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Official Transcript of Proceedings

Before the

UNITED STATES POSTAL RATE COMMISSION

In the Matter of: MAILING ONLINE SERVICE

Docket No. MC98-1

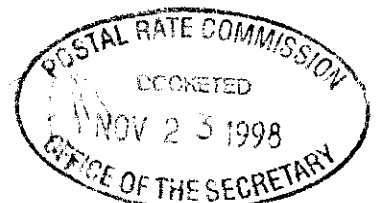
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BEFORE THE
POSTAL RATE COMMISSION

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In the Matter of: : Docket No. MC98-1
MAILING ONLINE SERVICE :
- - - - - X

Third Floor Hearing Room
Postal Rate Commission
1333 H Street, N.W.
Washington, D.C. 20268

Friday, November 20, 1998

The above matter came on for hearing, pursuant to
notice, at 9:32 a.m.

BEFORE: EDWARD J. GLEIMAN, Chairman
W. H. "TREY" LeBLANC, III, Commissioner
DANA COVINGTON, Commissioner
GEORGE OMAS, Commissioner
RUTH GOLDMAN, Commissioner

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C O N T E N T S

WITNESS	DIRECT	CROSS	REDIRECT	RECROSS
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LEE GARVEY				
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DOCUMENTS TRANSCRIBED INTO THE RECORD:	PAGE
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NONE	
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E X H I B I T S

EXHIBITS AND/OR TESTIMONY	IDENTIFIED	RECEIVED
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NONE		
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1 P R O C E E D I N G S

2 [9:32 a.m.]

3 COMMISSIONER LeBLANC: Ladies and gentlemen, let's
4 get started this morning. The hearing will come to order.

5 Today we continue hearings in Docket Number
6 MC98-1, considering the Postal Service request to initiate
7 Mailing Online Service.

8 This morning we will resume the cross-examination
9 of Postal Service Witness Garvey.

10 Does any participant have any procedural matter to
11 raise before we begin this morning?

12 [No response.]

13 COMMISSIONER LeBLANC: Okay. Mr. Bush, since you
14 weren't here yesterday, I hope you have had a chance to take
15 a look at the testimony, the transcript that was filed, so
16 as I said yesterday there won't be too much redundancy
17 possible today.

18 MR. BUSH: No more than my usual redundancy. I
19 have had an opportunity to read the transcript.

20 COMMISSIONER LeBLANC: Thank you, sir.

21 Mr. Costich, you can begin and Mr. Bush, you can
22 follow -- you will follow the OCA this morning.

23 MR. BUSH: Thank you, Mr. Presiding Officer.

24 COMMISSIONER LeBLANC: Mr. Costich.

25 MR. COSTICH: Thank you, Mr. Presiding Officer.

1 Whereupon,

2 LEE GARVEY,

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

6 CROSS EXAMINATION [resumed]

7 BY MR. COSTICH:

8 Q Good morning, Mr. Garvey.

9 A Good morning.

10 Q When we concluded last night, we were discussing
11 the solicitation for three more printer contracts. Do you
12 remember that?

13 A Yes, I do.

14 Q And you indicated that the print site that was
15 scheduled to come up on December 7th won't be actually
16 coming up until next year, is that correct?

17 A That is correct.

18 Q In your direct testimony, you had a schedule of
19 when the print sites would come up, correct?

20 A Yes, I did.

21 Q And they were spaced out over quite a period of
22 time, correct?

23 A Yes.

24 Q What was the reason for spacing them out like
25 that?

1 A We had put that in as a tentative schedule to
2 space it out over the period during which we expected volume
3 and usage to ramp up.

4 I think I also indicated in my testimony that that
5 would possibly vary, depending upon actual usage of the
6 system, but we had to have in place some kind of schedule to
7 at least plan from.

8 Q Do you have a revised schedule at this time?

9 A I don't currently have one, no.

10 Q The third and fourth print sites were scheduled to
11 come up in January and March, is that correct?

12 A Yes.

13 Q Now have they shifted out farther as well as the
14 first or the second one?

15 A Yes. The schedule in terms of its spacing at the
16 moment has not changed. The initiation of that, the
17 beginning of that schedule has changed.

18 Q So a best estimate might be just to shift the
19 entire exhibit that you provided?

20 A At this point, yes, until we get some better idea
21 of how the volume might ramp up or how usage might actually
22 occur.

23 Q Could you look at your response to Interrogatory
24 OCA/USPS-T1-45.

25 A I have it.

1 Q Could you look at Part (f) of your response, and
2 in particular look at the footnote that is in that response?
3 Do you see that?

4 MR. HOLLIES: Excuse me, Mr. Presiding Officer.

5 I missed which interrogatory this is.

6 COMMISSIONER LeBLANC: Mr. Costich, 45 was it?

7 MR. COSTICH: T1-45, Part (f).

8 THE WITNESS: Yes, I do see the footnote.

9 BY MR. COSTICH:

10 Q Okay. In that footnote you say that 11 x 17 paper
11 and saddle stitching options are unavailable, is that
12 correct?

13 A That is correct.

14 Q Have they become available yet?

15 A They have not.

16 Q If 11 x 17 paper is unavailable, why do you
17 include the newsletter option in your response?

18 A I'm sorry, in which response? In the response to
19 (f) you mean?

20 Q Yes. It's on the next page actually, but it is
21 part of (f).

22 A It's because I don't expect the 11 x 17 option to
23 be unavailable for an extended period of time.

24 Q Okay, but at present it is unavailable?

25 A Yes. Today it is.

1 Q Now the saddle stitching is also unavailable?

2 A Yes. Saddle stitching refers to the stapling of

3 the spine of an 11 x 17 document, so not having 11 x 17

4 paper and therefore you wouldn't have 11 x 17 saddle

5 stitching.

6 Q Okay, but you have included the newsletter option,

7 which is 11 x 17, correct?

8 A Yes.

9 Q But you have not include the saddle stitching?

10 A It is covered by the stapling option. It's

11 nothing more than stapling of 11 x 17 size paper.

12 Q Okay, so there is no other extra option involved

13 there?

14 A That's correct, yes.

15 Q So --

16 A It's a term of industry, I guess -- saddle

17 stitching instead of stapling.

18 Q So 62 job options is still a good number?

19 A That's correct, yes.

20 Q And that's a good number when the 11 x 17 is

21 available?

22 A Yes.

23 Q And when it is not, there's only 60 job options?

24 A I think that would be correct, yes.

25 Q Could you turn to your response to Issue 3 of

1 Notice of Inquiry Number 1? This is the document that
2 counsel for Pitney Bowes spent some time with you yesterday.

3 A Notice of Inquiry 1, Issue 3. Got it.

4 Q And the last sentence of your response states that
5 the Postal Service would consider offering basic automation
6 discounts to third party service providers that are full
7 functional equivalents of Mailing Online, is that correct?

8 A I think what the sentence actually states is that
9 the Postal Service would consider creating special licensing
10 or certification criteria. It does not mention rates.

11 Q The whole purpose of that would be to give the
12 automation basic discount to the third party providers or
13 allow them to claim it?

14 A Well, offering the discount in terms of Mailing
15 Online also implies some other considerations, those being
16 the sortation required is actually greater than that of the
17 rate applied, so it is not just a rate issue. It's more
18 complex than that.

19 Q But the service provider would be able to claim
20 the automation basic rate if the Postal Service certified
21 that it was a full functional equivalent of Mailing Online?

22 A Given that that's the rate that the Postal Service
23 has requested to use for the period of the market test and
24 experiment, if such certification or licensing were to be
25 granted during that time, I would assume that the same rate

1 would apply, yes.

2 Q In the third paragraph of your response, you
3 provide a list of criteria that a competitor would have to
4 meet in order to be considered functionally equivalent to
5 Mailing Online. Is that correct?

6 A That is correct.

7 Q And these are basically hurdles that a potential
8 competitor would have to jump in order to gain access to
9 whatever rate the Postal Service was charging itself?

10 A You could think of it that way, yes.

11 Q And the first criterion is automation
12 compatibility?

13 A Yes, it is.

14 Q Yes, and it is pretty obvious why you want to
15 require that.

16 A Yes.

17 Q The second criterion requires the potential
18 competitor to batch like pieces, correct?

19 A Yes.

20 Q Who would be the judge of whether like pieces are
21 being batched?

22 A That's a very good question and as I think I have
23 said at least several times during these hearings, we
24 ourselves are not certain of the level of commingling of
25 different size pieces, which can occur in an optimum

1 environment, so I can't really answer the question.

2 Q If a potential competitor could batch
3 heterogeneous pieces that the Service wasn't currently able
4 to batch, would that result in disqualification?

5 A You mean if they were able to exceed the level of
6 sortation that the Mailing Online Service is able to do?

7 Q Not the sortation, the batching.

8 A I'm sorry, the level of batching?

9 Q Yes.

10 A I don't believe so, no.

11 Q Well, they wouldn't be a full functional
12 equivalent would they? They would be more than a full
13 functional equivalent, right?

14 A Since the ultimate intent of Mailing Online, as we
15 discussed yesterday, is to at least in concept to commingle
16 everything. I would say that they would achieve a greater
17 degree of functional equivalency than Mailing Online itself.

18 Q Well, suppose the competitor couldn't do quite as
19 well as the Postal Service was doing in terms of batching.
20 Would that result in disqualification?

21 A I think that calls for a judgment that would
22 depend upon the level to which they were able to meet or not
23 meet.

24 Q The rest of the criteria that you have listed
25 there all serve to require the potential competitor to mimic

1 Mailing Online, is that correct?

2 A I am not sure that the word "mimic" captures the
3 full intent of these but that is part of it, yes.

4 Q If a competitor were to find a slightly different
5 market niche, he would be disqualified even if he could meet
6 Criterion 1, is that correct?

7 A You mean if he were only able to meet Criterion 1?

8 Q No, even if he met Criterion 1, ^{but} ~~that~~ was providing
9 a slightly different services than Mailing Online, he would
10 be disqualified, correct?

11 A I cannot verify that. It would depend upon the
12 exact proposal.

13 Q Well, suppose the competitor only offered to
14 handle the most common jobs? Is there a criterion in your
15 list that would disqualify such a competitor from the volume
16 waiver?

17 A Can I ask what you mean by most common jobs?

18 Q Can we agree that even at present certain jobs
19 submitted to Mailing Online are more common than others?

20 A Yes.

21 Q And if we ranked all the jobs that have been
22 submitted, we would find one that was the most common?

23 A Yes, certainly.

24 Q Suppose a competitor only offered to provide
25 service for that kind of job, the most common job that the

1 Postal Service receives, is there any one of your six
2 criteria that would disqualify that competitor?

3 A To answer the second part of your question first,
4 there are no one of my six criteria that would disqualify
5 that competitor, no, but the point I think of answering that
6 question would be that the intent of Mailing Online is to
7 provide equal access to all types of jobs and it is implicit
8 in the whole concept.

9 Q So your view would be that a potential competitor
10 would really have to offer the entire Mailing Online Service
11 as the Postal Service does?

12 A My response would be that the Postal Service has
13 an intent to provide this service at the greatest breadth of
14 possible jobs as possible. That is implicit in our intent.

15 I cannot say that another service which did not
16 have that breadth of intent would be excluded from the rate
17 considerations that the Postal Service is requesting.

18 Q Well, in the extreme example that I gave you where
19 the competitor offers only one job type, namely the most
20 common job type, would you think that would exclude the
21 competitor?

22 A I would think so, yes.

23 Q Could you refer to your response to Interrogatory
24 OCA/USPS-T1-52?

25 A I have it.

1 Q In Part (a) of your response, I understand you to
2 be agreeing with the proposition that exemptions from
3 minimum volumes would be unnecessary if Mailing Online
4 matures, is that correct?

5 A Yes.

6 Q Isn't it the case that the Postal Service is
7 offering job options that will hardly ever be used?

8 A I think I have answered in a previous
9 interrogatory response that I have no way of knowing at this
10 point what options will or will not be used.

11 As an opinion I would say that certainly there are
12 job options which will be used more frequently than others.
13 We know that to be true, and part of the testing we will be
14 doing will be measuring those job options.

15 Q Isn't it the case that Witness Plunkett in his
16 revenue calculations assumed that there were a lot of job
17 options that would never show up at all?

18 A I am sorry. I have an exhibit -- I haven't
19 examined Witness Plunkett's calculations in that regard.

20 Q Okay. You are not aware that he assumes there
21 won't be any jobs of greater than 28 pages?

22 A I was not aware of that, no.

23 Q If it turns out that certain job options are rare
24 and if a customer submits one of those rare jobs in small
25 volumes, you are still going to need the exemption from the

1 volume requirement, aren't you?

2 A Through the period of the experiment we have asked
3 for the exemption so that we can have the freedom to measure
4 what options will and will not be chosen, and it would be my
5 assumption that as part of our filing for a permanent
6 classification that we would take into account the learning
7 that we gained during the experiment.

8 Q Would that involve actually dropping options?

9 A I would say that it might involve dropping options
10 as well as perhaps adding options.

11 Q Well, you are going to be adding options all
12 through the experiment, is that correct?

13 A We have the intent of examining additional
14 options. There are technical developments in the printing
15 and finishing field that are occurring as we speak, that
16 have occurred in the recent past, and there are also
17 customer requirements that we expect to discover during the
18 period of the test that we haven't uncovered during the
19 market research.

20 Q Could you refer to your response to Interrogatory
21 OCA/USPS-T5-41? That's a redirect from Witness Plunkett.

22 A I have it.

23 Q In your response to part C you say that charging
24 single-piece rates for Mailing Online would fail to reflect
25 cost savings from address verification and standardization

1 and from delivery point bar-coding. Is that correct?

2 A Yes.

3 Q Could you tell me why Mailing Online customers
4 should get a price break for submitting that kind of
5 automation-compatible mail but other customers who submit
6 the same kind of mail don't get that price break?

7 A The system that allows Mailing Online to do a very
8 low-cost and automated and completely verifiable acceptance
9 of addresses that can be standardized and its control over
10 the physical creation of the mail piece create an
11 environment in which we can do a level of verification that
12 is not possible under other circumstances. If such a
13 circumstance were to exist or to have preexisted Mailing
14 Online, I'm not aware of it.

15 Q Well, are you saying that the cost of verifying a
16 non-MOL mailing for automation characteristics exceeds the
17 cost savings to the Postal Service as a result of a mailing
18 being automation-compatible?

19 A I'm not familiar with the entire history of the
20 Postal Service's investigation of the cost of verifying
21 mail. I do know that Mailing Online offers an extremely
22 efficient and low-cost method of verification which has
23 under consideration of the system allowed those involved in
24 the development of it to agree that it implies that we
25 should be able to offer this discount to very low-volume

1 mailings.

2 Q Provided that they come to the Postal Service
3 through Mailing Online; correct?

4 A Provided that there is a 100-percent -- well, not
5 100 percent, there's no 100 percent -- but an extremely
6 reliable and low-cost method of verification such as Mailing
7 Online; yes.

8 Q Well, this gets back to the question of full
9 functional equivalence. How is the Postal Service going to
10 verify that a potential competitor is in fact submitting
11 mail that has the same automation compatibility
12 characteristics as Mailing Online?

13 A That's a very good question, and one that has been
14 the subject of some discussion. There was earlier an effort
15 in the Postal Service that I'm aware of called system
16 certification that I think attempted to achieve a level of
17 measurement of the way in which systems performed the
18 address standardization and presorting and that kind of
19 thing so that the verification requirements on the Postal
20 Service's part would be very low. I think it was an attempt
21 to achieve the same kind of understanding of what it would
22 take to verify a system like Mailing Online in its accuracy
23 and completeness.

24 Q This attempt to verify other systems has never
25 come to fruition?

1 A I don't know the complete history of it, but I
2 know that it was not -- hasn't achieved the level of success
3 that was expected, and I'm not certain why, but I know that
4 the intent was there, and the desire is still there on the
5 part of the Postal Service to achieve more effective and
6 more efficient methods of verification.

7 Q But as of this moment you don't have such a
8 method?

9 A I'm sorry, I don't know the status of that -- are
10 you talking about for the system certification or for
11 Mailing Online equivalency?

12 Q Either one. I took you to be describing one that
13 would apply to Mailing Online.

14 A I was using that as a simile, actually. No, we
15 don't have an equivalency test for a Mailing Online
16 equivalent. We haven't had a need for one yet. We do in
17 fact have a system certification process. I don't know the
18 status of it, and I don't know whether it would be directly
19 applicable to a Mailing Online equivalency test.

20 Q Could you refer to your response to Interrogatory
21 OCA/USPS-T1-66.

22 A Yes; I have it.

23 Q In the last sentence of your response to part A,
24 you say that you limited the scope of job options offered
25 during the rollout of Mailing Online for the sake of

1 expediency and rapid development. Is that correct?

2 A Those are my words; yes.

3 Q And isn't this really the same reason for choosing
4 the automation basic discount?

5 A I think implicit in choosing an existing rate
6 rather than trying to come up with a new one, yes, that
7 would be true.

8 Q And that's also the reason for choosing one rate
9 to apply to every job option; is that correct?

10 A Partially. The overall intent I think of choosing
11 one rate was to simplify and -- to simplify the
12 understanding of the customer of what they were paying, but
13 also to not get into the deep-discount presorting that might
14 be possible, but to use a flat rate across the board for
15 reasons of simplicity.

16 Q When you say simplicity, do you mean simplicity
17 for the system developer?

18 A I think I mean simplicity in a variety of terms
19 and, yes, the system developer would be one of them.

20 Q Could you refer to your response to Interrogatory
21 OCA/USPS-T5-42. It's redirected to you from Witness
22 Plunkett.

23 A Yes; I have it.

24 Q Part B of that interrogatory asked whether it
25 would be feasible to charge a Mailing Online customer at the

1 postage rate for which the customer's mailing would have
2 qualified if submitted in hard copy; correct?

3 A Yes.

4 Q And you responded that it would be possible to
5 write software that would do that; right?

6 A Certainly; yes.

7 Q But you wouldn't confirm that it was feasible to
8 charge postage that way; is that correct?

9 A Yes.

10 Q Now what distinction were you drawing between
11 "possible" and "feasible"?

12 A Technically speaking it would be possible to
13 analyze an address list mailing file submitted by a customer
14 at the time of submission for its level of presort or
15 nonpresort as the case may be, but for the overall
16 principles of Mailing Online for purposes of batching and
17 combining and getting the finest level of sortation
18 possible, it is not feasible.

19 That is to say, if you analyze their mailing on
20 its own and charge them that rate and then recombine their
21 mailing with others and achieve a different rate or
22 different sortation, I don't think in a business sense that
23 that's feasible.

24 Q Physically not feasible?

25 A No, it's physically feasible. It's just not in

1 terms of how you explain to the customer and what you're
2 doing and then trying to justify what's happening it's not
3 feasible.

4 Q Well, in this situation, the only explanation
5 you'd have to give to the customer is we presorted your
6 mailing, and this is what you qualified for. Isn't that
7 right?

8 A That is correct.

9 Q So what's infeasible about doing that?

10 A If you did that and if you charged them that rate
11 at the time, if it were a small mailing which did not
12 qualify for presort, you charged them that rate at that
13 time, but then because of commingling their mail later
14 became presorted and available for a lower rate, it would be
15 difficult to explain to the customer why you charged them a
16 higher rate and the mail was being entered at a lower rate.
17 And I think I've explained in other areas why it's not
18 feasible to establish a rebate system which would work off
19 of that.

20 Q Well, I'm not asking you now about a rebate
21 system. I'm just asking you what's so infeasible about
22 simply charging the customer what he deserves based on his
23 own mailing.

24 A Well, perhaps it gets around the meaning of the
25 word "feasible." I'm not suggesting that it is not possible

1 to do such a thing. Feasibility implies a greater degree of
2 not just possibility but also sensibility I think.

3 Q Well, I'm trying to find out what's not sensible
4 about doing that, and what I've heard so far is that it
5 would be hard to explain to the customer why you charged him
6 full rates and then presorted his mailing so that it was
7 really cheaper. Is that the problem?

8 A Well, it's a two-part problem. It's difficult to
9 explain to the customer why you would charge them a higher
10 rate, and it's also difficult as I mentioned to devise a
11 system that somehow takes care of that problem by giving
12 back money to the customer. So that combination of things
13 makes it unfeasible in my mind.

14 Q Well, is it the giving back, the rebate, that's
15 the real problem for you?

16 A I think that's only part of the problem for me.

17 Q Why would you ever have to explain to a customer
18 that you had presorted his mailing to the point where it
19 actually qualified for a lower rate?

20 A In my discussions with other parties at the Postal
21 Service it was clear to me that in the history of ratemaking
22 and in the way in which these things are considered that it
23 would be very difficult I guess is the word to justify
24 trying to do such a thing.

25 Q I guess what I'm getting at is why would the issue

1 ever come up? Why would a customer ever come back to you
2 and say I know you presorted my mailing to a greater depth
3 of sort, why did you charge me full price?

4 Is that really a likely scenario?

5 A I think it's a very likely scenario.

6 Q How would the mailer ever know what you had done
7 with his mailing?

8 A Well, we're taking care to explain to the customer
9 what we're doing to the mailing, because one of the benefits
10 of Mailing Online is that there is commingling in presorting
11 and routing so that the handling efficiencies of the mail
12 are increased. And we want the customer to be aware of
13 that.

14 Q Do you think that's a marketing advantage for
15 Mailing Online?

16 A It's a marketing advantage for mail in general.

17 Q Could you refer to your response to interrogatory
18 OCA/USPS-T1-57.

19 A I have it.

20 Q The purpose of this interrogatory was to verify
21 that it is at least possible for the Mailing Online system
22 to collect depth-of-sort data on a batch-by-batch basis. Is
23 that how you understood it?

24 A Yes.

25 Q The idea here is that there is an address file

1 created for each batch; is that correct?

2 A Yes.

3 Q And you were asked whether it wouldn't be possible
4 to save those address files and then run presorting software
5 on them at a later time?

6 A I think your question is -- does this ask if
7 presorting software can be run on each batch or each address
8 file?

9 Q I think it went through both. Ultimately when we
10 get to part H you're asked: Assume that the address lists
11 are identified in some way as to the subclass, the job type,
12 the page count, in other words you can tell exactly what
13 batch they would go into. Could you run the presort
14 software after the fact and determine what the depth of sort
15 of that address list would be?

16 A Yes, I can confirm that.

17 Q And wouldn't it be possible to then find all of
18 the same batches, batches that had the same identification,
19 merge them, and run the presort software on the merged
20 batches?

21 A That in fact is what will be done.

22 Q So it's possible to do it.

23 A Well, I think -- yes, it's possible to do that.
24 It does happen. I think the intent of this question was to
25 ask about an ability to retrospectively analyze piece

1 information from those batches to understand what level of
2 presort an individual piece out of a customer's mailing file
3 achieved.

4 Q Well, I didn't have that in mind when I wrote the
5 question, but if that's how you understood it --

6 A Well, if I might explain further, the problem is
7 that a customer's individual file will be split up
8 geographically to different print sites, and it will be
9 batched with other mail, so that different mail pieces out
10 of a single mailing will achieve different levels of presort
11 in different batches and at different sites.

12 Q Well, let's get back to comparing what would
13 happen if a mailer submitted a mailing in hard copy with
14 what happens to a Mailing Online mailing. If a third party
15 were somehow to collect all the batches that the Postal
16 Service batches together and did the same thing with those
17 batches, merged them and then presorted them to the finest
18 depth of sort possible, and then presented them in San Mateo
19 as a mailing, they'd qualify for all the discounts that they
20 were entitled to; correct?

21 A Yes, indeed, they would.

22 Q So let's not worry about distributing these MOL
23 mailings to print sites, let's just think about their status
24 in San Mateo. Can you do that?

25 A I can do that, but it doesn't acknowledge the full

1 scope of what the Mailing Online system does.

2 Q Yes. The Mailing Online system actually saves the
3 Postal Service more money than someone bringing hard copy to
4 San Mateo, right?

5 A I think that is implicit in the design yes.

6 Q But if someone did bring hard copy to San Mateo,
7 they would be entitled to whatever discounts they were
8 entitled to, right?

9 A If San Mateo were a mail acceptance site, yes.

10 Q So if they send it to San Mateo electronically,
11 why isn't a mailer entitled to the same discount he would
12 have gotten if he brought it in in hard copy?

13 A To my knowledge, the Postal Service has no
14 established systems of electronic mail acceptance yet.

15 Q I mean Mailing Online. A Mailing Online customer
16 sends in a mailing, it goes to San Mateo electronically, why
17 isn't that mailing entitled to the same discounts that it
18 would have been entitled to if it had been presented in hard
19 copy in San Mateo?

20 A The direct answer to that is that the request that
21 the Postal Service has made for the Mailing Online market
22 test would not authorize such granting of discounts.

23 Q Yes. And I guess the question is, why did you ask
24 for that instead of granting the discounts that a mailing
25 would ordinarily be entitled to?

1 A Because our intent was not to design an electronic
2 letter shop so that we could accept mailings to encourage
3 people to submit large mailings that would have a high
4 degree of discounting. Our intent was to design a system
5 which served a customer that had much smaller files that
6 would benefit from an electronic commingling.

7 Q So you are attempting to deter large mailings by
8 charging a high price?

9 A I wouldn't say deter large mailings, I would say
10 that we had a specific goal in mind and a specific
11 requirement, customer need, unmet customer need in mind, and
12 that is what we aimed for.

13 Q In the last part of the interrogatory 57, you were
14 asked to obtain and file a report from the system developer
15 concerning the feasibility of producing depth of sort of
16 data in the manner described in that interrogatory, is that
17 correct?

18 A That is correct.

19 Q And you did that, right?

20 A Yes, I did.

21 Q On behalf of the OCA, I would like to express our
22 appreciation for your cooperation and promptness in
23 responding to this request. It was an unusual request.

24 Let's take a look at the report, shall we? It is
25 attached to the response to interrogatory 57, correct?

1 A Yes.

2 Q First, the report says that the Mailing Online
3 system currently keeps track of addresses by batch and
4 presort level by batch, correct?

5 A Yes.

6 Q To me, this sounds like depth of sort data by
7 batch, am I right?

8 A It could be turned into depth of sort information,
9 yes.

10 Q Then the report says that the system can breakdown
11 the batches by print site and then determine the number of
12 pieces that would qualify for automated rates, is that
13 correct?

14 A Yes, it is.

15 Q Does this reference to automated rates mean that
16 the system can produce depth of sort data by print site by
17 batch?

18 A Yes, it does.

19 Q Next, the report goes into the problems inherent
20 in the described procedure, is that correct?

21 A Yes.

22 Q And the first problem is a perceived need to
23 automate refunds, is that correct?

24 A That is what it says, yes.

25 Q That is not a problem associated with collecting

1 the depth of sort data, is it?

2 A No, it is not.

3 Q It is a problem with using the data for a
4 particular purpose?

5 A Yes.

6 Q The second problem identified is the amount of
7 system resources needed to determine discounts, is that
8 correct?

9 A Yes.

10 Q Now, do you know what discounts are being referred
11 to here?

12 A I don't precisely, but I think that the reference
13 here is to determine the discounts by piece reference to a
14 customer.

15 Q So, again, this is a problem with using the data
16 for rebate purposes?

17 A It is a problem with system resources required to
18 allow any kind of system that would retrospectively do
19 something with discount data, yes.

20 Q The last problem identified relates to the
21 possibility that on some days, some print sites might be
22 overloaded or incapacitated, is that correct?

23 A That is what it says, yes.

24 Q Now, why would this be a problem in terms of depth
25 of sort data?

1 A I think the intent here is to explain that if you
2 were to determine some presort level, that then, after you
3 had determined that and accomplished that, some accounting
4 function were to be changed because of an operational change
5 or issue, perhaps a rerouting of mail that would then be
6 resorted to achieve optimum handing at a different site,
7 that your original calculation would change and that your
8 accounting entries to undo what had been done would be
9 difficult.

10 Q If I understand what you are saying, you are again
11 referring to a rebate system, is that correct?

12 A A rebate system or some method of -- some other
13 method of retrospectively looking at charges that would be
14 different from what originally occurred when the customer
15 submitted the mail, yes.

16 Q And this problem arises because the Mailing Online
17 system sends batches to print sites and presorts those
18 batches separately by print site, is that correct?

19 A It occurs because all during the day the Mailing
20 Online system is accepting address files, which are only
21 then, at the end of the day, batched and presorted to
22 individual print sites, yes.

23 Q But it is the concern with the batches at the
24 print site level that generates the problem, is that
25 correct?

1 A The problem is generated by the fact that the -- I
2 am sorry, which problem are you referring to?

3 Q The third problem in the list, namely, that if
4 batches have to be rerouted from one print site to another,
5 it somehow complicates the accounting. Are we on the same
6 page here?

7 A I think that explains it. In an operational
8 sense, it is understandable that at some point there is
9 going to be a hurricane, or a tornado, or an earthquake, and
10 a print site will not be available. And if some presorting
11 and accounting has been done on the basis of that presorting
12 and there is subsequently something happens to undo, then,
13 yes, that is a problem.

14 Q The last sentence of the report says that carrying
15 out the accounting procedures might increase the time
16 required for the system to do its jobs by a factor of two or
17 three, is that correct?

18 A That is what it says, yes.

19 Q Do you know how much of this time increase relates
20 to collecting and storing depth of sort data and how much
21 relates to accounting procedures associated with a refund
22 system?

23 A I am sorry, I do not.

24 Q And regardless of cost, the Postal Service is
25 going to collect and report depth of sort data by batch,

1 correct?

2 A As the Postal Service has committed, yes.

3 MR. COSTICH: Thank you. I have no further
4 questions, Mr. Vice Chairman.

5 COMMISSIONER LeBLANC: Thank you, Mr. Costich.
6 Mr. Bush.

7 MR. BUSH: Testimony, Mr. Presiding Officer.

8 CROSS EXAMINATION

9 BY MR. BUSH:

10 Q Good morning, Mr. Garvey.

11 A Good morning.

12 Q I am sure my client, MASA, will be very pleased to
13 learn, as I heard you testify earlier today, that the
14 purpose of Mailing Online was not encourage an electronic
15 letter shop at the Postal Service.

16 I would like to ask you a couple of questions
17 today about some of the issues relating to costing and to
18 competition. First of all, it is true now, is it not, that
19 --

20 COMMISSIONER LeBLANC: Mr. Bush, could you pull
21 that mike either closer or --

22 MR. BUSH: In front of my mouth. How that's?

23 COMMISSIONER LeBLANC: There you go. That usually
24 helps. Thank you.

25 BY MR. BUSH:

1 Q It is true now, is it not, that the Postal Service
2 will charge a Mailing Online customer a rate for postage
3 that is higher than the rate that that mailing would qualify
4 once it is batched with all the other mailings, at least in
5 some circumstances?

6 A It is true that the rate charged might be higher
7 or lower.

8 Q But at least it is your expectation, is it not,
9 that as the service matures, it is more likely to be a
10 higher rate that is charged to the customer than a lower
11 rate?

12 A Well, as I have said, we are not -- we don't
13 really know about that.

14 Q I didn't ask whether you know, I asked what your
15 expectation was, and I believe that your interrogatory
16 answers and your testimony suggests that it is your
17 expectation that the rate that is charged will be higher
18 than what the batched mailings would ultimately qualify for.

19 A By the end of the period of the experiment, yes, I
20 would imagine that, if our expectations come to fruition,
21 that we will have sufficient volume of mail that we will be
22 achieving a level of presort that would be greater than
23 that, yes.

24 Q So why don't you have now, or at least by the end
25 of the experiment, the problem that you were discussing with

1 Mr. Costich in your testimony earlier this morning, that you
2 would have to explain to Mailing Online customers why you
3 were charging them more than what their mailing would
4 otherwise have qualified for?

5 A Why don't we have that now?

6 Q Yes, that is my question.

7 A We have that same problem, yes, and the answer to
8 is that we are charging everyone the same rate regardless.

9 Q That doesn't really solve the problem because you
10 are still charging some people more than what they would
11 otherwise have qualified for if you had simply based the
12 rate on what the batched mailing would qualify for once it
13 got distributed out to the print sites.

14 A That is true, and if you take that to the nth
15 degree, someone who drops a letter in a mailbox, if they
16 have typed their address and included a bar code on that
17 envelope, as opposed to handwriting, we are charging them
18 more than our cost of processing that letter, whereas, the
19 handwritten letter is charged the same amount as the
20 typewritten bar coded address.

21 Q Well, let me put it to you this way. You don't
22 really expect, under the system as it is currently
23 configured, that you are going to get a lot of calls from
24 Mailing Online customers belly-aching about why they didn't
25 get a lower rate than what you charged them when they

1 submitted their mailing over the web site?

2 A I don't know what to expect.

3 Q Do you have any personnel costs built into your
4 cost structure here for people that are going to field these
5 calls that may happen but you don't know what to expect?

6 A I think you will find in the cost testimony the
7 information you are looking for.

8 Q Really. Can you tell me where in the testimony
9 there is a cost built-in for people handling calls from
10 customers complaining about rates, that they were
11 overcharged on their rates?

12 A As you will find in the testimony, there is a
13 single point of contact for the customers and that is a Help
14 Desk.

15 Q And that is not -- it was not anticipated when you
16 developed the costs for that particular point of contact
17 that that person would be fielding calls from people
18 complaining about rates, was it?

19 A I think it was anticipated that the Help Desk will
20 field all kind of calls.

21 Q Without regard -- and you made no distinction
22 about what types of calls you expected to get?

23 A Did I individually make a distinction about that?

24 Q The Postal Service in developing its costing.

25 A I am sure there was a general analysis considered

1 of what kind of issues might cause people to call, but, no,
2 I don't believe that any special attention was given to rate
3 calls.

4 Q Now, in response to MASA interrogatory T1-20-B,
5 you described a pre-qualification process, and I think you
6 have answered some questions from Mr. Costich about that
7 already, but you know what I am referring to?

8 A Yes.

9 Q Mr. Costich, yesterday, asked you to describe the
10 pre-qualification process, which you did, but I would like a
11 little more of a description of it. What -- well, first of
12 all, how does a potential bidder for a print contract get
13 into the pre-qualification process in the first place?

14 A Well, the Postal Service, obviously, lets lots of
15 contracts and has a very well established and robust system
16 of purchasing. There is a standard process, and I am not
17 sure I know the whole thing, but there's notices posted in
18 the Commerce Business Daily. There are -- in this instance,
19 we sent out letters to all of the suppliers that we could
20 find in the affected areas. Sometimes there are
21 advertisements posted in local publications. I don't know
22 that we did that in this instance, but we did the best
23 possible job we could of finding out all of the suppliers in
24 these areas that might qualify and we sent them a notice of
25 the qualification effort.

1 Q And by supplier, you mean people that could
2 potential serve as a print shop pursuant to a print -- a
3 contract printer? Well, serve as -- excuse me, withdrawn.
4 By suppliers, you mean somebody who could serve as a
5 contract printer under the Mailing Online standards?

6 A Someone who could serve as a contract supplier of
7 all of the services required for Mailing Online, which
8 include printing and mail preparation, yes.

9 Q All right. And once this notice was sent out,
10 then what happened?

11 A Then the suppliers were asked to respond with a
12 short listing of their view of their qualifications. Those
13 qualifications will be reviewed and there will be a number
14 of firms pre-qualified.

15 Q Okay. And did the notice contain any particular
16 criteria that the supplier was asked to address?

17 A Yes, it did. I am not sure that I can enumerate
18 those, but it had to do with capability, demonstrated
19 capability. It had to do with financial soundness of the
20 enterprise, and I think there was one other but I am not
21 certain at this moment, it is standard purchasing criteria.
22 Okay.

23 Q And is that, whatever the notice is that was sent
24 out, I take it that contained the criteria?

25 A Yes.

1 Q Is that notice available, could that be produced
2 and made a part of the record?

3 A Certainly, if there's no objection.

4 COMMISSIONER LeBLANC: You say you can provide it,
5 Mr. Garvey, with no problem?

6 THE WITNESS: Absolutely.

7 COMMISSIONER LeBLANC: Mr. Hollies, let's say by
8 Wednesday or so next week?

9 MR. HOLLIES: I find myself wondering why this
10 request was not made during the discovery period. There's
11 no reason why it could not have been made previously. We
12 can certainly provide it, but I still find myself wondering
13 why Mr. Bush is requesting that at this stage of the
14 proceedings.

15 COMMISSIONER LeBLANC: Well, since Mr. Garvey said
16 that he can do it and it wouldn't be any problem, let's just
17 shoot for Wednesday and get it done before Thanksgiving.

18 Move on, Mr. Bush.

19 MR. BUSH: Thank you, Mr. Presiding Officer. And
20 real quickly, we didn't get these answers identifying that
21 process until very late in the game.

22 BY MR. BUSH:

23 Q Did you follow the pre-qualification process for
24 the first round of printing contracts? Actually, it's one
25 printing contract.

1 A Did we follow the pre --
2 Q Yes.
3 A No, we did not.
4 Q Okay. And why did you not follow it during the
5 first round?
6 A It was a choice of methodology.
7 Q Were there any problems during the first round and
8 having a lot of bidders that really weren't qualified?
9 A No, there were not.
10 Q And I believe you told Mr. Costich yesterday that
11 the pre-qualification round is not yet complete?
12 A That is true.
13 Q Has any printer or group of printers already
14 passed the pre-qualification test? In other words, have you
15 pre-qualified any printers already even though it's not
16 complete?
17 A No. It's done in one fell swoop.
18 Q Okay. And when is it expected to be complete?
19 A As I said yesterday, I hoped that it would be
20 complete within a week or two.
21 Q Okay. And do you have any idea as you sit here
22 today how many -- I don't know exactly what your technical
23 term of art is, but pre-qualification applications have been
24 received?
25 A If I knew, I would not be able to disclose that

1 number.

2 Q Okay. Let me ask you to turn to your response to
3 Presiding Officer Information Request Number 2, and I would
4 like to focus your attention on question ~~49~~⁴(b).

5 A I have it, yes.

6 Q And your answer to 4(b) included an attachment of
7 certain marketing materials?

8 A Yes, it did.

9 Q Now, is the cost of producing these marketing
10 materials included in the total cost of the marketing plan
11 that is referred to in subsection (a), 4(a)?

12 A As far as I know, it is, yes.

13 Q Now, is it your understanding that the cost of the
14 marketing campaign that is reflected in that marketing plan
15 -- and that has been filed as library reference 16, and it's
16 confidential, I understand -- but is it your understanding
17 that the cost of that marketing campaign, except for labor
18 costs, extends only for marketing during the market test
19 period?

20 A I don't believe I can answer that question because
21 I don't believe it's well defined as to what exactly the
22 length of the market test period is.

23 Q Well, regardless of what the length is, can you
24 tell me whether the marketing plan and the expenses
25 associated with it other than labor costs were intended to

1 cover only the market test, whatever the period was?

2 A No, I cannot tell you that.

3 Q Okay. Can you tell me what the costs reflected in
4 Library Reference 16 were intended to cover, what period of
5 time, whether it's by reference to the market test and the
6 experimental test or any other way that you can relate it?

7 A I wasn't involved in the creation of the marketing
8 plan, but I think that the thought behind it was that
9 there's a certain period of time over which you consider a
10 marketing message and that you consider how you're going to
11 disseminate that message during that period of time and over
12 what range of media and what geographic range you're going
13 to cover, and all of those things were considered in making
14 up what the market plan would cover.

15 Q Well, you'll agree with me, will you not, that the
16 marketing plan covered only the geographical areas that are
17 covered by the market test?

18 A That is correct.

19 Q So is it fair to say that marketing expenses
20 during the experimental period, assuming that an
21 experimental service is approved, are not covered by the
22 marketing plan that's reflected in Library Reference 16?

23 A I would agree that if there were any overlap, it
24 would be small.

25 Q Do you know why -- well, do you know that, first

1 of all, labor costs reflected in Library Reference 16 seem
2 to cover a different period than the media and production
3 costs numbers reflected in Library Reference 16?

4 A I was not aware of that, no.

5 Q Has any contract been let for marketing expenses
6 during the experimental period?

7 A I'm not aware of any such contracts, no.

8 Q Have any proposals been received from marketing
9 firms for marketing during the experimental period?

10 A Not to my knowledge.

11 Q What are the Postal Service's plans for marketing
12 during the experimental period? Do you plan to have a
13 marketing effort? Let's start there.

14 A I think the answer to that has to be yes.

15 Q Okay. And what plans do you have with respect to
16 marketing during the experimental period?

17 A I can't answer that question.

18 Q Well, do you plan to start the process of engaging
19 a marketing firm once the service is approved, or are you
20 going to start that process before? Has it already started?
21 What do you plan to do?

22 A As you are aware, I think Postal Service has many
23 contracts already with marketing firms that would provide
24 that kind of continued effort. As I've previously stated in
25 other testimony, one of the purposes of the market test is

1 to evaluate different kinds of marketing media and different
2 kinds of -- the effectiveness of different kinds of
3 marketing to this specific market we're trying to approach.
4 And based upon the results of that, we will then formulate
5 plans for the experiment.

6 Q So would it be accurate for me to summarize your
7 answer that at least in part, you're saying that you won't
8 be ready to move to the next stage of the marketing plan,
9 which would cover the experimental services, until you see
10 what the results of the marketing plan were during the
11 market test?

12 A Well, I think by its nature, it -- one of the
13 things that we've done in planing the market test marketing
14 materials, as I understand it, is to create it in such a way
15 that it would be useable for the experiment as well. So the
16 development of the materials and the type of messaging
17 that's been done will continue into the experiment if it's
18 successful and we won't have to redevelop. So there is a
19 continuity to the two efforts.

20 Q All right. But certainly, one thing would change
21 dramatically during the experiment, which is that you would
22 have to have much broader geographical scope to your
23 marketing campaign.

24 A Well yes, and that also would be subject to review
25 depending upon how quickly we wished to roll out the

1 expansion of the service. It's not necessarily implicit in
2 the way w are going to do this that we will have a
3 nationwide marketing campaign instantly when we begin the
4 experiment.

5 Q But one would assume that at some point during the
6 experimental period, you will have rolled the service out so
7 that it is nationwide, and at that point, you would need to
8 have some kind of nationwide coverage for your marketing
9 plan.

10 A Certainly, yes.

11 Q And at least some of the media that you are using
12 during the market test would require media purchases in
13 particular geographic markets?

14 A Yes.

15 Q Now, you expect to generate revenues from Mailing
16 Online and from the other services that are offered on Post
17 Office Online, correct?

18 A Yes.

19 Q And are you -- is there any mechanism in place to
20 track how much revenue you are receiving through Post Office
21 Online for the other products? And I know there is a
22 process in place to attract how many revenues -- how much
23 you're receiving in revenues from Mailing Online, but do you
24 have a way to track what the revenues are for the other
25 products offered on Post Office Online?

1 A Yes.

2 Q And will you be able to attribute those revenues
3 to Post Office Online generated services as opposed to use
4 of Express Mail or Priority Mail that came through some
5 source other than Post Office Online?

6 A To the --

7 MR. HOLLIES: Objection. That calls for a legal
8 conclusion regarding cost attribution.

9 MR. BUSH: It does not. It calls for whether or
10 not he's able to track it.

11 COMMISSIONER LeBLANC: Mr. Hollies?

12 MR. HOLLIES: Given that the question was in terms
13 of revenue, which is not attributed, I withdraw that
14 objection.

15 COMMISSIONER LeBLANC: Thank you.

16 THE WITNESS: To the extent that we're able to
17 track customer usage of the different parts of Post Office
18 Online, yes, we will be able to track incoming revenues.

19 BY MR. BUSH:

20 Q Well, you say to the extent that. Are you able to
21 track the usage of the other products, non-Mailing Online
22 products that have come through Post Office Online?

23 A As they're directly used through Post Office
24 Online, yes.

25 Q Okay.

1 COMMISSIONER LeBLANC: Mr. Bush, excuse me. I'm
2 trying to get a gut feeling here for timing. How much --
3 I'm not trying to rush you by any means, but how much time
4 do you think you'll need?

5 MR. BUSH: My guess is I've got another 15 to 25
6 minutes.

7 COMMISSIONER LeBLANC: All right. Well, if that's
8 the case, let's go ahead and take a quick ten-minute break
9 here. We'll come back in ten minutes and pick back up.
10 Hopefully we can finish before noon today. As a friend of
11 mine used to say, Friday is the best drink in town.

12 [Laughter.]

13 COMMISSIONER LeBLANC: So maybe we can all enjoy
14 our afternoon. So take a ten-minute break.

15 [Recess.]

16 COMMISSIONER LeBLANC: All right, ladies and
17 gentlemen, Mr. Reporter, we'll go back on the record.

18 Mr. Bush.

19 MR. BUSH: Thank you, Mr. Presiding Officer.

20 BY MR. BUSH:

21 Q Mr. Garvey, before we took the break, we were
22 talking about revenues generated from the various services
23 and products offered over Post Office Online. Do you recall
24 that subject matter?

25 A Yes.

1 Q Have any projections been made by the Postal
2 Service of how much in revenue will be generated from
3 non-Mailing Online products through Post Office Online?

4 A Not that I'm aware of.

5 Q Do you believe that there are some somewhere in
6 the Postal Service that you're not aware of?

7 A As part of the business planning process, yes, I
8 do.

9 Q But you have no information about how much in
10 revenue the Postal Service expects to generate from products
11 other than Mailing Online offered over Post Office Online.

12 A No, I don't, and it's a rather complex issue,
13 because the Post Office Online is viewed as an access
14 channel for small businesses to a variety of Postal Service
15 products and information, and it's entirely possible that
16 there will be revenue generated by Post Office Online
17 information or awareness that would not be trackable through
18 Post Office Online direct revenue.

19 Q Now if Mailing Online were either not approved or
20 the Postal Service decided to drop Mailing Online, the
21 marketing materials that it currently uses for Post Office
22 Online would have to be changed, would they not?

23 A Certainly they would; yes.

24 Q Okay. And is it also not the case that the
25 marketing plan is likely to change at least to some degree?

1 A That would be a safe assumption; yes.

2 Q Is there any possibility in your mind that if
3 Mailing Online were not to be pursued any further by the
4 Postal Service that Post Office Online itself would be
5 dropped altogether?

6 A Do I believe that to be possible?

7 Q Yes, that was the question.

8 A No, I don't.

9 Q Do you expect to receive as a report on the
10 effectiveness of the marketing plan information that would
11 reflect the revenues and volumes of Priority Mail and
12 Express Mail generated through Post Office Online?

13 A The revenues generated through Post Office Online
14 will be reported, yes, and they would be -- you would be
15 able to know how much was spent on package services; yes.

16 Q Okay. And you'll also be able to know how much
17 revenue and volume of First Class and Standard mail was
18 generated through Post Office Online.

19 A Directly; yes.

20 Q And will you also get a report that will track in
21 some way the revenue and volume of each of those different
22 services associated with particular media used? In other
23 words, to evaluate the effectiveness of different components
24 of the marketing plan.

25 A There have been attempts made to determine which

1 media has increased the awareness of the user so that we'll
2 try to track where they came from or how they found out
3 about the service. To do so to a fine degree, however, will
4 not be possible.

5 Q So do I take your answer to mean that you do not
6 believe that there will be any ability to track whether for
7 example local news media was more effective at generating
8 Mailing Online volume through Post Office Online and maybe
9 some other -- cable TV was more effective at generating
10 Priority Mail volume?

11 A To the extent that the customer is aware of their
12 own -- where their awareness came from and to the extent
13 that they're willing to tell us in the questionnaire that we
14 ask them to complete, we will know.

15 Q Okay. So there is something referred to in the
16 plan as a tracking study. Is that a study that will somehow
17 through questionnaires or otherwise get specific reactions
18 from Mailing Online customers?

19 A I'm not aware of the specific reference, but it
20 would make sense to make that assumption.

21 Q And to your knowledge whatever it's called there
22 is some such effort contemplated as part of the marketing
23 plan to evaluate the effectiveness of the different
24 components of it.

25 A Certainly. I've so testified.

1 Q I'd like you to take a look at MASA-T-122, please.
2 A Yes, I have it.
3 Q That interrogatory has some questions about Fast
4 Forward. As I understand your answer in subsection D, Fast
5 Forward is available to private parties for an annual fee of
6 \$10,000.
7 A Yes.
8 Q And I'm now not talking about Mailing Online, I
9 just want to understand how Fast Forward works. Can a
10 mailer make use of the Fast Forward system without becoming
11 a licensee?
12 A If he uses the Fast Forward system through another
13 service provider or third party; yes.
14 Q Okay. But he can't use the Fast Forward system at
15 the Postal Service. In other words, he wouldn't just submit
16 a mailing and ask for it to be run through Fast Forward by
17 the Postal Service.
18 A That is correct.
19 Q And with respect to Mailing Online, those mailings
20 will be run through Fast Forward by the Postal Service.
21 A Yes.
22 Q And they will be run through Fast Forward by the
23 Postal Service without any separate charge.
24 A Yes.
25 Q Now I'd like to ask some questions about the

1 general subject of digital printing. As I understand it,
2 one of the premises of your testimony is that digital
3 printing is not particularly cost-effective for jobs that
4 involve more than 5,000 -- and I'm going to use the word
5 "impressions," which I take it is a synonym in this context
6 for pages. Is that right?

7 A Impressions imply printing on one side of a piece
8 of paper. It could be that a page would involve two
9 impressions.

10 Q Okay. Well, am I right with using your definition
11 of impressions that it's your understanding that digital
12 printing is not particularly cost-effective for mailings
13 over 5,000 impressions?

14 A It is my understanding of digital printing that it
15 is not particularly cost-effective in comparison to other
16 methods for printing, not necessarily mailing, for printing
17 more than 5,000 impressions.

18 Q Okay. And it is based on that understanding that
19 you have that you reached the conclusion that mailers with
20 mailings that are larger than 5,000 impressions would be
21 unlikely to find Mailing Online very attractive. Is that
22 right?

23 A As I've said in response to other interrogatories,
24 the number 5,000 is a proxy for a variety of things. We've
25 used it as a convenient number to hang onto as a maximum

1 number of mail pieces even though 5,000 impressions perhaps
2 might normally represent a smaller number of mail pieces,
3 and we think that the economics of the printing and combined
4 with the flat rate of postage will combine to discourage
5 large mailings; yes.

6 Q Okay. It's also true, is it not, that the
7 printing done by the contract printers will in many cases be
8 for runs that are larger than 5,000 impressions or 5,000
9 pieces for that matter. Isn't that right?

10 A The printing that is done by the contractors?

11 Q Right.

12 A Certainly.

13 Q So there's certainly no technological barrier to
14 using digital printing to print pieces that are larger or
15 mailings that are larger than 5,000 pieces or impressions.

16 A No, as there is no technological barrier to you
17 flying to New York by yourself. It would certainly be
18 uneconomical for you to do so, whereas taking an airline
19 would allow you to do so combined with many other
20 passengers.

21 Q Now one of the things that you've said as a reason
22 that you believe that Mailing Online might actually assist
23 letter shops and be beneficial to letter shops is that you
24 think that they might -- letter shops might I think the term
25 you've used is evolve a capacity to use digital printing.

1 You recall your use of something like that term?

2 A Yes, I certainly do.

3 Q And so it's your belief that although a letter
4 shop might bid on a printing contract and not get it, it
5 nevertheless would benefit because in the course of bidding
6 it might evolve this capacity to use digital printing.

7 A It is my belief; yes.

8 Q And you -- well, withdrawn.

9 It's also your testimony, is it not, that -- at
10 least it's your understanding and belief that letter shops
11 and other mailing service firms are not likely to want the
12 business of mailers that are mailing at less than 5,000
13 pieces.

14 A It's my understanding from discussions with that
15 industry; yes.

16 Q Well if that's true, why would it be of any great
17 benefit to a letter shop to develop a capacity to use
18 digital printing, which you say is uneconomical, over 5,000
19 pieces when they're not in the business, as you understand
20 it, of trying to service mailings of less than 5,000 pieces?

21 A As I've stated in my response to interrogatories,
22 I think letter shops are interested, as are all businesses,
23 in responding to all of the needs of their customers. They
24 stay in business by acknowledging and responding to customer
25 requirements. Customers will have all kinds of needs, and

1 letter shops will be able to respond better to those needs
2 if they are more well equipped to cover a breadth of needs.

3 Q But the needs that you think that they would
4 become better equipped to respond to would be the needs of
5 customers to engage in mailings of less than 5,000 pieces.
6 Is that not right?

7 A Not necessarily, but I see your point. Yes.

8 Q Now one of the other ways that you think that or
9 you at least said that you think that letter shops might
10 benefit from Mailing Online is by the growth in businesses
11 that use Mailing Online to the point where they may need
12 services from letter shops that would be more sophisticated
13 than those offered on Mailing Online. Is that an
14 approximate paraphrase of your testimony?

15 A Yes, it is.

16 Q Okay. A certain number of businesses are going to
17 grow to the point where they have larger mailings or more
18 sophisticated needs because they have good businesses and
19 they have good expansions plans and their market penetration
20 gets greater, and so they grow. Right?

21 A Yes.

22 Q And that's not a function of Mailing Online,
23 that's a function of their business plan and the growth of
24 their business.

25 A Well, I would disagree with that to the extent

1 that it's always been a function of the Postal Service to
2 assist in the successful commerce of businesses in the
3 United States, and it would be hard to imagine that the
4 growth of businesses of any size in the United States could
5 have come to where it is today without the Postal Service
6 being available.

7 Q But surely you're not saying that the success of a
8 business in growing to the point where it has enough
9 customers to want to mail at greater than 5,000 pieces is
10 caused by its use of Mailing Online, are you?

11 A I would suggest that it's part of the Postal
12 Service's charter to enable in whatever way it can the
13 growth of businesses in the United States.

14 Q I don't think that really answered my question.
15 Are you suggesting that the use of Mailing Online will be
16 the cause of businesses growing to the point where they need
17 services that are more sophisticated than that used by
18 Mailing Online?

19 A I can't say that that will happen in every
20 circumstance, but it would certainly be nice if Mailing
21 Online were that successful in meeting the needs of these
22 businesses.

23 Q Okay. And you have no studies, data, or other
24 information on which to base your opinion that that might
25 happen, do you?

1 A Studies? No.

2 Q Would you agree with me that if your assumption
3 that letter shops or mailing service firms are not
4 particularly interested in mailings of less than 5,000
5 pieces is incorrect, that your assessment of the competitive
6 impact of Mailing Online is incomplete at least?

7 A Well, I think if you'll review my exact words,
8 I've not used 5,000 as a number when I talk about letter
9 shops. What I suggest is that letter shops are interested
10 in larger mailings than will be generally represented by
11 Mailing Online customers. I think 5,000 is the upper end of
12 the spectrum the middle of which will be far lower than
13 5,000, and certainly my understanding of letter shops'
14 activities confirms that that is the case. Yes.

15 Q And if your understand's wrong, then you haven't
16 really adequately or completely addressed the nature of the
17 competitive impact of Mailing Online on letter shops.

18 A In performing an analysis if your assumptions are
19 incomplete, as they always will be, you have to get the best
20 information you can and just go forward. So yes, I would
21 agree that incomplete information leads to inaccurate
22 analysis, but one can never know everything.

23 Q And you would also then agree with me that if your
24 assumption that users of Mailing Online are likely to be
25 users with mailings of less than 5,000 pieces is wrong, that

1 your assessment of the competitive impact of Mailing Online
2 on letter shops and mailing service firms is inadequate for
3 that reason too.

4 A Well, I won't say inadequate. I think it's
5 perfectly adequate for the purposes we have proposed for the
6 market test and the experiment. We will certainly learn
7 during the market test and the experiment more than we know
8 today, and we'll be able to perform a more complete
9 analysis.

10 Q Well, let me change the word from "inadequate" to
11 "incomplete," which was the word I used before with respect
12 to less than 5,000.

13 A I would not disagree. Everything is incomplete at
14 this point.

15 Q Would you agree with me that economics are not the
16 only factor at play in a mailer's determination whether to
17 use a digital printing process or some other more
18 traditional printing process?

19 A Yes, I would agree.

20 Q Is it your understanding that digital printing at
21 whatever volume level we are talking about has more
22 flexibility than the more traditional forms of printing?

23 A In some regards, particularly having to do with
24 personalization, yes. In terms of flexibility of volume and
25 cost, I would disagree.

1 Q But if you are a mailer for whom personalization
2 of the message is an important feature of your marketing
3 plan, then even if your printing run is 20,000 or 40,000 or
4 50,000, you may still choose digital printing?

5 A Yes, you may, and it actually has other
6 considerations other than just the length of the run. It is
7 possible using some, as I understand it, some new printing
8 technology having to do with electronic plates on offset
9 printing to do personalization on large printing runs as
10 well. However, there's a time factor that enters into it
11 such that if you don't have the time to engage in offset
12 printing, which normally takes several weeks, than digital
13 printing will be an answer for that personalization, whereas
14 if you had more time and less money you could do it the same
15 way using offset technology.

16 Q Okay, so in addition to personalization, timing
17 may also be a factor that might cause someone to use digital
18 printing over some other more traditional printing process?

19 A Absolutely, yes.

20 Q Without regard to what the volume of the printing
21 is? In other words, it could be greater than 5,000 pieces?

22 A Certainly.

23 Q You have said in response to an interrogatory from
24 MASA, and I believe actually from others, that it is
25 possible that under certain volume scenarios and capacity

1 scenarios that the Mailing Online Service would end up with
2 more than 25 contract printers, is that correct?

3 A More or less, yes.

4 Q More or less. I am focusing on more at the
5 moment, however.

6 You would agree with me, would you not, that even
7 in the circumstance in which the number of printers is
8 greater than 25, it's going to be finite number? It is not
9 going to be open to everybody.

10 A I would agree that it will be a finite number.

11 Q And that in effect the Service funnels mailing
12 jobs, the printing and inserting and folding portions of
13 those jobs, through the Postal Service to a finite number,
14 25, maybe somewhat more than that, of private contract
15 printers?

16 A Yes.

17 Q In your view, is there any difference in the
18 analysis of the competitive impact of Mailing Online in the
19 circumstance in which private contract printers are
20 performing all the functions that they are intended to
21 perform in Mailing Online and the circumstance, hypothetical
22 circumstance in which the Postal Service itself decided to
23 simply perform all those functions?

24 A A difference in the competitive analysis.

25 Q Yes, competition is one of the factors that the

1 Commission considers in determining the Postal Service's
2 request for a service like Mailing Online, correct?

3 A Yes.

4 Q All right, and my question is is the evaluation of
5 that factor different in the circumstance in which the
6 Postal Service -- hypothetical circumstance in which the
7 Postal Service were performing the functions of contract
8 printers and the circumstance as proposed where contract
9 printers are performing it?

10 A To the extent that the Postal Service is sharing
11 the opportunity presented by Mailing Online with private
12 industry, yes, I think that the contracting nature of the
13 printing and mail preparation services does change that.

14 Q And -- so how does it change it, in your view?

15 A Well, it is putting the Postal Service in its
16 traditional role and allowing private industry to perform
17 its traditional role in a partnership.

18 Q Except that in this circumstance private industry
19 is limited to a relatively small and finite number of
20 entities, isn't that right?

21 A Yes.

22 Q So unlike other services where private entities
23 can come in and anyone who can offer the service can obtain
24 the service it needs from the Postal Service, here you are
25 going to funnel all of Mailing Online through 25 or so

1 contract printers?

2 A Well, I would make -- yes, that's true, and I
3 would make two points, that the acquisition of Mailing
4 Online contracts is a competitive process, that all players
5 are given an equal opportunity and provide a level playing
6 field to compete as they will.

7 I would also point out that Mailing Online type
8 services can and are offered today by those same vendors in
9 a variety of different ways.

10 Q Have you -- has the Postal Service given any
11 consideration to ways in which printers and providers of the
12 letter-shop type services that contract printers would have
13 to provide here could participate in the Mailing Online
14 project or service across the board, not limited to just the
15 25 successful bidders?

16 A Yes. There has been discussion of that, and I
17 think one of the fundamental problems that you come across
18 when you talk about that is that the level of security and
19 quality assurance necessary, as I pointed out in previous
20 testimony, necessary for the Postal Service to provide a
21 service that is branded with its name requires that it have
22 a finite number of well-controlled contracts.

23 The desire to increase the value of mail and to
24 increase the opportunity for service providers to have new
25 and innovative ways to offer mail to their customers is

1 another desire that the Postal Service has, and to the
2 extent that we can combine those desires and offer Mailing
3 Online as well as facilitate other set service offerings, we
4 will do that.

5 Q Well, is the security concern that you identified
6 the principal reason that you have concluded that you really
7 have to limit it to a finite number of printers?

8 A Security, quality control and control in general,
9 yes.

10 Q All right, and did you have any particular
11 mechanism that was under discussion as to how you could
12 offer it more broadly than just 25 contract printers, which
13 you rejected because of these concerns, or did you never get
14 to the stage where you had really thought out a way that you
15 could do it if you decided that you could solve the security
16 and quality control problems?

17 A I think that discussion is probably still going
18 on. I know it is, as a matter of fact.

19 What we felt most important though was that we
20 accomplish something and get the service that we had
21 proposed for Mailing Online up and running.

22 Q Can you share with us, even in summary form, what
23 kind of mechanism the Postal Service has discussed to make
24 it possible for printers and letter shops to participate
25 more broadly than just these 25 printers?

1 A Certainly. We have had discussions in which the
2 participants were the organization which you are
3 representing as well as Pitney Bowes in which we tossed
4 around different ideas about how this might be accomplished
5 and there are a variety of ideas on the table and I can't
6 say that any one of them is better than another, but some
7 have involved the creation of an Internet website that would
8 direct customers to service offerings that provided mailing
9 services in general.

10 Others have spoken about some doorway through
11 Mailing Online to other service providers that were not
12 branded with the Mailing Online Postal Service name.

13 It's a variety of things but we don't -- we
14 haven't come to any direct conclusions about that because we
15 have an arduous task ahead of us, just doing what we are
16 trying to do.

17 Q But these discussions I take it are ongoing, both
18 within the Service and with private parties outside the
19 Service?

20 A Yes.

21 MR. BUSH: I have nothing further, Mr. Presiding
22 Officer. Thank you.

23 COMMISSIONER LeBLANC: Thank you, Mr. Bush.

24 I know we have some questions from the bench.

25 We will start with our chairman, Chairman Gleiman.

1 CHAIRMAN GLEIMAN: Mr. Garvey, yesterday you were
2 discussing with the OCA your response to their Interrogatory
3 63(c) and as I recall you said that the reason that you were
4 providing printing and postage costs separately was because
5 they, the customers, wanted to have an opportunity to
6 deselect an expensive printing option that might have driven
7 the cost higher than they were willing to bear.

8 Was my recollection correct?

9 THE WITNESS: Well, I said that was one of the
10 factors that drove us to have the two different costs broken
11 out, yes.

12 CHAIRMAN GLEIMAN: How does this transaction take
13 place? I mean do you call them on the phone or send them a
14 letter or E-mail them or --

15 THE WITNESS: The Mailing Online customer?

16 CHAIRMAN GLEIMAN: Yes.

17 THE WITNESS: No, it's a completely
18 interface-driven interaction, in that the customer has a web
19 page in front of them.

20 CHAIRMAN GLEIMAN: Okay.

21 THE WITNESS: They are able to pick off of pick
22 lists on that web page the selections that they want and
23 while they are doing so, they see a response on the screen
24 to the selections that they have chosen.

25 CHAIRMAN GLEIMAN: So it is not something where

1 you check with the printer and run it and then get back to
2 them the second it is all in one operation?

3 THE WITNESS: That is correct. It is a totally
4 automated and instantaneous process.

5 CHAIRMAN GLEIMAN: A single web site visit
6 transaction?

7 THE WITNESS: Yes.

8 CHAIRMAN GLEIMAN: Okay, I just wanted to make
9 sure that I understood how it was happening.

10 You are a very good witness. I want to compliment
11 you on an excellent performance.

12 You have got a very carefully constructed and
13 thoughtful response to NOI Number 1, Issue 3, and it's been
14 discussed at great length and I don't want to be repetitive,
15 but I do have a couple of questions that I just need some
16 clarification on.

17 A lot of talk about these criteria and functional
18 equivalence.

19 What are we talking about when we talk about
20 functional equivalence, the system as it was submitted in
21 the case when you filed it last summer or the system as it
22 might exist after the meeting the other day, or functional
23 equivalence to some system that might exist in the future,
24 because you said that this was some kind of evolutionary
25 process that was going on, so functional equivalent to what?

1 THE WITNESS: I would admit that functional
2 equivalence is a moving target in this instance.

3 CHAIRMAN GLEIMAN: So today if Pitney Bowes was
4 offering a product or one of Mr. Bush's member companies was
5 offering a project -- a product that met those six criteria,
6 they might not meet them tomorrow or a week from now or a
7 month from now or a year from now in the middle of the
8 experiment because your system might evolve to something
9 different, is that correct?

10 THE WITNESS: Yes.

11 CHAIRMAN GLEIMAN: I am not sure I would spend the
12 time and effort trying to become a functional equivalent of
13 something that was a moving target.

14 Looking at the specific criteria in that response,
15 and again I hope I don't take too much time replotting old
16 ground here but Mr. Wiggins made the point that there
17 appeared to be a number of the criteria that related
18 directly to generating mail pieces which were, to use the
19 term that a lot of us have used over the years, efficient
20 mail pieces for the Postal Service -- a lot of work done
21 upfront and turned over to the Postal Service to drive cost
22 out of the system.

23 Can you explain to me how, since it was either you
24 or Mr. Hollies yesterday and I don't recall which of you it
25 was, talked about the system being designed to drive out

1 cost, how criterions five and six drive cost out of the
2 system in the sense that we have talked about that over the
3 years?

4 How does that drive costs out of the Postal
5 Service's -- as a matter of fact, let's include number four
6 in there too, four, five, and six. How do those drive costs
7 out of the system, the system being taking care of that hard
8 copy mail that ultimately you deliver, whether it is the
9 product of Mailing Online or some other type of hard copy
10 mail?

11 THE WITNESS: Yes. Well, starting with number
12 four, I think it is fairly apparent there that what you are
13 doing is getting the mail closer to where it is going to be
14 delivered.

15 If you are routing it geographically according to
16 the destination zip code on the mail piece, you are likely
17 to have less transportation to the delivery point.

18 CHAIRMAN GLEIMAN: Well, let me ask you a question
19 about that.

20 Does it cost -- does it make any difference to the
21 Postal Service whether I geographically batch and distribute
22 mail pieces prior to printing and mailing -- prior to
23 printing -- let's stop there -- or whether I print them all
24 in one place, sort them out, and put them on an airplane and
25 drop ship them around the country?

1 Is one less costly than the other for the Postal
2 Service to deliver? In other words, mail that I drop ship
3 around the country --

4 THE WITNESS: I understand.

5 CHAIRMAN GLEIMAN: -- that are printed
6 centrally --

7 THE WITNESS: No, not explicitly and I think in
8 one of my responses yesterday I indicated that the ultimate
9 measure of that I think will be the Service performance of
10 the distribution, such that if the mail can be presented to
11 the Postal Service in a more efficient way to allow a better
12 service for the mail, then we would not require or expect a
13 large degree of geographic distribution, but the direct
14 answer to your question about cost for the Postal Service is
15 geographic routing is directly related to cost.

16 CHAIRMAN GLEIMAN: No, that is not the question I
17 asked, and I think you gave me an answer, but let me ask the
18 question again.

19 I print everything in one spot and I sort it out
20 and I put it on a plane or in a truck and I drop it all
21 around the country at the very same places, entry points,
22 that the Postal Service would put its Mailing Online mail
23 that's printed and in a distributed manner.

24 What is the difference in cost to the Postal
25 Service for processing and delivering -- you know,

1 processing and delivering that mail? Is there any
2 difference in cost?

3 THE WITNESS: No, there is not.

4 CHAIRMAN GLEIMAN: So it really doesn't matter
5 whether I geographically batch and distribute mail pieces
6 prior to printing in terms of driving costs out of the
7 system?

8 THE WITNESS: That is correct, if you assume that
9 there's another method of achieving the same goal.

10 CHAIRMAN GLEIMAN: By the way, can you distribute
11 mail pieces prior to printing? Your words here are
12 "geographically batching and distribution of mail pieces
13 prior to printing" -- do I understand it to mean that those
14 bits of electronic data are mail pieces in your mind?

15 THE WITNESS: I understand the intent of your
16 question and I think it may require a legal conclusion that
17 I can't make.

18 CHAIRMAN GLEIMAN: Well, I mean what did you mean?
19 Those are your words?

20 THE WITNESS: In my mind I think of them as mail
21 pieces.

22 CHAIRMAN GLEIMAN: Okay, thank you.

23 Just one more quickie question. The Postal
24 Service's proposal would not prohibit a large mailer who
25 wanted to mail 100,000 pieces to transmit 20 batches of

1 5,000 pieces to the Postal Service in a given day, would it?

2 THE WITNESS: Currently no. There is nothing in
3 place to keep that from happening.

4 CHAIRMAN GLEIMAN: Thank you.

5 COMMISSIONER LeBLANC: Mr. Garvey, I know we have
6 a number of questions more and I have got unfortunately a
7 number and I think some of my colleagues do to, but I'll
8 start and probably out of deference to them I'll stop and
9 let them pick up also, but I will stay with NOI Number 1,
10 Issue 3, since everybody else has beat it up to death. You
11 talk about, in item number 1, 100-percent standardized
12 automation-compatible addresses. I think you may have
13 touched on this, but let me ask it another way. Does a
14 mailer have to use software certified by the Postal Service
15 to achieve this standard?

16 THE WITNESS: It's not stated here, but I think
17 it's implicit in the reference; yes.

18 COMMISSIONER LeBLANC: If I am an outside person
19 and it's not stated but it's implicit, how do I interpret
20 that?

21 THE WITNESS: Well, the requirements for achieving
22 automation discounts for mail today require the use of
23 CASS-certified software for processing addresses. The same
24 requirement would address in this scenario.

25 COMMISSIONER LeBLANC: Okay. Well, then let me go

1 to another point then, since you brought up the CASS
2 certification. If the Postal Service adds Fast Forward, I
3 think Mr. Bush touched on this earlier and others, during
4 the market test or the experiment, would a hybrid mailing
5 service have to use Fast Forward software to be then
6 functionally equivalent?

7 THE WITNESS: The Postal Service in its use of
8 Fast Forward is achieving an operational efficiency by
9 bypassing the centralized forwarding unit, allowing the mail
10 to be forwarded before it becomes physical mail, as it were.
11 The requirement coexists with the automation requirement
12 that list be processed through either a Fast Forward system
13 or be processed through an NCOA licensed vendor. So the
14 ultimate end that's achieved by Mailing Online's use of Fast
15 Forward achieves two goals, in that it reaches an automation
16 compatibility requirement, but it also achieves an
17 operational savings for the Postal Service.

18 I would say for the part of the requirement
19 specified by the automation requirements that the addresses,
20 the list have been run through either NCOA or Fast Forward,
21 that part would apply to someone else. Yes.

22 COMMISSIONER LeBLANC: But how does that tie in
23 with this moving functionally equivalent target that the
24 Chairman talked about? Because it's constantly moving. And
25 so therefore in my mind, how do you -- how does that mailing

1 then use it if you've changed. Did I misunderstand you?

2 Are you changing it as you're going along?

3 THE WITNESS: Are we changing the system?

4 COMMISSIONER LeBLANC: Yes.

5 THE WITNESS: Yes, we are. We're changing the
6 system to achieve the ultimate goals expressed here and in
7 other parts of my testimony.

8 COMMISSIONER LeBLANC: All right. Well then let's
9 move on to the CASS certification side then. How much then
10 would it -- all right, let's go another way. How much does
11 it cost then to purchase or lease the CASS-certified
12 software?

13 THE WITNESS: All CASS-certified software that I'm
14 aware of has been developed by outside vendors.

15 COMMISSIONER LeBLANC: And is it updated
16 frequently, and how much does the updation of that cost?

17 THE WITNESS: I think that's up to the vendors of
18 the software. The Postal Service does CASS certification at
19 no cost.

20 COMMISSIONER LeBLANC: But has that -- well, okay,
21 that answers that question.

22 All right, let's move on to your second item then,
23 your commingling of the mail pieces. Isn't it true that on
24 occasion some Mailing Online pieces will not be commingled?
25 As an example, on a day when only one customer purchases a

1 particular sized envelope, let's say?

2 THE WITNESS: Yes, that is true.

3 COMMISSIONER LeBLANC: Okay.

4 I recall you mentioned that the Postal Service
5 might someday be able to sort letters and flats in the same
6 mail stream. I think this came up yesterday, but maybe not.

7 THE WITNESS: Yes, it was yesterday.

8 COMMISSIONER LeBLANC: I think it was yesterday.
9 Realistically, let me ask you a question. Can we expect to
10 see that during the Mailing Online experiment at all?

11 Or let me put it another way. Would it be fair to
12 interpret the commingling as meaning -- and I got this in
13 quotes from me -- to the extent required for automated mail
14 discounts then?

15 THE WITNESS: During the experiment.

16 COMMISSIONER LeBLANC: During the experiment.

17 THE WITNESS: Yes.

18 COMMISSIONER LeBLANC: All right, let's move on to
19 the geographic batching that Mr. Wiggins hit a lot on last
20 night. As I understand it, the current plans for the
21 Mailing Online call for a printer, and I wrote this because
22 I don't want to make a mistake on this one, for a printer in
23 most bulk mail center areas. Is that correct?

24 THE WITNESS: Yes.

25 COMMISSIONER LeBLANC: All right.

1 Would a hybrid mailing service be geographically
2 functional -- I'm sorry -- would a hybrid mailing service be
3 geographically functionally equivalent if it accepts and
4 presents only mail pieces destined for delivery in the
5 service area of the local bulk mail center?

6 THE WITNESS: I think this may get to the
7 discussions that we've had about the destinating bulk mail
8 center discount, and we have admitted that the Postal
9 Service does not intend during the period of the experiment
10 to necessarily have the capability to enter at all bulk mail
11 center facilities.

12 COMMISSIONER LeBLANC: So your answer --

13 THE WITNESS: The answer is no, it would not be a
14 functionally equivalent requirement given that
15 understanding.

16 COMMISSIONER LeBLANC: And the reason being again,
17 I'm sorry, I want to make sure I'm clear here, your
18 reason --

19 THE WITNESS: That during the experiment the
20 Postal Service itself doesn't intend or necessarily intend
21 to be able to deposit mail at all bulk mail center areas.

22 COMMISSIONER LeBLANC: Okay. While we're on Mr.
23 Wiggins, I think it was last night you were talking about a
24 number of things, but I believe you said in your opinion,
25 correct me if I'm wrong here, a hybrid mailing service would

1 not necessarily need to enter their mail at exactly the same
2 number of offices as the Postal Service uses to enter
3 Mailing Online in order to be functionally equivalent. Is
4 that correct?

5 THE WITNESS: That is correct.

6 COMMISSIONER LeBLANC: Okay. I just wanted to
7 clarify that.

8 And my last two items, and then I'll let my two
9 colleagues jump in here if they have some questions, but
10 I've got to tell you, I've got a little bit of a problem
11 here. Your answer talks about functional equivalency here,
12 but it seems to me that you're describing what I'm going to
13 call a very narrow service that is exactly the same if you
14 will as the Mailing Online. I mean, it's really tied very
15 closely together.

16 Now let me give you an example. I hope I do this
17 right. In item 5 you listed, and I want to read this here,
18 that the equivalent service must provide real-time quotes
19 and -- and that's in quotes -- and in quotes again, secure
20 online payment.

21 Now I know that Mailing Online has these
22 attributes, but I don't see why real-time quotes are
23 essential to functional equivalence. Follow me there?

24 THE WITNESS: Yes, I do.

25 COMMISSIONER LeBLANC: Now in your answer to issue

1 2 in the notice of inquiry you discuss a possibility of a
2 service that provides value-added refunds, something the
3 Postal Service decided not to incorporate in the Mailing
4 Online. Can you please explain to me then why a hybrid mail
5 service that provides value-added refunds should not be
6 eligible for the same postage rates as Mailing Online?

7 THE WITNESS: I think it would be necessary for me
8 to admit that such an option might be possible for
9 consideration.

10 COMMISSIONER LeBLANC: Then let me ask another
11 question about secure online payment. If my two colleagues
12 will bear with me, I've just got one other question. I know
13 that the Postal Service does not intend, or it's my
14 understanding, to deduct Mailing Online fees from the
15 existing accounts. We've talked about this. But would you
16 explain why a functionally equivalent hybrid mail service
17 that allows customers to maintain accounts for payment
18 should not be eligible for the same postage rates as Mailing
19 Online?

20 THE WITNESS: Well, just to clarify, it's not that
21 the Postal Service doesn't intend to offer prepaid accounts
22 or access to existing prepaid accounts. It's that during
23 the market test and perhaps during the early phases of the
24 experiment it's been determined by the experts in our
25 organization that such a thing on the Internet may not be

1 quite ready for prime time. It certainly is a requirement
2 of the system design or of the service design that we offer
3 a variety of payment mechanisms.

4 COMMISSIONER LeBLANC: All right. Let me get to
5 my last question then. I want to talk about Web access, I
6 guess. And I quote, I think it comes from -- quote, with no
7 absolute need for client software or a point-to-point dialup
8 connection with the vendor. Comes from your -- so my
9 question comes from the uses of the term in my mind
10 "absolute need." Would you explain what you mean by
11 absolute need? Absolute.

12 THE WITNESS: Absolute. Yes. The basic design of
13 Mailing Online allows access to -- universal access to
14 anyone who has access to the Internet and a Web browser.
15 That feature of universal access to anyone on the Internet
16 is what's implied here. There might at some point in the
17 future, as is indicated in other parts of my testimony, be
18 some capability to augment Mailing Online services with some
19 existing software on their desktop computer, but it will
20 always be fundamental to Mailing Online that access will be
21 available on the Internet without acquiring additional
22 software or without additional expense.

23 COMMISSIONER LeBLANC: I'll come back.

24 Commissioner Goldway, any questions?

25 COMMISSIONER GOLDWAY: On the one hand I must

1 admit that one of the attractions for me of your experiment
2 is that it allows what I perceive to be smaller users to get
3 the benefit of a discount for automation that they haven't
4 been able to get with their return mail check envelopes, et
5 cetera. On the other hand I am concerned about
6 discriminatory pricing and the fact that some people will
7 get a discount and others won't. So I did think more about
8 this issue of whether it's possible to adjust the charges
9 for postage in the process of using Mailing Online, and your
10 answer to me yesterday was that the law requires that
11 payment be made up front, that you can't process anything.

12 But it was brought to my attention that in the
13 Pack and Send case the Postal Service proposed a service
14 where in fact if you paid more than what turned out to be
15 the amount of the postage, you could get a rebate. And so
16 certainly in that case it was possible to get the rebate.
17 And that in addition in Pack and Send if the postage turned
18 out to be more than what the client paid, they didn't have
19 to pay the difference. At least that was my understanding,
20 that there was some wash there because of the payment.

21 So it seems to me your statement may not in fact
22 be absolute, and that there may be ways in which it would be
23 possible in the experimental phase to experiment with
24 alternative pricing systems than the one that you're
25 currently proposing, which is just the flat rate, the flat

1 automation, basic discount.

2 As I say, I'm not sure what to recommend, but I
3 wanted to in fact clarify once again that it is
4 theoretically possible in the computer technology to
5 determine the actual postage of the mailing that the person
6 orders, and that you could do that, if not at the moment
7 that the person orders the mail, at some point shortly
8 thereafter. Is that true at least in terms of the
9 technology?

10 THE WITNESS: That is true in terms of the
11 technology; yes.

12 COMMISSIONER GOLDWAY: Okay. That was my
13 question.

14 And then the other question I had was again we're
15 all focusing on issue 3. If in fact there are other
16 services that are comparable, how much of the requirement
17 for functional equivalence is based on the issue of the
18 quality of addresses and the accuracy of addresses and their
19 sort? If in fact you had other mail services dropping mail
20 at the dock that was as reliable as you now feel your
21 Mailing Online system will be, given the various cleaning
22 systems you can go through with the addresses, would that be
23 it? Is that enough?

24 THE WITNESS: I think, given the understanding
25 that implicit in the system is an ability to easily and

1 economically determine that these things are being done and
2 that the addresses are being standardized and all the
3 presort is being done and all of those things, in addition
4 to their being done that there's an automated technical way
5 of verifying that, yes, it is.

6 COMMISSIONER GOLDWAY: So ought there to be a way
7 in which you, given the fact that the Internet is only going
8 to grow and more and more of us are going to be connected,
9 that you could develop such an interface with other printers
10 and mailers?

11 THE WITNESS: Yes, indeed, and that's one of the
12 things that we've discussed, and I would hope -- my personal
13 hope would be that that would be an ongoing and growing
14 discussion. Our ultimate goal, as you know, is to make the
15 mail more valuable and more easy for people to use, and any
16 way in which we can do that will be a benefit to the Postal
17 Service.

18 COMMISSIONER GOLDWAY: Okay. Thank you.

19 COMMISSIONER LeBLANC: Commissioner Omas.

20 COMMISSIONER OMAS: Mr. Garvey, as I understand
21 it, mail shops often communicate with customers about issues
22 such as layout, the finished product, problems with job
23 quality. However, Mailing Online customers and printers
24 will not have an opportunity to communicate.

25 Presumably the Post Office will have to resolve

1 these questions and complaints. Would you please discuss
2 why the Postal Service decided to structure Mailing Online
3 so as to eliminate this communication between the printer
4 and the customer?

5 ~~COMMISSIONER LeBLANC~~ ^{THE WITNESS}: Yes, I'd be glad to. There
6 are really two factors involved here. Number 1, we wanted
7 to present something that was very easy to use, very easy to
8 understand, and we knew that that would imply a very limited
9 selection of choices. We designed the system in a way such
10 that the customer can do most of the normal activities of
11 preproofing that lead to complaints with the printer. They
12 do that online so that they actually see their document come
13 up on the screen. They have an opportunity to review how
14 the document is structured, whether the text is appearing in
15 the way in which they expect it to, and rather than having
16 to receive something from the printer or go to a counter at
17 a printer or something, they're doing that process on line.

18 ~~THE WITNESS~~: We kept the options narrow so that
19 there wouldn't be many opportunities for any
20 misunderstanding like that to occur, and also to keep the
21 process or the system of quality control at the printers
22 easily so they that would be able to watch and make sure
23 that everything was being done in the right way, because of
24 the limited number of options.

25 The second piece of that is that when a mailer's

1 file comes to us, if it has pieces that are destined for
2 different parts of the country, it will be routed out to
3 different printers. Those different printers, if it were
4 necessary for someone to contact them concerning particular
5 issues about their mail piece, they could conceivably be on
6 the phone all day talking to 25 different printers, and we
7 certainly don't want that to either be a possibility or a
8 necessity.

9 COMMISSIONER OMAS: Okay. Having said that,
10 however, suppose a customer considers a print job totally
11 unsatisfactory. You know, the final product, it is mailed
12 out, he gets a copy, and he is not happy with it at all.
13 What recourse does that customer have?

14 THE WITNESS: The customer would come back to us,
15 the Postal Service is the provider of the service here, and
16 we have, in the printers' contracts, specifications for
17 quality of what their output should be, and it specifies
18 that if their quality is insufficient, that they will
19 reproduce the job at their own expense. And if that is
20 satisfactory to the customer, that would be the way we would
21 deal with that. If not, we would seek penalties from the
22 printer and refund the customer.

23 COMMISSIONER OMAS: Is there somewhere in the
24 Postal Service direct case where the expected frequency of
25 customer complaints and the expected cost of resolving those

1 complaints is discussed?

2 THE WITNESS: I think that is implicit in the Help
3 Desk costs. All of the issues, concerns, complaints will be
4 channeled through the Post Office Online Help Desk.

5 COMMISSIONER OMAS: So that is the only recourse a
6 customer will have is the Help Desk?

7 THE WITNESS: Well, that is the first point of
8 contact and, certainly, within the Postal Service itself
9 there are a lot of different parties that may come into play
10 in answering or resolving a customer's issue.

11 COMMISSIONER OMAS: So you don't foresee having to
12 expand that Help Desk or anything over the course of time
13 when you have 25 sites around and maybe a thousand
14 customers, and --

15 THE WITNESS: I understand your point and it is
16 well taken. I think -- I know, as a matter of fact, that
17 one of the reasons we have kept the options that the
18 customer can select so limited, and the choice of paper
19 sizes and paper -- colored paper was one of the options that
20 customers requested. And color printing, for instance, we
21 kept a very, very narrow set of options with the idea in
22 mind that we want to try and eliminate that possibility of
23 dealing with variables that normal printers deal with in a
24 one-on-one interface with their customer.

25 COMMISSIONER OMAS: All right. Thank you.

1 COMMISSIONER LeBLANC: My turn again, Mr. Garvey.
2 I apologize, I know it is getting late here. The other day
3 when Witness Plunkett was here and there was a lot of talk
4 about the costing issues, and you may not -- I know you are
5 not the costing witness, you are the policy individual, so
6 feel free to say if you don't know it, and I understand
7 that. But the other day, there was a lot of talk with him
8 concerning the Help Desk and whether or not it was
9 attributable or institutional cost, and that type of thing,
10 so I want to try to get to some questions on the costing
11 side.

12 Again, you may not be familiar with this, I
13 understand that. Feel free to say that you don't know it.
14 But would you agree that all costs that would be avoided if
15 Mailing Online were not offered, should be considered the
16 incremental costs of Mailing Online?

17 THE WITNESS: I am sorry, but due to my lack of
18 understanding of the term "incremental," I can't answer that
19 question.

20 COMMISSIONER LeBLANC: That is perfectly
21 acceptable, no problem whatsoever. Let me ask you another
22 one. Since you don't know about incremental cost, I will
23 have to go the other way.

24 So, Mr. Hollies, time to wake up. Just kidding.

25 If you would get back with me, I would like to

1 know whether or not the Postal Service knows what the
2 incremental costs of Mailing Online are.

3 MR. RUBIN: I believe that Witness Seckar provided
4 incremental cost estimates in response to an interrogatory
5 back before the first round of hearings.

6 COMMISSIONER LeBLANC: If he did, I missed them.
7 I totally apologize.

8 Excuse me. Mr. Wiggins, do you want to comment?

9 MR. WIGGINS: There were provided, in response to
10 a question that Mr. Volnar posed in the course of the
11 initial hearings, a recitation of \$748,000 and change of
12 costs that had been incurred by the Postal Service to that
13 date. Now, I am not utterly clear that those were precisely
14 characterized as incremental costs, and I know for a fact
15 that they weren't characterized as all of the incremental
16 costs. It was only costs to then that had been expended on
17 Mailing Online, for whatever benefit that is.

18 COMMISSIONER LeBLANC: That was my understanding,
19 but I am trying to get the total cost here of the
20 incremental cost basis as things keep changing.

21 MR. RUBIN: Right. I mean I did have in mind
22 different numbers than what Mr. Wiggins was talking about.

23 COMMISSIONER LeBLANC: Well, let's try to make
24 sure that we are all not looking at different numbers. If
25 you could provide that for us in writing, I would appreciate

1 it. Seven days, ten days, there is no earth-shattering rush
2 on that, but I would like that within ten days for sure.

3 MR. RUBIN: That's fine.

4 COMMISSIONER LeBLANC: Are you familiar with
5 stand-alone costs, Mr. Garvey?

6 THE WITNESS: I am sorry, I am not.

7 COMMISSIONER LeBLANC: Okay. Yesterday, in your
8 colloquy with Mr. Wiggins, you seemed to take the position
9 that Mailing Online, if you will, -- I am not trying to put
10 words in your mouth, or mischaracterize what you said, so,
11 please, stop me if I am wrong, but you seem to take the
12 position that Mailing Online should have special access to
13 the discounts before certain functions such as commingling
14 and geographic batching were fully achieved, but that Pitney
15 Bowes or other third party providers of hybrid mail should
16 have to demonstrate that their services fully achieve these
17 functions before gaining the same special access to mail
18 stream discounts. That is my interpretation of what you
19 said. If I am wrong, please tell me so, but let me put my
20 question out there first.

21 If my understanding is correct, is the Postal
22 Service assuming that there will be no need to level the
23 playing field in terms of access to mail stream discounts
24 until after the experimental phase?

25 THE WITNESS: Well, to correct your understanding

1 of what I said, I think I said that fully equivalency would
2 not necessarily be an absolute measurement, that such
3 proposals as would come to the Postal Service would be
4 judged on their merits, and that if an approach towards full
5 functional equivalency were offered, that that would be
6 judged at the time on its merits.

7 I think that leveling -- complete leveling of the
8 playing field, in my opinion, cannot occur until after the
9 experiment, because the Postal Service will not know until
10 close to that time anyway what it is that Mailing Online
11 service really is. In the permanent classification that we
12 formulate, we will demonstrate and integrate the
13 understanding that we achieve during the experiment of what
14 it is about, what level of commingling and batching we can
15 achieve, what all the factors are that drive costs, and that
16 will be the point at which we can determine what a level
17 playing field actually is.

18 COMMISSIONER LeBLANC: So everything would be
19 after whatever we do here, in effect, then, is that correct?
20 In other words, for a hybrid mail piece to be eligible for
21 any kind of special access to automation discounts, if I
22 understood you correctly, then it would come after the
23 experimental phase, not necessarily during it.

24 THE WITNESS: I would say that permanent access to
25 those rates would certainly come afterwards. I think on the

1 same terms that the Postal Service is trying to understand
2 what rates and what discounts should apply, that if some
3 other party were to propose trying to do the same thing,
4 that that would certainly be considered. But we have a lot
5 of learning to do and it may be that we discover during the
6 experiment that the rates that we want to propose are
7 entirely different than the automation rates. We have
8 chosen those as a proxy because we don't know.

9 COMMISSIONER LeBLANC: I apologize for jumping
10 around on you here, but I will put another hat on. We will
11 go back to CASS certification again. I want to make sure I
12 understood. I will just go ahead and read the question I
13 have for you here then. Will acceptance procedures for bulk
14 mailings generated through the Mailing Online be different
15 than for the other mailings generated with CASS certified
16 address management programs and bar code printing equipment
17 similar to Mailing Online contract printers?

18 THE WITNESS: Only to the extent that the changes
19 that have been proposed in the DMCS -- yes, thank you -- the
20 DMCS language.

21 COMMISSIONER LeBLANC: I am shaking my head, too.
22 Okay.

23 THE WITNESS: Yes.

24 COMMISSIONER LeBLANC: So your answer is yes,
25 then?

1 THE WITNESS: Only to the extent that it has been
2 proposed in that language, otherwise, no.

3 COMMISSIONER LeBLANC: Then what -- so, then you
4 are saying that the language is the driving factor that
5 would be the technical reason, if you will, for the
6 difference in the acceptance procedures?

7 THE WITNESS: They represent the differences that
8 we feel need to be present.

9 COMMISSIONER LeBLANC: I am sorry, I don't believe
10 you answered the question. Is it the language then that
11 drives the technical reasons for the difference that is in
12 the DMCS?

13 THE WITNESS: No, the technical reasons drive the
14 language.

15 COMMISSIONER LeBLANC: That's what I thought. I'm
16 sorry. Back up, I misunderstood you. Thank you very much.
17 I think that is all I have got.

18 Commissioner Goldway? Commissioner Omas? Did the
19 questions from the bench drive any follow-up?

20 MR. WIGGINS: Not from me.

21 MR. BUSH: Not from me, Mr. Presiding Officer.

22 COMMISSIONER LeBLANC: Mr. Hollies. Mr. Hollies,
23 would you like some time with your witness?

24 MR. HOLLIES: Most certainly. How about 15
25 minutes?

1 COMMISSIONER LeBLANC: You got it. We are going
2 to try to finish here. We will push on until we finish
3 today.

4 MR. HOLLIES: I think that is the right choice.

5 COMMISSIONER LeBLANC: Thank you. We will 15
6 minutes. Off the record, Mr. Reporter.

7 [Recess.]

8 COMMISSIONER LeBLANC: Okay, Mr. Reporter, we'll
9 go back on the record.

10 Mr. Hollies?

11 MR. HOLLIES: I do have one line of questions.

12 REDIRECT EXAMINATION

13 BY MR. HOLLIES:

14 Q You had an exchange with Commission Covington
15 yesterday, Mr. Garvey, in which the costs of sending files
16 around the Mailing Online system were discussed, and
17 implicit in the context of that discussion was the common
18 sense notion that sending one file costs less than sending
19 two files.

20 Do you have an understanding of whether such costs
21 occur in the Mailing Online system as it is running today?

22 A To clarify, there is no direct relationship
23 between the number of files and the size of files that are
24 sent, to their cost.

25 There is a cost, an existing cost, for having a

1 network in place to carry those files and that cost would be
2 incurred whether one file were transmitted or a thousand.

3 Q And will the system for the experiment differ in
4 that regard?

5 A No, it will not.

6 MR. HOLLIES: I have no further questions. Thank
7 you, Mr. Presiding Officer.

8 COMMISSIONER LeBLANC: Any follow-up, Mr. Wiggins?

9 MR. WIGGINS: Just very briefly, Mr. Presiding
10 Officer.

11 RECROSS EXAMINATION

12 BY MR. WIGGINS:

13 Q The way that the files are -- we are talking about
14 the transmission of files from San Mateo to the printer, is
15 that right?

16 A Right.

17 Q And at present and during the course of the
18 experiment, that is going to be carried out by T1 lines from
19 San Mateo to the various print sites, is that right?

20 A As far as I know, yes.

21 Q Have you looked at the question -- and there is,
22 as I understand it, going to be one T1 line, San Mateo, to
23 each printer, is that right?

24 A That is the way it is currently configured, yes.

25 Q Have you examined the question of whether you can

1 segment T1 lines? Do you have to have a whole T1 line of
2 capacity?

3 A I haven't examined that in the technical sense,
4 no. I know it is technically possible to segment a T1 line.

5 Q But you haven't looked at the possibility of doing
6 that?

7 A I personally haven't. We have technical experts
8 that are examining the network capacity which will be
9 required, and it may be multiples or percentages of T1
10 lines.

11 Q And it might get to be the case that the capacity
12 to any given print site from San Mateo exceeds the -- I know
13 you have done the calculations and that you have
14 demonstrated to your satisfaction that you won't have more
15 capacity to any print site on your current volume
16 projections than a single T-1 line will handle, is that
17 right?

18 You won't need more than one T1 line by your
19 calculation of volumes from San Mateo to any given print
20 site during the term of the experiment, right?

21 A Not using our existing calculations, yes, that's
22 correct.

23 Q Yes, exactly. But if your existing calculations
24 are wrong in that you get a lot more volume than you
25 anticipate, you may require additional T1 lines?

1 A Certainly.

2 MR. WIGGINS: I have nothing more than that.

3 Thanks.

4 COMMISSIONER LeBLANC: Mr. Hollies?

5 MR. HOLLIES: I'll leave it there, thanks.

6 COMMISSIONER LeBLANC: Thank you.

7 Mr. Garvey, we want to thank you. It's been a
8 long two days I'm sure, but you have held up pretty well.

9 We do appreciate your appearance here today and
10 your contributions to our record and if there is nothing
11 further, you are excused.

12 THE WITNESS: Thank you.

13 [Witness excused.]

14 COMMISSIONER LeBLANC: Ladies and gentlemen, this
15 hearing is adjourned and hearings in this case are currently
16 scheduled to resume January 11th to receive the cases-in-
17 chief of Intervenors and the OCA.

18 MR. HOLLIES: Mr. Presiding Officer, one last
19 matter.

20 We have quite a number of homework assignments,
21 not counting the ones we picked up today and in view of the
22 hour and the fact that there are only a few hours between
23 now and close of business today, I guess I would like to
24 tell you I don't think we are going to get them all done.

25 The one that we are going to focus our attention

1 first on, however, is the product of the meeting and the
2 schedule for the new piece or supplemental piece of
3 testimony. I think that is very critical to the Commission
4 and we are planning to be able to have something on that
5 today, but I just wanted to let you know we may not be able
6 to get all of them in this afternoon.

7 COMMISSIONER LeBLANC: Let me say this. If it
8 looks like by close of business Monday afternoon, if you
9 could just call and give our counsel an update as to where
10 you are on all of the requests, we would appreciate it.

11 MR. HOLLIES: You want me to call counsel Monday
12 afternoon --

13 COMMISSIONER LeBLANC: You can either call -- I
14 think the best thing to do would be to go ahead and call and
15 let our counsel know as to where you are on all of the
16 requests and then we can make a decision and go from there.

17 MR. HOLLIES: I will keep him informed.

18 COMMISSIONER LeBLANC: Thank you very much.

19 Ladies and gentlemen, thank you for your time.

20 This hearing is adjourned.

21 [Whereupon, at 12:27 p.m., the hearing was
22 concluded.]

23

24

25