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P R O C E E D I N G S

[9:34 a.m.]

COMMISSIONER LeBLANC: Good morning, ladies and gentlemen.

Mr. Reporter, we'll go on the record.

As I said, good morning to everybody.

This hearing will come to order.

Today we continue hearings in docket number MC 98-1 considering the Postal Service request to initiate mailing on-line service.

Scheduled to appear this morning are Office of the Consumer Advocate Witnesses Callow and Collins.

Participants are reminded to submit transcript corrections promptly. Transcript corrections for these hearings are due on or before March 19th.

Now, does any participant have any procedural matter to raise before we begin this morning?

MR. HOLLIES: I believe there was an indication yesterday we wanted to put the institutional interrogatories into the record this morning, and we are prepared to do that.

We have reviewed the sets of designated -- well, designated interrogatories. They were denominated as being institutional interrogatories. They are not all institutional, but the cover sheet for the interrogatories

[redacted]

does correctly describe them.

The first item, for example, OCA/USPS-T1-70(c) and 72 and 73 are, in fact, interrogatories responded to by Witness Garvey.

The next line indicates that there was a OCA/USPS-T1-58(c), which was, in fact, redirected from Witness Garvey to the Postal Service, and then, on the next line, there are again some Witness Garvey responses, Pitney Bowes USPS/T1-7 through 10 and 13 to 14.

The package of institutional interrogatories does now correctly reflect everything that is on the cover page, and I just wanted to note for the record that, in fact, some of these are not institutional responses but were witnesses' responses.

COMMISSIONER LeBLANC: Are there any objections, and has that been checked by the OCA?

MR. COSTICH: Yes, Mr. Presiding Officer.

COMMISSIONER LeBLANC: Given that, if you'll present the reporter with two copies, please.

Is there anything else, Mr. Hollies?

MR. HOLLIES: Yes. Just, again, for the record, the Postal Service has not yet been afforded an opportunity to designate institutional responses of other participants, and I'm not sure that the time is yet right for that. Perhaps that could be handled at the next -- or by the next stage of hearings.

COMMISSIONER LeBLANC: I think that's definitely the schedule, because it's still flowing back and forth, and so, we'll wait until the next proceeding, and then we'll handle it at that particular time.

MR. HOLLIES: Right. And for that matter, there are outstanding interrogatories directed to specific witnesses. Witnesses Jurgen and Schuh, for example, have some outstanding interrogatories that we have some anticipation of being interested in designating.

COMMISSIONER LeBLANC: As I said, we can handle that down the road, but there's no need at this point, unless somebody wants to push it at this point, but I don't see any need for that. Is everybody on the same sheet of music? Okay. Good.

Having gotten all that out, is there anything else anybody wants to clear up this morning before we begin?

[No response.]

COMMISSIONER LeBLANC: Okay.

Mr. Costich, will you be leading off, or will Mr. Richardson this morning?

MR. COSTICH: It will be me, Mr. Presiding Officer.

COMMISSIONER LeBLANC: Okay. Will you identify your witness so that I can swear him in, please?

MR. COSTICH: Yes. The OCA calls James Callow.

COMMISSIONER LeBLANC: Would you rise, Mr. Callow, please? Raise your right hand.

Whereupon,

JAMES F. CALLOW,

a witness, having been called by counsel on behalf of the Office of the Consumer Advocate and having been duly sworn, was examined and testified as follows:

COMMISSIONER LeBLANC: Mr. Costich?

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

DIRECT EXAMINATION

BY MR. COSTICH:

Q Mr. Callow, do you have before you two copies of a document identified as OCA-T-100?

A Yes, I do.

Q What is that document?

A That is the -- that is my direct testimony in this proceeding.

Q Was it prepared by you or under your supervision?

A Yes, it was.

Q Does it contain corrections filed on March 3rd?

A Yes.

Q Do you have any further corrections to make to that testimony?

A No.

Q If you were to testify orally today, would this be your testimony?

A Yes, it would.

MR. COSTICH: Mr. Presiding Officer, I will hand two copies of OCA Witness Callow's testimony to the reporter, and I ask that it be admitted into evidence.

COMMISSIONER LeBLANC: Are there any objections?

[No response.]

COMMISSIONER LeBLANC: Hearing none, Mr. Callow's testimony and exhibits are received into evidence, and I direct that they be transcribed into the record at this point.

[Direct Testimony and Exhibits of James F. Callow, OCA-T-100, was received into evidence and transcribed into the record.]

OCA-T-100
Docket No. MC98-1

DIRECT TESTIMONY

OF

JAMES F. CALLOW

ON BEHALF OF

THE OFFICE OF THE CONSUMER ADVOCATE

FEBRUARY 8, 1999

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DIRECT TESTIMONY OF

JAMES F. CALLOW

STATEMENT OF QUALIFICATIONS

My name is James F. Callow. I am a Postal Rate and Classification Specialist. I have been employed by the Postal Rate Commission since June 1993, and since February 1995 in the Office of the Consumer Advocate (OCA).

I have testified before the Commission in Docket Nos. R97-1, MC96-3, and MC95-1. In Docket No. R97-1, I proposed a restructuring of post office box fee groups to better reflect costs of providing box service in high and low cost offices. My testimony in Docket No. MC96-3 opposed the Postal Service's non-resident surcharge on post office boxholders, and proposed alternative box fees designed to equalize inter-group cost coverages and reduce the disparity in cost coverages by box size. My testimony in the MC95-1 proceeding summarized the comments of persons expressing views to the Commission and the Office of the Consumer Advocate on postal rates and services.

As a Special Assistant to former Commissioner H. Edward Quick, I participated in Docket Nos. R94-1, MC93-2 and MC93-1. In Docket No. R94-1, I was assigned responsibility for substantive subject areas considered by the Commission in its Opinion and Recommended Decision. Specifically, I analyzed quantitative testimony of the Postal Service with respect to the estimation of workers' compensation costs and evaluated rate design proposals of the Postal Service and other parties related to special postal services.

[redacted]

Prior to joining the Commission, I held positions on the legislative staff of a US Senator and a Member of Congress from Michigan, and served as an aide to the Governor of the State of Michigan in Washington.

I am an accountant by training. In 1985, I earned an MS degree in accounting from Georgetown University. My course work included cost accounting and auditing. In 1977, I obtained my BA degree from the University of Michigan-Dearborn with a double major in political science and history and a minor in economics.

I. PURPOSE AND SCOPE OF TESTIMONY

This testimony addresses the postage charges for Mailing Online, a new service offering. In the absence of experience-based cost or volume data, the Postal Service proposes Automation Basic discount rates (within class and shape) for all Mailing Online mailpieces. The Commission, in its opinion on the market test, suggests customer rebates of otherwise applicable postage rates where daily "batching" of the mailpieces results in greater depths of sort. The Commission's suggestion is in response to the anti-competitive effects of waiving the minimum volume requirements for Automation Basic rates requested by the Postal Service.

I support establishment of a rebate system for Mailing Online to eliminate any anti-competitive effects and promote fairness and equity. However, if the Commission accepts the Postal Service's view that implementation of a rebate system is problematic, I propose an alternative to the Postal Service's Automation Basic rates. I propose that customers pay either (1) rates for which their mailpieces would qualify if entered as hardcopy directly with the Postal Service or (2) rates reflecting the greater depths of sort resulting from Postal Service batching and presorting during the experiment, whichever is lower. Rates based upon the Postal Service's experience would be phased in gradually, with rates entirely experience-based at the end of the experiment.

The calculation of postage charges can utilize a computer-implemented pricing formula similar to the Postal Service's pricing formula for Mailing Online pre-mailing service fees. My proposed pricing formula relies on volume data from the experiment showing the extent of batching and presortation achieved by the Postal Service. The data would be collected in tabular form by job type, and regularly updated by the Mailing Online system, to derive experience-based rates. Tables containing the experience-based rates would be periodically referenced by computer, and incorporated into the proposed pricing formula. The computer-implemented pricing formula would calculate a firm fixed postage charge for each mailing at the time the Mailing Online transaction is confirmed.

II. ESTABLISHMENT OF A REBATE SYSTEM PERMITS ASSESSMENT OF A SPECIFIC POSTAGE CHARGE FOR EACH MAILING ONLINE MAILING

In its "Opinion and Recommended Decision on Market Test" for Mailing Online, the Commission asks

> whether it would be feasible . . . to charge currently applicable mailstream rates to Mailing Online mailings that are initially under the current threshold volume requirements for automation discounts, and then make an appropriate rebate to their account after batches are ultimately formed.

PRC Op. MC98-1 at 27.

The Commission suggests the rebate system in response to what it views as a "potentially serious flaw in [the Mailing Online] rate design."[1] Under the Postal Service's proposal, an assumed single average discount rate, Automation Basic (within class and shape), would apply to all mailings prepared using Mailing Online.[2] However, not all mailings are expected to meet the minimum volume requirements for Automation Basic rates. At least with respect to "small-volume" mailings, the exemption of Mailing Online mailings from the minimum volume requirements permits the Postal Service to compete on preferential terms.[3]

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[1] PRC Op. MC98-1 at 35.

[2] As a new service offering, there is no data over an extended time period with which to confidently estimate Mailing Online volumes. Consequently, the Postal Service assumes that "[Automation Basic rates] are expected to be more representative than any other existing rate of the type of mailpiece that will be produced through Mailing Online." Tr. 5/1137 (Plunkett, OCA/USPS-T5-41(b)).

[3] PRC Op. MC98-1 at 35. "By exempting Mailing Online mailings from the threshold volume eligibility requirements that apply to its competitors, the Postal Service will be able to compete for at least the small-volume portion of the market on preferential terms."

The Commission declined to recommend an alternative to this "unilateral preference" during the market test.[4] However, the Commission requested comments on the competitive effects of exempting Mailing Online mailings from the minimum volume requirements in Notice of Inquiry No. 1.[5] Moreover, the Commission's Notice specifically requested comments on the feasibility of the rebate system raised in its opinion.[6]

The establishment of a system to provide rebates for each Mailing Online customer approaches the economic ideal in terms of product pricing. In theory, economic efficiency of the first order can best be obtained if all postal customers pay unique rates based on the marginal costs of their respective mailpieces.[7] In practice, this is generally difficult. Customer-specific costs are unknown, or the costs of administering a customer-specific rate schedule could prove prohibitive.

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[4] Id. "The Commission declines to require a specific alternative to this unilateral preference during the market test . . ."

[5] Notice of Inquiry No. 1 Concerning Proposed Mailing Online Experiment, (herein "NOI"), October 16, 1998, at 2. In Issue No. 1, the Commission requested that participants supplement "the record concerning the justification for, and the competitive effects of, the requested waiver . . . "

[6] Id. at 3. "Participants are requested to comment on the feasibility and desirability of such [a rebate] alternative, and to suggest any other alternatives to the use of this waiver that they consider feasible and desirable."

[7] PRC Op. R94-1, Appendix F, at 2. "For firms in competitive markets, marginal cost prices are considered to be economically efficient prices. It is widely accepted in the field of economics that marginal cost prices lead to the most efficient allocation of the society's resources (*i.e.*, economic efficiency)."

Postal ratemaking has generally dealt with such complications through varying degrees of rate averaging.[8] However, in the case of Mailing Online, the Postal Service proposes an assumed single average discount rate (within class and shape) in place of five different rates.[9] An alternative that approaches the ideal is the Commission's suggested rebate of the otherwise applicable postage charges.

For Mailing Online, a rebate system removes any competitive advantage on the part of the Postal Service vis-à-vis competitors for small-volume mailings. In general, under a rebate system, each customer pays a postage rate for which their mailpieces qualify when submitted, and then receives a rebate where daily batching of mailpieces produces lower presort discount rates. Consequently, there is no need to waive the minimum volume requirements otherwise applicable to Mailing Online mailings for any presort rates. In terms of pricing, at least, a rebate system places the Postal Service and competitors (or possible new entrants) on an equal footing in the market for small-volume mailings.

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[8] PRC Op. MC95-1, para 3063. "Averaging is an integral part of postal ratemaking. It is neither possible nor wise to try to establish separate rates for every piece of mail."

[9] In the absence of the proposed waiver of the minimum volume requirements for automation basic rates, there are five rates for which Mailing Online mailpieces could qualify. The five rates (and their abbreviations) are: 1) 5-Digit Automation (5B) for First-Class Mail letters/cards and Standard Mail letters; 2) 3-Digit Automation (3B) for First-Class Mail letters/cards and Standard Mail letters; 3) 3/5-Digit Automation (3/5B) for First-Class Mail flats and Standard Mail flats; 4) Basic Automation Presort (BB) for First-Class Mail letters/cards and flats, and Standard Mail letters and flats, and; 5) Single Piece (SP) for First-Class Mail letters/cards and flats, and Standard Mail letters and flats. Tr. 2/251 (Garvey, POIR No. 1, Question 1). The abbreviations are found on USPS Qualification Reports. *See* Section P012.2.3 and Section P710.3.3., DMM 52, July 1, 1997.

A rebate system also promotes fairness and equity. Because customers pay postage charges for which their mailpieces qualify, all customers are treated the same with respect to the minimum volume requirements for presort discounts, whether they use Mailing Online, a competitor's "hybrid" mail service, or by comparison to hardcopy mail entered directly with the Postal Service.

The Postal Service views establishment of a rebate system as unacceptable on grounds of feasibility and contrary to the goals of convenience and simplicity for Mailing Online customers.[10] According to the Postal Service, a rebate system would present "formidable challenges."[11] A rebate system would require customers with mailings below the current volume minimums to pay single-piece rates for First-Class Mail and be denied access to Standard Mail rates,[12] since the actual presort level is unknown until daily batching and presortation are performed.[13] Subsequently, "[e]ach customer's qualifying mailpieces must then be individually

[10] Tr. 6/1427 (Garvey, NOI No. 1, Issue 2). "The Postal Service views [a rebate] approach as unacceptable both because of the immense technical complexity implicit in such a design and because it is contrary to the goal of simplicity (finalizing a transaction during a single Web-site visit.)." *See also* Tr. 5/1123 (Plunkett, NOI No. 1, Issue 1). "[A rebate] alternative thus is not consistent with the goals of convenience and simplicity."

[11] Tr. 6/1413 (Garvey, OCA/USPS-T5-43(b)-(c)). "Customer accounting, data gathering and data storage all present formidable challenges."

[12] Tr. 5/1123 (Plunkett, NOI No. 1, Issue 1). "Under such a system, customers whose mailings are under the threshold volume would be charged single-piece rates for First-Class Mail, and denied access to Standard Mail rates at the time the transaction is confirmed."

[13] Tr. 6/1520 (Garvey). "The batching and presorting of the customers' jobs occurs at the end of the day, basically, and that can be many hours after the customer has logged on and submitted their job."

evaluated for rebating/crediting purposes, and those credits must be gathered and a transaction performed to adjust every affected customer's account."[14] While such tasks might not be that difficult with a single print site and limited volumes, the Postal Service maintains that complexity grows as the number of print sites increases.[15]

The Postal Service also considers a rebate system "incompatible" with its strategy of "simplicity and ease of use."[16] Mailing Online is designed to permit customers to complete transactions quickly and efficiently, in a single session.[17] Each aspect of the Mailing Online transaction—"electronic document and list submission with real-time verification, online document proofing, menu-driven finishing options and firm final cost quotes and real-time payment processing are part of a strategy to create a simple, straightforward service . . . ."[18] Essential to the

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[14] Tr. 6/1412-13 (Garvey, OCA/USPS-T5-43((b)-(c)).

[15] Tr. 6/1427-28 (Garvey, NOI No. 1, Issue 2). "While the determination of appropriate discounts with batching via just one print location and limited volumes may not be that difficult, as volume increases during the experiment and the number of print locations expands, the difficulties of tracking and matching each piece's origin to its ultimate qualifying rate would multiply the complexity many times over."

[16] Tr. 6/1428 (Garvey, NOI No. 1, Issue 2). "[T]he inherent complexity of such a transactional model is incompatible with the PostOffice Online's overall strategy of simplicity and ease of use."

[17] Id. (Garvey, NOI No. 1, Issue 2). "The Mailing Online interface is designed to be highly structured and automated so that the user's experience is completed quickly, efficiently and in a single session."

[18] Id. (Garvey, NOI No. 1, Issue 2).

strategy of convenience and simplicity is a firm fixed postage charge, which, the Postal Service maintains, is precluded by a rebate system.[19]

The benefits of establishing a rebate system—eliminating anti-competitive effects and promoting fairness and equity—are significant.[20] Nevertheless, the Commission may find the Postal Service's views compelling. As a result, I propose an alternative in the form of a computer-implemented postage pricing formula that achieves most of the benefits of a rebate system and addresses many of the Postal Service's concerns. The alternative I propose is not offered in opposition to the establishment of a rebate system. A rebate system is the best (most efficient) approach. My proposal is second best.

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[19] Tr. 5/1122 (Plunkett, NOI No. 1, Issue 1). "The Postal Service has determined to charge a firm fixed price at the time the transaction is confirmed . . . [in order] to provide customers a convenient and simple means of inducting mail into the postal system." *See also* Tr. 6/1520-21 (Garvey). "The batching and presorting of the customers' jobs occurs at the end of the day . . . . So what depth of sort we might achieve and what possible Postal rate we could offer customers based upon that commingling and combining is not known until possibly long after they have logged off and gone away."

[20] Additional evidence appears necessary to support a waiver of the minimum volume requirements for automation basic rates, or alternatives thereto, including a rebate system. *See* Presiding Officer's Ruling Granting OCA Motion To Compel, December 30, 1998. In its ruling, the Commission stated that it had specifically requested "more evidence on the issue of whether the objectives of the waivers proposed by the Postal Service could be achieved in other ways, such as a rebate system for Mailing Online mail that meets existing requirements for bulk discounts. ("Issue No. 2" in the Notice of Inquiry). The Postal Service's responses to Issues No. 1 and No. 2 in the Notice have substantially improved the record, but they are frequently overly general and conclusory. Responses to the OCA's interrogatories would help fill the critical need for more specific information on the need for, the impact of, and alternatives to, the unilateral waivers of discount eligibility requirements that the Postal Service seeks." Id. at 2.

III. PRICING FORMULAS CAN REDUCE THE RISK OF NET REVENUE LOSS ASSOCIATED WITH NEW POSTAL SERVICES

Setting prices for new postal services is complicated by the lack of cost or demand information. Even established services have some uncertainty associated with their costs and volumes. This uncertainty arises both from the use of statistical sampling for cost and volume estimation and from the need to forecast costs and volumes for future time periods. However, at least with respect to established services, there is a body of data reflecting actual usage. With new services, there is no cost or volume experience to rely upon when setting prices.

Postal rates and fees for any service are supposed to cover costs. Uncertainty with respect to costs can be compensated for by establishing a higher margin between unit costs and the rates and fees than might otherwise be necessary in the absence of such uncertainty. In the case of postal subclasses, compensation for uncertainty often takes the form of a higher mark-up or cost coverage.[21] For worksharing rate categories, especially new ones, compensation often takes the form of discounts that reflect "passthroughs" at less than the estimated unit costs avoided.[22]

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[21] *See* PRC Op. MC97-5 at 51. "While the Service has persuaded us that its estimates of the costs of packaging service are generally reasonable, a coverage of 117 percent provides little protection against the contingency that costs may prove to be higher, or increase, during the provisional service period."

[22] *See* PRC Op. R90-1, para. 5946. "The guiding principles of the Commission's longstanding approach to presort passthrough have been . . . gradually increasing levels of passthrough, as improved cost estimates became available." *Accord* PRC Op. R94-1, para. 5317. "The Commission has set

For the proposed Mailing Online service, the Postal Service has devised an ingenious mechanism for dealing with the uncertainty associated with unit cost estimates for the pre-mailing services of a Mailing Online job. The pre-mailing services (e.g., printing and finishing options, such as folding, stapling, tape binding and the application of tabs to self-mailers, and inserting, as well as the provision of paper and envelopes) are performed under fixed-price contracts with commercial printers.[23] The unit costs of the pre-mailing services are thus known with certainty.[24] However, different jobs submitted by customers will consume these services in varying and, at present, unpredictable proportions.[25] Some jobs will require printing on both sides of the paper; others on only one side. Some jobs will be one page; others several pages. Some jobs will use 8.5x11 paper; others 8.5x14 or 11x17. Some jobs will be black and white; others will use spot color.

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discounts to reflect less than 100 percent passthrough of cost avoidance because of uncertainty about cost estimates."

[23] The first such fixed-price contract was entered into on August 19, 1998. *See* USPS-LR-11/MC98-1. An expected total of 25 contracts is to be awarded by the Postal Service by the end of 2001. Tr. 2/162 (Garvey, OCA/USPS-T1-4(a)). "Confirmed" that the Postal Service intends to issue 25 separate solicitations for bids for the 25 commercial print sites expected to be in operation during 2001.

[24] USPS-LR-11/MC98-1, "Part 1 - Schedule, 1.1 Items and Prices," as amended. *See also* Tr. 5/1176-77 (Plunkett). "[Mailing Online] is a somewhat unique product relative to other Postal products in that the vast majority of the costs are, for all intents and purposes, known and certain insofar as they are enumerated in contracts between the Postal Service and third party vendors."

[25] Tr. 5/1103 (Plunkett, OCA/USPS-T5-35(f)-(i)). "While the [Rothschild] survey permits reasonable inferences regarding general parameters, it does not allow informed construction of precise estimates of volumes within subclass/job-type/page-count categories as contemplated in this interrogatory." *See also* Tr. 2/617 (Plunkett, OCA/USPS-T5-28(b)). "[T]he market research presented in USPS-LR-1/MC98-1 provides no guidance regarding which finishing options customers might prefer."

Given the large number of paper, printing and finishing options available with Mailing Online, predicting the options chosen for an "average" job is a formidable task.[26] An "average" job is likely to have substantial variation. It is also extremely difficult to predict the frequency of each possible job type, and then determine a weighted average cost per job type. Moreover, charging the same weighted average cost plus mark-up for all Mailing Online jobs would have the highly undesirable effect of encouraging customers to submit high-cost jobs while deterring low-cost jobs.[27]

The Postal Service proposes that the pre-mailing service costs, and consequently fees for pre-mailing services, for each Mailing Online job be calculated separately, based upon the specific customer-chosen options for each job.[28] Thus, the pre-mailing fee for each job is the specially calculated cost plus 0.1 cents[29] per

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[26] The Postal Service calculates that there are approximately 3,000 different possible job options for customers to choose from. *See* Tr. 6/1354 (Garvey, OCA/USPS-T1-45(f)). There are "a total of 62 job-type batches. The page-count can be equal to or less than 48. Therefore the possible page-count/job-type batches equals 62 x 48 [$\cong$] 3000."

[27] Tr. 5/1134 (Plunkett, OCA/USPS-T5-39). "Confirmed" that charging a national average price (i.e., weighted average cost plus mark-up) for all Mailing Online jobs would have the effect of encouraging customers to submit high-cost jobs and deterring low-cost jobs.

[28] Tr. 5/1135 (OCA/USPS-T5-40(a)). "Confirmed" that the cost of pre-mailing services for each Mailing Online job will be calculated separately, based on the specific paper, printing and finishing options and distribution preferences chosen by the customer for the job.

[29] Based upon more recent estimates, the per impression information system cost is 0.21 cents. Tr. 8/1787 (Plunkett, PB/USPS-T5-6). "[U]sing the new information provided by witnesses Lim and Seckar, a per impression cost of 0.21 cents could be used."

impression (for telecommunications and information systems costs) times a cost coverage of 125 percent.[30] Consequently, the fee schedule for Mailing Online is not a single price (or even a single price per page) for every job. Nor is the schedule 3,000 to 75,000 separate fees—i.e., the estimated 3,000 separate prices for each possible job type multiplied by up to 25 commercial printers with different contract costs. Rather, the fee schedule is, in effect, a formula or set of instructions within computers for calculating pre-mailing fees based upon the characteristics of each job.[31]

While the proposed Mailing Online fee schedule exists as a single paragraph in the DMCS,[32] in actuality it represents nearly 75,000 different fees for pre-mailing

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[30] Request of the United States Postal Service for a Recommended Decision on a Market Test Classification and Fee Schedule, and a Recommended Decision on an Experimental Classification and Fee Schedule Mailing Online Service (herein "Request"), Revised August 5, 1998, Attachment B2 at 1, "Fee Schedule 981, Mailing Online."

> Fees are calculated by multiplying the Mailing Online cost coverage of 125 percent times the sum of printer contractual costs for the particular mailing and 0.1 cents per impression for other Postal Service costs.

[31] Tr. 5/1135 (Plunkett, OCA/USPS-T5-40(b)). "Confirmed" that the "fee schedule" for Mailing Online constitutes a formula or set of instructions to calculate the pre-mailing fees based on the characteristics of the job. *See also* Decision of the Governors of the United States Postal Service on the Recommended Decision of the Postal Rate Commission on the Market Test of Mailing Online Service, Docket No. MC98-1 (herein "Governors Decision"), October 16, 1998 at 4. "The Commission recommended a novel, 'floating' fee schedule, which, in place of particular fees, displays the formula (discussed above) by which the fees are calculated based on the prices set forth in the contract between the Postal Service and the printer, rather than fixed fees for the particular contract currently in place."

[32] *See* Request Attachment B2 at 1, "Fee Schedule 981, Mailing Online," *supra* note 30.

services when all 25 print sites are operational.[33] If the Postal Service adds a single new option—i.e., creates two choices where none exists—the number of fees doubles to 150,000 (2 x 75,000). Adding a single new print site introduces nearly 3,000 new fees. By proposing a pricing formula rather than completely enumerating all possible fees, the Postal Service manages to make a highly complex fee schedule appear simple.

The appearance of fee-schedule simplicity can be maintained for Mailing Online because fee calculation is performed by computers.[34] No Mailing Online customer or Postal Service employee need calculate the fee for a particular job.[35] No customer ever sees the fee calculations. The customer simply submits a proposed job to the Postal Service's computers, and the computers reply with fees for pre-mailing services and a postage charge.[36]

The effect of formula-based pricing is to carry cost-based pricing to a new level. Each Mailing Online mailpiece is charged a price for pre-mailing services

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[33] Tr. 5/1141 (Plunkett, OCA/USPS-T1-64(d)). "Confirmed as an approximation, though I would caution that prior to activation of all 25 sites the available features of Mailing Online may change in such a way as to change the number of possible combinations."

[34] Tr. 6/1409 (Garvey, OCA/USPS-T5-40(c)). "Confirmed that the fees quoted are calculated by computer at the San Mateo data center."

[35] Tr. 7/1713-14 (Garvey). "[Customers] are able to pick off of pick lists on that web page the selections that they want and while they are doing so, they see a [price] response on the screen to the selections that they have chosen . . . . It is a totally automated and instantaneous process."

[36] Tr. 6/1409 (Garvey, OCA/USPS-T5-40(c)). "Customers receive a two-part quote, premailing fees and postage costs, which are then totaled for payment processing."

based upon the unit production cost of that piece. Each individual Mailing Online job covers its own costs and makes a 25 percent contribution to institutional costs.[37] Consequently, problems associated with traditional rate averaging are reduced tremendously. There is a reduced likelihood of internal cross-subsidization.[38] Moreover, incentives for uneconomic "cherry picking" among competing providers of service are eliminated.[39] No competing provider is able to consistently offer a lower price unless the competitor has lower costs or is willing to accept less than a 25 percent profit margin.[40]

Given the obvious economic efficiency and apparent simplicity of a computer-implemented pricing formula for pre-mailing service fees, why not apply the same approach to calculating presort discount rates for Mailing Online? The Postal Service proposes Automation Basic rates for all First-Class Mail, and Automation

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[37] USPS-T-5 at 18. "The [25 percent] markup would be applied to the actual pre-mailing costs of each customer's transaction . . . . This markup guarantees that Mailing Online will cover its attributable costs and provide a contribution to cover institutional costs."

[38] Tr. 5/1130-31 (Plunkett, NOI No. 1, Issue 6). "[N]early all of the costs of Mailing Online are incurred on a unit basis [citation omitted], thus reducing the likelihood of cross subsidization."

[39] USPS-T-5 at 3. "In the absence of a markup over geographically variable costs, the Postal Service will be forced to use an average national price. In areas where prevailing prices are low relative to the Postal Service fee, price sensitive customers might use other providers . . ."

[40] Tr. 5/1128 (Plunkett, NOI No. 1, Issue 1). "It is conceivable that a potential competitor . . . may be able to purchase printing capacity from printers who can more easily use existing equipment and space. This may thereby enable such a competitor to achieve lower costs than Mailing Online. Alternatively, . . . [a digital printer] business might enjoy a cost advantage because it would presumably charge a rate comparable to what contractors could charge the Postal Service while the Postal Service's fees would be 25 percent higher."

Basic Destination BMC rates for all Standard A mail[41]—regardless of whether the Mailing Online mailing qualifies for lesser or greater discounts.[42] In the alternative to the proposed discount rates for all mailings, the Postal Service apparently fears that it would be unable to offer Mailing Online customers the convenience and simplicity of a definite postage charge at the time the transaction is confirmed.[43] Consequently, the Postal Service believes its has only two options: (1) a highly averaged single discount rate (within class and shape) for all mail,[44] or (2) a

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[41] For purposes of the experiment, the Postal Service has effectively abandoned its request for Automation Basic DBMC rates for Standard A mail.

> CHAIRMAN GLEIMAN: Okay. So one could reasonably assume that if the Commission did not recommend that discount, that postal management when it presented the recommended decision of the Commission on the experimental case to the Governors would not make a cause celebre out of this fact that the Commission chose not to recommend this [DBMC] discount.
>
> THE WITNESS [Plunkett]: I think that's a fair conclusion.

Tr. 5/1164. The Postal Service's action follows the Commission's decision not to exempt Mailing Online from the DBMC discount requirements during the market test. *See* PRC Op. MC98-1 at 29.

[42] USPS-T-5 at 11-12. "[I]n some cases a printer's daily volume, especially early in the experiment, may not exceed the 500-piece minimum volume established for the automation rates . . . . If Mailing Online volume exceeds expectation, or is in any way concentrated in a particular area, it is conceivable that printers will be presented with volumes large enough to qualify for larger discounts than those offered via Mailing Online. In the event that this happens, the predetermined rates, *i.e.*, automation basic for First-Class and automation DBMC for Standard Mail would still apply."

[43] Tr. 5/1122 (Plunkett, NOI No. 1, Issue 1). "The Postal Service has determined to charge a firm fixed price at the time the transaction is confirmed . . . [in order] to provide customers a convenient and simple means of inducting mail into the postal system."

[44] Tr. 6/1429 (Garvey, NOI No. 1, Issue 3). "[T]he Postal Service [is] . . . thus committing to a single average rate category (within class and shape) for all volume received and mailed. The use of an average rate is also critical to completion of a transaction in a single Web-site visit . . ."

contingent rate that might change after daily batching determines the depth of sort.[45] The Postal Service imagines a cascade of problems resulting from option two and thus proposes option one.[46]

A postage pricing formula offers a third option for calculating Mailing Online postage charges, should the Commission accept the Postal Service's views with respect to a contingent discount rate. Formula-based pricing virtually eliminates crude discount averaging. Formula-based pricing preserves convenience and simplicity for Mailing Online customers in the form of a certain price up front. Through the high-speed data-processing capabilities of computers, the Postal Service could implement a postage pricing formula that incorporates Postal Service batching and presorting during the experiment to calculate postage charges instead of assuming one presort discount rate for all Mailing Online mailings.

[45] Tr. 5/1140-41 (Plunkett, OCA/USPS-T1-64(c)). "All the parameters necessary for the operation of the algorithm used to calculate [pre-mailing] fees can be known at the time that a customer presents a document for acceptance. The same is not true of postage rates if rates are based on the depth of sort that a customer's mailing attains as a result of document batching." *See also* Tr. 6/1521 (Garvey). "Technically speaking, it would be possible to charge many different rates . . . to the customer online. The problem with that is we don't know what . . . ultimate rate they should be charged until . . . perhaps long after they are gone."

[46] Tr. 6/1410 (Garvey, OCA/USPS-T5-41(d)). "Confirmed. These sentences [from the Commission's Opinion and Recommended Decision on Market Test, PRC Op. MC98-1 at 13-14] reflect issues that guided the Postal Service's decisions regarding the structure of Mailing Online service."

IV. IT IS BOTH DESIRABLE AND FEASIBLE TO CALCULATE A UNIQUE POSTAGE CHARGE FOR EACH MAILING ONLINE MAILING

In the case of Mailing Online, it is not only desirable but feasible to assess postage charges specific to each customer's mailing. The Postal Service's method of determining pre-mailing service fees for Mailing Online suggests how a unique postage charge for each customer's mailing could be calculated.

The use of high-speed computer data processing allows the Postal Service to propose and the Commission to recommend a "novel, 'floating' fee schedule" for pre-mailing services during the Market Test.[47] Computers allow the Postal Service to manage approximately 75,000 prices of 25 commercial printers for nearly 3,000 different printing options, and to accommodate changes in contract prices and printing options without further regulatory proceedings.[48] Similarly, such computer capabilities make it feasible to calculate a unique postage charge for each Mailing Online mailing.

A. Setting Postage Charges For Mailing Online On The Basis Of Actual Experience Eliminates Both Guesswork And Any Anti-Competitive Effect Of Waiving Minimum Volume Requirements For Automation Basic Rates

The Postal Service's experience batching and presorting Mailing Online mailpieces should be the basis for setting postal charges during the experiment.

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[47] Governors Decision, at 4, *supra* note 31.

[48] Id. "As the Commission noted, this [floating fee schedule] allows for the flexibility needed to accommodate the potential use of multiple printing contractors and to accommodate changes in individual contracts without further proceedings."

Using volume data from the Mailing Online experiment, I propose a computer-implemented pricing formula similar to that which exists for pre-mailing fees.

My pricing formula calculates Mailing Online postage charges based upon the batching and presortation experience of the Postal Service. At the outset of the Mailing Online experiment, the Postal Service's assumed single average discount rate (e.g., Automation Basic for First-Class, or Automation Basic for Standard A) would apply to all mailpieces. Thereafter, the Postal Service's experience batching and presorting mailpieces would gradually be reflected in the postage charge. Volume data on the level of presortation for each job type would be collected in tables. The accumulated presort-level volume data by job type implies a weighted average rate for that job type. This experience-based weighted average rate would periodically be incorporated into the pricing formula, along with the Postal Service's assumed single average discount rate. Subsequent mailings of a given job type result in customers paying postage charges reflecting, in part, the Postal Service's batching and presorting experience.[49] If, as the Postal Service assumes, the proposed Automation Basic rates "are appropriate given the characteristics of the mail pieces produced by Mailing Online,"[50] then the discount rates calculated under my pricing formula would be the same as those proposed by the Postal Service. If the Postal Service can batch mailpieces and presort those batches more deeply

[49] Alternatively, customers pay postage charges for which their mailings (of a given job type) qualify if entered as hardcopy directly with the Postal Service, if that charge is lower than the pricing formula calculation.

[50] USPS-T-5 at 11.

than necessary to qualify for the proposed discount rates, my pricing formula would calculate lower discount rates. At the conclusion of the Mailing Online experiment, the pricing formula produces postage charges that are entirely based on experience.

The pricing formula I propose strikes a balance between simplicity with competitive advantage for the Postal Service, on the one hand, and greater complexity with fairness for both customers and competitors, on the other. In the case of Mailing Online, as proposed, postage calculations are simplified by offering all customers the same discount rate—Automation Basic (within class and shape)—at the time the Mailing Online transaction is confirmed. However, such simplification has a price. The Postal Service reserves a competitive advantage for Mailing Online by exempting small-volume mailings from the minimum volume requirements for Automation Basic rates otherwise applicable to such mailings, and still applicable to the mailings of competitive service providers.

My pricing formula eliminates any competitive advantage on the part of the Postal Service and thereby promotes fairness. Mailing Online customers pay postage charges for which their mailings qualify when submitted, or rates calculated by the pricing formula reflecting the Postal Service's batching and presorting experience during the experiment, whichever is lower. Consequently, my proposal obviates the need to waive the minimum volume requirements otherwise applicable to Mailing Online mailings. My proposal also eliminates anti-competitive effects caused by adopting the proposed waiver. Competitors and potential new entrants are not disadvantaged, as no preference is accorded to the Postal Service versus a competitor in the market for small-volume mailings.

My pricing formula preserves simplicity for Mailing Online customers in the form of a firm fixed postage charge when the Mailing Online transaction is confirmed, but adds some complexity for the Postal Service. The pricing formula calculates a postage charge using experience-based weighted average rates by job type derived from volume data from prior time periods during the experiment and applied in subsequent periods. Consequently, a firm fixed postage charge can be offered when mailings are submitted, since the experience-based rates used in the formula are known and will be unaffected by daily batching. Simplicity for customers is thereby preserved.

Nevertheless, the pricing formula introduces some complexity for the Postal Service. In general, the determination of postage charges is more involved, since customers are offered rates for which their mailings qualify when submitted or rates calculated by the pricing formula, whichever is lower. Moreover, because the pricing formula relies on volume data, that data must be collected by presort level for each job type by class. Limited rate averaging by job type over specified time periods is introduced in order to derive the experience-based weighted average rates used in the formula. However, relative to a rebate system, the pricing formula avoids the complications associated with evaluating and adjusting customer accounts envisioned by the Postal Service.[51]

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[51] *See* Tr. 6/1412-13 (Garvey, OCA/USPS-T5-43(b)-(c)). *See also* note 14, *supra*.

Finally, my pricing proposal permits verification of the Postal Service's assumption that Automation Basic is the most appropriate discount rate for all Mailing Online mailings. The Postal Service predicts large volumes of mail will permit high densities and levels of presortation beyond those required for the proposed Automation Basic discount rate.[52] Accordingly, the Postal Service intends to test this hypothesis during the Mailing Online experiment.[53] My proposal also tests this hypothesis using available Mailing Online data, but goes one step further. In keeping with the notion of an "experiment," I propose to test a computer-implement postage pricing formula, using data from the experiment to derive experience-based weighted average rates, to calculate postage charges on an ongoing basis.

B. It Is Possible To Develop A Pricing Formula To Calculate Postage For Mailing Online That Will Initially Generate The Postal Service's Proposed Discount Rate And Then Adjusts Postage To Reflect Actual Presorting Experience Over The Course Of The Experiment

The pricing formula I propose calculates postage charges for each Mailing Online mailing. The formula is intended to guide the development of an algorithm to be incorporated in Mailing Online software.[54]

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[52] Tr. 2/158 (Garvey, MASA/USPS-T5-10(b)). "[W]e predict that large volumes of locally destinating mail will flow through the MOL system and allow high densities and levels of sort beyond those required of the requested basic automation rate."

[53] Id. (Garvey, MASA/USPS-T5-10(b)). "We will test this hypothesis during the market test and experimental service periods."

[54] Tr. 5/1140 (Plunkett, OCA/USPS-T1-64(a)-(b)). "[T]he act of incorporating [the pre-mailing fee] formulae into the Mailing Online software gives rise to an algorithmic formulation."

Two practical results are obtained from this pricing formula. First, it ensures that all Mailing Online mailpieces, at a minimum, receive the discount rates for which the mailings would qualify if entered as hardcopy directly with the Postal Service. Second, the formula automatically adjusts postage charges to reflect the actual batching experience of the Postal Service during the course of the experiment.

My pricing formula produces a blended discount rate consisting of the proposed Automation Basic discount rate and an experience-based weighted average rate based upon Postal Service volume data from batching and presorting. During the first period of the experiment, the postage rate is the same for all mailings—the assumed single average (i.e., Automation Basic) discount rate proposed by the Postal Service. Cumulative depth of sort data is collected for each possible job-type/page-count category.[55] At the end of the period, a weighted average rate for each job-type/page-count category is calculated based on the actual depth of sort achieved for that category.[56] During the second and

[55] The Postal Service states that there are 62 Mailing Online job-types, and a maximum of 48 pages for each job-type, resulting in nearly 3,000 job-type/page-count "batches." Tr. 6/1354 (Garvey, OCA/USPS-T1-45(f)). However, during the operation of Mailing Online, not all job-type/page-count combinations are likely to be "commingled" or "batched," Tr. 7/1721-22 (Garvey); that is, "aggregated into a single file." Tr. 2/194 (Garvey, OCA/USPS-T1-19(a)(ii)). The Postal Service identifies "co-mingled batches," as well as "separate batches," which consist of mailpieces that have not been batched at all. Tr. 6/1353 (Garvey, OCA/USPS-T1-45(b)). I use the term "job-type/page-count category" to describe the nearly 3,000 job-type/page-count combinations prior to batching, since all job-type/page-count volume data is relevant to my proposal, whether a result of batching or not. By contrast, I reserve the term "job-type/page-count batch" or "batch" to mean a single file of like mailpieces (i.e., the same job-type/page-count) that have been batched.

[56] "Depth of sort" and "level of presort" are defined as "a vector of integers whose elements are the volumes of a mailing that qualified for the various available

subsequent periods, each customer is offered the lesser of its "stand-alone" rate or a blended discount rate consisting of the assumed single average discount rate and the experienced-based weighted average rate for the submitted job type. The specific blended discount rate offered is adjusted by a weighting factor applied to each formula component during each period. The weighting factor increases gradually as the experiment progresses, resulting in more "weight" assigned to the discount derived from Postal Service experience and successively less "weight" to the assumed single average discount rate. At the conclusion of the experiment, postage charges are entirely experience-based.

The derivation of an experience-based weighted average rate is commonplace in the determination of postage charges, and a familiar process to the Postal Service. In the case of hardcopy mail entered directly with the Postal Service, where a mailing exceeds the minimum volume requirements, it will qualify for some or all of the various presort discounts available. The mailer's total postage charge, then, is the sum of the presort discount rates times the number of mailpieces that qualify at each presort level. In effect, the mailer's total postage charge for the mailing is nothing more than an experience-based weighted average discount rate specific to the mailing.

In the case of Mailing Online, the derivation of the experience-based weighted average rate requires the collection of volume data showing the extent of

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presort discounts (as shown on a Qualification Report), the order of the elements being from greatest discount to no discount." *See* Tr. 8/1773 (Plunkett, OCA/USPS-T5-51(d)).

batching and presortation achieved by the Postal Service during the experiment. Table I presents a simplified rendering of the data necessary by presort level for nine possible job-type/page-count categories.[57] In the fully operational Mailing Online experiment, the theoretical maximum number of tables for First Class would be 2,976 (48 x 62),[58] one for each job-type/page-count category estimated by the Postal Service.

[57] The presort levels applicable to Mailing Online are denoted by the abbreviations 5B, 3B, 3/5B BB, and SP in Table I. *See supra* note 9.

[58] See Tr. 6/1354 (Garvey, OCA/USPS-T1-45(f)). However, witness Garvey maintains that, "A fundamental design objective of the MOL system is to combine all jobs to the greatest extent possible . . . [a]lthough differences in processing categories and handling characteristics are likely to prevent complete combination of all jobs for the foreseeable future . . ." Tr. 6/1400. Some features likely to "prevent complete combination" include batching letters and flats, First-Class and Standard A letters, and mailpieces with different service levels (i.e., next-day service and two-to-five day service). Tr. 6/1600-01. According to witness Plunkett, the realization of this fundamental design objective would make most of the job-type information unnecessary for purposes of determining depth of sort. Tr. 8/1774 (Plunkett, OCA/USPS-T5-51(a)-(c)). Under such circumstances, the theoretical maximum number of data tables estimated for my proposal would be reduced to four: First-Class Mail letters and flats, and Standard A Mail letters and flats.

Table I
MAILING ONLINE "LOOK-UP" TABLES FOR FIRST CLASS MAIL CONTAINING PERIODIC AND CUMULATIVE VOLUME DATA BY JOB TYPE BY PAGE COUNT BY PRESORT LEVEL

Table I.A.1.
Volume by Job-Type, Page-Count and Presort Level

Job-Type A/Page-Count 1			
		Volumes	
Presort Level	Rates (Cents)	Period *n*	All Prior Periods
5B	24.3		
3B	26.1		
BB	27.0		
SP	33.0		
Weighted Average Rate			

Table I.B.1.
Volume by Job-Type, Page-Count and Presort Level

Job-Type B/Page-Count 1			
		Volumes	
Presort Level	Rates (Cents)	Period *n*	All Prior Periods
5B	24.3		
3B	26.1		
BB	27.0		
SP	33.0		
Weighted Average Rate			

. . .

Table I.BJ.1.
Volume by Job-Type, Page-Count and Presort Level

Job-Type BJ/Page-Count 1			
		Volumes	
Presort Level	Rates (Cents)	Period *n*	All Prior Periods
5B	24.3		
3B	26.1		
BB	27.0		
SP	33.0		
Weighted Average Rate			

Table I.A.2.
Volume by Job-Type, Page-Count and Presort Level

Job-Type A/Page-Count 2			
		Volumes	
Presort Level	Rates (Cents)	Period *n*	All Prior Periods
5B	24.3		
3B	26.1		
BB	27.0		
SP	33.0		
Weighted Average Rate			

Table I.B.2.
Volume by Job-Type, Page-Count and Presort Level

Job-Type B/Page-Count 2			
		Volumes	
Presort Level	Rates (Cents)	Period *n*	All Prior Periods
5B	24.3		
3B	26.1		
BB	27.0		
SP	33.0		
Weighted Average Rate			

. . .

Table I.BJ.2.
Volume by Job-Type, Page-Count and Presort Level

Job-Type BJ/Page-Count 2			
		Volumes	
Presort Level	Rates (Cents)	Period *n*	All Prior Periods
5B	24.3		
3B	26.1		
BB	27.0		
SP	33.0		
Weighted Average Rate			

⋮

Table I.A.48.
Volume by Job-Type, Page-Count and Presort Level

Job-Type A/Page-Count 48			
		Volumes	
Presort Level	Rates (Cents)	Period *n*	All Prior Periods
3/5B	225.0		
BB	228.0		
SP	231.0		
Weighted Average Rate			

Table I.B.48.
Volume by Job-Type, Page-Count and Presort Level

Job-Type B/Page-Count 48			
		Volumes	
Presort Level	Rates (Cents)	Period *n*	All Prior Periods
3/5B	225.0		
BB	228.0		
SP	231.0		
Weighted Average Rate			

. . .

Table I.BJ.48.
Volume by Job-Type, Page-Count and Presort Level

Job-Type BJ/Page-Count 48			
		Volumes	
Presort Level	Rates (Cents)	Period *n*	All Prior Periods
<2lb Priority Mail	320.0		
Weighted Average Rate			

The presort-level volume data is collected by job-type/page-count category each period. At the end of each period, the volume data is summed with data from prior periods for each job-type/page-count category. The cumulative presort-level volume data by job-type/page-count category implies a particular experience-based weighted average rate. For example, suppose that data collected during period one revealed the volume and proportions by presort level for job-type A/page-count 1, as shown in Table II. The implied experienced-based weighted average rate used in period two would be 27.6 cents ((0.25 • 24.3) + (0.25 • 26.1) + (0 • 20.3) + (0.25 • 27) + (0.25 • 33)). Table II shows the derivation of the experience-based weighted average rate in the last column.

Table II
DERIVATION OF EXPERIENCE-BASED WEIGHTED AVERAGE RATE

Job-Type A/Page-Count 1				
Presort Level	**Volume**	**Percent of Total**	**Rates (cents)**	**Weighted Average Rate (cents)**
5B	500	0.25	24.3	6.075
3B	500	0.25	26.1	6.525
3/5B	0	0	20.3	0
BB	500	0.25	27.0	6.750
SP	500	0.25	33.0	8.250
Total	2,000	1		27.600

The presort-level volume data used to derive the experience-based weighted average rates requires two data sets. Both sets consist of volume data on the association of presort level with job-type/page-count characteristics, as shown in

Table I.[59] The first set consists of Mailing Online volume data by presort level during the current period for each job-type/page-count category (the "Period *n*" volume column). The second set consists of the cumulative volume data for each job-type/page-count category as presorted for all periods other than the current period (the "All Prior Periods" volume column). The cumulative volume data and rate information are used to derive the experience-based weighted average rates shown in each "look-up" table. The experienced-based rates are used in the formula to calculate the blended discount rates in the current period.

Consequently, for each job-type/page-count category, if x represents the experience-based weighted average rate, and y the assumed single average discount rate proposed by the Postal Service, the blended discount rate (D) for any mailing of the job-type/page-count category is

$$D = xw + y(1-w) \qquad \text{Equation 1}$$

[59] The Mailing Online system will produce the presort-level volume data to derive the experience-based weighted average rate for each job-type/page-count category. As currently configured, the Postal Service's processing center computer will require job-type, page-count, address list ZIP+4 Codes and print site ZIP Code tables to permit distribution to print sites, batching, and the presortation of batches. Tr. 8/1774 (Plunkett, OCA/USPS-T5-51(a)-(c)). Moreover, the Mailing Online system is currently being modified to enable a Mail.dat reporting option. (Garvey, OCA/USPS-T1-72(c)(i)). This option would permit reporting on the association of mailing statements on presort qualification with batch information. Id. "With the eventual advent of the Mail.dat utility, depth of sort information for non-qualifying mailings will also become available." Tr. 8/1770 (Plunkett, OCA/USPS-T5-48(a)-(c)).

where w represents the weighting factor computed each period.

The weighting factor (w), applied to the experienced-based average rate in each period, is derived as follows:[60]

$$w = \frac{\sum_{i=1}^{n}(i-1)}{\sum_{i=1}^{N} i} \qquad \text{Equation 2}$$

where N represents the total number of periods, and n represents the current period. Conversely, the weight applied to the assumed average discount is (1 - w).

If the experience-based average rates are recalculated every quarter during the experiment,[61] $N = 8$, and for the first quarter, $n = 1$. The numerator then equals 0, reflecting the fact that there is no accumulated experience in the first quarter, and the denominator equals 36, i.e., the sum of the digits representing each quarter (1 + 2 + 3 + 4 + 5 + 6 + 7 + 8). Thus, in the first quarter, the weighting factor (w) applied to the experienced-based average rate is 0 (0/36), and the weight applied to the assumed single average discount rate is 1 (1 - 0). In the fifth quarter, i.e. at the beginning of the second year of the experiment, $n = 5$, and the numerator becomes

[60] This formula-derived weighting factor will be recognized by those familiar with the Sum-of-the-Years'-Digits (SYD) method of accelerated depreciation for real property. The SYD method uses a decreasing fraction in each succeeding period times the cost of the property to calculate the depreciation. The formula presented here is simply the accumulated "sum-of-the-years' digits" method in reverse; that is, an increasing fraction in each succeeding period. The formula thereby gives more of the "depreciation" (i.e., weight for experience) to later periods than to earlier periods.

[61] An adjustment every quarter is assumed for illustrative purposes. The exact value of N could range from two to continuous. A continuous adjustment would, of course, require modification of the formula presented here.

10, resulting in a weighting factor of 10/36 being applied to the experienced-based average rate, and a weight of 26/36 (1 - (10/36)) applied to the assumed single average discount rate. By the last quarter, $n = 8$, and the weighting factor applied to the experienced-based average rate is 28/36.[62] Table III shows the weighting factors derived from Equation 2 that are applied to the experience-based average rate each quarter.

Table III
DERIVATION OF WEIGHTING FACTORS APPLICABLE TO EXPERIENCE-BASED AVERAGE RATES

	Equation 2		
Quarters	**Numerator**	**Denominator**	**Factors**
1	0	36	0/36
2	1	36	1/36
3	3	36	3/36
4	6	36	6/36
5	10	36	10/36
6	15	36	15/36
7	21	36	21/36
8	28	36	28/36

1. At the Beginning of the Experiment, Postage Charges for Mailing Online Would Be Based on the Assumed Ability of the Postal Service to Batch Jobs for the Purpose of Presorting

At the beginning of the experiment, the pricing formula I propose "accepts" the Postal Service's assumed ability to batch jobs for the purpose of presorting. Moreover, the formula "accepts" the Postal Service's assumed single average discount rate for purposes of determining postage charges for Mailing Online

[62] In the "ninth" quarter, i.e., the beginning of the third year of operation of Mailing Online, and every quarter thereafter, the weighting factor applied to the experience-based weighted average rate is 1 (36/36).

customers. Consequently, for the first quarter of the experiment, Mailing Online customers are offered the assumed single average discount rate, Automation Basic (within class and shape), as proposed by the Postal Service. And the proposed pricing formula generates the same postage charge as the Postal Service proposes to offer. For example, the First-Class Automation Basic rate is 27 cents. The discount rate calculated by the pricing formula is also 27 cents ($x(0) + 27(1\text{-}0)$).

During the first quarter, and all subsequent quarters, data on volumes actually presorted by the Postal Service are collected, accumulated, and tabulated for each job-type/page-count category. The data collected serves two purposes. It serves to verify the Postal Service's assumption as to whether Automation Basic is truly reflective of the characteristics of Mailing Online mailpieces. It also permits derivation of the experience-based weighted average rate for each job-type/page-count category used in the formula to calculate postage charges during the experiment.

2. If Batching Experience with Mailing Online During the Experiment Verifies Original Assumptions, the Postage Pricing Formula Would Automatically Generate Charges Based Upon the Original Assumptions

The Postal Service claims that Automation Basic is the appropriate discount rate for Mailing Online service. At full implementation, the Postal Service expects to obtain sufficient volumes to permit batching and presorting at least to the automation basic level.[63] Under such circumstances, the pricing formula also generates discount rates consistent with that assumption. For example, suppose the experience-based weighted average rate derived from data during the first two quarters for a certain job-type/page-count category is 27 cents, the same as the First-Class Automation Basic rate proposed by the Postal Service. Then the blended discount rate in the third quarter calculated by the pricing formula is also 27 cents (27(3/36) + 27(1-(3/36))).

3. If Batching Experience with Mailing Online During the Experiment Differs from Original Assumptions, the Postage Pricing Formula Would Automatically Adjust Charges to Experience

One of the desirable characteristics of the Postal Service's formula for calculating Mailing Online pre-mailing fees is that fees automatically adjust as the Postal Service experiences changes in contractor printing costs. Contract costs for the various printing and finishing options, as well as ZIP Codes areas, associated with each printer are stored in "look-up" tables in the Postal Service's computer.[64] As new print sites are added, new services offered, or costs of existing services

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[63] Tr. 2/572 (Plunkett, MASA/USPS-T2-3(c)). "[A]t full implementation, Mailing Online is expected to generate tens of thousands of pieces per printer per day on average. Thus it is expected that Mailing Online pieces will meet the aforementioned qualifications." *See also* Tr. 5/1127 (Plunkett, NOI No. 1, Issue 1). "In fact, we expect that in most instances, the mail may be presorted more finely and dropshipped more deeply into the system than is necessary to qualify for the proposed discounts."

[64] Tr. 6/1384 (Garvey, OCA/USPS-T1-59(b)). "According to the developer . . . 'The current system uses a print site table that defines the characteristics of the print site. This combined with the [ZIP C]ode of the addressee determines the print site destination for a mail piece.'"

change during the course of the experiment, these tables are updated.[65] To calculate the pre-mailing fees for a particular Mailing Online job, the computer first uses addressee ZIP Codes to determine to which print site(s) the job will be sent.[66] The computer automatically references prices in the "look-up" tables associated with the relevant print sites. A different pre-mailing fee is then calculated for each group of mailpieces going to different print sites.

Just as the pre-mailing fees of Mailing Online adjust to actual contractor costs at new (and existing) print sites, so too will the pricing formula I propose adjust postage charges for Mailing Online mailings based upon actual experience. Cumulative data on the Postal Service's experience batching and presorting the various job-type/page-count categories from all prior quarters permits derivation of an experience-based weighted average rate for each category. This rate information is stored in "look-up" tables for each job-type/page-count category, as shown in Table I. The computer-implemented pricing formula references the "look-up" tables, and combines the relevant experience-based weighted average rate with the Postal Service's assumed single average discount rate to calculate the blended postage charge offered to Mailing Online customers.

Continuing the previous example, the calculations are as before. However, for the first two quarters, assume instead an experience-based weighted average rate of 26.1 cents (i.e., a First-Class Automation 3-Digit Presort). The formula

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[65] Tr. 6/1385 (Garvey, OCA/USPS-T1-59(d)). "[T]he print site table would . . . simply be modified to reflect the addition or deletion of specialized capabilities."

[66] Tr. 6/1384 (Garvey, OCA/USPS-T1-59(b)).

produces a blended discount rate in quarter three of 26.925 cents (26.1(3/36) + 27(1-(3/36))). Over time, the experience-based weighted average rate is expected to change. As a result, assume that the experience-based weighted average rate with four quarters of data is now 24.3 cents (i.e., First-Class 5-Digit Presort). The blended discount rate in quarter five is 26.25 cents (24.3(10/36) + 27(1-(10/36))).

The change in the blended discount rate from quarter three to quarter five illustrates the two components affecting the calculation of postage charges. The first is the gradual increase in the weighting factor as the experiment progresses.[67] The second is the change in the experience-based weighted average rates resulting from Postal Service batching and presorting. Both components could work in tandem to produce ever lower discount rates, as shown in the two preceding examples. Or they could work at cross purposes, with discount rates remaining constant or even increasing during the experiment.

4. Batching Experience with Mailing Online Late in the Experiment Would Carry More Weight in Postage Calculations Than Experience Early in the Experiment

The Postal Service recognizes that as the experiment progresses, mailings submitted in a "more mature environment" are likely to be more representative of "permanent" job types than mailings submitted earlier in the development of Mailing Online.[68] As the Postal Service states, "[c]ommon sense suggests . . . that

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[67] *See* Table III for the derivation of the weighting factors, *supra* IV.B.

[68] Tr. 6/1363 (Garvey, OCA/USPS-T1-52(b)). "I can agree that jobs submitted in a more mature environment should be more similar to permanent jobs than those from earlier in the market test."

individual users' respective and collective experiences would mature over time to provide a clearer picture of demand and common job characteristics."[69]

These same expectations are relevant to implementation of my postage pricing formula. During the latter stage of the experiment, more complete data on "demand and common job characteristics" will be available upon which to base postage calculations. For example, as the experiment progresses, the cumulative volume data will weigh more heavily in the calculation of postage charges under the pricing formula. This is a consequence of the larger weighting factor applied to the experience-based weighted average rate. To see this, suppose the experience-based weighted average rate remains, as in the previous example, at 24.3 cents. However, in quarter eight, the weighting factor increases to 28/36. Consequently, the formula produces a blended discount rate of 24.90 cents (24.3(28/36) + 27(1-(28/36))).

[69] Id.

V. CONCLUSION

I support establishment of a rebate system for Mailing Online because it is the best approach. In the alternative, I propose a computer-implemented postage pricing formula that incorporates Postal Service batching and presorting during the experiment to calculate postage charges. The alternative I propose achieves most of the benefits of a rebate system, while addressing many of the Postal Service's concerns regarding implementation of such a system. The formula eliminates the anti-competitive effects of waiving the minimum volume requirements for Automation Basic rates proposed by the Postal Service. At the same time it preserves convenience and simplicity for Mailing Online customers in the form of a firm fixed postage charge at the time the Mailing Online transaction is confirmed.

COMMISSIONER LeBLANC: Let me back up. It's my intent that you want those copied into the record. Is that correct, Mr. Hollies?

MR. HOLLIES: That is correct. Thank you.

COMMISSIONER LeBLANC: Yes. That will be so moved, Mr. Reporter.

Excuse me, Mr. Costich. Please proceed.

MR. COSTICH: The witness is available for cross examination, Mr. Presiding Officer.

COMMISSIONER LeBLANC: Mr. Callow, have you an opportunity to examine the packet of designated written cross examination that was made available to you this morning?

THE WITNESS: Yes.

COMMISSIONER LeBLANC: If these questions were asked of you today, would your answers be the same as those you previously provided in writing?

THE WITNESS: Yes, with the correction of two typos.

In my response to MASA/OCA-T-100-1, Part A, at the end of the first paragraph, the last complete line, there is a transcript cite, TR61412. It should be 1411.

And the other correction is to PB/OCA-T-100-8. On the third page of that response, at the end of the third line, it says 0.252. It should be 0.254.

[redacted]

And with those corrections --

COMMISSIONER LeBLANC: Is that all your corrections?

THE WITNESS: Those are the only corrections I have.

COMMISSIONER LeBLANC: Mr. Costich, the two copies you gave to the reporter -- do they have those changes designated in them?

MR. COSTICH: Yes, Mr. Presiding Officer.

COMMISSIONER LeBLANC: Okay.

I direct that they be accepted into evidence and transcribed into the record at this point, please.

[Designated Written Cross-Examination of James F. Callow was received into evidence and transcribed into the record.]

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Mailing Online Service

Docket No. MC98-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF OFFICE OF THE CONSUMER ADVOCATE
WITNESS JAMES F. CALLOW
(OCA-T100)

Party	Interrogatories
Pitney Bowes Inc.	PB/OCA-T100-2, 4-5, 7-10
United States Postal Service	MASA/OCA-T100-1-9 PB/OCA-T100-1, 3-10 USPS/OCA-T100-1-8

Respectfully submitted,

Margaret P. Crenshaw

Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
OFFICE OF THE CONSUMER ADVOCATE
WITNESS JAMES F. CALLOW (T100)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:	Designating Parties:
MASA/OCA-T100-1	USPS
MASA/OCA-T100-2	USPS
MASA/OCA-T100-3	USPS
MASA/OCA-T100-4	USPS
MASA/OCA-T100-5	USPS
MASA/OCA-T100-6	USPS
MASA/OCA-T100-7	USPS
MASA/OCA-T100-8	USPS
MASA/OCA-T100-9	USPS
PB/OCA-T100-1	USPS
PB/OCA-T100-2	Pitney Bowes
PB/OCA-T100-3	USPS
PB/OCA-T100-4	Pitney Bowes, USPS
PB/OCA-T100-5	Pitney Bowes, USPS
PB/OCA-T100-6	USPS
PB/OCA-T100-7	Pitney Bowes, USPS
PB/OCA-T100-8	Pitney Bowes, USPS
PB/OCA-T100-9	Pitney Bowes, USPS
PB/OCA-T100-10	Pitney Bowes, USPS
USPS/OCA-T100-1	USPS
USPS/OCA-T100-2	USPS
USPS/OCA-T100-3	USPS
USPS/OCA-T100-4	USPS
USPS/OCA-T100-5	USPS
USPS/OCA-T100-6	USPS
USPS/OCA-T100-7	USPS

Interrogatory:	Designating Parties:
USPS/OCA-T100-8	USPS

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES MASA/OCA-T100-1-9

MASA/OCA-T100-1. Would your pricing proposal require USPS to incur additional costs for MOL in the following categories listed below? Explain the reasons for each of your answers.

(a) Designing software to implement the pricing proposal;

(b) Acquiring hardware to implement the pricing proposal;

(c) Maintaining hardware for implementation of the pricing proposal;

(d) Maintaining and updating software used to implement the pricing proposal;

(e) Loss of revenue as a result of lower postage rates than under the USPS proposal in some or all instances.

A. (a) Implementation of my proposal would require some code modification by the Postal Service's system developer. Code modification would be concentrated in two principal areas. First, under my proposal, Mailing Online customers would pay rates for which their mailpieces would qualify if entered as hardcopy directly with the Postal Service. This proposal would require the Postal Service to presort mailings at the time they are submitted. At present, the Postal Service creates separate batches for each print site before presortation. Tr. 6/1600 (Garvey). There is no technical barrier to modifying the code to switch the order of presortation. The Postal Service confirms that it would be "technically possible" and "physically feasible" to charge a Mailing Online customer a postage rate for which the customer's mailing would have qualified if submitted in hardcopy. Tr. 7/1669 (Garvey); *see also* Tr. 6/1411 (Garvey, OCA/USPS-T5-42(b)).

Second, my pricing formula uses experience-based weighted average rates. The derivation of experience-based weighted average rates requires the use of presort-level volume data by job-type/page-count category. The Postal Service states that the next major release of the Mailing Online software will collect volume data by "batch type" (i.e., job-type/page-count) by presort level. Tr. 8/1771 (Plunkett, OCA/USPS-T5-49). To the extent the volume data is not collected in "look-up" tables, the following code modification would be required: (1) collect each quarter the presort-level volume data by job-type/page-count category in "look-up" tables, *see* OCA-T-100 at 25-26, lines 19-20, and 1-6, respectively, (2) calculate experience-based weighted average rates for each job-type/page-count category from all quarterly presort-level volume data at the end of each quarter, *see* OCA-T-100 at 28-29, lines 1-15, and 1-8, respectively, and (3) program the processing center computer to reference the experience-based weighted average rates from the job-type/page-count categories relevant to customer mailings in order to calculate the blended discount rate. *See* OCA-T-100 at 34, lines 10-17.

(b) It appears that the Postal Service would not need to incur additional costs to acquire hardware in order to implement my proposal. The Postal Service claims it has over estimated the capacity for (and costs of) Mailing Online. Tr. 3/810 (Stirewalt).

(c) It appears the Postal Service would not incur any additional hardware maintenance costs. The hardware used to implement my proposal would be the same hardware relied upon by the Postal Service to implement Mailing Online. Since the necessary hardware is already in place (or planned for placement) to operate the Mailing Online service, no special or additional maintenance as a consequence of implementation of my proposal would be required.

(d) Once the job-type/page-count "look-up" tables are established under my proposal, no code maintenance would be required. However, to the extent new job-types are introduced to the Mailing Online "menu," there would be maintenance with respect to the addition of "look-up" tables. The introduction of new job-types would also require maintenance with respect to the addition of those new features to the pre-mailing service print site "look-up" tables. *See* OCA-T-100 at 33-34, lines 12-17, and 1-6, respectively. The amount of maintenance required for new job-type "look-up" tables would be comparable to the maintenance required to add new job-types to pre-mailing service fee print site tables.

(e) There could be a small loss of revenue, or a large gain in revenue. Based upon biweekly reports of the market test filed through February 25, 1999, only two mailings could have reduced revenues by qualifying for deeper discounts than Automation Basic. A rate reduction of 0.9 cents and 2.7 cents would have been available for 956 and 177 pieces, respectively—a revenue reduction of about 14 dollars. More importantly, however, the prospect of deeper discounts for qualifying mailings under my proposal may attract greater volumes. The result would be new net revenue contributions to the Postal Service.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES MASA/OCA-T100-1-9

MASA/OCA-T100-2. Have you determined or estimated any of the costs of implementing your pricing proposal in any of the categories listed below? If so, describe what you have done to determine or estimate the costs and the results. If not, explain why you have not done so.

(a) Designing software to implement the pricing proposal;
(b) Acquiring hardware to implement the pricing proposal;
(c) Maintaining hardware for implementation of the pricing proposal;
(d) Maintaining and updating software used to implement the pricing proposal;
(e) Loss of revenue as a result of lower postage rates than under the USPS proposal in some or all instances.

A. (a) No. Implementing my proposal involves three simple tasks: 1) accessing the presorting program that is already part of the Mailing Online system, 2) accessing volume data that is already being collected, and 3) performing simple arithmetic (i.e., the calculation of the blended discount rate via Equation 1). Modification of the code for each of these tasks should take no more than a few minutes. *See* OCA/USPS-T1-72(a)-(c). Nevertheless, determining whether the code modification would involve additional costs that can be estimated requires knowledge of the method of determining payments to the system developer (i.e., a general fixed-price contract, a job-specific payment, an hourly rate, etc.) for work performed. This information is not known to me.

(b) No. I have not estimated any hardware acquisition costs specific to the implementation of my proposal because no additional hardware will be necessary. See my response to MASA/OCA-T100-1(b).

(c) No. I have not estimated any hardware maintenance costs specific to the implementation of my proposal because no additional or special maintenance will be required. See my response to MASA/OCA-T100-1(c).

(d) No. See my response to MASA/OCA-T100-1(d). The incremental cost of maintaining the code would be negligible, if any.

(e) See my response to MASA/OCA-T100-1(e). Moreover, volume data at the level of detail necessary to estimate any changes in revenue under my proposal are not available. The Postal Service provided no volume estimates by presort level. *See* Tr. 6/1360 (Garvey, OCA/USPS-T1-49(b)(iii)). Nor does the Postal Service's market research "allow informed construction of precise estimates of volumes within subclass/job-type/page-count categories." Tr. 5/1103 (Plunkett, OCA/USPS-T5-35(f)-(i)). *See also* Tr. 2/617 (Plunkett, OCA/USPS-T5-28(b)). This information—presort-level volume data by job-type/page-count category—is necessary to determine any changes in revenue, either positive or negative.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES MASA/OCA-T100-1-9

MASA/OCA-T100-3. Confirm that your proposal would require MOL rates to be recalculated to reflect the additional costs incurred in implementing your proposal.

A. Unable to confirm. I do not understand the phrase "MOL rates to be recalculated" as used in this context. There are Mailing Online pre-mailing service fees. Pre-mailing service fees offered to customers are determined by formula whose elements are contract printing costs, information system costs, and a 25 percent mark-up. If my proposal increases Mailing Online information system costs related to software design and maintenance, the increase would be too small to affect the pre-mailing fee formula.

There are also postage rates. I do not propose to change the single-piece or presort discount rates recommended by the Commission and approved by the Governors pursuant to Docket No. R97-1. Under my proposal, Mailing Online customers would pay postage charges based upon those rates. Mailing Online customers would pay postage charges for which their mailings would qualify under current rates if entered as hardcopy directly with the Postal Service, or postage charges consisting of a blended discount rate calculated by the pricing formula, whichever is lower.

MASA/OCA-T100-4. Referring to page 20 line 15 through page 21 line 2 of your testimony, have you estimated or projected the effect your pricing proposal would have on the postage rates available for Mailing Online, either as a whole or for any particular class or job type? If so, provide your estimates or projections and explain how you arrived at them. If not, why not?

A. No. See my response to MASA/OCA-T100-3.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES MASA/OCA-T100-1-9

MASA/OCA-T100-5. Would your proposal delay the implementation of the MOL experimental service in order to allow development of systems necessary to implement the proposal? If so, how long would the delay last? Explain the basis for your response.

A. Implementation of my proposal would require modest code modification. However, it should not take long to complete such work and should not delay the experimental service. See my response to MASA/OCA-T100-2(a).

MASA/OCA-T100-6. Confirm that the USPS pricing proposal gives a competitive advantage to MOL as compared with competitive service providers by exempting small-volume mailings from the minimum volume requirements for Automation Basic rates.

A. Confirmed. *See* OCA-T-100, footnote 3, quoting PRC Op. MC98-1 at 35.

MASA/OCA-T100-7. With respect to your pricing proposal:

(a) Confirm that the proposal waives the minimum volume requirements for Automation Basic rates during the first quarter of the experimental period;

(b) Confirm that beginning in the second quarter the first quarter rates, which are based on a waiver of the minimum volume requirements to Automation Basic rates, will be one of the two factors affecting MOL rates; and

(c) State whether your proposal would eliminate the competitive advantage given to MOL in the USPS proposal through the waiver of minimum volume requirements.

(d) Explain the basis of your answers, with particular reference to the role played by the assumed single average discount rate in determining rates under your proposal.

A. (a) Confirmed. During the first quarter, the minimum volume requirements to qualify for Automation Basic rates will be waived for mailings with volumes below the minimum volume requirements. Under the proposed pricing formula, customers submitting such mailings would pay Automation Basic rates. If a customer submits a mailing with volumes in excess of the minimum volume requirements, the customer would pay rates for which the mailpieces would qualify if entered in hardcopy directly with the Postal Service.

(b) Partially confirmed. Refer to Equation 1 on page 29. There are two rate components—*x*, representing the experience-based weighted average rate, and *y*, the assumed single average discount rate—and a weighting factor, *w*, affecting the calculation of the blended discount rate offered to Mailing Online customers. During the second quarter, the pricing formula (i.e., Equation 1) will use experience-based weighted average rates (*x*) derived from the first quarter presort-level volume data of submitted mailings. The experience-based weighted average rates used in the formula may or may not be based upon mailings where the minimum volume requirements have been waived. For example, the experience-based weighted average rate for a particular job-type/page-count category may be derived entirely from mailings that exceed the minimum volume requirements. Alternatively, the experience-based weighted average rate for that job-type/page-count category may be derived from mailings where only some of the mailings exceed the minimum volume requirements. It is also possible that the experience-based weighted average rate for the particular job-type/page-count category may be derived solely from mailings that did not meet the minimum volume requirements.

In this latter case, the experience-based weighted average rate used in the pricing formula during the second quarter would be the single piece rate. The result for a customer mailing the particular job-type/page count category is a blended postage rate that is greater than the Automation Basic rate proposed by the Postal Service.

(c) Yes. At the end of the Mailing Online experiment, the weighting factor (*w*) applied to the experience-based weighted average rate equals 1 (36/36), and the weight applied to the assumed single average discount rate equals 0 (1-(36/36)). *See* OCA-T-100, footnote 62. Moreover, the experience-based weighted average rate would be derived from presort-level volume data collected during the entire experiment. Should the Mailing Online experiment be extended, customers would continue to pay postage rates for which their mailpieces would qualify if entered as hardcopy directly with the Postal Service, or the historic experience-based weighted average rates derived at the end of the experiment.

(d) *See* OCA-T-100 at pages 29-31, lines 9-14, lines 1-14, and lines 1-6, respectively.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES MASA/OCA-T100-1-9

MASA/OCA-T100-8. Referring to page 25 lines 1-3 of your testimony, explain why under your proposal "each customer would be offered the *greater* of its 'stand-alone' rate or a blended discount rate" (emphasis added).

A. The emphasized word, *greater*, should be changed to "lesser." An appropriate erratum will be filed. The entire, corrected sentence should read, "During the second and subsequent periods, each customer is offered the lesser of its 'stand-alone' rate or a blended discount rate consisting of the assumed single average discount rate and the experience-based weighted average rate for the submitted job type."

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES MASA/OCA-T100-1-9

MASA/OCA-T100-9. Under your proposal:

(a) Would any MOL customer pay a higher postage rate for any mailing than would be available to it if its mailing were delivered to USPS in hard copy, separately from any other mailings? If so, explain in what circumstances an MOL customer would pay a higher rate and why. If not, explain why not.

(b) Would any MOL customer pay a lower postage rate for any mailing than would be available to it if its mailing were delivered to USPS in hard copy, separately from any other mailings? If so, explain in what circumstances an MOL customer would pay a lower rate and why. If not, explain why not.

A. (a) No. Under my proposal, a Mailing Online customer would pay (1) a rate for which his/her mailpieces would qualify if entered as hardcopy directly with the Postal Service or (2) a rate reflecting the greater depths of sort resulting from Postal Service batching and presorting during the experiment, whichever is lower.

(b) Yes. A customer could pay a lower rate for any Mailing Online mailing under the following circumstances: where, in any quarter, the postage pricing formula (i.e., Equation 1) produces a blended discount rate lower than would be available to that mailing if entered in hardcopy directly with the Postal Service.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10

PB/OCA-T100-1. Have you analyzed whether any increase in computing capacity (i.e., program size, memory requirements and/or increased processing time) will be required of the MOL design in order to apply your pricing formula?

(a) If you have and an increase in capacity appears to be required, what will the cost consequences of adoption of your proposed pricing formula be?

(b) If you have not, why not?

A. (a) - (b) See my response MASA/OCA-T100-1(b), and MASA/OCA-T100-2(b).

PB/OCA-T100-2. Please confirm that your references to the "competitive advantage on the part of the Postal Service" and the extent to which your pricing proposal eliminates that advantage (e.g., OCA-T100 at 21, lines 14-15) refers only to a Postal Service advantage related to postage rates and not other advantages that the Postal Service might have because of, for example, vertical integration of the Mailing Online service with postal services over which the USPS has a statutory monopoly.

A. Confirmed. My comments are confined to the elimination of competitive advantage with respect to postage pricing. I did not consider the extent to which other sources of advantage could affect competitors.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10

PB/OCA-T100-3. With reference to your Table 1, please confirm that each of the subsidiary tables presented at page 27 of your testimony lists rates for the first ounce of First-Class mail with the exception of the 3/5B lines which have rates for Standard A flats.

A. Confirmed. An appropriate errata will be filed. See my response to PB/OCA-T100-8 for a discussion of rates in Table 1.

PB/OCA-T100-4. How many total job-type/page-count and presort level tables would be required to reflect all of the rates that might result from your postal pricing proposal?

(a) Please show how you calculated your answer to this interrogatory and provide any work papers associated with that calculation.

A. (a) The number of "look-up" tables and experience-based weighted average rates can be considered synonymous. As a result, there would be 2,976 (48 x 62) "look-up" tables for each job-type/page-count category in First-Class, and 2,976 (48 x 62) "look-up" tables for each job-type/page-count category in Standard A—a total of 5,952 (2,976 x 2) tables. In practice, however, the total number of "look-up" tables could be reduced by collapsing tables with the same rate columns. See my response to PB/OCA-T100-8. Even with collapsed tables, the total number of experience-based weighted average rates referenced by the pricing formula would be 5,952.

The total number of experience-based weighted average rates calculated here—5,952—assumes no change in the number of job-type/page-count categories proposed by the Postal Service. If the Postal Service is successful designing software to batch most job-types, the absolute number of experience-based weighted average rates could ultimately be reduced to four: First-Class Mail letters and flats, and Standard A Mail letters and flats. *See* OCA-T-100, footnote 58.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10

PB/OCA-T100-5. Would each of these job-type/page-count tables have to be updated quarterly to calculate the quarterly rate revisions that you recommend?

A. No. At the end of each quarter, the Postal Service's processing center computer would automatically calculate (in a matter of seconds) a new experience-based weighted average rate only for those job-type/page count tables for which new presort-level volume data had been collected during the quarter.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10

PB/OCA-T100-6. Have you made an estimate of the costs associated with whatever updating would be required to implement your recommended quarterly changes in job-type, page-count rates?

(a) If so, what is that estimate?

(b) If not, why not?

A. (a) - (b) No. See my response to MASA/OCA-T100-2(d).

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10

PB/OCA-T100-7. Do you recommend that destination entry discounts as well as presort level discounts should be included in the calculation of "experience-based weighted average rates" OCA-T100 at 28, lines 13-14?

(a) If so, would this require more job-type/page-count categories than contained in your answer to interrogatory PB/OCA-T100-5?

(b) If not, why not?

A. (a) - (b) No. It is my understanding that, for purposes of the experiment, the Postal Service has effectively abandoned its request for Automation Basic DBMC rates for Standard A mail. *See* Tr. 5/1164. For that reason, I did not consider whether or how destination entry discounts should be used in the derivation of experience-based weighted average rates.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10

PB/OCA-T100-8. For First-Class mail, would each incremental ounce of weight require a separate lookup table for each of the categories of that mail?

A. No. There will be a "look-up" table for each job-type/page-count category. Moreover, there will usually be several job-type/page-count tables within each incremental ounce of weight. The number of job-type/page-count tables within each ounce is determined by the paper size and number of pages in a mailpiece.

Each mailpiece in a mailing will belong to a particular (and the same) job-type/page-count category (i.e., "look-up" tables). The job-type/page-count determines how each mailpiece will appear and its weight and shape. Job type specifies the printing and finishing options, as well as paper size. Page count specifies the number of pages.

With respect to paper size, there are 30 possible letter-size (8.5x11) job types, and 30 possible legal-size (8.5x14) job types. Tr. 6/1353 (Garvey, OCA/USPS-T1-45(f)). There are also two possible newsletter-size (11x17) job types. Tr. 6/1354 (Garvey, OCA/USPS-T1-45(f)).

With respect to page count, each 8.5x11 sheet of paper weighs 0.2 ounces; each 8.5x14 sheet of paper weighs 0.254; and, each 11x17 sheet of paper weighs 0.4 ounces. Similarly, a No. 10 (letter-size) envelope weighs 0.2 ounces, and a flat-size (9x12) envelope weighs 0.4 ounces. Tr. 5/1098-1100 (Plunkett, OCA/USPS-T5-29-31).

Accordingly, Table 1 might be organized as follows: Job types A-AD would consist of letter-size job types, 1 through 48 pages. Job types AE-BH would consist of legal-size job types, 1 through 48 pages. Job types BI and BJ would consist of newsletter-size job types, 1 through 48 pages.

The per piece First-Class Mail rates for letter-size, legal-size and newsletter-size job types by page count are shown in Attachment 1. Within the letter-size job types A-AD, the First-Class first-ounce single-piece, Automation Basic Presort, 3-Digit Presort, and 5-Digit Presort rates would apply to mailpieces with 1 to 4 pages weighing 1.0 ounce or less (0.2 oz. per page times 4 pages plus a 0.2 oz. No. 10 envelope). The First-Class first-ounce single-piece, Automation Basic Presort, 3-Digit Presort, 5-Digit Presort and the additional ounce rates would apply to mailpieces with 5 pages weighing 1.2 ounces. Tr. 5/1101 (Plunkett, OCA/USPS-T5-32(a)). For mailpieces with 6 to 8 pages weighing between 1.2 and 2.0 ounces (0.2 oz. per page times 8 pages plus a 0.4 oz. flat-size envelope), the First-Class flats single-piece, Automation Basic Presort, 3/5-Digit Presort and additional ounce rates would be applicable. Similarly, for mailpieces with 9-13, 14-18, 19-23, 24-28, 29-33, 34-38, 39-43, and 44-48 pages (each group of 5 pages plus a flat-size envelope representing ounce increments 3 through 10), the First-Class flats single-piece, Automation Basic Presort, 3/5-Digit Presort and additional ounce rates would be applicable.

Within the legal-size job types, AE-BH, the First-Class first-ounce, Automation Basic Presort, 3-Digit Presort, and 5-Digit Presort rates would apply to mailpieces with 1 to 3 pages weighing 1.0 ounce or less (0.254 oz. per page times 3 pages plus a 0.2 oz. No. 10 envelope). The First-Class first-ounce, Automation Basic Presort, 3-Digit

Presort, 5-Digit Presort and the additional ounce rates would apply to mailpieces with 4 pages weighing 1.216 ounces. Tr. 5/1101 (Plunkett, OCA/USPS-T5-32(b)). For mailpieces with 5-6 pages weighing between 1.216 and 1.924 ounces (0.254 oz. per page times 6 pages plus a 0.4 oz. flat-size envelope), the First-Class flats Automation Basic Presort, 3/5-Digit Presort and additional ounce rates would be applicable. Similarly, for mailpieces with 7-10, 11-14, 15-18, 19-22, 23-25, 26-29, 30-33, 34-37, 38-41, 42-45, and 46-48 pages (each group of pages plus a flat-size envelope falling within ounce increments 3 through 13), the First-Class flats Automation Basic Presort, 3/5-Digit Presort and additional ounce rates would be applicable.

Within newsletter-size job types BI and BJ, the First-Class first-ounce, Automation Basic Presort, 3-Digit Presort, 5-Digit Presort rates would apply to mailpieces with 1 to 2 pages weighing 1.0 ounces or less (0.4 oz. per page times 2 pages plus a 0.2 No. 10 envelope). The First-Class first-ounce, Automation Basic Presort, 3-Digit Presort, 5-Digit Presort and the additional ounce rates would apply to mailpieces with 3 to 4 pages weighing 1.6 to 2.0 ounces. Tr. 5/1101 (Plunkett, OCA/USPS-T5-32(c)). For mailpieces with 5-6, 7-9, 10-11, 12-14, 15-16, 17-19, 20-21, 22-24, 25-26, 27-29, and 30-31 pages (each group of pages plus a flat-size envelope falling within ounce increments 3 through 13), the First-Class flats Automation Basic Presort, 3/5-Digit Presort and additional ounce rates would be applicable. For mailpieces with 32-34, 35-36, 37-39, 40-41, 42-44, 45-56, and 47-48 pages (each group of pages plus a flat-size envelope falling within ounce increments 14 through 20), the under two-pound Priority Mail rate would apply.

Attachment 1 simply calculates the per piece First-Class Mail rates for letter-size, legal-size and newsletter-size job types by page count. The rates in Attachment 1 appear in the "look-up" tables. Under my proposal, these rates, when combined with presort-level volume data collected quarterly by job-type/page-count, are used to derive experience-based weighted average rates at the end of each quarter. The experience-based weighted average rates, located in the "look-up" tables, become an input to the postage pricing formula (i.e., Equation 1).

FIRST-CLASS MAIL RATES FOR MAILING ONLINE JOB-TYPE/PAGE-COUNT "LOOK-UP" TABLES1/

Rates per Piece (including Additional Ounce Rate)

Job-Type/Page Count					
A-AD/1-48	AE-BH/1-48	BI-BJ/1-48		Additional Ounce Rate:	22.0
Letter-Size (8.5x11)	Legal-Size (8.5x14)	Newsletter-Size (11x17)	Ounces	Presort Level	Rates (cents)
Letters (Pages)	Letters (Pages)	Letters (Pages)	<=	Letters	
1-4	1-3	1-2	1	5B	24.3
				3B	26.1
				BB	27.0
				SP	33.0
5	4		2	5B	46.3
				3B	48.1
				BB	49.0
				SP	55.0
Flats (Pages)	Flats (Pages)	Flats (Pages)		Flats	
6-8	5-6	3-4	2	3/5B	49.0
				BB	52.0
				SP	55.0
9-13	7-10	5-6	3	3/5B	71.0
				BB	74.0
				SP	77.0
14-18	11-14	7-9	4	3/5B	93.0
				BB	96.0
				SP	99.0
19-23	15-18	10-11	5	3/5B	115.0
				BB	118.0
				SP	121.0
24-28	19-22	12-14	6	3/5B	137.0
				BB	140.0
				SP	143.0
29-33	23-25	15-16	7	3/5B	159.0
				BB	162.0
				SP	165.0

Attachment 1 to PB/OCA-T100-8 (continued)

Job-Type/Page Count				Additional Ounce Rate:	22.0
A-AD/1-48	AE-BH/1-48	BI-BJ/1-48			
Letter-Size (8.5x11)	Legal-Size (8.5x14)	Newsletter-Size (11x17)	Ounces	Presort Level	Rates (cents)
Flats (Pages)	Flats (Pages)	Flats (Pages)	<=	Flats	
34-38	26-29	17-19	8	3/5B	181.0
				BB	184.0
				SP	187.0
39-43	30-33	20-21	9	3/5B	203.0
				BB	206.0
				SP	209.0
44-48	34-37	22-24	10	3/5B	225.0
				BB	228.0
				SP	231.0
	38-41	25-26	11	3/5B	247.0
				BB	250.0
				SP	253.0
	42-45	27-29	12	3/5B	269.0
				BB	272.0
				SP	275.0
	46-48	30-31	13	3/5B	291.0
				BB	294.0
				SP	297.0
		32-48	<2lb	Priority Mail	320.0

Notes:

1/ This attachment is not a "look-up" table. It only contains the rates appearing in the "look-up" tables. These rates, when combined with presort-level volume data collected quarterly by job-type/page count, are used to derive the experience-based weighted average rates in each "look-up" table.

PB/OCA-T100-9. How would you create lookup tables for Standard A flat size mail to which the pound rate applies?

A. The job-type/page-count "look-up" tables for Standard A letter and flat size mail would appear similar to those in Table I of my testimony. *See* OCA-T-100 at 27. The number of subsidiary tables and the presort levels in each table would be the same. However, the column of rates would be different.

The "look-up" tables for Standard A letters and flats could be organized in the same manner as the tables for First Class Mail. Job types A-AD, AE-BH and BI-BJ would consist of letter-size, legal-size and newsletter-size job types, respectively. There would be 1 through 48 pages for each job type.

The Standard A Mail rates for letter-size, legal-size and newsletter-size job types by page count, above and below the breakpoint, are shown in Attachments 1 and 2. For letter-size mailpieces with 1 to 5 pages, legal-size mailpieces with 1 to 4 pages, and newsletter-size mailpieces with 1 to 2 pages, the Standard A minimum per piece rate for Automation Basic, 3-Digit and 5-Digit letters would apply. For letter-size mailpieces with 6 to 14 pages, legal-size mailpieces with 5 to 11 pages, and newsletter-size mailpieces with 3 to 7 pages, the Standard A minimum per piece rate for Automation Basic, and 3/5-Digit flats would apply. A 14 page letter-size mailpiece, 11 page legal-size mailpiece and a 7 page newsletter-size mailpiece all weigh 3.2 ounces or less. The single piece First-Class rate, and additional ounce rate (where applicable), could be paid by some mailpieces.

For letter-size job types A-AD with page counts 15-48, legal-size job types AE-BH with page counts 12-48, and newsletter-size job types BI-BJ with page counts 8-48, the Standard A Automation Basic flat and 3/5-Digit flat rates would be set based upon the weight (number of pages and envelope) of the mailpiece and the per piece rate. However, there are exceptions. In the case of newsletter-size mailpieces, the under one-pound Priority Mail rate would apply to a single piece mailing weighing more than 13 ounces but less than 16 ounces. In addition, Standard B rates would apply to newsletter-size mailpieces weighing 16 ounces or more; that is, newsletter-size mailpieces consisting of 39 to 48 pages.

Attachments 1 and 2 simply calculate all the Standard A rates that appear in the job-type/page-count "look-up" tables. Attachment 1 shows the minimum piece rates for job types A-AD, letter-size letters and flats, with page counts 1-14; job types AE-BH, legal-size letters and flats, with page counts 1-11; and, job types BI and BJ, newsletter-size letters and flats, with page counts 1-7. Attachment 2 shows the rates for pound rated pieces for letter-size, legal-size and newsletter-size job types by page count and weight. All pound rated pieces are flats.

The Standard A mail rates in Attachments 1 and 2 would be used in the same manner as the First Class mail rates found in Attachment 1. See my response to PB/OCA-T100-8. Under my proposal, these rates, when combined with presort-level volume data collected quarterly by job-type/page-count, are used to derive experience-based weighted average rates at the end of each quarter. The experience-based weighted average rates, located in the "look-up" tables, become an input to the postage pricing formula (i.e., Equation 1).

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Attachment 1 to PB/OCA-T100-9 **Page 1 of 1**

STANDARD (A) MAIL RATES FOR MAILING ONLINE JOB-TYPE/PAGE-COUNT "LOOK-UP" TABLES1/

Minimum Piece Rate (for pieces weighing 3.2985 ounces or less)

Job-Type/Page Count				Automation	
A-AD/1-14	AE-BH/1-11	BI-BJ/1-7			
Letter-Size (8.5x11)	Legal-Size (8.5x14)	Newsletter-Size (11x17)	Ounces	Presort Level	Rates (cents)
Letters (Pages)	Letters (Pages)	Letters (Pages)	<=	Letters	
1-4	1-3	1-2	1	5B	16.0
				3B	17.6
				BB	18.3
				SP	33.0
5	4		2	5B	16.0
				3B	17.6
				BB	18.3
				SP	55.0
Flats (Pages)	Flats (Pages)	Flats (Pages)		Flats	
6-8	5-6	3-4	2	3/5B	20.3
				BB	24.5
				SP	55.0
9-13	7-10	5-6	3	3/5B	20.3
				BB	24.5
				SP	77.0
14	11	7	3.2985	3/5B	20.3
				BB	24.5
				SP	99.0

Notes:

1/ This attachment is not a "look-up" table. It only contains the rates appearing in the "look-up" tables. These rates, when combined with presort-level volume data collected quarterly by job-type/page count, are used to derive the experience-based weighted average rates in each "look-up" table.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10

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Attachment 2 to PB/OCA-T00-9

STANDARD (A) MAIL RATES FOR MAILING ONLINE JOB-TYPE/PAGE-COUNT "LOOK-UP" TABLES1/
Rates for Pound Rated Pieces (for pieces weighing more than 3.2985 ounces)

Job-Type/Page Count			Weight per Piece (oz.)			Automation Flats			
A-AD/15-48	AE-BH/12-48	BI-BJ/8-48	Letter-Size	Legal-Size	Newsletter-Size	Basic Flat:	10.5	3/5-Digit Flat:	6.3
Letter-Size (8.5x11)	Legal-Size (8.5x14)	Newsletter-Size (11x17)	0.2	0.254	0.4	Presort Level	Rates (cents)	Rates (cents)	Rates (cents)
Flats (Pages)	Flats (Pages)	Flats (Pages)	Flat Envelope (9x12)		0.4		Ltr size 2/	Lgl. Size 3/	Nsltr. Size 4/
15	12	8	3.4	3.448	3.6	3/5B BB SP	20.7 24.9 99.0	20.9 25.1 99.0	21.5 25.7 99.0
16	13	9	3.6	3.702	4	3/5B BB SP	21.5 25.7 99.0	22.0 26.2 99.0	23.2 27.4 99.0
17	14	10	3.8	3.956	4.4	3/5B BB SP	22.4 26.6 99.0	23.0 27.2 99.0	24.9 29.1 121.0
18	15	11	4	4.21	4.8	3/5B BB SP	23.2 27.4 99.0	24.1 28.3 121.0	26.6 30.8 121.0
19	16	12	4.2	4.464	5.2	3/5B BB SP	24.1 28.3 121.0	25.2 29.4 121.0	28.3 32.5 143.0

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Job-Type/Page Count			Weight per Piece (oz.)			Automation Flats			
A-AD/15-48	AE-BH/12-48	BI-BJ/8-48	Letter-Size	Legal-Size	Newsletter-Size	Basic Flat:	10.5	3/5-Digit Flat:	6.3
Letter-Size (8.5x11)	Legal-Size (8.5x14)	Newsletter-Size (11x17)	0.2	0.254	0.4	Presort Level	Rates (cents)	Rates (cents)	Rates (cents)
Flats (Pages)	Flats (Pages)	Flats (Pages)	Flat Envelope (9x12)		0.4		Ltr size 2/	Lgl. Size 3/	Nsltr. Size 4/
20	17	13	4.4	4.718	5.6	3/5B BB SP	24.9 29.1 121.0	26.3 30.5 121.0	30.0 34.2 143.0
21	18	14	4.6	4.972	6	3/5B BB SP	25.8 30.0 121.0	27.3 31.5 121.0	31.7 35.9 143.0
22	19	15	4.8	5.226	6.4	3/5B BB SP	26.6 30.8 121.0	28.4 32.6 143.0	33.4 37.6 165.0
23	20	16	5	5.48	6.8	3/5B BB SP	27.5 31.7 121.0	29.5 33.7 143.0	35.1 39.3 165.0
24	21	17	5.2	5.734	7.2	3/5B BB SP	28.3 32.5 143.0	30.6 34.8 143.0	36.8 41.0 187.0
25	22	18	5.4	5.988	7.6	3/5B BB SP	29.1 33.3 143.0	31.6 35.8 143.0	38.5 42.7 187.0

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Job-Type/Page Count			Weight per Piece (oz.)			Automation Flats			
A-AD/15-48	AE-BH/12-48	BI-BJ/8-48	Letter-Size	Legal-Size	Newsletter-Size	Basic Flat:	10.5	3/5-Digit Flat:	6.3
Letter-Size (8.5x11)	Legal-Size (8.5x14)	Newsletter-Size (11x17)	0.2	0.254	0.4	Presort Level	Rates (cents)	Rates (cents)	Rates (cents)
Flats (Pages)	Flats (Pages)	Flats (Pages)	Flat Envelope (9x12)		0.4		Ltr size 2/	Lgl. Size 3/	Nsltr. Size 4/
26	23	19	5.6	6.242	8	3/5B BB SP	30.0 34.2 143.0	32.7 36.9 165.0	40.2 44.4 187.0
27	24	20	5.8	6.496	8.4	3/5B BB SP	30.8 35.0 143.0	33.8 38.0 165.0	41.8 46.0 209.0
28	25	21	6	6.75	8.8	3/5B BB SP	31.7 35.9 143.0	34.9 39.1 165.0	43.5 47.7 209.0
29	26	22	6.2	7.004	9.2	3/5B BB SP	32.5 36.7 165.0	35.9 40.1 187.0	45.2 49.4 231.0
30	27	23	6.4	7.258	9.6	3/5B BB SP	33.4 37.6 165.0	37.0 41.2 187.0	46.9 51.1 231.0
31	28	24	6.6	7.512	10	3/5B BB SP	34.2 38.4 165.0	38.1 42.3 187.0	48.6 52.8 231.0

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Job-Type/Page Count			Weight per Piece (oz.)			Automation Flats			
A-AD/15-48	AE-BH/12-48	BI-BJ/8-48	Letter-Size	Legal-Size	Newsletter-Size	Basic Flat:	10.5	3/5-Digit Flat:	6.3
Letter-Size (8.5x11)	Legal-Size (8.5x14)	Newsletter-Size (11x17)	0.2	0.254	0.4	Presort Level	Rates (cents)	Rates (cents)	Rates (cents)
Flats (Pages)	Flats (Pages)	Flats (Pages)	Flat Envelope (9x12)		0.4		Ltr size 2/	Lgl. Size 3/	Nsltr. Size 4/
32	29	25	6.8	7.766	10.4	3/5B	35.1	39.2	50.3
						BB	39.3	43.4	54.5
						SP	165.0	187.0	253.0
33	30	26	7	8.02	10.8	3/5B	35.9	40.2	52.0
						BB	40.1	44.4	56.2
						SP	165.0	209.0	253.0
34	31	27	7.2	8.274	11.2	3/5B	36.8	41.3	53.7
						BB	41.0	45.5	57.9
						SP	187.0	209.0	275.0
35	32	28	7.4	8.528	11.6	3/5B	37.6	42.4	55.4
						BB	41.8	46.6	59.6
						SP	187.0	209.0	275.0
36	33	29	7.6	8.782	12	3/5B	38.5	43.5	57.1
						BB	42.7	47.7	61.3
						SP	187.0	209.0	275.0
37	34	30	7.8	9.036	12.4	3/5B	39.3	44.5	58.8
						BB	43.5	48.7	63.0
						SP	187.0	231.0	297.0

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Job-Type/Page Count			Weight per Piece (oz.)			Automation Flats			
A-AD/15-48	AE-BH/12-48	BI-BJ/8-48	Letter-Size	Legal-Size	Newsletter-Size	Basic Flat:	10.5	3/5-Digit Flat:	6.3
Letter-Size (8.5x11)	Legal-Size (8.5x14)	Newsletter-Size (11x17)	0.2	0.254	0.4	Presort Level	Rates (cents)	Rates (cents)	Rates (cents)
Flats (Pages)	Flats (Pages)	Flats (Pages)	Flat Envelope (9x12)		0.4		Ltr size 2/	Lgl. Size 3/	Nsltr. Size 4/
38	35	31	8	9.29	12.8	3/5B BB SP	40.2 44.4 187.0	45.6 49.8 231.0	60.5 64.7 297.0
39	36	32	8.2	9.544	13.2	3/5B BB SP*	41.0 45.2 209.0	46.7 50.9 231.0	62.2 66.4 320.0
40	37	33	8.4	9.798	13.6	3/5B BB SP*	41.8 46.0 209.0	47.8 52.0 231.0	63.8 68.0 320.0
41	38	34	8.6	10.052	14	3/5B BB SP*	42.7 46.9 209.0	48.8 53.0 253.0	65.5 69.7 320.0
42	39	35	8.8	10.306	14.4	3/5B BB SP*	43.5 47.7 209.0	49.9 54.1 253.0	67.2 71.4 320.0
43	40	36	9	10.56	14.8	3/5B BB SP*	44.4 48.6 209.0	51.0 55.2 253.0	68.9 73.1 320.0

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Job-Type/Page Count			Weight per Piece (oz.)			Automation Flats			
A-AD/15-48	AE-BH/12-48	BI-BJ/8-48	Letter-Size	Legal-Size	Newsletter-Size	Basic Flat:	10.5	3/5-Digit Flat:	8.3
Letter-Size (8.5x11)	Legal-Size (8.5x14)	Newsletter-Size (11x17)	0.2	0.254	0.4	Presort Level	Rates (cents)	Rates (cents)	Rates (cents)
Flats (Pages)	Flats (Pages)	Flats (Pages)	Flat Envelope (9x12)		0.4		Ltr size 2/	Lgl. Size 3/	Nsltr. Size 4/
44	41	37	9.2	10.814	15.2	3/5B BB SP*	45.2 49.4 209.0	52.1 56.3 253.0	70.6 74.8 320.0
45	42	38	9.4	11.068	15.6	3/5B BB SP*	46.1 50.3 209.0	53.1 57.3 275.0	72.3 76.5 320.0
46	43	39	9.6	11.322	16	3/5B BB SP	46.9 51.1 209.0	54.2 58.4 275.0	Standard (B) Rates
47	44	40	9.8	11.576	16.4	3/5B BB SP	47.8 52.0 209.0	55.3 59.5 275.0	Standard (B) Rates
48	45	41	10	11.83	16.8	3/5B BB SP	48.6 52.8 231.0	56.4 60.6 275.0	Standard (B) Rates
	46	42	--	12.084	17.2	3/5B BB SP	-- -- --	57.4 61.6 297.0	Standard (B) Rates

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES PB/OCA-T100-1-10

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Attachment 2 to PB/OCA-T00-9

Job-Type/Page Count			Weight per Piece (oz.)			Automation Flats			
A-AD/15-48	AE-BH/12-48	BI-BJ/8-48	Letter-Size	Legal-Size	Newsletter-Size	Basic Flat:	10.5	3/5-Digit Flat:	6.3
Letter-Size (8.5x11)	Legal-Size (8.5x14)	Newsletter-Size (11x17)	0.2	0.254	0.4	Presort Level	Rates (cents)	Rates (cents)	Rates (cents)
Flats (Pages)	Flats (Pages)	Flats (Pages)	Flat Envelope (9x12)		0.4		Ltr size 2/	Lgl. Size 3/	Nsltr. Size 4/
	47	43	--	12.338	17.6	3/5B BB SP	-- -- --	58.5 62.7 297.0	Standard (B) Rates
	48	44	--	12.592	18	3/5B BB SP	-- -- --	59.6 63.8 297.0	Standard (B) Rates
		45	--	--	18.4	Standard (B) Mail	-- -- --	-- -- --	Standard (B) Rates
		46	--	--	18.8	Standard (B) Mail	-- -- --	-- -- --	Standard (B) Rates
		47	--	--	19.2	Standard (B) Mail	-- -- --	-- -- --	Standard (B) Rates
		48	--	--	19.6	Standard (B) Mail	-- -- --	-- -- --	Standard (B) Rates

Attachment 2 to PB/OCA-T00-9

* Under 1 lb. Priority Mail rates for mailpieces weighing more than 13 ounces but less than 16 ounces.

Notes:

1/ This attachment is not a "look-up" table. It only contains the rates appearing in the "look-up" tables. These rates, when combined with presort-level volume data collected quarterly by job-type/page count, are used to derive the experience-based weighted average rates in each "look-up" table.

2/ Calculation: piece rate + ((Letter-size ounces/16 ounces) * 67.7 cents)

3/ Calculation: piece rate + ((Legal-size ounces/16 ounces) * 67.7 cents)

4/ Calculation: piece rate + ((newsletter-size ounces/16 ounces) * 67.7 cents)

PB/OCA-T100-10. Would each printing site charge the same postage rate without regard to the characteristics of mail at that site?

(a) If so, would further de-averaging to calculate individual postage rates for each site be more equitable to the mailers whose mail entered the postage stream from a particular site?

A. Yes. Presently, in the case of First-Class mail, postage rates paid are not based on the location of entry. The same would be true for Standard A mail—assuming no destination entry discounts. I do not propose to change these features of the current rate schedule. Nor do I propose DBMC rates for Mailing Online. Under my proposal, Mailing Online mailpieces of the same job-type/page-count entered at the same time would pay the same postage rates regardless of the location of the print site.

(a) No. This is not my proposal. My proposal is designed to remove the penalty for customers submitting mailings through Mailing Online; that is, the inability of customers to obtain deeper discount rates where their mailpieces would qualify if entered in hardcopy directly with the Postal Service.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T100-1-8

USPS/OCA-T100-1. Please refer to your statement on page 7, lines 6-7, "For Mailing Online, a rebate system removes any competitive advantage on the part of the Postal Service vis-a-vis competitors for small-volume mailings."

(a) Please identify each Postal Service competitor to whom you refer, regardless of whether each is a small part of a larger firm, a single firm, a group of firms or an industry.

(b) For each competitor identified in response to part (a), please identify all factors upon which you rely in concluding that they constitute competitors.

A. (a) - (b) In preparing my testimony, I was not referring to any particular Postal Service competitor. I do not consider it necessary to identify any competitors (existing or otherwise) to conclude that the proposed waiver of the minimum volume requirements for Automation Basic rates would create an advantage for the Postal Service in the small-volume portion of the "hybrid" mail market. Consequently, I did not rely on any "factors" with respect to any particular competitor. Rather, I relied on the Commission's finding that, "[b]y exempting Mailing Online mailings from the threshold volume eligibility requirements that apply to its competitors, the Postal Service will be able to compete for at least the small-volume portion of the market on preferential terms." PRC Op. MC98-1 at 35.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T100-1-8

USPS/OCA-T100-2.

(a) Under your pricing formula, what existing mail category would be used to classify a batch consisting of a single mailpiece that the customer intends to enter as Standard (A) Mail?

(b) Would your answer to part (a) change if instead of a batch consisting of a single mailpiece, it consisted of:

i. 100 pieces?
ii. 201 pieces?
iii. 350 pieces?
iv. 501 pieces?

A. (a) I understand this question to be asking how the rate for a single mailpiece of Standard A Mail would be determined. In general, a customer submitting a single Standard A mailpiece to Mailing Online would pay either (1) the rate for which that mailpiece would qualify if entered as hardcopy directly with the Postal Service or (2) a blended discount rate reflecting the greater depths of sort resulting from Postal Service batching and presorting during the experiment, whichever is lower. In the first quarter, since there would be no experience-based volume data, the single Standard A mailpiece would pay the Standard A Automation Basic rate. In the second quarter, when an experience-based weighted average rate could be derived from first quarter presort-level volume data, the customer would pay the lower of the "stand-alone" rate (i.e., the First-Class single-piece rate) or a blended discount rate consisting of the proposed Automation Basic discount rate and the experience-based weighted average rate.

(b) No.

USPS/OCA-T100-3. If a customer wishes to enter 100 pieces as Standard (A) Mail, how would the Mailing Online postage rate be determined using your pricing formula?

(a) To what extent, if any, is your answer based upon consideration of the service standard preferred by a Mailing Online customer?

(b) To what extent, if any, is your answer dependent upon the degree of batching attained by the Mailing Online system? Please explain your response fully.

A. As posed, this question cannot be answered with the specificity it deserves. There is insufficient information in the question to determine the postage rate under my proposal. For example, the number of pages in the mailpiece would determine its weight and shape, both affecting the rate.

The determination of the rate to be paid by a customer submitting 100 pieces of Standard A Mail (or any amount of Standard A or First-Class Mail) involves three steps. First, *the rate for which the mailpieces would qualify if entered as hardcopy directly with* the Postal Service must be determined. Second, a blended discount rate is calculated by the postage pricing formula (i.e., Equation 1). Third, a comparison of the two rates is made, with the lower rate offered to the customer. To further discussion, the following examples are provided.

Example 1: Assume the 100 mailpieces of Standard A Mail belong in Job-Type A and each mailpiece is one page (i.e., Page Count 1). Job-Type A consists of letter-size (8.5x11) mailpieces. Assume further that the 100 mailpieces are submitted to Mailing Online during the first quarter of the experiment.

Since the 100 piece mailing falls below the minimum volume requirement for Standard A Mail, the mailing would qualify as "if entered as hardcopy" for the First-

Class first-ounce single-piece rate (33 cents). Under my proposal, the blended discount rate must also be calculated for comparison to determine the lowest rate offered to the customer. The postage pricing formula uses the proposed Standard A Automation Basic rate (18.3 cents) and the experience-based weighted average rate. However, there is no "experience" in the first quarter with which to derive a weighted average rate. Consequently, the blended discount rate calculated by the pricing formula would be 18.3 cents (x(0) + 18.3(1-0)), the Standard A Automation Basic rate proposed by the Postal Service.

Example 2: Assume the same facts as Example 1, except that the 100 mailpieces are submitted to Mailing Online during the second quarter of the experiment. Assume further that, during the first quarter, Job-Type A/Page-Count 1 was a very common job type, and all (100 percent) of the mailpieces were presorted to the 5-Digit level. At the end of the first quarter, there would be an experience-based weighted average rate of 16 cents (1.00 x 16 cents) in the Job-Type A/Page-Count 1 "look-up" table.

The rate for the 100 mailpieces as "if entered as hardcopy" would again be the First-Class first-ounce single-piece rate (33 cents). The postage pricing formula would then calculate the blended discount rate to compare with the "hardcopy" rate. In the second quarter, the blended discount rate for the 100 mailpieces would be 18.2 cents (16(1/36) + 18.3(1-(1/36)). This rate would be offered to the customer.

Example 3: Assume the same facts as Example 1, except that each of the 100 mailpieces is 18 pages and weighs four ounces. Each mailpiece is a flat. Again, assume the mailpieces are submitted during the first quarter of the experiment.

The rate as "if entered as hardcopy" must first be determined. Since the 100 piece mailing falls below the minimum volume requirement for Standard A Mail, the First-Class four-ounce single-piece rate (99 cents) would apply. Then the blended discount rate must be calculated for comparison to determine the lowest rate offered to the customer. The pricing formula uses the proposed Standard A Automation Basic rate (27.4 cents) and the experience-based weighted average rate. However, there is no "experience" in the first quarter with which to derive a weighted average rate. Consequently, the blended discount rate would be 27.4 cents ($x(0) + 27.4(1-0)$), the Standard A Automation Basic rate for a four ounce flat proposed by the Postal Service.

Example 4: Assume the same facts as Example 3, except that the 100 mailpieces are submitted to Mailing Online during the second quarter of the experiment. Also assume that, during the first quarter, Job-Type A/Page-Count 18 was a very common job type, and all (100 percent) of the mailpieces were presorted to the 3/5-Digit level. At the end of the first quarter, there would be an experience-based weighted average rate of 23.2 cents (1.00 x 23.2 cents) in the Job-Type A/Page-Count 18 "look-up" table.

The rate for the 100 mailpieces as "if entered as hardcopy" would again be the First-Class four-ounce single-piece rate (99 cents). The postage pricing formula would then calculate the blended discount rate to compare with the "hardcopy" rate. In the second quarter, the blended discount rate for the 100 mailpieces would be 27.3 cents

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(23.2(1/36) + 27.4(1-(1/36)). This rate would be offered to the customer.

(a) The Postal Service has proposed service standards (i.e., cut-off times, print site processing times, etc.) for Mailing Online mailings. Those same service standards would be applicable to customer mailings under my proposal. I do not propose to change those service standards.

(b) My postage pricing formula uses experience-based weighted average rates to calculate a blended discount rate. Experience-based weighted average rates are derived from presort-level volume data collected during the experiment. Presort-level volume data is collected from mailings where the Postal Service has batched mailpieces. To the extent the Postal Service can batch mailpieces and presort those batches more deeply than necessary to qualify for the proposed Automation Basic discount rates, the experience-based weighted average rates used in the pricing formula will reflect the deeper discount rates achieved.

The other source of presort-level volume data is mailings which have qualified for rates as if entered in hard copy directly with the Postal Service. Volume data from these mailings will also be reflected in the derivation of the experience-based weighted average rates and, in turn, through the pricing formula.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T100-1-8

USPS/OCA-T100-4.

(a) Please confirm that the Postal Service's proposed use of the basic automation presort categories requires both waiver of volume minimums and forbearance from still deeper discounts.

(b) Would your pricing approach involve a waiver of the volume minimums, at least during the first period when automation basic rates apply? Please explain.

(c) Does your pricing formula diminish the impact of the waiver of volume minimums as the weight of actual experience overcomes the starting points. Please explain your response fully.

(d) Please confirm that your pricing formula would eliminate the forbearance from deeper discounts.

(e) Would elimination of the forbearance from deeper discounts constitute a competitive advantage, or competitive disadvantage, for Postal Service competitors. Please explain your answer fully.

(f) If elimination of the forbearance from deeper discounts constitutes a competitive advantage for the Postal Service, how do you reconcile this conclusion with your assertion that "setting postage charges for Mailing Online on the basis of actual experience eliminates ... any anti-competitive effect of waiving minimum volume requirements ...." Please explain your answer fully.

A. (a) Confirmed.

(b) Yes. See my response to MASA/OCA-T100-7(a).

(c) Yes. *See* OCA-T-100 at 29-31, lines 9-14, lines 1-14, and lines 1-6, respectively.

(d) Confirmed.

(e) - (f) Neither. Eliminating the competitive advantage available only to the Postal Service, as proposed in Mailing Online, and permitting the Postal Service to offer deeper presort discounts, as I have proposed, creates a "level playing field," at least in terms of postal pricing. Under my proposal, the Postal Service would no longer be able to offer Automation Basic rates to small-volume mailings that did not qualify. Neither could competitors. Similarly under my proposal, the Postal Service would be able to offer discounts greater than Automation Basic. So would competitors.

USPS/OCA-T100-5. Please refer to your statement on page 16, lines 6-8: "No competing provider is able to consistently offer a lower price unless the competitor has lower costs or is willing to accept less than a 25 percent profit margin" [footnote omitted].

(a) Please confirm that the Postal Service is using contractors to provide printing services for Mailing Online.

(b) Please confirm that any such contractors hoping to make a profit on their Mailing Online print jobs must build a profit margin into the price with which they bid on a Mailing Online contract.

(c) Please confirm that, as a result of the need to build a printer's profit margin into contract prices, the total mark-up on the printer's costs (as opposed to contract prices) is greater than 25 percent.

(d) Please confirm that at least some potential Mailing Online competitors (e.g., Pitney Bowes or some MASA members) should be able to provide printing services from an internal rather than an external source.

(e) Please confirm that a Mailing Online competitor may be able to realize profits greater than 25 percent while still keeping pre-mailing prices below the proposed Mailing Online fees.

A. (a) Confirmed.

(b) - (c) Not confirmed. I have no knowledge of what might motivate a printing contractor when fashioning its bid.

(d) Confirmed.

(e) Confirmed.

USPS/OCA-T100-6.

(a) Please confirm that the Postal Service fees and postage for Mailing Online pieces, as proposed, mean that the price of the first mailpiece (within shape, weight and print characteristic groups) is the same as the 500th, or 5000th.

(i) Please confirm that under the Postal Service pricing proposal, a job submitted on day ten of the experiment would be priced the same as it would be if submitted on day 100 (assuming no change in underlying printer contracts).

(ii) Please confirm that under your pricing formula, a job submitted on day ten of the experiment would not be priced the same as it would be if submitted on day 100 (assuming no change in underlying printer contracts).

(b) Please confirm that the Postal Service justifies its approach, in part, by the flat rate pricing typical of digital printing. See, e.g., Tr. 2/147; Tr. 7/1668, 1701, 1727.

(c) Please confirm that your pricing formula for Mailing Online postage does not preserve this characteristic of flat rates over time (assuming no change in underlying printer contracts).

(d) Of two otherwise identical Mailing Online jobs, one consisting of 20 pieces and one consisting of 2000, would respective job sizes have any impact on per-piece handling costs? Please explain your answer fully.

A. (a) Confirmed.

(i) Confirmed.

(ii) Not confirmed. The determination of postage under my proposal would be the same for the duration of the experiment. Customers would pay the lesser of their "stand alone" rate or the blended discount rate calculated via the postage pricing formula. However, the blended discount rate may or may not change over time with changes in the experience-based weighted average rate and the increase in the weighting factor. *See* OCA-T-100 at 35, lines 6-13.

(b) Confirmed.

(c) Confirmed. Under my proposal, the pricing formula was specifically designed to adjust postage rates to reflect the batching and presorting experience of the Postal Service during the experiment, so as to eliminate the Postal Service's competitive advantage in the small-volume portion of the "hybrid" mail market over time.

(d) It depends on whether the Mailing Online job types can be merged before printing. If merged, pieces from either mailing should have the same processing costs. If not merged, the larger mailing could have lower costs by generating full trays. This would be true under my proposal as well as under the Postal Service's proposal.

ANSWERS OF OCA WITNESS JAMES F. CALLOW
TO INTERROGATORIES USPS/OCA-T100-1-8

USPS/OCA-T100-7.

(a) Please confirm that it would theoretically be possible to establish one or more rate categories unique to Mailing Online.

(b) Please confirm that your pricing formula for Mailing Online postage would likely end up charging customers postage rates that do not correspond exactly with any existing mail categories.

(c) Please explain whether you believe your proposal, if adopted, would constitute the establishment of one or more rate categories unique to Mailing Online. Identify all factors that you rely upon in formulating your opinion. If you considered any factors only to reject reliance upon them, please identify those and explain your reasons for rejecting them.

(d) Please confirm that rate categories unique for Mailing Online could conceivably be established in this Commission proceeding, or in a later one.

(e) Please compare and contrast the respective pluses and minuses of establishing unique mail categories for Mailing Online in this proceeding as opposed to any request for a permanent Mailing Online service.

A. (a) Confirmed. This is not my proposal.

(b) It is true that the blended discount rate calculated under my pricing formula would not correspond to any rate that exists at present. Since this is an experimental case, I am proposing an experimental pricing formula to calculate a blended discount rate.

(c) I did not consider whether, or to what extent, my pricing formula would constitute one or more rate categories. I am proposing an experimental pricing formula to calculate a blended discount rate in the context of an experimental case.

(d) Although this question appears to require a legal conclusion, I believe the Commission has the authority to recommend changes in rates and classifications during this proceeding, or subsequent proceedings.

(e) I gave no consideration to the establishment of Mailing Online as a permanent classification.

USPS/OCA-T100-8.

(a) Under your pricing formula for Mailing Online postage, could one outcome be use of saturation rate categories for some pieces? Please explain your answer fully.

(b) Would use of saturation rate categories be a competitive advantage or disadvantage for the Postal Service or any other providers?

A. (a) No. Under the Postal Service's proposal, saturation rate categories are not available for Mailing Online mailpieces. The same is true under my proposal. I propose that customers pay "rates for which their mailpieces would qualify *if* entered as hardcopy directly with the Postal Service." (emphasis added) *See* OCA-T100 at 3, lines 14-15. However, customers *are* submitting their mailings through Mailing Online and, as a consequence, they will not qualify for saturation rates.

(b) The inability to offer saturation rates would appear to place the Postal Service at a competitive disadvantage.

COMMISSIONER LeBLANC: Now, both the United States Postal Service and the Mail Advertising Service Association have indicated an intention to conduct oral cross examination of Witness Callow.

Does any other participant have oral cross examination for Witness Callow at this time?

MR. WIGGINS: Mr. Presiding Officer, there was an amendment by Witness Callow to his interrogatory number 9 from Pitney Bowes, and I'm unclear whether the amended or original version of that document is among the designated materials.

COMMISSIONER LeBLANC: Mr. Costich?

MR. COSTICH: It should be the revised version, but let me just check and make sure.

COMMISSIONER LeBLANC: Well, let's take a minute. We'll go off the record here, and check it out for us, please, make sure that we're in agreement.

[Discussion held off the record.]

COMMISSIONER LeBLANC: On the record, Mr. Reporter.

Mr. Costich, Mr. Wiggins, is everything clear at this point?

MR. WIGGINS: Yes. The revised version is among the designated materials, Mr. Presiding Officer.

COMMISSIONER LeBLANC: Good. I think I

inadvertently made a mistake earlier on the institutional responses. To make sure, you do want them made part of the record. Is that correct, Mr. Hollies?

MR. HOLLIES: Well, I believe that's in some sense the OCA's call. They were the ones designating it. But my understanding of our usual procedures would be that they would be transcribed into the record at this point.

COMMISSIONER LeBLANC: And you have no objections about that?

MR. HOLLIES: I have no objection to that.

COMMISSIONER LeBLANC: Mr. Costich?

MR. COSTICH: That's correct, Mr. Presiding Officer.

COMMISSIONER LeBLANC: So move that, Mr. Reporter, please.

Now as I said, does any other participant have any oral cross-examination -- extra oral cross-examination for Witness Callow?

Okay. We'll begin then with Mr. Hollies. Will you take the lead role, or who?

MR. HOLLIES: I would actually prefer to defer, but that's not a problem.

Mr. Wiggins, have you --

COMMISSIONER LeBLANC: Well, Mr. Hollies, we're not going to argue that point. You're either going to take

[redacted]

it or Mr. Rubin or one of you all will, but let's move on. Let's let the Postal Service begin first then.

MR. HOLLIES: Thank you, Mr. Presiding Officer.

CROSS EXAMINATION

BY MR. HOLLIES:

Q Good morning, Mr. Callow.

A Good morning.

Q Would you please turn to your response to USPS/OCA-T-100-8?

A I have it.

Q In part A of that interrogatory, you indicate that saturation rates would not be available under your proposal; is that correct?

A That's correct.

Q Your proposal involves a formula to calculate postage charges for Mailing Online customers that gradually increases the importance of experience and decreases the importance of the starting rates; is that right?

A That's correct.

Q And as stated in the portion of your testimony referred to in the response, customers would pay the lower of what their job would qualify for as hard copy or the blended rate; is that correct?

A Correct.

Q Okay. And by the end of the experiment, that change in weighting would mean that rates were fully determined by experience; right?

A Yes, in terms of the formula.

Q If we assume that a given mailing would qualify for saturation rates when presented in hard copy, under your proposal, they would still pay saturation rates, would they not?

A I don't understand this question. Saturation rates are not available for Mailing Online. It's not something I considered, because my proposal deals with automation-compatible mail, and saturation rates as I understand it occur in another subclass.

Q Thank you.

A There might be some confusion with the way that quoted phrase was stated. I think a more complete exposition would be that customers pay rates for which their automation-compatible mail pieces would qualify if entered as hard copy directly with the Postal Service. I never intended to propose the introduction of any other subclasses.

Q I appreciate that. Thank you.

Let's turn away from what a mailing would qualify for if presented in hard copy and turn back to the formula side of the rate alternatives in your proposal, and let's add in a few assumptions. First, assume that we are at the end of the experiment so that the experience factor has a weight of 1 and the startup factor has declined to a weight of zero. Are you with me so far?

A Okay. Go ahead.

Q At this point the postage rate would be based entirely on experience; right?

A Correct.

Q And those mail categories and rate cells which experience larger volume would likely generate greater discounts; right?

A I'm sorry, could you repeat that again?

Q Sure. Basically if a lot of volume comes in in a particular mail category or rate cell, that would, based on the experience factor in your formula, ultimately lead to greater discounts for that category or rate cell of mail; correct?

A Yes. The experience-based weighted average rate would reflect that fact, that there were deeper discounts.

Q And the experienced-based weighted average rate is used in the pricing formula.

A It's the x in the pricing formula.

Q Now let's make some assumptions about what mail categories have been used over the course of the experiment. Assume that at the beginning of the experiment Mailing Online volume consists of pieces that if submitted as hard

[redacted]

copy would qualify for various rate categories across both Standard A mail and First Class mail. Now this would be consistent with the Postal Service goal of providing access to automation rates for smaller mailers; is that right?

A If you had hard-copy mail -- if you had mail received the mail would be collected in the lookup tables by presort level, and you would calculate a weighted average rate. I'm not certain I'm answering your question, but --

Q I guess I'm pointing here to how the mix of mail categories might change over time from the outset of the experiment.

A Okay.

Q To later on. Can you comment on that?

A Yes. Our -- the way we've designed the formula is that mail would be collected quarterly, and at the end of the quarter you would calculate a weighted average rate. At this point in time we don't know what the presort levels would be that are used to calculate the weighted average rates. You could have a lookup table, a job type page count lookup table, where all the mail that came in was very small and would show up only in the single-piece category. You could have -- or in single-piece presort level. It's not a presort level, but at that point. You could have another category of mail that was on another job type page count category that was used extensively, and therefore the Postal

Service was able to batch or that large quantities of mail came in, for example, the five-digit level. That would be reflected in the presort -- or in the experience-based weighted average rate.

If that were true throughout the experiment, at the end of the experiment that would be the, if you will, the x or the experience-based rate used in the formula, and because of the weight, it would -- the weight would be 1. And the weight applied to the automation basic rate would be zero.

Q So if we look at a single job type page count class of job, and over time we look at how the discount varies for that -- let's make it a very popular example. The discount would increase over time; correct?

This is now prior to the end of the experiment. This is when both weights are in play.

A If you assume that beginning in say the first quarter all the experience-based weighted average rate was let's say five digit and it remained at five digit through the experiment, the weighting factor would continually ratchet up and make more and more weight apply to that.

I guess -- I think this gets at something in my testimony maybe if you'd be willing we could point to it.

Table 3 on page 31, and in the last column, the factors, those fractions show the weights that are applied to the Equation 1 on the bottom of page 29. And as those factors, those fractions increase, more weight is applied to the experience based weighted average rate, and less applied to the automation basic rate proposed by the Postal Service.

Q Okay. So, to take your example, if the starting point is automation basic and the end point is five digit, --

A Yes.

Q -- that means over time the discount would increase, right?

A Yes.

MR. HOLLIES: Thank you. I have no further questions at this point.

COMMISSIONER LeBLANC: I see Mr. Bush is not here, so we have the new man on the block. If you will introduce yourself for the reporter, please, and you may begin.

MR. HIMELES: Thank you, Mr. Presiding Officer. Martin Himeles, Mr. Bush's partner from Zuckerman Spader on behalf of the Mail Advertising Services Association.

CROSS-EXAMINATION

BY MR. HIMELES:

Q Good morning, Mr. Callow.

A Good morning.

Q Mr. Callow, I want to first ask you some questions about the number of different job type page count categories that exist under your proposal. First, on page 24 of your testimony, you indicate that, based on the testimony of Witness Garvey, the total number of job type page count categories would be 62 Mailing Online job types times 48 different page possibilities, for a total of about 3,000, is that right?

A That's correct.

Q And am I also correct that that would -- those 3,000 would exist for both First Class and Standard A?

A Correct.

Q So that would be a total of roughly 6,000, is that right?

A Slightly less, yes. Slightly less than 6,000, that's correct.

Q Slightly less. In fact, if I have done the multiplication right, it is 2,976, rather than 3,000, and it would be that number multiplied by 2, which is just under 6,000, correct?

A That's correct.

Q Now, for each of those 6,000 different job type page count categories, and I am referring to them as 6,000, treating the 3,000 in Standard A and in First Class as being different, during each period your proposal would require a separate determination of the weighted average, is that correct?

A We need to be clear. Only if there were new data entered during the quarter would there be a calculation of a new weighted average rate. If there were no new data, there would be no need to calculate.

Q So, in other words, if a quarter goes by in which there are no mailings within a particular job type page count, then there is nothing to calculate, is there?

A That's correct.

Q But there would still be a requirement to change the weighting of experience for the new quarter, isn't that right?

A Yes, it should be automatic, the Postal Service's computer should simply calculate, provided there is new data to calculate.

Q Okay. But if there is no new data, would it not still be necessary to calculate a new weighted average which would be based on the same underlying data but different weightings for experience and for the starting rate?

A I guess I am not quite sure I understand your question. Let me -- there was a question on this, and I can't quite pinpoint it here now, but maybe this will help. If we turn to page 27 of my testimony, which is Table 1 and contains nine examples in First Class of the job type page count lookup tables, the third column is period end. During the quarter, data would be entered in that column. At the end of the quarter, you would calculate -- that data would basically move over to the all prior periods column and you would calculate a weighted average rate.

And if I understand your question correctly, if there were no data, zeroes would move over to the all prior periods column, at which point, if there existed a weighted average rate from a prior period, that weighted average rate would still be there, there would be no change in that weighted average rate.

Q Okay. Perhaps it is my terminology that has created some confusion. The weighted average rate is one of the factors that is used in calculating the blended discount rate, is that correct?

A For clarity, I call it a component only because I called the W the weighting factor, and that is visible in the formula, or the equation which is on page 29. So for my own purposes, I call the X and the Y components and the W a factor, a weighting factor.

Q Okay. But the blended discount rate would be the rate that would be available except in -- that would be available to the Postal Service, is that correct?

A The blended discount rate?

Q Yes.

A Yes.

Q And is it not also the case that during -- at the end of each quarter, that blended discount rate would have to be recalculated, even if there were no new data, based on the increased weight for experience and the decreased weight for the assumed simple average?

A Yes, the W would change, but that changes regularly by quarter.

Q Yes.

A And experience based weighted average rates change by quarter to the extent there is new data for those experience based weighted average rates.

Q Okay. So for each quarter, there would be a fairly simple calculation to be made in job type page count categories in which there is no new data, based on the change in the weighting, and a more complicated calculation to be made in job count -- job type page count categories in which there is new data, is that fair?

A I guess I would say it is a very simple calculation by each table and the computer would take care of it almost instantaneously, I would think, because you simply calculate weights and apply them to the rates, and you get a weighted average rate. To the extent you have four numbers instead of, you know, no change, I guess you could call it complicated, or more complicated, but I don't think the computer would cause much difficulty -- it would cause much difficulty for the computer.

Q Okay. I want to come back to that point. But let me ask you this, how does your formula treat non-merge mail pieces?

A The same as merge documents.

COMMISSIONER LeBLANC: Mr. Himeles, I am sorry to bother you. You have to pull that mike a little closer or something for us. Thank you very much.

MR. HIMELES: I'm sorry, Mr. Presiding Officer.

BY MR. HIMELES:

Q As you understand it, Mr. Callow, are non-merged mail pieces batched?

A They are intended to be batched. They are not batched as of yet. The Postal Service, based upon the data we've seen, has not been able to batch those.

Q Okay. And in your testimony, on page 24, when you refer to the 3,000 job-type page counts at footnote 55, you cite to Witness Garvey's testimony at OCA/USPS-T1-45(f)?

A Correct.

Q Do you have that in front of you?

A The footnote or the citation?

Q The citation. If not, I have a copy that I can --

A I believe I have it here someplace.

Q Okay.

A I guess I have the relevant table where he calculates the number of job-type page count categories.

Maybe it would be easier --

MR. HIMELES: Mr. Presiding Officer, may I tender to the witness a copy of OCA/USPS-T1-45?

COMMISSIONER LeBLANC: Please. It might be helpful if you could give the OCA counsel a copy so they could make sure they're on the same sheet of music here.

MR. HIMELES: Certainly, Mr. Presiding Officer.

COMMISSIONER LeBLANC: Thank you.

THE WITNESS: Thanks.

BY MR. HIMELES:

Q Now, Mr. Callow, if you look at the answer of Witness Garvey to part (f) of that interrogatory, that is the calculation that you were referencing in your footnote. Is that correct?

A Correct.

Q Now, if you'll look at his response to sub-part (b), he indicates, does he not, that all non-merged jobs are treated as separate batches.

A Correct.

Q And he indicates generally that current and future system development is focused on improved functionality, including the capability to combine all like documents into commingled batches?

A Correct.

Q But as of this time, the data that you have seen from the market test indicates that non-merged jobs are still being treated as separate batches. Is that right?

A Yes.

Q And you don't know, I take it, when, if at all, the software will reach the point of having the capability to batch non-merged jobs.

A I have no idea.

Q And if, during the experiment, at the time it begins or throughout the course of the experiment, non-merged jobs are still not being batched, how would they be treated in your proposal?

A There would be no difference between merged or non-merged under my proposal. The data used, collected in the job-type page count categories come from qualification reports, and those qualification reports, whether they reflect non-merged or merged batches, would simply get entered into the look-up tables, and then the weighted average rate would be calculated.

Q Okay. Let me see if I understand that.

If -- let's assume that we have a one-page mailing that is non-merge and is of common job type. Let's say it's all black, letter-size. Would that be included in the job-type page count category for all black letters that are one page?

A Correct.

[redacted]

Q And now, all black letters that are of the merged variety -- let's assume that there was a high quantity of -- a large quantity of those -- strike that. Let's assume that we're in quarter five, and so the rate that your formula would be calculating, the blended discount rate, would include experience from the first four quarters, correct?

A Correct.

Q And let's assume that, during the first four quarters, there was a substantial volume of one-page merge mail pieces in that category, and as a result, five-digit discount -- five-digit zip code discount rates were available, okay?

A Okay.

Q Now, if you have a non-merge mailing, would that receive the same rate as the merge mailings in that job-type page count category?

A It would be calculated the same, yes.

Q Okay. And so -- just to make it more specific, if we're talking about first-class mail, then the discount for five-digit -- the discounted rate for five-digit is 24.3 cents for a one-ounce mailing?

A Yes.

Q And of course, the single-piece rate is 33 cents.

Now, let's suppose that, in quarter five, there is a mailing of a one-page non-merge mail piece and the quantity is 400. That would, if it were mailed in hard copy, qualify only for a 33-cent single-piece rate. Is that correct?

A Correct.

Q And that's because the quantity -- the minimum quantity requirement of 500 pieces has not been satisfied. Is that right?

A Correct.

Q Now, in mailing on-line, unless and until the software reaches the point at which it can batch that mailing with others, the actual rate that would apply in the absence of your formula -- let me rephrase that.

If a member of MASA were to take that mailing and attempt to get the best possible postage rate for it, the best that he could do would be 33 cents. Is that right?

A Yes.

Q And as I understand your testimony a minute ago, on these facts, under mailing on-line, the Postal Service would charge 24.3 cents? Is that right, for that mailing?

A The Postal Service? No. They would charge automation basic rate, 27.

Q When I say the Postal Service, I mean if your formula were adopted.

A I see. Okay.

Q So, am I right that, if your formula were adopted,

[redacted]

it would be 24.3 cents?

MR. COSTICH: Mr. Presiding Officer, could I just get a clarification as to which quarter we're in?

MR. HIMELES: The fifth quarter. I'm assuming that we're --

COMMISSIONER LeBLANC: Excuse me, sir.

Is that what you need?

MR. COSTICH: Yes.

COMMISSIONER LeBLANC: Thank you.

THE WITNESS: I guess I want to back up a little bit. You're talking about 400 pieces of a common job type, one ounce, one page, black, fifth quarter, and what -- I guess I'm missing one piece of information, at least one. What would be the experience-based weighted average rate?

MR. HIMELES: Okay. I'm sorry. Let me rephrase the question.

BY MR. HIMELES:

Q Under your proposal, there would be a determination of a blended discount rate which would give a weighting to the 24.3-cent rate, which is five-digit automation, and a weighting to the automation basic rate, which is 27 cents. Is that right?

A Yes.

Q And the relative weighting of those -- the weighted average of those two numbers would give you a

blended discount rate. Is that correct?
A Correct.
Q And that would be the rate that would be available under your formula. Is that right?
A I guess this is where I'm hung up. How did you decide that it was five-digit?
Q Well, I've asked you to assume that all mailings in this job type have been -- have qualified for five-digit -- all mailings that are merge mailings.
A In all prior quarters.
Q Yes.
A Yes. Okay. So, yes, if all mailings from the prior four quarters were at the five-digit rate, the weighted average rate would be 24.3. That would be the experience-based weighted average rate, which would then be entered into the formula and used to calculate the weighted -- the blended discount rate.
Q And looking at page 31 of your testimony, well -- strike that.
So the rate would be somewhere between 24.3 cents and 27 cents, correct?
A Correct.
Q Now in the case of a merged mailing, the reason that you suggest the rate ought to be between 24.3 cents and 27 cents is because experience indicates that it has

typically been batched with other mailings and therefore qualified for a greater discount than automation basic, is that right?

A Yes.

Q In the case of a nonmerged mailing, that would not be the case, would it? In other words a nonmerged mailing as things stand now would not have been batched and as a result it would not have qualified in the absence of a waiver of the minimum quantity requirement for any rate below 33 cents, is that right?

A I guess the non -- I am sorry, the mail merged documents -- those would be entered at single piece, as I understand it.

Q When you say they would be entered as single piece, you mean in the absence of a waiver of the volume discount?

A Yes.

Q But your formula is as we have discussed -- it would enter them as somewhere between 24.3 and 27 cents, is that right?

A Well, again, those -- I guess we need to back up a little bit. Even those batched mail merged documents, they would enter -- well -- one at a time, if you will into the look-up tables along with all other data to calculate the weighted average rate but I guess if I understand you

[redacted]

correctly if everything that came into the particular look-up table was only mail merged then they would come in as a single piece rate as I understand it.

Q I'm afraid you lost me on that.

First of all, when you say mail merged -- do you mean nonmerged?

A Yes.

Q Okay, because nonmerge mail pieces are not batched at this point and merged mail pieces are batched, correct?

A Correct.

Q And what we are talking about here is a merged document would be one in which data is merged into the document and therefore it is personalized --

A Yes.

Q -- whereas a nonmerged --

A -- yes --

Q -- would be 400 people getting 400 pieces, one page documents, that are exactly the same?

A Right.

Q Now to see if we can get to the bottom line on this issue, am I correct that a nonmerge mail piece would receive the benefit of a rate that is well below the single piece rate for which it would qualify in the absence of the waiver of the volume minimum?

A Could you repeat that again?

Q I'll try. Am I correct that under your proposal in the fifth quarter and based on the facts, the assumptions that we have discussed a nonmerge mail piece would receive the benefit of a lower rate, somewhere between 24.3 and 27 cents, than it would qualify for in the absence of a waiver of the volume minimum?

A Yes.

Q Okay, and is it true that this would provide a competitive advantage on nonmerge pieces to the Postal Service as compared with members of MASA?

A Well, okay. I would like to refer to an interrogatory response on this.

I guess this gets at a question MASA had asked, 7(c). The experience-based -- I'm sorry -- "the formula will not eliminate the proposed automation basic rate from most small volume mailers until the end of the experiment" -- and I guess what that means is small volume mailer will continue to get something close to the automation basic rate that the Postal Service proposed and this is a result of the weighting factor in the formula.

I guess this is visible in again Table 3 where for example in the fourth quarter only one-sixth -- there is a one-sixth weight applied to the experience-based weighted average rate and a five-sixths weight applied to the automation basic rate.

What we tried to do was balance and test some assumptions on the part of the Postal Service. The Postal Service assumed that -- if the Postal Service's assumption is correct that automation basic is in effect the weighted average rate for Mailing Online, then our -- this formula would calculate those.

If the Postal Service is not correct then our -- or the formula would generate a rate different from what the Postal Service assumed, but the fact is that until the end of the experiment small volume mailers will get close to the automation basic rate.

Q Okay. I want to talk about that more in a couple of minutes, and let me just follow up on your last point though.

Until the end of the experimental period, then is it your testimony that there will be a competitive advantage for the Postal Service or for Mailing Online as compared with members of MASA?

A It was an attempt to eliminate the competitive advantage over time. There will be, as I said, there will be -- the rate calculated will continue to move further and further away from the automation basic rate until the end of the experiment, so as I said at the beginning the rate will be very close to the automation basic rate but it will move away from the automation basic rate until the end of the experiment.

Q Okay, and so is the answer to my question yes, that in the beginning there will be a competitive advantage for the Postal Service as a result -- under your formula as a result of the use of the automation basic rate and over time that competitive advantage will diminish but it will not disappear until the end of the experimental period?

A Yes. It was as an experiment, given that it is an experimental case we tried to eliminate it over time, so yes, the answer is it begins at automation basic and phases away

Q Okay. Now let's go back through to nonmerge documents. In the case of a nonmerge document at the end of the experimental period the rate would be determined solely based on experience, is that correct?

A Yes, the weighted average rate would be in the formula and given a weight of one.

Q Okay, now let's assume that all merge documents which have been batched have been at five-digit rates during the course of the experimental period, okay? I take it you would agree that it is possible given the common nature of this sort of mailing that they would have -- in fact that nonmerged -- I'm sorry -- that mailings of this sort would average better than five-digit zip code discount?

Strike that. Let me rephrase that.

I guess what I'm asking you is does that strike you as an unrealistic assumption?

A That you could get five -- a five-digit rate for mail, that you could have a pre-sort -- a weighted average rate of a five -- a five-digit?

Q For a common mailing type.

A It could happen, sure.

Q Okay.

Now, that means that, at the end of the mailing -- I'm sorry -- at the end of the experimental period, for first-class mailings of this type, the rate that would be available to them under your proposal would be 24.3 cents, correct?

A Yes.

Q Okay.

Now, if a customer, at the end of the experimental period, comes in with a non-merged document, and assuming the Postal Service still has not come up with a way to batch these non-merged documents, that customer, under your proposal, would receive the 24.3-cent rate, even though, if there were no waiver of the quantity minimums, his mailing would be sent a single 400-piece batch, which would qualify only for the 33-cent rate. Is that correct?

A That would be the experience-based rate over time, and the assumption is that, if you were able to get -- if

[redacted]

the job type -- if the look-up table or the job-type page count were so common, over two years to get a five-digit -- to have a weighted-average rate of five-digit and that you had one mailing come in at the end that were less -- that were below the minimum, that that would be -- you could -- that mailing would get -- the blended discount rate would be calculated as the five-digit rate, but I guess it -- what I'm saying is that two years worth of experience shows that, for all but one job, in effect, you had five-digit.

So, for one mailing, yes, those people would get the better rate, but the experience shows that, on balance, you know, virtually 100 percent of the time, certainly the experience 100 percent of the time of the experiment has been, no, it's a five-digit level.

Q Well, let's assume that, over the course of the experiment, half of the one-page letters that are mailed are merged and qualify for the five-digit automation discount and the other half are non-merged.

At the end of the experiment -- let me complete that and say they're non-merged and they're under 500 pieces and, therefore, they qualify only for the single-piece rate of 33 cents.

At the end of the experiment, what would -- how would your proposal determine the rate that applies to that job-type page count category?

[redacted]

A If half are merged at -- if half -- let me back up.

If, at the end of the experiment, half the data collected were at the five-digit level and half were at the single-piece rate, in effect, you would calculate a weighted average rate half -- .5 times 24.3, .5 times 33 -- that would give you the weighted average rate, and that would be the rate that would be used in the formula.

Q Okay. So, that would give you something like 29 cents, roughly 28 or 29 cents.

A Somewhere -- yes.

Q And that would be the rate that would apply to non-merged mailings, all 50 percent of the mailings that are non-merged, even though they are not batched. Is that right?

A No. The data is collected to calculate that weighted average rate. Then whatever mailing came in after that, the formula would calculate the blended discount rate using that weighted average rate.

Q I'm sorry. My question was not clear.

After -- at the end of the experimental period, every non-merged piece that came in would -- even though it would qualify for only the 33-cent single-piece rate if it were -- since it's not batched, would benefit from the 28-to-29-cent rate your proposal calculated, correct?

A Yes.

Q Okay. And in that respect, doesn't the waiver of the volume minimum continue at the end of the experimental period to give a benefit to the Postal Service?

A That would be the experience of the experiment.

So, I guess that would be -- the experience based rate would be the one that would apply.

Q And by applying the experience based rate, isn't it true that there would be mailings at the end of the experimental period that would be under the volume minimum but would qualify for a lower rate than the single piece rate that is otherwise available?

A There would be mailings, but, again, if you are talking about two years' worth of data that give you this experience based weighted average rate, that -- it seems to me that, in effect, two years' worth of data shows that -- I guess, in your example, it reflects the half merge, half non-merge, I guess that's what I would say.

Q Okay. Let me move on to a related subject, and that is your proposal is that the customer of Mailing Online would be charged the lower of the rate determined using your proposal and the rate for which that customer's mailing would qualify if it were entered directly with the Postal Service in hard copy, is that right?

A As if it were entered in hard copy, yes.

Q Okay. Now, I think in response to one of our interrogatories, you indicated that there are some cases in which the customer would pay a rate lower than -- strike that, let me rephrase that.

Under that formula, if the actual hard copy rate is higher than the weighted average, then the customer would be charged the weighted average, correct?

A I'm sorry. If the hard copy rate were higher than the blended discount rate?

Q Than the blended discount rate. I apologize. Yes.

A The customer would get the blended discount rate.

Q Okay. And if the actual hard copy rate were lower than the blended discount rate, then the customer would get the actual hard copy rate, is that correct?

A Yes.

Q And, so, you are determining an average but applying it only to customers that benefit from it, is that correct?

A I don't -- I am not -- I don't understand.

Q Well, let me ask you this. One way of doing this would be to use your formula, determine the blended discount rate, and apply that to everyone, correct?

A Yes.

Q Theoretically, one could design a system that way, is that right?

A Yes.

Q Another way of doing it would be to charge everyone the rate to which they would be entitled if their mailing had been entered as hard copy, correct?

A Yes.

Q And what you have done is designed a proposal that charges the lower of those two rates to everyone, correct?

A Yes.

Q And would the result of that -- let's look at all mailings, let's look at the end of the experimental period, where there is no weighting. You would continue that either/or approach, the lower of the blended discount rate and the --

A Hard copy rate.

Q -- hard copy rate?

A Yes.

Q Okay. So, during the first month after the experimental period, if, let's say, half of the mailings come in -- let me just use some numbers just for the sake of -- arbitrary numbers for the sake of the question. Let me ask you to assume that for a particular job type page count, the blended discount rate is 26 cents. Let's assume we are talking about a one page mail piece. Okay. And let's assume that the blended discount rate is 26 cents. Okay?

A Okay.

Q And let's assume that half of the mailings that come in during the next month in that job type page count category qualify for lower rates, five digit, carrier route -- five digit or carrier route, okay?

A Carrier route wouldn't apply.

Q Okay. I'm sorry, that's right. Let me restate the example so that we can -- so that I can see if we can understand this. Let me ask you to assume that the blended discount rate is 27 cents, okay. And let's assume that half of the mailings that come in during the next month qualify either for three digit or five digit. Okay?

A Okay.

Q And three digit is 26.1, five digit is 24.3, correct?

A Correct.

Q So those half would be charged 26.1 or 24.3, correct?

A Those that were over the minimum. Right. Because if they are in excess of the minimum volume requirements, they would get the hard copy rate.

Q Okay. And let's assume that the other half do not qualify for a rate lower than 27 cents, either because they do not qualify for the minimum or -- well, let's assume it is because they don't qualify for the minimum, okay. Then those would, in the absence of your proposal -- strike that. They would, if they were mailed through anything other than Mailing Online, qualify for only 33 cents, is that correct?

A Yes.

Q But because your blended discount rate is 27 cents, they would get the 27 cents, is that right?

A Yes. And that is, again, based on two years' worth of experience showing that those mailings are -- I guess where I am having somewhat a problem with your hypotheticals is we get two years' worth of data that allow a very deep weighted average rate and then the total -- the example totally changes so that somehow the experience that the subsequent time periods are so different from the two years' worth of experience, so that in your one example, you get a five digit level for the entire two years, and then you get one which is inconsistent with that.

Q Okay. Let me see if I --

A And, so, somehow that invalidates the entire proposal. I guess I would disagree with that. Two years' worth of experience aren't for nothing. They show experience over time of how customers actually use Mailing Online. One customer comes in below the minimum and gets the benefit. Okay. I would say that that doesn't invalidate two years' worth of data, it shows that one person came in and happened to get a better rate. And I

[redacted]

guess that is where I am having trouble with the change from what we are claiming to be the experience based weighted average rate that is very deep, and then now assume that this one person comes in and they benefit from the fact that the experience over time is this very deep discount. And I guess my answer is that doesn't invalidate the two years' worth of data.

Q Okay. That is a flaw in my hypothetical, so let me see if I can correct that. Let me ask you to assume that the two years' worth of experience -- let me do some quick math. The two years' worth of experience gives you a blended discount rate of 28.8 cents. Now, if I have done some math quickly in my head correctly, that would be the mid-point between 24.3 cents, which is the five digit rate, and 33 cents, which is the single piece rate.

A Okay.

Q Okay. Now, let's assume that during the first month after the experimental period, half of the pieces that come in, half of the mailings that come in would qualify if they were entered in hard copy for the five digit rate, which is 24.3 cents, and the other half would qualify for the single piece rate because they don't meet the volume minimum, so they would be at 33 cents. Okay.

A Okay.

Q Now, first of all, in that hypothetical, is that one month consistent with the two years' of history?

A It would be.

Q Okay. So does that address the concern that you just expressed?

A Yes.

Q Okay. Now, those that are -- half of the mailings that qualify for the five digit, they would not be charged 28.6 cents, which is the rate that would be determined based on historical experience, they would be charged 24.3 cents, instead, correct?

A Correct.

Q And the half that do not qualify for anything below single piece, at 33 cents, they would all be charged 28.6 cents, is that right?

A Based upon experience, that would be the -- that would split the difference, yes.

Q And that means that although -- well, strike that. That means that the average for all of those mail pieces during that one month period, the average rate that is charged would be the mid-point between 24.3 and 28.6, is that right?

A No, it would be the mid-point between 24.3 and 33 -- oh, I'm sorry, you're right. Between what they actually paid, calculated by the discount -- the formula, and what the hard copy rate paid. It would be, if I heard you

[redacted]

correct, between 24.3 and 28.8, I think that is what you said.

Q Yes. I thought it was 28.6 was the number we were assuming.

A Okay. My mistake, I heard wrong.

Q Okay. And, so -- and that average --

MR. HOLLIES: Excuse me, Mr. Presiding Officer, if counsel could be asked to speak into the microphone, we would, I think, all benefit from that.

COMMISSIONER LeBLANC: I think you may be right. Excuse me, Mr Himeles, not to interrupt you here, how much more time do you need? I am not trying to rush you at all. I am just trying to think --

MR. HIMELES: No, I understand. I think I probably have another hour, Mr. Presiding Officer. I am very close, though, to the end of this particular hypothetical.

COMMISSIONER LeBLANC: Given that scenario, I think if it is okay with everybody, we will go ahead and take a 10 minute break right now and we will come back at five minutes to the hour. We will be off the record, Mr. Reporter.

[Recess.]

COMMISSIONER LeBLANC: You all can be seated. Mr. Himeles.

MR. HIMELES: Yes. Thank you, Mr. Presiding Officer.

BY MR. HIMELES:

Q Mr. Callow, just to pick up with the scenario we were discussing when we recessed, I think we were assuming that 28.6 cents was the blended discount rate based on two years of experience, correct?

A Correct.

Q And during the month following the end of the experimental period, half of the mail pieces in this job type page count category would qualify for 24.3 cents, correct?

A Correct.

Q And the other half would be under the volume minimum and therefore if they were entered as hard copy they would qualify only for 33 cents, correct?

A Correct.

Q But that half would be charged 28.6 cents, correct?

A Correct.

Q And so is it not true that the average rate that would be charged of all of those mailings, for all of those mailings which represent an accurate -- which are consistent with prior history would be the average of 24.3 and 28.6, which would be roughly 26.4?

A Correct.

Q And so by charging the lower of the historical average and the hard copy rate, you in effect bring about a result so that if history repeats itself you will charge on average a rate that is below the historical average, correct?

A If you take into account all the mail pieces, both those that pay the hard copy rate and those that got the blended discount rate. The average of the two would be between those two rates.

Q And is it accurate to say that leaving aside the question of whether use of the historical average along would give the Postal Service a competitive advantage, using the lower of the hard copy rate or the historical average has the effect of giving the Postal Service a competitive advantage over members of MASA?

A Why would we leave aside the historical rate? I mean the historical rate is what we calculated.

Q All right, let me rephrase the question.

What I meant to say is leaving aside a system in which there were only a historical rate and you did not have an option of charging a lower rate when a particular mailing qualified for it, but let me rephrase the question.

Because your proposal charges the lower of the historical average or the hard copy rate, doesn't it have

[redacted]

the effect of on average -- strike that.

Doesn't it have the effect of giving in this hypothetical a competitive advantage to the Postal Service as compared with members of MASA?

A Under your hypothetical, only those, that half that paid the blended -- in effect the blended discount rate benefited because the other half paid what they would have gotten hard copy.

Q And isn't it the case that the reverse would never be true under your proposal, that is it would never be true that any customer of Mailing Online would pay more than the historical rate?

A No. Those who had more than the minimums would be able to get the rate as if they entered it in hard copy.

Q And those that didn't would have the benefit of the historical average, correct?

A Correct.

Q Okay, so when you said no, the answer is yes, it is true that your proposal would never create a situation in which people paid more than the historical average?

Let me rephrase the question. Is it not the case that under your proposal there would be circumstances in which customers of Mailing Online would pay less than the historical average but never a circumstance in which they would pay more than the historical average after the experimental period?

A I guess the way I would answer that is they pay the historical rate or they pay the rate they would have gotten hard copy.

Q Okay, and does that not give a competitive advantage to the Postal Service as compared with members of MASA?

A For those mailings that can't -- for those who get the blended discount rate, that would be different than what they could have gotten single piece -- or either what they could have got if they had entered it in hard copy, so --

Q Different and lower?

A And lower.

Q Okay -- and isn't it also true that -- strike that.

Let me ask you, Mr. Callow, do you have any experience or training in computer programming?

A No.

Q Do you have any experience or training in information systems, more broadly?

A No.

Q Do you know in what programming language the Mailing Online software, what language or languages it has been coded?

A I've seen some of the code but I don't recall the

[redacted]

code being identified, so the answer is no.

Q Okay, and I take it you would not be able to look at it and recognize it as one language or another?

A No.

Q Now you were asked some questions by MASA and by Pitney Bowes in interrogatories concerning costs associated with the implementation of your proposal, is that right?

A Yes.

Q Let me direct your attention to MASA OCA T100-1 and in particular subparts (a) and (d). Let's start with (d).

The question that you were asked in (d) was what the -- whether your pricing proposal would require the Postal Service to incur additional costs for Mailing Online to maintain and update software used to implement the pricing proposal, correct?

A Correct.

Q And the response that you gave described the maintenance and then said the amount of maintenance required for new job type look-up tables would be comparable to the maintenance required to add new job types to premailing service fee print site tables, correct?

A Correct.

Q And would it be accurate to say that you characterized the effort involved in maintenance as minimal?

A Correct.

Q Now do you have sufficient knowledge, do you feel that you have sufficient knowledge of computer programming to be doing anything more than guessing or speculating in answering that question?

A Yes, based upon the record and my comments, my understanding of what is required is drawn from the record. Witness Garvey indicated that the Mailing Online system has flexibility and expandability built into it, and I assume that if my proposal were recommended and adopted that -- and that is on the premailing service aside, that similar flexibility and expandability would be included for the determination of postage, and that might be for example, the Service has indicated that there might be additional -- as my response states -- there might be new menu items for Mailing Online.

The Postal Service might create, for example, blank look-up tables that would simply have to be filled in with the proper job type and page count. They would have to do something similar, as I understand it, on the premailing service. They would have to enter -- make changes to the premailing service print site look-up tabes to indicate that this new service was available.

Q So, you can identify what would have to be done, but can you tell us what the software coding would be that

[redacted]

would be required to accomplish those tasks?

A No. I can identify what types of work would have to be done, but I can't write lines of code.

Q Okay.

Now, you recall earlier I asked you some questions about non-merged mail pieces. If you had been asked or if you were asked whether it would be a difficult task to design software to batch non-merged as well as merged mail pieces, would you have any reason to think it would be difficult?

A I don't know. I don't know it would be more difficult or less difficult.

Q Okay.

Well, in any case, for reasons that -- I take it you don't know the reason why the Postal Service hasn't yet been able to do that.

A No. I don't think they've told us either.

Q Okay. I don't ask the question in a critical way. And do you know whether there would be any software incompatibilities or difficulties that might arise in designing software that would implement your pricing proposal?

A I think -- the answer is that what I am proposing, I believe, is fairly straightforward. You have to create look-up tables. You then have to have the -- calculate a weighted average rate and then have the pricing formula reference that weighted average rate.

It seems to me that's not a particularly difficult task, but I don't have software experience that, you know, would say this is what you have to do.

Q Okay. And take a look, if you would, at your answer to interrogatory number two, MASA/OCA-T100-2.

A What sub-part?

Q Sub-part A. And you were there asked whether you had determined or estimated any of the costs of implementing your pricing proposal and, in particular, sub-part A asks about designing software to implement the pricing proposal, correct?

A Correct.

Q And after describing the tasks that would need to be accomplished, you said modification of the code for each of these tasks should take no more than a few minutes, correct?

A Correct.

Q Do you know that to be true?

A Based upon Witness Garvey's response, that's my understanding.

Q Okay. Well, did Witness Garvey say anything about what effort was involved in software coding, as opposed to whether it could be done, as opposed to whether, generally, the software was flexible?

A He did say things about the software being flexible.

He said that code modification -- once you established it, that code modification wasn't necessary, that you simply had to -- I'm forgetting the exact term of art right now, but you simply had to add or delete -- you had to make certain entries in the print-site look-up tables and it was accomplished, that code modification was not required in order to add new items once the system was set up.

Q I'm sorry. Are you finished?

A Yes, I am.

Q I didn't hear the last word.

Do you know how long the coding took to establish print-site look-up tables?

A The original coding?

Q Yes.

A No.

Q And as the program stands now, there are no job-type page count look-up tables, are there?

A That's correct.

Q And in fact, there's no formula used to determine pricing. Is that correct?

A That's correct. Yes, as I propose it, there is no formula.

Q Right. And so, is there anything in Mr. Garvey's testimony that directly addresses the question of the cost -- of the cost involved in creating job-type page count look-up tables?

A No.

Q Is there anything that directly addresses the cost involved in designing software that would implement a pricing formula?

A No.

Q And is there anything that addresses -- is there anything in Mr. Garvey's testimony that addresses the amount of time that would be required to implement a pricing formula?

A No. What we have is, if you will, a -- comparable information about pre-mailing services.

Q About the cost and time of designing software to price pre-mailing services?

A About the time, not the cost.

Q Okay.

A And that's related to changes to page count -- or to print-site tables.

Q Do you recall that, before Witness Lim -- are you familiar with the testimony of Witnesses Stirewalt and Lim, just generally?

A Generally. I mean I know they both worked on information systems costs.

Q Okay. And do you recall that the initial estimate or the initial report -- initially, there was a $6 million figure for information systems, and it later increased to $22 million. Do you recall that?

A Just general ballpark, yes.

Q Okay. And can you tell us with any degree of certainty that a substantial increase would not ultimately be required as a result of structural changes in the code that your proposal might require or incompatibility that your proposal might have with other software components?

Can you tell us with any degree of certainty that those things would not cause there to be a greater cost than your interrogatory answers indicate you believe?

A I guess I want to be clear. There's not going to -- the costs that you refer to were the total costs of setting up the mailing on-line system from ground zero. What I am suggesting, the work that I'm suggesting that needs to be done is far less than that, and therefore, the costs of my work would be, I believe, substantially less than the figures you've cited.

Q Well, I didn't mean to ask you whether there would be a $16 million increase as a result of your proposal, but my question is, can you tell us with any degree of certainty that there would not be a significant cost in implementing your proposal with respect to software?

A Well, define significant.

Q In seven figures, in the millions of dollars.

A I wouldn't think so.

Q But can you tell us with any degree of certainty that that's not the case?

A I don't have any figures either way.

Q Okay. So, to know that, wouldn't we really need to ask a -- someone who's involved in the coding or familiar with the code?

A No, because we know -- what the know about the time involved in making some of the changes is very, very small, very small amount of time, and if -- the amount of time to make the changes is very small. Therefore, the costs would be very small.

Q Can you tell us with any degree of certainty how much time -- how much delay there would be, if any, in order to implement your proposal?

A There would be no delay.

Q And is that something that you're completely confident of?

A Yes. And the reason is the Postal Service is currently preparing the latest version of Mailing Online software that will be implemented in May -- or in mid-1999.

[redacted]

That is not software that is operating in a production environment. The changes could be made prior to introduction of this. There's plenty of time to implement this before mid-'99.

Q Have you ever known of a circumstance in which a software release was -- came out substantially later than was projected?

A I don't follow commercial software that closely.

Q Did you read anything about the publicity that Microsoft got when Windows 95 was substantially delayed? Does that ring a bell?

A No.

Q Okay. And can you tell us with any degree of certainty that your proposal would not cause complications that would delay the release of the new Mailing Online software?

A Again, given the small amount of changes that I think need to be made, I think it would be unlikely there would be any problem.

Q Let's go back to the diminishing effect of the volume exemptions over time. And let me first ask you, during the first quarter you would -- your proposal provides that since there is no experience yet, all customers of Mailing Online would be charged the Automation Basic rate. Is that right?

A Correct, in the first quarter.

Q And that is true irrespective of the size of those mailings?

A Yes. We start with the assumption of the Postal Service's, and so that's why we start with Automation Basic.

Q Okay. And in starting with that assumption you could have either started with that assumption across the board or started with that assumption without waiving the volume minimums for mailings. Theoretically that would be possible; correct?

A Well, you only get the Automation Basic if the volume minimums are waived.

Q Well --

A Under the Postal Service proposal.

Q I suppose my point is that you could -- could you not design a proposal in which during the first quarter you charge the Automation Basic rate only to customers who exceed the volume minimums?

A You could, but our proposal was to test the Postal Service's assumption that Automation Basic is the appropriate rate or in effect the weighted average rate of Mailing Online. So we started with that assumption.

Q Okay. Well, in any case, you would agree I take it that during the first quarter those exemptions are part of your proposal and give a competitive advantage during that quarter to the Postal Service as compared with MASA members. Correct?

A It's an experiment. We are attempting to test that assumption of the Postal Service and for that quarter and until the end of the experiment there will be customers who get close to the Automation Basic rate until the end.

Q Well, in addition to being an experiment, isn't the experimental period, assuming that there is one, also the beginning of the ramping up of Mailing Online?

A Yes.

Q Okay. And if a MASA member were to design and begin to implement a program like Mailing Online involving Internet submission of electronic copies of documents to be introduced into the mail stream, the MASA member -- would the MASA member have access to Automation Basic rates for mailings that didn't meet the volume minimums?

A No.

Q And would it not be easier for the Postal Service to enter this market and to increase its volume by virtue of the fact that it can charge these rates that are lower than the rates that a MASA member would have to charge?

A The rates would be different, so that would be something the Postal Service would use; yes.

Q You're familiar with the term "barriers to entry"?

A Vaguely.

Q Okay. Well, if one were to start in this business from scratch the way for instance Pitney Bowes did in its Direct Net program, one of the difficulties would be attracting customers during the early period before there are sufficient volumes to support lower postage rates; is that fair?

A I'm sorry, could you repeat that?

Q Well, let me break it down. One of the reasons customers would come to a service like this would be price; is that correct?

A It would be one reason; yes.

Q Okay. And there are other reasons as well; right?

And is it not the case that when the service opens its doors, its virtual doors, on day 1, if the service is not run by the Postal Service, it will have to pay postage rates that are higher than the rates that the Postal Service would or the customers of the Postal Service would be paying for Mailing Online under your proposal.

A On day 1; yes.

Q Okay. And in fact that would continue throughout the experimental period; correct?

A Yes.

Q And let's just look at your chart on page 31 that has the weighting factors.

A Um-hum.

Q And during the first quarter the Automation Basic rate is given a weight of 1, or 100 percent; correct?
A Yes.
Q And again that's an Automation Basic rate that relies on an exemption from the volume minimums; correct?
A Correct.
Q And the weight during the second quarter that is given to that portion of the -- or to that factor is 35/36; is that correct?
A Correct.
Q And that's, if my math is correct, 97.2 percent. Does that sound about right?
A Subject to check; yes.
Q Okay. And then in the third quarter the weight given to the automation discount -- the Automation Basic rate with the waiver of the volume minimums is 33/36; is that correct?
A Correct.
Q And that's, if my math is correct, 91.6 percent.
A Subject to check; yes.
Q Okay. And during the fourth quarter the weight given to the Automation Basic with waiver of the volume minimums is 30/36; is that correct?
A Yes.
Q And that, if my math is correct again, is 83.3

percent; is that right?

A Subject to check.

Q And during the fifth quarter the rate that is given to the Automation Basic component in determining the weighted average is 26/36; is that correct?

A Correct.

Q And that's 72.2 percent; correct?

A Subject to check.

Q Okay. And then during the sixth quarter the weight is 21/36; is that correct?

A Correct.

Q That's 58.3 percent, subject to check?

A Subject to check.

Q And then during the seventh quarter for the first time it drops below 50 percent to 15/36; is that correct?

A Correct.

Q And even without checking, would you agree with me that that's the first time that the weight of the Automation Basic with volume exemptions goes below 50 percent in your formula?

A Correct.

Q And so the design of your formula has the effect of starting out by increasing the weight of experience at a very slow rate and then gradually increasing the weight of experience at a faster rate; is that right?

[redacted]

A Correct. Correct.

Q And that means that it's not until for the first year-and-a-half of the two-year period the weight that is given to the Automation Basic rate is over 50 percent and in most instances well over 50 percent; is that right?

A Correct.

Q Okay. And even in the last period, it's still given a weight of 836? Is that right?

A Yes.

Q And subject to check, that's about 22.2 percent? Is that right?

A Subject to check, yes.

Q Okay. And so, throughout -- in addition to other factors and their effects on competition that we've discussed, throughout this period, throughout the experimental period, there is the factor -- strike that.

You're familiar with and I think you cited in your testimony the Commission's conclusion with which, as I understood it, you agreed that the waiver of the volume exemptions would have an anti-competitive effect, are you not?

A Yes.

Q Okay. And you did -- am I correct that you did agree with that in your proposal?

A Yes.

[redacted]

Q Okay. And that remains the case as to the component that accounts for more than 50 percent of your rate for a year-and-a-half in your proposal. Is that right?

A That's -- that is a result of the weighting, yes.

Q Now, isn't it fair to say that that would make it easier for the Postal Service to attract a sufficient customer base to build mailing on-line and to have it be successful than it would be for a member of MASA or for Pitney Bowes, who could not take advantage of these volume exemptions?

A Well, that seems to me a leap. It depends what other efforts -- the price -- the difference in price is one factor, but Postal Service may not advertise or advertise very little or -- there are a number -- a host of other things that may draw people to another Postal Service competitor. So, that would be my answer.

Q Well, I wasn't going to bring it up, but as far as advertising goes, which -- who has a greater ability to advertise, in your view, the Postal Service or a small letter shop?

A Well, the Postal Service would have more resources, to the extent they want to devote it to mailing on-line.

Q And does the Postal Service have the ability to send notices to recipients of mail?

[redacted]

A Yes.

Q And do those notices sometimes describe new products that are available?

A I don't know. I haven't seen any.

Q Let me just go to one last area, Mr. Callow.

A Uh-huh.

Q I want to ask you to assume that you have a business that sends out every month a mailing that is sent first-class, sent to 400 people, and it's always the same number of pages -- let's say a newsletter, okay?

A Okay.

Q Now, under your proposal, the price that -- the postage rate that that business pays if it uses mailing on-line would be the same for the first three months, correct?

A Yes.

Q And then, in the fourth month, it would change, correct?

A Correct.

Q And then it would be the -- I'm sorry. Go ahead.

A That's correct. It would --

Q And then it would be the same in months five and six, correct? The same as it was in month four, that is.

A Yes.

Q And then, in the seventh month, it would change, correct?

A Yes.

Q And this would continue over the course of the experimental period, correct?

A Yes.

Q Now, from the perspective of the customer, is it accurate to say that the change in the postage rate -- first of all, let's say from month nine to month 10, when there is a change in the rate, that change could go down or it could go up. Is that right?

A Correct.

Q And isn't it accurate to say that, from the perspective of the customer, as opposed to the Postal Service, that change is fortuitous.

A That the rate goes down?

Q Well, whether it goes down or up. The customer, in other words, hasn't done anything to bring that about in the way of changing the mailing, correct?

A That's correct.

Q In designing your proposal, did you take into account any concern or any possibility of customers of mailing on-line being unhappy about or concerned by periodic changes that appear to them to be random in the postage rates?

A In terms of explaining it to the customers, the answer for the customer would be that you're paying the lowest rate for which your mailing qualified under mailing on-line.

The rates would change based upon the weighting factor and the calculation of the experience-based weighted average rate.

So, as you say, it could go up or down, but the explanation would be, you know, this is the lowest rate, you're paying the lowest rate possible under mailing on-line service.

Q In the case of first-class mail, for example, when the rate increases, first of all that's after a proceeding before this Commission, correct?

A Yes.

Q And secondly, the Postal Service makes that widely known. Is that correct?

A Yes.

Q And when a customer inquires, the Postal Service is in a position to say we've increased the rates and they can explain that the rates haven't increased for X number of years and so forth, correct?

A Yes.

Q Are you aware of any other circumstance in which rates increase -- postal rates increase as a result of a formula rather than as a result of a -- of the approval by this Commission of a rate increase?

A Pre-mailing service fees.

Q Are you aware of any other circumstances in which they increase as a result -- did I say as a result of a formula?

A Yes.

Q Okay. And how are they -- on pre-mailing service fees, tell me what you're referring to.

A The Postal Service would set up a new print site, would be a new contractor, contractor would have new prices. The customer would pay a different rate if his mailing happened to go through that print site.

Q Okay.

When you say pre-mailing service fees, you're talking about --

A -- printing, finishing.

Q On mailing on-line. In mailing on-line.

A Yes.

Q Okay. All right. I understand what you're saying.

Now, my question, though -- that -- pre-mailing service fees are not postage. Is that correct?

A They're not postage, correct.

Q Okay.

With respect to postage, are you aware of any

[redacted]

other circumstance in which the postage is determined not as a result of a proceeding before this Commission but by formula?

A Not that I'm aware of.

Q Okay.

A I think part of the answer to customers is this is an experimental service and that we are going to be adjusting rates to reflect the experimental nature of the service.

Q Okay.

Now, your proposal would continue after the experiment, wouldn't it?

A Possibly.

Q That's at least what you support, isn't it?

A I hadn't thought that far, but if, you know, it went, say, past the eighth quarter, sure.

Q Okay. And then experience would be given the entire -- given 100 percent of the weight. Is that right?

A Yes.

Q And so, after that period, after the experiment, then you wouldn't be able to respond in the way you've just suggested, would you?

A No, but the experience would change -- would likely change again.

Q And when the experience changed, then the rate charged to a customer mailing the same mailing every month might go up in three months and then down in three months and it would periodically vary. Is that right?

A Not after the experiment, because you'd have two years worth of experience-based rates that would be in effect until, you know, probably the next proceeding that covered mailing on-line.

Q Okay. So, you would propose -- all right.

But in any case, do you believe customers of mailing on-line would get explanations that would be sufficient for them to understand the way in which your formula works?

A If -- I would assume -- I would expect that, if they asked, they would get the information they needed, yes, but under mailing on-line, they're only going to get the price they're going to pay for pre-mailing fees or for their pre-mailing services, and they're going to get the price of postage, which is then summed.

So, to the extent -- I'm not certain that, in and of itself, is sufficient information to trigger an interest in how the formula would be calculated, since the pre-mailing service fees are also calculated by a formula, but I would expect that, if someone said show me exactly how these numbers were arrived at, that the Postal Service would be able to do that.

Q Let me ask you to assume that two customers of mailing on-line right next-door to each other each send out a mailing that is, again, 400 pieces sent by first-class mail, one of them sends the mailing on the last day of the fifth quarter and the other one sends the mailing -- sends his mailing the day after, which would be the first day of the sixth quarter.

Would they be charged the same rate?

A No.

Q And that's because the rate change would have -- or the experience data would have been incorporated in the formula and changes would have resulted from that?

A And from the change in the weighting factor.

Q And the change in the weighting factor. And did you consider in designing your proposal whether the different treatment of customers who mail -- different customers who mail identical mailings within days of each other was fair treatment of customers of the Postal Service?

A I didn't --

Q Well, what -- I'm sorry. Go ahead.

A I guess what I would say is I didn't specifically consider that instance. Rather, as I said, I would expect that, to the extent that people asked, they would be told it's an experimental service, that we'll have fees changing throughout.

Q Are you familiar with the factors, the statutory factors, that this Commission is required to consider in evaluating postal rates?

A Yes.

Q And the first of those factors is that the schedule should be fair and equitable, is that correct?

A Yes.

Q And have you considered in developing your proposal whether it is fair and equitable for two customers in the circumstances I have just asked you about, sending the same mailing a day apart to pay different rates?

A Well, I guess what I would say is I didn't consider that because the rates I am proposing don't change. That is, the rates on which the formula calculates the rates calculated under the pricing formula are based on the rates that this Commission has recommended and the Board of Governors have adopted so there is no change in those rates. I simply calculate a blended discount rate.

Q Well, the discount that is available to a particular -- the discounts that are available change from period to period, although the formula doesn't change. Isn't that true?

A I'm sorry, could you say that again?

Q Well, let me just ask it this way. Isn't it true that from one quarter to another the rates change, although the formula does not?

A Under my proposal?

Q Yes.

A Yes.

Q Okay, so -- and I take it you are not a lawyer. You haven't considered whether it is legally permissible for the Commission to approve a formula which provides for changing rates?

A I am not a lawyer. No, I don't know the answer to that.

Q Have you considered -- one of the factors in the statute is simplicity of structure for the entire schedule, is that right?

A Yes.

Q And have you considered if your proposal is consistent with simplicity of structure?

A As I said, since I did not change the rates recommended by this Commission I did not consider those factors.

Q Let me direct your attention to page 21 of your proposal, lines 18 through 21.

A Okay.

Q Now there are two sentences there. The first is, "Consequently my proposal obviates the need to waive the minimum volume requirements otherwise applicable to Mailing

Online mailings" -- is that right?

A Correct.

Q And isn't it true though that your proposal incorporates a waiver of minimum volume requirements for the entire experimental period?

A Correct.

Q And the second sentence says, "My proposal also eliminates anti-competitive effects caused by adopting the proposed waiver, is that correct?

A Correct.

Q And those anti-competitive effects remain and are given a weight of more than 50 percent of the rate for the first half of the two year period, is that right -- actually for the first six quarters of the two year period, is that correct?

A They diminish over time to the point where 50 percent is in the sixth quarter.

Q Is it accurate to say that your proposal does not eliminate those anti-competitive effects at any time during the experimental period?

A This statement refers to or my intent was to refer to the -- that it eliminates the anti-competitive effects by the end of the experiment when weighted average rates would apply or would be used in the formula.

Q Okay. Isn't it also true that your proposal continues to have other anti-competitive effects even at the end of the experimental period?

A No, because it is based on experience-based rates.

Q Well, let me go back, without belaboring the point, to the example we discussed in which the experienced-based rate is 28.6 percent -- I am sorry, 28.6 cents for a single piece First Class letter.

Do you recall our discussion of that?

A Yes.

Q And at the end of the experiment during the next month 24.3 cents -- I'm sorry. At the end of the experiment, during the next month half of the people who mail through Mailing Online letters in this job type page count category would qualify for five-digit automation rates and the other half are under the volume discount and therefore -- I'm sorry, are under the volume minimum and therefore they would qualify for 33 cents in the absence of Mailing Online?

A Okay, yes. Under your hypothetical, those mailings would benefit.

Q Okay, they would benefit and so in circumstances like those isn't it accurate to say that even after the end of the experiment or at the end of the experimental period your proposal continues to have an anti-competitive effect as a result of the volume minimums?

A Those experience-based rates would be the formula so if the experience showed that they were lower, yes.

Q I am not sure I understood your answer.

A Okay. The experience-based rates at the end of the period if that average is lower than the rate the mailer would have got in hard copy in your example, 400 pieces, then that rate would be the rate that would get used in the formula and become the blended discount rate.

Q Okay, but let me ask this question. Isn't it true that under your proposal the average rate charged by Mailing Online for any job type page count category would be less than the blended discount rate based on experience?

A I'm sorry, could you repeat that?

Q Under your proposal --

A Yes --

Q -- wouldn't the average rate charged to the customers of Mailing Online in each or in any job type page count category be less than the rate that would be dictated by historical experience?

A For those pieces that exceed the minimum volume requirements, they would get the hard copy rate.

Q And in addition to circumstances where the volume requirements come into play, isn't it true that there would be other circumstances where the average rate charged by Mailing Online would be less than the rate that would be

[redacted]

dictated by experience?

A   If I understand you correctly, what you are saying is that you could have a mailing that if entered in hard copy would pay a rate higher than the blended discount rate, or conversely the blended discount rate would be lower than what that mailing could have got in hard copy.

Q   No. Let me break this down. I thought we could -- let me break this down and see if we can wrap up.

In any job type page count category, whether there is a volume minimum issue or not, if someone is above the average, is above the rate that is dictated by historical experience, then they pay only the average, correct?

A   No. If a mailing has an excess of the minimum volume requirements they pay what they get in hard copy.

Q   Well, that is not someone who is above the average.

My question was if somebody's hard copy rate -- I didn't express it clearly. If somebody's hard copy rate is greater than the blended discount rate determined based on experience --

A   Yes.

Q   -- then they get the benefit of the experience-based rate, right?

A   Correct.

Q   And if someone's hard copy rate is lower than the historical rate, then they are not tethered to the historical rate. They get the lower hard copy rate, correct?

A Correct.

Q And doesn't that mean that the average rate that your proposal would charge customers of Mailing Online would inevitably be lower than the historical average?

A For all mail pieces.

Q For all mail pieces --

A Correct.

Q -- so you are not simply taking a historical average and using it to determine what to charge everyone, correct?

A Yes -- the historical or the experience-based weighted average rate is only used for those -- let me rephrase that.

Where the experience-based weighted -- where the blended discount rate is less than what someone might pay in hard copy, that is what they would get, the blended discount rate.

Q Okay, and in your testimony, did you not indicate that you thought that the best solution would be to use rebates?

A No -- oh, yes.

Q Okay.

A That's correct.

Q And you developed your proposal because of the Postal Service's concerns that a rebate system would be unworkable? Correct?

A That is what they claimed, yes.

Q Okay. If there were a rebate system, people who were above any average that existed would pay a rate that was above the average. They would pay the actual hard copy rate, is that correct?

A Under a rebate system?

Q Yes.

A They would pay exactly what they would -- they would pay the rate -- they would pay the hard copy rate.

Q Okay, but in your system, you -- rather than taking people above the historical average and charging them the historical average and taking people below the historical average and charging them the historical average, which would leave you in an analogous position to rebates, you took only the people above and brought them down, is that fair to say?

A I see what you are saying. Yes. Under your hypothetical, that is correct.

MR. HIMELES: Thank you. I have no further questions, Mr. Presiding Officer.

COMMISSIONER LeBLANC: Mr. Wiggins, as far as timeframe here, what are we looking at?

MR. WIGGINS: Very brief, Mr. Presiding Officer, 15 minutes perhaps.

COMMISSIONER LeBLANC: Fine. With that, we will go ahead and push on then because we may have a long afternoon with the arguments. We will see. But go ahead and proceed, please.

MR. WIGGINS: Thank you.

COMMISSIONER LeBLANC: Excuse me one second. Are you doing all right, Mr. Callow, over there? You have been up for --

THE WITNESS: I am fine.

COMMISSIONER LeBLANC: All right. Go ahead, Mr. Wiggins.

MR. WIGGINS: Thank you.

CROSS-EXAMINATION

BY MR. WIGGINS:

Q Mr. Callow, I am Frank Wiggins, here for Pitney Bowes. Pitney Bowes, we may not come out precisely where you have on all of these issues, but I would like you to know that Pitney Bowes, as a competitor with the Postal Service, really appreciates the fact that the OCA has focused on trying to eliminate competitive disadvantage. I mean that sincerely.

A Thank you.

[redacted]

Q Do you recall that you filed a revised answer to our Interrogatory Number 9 to you?

A Yes, I did.

Q And in the course of the pleading accompanying that revision, you recite that, with regard to the revisions to Attachment 2, and I am now reading, "The rate shown in the heading of the attachment for basic flat is changed from 24.5 to 10.5 and for 3/5 digit flat, it is changed 2.3 to 6.3." Rather substantial alterations. Can you recite, just so the record is clear about this, what gave rise to those changes?

A Yes. I inadvertently used the letter rate at the point you cited in the table.

Q Rather than the piece plus per pound rate, is that correct?

A For flats.

Q Yes, exactly.

A Correct.

Q Thank you.

A That's why I had to make the revision.

Q Sure. Harkening back to the issue of competitive advantage, we asked you, in Pitney Bowes Interrogatory Number 2 to you, if you have that handy.

A Yes, I do.

Q We asked you what the focus of your interest in eliminating competitive, or potential competitive advantage was, and you say, and I am now reading from your answer, "My comments are confined to the elimination of competitive advantage with respect to postage pricing. I did not consider the extent to which other sources of advantage could effect competitors." Do you have any view at all, Mr. Callow, as to whether there might exist such other sources of advantage?

A I guess what I would like to do is amplify a little bit. My proposal is designed to eliminate, if you will, unfair competitive advantage. It seemed to me, and the Commission seemed to -- the Commission recognized it in its market test opinion, that the Postal Service had designed a competitive advantage into its proposal in terms of pricing, and that that was unfair. There are other sources of competitive advantage, but they are not necessarily unfair. Size, name recognition are, you know, some obvious examples.

Q Are you testifying, Mr. Callow, that you have examined all of the other sources of competitive advantage that you could think of and determined that none of them is unfair?

A No. As I stated in my answer, my comments are confined to postage pricing, unfair competitive advantage in postage pricing, and that is the extent of my testimony.

Q Good, I appreciate that. Could you have a look at MASA's Interrogatory Number 1 to you and your answer to it, please?

A I have it.

Q About a little less than halfway down, the answer to subpart (a), you say, "This proposal would require the Postal Service to presort mailings at the time they are submitted." And you are referring there to your pricing proposal, correct?

A Correct.

Q Okay. You go on to say, "At present, the Postal Service creates separate batches for each print site before presortation. There is no technical barrier to modifying the code" -- and these are the words I would like to concentrate on -- "to switch the order of presortation." Isn't it really the case, Mr. Callow, that you are not just switching the order of presortation, you are interposing an additional presortation over that which would be required by the Postal Service, aren't you?

A No. Right now the Postal Service batches, then presorts. We are saying presort, then batch.

Q But isn't there required an additional presortation in order to get the stuff to the right print site?

A No. Whether you batch first or whether you presort first is irrelevant. The Postal Service defined print sites by ZIP codes, and obviously presortation is achieved by ZIP codes. So at the point you presort, you know that it's going to go to a particular print site. And conversely, if you batch, it will go to a particular print site, and then you presort. The effect is the same.

Q When you use the word "batch," could one substitute, without disrupting your meaning, the word "commingle"?

A Not necessarily.

Q Okay. Let's go through this slowly, because I'm not sure that I understand the Postal Service proposal, much less your alteration to it here. Pieces of mail come roaring electronically into San Mateo; is that right?

A Yes.

Q Okay. And those pieces of mail, and let's think only about pieces of mail that are merged mail.

A Okay.

Q You recall your discussion with Mr. Himeles about the difference?

A Yes.

Q Okay. Only merged mail is roaring into San Mateo.

A Okay.

Q And by your proposal it has to be presorted by customer; correct?

[redacted]

A Correct.

Q So that you can figure out what the historical rate might be. So that you --

A What the hard-copy rate might be.

Q The hard-copy rate. Okay. I'm sorry. So that you can do your lesser of --

A Yes.

Q Calculation. Right?

A Correct.

Q Okay. So it has to be organized by customer.

A Correct.

Q Okay? Then, however, it's going to be melded with other mail -- with mail pieces from other customers. Correct?

A No. If the mail comes in and the -- well --

Q Don't we want to have -- in order to create a commingled batch, don't we want to have all of the pieces going to a single ZIP code, for example, put together, commingled, without regard to the identity of the customer?

A No. I -- the mail piece comes in to -- or the mailing comes in to San Mateo.

Q Right.

A It then gets immediately presorted, and the hard-copy rates determined.

Q Under your proposal.

A Under my proposal.

Q Correct.

A Then that mailing is of a particular job type page count. Okay?

Q Yes.

A At that point the Postal Service computer references the existing job type page count lookup table for the weighted average rate. It takes that rate, that weighted average rate, and calculates the blended discount rate. Whichever is lower, the customer gets the lower of the two rates.

Q Understood. And the only presortation that has occurred at this time is a presortation of that single mailing identified with a single customer; is that correct?

A Correct.

Q Okay. And then what happens?

A And the customer gets the lower of the two.

Q I understand. But what's the next step? After having determined the rate, what's the next -- where does the mail go from there and what if anything happens to it in terms of sortation?

A There is no more sortation necessary. It goes -- well, it's sorted -- it's presorted in hard copy, okay? And then the presortation which took place for hard copy would send it to the proper print site.

Q And when you say presortation that took place for hard copy, you mean hard-copy pricing.

A Yes.

Q Okay. And it then goes to the print site not associated with the mail of any other mailer; is that correct?

A Correct.

Q And do you appreciate that that is what happens under the Postal Service's proposal as well?

A At the present time that's what happens, because they haven't been able to batch.

Q Well, no, no. For -- that's not correct, is it?

A I haven't seen any data where they've been able to batch.

Q Have you examined all of the weekly and biweekly reports?

A Biweekly reports I have. The qualification statements?

Q Yes, exactly. I recall seeing some very recently in which you will see merged mail. And it's my understanding from the Postal Service that where they have merged mail, they also commingle. Do you have a different understanding from mine?

A My recollection of looking at --

Q Well, no, we can all look back at the physical

[redacted]

documents. I'm just -- conceptually do you have an understanding different from mine that if the Postal Service has been able to report to us --

A Okay.

Q Because of the increases in sophistication in the software. In recent times that they've had some merged mailings that those mailings are also commingled.

A They could; yes.

Q Okay.

A I assume that's where they're headed.

Q Sure. At least in the future --

A Yes.

Q It's your understanding that that's the way it's going to happen.

A Yes.

Q And where does the commingling physically occur? Does that occur in San Mateo?

A That's my understanding.

Q Okay. So that as things are today or at least as we anticipate them to be in the future, the Postal Service will commingle mail from different mailers at San Mateo.

A Correct.

Q That would require a merge in addition, or a presort in addition to the one that you recommend in order to determine the hard-copy pricing structure; correct?

[redacted]

A I don't know.

Q That's fair enough. Do you have -- in answer to our interrogatory number 4 to you, do you have that handy?

A Yes.

Q It's the subpart (a) that I am going to ask you about.

A Yes, I have it.

Q We asked you how many lookup tables, to use your words, would be required to carry out your pricing stratagem.

A I am sorry, did you say --

Q Pitney Bowes Number 4 to you.

A I'm sorry, I --

Q You forgot who I was already?

A No, no.

Q I sometimes do.

A All right, I have it.

Q Okay. In subpart -- you are responding in subpart (a) to our question, how many lookup tables, right?

A Correct.

Q And you multiply 48 times 62 to get a number.

A Correct.

Q You talked a little bit with Mr. Himeles about that calculation.

A Yes.

[redacted]

Q You took that number 62 from Mr. Garvey's testimony, or interrogatory response, did you not?
A Correct.
Q You didn't separately calculate that?
A No, I did not.
Q Okay. But you think Mr. Garvey got it right?
A Yes.
Q So there are 62 different categories, you multiply by 48 because there can be 48 different page counts, is that right?
A Correct.
Q Do you know whether that number 62 includes a variation depending upon whether the mail piece is letter or flat shaped?
A The page count determines whether it is letter or flat because -- and maybe if you are willing, if we turn to Pitney Bowes Number 8.
Q Yes.
A Okay. And on the second page of that response.
Q Okay.
A About halfway down.
Q Right.
A And this is for First Class mail.
Q Correct.
A Before the citation, you can see that the

additional ounce rate would apply to mail pieces with five pages. Okay. Those five or fewer are letter, six or more are flats. And so it is the page count that determines the letter/flat distinction under the Postal Service Mailing Online proposal.

Q So that if a mailer wanted to present a mail piece of fewer than five pages, and this is letter size regulational stuff, right, as a flat for some reason, he couldn't do that under Mailing Online, is that correct?

A That is my understanding according to Witness Plunkett's response.

Q So that one doesn't need to add, for purposes of rate calculation, still another factor of two to the number 62, is that correct?

A That is my understanding, yes.

Q And is that reflected in some fashion in your answer to our Number 9? And the difference between Interrogatory 8 and Interrogatory 9 is that the first of them, 8, which you just directed me to, is talking about First Class mail and Number 9 is talking about Standard A mail, right?

A That's correct. The same distinctions apply, five or fewer under Standard A go letter, six or more go flats.

Q Though, as one would see in looking Attachment 2 to your answer there, --

[redacted]

A Yes.

Q -- one has a considerable range of rate cells, if you would, correct?

A Correct.

Q And you said, in talking with Mr. Himeles, that you thought that the quarterly redetermination of your weighted rates would occur, and I think these are your words, "instantaneously, I would think," do you recall that?

A Yes. Yes.

Q And you were mindful of how many of these lookup tables would be required when you made that conclusion, "instantaneously, I would think"?

A Yes.

Q Do you have any basis for that conclusion other than -- you testified that you weren't really a computer nerd, but do you have a reason, other than just instinctual, to reach that conclusion?

A Well, I guess I want to back up a little bit. The last paragraph of my response to Number 9 makes clear that these are the rates that show up in the lookup tables. Okay. These are the actual calculation that someone would get in hard copy if -- let me, I don't want to confuse. These rates show up in the lookup tables.

Q Understood.

A Okay. They are not -- they don't change. They

[redacted]

are going to be in the lookup tables according to whether it is a letter size or flat size, whether it is a letter, legal or newsletter. So those rates are going to be in the lookup tables. The only -- I guess the calculation I was referring to is that, at the end of the quarter, if there is new data entered during the quarter, the calculation should take place instantaneously.

Q But there will be one of those calculations for each lookup table so long as data have changed, is that correct?

A Yes.

Q And as you carefully noted in a response to Mr. Himeles, during the experimental period, at least, the data are always going to change because the weighting factor changes, is that correct, as well?

A No. We are confusing two items. In the lookup tables, that data will change quarterly -- I'm sorry. If there is new data each quarter, you will get a new weighted average rate.

Q Yes.

A Okay.

Q And that requires a calculation, correct?

A Yes.

Q Okay.

A But only for those tables that have new data. The

[redacted]

change in the blended discount rate is affected by what I call the weighting factor.

Q Right.

A Which is the W in the formula.

Q Yes.

A And that is -- all the weighting factors are shown in Table 3. And so the blended discount rate would change because of the weighting factor, even if there were no change in the weighted average rate, experience based weighted average rate that the formula took from the lookup table.

Q I must have expressed myself poorly because we are of a mind.

A Okay.

Q I understood that myself.

A All right.

MR. WIGGINS: And Mr. Presiding Officer, I have no further questions.

COMMISSIONER LeBLANC: Is there any follow-up cross?

MR. HOLLIES: Yes, I have a few questions.

COMMISSIONER LeBLANC: Mr. Hollies.

FOLLOW-UP CROSS EXAMINATION

BY MR. HOLLIES:

Q You discussed with Mr. Himeles the existence of postage charged on the basis of a formula. Are you aware of the so-called weighted fee whereby mailers pay postage for returned pieces based on a formula calculated to represent the ratio of pieces forwarded to pieces returned?

A Now that you mentioned it, yes. There was a proceeding on that recently.

Q So, does that suggest that a change to the previous answer might be appropriate?

A Yes. That one escaped my notice.

Q Questions by Mr. Himeles to you maintained an assumption that no more batching than accomplished today would remain true throughout the experiment and so did your responses. Is that right?

A Correct.

Q Do you understand that to be the Postal Service's plan?

A No. My understanding is that the Postal Service not only intends to batch but if their ultimate design comes to fruition, that we could conceivably have only four categories, if you will, first-class letters and flats, Standard A letters and flats.

Q Again, during cross examination by Mr. Himeles, you agreed that your formula can provide a competitive advantage to the Postal Service compared to MASA.

If all the jobs in a job-type page count category are at five-digit pre-sort, doesn't the inclusion of the higher automation basic rate in your formula provide a competitive disadvantage to the Postal Service?

A I'm sorry. Could you repeat that?

Q I think I'll move on instead. Thanks.

A Okay.

Q You agreed that a MASA member would have to enter a 400-piece mailing at the single-piece rate. Would that be so if the MASA member batched that mailing with other similar mailings to get above the volume minimum?

A No.

Q You've agreed that a rebate system would have customers pay the hard-copy rate. When you talked about the hard-copy rate, were you referring to the rate that the mailing would qualify for absent any batching?

A No. It assumes -- if the Postal Service is unable to batch, then it would be the rate at which the mailing qualified when it was submitted. If the Postal Service is able to match, then the rebate would be based upon the batched mailing.

For example, you could have a piece -- you could have a mailing come in on its own below the minimum volume requirement but -- and pay the single-piece rate, but if combined with one or more mailings to exceed the minimum

[redacted]

volume requirement, you would have achieved a pre-sort level and then that rate would be the rebate.

MR. HOLLIES: That's all I have. Thank you.

COMMISSIONER LeBLANC: Is there any further followup?

MR. HIMELES: No, Mr. Presiding Officer.

COMMISSIONER LeBLANC: Mr. Wiggins?

MR. WIGGINS: No.

COMMISSIONER LeBLANC: Any questions from the bench?

Commissioner Goldway?

COMMISSIONER GOLDWAY: I want to explore with you the discussion of the benefits versus the difficulties of the rebate system. I think I certainly asked this question before.

Could you describe for me your view of the difficulties that the Postal Service says it would have in implementing a rebate system, and do you find them reasonable?

THE WITNESS: I guess, in answer to the first part of your question, if you'd turn to page 8 of my testimony, beginning at line 6, I discuss what I believe to be the Postal Service's concerns with the rebate system.

I guess, in answer to the second part of your question, I don't think they've made the case that they can't do this, but I don't have the information that makes me certain that that's the case. That's based upon, you know, in effect, what we don't have.

COMMISSIONER GOLDWAY: I had occasion to visit with the founder of Stamps.com when I was in California last week.

They're one of the firms doing a beta test on a new system to purchase postage on the internet, and then I was subsequently informed by another one of the developers of the product that they are -- they have either already been awarded or are about to be awarded a contract by the Postal Service to integrate this new postage purchasing system into Post Office On-Line.

Now, I believe what that means is that there would be a Stamps.com account for anyone who was a user of Post Office On-Line, and they would always have postage available to them already purchased and in the bank.

Now, I know this product isn't available today, but if you understand it as I do, don't you think that such a system would substantially reduce any of the problems they would have about rebates because the money would already be in the bank, the people would already understand they had set aside a certain amount of that for mail and might not actually have to spend it all in the process of ordering for mailing on-line?

THE WITNESS: My sense is that that would facilitate a rebate system, since there would be an account set up, I believe with the Postal Service, that would -- that, in effect, wouldn't have to go through maybe a credit card or some other payment system but would be, in effect, internal to the Postal Service, and I seem to recall the Postal Service considering something like that. At least, that was on their radar.

COMMISSIONER GOLDWAY: Thank you.

COMMISSIONER LeBLANC: Commissioner Covington?

COMMISSIONER COVINGTON: Thank you, Mr. Presiding Officer.

Mr. Callow, I had just two brief questions, and I would hope that you could kind of clarify something that's a little unclear in my mind.

During the Commission's notice, back when they more or less agreed to let the Postal Service proceed with the market test, I think they specifically requested comments on the feasibility of the rebate system that was raised in that opinion, and is it safe for me to assume that you feel that the rebate system is the best approach?

THE WITNESS: Yes, from an economic standpoint, customers pay the rates for which their mail pieces ultimately qualify, and that includes batching.

COMMISSIONER COVINGTON: Okay.

Now, Mr. Callow, what is an ideal batch, and how would one compensate for a lack of volume?

THE WITNESS: If there is no batching -- let me back up. If a mailing is below the minimum volume requirements, it would pay single-piece. If it is -- and that assumes there is no batching.

If it's greater than the minimum volume requirement, it would pay the rate for which it qualifies, again assuming there is no batching.

At the point you introduce the ability to, if you will, commingle or batch or merge -- scratch merge -- commingle different mailings, you increase the potential that those customers will get a better rate than they would have qualified on their own.

And I hope I've answered your question.

COMMISSIONER COVINGTON: Okay. So, in other words, it's safe to assume that the overall intent of your proposal is really to help the small mailer.

THE WITNESS: Yes. We want -- I believe mailing on-line is a good service, and with these -- either a rebate system or something as I have proposed, it addresses what I felt was a problem in terms of a competitive advantage in pricing for the Postal Service.

COMMISSIONER COVINGTON: Okay. Any advice for a mailer who isn't or who does not meet threshold volumes when it come to mailing on-line?

THE WITNESS: If the Postal Service's -- if a rebate system is in place and they're below the minimum volume requirements, they're going to pay the equivalent of hard-copy rates or they would pay a hard-copy rate.

There is a convenience factor, I would believe, and that may be enough to cause people to say I don't have to go down to the Postal Service to deliver my mail or take it to a printer. Therefore, I'm willing to pay the same rates for the convenience.

If it's something like my proposal, that convenience remains, but they would get more beneficial rates.

COMMISSIONER COVINGTON: Okay. Thanks, Mr. Callow.

I have nothing further, Mr. Presiding Officer.

COMMISSIONER LeBLANC: Mr. Callow, I've got just one question. In response to our notice of inquiry number one, issue one, the Postal Service observes that automation basic mail is typically entered in quantities below the threshold required to qualify for bulk mail discounts because it is typically the residue of the pre-sorted mailing.

Now, you touched on this a little bit earlier.

Now the Postal Service contends that the reason for restricting eligibility for the automation basic rate to mailings that are above the threshold quantity is to reduce the transaction cost of accepting mail, small mailings at the bulk mail acceptance unit. Are you with me so far.

THE WITNESS: I think so. Please continue.

COMMISSIONER LeBLANC: Now the Postal Service argues that the Mailing Online hard copy mail is unlikely to be entered as numerous small mailings. That is my interpretation. Now these observations by the Postal Service suggest that the unit cost of Mailing Online mailings that are below the threshold when submitted by the customer are not much different than the unit cost of the automation basic mail that is currently submitted in hard copy form.

I hope I haven't lost you, but I want to make sure you got this --

THE WITNESS: Okay so far.

COMMISSIONER LeBLANC: So if that is true, should the automation basic rate be a rate floor for Mailing Online mailings and should the Mailing Online mailings of a particular job type receive whatever deeper discounts history indicates they should probably have earned after batching?

THE WITNESS: I would not agree that it should be a floor. The way my proposal is designed is that over time the historic -- you would have experienced-based data or historical data that would show a particular job type page count category had only small mailings.

For example, 48 page newsletters might be an example and there might be others. Those would have an experience-based weighted average rate of single piece and if that were true for the duration of the experiment under my proposal they would get -- that would be the blended discount rate at the end of the experiment.

I hope that has been responsive.

COMMISSIONER LeBLANC: Yes and no. What about the deeper discounts after batching?

THE WITNESS: Well, the batching affects my proposal in terms of the more batching the Postal Service is able to do for a particular job-type page count category and I guess when I use batching I am saying taking mailings from two different customers and combining them that as I indicated the potential is to get deeper discounts and the more the Postal Service can put one, put two, three, five, you know -- 100 mailings together, small mailings, they get deeper and deeper discounts that would be reflected in the experience-based weighted average rates, and that gets used in the pricing formula.

That is how batching affects my proposal.

COMMISSIONER LeBLANC: Okay. Thank you.

[redacted]

THE WITNESS: Thank you. That brings us to redirect. Mr. Costich, would you like some time with your witness?

MR. COSTICH: No, Mr. Presiding Officer. There will be no redirect.

COMMISSIONER LeBLANC: You win friends today, I'll tell you. Oh, boy. Okay. If we didn't have any redirect, we can't have any re-redirect as I always say or recross, so at that point, Mr. Callow, we do appreciate your appearance here today and your contributions to our record and if there is nothing further you are excused, sir.

THE WITNESS: Thank you, Mr. Presiding Officer.

[Witness excused.]

MR. HIMELES: Mr. Presiding Officer, if I would win friends by doing it, I will withdraw the last half hour of my questioning.

COMMISSIONER LeBLANC: You knew -- don't worry about that. We're all right.

Let's see. What I think that we will do right now is we will go ahead and press on till about one o'clock. Maybe we can finish and then we'll take a break for lunch at 1:00.

So Mr. Costich, are you going to be doing your next witness?

MR. COSTICH: No, Mr. Presiding Officer. That would be Mr. Richardson.

COMMISSIONER LeBLANC: Mr. Richardson -- it looks like he is walking up. All right.

[Pause.]

COMMISSIONER LeBLANC: We'll go off the record. I'll give you time to get your desk in order. It looks like the only thing missing is the witness.

MR. RICHARDSON: I just saw her a moment ago.

COMMISSIONER LeBLANC: Mr. Reporter, we can go back on the record.

MR. RICHARDSON: Thank you, Mr. Presiding Officer.

The Office of the Consumer Advocate calls Sheryda C. Collins.

COMMISSIONER LeBLANC: Ms. Collins, if you will stand I will swear you in, please

Whereupon,

SHERYDA C. COLLINS,

a witness, was called for examination by counsel for Office of the Consumer Advocate and, having been first duly sworn, was examined and testified as follows:

COMMISSIONER LeBLANC: Please be seated.

DIRECT EXAMINATION

BY MR. RICHARDSON:

Q Ms. Collins, do you have before you a document styled OCA-T-200 in Docket Number MC98-1, which was previously filed in this docket?

A I do.

Q And was that prepared by you or under your direction?

A Yes, it was.

Q And do you have any additions or corrects to your testimony?

A No.

Q And if you were asked the same questions today, would your answers be the same as contained therein?

A Yes.

Q And do you adopt this as your sworn testimony in this proceeding?

A I do.

MR. RICHARDSON: Mr. Presiding Officer, I previously provided two copies of this testimony to the reporter and I move that the testimony be admitted into evidence in this proceeding.

COMMISSIONER LeBLANC: Are there any objections?

MR. BUSH: No objections, Mr. Presiding Officer.

COMMISSIONER LeBLANC: Hearing none, Ms. Collins' testimony and exhibits are received into evidence and I direct that they be transcribed into the record at this point.

[Direct Testimony and Exhibits of

[redacted]

Sheryda C. Collins, OCA-T-200 was received into evidence and transcribed into the record.]

OCA-T-200
Docket No. MC98-1

DIRECT TESTIMONY

OF

SHERYDA C. COLLINS

ON BEHALF OF

THE OFFICE OF THE CONSUMER ADVOCATE

February 8, 1999

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DIRECT TESTIMONY

OF

SHERYDA C. COLLINS

STATEMENT OF QUALIFICATIONS

My name is Sheryda C. Collins. I have been employed by the Postal Rate Commission since January 1972. I was first assigned to the Office of the Special Assistant, and later to the Office of the Technical Staff, Officer of the Commission (Litigation Staff), and the Office of Technical Analysis and Planning. As a Rate Analyst and a Rate and Classification Analyst on the Commission's advisory staff, I prepared technical analyses and designed rates and classifications. My work product was incorporated within the Commission's Decisions in Docket Nos. R74-1, R87-1, R90-1 and R94-1, and in numerous classification dockets.

As a Rate and Classification Analyst on the Litigation Staff, I assisted in preparing testimony and exhibits on pricing and rate design in Docket Nos. R76-1 and R77-1. I performed technical analyses in connection with Docket Nos. MC76-5 and R78-1. I was a witness in Docket Nos. MC76-4 and MC79-2. In Docket No. R80-1, as a major rate design witness, I proposed rates for First-Class Mail, Priority Mail, Express Mail, fourth-class mail and special services. I also proposed a new rate category for First-Class Mail. In Docket No. MC95-1, I testified about pricing and relative cost coverage levels. In the Special Services Classification case, Docket No. MC96-3, I testified about and made proposals regarding Certified Mail, Return Receipts, Insured Mail and Express Mail Insurance, and Postal Cards. As an Office of the Consumer Advocate (OCA) witness in Docket No. R97-1, my testimony supported a different level of rates for Standard B Library Rate mail than those proposed by the Postal Service.

I am a graduate of the University of Massachusetts and have taken credits toward an MBA degree at George Washington University. I have taken courses in economics, public utility regulation, statistics, accounting, data processing, and programming.

I. PURPOSE OF TESTIMONY

The purpose of this testimony is to provide the Office of the Consumer Advocate's response to the Commission's Notice of Inquiry (NOI) No. 1, Item 6. This testimony responds to the request of the Commission for assistance in developing the record on the appropriate markup for Mailing Online in the experimental phase of this docket. As stated in the NOI, "[t]he Commission concluded that a 25 percent markup was not unreasonable for the limited market test."[1] In issuing this NOI, the Commission alerts the parties that it will consider a range of options with regard to the markup for this proposed experimental service: the 25 percent markup as proposed, as well as higher or lower percentages. Below, I will demonstrate that the 25 percent markup should be the upper bound and that there are valid reasons, including precedent, to set the markup at a lower level.

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[1] Notice of Inquiry No. 1 at page 6. "The Commission concluded that a 25 percent markup is not unreasonable for the limited market test. The Commission, however, reached no conclusions concerning the appropriateness of a 25 percent markup for subsequent phases of Mailing Online." PRC Op. MC98-1 (Phase 1) at 33.

II. THE UPPER BOUND OF THE MARKUP SHOULD BE 25 PERCENT

The Mailing Online Service is proposed as a new special service.[2] As such, the Postal Service argues that this new service's fee markup should be compared to other special services and the markups on annual mailing fees.[3] I agree. The proposal is for a fee for a new service which is provided in addition to postage for the appropriate subclass. The proposed fee markup is, therefore, not directly analogous to the markups applied in determining rates of postage for subclasses of mail. Also, First-Class Mail and Standard A mail currently provide substantial contributions to institutional costs. The special service, Mailing Online, will provide additional value to such mail. Thus, if Mailing Online causes new volume to be added to the system, even with a smaller than average

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[2] The Request, Attachment A: Market Test and Experimental Domestic Mail Classification Schedule Language, contains the proposed DMCS language.

[3] Postal Service Brief at 10-11. "The proposed cost coverage is reasonable and appropriate in light of the characteristics of Mailing Online. Mailing Online permits customers to send letters and flats at First-Class Mail and Standard Mail automation rates. In this respect, Mailing Online is analogous to the annual mailing fees which enable customers to obtain discounted rates. Such fees benefit both customers and the Postal Service through reduction in the cost of mailing and increases in mailstream efficiency. These fees therefore typically have a low cost coverage; in Docket No. R97-1, the Commission recommended a 115 percent cost coverage for annual mailing fees. Mailing Online is expected to produce similar benefits, and thus merits a similarly modest cost coverage.

"Moreover, most of the major special services were recommended based on cost coverages of less than 125 percent. Relatively lower cost coverages make sense because special services not only provide a direct contribution to institutional costs, but also provide an additional, indirect contribution, by adding value to other postal products and thus increasing their usage." (Footnotes omitted.)

markup, Mailing Online would cause a non-trivial addition to the recovery of institutional costs.

A review of the Commission's Decision in Docket No. R97-1 shows that for most of the major special services the Commission recommended cost coverages of 125 percent or below—often significantly below. Examples of this include:

SERVICE	COST COVERAGE
Post Office Boxes	110%
Certified	113
Registry	123
C O D	112
Stamped Envelopes	105
Stamped Cards	125
Annual Permit Fees	115

These cost coverages are well below the systemwide average coverage of 155 percent.[4]

In addition, a review of the previous two omnibus rate cases shows cost coverages of most special services to be well below the systemwide average. For example, in Docket No. R90-1, the systemwide average coverage was 150 percent. In contrast, in the same docket, Certified cost coverage was 124 percent; Insurance cost coverage was 117 percent; COD cost coverage was 104

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[4] *See* PRC Op. R97-1, App. G, Schedule 1.

percent; Money Orders cost coverage was 100 percent; and Stamped Envelopes cost coverage was 105 percent.[5] In Docket No. R94-1, the Postal Service proposed fee increases for special services which generally followed the Postal Service's proposed across-the-board 10.3 percent increase. With some exceptions, the Commission recommended fees consistent with those proposed by the Postal Service. Thus, a number of relative cost coverage levels were preserved from the previous case.[6]

The Postal Service also argues that a lower rather than higher markup is appropriate for Mailing Online because its targeted customers are price sensitive.[7] A relatively low markup will encourage customers to try the service and measure its effects on their business operations. Witnesses Wilcox and Campanelli both attest to the benefits of the new service, its ease of use and benefit to their very small businesses.[8] Witness Garvey testifies that Mailing

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[5] *See* PRC Op. R90-1, App. G, Schedule 1.

[6] PRC Op. R94-1 at para. 5425. "The Postal Service's proposed increases for special service fees follow generally the 10.3 percent across-the-board approach to rate changes, as modified by rounding constraints and the requirement that fees cover attributable costs of each service." (Footnote omitted.)

[7] USPS-T-5 (Plunkett) at 18. "The Postal Service's market research indicates that Mailing Online's target customers are price sensitive. . . ." *See also* Postal Service Brief at 11: "Target customers for Mailing Online service appear to be price sensitive." *Id* note 14: "First-Class Mail customers appear most sensitive to price."

[8] USPS-T-7 (Wilcox) at 2-3. "Being able to automate this whole project was appealing to me and it has proved to be a real time saver. I can now get the entire mailing completed in about half an hour. And because of the ease of the process, the mailings get completed.

"The Mailing Online program has other benefits. For one, it caused me to purge my mailing list of bad addresses. . . . It felt good when I found out that this pilot program was being offered to small business owners like me. After all, government is supposed to help the people. We trust the Postal Service to get

Online is expected to be highly beneficial for both small business users and the general public.[9] It also will benefit the Postal Service as a whole by bringing new volume to the system.[10] I agree.

Somewhat analogous to the consideration of the level of markup to be applied to the proposed Mailing Online special service is how the Commission considered this matter in approving the new special service classification in Docket No. R97-1, Delivery Confirmation. This service provides customers with the date of delivery or attempted dates of delivery for Priority Mail, Parcel Post, Bound Printed Matter, Special Rate and Library Rate Mail. It is available to individuals, and small and large businesses. The Postal Service maintained that its proposed low fees and markups reflected the reality of the marketplace, where customers are quite price sensitive. The Commission agreed and set the cost coverage for Delivery Confirmation at a "low" 107 percent. It said, this "balance[s] a number of considerations such as recovery of costs, value of

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our mail delivered, and small business are the ones who really need this kind of product. It will help us to grow and save money."

USPS-T-8 (Campanelli) at 3-4. "As with most businesses, time is money for me, and Mailing Online has been a phenomenal time saver. . . . Another important benefit has been that Mailing Online has made it easy to clean my address lists. . . . I must say that I have been fully satisfied with Mailing Online. . . . It is a very intuitive product and that contributes to its efficiency and effectiveness."

[9] USPS-T-1 (Garvey) at 1. "This service uses advances in technology to benefit our customers, especially individuals and small- and home-based business, who would not otherwise have access to sophisticated digital printing technology and to bulk automation mail rates."

[10] USPS-T-5 at 7 and 19: "By making it easier for customers to produce mail, Mailing Online is expected to result in a net increase in mail volume. . . . Mailing Online customers are unlikely to be current users of presorting services . . . ."

service and degree of mail preparation" and that this low coverage "is not objectionable because the quality of the service is untested."[11]

A similar statement could be made regarding Mailing Online. A low markup for the Mailing Online Service also is justified by the expectation that the service will provide systemwide benefits. Another consideration is that the postage associated with the mail pieces will also provide additional contribution, especially with First-Class Mail.[12]

In the past, the Commission has been cautious when recommending the introduction of new rates and services. When considering unknowable possible cost changes, the Commission has, for example, properly limited the passthrough of new discounts to less than 100 percent of the calculated cost differences.[13] However, in this case, a novel approach to pricing eliminates the

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[11] PRC Op. R97-1 at para. 5975. "The Postal Service's proposed fees for delivery confirmation are reasonable and the Commission recommends them. They balance a number of considerations such as recovery of costs, value of service and degree of mail preparation. Overall, the cost coverage for delivery confirmation is low at 107 percent, but this is not objectionable because the quality of the service is untested and its value of service is less than that of return receipt, which provides more information to the mailer. . . . Delivery confirmation's low markup also is justified by the expectation that delivery confirmation may provide system-wide benefits such as measuring attainment of service standards."

[12] USPS-T-5 at 19. "Moreover, the introduction of Mailing Online will produce additional First-Class Mail and Standard Mail volume. Therefore, in addition to providing contribution through its own markup, Mailing Online will indirectly improve postal finances to the extent that the service attracts new volume to these subclasses."

[13] *See, e.g.*, PRC Op. R90-1 at paras. 5938-41. "The first issue we address is the Service's decision to take what it describes as a 'moderate step' toward recognition by passing through approximately one quarter of the reported shape differential for nonprofit mail and approximately one half for regular rate mail. . . . Having considered the parties' positions, we conclude that the Service's proposal

possibility that this new service's contribution will decrease in the face of any attributable cost increases.

The proposed pricing approach is to apply a specified markup to the actual printer costs (as determined by written contracts) plus the Postal Service's internal system development costs.[14] This will provide unprecedented flexibility and allow printer costs to vary by actual regional differences in labor and real estate costs. And, it cannot be overemphasized, this markup approach guarantees that Mailing Online unit revenues will exceed attributable costs and thus contribute to institutional costs. In consideration of this fact, perhaps a markup closer to the seven percent recommended by the Commission for the Delivery Confirmation service in Docket No. R97-1 would be a more appropriate markup for this new service.

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represents a generally appropriate degree of recognition . . . for the introduction of a new discount . . . ."

[14] USPS-T-5 (Plunkett) at 2 and 18. "In lieu of a set fee schedule for the Mailing Online experiment, the Postal Service proposes the establishment of a markup, which would be applied to the actual printer costs—as determined by the written contracts between the Postal Service and the contractors providing pre-mailing services—plus the Postal Service's internal system development costs. . . . The markup would be applied to the actual premailing costs of each customer's transaction, resulting in premailing fees that would vary depending on the options selected by the customer."

III. CONCLUSION

I believe that the proposed 25 percent markup should be considered the absolute upper bound for the Mailing Online service. Because of the cost coverage security provided with the novel markup pricing approach proposed in this case, the Commission should carefully evaluate whether the markup should be lower, and perhaps substantially lower, than the one proposed by the Postal Service.

[redacted]

MR. RICHARDSON: I tender the witness for cross examination.

COMMISSIONER LeBLANC: Thank you. Now the only participant that has indicated it might wish to conduct oral cross examination was the Mail Advertising Service Association International, and Mr. Wiggins, did you by chance want to do this one also and we just didn't receive it as well as the first time?

MR. WIGGINS: No. This one I intentionally did not serve, Mr. Presiding Officer.

COMMISSIONER LeBLANC: Fine. I want to make sure that every participant had it. Thank you.

Does any other participant wish to request oral cross examination at this time?

[No response.]

COMMISSIONER LeBLANC: All right. Mr. Bush, it looks like it is your floor, sir.

MR. BUSH: Thank you very much, Mr. Presiding Officer.

CROSS EXAMINATION

BY MR. BUSH:

Q Ms. Collins -- I guess it's afternoon. Good afternoon.

A Good afternoon.

Q I am Graeme Bush and I represent the Mail

Advertising Service Association International.

Just to get started I would like to make sure that I understand and that we have agreement on what the basic points of your testimony are, and as I understand it, your recommendation that the markup not exceed 25 percent for Mailing Online is based on essentially three points, and I just want to make sure that we agree what those points are.

One is that you believe Mailing Online is analogous to special services and permit fees and so you look to the markups that the Rate Commission has recommended for special services and fees. That's one of your points, isn't it?

A Yes.

Q The second point is that you believe that the customers for Mailing Online are price sensitive to one degree or another and that because of that, that suggests that the markup ought to be relatively low, below the system average?

A Yes.

Q And third of all, you have stated that you believe that because of the structure of the price attributable to the printing services here that Mailing Online is guaranteed to exceed attributable costs, and that is another reason for keeping the markup low, is that right?

A I think I state it a little bit differently, that the pricing as proposed by the Postal Service and supported by myself marks up the printer's actual contractual cost and an amount -- I think it was described as internal system development cost.

Those two would be added and then you would apply the markup to that.

Q But you have stated in your testimony that that pricing structure guarantees that attributable costs will be recovered, have you not?

A Yes.

Q I would like to explore each of these propositions with you and hopefully relatively briefly, and let's start with the last proposition.

You will agree with me, will you not, that the components of the price, the non-postage price of Mailing Online are threefold. You have the printer price, you have the information system cost that you referred to, and then the markup.

A Yes.

Q All right, and as proposed -- actually, let me go to the printer price first.

The printer price is a function of whatever the Postal Service has agreed to in its contract with each of the printers where the mail is printed and ultimately put into the mail stream, correct?

A Correct. The printer as I understand will bid on a contract and the Postal Service will award that contract.

Q Right, but the price is that contract price? It is not some estimate of the printer's costs or anything like that?

A No.

Q Then we have the Postal Service information systems cost and at least as proposed the Postal Service has recommended that there be a tenth of a cent per piece price component attributable to the information systems cost, correct?

A Yes. In the original filed testimony I think the actual cost was something like .006 cents and it was rounded up to the one-tenth of a cent.

Q Now that information systems component is a per piece component, correct? In other words, it is a tenth of a cent per piece?

A Yes, I believe it is.

Q Do you know whether it is a tenth of a cent per piece or a tenth of a cent per impression?

A I hadn't really thought about it, but I think it must be per impression.

Q Per impression, okay, and so the tenth of a cent is a function of two things, is it not? It is a function of whether the Postal Service has estimated its information systems costs correctly and it is also a function of whether they have estimated the number of impressions over which that cost will be spread.

A That would be if it is indeed a per impression cost.

Q All right, but you'll agree that those two variables, if you will, are what controlled the per piece price?

A Yes.

Q And so would you also agree with me that if the information systems costs were underestimated by the Postal Service, and if the volumes, that is volumes of impressions, are lower than are projected, that it is conceivable that the Postal Service would not recover all its attributable costs?

A I think this is going a little beyond the scope of my testimony. I do understand that the Postal Service has changed the systems developmental costs and they did go up dramatically. I haven't studied in this particular. I have looked at some interrogatory responses that gave a total figure, and I am not sure how it was calculated back down to the per impression or the per piece costs that I discuss here in the markup.

Q Well, let's talk about that a little bit. The supplemental testimony, as you understand it, -- well, do you have an understanding of what the supplemental testimony estimates the per impression information systems' costs to be? And I am really just asking for your recollection. If you don't have one, that's fine.

A Witness Plunkett answered some interrogatories and he indicated with Witness Lim said that the one time information systems' costs are 11.1 million. And --

Q And do you have a recollection -- I'm sorry, I didn't mean to interrupt you.

A I believe he added to those to the previous developmental costs and I have got a figure of 13.9 million.

Q And is it consistent with your recollection of this supplemental testimony that the information systems' costs per impression is .42 cents now?

A Yes, that figure sounds familiar.

Q So the costs, information systems' cost component of this pricing structure has quadrupled since the filing of the case?

A I think even in Witness Plunkett's answer, he said it had gone up by a factor of almost five.

Q Almost five. Do you --

A And I must said that it still substantially covers attributable costs.

Q Well, do you know what volume has to be generated over the course of the two year experiment in order to cover the information systems' costs on which this .41 cent per piece number is based?

A No, I didn't look at any of those numbers.

Q Okay. You understand that the Postal Service's proposal before this Rate Commission is for a two year experiment?

A Yes.

Q And it is not for a permanent rate or a permanent classification?

A Right. I believe that this would be revisited at the end of the experiment.

Q And, so, in order for there not to be any cross-subsidy of Mailing Online by other Postal services or Postal rates, that the Postal Service has to recover all of these systems' costs in the two year period because there is no guarantee there will be any Mailing Online after that?

A I don't think that it was proposed in that manner. This was an experiment to begin, and there are various startup costs in any operation, and if Mailing Online totally fails, then those costs may not be made up, yes.

Q Well, is your statement then that Mailing Online is guaranteed to recover the attributable costs of the service, dependent upon the proposition that the service will be continued after the two year experiment, as a permanent rate or classification?

[redacted]

A My statement of guaranteeing it was in the mechanism of the recovery, that if you have one cost, printer cost, and you have a knowable second cost, and you add the two together, and mark it up by 25 percent, that you are recovering your costs. That is my testimony.

Q But you would agree with me, would you not, that if we only experience -- the Postal Service only experiences, let's say, a couple of hundred thousand impressions of volume of Mailing Online over the two year period, that it simply will not have recovered, I think you said it was roughly $13 million in information systems' costs that the supplemental testimony has stated have been incurred by the Postal Service?

A On a piece basis, it will have, yes.

Q Will it have recovered $13 million if there's only 200 million pieces or impressions, Mr. Collins? Could you just answer that simple question?

A I haven't done the math. I presume you have.

Q Well, can you do it quickly off the top of your head? Can't you figure out whether -- that it is not even going to come close if it is only --

A I think that you are probably right, yes.

Q So you would agree with me that there is some risk and, therefore, no guarantee that, over the two year period of the experiment, there will be insufficient volume to recover all of the attributable costs that have been incurred on developing the information systems?

A That sounds correct.

Q Okay. Let's talk a little bit about special services. As I understand your testimony, you have looked back through the Commission's decision in R97-1 and identified certain special services that you rely on in reaching your conclusion that no more than a 25 percent markup should be imposed on Mailing Online. That is essentially what you did?

A I have listed several that are 25 percent or below.

Q And that includes --

A That is not all of them.

Q That includes post offices boxes, certified mail, registry, COD, stamped envelopes, stamped cards and permit fees?

A Correct.

Q And you would agree with me that none of those services or fees are experimental?

A That's true.

Q They have all been around a pretty long while, correct?

A Yes.

Q And they all have well established cost data that are captured in the Postal Service costing system?

A They are captured in the costing systems. There are frequently changes to the costing systems, or the methods of collecting them.

Q But there are changes to systems that have been in place for a while, collecting costs in one methodology or another for these services, right?

A That's true.

Q And you would also agree with me that none of these services that you and I just spoke about have any significant competitive impact on private businesses?

A I think Mail Boxes Etc. might disagree with you on post office boxes.

Q All right. Any of the others?

A I believe, in the past, we've had some competitors come in and talk about stamped envelopes, also. Stamped cards are new.

Q Okay.

Post office boxes have been around for a long time before Mail Boxes Etc. came around, right?

A Yes.

Q Now, there are other special services that were addressed in R97-1, right?

A Yes, they all were addressed.

Q And some of those special services had cost coverages that were significantly higher -- or I should say markups significantly higher than 25 percent.

A Yes, there were some that were higher.

Q Okay. That would include money orders?

A Yes. In this case, money orders is a specific and unusual case.

Q But in R97-1, the markup there was almost 47 percent, wasn't it?

A Yes, it was, and I'd like to explain why it was 47 percent.

Q Well, I think the Commission can probably figure out why it was.

A Well, I don't know. Witness Prescott put some of the Commission's decision in, but he didn't put it all in, and there's an explanation here as to why it's at 47 percent, and in the previous case, it had been set at 100 percent.

Q All right. But it's at 47 percent now.

A Right.

Q All right.

A And it was a rate decrease in 1997.

Q Right, because the cost --

A Because the cost coverage was too high.

Q Your understanding is that the cost coverage was raised because it was too high?

A No, it wasn't -- the cost coverage -- they decreased the rate and decreased the cost coverage because it was an undue impact on the low-income users of money orders.

Q Well, in fact, what had happened was that the cost attributable to money orders had decreased in the R97 case. Isn't that right?

A There had been some costing changes, but it had been looked at over time, because the Commission, a number of years ago, also had concern about that, or they wouldn't have set the cost coverage at 100 percent, plus money orders is a special case because a significant amount of money is -- accrues to the Postal Service because of the float on money orders.

Q All right. And so, you're saying that because the Postal Service gets the benefit of the float, it has a higher cost coverage?

A If you add the float into the cost coverage calculation, yes, it would raise it considerably.

Q But the 47 percent that was set in R97-1 is not taking into account the float, is it?

A No, not in this specific calculation, it isn't.

Q All right.

Now, also, in R97-1, the insurance service was -- had a markup of almost 45 percent. Are you aware of that?

A Yes.
Q Okay. And certificates of mailing had --
A However, again --
Q Can I please -- you'll have an opportunity --
A Okay.
Q -- to give an answer after I'm through. Certificates of mailing were -- had a markup of about 32 percent?
A Without hunting for that, I'll agree, yes.
Q All right. And restricted delivery had a markup of almost 60 percent? Are you aware of that?
A Yes.
Q And delivery confirmation -- I know that's a little bit more complicated, but for Standard B, the Commission indicated that there would be a 23-percent markup for manual confirmation and 65-percent markup for electronic confirmation and then blended those two together?
A Yes.
Q Okay.
Now, I'll give you the opportunity to answer the question. Why are these services, all of which had markups significantly higher than the 25 percent that you're talking about, different from mailing on-line, in your view?
A In one aspect, it is because they're established. When you're entering into a new service, if you price it

incorrectly, you may never find out if there's any demand for that service at all.

In the case of insurance, the Commission lowered the increase that had been proposed for that and did mitigate the markup on insurance.

Q I'm sorry, didn't what?

A Did mitigate the markup.

There are factors in the act which are considered when any pricing is done, and they usually are considered in conjunction with at least the major special services, and one of those considerations is value of service, and insurance has traditionally had a fairly high value of service.

I think that, in general -- you can always find a special service that is in excess of 25 percent, as you went through and showed.

The trend over a number of years -- I think, in 1994, special services, aggregated, I think had about a 134-percent markup versus a system-wide average of 155 -- excuse me. That's cost coverage.

In R90, I don't have an aggregate, but it was again -- for special services, it was lower than a 150-percent cost coverage of all mailing services, and the special service proposals were very -- had very little discussion and weren't controverted on the record.

In general, I think that, as a whole, if you look at special services and the mailing fees, they have tended to have a lower cost coverage or markup.

COMMISSIONER LeBLANC: Mr. Bush?

MR. BUSH: Yes.

COMMISSIONER LeBLANC: Excuse me. I was looking at one to maybe possibly take a lunch break. Do you have any idea on your time-table?

MR. BUSH: I'm almost -- I've got one other area to cover which I don't believe is going to take very much time. I would guess we're talking between 5 and 10 minutes at the max.

COMMISSIONER LeBLANC: Fine. We'll move on. Thank you.

MR. BUSH: All right.

BY MR. BUSH:

Q Now, you also referred to permit fees, and permit fees are the fees that are paid in order to get the permit to mail at certain rates and use the imprint or bar code for mailing at those rates. Is that right?

A Yes.

Q Okay. And so, the costs of the permit are simply the administrative costs of processing the application, are they not?

A I'm not sure exactly what goes into those fees.

[redacted]

Q Well, do you have any understanding that the mailer is rendered any service specifically in connection with the permit that he receives?

A Sure.

Q What is that?

A He gets to enter his mail at a discount.

Q Right. But in connection with getting the permit, he simply has his permit processed so that he is able to take advantage of the -- whatever the discount rate is that he's applied for the permit, right?

A And then there are related record-keeping costs incurred. I mean just because you have a permit to mail -- and particularly, I'm thinking third-class -- there are many forms you have to fill out every time you enter a mailing, and --

Q And does that go into the cost base of the permit?

A I believe some of it does, yes.

Q Okay. But you would agree with me, would you not, that the permit situation is a little bit different than mailing on-line?

A Certainly.

Q In mailing on-line, the customer is getting a whole variety of services over and above the relatively administrative process of issuing the permit and keeping records.

A I hope so, yes.

Q Now, the last area that you relied on in reaching your conclusion that the markup shouldn't be anymore than 25 percent was the price sensitivity, and are you aware of why customers are price sensitive? Have you done any study or seen any study of that?

A I read the Postal Service's witnesses, and several of them were market test participants, were small businesses, stated they were price sensitive. I believe there was some research done.

I'm familiar personally with some people that have small businesses, and believe me, they are price sensitive.

Q Would you agree that one of the reasons that there is typically price sensitivity is when customers have some other alternative for something that they need?

A Not always.

Q I said that that's one typical reason that there's price sensitivity?

A Yes, it can be.

Q Okay. And you also know that, at least based on the Postal Service's estimates here, that 62 percent of the volume for mailing on-line would come from mail that's already in the system.

A I am not familiar with that.

Q You're not aware of that, that that's the Postal

Service's estimate?

A I'd say direct me to it, but I don't have any Postal Service testimony here.

Q Well, would you also agree that, assuming that that's true, that it's very likely that at least some of that 62 percent of mailing on-line's estimated volume that's going to come from mail that's already in the mail stream is now being handled in some fashion by private businesses?

A That's certainly probable that some fraction of it is. From what I've seen in the testimony and heard, a lot of it would be either new mail or mail that's going to be handled differently because it becomes automation-compatible in mailing on-line, and the mailing on-line customers have an opportunity to do a mailing with more ease and maybe more professionalism than they would be doing it themselves.

Q But I take that you, from your prior answer, that you haven't actually looked at the testimony in detail as to where volume for mailing on-line mail is going to be coming from.

A No. I was strictly responding to the Commission's notice of inquiry regarding the 25-percent markup that they had recommended in the market test. That's the genesis of my testimony, and it's -- that's what I looked at.

Q Okay. And so, while you have an impression that some of this mail may be coming -- may be new mail stuff that isn't currently in the mail stream, you haven't done any evaluation of whether the mail that's already in the mail stream that might switch to mailing on line would now be handled by businesses who are providing services to mailers.

A I think I said I don't believe that that's an impossibility. It strikes me as not really where the volume of mailing on-line would come from.

Q But my question was you haven't really done anything to analyze whether that's true or not true.

A I haven't gone out with a questionnaire, no.

Q Well, not only that, you haven't done any research or review of the testimony that has been placed in the record by the Postal Service on that subject, have you?

A No, I haven't done any research no.

MR. BUSH: I have nothing further.

Thank you.

COMMISSIONER LeBLANC: Is there any followup?

MR. WIGGINS: I'd like to follow up on just one of her answers very briefly, Mr. Presiding Officer.

COMMISSIONER LeBLANC: Yes.

FOLLOW-UP CROSS EXAMINATION

BY MR. WIGGINS:

Q You testified, Ms. Collins, as part of your response to one of Mr. Bush's questions, that for a new service, you have to be careful not to price it too high, because if you do price it too high, you may never get an accurate vision of what the demand for the new service really is. Do you remember that?

A I remember saying something similar to that, yes.

Q Isn't it equally true that, in a new service, if you price it too low, you might get an exaggerated vision of what the demand for it really is? You might see much more demand than is actually the real demand insofar as that can be measured.

A I think that's possible if you were pricing it below cost, but if you were pricing it above cost, I don't know that that would give you an unreal estimate of demand.

MR. WIGGINS: I have no further questions. Thank you.

COMMISSIONER LeBLANC: Mr. Hollies, any comments? I mean Mr. Rubin?

MR. RUBIN: No, we're okay.

COMMISSIONER LeBLANC: Mr. Richardson, would you care for some redirect time here?

MR. RICHARDSON: I can move this right along, Mr. Presiding Officer. I have one question, but I could ask it now, if there are any other questions.

COMMISSIONER LeBLANC: Moving right along, as we say.

REDIRECT EXAMINATION

BY MR. RICHARDSON:

Q Ms. Collins, I want to refer you to some of the questions by Mr. Bush concerning your guarantee.

On page 9 of your testimony, if you would refer to that, specifically lines 7 through 9, where your testimony says "This mark-up approach guarantees that mailing on-line unit revenues will exceed attributable costs and thus contribute to institutional costs" -- now, the guarantee that you are stating there -- is that something different from the guarantee of which Mr. Bush was discussing when he was asking you about guaranteeing recovering the costs of mailing on-line initially, the development costs of mailing on-line?

A Yes, it is, and I thought I tried to explain that the approach that I was saying guaranteed it was, if you take the contract price plus other costs and mark that up, that you will cover your attributable costs and institutional costs on a unit basis.

Q But you were not intending to state that you'd guaranteed a recovery of development costs. Is that correct?

A Of all development costs? No, I did not.

MR. RICHARDSON: Thank you.

Those are all the questions, I have, Mr. Presiding

Officer.

COMMISSIONER LeBLANC: Did redirect bring out any further followup?

MR. BUSH: No followup.

COMMISSIONER LeBLANC: Mr. Wiggins?

MR. WIGGINS: No, Mr. Presiding Officer.

COMMISSIONER LeBLANC: Well, fine, moving right along, as we say, then.

Ms. Collins, thank you so much for your appearance here today and your contributions to our record.

If there is nothing further, you are excused.

THE WITNESS: Thank you.

COMMISSIONER LeBLANC: Thank you again.

[Witness excused.]

COMMISSIONER LeBLANC: Ladies and gentlemen, we're going to take about -- let's see, what time is it now? It's 1:15. So, we'll come back at 2:15, give yourself an hour to get our blood sugar back up, hopefully, and then we'll hit the oral arguments.

So, we'll see you around 2:15.

[Whereupon, at 1:15 p.m., the hearing recessed, to reconvene this same day,at 2:15 p.m.]

AFTERNOON SESSION

[2:15 p.m.]

COMMISSIONER LeBLANC: Good afternoon, ladies and gentlemen. The Commission will now hear oral arguments on the March 4 OCA motion to suspend the procedural schedule indefinitely and for expedited responses to interrogatories. The Postal Service filed a written response on March 10, as of yesterday.

Before we begin, I have a quick comment. The Postal Service response contains a footnote implying that having to prepare the written response in only six days may have detracted from its ability to prepare focused cross-examination of intervenor testimony. I must say I saw no indication of that during the hearings yesterday and today. And if some point was omitted from the written response, I expect that to be remedied today. I appreciate that counsel must work hard and under a constant stream of deadlines, and I hope it is evident that we try to accommodate them as much as possible within the Commission's statutory constraints.

The OCA motion raises two separate issues: the Postal Service's delay in submitting accounting-period cost data, and OCA's request that the Postal Service be compelled to respond to certain discovery requests. Now I ask all counsel to address these two issues separately. If you have nothing to say about one of these issues, please make that clear. Again, address them separately, and if you have nothing to say about it, make it clear.

I will allow OCA to argue first. Next, parties supporting the OCA motion may present their views. After we have received arguments in favor of the motion, the Postal Service and any other participants opposing the OCA motion will be given an ample opportunity to respond. Finally, I will allow a brief opportunity for a reply from the OCA.

Questions from the bench will be directed to the attorney presenting the argument.

So counsel for the OCA, we have Mr. Costich, I guess, or who's going to do this one, Ms. Dreifuss?

MS. DREIFUSS: I'm going to present the OCA's oral argument. However, our new director of the OCA has some preliminary remarks to make.

COMMISSIONER LeBLANC: That'll be fine. Thank you very much.

Mr. Gerarden?

MR. GERARDEN: Thank you. I'd like to take this opportunity to enter an appearance in this proceeding. I am Ted Gerarden, appearing for the Office of the Consumer Advocate.

Ms. Dreifuss will present the Office's argument with respect to the motions that are pending before the

Commission, but preliminarily I wanted to take the opportunity to emphasize that the Office recognizes the great seriousness with which the Commission approaches cases and attempts to decide cases within the statutory period and more quickly if possible, and in addition to wanting to act rapidly, wanting to act with an adequate record, to be able to reach a thorough and reasoned decision.

I also recognize that the section 3624(c)(2) authority to extend the statutory period for acting on a case is very rarely invoked. This case presents the issue of the tension between acquiring adequate data and providing the opportunity for the parties to explore that data, present it in testimony where indicated, and to give the Commission a full record when that process begins to push up against the statutory deadline.

This is a case in which the Commission has indicated its interest in having certain data through its prior orders, and now we are at the point of struggling with the situation in which data is late and incomplete, the parties' presentations well under way, and how to reconcile the need to build a full record with the statutory deadline.

We very much appreciate that this issue was referred -- certified to the full Commission for argument, and appreciate the opportunity the full Commission will have to hear argument and ask questions about it. We think that it's a very serious question. Not that this is a full rate case with the tremendous impact that that would have across all classes of mail and so forth, but the issue is a serious one, and we did not take lightly bringing this to the Commission's attention in the form that we did.

I'd like to turn this over to Ms. Dreifuss now to present the argument on behalf of the Office.

COMMISSIONER LeBLANC: Thank you, Mr. Gerarden.

Ms. Dreifuss, you may begin, please.

MS. DREIFUSS: Good afternoon, Presiding Officer LeBlanc and Commissioners.

OCA wants to express its deep appreciation for having the opportunity to bring closure to the evidentiary issues and the delay issues that are now facing us.

We would be remiss if we neglected to acknowledge that the Postal Service did file the first set of accounting-period reports yesterday. These were at issue of course in OCA's motions.

We thank the Postal Service for the intense efforts they described to make these reports available yesterday. Apparently they had to push to get them ready. And the availability of the reports has created a good news, bad news situation for us.

The good news is that the flow of information has begun. We do have in hand reports for accounting periods 2,

[redacted]

3, and 4. The bad news is that we don't have accounting-period reports yet for 5 and 6. Accounting period 5 ended January 29, nearly six weeks ago. We are very concerned that the Postal Service didn't file the accounting period 5 report yesterday with the others. AP 6 ended February 26, approximately 1-1/2 weeks ago. We would hope and expect that the Postal Service would get that report to us within a very short period of time, I would hope no longer than about a week, since we are certainly pressing up against the ten-month statutory deadline, as Mr. Gerarden just mentioned.

The OCA's ability to update testimony based on the accounting-period report information is seriously impaired, because we don't have all of it yet. We only have the information for AP's 2, 3, and 4, not yet for 5 and 6. I presume that as the costs for 5 and 6 are reported, we would find that the costs are somewhat higher when you've totaled up expenditures over five accounting periods than they are right now after just three accounting periods. When we update our testimony certainly we would need all of the costs incurred through accounting period 6 to prepare the most complete cost estimates possible.

There's another element of bad news with these AP reports also, and that is that we have many, many questions concerning their completeness, the manner in which they were prepared, how costs are identified in the report, and even some contradictions and inconsistencies that we've identified. I'd like to remind you that we've only had one day to look them over, and so we haven't identified all problems, but we have identified some. I've prepared a list of preliminary questions we have based on the reports we saw yesterday. This was done very, very quickly between our first chance to review it yesterday and today.

What I'd like to do is, at the end of my oral argument I would like to circulate this for review by the Commissioners and those in the audience, and also include this as an OCA oral argument exhibit in today's transcript.

Let me just talk briefly and give you some examples of what we did find. The costs that we see in these reports are partial, not in any way complete, and advertising costs are a good example of this. The Mailing Online AP report 4 -- I'm sorry, AP 4 report -- at Table 1 presents total advertising and marketing costs for the first three weeks of AP 4. These expenditures were approximately $1.3 million.

Since we don't have the expenditures yet for AP's 5 and 6, let's say for the sake of argument that about the same amount would be spent in 5 and 6, that is, about $1.3 million, totaling roughly $2.6 million over a four-month period.

[redacted]

We know from an interrogatory response of Witness Garvey that the advertising that's being conducted now during the market test targets potential customers in Boston, New York, Philadelphia, Hartford, and Tampa. Therefore, it's reasonable to expect that once Mailing Online is offered on a nationwide basis during the course of the experiment we are going to see these expenditures increase many, many, many-fold. Instead of having to cover just a few localized geographic markets, the entire nation would have to be blanketed with advertising in order to acquaint the public with Mailing Online and Postoffice Online and stimulate the public to buy these services.

Furthermore, again, if we're talking about $1.3 million over a two-month period or 2.6, that's an extrapolation over four months, the experiment is slated to last for two years. Again, we'd have to increase the figures we've seen so far many, many-fold to arrive at a total advertising expenditure over the course of the experiment. In other words, what we see in the AP reports is just a very, very brief glimpse at likely expenditures for advertising.

We noticed something that interested us quite a bit when we looked over the AP-2 report, Table 1. That is also an advertising and marketing table. There is a line item there that is described as, and I am quoting, "MOL advertising" -- now we don't know whether contrary to earlier Postal Service representations there really are costs, advertising costs unique to MOL, or whether that is incorrect.

That is one question that we need to ask the Postal Service as we review these reports.

While I am focusing attention on the AP reports, let me mention one or two more things that we have identified. Table 1 of AP 4 report covers only three weeks out of the four for AP 4. We have questions about why the fourth week is left out.

Another question that occurred to us is that we know from Witness Lim's testimony during his oral cross examination by Pitney Bowes that T-3 lines are used to bring the Internet traffic to San Mateo and Raleigh. Yet we saw no costs reported for the T-3 lines among these AP reports and we are concerned about that. We feel that there may be costs omitted from these reports.

We recall in the Postal Service's response that was filed yesterday that they had to get these -- pull these costs together in a very, very great hurry and we are afraid in their haste that they have omitted important segments of costs.

Another example -- Table 3 of AP 2 contains a breakdown of hardware and software costs for various categories -- and everything I say now will be quoted material -- both POL SOL and MOL -- but then they are aggregated -- I'm sorry, that is the end of the quote.

But then they are aggregated in a different way at the end of the table and to POL, separate MOL, and shared. We can't follow how the transformation takes place from one set of categories to another. Again, that raises questions for us that we feel we need answers to.

Therefore, OCA feels that we need a period of time for discovery on the AP reports, on the ones that were just filed yesterday and those that will be coming at a later time. Later in my oral argument I will address how much time we feel we do need, when I talk about some of the delay issues that have arisen at this point in the proceeding.

Now I will address our motions to compel answers to our interrogatories and I will treat these interrogatories one set at a time.

OCA posed Interrogatories 27 through 36 to the Postal Service. That was our first set of questions that were objected to.

In a response to a hearing question, the Postal Service indicated that Witness Lim had not included Mailing Online operations costs or market test costs in his testimony. Rather, his testimony is intended to estimate the costs of Mailing Online for the experimental period.

OCA feels that that is inappropriate. We believe that the operations test costs and the market test costs ought to be included in the MOL cost case that will be recovered by the MOL rates established by this Commission. Therefore, we posed Interrogatories 27 to 36. These interrogatories generally seek to learn all of the operations costs that were incurred up to the commencement of the market test on October 30th, 1998.

In response to our Interrogatory 37, the Postal Service states that Witness Seckar's initial testimony included $1.2 million for the operations test expenses but he later excluded them when he filed a revision in conjunction with the filing of the Lim testimony.

We notice that there is a gap there. Witness Seckar filed his testimony in July -- his initial testimony in July and this revision was filed January 14th at the same time that the Lim testimony was filed.

Furthermore, the market test was commenced on October 30th, so we feel that there is a period of months that has not yet been accounted for. Operations tests were surely being incurred over the period July through the end of October 30th and yet they haven't appeared anywhere and that is just one of the types of costs we are seeking in this set of interrogatories.

We also asked several questions about the market test costs incurred to date, and it does appear that the Postal Service has now begun the flow of market test cost data in the AP reports. Some of our questions therefore do become moot and we are willing to withdraw them. The specific questions that are now moot are Interrogatories 32 through 36. They are withdrawn.

However, we would like the Postal Service to answer the remaining interrogatories in that set, so again we can fully account for the operations and market test costs in the cost base for MOL.

COMMISSIONER LeBLANC: Ms. Dreifuss, excuse me. You said "in the set" -- now I want to make sure I am with you on "the set" --

MS. DREIFUSS: Yes, sir. The first set --

COMMISSIONER LeBLANC: I'm sorry, go ahead.

MS. DREIFUSS: The first set I am talking about and in fact have just concluded my remark about --

COMMISSIONER LeBLANC: 27 through 36?

MS. DREIFUSS: -- consist of Interrogatories 27 through 36.

COMMISSIONER LeBLANC: Good.

MS. DREIFUSS: And in that set we are now withdrawing 32 through 36.

COMMISSIONER LeBLANC: That's what I thought. I just wanted to clarify the record. Thank you.

[redacted]

MS. DREIFUSS: You are very welcome.

In addition to the questions about the cost base for MOL we also asked how Witness Plunkett's recent cost coverage calculations would be affected by including operations test costs and market test costs.

We are under the impression that Witness Plunkett may not have included these costs in his calculations, in his recent calculations of the cost coverage for MOL and many of our questions address that issue, and we believe that a response to them is required.

Interrogatory 31 seeks total expenditures to date for the operation of Post Office Online. Those have never been provided. Some of them are reported in the AP reports that we received yesterday. We would like to know the total Post Office Online costs so that if we choose to do so we may allocate a portion of them to Mailing Online, and we believe that the Commission's market test decision so provided.

I am now going to move to our next set of interrogatories, 37 through 61. These interrogatories consist of questions seeking to determine the types of work performed under particular tasks and delivery orders of the Compaq contract, and we also asked how and in what way Witness Lim reflected these costs in his cost estimates and whether he reflected them in his cost estimates.

In the Postal Service's response to OCA's motions to compel and suspend, the Postal Service stated much to our surprise that, and I will quote now, "Witness Lim did not even review the Compaq contract."

However, this representation must be carefully examined. While Witness Lim may not have reviewed the Compaq contract costs, we believe in some fashion they are included in his testimony. OCA learned during the oral cross examination of Witness Lim that his testimony is generally based on the statements, advice and judgments that were imparted to him by the MOL system designers. We think very likely that those system designers took into account the Compaq contract costs that were filed as a library reference and we would like to know how those costs were taken into account.

We feel that under the Administrative Procedure Act we are due a full explanation of how these Compaq contract costs were taken into account if not by Witness Lim then by those who advised him.

One of the challenges the Postal Service makes to our efforts to obtain answers to questions about the Compaq contract was articulated in their response filed yesterday. They said that we should have known about the Compaq contract since late July. After we read that assertion, OCA reviewed the cited transcript pages for the Postal Service's

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contention and found that there was no indication there that Digital Equipment Corporation, the original contractor, had engaged in a contract to design the MOL system, administer its development or customize software for it.

Rather, the citations to Digital Equipment Corporation appear to be merely a listing of the prices that Digital would have charged for various hardware purchases. Digital Equipment Corporation is well-known to the public as a vendor of off-the-shelf hardware and software products, so there was no reason for us to suspect that a design contract was also involved.

I will now move to our last set of interrogatories, Interrogatories 62 through 66. The Postal Service did object to provision of responses to these interrogatories. OCA has not yet filed a motion to compel. It is not due until a little bit later and we do intend to do so. However, today we will move orally to have answers to those interrogatories compelled. We will follow it up with a written motion and that of course will give the Postal Service an opportunity to respond in writing to the motion.

In many ways Interrogatories 62 through 66 are the most important interrogatories that are at issue. The costs associated with the functional component analysis filed by the Postal Service recently are the ones that underlie

Witness Lim's cost estimates. It can't be emphasized enough that the Postal Service has never given us any details on precisely how Witness Lim constructed those cost estimates. We have seen a general description of the functional components of Mailing Online and Post Office Online but we have no idea how one moves from a very general understanding of functional components to precise numbers.

Again, we feel under the Administrative Procedure Act we are due that explanation. We need to know precisely how those cost estimates were constructed. There must be a vast array of assumptions that underlie these cost estimates. For example, how many customers might be expected to try to access Post Office Online simultaneously? How many pieces of Mailing Online would be likely to be processed in a single transaction?

These were assumptions that were articulated explicitly by Witness Stirewalt in his originally-filed testimony, but as we know, the Lim testimony supplants the Stirewalt testimony and all of these decisions have been -- I'm sorry, all of these assumptions have been withheld from us. We have never had a chance even to see the assumptions, let along to pose questions about them.

In addition, the Postal Service has clearly stated its position, that most of the joint costs of providing Post Office Online with the exception of Help Desk costs and storage capacity costs are not caused by MOL and should not be included in the MOL cost base. OCA takes a contrary view. We believe that much of what the Postal Service has classified as POL-specific costs are incurred for the benefit of Mailing Online and some portion of them must be allocated to Mailing Online.

Answers to our Interrogatories 62 through 66 would take us a long way toward meeting our objective.

Furthermore, we believe that the Commission's market test decision required the Postal Service to prepare such costs for our use and that the Service has flagrantly ignored the holding of the market test decision.

As I recall from my oral cross examination of Witness Lim, he was retained to prepare his testimony for the Postal Service some time in November and worked on it up until it was filed in the middle of January. Therefore, he worked on it for a period of approximately two to three months. It is our position that the Postal Service was obliged during that same period, and in fact a somewhat longer period, the period beginning immediately with the issuing of the market test decision, to assemble and provide the cost information necessary to put OCA, the participants and the Commission in a position to determine what total Post Office Online costs are separate and apart from the Mailing Online costs that have already been provided and to allocate a portion of these POL-specific costs to MOL.

The Commission admonished the Postal Service at page 48 of the market test decision, and I'll quote, "Joint costs that benefit Mailing Online should be considered as potentially relevant to either the attributable costs or the appropriate markup for Mailing Online."

We believe that the Postal Service ignored that admonition and neglected to assemble the cost information that clearly was of interest to participants and the Commission.

The brief that OCA filed, which eventually led to the Commission's decision on the market test and also the brief that Pitney Bowes filed, sheds further light on what the parties had in mind when we asked the Commission to require the Postal Service to provide joint costs.

In OCA's initial brief, at page 20, we argued, "The Postal Service should be directed to collect and provide the total actual costs of developing and implementing information systems for Mailing Online including costs incurred jointly with other postal products and services that involve Mailing Online."

We also argued at the same page, "The Postal Service should be directed to collect and provide actual data relative to the assumptions underlying its information system cost estimates." Pitney Bowes' brief framed a similar argument. At Section 3(a) and 3(b) of their brief under the heading Processing Center, Telecommunications and Print Site Expenditures, Pitney Bowes said as follows, and I quote: "The issue here is identical to that presented by the Postal Service's refusal to supply information concerning advertising, promotion and educational expenses."

In its response to the OCA motion the Postal Service asserts that only some of these costs bear on Mailing Online, that others such as web server costs will be incurred regardless of the status of Mailing Online, and that such costs need not be reported. This, too, prejudges an issue that will have to be decided in the litigation on the experimental phase. That certain costs may be incurred without regard to Mailing Online simply does not alter the fact that the total of costs incurred constitute joint and common costs to the extent that these facilities are actually used for Mailing Online purposes. Some allocation between regulated and unregulated uses may be required.

Therefore, we believe it is clear that the Commission's market test decision require the Postal Service to assemble a parallel set of cost estimates for Post Office Online that we understand the Postal Service wouldn't choose to allocate to Mailing Online but it would give the participants the opportunity to do so if they felt it was appropriate, and we believe the Postal Service understood but ignored its obligation to provide a parallel set of Post Office Online cost estimates.

I will now present OCA's argument in support of the motion for delay under section 3624(c)(2).

First of all, let me state that the conditions for relief under section 3624(c)(2) have all been met.

First, and I'm going to follow the language of the statute, the Postal Service's request for an experimental classification and implementing rates was filed under section 3622.

Second, the Postal Service has failed to respond within a reasonable time to a lawful order of the Commission, that is, the Commission's market-test decision, which required the Postal Service to collect and report Mailing Online specific and total Postoffice Online costs on an accounting period basis. Now while those accounting period reports have begun to be filed, three out of five were filed yesterday, we haven't seen all of them yet, and more importantly, they have come very, very, very late in the proceeding.

The time frame that the Presiding Officer anticipated can be determined from Presiding Officer's Ruling 18. That ruling contains the statement that participants would have more than four months of market-test data that could be used to update their testimony to account

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for the market-test results. We did not get the four months to assimilate, review, and utilize that data. As of today we've had one day, a far cry from the four months contemplated.

It's clear from the Presiding Officer's Ruling 18 that the Presiding Officer envisioned the availability of the market-test cost data during the months of November through February, and we are months late in receiving it from the Postal Service.

Another condition of section 3624(c)(2) has also been met. That is, the Postal Service has unreasonably delayed consideration of its section 3622 request.

The Commission and the participants are now faced with the question of how much of an adjustment to the ten-month statutory deadline is needed to account for the Postal Service's unreasonable delay and restore the participants to the position they would have had if the Postal Service had not delayed. OCA's calculation of the delay is as follows. At whatever time we get a complete set of accounting-period cost data from the Postal Service, that is, accounting periods 5 and 6 as well as the three we've seen thus far, OCA would need, and we believe that we and the other participants are entitled to three weeks of discovery on this information. And we believe we need another three weeks to be able to update our testimony to take account of this information. So at a minimum we would need six weeks following the filing of a complete set of accounting-period data.

The way we've computed delay we believe is consistent with Commission Order Number 280, the single instance in which the Commission made available a section 3624(c)(2) remedy to the parties. It arose from *unreasonable delay by the Postal Service in Docket Number* MC78-1. In Order Number 280 the Commission took account of the fact that numerous changes in the testimony of Postal Service witnesses have contributed significantly to the delay. That circumstance is present in the instant proceeding as well, that is, the Stirewalt testimony was replaced by Lim testimony six months after the case was filed.

The participants might have been able to cope with that substitution of one piece of testimony for another if the Postal Service had been prepared to explain fully the foundation of the Lim testimony, but as all of you can well recall, although we've made diligent efforts to find out how those cost estimates were created, we have not been able to do so. Witness Lim was not able to explain the details of his cost estimates either in response to OCA interrogatories to him nor in his appearance for oral cross-examination. Furthermore, through its objections to our interrogatories, the Postal Service has continually resisted providing us this information. In addition, as I alluded to earlier, the Postal Service still has not filed the total Postoffice Online costs nor Postoffice Online specific costs. Again, those that we need to determine a proper cost base for MOL.

It wasn't until February 22 that the Postal Service finally described in very general terms the functional components of Postoffice Online. We don't have thus far the specific details of the functional components such as hardware, software, and other system design costs that were excluded from Witness Lim's estimates of Mailing Online costs.

We have not been able to see or understand the judgments, assumptions, and advice that the Mailing Online system designers provided to Witness Lim. We feel our several sets of interrogatories if answered fully and completely will take us a long way down that road. And in a sense the rulings, we hope favorable rulings, on our motions to compel will eventually lead to the availability of this information. We don't know yet what amount of delay would be occasioned by that. It hasn't ripened yet because we don't yet have any Presiding Officer's rulings. We can promise you, though, that we -- and make this commitment -- that we will work with the information we receive with the greatest possible diligence and expedition, and try to incorporate the information into testimony as quickly as is humanly possible.

Another shortcoming we found in looking over the Postal Service's efforts to avoid answering our questions thus far is that while Witness Lim did receive the advice and opinions and judgments of Mailing Online system designers, he apparently didn't document these conversations. If he had documented them, his notes, work papers, and so on could have been provided and illuminated the kind of information he was getting from the system designers. We do fault the Postal Service for not being more thorough. They were well aware that this would be provided in an administrative proceeding where a record was being developed, and we think that those notes, that documentation should have been made on a consistent basis throughout the preparation of this testimony. If it was made and they haven't provided, then I would say they should be compelled to provide it immediately.

Another way that the Postal Service could have accounted or could have accommodated our need for the Postoffice Online information was to have had someone other than Witness Lim work on that issue. Witness Lim took two to three months to prepare his Mailing Online estimates. We don't see why the Postal Service couldn't have either had somebody from Postal Service staff or another consultant work on the preparation of the Postoffice Online estimates. That could have been done simultaneously with the preparation of the Mailing Online testimony.

In the Postal Service's response to OCA's motions to compel and suspend, the response that was filed yesterday by the Postal Service, they attempt to convince the Commission not to take seriously our representations that we will use the data that we receive via the accounting-period reports filed yesterday and those that are still due us and other information that we have sought in interrogatories, but we ask the Commission not to give any credence to that.

Much of the weekly and biweekly volume and transactional data that have been filed thus far and other data reports relate to Witness Rothschild's volume estimates for the Mailing Online experiment, and these volume estimates are geared toward the nationwide provision of Mailing Online.

Since Witness Rothschild didn't break down her volume estimates into individual geographic markets, it is not possible to use -- at least to our knowledge, it is not possible to use the volumes that have arisen in localized markets to change any of her volume estimates.

Some of the other information that is being provided in these weekly and biweekly reports could have been used to challenge some of Witness Stirewalt's assumptions, assumptions that he used to develop his cost estimates. However, as we know, the Witness Stirewalt testimony has been effectively supplanted by the Witness Lim testimony, and, as I mentioned earlier, all of the assumptions that underlie the Lim testimony are a mystery to us. We have not been given an opportunity to see any of them.

The OCA has detrimentally relied on the Postal Service's representations made periodically that they would file the accounting period reports. We have waited so long for them that we are now getting them very near the end of the procedural schedule, and we believe that this reliance on their representations has worked to our detriment and should be used against the Postal Service and not against the OCA or the other participants.

Another issue that the Postal Service has raised in its objection to OCA Interrogatories 27 through 36 and 41 through 61 is the Y2K issue. The Postal Service attempts to alarm the Commission that any extension of this proceeding beyond the 10 month statutory deadline may create an additional Y2K delay. However, you must bear in mind that the Y2K problem that they describe is self-imposed. It is the Postal Service's unilateral choice whether to cut off hardware and software modifications at a given time, therefore, it is within the Postal Service's control to accelerate its efforts to avoid any Y2K difficulties, or to proceed with new versions of software.

At the March Board of Governors meeting, Postal Service Vice President Lorentz indicated that the Postal Service was well prepared to meet potential Y2K difficulties and we are willing to rely on that representation. We believe that it is possible for the Postal Service to go ahead with Mailing Online at whatever time the Commission is able to issue its decision on the experiment and we should not be deterred from extending the statutory deadline because of the cautions that have been sounded about Y2K problems, and an inordinate amount of delay occasioned by them.

I will now briefly summarize OCA's position. We must be provided the accounting period reports for 5 and 6 immediately. We must be given the opportunity to file written interrogatories on the AP reports, and we will need three weeks to do so. We need, and we are entitled to, a detailed explanation of how Witness Lim developed the cost estimates presented in his testimony. Since he was largely relying on the advice and judgments of the system designers, we need to have their explanations provided. Answers to our Interrogatories 41 through 61 and 62 through 66 will take us a long way toward obtaining that understanding.

We need, and we are entitled to, estimates of total PostOffice Online costs and PostOffice Online specific costs, so that we can allocate a portion of them to Mailing Online if we believe that to be appropriate, and we further believe that the Commission's market test decision so provides. Interrogatories 62 through 66 should give us much of that information.

Following the provision of data for APs 5 and 6, we need a reasonable period of time, we are asking for three weeks, to update testimony using the AP data.

That concludes OCA's arguments. I would be happy to entertain any questions of the Commissioners.

COMMISSIONER LeBLANC: Ms. Dreifuss, we are going to -- what we will do on the Commissioners, if my colleagues can bear with me, we will hear anybody who is also in favor of you, and then we will collectively ask the questions of all those in favor, and then move to those who are opposed, the Postal Service, anybody else.

Now, Mr. Bush, Mr. Wiggins, do any of you care to respond in favor?

MS. DREIFUSS: Before we move on, Mr. Presiding Officer, may I ask one thing? As I mentioned earlier, I did prepare, or a staff member of OCA prepared an oral argument exhibit which sites the several questions that have been triggered immediately by the AP reports that we reviewed yesterday. We believe there are ambiguities in those reports, some inconsistencies, some contradictions. And with your permission, I would like to make that part of today's transcript, and I will also give the Commissioners copies and make other copies available on OCA's table.

COMMISSIONER LeBLANC: Before we do that, I would like to ask that you give -- make sure that the Postal Service receives their copy.

MS. DREIFUSS: Certainly.

COMMISSIONER LeBLANC: So that they can respond to that if they care to, either down the road or today, as well as Mr. Wiggins and Mr. Bush, of course, also. We will take that under advisement and, yes, please give us those, it will help in the oral argument.

MS. DREIFUSS: Shall I do that right now or wait till oral argument?

COMMISSIONER LeBLANC: Let's wait until we get to everybody who is in favor, and then we will take maybe a five minute recess, get them handed out and then we will pick up with the Postal Service and people in that vein.

MS. DREIFUSS: Very good.

COMMISSIONER LeBLANC: So, now, Mr. Bush, Mr. Wiggins, do either one of you counsels care to present an argument in favor of the motions of the OCA?

MR. WIGGINS: Pitney Bowes certainly does, Mr. Presiding Officer.

COMMISSIONER LeBLANC: Mr. Bush, do you care to -- I see you shaking your head.

MR. BUSH: Yes, I would like to on behalf of MASA.

COMMISSIONER LeBLANC: If it is all right with you, we will start with Mr. Wiggins and then we will move to you.

MR. BUSH: That's terrific.

COMMISSIONER LeBLANC: All right. Mr. Wiggins, please begin.

MR. WIGGINS: Thank you, Mr. Presiding Officer. The cost information, which, generally, cost information is kind of an important thing to the way the Commission carries out its business, and the cost information that we have available to us in this case is of a rather unusual kind, it is Mr. Lim's projections of costs, that is the information that we have got.

There are a couple of things, it seems to Pitney Bowes, that caution that we be really careful about the level of scrutiny that we give to those Lim projections. The first is that the Postal Service, when it initially put this case together, was woefully wrong in its estimation of costs. We saw information systems' costs roughly -- increase by roughly five-fold from the moment the case was filed in July until we saw the Lim numbers in January, mid-January. Something went bump in the night here that profoundly altered the cost structure of this offering. And that, in my mind, means we ought to be careful.

You know, if you can be that dreadfully wrong once, you might get some things wrong again, which means that all of us ought to be careful in our scrutiny of the cost estimates.

Now, I tried pretty hard in advance of my interrogation of Witness Lim to sort of figure -- penetrate his testimony, and figure out how things patched together. And I will concede that I did a not a very good job of that, I didn't succeed very ably at that, and, candidly, I don't think any of us did. I don't think that we really got a good beady-eyed grip on those numbers.

Where all that leads me is to say that we have got another sort of fail-safe device for ourselves here, and that is to take a really hard look at the actual cost experience that the Postal Service is having during the market test. In order to do that, we really need to have the accounting period cost data that we have just begun to see. And we not only need to have those data in the conclusory form that we have seen in the first three reports that we all found on the table yesterday morning, but we need the opportunity to, you know, pull up our sleeves and put on a little green viser and look hard at those numbers.

And, as Ms. Dreifuss pointed out, I have spent a little time with those numbers in between yesterday morning and now, and there are some things that confused me, just as they confused Ms. Dreifuss, about those numbers. We need the opportunity not only to look real hard at those pieces of paper that were handed out to us, but we need also the opportunity to do at least some discovery of the Postal Service on how those numbers are arrayed, what they mean, you know, in order to have the level of confidence, to which we as participants, Pitney Bowes as a competitor, and, more centrally, the Commission, given its job, to make sure that rates are right.

We need to be able to help the Commission to get there by conducting close scrutiny of those cost numbers. And Pitney Bowes, for those reasons, joins in the request of the OCA, or supports that request, I suppose more appropriately, that we be given a brief period of discovery and three weeks sounds to me like a good period of time to conduct discovery on the accounting period reports.

Pitney Bowes will certainly commit, after having spent that time, to advise the Commission as quickly as possible as to whether we plan to use what we have discovered in order to supply supplemental testimony. We will let you know that as quickly as we can. And in light of those developments, the Commission can determine how much time after the discovery period has concluded is necessary to move forward with the next steps in the case. That is the position of Pitney Bowes on the only issue that we are addressing here. We are not going to be talking about the motion to compel.

COMMISSIONER LeBLANC: So you do not want to make any comment there?

MR. WIGGINS: I do not.

COMMISSIONER LeBLANC: In support, or in any way, shape or form? Just no comment?

MR. WIGGINS: I am utterly neutral on that question.

COMMISSIONER LeBLANC: Good. Thank you very much for your comments. Mr. Bush.

MR. BUSH: Thank you, Mr. Presiding Officer. I do not intend to repeat any of the arguments made by Ms. Dreifuss, which I think she made very ably, and we fully support those arguments, both in connection with the motion to extend the proceedings and also in connection with the motion to compel, albeit we didn't ask those interrogatories. So I think all we can say is that we are generally in support of the arguments that she made in connection with the motion to compel and think that that information should be made available to the participants.

The only thing that I would like to add is to emphasize the importance of the costing information that is at issue on both of these matters. We have here a service which is being offered, we believe, in competition with private businesses, both of the Pitney Bowes variety, but also of the variety that is contained in MASA's membership. It is critically important to avoid unfair competition -- to the avoidance of unfair competition, that the costing data for this service be as clearly and plainly and completely set forth as it is possible to do to ensure that all of the costs of the service are captured in whatever the rate is that is set by the Rate Commission.

As you all are well aware, there have been a number of attempts by various parties to get at this information, and the Rate Commission itself has required that this information be produced, including information of these kind of joint costs that Ms. Dreifuss referred to. I have not personally had a chance to look at the AP data, so I have really no direct opinion on it, but I am little bit surprised and appalled to find out about the level of the advertising costs and also that some of the advertising costs are apparently attributable solely to Mailing Online and are not spread across several products.

We also have the cost coverage issue which is affected by what the costs actually are. If we have a relatively low cost coverage, as the Postal Service, and, indeed, as the OCA has argued for, but the coverage is

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applied, or the markup is applied to artificially low costs, because we haven't captured all those costs, then we are going to have an unfairly competitive rate.

So, I won't take up any more of the time of the Commission, and I think I actually managed to take a little less time than Mr. Wiggins, who told me he was simply going to say, "me, too." But we do support both prongs of the OCA motion and would urge that you grant it. Thank you.

COMMISSIONER LeBLANC: Mr. Bush, so may I clarify the record, as far as I am concerned for sure, you are in support of all AP data that she is requesting, and you are in support of the motion to compel. Are you supporting the withdrawal of certain interrogatories, or you are taking no stance on there? Just to make sure, again, that we are clear.

MR. BUSH: I support --

COMMISSIONER LeBLANC: If you have no position, that is fine, too. I just want to make sure of your position, though.

MR. BUSH: I understand. MASA supports OCA right down the line on the interrogatories, including the withdrawal of those interrogatories that they believe have been, in effect, responded to by the AP data. The only thing I would add, because I am just not sure that you covered it in summarizing our position, is that we also support the OCA motion to extend the proceedings, to give us time to conduct some discovery, analyze the data that has been received from the AP reports, and, indeed, that should happen after we have gotten all the AP reports, and to file, if we deem it appropriate, some supplemental testimony based on that.

COMMISSIONER LeBLANC: She had requested three weeks, three and three, if you will. Mr. Wiggins seems to say three and three might be acceptable to him. Do you have any suggestions, idea, opinions, et cetera?

MR. BUSH: I think the three and three is fine. I would point out, and this, I guess, goes a little bit beyond what I have -- my remarks already, that, at least as I understand it, we have a system that has been -- is under technical revision to enable the Postal Service to do the things that it said it wanted to do when it first filed the case, for example, in terms of being able to batch mailings from different mailers, or different mailings from the same mailer, which, apparently, the Postal Service is unable to do. So we don't really have, technically, a system up and operating in the market test, which is the one that they intend to roll out.

And so while three and three, I think we can live with, I also don't see any particular time urgency right now to try and get this done for operational reasons, anyway, that the Postal Service might have. Indeed, I think there is a reasonably compelling argument, since we have started down the market test road, to have this all -- to have us have a period in which we have a market test based on the system that is technically configured the way they really intend to roll it out, and see whether batching really works, and see, if batching really works, they start to get higher volumes, and then we would have some real data, based on the real system they are going to use, to work with. But three and three works for me, too.

COMMISSIONER LeBLANC: Thank you very much. I believe there are some questions from my colleagues possibly. Mr. Chairman.

CHAIRMAN GLEIMAN: I would like to reserve my questions until I hear the Postal Service.

COMMISSIONER LeBLANC: Fine. The Chairman would like to reserve his questions till he hears the Postal Service. Ms. Goldway, would you care to do anything now, or would you care to wait? Or both?

COMMISSIONER GOLDWAY: I think I will reserve my questions as well.

COMMISSIONER LeBLANC: All right. Commissioner Omas?

COMMISSIONER OMAS: The same, I will reserve.

COMMISSIONER LeBLANC: Commissioner Covington?

COMMISSIONER COVINGTON: I will reserve also.

COMMISSIONER LeBLANC: All right. Then we will on to -- Mr. Hollies, I guess, will you be doing it, or Mr. Rubin, or Mr. Reiter?

MR. HOLLIES: I will be the speaker. You mentioned, Mr. Presiding Officer, earlier that we might take a break between the respective sides, and at this point it does seem about the usual time for a mid-afternoon break. I wonder if we could take 15 minutes.

COMMISSIONER LeBLANC: Well, I was planning on taking a break to make sure that Ms. Dreifuss gets the copies out to all parties, us included. What time is it now? It is 3:15. You say you need 15 minutes, would that be adequate for you?

MR. HOLLIES: That would be plenty. Thank you.

COMMISSIONER LeBLANC: All right. We will take a recess till 3:15. We will see everybody back at -- I am sorry, I apologize -- at 3:30. Mr. Reporter, we will go off the record.

[Recess.]

COMMISSIONER LeBLANC: Mr. Hollies, are you ready?

MR. HOLLIES: Mr. Presiding Officer, yes, I am.

COMMISSIONER LeBLANC: Please begin, sir.

MR. HOLLIES: Good afternoon, Commissioners and others joining us here today. We are here to address a conjoined pair of motions by the OCA involving its perceived need for cost information that, first, the Postal Service has already provided in some form or otherwise is not causally related to the existence of Mailing Online; second, the OCA has previously demanded in this proceeding without convincing the Commission of the need; and, third, which could have been sought in the form the OCA now asserts is necessary, that is, structured along the lines of the Compaq contract, had the OCA followed up on an interrogatory response filed on July 28, 1998, rather than requesting the contract for the first time during hearings on February 5, 1999.

The Postal Service hopes that the Commission recognizes the size of the molehill from the top of which the OCA seeks to forestall the timely completion of this proceeding, much as the Commission did in its market-test opinion by calling for the collection and reporting of quite specific types of PostOffice Online costs.

At the root of the present controversy are two distinct issues that the OCA has artfully or otherwise sculpted into an apparent crisis. The first is the OCA's interest in examining the entire pool of POL costs with an apparent eye to arguing allocation of more of them to MOL. The second is the availability of the Postal Service's AP reports which contain the pool of POL costs that the

Commission determined should be reported during the market test to inform the Commission and perhaps also participants' witnesses.

The Postal Service direct case filed on July 15, 1998 presents testimony projecting information systems costs for Mailing Online based on the model then available. As we are all learning, the pace of change in today's Internet-driven world is quite rapid. When the Postal Service determined that the pace of change had outrun the model on which information systems costs were projected, the Commission was informed of this fact, together with an indication that supplemental testimony based on a better understanding of the system design would soon be filed to reflect these changes. After input from participants regarding impact upon the procedural schedule, the Presiding Officer noted, in Presiding Officer's Ruling 18, page 2, "It is consistent with the purpose of market tests and experimental service offerings to accommodate system design improvements developed while these tests are in progress."

The Postal Service infers from this statement the Presiding Officer's concurrence that necessary updates should appropriately be made part of the record.

Presiding Officer's Ruling 18, which updated the procedural schedule to accommodate the supplemental testimony, also addressed the permissible scope of discovery available up until one week before the appearance on the stand of the witness sponsoring the update. Since discovery against the Postal Service direct case had concluded on November 6, 1998, denying MASA's implication that unlimited discovery against the Postal Service was still available, the Presiding Officer ruled that discovery was available only for limited purposes. In particular, that ruling stated, "Participants seeking to file discovery not related to these purposes are to accompany their request with a motion explaining why the questions could not reasonably have been submitted during the period previously established for discovery on the Postal Service direct case."

None of the OCA's more recent interrogatories, including the ones now subject to the OCA's motion or motions to compel, have been accompanied by any such motion, notwithstanding that they stray far beyond the established parameters.

Presiding Officer's Ruling 22, dated February 4, 1999, responds to the OCA's last previous attempt to require that the Postal Service identify the pool of costs not causally related to Mailing Online. And it is still instructive here. After noting the OCA erroneously assumed that Witness Lim must have quantified the pool of unrelated POL costs, the Presiding Officer directed that Witness Lim be prepared to describe those functional components he excluded from his analysis. Of significance, the Presiding Officer did not then and the Commission should not at this late stage of the proceeding require the Postal Service to expend the months of effort required to quantify those related costs.

Upon its edifice of procedural impropriety and unfairness, the OCA now seeks to compel responses to interrogatories that once again seek quantification of the entire pool of POL costs and indefinite suspension of this proceeding until they are provided. I note that they have updated that request here today.

The Postal Service has identified and provided to the Commission all costs causally related to the existence of Mailing Online together with AP reports that quantify those parts of the total POL cost pool the Commission determined should be provided. There exists no legal or factual basis for requiring suspension of this proceeding while costs causally unrelated to Mailing Online and not otherwise required by the Commission are collected or quantified. In particular, there is no basis under section 3624(c)(2) of title 39 for suspension of this proceeding.

The subjects of respective witnesses' testimonies allow of no inference that any of them do rely upon or would rely upon data in AP reports that became available later than hoped, nor has any participant, including the OCA, previously given any form of notice that the information in those reports was needed by a specific point in time. Accordingly, no factual basis exists for claiming that this proceeding has in fact been delayed a specific number of days by the recent filing of the AP reports. Indeed, the OCA motion for suspension is best understood as an attempt to impose a symbolic sanction upon the Postal Service rather than, as contemplated by the statute, a remedy for specific acts by the Postal Service that delay the Commission's consideration of the request for experimental Mailing Online service.

Accordingly, the OCA's motions to compel and/or suspend should be denied in their entirety.

I would also like to address briefly several points that were raised earlier this afternoon. The OCA has evidently identified some problems, perceived problems, in the AP reports, and we can recognize, we do recognize, that that represents a legitimate point of inquiry. We would be happy to explain those reports, and we believe we can do so, especially if informal means are used, in a time frame that need not affect the procedural schedule in this case.

Second, the reference to updating of testimony is itself confusing. No testimony bearing on issues in any of the data reports, including AP weekly and biweekly, has ever been made. Indeed, it's difficult to read those testimonies and figure out what might possibly be updated.

With respect to Witness Lim's testimony, he appeared on the stand and explained his analysis and why he did what he did. The OCA perhaps does not like his explanation, and would like to go further. This is not an unusual attribute of their position. His testimony was not a pure update of Witness Stirewalt. He did include POL costs, unlike Witness Stirewalt. He describes an architecture that is quite different from Witness Stirewalt's. We provided that testimony in the expectation that the Commission would appreciate the opportunity to look at current information, and we thought that the Presiding Officer recognized that the provision of that testimony was the right thing to do.

The requests for information, variously stated by the OCA and others, seem to reflect a need for information on the order that is typically encountered in a request for permanent service. In this case, we are not requesting a permanent service, we are requesting a recommendation that we conduct an experiment, which itself is intended to serve as a means of collecting additional information that can then be used in a request for a permanent Mailing Online service.

Finally, the reporting of data has been and will continue to be ongoing. The biggest element, the biggest cost element in the reports that we have provided is hardware and software, and I can tell you now that there will no more of that in the AP 5 report when it is filed.

More reports will continue to be filed, and I can't help but wonder if, assuming we did have to extend the schedule, and, say, we are three weeks down the road, we won't hear from the OCA again that, lo and behold, the Postal Service has filed more reports and we need three more weeks to conduct discovery on those. It does not seem apparent that that cycle would ever reach an end.

I respectfully submit to you, Commissioners, that the time has already come to close the record -- not quite close the record, we do have some rebuttal planned -- to stay on the existing procedural schedule so that this proceeding can be concluded in the timeframe reflected in the last scheduling order. Thank you.

COMMISSIONER LeBLANC: Does anybody have any further comments in that regard, with the Postal Service?

[No response.]

COMMISSIONER LeBLANC: I believe we have some questions from the bench and then we will allow the OCA to have a reply. As I stated earlier, I think we will start with our Chairman, Commissioner Gleiman, would you -- I mean Chairman Gleiman, excuse me. Do you have any questions?

CHAIRMAN GLEIMAN: Mr. Hollies, under current, I believe it is, under current law, who is responsible for establishing causal relationships of costs? Is that something that is the final authority of the Postal Service or is that something that the Commission is charged with doing?

MR. HOLLIES: I am having a little difficulty hearing you. You are asking about the establishment of causal relationships?

CHAIRMAN GLEIMAN: Well, let me try again. You made several statements about the OCA's -- the basis of the OCA's request, being their desire to look at a lot of unrelated costs because they want to try and establish some causal relationship of those costs to Mailing Online. I take it that you don't think that the OCA should be able to look at the costs, and I am just kind of curious, who is it that you think is obligated to establish the causal relationship of costs to a service?

MR. HOLLIES: The Postal Service has at all times in this proceeding taken its cue from the Commission itself. The OCA has requested, if you will, the total pool of MOL -- excuse me, POL costs a number of times and, at least so far as I understand the Commission to have spoken to date, they have not proven successful. Ultimately, --

CHAIRMAN GLEIMAN: That is not what I asked you. What I asked you was, is it the Postal Service's responsibility, in the final analysis, the OCA's, MASA's, Pitney Bowes', or perhaps the Rate Commission's responsibility, in the final analysis, to establish causality and, therefore, the cost of a product or service? That is all I want to know.

MR. HOLLIES: As I was about to say, we take our cue from the Postal Rate Commission. The Postal Rate Commission heard this issue earlier in this proceeding and stated in the market test opinion its conclusions regarding what was appropriately collected. And we have done so. We understood that the purpose, for example, of collecting information from the POL pool of costs, information that is now being reported in the AP reports, was for the specific purpose that the Commission and other participants -- the Postal Service and other participants could effectively discuss, likely on briefs, what the appropriate allocation of those POL costs was.

So we recognize and understand that this is the Commission's determination primarily. We use our best judgment to respond affirmatively to the signals that we get from the Commission, and we believe we have done so in this case.

CHAIRMAN GLEIMAN: Okay. But you agree that it is the Commission's responsibility to establish costs based on causality?

MR. HOLLIES: Yes.

CHAIRMAN GLEIMAN: Okay. In the material that you have filed to date, which I assume, given your last response, must have been because you knew the Commission wanted all that information, is it possible that you have jumbled up costs of Mailing Online and PostOffice Online and ECS?

MR. HOLLIES: Well, anything certainly is possible. In our discussion during the break, I was informed that a label in one of the reports to the effect that Mailing Online advertising costs had a specific cell entry on one of the reports is in error, that is a mistake.

CHAIRMAN GLEIMAN: If you had not had that discussion and we had not been in here today, and the material that you submitted that contained those numbers in it were here at the Commission, would we ever find out that there were incorrect costs submitted?

MR. HOLLIES: If something -- if an error is brought to our attention, we are always quick to try and do something about that. We have no interest and it does not serve this institution's purposes for us to be misleading in the information we provide. We have absolutely no institutional incentive to do that.

CHAIRMAN GLEIMAN: One of the staff of the Commission was looking very carefully through some of the materials you submitted and noticed that there seems to be some relationship between MOL Help Desk costs and ECS costs. Is it possible that there is other jumbled costs that perhaps we need to see so that we can exercise our responsibility to establish causal relationships?

MR. HOLLIES: To our understanding, there are no other costs. Can things be confused? Yes, they can. If you look at the Compaq contract, there is a separate task order effectively for post-ECS support and, in general, that ought to be excluded, I believe, from everything that we provide. If the Commission were to determine, on the other hand, that it needs that information to make its decision, well, we would do our best to provide it.

CHAIRMAN GLEIMAN: Okay. I just want to make sure that if we needed some clarifications and some more information in order to understand what had previously been submitted, that you were provided to provide it.

MR. HOLLIES: I think there are some questions being raised about those reports, at least on the face of what we have heard thus far, and I would very much like to provide answers to those questions, and I think that at least some of them, I haven't looked at the list in any detail, at least some of them can be answered very quickly, and perhaps with a phone call. And if there is a concomitant need to reduce something to a form that can become part of the evidentiary record in this case, we are certainly prepared to consider a means of doing that as well.

CHAIRMAN GLEIMAN: Well, I think all the parties would probably want to participate in any explanation of material that was already submitted to the Commission, and I think it would have to become part of the record.

MR. HOLLIES: Well, perhaps --

CHAIRMAN GLEIMAN: But be this as it may, since you have made that offer a second time now, -- let me ask you, you said earlier on in your presentation that the pace of change in the Internet outran the model that you initially presented, and then sometime later you said that you didn't expect that there would be any change in software costs when the AP 5 report was transmitted. How can we be sure, given this pace at which the Internet is changing and outrunning your models, that there won't be more costs?

MR. HOLLIES: This was a question raised during previous hearings. In effect, there is not sufficient time to effect a change. It has been quite an education for me to participate in the meetings involving the developers, and what may seem to be fairly straightforward on the surface is remarkably complex when you get down to the level of detail they are working at, and the quality standards that the Postal Service believes are appropriate for any service it offers, especially on a nationwide basis.

CHAIRMAN GLEIMAN: If the Commission were to approve your proposal, the Service's proposal, and request periodic filings related to any changes in system architecture that took place, would you be willing to do that?

MR. HOLLIES: We would certainly be willing to try. I guess at the outset there, there is a definitional question that I would like to have clarified in order to better understand what the Commission might specifically be interested in.

CHAIRMAN GLEIMAN: Well, if there was a huge increase in costs, as there was from your initial model to the model that we are now dealing with, would you be willing to respond to the Commission, if part of its opinion, recommended opinion and decision was that you had to file periodic reports providing us with information, that would be on the public record, that would show whether there were any significant increases in costs associated with the system?

MR. HOLLIES: Yes. I believe that's an appropriate point or purpose of an experimental offering.

CHAIRMAN GLEIMAN: Okay. You talked about feeling that we ought to stick to the current procedural schedule. What if the Commission doesn't issue a (c)(2) order and doesn't stick with the current procedural schedule? It's modified the schedule in this case at least once, as I can recall, and in other cases we have had to modify the schedule from time to time.

This is a classification case, after all, and we are not obligated to complete classification cases in 10 months. Would the Postal Service in your opinion be prepared to take any action that might cause hackles to go up on certain people's necks?

MR. HOLLIES: Well, I certainly have no information that would bear on hackles. I can say --

CHAIRMAN GLEIMAN: How about get a couple of people irritated?

MR. HOLLIES: I can say that there is a rate element in this case which I believe makes the 10 month deadline applicable and if we were to take some action, if the Postal Service were to choose to take some action in light of what could be seen as a tardy action by the Postal Rate Commission, that is something that would probably -- well, it would either be the management committee or the Postal Service Board of Governors. It certainly would not be my call.

CHAIRMAN GLEIMAN: Then I take it that you believe that this case does fall within 3624 (c)(2)?

MR. HOLLIES: Yes.

CHAIRMAN GLEIMAN: And (c)(1), which gives us the 10-month obligation?

MR. HOLLIES: That is my understanding. Yes, the schedule could of course be modified within that constraint and there would not be a (c)(2) issue.

CHAIRMAN GLEIMAN: So you are saying that we still, if we want to avoid having the Governors put something in on a temporary basis for sure, under 3641(a), then take my word for it, then we have to finish within 10 months, otherwise we open ourselves and all the parties who have an interest in this up to the possibility of temporary rates.

MR. HOLLIES: I am not prepared to give any absolute assurances in either direction, which might be -- when my actions might be taken as limiting those options available to others.

CHAIRMAN GLEIMAN: If we extended our schedule with or without a (c)(2) order, can you tell me what real damage would occur if we added 30 or 60 days?

MR. HOLLIES: No. It doesn't mean I can't answer partially, however.

The earlier discussion about Y2K is the thing that does come to mind. There is a moratorium on system changes that will be going in effective -- it's been variously described as the end of July or July 31, 1999, and if the

Commission were to recommend something that required us to change our system in a way that was not in compliance with that moratorium and if no exemption could be obtained, there could be a very substantial effect, yes.

CHAIRMAN GLEIMAN: Do you think if we issue a decision that requires some change and we issue it on the 15th of May that the Postal Service in the ensuring six weeks is going to be able to redesign the system and get it certified by the gold tape people in Raleigh?

MR. HOLLIES: It's not actually a gold tape thing, but I don't know what you might recommend or what the scale or scope of changes might be, so it is a little difficult to speculate at this point.

CHAIRMAN GLEIMAN: So we really don't know what damage there would be other than you would run up against a moratorium on new systems, assuming for the sake of discussion that our recommendation included a provision or so that required you to make some changes. If it didn't require any changes you wouldn't have a problem?

MR. HOLLIES: Well, again, I can't give any blanket assurances. There is even a possibility that if you gave us what we wanted tomorrow that it might not work. There might be some problem that comes up. There are no guarantees in this business.

CHAIRMAN GLEIMAN: If we approve it tomorrow and it doesn't work, will you tell us about it before the two years are up?

[Laughter.]

MR. HOLLIES: I would certainly think that there would be a number of vehicles by means of which that could be addressed.

CHAIRMAN GLEIMAN: Thank you.

COMMISSIONER LeBLANC: Is that it, Mr. Chairman?

CHAIRMAN GLEIMAN: That's it.

COMMISSIONER LeBLANC: Commissioner Goldway.

COMMISSIONER GOLDWAY: I may be new to the process here, but it does seem to me that in the course of the Commission requiring a series of written testimonies, written questions, responses, follow-up questions and responses that we are establishing a system to gather information for the Commission to make decisions, so that the process of people asking questions between one another, the participants and the Postal Service, is in fact a way in which we request information.

MR. HOLLIES: Absolutely, and that's what is going on here.

COMMISSIONER GOLDWAY: So therefore when we order you to give information based on a question submitted, shouldn't that indicate that we ourselves have said that we want the costs for POL?

MR. HOLLIES: I certainly agree with that and that is what we are here to discuss today. At the moment what we have pending are interrogatories from one participant to another and the understanding of the Postal Service is that those are outside the bounds of what the law or the Commission require us to provide -- to say nothing of the burden involved in trying to get that information.

COMMISSIONER GOLDWAY: Well, I am not arguing the law, but in the context of the Commission's seeking information based on the record that we develop, and the questions among participants, when we order you to answer a question, doesn't that indicate that we want the information?

MR. HOLLIES: Yes indeed.

COMMISSIONER GOLDWAY: Thank you. The only other question I have for you is regarding Witness Lim's testimony, which again I feel is -- I have to indicate to you I feel is very confusing and I simply don't understand when he was asked here on the stand about the Compaq contract he did indicate that he relied on it to provide information --

MR. HOLLIES: I respectfully disagree.

COMMISSIONER GOLDWAY: He was asked about the costs by OCA and by me, although my questions were not terribly well developed as I look at the transcript, and he indicated that those were costs that he used to submit the information that was in front of us and yet in his filing on the 24th or your filing on his behalf it says, "Moreover, Witness Lim did not use the contract as a source."

MR. HOLLIES: Perhaps I can explain that.

There's basically an overlap in the cost pools, if you will, defined by the Compaq contract and the cost information that we have supplied via Witness Lim's testimony. There is substantial overlap but he did not use the lens of the contract, if you will, as a vehicle, as a means of looking at the cost information. He used a different lens. He went and talked to the people who were involved. He asked them about what they were doing. He questioned what they were doing in some case and he has his own expertise to which -- upon which he drew in order to evaluate the information that he was obtaining.

So in the sense that there is overlap between the cost pools in the contract and the cost projections and estimates and reports in his testimony, yes, they are talking about the same costs, but they're not being looked at through the same lens, and they're difficult to move back and forth from one lens to another.

COMMISSIONER GOLDWAY: That's just as obscure as any other presentation or statement you've made, if not more so. It seems to me there are costs for the hardware, the labor, the hours, and if he was dividing them between activities, we should have been able to see what those were, and that's what we assumed when we saw the total numbers in the reference to the contract. So I continue to be confused about the information that you've shared with us.

MR. HOLLIES: Well, as I think we've pointed out, the total costs that he comes up with actually exceed those that are reflected at least in the OCA's interrogatories regarding that contract. So, I mean, I can appreciate that the Compaq contract appears to provide a useful lens through which to view the cost data, but the fact remains that that's not the lens or the spyglass that he used, and we still believe the Postal Service understands that he did an appropriate job of quantifying all costs, including those that are beyond the scope of the Compaq contract, to inform the Commission as to those information system costs we expect to be incurred for the experiment.

COMMISSIONER GOLDWAY: We have the contract, but we don't have any analysis of where it overlaps. I suppose that's what it is. We have the basic contract that we've looked at, but we don't have the lens that you talk about that was used to separate out the activities. So we can't use our judgment to allocate costs as the Chairman has indicated is our responsibility.

MR. HOLLIES: Our understanding is that through

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the testimony that we have provided, together with the AP reports, that the POL cost information that the Commission has requested and needs to make its decision is available and has been provided. The Compaq contract is -- I really don't have much to add to what I said before -- the Compaq contract is not a quantification of the costs.

COMMISSIONER GOLDWAY: What is a quantification of the costs?

MR. HOLLIES: Well, the contract itself estimates what future costs will be incurred and establishes a vehicle, a legal vehicle by means of which payment can be authorized. And a contract can be a useful way of trying to figure out how much something is expected to cost. But Witness Lim went beyond that. He went and looked at actual costs that have been incurred, what the plans were. The details and the statements of work in the Compaq contract are sometimes, shall we say, lacking in detail.

COMMISSIONER GOLDWAY: Then perhaps we need to see, as OCA suggested, his written analysis, as opposed to the contract.

MR. HOLLIES: Well, I can appreciate that. My understanding at least was that the period for looking at his testimony had come and gone. But if the Commission thinks that something is necessary for its consideration, tell us what it is, and we'll do our best to provide it.

He did not use the Compaq contract. So if he has to go back and rework his cost estimates and cut and paste and fit them into the various buckets of money that are reflected in the Compaq contract, that would be a very lengthy exercise. Not to say that it couldn't be done. We had never understood that it was something that the Commission thought was appropriate.

COMMISSIONER GOLDWAY: I think what the Commission is looking for is an analysis of the costs and the allocation between activities. We thought we would get it with the contract. You're saying it's not in the contract but you've done it another way.

MR. HOLLIES: That's right.

COMMISSIONER GOLDWAY: So then we need to get it the other way.

MR. HOLLIES: I respectfully submit that's what his testimony reflects. I mean, it shows costs that have come from -- that have been incurred for Compaq.

COMMISSIONER GOLDWAY: But it cites the contract. We're going back and --

MR. HOLLIES: It does not cite the contract, it cites the company.

COMMISSIONER GOLDWAY: So those costs are not the same as what's in the contract.

MR. HOLLIES: That's right, they are not the same.

[redacted]

As I think I indicated, they are a superset, not a subset.

COMMISSIONER GOLDWAY: But they don't relate to the POL. They don't relate to the PostOffice Online then. So we don't see the relationship between the two.

MR. HOLLIES: We do not have the full pool of POL costs on this administrative record. That is certainly true. We do have all of the MOL costs, including POL costs about which -- or soon will have -- POL costs about which there seems to be some interest in arguing whether they ought to be allocated, and if so, in what amount or what proportion to MOL.

COMMISSIONER GOLDWAY: Thank you.

COMMISSIONER LeBLANC: Commissioner Omas.

COMMISSIONER OMAS: One of the questions I'd like to ask you, what was the time lapse from the time that Mr. Stirewalt's testimony was submitted to the Commission for consideration and Mr. Lim's revised testimony?

MR. HOLLIES: Basically six months. Mr. Stirewalt's testimony -- I don't remember specifically, but if it's typical of other testimonies, it was completed minutes -- maybe even days before it was filed, and Mr. Lim testified that he worked on his right up to and including the day on which it was filed. So it's a pretty clear six-month interval.

COMMISSIONER OMAS: Mr. Hollies, the Postal

Service presented the Commission with a unique two-part request, and then asked that both parts be expedited. I believe the Commission was sort of very responsive in that area. First we heard the request for the market test, and we recommended the market test. The current procedural schedule allows for a second Mailing Online decision, also within ten months.

The Commission's decision on the market test directed the Postal Service to provide accounting-period data on the costs incurred during the market test so that this information could be used by parties and the Commission in evaluating the request for a national experiment. Prior to Wednesday the cost data had not been produced. Doesn't a participant have the right to see the data before it knows whether it should submit testimony based on the data?

MR. HOLLIES: I don't think that's unreasonable. My point earlier was simply that we had not had any indication either formally via a motion or a notice or informally by inference from the contents of testimony or via a telephone call that this information was required by any of the participants. We had always assumed that it was necessary for the Commission's purposes, and certainly intended to provide it. And I wanted to provide it sooner than we did. That was awkward that it was not, but it did begin flowing in in time for the Commission to look at it, and it was only when we got the OCA's interrogatories that we began to appreciate that perhaps the water was a little hotter than we thought.

COMMISSIONER OMAS: Also in your written response to OCA's motion you said that OCA should have asked the questions about the Compaq contract earlier, and you expressed doubt that OCA intended to use the accounting-period cost data in any meaningful way. Let me ask you, if OCA all along had been asking questions concerning these types of Postal Service costs, would you agree that some extension of time was consistent with due process?

MR. HOLLIES: I would agree that -- well, let me say it this way. The OCA did ask questions about cost that overlap with the contents of the Compaq contract, and we answered those. We provided the information that was requested. We have never provided the entire pool of POL costs, as we have never understood that it was necessary or appropriate or that the Commission felt that it was necessary or appropriate. So in terms of the procedural fairness of the schedule, we believe the OCA had 6-1/2 months of opportunities to ask questions, that it took advantage of that opportunity to ask questions.

So in the sense that there is overlap between the cost pools in the contract and the cost projections and estimates and reports in his testimony, yes, they are talking about the same costs, but they're not being looked at through the same lens, and they're difficult to move back and forth from one lens to another.

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MR. HOLLIES: Well, I can appreciate that. My understanding at least was that the period for looking at his testimony had come and gone. But if the Commission thinks that something is necessary for its consideration, tell us what it is, and we'll do our best to provide it.

He did not use the Compaq contract. So if he has to go back and rework his cost estimates and cut and paste and fit them into the various buckets of money that are reflected in the Compaq contract, that would be a very lengthy exercise. Not to say that it couldn't be done. We had never understood that it was something that the Commission thought was appropriate.

COMMISSIONER GOLDWAY: I think what the Commission is looking for is an analysis of the costs and the allocation between activities. We thought we would get it with the contract. You're saying it's not in the contract but you've done it another way.

MR. HOLLIES: That's right.

COMMISSIONER GOLDWAY: So then we need to get it the other way.

MR. HOLLIES: I respectfully submit that's what his testimony reflects. I mean, it shows costs that have come from -- that have been incurred for Compaq.

COMMISSIONER GOLDWAY: But it cites the contract. We're going back and --

MR. HOLLIES: It does not cite the contract, it cites the company.

COMMISSIONER GOLDWAY: So those costs are not the same as what's in the contract.

MR. HOLLIES: That's right, they are not the same. As I think I indicated, they are a superset, not a subset.

COMMISSIONER GOLDWAY: But they don't relate to the POL. They don't relate to the PostOffice Online then. So we don't see the relationship between the two.

MR. HOLLIES: We do not have the full pool of POL costs on this administrative record. That is certainly true. We do have all of the MOL costs, including POL costs about which -- or soon will have -- POL costs about which there seems to be some interest in arguing whether they ought to be allocated, and if so, in what amount or what proportion to MOL.

COMMISSIONER GOLDWAY: Thank you.

COMMISSIONER LeBLANC: Commissioner Omas.

COMMISSIONER OMAS: One of the questions I'd like to ask you, what was the time lapse from the time that Mr. Stirewalt's testimony was submitted to the Commission for consideration and Mr. Lim's revised testimony?

MR. HOLLIES: Basically six months. Mr.

[redacted]

Stirewalt's testimony -- I don't remember specifically, but if it's typical of other testimonies, it was completed minutes -- maybe even days before it was filed, and Mr. Lim testified that he worked on his right up to and including the day on which it was filed. So it's a pretty clear six-month interval.

COMMISSIONER OMAS: Mr. Hollies, the Postal Service presented the Commission with a unique two-part request, and then asked that both parts be expedited. I believe the Commission was sort of very responsive in that area. First we heard the request for the market test, and we recommended the market test. The current procedural schedule allows for a second Mailing Online decision, also within ten months.

The Commission's decision on the market test directed the Postal Service to provide accounting-period data on the costs incurred during the market test so that this information could be used by parties and the Commission in evaluating the request for a national experiment. Prior to Wednesday the cost data had not been produced. Doesn't a participant have the right to see the data before it knows whether it should submit testimony based on the data?

MR. HOLLIES: I don't think that's unreasonable. My point earlier was simply that we had not had any indication either formally via a motion or a notice or informally by inference from the contents of testimony or via a telephone call that this information was required by any of the participants. We had always assumed that it was necessary for the Commission's purposes, and certainly intended to provide it. And I wanted to provide it sooner than we did. That was awkward that it was not, but it did begin flowing in in time for the Commission to look at it, and it was only when we got the OCA's interrogatories that we began to appreciate that perhaps the water was a little hotter than we thought.

COMMISSIONER OMAS: Also in your written response to OCA's motion you said that OCA should have asked the questions about the Compaq contract earlier, and you expressed doubt that OCA intended to use the accounting-period cost data in any meaningful way. Let me ask you, if OCA all along had been asking questions concerning these types of Postal Service costs, would you agree that some extension of time was consistent with due process?

MR. HOLLIES: I would agree that -- well, let me say it this way. The OCA did ask questions about cost that overlap with the contents of the Compaq contract, and we answered those. We provided the information that was requested. We have never provided the entire pool of POL costs, as we have never understood that it was necessary or appropriate or that the Commission felt that it was necessary or appropriate. So in terms of the procedural fairness of the schedule, we believe the OCA had 6-1/2 months of opportunities to ask questions, that it took advantage of that opportunity to ask questions.

COMMISSIONER LeBLANC: As a Commission we are tasked obviously with coming up with the rates, costs, et cetera, and a lot of different ways but one of our jobs, as you well know, is looking at cost.

Mr. Wiggins alluded to it in his testimony -- I mean in his response here in the oral argument. We have got costs that are five -- some ideas -- five to six times higher than we started with. At least from what I can initially pick up, Mr. Wiggins agrees with that. There was some discussion. Obviously you all don't obviously buy that entirely. The OCA is saying certain things.

From our job, from sitting here to try to do our job what is to prevent us from totally being confused at the costing data and saying okay, why not? You know, why not start this thing all over again? I mean I am very confused about this.

MR. HOLLIES: Well, I guess I --

COMMISSIONER LeBLANC: I mean your volumes are nil. Your volumes aren't even close to where they thought they would be --

[redacted]

MR. HOLLIES: Well, there is an answer for that --

COMMISSIONER LeBLANC: Excuse me. Wait a minute. Let me finish -- and Rothschild is saying oh, the volumes are going to be there. Then we heard I believe in the last set of testimony it was that oh, well, if it gets up to 30 percent, well then we break even.

How long do we go before we start saying to ourselves and maybe other people ask the questions -- you know, where do we go from here?

MR. HOLLIES: Well, let's straighten a few things out here. Witness Rothschild's projections assume a starting point of full national rollout. As such, those projections really have no bearing on the present circumstances, notwithstanding you're right, the volume we have seen so far has not been as appreciable as one might have hoped but that has not been an accident.

The system is under development and it does strange things like crash occasionally. There's a vast apparatus for change control, a testing sequence that is required in a fully operational system under Postal Service computing standards. All of that has to be gone through and in particular because we have had some problems getting the system to work full time, we have not tried to build the volume as much as we might.

Several of the ads got held back for quite some

[redacted]

time because we weren't confident we could handle the volume at that point, and from the point of view of the Postal Service we are out here trying to offer a quality product and if what we do is we advertise the heck out of it and people say oh, gee, that sounds kind of neat, and they check it out and it doesn't work, that is not at all in our long-term interest.

We are in the context now of a market test. We have got limits of scale and scope. We are finding that those limits -- we kind of thought we would outgrow those some time ago and no, we have not. We are getting closer to them, but the reason volume has not built up that appreciably to date is no accident. It's been an attempt to maintain quality control.

COMMISSIONER LeBLANC: Thank you very much. I have got a loud voice but I am not that loud.

On page 4 of your response that we received yesterday, top of the page, you say that "OCA's argument, that the clock for the 10-month statutory limit was restated by the filing of supplemental testimony, OCA motion at 4, completely fails to appreciate that the Commission has not required and does not need a complete POL top-down cost analysis that Witness Lim never had a need to perform."

Well, how can we be a complete judge then of the true cost if we don't get that?

MR. HOLLIES: I guess I thought that's what we have been litigating about this entire case.

COMMISSIONER LeBLANC: It is, but I am still confused. Can you try me one more time?

MR. HOLLIES: We provided at the outset our best estimates of MOL-related costs and we are really focusing here on the information systems costs because that is the wild card in all of this.

That is a real small piece of the overall puzzle. I mean in a worst case analysis the estimate of the impact in the fee schedule has changed from one-tenth of a cent to perhaps four-tenths of a cent, and in the overall picture of what we are trying to do here, that is not a large impact.

Regardless of how price-sensitive customers may be, the price change from that type of -- for most costs and even were one to take a conservative approach to quantifying those costs, as we thought we had done consistently, would not make that much difference in the end-line price charged to the customer.

We provided the costs. We updated them when we realized they were not as good as they could be. We have explained that the POL costs we have included were based on a causality test which is the usual test for incremental costs. We have -- in the market test phase of this proceeding there was litigation about the pool, the overall pool of POL costs which we asserted were not necessary, and the market test decision indicated that we were to collect certain specific classes of costs that might be seen to benefit MOL, and we are collecting and reporting those data, so the POL cost pools or subpools that we understood the Commission to want have been and are being provided.

COMMISSIONER LeBLANC: Thank you for that explanation.

If you assume just for talking purposes that we are going to allow OCA to examine the cost data and submit testimony using it, how would you -- how should we reschedule, in your opinion?

MR. HOLLIES: Well, it depends upon which cost data and in what form. if we have to identify the total pool of POL costs, the timeframe to do that, even before we could answer any interrogatories or at least most of them, would I think exceed the time period that this case was delayed in order to develop Witness Lim's testimony.

The scale of -- I am not supposed to use that word -- but the complexity of POL is far larger and far more daunting than that of MOL. Moreover, the process of change in POL is also much more active. Just by the mere act of having come to the Commission and sought approval for a market test, we have kind of locked down certain features. Admittedly we are struggling to get some of them out there, but we aren't going beyond the features that the Commission has recommended.

POL, most of which we believe is beyond the purview of the Postal Rate Commission, is a much more volatile beast, if you will. We are adding different types of user-friendly, customer-friendly features. There are some that are on the table. I believe we provided, we identified three of them in a recent -- it may have been an institutional response, and there may be others.

There have been others in the past, some of which have now fallen by the wayside, but the PostOffice Online itself is intended to be a general channel to postal services. The Internet is becoming a far more critical part of the economic fabric of this society and we are trying to participate in that and provide quality services, so for many people the ability to access Postal Services by sitting down at their desktop computer, whether it is at home or the office and clicking a few keystrokes offers a convenience that we believe the Postal Service must participate in.

That is what POL is. It obviously has Shipping Online in it, which is just a way to access some traditional services, but there are a lot of things available in POL that extend well beyond Shipping Online as well.

COMMISSIONER LeBLANC: Thank you very much. Commissioner Covington, did you have any questions? You had stepped out a moment? I apologize for overriding there.

COMMISSIONER COVINGTON: Just a few, Mr. Presiding Officer.

What I am trying to grasp here, Mr. Hollies, I need you to go back and kind of clarify what you were saying about your information systems, hardware, software, as it relates to Y2K, the year 2000 problem.

Is that something that -- you explained that there is going to be a moratorium.

MR. HOLLIES: Basically a total constraint upon changes to production level computer systems for the Postal Service.

COMMISSIONER COVINGTON: Okay -- July 31st?

MR. HOLLIES: Yes.

COMMISSIONER COVINGTON: Okay. Now this Y2K problem or when you talk about information systems as it relates to MOAL, is that basically generated toward USPS or is it out in the field where the market test is being done? Or is it all intertwined?

MR. HOLLIES: Let me see if I have got your question. The moratorium is a nationwide moratorium on all computer systems for the Postal Service. Now there was a reference earlier to gold tape, which is basically a standard controlled out of Raleigh which specifies what versions of which software may be loaded and can be expected to run consistently with other resident programs.

So the process of updating the gold tape standards, at least at the production level, presumably would also be caught by the Y2K moratorium. The Y2K moratorium, I am not aware of a process by means of which, for example, an exemption to it might be obtained, but, frankly, that is something that the Postal Service has to consider.

But the decisions on what exemptions are going to be appropriate would be made by those people in charge of the computer systems. I think they are the right people to have control over change, and they say, for their good reasons, that they think the risk that a mission critical system will crash entirely goes too high because there is an interest in implementing some MOL changes, it, I think, would be a reasonable decision for a manager to make that that is not good -- that is not consistent with the overall good health of the Postal Service.

COMMISSIONER COVINGTON: Okay. Question number 2, which OCA has alluded to, as well as Commissioner Goldway and Commissioner LeBlanc just recently, with the actual periods and the compilation of the data, how often -- are you in a position to state for the Commission, is the Postal Service in communication with Price Waterhouse and Cooper?

MR. HOLLIES: Well, yes. Well nigh constantly.

But to Price Waterhouse Cooper's credit, they are dealing with the Postal Service in its large sense. We have a lot of different organizations with different missions, in different locations, with different kinds of hierarchical reporting relationships, and while I have daily contact with PWC people, indeed, it may run from 9:00 in the morning till 11:00 at night, that is not to say that all other Postal officials, Postal personnel, are as equally well tuned to the needs of PWC as reflected in this proceeding.

There is no way that I am ever going to be able to fully satisfy everybody that the delays in providing the AP reports were fully appropriate and in the best interests of the Postal Service.

COMMISSIONER COVINGTON: So, in other words, you are saying that it is not an overstatement to say that prior submissions have not been in a timely manner?

MR. HOLLIES: Well, I will certainly agree that the AP reports have not been provided as quickly as I had hoped and expected.

COMMISSIONER COVINGTON: Okay. Well, not wanting to beat a dead horse, but I have got one other question for you, counselor.

MR. HOLLIES: I would be happy to answer.

COMMISSIONER COVINGTON: What, in your guesstimation, estimation, approximation, whatever mation you want to call it, what would be a safe ballpark figure to say what the final cost estimates will be as far as this test is concerned?

MR. HOLLIES: Are we asking here about the experiment or the market test?

COMMISSIONER COVINGTON: Well, I would probably say the market test, which is what the recommended decision allowed you to proceed with.

MR. HOLLIES: You want to know what the final cost figure would be for the market test?

COMMISSIONER COVINGTON: Yes. And I think you stated that in AP 6, you shouldn't see too many more costs as it relates to, I guess, advertising and marketing, and you stated it might just be a mere couple of more hundred dollars. Was that leading up to AP 6, or would that be after that is submitted in?

MR. HOLLIES: My co-counsel's vision is also an issue. Looking at Table 3, in a given AP report, I happen to have the AP 2 one in front of me, that is hardware and software costs.

COMMISSIONER COVINGTON: Okay.

MR. HOLLIES: Those costs have largely already been incurred, but through -- as reflected in our reports up through AP 4.

COMMISSIONER COVINGTON: Yes.

[redacted]

MR. HOLLIES: I don't have any personal expectation at this point that there is going to be a large pool of those to follow, but that is not to say I am as fully informed on that specific question. I could perhaps seek to get more information, but I am unsure where that would get us.

I guess there is a bit of -- maybe not an anomaly, but a point with respect to the AP reports that is worth appreciating. The costs reflected in them are not largely of a recurring type, they are mostly a one time kind of cost, and that is why I can say with some assurance that, for example, the hardware and software has to be purchased, and once you -- you know, after you have identified what you need to get, and you have bought it, if everything works right, you shouldn't have to go back to the well again.

COMMISSIONER COVINGTON: You shouldn't have to incur those expenses, I agree. Well, up to this point, how much would you cost has run?

MR. HOLLIES: I don't have that in my head. Are you looking for the total hardware and software costs to date?

COMMISSIONER COVINGTON: Total hardware, software, to date.

[Pause.]

MR. HOLLIES: We are checking. Okay, 3 and 4, APs

3 and 4 indicated no additional hardware and software costs, which makes the figure in AP report 2 pretty current, which is $591,157.

COMMISSIONER COVINGTON: Okay. Five -- what did you say, 591?

MR. HOLLIES: $591,157.

COMMISSIONER COVINGTON: Okay. Thank you, Mr. Hollies. That is all I have, Mr. Presiding Officer.

COMMISSIONER LeBLANC: Mr. Hollies, the Chairman has a few follow-up for you. Mr. Chairman.

CHAIRMAN GLEIMAN: Yes. If I could get back to basics so I can understand things. I am looking at the Notice of the United States Postal Service, a filing of accounting period data reports which was filed on the 10th of this month. It doesn't say pursuant to what you filed these reports. Could you just tell me succinctly why you filed this report when you filed it?

MR. HOLLIES: Well, we have already covered the when question, but the why I can certainly address further.

CHAIRMAN GLEIMAN: I just told you the when you filed it, it was the 10th. I want to know why you filed it, you know, what prompted this disgorgement of information on the 10th of March? It doesn't say in response to an interrogatory, it doesn't say in response to a Presiding Officer's information request. All of a sudden, on the

10th, this information shows up. Why?

MR. HOLLIES: It is in response to our understanding of the Commission's expectations, themselves reflected in the market test opinion.

CHAIRMAN GLEIMAN: I wanted to make sure I understood that. Okay. This was in response to, in effect, a Commission order, right?

MR. HOLLIES: I am not prepared to concede that, it is certainly in response to the Commission's opinion and recommended decision in the market test.

CHAIRMAN GLEIMAN: Which was accepted by the Governors, right?

MR. HOLLIES: Right.

CHAIRMAN GLEIMAN: Okay. When I look at the second page of this submission, it says PostOffice Online, Price Waterhouse, Postal Rate Commission, Mailing Online, AP report, AP 2: October 30th through November 6, 1998. When was this -- when was the information that forms the basis of this report for AP 2 available to the Postal Service?

MR. HOLLIES: Well, depending on how you construe the Postal Service, I saw it was Tuesday afternoon.

CHAIRMAN GLEIMAN: Well, you're not the Postal Service.

MR. HOLLIES: Well, I'm certainly a part of the Postal Service.

CHAIRMAN GLEIMAN: I know.

MR. HOLLIES: But seeing as how this information was in large measure collected from postal employees, one could have conceivably argued that those employees are also the Postal Service, and they're not --

CHAIRMAN GLEIMAN: Collected by Price Waterhouse from postal employees. Price Waterhouse is part of the Postal Service too, I guess. But let's not quibble over that. My question is, when did Price Waterhouse complete this AP 2 report?

MR. HOLLIES: Tuesday -- Monday or Tuesday of this week.

CHAIRMAN GLEIMAN: So when did they complete the AP 3 report?

MR. HOLLIES: Pretty much within -- well, all on the same day.

CHAIRMAN GLEIMAN: When did they complete the AP 4 report?

MR. HOLLIES: Same answer.

CHAIRMAN GLEIMAN: When was the information available which enabled Price Waterhouse to complete the AP 2 report?

MR. HOLLIES: I think Monday.

CHAIRMAN GLEIMAN: When was the information available to Price Waterhouse to complete the AP 3 report?

MR. HOLLIES: It was all received in one fell swoop. As I indicated --

CHAIRMAN GLEIMAN: From whom?

MR. HOLLIES: All right, let me back up just a second. Not all of the information in one fell swoop, but the major and missing portions of it we provided in the form of I think it was a spreadsheet from a contractor.

CHAIRMAN GLEIMAN: A different contractor than Price Waterhouse Coopers.

MR. HOLLIES: Right. They provided to PWC ultimately.

CHAIRMAN GLEIMAN: Okay.

MR. HOLLIES: Well, there's a sad tale there. There was e-mail messages that were sent and believed received and somebody disavowed it, but it's been a very -- very messy trail.

CHAIRMAN GLEIMAN: You should try hard-copy mail. It's real good. Maybe even Express Mail.

MR. HOLLIES: I understand they both have excellent reputations.

CHAIRMAN GLEIMAN: So data from an accounting period that ended on November 6 was available to be compiled and put into a report on the same date more or less, maybe exactly the same date, that information was available for accounting period 4, which ended 12 weeks later.

[redacted]

MR. HOLLIES: Well, there is inherently some lag in the collection and reporting of the information even under the most optimum preferable set of circumstances, and my understanding is that for an AP report, that's usually four to six weeks.

CHAIRMAN GLEIMAN: What if I told you that the Governors got AP reports the next Governors' meeting after the accounting period was over?

MR. HOLLIES: I'd be pretty surprised if they got the reports due for the Commission before you got them.

CHAIRMAN GLEIMAN: Well, we don't know what you guys tell the Governors and don't tell the Governors.

MR. HOLLIES: Well, we don't tell --

CHAIRMAN GLEIMAN: They already made the front end of their decision to submit the case. You don't have to convince them anymore.

When are we -- this is through AP 4.

MR. HOLLIES: If I might --

CHAIRMAN GLEIMAN: The AP 5 information is now available and is being put together?

MR. HOLLIES: If I might comment briefly, information flowing up to postal management and ultimately to the Board of Governors is information collected on a routine basis and information that has been collected on that routine basis for a long time. As such, the procedures by means of which it is collected, amalgamated, and presented are well established and defined. That's not the case with respect to these reports, although we are certainly moving in the direction of standardizing our procedures.

CHAIRMAN GLEIMAN: When are we going to see AP 5, which ended on the 29th of January, and AP 6?

MR. HOLLIES: I believe I answered that question in part a moment ago.

CHAIRMAN GLEIMAN: I missed it. Can you answer it again for me? I missed it.

MR. HOLLIES: I think that -- well, as of today, we do not have all of the information for the AP 5 report. Some more information did flow in this morning, and I believe I made a representation that we would be prepared to file whatsoever we might have on Monday for AP 5. I hope I'm not getting daggers in my back from somebody in the audience.

CHAIRMAN GLEIMAN: In the process of standardizing your data collection of this information on an AP basis, is the time frame getting shorter and shorter? I mean, since for 2, 3, and 4 it was all available just a week ago, you know, is it, you know, which is a lot of time since those accounting periods ended.

MR. HOLLIES: I believe inherent in the fact that

AP's respectively end at different points in time and that we have three reports filed at the same time, that those intervals are necessarily getting shorter. But I also noted a moment ago that many of the costs in the AP reports are essentially nonrecurring, which means that establishment of regular procedures for reporting of that information is somewhat problematic. It's hard to set up a regular procedure to report one piece of information once.

CHAIRMAN GLEIMAN: If they are nonrecurring and, you know, the nonrecurring costs were incurred earlier on, I think it becomes easier and easier to do the reports.

MR. HOLLIES: At some level you certainly have a point.

CHAIRMAN GLEIMAN: Well, I was just trying to get a feel in the event that we decided to go along with the OCA's request that we issue a (c)(2) order. I was just trying to get a feel for the extent to which there may have been dilatory tactics involved in presenting this information, and you've clarified that there weren't dilatory tactics, that the Postal Service just couldn't get its act together. So thank you very much.

MR. HOLLIES: We did attempt to explain --

CHAIRMAN GLEIMAN: Thank you very much.

MR. HOLLIES: In the fourth footnote.

COMMISSIONER LeBLANC: Ms. Dreifuss, would you care to reply now?

MS. DREIFUSS: I am hesitant to speak up, the Commissioners have handled these questions so capably. Let me just express one concern that I have as I listened to the exchange between the Commissioners and the Postal Service, and that is that, based on what the Postal Service has said a couple of times, we are not going to be seeing a great deal more costs reported in APs 5 and 6.

Now, I may be overstating the case, but I am concerned about that because I believe during Witness Lim's cross-examination, I believe it was the Postal Service counsel stated that, generally, this system would be designed and put in place, and I presume most of the costs expended by sometime in July. And I am very concerned that we are a very incomplete picture of the expenditures that are likely to be incurred up through the time that Mailing Online is implemented in July. That is why it is necessary, I think, to have the Postal Service project for the course of the experiment, for a longer period of time, what kinds of startup costs are going to be incurred in getting Mailing Online -- I'm sorry, in getting PostOffice Online and an appropriate portion of that allocated to Mailing Online.

Now, it is true that the AP reports we see do seem to make a stab at providing PostOffice Online costs, some allocation to Shipping Online to Mailing Online and so on.

[redacted]

But the Postal Service's position so far seems to be that they won't provide the total PostOffice Online costs for the entire experimental period, they won't provide the PostOffice Online specific costs for the entire period of the experiment. They will provide a very small portion of those costs in the accounting period reports, and I think we need to fill that gap with the projections.

Now, many of our interrogatories have asked virtually the same questions. They have undertaken a functional component analysis that they provided, I guess about three weeks ago. We asked interrogatories about that. But what this all boils down to is really a couple of things. First of all, we need to see in detail how Witness Lim developed his cost estimates. That means we need to see the documentation of the kinds of judgments, advice, and opinions that were conveyed to him by the system designers. That would be for MOL. And in addition to that, we need the separate PostOffice Online cost estimates, and I don't think we are going to get all of them through the AP reports that are intended to be filed in the next several weeks, and that's all I have to say.

COMMISSIONER LeBLANC: I want to thank all of you for your comments today. It has been a long day. As you well know, I have -- or you may know, I think most of you probably do, I have certified this to the full Commission.

We, myself and my colleagues, will get you an answer as to what we will do, may not do, want to do, whatever, in the near future. I cannot give you a timeframe. But, ladies and gentlemen, our current schedule calls for hearings to resume March 29th, when we will receive testimony in rebuttal to the direct cases of intervenors and the Office of the Consumer Advocate.

With that said, thank you very much and this hearing is now adjourned.

MS. DREIFUSS: Presiding Office LeBlanc, I hate to contradict your last remark. I am still not sure what the status is of the preliminary questions on the AP reports that we circulated earlier. We allowed everyone to take a look at this. We did want that to be made an OCA argument exhibit in this transcript. Is it acceptable to the Presiding Officer to give that to the reporter and add it to today's transcript?

COMMISSIONER LeBLANC: Let me take that under advisement and I will issue back to you in writing as to what we will do with that at a further time.

MS. DREIFUSS: Fine.

COMMISSIONER LeBLANC: Because it is very -- it is timely and in the same vein, it is very important. It will probably be part of our decision making process if it is made part of the evidence. If it is not, we will do whatever, let it stand on its own. But I will get back with you in writing on that.

MS. DREIFUSS: Thank you, sir.

COMMISSIONER LeBLANC: Thank you again, ladies and gentlemen. This hearing is adjourned.

[Whereupon, at 4:43 p.m., the meeting was recessed, to reconvene on Monday, March 29, 1999.]

BEFORE THE

POSTAL RATE COMMISSION

- X

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

Thursday, March 11, 1999

The above matter came on for hearing, pursuant to notice, at 9:34 a.m.

BEFORE: EDWARD J. GLEIMAN, Chairman

W. H. "TREY" LeBLANC, III, Commissioner

DANA COVINGTON, Commissioner

GEORGE OMAS, Commissioner

RUTH GOLDWAY, Commissioner

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