionnaire and  
18 survey that the Postal Service did dealing with shipping  
19 services, which is before us in another docket, because the  
20 subsets of the subsets of the subsets became very confusing.

21 You said that you thought the general view of  
22 people is they are distrustful of Government when Government  
23 is offering them something.

24 THE WITNESS: Uh-huh.

25 CHAIRMAN GLEIMAN: You have done lots of surveys

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1 and you have done a number of them for the Postal Service.  
2 Have you done some for other Government agencies also, with  
3 respect to other Government activities?

4 THE WITNESS: We have done a lot of things on  
5 general public attitudes, relatively few pieces of work for  
6 Government agencies.

7 CHAIRMAN GLEIMAN: What would be your discount  
8 rate to get the Government distrust out of the numbers?

9 THE WITNESS: It's much too complex. It's not a  
10 quick adjustment. You know, you plug in a Government  
11 correction factor, there isn't one.

12 CHAIRMAN GLEIMAN: There isn't one but does your  
13 gut tell you that if people didn't distrust the Government,  
14 that perhaps the numbers that you came up with in terms of  
15 like or dislike, like for the two stamp system, would have  
16 been perhaps a little bit higher?

17 THE WITNESS: Well, we are getting into personal  
18 opinion again.

19 CHAIRMAN GLEIMAN: That's fine.

20 THE WITNESS: One of the things I do in developing  
21 a questionnaire is ask people, people I know. There was not  
22 a lot of enthusiasm among the people I asked for the two  
23 stamp system.

24 CHAIRMAN GLEIMAN: Did you ask them the exact same  
25 questions as are in the survey?

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1           THE WITNESS: In some cases, yes.

2           CHAIRMAN GLEIMAN: And in some cases, no?

3           THE WITNESS: Yes.

4           CHAIRMAN GLEIMAN: Depending on how you asked the  
5 questions -- did you ask the questions to them in person?

6           THE WITNESS: When I was testing the  
7 questionnaire, in some cases, yes.

8           CHAIRMAN GLEIMAN: Do you think that your body  
9 language or your delivery might have had an effect on their  
10 responses when you were asking --

11          THE WITNESS: It's entirely possible, but the ones  
12 that we have seen here before us were done on telephone by  
13 professional interviewers.

14          CHAIRMAN GLEIMAN: No, I understand that. I was  
15 just wondering about your beginnings of this and how you  
16 came up with the questions.

17          I have no further questions. Does anybody else  
18 have any questions? Follow up from the bench?

19          [No response.]

20          CHAIRMAN GLEIMAN: If not, then Mr. Tidwell, would  
21 you like five minutes? Five minutes you have.

22          [Recess.]

23          MR. TIDWELL: No redirect, Mr. Chairman.

24          CHAIRMAN GLEIMAN: Well, if you don't ask any  
25 redirect, then I can't ask any recross, especially this late

1 in the day and I did think of another question.

2 [Laughter.]

3 CHAIRMAN GLEIMAN: I would like to ask the  
4 question.

5 [Laughter.]

6 CHAIRMAN GLEIMAN: You know, that is a benefit of  
7 having to sit up here and make a decision or be part of the  
8 decision-making process ultimately.

9 You are a businessperson.

10 THE WITNESS: Yes.

11 CHAIRMAN GLEIMAN: And you do some mailings, I  
12 take it?

13 THE WITNESS: Oh, yes.

14 CHAIRMAN GLEIMAN: Do you use any mass mailings  
15 where you perhaps get discounts for presorting and barcoding  
16 or anything like that or drop shipping or -- do you know?

17 THE WITNESS: Yes, we do.

18 CHAIRMAN GLEIMAN: You do? Did it occur to you to  
19 ask a question along the lines of the Postal Service gives  
20 discounts to large mailers who prepare mail that can go  
21 through their automation machines and help them hold down  
22 costs. Do you think that you should benefit when you use  
23 envelopes that similarly help the Postal Service hold down  
24 its costs?

25 I know that is a little complicated and I haven't

1 sat here and worked it out with all my friends and tried it  
2 out on them, but, you know, would that have been a  
3 reasonable question to ask people -- would you like to be  
4 treated the same way that big business people are treated  
5 when you do the same thing for the Postal Service that they  
6 do for the Postal Service, i.e., give them mail that will  
7 save money, help them avoid costs?

8                 THE WITNESS: I'm afraid I am too familiar with  
9 mail and know the volume requirements for all those  
10 services.

11                 CHAIRMAN GLEIMAN: The volume requirements are  
12 arbitrary. The savings accrue on a piece by piece basis.

13                 Certain saving accrue on a volume basis according  
14 to the Postal Service but the Postal Service changes the  
15 thresholds of, you know, the density requirements or the  
16 number of pieces you need or whatever to get discounts.

17                 Those things change but the point is that there  
18 are costs avoided by having mail that zips through these  
19 automated mail sorting pieces and doesn't have to be touched  
20 by as many human hands.

21                 That mail -- that is common. I mean the costs are  
22 avoided by the Postal Service if I drop a certain type of  
23 envelope in the mail as opposed to another type of envelope.

24                 THE WITNESS: I would have to spend quite a bit of  
25 time asking that question. I couldn't ask it as one

1 question.

2 CHAIRMAN GLEIMAN: Do you think you could probably  
3 ask it as a series of nine questions, maybe a couple of  
4 which had multi-parts?

5 THE WITNESS: Oh, probably.

6 CHAIRMAN GLEIMAN: Okay. That's all I wanted to  
7 know. I'll give you another shot, Mr. Tidwell, because that  
8 was unfair of me, but it occurred and I --

9 MR. TIDWELL: You, unfair, Mr. Chairman?

10 CHAIRMAN GLEIMAN: Only in the questions that I  
11 asked in terms of the procedure. I asked it out of order.  
12 Otherwise I am never unfair.

13 MR. TIDWELL: We will forego any redirect.

14 CHAIRMAN GLEIMAN: Okay. That being the case, Mr.  
15 Ellard, we want to thank you for being here this evening and  
16 for your contributions to our record.

17 You are an interesting person to listen to. I  
18 wish we had a chance to -- maybe we will one of these  
19 days -- find an opportunity to talk to you outside of the  
20 case setting, so that we can understand a little bit more  
21 about what you do.

22 I think it would be educational for us.

23 THE WITNESS: Thank you.

24 [Witness excused.]

25 CHAIRMAN GLEIMAN: Thank you. Have a good

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1       evening, everyone -- oh, I guess I have to read the long  
2       list, don't I?

3                 This will -- if I can find it. Goodness -- oh,  
4       yes.

5                 Hearings are adjourned but we will reconvene  
6       tomorrow morning promptly at 9:30 and we will receive  
7       testimony from Magazine Publishers of America Witness Cohen;  
8       Time Warner, Inc. Witness Stralberg; United States Postal  
9       Service Witnesses Degen and Schenk; United Parcel Service  
10      Witness Sellick; Mail Order Association Witnesses Prescott  
11      and Andrew; and CTC Distribution Service Witness Clark --  
12      and if we get out of here at 8:30 tomorrow I will be very  
13      happy, but I doubt it.

14                 You all have a good evening.

15                 [Whereupon, at 8:28 p.m., the hearing was  
16       recessed, to reconvene at 9:30 a.m., Friday, March 20,  
17       1998.]

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