

ORIGINAL

# Official Transcript of Proceedings

*Before the*

## UNITED STATES POSTAL RATE COMMISSION

In the Matter of: MAILING ONLINE SERVICE

Docket No. MC98-1

VOLUME 12

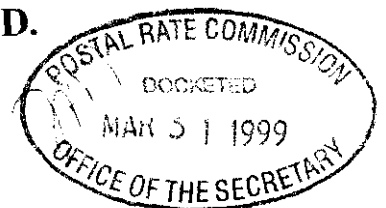
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BEFORE THE  
POSTAL RATE COMMISSION

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

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

Tuesday, March 30, 1999

The above matter came on for hearing, pursuant to  
notice, at 9:31 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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# EXHIBITS

EXHIBITS AND/OR TESTIMONY

IDENTIFIED RECEIVED

Mailing Online brochure		2804
Rebuttal Testimony and Exhibits		
of Lee Garvey, USPS-RT-1		2814
Cross Examination Exhibit OCA-RT-1-XE1	2907	
Exhibit OCA-RT1-XE2		3015

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

2 [9:31 a.m.]

3 COMMISSIONER LeBLANC: Good morning, ladies and  
4 gentlemen. Today we will continue to receive rebuttal  
5 testimony in Docket Number MC98-1, considering the Postal  
6 Service request to initiate a nationwide Mailing Online  
7 service experiment. Scheduled to appear this morning is  
8 Postal Service Witness Garvey.

9 During yesterday's hearing, I asked Mr. Takis  
10 questions about a Postal Service advertising brochure. At  
11 that time I only had one copy of the brochure, so I have  
12 made -- you still have them, do you not, Mr. Reporter?

13 THE REPORTER: Yes, sir.

14 COMMISSIONER LeBLANC: I have made two copies and  
15 they are now in the hands of the reporter, and I think the  
16 record will be clearer if a copy of the brochure is made  
17 part of the evidentiary record in this case. Are there any  
18 objections?

19 MR. HOLLIES: There are no objections. The  
20 brochure that we discussed yesterday was already in, but the  
21 redundancy does not really hurt.

22 MR. WIGGINS: I apologize, Mr. Presiding Officer.  
23 It looks a lot different than the form in which it was in  
24 than it did in your hands up there, but it was indeed --

25 COMMISSIONER LeBLANC: It was indeed there.

1 MR. WIGGINS: Yes.

2 COMMISSIONER LeBLANC: But an overkill in this  
3 particular case can't necessarily hurt us I don't believe.  
4 So if there are no objections, as I said before, I have  
5 given two copies to the reporter and I direct that they be  
6 received into evidence and transcribed into today's hearing  
7 at this point.

8 [Mailing Online brochure was  
9 received into evidence and copied  
10 into the record.]  
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Coming soon to a screen near you.

One click  
and it all  
starts  
to click.



We deliver.



## POST E.C.S. 30-DAY FREE TRIAL

Post E.C.S.  
(Post Electronic Courier Service)  
is the 21st-century  
document-delivery system

Fast, inexpensive  
document delivery

Reliable, global  
delivery capabilities and  
universal compatibility

Secure, private and  
confidential transmission  
over the Internet

Universal readability

For more information, contact

For organizations committed to ongoing business-process improvement, Post E.C.S. is the 21st-century document-delivery system that is superior to current delivery options. Post E.C.S. combines the advantages of couriers, fax and the Internet with the protection of the United States Postal Service for a fraction of courier delivery costs. Sign up now for a 30-day free trial!

- Post E.C.S. allows you to send and receive your business documents quickly at a substantial cost savings compared to overnight and courier services.
- Post E.C.S. augments your electronic messaging service to deliver documents across multiple systems to business partners and customers outside your corporate Intranet. Post E.C.S. utilizes electronic mail extensively for notification purposes, but makes only the most basic assumptions about the set of services e-mail can provide, thereby not risking incompatibilities across diverse e-mail systems, gateways and clients.
- Post E.C.S. provides several levels of security, from password protection at origin and destination to secured SSL or PCT Internet connections and optional RSA (RC4) file-encryption on the Post E.C.S. server.
- Post E.C.S. enables recipients to read any document sent, regardless of the software applications used.
- Post E.C.S. is currently available in market test. Post E.C.S. will soon offer the Electronic Postmark™ system, which combines tamper-detection with an official time-and-date stamp. This promises the traditional reliability you've come to trust with the United States Postal Service. Post E.C.S. is easy to use, and you can begin using it almost immediately.
- Robert P. Greenwald, Tactical Marketing and Sales Development  
U.S. Postal Service, 206 Cedar Avenue, Lake Villa, IL 60046-9998  
Phone: (847) 265-6508  
Fax: (847) 265-6721  
e-mail: rgreenwa@email.usps.gov

## MAILING ONLINE™ ONE CLICK AND IT ALL STARTS TO CLICK.



Mailing Online™ is the quick and easy way to prepare your First-Class® Mail and Standard A Mail

Mailing Online™ will be available through PostOffice Online,™ our new Web site for small businesses. It will be like having a post office and a professional printing-and-mailing service inside your personal computer that are open 24 hours, 7 days a week. The address will be [www.postofficeonline.com](http://www.postofficeonline.com)

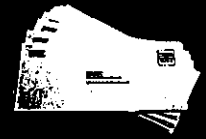
Instead of spending hours addressing your First-Class Mail and Standard A Mail, printing each piece, stuffing envelopes, applying postage and doing the mailing, you'll be able to have someone else conveniently do it for you. Create your mail on Windows 95 (or Windows NT), using a variety of word processing and design programs, then send it electronically—along with your mailing list—to the U.S. Postal Service. We'll send them to a USPS-approved printing-and-mailing service that will take care of the rest of the work.

Mailing Online is convenient

- Create, print and send First-Class Mail and Standard A Mail via the Internet
- Prepare your advertising mail, correspondence, even your invoices, today, and have them in the mail tomorrow
- Personalize documents with data-merge
- Have your mailing lists standardized automatically for more effective delivery
- Navigate easily with point-and-click menus
- Store frequently used documents, mailing lists and return addresses
- Estimate mailing and production costs beforehand with a built-in calculator
- Accepts Visa®, MasterCard®, Novus™/Discover® and American Express®

Mailing Online has impact

- Give your mail impact with highlight color and graphics
- Give your mail a professional touch with high-quality printing



How does Mailing Online™ automatically standardize my mailing lists for more efficient mailing?

Each time you upload a mailing list through Mailing Online,™ it's checked against the U.S. Postal Service's National Address Management System to standardize your addresses, including abbreviations, directionals and ZIP Codes.\*

Unverifiable addresses are extracted and returned for review and correction.

How sophisticated can I get with my mailpiece designs?

The software packages that Mailing Online accepts offer you a wide variety of mailpiece-design options. Use of highlight colors includes your choice of red, blue, green or magenta (one highlight color per mailing).

What word processing or design software can I use?

You can mail most documents that you create on MS Word 6.0 or later, WordPerfect 6.0 or later, Pagemaker 6.5 or later, Ventura 7.0 or later, or QuarkXPress 6.0 or later.

What mailing-list (spreadsheet or database) software can I use?

You can submit mailing lists that you create on MS Word 6.0 or later, WordPerfect 6.0 or later, MS Access 95 or later, Excel 5.0 or later, or an ASCII Tab Delimited text file.

Can I really send invoices too?

Mailing Online lets you use the Mail Merge feature of Word and WordPerfect. You can use the Mail Merge feature to personalize each invoice. Then you simply send your document and mailing list to Mailing Online. We take care of the rest of the work for you.

POSTOFFICE ONLINE™

ONE CLICK AND IT ALL STARTS TO CLICK.



PostOffice Online™ is the quick and easy way to prepare your First-Class Mail and Standard A Mail and expedited shipments.

PostOffice Online™ will let you simplify and reduce the time it takes to prepare your business's mail, from mailing your advertising, invoices and correspondence to shipping your urgent documents and merchandise.

Our new Web site for small businesses will be like having a post office and a professional printing-and-mailing service inside your personal computer that is open 24 hours, 7 days a week. The address will be [www.postofficeonline.com](http://www.postofficeonline.com)

PostOffice Online will offer Mailing Online™ to simplify the way you prepare your First-Class Mail and Standard A Mail. Instead of spending hours printing each piece, stuffing envelopes, applying postage and doing the mailing, you'll be able to have someone else conveniently do it for you. PostOffice Online will also offer Shipping Online™ to simplify the way you prepare Express Mail® and Priority Mail™ shipments. You'll be able to prepare shipping labels, schedule pickups, track Express Mail and confirm Priority Mail deliveries — all from the convenience of your keyboard.

PostOffice Online  
is convenient

- Access our Web site anytime from your home, office or on the road
- Navigate quickly and easily with point-and-click menus
- Create, print and send First-Class Mail and Standard A Mail efficiently using Windows 95 (or Windows NT) and the Internet with Mailing Online
- Access expedited mail services conveniently and securely using Windows 95 (or Windows NT) and the Internet with Shipping Online

PostOffice Online is reliable

- Benefit from the reliability and integrity of the U.S. Postal Service
- PostOffice Online will be available this fall to the first 5,000 small businesses who qualify for this pilot program in limited geographic markets

[www.postofficeonline.com](http://www.postofficeonline.com)



We deliver.

**SHIPPING ONLINE™** ONE CLICK AND IT ALL STARTS TO CLICK.



Shipping Online™ is the quick and easy way to prepare expedited shipments

Shipping Online™ will be available through PostOffice Online™, our new Web site for small businesses. It will be like having a post office inside your personal computer that's open 24 hours, 7 days a week. The address will be [www.postofficeonline.com](http://www.postofficeonline.com)

Shipping Online is convenient

Instead of writing out shipping labels by hand, you'll be able to prepare them electronically. You'll be able to use our online U.S. Postal Service database to check your addresses for accuracy and completeness. You'll be able to accurately calculate your postage, pay by credit card, schedule pickups, track Express Mail® and confirm Priority Mail™ deliveries...all online. Express Mail and Priority Mail are already terrific values. Shipping Online will make them even better values.

- Access expedited mail services via the Internet
- Create shipping labels and schedule pickups from your personal computer
- Track Express Mail shipments
- Confirm delivery of Priority Mail shipments
- Order shipping supplies
- Navigate easily with point-and-click menus
- Accepts Visa®, MasterCard®, Novus™/Discover® and American Express®

Shipping Online is accurate

- Check your addresses for accuracy and completeness using the U.S. Postal Service's National Address Management System
- Be certain of our most current rates and service delivery times
- Pinpoint mail collection boxes and post office locations

[www.postofficeonline.com](http://www.postofficeonline.com)



*We deliver.*



Should I consider sending all my expedited shipments via Shipping Online™?

Give it serious thought. The more you use it, the more convenient it becomes. You can prepare several shipping labels and pay for them together, without ever having to visit the post office.

What is the charge if I schedule a pickup?

You pay a single \$4.95 fee for each scheduled pickup. We will pick up as many Express Mail® or Priority Mail™ packages per stop as you want. If you have one package, it's \$4.95. If you have ten packages, it's still just \$4.95.

Do Express Mail® and Priority Mail™ deliver on Saturdays?

Yes. We deliver Express Mail shipments 7 days a week, 365 days a year, including Saturdays, Sundays and holidays. There's no extra charge for weekend or holiday Express Mail deliveries. We deliver Priority Mail shipments Monday through Saturday, and there's no extra charge for Saturday Priority Mail deliveries. We also deliver Express Mail and Priority Mail shipments to Post Office Boxes.

1 COMMISSIONER LeBLANC: Yesterday, the Office of  
2 the Consumer Advocate filed a notice withdrawing its motion  
3 to compel an attachment to Exhibit USPS-RT-1A. I assume  
4 that means that the OCA received a copy of the attachment  
5 and that it will be prepared to cross-examine Witness Garvey  
6 on that material today, as I talked to Mr. Gerarden about  
7 yesterday, is that correct, Ms. Dreifuss?

8 MS. DREIFUSS: Yes, it is, Mr. Presiding Officer.

9 COMMISSIONER LeBLANC: I want to remind  
10 participants that briefs on issues not dependent on data  
11 collected in the market test are due on April 9th.  
12 Transcript corrections from yesterday and today's hearings  
13 should be submitted by April 7th. You may assume that  
14 proposed corrections will be accepted for purposes of  
15 preparing initial briefs.

16 Now, before we get started, does any participant  
17 have a procedural matter to raise this morning?

18 [No response.]

19 COMMISSIONER LeBLANC: Good. Since our witness,  
20 Mr. Garvey, is appearing on behalf of the Postal Service and  
21 is already under oath, Mr. Hollies, I think you will be  
22 doing the lead role today, is that correct?

23 MR. HOLLIES: That's correct.

24 COMMISSIONER LeBLANC: Will you introduce your  
25 witness, please?

1 MR. HOLLIES: The Postal Service recalls Mr. Lee  
2 Garvey to the stand.

3 COMMISSIONER LeBLANC: Do you want a minute to get  
4 yourself in order there?

5 MR. HOLLIES: Yes, I am looking for the copies of  
6 the testimony I am about to hand him.

7 COMMISSIONER LeBLANC: I understand, that's why I  
8 asked.

9 Whereupon,

10 LEE GARVEY,  
11 a witness, having been recalled for examination and, having  
12 been previously duly sworn, was examined and testified  
13 further as follows:

14 DIRECT EXAMINATION

15 BY MR. HOLLIES:

16 Q I ask Mr. Reiter to hand to you a document, two  
17 copies of a document entitled USPS-RT-1 and I ask if you can  
18 identify it?

19 A It my testimony.

20 Q Was it prepared by you or under your supervision?

21 A Yes, it was.

22 Q And were you to testify orally today, would your  
23 testimony be the same?

24 A It would.

25 Q Have you any errata?



1           A     I have none.

2           MR. HOLLIES: With that, the Postal Service moves  
3 that this be received in evidence in this case.

4           COMMISSIONER LeBLANC: Are there any objections?

5           [No response.]

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

10                               [Rebuttal Testimony and Exhibits of  
11                               Lee Garvey, USPS-RT-1, was received  
12                               into evidence and transcribed into  
13                               the record.]

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USPS-RT-1

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

MAILING ONLINE SERVICE

Docket No. MC98-1

REBUTTAL TESTIMONY  
OF  
LEE GARVEY  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE

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**2 USPS-RT-1A: Memorandum Announcing Effectiveness of Y2K Moratorium**

**Rebuttal Testimony**  
**of**  
**Lee Garvey**

**AUTOBIOGRAPHICAL SKETCH**

This updates the autobiographical sketch that appears in my direct testimony, USPS-T-1. My name is Lee Garvey. I currently serve as an acting Manager in the Internet Business Group of the Technology department of the United States Postal Service. I am responsible for managing the development of Internet Correspondence and Messaging services, including the strategy designed to provide small businesses with convenient internet access to First-Class Mail and Standard (A) Mail, Mailing Online.

A 28-year employee of the United States Postal Service, I began my postal career as a letter carrier in the Arlington, Virginia post office. I have since held positions as Station Manager, Account Representative, International Account Representative and National Account Manager. In these latter positions I have worked extensively with a wide variety of postal customers, including printers and lettershops, and have been instrumental in analyzing and facilitating solutions for a multitude of mailers' needs. I am a past member of the Washington Direct Marketing Association and have planned and participated in Postal Customer Council (PCC) activities throughout the United States.

- 
- 1 I have a bachelor's degree in business administration from Columbia Union
  - 2 College in Washington, DC.
  - 3

1     **I.     PURPOSE OF TESTIMONY**

2             My rebuttal testimony responds to inquiries from the bench and participants,  
3     while rebutting the testimony of OCA witness Callow, OCA-T-100, and MASA/Pitney  
4     Bowes witness Prescott, MASA/PB-T-1. I also rebut certain unsubstantiated allegations  
5     made or implied by MASA witnesses Jurgena and Schuh. I describe the current status  
6     of the Mailing Online development and schedule, and Postal Service plans for  
7     operational implementation of the Mailing Online experiment. Reasons for low usage  
8     and volume during the market test are explained. I also describe the status of  
9     FASTForward integration and address our plans for offering nonprofit rate categories.

10            I discuss the importance of design and rate simplicity for Mailing Online  
11     customers and describe those characteristics that clearly differentiate Mailing Online  
12     from both functional and claimed direct competition. Further, I review the intent of the  
13     Postal Service in developing Mailing Online and enumerate the benefits of the service  
14     to the American people.

15

16     **II.    PROGRAM DEVELOPMENT STATUS**

17            **FASTForward**

18            In previous testimony I indicated that the FASTForward address change system  
19     would be utilized for Mailing Online service during the market test. Technical  
20     implementation problems associated with FASTForward have caused a delay in  
21     integrating it with Mailing Online, although our resolve to do so remains unassuaged.  
22     Proper and complete addresses constitute a key to production of mailpieces that

1 ultimately drive costs from the system of hardcopy delivery. However, the  
2 FASTForward system consists of a small computer that, due to the extreme sensitivity  
3 of change-of-address information residing in the database upon which FASTForward is  
4 based, is highly secured and into which the PostOffice Online developers have been  
5 unable to look as they develop the necessary hardware and software links. If  
6 necessary, other means of providing FASTForward functionality will be examined and  
7 implemented.

8 **Nonprofit rate categories**

9 In our original filing, we had indicated that we would make nonprofit rates  
10 available as soon as an online verification system could be integrated into Mailing  
11 Online. That verification system, which we had expected to be able to utilize by this  
12 time, has not been completed. The major hurdle here is the existing means by which a  
13 mailer's nonprofit status is authorized and tracked. This means is currently based upon  
14 specifically authorized points of mail entry, which, since entry may occur virtually  
15 anywhere in the domestic service area, results in records being maintained all over the  
16 country. The mandatory ease-of-use requirements of Mailing Online design require the  
17 Postal Service to simplify the application of this nonprofit status system to PostOffice  
18 Online registrants, yet still maintain a strong revenue protection mechanism. Ultimately,  
19 we intend to use digital certificates for that purpose, but the technological means to  
20 implement such a system are several months away from readiness. Until that hurdle  
21 can be cleared, we are instead planning on an application/password system that should  
22 be part of the experiment when it is implemented.



1           **Batching and co-mingling capability**

2           My direct testimony addresses the goal of developing a capability to merge,  
3   within classification categories, mail pieces sharing similar processing characteristics to  
4   the greatest extent possible. The system developers assure me that we should see this  
5   capability enhanced in the next major release of the software coinciding with the  
6   experiment. However, the degree to which we will be able to approach a complete  
7   merger of all letter size mailpieces and all flat size mailpieces is as yet unknown. The  
8   batching capability is limited by system, print production, and classification constraints.  
9   Notwithstanding, the system batching capability designed into the next major release of  
10   the software promises to increase batching of letter size mailpieces substantially, thus  
11   improving Mailing Online volume's levels of batching, presortation, and automation  
12   compatibility, and thereby reducing the cost of processing Mailing Online pieces.

13           **Witness Callow's Proposal and the Y2k Moratorium**

14          Witness Callow's proposal, while intriguing in certain respects, has some  
15   important shortcomings that argue against its implementation for the experiment. In  
16   effect, witness Callow proposes a concrete means by which rates unique to Mailing  
17   Online could be defined. On the one hand, witness Callow's proposal has the positive  
18   attributes of improving flexibility and responsiveness to demand. One the other hand,  
19   two significant flaws militate against adoption of his proposal at this time. Witness  
20   Callow's proposal rests on the assumption that the rate structure appropriate for  
21   traditional hard-copy mail is also appropriate for hybrid products. I disagree with this  
22   assumption. Indeed, if traffic at the Mailing Online site reaches expected levels,  
23   individual transaction costs will be so low that volume minimums of any kind will prove

1 anachronistic. It bears repeating that the Postal Service proposed Automation Basic  
2 rates as a proxy that simplifies a filing that already breaks new ground. While rates  
3 have nonetheless received considerable attention in this case, the goals of the  
4 experiment would not be advanced by adoption of witness Callow's proposed rate  
5 setting mechanism. The Postal Service does expect to consider the unique merits of his  
6 approach during the experiment if plans for filing a request for permanent Mailing  
7 Online service mature.

8       There is an additional, more pragmatic, reason for rejecting witness Callow's  
9 proposal. The Postal Service recently announced a moratorium on information system  
10 development activity in order to insure readiness for Y2k. The Moratorium is currently  
11 in effect and is proposed to remain in effect through March of 2000 (see exhibit USPS-  
12 RT-1A). As it stands now, implementation of system expansion for experimental  
13 Mailing Online, dubbed version 3.0, is scheduled for a slightly delayed installation in  
14 September. Accordingly, Postal management is exploring means of reconciling the Y2k  
15 moratorium with the need to implement experimental Mailing Online service. While I  
16 have not studied how long it would take to implement changes of the kind that witness  
17 Callow proposes, his assertion that they require a mere few minutes of coding time  
18 (based on an interpretation of my response to OCA/USPS-T1-72) is mistaken. Making  
19 even modest changes to a production system requires a non-trivial effort. Incorporation  
20 of a system using thousands of lookup tables into the Mailing Online system is simply  
21 not feasible given our current timetable, and would likely result in a delay of the service  
22 until some time later than March, 2000.

1     **III.     MARKET TEST VOLUME**

2             The expanded test began October 30, 1998 in three new metropolitan areas:  
3     New York, Boston and Philadelphia, together with the operations test cities of Hartford  
4     and Tampa.

5             Our experience thus far bears out the expectation that witness Rothschild's  
6     volume projections provide the most accurate projections of volume for the experiment.  
7     While actual market test volume has fallen short of my hopes, a more significant goal  
8     for the market test is to gain experience in a live, production environment. In so doing  
9     we have experienced a number of development problems that could not have been  
10    foreseen. As we have worked to resolve these issues, we have deliberately slowed the  
11    pace of our marketing efforts to avoid drawing additional traffic to a site that is still  
12    functioning at a suboptimal level. Our focus remains upon the long term interest of our  
13    customers whom we hope to serve continuously through implementation of a  
14    permanent service. The volume level thus far has nonetheless been sufficient to gain  
15    experience with merger of customer jobs, a printing contractor, and mail entry. The  
16    relatively low volumes have also led us to postpone the schedule for adding print sites  
17    in New York, Los Angeles, and Chicago until volume has reached levels sufficient to  
18    warrant additional sites. Identification of qualified contractors has, however, continued  
19    and we will be ready to bring additional sites on-line as soon as Mailing Online is ready  
20    for national availability.

21            During the remainder of the market test we plan to increase the number of  
22    Mailing Online customers from the current two hundred to several thousand. We will  
23    thereby conduct further tests of the technology and refine our understanding of the

1 relationships necessary with contract printers for the nationwide experimental service.  
2 This process should continue until implementation of the experimental Mailing Online  
3 service.

#### 4 IV. EFFECT ON COMPETITION

5 MASA and Pitney Bowes witnesses improperly generalize upon the target  
6 market for Mailing Online so as to justify their claims of entitlement to any and all mail  
7 that is, or could be, prepared by existing providers of mail preparation services. Taken  
8 to its logical extreme, their collective position would appear to justify claims that any  
9 action taken by the Postal Service which has the effect of making direct entry by  
10 customers (as opposed to using preparation services) more appealing constitutes anti-  
11 competitive behavior entitling them to relief from this Commission. This extreme view  
12 also could justify opposition to service improvements, changes in acceptance  
13 procedures, or a reduction in single-piece rates. Even using this excessively broad  
14 definition of market, the impact of Mailing Online during the experiment is a maximum of  
15 812 million out of 400 billion First-Class Mail and Standard (A) pieces—less than two-  
16 tenths of one percent.

17 The target market for Mailing Online however, is considerably more narrow than  
18 witness Prescott asserts. He claims that the Mailing Online market consists of all  
19 customers who do – *or could* – take advantage of mail preparation services. Tr. 9/215.  
20 While this universe of customers may constitute a theoretical basis for laying claim to a  
21 portion of a market, it ignores the fact that Mailing Online targets a more narrow – and  
22 currently ill-served – group of customers. It is impossible to reconcile witness Prescott's

1 all encompassing view of the Mailing Online target market with the service's expected  
2 features or its maximum projected impact.

3 As reflected in the market research and my direct testimony, Mailing Online  
4 targets specific customers because of features it does – and does not – include, and  
5 the economies that underlie such features. In this respect, the testimonies of witnesses  
6 Wilcox and Campanelli, USPS-T-7 and USPS-T-8, are quite informative. Many such  
7 small business owners either no longer use or never have used traditional mail  
8 preparation services for lack of a suitable match with their business requirements.  
9 Their volumes are quite low, and Mailing Online permits them to mail simple invoices,  
10 statements and solicitations readily, thus accelerating cash flow and targeting  
11 customers specifically. Moreover, mailpieces can be designed quickly and conveniently  
12 on a standard desktop computer for time-specific entry in quite small volumes, when  
13 traditional mail preparation firms typically require more lead time and personal  
14 interaction between customers and preparers. Even at lower volumes, traditional mail  
15 preparation activities often require multiple printing and production technologies, and  
16 complex design and assembly requirements unavailable through an automated on-line  
17 system such as Mailing Online.

18 Furthermore, as stated in my direct testimony, Mailing Online is not well suited  
19 for large volume direct mail or catalogs, because the economics of on-demand digital  
20 printing are currently unacceptable for long runs. However, it does make localized,  
21 short-run direct marketing feasible for smaller businesses that may never have used  
22 direct mail before and is likely to result in a long term increase in demand for the  
23 generally more personalized and volume-oriented services of MASA members.

1 My understanding of mail preparation services is that they typically provide a  
2 very broad range of services, many involving a high level of customization, and usually  
3 with a substantial amount of customer interaction. This differs substantially from the  
4 limited capabilities and automated functionality inherent in the design of Mailing Online.  
5 However, I can see no substantial barrier to any mail preparation services provider  
6 implementing an on-line job submission solution for their customers and offering the  
7 same, albeit limited, design functionality as Mailing Online, but with the benefit of  
8 personalized service and potentially greater postage discounts due to finer sort and  
9 deeper entry. Awareness of, and publicity for, Mailing Online could have the effect of  
10 facilitating the success of such an endeavor by helping to convey an understanding of  
11 the technical concept and thereby generating a demand for the provision of localized  
12 and/or more customized on-line offerings.

13 **V. BENEFITS TO FIRST-CLASS MAIL AND STANDARD (A) MAIL**

14 In arguing that a greater portion of total POL costs should be attributed to Mailing  
15 Online, the OCA argues that the products which "benefit" from the availability of  
16 PostOffice Online should bear the costs of developing and advertising the PostOffice  
17 Online. While I am not an expert in Postal Service costs,<sup>1</sup> and would therefore not  
18 presume to debate the appropriate means of cost attribution, I take issue with OCA's  
19 assertion in response to interrogatory USPS/OCA-1 that First-Class Mail and Standard  
20 (A) Mail are not beneficiaries of the Post Office Online. The purpose of Mailing Online is

1 to facilitate small mailers' access to these classes of mail, thereby fostering increased  
2 use. Mailing Online does not allow the user to purchase printing services except as a  
3 means of sending either First-Class Mail or Standard (A) Mail. There appears to be no  
4 dispute that Mailing Online will lead to additional mail volume, so Standard (A) and  
5 First-Class Mail will clearly "benefit from" Mailing Online.

## 6 VI. GOALS OF MAILING ONLINE

7 The primary goal of Mailing Online is to improve customer service by providing a  
8 convenient electronic means for entry of single piece and short run mailings that affords  
9 new groups of customers access to the benefits of automation, while driving costs from  
10 the mail processing system by capitalizing upon automation compatibility.

11 For the desktop computer-based mailer, Mailing Online reduces the aggregate  
12 cost of producing and entering a small mailing and provides a lower cost and more  
13 efficient way to use the mail. The testimonies of witnesses Wilcox (USPS-T-7) and  
14 Campanelli (USPS-T-8) confirm that Mailing Online produces those results for them.

15 The Postal Service chose a design for Mailing Online that harmonizes its own  
16 expertise in hard copy delivery with commercial firms' expertise in printing and Web  
17 development. While both MASA and Pitney Bowes oppose Mailing Online services,  
18 both MASA members and Pitney Bowes have already taken advantage, in their  
19 commercial capacities, of this harmonized approach. Pitney Bowes, for example, sells  
20 the finishing equipment used by the current printer. MASA members, some of whom

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(footnote continued...)

<sup>1</sup> Witness Takis, USPS-RT-2, who is such an expert, addresses attribution of

(footnote continued...)

1 indicate to me that they share the Postal Service's expectation that Mailing Online may  
2 stimulate the market for on-demand print services, also hope to participate as printers.

3 **VII. EFFECT ON THE ESTABLISHED MAIL MARKETS**

4 Mailing Online promotes the growth of direct mail and newsletter publishing  
5 among small businesses because of Mailing Online's convenience and ease of use.  
6 Consequently, it will increase the satisfaction of postal customers while providing new  
7 business opportunities to printers, list brokers, and content providers.

8 Again, the target customer for Mailing Online is the relatively small mailer and  
9 the current non-mailer, much of whose current volume is produced on desktop printers  
10 and entered at single-piece rates. These very small volume mailers will learn about the  
11 benefits of automation compatible mail, and may be inclined to seek greater discounts  
12 through the use of existing presort services when their volumes increase. Nothing has  
13 prevented existing providers from developing their own internet based services, as  
14 Pitney Bowes claims it has. See *also*, <http://www.ELetter.com>, which currently offers  
15 basic automation rates with no minimum volume requirement. Moreover, such internet  
16 acceptance systems could extract a competitive advantage by offering even deeper  
17 discounts.

18 Today's small volume communication market is already shifting into electronic  
19 methods due to the greater convenience these methods provide users. Some of this  
20 shift may go to hybrid methods such as Mailing Online, but the shift will take place with

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(footnote continued...)  
advertising costs in much greater detail.



1 or without Mailing Online. If successful, Mailing Online could enhance the image of  
2 postal services among technology adopters, stem their migration to purely electronic  
3 methods, and enable creative lettershops to build more personalized and individually-  
4 responsive systems capitalizing on the on-line approach. In addition, lettershops can  
5 themselves enter their customers' mail via Mailing Online if they find its attributes  
6 preferable to building their own systems.

7 Accordingly, Mailing Online does not compete directly against existing mail  
8 preparation services; it targets mailers whose needs currently go unmet. Although  
9 simply part of a societal trend toward more electronic means of communication, Mailing  
10 Online, at the same time, is intended to enhance the image and use of traditional hard  
11 copy delivery. Existing providers of mail preparation services will have to adapt to this  
12 societal change in the marketplace, and they are free to do so on their own terms or by  
13 making use of Mailing Online.

#### 14 **VIII. EFFECT ON FIELD MARKETING SUPPORT INFRASTRUCTURE**

15 Mailing Online is not causing a Postal Service withdrawal of infrastructure on  
16 which MASA members have traditionally relied for support and referrals. Two MASA  
17 witnesses speculate that the advent of Mailing Online will cause the Postal Service to  
18 abandon a range of existing efforts that benefit lettershops.


19 To believe this speculation, one would have to conclude that the Postal Service  
20 is prepared to abandon its traditional and proven system for accepting hard copy mail in  
21 favor of electronic entry such as that afforded by Mailing Online. The Postal Service  
22 seeks to respond to a change in methods of business process and communication, not

1 to force a change in the needs of postal customers, especially individual customers,  
2 who can be expected to continue to require the Postal Service to provide means for  
3 handling hard copy mail for a long time to come.

4 Through presort, automation, and destination entry discounts, the Postal Service  
5 in large measure created the now huge lettershop industry. The Postal Service has an  
6 overwhelmingly obvious reason for continuing to assist lettershops. In FY 1998, the  
7 Postal Service handled 73.8 billion pieces of automation presort mail. Comparing this  
8 number with projected Mailing Online volumes of 1.6 billion pieces from 1999-2001,  
9 Mailing Online clearly has no realistic expectation of compelling a paradigm shift by all  
10 such mailers. Indeed, automation presort volume grew by 7.8 billion pieces in FY 1998  
11 – nearly 5 times the projected total Mailing Online volume for a three year period. The  
12 suggestion that the Postal Service would risk alienating suppliers of such an important  
13 source of volume for the sake of a service that will account for a comparatively meager  
14 volume is absurd. While field marketing programs are subject to a number of influences  
15 and are in fact often crafted to benefit mail preparation services, as the manager  
16 responsible for Mailing Online, I can give my personal assurance that the Mailing Online  
17 program will in no way direct or encourage withholding of support from existing  
18 suppliers.

## 19 IX. CONCLUSION

20 The proposals for Mailing Online service constitute the Postal Service effort to provide  
21 individual and small mailers convenient and cost effective access to letter mail services  
22 and discounted postage rates. The Postal Service anticipates that the

- 
- 1 recommendations requested of the Postal Rate Commission herein will permit the
  - 2 Postal Service to gauge customer demand and refine features of the service while
  - 3 collecting data necessary to support a request for permanent Mailing Online service

March 9, 1999

MANAGEMENT COMMITTEE

SUBJECT: Year 2000 Freeze Policy and Approach

Effective immediately, there will be a "freeze" of all planned changes to any existing Postal component (application, infrastructure, or mail processing equipment), nor will any new components be deployed into production without the explicit approval of the Year 2000 Change Control Board. The Change Control Board is a group of key executives assigned the responsibility for reviewing all proposed changes and/or new deployments. This freeze policy excludes those changes which are mandatory for Year 2000 remediation

This memo serves as the policy for limiting and controlling potential risks associated with changes and enhancements to our applications and infrastructure leading up to the Year 2000. This policy outlines the process for identifying and approving exceptions to this policy. As Postal executives, I know you share my interest, concern, and commitment in this area. A critical success factor in our efforts to be ready for the Year 2000 is our ability to control the changes in our applications and infrastructure. Our efforts in this area will minimize our risk and ensure the proper focus for our limited resources.

The March 5, 1999, Year 2000 Executive Council made three key decisions regarding the freeze policy:

1. The freeze policy and process are effective immediately.
2. The scope of the freeze policy encompasses all impacted component types including both Information Systems (IS) and non-IS supported applications, IS and non-IS supported hardware and software infrastructure, mail processing equipment and facility systems. The scope includes nationally supported and area supported components.
3. The freeze policy includes all projects not yet started and those currently underway, regardless of implementation date.

Further details outlining the freeze policy, the Change Control Board makeup and functioning, and the Freeze Exception Process are attached for your information and review. To move forward with the freeze policy, we need to immediately begin to review all of our projects and activities using the freeze criteria. Please contact your IS Portfolio Manager if you have any questions.

The successful conclusion to this critical initiative requires our combined commitment.

Michael S. Coughlin

Attachments

1 COMMISSIONER LeBLANC: Your witness is now  
2 available for cross-examination, Mr. Hollies?

3 MR. HOLLIES: I believe he is very much ready.

4 COMMISSIONER LeBLANC: All right, sir. We have  
5 three participants this morning who have asked to  
6 cross-examine the witness, Mail Advertising Service  
7 Association, Mr. Bush; Office of the Consumer Advocate, Ms.  
8 Dreifuss; and Pitney Bowes by Mr. Wiggins, and I believe by  
9 mutual consent, Mr. Bush will go first, to be followed by  
10 Ms. Dreifuss and then Mr. Wiggins, if that is okay.

11 MR. WIGGINS: That's fine with me.

12 COMMISSIONER LeBLANC: Mr. Bush.

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

14 CROSS-EXAMINATION

15 BY MR. BUSH:

16 Q Good morning, Mr. Garvey. I am Graham Bush  
17 representing MASA, as I believe you know.

18 A Good morning.

19 Q Good morning. Can I ask you to turn to page 5 of  
20 your testimony, your rebuttal testimony, that is?

21 A I have it.

22 Q I would like to direct your attention to lines 5  
23 and 6 where you say that our experience thus far bears out  
24 the expectation that Witness Rothschild's volume projections  
25 provide the most accurate projections of volume for the

1 experiment. Do you see that language?

2 A Yes, I do.

3 Q Are there any other volume projections?

4 A Certainly there are other volume projections that  
5 people may have made on their own. They are ones that you  
6 could extrapolate from current market test volumes. There  
7 are lots of volume projections depending upon who you ask.

8 Q Well, when you say it is the most accurate -- or  
9 they are the most accurate projections, that, in the way I  
10 understand English, means you are comparing them to some  
11 other projections. What other projections were you  
12 comparing them to?

13 A I think in this instance, since the title of this  
14 section is Market Test Volume, that the implication here is  
15 that were you to take market test volumes and try and draw  
16 conclusions about volumes for the experiment, you would be  
17 more accurate to use the projections of Witness Rothschild.

18 Q But if I understand the sentence, you are saying  
19 that your experience bears out Rothschild's projections as  
20 the most accurate projections, and the experience, the only  
21 experience you have so far is the market test volume, isn't  
22 it?

23 A That is correct.

24 Q And the market test volume, if I am reading the  
25 biweekly reports correctly, is about 40,000 pieces so far,

1 roughly?

2 A Roughly, yes.

3 Q And the projections that Rothschild made, and  
4 which were adopted by Witness Plunkett, are on the order of  
5 295 million for the first year, isn't that right?

6 A Subject to check, yes.

7 Q So can you explain to me why that experience, the  
8 experience of 40,000 dollars -- excuse me, 40,000 in volume  
9 so far during the market test bears out a projection of 295  
10 million?

11 A Well, our experience thus far with the market test  
12 has shown that, because of problems with the system and  
13 because people are unfamiliar with the service, and a lot of  
14 the volume that we are getting is no more than test volume,  
15 that -- well, simply put, our experience shows that what we  
16 are seeing so far is not representative of what we believe  
17 the real service will reflect.

18 Q Okay. But the experience doesn't tell you  
19 anything one way or another about whether the projections  
20 are accurate then, does it?

21 A Our experience is a combination of both what we  
22 see in the statistics, in addition to our conversations with  
23 users, our learnings from the Help Desk, what people are  
24 telling us about what they are doing and what they are  
25 experiencing with the service, so it is more than just a

1 statistical analysis.

2 Q Okay. What about what people are telling you  
3 bears out Rothschild's projections?

4 A What people told us in Witness Rothschild's  
5 projections in the market studies that we did there was that  
6 they would have a certain utility for the service at a  
7 certain volume. What they are telling us in the market  
8 test, our experience there, is that they are telling us the  
9 same things, that they would like to use the service, that  
10 they think it is a novel and compelling idea, but that, due  
11 to system problems, they are unable to use it either  
12 satisfactorily or they just haven't figured out how they are  
13 going to integrate it into their business flow yet.

14 Q Have you done anything to evaluate the comments  
15 that you have been getting during the market test in a  
16 systematic way?

17 A We are currently involved in doing that, yes.

18 Q But you haven't done it yet?

19 A Not in a -- you used the word "systematic."

20 Q Well, let me you what I mean by that. You would  
21 agree with me that Witness Rothschild at least attempted to  
22 collect information along -- of the same nature, that is,  
23 comments from potential users in a manner that she felt were  
24 reliable for purposes of factoring it into her projections?  
25 If you don't agree with it, tell me.



1           A     No, it is not that I don't agree. It is -- there  
2     are two phases to Witness Rothschild's research. The first  
3     one was a qualitative phase in which we listened extensively  
4     to what the prospective customers were saying, and the  
5     second one was, of course, the quantitative. And, yes, I  
6     would certainly say that the latter part of that had the  
7     characteristics of which you speak.

8                     In analyzing what we are seeing today, what I have  
9     asked be done is that a categorization be made of customer  
10    comments so that we can more quantitatively, rather than  
11    qualitatively, evaluate the comments that we are currently  
12    getting both at the Help Desk and by e-mail messages, that  
13    sort of thing.

14           Q     So would it be fair to characterize what you have  
15    been testifying here that the comments that you have been  
16    getting through the Help Desk and otherwise bear out the  
17    proposition that Mailing Online, at least as it is supposed  
18    to be, would be an attractive product, or an attractive  
19    service?

20           A     That is correct.

21           Q     Okay. But you haven't done anything in collecting  
22    those comments to determine whether they support any  
23    particular volume level or projection, have you?

24           A     That is correct.

25           Q     So other than this qualitative experience that you

1 have and the actual volumes that you have gotten in the  
2 market test to date, what other experience do you have that  
3 bears on the reliability of Rothschild's volume projections?

4 A The knowledge that what Witness Rothschild asked  
5 in here quantitative research reflected the true  
6 capabilities that we believe the system will achieve and  
7 reflected thusly in the answers that were given by people  
8 that were asked those questions, their belief of what the  
9 true usage of the system with those capabilities would be.

10 Q Now you say that the capabilities that the system  
11 will achieve. You are -- I take it from that you mean what  
12 you hope it will achieve once the new version of the  
13 software is put in place in September or whenever it is put  
14 in place?

15 A That would be a fair assumption, yes.

16 Q So the system right now isn't operating  
17 consistently with what Witness Rothschild told people when  
18 she was soliciting comments during her market research  
19 study?

20 A That is true.

21 Q Now you also say on the same page, this is page 5  
22 of your rebuttal testimony, that as you have worked to  
23 resolve the technical issues that you have deliberately  
24 slowed the pace of the marketing efforts to avoid drawing  
25 additional traffic. Do you see that?

1 A Yes.

2 Q Now what marketing efforts did you deliberately  
3 slow, and what I am looking for here is are you talking when  
4 you say marketing efforts about the advertising that we have  
5 spent a lot of time talking about with you and with other  
6 witnesses?

7 A Actually, I am glad you have given me an  
8 opportunity to clear this up after yesterday's discussion,  
9 because the reason I used the word "marketing" in the sense  
10 that it used here is not in the sense of advertising. It is  
11 in the sense of usage stimulation and other kinds of  
12 marketing efforts to encourage people to visit the site and  
13 to use the service.

14 Q And what is encompassed in the term "usage  
15 stimulation"?

16 A We have on two occasions now I think done --  
17 broadcast e-mail messages to the users suggesting ways in  
18 which they could use it and encouraging them to come and  
19 look at it more often.

20 We have done a newsletter I guess you would call  
21 it that went out to the customers using Mailing Online,  
22 telling them about our plans in the future and that sort of  
23 thing and we deliberately slowed those efforts, those  
24 marketing efforts.

25 Q Okay, and the broadcast e-mail, is that to all

1 5,000 or whatever number it was at the time you broadcast  
2 the e-mail of registered POL users?

3 A Yes, all registered PostOffice Online users.

4 Q And the e-mail -- or I'm sorry, I forget what you  
5 said -- you said you had a mailing to MOL users?

6 A No, just to PostOffice Online users, all of them.

7 Q So there was a broadcast e-mail and there was --  
8 I'm sorry, a mailing or something else? I thought there was  
9 a second thing that you --

10 A I believe I said two e-mail messages and a  
11 newsletter.

12 Q A newsletter --

13 A Yes.

14 Q -- that's what it was. The newsletter went just  
15 to the MOL --

16 A No, it went to all PostOffice Online users.

17 Q And did it cover only MOL or did it cover other  
18 POL issues as well?

19 A It covered a variety of POL issues.

20 Q Now is the expense of those two types of  
21 activities, the e-mail and the newsletter, encompassed  
22 within the advertising and marketing cost numbers that show  
23 up on the AP reports?

24 A The cost of the e-mail certainly is. I am not  
25 certain that the cost of the newsletter is, because the --

1 well, as a matter of fact, I have just -- it has come to me,  
2 yes, they are both covered because they both have been  
3 conducted by the support center personnel in their spare  
4 time, time that they weren't talking with customers, so,  
5 yes, it is covered.

6 Q Okay, but I mean as opposed to being reflected at  
7 some other category of costs that is reflected in the  
8 advertising and marketing costs?

9 A No. It's in the support center costs because we  
10 don't consider it advertising.

11 Q Okay. Now you say that you deliberately slowed  
12 the pace of the marketing efforts. In light of the answers  
13 you have just given I take it that you did not alter your  
14 advertising campaign in any way as a result of these  
15 technical difficulties, is that correct or is it not  
16 correct?

17 A That is not correct, no.

18 Q Okay. How did you alter your advertising  
19 campaign? Did you deliberately slow your advertising  
20 campaign in some manner?

21 A Well, in fact we did, and I believe that either my  
22 previous interrogatory responses or testimony speak to the  
23 fact that because of early system difficulties we delayed  
24 our direct mail drop into the early part of 1999, but it was  
25 not specifically related to MOL system difficulties. It was

1 the PostOffice Online system fixes.

2 Q If you take a snapshot of where you are right now  
3 in your advertising plan, are you on schedule or are there  
4 things that have been moved out further into the future than  
5 you originally anticipated?

6 A Well, I think it is fair to say that since our  
7 original schedule didn't reach into the time period that we  
8 are in now that things have been extended.

9 I can say that our direct mail efforts have been  
10 curtailed because when we reached more or less in the period  
11 of 30 days 5,000 registered users we felt that it was  
12 somewhat fruitless and perhaps even counter-productive to  
13 continue dropping direct mail pieces asking them to come and  
14 register for the site when they couldn't register in fact  
15 because we had cut the registration off.

16 We are in fact continuing to run Internet banner  
17 ads because they are already paid for and it doesn't seem to  
18 hurt -- they're there anyway -- but yes, it's been altered  
19 and we have direct mail pieces that are sitting waiting to  
20 be dropped should we experience a reduction in registered  
21 users.

22 Q And you say you reached 5,000 registered users in  
23 30 days?

24 A Well, after the initial adoption rate was rather  
25 slow, when the direct mail pieces which had been delayed

1 from the fall were dropped in the early part of this year,  
2 we experienced a sudden rise in registration which I am sure  
3 you have noted in the reports that we have filed and during  
4 the month of February we registered some 3,000 users in a  
5 single month.

6 Q Now I believe, and I forget exactly where I  
7 learned this, that there is an effort being made on some  
8 perhaps relatively low-key level to either get people to use  
9 registered POL users to use some of the services on POL or  
10 else to deregister, if you will allow me to use that term.

11 If that proceeds, then there would be new slots  
12 available and first of all, am I correct in my  
13 understanding?

14 A Yes, you are correct.

15 Q All right --

16 A I would correct the word "deregister" -- we have  
17 informed them that we are looking for users who will use the  
18 system and give us feedback and if they have no intent of  
19 using the service we will -- we will deregister them unless  
20 they notify us that they have intent to use the service or  
21 some other reason that they would like to continue to be  
22 registered.

23 Q So are you engaged in advertising or marketing  
24 efforts to make sure that you have some replacements for  
25 anybody you deregister?

1           A     No, we aren't. We feel that word of mouth and  
2     other methods seem to be filling those few slots that come  
3     available. I would say that our contingency plan is that  
4     the direct mail pieces that we have set back are in fact  
5     available to be dropped and we could do that if need be.

6           Q     Now if I correctly understood a message I received  
7     yesterday I believe from Mr. Rubin, although it may have  
8     been from Mr. Reiter -- I have actually forgotten at this  
9     point -- the additional -- there have been additional  
10    advertising expenses over and above those reflected on the  
11    AP 6 report, at least the last AP 6 report we got, to the  
12    tune of approximately 2.3 million additional advertising  
13    dollars.

14                   Is that -- is my understanding correct?

15           A     That there is an unreported \$2.3 million? Yes.

16           Q     Okay, and that is in addition to the two, roughly  
17    2.1 million, a little less than 2.1 million that was  
18    reflected in the AP 6 report?

19           A     That is correct.

20           Q     So we are up to about \$4.4 million in total  
21    advertising and marketing expenditures to date?

22           A     Yes.

23                   MR. BUSH: Mr. Presiding Officer, I would like to  
24    ask one or two questions about the current level of  
25    advertising expense versus the I guess projected amount or



1 planned amount or budgeted amount reflected in Library  
2 Reference 16, which, as you know, is a confidential exhibit.

3 I am not quite sure where the sensitivity point on  
4 confidentiality is for the Postal Service on some of the  
5 information in there, so before I ask the question I wanted  
6 to alert the Postal Service and the Commission to make sure  
7 that I don't inadvertently disclose something that they  
8 don't want disclosed.

9 COMMISSIONER LeBLANC: I think Mr. Hollies can go  
10 ahead and speak for himself. If it gets too far into it, I  
11 imagine he will let you know.

12 MR. HOLLIES: Before we let the cat out of the bag  
13 by having a question that gets into a potentially sensitive  
14 area be asked and therefore reflected in the transcript, I  
15 wonder if I could huddle with counsel for a moment to see  
16 what he is up to here.

17 COMMISSIONER LeBLANC: I think that's fair. We  
18 will go off the record, Mr. Reporter, for a couple minutes  
19 here.

20 [Recess.]

21 COMMISSIONER LeBLANC: We'll go back on the  
22 record.

23 Mr. Bush.

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

25 BY MR. BUSH:

1 Q Mr. Garvey, can you confirm for me that the amount  
2 spent on advertising and marketing to date, which we just  
3 went over, is in excess of the amount set forth as the  
4 budget for Post Office Online marketing in Library Reference  
5 16?

6 A I'm sorry, could you repeat the question, the  
7 first part of the question?

8 Q Yes. Are the advertising and marketing expenses  
9 to date, expended to date that we went over in your prior  
10 testimony in excess of the amount budgeted for advertising  
11 and marketing expenses as reflected in Library Reference 16?

12 A I'll give a qualified yes to that, and the  
13 qualification is that we have reported expenses or costs  
14 that are perhaps not incurred. For instance, the postage of  
15 the mail pieces which have not been dropped. We've included  
16 those in our reporting, and that amount, yes, is in excess  
17 of what was in Library Reference 16.

18 Q Do you have any idea of what amount is  
19 attributable to the postage on the pieces that haven't been  
20 dropped?

21 A I'm sorry, I do not.

22 MR. BUSH: Mr. Presiding Officer, this is, as I  
23 understand it, an area which -- let me withdraw that.

24 As I understand it, Library Reference 16 and the  
25 budgeted numbers are not at the moment in the record, and I

1 have agreed with Mr. Hollies not to ask the specific  
2 question of what that number is. That is a number that the  
3 Postal Service wishes to maintain in confidence.

4 I would like to reserve the question of whether or  
5 not we need to find some way to get that number in the  
6 record. It would be pretty easy to get into the record  
7 without having to belabor these oral proceedings here, but I  
8 want to think about whether I really need to have it in, in  
9 which case I would like to be able to come back to you, and  
10 perhaps with an agreement from Mr. Hollies, but if not, on a  
11 motion to get that number in.

12 COMMISSIONER LeBLANC: Just to make sure the  
13 record is clear, then, you will reserve your own right,  
14 then, in this particular case. That'll be fine.

15 Mr. Hollies, you are understanding the situation,  
16 then?

17 MR HOLLIES: Yes. I think we're in agreement  
18 here. There's some things that I've indicated I'd prefer he  
19 not ask about and he has indicated there's some chance he  
20 doesn't really need them, and if it turns out that opinion  
21 changes later, we will find a way to work with him to get  
22 through this. I really think we can ~~void~~<sup>avoid</sup> a motion --

23 COMMISSIONER LeBLANC: I would hope so, but we'll  
24 see what happens. If we have to, we'll go the motion route  
25 and we'll take it under advisement at that time.

1 Go ahead, Mr. Bush.

2 MR. BUSH: Okay.

3 BY MR. BUSH:

4 Q Now, one of the things I think you've testified  
5 previously you were planning to do during the market test  
6 was evaluate the effectiveness of the advertising and  
7 marketing campaign. Have you -- let me go further. I  
8 believe that the advertising and marketing plan provided for  
9 certain collection of data and tracking of data in order to  
10 evaluate the effectiveness of the ad campaign. Has that  
11 been done? Has anything been done along those lines?

12 A Yes, it has.

13 Q Okay. And in order to evaluate the effectiveness  
14 of the ad campaign, what you're attempting to do, at least  
15 in part, is to determine what ads were effective in  
16 promoting usage of either Post Office Online or Mailing  
17 Online or Shipping Online; is that right?

18 A Well, I think that our purpose was twofold, and to  
19 go back to the last part of your question, our intent was to  
20 advertise the Post Office Online, but the measures that we  
21 were taking were both effectiveness of the individual  
22 advertisements themselves as well as the method, the channel  
23 of advertising, and yes, that evaluation has been done.

24 Q All right. So you have data now that would allow  
25 you to make an evaluation of whether a particular ad

1 campaign was effective or not in producing, among other  
2 things, users of the services that are offered through Post  
3 Office Online?

4 A Well, I don't believe we've actually gone back and  
5 done the measure of users versus the method that drew them  
6 to the site. What we've done is to measure the registrants  
7 and what drew them to the site. So yes, we would be able to  
8 do an evaluation of what drew people to come and register.

9 Q And would you also be able to do an evaluation of  
10 among those users who were drawn to the site, which ones of  
11 those users used Mailing Online and which ones of those  
12 users used Shipping Online and which ones of those users  
13 simply registered and sat around on their thumbs?

14 A I'm sorry, I don't know the answer to that  
15 question. As far as I know, what's done is a special URL or  
16 a special extension onto the universal resource locator  
17 address that people are given to come to the Web site  
18 reflects where they obtained that URL. So if they get it  
19 off of a direct mail piece, for instance, it's one, if they  
20 get it off of a TV ad, it's another.

21 So what we know is what's drawing people to the  
22 site. I don't know that there's a way to connect individual  
23 usage with what drew people to the site to register. I kind  
24 of doubt it, <sup>although</sup> ~~alt~~ I would say that as part of the marketing  
25 research that we're doing, we're perhaps -- and I don't know

1 the answer to this -- perhaps asking how they found out.

2 Q I take it from your answer that whatever is being  
3 done to collect and analyze this information, you haven't  
4 received any kind of a definite report on what it shows at  
5 this point?

6 A Well, I've received sort of a top-level report  
7 just to inform me, but the decisions that are made on the  
8 basis of this information are not mine to make. So the  
9 information is of interest to me, but it is not a  
10 decision-making mechanism for me.

11 COMMISSIONER LeBLANC: Mr. Bush, can I interrupt  
12 you one second, please?

13 MR. BUSH: Certainly.

14 COMMISSIONER LeBLANC: Whose decision is it?

15 THE WITNESS: The advertising manager.

16 COMMISSIONER LeBLANC: So that is the final  
17 decision-making individual?

18 THE WITNESS: Well, I believe that it's a process.  
19 Obviously there are budget decisions that are made about how  
20 much budget is going to be used for advertising, then there  
21 is an analysis done, I guess, of what kind of advertising is  
22 possible to do, what's going to fit in with the corporate  
23 campaign for advertising, and then that's fed into the  
24 entire advertising campaign for the Postal Service, and  
25 there would be some input from myself and other Post Office

1 Online managers, but the ultimate decision, as far as I  
2 know, is the advertising manager.

3 COMMISSIONER LeBLANC: For MOL or POL or --

4 THE WITNESS: No, this is for the -- in our  
5 marketing group, we have an advertising manager that --

6 COMMISSIONER LeBLANC: But what I'm trying to do  
7 is narrow it down to MOL, POL, SOL. Who makes that -- you  
8 said your individual -- somebody above you. Who makes that  
9 decision?

10 THE WITNESS: There is a manger of the Post Office  
11 Online who works with myself and the advertising manager,  
12 and we --

13 COMMISSIONER LeBLANC: That's the final source,  
14 then?

15 THE WITNESS: Of decisions about what kind of  
16 advertising will be done?

17 COMMISSIONER LeBLANC: Right. As far as MOL, POL  
18 and SOL is concerned?

19 THE WITNESS: I believe that the final decision,  
20 the ultimate decision of how to spend the advertising budget  
21 lies in the hands of the advertising manager.

22 COMMISSIONER LeBLANC: I'm not talking about the  
23 overall advertising budget; I'm talking about the overall  
24 advertising budget for POL, MOL and SOL.

25 THE WITNESS: The answer to your question for the

1 market test, for what's been done so far, was that we made a  
2 joint decision based upon our joint knowledge of what we  
3 wanted to try.

4 COMMISSIONER LeBLANC: Who is we?

5 THE WITNESS: The managers of Shipping Online,  
6 Post Office Online, and Mailing Online.

7 COMMISSIONER LeBLANC: Okay.

8 THE WITNESS: After evaluating what customers we  
9 believe would be using the service and what methods were  
10 advised to us to reach those customers, and we have done  
11 --as a result of that uncertainty of what kind of  
12 advertising would reach this particular market and what  
13 would be most effective, we've done more advertising than  
14 would ordinarily be necessary to test the different methods  
15 so that we could find the most effective ones.

16 COMMISSIONER LeBLANC: With all due respect, Mr.  
17 Garvey, I don't think you understand -- I'm not making  
18 myself clear.

19 You keep saying we and we, and I'm just trying to  
20 get a name of a person or a title of a position or whomever  
21 it is that will make the final decision on advertising for  
22 POL, MOL, SOL, as far as you know at this point. I mean, if  
23 you don't know, say -- I mean, that's all right too, but I'm  
24 just trying to get a name, position, something.

25 THE WITNESS: Is your question related to past



1 decisions or future decisions?

2 COMMISSIONER LeBLANC: Well, let's start with  
3 both, or let's just say both of them.

4 THE WITNESS: Okay. In the past, there was a  
5 director of the Post Office Online program. All of the  
6 decisions made about advertising that has been done during  
7 the marketing test were made by him, I assume in conjunction  
8 with the advertising manager in marketing.

9 COMMISSIONER LeBLANC: How about the future?

10 THE WITNESS: The future is unclear. I'm sorry, I  
11 don't know the answer to the question. It's my  
12 understanding, as I've said, that the final decision rests  
13 in the hands of the advertising manager because he is the  
14 one that -- the marketing, advertising manager because he is  
15 the one that's responsible for the budget.

16 COMMISSIONER LeBLANC: Do you know if this will  
17 change for the experimental phase?

18 THE WITNESS: I'm sorry, do I know if he is what?

19 COMMISSIONER LeBLANC: Do you know if these people  
20 will change, will there be a change from these individuals  
21 to a committee, to another person, to another body, another  
22 title or whatever, if the experimental phase goes into  
23 effect?

24 THE WITNESS: It is my belief that the process  
25 will remain the same, that there will be an advertising

1 manager in marketing who will make the ultimate decision,  
2 but that there will be advisement from the program managers  
3 and other managers within the Post Office Online group.

4 COMMISSIONER LeBLANC: Good. Thank you very much.  
5 I apologize, Mr. Bush.

6 MR. BUSH: Not at all, Mr. Presiding Officer.

7 Q Mr. Garvey, I want to ask you what things were  
8 tracked in evaluating the effectiveness of the advertising  
9 and marketing campaign. One is you did track customer  
10 registration. I think you've already told me that.

11 A The number of registered customers? Yes.

12 Q Yes. And you also tracked the usage of services  
13 by the customers who were registered?

14 A Yes, and that's been reported in the reports that  
15 we filed.

16 Q All right. And you've tracked -- we have the  
17 volumes and the revenues of First Class and Standard A  
18 mailings which came through MOL; correct?

19 A Correct.

20 Q And you also -- although I don't know that we have  
21 this, maybe we do and I'm unaware of it, but you have  
22 tracked the volume and the revenue from Priority Mail and  
23 Express Mail that came through POL.

24 A Yes.

25 Q Okay. And you've done some kind of -- I don't

1 know how you do this, but you've tracked the impact of the  
2 various types of media that you used on, I guess, all of  
3 these different factors that we just went over.

4 A That is correct.

5 Q Okay. And have you reached any conclusions as a  
6 result of tracking that data about which media are the most  
7 effective?

8 A Yes, we have.

9 Q Could you tell us what the conclusions are?

10 A I'm glad that you asked. Yes, I'll be glad to  
11 tell you.

12 Q I can tell you were eager for me to ask that  
13 question, which means I probably shouldn't have asked it,  
14 but I did anyway.

15 A I was. No, it's my pleasure to say that direct  
16 mail was actually the most effective method of contacting  
17 and getting the customers to come the site. The direct mail  
18 drop that we did in January and February is what filled up  
19 our rolls.

20 Q Okay. And what about other media? Were the other  
21 media totally ineffective, or was there a range of  
22 effectiveness of the other media that you used?

23 A I guess that would be a subjective measure of  
24 effectiveness, but in terms of cost-effectiveness, the other  
25 methods were not nearly as cost-effective as direct mail Web

1 banners, which are the two methods that we intend to go  
2 forward with, by the way, during the experiment and beyond.

3 Q Okay. So you've already made that decision in  
4 terms of what marketing and advertising media you'll use  
5 going forward.

6 A At this advanced stage of decision making, yes,  
7 that would be the sensible choice to make, we think.

8 Q And just out of curiosity, where do you get your  
9 mailing list for the direct mail campaign?

10 A I believe that we've filed that information  
11 already in previous responses.

12 Q Well, can you just tell me quickly where it is?  
13 What's the source of the mailing list?

14 A There were two sources of lists. One was an  
15 internal list that we maintain having to do with existing  
16 postal customers, and the other was rented lists.

17 Q Okay. And I take it that the cost of the rented  
18 list is part of the advertising and marketing costs that  
19 have been reported.

20 A Yes, it is.

21 Q All right. Let me move on briefly to another  
22 subject, which is the printer contract. As I read these  
23 reports, you've spent -- I'm not sure that I brought the  
24 right report with me, so I can't look at it or show it to  
25 you, but you've spent about 7,000, a little over \$7,000 on

1 printer costs to date? Does that -- is that consistent with  
2 your memory?

3 A Subject to check, yes. I don't know the exact  
4 number either.

5 Q And the contract that you've entered into with the  
6 printer has a minimum of \$325,000. That's how much the  
7 Postal Service pays no matter what, isn't that right?

8 A That is correct; yes.

9 Q Okay. And is it also correct that the contract  
10 term is up sometime in the August area, the end of August?

11 A The term was 13 months, so, yes, I think it's  
12 August or September.

13 Q Now let me direct your attention to page 6 of your  
14 testimony, and I'd like you to look at page -- I'm sorry,  
15 lines 13 and 14.

16 Now there you're referring -- you used the term  
17 "excessively broad definition of the market," and I believe  
18 that you're referring to your understanding of Mr.  
19 Prescott's, Witness Prescott's definition of the market. Is  
20 that right?

21 A Yes; that's correct.

22 Q And can you tell me what your understanding is of  
23 his definition of the market?

24 A He seems to imply to my understanding that all of  
25 the services that are provided by the service providers that

1 he talks about are part of the market that is defined as  
2 being the Mailing Online market.

3 Q All right. Let's take a look at lines 17 through  
4 19. There you say that the -- actually 18 and 19. You say  
5 "he," referring to Mr. Prescott, claims that the Mailing  
6 Online market consists of all customers who do or could take  
7 advantage of mail preparation services.

8 Is that your understanding of his definition of  
9 the market?

10 A Yes, it is.

11 Q And the market that we're talking about here is  
12 the market of potential Mailing Online users.

13 A That's what this says; yes.

14 Q But that's what you understand him to be defining,  
15 the market of potential Mailing Online users.

16 A That's what he implies, I believe; yes.

17 Q And -- okay. Now can you tell me where in Mr.  
18 Prescott's testimony you find that definition of the market?

19 A It is my belief that the pages 2115 and 2116 of  
20 transcript 9, which are Witness Prescott's testimony, page  
21 11 and 12, reflect implicitly in his language here that he's  
22 trying to paint the picture that the mail preparation  
23 services that are provided by the people that he's talking  
24 about here are fair game to what Mailing Online is trying to  
25 do.

1 Q I'm sorry, you said that pages 11 and 12 of his  
2 testimony?

3 A That's --

4 Q Is that what you're referring to?

5 A Of his direct testimony; yes.

6 Q All right.

7 MR. HOLLIES: Excuse me. If I might interject, it  
8 does appear that an error in Mr. Garvey's testimony --  
9 there's a miscitation on page 6, line 19. It says  
10 transcript volume 9, page 215. The correct cite appears to  
11 be 2151.

12 MR. BUSH: 2151? Is that what you believe the  
13 correct cite is? I was going to ask what the correct cite  
14 is, because it seemed to me it was in error as well.

15 Mr. Garvey, can you take a look at page 2151?

16 A Yes. Thank you.

17 Q Do you have that in front of you?

18 A I have it. Yes.

19 Q Is that the proper reference?

20 A Yes, it is.

21 Q Okay. So that's the place in Mr. Prescott's  
22 testimony and interrogatory answers where he defines the  
23 market in the way that you've characterized as consisting of  
24 all customers who could -- I'm sorry, who do or could take  
25 advantage of mail preparation services.

1 A Yes.

2 Q Now let me ask you -- first of all, that answer in  
3 subsection A refers to the answer to an OCA interrogatory --  
4 OCA interrogatory T1-1; right?

5 A I'm sorry, can you repeat the question?

6 Q Yes. The answer that you're relying on at 2151,  
7 page 2151, refers back to an answer to an OCA interrogatory.

8 A It says OCA/MASA/PB-T1-1.

9 Q And let me ask you to turn to page 2146.

10 COMMISSIONER LeBLANC: Mr. Bush, that's transcript  
11 9 also? Clarify the record.

12 MR. BUSH: Yes, all of this is transcript 9, Mr.  
13 Presiding Officer.

14 COMMISSIONER LeBLANC: Thank you.

15 THE WITNESS: Yes, I have it.

16 BY MR. BUSH:

17 Q Do you have that page?

18 A Yes.

19 Q And in that answer Mr. Prescott says the phrase  
20 "competitive market for mail preparation services" in my  
21 testimony refers to those private companies that could  
22 compete for any of the services provided by Mailing Online.

23 A That is what it says; yes.

24 Q Okay. And you read that to mean that the Mailing  
25 Online market consists of all customers who do or could take



1 advantage of mail preparation services, not Mailing Online  
2 services.

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

4 Q Yes. My problem with this, Mr. Garvey, is that  
5 I'm having a hard time figuring out where in Mr. Prescott's  
6 testimony he claimed that the market was all customers who  
7 do or could take advantage of mail preparation services as  
8 opposed to Mailing Online services, and I'm just trying to  
9 confirm that you're reading this answer to the interrogatory  
10 on page 2146 to mean that.

11 A Well, I guess the -- the way that I would explain  
12 this is that I read and I use the word "paint" in my  
13 previous response, I believe, that he tries to paint a  
14 picture that that is the case, that the overall effect upon  
15 the services of -- or the services that are offered by mail  
16 preparation services is going to be much broader than it  
17 really is.

18 I would concede certainly that a thorough reading  
19 of his responses here narrows that, but it's used in my  
20 testimony here to indicate that I believe that the picture  
21 that he paints is much too broad, and that even using that  
22 broad picture, if you take the numbers and compare it to the  
23 total numbers, that it's still a very small amount.

24 Q Okay. How do you feel about it if you focus on  
25 just what he actually said, as opposed to the picture that

1 you seem to see from what he said?

2 Do you still think it's too broad? He didn't say  
3 the whole market for mail preparation services, did he, Mr.  
4 Garvey?

5 A No, he did not.

6 Q All right. Let's just leave it at that.

7 All right, let me ask you to look at page 7 of  
8 your testimony. Now in the full paragraph on this page,  
9 you're among other things discussing your concept of the  
10 market for Mailing Online; is that right?

11 A That is correct.

12 Q Okay. And you say that it consists of small  
13 business owners, many of whom either no longer use or never  
14 have used traditional mail preparation services.

15 A That is what I say; yes.

16 Q All right. Now you don't know actually -- you  
17 haven't done anything in the market test to determine how  
18 many of the market-test users have never used traditional  
19 mail preparation services; right?

20 A Have I personally done anything?

21 Q Has the Postal Service done anything? Have they  
22 collected data from the current users during the market test  
23 of Mailing Online to determine whether they had historically  
24 used traditional mail preparation services?

25 A Not that I know of.

1 Q All right. So your statement here is really  
2 simply your estimate that this is the way it's going to  
3 happen; right?

4 A Well, yes, of course it's my testimony, and I  
5 indicate in here that it's my view, but my view comes from  
6 both a wealth of personal experience in dealing with these  
7 folks and from discussing with people who have called me on  
8 the phone or who I've talked to at trade shows who are  
9 involved in this same kind of business.

10 Q And you've talked to among other people Mr.  
11 Campanelli and Ms. Wilcox.

12 A That's true, among others.

13 Q Okay. You I take it however don't dispute the  
14 testimony of Witness Schuh and Witness Jurgena that a  
15 substantial portion of the business done by their letter  
16 shops is comprised of people who are doing mailings at less  
17 than 5,000 pieces.

18 A I can't contest their testimony; no.

19 Q And you would also agree that those people are --  
20 or those customers of Mr. Jurgena and Mr. Schuh are at least  
21 within the universe of potential customers for Mailing  
22 Online as you've defined that potential customer universe.

23 A If you use volume as the only measure of  
24 qualification; yes.

25 Q Now it's certainly one measure of qualification as

1 you've defined it, isn't it?

2 A That is true.

3 Q You, at some point in your testimony here, I may  
4 be able to find it, but you may just remember it, made the  
5 statement that you have identified qualified contractors.  
6 And, actually, it is at page 5 of your testimony. Have you  
7 -- how many contractors have you prequalified at this point?  
8 Are you referring in that testimony to prequalification  
9 procedure that you have testified about before?

10 A Well, I think this refers both to the effort to  
11 prequalify for an official procurement effort, as well as  
12 our continuing efforts to identify potential candidates who  
13 we would notify in a prequalification effort.

14 Q So the second part of that is actually even before  
15 the prequalification stage?

16 A That is correct. As I have indicated in the past,  
17 it is our intent to open the gates as wide as possible in  
18 allowing service providers to participate in the  
19 qualification effort.

20 Q Can you give us at least a qualitative account of  
21 how many contractors have made it through the  
22 prequalification stage and how many have fallen by the  
23 wayside, been rejected during the prequalification stage?

24 A I am hesitating because I am not certain that I am  
25 allowed to disclose that information.

1 Q I am really not asking for specific people who  
2 have made it or haven't made it. If you have a concern,  
3 your lawyer can object. But I am asking now just for a  
4 qualitative assessment of, you know, 50 percent made it  
5 through or 25 percent made it through, or something like  
6 that. I will leave it to you to come up with the  
7 qualitative answer.

8 A Well, I can tell you that the number of people  
9 that we notified of the effort is unknown because we have  
10 put this on electronic bulletin boards, we have put it in  
11 the Commerce Business Daily, so I don't know what the  
12 beginning number is. And I don't know whether the --

13 Q Let's go with the people who tried to make it  
14 through the door. People who didn't answer the phone, let's  
15 no worry about them. People who answered the ad, said I  
16 want to go through the prequalification process, how many of  
17 those --

18 A I understand your question, but it is my belief  
19 that the -- and I was on the Evaluation Committee, but it is  
20 my ~~before~~<sup>belief</sup> that my participation in that Evaluation Committee  
21 precludes my disclosure of the information that you are  
22 asking.

23 Q On what basis? What is the basis for your not  
24 disclosing it?

25 A Because I am not allowed to disclose anything

1 about the qualification process except those that end up  
2 coming out the other end as being prequalified, and that  
3 information is not even supposed to come from me, it comes  
4 from our Procurement Department.

5 MR. BUSH: Well, Mr. Presiding Officer, I don't  
6 really know how to get through this. I haven't even gotten  
7 an objection from the lawyer in the case at the moment. It  
8 seems to me the witness ought to answer the question. If  
9 there is an objection, I would to know the basis for it.

10 MR. HOLLIES: At this stage, it does seem  
11 opportune to offer the objection counsel sees the lack of.  
12 I believe the witness has correctly described our  
13 procurement regulations. The number of firms that survive,  
14 if you will, that do prequalify becomes public information,  
15 albeit not typically through a witness on the stand. But  
16 those that were, if you will, winnowed down are not  
17 something that we publicly disclose pursuant to our  
18 procurement regulations.

19 Now, while I am not a procurement attorney, that  
20 is my understanding from those who worked with the  
21 contracting officer on this matter.

22 MR. BUSH: Well, I guess my understanding of the  
23 rules of privilege and confidentiality is that there should  
24 be a specific privilege that covers the information that is  
25 being requested. My more general understanding of the kind

1 of information I am asking about is I am sure that it would  
2 be a problem to disclose the identities of people who have  
3 -- are in the prequalification process and those particular  
4 parties that haven't made it through. But I find it  
5 difficult to believe that it is subject to any privilege,  
6 which, by the way, hasn't really been identified. I don't  
7 know what the privilege is that is being asserted here, but  
8 I find it difficult to believe that just the kind of raw  
9 numbers, without identifying characteristics, would really  
10 be privileged.

11 COMMISSIONER LeBLANC: Mr. Garvey, frankly, I am  
12 not an attorney either, and I do not know the procurement  
13 law, but, under the circumstances, if you can give us a  
14 range, if you can give us your best guesstimate, if you can  
15 give us some guidelines, if you will, parameters that they  
16 can use to help clarify the record, it will be helpful.

17 Outside of that, Mr. Bush, if there is anything  
18 further that you need, you have the right to file a motion  
19 and we will take it under advisement and rule on it as soon  
20 as we can.

21 But I believe, Mr. Garvey, under the  
22 circumstances, you can answer the questions given the  
23 parameters and the guidelines that you know of in a very  
24 broad sense. I don't believe Mr. Bush is trying to narrow  
25 it, as I understand his question. So if you can answer it

1 in a broad sense, with some parameters, some guidelines, if  
2 you will, it has increased or decreased, or however you want  
3 to put it in your own words, we will let that go at this  
4 time, unless Mr. Bush wants to follow with a motion.

5 MR. HOLLIES: Mr. Presiding Officer, if I might  
6 offer a suggestion, likely, we will face a mid-morning break  
7 in the not too distant future, and it looks quite likely,  
8 also, that Mr. Garvey's testimony will continue thereafter.  
9 Perhaps --

10 COMMISSIONER LeBLANC: I think that is a good bet.

11 MR. HOLLIES: Perhaps during that break, we can  
12 attempt to clarify exactly what we can and cannot state and,  
13 thereby, not risk overstepping the line, and come back and  
14 readdress this matter after the break.

15 COMMISSIONER LeBLANC: Mr. Bush, do you plan to be  
16 here through the day, or had you planned to be leaving for  
17 any particular -- none of my -- excuse the French, as they  
18 say, it is none of my damn business, but I am trying to  
19 ascertain if you will be here possibly after the break. If  
20 we could do that, that may help clarify the issue here. And  
21 if we have to, you can come back, ask your question. We can  
22 see if we can get an answer to it to clarify the record. If  
23 not, you still have the right to file your motion.

24 MR. BUSH: That's fine with me, Mr. Presiding  
25 Officer, and in light of that, I am concluded for the



1 moment.

2 COMMISSIONER LeBLANC: Since you are concluded for  
3 the moment, it might be a great time to take a quick break  
4 then. Let's take a 10 minute break, come back at a quarter  
5 till.

6 In the meantime, Mr. Bush, if you could get  
7 together with counsel and try to work something out here,  
8 and then we will pick up with Ms. Dreifuss in 10 minutes.

9 MR. BUSH: Thank you.

10 COMMISSIONER LeBLANC: Off the record, Mr.  
11 Reporter.

12 [Recess.]

13 COMMISSIONER LeBLANC: Mr. Reporter, we'll go back  
14 on the record. Mr. Hollies? Mr. Bush? I understand you  
15 all may have gotten together during the break and where do  
16 we stand now with the situation?

17 MR. HOLLIES: I withdraw my objection -- that this  
18 is a reasonable area of inquiry and my understanding from a  
19 contracts attorney at the Postal Service is that there is,  
20 to his understanding based on my brief description of the  
21 facts, no problem with answering.

22 COMMISSIONER LeBLANC: Fine. Mr. Bush, do you  
23 care to repeat your question then?

24 MR. BUSH: Sure. That probably would be helpful.

25 BY MR. BUSH:

1           Q     Can you tell me, Mr. Garvey, how many, and you can  
2     give this in a qualitative answer because you may not know  
3     the exact numbers, but how many people have applied in the  
4     prequalification process and of that number how many has  
5     gotten through the prequalification process and how many  
6     have dropped by the wayside?

7           A     Once again, these are not precise numbers. I  
8     don't know the precise numbers but it is somewhere in the  
9     neighborhood of 25 I think that applied and somewhere in the  
10    neighborhood of 16 or 17 that were prequalified.

11          Q     And is this for a nationwide geographical area or  
12    for just the next stage of the rollout?

13          A     Well, the areas that were prequalified in this  
14    round were New York, Chicago, and Los Angeles. We had -- it  
15    is a little confusing about the numbers, because we had some  
16    large companies that applied for two or three of the  
17    locations and some smaller companies and large companies as  
18    well that only applied for one location, so we have a  
19    mixture of applicants applying for different locations.

20          Q     So does the 25 applicants count the large company  
21    that applied in two or three different locations once or two  
22    or three times?

23          A     It counts them once.

24               MR. BUSH: Okay. Mr. Presiding Officer, I also  
25    wanted to follow up on one other area before I release the

1 witness, if that is acceptable.

2 BY MR. BUSH:

3 Q Mr. Garvey, you gave some testimony a little  
4 earlier about the use in your direct mail campaign of an  
5 internal Postal Service list and I want to ask you what the  
6 source is for the names that are on that list.

7 A I don't know precisely what the source is. It is  
8 referred, I think internally the list is referred to as the  
9 DDD list.

10 Q I'm sorry, the what?

11 A The DDD --

12 Q DDD -- three Ds?

13 A Yes.

14 Q Do you know what that stands for?

15 A I'm sorry, I do not, but it is customers, as I  
16 understand it, that have requested supplies for using with  
17 mailing labels or envelopes or Express Mail supplies, things  
18 like that, as well as customers who have requested other  
19 things from the Postal Service in the way of marketing  
20 materials.

21 I don't know precisely that, but that is the limit  
22 of my understanding.

23 Q Do you know what the size of that list is?

24 A I'm sorry, I do not.

25 Q But if I understand what you are saying, it is a

1 list that is essentially generated as a result of customer  
2 inquiries or requests of some sort or another?

3 A That is my understanding of it, yes.

4 Q And the customer that we are talking about here is  
5 the actual ultimate mailer?

6 A Who we would like to be a mailer, yes.

7 Q Who you would like to be a mailer.

8 A Yes.

9 MR. BUSH: Okay. I have nothing further at this  
10 time.

11 COMMISSIONER LeBLANC: Thank you, Mr. Bush. Ms.  
12 Dreifuss.

13 MS. DREIFUSS: Thank you.

14 CROSS EXAMINATION

15 BY MS. DREIFUSS:

16 Q Good morning, Mr. Garvey.

17 A Good morning.

18 Q Shelley Dreifuss for the OCA. I would like to  
19 turn to your testimony at page 5, please.

20 A I have it.

21 Q You state near the bottom of the page that "During  
22 the remainder of the market test we plan to increase the  
23 number of Mailing Online customers from the current 200 to  
24 several thousand."

25 How do you plan to increase that number during the

1 market test? How will you make that possible?

2 A That is an interesting question, and I think that  
3 the answer is that we will try and interest the existing  
4 registered users in using the service without raising their  
5 expectations too great. As I have indicated previously we  
6 don't want to overstimulate their interest but we would like  
7 to have them become users and give us feedback but we also  
8 will do so by, as I mentioned previously, deregistering the  
9 folks who choose not to use either Shipping Online or  
10 Mailing Online at all during the market test.

11 Q Are you planning to continue the cap of about  
12 5,000 registrants for PostOffice Online during the remainder  
13 of the market test?

14 A That is our intention, yes.

15 Q So what you would like to do is you would like to  
16 rotate out non-users and rotate in users, if possible?

17 A Yes, to the extent possible, although we have in  
18 our messaging to the registered users told them that if for  
19 some reason they aren't using the service but they would  
20 like to stay as registered users, we are not going to force  
21 them out.

22 I personally don't know what reason that might be,  
23 but we are not forcing it on them, no.

24 Q Part of the way that you are going to increase the  
25 MOL customers from 200 to several thousand, would that

1 include bringing in new registrants that are not presently  
2 registrants?

3 A That would certainly be part of it. If the people  
4 that we are losing are nonusers then the assumption has to  
5 be that you have got a better chance of a new registrant  
6 being a user.

7 Q Do you have a waiting list for registration right  
8 now?

9 A We don't keep a waiting list, no. We assume that  
10 there are people that check back to the site periodically  
11 because the message that they get if they try and register  
12 today is that we are full today but try again later.

13 Q You have gotten to the point where potential  
14 registrants have been turned away because you are full?

15 A Yes.

16 Q How long has that been true? When did you reach  
17 that point?

18 A I don't remember the exact date, but it was some  
19 time towards the end of February, I believe.

20 Q You are not keeping a record of how many attempts  
21 there are to register and those registrants then have to be  
22 turned away?

23 A There are in the system something called server  
24 logs, which indicate when a page is viewed. There is in  
25 fact a page that is viewed when someone attempts to register

1 but cannot, and it would be possible to find out that  
2 number, but I don't know it and haven't been tracking it,  
3 no.

4 Q Well, let's say today I logged on to the  
5 PostOffice Online.com address and I was ~~interesting~~ <sup>interested</sup> in  
6 becoming a registrant. Would I see a message right on the  
7 first page that "we are no longer accepting registrations."

8 How would I understand that I couldn't register?

9 A When you are a new user who has never been there  
10 before, you get a page that ~~as~~ you click on a certain spot  
11 if you choose to register and it has other spots where you  
12 can get demonstrations of the two services, if you -- as I  
13 understand the process today -- if you come there and click  
14 on the "Register as a New User" and we do not have any slots  
15 available, you will get a message at that point.

16 Q So I would click on the button to commence the  
17 registration procedure but I wouldn't get very far into it  
18 because I would get a message saying "We are accepting no  
19 further registrations" or something to that effect?

20 A That's correct, but you are still able to view the  
21 demos in case you have an interest and would like to learn  
22 about the program.

23 Q Are you doing any advertising at the present time  
24 of PostOffice Online?

25 A The only advertising that I believe is going on

1 right now is the web banners that are being rotated on some  
2 of the web sites that we have contracted with.

3 Q You would agree that sending out e-mails to  
4 current registrants is a form of advertising, wouldn't you?

5 A I am not sure I would want to get into a semantic  
6 argument about that, but in my personal view, I don't look  
7 at it as advertising. I look at advertising as customer  
8 acquisition activities, whereas, when you are sending an  
9 e-mail, which is a voluntary e-mail, we give the customer  
10 the opportunity to tell us they don't want it, if you are  
11 sending something to them as a registered user, it is more  
12 of a messaging or usage stimulation, or some kind of  
13 activity like that. That is in my own view. It may, in the  
14 classical definition of advertising, fit, but I don't think  
15 of it that way.

16 Q Would you be contacting current registrants in any  
17 form other than by e-mail to try to stimulate their usage of  
18 PostOffice Online?

19 A As I mentioned, we have sent newsletters, or a  
20 newsletter via Mailing Online, so they have gotten something  
21 in their mailbox. We also asked, when people registered, if  
22 they would be interested in participating in market  
23 research, and some of those folks have been contacted by  
24 telephone by our market research people.

25 Q At the present time, are you placing any



1 advertisements in print media like newspapers?

2 A No, we are not.

3 Q Have you done so earlier in the market test?

4 A Yes.

5 Q At the present time, are you running any cable

6 spots to advertise PostOffice Online?

7 A Not to my knowledge. No, I believe we are not.

8 Q Have you done that earlier in the market test?

9 A Yes, we have.

10 Q At the present time, are you running any

11 television advertisement that would go -- in the nature of

12 broadcast television advertising, are you doing that at the

13 present time?

14 A I don't believe we are -- I know we are not doing

15 that -- well, I will put it this way, to the same extent I

16 know we are not doing cable, I know we are not doing

17 broadcast, but it is my understanding that we have never

18 done broadcast, that all the television advertising we did

19 was cable.

20 Q Are you doing any radio advertising at the present

21 time?

22 A Not to my knowledge.

23 Q Did you earlier in the market test?

24 A Not to my knowledge.

25 Q Are you planning <sup>any</sup> ~~ad~~ direct mail campaigns at the

1 present time?

2 A Well, as I mentioned, we have direct mail pieces  
3 that are prepared and waiting to be deposited. Whether or  
4 not we deposit them will depend upon the usage of the  
5 existing registered users and how well we do without doing  
6 any more advertising.

7 Q And you have run direct mail campaigns earlier in  
8 the market test, is that correct?

9 A That is correct, yes.

10 Q At the present time, you are running Internet  
11 banner ads, is that correct?

12 A As I said, I am not certain of that. It is my  
13 understanding from what I heard, that we had placed the  
14 banner ads, that they were scheduled to run during a certain  
15 period of time and we did not retract them because -- I  
16 don't know why, but it is my understanding that they are  
17 still running.

18 Q So they are still running and, as far as you know,  
19 they will be running indefinitely?

20 A Well, they were placed for a certain period of  
21 time, and for a certain number of rotations, I think they  
22 call them, and I don't know what that period is.

23 Q You don't know what the ending period is for the  
24 banner ads?

25 A I do not know.

1 Q So, to sum it all up, what would be your only  
2 current advertising expense at this time, aside from the  
3 possible e-mail messages to current registrants, what would  
4 be your current expenditures, advertising expenditures for  
5 PostOffice Online?

6 A If there are any current, and I don't know of any,  
7 but if there are any current planning or production  
8 activities that are either to evaluate what has been done,  
9 or to perhaps plan for the future, those would be the only  
10 advertising activities that I am aware of.

11 Q I presume that there are some costs associated  
12 with these planning and production activities. Am I correct  
13 that there would be costs associated with that?

14 A Yes. And as far as I know, those costs are  
15 covered in what we have reported or will be reporting.

16 Q If there are any production or planning activities  
17 in future accounting periods, would there be costs  
18 associated with those that have not yet been reported?

19 A I am sorry, I don't know the answer to that  
20 question. It is my understanding of the numbers that we  
21 will be reporting or have reported as part of the discussion  
22 this morning about the 4.4 million, I believe that is  
23 inclusive in that. To answer your more directly perhaps, if  
24 we incur any additional expense above what has been reported  
25 or is being reported as part of this update, certainly, they

1 would be included in the AP reports.

2 Q In other words, we may see future AP reports with  
3 additional costs reported that we have not -- that have not  
4 yet been reported, for future activities?

5 A If we incur additional costs, we will certainly  
6 put them on the AP reports. I would believe, however, that  
7 any such costs would be minimal.

8 Q The Internet banner ads that are, you believe,  
9 still running, do you know if they been fully paid for at  
10 this time?

11 A As far as I know, yes. That was my understanding  
12 of why they were still running.

13 Q They have been fully paid for. Okay. And it is  
14 your understanding that those, the costs for these Internet  
15 banner ads are included in the AP reports?

16 A Absolutely, yes.

17 Q Yesterday, Presiding Officer LeBlanc -- I have to  
18 say I wasn't in the hearing room at that time, but I am able  
19 to listen, I am able to monitor what goes on at hearings  
20 from my office, so I was listening. I didn't see the  
21 brochure, but I heard about the brochure. As I understand  
22 it, and you can correct me if I am wrong -- well, let me ask  
23 you, were you in the hearing room yesterday?

24 A I was here, yes.

25 Q So if I am wrong, you will correct me. As I

1 understand it, Commissioner LeBlanc asked you about a  
2 brochure of some kind that discussed PostOffice Online and  
3 Mailing Online and Shipping Online, is that correct?

4 A There was some discussion about that brochure,  
5 yes.

6 Q And I believe Postal Service counsel said that we  
7 actually had a copy of that in some form already in the  
8 record, is that correct?

9 A That is correct.

10 Q I looked through an earlier transcript, I went to  
11 transcript 6, beginning page 1434 and running through page  
12 1448. I believe the brochure, a photocopy of that brochure  
13 may be included among these pages. Do you have transcript 6  
14 in front of you?

15 A I do, yes.

16 Q Could you tell me which of these pages that I just  
17 cited would encompass the brochure?

18 A Yes, I would be glad to. The page 1436 is the  
19 outside cover of the -- I guess it would be best described  
20 as a silver folder that contains what we generically refer  
21 to as sell sheets or product sheets, and the following, I  
22 guess, one -- five, the following five pages are copies of  
23 the actual sheets themselves.

24 Q I see. So it's the cover plus five sheets would  
25 be your count?

1           A     Yes, it's a pocket folder, and the sheets are  
2     inserted into the pockets of the folder.

3           Q     Now Commissioner LeBlanc I think said that a staff  
4     member picked this up at a trade show. I don't think he  
5     gave any details. Would you happen to know whether these  
6     brochures are being made available at trade shows?

7           A     Well, once again, generically speaking, the  
8     purpose of having these folders is as a trade show kind of  
9     handout. It facilitates the inclusion or exclusion of  
10    various products or services based upon the audience at the  
11    particular function. These silver folders were in fact made  
12    available at both the last postal forum and at an Internet  
13    world show which I think was held in Boston, Massachusetts.

14          Q     What was the date of that Internet show?

15          A     I'm sorry, I don't know that.

16          Q     Do you know the month?

17          A     I'm sorry, I don't know that either. It was  
18    sometime in the fall, I think. I didn't personally attend.

19          Q     There were some costs associated with printing  
20    this brochure, were there not?

21          A     I'm certain that there were; yes.

22          Q     Are they being reported in the AP reports? I'm  
23    sorry, if there were printing costs for this brochure, are  
24    they reported in the AP reports that we've seen so far?

25          A     After yesterday's discussion, I have had some --

1 I've made some inquiries, and it's unclear at this point  
2 whether the total cost of the brochure has been included in  
3 what we reported, but I can give you a specific number for  
4 the Mailing Online brochure, an estimated cost of producing  
5 that single sheet.

6 Q Let me stop you for a moment. You talked about a  
7 Mailing Online brochure. Is there a specific Mailing Online  
8 brochure?

9 A You referred to it as "brochure." The sell sheet  
10 is what I'm talking about.

11 Q Okay. This is a -- this cover plus five pages  
12 is -- I guess you would describe it, and it does appear to  
13 be a PostOffice Online brochure. That's correct, isn't it?

14 A Well, once again I would not personally describe  
15 it as a brochure. I think of a brochure as more of a  
16 unitary device, whereas this is a collateral device that  
17 allows the inclusion or exclusion of individual pieces.

18 Q I see. Well, we'll call it a device then. It's a  
19 PostOffice Online marketing device or advertising device?

20 A Okay.

21 Q Is that correct? It's for PostOffice Online,  
22 isn't it?

23 A That's correct. Yes.

24 Q And you were about to give me a cost estimate for  
25 the Mailing Online portion of it. You seem to have come

1 prepared with that cost estimate.

2 A Yes, I've been told that the total cost of  
3 preparing the copies of this sell sheet which went into  
4 these brochures is around \$7,000.

5 Q That was the cost for which pages?

6 A The Mailing Online page, sell sheet.

7 MR. HOLLIES: In the interest of clarifying the  
8 record, Mr. Presiding Officer, transcript pages 1438 and  
9 1439 are the two sides of the one piece of paper that was  
10 the subject of discussions yesterday.

11 COMMISSIONER LeBLANC: To clarify it even further,  
12 that does have Mailing Online on the top of it; is that  
13 correct?

14 MR. HOLLIES: That's correct. It's the Mailing  
15 Online sheet, insert sheet, within the folder.

16 COMMISSIONER LeBLANC: Thank you, Mr. Hollies.  
17 Will that help you, Ms. Dreifuss?

18 BY MS. DREIFUSS:

19 Q So two out of five sides deal exclusively with  
20 Mailing Online; is that correct? Two out of five sides --  
21 of the five sides we were just discussing deal exclusively  
22 with Mailing Online; is that correct?

23 A That is correct.

24 Q And even the page before that, on page 1437,  
25 there's a great deal of discussion there about Mailing



1 Online too, isn't there? At least some portion of that  
2 page -- let me rephrase that -- at least some portion of  
3 that page also discusses Mailing Online specifically,  
4 doesn't it?

5 A Yes, it does, as part of PostOffice Online.

6 Q Did the \$7,000 cost estimate include that portion  
7 of what is page 1437 in the transcript?

8 A No, the \$7,000 estimate that I have given you is  
9 strictly for the 1438 and 1439 pages of the transcript.

10 Q Okay. If we were to make the assumption, and I  
11 don't want to count inches or lines right now, if we were to  
12 make the assumption that about half of transcript page 1437  
13 also discussed Mailing Online, then I guess we could say  
14 roughly half of this device related specifically to Mailing  
15 Online. Would that be correct?

16 A If you made that assumption that half was Mailing  
17 Online, then yes, you could assume that half a sheet was  
18 Mailing Online.

19 Q Do you know what the total printing cost was for  
20 that device, for the entire PostOffice Online device?

21 A For the first page 1437?

22 Q Well, for the cover plus the five sides of a page  
23 that we see here in the transcript.

24 A I'm sorry, I don't know that. I would assume,  
25 since the same number of sheets were printed for each one of

1 these, that the cost for the 1437 page would be similar to  
2 what I've previously mentioned for the Mailing Online sheet.  
3 Q Well, that sounds reasonable to me, also. So if  
4 I'm right that it cost -- I'm sorry, that the Mailing Online  
5 portion of this device was about half, I could multiply  
6 7,000 by -- I'd divide 7,000 by 5, two-fifths of it -- I'm  
7 sorry, I'm getting really confused. What I could do is I  
8 could take the 7,000, divide it in half, figure out a price  
9 per side of \$3,500, and multiply it by 5 to determine the  
10 entire printing cost for that device.

11 That would be a good starting point, wouldn't it?

12 A Ummm --

13 Q To figure out how much --

14 A I'm not sure that you could do the -- you could  
15 start there, but I'm not sure that the cost equates to  
16 printing per side. I don't know whether it costs any less  
17 to print one side of this kind of a device than it costs to  
18 print two. Maybe a small amount. I don't know whether  
19 50-50 is a good measure.

20 MS. DREIFUSS: Mr. Presiding Officer, could I ask  
21 the Postal Service to provide the total cost of printing  
22 that device? It didn't seem to have required much effort to  
23 come up with the Mailing Online portion of it.

24 Well, let me ask one more question before I frame  
25 that request.

1 BY MS. DREIFUSS:

2 Q Do you have any idea how the \$7,000 cost estimate  
3 was derived?

4 A We asked the -- well, I asked my contact with our  
5 advertising department, who went to someone at the  
6 advertising agency and said we would like to have a quick,  
7 rough if necessary, estimate of what the cost was, and  
8 that's how I received it.

9 Q Okay. Very likely determining two sides out of  
10 five plus a cover must have been based in some rough, rough  
11 manner on the total cost of printing the brochure, wouldn't  
12 you say?

13 A That would be your starting point, I would think.  
14 Yes.

15 Q Did the \$7,000 cost estimate include the cost of  
16 production and design of this device?

17 A It included as far as I know both design and  
18 production.

19 MS. DREIFUSS: Presiding Officer LeBlanc, could I  
20 ask the Postal Service to confirm the statement Mr. Garvey  
21 just made that the \$7,000 cost estimate did include both  
22 production and printing, and also ask that we get the total  
23 cost for printing and producing the device?

24 COMMISSIONER LeBLANC: Mr. Hollies?

25 MR. HOLLIES: I would submit that counsel has just

1 elicited the very confirmation she seeks. The witness has  
2 stated that it has the two components in it. These are part  
3 of the advertising and/or marketing expenses that we are  
4 reporting already as part of the AP reports.

5 The exercise she wishes to engage in is something  
6 she can certainly do on brief, but the Postal Service is  
7 extremely burdened with the parallel structure of this --  
8 parallel procedural schedules in this case, and we would --  
9 we believe it is appropriate to stick with the plan as it  
10 was set out in the first place.

11 She's free to ask this witness as much as she  
12 cares to about this material. He went the extra yard and  
13 got a rough ballpark estimate of the cost of that one sheet  
14 of paper in response to discussions yesterday that focused  
15 on whether or not that sheet was or was not caused by  
16 Mailing Online. The costs such as they are are already  
17 subject to our reporting requirements, and they will be  
18 included there.

19 MS. DREIFUSS: Mr. Presiding Officer, can I ask  
20 Mr. Garvey another two or three questions to confirm Mr.  
21 Hollies' statement, because my understanding of what Mr.  
22 Garvey said is not consistent with Mr. Hollies --

23 COMMISSIONER LeBLANC: Neither is mine, so why  
24 don't you try to clarify it with some questions please, Mr.  
25 Dreifuss, and then we'll see where we go from there.

1 BY MS. DREIFUSS:

2 Q Can you state categorically that the printing of  
3 this brochure is included in the advertising costs that have  
4 been reported for APs 2 through 6?

5 A I think the previous response of mine was that we  
6 do not know at this moment whether that cost was included.  
7 If it has not been, it will be included in subsequent  
8 reporting. It may very well have been. We're not certain  
9 or uncertain, one way or the other, at this point.

10 MS. DREIFUSS: Well, then Mr. Hollies' objection  
11 doesn't stand. He said it was reported, and we don't know  
12 whether it's been reported. So I really have to ask still a  
13 third question, Mr. Presiding Officer, with your indulgence.

14 BY MS. DREIFUSS:

15 Q Has this printing cost been reported in previous  
16 APs, and if so, where? Has the production cost been  
17 reported in previous APs, and if so, where? And if it is  
18 not, I would like to know the additional costs of production  
19 if we haven't -- if that's not part of the \$7,000 estimate.  
20 And I'd like to know the total cost for the device, both  
21 printing and production.

22 MS. DREIFUSS: With your indulgence, I'd ask the  
23 Postal Service to provide that information.

24 COMMISSIONER LeBLANC: Mr. Garvey, you said that  
25 these costs may be coming, you said? Did I hear you right?

1 THE WITNESS: No. What is said is that I'm not --  
2 I can't say with 100 percent certainty today that these  
3 costs are included in what's been or being reported. We're  
4 revising the numbers that were reported in AP 6.

5 What happened, quite frankly, if I might explain,  
6 is that the people that were providing these numbers to be  
7 reported were under the impression that numbers had been  
8 previously provided, had been reported, where in fact they  
9 had not.

10 It is my understanding of the way that these  
11 numbers are gathered is that the agency keeps an account for  
12 a specific project, and the reason I say that the cost for  
13 this folder and these sell sheets actually probably has been  
14 included already<sup>is</sup> because it was done for this project on  
15 this account, and as far as I know, would be included in  
16 that lump-sum number that we will be reporting for the  
17 revision of AP 6.

18 CHAIRMAN GLEIMAN: I think I understand what  
19 you're saying, Mr. Garvey. Let me ask you a related  
20 question. The cost of preparing the portion of Memo to  
21 Mailers, volume 34, number 1, January 1999, that carries a  
22 lead story on the front page that continues over into the  
23 inside, PostOffice Online makes it easier for small  
24 businesses, and the story then talks by and large about a  
25 certain individual in Connecticut, a painting contractor's

1 use of Mailing Online.

2 Is that cost included also, do you know? Is that  
3 being picked up? And also is the cost of providing internal  
4 information, for example, in the mid-Atlantic -- and I  
5 assume other area updates, this one is mid-Atlantic -- dated  
6 March '99, which carries a story on pilot testing continuing  
7 on Mailing Online, are those costs being captured also, do  
8 you know?

9 THE WITNESS: I do not know.

10 CHAIRMAN GLEIMAN: Could you find out, when you  
11 get whatever it is that OCA counsel is after, could you look  
12 into this aspect too, and see if you could include -- figure  
13 out whether those costs are being picked up somewhere? I  
14 would appreciate it.

15 COMMISSIONER LeBLANC: Is that a yes or is that  
16 a -- you nodded. I just -- I'm not trying to put words in  
17 your head, as they say, but you moved it, and I'm just  
18 trying to see which direction you moved it.

19 THE WITNESS: I understand, and I would like to be  
20 clear perhaps on the requirement that's being put to me  
21 here, and that is, do you view these as advertising costs?  
22 Is that the assumption, that they're to be reported as  
23 advertising costs? That's my question.

24 CHAIRMAN GLEIMAN: Well, I suspect that the Memo  
25 to Mailers costs, certainly that portion that involves the

1 Mailing Online, PostOffice Online article is advertising.  
2 It's a memo to mailers, and, you know, it's got a story  
3 about what a wonderful product this is, and how this  
4 individual used to prepare his own direct-mail pieces,  
5 3,000-piece mailings, but now it takes him a lot less time  
6 to do his mailing through Mailing Online, you know, and he  
7 says this is wonderful, a wonderful product for lots of  
8 businesses.

9 And it then goes on and has the final paragraph  
10 that says, "So visit our web site at  
11 <http://www.postofficeonline.com/1> today and see if you are  
12 one of the 5,000 small businesses that qualify for this  
13 pilot program. ONE CLICK AND IT ALL STARTS TO CLICK."  
14 Which, by the way, "ONE CLICK AND IT ALL STARTS TO CLICK."  
15 is capitalized and trademarked apparently.

16 I think it is advertising, it sounds like it to  
17 me.

18 COMMISSIONER LeBLANC: Mr. Garvey, here is my  
19 understanding, and I guess as Presiding Officer, I do have a  
20 few good things. But, anyway, Memo to Mailers dated Volume  
21 34, Number 1, January 1999, Chairman Gleiman is asking if  
22 you can tell us whether or not these pages and this  
23 particular advertisement is in the advertising cost that we  
24 are talking about.

25 Second of all, Ms. Dreifuss has asked you for



1 production costs, basically, total production costs, if you  
2 will, of this document, bottom line, trying to cut through  
3 it all here, and I believe that will cover -- if I have  
4 missed or left anything out, please let me know, Ms.

5 Dreifuss. Is this what we are asking for here?

6 COMMISSIONER GOLDWAY: Production and printing.

7 MS. DREIFUSS: Production and printing costs.

8 COMMISSIONER LeBLANC: You want production. Well,  
9 I said total costs.

10 MS. DREIFUSS: Right.

11 COMMISSIONER LeBLANC: Which is production  
12 printing, total cost of this particular document, which is  
13 in transcript 6, pages whatever they were, I don't remember  
14 the page numbers now, but the record will show it and it  
15 will stand on its own. But, in effect, the document that  
16 was brought out yesterday by me and Commissioner Goldway in  
17 our conversations with Witness Takis yesterday.

18 So we are asking basically two things, total cost,  
19 production, print cost, et cetera, of this document, total  
20 cost. And is this in the advertising budget for AP 6, was  
21 that what you wanted, Ms. Dreifuss?

22 MS. DREIFUSS: In any report to date.

23 COMMISSIONER LeBLANC: I'm sorry?

24 MS. DREIFUSS: In any AP report to date where  
25 advertising costs have been reported. I believe advertising

1 costs are reported variously from AP 2 through AP 6, up to  
2 this time.

3 COMMISSIONER LeBLANC: Mr. Hollies, I understand  
4 that you are under the gun as far as the dual dates are  
5 concerned, the dual dates being what they are for a number  
6 of different reasons, which we don't necessarily need to get  
7 into today. But this should be fairly easy to come about.  
8 It doesn't have to be, I don't believe, as I understand, Ms.  
9 Dreifuss, a direct penny, cross every T, dot every I,  
10 dollar. I think you can get fairly close, fairly accurate,  
11 give them a pretty good guess -- no, I wouldn't say  
12 guesstimate, but a pretty good cost estimation as to what  
13 this cost, and it would seem to me somebody, somewhere in  
14 the advertising department, marketing department, in the  
15 Postal Service, can give you an estimation idea whether or  
16 not this particular document that Chairman Gleiman had is in  
17 the advertising cost. I mean you can only do so much.

18 To me it is question of going back and asking a  
19 few questions. If there is a problem, Ms. Dreifuss can  
20 handle it on motion, we will rule on it at that particular  
21 time. But I think that it fairly a doable situation, so  
22 let's move on, please, Ms. Dreifuss.

23 MR. HOLLIES: If I understand then, Mr. Presiding  
24 Officer, you are modifying the market test data collection  
25 and reporting requirements so that we must break things down

1 further with respect to this particular item, is that  
2 correct?

3 COMMISSIONER LeBLANC: I don't believe I am  
4 modifying, I am asking for some further explanation based on  
5 what the attorney for the OCA is asking for. I have ruled,  
6 I am not asking for any modification at this point. I am  
7 only asking for a clarification of the record based on what  
8 she has asked for at this particular time.

9 If you have a problem with that, we can handle it  
10 on redirect or we can handle it in another time in another  
11 manner, but at this particular time, the ruling is what it  
12 is. It is not a modification, as I understand the ruling.

13 MR. HOLLIES: I will have to review the  
14 transcript.

15 COMMISSIONER LeBLANC: You certainly will, and I  
16 will also. Any other comments?

17 MR. WIGGINS: Mr. Presiding Officer, just for  
18 clarity's sake, and I am sorry to intrude here, but if the  
19 information has already been included, if those costs have  
20 already been included in one of the AP reports, does it need  
21 to be included again, I think is what Mr. Hollies --

22 COMMISSIONER LeBLANC: As I understand it, if it  
23 is already included, I am not asking for again, nor, I don't  
24 believe, is Ms. Dreifuss. All I am asking for at this  
25 particular point, to clarify -- is it part of the record? I

1 mean the AP report. If it is, then, Mr. Hollies, Mr.  
2 Reiter, Mr. Rubin, someone can let us know it is, tell us  
3 where to find it, we can look at it. If it is not enough,  
4 then we can handle it on motion at that time if that is what  
5 Ms. Dreifuss and/or others are looking for. We try to get  
6 as complete a record as we possibly can under the  
7 circumstances.

8 MR. WIGGINS: I just wanted to get my  
9 understanding right, that you are not modifying anything,  
10 you are just ordering them to comply with your earlier  
11 order.

12 COMMISSIONER LeBLANC: I am not modifying one  
13 thing at this particular point.

14 COMMISSIONER GOLDWAY: Mr. Chairman, I thought  
15 there was one additional bit of information, which was, in  
16 addition to whatever the total amount is and whether these  
17 documents have been included or not, there was a specific  
18 request for the total production costs for this particular  
19 document so that we can compare that with the production for  
20 the sell sheet that is inside, and that is a specific  
21 request in addition to previous requests, that I believe the  
22 Office of Consumer --

23 COMMISSIONER LeBLANC: Did I not make that clear,  
24 Ms. Dreifuss?

25 MS. DREIFUSS: I don't know whether it is clear,

1 but I do agree --

2 COMMISSIONER GOLDWAY: I think you asked that  
3 question, but then there was subsequent discussion.

4 COMMISSIONER LeBLANC: So at this point, do we  
5 really have three things that we are asking for or basically  
6 four? One, the total cost of this document, which includes  
7 the printing, production costs of the document, as well as  
8 per page, is that correct? Which addresses the issue that  
9 Commissioner Goldway just brought out.

10 MS. DREIFUSS: Yes, I would like -- if production  
11 and printing are different, I would like to know what the  
12 total production cost is and what the total printing cost  
13 is.

14 COMMISSIONER LeBLANC: Second of all, the document  
15 that Chairman Gleiman brought out, whether or not that is in  
16 the advertising period budget for any AP that has been out  
17 already or will come out, is that correct?

18 MS. DREIFUSS: Probably the Chairman would be able to  
19 confirm.

20 COMMISSIONER LeBLANC: And then the last thing is  
21 whether or not it is in an AP report, and if it is, then Mr.  
22 Hollies, or Mr. Rubin, or Mr. Reiter can let us know, and  
23 then where to find it. If that is not in the detail that  
24 you are asking for, then we will handle it under motion at  
25 that particular time. Is that clear?

1 MS. DREIFUSS: Well, for my part, I would like one  
2 more thing, which is --

3 COMMISSIONER LeBLANC: Let's not push it too far  
4 now, Ms. Dreifuss.

5 MS. DREIFUSS: No, I am not asking for any more --

6 COMMISSIONER LeBLANC: I am just -- I am picking,  
7 I am teasing.

8 MS. DREIFUSS: Yeah, it is a clarification. I  
9 also wanted to know whether the \$7,000 cost estimate was for  
10 printing and/or production, just some clarification of what  
11 that represents.

12 COMMISSIONER LeBLANC: That's fair. Mr. Wiggins,  
13 does that clarify your understanding as well?

14 MR. WIGGINS: I am afraid that my attempt to  
15 clarify only clouded, and I apologize for that. But I now I  
16 think I understand.

17 CHAIRMAN GLEIMAN: I don't want to make things  
18 more complicated than they need to be. I don't care about  
19 the specific costs, per se, I just would like to know if  
20 they are being captured. And if they are in whatever else  
21 you are reporting, fine. And if they are not, that's fine,  
22 too, and I don't need to know necessarily what they are. If  
23 it falls within the ambit of somebody else's interest and  
24 question to find out what the specific costs are for  
25 documents like this, if they are not already being captured,

1 that is someone else's interest and they will make that  
2 request. I just want to know whether you pick this kind of  
3 stuff up.

4 COMMISSIONER LeBLANC: Mr. Hollies, I will say  
5 this, if it does get to be an "unbearable situation,"  
6 quote-unquote, leave myself a little leeway there, based on  
7 what we look at in the transcript, if you can get back with  
8 us, we will try our very best to accommodate you, but at  
9 this particular point, the ruling is what it is. So I am  
10 giving you a little bit of an out in some respect, but let's  
11 let the ruling stand as it is, which is what I just said.  
12 Is that clear as mud, as they say?

13 MR. HOLLIES: It is as clear as the transcript  
14 will reflect.

15 COMMISSIONER LeBLANC: That's fine. I will deal  
16 with that later then. Moving right along, Ms. Dreifuss.

17 BY MS. DREIFUSS:

18 Q Mr. Garvey, I would like to get back to your  
19 testimony on page 5, the statement that we were discussing,  
20 I guess many minutes back at this time. You state that you  
21 plan to increase the number of Mailing Online customers from  
22 the current 200 to several thousand, and you mentioned to me  
23 a moment ago that you expect that the e-mail that you send  
24 to registrants might cause that number to increase, is that  
25 correct?

1 A Yes.

2 Q And that Internet banner ads might continue to run  
3 for some period of time longer and that, I suppose, could  
4 provoke increased registration, is that correct?

5 A Well, assuming that the number of registered users  
6 drops because of some people not being users and new users  
7 come on, yes, that is true.

8 Q At whatever period of time the Internet banner ads  
9 are no longer running, that is<sup>a</sup> the period of time has  
10 expired, that source of new registrants will likely dry up,  
11 is that correct?

12 A That is correct.

13 Q But at the present time you plan to do no further  
14 -- except for the possible direct mail campaign that you  
15 mentioned earlier, at the present time you don't plan any  
16 other advertising efforts to increase this number from 200  
17 to several thousand?

18 A Not to my knowledge. As I indicated, the direct  
19 mail was so successful that we feel certain that if we need  
20 to get new registrants, that utilizing that tool will effect  
21 that.

22 Q How many direct mail campaigns did you have during  
23 the market test up to this point?

24 A I am sorry, I don't know the precise number nor  
25 schedule. The way that we had -- or the way that I



1 understood it was planned to do and, once again, this was  
2 done by the advertising department and the agency, they  
3 planned this as a phased mail drop and the mail drops were  
4 done in certain geographic locations at a specific time, so  
5 as not to drop them all at once. And if you look at the  
6 number of registered users per geographic area, as a matter  
7 of fact, you will see that there is a preponderance of  
8 registrants from New York, and that, obviously, is where we  
9 did, in fact, do the direct mail drop.

10 Q Do you know how many direct mail pieces were sent  
11 out in your New York campaign?

12 A I am sorry, I do not.

13 Q Do you know what the parameters were? Were you  
14 attempting to send it to -- well, let me back up for a  
15 minute. You were working from your direct mail list, the  
16 ones that Mr. Bush asked you about earlier today, is that  
17 correct?

18 A Yes.

19 Q And you don't know how many names were on the  
20 list?

21 A No, I don't.

22 Q Do you have any idea what kinds of customers you  
23 would have been targeting with your direct mail campaign?

24 A Of course. The target customer for PostOffice  
25 Online is, we have talked many times before, the small

1 business customer, the entrepreneur SOHO customer who is  
2 working in their home or their office, and I think in terms  
3 of demographic targeting, it is pretty easy to determine  
4 what kind of list you would use for that kind of customer.

5 Q Will you be doing any advertising during the  
6 experiment, assuming that the Commission recommends that you  
7 proceed with the Mailing Online experiment, do you plan to  
8 do any advertising during that period of time?

9 A Certainly, I think it would be fair to say,  
10 although we don't have any firm plans in place at the  
11 moment, that advertising would occur, yes.

12 Q Do you think you would be doing any television  
13 advertising during the experimental period?

14 A I think it is fair to say that, given our  
15 experience with cable television advertising and the cost  
16 effectiveness of it, or lack thereof, we would probably not  
17 be doing any television advertising of any sort during the  
18 experiment.

19 Q You wouldn't expect to do any cable television  
20 advertising then at this time?

21 A No, I would not.

22 Q Would you expect to do any broadcast television  
23 advertising at this time?

24 A I would not.

25 Q Do you think you will be doing any advertising in

1 print media such as newspapers?

2 A My understanding of -- no, the answer is no. And  
3 to follow that up, my understanding is that the cost  
4 effectiveness of direct mail and Internet banner advertising  
5 have prompted us to fairly conclusively decide at this point  
6 that those will be the two methods by which we will  
7 advertise PostOffice Online.

8 Q You can state, you feel, with fair certainty that  
9 you won't be placing ads in print media such as newspapers,  
10 is that correct?

11 A That is my understanding, yes.

12 Q And you can also state with a fair amount of  
13 certainty that you won't be paying for radio advertising  
14 either, is that true?

15 A Well, I know that we haven't tested radio  
16 advertising and I am not personally familiar with the habits  
17 of small businesses and SOHO customers and their radio  
18 listening habits. I can't say whether we would or wouldn't,  
19 to tell you the truth.

20 I know it is not one of the things that we have  
21 tested. It's a possibility.

22 Q Okay, so it is possible you may have some radio  
23 advertising --

24 A It is possible --

25 Q -- during the experiment.

1 A -- yes.

2 Q But you definitely plan to have direct mail  
3 contact with potential customers during the experiment, is  
4 that true?

5 A Yes. I would expect so, yes.

6 Q And you definitely plan to place Internet banner  
7 ads over the experimental period too, is that true?

8 A Well, not to be difficult but I have pointed out  
9 that we have no definite plans at this point. We have  
10 intent and we have an understanding of what we know from  
11 what we have learned, but we have no definite plans at this  
12 moment.

13 Q So, picking up on your phraseology, you have an  
14 intent and understanding that you will likely use Internet  
15 banner advertising over the course of the experiment?

16 A That would be correct, yes.

17 Q OCA transmitted to your attorney a cross  
18 examination exhibit. There are actually two different  
19 versions of this exhibit. Are you aware of that, Mr.  
20 Garvey?

21 A Yes, I am.

22 MS. DREIFUSS: Why don't I identify the exhibit  
23 before I begin to ask questions about it. OCA has labelled  
24 this OCA-RT-1-XE1, and it is titled, "OCA Cross Examination  
25 Exhibit for Witness Garvey -- Estimation of PostOffice

1 Online Nationwide Advertising Budget for Two Year  
2 Experimental Period."

3 BY MS. DREIFUSS:

4 Q You just stated a moment ago you have seen both  
5 version\$of that?

6 A Yes I have.

7 MS. DREIFUSS: For the convenience of anybody  
8 listening, I have placed copies of our cross examination  
9 exhibit on the wooden table there in the corner and I have  
10 also distributed copies to all the Commissioners prior to  
11 the commencement of the hearing.

12 It would probably be useful to identify this  
13 exhibit and place it in the transcript at this time for the  
14 convenience of readers of the transcript.

15 Would that be acceptable, Mr. Presiding Officer?

16 COMMISSIONER LeBLANC: Any objection, Mr. Hollies?

17 MR. HOLLIES: I take it the request is to  
18 transcribe a copy of a cross examination exhibit into the  
19 transcript but not to admit it into evidence, is that  
20 correct?

21 COMMISSIONER LeBLANC: That is my understanding.  
22 Is that right, Ms. Dreifuss?

23 MS. DREIFUSS: At the present time that is all I  
24 am asking~~is~~ just for the moment, just to transcribe it.

25 MR. HOLLIES: I have no objection to

1 transcription.

2 COMMISSIONER LeBLANC: Hearing no objection, so  
3 moved.

4 MS. DREIFUSS: With your permission I will hand  
5 two copies of it to the Reporter.

6 COMMISSIONER LeBLANC: I was just going to say we  
7 need two copies, please, Ms. Dreifuss.

8 [Cross Examination Exhibit  
9 OCA-RT-1-XE1 was marked for  
10 identification and transcribed into  
11 the record.]  
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OCA-RT1-XE1: OCA Cross Examination Exhibit for Witness Garvey  
(Estimate of PostOffice Online Nationwide Advertising Budget  
for 2-Year Experimental Period)

<u>Total population of U.S.<sup>1</sup></u>	<u>270,253,500</u>
<u>5 Marketing Areas involved in Mailing Online Market Test</u>	<u>Population of Statistical Area</u>
New York (Rand McNally Major Trading Area) <sup>2</sup>	26,950,500
Total New England County Metropolitan Areas <sup>3</sup> (Encompasses 2 marketing areas: Boston and Hartford)	11,364,700
Philadelphia (Rand McNally Major Trading Area) <sup>4</sup>	9,203,000
Tampa-St. Petersburg-Orlando (Rand McNally Major Trading Area) <sup>5</sup>	6,256,800
<u>TOTAL POPULATION MARKETING AREAS</u>	<u>53,775,000</u>

$270,253,500 / 53,775,000 = 5.03$  (rounds to 5)

Estimate of national advertising budget for PostOffice Online over 2-year experimental period:

$5 \times \$258,824^6$  per week  $\times 104$  weeks = \$134,588,480

Advertising budget for one year =  $\$134,588,480 / 2 = \$67,294,240$

<sup>1</sup> Rand McNally Commercial Atlas & Marketing Guide (1999 ed.) at 40. Based on January 1, 1998, population estimates.

<sup>2</sup> Id.

<sup>3</sup> Id. at 59. (This is an overestimate of the population involved in the market test as it includes Providence, Warwick, and Pawtucket, RI, areas not participating in the market test.)

<sup>4</sup> Id. at 40.

<sup>5</sup> Id. at 40. (This is an overestimate of the population involved in the market test as it includes Orlando, FL, an area not participating in the market test).

<sup>6</sup> The total advertising expenditure for the market test to date for PostOffice Online is \$4.4 million, covering a period of 17 weeks. This yields a weekly average expenditure of \$258,823.53 (rounds to \$258,824).

1 BY MS. DREIFUSS:

2 Q I alluded to the fact that there were two versions  
3 of this cross examination exhibit.

4 The first one used a different starting point for  
5 the calculation of the weekly advertising expenditures for  
6 PostOffice Online. If you look at Footnote 6 of this cross  
7 examination exhibit, you will see that the most recent  
8 version contains the statement that, "The total advertising  
9 expenditure for the market test to date for PostOffice  
10 Online is \$4.4 million, covering a period of 17 weeks."

11 Do you see that?

12 A Yes, I do.

13 Q When we first submitted the cross examination  
14 exhibit to counsel we weren't using a figure of \$4.4  
15 million, we were using a figure of approximately \$2 million,  
16 a little over \$2 million. Is that your recollection?

17 A Yes.

18 Q And we stated in the notice attached to the filing  
19 of this cross examination exhibit on March 29th that counsel  
20 for the Postal Service contacted OCA on March 19th and  
21 informed us that the correct figure for advertising and  
22 marketing costs for APs 2 through 6 is \$4.4 million, not the  
23 little over \$2 million that was initially reported in the  
24 accounting period, data reports filed on March 19th --

25 MR. HOLLIES: Objection to the question because it



1 misstates the facts. There was no contact on March 19.

2 There was a contact on March 26.

3 MS. DREIFUSS: I'm sorry. I probably had too many  
4 phrases linked together for that to be accurate.

5 BY MS. DREIFUSS:

6 Q The Postal Service filed accounting period data  
7 reports -- in fact, revised accounting period data reports  
8 on March 19th, 1999, is that correct?

9 A Yes.

10 Q And those accounting period reports at that time  
11 reported a little over \$2 million for advertising and  
12 marketing costs, is that correct?

13 A Yes.

14 Q Were you aware that counsel for the Postal Service  
15 contacted OCA on the afternoon of March 26th and informed us  
16 that the correct figure was \$4.4 million, not a little over  
17 \$2 million?

18 A I believe that my understanding of the contact was  
19 that they disclosed an additional amount in addition to what  
20 had already been reported, yes.

21 Q You just used the pronoun "they" -- who is the  
22 "they" that disclosed that, that an additional \$2.4  
23 million -- oh, I'm sorry, additional \$2.3 million?

24 A Counsel for the Postal Service, as you indicated  
25 in your question.

1 Q Do you know, do you have any idea what gave rise  
2 to the need to correct the figure initially reported?

3 A Yes, I do, and as I indicated in my remarks to  
4 Chairman Gleiman, it was a misunderstanding on the part of  
5 the reporter and recorder as to what had been reported as  
6 opposed to recorded.

7 I think, quite simply put, the misunderstanding  
8 was that there was some thought on the part of the reporter  
9 that Library Reference 16 had been put forth in the nature  
10 of a report as opposed to a reference document, and  
11 consequently there was an under-reporting problem because of  
12 that misunderstanding.

13 CHAIRMAN GLEIMAN: Ms. Dreifuss, excuse me. In  
14 light of the earlier objection about the facts in evidence,  
15 I just want to make clear that apparently in the response  
16 that you just received that there is an error in the facts.  
17 I think that the witness gave that information to Presiding  
18 Officer LeBlanc and not to Chairman Gleiman in response to  
19 some exchange earlier on.

20 I don't think I can make an objection from the  
21 bench to an answer, so I just wanted to clarify for the  
22 record.

23 MS. DREIFUSS: If it were my mistake, I apologize.

24 CHAIRMAN GLEIMAN: No, it was not your mistake. I  
25 think it was Witness Garvey and I can understand how he can

1 confuse the two of us.

2 MS. DREIFUSS: I will apologize for him too, then.

3 THE WITNESS: I regret the error.

4 COMMISSIONER LeBLANC: I have been compared with a  
5 lot better and a lot worse -- just joking.

6 BY MS. DREIFUSS:

7 Q Who is the reporter of the advertising cost  
8 information?

9 A I used the term "reporter" broadly. There are a  
10 variety of individuals involved in the reporting of it but  
11 it comes out of our Advertising Department.

12 Q Who is the "recorder" of the advertising cost  
13 information?

14 A The Price Waterhouse Coopers individuals who are  
15 making up the reports.

16 Q Do you know what form the report from the reporter  
17 to the recorder took? I think this is almost rhyming, but  
18 was it in written form, do you know?

19 A At what point? Well, let me say I do not know. I  
20 assume that they used a variety of methods including  
21 writing, electronic and telephone, perhaps.

22 Q Are these cost figures being reported to you at  
23 roughly the same time they are being reported to the  
24 recorder?

25 A Frankly, I get my information from the reports

1 that are given to the Commission. It seems to be a good  
2 method of my finding out and, as I mentioned, the ultimate  
3 responsibility lies on the Advertising Department to keep  
4 track of these things and periodically I will look at them  
5 from that perspective but in terms of getting the  
6 information for my purposes it makes sense for me to utilize  
7 the same tools that the Commission does to look at the  
8 information.

9 Q So you are not essentially being copied on these  
10 reports, that when the information is sent from the  
11 advertising officials to the recorder, you are not being  
12 given a copy of that information, is that correct?

13 A Not as a matter of course, no.

14 Q Are you interested in obtaining that information  
15 on a regular basis or you don't feel you need it?

16 A Well, I am interested in knowing the information  
17 and, as I mentioned, it makes sense to me to see it in the  
18 same context as the Commission sees it. For other purposes  
19 I would be interested in seeing it presented in other ways,  
20 in other contexts.

21 Q When you first -- did you have a chance to look  
22 at the little over \$2 million advertising cost figure that  
23 was reported in the March 19th set of data reports?

24 Did you ever have a chance to look at that little  
25 over \$2 million figure -- let me back up for a minute.

1           You are getting your information on advertising  
2 costs primarily from the accounting period data reports, is  
3 that correct?

4           A     Yes, that's correct.

5           Q     Did you make note of that \$2 million figure at  
6 around the same time or just after the revised accounting  
7 period data reports were provided to the Commission on March  
8 19th?

9           A     I can't say that I made note of it at that moment  
10 in time, but, yes, I was aware of that report.

11          Q     Did that figure strike you as an accurate one, or  
12 you really just didn't have any sense of what it ought to  
13 be?

14          A     Well, I know what the ultimate number at the end  
15 of the reporting period should be or the neighborhood that  
16 it should be, because of our plans on advertising  
17 expenditures. Due to the fact that things are reported as  
18 incurred expenses or paid expenses or something like that,  
19 as we discussed at the technical conference, an interim  
20 number may not always be -- it may not always stand out to  
21 me as being incorrect or potentially a problem because it is  
22 not at the end of the period.

23          Q     So you had a pretty good sense that \$4.4 million  
24 would be about right for the advertising costs to date, is  
25 that correct?

1           A     No. What I said was that I would have a sense of,  
2     at the end of the market test, what the number, our total  
3     number of advertising or the total cost of advertising that  
4     we reported should be.

5           Q     Did you feel that \$4.4 million would be the  
6     correct or approximately the correct final figure for  
7     advertising costs?

8           A     For the final report of the market test --

9           Q     Yes.

10          A     -- you mean the total market test costs?

11          Q     Yes, for advertising.

12          A     I would say it is closer to my expectation than  
13     \$2.2.

14          Q     Do you know how Postal Service counsel became  
15     aware that there was an under-reporting as of AP 6 and then  
16     decided it was appropriate to contact me and let me know it  
17     was really \$4.4 million? Do you understand what generated  
18     that need to make a revision to the advertising cost figure?

19          A     Well, yes, I do, as a matter of fact. It came  
20     about as a discussion of this issue of incurred or paid or  
21     how it was that we were accumulating the costs that we were  
22     reporting over a period of time and an evaluation of I guess  
23     what many of us viewed at the time as being apples to  
24     oranges at that time disclosed that there was a disconnect  
25     between the reporter and the recorder which became necessary

1 to remedy.

2 Q Okay. At any rate, the current correct figure  
3 cited by OCA in Footnote 6 would be \$4.4 million for the  
4 total advertising expenditure for the market test to date  
5 for PostOffice Online, is that correct?

6 A That's correct, yes.

7 Q You have seen that footnote--that OCA divided the  
8 \$4.4 million by the 17 weeks of the market test running from  
9 AP 2 through the end of AP 6 -- do you see that?

10 A Yes, I do.

11 Q Does the 17 weeks seem the correct number of weeks  
12 for that period of time?

13 A Yes.

14 Q That yielded an average advertising cost per week  
15 of \$258,824. That is in the next to the last line of the  
16 cross examination exhibit. Do you see that?

17 A Yes. I do.

18 Q Does the math seem correct?

19 A Yes. Subject to check.

20 Q Thank you. OCA multiplied that by a proportional  
21 figure that we developed further up in the cross examination  
22 exhibit.

23 OCA started with a total U.S. population of  
24 270,253,500 -- do you see that?

25 A I do, yes.

1 Q And it came from, according to our cross  
2 examination exhibit, it came from the Rand McNally  
3 Commercial Atlas & Marketing Guide, 1999 Edition, at page  
4 40. Do you see that?  
5 A Yes, I do.  
6 Q Did you or anybody at the Postal Service check  
7 that cite to see if we had reported the population figure  
8 correctly?  
9 A No, I did not personally.  
10 Q Okay, but you are willing to accept it, subject to  
11 check?  
12 A Yes, give or take a few million.  
13 Q Okay. Then further down we have listed the five  
14 marketing areas involved in the Mailing Online market test.  
15 Do you see that?  
16 A Yes, I see that.  
17 Q We consider New York one of the five marketing  
18 areas. Is New York one of the five marketing areas for  
19 Mailing Online?  
20 A Yes, it is.  
21 Q And just below that, we have combined two  
22 marketing areas, Boston and Hartford into the total New  
23 England County Metropolitan Areas -- do you see that?  
24 A Yes, I do see that.  
25 Q And it is true that Boston and Hartford are two



1 additional marketing areas for the Mailing Online market  
2 test, is that correct?

3 A That is correct.

4 Q And below that, we have listed Philadelphia as one  
5 of the marketing areas, do you see that?

6 A I do, yes.

7 Q And that is also included in the market test.  
8 Finally we have listed Tampa-St. Petersburg-Orlando as a  
9 major -- well, this is Rand McNally's terminology -- major  
10 trading area.

11 Is that also part of the market test?

12 A The Tampa area is, yes.

13 Q Oh, I see, so St. Petersburg and Orlando are not  
14 actually part of the market test, is that correct?

15 A Well, it is what I know as the Sun Coast District  
16 and it is Tampa and some surrounding areas. How they relate  
17 to St. Petersburg and Orlando I don't know, but it --

18 Q We said in our footnote that we may have  
19 overestimated the population participating in the market  
20 test. Does that sound right to you that we may have  
21 overestimated a bit?

22 A Yes.

23 Q And similarly, going back to the total New England  
24 County Metropolitan Area figures, that figure of 11,364,700  
25 includes Providence, Warwick, and Pawtucket, Rhode Island

1 areas and I will ask you to accept that, subject to check.

2 Do you know if Providence, Warwick and Pawtucket,  
3 Rhode Island are participating in the market test?

4 A I do not. I'm sorry.

5 Q So you don't know whether we have over-estimated  
6 or not in that market?

7 A In that particular area, no, I do not know.

8 Q The five marketing areas, the population of these  
9 five marketing areas was obtained from the Rand-McNally  
10 Commercial Atlas and Marketing Guide that I mentioned a  
11 moment ago, and we summed them to a total population  
12 participating in the market test of 53,775,000. Do you see  
13 that?

14 A Yes, I do.

15 Q Does that strike you as a fairly good  
16 approximation of the population in those market areas that  
17 are participating in the market test?

18 A With the provision that there has been some  
19 over-estimating in certain areas, yes.

20 Q Okay. So it might be a slight over-estimate of  
21 the participating population?

22 A That is correct.

23 Q Just below our line for total population marketing  
24 areas, we divided the total U.S. population by our estimate  
25 of the population participating in the market test, and we

1 got a figure of approximately 5, do you see that?

2 A Yes, I do.

3 Q To the extent that we have over-estimated the  
4 total population for the marketing areas, probably that  
5 figure, the number 5 is a little bit too small. If we had  
6 used a smaller number in the denominator, that figure would  
7 be a little bit larger than 5, wouldn't it?

8 A Yes.

9 Q Okay. Also, in determining our estimate for the  
10 total advertising budget for Mailing Online over the two  
11 year experimental period, we used 104 weeks as a multiplier.  
12 That would be right, wouldn't it, there would be 104 weeks  
13 over a two year experimental period, wouldn't there?

14 A That is correct, yes.

15 Q Okay. So, finally, we multiplied these three  
16 figures together, 5 times a weekly expenditure times 104  
17 weeks, and we got a total advertising estimate for the two  
18 year experiment of 134,588,480, is that correct?

19 A Yes, that is what it says here.

20 Q Okay. You probably don't have any quibble over  
21 the use of 104 weeks, do you?

22 A Two years would equal 104 weeks, yes.

23 Q And I don't think you have any quibble over our  
24 multiplier of 5, is that correct?

25 A As a rough number, no.

1 Q Okay. Do you have any quibble with our estimate  
2 that you will be spending roughly \$258,824 per week during  
3 the experiment?

4 A I would say that to use that number would be very  
5 much an exercise in apples and oranges, as I referred a  
6 moment ago. The market test, as we have indicated very  
7 strongly in previous responses, was designed to do testing.  
8 The expenditures that we made on advertising during that  
9 time were excessive in that same sense that if you were  
10 trying to come up with a recipe for a cake, you would come  
11 up with lots of cakes that you would end up throwing out  
12 before you came up with the one that you would submit for  
13 the prize.

14 With the advertising that we have done during the  
15 market test for Mailing Online, we have discovered that some  
16 things don't work as well as we might have predicted. We  
17 have discovered that other things are too expensive, not as  
18 cost effective as other things. And, consequently, as we  
19 have discussed in prior questions, our advertising will be  
20 much different during the experiment and this number will  
21 not -- you would not be able to use this number for those  
22 reasons.

23 As a matter of fact, if you take just the direct  
24 mail and web banner advertising expenses that we have  
25 incurred during this test, they represent less than 20

1 percent of total expenses.

2 The other factor that is important to keep in mind  
3 is that as this channel, as we discussed yesterday, grows in  
4 importance in communicating and relating to our customers, a  
5 lot of activities will take place around the Postal Service,  
6 where you will see a URL on the side of a truck as it goes  
7 down the street, and it will refer you to usps.com. That is  
8 a form of corporate advertising that will benefit the  
9 PostOffice Online and will reduce our need to do targeted  
10 advertising specific to the PostOffice Online.

11 Q Let's look at the \$4.4 million figure. I think  
12 that is probably going to be the source of our disagreement.  
13 When I divided that by 17 weeks, that is how I got the  
14 weekly expenditure of -- well, I will round it, let's say we  
15 are talking about roughly \$260,000 per week. Probably your  
16 major disagreement is going to be with whether the \$4.4  
17 million, and all that was incurred to generate that figure,  
18 whether you will really be incurring expenses of that size  
19 during the experiment, is that correct? Or is that too long  
20 a question, should I break it down a bit?

21 A If I understand your question, I can categorically  
22 say that our expenses during the experiment will not be of  
23 this size in relation to our total expenditures.

24 Q You won't be spending roughly \$260,000 per week on  
25 advertising, you don't believe, is that correct?

1           A     We don't have a firm plan in place, but I would be  
2     extremely surprised to see anyone suggest that we would  
3     spent that amount.

4           Q     Do you think you might spend more than that per  
5     week?

6           A     As I have stated, I think we will spend a fractionn  
7     of that.

8           Q     And what is your best guess about what the  
9     fraction is?

10          A     Well, as I mentioned, the two forms of advertising  
11     that we intend to go forward with represent less than 20  
12     percent of what we have spent during the market test. So if  
13     you were to -- or if I were to hazard a guess, less than 20  
14     percent, at most 20 percent would be what I could say now.  
15     But that also is affected by the fact that I mentioned the  
16     channel advertising for Internet in general, trying to get  
17     people to come to our web site, will migrate throughout  
18     Postal advertising, you will start to see that URL  
19     everywhere.

20          Q     You mentioned a moment ago that you might start  
21     painting the URL for PostOffice Online on the side of a  
22     Postal truck, is that correct? Did you say that a moment  
23     ago?

24          A     Well, there is another large shipping company that  
25     has done that, that seems to have succeeded well with it, so

1 I would assume that we might try it as well.

2 Q If you were to do that, there would be some costs  
3 associated with modifying your trucks in that manner,  
4 wouldn't there be?

5 A You have to assume that painting something on a  
6 truck is going to cost something, yes. Let me clarify that  
7 I know of no concrete plans to do that. I know that in  
8 discussions about broadening the channel awareness of  
9 usps.com, that has been one idea that has been discussed,  
10 but I use that as an example of how it will become -- it  
11 will begin to penetrate all of the communications that we  
12 do.

13 Q You mentioned a moment ago that you experimented  
14 with various forms of advertising during the market test,  
15 and that is understandable. It certainly makes sense to  
16 work with a smaller population and see what was effective.  
17 And, generally, you found that television advertising and  
18 ads in print media were not terribly effective, wasn't that  
19 your testimony a little while ago?

20 A They were not as effective as other methods, and  
21 they were definitely not as cost effective, in terms of the  
22 response rate, as other methods.

23 Q You found that direct mail was a fairly cost  
24 effective tool, didn't you?

25 A Absolutely, yes.

1           Q     Is it possible then that, over the course of the  
2     experiment, you might do more direct mail advertising even  
3     than you did during the market test? That is, whatever --  
4     let's look at it perhaps as a percentage of the total  
5     population of the market areas, and let's just -- I will  
6     just throw out a figure. Let's say you were sending out  
7     direct mailings to 5 percent of the total population of the  
8     marketing areas that I have listed here. It is possible  
9     that you might send out -- you might try to mail to an even  
10    greater percentage of the population of the marketing area  
11    during the market test -- I'm sorry, during the experiment  
12    than you did during the market test, because it was a cost  
13    effective tool, isn't that correct?

14           A     I am sorry, can you restate the question, please?

15           Q     Yeah, that was very long. I will break it down.  
16    Let's assume, hypothetically, that you -- and this is purely  
17    a hypothetical. I certainly don't know what percentage of  
18    the population you sent direct mail to. Let me ask you, do  
19    you know what percent of the population received direct mail  
20    during the market test?

21           A     What percent of the population of the market test  
22    area?

23           Q     Yes.

24           A     No, I am sorry, I don't.

25           Q     Okay. So neither of us knows. But let's say,



1 just for the sake of this conversation that it was 5 percent  
2 of the total population of a marketing area. Can you accept  
3 that as a hypothetical?

4 A As a hypothetical, certainly.

5 Q Okay. And you found that direct marketing, direct  
6 mail marketing was an effective tool, that is correct, isn't  
7 it?

8 A That is correct, yes.

9 Q So it is possible that you might send out direct  
10 mail pieces to 10 percent of the population during the  
11 experiment, as opposed to the 5 percent that you were trying  
12 to reach during the market test, isn't that a possibility?

13 A Certainly, I could conjecture that we would send  
14 out pieces to 10. I could also conjecture 20 or 30. When  
15 you are conjecturing such things, it is open territory.

16 Q Do you know of any absolute limit that has been  
17 imposed on PostOffice Online advertising expenditures over  
18 the period of the experiment?

19 A I don't personally know of a limit that was  
20 imposed, but I know that, as I have previously stated, the  
21 advertising department and the manager of that department  
22 has budget allocation responsibilities. I have been told  
23 that the advertising budget for next year will, in fact, be  
24 reduced, as a matter of fact. So, no, I don't know that any  
25 was imposed, but I assume that one would have been as the

1 normal course of business.

2 Q Do you know if there is a budget for PostOffice  
3 Online advertising in next year's budget?

4 A There is a Postal Service advertising budget. I  
5 do not know, nor do I believe that there is a breakout  
6 amount at this point that has been tagged for PostOffice  
7 Online.

8 Q So at this time there isn't any formal and  
9 official restriction on the amount of advertising that may  
10 be expended in advertising PostOffice Online, is that  
11 correct?

12 A There is one that is imposed by good business  
13 sense, but, no, there is no, as far as I know, policy  
14 decision that has been made on that.

15 Q What would be the good business sense or judgment  
16 that you had in mind a moment ago when you used that phrase?

17 A Well, as any business, you don't spend more on  
18 advertising than you think that it is worth. You have to  
19 judge the effectiveness of the advertising that you are  
20 doing in relation to the cost and your objectives of doing  
21 that advertising.

22 Q If you found that you were attracting registrants  
23 to PostOffice Online at about the same rate during the  
24 experiment that were attracted during the market test, do  
25 you think it might be necessary to increase your advertising

expenditures to get the kind of usage that you were hoping for when you first introduced the PostOffice Online concept?

A I can only give a qualitative answer to that and say that I think that the response that we've gotten from the advertising that we've done has been quite successful, in my eyes, that we've gotten a lot of response and awareness, and as the Internet grows in importance in people's activities and daily lives, I think that the Internet itself and the communications on that channel alone, which are independent of advertising that we do, will drive more people to learn about it. And as I mentioned, the channel thinking that the Postal Service is doing around getting people to come to the USPS.com site will increase that even more -- increase that awareness of people's understanding of what we're doing on the Internet.

I'd refer back here to some remarks that were made yesterday about the PostOffice Online being the equivalent of a retail unit. I think that's a very good analogy, and I'm sorry that we didn't discuss it at greater length sooner.

The way that we've thought about putting together the PostOffice Online is that the Postal Service has a corporate presence on the Internet already, and people come there to look up ZIP codes and to do other things that they would normally do with the Postal Service maybe on the

1 telephone or looking in the front of a telephone directory  
2 for ZIP codes, things like that.

3 The PostOffice Online was designed to present them  
4 with an opportunity to do transactions, and as people's  
5 awareness of the Postal Service on the Internet as a whole  
6 grows, they'll come to the main site looking for someplace  
7 to conduct those transactions, and we will simply become a  
8 place within USPS.com where people go when they want to buy  
9 stamps or send mail or mail a package. So the advertising  
10 specific to Mailing Online in my eyes will reduce or will  
11 shrink as the channel awareness and the general encompassing  
12 of Internet awareness in Postal Service advertising in  
13 general grows.

14 Q Do you know what the time horizon would be for  
15 that shrinkage that you've just described?

16 A Well, I know that the group that I'm now part of,  
17 which is the Internet Business Group, has a manager for  
18 integration of our existing activities on the Internet as  
19 well as new activities such as PostOffice Online. Our group  
20 and that manager are working actively today to accomplish  
21 that, and I would assume that in the next fiscal year that  
22 you will see that awareness that I'm talking about come  
23 about, and that's when the shrinkage will occur.

24 COMMISSIONER LeBLANC: Ms. Dreifuss, excuse me,  
25 I'm trying to get a gauge here for this afternoon as far as

1 lunch, time frame and so forth.

2 MS. DREIFUSS: I seriously underestimated the  
3 amount of cross-examination I have.

4 COMMISSIONER LeBLANC: I'm not rushing you by any  
5 means. I'm just trying to get a feel for timing, lunch, and  
6 so forth.

7 MS. DREIFUSS: I would imagine I have probably  
8 another hour and a half.

9 COMMISSIONER LeBLANC: Okay. Well, then, it may  
10 be a good time to take a break. Are you at a point where  
11 you can stop now? Is this a good enough spot for you? I  
12 don't want to cut you off in the middle of a trend of  
13 thought, as they say.

14 MS. DREIFUSS: I think I can just about wrap up my  
15 questions on advertising in a few minutes, so it might make  
16 sense just to go on a few minutes longer.

17 COMMISSIONER LeBLANC: That would be fine.

18 MS. DREIFUSS: If it's all right.

19 COMMISSIONER LeBLANC: When you get to the end, if  
20 you would notify me, I'd appreciate it.

21 MS. DREIFUSS: I'd be happy to do that.

22 COMMISSIONER LeBLANC: Thank you.

23 BY MS. DREIFUSS:

24 Q Has the Postal Service used the Internet banner  
25 ads in a regional fashion during the market test? Meaning,

1 did you try to place Internet banner ads that would attract  
2 roughly only the potential customers in New York, Boston,  
3 Hartford, Philadelphia, and Tampa, and not create a great  
4 deal of public awareness outside of those areas?

5 A Yes, as a matter of fact, we specifically chose  
6 the Internet sites where we ran that banner ad as ones that  
7 would have only a regional awareness.

8 Q During the experiment, will you use similarly  
9 focused Internet banner ads in a -- that is, will you simply  
10 start to target new and additional regions that you have not  
11 yet advertised in previously to achieve nationwide coverage?

12 A I think it's fair to say that the targeting effort  
13 will be based upon our estimation of where the target  
14 customer is. It is not our intent to geographically  
15 regionally target for any specific reason other than that  
16 there will be a high concentration of the people that we  
17 want to talk to in the area where we'll be doing the  
18 advertising. If that leads us to regional Web sites such as  
19 large metropolitan area Web sites, we would do that for that  
20 reason and that reason alone.

21 Q Are you contemplating placing the Internet banner  
22 ads on Web sites that seem to be in usage by people across  
23 the country, for example, Yahoo?

24 A The placement of the banner ads will be done not  
25 by me. I will be part of specifying who we want to talk to.

1 The agency will choose, as they do with many other  
2 advertising vehicles that we use, they'll choose where  
3 they're placed. We give them the requirements and say we  
4 want to talk to SOHOs and small businesses that have less  
5 than x number of employees, that kind of thing, and they'll  
6 say well, according to our research, these are the Web sites  
7 that have those people there.

8 It's not my intent to specify that we do less than  
9 national targeting. It will be one of my requirements, as a  
10 matter of fact, that we do as broad an awareness-building  
11 campaign as possible, because we're creating this whole  
12 thing for the American people and not just for one specific  
13 geographic area.

14 Q I don't know whether you've done this or not,  
15 again let's make it hypothetical, let's say that you have  
16 placed Internet banner ads in the five marketing areas  
17 currently participating in the market test. Can you assume  
18 that for the moment?

19 A Yes.

20 Q And during the experiment you may perhaps have  
21 more such regional ads, but in addition to that, and I'm  
22 going to pick up on your last statement, you may want to  
23 place Internet banner ads on national Web sites that attract  
24 a wide spectrum of customers that cuts across all geographic  
25 areas.

1 Do you have a sense that generally speaking the  
2 population -- the price that you paid in a -- for a regional  
3 Internet banner ad would increase roughly by the same -- by  
4 a multiple of the number of users of a national Web site?  
5 And I may have made that so garbled that you can't answer  
6 it, and if I have, I'll say it over.

7 A Well, let me try. It's my understanding of Web  
8 banner advertising that it's a combination of both the  
9 amount of people that are likely to visit there, the  
10 audience, in combination with the number of impressions,  
11 times that people will actually see it. I don't believe  
12 that ~~that~~<sup>it</sup> matters whether it's regional or national that  
13 those parameters are what drive the cost of Internet  
14 advertising.

15 Q Okay. If you decide to rely heavily on  
16 direct-mail contacts to potential customers, do you plan to  
17 wage this campaign across the nation generally?

18 A Across the nation with the proviso that we would  
19 target areas or groups where we knew there would be a likely  
20 interest or audience for PostOffice Online.

21 Q So you'll definitely target large metropolitan  
22 areas; is that correct?

23 A Yes, and one of the reasons that we chose the  
24 existing market areas that we have is that our research  
25 disclosed that that's a hotbed, shall we say, of this kind



1 of user.

2 Q Will you exclude low-density areas from your  
3 direct-mail contacts?

4 A No. It's my understanding, as a matter of fact,  
5 that low-density areas are becoming concentration areas for  
6 people that are going to be good customers for PostOffice  
7 Online, because farmers, for example, are one of the most  
8 wired demographic groups in the country. They utilize their  
9 PCs and electronic communications and the Web to a much  
10 greater extent than their urban brethren. I think it would  
11 be fair to say that the users of PostOffice Online may in  
12 fact in terms of their relative density be more located in  
13 rural areas than in urban areas.

14 Q So generally your direct-mail contacts would cover  
15 the entire spectrum of population densities; is that  
16 correct?

17 A Yes. Yes, we would send more pieces where there  
18 are more people because the density is higher, but in terms  
19 of relative density I don't think we would send more  
20 relative pieces in dense areas -- densely populated areas.

21 Q I can't think of any more questions along this  
22 line, so this is a good time to break.

23 COMMISSIONER LeBLANC: Ladies and gentlemen, let's  
24 take a lunch break now, and we'll come back at, let's see,  
25 this is let's say 12:20, so let's say quarter to two. Give

1 us a little bit of time to have a nice lunch and come back  
2 and we'll pick it up then.

3 [Whereupon, at 12:20 p.m., the hearing was  
4 recessed, to reconvene at 1:45 p.m., this same day.]

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A F T E R N O O N   S E S S I O N

[1:45 p.m.]

COMMISSIONER LeBLANC:    Okay, Mr. Reporter, we can  
get back on the record now.

All right, Ms. Dreifuss, we can pick up.

MS. DREIFUSS:    Certainly, Commissioner LeBlanc.  
Whereupon,

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

CROSS EXAMINATION [Resuming]

BY MS. DREIFUSS:

Q    Good afternoon, Mr. Garvey.

I have just a few clean-up questions from the area  
I discussed before lunch.    I guess it is natural when you  
think about it a bit over lunch to think of a few more.

One question I had was whether we could get a  
sample of the direct mail piece that was sent out to the New  
York area, so we can get an idea of the kind of information  
that was being presented to potential customers and which  
elicited a favorable response.

MS. DREIFUSS:    I guess I will need to ask the  
Presiding Officer when he gets a moment if that would be  
possible, or perhaps I could just ask Postal Service counsel

1 if he has an objection to providing and then that way there  
2 won't be any disagreement.

3 [Discussion off the record.]

4 COMMISSIONER LeBLANC: I'm sorry, Ms. Dreifuss. I  
5 apologize.

6 MS. DREIFUSS: I wanted to see if we could get a  
7 copy of the direct mail piece that was sent out in the New  
8 York marketing area that elicited a favorable response.

9 MR. HOLLIES: Mr. Presiding Officer, I would  
10 respectfully commend to counsel's attention Volume 10-A of  
11 the transcript at pages 2536 to -38, where she will find  
12 exactly what she is requesting.

13 COMMISSIONER LeBLANC: Well, that helps us out  
14 again, Mr. Hollies. Thank you so much.

15 MS. DREIFUSS: Okay, thank you. I'm sorry I  
16 overlooked it.

17 BY MS. DREIFUSS:

18 Q I do have a question related to that mailing to  
19 the New York metropolitan area.

20 You elicited a favorable response with that direct  
21 mailing campaign, didn't you?

22 A People signed up. Yes, that's favorable.

23 Q Did you send out direct mail to marketing areas  
24 other than New York?

25 A As I stated, I don't know exactly where the mail

1 was dropped. I know that New York was one of the areas and  
2 one of the simple ways you can tell that is the number of  
3 registered users and number of transactions coming from that  
4 area, but I am sorry I don't know which precise areas. I  
5 think New York and parts of Philadelphia but I don't know  
6 precisely.

7 Q So you remember that the new registrants seemed to  
8 come primarily from New York and Philadelphia -- that is  
9 your recollection?

10 A Well, when I look at statistics about the number  
11 of registered users overall, I see that a lot of the users  
12 are from New York, yes.

13 Q The timing of the new registrations seem to  
14 reflect the fact that a direct mailing had recently been  
15 made, is that correct?

16 A Yes. The timing was the same.

17 Q It looked sort of like a cause and effect. You  
18 had your direct mailing and then within a reasonable period  
19 afterward you had a fair number of new registrants.

20 A Yes.

21 Q From that, would you be willing to venture a guess  
22 that the direct mail campaign must have been primarily in  
23 New York and Philadelphia?

24 A It sounds like we are into a correlation-causation  
25 discussion here, and I -- I can't say whether my knowledge

1 of the direct mail campaign being in New York is influenced  
2 by -- I am not sure I understand your question directly, but  
3 I have already said that there is a definite correlation,  
4 yes.

5 Q How did you learn that there was a direct mail  
6 campaign in New York?

7 A Well, some time ago we were talking about -- "we"  
8 I am talking about the people involved in the project --  
9 were talking about the schedule for direct mail drops and  
10 how they would be scheduled over time, and it was in one of  
11 our status meetings I think that we noticed or it was  
12 announced that we had seen a sudden increase in  
13 registrations and someone said something to the effect that  
14 well, that's because we've begun the direct mail campaign,  
15 and I knew then that the direct mail campaign was affecting  
16 the number of registrations, and then I think in looking at  
17 the dispersion of registered users across the different  
18 target cities, you notice New York stands out, and put two  
19 and two together.

20 Q I see, so you didn't know specifically from the  
21 schedule you saw that New York had been the area to receive  
22 the direct mail campaign. You reasoned that from the  
23 registration response that you saw?

24 A Well, as I tried to say a minute ago, it may be  
25 part of my subconscious awareness that that was one of the

1 places but I cannot give you a schedule of what was dropped  
2 when or where.

3 COMMISSIONER LeBLANC: Mr. Garvey, could you  
4 either pull your mike a little closer --

5 THE WITNESS: Sure.

6 COMMISSIONER LeBLANC: -- or just -- there you go.  
7 Thank you.

8 BY MS. DREIFUSS:

9 Q If the direct mailings through accounting periods  
10 AP 2 through AP 6 did not cover all five marketing areas  
11 participating in the market test, then would you agree that  
12 if you did cover all marketing areas your direct mail  
13 expenditures would have been somewhat higher than the ones  
14 we have seen thus far?

15 A No. As a matter of fact, I think I have said  
16 previously that we have reported all of the expenditures  
17 including the postage despite the fact that we haven't  
18 incurred those expenses.

19 Q Right. I am not suggesting that you spent money  
20 and haven't accounted for it. What I am saying is if the  
21 expenditures that you have incurred reflected a direct  
22 mailing let's say only in the New York and Philadelphia  
23 areas, and if you had --

24 A I understand your question, I think, and let me  
25 clarify that the direct mail campaign was intended to target

1 all of the areas and we in fact have addressed mail pieces  
2 ready to mail to those areas we haven't mailed to. It's  
3 just that we have only mailed part of them.

4 Q Okay, so you had prepared direct mail pieces to  
5 cover all five marketing areas, is that correct?

6 A As far as I know, all five, yes.

7 Q And to your knowledge, some pieces have been  
8 mailed and some pieces have not?

9 A That's correct.

10 Q The expenditures that have been reported for AP 2  
11 through AP 6, you were saying a moment ago, cover the  
12 production of all mail pieces whether they have been mailed  
13 or not?

14 A That's correct.

15 Q And the expenditures from AP 2 through AP 6 cover  
16 all printing costs of these mail pieces whether they have  
17 been mailed or not?

18 A That is correct.

19 Q And the only remaining expenditure would be  
20 postage for those pieces that have not yet been mailed?

21 A That's the only one that I can think of, yes.

22 Q Do you have a sense for what percentage of the  
23 pieces have been mailed thus far?

24 A Unfortunately I do not.

25 Q Do you have a sense of how much the production



1 cost per piece was?

2 A I don't, I'm sorry.

3 Q Do you have a sense of what the printing cost per  
4 piece was?

5 A I do not.

6 Q How about postage per piece?

7 A I could make a guess.

8 Q What is your guess?

9 A Well, they were mailed Third Class and it would be  
10 somewhere around 15-16 cents, I guess.

11 Q Would you have any idea what accounting period  
12 report those expenditures might have wound up in from the AP  
13 data reports that we have seen thus far?

14 A I can say that this is all part of the issue of  
15 reporting and recording that has emerged and, no, I cannot  
16 say I know that -- one of the sources of information that is  
17 being worked from has a schedule to it that I have seen but  
18 there are parts and pieces having to do with creative  
19 production, physical production, the postage cost and all of  
20 these things are incurred at different times, but I can  
21 assure you that we have, as far as I know, uncovered all of  
22 the component costs and have either reported or will be  
23 reporting as the revision all of the things that you have  
24 mentioned.

25 Q So it is possible that some of those costs that we

1 have been talking about, the production and printing costs,  
2 and perhaps even the postage costs of the direct mail  
3 campaign, will be reported in a future accounting period  
4 report. Is that possible?

5 A No, I don't think so. I think what I have said is  
6 that the total cost that we are talking about, the \$4.4  
7 million, will include all of those costs. How they are  
8 allocated across the existing accounting period reports in  
9 terms of revisions or added to this last accounting period,  
10 I guess what we would be doing would be revising all of the  
11 past accounting period reports, but how they are spread  
12 across that is this issue of incurred or expended and when  
13 it happened and I can't say that right now, but I know that  
14 the folks who are preparing the reports are working on  
15 putting that together.

16 Q You don't personally check on the costs reported,  
17 not only for advertising but for hardware and software, et  
18 cetera, in the accounting-period reports -- you don't  
19 personally check to make sure that all costs have been  
20 reported accurately, do you?

21 A I don't think it would be fair to say that I do  
22 not do so. It is not my responsibility to go through the  
23 reports and check off everything and make certain that  
24 everything is included and that everything there is  
25 accurate. I look at it as a personal responsibility to

1 review the reports to check them against my knowledge and to  
2 participate in the process of making sure that they're  
3 complete and accurate.

4 Q ~~Who's~~<sup>Whose</sup> responsibility is it to make sure that costs  
5 have been reported completely and accurately?

6 A I look at it as a group responsibility, to be  
7 frank. I think everyone that's participating in this  
8 process is ultimately responsible for their piece. For  
9 instance, the IS costs that are reported, I have to rely  
10 upon the managers in that group to responsibly and  
11 thoroughly report the costs that they incur to us, and we  
12 accept them as reported.

13 Q I'd like to go back to your statement at the  
14 bottom of page 5, the one we've talked about earlier, but  
15 ask you some different questions than I've asked before.

16 You state there that you plan to increase the  
17 number of Mailing Online customers from the current 200 to  
18 several thousand. That's correct, isn't it?

19 A Yes.

20 Q This intention strikes me as somewhat inconsistent  
21 with a statement you make a little further up on the page at  
22 lines 10 and 11: "We have deliberately slowed the pace of  
23 our marketing efforts to avoid drawing additional traffic."

24 I'm confused about why you want to increase the  
25 number of Mailing Online customers and still avoid drawing

1 additional traffic.

2 A Well, as I responded in a previous question that  
3 you asked, we haven't given up on having the folks that are  
4 registered use the service. We would like to have them use  
5 it with both the understanding that it's not perfect and  
6 with the understanding that we are making adjustments in  
7 both the way that it works and the way that we work with it  
8 to accommodate the use that people are willing to make of  
9 it. So we have not -- as my testimony indicates, we have  
10 not stopped marketing efforts, we have simply slowed them  
11 and adjusted the way that we're talking to the customers to  
12 make sure that as they become users they understand and can  
13 give us proper feedback.

14 Q You say you haven't stopped marketing efforts.  
15 But I think you said you have stopped making advertising  
16 expenditures, haven't you?

17 A Yes.

18 Q Could you -- I think I know your answer, but I'm  
19 going to ask you to give it anyway. What are the marketing  
20 efforts that are continuing?

21 A Well, the support center, as I mentioned, will be  
22 talking with customers as they call in. We haven't given up  
23 on the direct e-mail messages that I was talking about.  
24 We'll still be communicating with our customers in that way.  
25 And we may very well be doing some additional

1 newsletter-type things to customers as well.

2 Q And I think you said before that to the extent  
3 that you're making efforts to contact registrants through  
4 e-mail or newsletters, those are not reported as advertising  
5 costs but as some other kind of cost in the  
6 accounting-period reports?

7 A My response as I recall was to whether the cost of  
8 the e-mail was being reported, and I said that the cost of  
9 effecting that e-mail was reported as a support-center cost  
10 rather than an advertising cost. Yes.

11 Q Since you are going -- I'm going to harken back to  
12 a statement you made before we broke for lunch -- you're not  
13 going to spend any more money on advertising, I think you  
14 said before lunch. Therefore, your ability to increase the  
15 number of Mailing Online customers from the current 200 to  
16 several thousand will largely depend on your contacts by  
17 e-mail or newsletter to the existing pool of registrants.  
18 Is that correct?

19 A I'd say that's partially correct, although, as  
20 we've covered once again, new users who come onto the  
21 service as a result of other users having been dropped may  
22 be anxious and willing and chomping at the bit to use  
23 Mailing Online and will need no encouragement at all.

24 Q The new users that would take the place of those  
25 that had to be dropped because of inactivity, they're

1 primarily users who became aware of PostOffice Online before  
2 you stopped -- in effect stopped advertising? Is that the  
3 way they would become new users?

4 A They could have become aware of it in the past.  
5 They could become aware of it through word of mouth.  
6 Perhaps they have friends who have told them about it. I  
7 can't say how they might be aware of it.

8 Q Do you think your advertising efforts to date were  
9 an important part of attracting new users to PostOffice  
10 Online?

11 A I would hope so; yes.

12 Q And the fact that you're going to discontinue  
13 advertising PostOffice Online to potential customers --  
14 well, let me back up. You look quizzical, so I'm going to  
15 see if we agree on something. When you contact existing  
16 registrants by e-mail or newsletter, these are folks who are  
17 already using PostOffice Online. They know about it, and in  
18 fact they've registered; right?

19 A I would agree that they are registered users --  
20 registered customers of PostOffice Online, not necessarily  
21 users of the service.

22 Q But at least they have some awareness of  
23 PostOffice Online.

24 A They had to register to get there; yes.

25 Q Quite possibly many of these folks didn't know

1 anything about PostOffice Online sometime early on in the  
2 market test, but your advertising efforts made them aware  
3 that there was such a thing as PostOffice Online, and  
4 induced them to visit the site. That's likely to be true,  
5 isn't it?

6 A Yes.

7 Q And since you are about ready to discontinue your  
8 advertising expenditures and your advertising efforts, at  
9 least the pace at which you attract new registrants is  
10 likely to fall sharply, isn't it?

11 A Well, to clarify, I've indicated that we don't  
12 expect to incur any more advertise costs. The costs that we  
13 have already reported include a substantial amount of direct  
14 mail which is waiting to be deposited, and with the  
15 effectiveness of direct mail, I would say that should we see  
16 the need to attract new people to the site, we have the tool  
17 in hand, and it won't cost us anything more to use it.

18 Q Would you like some of your -- or maybe all of  
19 your current registrants to become Mailing Online customers?

20 A I can't think of any other answer for that  
21 question than yes, it would be great if they would all use  
22 it and tell us what they thought.

23 Q Among your pool of registrants, are there some  
24 customers who use only Shipping Online and don't use Mailing  
25 Online?

1           A     Yes, there are.

2           Q     And presumably you'd like many or all of your  
3 Shipping Online customers to become Mailing Online  
4 customers, wouldn't you?

5           A     Well, I think there are two sides to this.  
6 Certainly I would expect and hope that people that have a  
7 need for Mailing Online services would use Mailing Online.  
8 I think it would be unrealistic of me to expect that people  
9 that have signed onto PostOffice Online for shipping for  
10 them to suddenly change their work methods and become a  
11 Mailing Online customer for no reason. So your question is  
12 would I like for them all to do that. To the extent that  
13 it's realistic, yes, I would like that.

14          Q     And in fact when you send out these newsletters  
15 and e-mails, you're sending them to your Shipping Online  
16 customers, aren't you?

17          A     We send them to all registered PostOffice Online  
18 customers; yes.

19          Q     Do you have an idea how many Shipping Online  
20 customers you have at the present time?

21          A     I have a general idea; yes.

22          Q     Approximately what number is that?

23          A     I think that currently it's somewhat in excess of  
24 1,000.

25          Q     Do you have any idea about the number of Shipping



1 Online transactions that have occurred roughly to date?

2 A I'm sorry, I don't know the number of  
3 transactions. I know that it's substantially higher than  
4 Mailing Online transactions, but I don't know the ratio.

5 Q Do you know if that number is being recorded or  
6 collected somewhere in the Postal Service?

7 A Yes, I do know that. It is.

8 MS. DREIFUSS: I'm going to ask for it in just a  
9 moment, to see if your counsel would be willing to provide  
10 it, and I'll ask through the Presiding Officer.

11 COMMISSIONER LeBLANC: Too many things to do at  
12 one time. I apologize.

13 MS. DREIFUSS: I understand.

14 Mr. Garvey has said that the Postal Service does  
15 keep a record of how many Shipping Online transactions they  
16 have had to date, and I wanted to ask you -- or actually  
17 I'll ask the Postal Service through you if they would be  
18 willing to provide that number to us.

19 COMMISSIONER LeBLANC: And this is in relation to  
20 what now? You want Shipping Online in relation to --

21 MS. DREIFUSS: In relation to PostOffice Online.  
22 We do know that the Shipping Online customer base may --  
23 through e-mail and newsletter contacts could potentially  
24 become Mailing Online customers. In addition, I'll be  
25 honest, the testimony that we're preparing would rely

1     importantly on that number.  So I'm going to ask if we can  
2     get the number of Shipping Online transactions to date.

3             COMMISSIONER LeBLANC:  Well, frankly I was going  
4     to ask it from the bench.  That was one of my questions.  So  
5     we'll have to either -- Mr. Garvey, if you -- can you take  
6     that, do you have a way of getting that before -- I don't  
7     want to try to make it a homework assignment, because we've  
8     already got enough.  So could you possibly help out in that  
9     regard?  Do you know --

10            THE WITNESS:  Well, I responded that we have about  
11     1,000 -- slightly over 1,000 users of the Shipping Online  
12     service.  I don't know the number of transactions, although  
13     I know that they're substantially higher than the Mailing  
14     Online transactions.  They are being reported.

15            COMMISSIONER LeBLANC:  Can you get that figure  
16     without too much difficulty, or how --

17            THE WITNESS:  Yes, I can.

18            COMMISSIONER LeBLANC:  Mr. Hollies, any objections  
19     to that, then?  You've got enough on your plate, and --

20            MR. HOLLIES:  I do object, because there seems to  
21     be no end to this cycle of questions.  If on the other hand  
22     the Commission would rather have us answer this endless  
23     series of questions, we can do that.  If the Commission  
24     would like to have a brief, we can do that.  But we're very  
25     much getting to the point where we can't do both.

1           This particular question seems to have a  
2 relatively short tail. That is, it's not as troublesome as  
3 most. My problem is that there appears to be no limit on  
4 what curiosity can -- excuse me, what the OCA can think up  
5 out of its curiosity as things that might be interesting or  
6 neat to have, and to request them and do so while there is  
7 no respect whatsoever for the procedural schedule that has  
8 been set in this case. So if you're willing to direct that  
9 we produce that information, Mr. Presiding Officer, we will  
10 certainly produce it.

11           COMMISSIONER LeBLANC: Mr. Hollies, with all due  
12 respect, if you can calm down a little bit here, because I  
13 don't want to get this thing out of hand. Now if we need to  
14 take a break, we can do that. I was going to ask it from  
15 the bench, this specific question. Now we can do this in a  
16 calm manner from the bench, we can do it as Presiding  
17 Officer's Information Request, we can do it as a notice of  
18 inquiry.

19           There are a number -- you're an attorney, I'm not.  
20 You know better than I do where we can go with this and  
21 where we can't go with this. But I'm going to suggest to  
22 you that I was going to ask it from the bench, and if Mr.  
23 Garvey cannot answer it properly for me, then I was going to  
24 ask it again in a Presiding Officer's Information Request or  
25 a notice of inquiry.

1 Frankly, I don't like that answer. It's not as  
2 complete an answer as I would have liked, either, and I  
3 would respectfully request that you get us that answer as  
4 best that you can, Mr. Garvey. If it is going to be a major  
5 problem, again I say as I said this morning, let's get back  
6 with the Commission and we will try to respond as tactfully,  
7 as responsibly, as quickly as humanly possible here.

8 Ms. Dreifuss, I would like to ask, within reason,  
9 to try to broaden as best you can your focus, because they  
10 do have -- they, the Postal Service, does have a tight  
11 schedule, as we all do, and every time we give them a  
12 homework requirement, I realize it helps your case, you have  
13 to build your case, and I understand that, but by the same  
14 token if we can be broad in some respects, it will help  
15 expedite the whole thing for everybody here.

16 MS. DREIFUSS: I will certainly try to exercise  
17 greater restraint. I can't promise absolutely that I  
18 won't --

19 COMMISSIONER LeBLANC: I understand that. I'm  
20 just asking. I think Mr. Hollies brings out a good point in  
21 some respects, but, you know, if you need the information,  
22 fine, we will do whatever we have to do to get everybody as  
23 full a record as we humanly possibly can here.

24 Now let's move it on, please.

25 MS. DREIFUSS: Thank you.

1 BY MS. DREIFUSS:

2 Q Could you turn to page 6, please?

3 A All right.

4 Q At the bottom of page 6, lines 21 and 22, you say  
5 that Mailing Online targets a more narrow and currently  
6 ill-served group of customers.

7 Generally, the Postal Service wants to serve the  
8 -- what's called the SOHO market, is that correct, with  
9 Mailing Online?

10 A That's part of the market for Mailing Online, yes.

11 Q What would the rest of the market be if that's  
12 only part?

13 A Well, SOHO defines a specific -- as I think of it,  
14 a specific demographic group of small office and home office  
15 users. There is another segment in our thinking that's the  
16 small business. That's not necessarily small office or home  
17 office, but is rather a small business.

18 Q Do you have any estimates of how many pieces per  
19 mailing a SOHO customer is likely to generate?

20 A How many pieces of mail in an individual mailing  
21 or --

22 Q Let's start with that, in a single mailing.

23 A This is a complex question and it would require  
24 that you specify more clearly what kind of mailing you're  
25 talking about. We have attempted in some of our inquiries to

1 our customers, some of the research that we're doing, to get  
2 a handle on what kind of mailings they might use Mailing  
3 Online for in the context of what they do. But I can't  
4 think -- I don't believe I can give a specific answer to  
5 your question about what a -- the size of a mailing that a  
6 typical SOHO would do. That doesn't -- there's not an  
7 answer to that question.

8 Q During the market test, do you think you're  
9 getting mailings of roughly the number of pieces per mailing  
10 that you anticipated before you launched the market test?

11 A No, I don't, and I think that anyone objectively  
12 analyzing it would not find so, either. We found that there  
13 are an awful lot of people -- and this is what we saw in the  
14 previous test, too -- there are an awful lot of people who  
15 are just testing the water, so to speak, sticking their toe  
16 into the water, mailing one piece or six or eight pieces.

17 We subsequently see some of these same folks  
18 coming back and mailing larger quantities, and I would say  
19 that if you could somehow separate those toe-in-the-water  
20 type mailings from the latter category, that you would find  
21 the latter might represent something that you can analyze as  
22 being a relative volume.

23 Q How about the very largest mailings you've had so  
24 far, the largest number of pieces per mailing that you've  
25 seen so far during the market test. Is that the level that

1 was anticipated prior to the commencement of the market  
2 test?

3 A The system today has a limit, as you know, a  
4 technical limit, because it's still running basically as an  
5 enhanced prototype system. So we've restricted the users  
6 and the number of pieces that they can mail, and I -- I  
7 would say that the upper bounds of what we've seen so far  
8 perhaps don't represent the upper bounds of what we will  
9 eventually see, and it's hard to analyze the eventual  
10 numbers, what we think will happen in the experiment in  
11 light of what we have today.

12 Q So you are -- at the current time in the current  
13 version of the Mailing Online software that you're using  
14 now, you are restricting the number of pieces per mailing;  
15 is that correct?

16 A Yes. Uh-huh.

17 Q What is the highest number of pieces per mailing  
18 that you will permit?

19 A I think it's been previously put into the record  
20 that it's 5,000.

21 Q Are you under the impression that you've had --  
22 that there've been attempts to mail more than 5,000 pieces  
23 in a single mailing and those efforts have had to be  
24 refused?

25 A Not personally aware of that, no.

1 Q Do you know if you've had any mailings that have  
2 reached the 5,000-piece limit?

3 A Yes.

4 Q Do you have any idea what percentage of the number  
5 of mailings that would be that have approached that high  
6 level?

7 A Not off the top of my head, but if you go through  
8 the reports, you'll find mailings identified and you can do  
9 the analysis yourself.

10 Q You said that you knew that -- whether or not  
11 there had been attempts to mail 5,000 pieces or more, that  
12 you knew of such attempts?

13 A I believe that I said I was not aware of such  
14 attempts, not personally aware.

15 Q Do you have any idea what the average usage -- the  
16 average number of pieces per year, per user was assumed by  
17 the Postal Service prior to the commencement of the market  
18 test? So in other words, that would be the total pieces per  
19 year, per user.

20 MR. HOLLIES: Objection to the form of the  
21 question. There's been no establishment by counsel that  
22 there was any such assumption ever made.

23 MS. DREIFUSS: I can establish that, Commissioner  
24 LeBlanc.

25 COMMISSIONER LeBLANC: I think you'd better, Ms.



1 Dreifus.

2 MS. DREIFUSS: Certainly.

3 BY MS. DREIFUSS:

4 Q Have you had a chance to review Witness  
5 Rothschild's testimony and Library Reference at some point  
6 in the past --

7 A It's been a while. Yes.

8 Q -- several months?

9 For your convenience and the convenience of the  
10 Commissioners and your counsel, I do have some -- a couple  
11 of pages that I've copied out of Witness Rothschild's  
12 Library Reference -- this is LR-2, attached to her testimony  
13 -- and some figures that I've worked up. If you don't have  
14 any objection, Mr. Presiding Officer, I'll hand those copies  
15 out now.

16 COMMISSIONER LeBLANC: That will be fine. Make  
17 sure that you give Postal Service counsel as well.

18 MS. DREIFUSS: Certainly.

19 COMMISSIONER LeBLANC: Will we need a short break  
20 for them to glance at it, Ms. Dreifus?

21 MS. DREIFUSS: If you want to give Mr. Garvey a  
22 minute or two, I don't see --

23 COMMISSIONER LeBLANC: I think we better make sure  
24 we have everybody on the same sheet of music -- Mr. Hollies  
25 and Mr. Rubin and Mr. Garvey.

1 MR. HOLLIES: In light of the fact this consists  
2 of three pages with some fairly detailed numbers, it's a  
3 little difficult to imagine being able to absorb this at one  
4 glance.

5 COMMISSIONER LeBLANC: Ms. Dreifus, I do not want  
6 to make or unmake your case for you, but to what detail will  
7 you be getting into the pages?

8 MS. DREIFUSS: I could ask these questions subject  
9 to check. That would be a possibility if Postal Service  
10 counsel feels that it's a little too complicated to deal  
11 with at this time.

12 COMMISSIONER LeBLANC: Would you rather do that or  
13 we can take a five-minute break here and allow all parties  
14 to take a look at it?

15 MS. DREIFUSS: A five-minute break I think would  
16 be enough time.

17 COMMISSIONER LeBLANC: Mr. Hollies, would that be  
18 all right with you, then?

19 MR. HOLLIES: We'll give five minutes a try and  
20 see where we stand.

21 COMMISSIONER LeBLANC: Just glance at it. If  
22 there's a problem, we'll do whatever we have to.

23 MS. DREIFUSS: Thank you.

24 COMMISSIONER LeBLANC: We'll be off the record for  
25 five minutes.

1 [Recess.]

2 COMMISSIONER LeBLANC: Back on the record. Ms.  
3 Dreifuss.

4 BY MS. DREIFUSS:

5 Q Two of the sheets that we have handed you come  
6 from Library Reference 2 attached to Witness Rothschild's  
7 testimony. Those would be Tables 15 and 19(b). And I think  
8 you have had a moment to look those over, haven't you?

9 A Yes.

10 Q Then we have also provided a third sheet of paper  
11 on which we have calculated the average number of pieces per  
12 user per year. That would be the third line of figures. Do  
13 you see those?

14 A Yes, I see that.

15 Q The total annual volume figures across the top  
16 line, which we have labeled Mail Volume, come from Table 15  
17 of Library Reference 2. Do you see that they come from  
18 there?

19 A Yes, I see that.

20 Q And the number of users that we have been using to  
21 divide the total pieces per year by comes from Table 19(b).  
22 Do you see that?

23 A Yes, I see that.

24 Q And in making this division, we have calculated  
25 that the average number of pieces per user per year will be

1 a little over 49,000 pieces. Do you see that calculation?  
2 Well, you don't see the calculation. Do you see the results  
3 of that calculation?

4 A That would be the average per user line, yes.

5 Q Now, getting back to your testimony, you talk at  
6 page 7 about at least part of the market for Mailing Online  
7 will be, for example, at line 7, small business owners. Are  
8 small business owners a large part of the Mailing Online  
9 market?

10 A We expect them to be, yes.

11 Q Would you think that they would be generating a  
12 little over 49,000 pieces per year?

13 MR. HOLLIES: Objection, lack of foundation to the  
14 question. Counsel has just indicated that some unknown  
15 person using some unknown method has engaged in calculating,  
16 and that calculation assumes the comparability of numbers on  
17 line 1, that is the MOL volume line, with the users on line  
18 2. As a simple example, Witness Rothschild's projections  
19 are based on a full-up environment, that is, one where 25  
20 printers are in place, and it is on that basis she makes her  
21 projections. And these numbers here do not appear  
22 comparable.

23 So if we have a foundation established for what  
24 has been done, I think we will have a proper line of  
25 questioning, but at this time that foundation has not been

1 established.

2 COMMISSIONER LeBLANC: Ms. Dreifuss, do you care  
3 to --

4 MR. HOLLIES: Adopters, for example, are not equal  
5 to users.

6 COMMISSIONER LeBLANC: Ms. Dreifuss, if you want  
7 the question in, I am afraid you are going to have to  
8 rephrase it or build the foundation. Use a hypothetical,  
9 you can do it subject to check, if they will allow it, that  
10 is up to you.

11 MS. DREIFUSS: We do know that Witness Stirewalt,  
12 earlier in the proceeding, used these figures of Witness  
13 Rothschild. We find them at Attachment 1 to the Stirewalt  
14 testimony. He seems to be using the same user figures that  
15 we took out of Witness Rothschild's Library Reference 2,  
16 and, in fact, he cites to that Library Reference and the  
17 table that we are using.

18 Now, Witness Stirewalt also had determined a  
19 number of addresses per mailing list, which I think he uses  
20 as <sup>g</sup>proxy for the number of pieces per mailing. So we see  
21 that other Postal Service witnesses have been using these  
22 figures, and I think it is legitimate to make a comparison  
23 to market test users.

24 COMMISSIONER LeBLANC: Can you give us a cite as  
25 to where you are talking about in there?

1 MS. DREIFUSS: Yes, I am citing to Attachment 1 to  
2 Witness Stirewalt's testimony. And I am willing to let the  
3 Postal Service have a look at this if they would like to do  
4 so.

5 COMMISSIONER LeBLANC: For clarification of the  
6 record again, please let them take a look at it.

7 Have you had a chance, Mr. Garvey, to review that  
8 table at all? Are you familiar with Witness Stirewalt's  
9 testimony?

10 THE WITNESS: I am sure that I have seen it, I  
11 have not reviewed it in recent memory.

12 COMMISSIONER LeBLANC: Would you be in a position  
13 to comment on it? Because as I understand your comment, Ms.  
14 Dreifuss, that is what you are asking him to do, is to have  
15 some verification of these numbers. Now, if he is not in a  
16 position to verify the numbers and/or where they have come  
17 from, any more than to say he has seen the actual numbers  
18 themselves, then at this point we may not have the  
19 foundation.

20 MS. DREIFUSS: The problem is we see a  
21 contradiction in Witness Garvey's statements about the type  
22 of customer that they are targeting for Mailing Online and  
23 the type of volume estimates that Witness Rothschild  
24 generated in her turn. And, in fact, as we know, Witness  
25 Garvey actually states with favor Witness Rothschild's

1 volume estimates. He says they are the best estimates we  
2 have on the record. And, again, we believe there is --  
3 there may be a contradiction between her estimates.

4 COMMISSIONER LeBLANC: The contradiction is  
5 between the estimates or the actual --

6 MS. DREIFUSS: Well, the way her -- a natural  
7 extension of her estimates. If we start with the total  
8 volume figure, for example, for year 1 that we have  
9 presented here, that is a total volume figure that she  
10 estimated, and we divide that by the number of users, again,  
11 that she has estimated, we get an average number of pieces  
12 per year that we feel -- and I am sorry, let me take that  
13 further, eventually that would give rise to the 812 million  
14 piece figure that Mr. Garvey cites at page 6, line 15 of his  
15 testimony. And we believe that that is inconsistent with  
16 his statements about the target market for Mailing Online.

17 COMMISSIONER LeBLANC: So your concern is that his  
18 derivation, if you will, where he gets these numbers from,  
19 is actually wrong in itself?

20 MS. DREIFUSS: Well, we are just confused about  
21 which market is being targeted. Is it a market that is  
22 going to -- or a customer who is part of a market, and that  
23 customer likely to be generating almost 50,000 pieces per  
24 year, or is it really the kind of small volume, small  
25 office, home office user that he cites in his testimony.

1 MR. HOLLIES: Mr. Presiding Officer, the questions  
2 appear to be focused on an argument about what OCA perceives  
3 to be an inconsistency in approaches. That is something  
4 that can be argued on brief. If, however, there are  
5 questions specific to what Mr. Garvey has said, or even what  
6 Mr. Garvey has relied upon by way of Witness Rothschild's  
7 information, that would be fair game.

8 COMMISSIONER LeBLANC: Thank you.

9 BY MS. DREIFUSS:

10 Q When you talked about -- let me go to page 7 of  
11 your testimony.

12 COMMISSIONER LeBLANC: Wait, Ms. Dreifuss. Make  
13 sure I am with you here. So, are you going to try to repeat  
14 this, is that where we are then, at this particular case?

15 MS. DREIFUSS: Well, maybe I will take a different  
16 tack. I will ask him instead what it is he means in his  
17 testimony, and then I will compare it to the estimates that  
18 Witness Rothschild has made.

19 COMMISSIONER LeBLANC: I have no problems with  
20 that.

21 BY MS. DREIFUSS:

22 Q Mr. Garvey, let's turn back to page 7 for a  
23 moment. And I will just read three phrases from this page  
24 to you. The first one I find at line 7, you talk about  
25 small business owners, at line 9, you says/ their volumes are



quite low. Further down on page 14, again, the first -- the sentence that begins in the middle of that line, even at lower volumes. You seem to be suggesting in your testimony that you are targeting small business owners, low volume mailers. And let me ask you, is that the market that you are targeting for Mailing Online?

A I think I have answered that question many times already and, as is apparent in what we are doing, that is what we believe will be the largest pool of users of Mailing Online service, yes.

Q Let me ask you to give just a ballpark range of how many pieces either per mailing or per year you would expect a small business owner to generate?

A Well, let me use a very practical example. Witness Wilcox, the cafe owner who sends out a newsletter, is sending out in the range I believe of 1500 newsletters a month. If you add that up over the period of a year, you get -- you can do the math, but in the neighborhood of 20,000 and that is a practical example.

Now other small businesses will do other amounts I am certain and I would personally hope that they would find the use of the mail so compelling that their mailings would exceed 1500 pieces a month.

Q Are you targeting at all or will you target with your advertising efforts businesses likely to generate

1 almost 50,000 pieces per year?

2 A I think we will target businesses that have a  
3 practical use for Mailing Online service. We have  
4 identified small businesses, small offices, and home office  
5 users as being candidates who will have many more uses for  
6 small quantity mailings than large businesses, we think.

7 Your question I believe is will we be targeting  
8 people -- or customers who would be mailing 49,000 pieces a  
9 year? If they have that quantity in small volume mailings,  
10 yes, we will be targeting them, and I think in relative  
11 terms 49,000 pieces a year is not a large quantity.

12 Q So in your opinion a business that mails 49,000  
13 pieces per year should be considered a small business owner  
14 or a low volume mailer. Is that your position?

15 A I think that there might be a correlation between  
16 the number of pieces mailed by a business and the size of  
17 their business, but it is not necessarily -- one doesn't  
18 cause the other. We are getting into yesterday's discussion  
19 again, but a very large business that has no use for mail  
20 will not be a mailer at all. A very small business whose  
21 business depends on mail will be a very large mailer, so  
22 there is no direct correlation between the size of the  
23 business and the number of pieces.

24 Q You mentioned a little earlier this afternoon that  
25 right now the current version of Mailing Online software

1 can't handle more than 5,000 pieces at one time. That's  
2 true -- you did say that earlier, right?

3 A I said that is the limit we placed because of our  
4 technical concerns, yes.

5 Q Will that continue to be a limit throughout the  
6 experiment?

7 A No, we don't expect that to be so at all.

8 Q Will there be any limit on the number of pieces  
9 per mailing during the experiment?

10 A I can't say absolutely what we would not place a  
11 limit. We don't know the technical limits of the system  
12 that will be in place for the experiment because we haven't  
13 seen it yet.

14 I would hope that we wouldn't have to place a  
15 limit but if we have to for technical reasons, we will.

16 Q Focusing on line 9, your statement on line 9, page  
17 7, <sup>their</sup>~~there~~ volumes are quite low" -- what numbers did you have  
18 in mind when you made that statement?

19 A I don't believe I had any specific numbers in mind  
20 but the context of my statement here in the testimony has to  
21 do with the effects on competition, and I think relative to  
22 those organizations that would be concerned about the  
23 competitive impact of Mailing Online, the relative volumes  
24 that are going to be mailed by these customers talked about  
25 here are quite low.

1 Q So your position is that competition shouldn't be  
2 too seriously affected if you attract businesses that mail  
3 low volumes, is that true?

4 A In the context of what Mailing Online is capable  
5 of doing, in association with the low volume, yes.

6 Q Do you feel that businesses that mail high volumes  
7 if you were to attract a great deal of that business, that  
8 that could harm competition?

9 A I haven't given that question a lot of thought but  
10 I think that the other ameliorating factors about Mailing  
11 Online, it's lack of sophistication that I have mentioned in  
12 prior testimony, its flat rate pricing which is an economic  
13 disincentive to large mailings and its lack of flexibility  
14 in volume pricing or anything like that would lead me to  
15 believe that the competitive threat posed to large volume  
16 mail service providers would be minimal.

17 Q And it is minimal because you don't expect very  
18 much of the high volume mailings, is that right?

19 A That's true, we don't expect high volume mailings.  
20 Yes.

21 Q And 49,000 pieces per year -- what quality range  
22 are we talking about, small, medium or large business?

23 A Can you restate that question?

24 Q Well, if a business were to mail roughly 49,000  
25 pieces per year, would you consider it a small business, a

1 medium sized business or a large business?

2 MR. HOLLIES: Objection. That question has been  
3 asked and answered.

4 MS. DREIFUSS: I disagree, Mr. Presiding Officer.  
5 I asked about small. I don't think I had ever asked  
6 previously about medium and large. I hadn't given him those  
7 choices before.

8 I would like him to think about it again with  
9 those three terms in mind and not just the term "small."

10 MR. HOLLIES: A previous round of questions  
11 elicited responses from the witnesses indicating that  
12 business size correlates but not perfectly with mail volume.  
13 This is another form of that same question.

14 COMMISSIONER LeBLANC: With all due respect, Mr.  
15 Hollies, I am going to let him answer it as best he can to  
16 complete the record. I understand what you are saying, but  
17 it is not specifically the same. You just address it any  
18 way you feel comfortable with, Mr. Garvey, and then we will  
19 move on.

20 THE WITNESS: My answer is essentially the same as  
21 it was previously and that is that I can draw no direct  
22 correlation between the volume of a mailing and the size of  
23 a business.

24 BY MS. DREIFUSS:

25 Q How about let's tag an adjective onto the mailing

1 then -- I'm sorry, to a volume per year.

2 Is 49,000 pieces a small volume per year, medium  
3 volume per year or large volume per year?

4 A In Postal Service terms our customer service reps  
5 and marketing representatives, 49,000 wouldn't even touch  
6 their radar.

7 Q Meaning?

8 A Meaning that to them is a very small mailer.

9 COMMISSIONER LeBLANC: Ms. Dreifuss, I think that  
10 answers the question. Move on.

11 MS. DREIFUSS: I am going to move on to another  
12 line of questions now. It will take me just a moment to  
13 clear away some of the things I have in front of me.

14 COMMISSIONER LeBLANC: Mr. Garvey, how are you  
15 doing with your water? Everything okay?

16 THE WITNESS: Fine. Thank you very much.

17 COMMISSIONER LeBLANC: You are all right? Do you  
18 need a break or anything? You're all right?

19 THE WITNESS: I'm okay.

20 BY MS. DREIFUSS:

21 Q Now we're going to turn to your rebuttal of  
22 Witness Callow's testimony. I would like to start at page  
23 3.

24 Is it your understanding that Witness Callow  
25 proposed his pricing formula in response to the Commission's

1 market test opinion and notice of inquiry Number 1?

2 A Restate the question, please? I'm sorry.

3 Q Is it your understanding that Witness Callow  
4 proposed his pricing formula in response to the Commission's  
5 market test opinion and notice of inquiry Number 1?

6 A I'm sorry, I can't say yes or no to that question.  
7 It sounds like a technical question. I don't know.

8 Q Here's an example of the kind of concern that  
9 Witness Callow may have been reacting to in formulating his  
10 proposal. I am going to be reading or quoting from the  
11 Commission's market test opinion at page 35.

12 The Commission concludes that "Temporarily  
13 allowing this preference is not unreasonable because of the  
14 significant transactional benefits that it makes possible.  
15 The Commission however must express its misgivings about  
16 extending this preference beyond the market test period.  
17 The Commission urges the Postal Service to explore other  
18 means of giving Mailing Online customers access to the  
19 economies of batching that do not require blanket exemptions  
20 for Mailing Online mailings from the eligibility  
21 requirements for automation discounts."

22 Does that language ring a bell for you?

23 A Yes.

24 Q The Commission appeared to be expressing concern  
25 at that portion of its market test opinion that there would

1 be some Mailing Online mailings that would qualify for a  
2 basic automation rate while not meeting the requirements  
3 ordinarily imposed on hard copies for that rate eligibility;  
4 is that correct?

5 A Yes, with the exception of in the last part, you  
6 mentioned a comparison to hard copy. Mailing Online  
7 mailings, in fact, when they're produced and mailed, are  
8 hard copy.

9 Q They are; however, if a Mailing Online mailing  
10 does not either have the -- let's say a Mailing Online  
11 mailing has less than the minimum volume normally required  
12 for eligibility for the basic automation rate. It's Postal  
13 Service's proposal that nevertheless, it should be entered  
14 at the basic automation rate; is that correct?

15 A That is correct.

16 Q And in its market test opinion, the Commission was  
17 concerned about making that available to Mailing Online but  
18 not to competitors of Mailing Online, for example; is that  
19 correct?

20 A I think that that -- the expression of the concern  
21 is in that statement, yes.

22 Q In fact, the Commission suggests in its opinion  
23 that a rebate system might avoid any potential unfairness  
24 along the lines that we've just discussed; is that correct?

25 A Yes, that is part of the discussion.



1 Q In your view, does the Commission's idea that  
2 rebating any differential between the postage paid when a  
3 mailing -- when a Mailing Online mailing is first presented  
4 and the lower price that is warranted after the mailing may  
5 have been batched with other pieces, did the Commission  
6 believe that that would avoid the anti-competitive effects  
7 that we discussed just a moment ago?

8 MR. HOLLIES: Objection. Calls for, among other  
9 things, a legal conclusion as to what the belief of the  
10 Commission was in crafting that language. It's not a proper  
11 question.

12 BY MS. DREIFUSS:

13 Q Well, let me ask you, then, do you believe that a  
14 rebate system would avoid the anti-competitive effects that  
15 the Commission was concerned about?

16 A I believe that a rebate system would be one  
17 approach to alleviating those concerns, but I have argued  
18 vigorously in the past against a rebate system for a variety  
19 of reasons and I think that the negative aspects of a rebate  
20 system under the current circumstances far outweigh whatever  
21 advantage might be attached to it.

22 Q Is it your understanding that Witness Callow  
23 proposed his pricing formula to address the concerns that  
24 you have just described?

25 A I think that's one aspect of his proposal, yes.

1 Q One of the advantages of Witness Callow's proposal  
2 is that it permits the Postal Service to offer a firm, fixed  
3 postage charge at the time a Mailing Online transaction is  
4 confirmed by the customer; isn't that true?

5 A Yes, that is true.

6 Q Let's turn to your testimony at lines 19 to 21 on  
7 page 3, please. Now, just prior to the sentence, you've  
8 spoken with --

9 A I'm sorry, what page was that?

10 Q I'm on page 3, --

11 A Okay.

12 Q -- lines 19 through 21.

13 A Got it. Thank you.

14 Q In the sentence just prior to this, when you've  
15 spoken with some favor about Witness Callow's proposal --  
16 that's true, isn't it?

17 A Yes.

18 Q But at this point, you say -- actually, you say  
19 "one the other hand" -- it's "on the other hand." I don't  
20 know whether that's ever been caught. It says "one" instead  
21 of "on", not that it's terribly important.

22 But anyway, "on the other hand, two significant  
23 flaws militate against adoption of his proposal at this  
24 time. Witness Callow's proposal rests on the assumption  
25 that the rate structure appropriate for traditional hard

1 copy mail is also appropriate for hybrid products."

2 You make that statement, right?

3 A Yes.

4 Q But isn't it true that the Postal Service's  
5 proposal focuses on a single hard copy rate -- that is, the  
6 automation basic rate? That's true, isn't it?

7 A Yes, that is true, but it's chosen as a proxy, as  
8 a placeholder, as it were, to give us an opportunity to  
9 discover what would be the appropriate rate.

10 Q Isn't Witness Callow's pricing formula based upon  
11 existing hard copy rates also?

12 A Yes, it is.

13 Q Why is the Postal Service's selection of a single  
14 hard copy rate more advantageous than Witness Callow's  
15 proposal which chooses from rates that are a close match to  
16 the kind of mailings that the Postal Service has received?

17 A Well, the Postal Service chose the basic  
18 automation rate as a proxy and to simplify things because  
19 the thought was to go through the process of creating the  
20 kind of system that Witness Callow proposes is not -- the  
21 phrase comes to mind not worth the effort, and truly, that's  
22 what it is, it's not worth creating that system for  
23 something that we don't understand at this point enough to  
24 go to that trouble.

25 In other words, Witness Callow's proposal directly

1 connects and proposes for the foreseeable future to directly  
2 connect with we're doing with hard copy rates. We think  
3 that there may be a better way to do it and a simpler  
4 understanding of the rate structure that we need for the  
5 permanent service that we'll be offering, and for our  
6 purposes, the basic automation rate serves that purpose more  
7 -- with less complexity than does Witness Callow's proposal.

8 Q Well, we're not talking about the rate that would  
9 be appropriate when the Postal Service asks for a permanent  
10 classification, are we?

11 A We're talking about the experiment as being a time  
12 with the Postal Service will learn about the characteristics  
13 of Mailing Online and the actual cost which will drive out  
14 proposal for a permanent rate.

15 Q What would be the problem, though, during the  
16 course of the experiment, charging postage fees that more  
17 and more and more closely as the experiment wears on match  
18 the kind of mailings that you're actually receiving from  
19 your customers?

20 A All things being equal, if we had the time and the  
21 wherewithal to effect such a system, perhaps nothing,  
22 technically speaking. I would say that it does have the  
23 downside of being less intuitively understandable for the  
24 casual user such that the rate they get tomorrow may not be  
25 the same as the one they get today, and I know that's been

1 discussed already, but I think, in my opinion, that weighs  
2 heavily against trying to simplify things in the short-term  
3 for these neophyte users.

4 Q Doesn't that mirror the kind of complexity the  
5 neophyte user would find in printing charges?

6 A To a certain extent, yes, it does.

7 Q In fact, if -- I'll use myself as an example. If  
8 I were a Mailing Online user and one day -- and let's talk  
9 about a point in time further into the experiment when  
10 there's several printers online. One day, I mail ten pieces  
11 to New York, and the following week, I mail ten identical  
12 pieces to Sioux Falls, South Dakota. There's a good chance  
13 that the printing charge per piece will be different, isn't  
14 there?

15 A Yes, indeed, there is, and I think customers are  
16 aware that they're going to be charged different prices by  
17 different printers. We make it no secret that the  
18 commercial printers are doing the printing for us, so that  
19 should come as no surprise. However, a Postal customer  
20 would be surprised if the Postal Service charged them 33  
21 cents for a stamp today and 35 tomorrow and then 28 the next  
22 day.

23 Q The Postal Service could explain the method by  
24 which postage charges are calculated, explaining that it's  
25 trying to match closely the amount of presortation that it

1 finds it is presented with in Mailing Online. Couldn't it  
2 present an explanation like that at the Post Office Online  
3 website?

4 A I don't deny that you could try and explain that  
5 to the customer. I am simply saying that in my mind, it  
6 would be a difficult thing to do and would weigh against the  
7 principles that we tried to use in developing the service of  
8 simplicity and ease of use.

9 Q If the trend that arose under Witness Callow's  
10 methodology was such that the deeper -- the farther into the  
11 experiment you go, the lower the postage charge, if that  
12 were to be the trend, would you agree that customers would  
13 look on that difference in postage in a favorable way?

14 A A common-sense answer would be that yes, customers  
15 would like having lower postage rates.

16 Q How much batching is the Postal Service able to do  
17 at the present time?

18 A Can you define batching, please?

19 Q The ability to merge individually entered mailings  
20 with one another.

21 A The batching capability of the current system has  
22 not changed from that previously described in that it can  
23 take mail merge mailings of similar characteristics and  
24 merge them into a single batch.

25 Q What about for non-mail merge mailings?

1           A     The current system that's in operation today does  
2 not differ from previously described systems in that it does  
3 not do that.

4           Q     Will there be a different version of software put  
5 into place when the experiment commences?

6           A     Yes. As I mentioned in my rebuttal testimony, the  
7 developers informed me that the capability to do more  
8 substantial merging will in fact appear with the next  
9 release of the software.

10          Q     In fact, the Postal Service's goal ultimately is  
11 to merge most or all mail pieces if possible sometime in the  
12 future; isn't that correct?

13          A     That is correct as reflected in the previous  
14 transcript.

15          Q     And so the tendency that I described a moment ago  
16 that postage costs may decline with subsequent versions of  
17 software is a very real possibility, isn't it?

18          A     I would have to ask what you mean by postage  
19 costs. Are you talking about cost to the Postal Service or  
20 --

21          Q     I should say postage fees. That is, when -- well,  
22 let me ask you about this tendency. The more the Postal  
23 Service can merge mailings, even -- or batch mailings, even  
24 non-mail-merge type mailings, generally speaking, the more  
25 presortation can be achieved; is that correct?

1 A That's correct, yes.

2 Q And the more presortation that is achieved, under  
3 Witness Callow's pricing formula, the more likely that lower  
4 rates would be paid at a later period in time as more  
5 batching is able to take place; is that correct?

6 A That would be a reasonable assumption, yes.

7 Q I would like you to describe your understanding of  
8 the Postal Service's ability to batch with the version of  
9 Mailing Online software that will be put in place at the  
10 time of the -- that the experiment commences. What kind of  
11 batching will you be able to do at that time?

12 A I can't describe it precisely, but as I described  
13 in my testimony, the letter-size pieces that are produced by  
14 Mailing Online, which consist of pieces with five or fewer  
15 pieces of paper, will, to the greatest extent possible, be  
16 merged, and I don't know to what extent that is today, but  
17 it's a goal in the short-term.

18 Q Is it your understanding that it may be possible  
19 to merge a five-page letter with a one-page letter, for  
20 example?

21 A Yes. The theory is that every single letter-size  
22 piece could go into a single mailstream regardless of the  
23 number of pages contained within it.

24 Q Is it your understanding that a stapled letter  
25 might be able to be able to merged with a non-stapled



1 letter?

2 I'm sorry, I used merged. I guess -- is batch the  
3 right term rather than merge? I apologize if I misspoke.  
4 Will be batched.

5 Is it your understanding that a stapled letter  
6 will be able to be batched with a non-stapled letter under  
7 the new version of software?

8 A The finishing characteristics and their effect  
9 upon the ability to batch is something that's unclear at  
10 that point and will relate more directly to mechanical  
11 finishing capabilities rather than software capabilities.

12 Q Do you know whether the new version of software  
13 will be able to batch black and white letters with letters  
14 that have some color in them?

15 A I believe that will be possible, yes.

16 Q I have another batching related question. When  
17 you testified at an earlier point in the proceeding, in  
18 November, I think you stated orally -- I will paraphrase, I  
19 won't quote exactly, that it would be possible for the  
20 Commission, using a manual batch matching process, to match  
21 each qualification report with the batch type information.  
22 Do you remember testifying to that in November?

23 A I believe so, yes.

24 Q Do you know if it is currently possible to do  
25 that?

1           A     I don't know of any reason why it would not be  
2 possible to do that.

3           Q     I am going to read you something subject to check,  
4 and if you feel it would be helpful to you to look at what I  
5 am looking at, I will be happy to show you a copy, if it<sup>is</sup> all  
6 right with counsel and the Presiding Officer. But for the  
7 time being, let me just ask you the question, then you let  
8 me know if you need to look at it.

9           MR. HOLLIES: Excuse me, Mr. Presiding Officer, if  
10 counsel could be asked to at least identify that from which  
11 she is reading, we might be able to save a step here.

12           MS. DREIFUSS: Certainly. What I have in hand is  
13 a weekly data report filed on March 18th, it is for  
14 Accounting Period 6, Week 4, and within that report, I am  
15 going to look at Table 3, which is titled MOL Volume by Day,  
16 AP 6, Week 4, February 20th to February 26th, 1999. And I  
17 am going to compare that to information I get from a  
18 different report, this will be a biweekly data report, filed  
19 March 24th, 1999. And this is for Accounting Period 6,  
20 Weeks 1 and 2, 3 and 4.

21           COMMISSIONER LeBLANC: Mr. Garvey, do you have any  
22 problems with that? Would you do better with her at your  
23 table where you could look at the actual figures?

24           THE WITNESS: I think it would depend upon the  
25 question. I am willing to listen and see where we --

1 COMMISSIONER LeBLANC: If you are willing to  
2 listen, that will be fine then. Let's try it, Ms. Dreifuss.  
3 If we have to, we will take a break, run a copy or whatever  
4 we have to do in that particular regard.

5 MS. DREIFUSS: Sure.

6 BY MS. DREIFUSS:

7 Q And within that biweekly report that I just  
8 mentioned, I am going to look at the qualification report  
9 for February 23rd, 1999. You can keep that date in mind,  
10 February 23rd, 1999, which does fall within AP 6, Week 4,  
11 February 20th to February 26th, from the weekly report. And  
12 here is my example. On February 23rd, 64 pieces were mailed  
13 according to this qualification report. When I turn to  
14 February 23rd, Table 3, Mailing Online Volume by Day, I find  
15 that 2,480 pieces were mailed. And so I am not able to make  
16 a manual comparison of the qualification report and the  
17 batch type information found in the weekly data report.  
18 Should I be able to do that?

19 A Well, as the Postal Service has responded in an  
20 answer to a previous interrogatory, there is not a direct  
21 match that can be made between the system generated  
22 information on the one hand and the mailing statement  
23 information on the other because there are different cut-off  
24 times that apply to each. It would be possible, if you look  
25 at the system date on the mailing statements, to identify

1 where they would appear in the other report that you are  
2 referring to. It would be, admittedly, somewhat tedious,  
3 but there can be a manual match made, it is just,  
4 unfortunately, not a one-to-one match because there are two  
5 different dates involved.

6 Q Has the Postal Service ever attempted to do any  
7 matching of this sort?

8 A To discover what kind of batching could be done,  
9 is that what you mean?

10 Q Have you been able to match the presort level  
11 volume data reported in the qualification reports with the  
12 batch type data reported in the weekly reports, have you  
13 ever been able to do that?

14 A There has not, to my knowledge, been an attempt to  
15 do that?

16 Q But with the new version of MOL software that will  
17 be put in place when the experiment commences, will it be  
18 possible to get that kind of information from that software?

19 A Well, presumably, if the new version of the  
20 software does the batching we expect it to do, a manual  
21 matching process won't be necessary because the system will  
22 have done the matching and the batching prior to the report  
23 being generated.

24 Q I would like to turn to page 3 of your testimony,  
25 please, lines 22 and 23.

1 A Yes, I have it.

2 Q There you state that if traffic at the Mailing  
3 Online site reaches expected levels, individual transaction  
4 costs will be so low that volume minimums of any kind will  
5 prove anachronistic. What did you mean by individual  
6 transaction costs there?

7 A Well, today we have a -- we, the Postal Service,  
8 have a 200 or 500 piece minimum for a bulk mailing. We have  
9 those minimums in place because the transactional costs of  
10 accepting a mailing of a lower volume are too high to  
11 warrant the accepting of that low volume mailing. With  
12 Mailing Online, the transaction cost of this online  
13 transaction is really very little different whether you are  
14 talking two pieces, 200 pieces or 2,000 pieces.

15 And I think what is clearly indicated here is that  
16 to penalize someone who only has two pieces with the  
17 assumption of a transactional cost that is somehow related  
18 to an analog or a hard copy transaction is wrong, that we  
19 shouldn't be doing that simply because it exists today in  
20 the analog world that we live in, that the cost that we  
21 attempt to pass on should be the actual transactional cost,  
22 be it entirely so small that we can't determine hardly what  
23 it is, but whether it is two pieces or 2,000 pieces, it is  
24 going to be almost the same.

25 Q In your quoted statement, are you suggesting that

1 Witness Callow's proposal somehow eliminates the low  
2 individual transaction costs you have identified with  
3 respect to Mailing Online?

4 A In the sense that it is tied to hard copy volume  
5 relationships, it would penalize the mailer who had less  
6 than 200 pieces, yes.

7 Q To the extent that mailings below 200 pieces can  
8 be batched with other mailings, those low individual  
9 transaction costs would be captured, wouldn't they?

10 A I am not sure what you mean by captured. Sorry,  
11 maybe I am getting tired. But what is the question?

12 Q The low individual transaction costs that you  
13 describe arise from -- are they a consequence of receiving,  
14 presorting and distributing, and even transporting to  
15 ~~distance~~ <sup>distant</sup> locations, Mailing Online pieces in electronic  
16 form?

17 A The transactional costs that Mailing Online will  
18 incur from accepting a mailing from an individual user are  
19 those transactional costs that occur when that individual  
20 user is submitting their mailing. Once their "mailing is in  
21 the system, it is no longer a transaction cost, in my mind,  
22 it becomes a system cost. In its relationship to our  
23 current analog requirements of 200 or 500 minimum pieces,  
24 the fact that it could be two pieces, 200 or 2,000," and the  
25 transaction cost will be the same at the time that the user

1 is submitting the mailing is what I am talking about here.

2 Q When you compare the Postal Service's proposal for  
3 basic automation rate for Mailing Online with Witness  
4 Callow's proposal for a pricing formula, is there any reason  
5 to think that the Postal Service's proposal will create  
6 lower individual transaction costs than Mr. Callow's  
7 proposal?

8 A No, I don't, except that that is not really the  
9 issue. The issue is not the actual transaction cost, but  
10 rather Witness Callow's linkage of physical transaction cost  
11 parameters to the Mailing Online transactional situation,  
12 that is where it breaks down.

13 Q I am still not clear on how the Postal Service's  
14 basic automation rate proposal recognizes the low individual  
15 transaction costs. I think your position is that the Postal  
16 Service's basic automation rate proposal is more  
17 advantageous than Witness Callow's pricing formula with  
18 respect to individual transaction costs. Is that correct?

19 A No, I don't -- if I understand what you're saying  
20 correctly, that's not my position. What I'm saying is that  
21 the Postal Service proposal to use the basic automation rate  
22 regardless of the volume is a better reflection of the lack  
23 of real transactional costs than is Witness Callow's, which  
24 as I understand it is linked directly to today's physical  
25 acceptance minimums and requirements that are driven by

1 actual transaction costs.

2 Q I am still having trouble. I honestly don't  
3 understand how Witness Callow's proposal worsens that  
4 situation as compared to the Postal Service's. Or is it  
5 your position that it doesn't?

6 A Once again, as I understand it, Witness Callow's  
7 proposal assumes that today's analog transaction cost  
8 parameters should drive the costs that are reflected in  
9 what's charged to customers. If you are using rules --  
10 analog rules that don't apply to the situation that you're  
11 currently in and you're charging somebody something that is  
12 driven by rules that don't reflect the reality, then there's  
13 a problem, there's a disconnect. And the Postal Service's  
14 proposal to use the flat basic automation rate without  
15 regard to transactional costs does a better job in my view  
16 of getting around that than does Witness Callow's.

17 Q How does the Postal Service's selection of a  
18 single hard-copy rate reflect reality any better than  
19 Witness Callow's proposal?

20 A Because it doesn't attempt to allow it to  
21 influence things at all. And that's the point. You have --  
22 with Witness Callow's proposal you have a factor that's  
23 influencing your pricing that shouldn't be, and consequently  
24 is skewing what's happening to the pricing that you're  
25 giving the customers. And there's no reason to do that



1 other than that it's attached to a current set of rules that  
2 don't apply in the world that we're talking about.

3 Q Let me see if I understand you. Witness Callow's  
4 proposal better reflects reality than the Postal Service's,  
5 and that's the disadvantage of it. Is that your position?

6 A Witness Callow's proposal reflects a current  
7 reality of hard-copy analog mail acceptance at a mail  
8 acceptance unit where to accept less than 200 pieces is not  
9 cost-effective -- 200 or 500 pieces, depending upon the  
10 class, is not cost-effective. To apply that same logic to  
11 accepting digital or virtual mail pieces where the  
12 transactional costs are not an issue is to enter a  
13 characteristic into your thinking, into your logic, into  
14 your calculation that shouldn't be there.

15 Q The Postal Service's proposal rewards -- well, I  
16 won't use the word "rewards" -- allows mailings that have  
17 fewer than the -- fewer pieces than the volume normally  
18 required for the basic automation rate, to pay the basic  
19 automation rate, and in your view that's a better reflection  
20 of reality than a pricing formula which would reflect the  
21 amount of presortation that actually takes place and the  
22 rate that -- the rates that would normally be paid for such  
23 presortation. Is that your position?

24 A I think you're mixing apples and oranges in a  
25 certain extent -- or to a certain extent, in that I haven't

1 said that it's an entirely bad idea to look at the  
2 presortation rates that are achieved in evaluating what the  
3 eventual rates should be.

4 What I think is important is that what we're  
5 trying to do here with Mailing Online is offer a simple and  
6 convenient and helpful service to people that are agreeing  
7 when they use Mailing Online that they're only going to mail  
8 100-percent automation-compatible addresses. If their  
9 address does not pass through the CASS certification system,  
10 they cannot mail it, so they have to have 100 percent  
11 automation-compatible addresses. They're agreeing that the  
12 format of their mail piece will have a bar code and a  
13 completely OCR-readable address. They're agreeing that the  
14 shape of their mail piece will be determined by the Postal  
15 Service and will be in fact an automation-compatible shape,  
16 either a letter or a flat. And for that they should be  
17 rewarded with a reflection of that basic automation  
18 agreement that they're making with the Postal Service  
19 whether they're mailing two pieces or 200 pieces or 2,000  
20 pieces.

21 Q Now under Witness Callow's proposal, all of the  
22 cost-saving features that you just enumerated are still  
23 going to be present, aren't they? It's going to be  
24 bar-coded, the piece will be bar-coded, it will be  
25 CASS-certified, et cetera, et cetera. That's all true of

1 pieces mailed under Witness Callow's proposal too, isn't it?

2 A It is true; yes.

3 COMMISSIONER LeBLANC: Ms. Dreifuss, excuse me for  
4 interrupting you. It may be about time for a mid-afternoon  
5 break here. How much more do you have on Mr. Callow?  
6 Because I believe you said you had the Y2K after Mr. Callow.  
7 I mean I don't want to interrupt your train of thought here,  
8 but --

9 MS. DREIFUSS: I am just trying to come up with an  
10 estimate.

11 COMMISSIONER LeBLANC: Well, let me ask it another  
12 way. Would this be a convenient time for you for us to take  
13 a break then?

14 MS. DREIFUSS: This is as good a time as any,  
15 because I still do have several more questions.

16 COMMISSIONER LeBLANC: Then let's take a 15 minute  
17 break and be back at a quarter to the hour.

18 [Recess.]

19 COMMISSIONER LeBLANC: All right, Mr. Reporter, we  
20 can go back on the record. Ms. Dreifuss.

21 MS. DREIFUSS: Okay.

22 BY MS. DREIFUSS:

23 Q Mr. Garvey, do you have any idea about the size of  
24 the individual transaction costs that you mentioned at the  
25 bottom of page 3?

1           A     The future transaction costs, is that your  
2 question?

3           Q     No, I guess what I have in mind is the transaction  
4 costs incurred today that will be anachronistic in the  
5 future.

6           A     Well, the term anachronistic refers to in  
7 comparison to the analog hard copy acceptance or transaction  
8 costs that are in place today that drive the 200 to 500  
9 piece minimums, and, no, I don't have any idea of those  
10 costs.

11          Q     Do you think they are trivial?

12          A     No, I don't think they are trivial. As a matter  
13 of fact, I have heard inferentially that they are  
14 substantial. And the fact that we have the 200 and the 500  
15 piece minimum in place and it has been in place for quite  
16 some time would lead me to believe that it is a subject of  
17 some analysis somewhere else. Someone else might know the  
18 answer to that, but I don't.

19          Q     Let's turn to your testimony at the top of page 4,  
20 lines 2 through 5 -- I'm sorry, lines 3 through 5. You  
21 state there that the goals of the experiment would not be  
22 advanced by adoption of Witness Callow's proposed rate  
23 setting mechanism. Do you say that in your testimony?

24          A     Yes, that is what I say.

25          Q     Is it your understanding that Witness Callow's

1 proposal would advance the goal of simplicity by permitting  
2 the Postal Service to offer a firm, fixed price for  
3 customers at the time the Mailing Online transaction is  
4 confirmed?

5 A To the extent that simplicity were the only  
6 consideration, yes.

7 Q But it is one consideration?

8 A Yes.

9 Q Is it your understanding that Witness Callow's  
10 proposal permits customers with mailings in excess of the  
11 minimum volume requirements to obtain deeper discount rates  
12 than the Postal Service proposes and for which their mail  
13 pieces qualify?

14 A I am sorry, you need to repeat that question.

15 Q In other words, if a mailing is presented that  
16 qualifies for a deeper discount than the basic automation  
17 rate, Mr. Callow's proposal would permit that mailing to pay  
18 that lower rate, wouldn't it?

19 A It is my understanding that Witness Callow is  
20 proposing kind of an averaging system that would allow lower  
21 rates to be charged, but not necessarily rates that were  
22 reflective of an individual mailing's achievement of  
23 presort.

24 Q I believe that is a misunderstanding on your part,  
25 and in just a moment I will read to you from his testimony

1 where he states differently. Do you have his testimony with  
2 you today?

3 A If you can give me a transaction reference -- I  
4 mean a transcript reference.

5 Q I certainly can. Page 2204 of transcript volume  
6 10.

7 A 2204?

8 Q 2204.

9 A I have it.

10 Q Okay. Start at line 14, please. There Witness  
11 Callow states, "I propose that customers pay either, (1),  
12 rates for which their mail pieces would qualify if entered  
13 as hard copy directly with the Postal Service," and then he  
14 continues and talks about the blended postage rate. So the  
15 first part of his proposal is to charge mail pieces the hard  
16 copy rate that they do qualify for, isn't it?

17 A That is number 1, yes.

18 Q Is it your understanding that Witness Callow --  
19 one of Witness Callow's goals was to eliminate the  
20 anti-competitive effects of the Postal Service's proposal?

21 A It is in his testimony that that is one of his  
22 goals, yes.

23 Q Now, I would like to turn to lines 12 through 14  
24 of page 4, please. There you state, "As it stands now,  
25 implementation of system expansion for experimental Mailing

1 Online, dubbed Version 3.0, is scheduled for a slightly  
2 delayed installation in September." Is this the same  
3 version 3.0 that you discussed in your appearance in  
4 November of 1998? I can give you a transcript cite if that  
5 is helpful.

6 A If you would like me to say absolutely certainly,  
7 yes, I will look up the transcript cite, but I can say it is  
8 likely that that is the case.

9 Q All right. And that version of the software, 3.0,  
10 was initially intended to be implemented in mid-1999, wasn't  
11 it?

12 A Yes, that is correct.

13 Q Could you describe the reasons for the delay from  
14 mid-1999 to September of 1999?

15 A I believe I said something to that in my  
16 testimony, but, just briefly, it is a system development  
17 situation. The development of the PostOffice Online was  
18 delayed. There is substantial testing and documentation  
19 that is involved in implementing a production level system  
20 in our IT network. The system we are running today is not a  
21 production level system by their measure. To do so is a  
22 much more time-consuming task than what we have done so far.

23 Q How firm is that September 1999 date?

24 A In my mind, is it extremely firm.

25 Q You say in your mind it is.

1 A Yes.

2 Q Is it possible that the system designers may not  
3 agree that it is as firm a date as you believe it is?

4 A I would hope that if questioned, the system  
5 designers would concur with me today that it is an  
6 absolutely firm date, driven by other circumstances.

7 Q Can you be more precise about when in September  
8 this version would be ready for the experiment?

9 A Today I cannot.

10 Q So you are really not sure whether we are talking  
11 about the beginning of September, middle or end of  
12 September, is that right?

13 A That is correct, yes.

14 Q When you last testified that version 3.0 would be  
15 ready in mid-July, did you believe then that that was a  
16 pretty firm date?

17 A I absolutely believed it; otherwise I wouldn't  
18 have said it.

19 Q Now let's look at lines 18 through 22, please.

20 You say there that 'making even modest changes to a  
21 production system requires a nontrivial effort:  
22 Incorporation of a system using thousands of lookup tables  
23 into the Mailing Online system is simply not feasible given  
24 our current timetable and would likely result in a delay of  
25 the service until sometime later than March 2000'



1 Now in the first sentence that I read, you seem to  
2 indicate that modest changes to a production system requires  
3 a nontrivial effort. Is version 3.0 currently a production  
4 system?

5 A Version 3.0 as designed and being built is a  
6 production system; yes.

7 Q Is it in production now?

8 A It is not.

9 Q Would you agree that a system that is not  
10 currently in production would pose fewer problems if you  
11 wanted to change it than one that was currently being used  
12 for production?

13 A I think if you're understanding that my statement  
14 here refers to a system that is in production, that's an  
15 inaccurate representation. What I'm saying here is that a  
16 production-quality or a production type of system, which is  
17 what's currently being built, changes to that are nontrivial  
18 because there's an extraordinary amount of up-front work in  
19 terms of architectural design and review, software and  
20 hardware review that takes place, that has to be in place  
21 and done and completed before a production system even goes  
22 into the stage of being built.

23 Q The version 3.0 software is currently being beta  
24 tested, isn't it?

25 A Is version 3.0 software being beta tested? No, it

1 is not.

2 Q It is not? It is not yet being tested?

3 A It's being written and designed as we speak, I  
4 think.

5 Q Oh. So right now version 3.0 -- this is the same  
6 version 3.0 that you're talking about at line 13 of page 4,  
7 right?

8 A As I said, I think that all my references to  
9 version 3.0 are referring to the same version.

10 Q So version 3.0, the same version that you talked  
11 about in November and we were talking about at line 13 of  
12 page 4, is currently being written?

13 A That is correct.

14 Q And it is not yet being tested because it hasn't  
15 been written yet. I guess that's a safe statement, isn't  
16 it?

17 A Well, I would assume, given the timetable that I'm  
18 aware of, that certain pieces of it have been written and  
19 have been tested and are awaiting assembly into the larger  
20 unit, but the whole thing has not been assembled and tested;  
21 no.

22 Q Do you have a feel for what percentages of the way  
23 through the writing job the system designers are?

24 A I do not; no.

25 Q Have they given you a date when they will be ready

1 to test the entire version 3.0?

2 A Yes.

3 Q What is that testing date?

4 A I'm told that the system will be delivered for  
5 testing on May 31.

6 Q Did they give you any idea how much time they  
7 would need to test it?

8 A Well, that would require a qualification of the  
9 word "they." The delivery which will take place on May 31  
10 is a delivery of the Mailing Online subsystem of the  
11 PostOffice Online system. It will have to go through  
12 integration, and then there will be testing of the  
13 integrated system. Our IT people that are installing this  
14 into production have specified that there is a minimum of  
15 six weeks of their testing, their certification testing,  
16 that must occur before they will place it into production.

17 Q Is PostOffice Online software also being rewritten  
18 at this time?

19 A Yes, it is.

20 Q Will there be a different version of PostOffice  
21 Online software put into place at the time the version 3.0  
22 software is put into place for the nationwide experiment?

23 A Yes, I think it's fair to say that if you are  
24 going from having only 5,000 users to having a nation of  
25 users that your system will have to be revised to reflect

1 that.

2 Q Is the PostOffice Online software in testing yet?

3 A I'm sorry, I'm not very familiar with what's being  
4 done with PostOffice Online. I would assume it's in the  
5 same state as Mailing Online, that they have finished  
6 various subcomponents and tested those, but I do not believe  
7 that the whole thing is in testing; no.

8 Q So it's possible that even if the Mailing Online  
9 version 3.0 software is ready in September, that the  
10 PostOffice Online software may not be ready in September.  
11 Isn't that correct?

12 A Conceptually that is possible, but the delivery  
13 date of September is talking here about PostOffice Online,  
14 because Mailing Online cannot function in its current state  
15 without PostOffice Online to serve as payment and  
16 registration host.

17 Q But you said a few minutes ago that you really  
18 haven't checked very carefully with the PostOffice Online  
19 designers to see whether they are still writing, whether  
20 they are testing. Isn't that true? You haven't really  
21 checked.

22 A What I said was I don't follow the PostOffice  
23 Online development with the same degree of attention that I  
24 focus on Mailing Online, but it's an integrated effort, and  
25 I am aware of what's going on with that development.

1 Q Who told you that version 3.0 would be ready for  
2 implementation -- I'm sorry, use the word "installation" --  
3 who told you that version 3.0 would be ready for  
4 installation in September?

5 A The manager of the PostOffice Online project.

6 Q Was he speaking specifically about Mailing Online,  
7 do you know, or did he have PostOffice Online in mind as  
8 well?

9 A He has in mind when he speaks the entire  
10 PostOffice Online.

11 Q At any rate, the Version 3.0 system software when  
12 it is finally written will be tested before it is installed.  
13 That's true, isn't it?

14 A Will it be tested before it is installed?  
15 Absolutely. Yes.

16 Q However it is your position that even though the  
17 software is currently being written there is not sufficient  
18 time to write the code necessary to add Witness Callow's  
19 pricing proposal to the rest of the software? Is that your  
20 position?

21 A That would be my position, yes.

22 Q And what is that based on?

23 A It is based on my experience with what we have  
24 seen so far with system development and delays and the  
25 difficulty we have experienced in getting to the point where

1 we are today, knowing that a change at this stage would  
2 bring about similar results to changes that have been made  
3 in the past.

4 Q You say at line 19 that even modest changes to a  
5 production system requires a non-trivial effort, is that  
6 correct?

7 A That is correct.

8 Q Would you consider Witness Callow's pricing  
9 proposal a modest change?

10 A I would not consider it a modest change, no.

11 Q Is it your position that it would require a  
12 non-trivial effort to incorporate it into the Version 3.0  
13 software?

14 A That would be my position, yes.

15 Q Do you have any personal experience doing computer  
16 coding?

17 A Yes, but I wouldn't say it has anything to do with  
18 what I am doing today with Mailing Online.

19 Q You filed some information in response to OCA  
20 Interrogatories. OCA-USPS-T-1-17 and 18, and those  
21 responses are found at Transcript 2, pages 181 through 1990.

22 At those pages you provide the computer coding to  
23 OCA and to the Commission. Do you have any idea how long it  
24 took to write that code?

25 A I haven't the slightest idea.

1 Q It might have been a short time then, since you  
2 don't have any idea?

3 A It might have been, yes.

4 Q Do you know the name of the computer language for  
5 the code that was provided in those responses?

6 A I do not.

7 Q Have you ever reviewed a copy of Library Reference  
8 15, which also contains computer coding information?

9 A I can't say that I haven't or that I have. I  
10 probably have but I would have to see it to be sure.

11 Q I deliberately left it out of the hearing room  
12 today because it was only released under protective  
13 conditions and I didn't want to draw an objection by  
14 counsel.

15 So you don't recall what Library Reference 15  
16 consists of then?

17 A Not off the top of my head. No, I don't.

18 Q What is the name of the computer language, the  
19 code, for the Version 3.0 system software?

20 A I don't know the direct answer to that question,  
21 but I know that there is more than one language that is  
22 being used to write code for that system.

23 Q At lines 19 through 20-21 you allude to having  
24 thousands of look-up tables involved in Witness Callow's  
25 pricing formula, is that correct?

1 A Yes, that is correct.

2 Q Are you familiar with Microsoft Excel?

3 A Yes, I am.

4 Q Do you use it sometimes?

5 A I do.

6 Q Are you aware of the copy and paste feature of  
7 Excel?

8 A Yes, I am.

9 Q Do you know if one would use that paste feature,  
10 wouldn't it save quite a bit of time in creating look-up  
11 tables. If you kept pasting essentially the same table  
12 again and again and again it wouldn't take very long to wind  
13 up with a set of thousands, would it?

14 A If you were using Excel, no, I wouldn't imagine  
15 that it would, but I can say with almost absolute certainty  
16 that Microsoft Excel has nothing to do with the tables that  
17 are being used in Mailing Online.

18 Q Do you know if an Excel spreadsheet can be  
19 converted into SAS?

20 A No, I do not. I'm sorry.

21 Q Do you know if after a spreadsheet has been  
22 converted to SAS it can subsequently be converted into  
23 computer code?

24 MR. HOLLIES: Objection. Counsel just established  
25 the lack of foundation for that question by her previous



1 one. Objection. Lack of foundation.

2 COMMISSIONER LeBLANC: Do you want to restate that  
3 statement, Ms. Dreifuss?

4 MS. DREIFUSS: Well, actually there are two  
5 different questions. I assume he won't know the answer to  
6 the second one, since he didn't to the first, but I really  
7 asked him two different things

8 I asked him if he knew whether an Excel  
9 spreadsheet could be converted into SAS and he said he did  
10 not, but my next question was if a spreadsheet has been  
11 converted to SAS could it subsequently be converted into  
12 computer code.

13 Now like I said, very likely he doesn't know the  
14 answer to it, but possibly he does. Maybe somebody has made  
15 that remark to him and it stuck, so I don't see any harm in  
16 answering that question.

17 MR. HOLLIES: Mr. Presiding Officer, the whole  
18 line of questioning has to do with use of Excel and what  
19 counsel I believe thinks might be possible there, yet we  
20 have established that Excel is not part of the developmental  
21 effort, so this whole line of questioning would also appear  
22 to be irrelevant.

23 MS. DREIFUSS: Let me just say, Mr. Presiding  
24 Officer, if you don't mind, we are trying to draw parallels  
25 between activities that Mr. Garvey may be familiar with and

1 those that a code writer would have to use and that is the  
2 reason we brought Excel into the discussion.

3 COMMISSIONER LeBLANC: Well, unless you can do it  
4 in another manner the objection will be sustained. You will  
5 have to move it on.

6 BY MS. DREIFUSS:

7 Q Have you had occasion to ask the code writers --  
8 that's probably very far from being technically correct, but  
9 that is the best I can do at this point -- have you had  
10 occasion to discuss with the code writers of MOL Version 3.0  
11 how long it might take to write the code for Witness  
12 Callow's proposal?

13 A No, I haven't, and I can say that I don't usually  
14 discuss with the code writers the writing of their code. I  
15 discuss with them the requirements of the system and, in  
16 addition to not discussing with them the writing of the code  
17 for Witness Callow's proposal, I have not discussed it with  
18 them as a requirement level discussion either.

19 Q Did they give you even a ballpark estimate about  
20 how long it might take to add his pricing formula to the  
21 existing -- to the Version 3.0 currently being written?

22 A No. As I mentioned, I haven't discussed it with  
23 them. I base my understanding of the difficulty and the  
24 time on other discussions that I have had with them about  
25 implementing other requirements. Early on, we discussed a

1 variety of different methods by which we might achieve a  
2 similar result to what Witness Callow has proposed, and the  
3 time, and level of effort, and difficulty exhibited in those  
4 discussions have led to my understanding of what would  
5 happen if we were to try and implement Witness Callow's  
6 proposal today.

7 Q Would you agree that, generally speaking, as the  
8 Postal Service had an increased ability to batch different  
9 mailing jobs, that the number of look-up tables would  
10 decrease?

11 A I don't believe that I had put my thinking into  
12 that context, no.

13 Q Could you look at -- I think you said you had a  
14 copy of Witness Callow's testimony in transcript 10, could  
15 you turn to page 2227 of transcript 10? That contains page  
16 26 of Witness Callow's testimony.

17 A Yes, I have it.

18 Q And about halfway through that footnote, Witness  
19 Callow cites Witness Plunkett's testimony, which provides  
20 that the realization of the fundamental design objective  
21 would make most of the job type information unnecessary for  
22 purposes of determining depth of sort, do you see that?  
23 That's about halfway through the footnote.

24 MR. HOLLIES: Excuse me, Mr. Presiding Officer,  
25 for the record, I believe counsel is referring to the second

1 of the two footnotes on that page.

2 COMMISSIONER LeBLANC: Thank you very much, Mr.  
3 Hollies, that is correct. I am looking at it now.

4 MS. DREIFUSS: Yes, footnote 58. I am sorry if I  
5 forgot to mention that.

6 THE WITNESS: Yes, I see that.

7 BY MS. DREIFUSS:

8 Q And then Witness Plunkett makes -- I am sorry,  
9 then Witness Callow draws the conclusion that under such  
10 circumstances, that is, the ever-increasing ability to batch  
11 mail pieces, the theoretical maximum number of data tables  
12 estimated for his proposal would be reduced to four, First  
13 Class Mail letters and flats, and Standard Mail A letters  
14 and flats, do you see that?

15 A I do see that, yes.

16 Q You don't have any reason to disagree with that  
17 conclusion, do you, that, ultimately, the more the Postal  
18 Service is able to batch, the fewer look-up tables would be  
19 involved?

20 A On the fact of it, no, I can't disagree with that.

21 Q Well, thankfully I am finally onto my last line of  
22 questioning.

23 I'd like you to turn to the memorandum that's  
24 attached to your testimony, and also to page 4 of your  
25 testimony, beginning at line 8.

1           You state there that there is an additional, more  
2 pragmatic reason for rejecting Witness Callow's proposal,  
3 and then you go on to say that the Postal Service recently  
4 announced a moratorium on information system development  
5 activity in order to ensure readiness for Y2K. Is that  
6 correct?

7           A     That is correct.

8           Q     When did you receive the memorandum that is  
9 attached to your testimony?

10          A     I don't know precisely, but I would guess sometime  
11 around March 10, 9.

12          Q     As we look through the memorandum, we find there  
13 that there will be a freeze of all -- I'm sorry, I'm going  
14 to go to the top of the memorandum first, the very first  
15 paragraph. It states there: "Effective immediately, there  
16 will be a freeze of all planned changes to any existing  
17 postal component, application, infrastructure, or mail  
18 processing equipment, nor will any new components be  
19 deployed into production without the explicit approval of  
20 the Year 2000 Change Control Board."

21               Is that statement contained there?

22          A     Yes, it is.

23               MR. HOLLIES: Mr. Presiding Officer, if counsel is  
24 going to proceed to read into the record what is already in  
25 the record, I fail to see that that in any sense furthers

1 this proceeding, as this is an attachment to his testimony  
2 which was expressly admitted into evidence and incorporated  
3 into the transcript earlier today, that just does not seem  
4 to be a productive use of our collective time.

5 MS. DREIFUSS: Mr. Presiding Officer, I'm -- all  
6 I'm doing is what I've been doing all day. I cite to  
7 something that I would like to discuss with Mr. Garvey so we  
8 can understand where we're going. I mean, it's -- to me  
9 it's a very frivolous objection that I want to tell him what  
10 I am about to discuss with him.

11 COMMISSIONER LeBLANC: That's fair. Move it right  
12 along.

13 BY MS. DREIFUSS:

14 Q And then as we move further down that memorandum  
15 to paragraph 3, we see that on March 5, 1999, the Year 2000  
16 Executive Council made three key decisions regarding the  
17 freeze policy. Do you see that?

18 A Yes, I do.

19 Q And the first decision, the first of these three  
20 decisions, is that the freeze policy and process are  
21 effective immediately. Is that correct? Does it say that?

22 A Yes, it does.

23 Q And the scope of the freeze policy encompasses all  
24 impacted component types including both information systems,  
25 IS and non-IS-supported applications, IS and

1 non-IS-supported hardware and software infrastructure, mail  
2 processing equipment and facility systems.

3 Is that the scope of the freeze according to this  
4 memorandum?

5 MR. HOLLIES: Objection to the question. It's an  
6 incomplete recitation of the statement of the contents, and  
7 it appears to be represented by counsel's question as a  
8 complete representation.

9 MS. DREIFUSS: I'm afraid I can't win. If I do  
10 quote a sentence, I'm told I shouldn't, and then when I do,  
11 I'm told I haven't quoted enough. But I'll be happy to read  
12 the sentence that follows.

13 MR. HOLLIES: Counsel, in the absence of the  
14 Presiding Officer, perhaps you could just reference a  
15 section by a paragraph that begins with XYZ and then ask a  
16 question.

17 MS. DREIFUSS: I prefer to do it my way.

18 MR. HOLLIES: Then I guess I would ask that you  
19 read the whole thing.

20 BY MS. DREIFUSS:

21 Q Fine. The last sentence is: The scope includes  
22 nationally supported and area-supported components.

23 And we can continue to the third key decision:  
24 The freeze policy includes all projects not yet started and  
25 those currently under way regardless of implementation date.

1 Did you see the language that I just quoted to  
2 you?

3 A You have accurately quoted all three; yes.

4 Q Thank you. My understanding of what I just read  
5 to you or just quoted to you is that there is currently a  
6 freeze in effect at the Postal Service. Is that correct?

7 A As of the date of this memorandum; yes.

8 Q Yes. So there is a freeze in effect as we speak.

9 A As we speak.

10 Q And if you read key decision number 1 with the  
11 sentence just above it, number 1 being the freeze policy and  
12 process are effective immediately, and then we look back to  
13 the date cited just above decision number 1, which is March  
14 5, 1999, so taking those two things together, would you  
15 agree that the freeze went into effect on March 5?

16 A Actually I couldn't agree either way. There was  
17 some confusion when this came out about whether it was the  
18 5th or the 9th, but since nobody knew about it until they  
19 read it on the 9th, it was kind of a nonissue. We assumed  
20 that when we read it on the 9th it was effective whether it  
21 had been effective on the 5th or not.

22 MR. HOLLIES: Again, in the absence of the  
23 Presiding Officer, I just point out that the attachments to  
24 this exhibit themselves reference still a third date, to  
25 wit, March 8.



1 MS. DREIFUSS: Yes, I recall that date from the  
2 attachments.

3 BY MS. DREIFUSS:

4 Q So the date that the freeze went into effect may  
5 be March 5, as we read in the memorandum. Perhaps, since  
6 counsel alluded to the attachments to the memorandum, we  
7 might as well turn now to the second page of the  
8 attachments. And I'm going to ask you if you have that with  
9 you.

10 A I do.

11 Q And let me do one more thing that I neglected to  
12 do when I began. I prepared this as an OCA  
13 cross-examination exhibit, OCA-RT1-XE2, and I would ask that  
14 these attachments in the form of OCA's cross-examination  
15 exhibit be transcribed into the record and accepted into  
16 evidence, because I believe it bears importantly both on Mr.  
17 Garvey's testimony and on the memorandum that he's attached  
18 to his testimony.

19 COMMISSIONER GOLDWAY: Are there any objections,  
20 counselor?

21 MR. HOLLIES: No, there is no objection.

22 COMMISSIONER GOLDWAY: Thank you.

23 MS. DREIFUSS: If it's all right with you,  
24 Commissioner Goldway, I'll hand two copies to the reporter.

25 COMMISSIONER GOLDWAY: That's fine. Go ahead.

[Exhibit OCA-RT1-XE2 was received  
into evidence and transcribed into  
the record.]

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OCA-RT1-XE2

MAR. 23. 1999 2:38PM



## USPS Year 2000 Initiative

# Freeze Policy Exception Process

NO. 638 P. 3

3/8/99

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# **Freeze Policy Exception Process**

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## **Background**

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- Any addition or modification of components within the USPS Information Technology, Mail Processing Equipment and Facility environments introduces an increased risk of Year 2000 failure.
- Currently, there is a risk that the number of development projects and implementations planned is greater than the number which can be prudently managed to maintain an acceptable level of risk.
- The above fact necessitates the Freeze Period which runs from 3/8/99 to 3/31/2000. The Freeze includes all development and implementation.

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# **Freeze Policy Exception Process**

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## **Objective**

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- The Freeze Policy Exception Request Process will ensure that the incremental risk of each proposed change is outweighed by its business value.

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# **Freeze Policy Exception Process**

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## **Scope Definition**

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- The Freeze Policy and Exception process encompass all impacted component types including both IS and Functional applications, IS and Functional hardware and software infrastructure, Mail Processing Equipment and facility systems.
- The Freeze Policy and Exception process include both Nationally supported and the Area supported components.

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# **Freeze Policy Exception Process**

## **Key Assumptions**

- Each change request beyond the Freeze Policy date will come to the Portfolio Change Review Committee (CRC). The Portfolio CRC will either deny the request or recommend it to Executive Change Control Board (CCB) for their consideration. Denied requests will be sent to the Executive CCB for a review of cross portfolio implications.
- All Portfolio Change Review Committee decisions are communicated out under the signature of the Senior Vice President.
- The Executive Change Control Board has the authority to deny or approve a Freeze Policy Exception request without further consultation.

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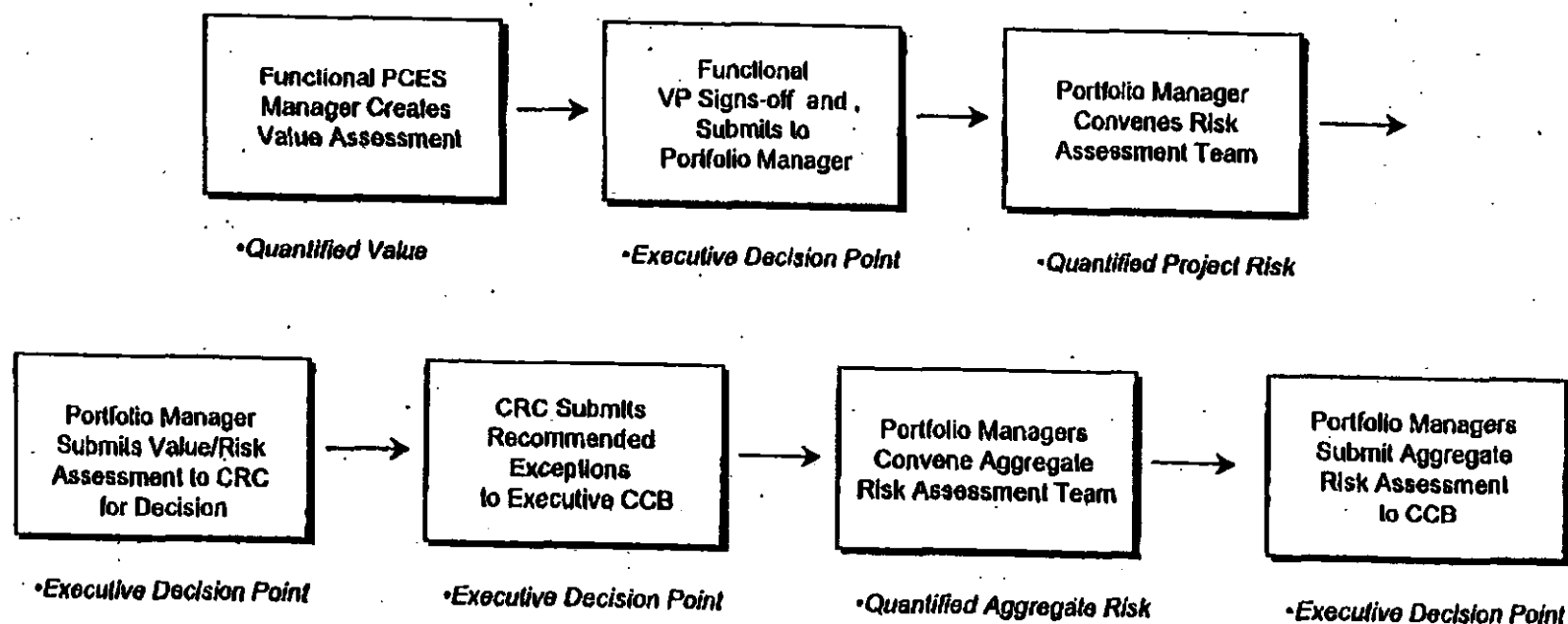
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# Freeze Policy Exception Process

## Process Overview



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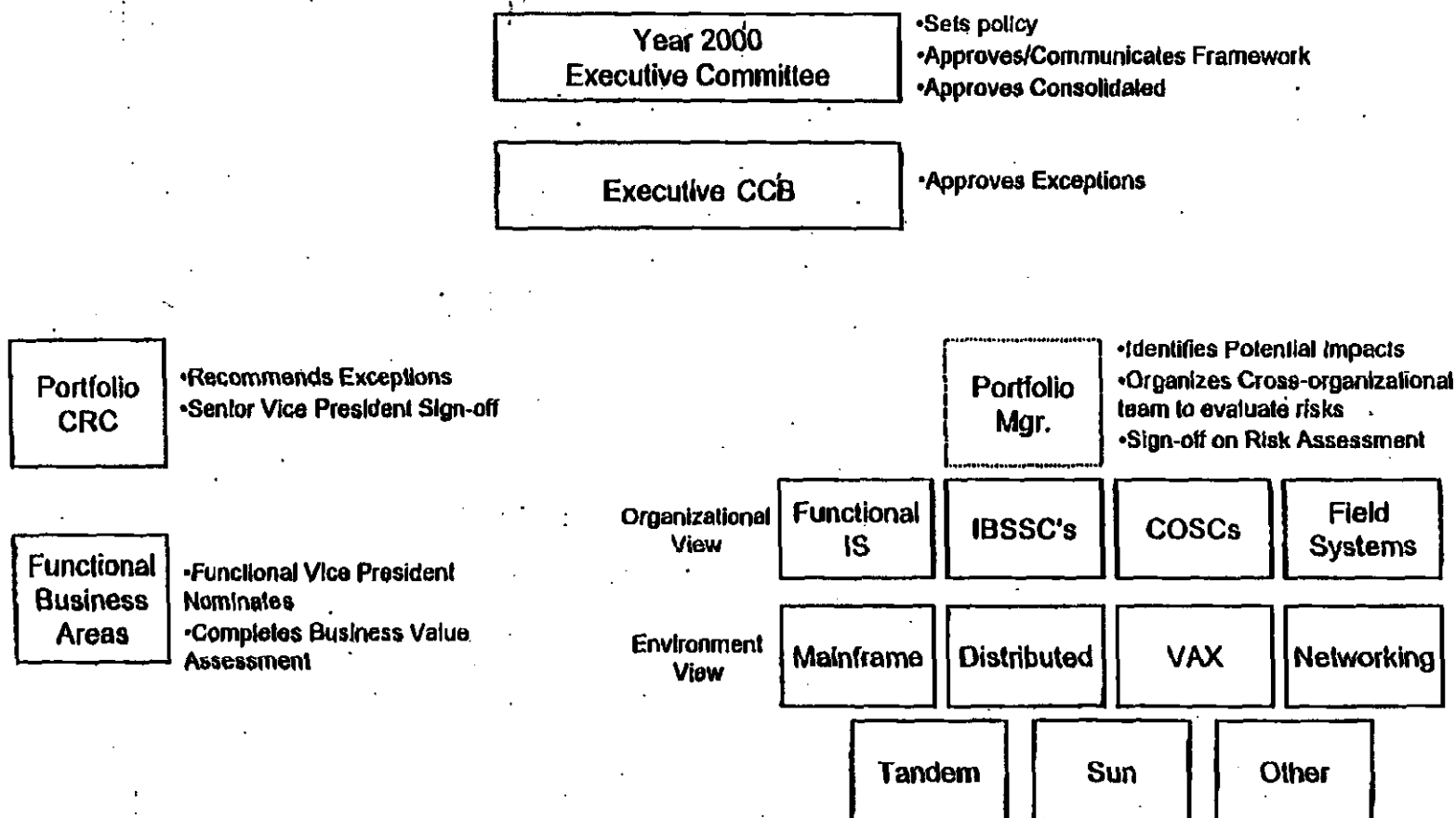
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# Freeze Policy Exception Process

## Process Participants/Key Players



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# **Freeze Policy Exception Process**

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## **Business Value Assessment**

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- The Business Value Assessment is submitted by Functional PCES Managers and signed-off on by the Functional Vice President.
- The Business Value Assessment utilizes consistent, rigorous criteria across all portfolios and serves as the first screen for exception decisions.
- Projects which do not meet the value criteria "hurdle" will adhere to the freeze policy.

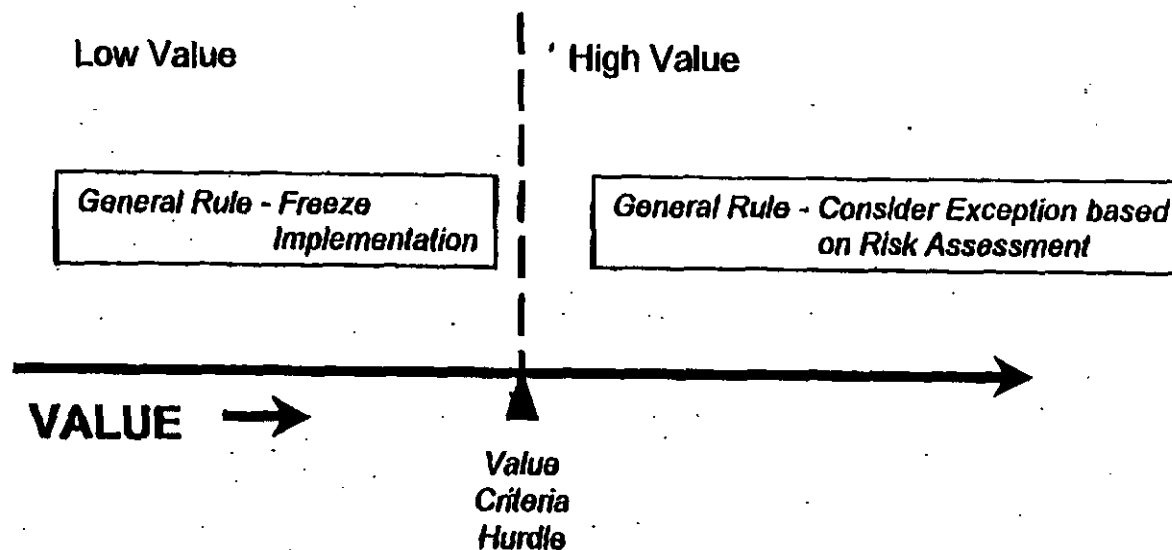
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# Freeze Policy Exception Process

## Business Value Assessment



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# **Freeze Policy Exception Process**

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## **Value Drivers and "Hurdle" Criteria**

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- **Policy/Legislation**
  - Failure to implement would jeopardize employee safety.
  - Initiative dependent upon system, which if delayed, causes unacceptable financial, legal or reputation implications.
- **Capture Cost Savings or Cost Avoidance**
  - Achieve \$10M in savings or avoidance during the period frozen beyond the planned implementation date.
- **Increase/maintain market share and/or increase in revenue**
  - Achieve \$10M increased revenue during the period frozen beyond the planned implementation date.
  - Retain \$10M in revenue/market share which would otherwise be lost if system is not deployed on its planned date.

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# **Freeze Policy Exception Process**

## **Value Drivers and "Hurdle" Criteria (cont.)**

- Enhance service performance, customer service or product feature(s) to secure competitive advantage
  - One point or better upward movement in compensatable matrix during the period implementation is frozen beyond planned implementation date.

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# **Freeze Policy Exception Process**

## **Risk Assessment**

- The risk assessment will be performed by technical resources directed by Portfolio Manager.
- This objective, standardized assessment will be focused on quantifying risk in order to identify high risk changes to the environment.
- Quantified changes with a Composite Risk Score of 10 or above will be classified as high risk, those with a score below 10 will be classified as low risk.
- This Risk Assessment is NOT a decision point. The Risk Assessment must be combined with the Business Value Assessment to allow informed decisions.

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# **Freeze Policy Exception Process**

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## **Risk Drivers and "Hurdle" Criteria**

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- Changes to or additional date logic within application code
  - 0 = Limited or no additions or changes
  - 3 = Moderate number of additions or changes
  - 6 = Extensive number of additions or changes
- Impacts to other systems
  - +3 for each impact to another system

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# **Freeze Policy Exception Process**

## **Risk Drivers and "Hurdle" Criteria (cont.)**

- Requires critical resources (quantity or skill sets)
  - 0 = Few critical resources required, limited conflicts expected
  - 3 = Medium potential for resource conflicts
  - 6 = Significant resources required, high potential for conflicts
  
- Requires computing environment infrastructure upgrade or new component
  - 0 = Change to Standalone environment
  - 3 = Change to Mainframe environment
  - 6 = Change to Distributed environment

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# **Freeze Policy Exception Process**

## **Risk Drivers and "Hurdle" Criteria (cont.)**

- **Fall Back Capability**
  - 0 = Immediate
  - 3 = Up to two weeks
  - 6 = Greater than two weeks
  
- **Timing of Implementation**
  - 0 = April/September
  - 3 = October/November or February/March
  - 6 = December/January

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# **Freeze Policy Exception Process**

## **Risk/Value Trade-off and CRC Recommendation**

- The Business Value Assessment and Risk Assessment are considered together to allow an informed decision regarding the exception request.
- High value projects may warrant assuming major risk.
- Decisions are made with best information available regarding scheduling risks, resources required, etc.; however, only partial information regarding competing projects may be available until all CRC recommendations are complete.

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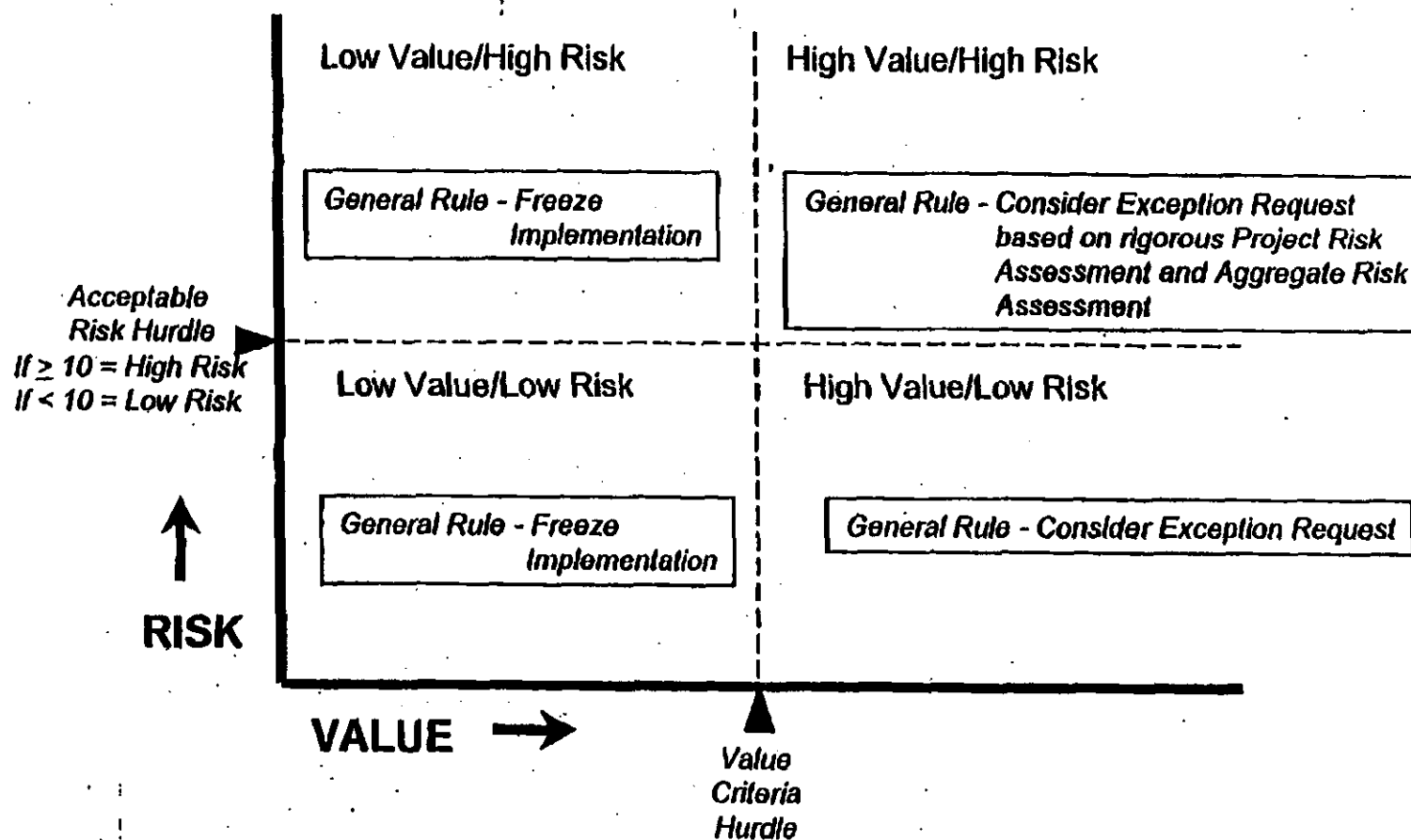
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# Freeze Policy Exception Process

## Risk/Value Trade-off and CRC Recommendation



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# **Freeze Policy Exception Process**

## **Aggregate Risk Assessment**

- The aggregate risk assessment analyzes interaction/competition among the approved exception requests to determine if any reconsideration is necessary. Assessment criteria may include:
- Total requirements for critical resources (quantity, specialized skills) and potential resource contention
  - Magnitude of required changes to the computing environment
  - Total number of impacts to other systems and interfaces
  - Scheduling of changes (i.e. numerous changes late in the calendar year)
- The assessment will identify if Year 2000 compliance is put at risk due to any of the above criteria.

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# **Freeze Policy Exception Process**

## **Communicate Exceptions/Priorities**

- The recommended Freeze Policy Exceptions and the Aggregate Risk Assessment will be provided to the Executive Change Control Board for final approval.
- Approved Freeze Policy Exceptions will be communicated and status reporting will be established to monitor progress.
- Priorities and resources will be aligned as necessary to support the Exception projects and ensure successful implementation.

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1 MS. DREIFUSS: Also, OCA prepared copies and we  
2 set them on the table there just in case somebody failed to  
3 bring a copy with them.

4 COMMISSIONER GOLDWAY: Are you ready to proceed?

5 MS. DREIFUSS: I am, Commissioner Goldway. I was  
6 giving Mr. Hollies a chance to look through both attachments  
7 to make sure he was satisfied that they were correct and  
8 complete.

9 BY MS. DREIFUSS:

10 Q Page 2 of these attachments, the title of which is  
11 "Freeze Policy Exception Process Background," provides a  
12 somewhat different date than the one in the memorandum. It  
13 states at the bottom of that page that the freeze period  
14 runs from March 8, '99, to March 31, 2000. Is that correct?

15 A Yes, that is correct.

16 Q So the freeze may have gone into effect  
17 immediately on March 5, as the memorandum states, or perhaps  
18 as late as March 8. We're not sure which date.

19 A That is correct.

20 Q And as I understand page 2 of the attachments, the  
21 freeze period will run until March 31 of 2000. Is that  
22 correct?

23 A That's what it says.

24 Q Therefore, the current state of affairs is that  
25 Mailing Online will not be able to be implemented until -- I

1 am sorry, Version 3.0 of Mailing Online will not be able to  
2 be implemented until March 31st, 2000, unless something  
3 happens to change that, is that correct?

4 A If Mailing Online, specifically, and PostOffice  
5 Online, generally, do not receive an exception to the freeze  
6 policy which is outlined in this document, that is correct.  
7 April of 2000 would be the earliest that it could be  
8 implemented into production.

9 Q Right. And that is currently where things stand,  
10 aren't they? That is, Mailing Online, the experiment can't  
11 begin with the Version 3.0 software until April 1st of 2000,  
12 unless an exception is granted, is that correct?

13 A That is correct according to this policy.

14 Q So when you said in your testimony that, in  
15 effect, incorporating Witness Callow's pricing formula into  
16 the Version 3.0 software ran the risk of delaying  
17 implementation of Mailing Online until March of 2000, in  
18 fact, there may very well be time to incorporate his pricing  
19 formula, isn't that true?

20 A If an exception is not granted for PostOffice  
21 Online and Mailing Online, there may be a lot of time to do  
22 a lot of things, yes.

23 Q Right. If the exception isn't granted, you might  
24 have almost a year to incorporate his pricing formula, isn't  
25 that true?

1           A     That is true.  However, there is a secondary part  
2     to that consideration that you need to take into account,  
3     and that is later in this document, you will notice that  
4     there is a level of risk attached to when the production  
5     system would be implemented.  And implicit in my statement  
6     here is that, should be attempt to implement Witness  
7     Callow's process into the current version, the current  
8     development version, 3.0, of Mailing Online, it would have  
9     the effect, likely effect of delaying its production  
10    implementation past September of this year, and past  
11    September of this year raises the risk level significantly  
12    in light of this document, and would reduce the chances of  
13    PostOffice Online receiving an exception to the freeze  
14    process.

15           Q     Let's look at the likelihood that Mailing Online  
16    will receive an exception and how long the process might  
17    take.  So we might as well begin with -- we might as well  
18    start -- begin at the beginning with page 1, which reads,  
19    the Freeze Policy Exception Process.

20                   COMMISSIONER GOLDWAY:  Page 2.

21                   MS. DREIFUSS:  Yours says page 2, mine says page  
22    1.  And at page 2, I have Freeze Policy Exception Process  
23    Background.  Page 1 just seems to be a cover.

24                   COMMISSIONER GOLDWAY:  I see, you are right.

25                   MS. DREIFUSS:  So I was just going to start at the



1 beginning.

2 BY MS. DREIFUSS:

3 Q It looks like this entire attachment would  
4 describe the freeze policy exception process, doesn't it?  
5 That is what I -- it appears that page 1 would be the cover  
6 of a document that describes the freeze policy exception  
7 process. Does it strike you the same way?

8 A Yes, it does.

9 Q Okay. Now, let's go to page 2. "Any addition or  
10 modification of components within the USPS Information  
11 Technology mail processing equipment and facility  
12 environments introduces an increased risk of Year 2000  
13 failure." I was reading from the top of page 2. And I  
14 think we are in agreement that Mailing Online does fall  
15 within that broad description, that is, the freeze policy  
16 applies to Mailing Online, doesn't it?

17 A Without a doubt.

18 Q Okay. And I guess <sup>I may</sup> as well read from the bottom of  
19 that page, it says there that the freeze includes all  
20 development and implementation and that would appear to  
21 apply to any implementation of the Mailing Online Version 3  
22 software, wouldn't it?

23 A Yes, it would.

24 Q And let's move to page 3, where it states that the  
25 freeze policy exception request process will ensure that the

1 incremental risk of each proposed change is outweighed by  
2 its business value. So it looks like those who are in the  
3 position to grant exceptions will apparently weigh risk  
4 against value. Does that seem like a fair statement to you?

5 A That is what it says, yes.

6 Q And when we move on to page 4, the freeze policy  
7 and exception process encompasses -- I am sorry, encompass  
8 all impacted component types, including both Information  
9 System and functional applications, IS and functional  
10 hardware and software infrastructure, mail processing  
11 equipment, and facility systems. Could you tell me what is  
12 envisioned to take place in September of 1999 that falls  
13 within any of those categories that I just quoted to you?  
14 That is, for example, is the Mailing Online Version 3  
15 software an IS and functional application, as far as you  
16 understand it?

17 A As I understand the distinction between these two,  
18 IS refers to a data center application such as PostOffice  
19 Online. A functional application would refer to something  
20 that was in a plant, having to do with processing mail or  
21 data within a plant.

22 Q I see. So Mailing Online falls within the freeze  
23 policy because it is an IS situation?

24 A I would agree from ignorance because I am not  
25 really clear what the difference is. However, I am

1 absolutely certain, as I have stated, that Mailing Online  
2 and PostOffice Online are, in fact, covered by this freeze  
3 policy.

4 Q Okay. I would like to skip page 5 for the moment  
5 and go to page 6, where we see the process overview. The  
6 first step appears to be functional PCES manager creates  
7 value assessment. And I wanted to ask you if you are the  
8 functional PCES manager?

9 A Yes, I am.

10 Q So you will be the one who will have to create a  
11 value assessment, is that correct?

12 A That is correct, yes.

13 Q Do you have any intention to do so?

14 A Indeed, I do, yes.

15 Q Have you begun the process of creating this value  
16 assessment?

17 A I began it the moment I learned of the freeze,  
18 yes.

19 Q When do you think you will complete your value  
20 assessment?

21 A I don't know exactly what the schedule for this  
22 Change Control Board, I think it is called, what their  
23 requirements for scheduling will be, but I would imagine  
24 that it is going to take place fairly rapidly.

25 Q You think all such assessments are going to be due

1 to the next reviewer, which appears to be the functional  
2 vice president. You think that all such value assessments  
3 will be due to the functional vice presidents in a fairly  
4 short period of time?

5 A I know that almost for a fact. Yes, it is going  
6 to happen very quickly.

7 Q Have you been given a target date or a range of  
8 dates?

9 A I have been given a form to complete and informed  
10 that it needs to be completed immediately.

11 Q How many pages is that form?

12 A In its raw form, I think it is perhaps three or  
13 four, but is empty of content, and, so, when it is  
14 completed, it might be more than that.

15 Q And after you create the value assessment -- well,  
16 let me ask you this, will you be working with other people  
17 to create the value assessment?

18 A Yes, I will.

19 Q Who are some of the others that you will be  
20 consulting in preparing the value assessment?

21 A The value assessment takes into account both  
22 business value in terms of revenue potential and that sort  
23 of thing, as well as legal and regulatory matters, as well  
24 as IS technical risk issues, so I would be consulting with  
25 both the people that have participated with me in the

1 business planning for Mailing Online and PostOffice Online,  
2 the law department, and the IS people that we have been  
3 working with as well.

4 Q So your understanding is that the value assessment  
5 includes a risk assessment?

6 A It includes -- it absolutely includes a risk  
7 assessment, yes. My part of it includes a function of  
8 providing certain pieces of information to the committee,  
9 and then I think the ultimate risk assessment is done, if I  
10 understand it correctly from this, done by the technical  
11 component of the Change Control Review Board.

12 Q And after you create the value assessment it looks  
13 like the next step is that you will have to submit it to the  
14 functional VP, is that your understanding?

15 A Yes, it is.

16 Q And do you submit it at the same time to a  
17 portfolio manager or does the VP submit it to the portfolio  
18 manager?

19 A I am not sure that I have to make the distinction  
20 it goes through the Senior VP for a sign-off.

21 Q I see, and then on to the portfolio manager?

22 A Yes.

23 Q Have you gotten any preliminary word from your  
24 functional VP whether he or she may be willing to sign off  
25 on the value assessment?

1           A     I haven't had any direct conversations but  
2 obviously there has been a lot of talk about this. What I  
3 know is that we have been promised that we, the PostOffice  
4 Online team, has been promised that all due consideration  
5 will be given to what we submit for the risk assessment but  
6 it is in line with everyone else.

7           Q     After the VP signs off and submits the value  
8 assessment to the portfolio manager, it looks like it next  
9 goes to the portfolio manager, which I guess we saw in the  
10 previous step, who convenes a risk assessment team. Is that  
11 the way you understand the process?

12          A     That is what it says.

13          Q     Do you know what the portfolio manager will have  
14 to do to convene the risk assessment team?

15                Have you heard anything about that?

16          A     I haven't heard anything about it outside of this  
17 document. I don't recall specifically whether this lays out  
18 the makeup of this risk assessment team, but no, I don't  
19 know anything else about it.

20          Q     I guess I need to step back just a moment to the  
21 previous step. Do you know if the functional VP has any  
22 particular deadline that he or she has to meet and when  
23 signing off needs to take place?

24          A     I'm sorry, I don't know that at this moment.

25          Q     And I suppose it is possible at step two that the

1 VP might not sign off?

2 A It is conceivable, yes.

3 Q Now moving ahead to step three again, the  
4 portfolio manager will convene the risk assessment team.  
5 You don't really have any idea I suppose how long it will  
6 take to assemble such a team, do you?

7 A I don't know -- with the makeup of the team I  
8 don't know how many people, I don't know where they are  
9 coming from. No, I would not know. I just know that there  
10 is a level of expedition attached to this would lead me to  
11 believe it will be quickly.

12 Q Do you know who the portfolio manager is?

13 A I do not, and it is an interesting internal  
14 situation for us. The technology group, which was just  
15 recently created within the Postal Service, I don't believe  
16 has had an officially named portfolio manager.

17 There is a manager of the portfolio called  
18 Enablers that I think has taken on that function and I don't  
19 know individually who that is but that is the role as I  
20 understand it.

21 Q Do you have any idea how many members of the risk  
22 assessment team there will be?

23 A I don't know the composition of the team nor do I  
24 know where they will come from.

25 Q Do you know whether each specific request for an

1 exception has its own risk assessment team or whether there  
2 are many -- in other words there would be many such teams or  
3 whether there is a single risk assessment that has to look  
4 at all projects.

5 A Unless it is in this document, and we could  
6 reference it here, you have exhausted my knowledge the risk  
7 assessment team.

8 Q Okay. I was hoping you would know a little bit  
9 more than I do from reading the documents since, you know,  
10 you may have had conversations with the Postal Service about  
11 this.

12 Well, let's continue and see if perhaps you have  
13 picked up a tidbit of information here or there that doesn't  
14 appear in the attachment.

15 The fourth step is that -- well, I'm sorry, I am  
16 going to back up just for a moment again. Well, step  
17 four -- I'm actually moving forward -- step four, the  
18 portfolio manager submits the value in risk assessment to  
19 the CRC for decision. Below that there is a caption that  
20 says Executive Decision Point.

21 I thought that might mean that there was a chance  
22 that it wouldn't go forward, in other words that the risk  
23 assessment team might veto any further consideration of an  
24 exception. Do you know whether my understanding is correct,  
25 that that could happen at that step?



1           A     As I read through this process description, each  
2 one of these decision points is a point at which the project  
3 or form or however you wish to view this can in fact be  
4 rejected so yes.

5           Q     And since you don't know a great deal about it you  
6 probably don't really know right now how likely Mailing  
7 Online would be to move beyond step four -- that is, there  
8 would be an executive decision to go forward with the next  
9 step of the process. You probably just don't know that, do  
10 you?

11          A     No. I know what my hope is and I know that if I  
12 were doing the business risk assessment what my decision  
13 would be, but I can't predict, no.

14          Q     And at step four the portfolio manager submits the  
15 value and risk assessment to the CRC, and I think the CRC is  
16 defined in here somewhere. I don't recall offhand.

17               Do you know what CRC stands for, do you recall?

18               Is it the Change Review Committee?

19          A     That would seem to make sense.

20          Q     Right. I skipped page 5, so maybe it would be a  
21 good idea to go back to page 5 at this time and see what it  
22 said at page 5: "Each change request beyond the freeze  
23 policy date will come to the portfolio Change Review  
24 Committee, CRC" -- and I guess that is what we were looking  
25 at at step four. Would that be your understanding too?

1 A Change Review Committee, yes.

2 Q And the Portfolio CRC will either deny the request  
3 or recommend it to the Executive Change Control Board, CCB,  
4 and that is just what we were talking about, that it  
5 might -- your request for an exception might be denied or  
6 recommended at the stage.

7 A That would be correct, yes.

8 Q And then step five is the CRC -- I guess if it  
9 decides to act favorably the CRC submits recommended  
10 exceptions to Executive CCB and if we flip back to page 5 we  
11 see that the CCB is the Executive Change Control Board.

12 Do you know much about this Executive Change  
13 Control Board yet?

14 MR. HOLLIES: Objection. Asked and answered. The  
15 witness has indicated that the bounds of his knowledge  
16 coincide rather perfectly with the contents of this  
17 particular attachment so further questions about what he  
18 knows would appear to be quite redundant.

19 MS. DREIFUSS: The witness made a general  
20 statement but I said I might ask him some of the details  
21 because as I say it's possible he has picked up an  
22 additional piece of information here or there that doesn't  
23 appear in these attachments.

24 COMMISSIONER LeBLANC: With all due respect to  
25 you, Ms. Dreifuss, where are we going with this? The

1 witness has said I believe his knowledge of the process  
2 here. Now for us to go block by block seems very redundant  
3 at this point,.

4 MS. DREIFUSS: Okay.

5 COMMISSIONER LeBLANC: So due to the late hour,  
6 let's move on, if you will, please.

7 MS. DREIFUSS: All right, I will.

8 BY MS. DREIFUSS:

9 Q So let me see if I can sum this up, at least the  
10 process. There are many, many steps involved, it appears to  
11 me, and it is very difficult to say right now whether  
12 Mailing Online will make it all the way through the  
13 exception process.

14 That seems like a fair statement, doesn't it?

15 A It's impossible to say at this point whether it  
16 will make it through the exception process. That is  
17 correct.

18 MS. DREIFUSS: I have just one more concern about  
19 this memorandum before I finally end this cross examination  
20 of the witness.

21 BY MS. DREIFUSS:

22 Q Now, you stated a while back, maybe half an hour,  
23 45 minutes ago, that you knew about this memorandum that  
24 you've attached to your testimony on March 10th, and OCA's  
25 concern is that on March 11th, counsel for the Postal

1 Service made an oral argument here before the Postal Rate  
2 Commission that there would be no moratorium until July of  
3 1999, and I wonder if you had informed counsel for the  
4 Postal Service about this memorandum sometime before March  
5 11.

6 A My answer to your initial question was that I  
7 would guess that I became aware of it on the 10th because  
8 the memo is dated the 9th. If I had been aware of it on the  
9 11th and I had been aware that counsel was going to make  
10 remarks about July being the freeze implementation date,  
11 which was the original, as we understood it, freeze  
12 implementation date, I certainly would have corrected that  
13 understanding.

14 Q Do you remember the date on which it was decided  
15 that this memorandum would become an attachment to your  
16 testimony?

17 A No, I don't.

18 Q Do you have any specific knowledge about when  
19 counsel for the Postal Service became aware that there was  
20 such a memorandum?

21 MR. HOLLIES: This seems a little odd style of  
22 questioning, Mr. Presiding Officer. I'm certainly prepared  
23 to make a proffer to the point that I was provided a copy of  
24 the cover sheet but not the underlying materials via e-mail,  
25 and I believe I first saw it after hearings. We were here,

1     what, the 10th and 11th? So it might have been the 13th  
2     that I first saw it.

3             MS. DREIFUSS: That answer is satisfactory.  
4     That's really what I was driving at.

5             Again, I'm going to express -- this is really not  
6     a question for the witness, but I'm going to express our  
7     very, very great concern, disappointment, chagrin, that  
8     Postal Service counsel learned about this memorandum on  
9     March 12th -- I think that was the date that you just gave  
10    us, March 12th --

11            COMMISSIONER LeBLANC: It was his understanding,  
12    according to my take on it, was plus or minus the 12th,  
13    whatever --

14            MS. DREIFUSS: Okay. Around March 12th. But  
15    Commission Order Number 1234 wasn't issued until March 19th,  
16    so it seems to OCA that Postal Service counsel had several  
17    days during which he was aware that his statement before the  
18    Commission was not correct. It was a key statement. And in  
19    fact, when you read Order 1234, you see that the Commission  
20    relied on that statement.

21            MR. HOLLIES: Objection. This is legal argument.  
22    It is by no stretch of the imagination a question suitable  
23    for posing to a witness.

24            MS. DREIFUSS: And Mr. Presiding Officer, I'm not  
25    putting it as a question, I'm making a statement, and it is

1 legal argument. I'm saying that we are very concerned about  
2 the fact that the Postal Service did not clear up the false  
3 impression given at oral argument which then became a basis  
4 for this order.

5 COMMISSIONER LeBLANC: Ms. Dreifuss, I understand  
6 what you're going. You've made your statement. You can  
7 reiterate it again on brief. We will take it and give it  
8 whatever weight is necessary under the circumstances.

9 I can understand the frustration we all feel at  
10 this late hour, but we will handle what you want under the  
11 circumstances here on brief.

12 MS. DREIFUSS: I have no further statements or  
13 questions.

14 COMMISSIONER LeBLANC: Save the best for last or  
15 the whatever we've got here. Mr. Wiggins, we do appreciate  
16 you waiting to this hour. You may begin, counsel.

17 MR. WIGGINS: Did I really have a choice?

18 COMMISSIONER LeBLANC: No, sir. So as we say,  
19 moving right along, sir.

20 CROSS EXAMINATION

21 BY MR. WIGGINS:

22 Q I think I am still Frank Wiggins, Mr. Garvey. For  
23 the AMMA, which is a very quiet party to this case, I would  
24 like to salute you in recognition of the wonders of direct  
25 mail marketing that you testified about a little bit

1 earlier.

2 For Pitney Bowes, I would like to ask you a few  
3 questions.

4 You mentioned a few times in your dialogue with  
5 Ms. Dreifuss the advertising agency that was doing work for  
6 Mailing Online. Can you identify that organization, tell me  
7 the name of it? Do you know what advertising agency you're  
8 using?

9 A I believe it's been previously identified, but  
10 it's Young & Rubican.

11 Q It was identified by my testimony yesterday, and I  
12 wanted to get you to confirm it. I don't think it's  
13 otherwise in the record.

14 You also talked with Ms. Dreifuss about the  
15 experience with Ms. Wilcox' mailings during -- and I have to  
16 ask you at this point -- during the period prior to the  
17 market test; is that right? What her testimony contained,  
18 in otherwise.

19 A I'm --

20 Q You quantified --

21 A I'm not clear on your question.

22 Q Sure. You quantified Ms. Wilcox as mailing about  
23 1500 pieces a week. Do you recall that?

24 A A month is what I said.

25 Q I'm sorry, a month. I take that back.

1 A Yes, sir.

2 Q To come to about 18,000 a year.

3 A I recall that, yes.

4 Q Was that -- did that mailing take place in the  
5 pre-market test period?

6 A Ms. Wilcox became a customer during the operations  
7 test in Tampa. As far as I know, she remains a customer  
8 today of Post Office Online.

9 Q During the operations test period, how much per  
10 piece did Ms. Wilcox pay for each of the roughly 1,500  
11 pieces she mailed a month?

12 A She paid First Class postage, which I believe at  
13 that time was 32 cents.

14 Q Nothing for the preparation of the mail piece?

15 A Not during the operations test.

16 Q You testified at page 5 of your testimony that  
17 there are roughly 200 Mailing Online users, I suppose at the  
18 time you prepared your testimony.

19 When I examined the weekly report for accounting  
20 period seven, week two, I see a cumulative total on table 4,  
21 I believe it is, of 149 users of Mailing Online. Is there  
22 some disjuncture between your number and that number that we  
23 need to understand to fully appreciate the report numbers or  
24 is that just a little miss?

25 A It could be attributed to gross rounding.



1 Q Okay. You have volume 6 of the transcript with  
2 you, don't you?

3 A I do, yes.

4 Q Could you take a look at page 1442.

5 A Yes, I have it.

6 Q And page on through there to page 1446.

7 A Yes, I have it.

8 Q Those are materials supplied by the Postal Service  
9 in response to the Presiding Officer's Information Request  
10 Number 2, I think it says. Down at the bottom of the page,  
11 it discloses that.

12 Are you familiar with these documents?

13 A Yes.

14 Q And what are they?

15 A They were provided as examples of the advertising  
16 copy that was to be used for the Mailing Online advertising  
17 campaign.

18 Q Do you know whether they were actually used?

19 A No, I do not. I assume, since they were provided  
20 by the folks who are planning this and they gave them to me  
21 and said, these are what we're planning to use, that they  
22 used them.

23 Q Did they tell you in what sort of an advertising  
24 vehicle these ads would be used? Are these space ads for  
25 newspapers? Are they magazine ads? Do you know?

1           A     We did -- and I may not be using the proper terms  
2     of art here, but we did two types of print advertising. We  
3     did newspapers and we did magazines. And I think that these  
4     ads were used in various sizes and configurations within  
5     both types of printed vehicle.

6           Q     If you look very closely, and I'll ask you to  
7     accept this subject to check so we don't have to put you  
8     through an exercise in reading, at the ad on 1442 and the ad  
9     on 1443, I'll represent to you, subject to your own check at  
10    your leisure, that the text of those two ads is identical  
11    with one exception, and that is the URL, the address,  
12    www.PostOfficeOnline.com, /1 in the first instance and /key  
13    in the second.

14          A     Yes.

15          Q     Can you explain to me why that is? Do you have an  
16    understanding of that?

17          A     Oh, absolutely, and I mentioned it in earlier  
18    testimony, and that is to differentiate between a user  
19    coming from the result of having seen one ad versus another.

20          Q     The other four versions of these closely similar  
21    but not identical advertisements do not make that  
22    distinction. Can you explain that?

23                 For example, look at 1444. It's a .com/1, and  
24    1445 is a .com/key.

25          A     My guess would be, without knowing absolutely,

1     that there were two different forms or formats of  
2     advertising that would be used in newspapers, for instance,  
3     and those would be the ones that had the same URL even  
4     though the ads were slightly different and the ads for  
5     magazines, for instance, although slightly different due to  
6     different configurations of magazines, would have the same  
7     URL as well.

8           Q     So you could test the efficacy of newspapers  
9     against magazines but not newspaper A against newspaper B.

10          A     Precisely.

11          Q     At page 5 of your testimony, lines 10 and 11, you  
12     talk about the -- 9, 10, 11 -- I'm sorry, 10 and 11, you say  
13     you deliberately slowed the pace of your marketing efforts,  
14     and you talked with Ms. Dreifuss a little bit about that.  
15     Do you have the Pitney Bowes Interrogatory Number 13 to you  
16     handy?

17          A     Only if it is in a transcript and you can give me  
18     a --

19          Q     2540. It is, I believe, still volume 6, page  
20     2540.

21                   MR. HOLLIES: I believe it might actually be  
22     volume 10A.

23                   MR. WIGGINS: I am sorry, that was -- yes, that is  
24     absolutely right. Sorry.

25                   COMMISSIONER LeBLANC: 10A, same page?

1 MR. WIGGINS: 10A. The page doesn't change.

2 THE WITNESS: Yes, I have in front of me.

3 BY MR. WIGGINS:

4 Q This recites at one point that you didn't use all  
5 of your planned media during the October through December  
6 period. Is that a reference to the deferral of mailing that  
7 you talk about, or the slowing of marketing, pardon me, that  
8 you talk about at line 5 of your testimony?

9 A No. I think if you will go back and recall what I  
10 said in an earlier discussion of this, there are really two  
11 issues at hand. We delayed the PostOffice Online  
12 advertising in general because of two primary reasons.  
13 Number one, systems development problems, as well as the  
14 overlap of the holiday season. We didn't want to be trying  
15 to do a lot of advertising during that time, and that was  
16 the result -- or that was the cause of the deferral referred  
17 to here.

18 The slowdown in marketing efforts is not actually  
19 referring to advertising so much as usage stimulation or  
20 customer retention messaging efforts.

21 Q So that you did all of the advertising in the  
22 really conventional sense of taking out space ads in  
23 newspapers and magazines. Did you -- you have answered this  
24 question to Ms. Dreifuss, and I just lost it in the passage  
25 of time. Did you do the cable video for which you provided

1 a story board in answer to one of my interrogatories?

2 A Yes, that was done.

3 Q Okay. And it was the same thing that you showed  
4 me, and this, too, is in volume 10A, beginning at page 2534.  
5 There is what characterized itself as a story board for a 30  
6 second spot.

7 A As far as I know, I saw a little preliminary clip  
8 of this video, but I never saw the final version. I would  
9 guess that it is this same story board, yes.

10 Q Okay. So you did your printed advertising, you  
11 did some cable placement and you did direct mail marketing?  
12 And then, in a less formal sense, you did messaging over  
13 Mailing Online, is that right -- or PostOffice Online, to  
14 registrants?

15 A In answer to your first question, yes, we did all  
16 of those advertising methods to draw new registrants to the  
17 PostOffice Online and, yes, we have done messaging to  
18 registered customers of PostOffice Online.

19 Q I would like you to walk me through just a brief  
20 history of the levels of registrants that you had at various  
21 points in the development of the system. Prior to the  
22 October 7 authorization by this Commission of the market  
23 test, did you consider the participants as registrants? Ms.  
24 Wilcox and others of her status?

25 A Yes, they were registered customers of the

1 operations test version of PostOffice Online.

2 Q Okay. I was just asking a semantic question of  
3 whether you called them registrants or something else. What  
4 was the largest number of registrants that you had during  
5 that operations test period?

6 A I don't know the exact number but it would be no  
7 more than 200.

8 Q Okay. Do you think you got close to 200?

9 A Well, obviously, my rounding skills are not great.

10 Q So that's 149, is that right? No, I am -- as a  
11 ballpark estimate, 200 is a pretty good guess?

12 A Somewhere lower than 200, but in that  
13 neighborhood, yes.

14 Q Sure. And do you think you had about that same  
15 number still in play by the time the Commission issued its  
16 decision authorizing the market test? Were you still at  
17 about the 200 level?

18 A We actually shut down, as you will recall, the  
19 PostOffice Online for a period of time, and those customers  
20 who were registered at the time were notified that they  
21 could reregister with the new market test version of  
22 PostOffice Online. So, yes, at that time, we had -- we  
23 didn't deregister anyone.

24 Q When you say the new market test version, are you  
25 talking only about its regulatory status or was there

1 actually some change in the nature of the system?

2 A There was, in fact, an upgrade of the system to go  
3 from an ability to handle a maximum of 200 users to handle  
4 5,000 users.

5 Q And did it have a name like Version 3.0 now has a  
6 name?

7 A Coincidentally, it has the name Version 2.0.

8 Q And was its predecessor named 1.0?

9 A That is a good guess.

10 Q Okay. You say the change was -- was the change  
11 comparable between 1.0 and 2.0 to what is going to happen  
12 between 2.0 and 3.0? You are just expanding your capacity  
13 to deal with a larger number of registrants?

14 A I can't answer that question with a yes or no, it  
15 is a question I would definitely have to qualify. But in  
16 many senses, I would say that the difference between 1.0 and  
17 2.0 is much smaller than any difference between 2.0 and 3.0  
18 in many ways.

19 Q Okay. When you moved over to 2.0, did you think  
20 you had a system that was going to carry you not only  
21 through the market period, the market test, but also into  
22 the experiment?

23 A Did I think that personally?

24 Q Yes.

25 A No.

1 Q Were there others with whom you spoke about this  
2 issue that did think that?

3 A Not that I know of.

4 Q Okay. So pretty much everybody knew that you were  
5 going to have to go from 2.0 to 3.0 in order to move from  
6 market test to experiment, and you knew that way back when,  
7 in October of '97?

8 A I knew it prior to that, actually.

9 Q Okay. So that was the plan.

10 A 2.0 was an interim step.

11 Q Okay.

12 A To get us ready for 3.0. I think that there may  
13 have been perhaps nontechnical participants who were  
14 laboring under the misconception that systems development  
15 could be done sort of overnight and that 2.0 could be scaled  
16 immediately, but I don't believe anyone intimately involved  
17 in the process thought that.

18 Q And I think you've testified to this, but I don't  
19 again recall the answer, when was the writing of 3.0  
20 commenced?

21 A Writing. Are you talking about writing code?

22 Q Yes. When did you begin? You knew you needed a  
23 3.0.

24 A Yes.

25 Q When did the preparation of -- and I don't know



1       whether to call it improvements to 2.0 or starting afresh  
2       with 3.0 --

3           A       Well, I --

4           Q       Whichever one of those is accurate, when did it  
5       happen?

6           A       I understand your question, and I think if you'll  
7       reference the Compaq contract, the task order given to  
8       Compaq to commence the writing, as you phrase it, of 3.0 was  
9       issued in August of 1998.

10          Q       Okay. I just wasn't sure that that was the very  
11       first step in the process. I do recall that date. And what  
12       was the largest number of registrants -- what is the largest  
13       number of registrants that you've had in the market test  
14       period?

15                 You're up to 5,000, right?

16          A       Yes, we are up to 5,000, and I hesitate, because  
17       it's actually slightly above 5,000, I think 5,100 or  
18       something like that. It fluctuates due to people being  
19       deregistered and new people coming on.

20          Q       And I think you indicated that of those 5,000,  
21       5,100 registrants, 149 at present or at the end of the  
22       reporting period AP 7, week 2, are active Mailing Online  
23       users. Is that right?

24          A       Have used Mailing Online; yes.

25          Q       I see. So that cumulative total is everybody who

1 has used it over time.

2 A As far as I know; yes.

3 Q Okay. And you said roughly 1,000 Shipping Online  
4 users?

5 A That's my recollection; yes.

6 Q Is that the same kind of number that's the total  
7 number over time who have used?

8 A That's correct.

9 Q Okay. So that is it right to think that out of --  
10 you've got 1,150 active souls, and the residue of 3,850 are  
11 registered but have never done anything.

12 A With Mailing Online or with --

13 Q Or Shipping Online. If we've got 1,149 who have  
14 used --

15 A Yes, I understand your question. Yes, that's  
16 true.

17 Q Does -- is that good? I mean, is that an outcome  
18 that you're happy with or would have advocated?

19 A Of course not. I think that we're not pleased  
20 with the adoption rate. We're not pleased with the  
21 satisfaction of the customers with the system. Although I  
22 would have to say that in terms of actual usage of  
23 registered users versus actual users, we did experience  
24 during the operations test a rate of about 20 percent, which  
25 is similar to what we're seeing overall with the market-test

1 version.

2           Given that the market-test version of the software  
3 of the system itself is no more than a more robust and  
4 scaled version of that same prototype software that we were  
5 using in the operations test, it follows true to form that  
6 if we improve the system and make it more user-friendly and  
7 more to the liking of the people that are supposed to be  
8 using it, that we'll see an increase in usage.

9           Q     And those improvements are part of the movement  
10 from 2.0 to 3.0?

11          A     That is correct.

12          Q     Can you give me just an overview, and you probably  
13 don't have, and I probably don't want, penetrating detail,  
14 but just an overview of the things that people don't like  
15 about Mailing Online as it is in 2.0 and some of the things  
16 that you're doing to make it better in 3.0?

17          A     Certainly. I think the top one is speed. As with  
18 any Internet application, the user is by virtue of the venue  
19 impatient. They want things to happen quickly. They want  
20 them to click and you're there like that. We have to design  
21 our system with that expectation in mind. Currently it does  
22 not do that.

23                Another major modification that we'll be making is  
24 that the flow of the system, the way in which people  
25 accomplish things within the application, is today not as

1 intuitive as it might be. People, once they learn the  
2 process, they know it and they can go through it, but the  
3 first time they show up, it's a little bit like getting into  
4 a car you've never driven before. You've got to sort of  
5 figure out where things are, and that's not as easy as it  
6 might be.

7 Q Light switches on rent-a-cars are my example of  
8 that.

9 A Exactly.

10 Q You talk at page 3 of your -- and you only need to  
11 use them in the dark, too, which makes it really tough.

12 At page 3 of your testimony, Mr. Garvey, you talk  
13 about another sort of change in the system that probably is  
14 invisible to the users, but that I'd like to think with you  
15 about a little bit. You talk at lines 9 and 10 about the  
16 improved batching of 3.0 -- do I read that right? -- that's  
17 going to happen in 3.0?

18 A Yes, that's correct.

19 Q You talked with Ms. Dreifuss a little bit about  
20 batching. I'd like to use slightly different words with you  
21 if you don't mind, because there's a linguistic confusion  
22 here, at least in my poor mind.

23 Instead of the word "batching" as you sometimes  
24 use it here, as indeed I believe you're using it in line 9,  
25 I'd like to use the word "commingling." And by that I mean

1 taking mailings that come into the system from different  
2 mailers and putting them together, and then dispersing them,  
3 at present to one print place, but in the future to many, so  
4 that you can achieve, as I understand your ambition here,  
5 you get better presortation -- I'm now looking at lines 11  
6 and 12 -- and automation compatibility if you're able to do  
7 that.

8 Do I understand that basically right?

9 A Yes, that's correct.

10 Q Okay. So we'll call that commingling, and at the  
11 end of the day, once you disperse these things, they will  
12 land up in batches. But when I use the word "batch," I mean  
13 the combination of mail pieces delivered to the Postal  
14 Service as a single mailing for entry into the mail stream.

15 Is that okay, too? Is that pretty much what is  
16 going to happen?

17 A I understand, yes, and it's --

18 Q Well, no, I just want to make sure I'm accurate.

19 A The confusion between a verb and a noun. The  
20 system does batching and produces batches.

21 Q Well, I understand. But I'm going to say  
22 commingling instead of batching, if you don't mind. I  
23 mean --

24 A That's fine --

25 Q It seems to me it's going to help us to get more

1 confused or stay less confused, one or the other.

2 A If I get more confused, I'll ask.

3 Q Okay. Perfect.

4 You testified in your discussions with Ms.  
5 Dreifuss as you did earlier to me at page 1534 of volume 6  
6 that you can only commingle, as I'm using that word,  
7 mailings that are merged mail. And when I use the word  
8 "merged mail" here, I mean pieces of mail that have added to  
9 them some personalizing effect like a name in the interior  
10 of the letter. Is that okay too?

11 A Yes, and you can be even more specific and say  
12 that they're a result of the Mail Merge function built into  
13 Word or WordPerfect mail processing software --

14 Q Okay.

15 A Or word processing software.

16 Q And non -- when I have a merged mailing of say 500  
17 pieces, okay, how -- that means I'm individualizing them,  
18 I'm using the Mail Merge feature of WordPerfect or Word --  
19 how many electronic documents do you transmit to the printer  
20 to have those electronic documents physically re-created?

21 A Today if you are referring to an electronic  
22 document as the print image --

23 Q Yes, that's better.

24 A -- with a 500 piece mailing it would be 500 print  
25 images assuming a single page document.

1           Q     Right. Assume a single page document that is a  
2 non-mail merge document that also wants to land up going to  
3 500 people. How many electronic images do you send off to  
4 your printer?

5           A     Today, one.

6           Q     Today -- okay. And that will continue to be true  
7 or no?

8           A     I am not -- I don't know what the current system  
9 design for Version 3.0 specifies. There has been some  
10 discussion about whether or not that merging function could  
11 or should take place at another point.

12          Q     But wherever it takes place along the pipeline it  
13 will remain true that mail merge documents will result in  
14 the same number of electronic images as it is intended for  
15 there to be ultimate recipients of a piece of mail, whereas  
16 non-mail merge documents will continue to be a single  
17 document until they pop out the back door of the printer as  
18 the number of documents to be delivered, is that right too?

19          A     I can say that that is the way the system is  
20 currently designed.

21          Q     Okay.

22          A     I can't say that I have participated in the  
23 technical system design of the new version so I cannot say  
24 that that is the way it will continue in the future.

25          Q     And there aren't operational reasons to prefer one

1 outcome over the other?

2 A Can you define operational reasons?

3 Q Things that you would care about.

4 A Well, there are a variety of considerations, shall  
5 we call them, in how you do this. It has to do with timing,  
6 capacity, where in fact you do the commingling, as you call  
7 it, and doing these things at different points or places  
8 within the system have different effects upon different  
9 parts of that process.

10 Q Okay. If one examined, and I am not going to take  
11 the time to have you do this, Table 6 of the weekly  
12 accounting period -- the Accounting Period 7 weekly report,  
13 there is a line in the -- I said Table 6. That table  
14 reports MOL volumes and there are two lines that show you --  
15 three lines that show you mail merge, non-mail merge and  
16 total. They do that cumulatively I think since Accounting  
17 Period 4, week 3, or something like that, that information  
18 begins to appear.

19 If you do the arithmetic at the end of the line,  
20 the total number, it shows you that 21 percent, if I did the  
21 arithmetic right, that 21 percent of the mail pieces for  
22 which you could determine whether they were mail merge or  
23 non-mail merge, 21 percent were mail merge.

24 Does that surprise you?

25 A No, it doesn't surprise me and I should mention



1     that that has been a subject of my interest as well and I  
2     have actually attributed that to some of the messaging, as I  
3     called it, that we have done to the customers. One of the  
4     messages that we sent out was around explaining the feature  
5     of mail merge and letting people know that was in fact  
6     something they could do with Mailing Online that they might  
7     not be aware of and I think that the higher percentage of  
8     mail merge that we are seeing in this market test versus the  
9     operations test is perhaps the result of us being more  
10    proactive about letting the customers know that that was an  
11    opportunity.

12                I would also add to that that I am not sure that  
13    that reflects anything about what the eventual ratio of mail  
14    merge to non-mail merge might be.

15           Q     When you and I last talked about this issue, the  
16    proportion of merge and non-merge, back in November, page  
17    1536 of the transcript, the numbers that I put in front of  
18    you from an earlier generation of a Price Waterhouse Coopers  
19    report was 87 percent non-merge and 13 percent merge, so you  
20    are right in the sense that you are moving into larger  
21    numbers. It is now 21 percent to 79 percent.

22                Have you defined the level at which you think you  
23    will be getting about the right proportion of  
24    merge-nonmerge? Is there a target?

25                You have gone from 87-13 to 79-21. Do you have

1 ambitions to tilt that ratio still further?

2 A Directly as a ratio of merge to nonmerge, no, but  
3 I would say that I think implicit in my believe that  
4 personalized printing, variable data printing, is an  
5 extraordinarily valuable tool to anyone desiring to do  
6 one-to-one direct marketing and in terms of their ability to  
7 do invoicing or other types of customer transactional  
8 documents, the ability to do that will be critical to the  
9 success of Mailing Online and I don't have a target for an  
10 eventual percentage but I would hope that the users of  
11 Mailing Online understand the value of that tool well enough  
12 that they use it far in excess of 13 or 17 percent, whatever  
13 showed up during the operations test.

14 Q And even more than 21 percent, the last number  
15 that we can calculate?

16 A Yes.

17 Q It is going to be good for the mailers you say.  
18 It is also going to be good for the Postal Service, is it  
19 not?

20 A Anything that makes the mail a more valuable tool  
21 increases people's understanding and value equation of the  
22 mail is good for the Postal Service, yes.

23 Q Let me see if it is going to be good for the  
24 Postal Service in sort of a more venal way.

25 I am reading now, still on page 3, from lines 10

1 through 12. It says, "Thus improving Mailing Online volume  
2 levels of batching, presortation, and automation  
3 compatibility and thereby reducing the cost of processing  
4 Mailing Online pieces."

5 That is your testimony. Do you believe that to be  
6 true?

7 A I wouldn't have written it if I didn't believe it  
8 was true.

9 Q So the mail is going to be cheaper to handle for  
10 the Postal Service as well as more beneficial in terms of  
11 its marketing impact for the customers, isn't that right?

12 A Automation mail by its nature is less costly to  
13 process, yes.

14 Q Well, batching you say is going to improve  
15 presortation and automation compatibility, so to the extent  
16 that you can increase what I am calling merging or  
17 commingling of mail, I'm sorry, you are going to land up  
18 with mail pieces that are cheaper to process.

19 A I understand where you are headed and perhaps I  
20 need to correct a misapprehension that you may have about  
21 the inversion three. It will not necessarily be true that  
22 the only commingling that we can do is of merged documents.

23 Q Okay, so that -- I am looking at a broader precept  
24 here. To the extent that you can do more commingling,  
25 whether it is because you have more merged documents or

1     whether it is because of the magic of Version 3.0 that  
2     permits you to transcend this current limitation, to the  
3     extent that you have more commingled mail, you have mail  
4     that is cheaper to handle for the Postal Service, once it  
5     gets into the mail stream, is that right?

6           A     That is correct.

7           Q     But you are still going to charge the same price  
8     for it, aren't you?

9                     Automation basic rates are going to apply, I  
10    believe you have testified, throughout the experimental  
11    period.

12          A     I believe that is our proposal before the  
13    Commission, yes.

14          Q     So you get cheaper mail for the same price. Does  
15    that mean more bang for the buck for the Postal Service?

16          A     Bang for the buck? I think it's part of -- in  
17    proposing that a flat rate, a basic automation rate be used,  
18    you'll find as part of the record my understanding and the  
19    Postal Service's understanding that some of the mail will be  
20    less expensive to process than we are charging for it but  
21    that there will be other parts of it which would be more  
22    expensive to process.

23                     Both of them are part of our understanding of what  
24    we are trying to do in the experiment.

25          Q     You say at page 1 of your testimony, line 18, that

1 you aren't going to be able to have the fast forward feature  
2 that you originally contemplated, for a variety of reasons.

3 A I am sorry, where are we?

4 Q We are at page 1, beginning at line 18. And you  
5 say you used to think that we were going to have fast  
6 forward as a feature but not, at least immediately, you  
7 can't, is that right?

8 A That is correct.

9 Q Does that mean no address correction at all?

10 A It means no change of address processing at the  
11 moment.

12 Q And what does that mean in operational terms, what  
13 is going to happen to that mail? Is it going to be  
14 undeliverable mail? Undeliverable as addressed, I think is  
15 the way you guys talk about it, UAA mail.

16 A No. What will happen to the mail today is the  
17 same thing that would happen if you or I were to drop it in  
18 a letter box on the corner, if there is a forwarding order  
19 on file, it will go through the centralized forwarding  
20 system and get a little sticker stuck on it, or an address  
21 printed on it, and it will go on and be delivered to the new  
22 address. The use of the fast forward system was intended to  
23 simply shortcut that physical process and the only thing --  
24 the only difference is that it will go through a physical  
25 process instead of the electronic one.

1 Q The -- I am sorry. Did I cut you off?

2 A No.

3 Q Okay. The use of fast forward would have lent  
4 still another economy to the processing of this mail, would  
5 it not?

6 A That is correct, yes.

7 Q At page 5 of your testimony, you talk about a  
8 number of developmental problems that could not have been  
9 foreseen, and I just want to be sure I understand about what  
10 we are talking. Are we talking about Version --  
11 implementation of Version 2.0 at this point, is that what  
12 you are talking about at this point in your testimony?

13 A Yes.

14 Q Okay. And that page 4, lines 13 and 14, as you  
15 talked with Ms. Dreifuss about, we are talking about a  
16 slightly delayed installation of 3.0. So 2.0 isn't working  
17 as well as it ought to, 3.0 has been delayed. I am not now  
18 trying to pull scabs off of wounds, but only to understand  
19 what went bad with some of these things so that we can  
20 confidently make an assessment of what is likely to happen  
21 in the future. Okay. So I am going to sort of take you  
22 through this history and you tell me where the bumps in the  
23 road where, if you could.

24 Start me off with 2.0. Why didn't 2.0 -- why was  
25 the implementation of 2.0 more rocky than you anticipated?

1           A     Well, I think at the very base of it would be the  
2     assumption that 2.0 was not intended to exist for very long.  
3     The period of that market test was intended to be a very  
4     short time and we had taken the operations test system and  
5     beefed it up a little bit so that we could get through that  
6     time, and I think we underestimated the necessary actions to  
7     beef it up, to get it ready.

8                     When we installed Version 2.0 there were things  
9     that were still wrong with it. There were system bugs, and  
10    rather than immediately beginning the development of 3.0,  
11    which is what was intended, there was time spent -- wasted,  
12    I think, perhaps wasted, but it was time spent working on  
13    2.0 that we hadn't planned on. It was fixing it so that it  
14    would just serve well enough to do what we needed it to do.

15           Q     Well, was that before 2.0 was on the street  
16    providing service to registrants that you discovered these  
17    problems, or after?

18           A     Well, as you will recall, the implementation of  
19    Version 2.0 itself was delayed, so we discovered problems  
20    early on, and then after the installation, there were things  
21    that we knew had to be fixed, and we spent time doing that.

22           Q     Right. You filed in July anticipating  
23    implementation before the end of the year, and then you came  
24    in in November and said, whoops. Now, say to me if you can  
25    recall that?

1 A Saying "whoops"?

2 Q Well, the metaphorical whoops, you said we are not  
3 going to be ready to go when we said, indeed, we can't even  
4 tell you until January 24 when we think we are going to be  
5 ready to go, right?

6 A I don't remember the exact date, but, yes, I do  
7 remember.

8 Q It could have been January 14, now that I think  
9 about it. It was sometime there in January.

10 A Yes, I remember the metaphorical whoops.

11 Q Okay. Can you describe to me, in terms slightly  
12 more specific, though not technical, what the metaphorical  
13 whoops consisted of? What did you find out about 2.0 before  
14 its implementation that made you come back to the Commission  
15 and say, golly, we can't move forward with this hurry up  
16 schedule that we have requested of you, and that the  
17 commission was busting its pencil trying to accomplish for  
18 you, because we need time to fix? What needed to be fixed?

19 A I can't give you a laundry list of the things that  
20 needed to be fixed, but there were things having to do with  
21 the financial transactional system, having to do with the --  
22 a lot of things having to do with the Shipping Online  
23 system. Just the whole thing. It is -- I can't give you  
24 any more specifics.

25 Q Okay. Was the discovery of these laundry lists,



1 you tell me, of difficulties, was that discovery made in the  
2 course of what you and Ms. Dreifuss, and I think the  
3 business in general talk about as beta testing? Is that  
4 when you discovered these things?

5 A I don't believe that you could find a stage of  
6 implementation of Version 2.0 that was called beta testing.  
7 Beta testing, I think, assumes that you are testing  
8 something that you intend to launch in a production  
9 environment, and you give to people in a pre-production  
10 phase so that they can tell you what is wrong with it. 2.0  
11 is, by its nature, a beta system.

12 Q So the beta test of 2.0 is ongoing right now?

13 A In various stages, yes, Version 2.0 is, in fact, a  
14 beta test of a 3.0 production system.

15 Q And it is -- and I am now looking at page 5, line  
16 10, the beta system is functioning at a sub-optimal level,  
17 is that correct?

18 A Yes. Yes.

19 Q So you found some difficulties with 2.0 before you  
20 initiated the market test, and you are still finding some  
21 difficulties with 2.0 well into the market test; is that  
22 fair?

23 A I think it's fair to say that the system we are  
24 running today is sub-optimal. Finding problems, if you're  
25 using it in the sense that we find that it is a problem

1 using this current system, yes, that is true.

2 Q There hasn't been a second 2.0 whoops. You  
3 haven't found a bunch of whole new things that you didn't  
4 anticipate that are wrong with 2.0; is that correct?

5 A No, we are accepting 2.0 as it is with all its  
6 warts and continuing on with it, focusing our attention and  
7 our efforts now on developing the new system.

8 Q Which itself is scheduled for a delayed  
9 installation now. Does that mean you you've run into  
10 problems in the development, I take it, of 3.0?

11 A I think that I addressed this question earlier in  
12 the day when I said I don't believe the delay is so much due  
13 to development as to the more rigorous testing and expanded  
14 schedule of a system that has to go into production.

15 Q You do plan to do beta testing as you've defined  
16 it of 3.0 or not?

17 A The Postal Service way of installing a production  
18 system does not involve beta testing per se with users; it  
19 involves an extended schedule of testing, which I talked  
20 about before as being a six-week period during which Postal  
21 Service IS people act as beta users, beta testers, and run  
22 the system and the applications through their paces.

23 Q Let me shift gears here and touch one further area  
24 and then we'll see if we can merge these last two things  
25 that we've talked about.

1           There was testimony from Mr. Lim under examination  
2 by Ms. Dreifuss about a contract with the Cordant -- I'm not  
3 sure I'm spelling that right, but it's spelled C-o-r-d-a-n-t  
4 -- Company. Are you familiar with that?

5           A     Yes.

6           Q     That was a contract for roughly \$760,000 for Net  
7 Post design; is that right? Do you remember that?

8           A     Yes.

9           Q     Do I have the numbers right and the purpose right?

10          A     Yes.

11          Q     \$760,000 Net Post design.

12          A     Yes.

13          Q     Okay. And you paid Cordant that money, I assume.

14          A     I didn't personally, but the Postal Service did,  
15 yes.

16          Q     Okay. And what was delivered in terms of this  
17 continuum of development that we've just worked through?  
18 What was delivered to the Postal Service for the \$760,000  
19 paid to Cordant? Is that the operations test?

20          A     The contract awarded to Cordant precedes the Post  
21 Office Online inception. It was awarded to them to develop  
22 a Net Post program, the specifications of which have been  
23 filed and are part of the record, that approximated what  
24 Mailing Online does as an application. They were involved  
25 in the development of a prototype version of that software

1 at the time that Post Office Online was conceived, and the  
2 prototype version of that software became, through  
3 modifications, the initial prototype version of Mailing  
4 Online.

5 Cordant, by the way, was bought by a company named  
6 Tracorp, which was bought by a company named Marconi. So  
7 missions today of the company Marconi, which is today doing  
8 the system development via subcontract with Compaq, is, in  
9 fact, being done by many of the same team members that  
10 worked for Cordant.

11 Q That's helpful to finally get that lineage. It's  
12 almost Biblical. But it's good to know how they all hook  
13 together.

14 So you spend the 760 for Cordant and you've got  
15 the operations test, and let me make sure I understand this.  
16 Also the beginnings of the market test, or did 2.0 require  
17 additional expenditures? I thought I heard you say the 1.0  
18 was basically a Cordant product; is that right?

19 A Yes, that is correct.

20 Q Okay. Now we need to get to 2.0. What more --  
21 how bad are you going to pick my pocket this time? How much  
22 does that cost?

23 A I'm not picking your pocket at all.

24 Q No, no, not mine.

25 A I understand.

1           Q     Let me do this in a different way.  Witness -- and  
2     I'm not intentionally being abrupt here, but trying to get  
3     us the heck out of here -- Witness Seckar said in his  
4     testimony that there were \$2,283,697 in fixed IS costs for  
5     the market test and experimental periods.  Does that sound  
6     about right to you?

7           A     I can't question the Witness Seckar's testimony,  
8     but if you --

9           Q     Well, do you think it's about what was spent?  Do  
10    you have a notion at all?

11          A     For the market test?

12          Q     Yes.

13          A     Fixed IS cost for the market test?

14          Q     Well, no, his testimony was that it was both the  
15    market test -- it's 1999, 2000, is what he called it.  He  
16    did it by time period, but carefully noted in his testimony  
17    that he didn't really know when any of this stuff was going  
18    to happen, so he said, just call it two years.

19                 Let me give you --

20                 COMMISSIONER LeBLANC:  Do you have a cite for  
21    that, Mr. Wiggins?  It might help just to clarify the record  
22    if you have a cite.

23                 MR. WIGGINS:  It is either 14 or -- attachment 14  
24    or 15.  I don't remember.  One's fixed and one is variable.

25                 COMMISSIONER LeBLANC:  Okay.

1 MR. WIGGINS: And I don't remember which is which.  
2 I believe --

3 COMMISSIONER LeBLANC: And that's in Witness  
4 Seckar's testimony?

5 MR. WIGGINS: Yes. It's an exhibit.

6 COMMISSIONER LeBLANC: Okay. I just want to make  
7 sure, just for the clarification of the record.

8 MR. WIGGINS: And the other one, which is either  
9 14 or 15, is variable cost, and that's \$3,601,139, coming to  
10 a grand total of five-eight million bucks.

11 BY MR. WIGGINS:

12 Q Do you think that's about the right amount to  
13 measure what the Postal Service spent to go from 1.0 to 2.0?

14 A No, I don't see the relationship.

15 Q What do you think the Postal Service was spending  
16 that money for?

17 A Fixed IS cost and variable cost.

18 Q He called them fixed. When they were translated  
19 into Lim speak, they were called start-up. I mean, you  
20 can't walk directly between those two witness' testimony  
21 because there just is a -- there's no match because Mr. Lim  
22 put things together in a different fashion. But he  
23 testified that -- he called those numbers -- and he's got  
24 his own version of them, though his are for the experiment  
25 only. He was real clear about that. He called them

1 start-up.

2 A I would have to say that since I'm not a costing  
3 witness, I rely on the witness' testimony as filed.

4 Q You don't independently have any recall of roughly  
5 how much money it cost the Postal Service to get from the  
6 version 1 to the version 2 of Mailing Online software?

7 A No, I don't.

8 Q Okay. And what about getting to 3.0? Did you  
9 have a sense of that?

10 A I am relying on Witness Lim's testimony for that.

11 Q It includes the Compaq contract?

12 A As far as I know Witness Lim's testimony includes  
13 all components of development costs.

14 Q Witness Lim told us that there was going to be  
15 \$22.5 million in information systems costs to get from the  
16 market test to the experiment. Does that sound about right  
17 to you, or do you have no notion other than what he  
18 testified?

19 A I wouldn't question that number, no.

20 Q And we know that there are at least \$4.5 million  
21 in advertising costs incurred to date, is that correct?

22 A No, that is not correct.

23 Q I thought --

24 A \$4.4 is the number that has been used.

25 Q Okay -- I was generous in rounding this time, Mr.

1 Garvey -- \$4.4 it is.

2 Now I add up these numbers -- the 760, the 22, the  
3 3.2 million, the 3.6 million, the 22.5 million, the 4.5  
4 million, and I land up comfortable over \$30 million invested  
5 in this tinker toy and here is where we link ourselves back  
6 with virtually no revenue.

7 Is that a fair assessment of the -- at least on  
8 the revenue side -- the economic state of the state here?

9 A It is true, yes. There is virtually no revenue  
10 today.

11 Q Now you tell me on page 8 of your testimony, very  
12 particularly line 5, "I can see no substantial barrier to  
13 any mail preparation services provider implementing an  
14 online job submission solution for their customers."

15 Do you want to rethink that testimony?

16 MR. HOLLIES: Objection to the form of the  
17 question. The cost summaries presented by counsel pertain  
18 to PostOffice Online and the discussion he is referencing in  
19 the testimony does not. That question lacks a proper  
20 foundation.

21 MR. WIGGINS: I don't believe that the testimony  
22 of Mr. Hollies is germane here. If that is the testimony of  
23 the witness I am not sure that's true.

24 COMMISSIONER LeBLANC: Where is your foundation  
25 for that one, Mr. Wiggins?



1 MR. WIGGINS: I gave you all the numbers.

2 COMMISSIONER LeBLANC: You have used the numbers  
3 as your foundation?

4 MR. WIGGINS: Yes.

5 COMMISSIONER LeBLANC: And then your question is?

6 MR. WIGGINS: My question is is it really right,  
7 Mr. Garvey, that any mail preparation services provider is  
8 in a position to invest \$30 million --

9 COMMISSIONER LeBLANC: He can answer -- he could  
10 either answer it or he can't, based on his judgment.

11 MR. WIGGINS: To get where the Postal Service is  
12 today, to overcome Mr. Hollies' objection.

13 THE WITNESS: I would doubt that there are many  
14 mail services that have \$30 million to spend, but I would  
15 also submit that there are no mail service providers that  
16 have 270 million customers as does the Postal Service.

17 MR. WIGGINS: And on that gnomie note, I have no  
18 further questions, Mr. Presiding Officer.

19 COMMISSIONER LeBLANC: Ms. Dreifuss, did that  
20 drive any further follow-up?

21 MS. DREIFUSS: No, it doesn't.

22 COMMISSIONER LeBLANC: I believe we have a few  
23 questions from the bench.

24 Mr. Garvey, how are you -- maybe you need a five  
25 or ten minute break here or are you all right right now?

1 THE WITNESS: Let's go forth.

2 COMMISSIONER LeBLANC: Moving right along, as we  
3 say. We'll start at this end this day. Commissioner Omas?

4 COMMISSIONER OMAS: Mr. Garvey, earlier today, I  
5 don't know exactly when but you said that you didn't know  
6 the acceptance cost of automation basic mail but that you  
7 thought that it was not trivial.

8 In R97-1, Witness Hatfield presented a model unit  
9 cost for First Class Mail. His study concluded that the per  
10 piece price for acceptance verification for automation basic  
11 mail was seven one-hundredths of a cent. I will give you  
12 and counsel a copy of the reference.

13 Mr. Garvey, is this cost that you had in mind, is  
14 this the cost that you had in mind when you characterized  
15 the cost acceptance -- the cost of automation basic mail as  
16 nontrivial?

17 THE WITNESS: I didn't have a specific cost in  
18 mind. I was making a comparison between -- I think, if we  
19 are talking about the same reference point here -- I was  
20 referring to the comparison of acceptance of physical versus  
21 electronic mail and what I was -- I may have lost track of  
22 the reference point that you are talking about in what I was  
23 talking about, but I think that what I was saying was that  
24 accepting physical mail costs something that in comparison  
25 to accepting electronic files over the Internet is

1 nontrivial.

2 COMMISSIONER OMAS: Is nontrivial.

3 THE WITNESS: In other words, a transaction on the  
4 Internet where your customer is not face-to-face and there  
5 are no clerks involved, it is all an automated process, is a  
6 very, very inexpensive process compared to however many  
7 dollars per hour clerks standing there, going through the  
8 mail and filling out forms.

9 COMMISSIONER OMAS: All right, another question.  
10 Do you have any estimates of the percent of the target  
11 population for the market test that is aware of the  
12 existence of POL and MOL?

13 THE WITNESS: That actually is a very good  
14 question and I would love to know the answer. It would give  
15 us some better understanding of the effectiveness of our  
16 advertising and awareness building but as far as I know, no  
17 such studies have been done.

18 COMMISSIONER OMAS: Do you think it is greater or  
19 lesser than the 25 percent that Rothschild estimated?

20 THE WITNESS: If I had to hazard a guess, I would  
21 say that it is probably pretty close to that.

22 COMMISSIONER OMAS: To Rothschild?

23 THE WITNESS: To the 25 percent, yes, but that  
24 would be just my guess.

25 COMMISSIONER OMAS: Okay. Thank you, Mr. Garvey.

1 Thank you, Mr. Presiding Officer.

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[6:00 p.m.]

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## EVENING SESSION

COMMISSIONER LeBLANC: Commissioner Goldway?

COMMISSIONER GOLDWAY: In your initial direct testimony, beginning on page 7 of that testimony, you make a distinction between the market test and the experimental version of Mailing Online.

The distinction is primarily that one will be nationwide and the other is regional.

Now we have a revised experimental proposal which seems to indicate other features that may or may not be included -- Fast Forward, batching, speed -- and it is not clear to me or I think to the other members of the Commission exactly what the differences are between the market test and what this Version 3.0 will do

COMMISSIONER LeBLANC: Commissioner Goldway in terms of operation.

Nor is it clear to me whether we are going to go from regional to nationwide, and whether that is going to be done, as you had indicated in your original testimony, at the moment there is a transition from market to experiment, or whether we are going to continue with some sort of phasing in, ramping up, rolling out the various.

So I would like, if it is possible, for you to explain to me the distinctions and differences between the

1 two versions as you think they are going to be implemented,  
2 and the phasing in in scope of operation between market test  
3 and experimental test.

4 THE WITNESS: Okay. I would be glad to do that,  
5 and I heard your questions yesterday in that regard and  
6 actually came prepared to talk to that. And once again,  
7 here I will talk about requirements because that is really  
8 the way I think in terms of specifying what will happen with  
9 a particular version. The requirements for Version 3 have  
10 not changed. My original testimony outlined that the  
11 experimental service, which roughly equates with Version 3,  
12 would be a national level service offering.

13 The system performance, the system capacity, all  
14 of those operational issues that are specified in the  
15 requirements for the system are designed for that national  
16 level of service offering.

17 There is one aspect of the experimental service  
18 that will be a roll out, or a ramp up and that is the print  
19 site implementations. We, as I think I have said in my  
20 testimony, we can't expect to implement 25 print sites  
21 instantly overnight, it just wouldn't make sense, and our  
22 intent is, and our plan is that we will implement them on a  
23 phased schedule which reflects the adoption rate that we see  
24 and the volume ramp up as the service comes on.

25 We have in place the plans to add, in addition to

1 the Boston printer that we have today, the three, New York,  
2 Chicago and Los Angeles print sites that I have mentioned,  
3 in time for a national roll out, ramp up, whatever you want  
4 to call it, in expectation that the volume we would first  
5 see when this is offered nationally would be more  
6 substantial, certainly, more substantial than we see today,  
7 but our implementation schedule after that for the print  
8 sites would reflect whatever we see in the way of an  
9 adoption rate or an uptake rate from the users.

10 So we are prepared with a flexible plan that can  
11 be implemented as we see the volume come on, but we don't  
12 intend to put in place a lot of cost or infrastructure in  
13 terms of contracts that sits unused.

14 COMMISSIONER GOLDWAY: So if I understand this,  
15 should the Commission approve the experiment, at the time  
16 the experiment takes effect, there will be an opportunity  
17 for anyone throughout the United States to sign on. There  
18 will be no limits on the number of people who can sign on.  
19 The only ramping up will be the number of printers that all  
20 of those users are directed to.

21 THE WITNESS: If the systems' designers and  
22 builders are successful in meeting the requirements that I  
23 have placed on them for Mailing Online, that will, in fact,  
24 be true.

25 COMMISSIONER GOLDWAY: But we will not have the

1 batching and the Fast Forwarding that you initially  
2 indicated at that time?

3 THE WITNESS: No, as I have said in my rebuttal  
4 testimony, the batching capability will be more substantial  
5 in Version 3 than it is in Version 2, but not the ultimate  
6 end that was referred to earlier this afternoon of being  
7 able to combine every letter and every flat, so that there  
8 are only two basic mail streams. We expect to achieve a  
9 nearly complete merging of the letter size mail stream by  
10 that time.

11 The Fast Forward issue is something I can't speak  
12 with the same degree of confidence, except to say that we  
13 realize that it is important. It is something that we know  
14 we will get there sooner or later. Frankly, we chose the  
15 Fast Forward solution because we thought that it would be  
16 quick and easy. It has turned out not to be so, for the  
17 reasons stated in my testimony, that it has been designed as  
18 a black box system. The security of the data that it  
19 contains, the customer addresses, are something that we, the  
20 Postal Service, want to protect with a great degree of  
21 electronic security, and, consequently, the box in the  
22 computer in which these things are stored, and in which the  
23 Fast Forward system operates is, for lack of a better word,  
24 cranky. It is not a facile system to plug into.

25 COMMISSIONER GOLDWAY: It is a black hole, not a



1 black box. In the initial hearings, there was a description  
2 of -- a reference to -- I don't have the transcripts in  
3 front of me, but there was a reference to having an icon  
4 that would be on the screen through Microsoft Word for  
5 PostOffice Online, and there has been no discussion of that  
6 since the January hearings, and I am wondering what the  
7 status of that proposal was, which was initially part of the  
8 description of the service.

9 THE WITNESS: Well, similar to what we have  
10 experienced, Microsoft has experienced delays in the release  
11 of their Office 2000 program. In addition, the expectation  
12 that we had that the direct mail manager functionality that  
13 was present in Office '97, I guess it was, doesn't seem to  
14 have taken a very high position or priority in Office 2000.

15 However, what Microsoft has told us is that Office  
16 2000, which is where our icon was intended to appear, has  
17 been designed with a greater degree of flexibility in  
18 allowing second parties to introduce functionality to the  
19 desktop. So what that means is, rather than having to work  
20 directly with Microsoft and to meet their schedules and to  
21 adhere to their release schedules and whatnot, we will be  
22 able to, using that design flexibility, create our own icon,  
23 which can be distributed to users over the Internet.  
24 And which will function in the same way that the Direct Mail  
25 Manager did in the original Office 97. So we haven't lost

1 the intent nor the desire, it's just that the -- as with  
2 many things in this IT world have changed radically since we  
3 first had this discussion, and we found a better way.

4 COMMISSIONER GOLDWAY: We were talking yesterday  
5 about PostOffice Online functioning as a kind of window for  
6 mail services, but when you call up the postoffice.com home  
7 page, there's no link to PostOffice Online at the moment.  
8 Is that going to be part of the system?

9 THE WITNESS: It absolutely will be part of the  
10 system, and I think I --

11 COMMISSIONER GOLDWAY: When?

12 THE WITNESS: When? When it's -- it's part of --  
13 there are two considerations in answering that question. As  
14 soon as possible, possibly in September, depending upon the  
15 redesign effort of the USPS.com site that's under way today.  
16 Obviously all of this --

17 COMMISSIONER GOLDWAY: Which is also under  
18 moratorium.

19 THE WITNESS: Exactly. All of this Y2K stuff is  
20 affecting everybody, but the intent that we all had in going  
21 into this was that the redesign would be complete by July,  
22 that we would be -- we, the PostOffice Online -- would be  
23 complete by July, and that there would be an initial linkage  
24 that would occur, and that as we moved forward, the linkage  
25 would become ever closer. What will happen now I'm not

1 certain, except to say that the redesigned Web site is as  
2 much a priority in my group's goals as is the PostOffice  
3 Online.

4 COMMISSIONER GOLDWAY: So if you would, if the  
5 Commission were to approve this request that we have in  
6 front of us now, when do you anticipate that you would  
7 actually begin the experiment? What are we request -- what  
8 are you requesting now for the date for the initiation of a  
9 two-year experiment? Because the request we have in front  
10 of us at the moment says an experiment is to begin on July 1  
11 for two years.

12 Now I'm not even considering the question of the  
13 moratorium, but it appears that even if you get the  
14 exception through this system, you will not be able to  
15 implement that portion of the experiment that you say you're  
16 going to be able to implement until September. Is that  
17 correct?

18 THE WITNESS: That is correct.

19 COMMISSIONER GOLDWAY: So if we have a request in  
20 front of us, it is for an experiment that begins in  
21 September?

22 I'm new to this. Do we need to change any  
23 documents?

24 COMMISSIONER LeBLANC: Not yet.

25 COMMISSIONER GOLDWAY: In relationship to --

1 COMMISSIONER LeBLANC: Not yet, as they say.

2 Let me, if I could so rudely interrupt you here --

3 COMMISSIONER GOLDWAY: Please interrupt.

4 COMMISSIONER LeBLANC: Let me try to put it very  
5 succinctly, as best that I can, south Louisiana old cajun  
6 guy, as I said once before, but we've talked about all kinds  
7 of changes from the get-go, and as Commissioner Goldway's  
8 talked about, it doesn't even take into consideration the  
9 moratorium.

10 What is it that you and the United States Postal  
11 Service is asking us to approve as an experimental service?  
12 Can you give me as succinctly as you can what it is that we  
13 are supposed to try to approve the functions, the  
14 availabilities, the time periods, et cetera, and sum it all  
15 up for us as best you can as to policy witnesses? I  
16 appreciate it.

17 Is that a way of saying it, Ruth?

18 COMMISSIONER GOLDWAY: Sure, I certainly accept  
19 the Chairman's substitute question.

20 THE WITNESS: I don't believe that what we are  
21 proposing has changed substantially except for the time  
22 frame. I think in terms of the service offering, what we  
23 intend to have it do, who we intend to offer it to, on what  
24 terms, those have not changed. It's simply the schedule.

25 COMMISSIONER LeBLANC: How about the functions?

1 Mr. Wiggins alluded to the costing data. You've got costing  
2 data out there that is -- well, depending on whose figures  
3 you look at, four, five, six times higher than what it  
4 should be. You have revenues that vary next to nothing.  
5 You have a moratorium out there that is going to throw a  
6 kink into it.

7 I'm just trying to understand really basically  
8 very simply, basically, what it is that we are supposed to  
9 be trying to approve. I mean, if I understand you, if I  
10 understand Mr. Takis and others, don't worry about the  
11 revenue and don't worry about the cost, because we don't  
12 have any other things, so we're going to have to accept Ms.  
13 Rothschild. And I don't mean that in a negative sense.

14 Then we hear about the moratorium. Then we hear  
15 about advertising costs. Then we hear about all of the  
16 other things that we've talked about for the last two days  
17 that possibly could cause some changes, will cause some  
18 changes, will be backed up. So again the bottom line is  
19 what is it that you want us to try to approve?

20 THE WITNESS: Well, once again I don't think that  
21 the terms of what we're proposing has changed. It's  
22 important for me to point out that the costs presented by  
23 Witness Lim represent the cost over two years. We have not  
24 and will not by September have incurred all of those costs,  
25 and if things don't necessarily work out the way we think

1 they will with the adoption rate, we would not incur some of  
2 those costs because some of them are designed for scaling.

3 We know that when we first launched the system  
4 that we have to be able to handle a certain level of  
5 customer interaction. We have to have a certain level of  
6 production-level quality in the system, in its speed and  
7 what not, but in terms of storage capability and a certain  
8 amount of redundance capability, that's not necessary to be  
9 present on day 1.

10 So what we've tried to present to you I think in  
11 terms of our cost and the level of effort that will be  
12 expended on this represents what will happen over two years  
13 if we're successful. We have -- as with the printing  
14 rollout, we have put in place plans that have built-in  
15 brakes, I guess you might call them, such that we won't  
16 spent this money if we don't need to.

17 If we need to, we're ready, we're prepared with  
18 the plan, and if the American people adopt this service and  
19 use it the way that they've told us that they will, we're  
20 prepared to offer it in the same secure, robust  
21 24-hour-a-day nature that they'll expect us to offer it.  
22 But we're not building a gold-plated, what would you call  
23 it, a gold-plated boobie trap that is going to sit there and  
24 cost a lot of money without us evaluating the expense.

25 COMMISSIONER LeBLANC: So if I understood you

1 properly, and I apologize again, Ruth --

2 COMMISSIONER GOLDWAY: Um-hum.

3 COMMISSIONER LeBLANC: The functions will remain  
4 the same, there's not going to be any change in any of your  
5 functions --

6 THE WITNESS: That's correct.

7 COMMISSIONER LeBLANC: And your time frame will be  
8 pushed back to September, assuming you can get it accepted.  
9 And if you cannot, then the whole thing either stops, dies,  
10 or whatever, according -- I'm putting words in your mouth,  
11 obviously -- but you're not going to expend as you said any  
12 more moneys or do anything to cause any harm, if you will.  
13 So is that kind of where we are then?

14 THE WITNESS: With one perhaps explanation to say  
15 that it's my intent, and I would hope that it's the intent  
16 of my management, that if we should not be granted the  
17 exception, we do intend to go forward in some way with the  
18 development of the system, and in April of 2000, however we  
19 have to do this in a organizational or regulatory sense, we  
20 do intend to offer the service.

21 COMMISSIONER LeBLANC: Excuse me for interrupting  
22 you. Now we've gone from July to September of '99, now  
23 we're back to April of 2000.

24 THE WITNESS: Well, that's the date on which the  
25 Y2K moratorium expires.

1 COMMISSIONER LeBLANC: I understand that, but then  
2 at that point you would do what?

3 THE WITNESS: I'm not sure what we'd do. What I'm  
4 saying, it's my personal intent, and I hope the intent of my  
5 management, that the Y2K moratorium would not be the death  
6 of what we propose to do with PostOffice Online.

7 COMMISSIONER LeBLANC: Okay. Gotcha.

8 I rudely interrupted you, Commissioner, and I  
9 apologize.

10 COMMISSIONER GOLDWAY: No, no, no. You were very  
11 helpful.

12 But the pricing mechanism and formulas that you've  
13 proposed are going to be maintained regardless of the  
14 service options or fine-tuning that you're offering in the  
15 experimental phase, the basic issue of the basic automation  
16 rate as the charge for postage is what is before us, and  
17 that is not going to change. Is that what is included in  
18 your proposal as well?

19 THE WITNESS: That is what we're proposing, and we  
20 would not at this point propose a change in that; no.

21 COMMISSIONER GOLDWAY: And the markup is going to  
22 be the same?

23 THE WITNESS: That is what we are proposing, yes.  
24 I think that there have been others that have submitted  
25 testimony suggesting a lower markup might be more



1 appropriate but that is your decision.

2 I think what is important to keep in mind, too,  
3 about the markup mechanism is that it allows us a great deal  
4 of flexibility in the service offerings that we can provide  
5 to our customers, so if during the time of the experiment we  
6 discover that there are additional services that the  
7 PostOffice Online or the Mailing Online customer might  
8 desire for their document we can be responsive and we feel  
9 that that is a very important attribute of our proposal.

10 What is being provided today, the basic printing  
11 services for black and white, with the three sizes of paper  
12 and one stapling option, is certainly a good beginning, but  
13 what we would like to do is to be responsive directly to the  
14 customers when they show up at the door and say we would  
15 like to have two staples instead of one staple.

16 The way we have proposed it, this would allow them  
17 to do that.

18 COMMISSIONER GOLDWAY: But you understand my  
19 concern that since that is supposed to cover costs and we  
20 have shifts of dramatic scope in the costs that are  
21 presented to us, we are concerned about that pricing  
22 mechanism.

23 THE WITNESS: I understand that, and it is my  
24 understanding that the price or the mechanism that we have  
25 proposed does provide sufficient cost coverage.

1 COMMISSIONER GOLDWAY: Well, I will leave my  
2 questions at that. There certainly may be more that we  
3 would want to ask in a more formal way.

4 COMMISSIONER LeBLANC: I think I stepped on  
5 Commissioner Covington also. I apologize. Commissioner  
6 Covington.

7 COMMISSIONER COVINGTON: Thank you, Mr. Presiding  
8 Officer.

9 First of all, Mr. Garvey, I have to commend you.  
10 I guess you thought I was joking today when I told you you  
11 were going to break your record for testimony here in this  
12 illustrious hearing room. I commend you for your diligence  
13 and for the time that you have taken to offer us your take  
14 on what is happening now with Mailing Online, and I would  
15 imagine after having been with the Postal Service 28-plus  
16 years you probably never saw this coming down the line,  
17 particularly since I notice you started out as a letter  
18 carrier and worked your way through the system, and now are  
19 I am assuming still the able-bodied, capable manager of this  
20 Internet Development Branch, so my heart goes out to you.

21 I was talking to my colleague, Commissioner Omas,  
22 and we found that as you sit here today during the  
23 proceedings that I had about five good questions for you,  
24 but at some point in time if Ms. Dreifuss didn't touch on  
25 them, Mr. Wiggins got ahold to them, and then, you know,

1 Commissioner Goldway -- she took one of them, and you  
2 know --

3 [Laughter.]

4 COMMISSIONER COVINGTON: -- so we kind of narrowed  
5 everything down, so I don't think I have any questions per  
6 se. I just wanted to go back through and touch on a few  
7 things for clarification purposes.

8 First of all, with your Fast Forward address  
9 situation right now, can you realistically say, and I know  
10 having your proper and complete addresses enhance what it is  
11 you are trying to do. In Mailing Online it is basically  
12 imperative that you have that in place, but can we know from  
13 you when you might be able to have that situation refined or  
14 when you could probably incorporate it into the overall  
15 scheme of things?

16 THE WITNESS: It is my expectation that we will  
17 have that problem resolved in time for implementing with  
18 Version 3.0.

19 As a matter of fact I was scheduled last Wednesday  
20 to go to Memphis and talk with Michael Murphy, who manages  
21 the group that is in charge of the Fast Forward system about  
22 what our options might be.

23 That trip was cancelled but I intend to do that as  
24 soon as possible.

25 COMMISSIONER COVINGTON: Okay. Now we touched on

1 it. Mr. Wiggins loved not to use the term "batching" -- he  
2 is one of these "commingling" kind of guys, but when you  
3 addressed batching and commingling capabilities in your  
4 statement, you used the term with regards to the addresses  
5 and stuff that we could expect to see a substantial  
6 increase.

7 What constitutes a substantial increase with  
8 regard to where you are right now with the batching and  
9 commingling?

10 THE WITNESS: Well, today the commingling takes  
11 place with mail merge documents only and it takes place only  
12 among documents that have similar characteristics -- in  
13 other words, one page documents will be merged with other  
14 one page documents, two page with other two page, and so on.

15 What we expect to see in Version 3.0 is not only  
16 the ability to merge -- or to "commingle," pardon me, or  
17 batch --

18 COMMISSIONER COVINGTON: Or batch.

19 THE WITNESS: -- to put together merged documents  
20 and nonmerged documents as well as the ability to commingle  
21 documents of different page counts but within the same  
22 processing category.

23 COMMISSIONER COVINGTON: So that means you will be  
24 able to -- I mean everything will be put together by class?

25 THE WITNESS: Well, not only by class but by size

1 such that all of your letter-sized mail whether the  
2 envelope, the letter-sized envelope contained one page or  
3 two pages or three pages, all of those envelopes, the Number  
4 10 size envelopes, would be commingled into a single mail  
5 stream.

6 COMMISSIONER COVINGTON: Okay. I noticed on page  
7 11, line 8, of your rebuttal testimony -- I took the time  
8 to -- have you been to the www.e-letter.com website  
9 recently?

10 THE WITNESS: Have I been recently?

11 COMMISSIONER COVINGTON: Yes.

12 THE WITNESS: Not in Internet time, no, but about  
13 a month ago I --

14 COMMISSIONER COVINGTON: About a month ago? Well,  
15 I had occasion to visit their web page. There are other  
16 things we do besides listen to you all talk -- and I found  
17 it very interesting and I want you to listen to what I am  
18 going to say, Mr. Garvey. This is what they contend.

19 They say that business mailings that take minutes  
20 will take minutes and not hours and that they can reduce a  
21 mailer's cost by 50 percent.

22 They also say that they can allow their customers  
23 to send postal mail directly from their desktop, and this is  
24 what got me. They said "upload your address." I have no  
25 idea what uploading is. I just figured out how to download.

1 They said "Upload your address and mail content and our  
2 fully automatic system will produce and mail your letters  
3 all at a cost of First Class -- 27 cents." Twenty-seven  
4 cents.

5 So I know that you referenced them in your  
6 testimony and after you referenced them you made the  
7 statement that mailers need you all to do Mailing Online  
8 because a service like this doesn't exist so there are needs  
9 that people have that's going unmet. I am trying to  
10 understand your contention there.

11 THE WITNESS: I think as good as e-letter is in  
12 their marketing positioning, and they are talking about what  
13 they can do, if you will look at their technical  
14 capabilities, they are substantially less than what Mailing  
15 Online does.

16 COMMISSIONER COVINGTON: Capabilities, yes.

17 THE WITNESS: I commend e-letter for their  
18 implementation of the idea that they have taken and run  
19 with. But I think that what they are doing is, both in  
20 scope and in capability, substantially less than what  
21 Mailing Online proposes to do.

22 And as I have said in previous testimony, I  
23 believe, I would personally hope that lots of e-letters will  
24 spring up. I would suggest that some of the letter shops  
25 and mail service providers could take advantage of the

1 design that e-letter has used and offer personalized service  
2 to their customers. But I think in terms of providing a  
3 nationwide basic level service that is going to be the same  
4 everywhere and available to every American 24 hours a day,  
5 with the security and guarantees that the Postal Service  
6 provides, that is up to one organization, and that is us.

7 COMMISSIONER COVINGTON: And that is you all. So  
8 do we know how many e-letters or e-letter look-alikes are  
9 out there now?

10 THE WITNESS: We don't. I would imagine that  
11 there would be others springing up. I have just heard that  
12 Yahoo has announced a partnership with ValPak to distribute  
13 coupons on the Internet, which I find interesting from a  
14 Postal perspective. It turns out that Amazon.com has gone,  
15 in the time of the filing of this case, they have gone from  
16 selling nothing but books to now selling records and tapes  
17 and retail merchandise, and now they have just announced  
18 that they are going to be auctioneers on the Internet. So  
19 this environment in which the Internet is operating is hot  
20 and heavy, and you never know what is around the next  
21 corner.

22 I think the e-letter people hope that nobody else  
23 shows up. We know different.

24 COMMISSIONER COVINGTON: Well, you know, things  
25 change on a daily basis from a technological point of view.

1 I read with great interest, and it was kind of hard not to  
2 look at your Y2 freeze policy. Ms. Dreifuss made sure that  
3 we kind of paid attention, you know, to that. So my heart  
4 goes out to her.

5 I read the letter that came from your deputy PMG,  
6 Mr. Coughlin, and you seem to be fairly confident that  
7 Mailing Online is not going to get caught, or get too  
8 side-tracked because of this moratorium, or is it going to  
9 be a situation where you are going to -- will there have to  
10 be an improvisation, improvising done?

11 THE WITNESS: It is my intent to fight tooth and  
12 nail to overcome the Y2K situation. Obviously, it is not up  
13 to me, ultimately, but I intend to do everything possible in  
14 my power to get past it.

15 COMMISSIONER COVINGTON: That's understandable.  
16 And, you know, I was reading, Mr. Garvey, the section in  
17 your testimony that talked about the effects on the  
18 competition, and I read something very, very intriguing, and  
19 nobody decided to visit that area today, Mr. Bush, nor Mr.  
20 Wiggins, but in there you contend that Pitney Bowes will  
21 probably end up wanting to sell finishing equipment that is  
22 going to be used by the printers that are going to be  
23 participating in Mailing Online, and there may even  
24 conceivably be some MASA members who would hope to  
25 participate as printers.



1 I don't know exactly whether that is going to be  
2 the case, but it almost like you have got a umbrella here  
3 and it is raining, and you are inviting Pitney Bowes and the  
4 MASAs and everybody to come on in, and, you know, you may  
5 not be able to keep them totally dry, their feet may get a  
6 little wet, but what -- I mean what was your thinking when  
7 you put those three or four lines in there? I think you  
8 probably know where I am talking about in your testimony.  
9 If not, I will refer it to you -- I mean refer you to it.  
10 It is on page 9, beginning line 17, and it ends, Mr. Garvey,  
11 at page 10, line 2.

12 [Pause.]

13 THE WITNESS: Well, yes, this is really  
14 fundamental to my thinking, that Mailing Online will not  
15 only provide opportunities for hardware vendors such as  
16 Pitney Bowes, and as a sidelight, I might remark that it  
17 would appear from e-letter's technical specifications for  
18 what they are producing, that they are using a Pitney Bowes'  
19 piece of equipment and finish their mail as well, but that  
20 the fact of the matter is that several of the prequalified  
21 printers for the next round are, in fact, MASA members, and  
22 that -- not taking away from the business of these  
23 providers, but providing more business for them through this  
24 program, as well as stimulating demand across the spectrum  
25 for this type of service.

1 I mean if you visited the e-letter site, you know  
2 that what they have basically done is to copy almost page  
3 for page the Mailing Online implementation. So what they  
4 have done is they have taken an idea and they have run with  
5 it in a commercial sense, which is a good thing, and I think  
6 others will do it.

7 Our presence in the market will make people aware  
8 of the opportunity. It will make them aware of the  
9 technology. It will make them aware of the capability. But  
10 providers like e-letter and Pitney Bowes and others will  
11 benefit through that awareness in providing the same sort of  
12 customized and personalized service that they do today.

13 COMMISSIONER COVINGTON: Okay. Thank you, Mr.  
14 Garvey. That is all I have, Mr. Presiding Officer.

15 COMMISSIONER LeBLANC: Excuse me. Commissioner  
16 Omas.

17 COMMISSIONER OMAS: Mr. Garvey, I have one  
18 question as we wrap this up today. You know, I have sat  
19 here and listened for two days to the Postal Service defend  
20 this experiment, or, excuse me, the market test. It seems  
21 to me that when we enter into a market test, it is to  
22 collect data to show that an experiment is worthy -- it is  
23 worthy to proceed with an experiment.

24 You know, I guess, I sit here and I wonder, the  
25 volumes are not what were they were supposed to be. The

1 system that we paid and upgraded up to the \$22 million  
2 doesn't seem to be performing like it should be. I mean is  
3 this going to be another one of the experiments that we can  
4 add to the \$84 million that GAO found? I mean just -- it  
5 seems like every time we turn a corner, we get technical, we  
6 ask about advertising, and this may be very simplistic, but  
7 I sit here and listen to all of these technical terms and  
8 this, and averaging this and throwing out that and accepting  
9 this.

10 I just wonder, you know, you have been with the  
11 Postal Service for 28 years, I have been here for only a  
12 couple of years, and I have not been through a lot of these  
13 market tests and experiments, but, you know, my past  
14 experience that, you know, before you proceed, you have a  
15 basis on which to -- data on which to base your decision to  
16 proceed. And, you know, when you look around, and we listen  
17 and we go through all the testimony and stuff we have heard  
18 here today, in your professional opinion, should we proceed  
19 with this?

20 THE WITNESS: The simple answer is yes, and let me  
21 clarify one thing. First of all, the \$22 million figure is  
22 not what we have spent for the system that we have today  
23 that is not working very well. We spent far less for that  
24 system than \$22 million.

25 I think our original understanding of what was

1 going to happen here was that, in a technological sense, the  
2 pieces that we are trying to put together work independently  
3 of PostOffice Online. In other words, there are other  
4 places where we know that they are working well. They have  
5 never been put together in quite the way that we are trying  
6 to put them together. The problems in doing that have been  
7 more substantial than we thought that they would be.

8 Our vision had been that the market test would be  
9 a time when we would -- a very short time in relative terms  
10 when we understand how we were to market this thing, not  
11 during which we would see an actual technological  
12 implementation of a long-term service, but a time during  
13 which we would learn what kind of marketing efforts work,  
14 what kind of advertising was best, what the true customer  
15 base was like, get some feedback on features and functions,  
16 but that that would be a short time and that we would be  
17 able to put together this robust, well functioning system  
18 that we would then begin to offer for the experiment, and we  
19 would at that time, presumably, begin to see the kind of  
20 volumes that have been predicted by the very conservative  
21 market research.

22 The market research that we commissioned has not  
23 been to make wild predictions, but to take very small pieces  
24 of what customers have actually said that they will do with  
25 this service and present it as an extremely conservative

1 estimate of what we think the national service, if it works  
2 well, will, in fact, draw to it.

3 So, from a business perspective, I have tried to  
4 approach this as a business person where I am starting my  
5 own business here, and I look at -- I truly look at the  
6 money that I sign off on as being my money, as being my  
7 responsibility for the Postal Service, and I have the same  
8 concerns you do about profitability and about the ability to  
9 provide a service that is going to go far enough, and be  
10 good enough to earn enough money, not only to pay for  
11 itself, but to help the Postal Service in supporting its  
12 role in providing service to the American people.

13 COMMISSIONER OMAS: Thank you.

14 COMMISSIONER LeBLANC: Mr. Garvey, before we go to  
15 redirect, I just want to make a comment. If there is  
16 anybody who has a car downstairs, I don't know what you have  
17 in mind for redirect, Mr. Hollies, but if it is going to be  
18 after 7:00, and somebody has turned their keys over, after  
19 7:00 they can't receive their keys. So if it is going to be  
20 after 7:00, we will need to have a little bit longer than  
21 normal break here, go down and take care of getting your car  
22 out.

23 MR. HOLLIES: I think that is probably prudent,  
24 given the fact that any followup on any redirect is highly  
25 unpredictable from my perspective.

1 COMMISSIONER LeBLANC: I think that's probably the  
2 case. Given that scenario, we'll be back let's say at five  
3 minutes till the hour then. That give you enough time to  
4 get down there and have your redirect or not?

5 MR. HOLLIES: Yes, that will be fine.

6 COMMISSIONER LeBLANC: Okay. Five minutes to the  
7 hour.

8 [Recess.]

9 COMMISSIONER LeBLANC: We'll go back on the  
10 record, Mr. Reporter.

11 Mr. Hollies, how about your redirect now?

12 MR. HOLLIES: My cocounsel and witness have  
13 convinced me that it's time to call it a day. We have no  
14 further questions.

15 COMMISSIONER LeBLANC: I'm sure glad you listen to  
16 your cocounsel and your witness. I can tell you that,  
17 indeed, in that particular case.

18 Mr. Garvey, I know it's been an extremely long  
19 day, and I know all of us on the bench here surely do  
20 appreciate all of your testimony today, your effort, tiring  
21 effort, so we do appreciate it. With that, you are excused,  
22 sir.

23 THE WITNESS: Thank you very much.

24 [Witness excused.]

25 COMMISSIONER LeBLANC: That concludes today's

1 hearings. I want to make a couple quick comments.

2 Initial briefs on issues not dependent on data  
3 collected during the market test are due April 9. On April  
4 13 the Commission should receive a report concerning the  
5 need for further proceedings consistent with the schedule  
6 established by the Commission in Order Number 1234, twelve  
7 thirty-four. If there is nothing further, today's hearings  
8 are adjourned. Thank you very much.

9 [Whereupon, at 6:55 p.m., the hearing was  
10 concluded.]

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