

PUBLIC (REDACTED) VERSION

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

COMPETITIVE PRODUCT LIST)
ADDING ROUND-TRIP MAILER) Docket No. MC2013-57
)

COMPETITIVE PRODUCT LIST)
ADDING ROUND-TRIP MAILER) Docket No. CP2013-75
(MC2013-57))

SUPPLEMENTAL DECLARATION OF SANDER GLICK

(September 12, 2013)

Please send any communications about
this document to:

David M. Levy
Matthew D. Field
VENABLE LLP
575 7th Street NW
Washington DC 20004
dlevy@venable.com
mfield@venable.com
(202) 344-4800

Counsel for GameFly, Inc.

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1. My name is Sander Glick. I am Vice President of SLS Consulting, Inc., with offices at 1920 N Street, N.W., Suite 200, Washington, DC 20036. I have testified as a cost witness for GameFly, Inc., in Docket No. C2009-1, and submitted a declaration on August 15 regarding the DVD mailer cost data filed in Library Reference USPS-MC2013-57/NP1.

2. The purpose of this declaration is to comment on the reply declarations of Virginia Mayes and Thomas Bozzo filed on August 22, 2013. After reviewing their declarations and Library Reference USPS-MC2013-57/NP4, I continue to believe that

the Commission need not consider the cost estimates in Library Reference USPS-MC2013-57/NP1 to assess compliance with 39 U.S.C. 3633(a), and should not endorse the data in this proceeding.

A. Ms. Mayes' statement and recently-filed PRM costs underscore the unreliability of the Postal Service's financial analysis of Round-Trip Mailer Products.

3. Ms. Mayes' declaration begins by stating (at ¶ 3) that the Postal Service had only four days to provide a financial analysis for the Round-Trip Mailer Products. This statement underlines my basic point. Not only is the data largely untested by other participants, but the cost estimates apparently were also hurriedly prepared.

4. **[BEGIN USPS PROPRIETARY]**

[END USPS PROPRIETARY]

B. Use of a Generic Flat Proxy Overstates the Costs of GameFly Pieces.

5. In my declaration, I explained why the Postal Service's use of a generic First-Class Mail flat proxy overstates the cost of GameFly pieces. Other than to correct a footnote in Library Reference USPS-MC2013-57/NP1 and attempt to downplay the magnitude of errors introduced by using a generic cost proxy, neither Ms. Mayes nor Dr. Bozzo rebuts these concerns. The following points remain unrebutted:

6. Because GameFly pieces are much lighter and smaller in cube than the typical First-Class Mail Flat, the use of generic cost proxies overstates not only vehicle service driver (“VSD”) and transportation costs, but also allied mail processing costs, for GameFly pieces. (Ms. Mayes attempts to downplay the magnitude of the overstatement of VSD and transportation costs, but does not address the overstatement of allied mail processing costs.)

7. Because GameFly generally mails regionally, including air transportation costs overstates the cost of GameFly pieces.

8. The cost of GameFly pieces is likely overstated because, as Pitney Bowes explained in Docket No. RM2011-3, IOCS likely overstates the unit cost of First-Class Mail Presort Flats.

9. Dr. Bozzo attempts (at ¶ 5) to sidestep the last of these issues on the ground that Pitney Bowes never mentioned IOCS by name in its RM2011-3 comments. While he is correct that Pitney Bowes’ comments do not mention IOCS by name, even a cursory review of the comments makes clear that they were referring to IOCS. The comments refer throughout to CRA unit costs (at 1, 3 (fn. 5), 4), costing systems (at 1, 2), sample-based data (at 1, 2), and mail processing costs (at 3 (fn. 5)). IOCS is the sample-based CRA costing systems that is used to distribute mail processing costs. And the analysis that Pitney Bowes performed on mail volume data to identify the problem in First-Class Mail Presort Flats was the same analysis USPS witness Marc Smith used to identify and address problems in unit parcel **mail processing** costs in Docket No. R2006-1. Pitney Bowes RM2011-3 Comments at 3; R2006-1, Response of Postal Service Witness Smith to POIR No. 10, Question 2(a).

10. Other than attempting to downplay the extent of the inaccuracy introduced by using generic proxies, Ms. Mayes defends the use of generic cost proxies mainly by citing precedent such as to the use of proxies in NSA cases (Mayes at ¶ 6). The present case is clearly distinguishable, however. First, as GameFly has explained, the DVD round-trip mailer product is appropriately classified as market-dominant. Thus, unlike in NSA proceedings, there is no need to rely on cost data in this proceeding. Second, the (primarily) automation letters that are the subject of First-Class Mail NSAs – e.g., the Discover NSA that Ms. Mayes mentions – are clearly more typical of First-Class Mail of the same shape and presort level than are DVD mailers.

C. Vetting of the IOCS PRM Unit Cost Estimate Is Necessary.

11. In his declaration, Dr. Bozzo concedes that the IOCS has produced inaccurate unit mail processing cost estimates for Standard Mail Parcels, Standard Mail ECR Parcels, and In-County Periodicals, but argues that the specific reasons for the inaccuracies *may* not apply to PRM.¹ These rejoinders, while possibly correct, are beside the point. My point is not that the PRM estimates necessarily suffer from the identical errors; but rather that the IOCS has repeatedly produced inaccurate unit cost estimates for small categories of mail. Thus, using IOCS to estimate unit PRM mail processing costs for this purpose should not be approved until after a thorough vetting. My concerns are heightened by the substantial instability, noted above, in unit PRM mail

¹ It is worth noting that that Dr. Bozzo, who supervised production of the PRM cost estimates, does not unequivocally rule out the possibility that the specific problems I noted about the PRM estimates may be correct. The most he can bring himself to say is that these points do “not appear to affect the PRM cost measurement” (Bozzo ¶ 6) and do “not, in principle, raise issues” (Bozzo ¶ 7).

processing cost estimates from FY 2009 to FY 2012. Below are a couple of specific observations regarding Dr. Bozzo's declaration.

12. With respect to Standard Mail parcel costs, Dr. Bozzo argues (¶ 4) that the cause of the error was not the IOCS itself, but a misalignment of mail shape definitions between IOCS and RPW systems. This is a distinction without a difference. Either way, the IOCS-based unit cost estimate is inaccurate.

13. In ¶ 9-10, Dr. Bozzo suggests that IOCS non-sampling errors are largely confined to very small categories with much smaller volumes and costs than PRM (e.g., Standard Mail ECR parcels). This is clearly untrue. The examples discussed in my declaration and Dr. Bozzo's reply involve categories of mail with volumes that are comparable to or larger than PRM.

Mail Volume and Mail Processing Cost for Selected Mail Categories

Mail Category		MP Cost (000s)	Volume (000s)
		[a]	[b]
Standard Mail Regular Parcels	[1]	\$ 375,467	600,304
Periodicals In-County	[2]	\$ 29,744	762,673
First-Class Mail Presort Flats	[3]	\$ 278,173	641,986
Permit Reply Mail	[4]	REDACTED	REDACTED
<p>[1][a] Docket No. R2006-1, USPS-LR-L-185, shp05prc.POIR16.Q1.xls, "Std Reg Parcel-Flat Adj.", cell F62.</p> <p>[1][b] Docket No. R2006-1, USPS-LR-L-185, shp05prc.POIR16.Q1.xls, "Class", cell I29.</p> <p>[2][a] = [2][b] * Docket No. R2006-1, USPS-LR-L-185, shp05prc.POIR16.Q1.xls, "Summary (2)", cell E19 / 100.</p> <p>[2][b] Docket No. R2006-1, USPS-LR-L-185, shp05prc.POIR16.Q1.xls, "Class", cell J19.</p> <p>[3][a] = [3][b] * Docket No. ACR2012, USPS-FY12-26, shp12prc.xls, "Final Results", cell C14 / 100.</p> <p>[3][b] Docket No. ACR2012, USPS-FY12-26, shp12prc.xls, "Class", cell K14.</p> <p>[4] Docket No. C2009-1, USPS-MC2013-57/NP1, FY12 MP 1st PRM Letters.xlsx, "Summary", row 8.</p>			

14. Further declarant sayeth not.

VERIFICATION

I declare under penalty of perjury that the foregoing is true and correct. Executed on September 11, 2013.

Sander Glick