



UNITED STATES POSTAL SERVICE  
POSTAL RATE COMMISSION

In the Matter of:                    )  
  )  
RATEMAKING SUMMIT                    )

William F. Bolger  
9600 Newbridge Drive  
North Building Gymnasium  
Potomac, Maryland

Tuesday,  
May 28, 2002

The above-entitled matter came on for a hearing  
pursuant to notice, at 9:04 a.m.

BEFORE:

HON. ANITA BIZZOTTO  
Chief Marketing Officer

PANELISTS:

PANEL I:  
FLEXIBLE/PREDICTABLE PRICING, PART I

JOHN CRIDER  
SHELLY DREIFUSS  
VINCENT P. GIULIANO  
HOWARD SCHWARTZ  
RICHARD J. STRASSER, JR.

PANELISTS: -- CONTINUE --

PANEL I

AUDIENCE MEMBERS:

SCOTT LORENZ  
JOHN STAPERT  
MARCUS SMITH  
STEPHEN FELDMAN  
DAVID STOVER  
JOEL THOMAS  
JERRY SEARSEL  
HERB WARDEN  
DAVID WEAVER  
MAYNARD BENJAMIN  
BOB BRINKMAN  
BRANT COSTAGE  
JOSH BARTZEN  
BOB COHEN  
MIKE COUGHLIN

PANEL II:

FLEXIBLE/PREDICTABLE PRICING, PART II

ANITA J. BIZZOTTO  
RITA COHEN  
ROBERT H. COHEN  
IAN VOLNER

AUDIENCE MEMBERS:

BOB McCLEAN  
DAVID STRAUSS  
LINDA CALVER  
BILL BAKER  
LEONARD MEROWITZ

PANEL III:

CURRENT PROCEDURES AND SUGGESTIONS FOR IMPROVEMENT,  
PART I

STEPHEN M. KEARNEY  
WILLIAM J. OLSON  
TONDA F. RISH  
STEPHEN L. SCHARFMAN

PANELISTS: -- CONTINUE --

PANEL III:  
CURRENT PROCEDURES AND SUGGESTIONS FOR IMPROVEMENT,  
PART II

WILLIAM B. BAKER  
MARY ANNE GIBBONS  
JOHN WALLER

P R O C E E D I N G S

(9:04 a.m.)

1  
2  
3 MS. BIZZOTTO: Good morning, everybody. My name  
4 is Anita Bizzotto. I am the Chief Marketing Officer for the  
5 United States Postal Service and, on behalf of the Postal  
6 Service and the Postal Rate Commission, it's my pleasure to  
7 welcome you this morning. I'm delighted to see that so many  
8 of you could join us today.

9 Now, we're here to talk about potential ways the  
10 ratemaking process can be changed within the current law, to  
11 be more responsive to the needs of all of the stakeholders,  
12 including the Postal Service, the Postal Rate Commission,  
13 consumers, and business mailers.

14 And, first, I really want to thank you all for  
15 your thoughtful comments and ideas submitted with your  
16 registrations. They were extremely helpful in helping us  
17 form today's agenda and we designed today's agenda to touch  
18 on as many of those issues as we could.

19 Now, as you know, today, we're focused on the  
20 issues surrounding the context of an Omnibus rate case, one  
21 in which we change all of the rates at the same time. A  
22 future summit will focus on some of the other issues, such  
23 as how we could perhaps move to negotiate service  
24 agreements, thoughts about experimental rate cases, and  
25 things like that. But, today, we're going to try and focus

1 on Omnibus cases.

2           So, how is today going to work? Well, after this  
3 opening, the day is broken up into four panel sessions. And  
4 the first we're going to hear what customers think and --  
5 think about and need from the ratemaking process. In the  
6 second panel, we're going to focus on phasing, as a response  
7 to the off repeated desire by business customers, to have  
8 more predictable rates. And the last two sessions will  
9 focus more on technical issues, changes that might make the  
10 process less burdensome to everyone involved.

11           Now, the purpose of the panels is not to talk at  
12 you. The panels are intended simply to tee up the issue and  
13 points of view, in order to start a discussion within the  
14 audience. Now, I know that many of you aren't shy; so,  
15 hopefully, we won't have any trouble at all getting you to  
16 wander up to the four mics that we have in the room, to give  
17 us your observations and thoughts about what we might do to  
18 make the process more flexible and responsive.

19           Now, for obvious reasons, it is not that easy to  
20 have a discussion in a room full of 150 plus people, but --  
21 and because it's very important that we get the most out of  
22 today's session, we have -- and that we stay focused on the  
23 topic at hand, we have a facilitator, to help us through  
24 that process, and you'll meet him in just a minute.

25           But, first, we're extremely pleased about the

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1 Postmaster General and the Chairman of the Postal Rate  
2 Commission. We're able to take time out of their busy  
3 schedules this morning, to help kick off this morning's  
4 discussion and to share with us their thoughts about and  
5 expectations about what we might be able to accomplish today  
6 and in the sessions ahead.

7               So with that, let me first introduce the  
8 Postmaster General of the United States, Jack Potter.

9               (Applause.)

10              MR. POTTER: Good morning. Thank you for that  
11 welcome and thank you for being here today after a holiday.  
12 I know that was a concern of many and I'm very pleased to  
13 see how many people are here today. And welcome to the  
14 first ever rate summit.

15              Many of you recall that the momentum for these  
16 summit meetings was created by the Postal Rate Commission  
17 and, in particular, Chairman George Omas, who took us all in  
18 a new direction during the recent rate case. It was  
19 George's leadership that lead to an early resolution of the  
20 rate case, now set for a June 30th implementation. To those  
21 of you, who are part of that resolution, I want to extend my  
22 appreciation to you, as well, because without you, it  
23 wouldn't have happened.

24              In a moment, George will share his opening  
25 remarks. But, for now, I want to personally thank him for

1 his leadership in the rate case and for helping make this  
2 summit a reality.

3 In April, we published a transformation plan for  
4 moving America's postal system forward. Much of the plan is  
5 built around our commitment to do everything that we can to  
6 improve the system within the current legislative framework.  
7 We outlined a large number of strategies to provide better  
8 service for our customers, improve our transportation and  
9 delivery networks, and eliminate unnecessary costs.

10 We, also, need some changes in the law, but we're  
11 not going to sit still waiting for those before doing  
12 everything possible to improve the system with the tools  
13 that are available to us now. The strategies and the plan  
14 will succeed only with the help and support of our customers  
15 and all our other stakeholders. And I'm pleased to see some  
16 management association and union leaders here today.

17 Represented in this room are customers responsible  
18 for the vast majority of the mail that passes through the  
19 network everyday. You depend on good service at affordable  
20 prices. That's exactly what we want to give you.

21 One the areas we identified for attention in the  
22 transformation plan is the current pricing system. I know  
23 from talking to customers that you want improvements in the  
24 rates process. You want predictable, manageable rate  
25 increases. You want rate structures that respond to your



1 particular needs. You want a system that provides the right  
2 incentives for efficiency and cost control. That's why in  
3 the transformation plan, we said we wanted to set up a  
4 process that begins with today's meeting.

5 Building on the spirit of cooperation from the  
6 rate case settlement and by continuing to work together, we  
7 have an opportunity to make improvements that will benefit  
8 all of us. I've announced that we will maintain the rates  
9 that take effect June 30th until calendar year 2004. But  
10 because of the lead time required to produce the support  
11 documentation for a rate filing, our window of opportunity  
12 may not be that great. For that reason, we are starting  
13 today's summit discussions on ways to improve the process  
14 for changing postal rates in a major Omnibus rate case.

15 This is just one of the topics of concern on  
16 pricing that we identified in the transformation plan. I  
17 know that many of you see other areas of opportunity for  
18 improvement, as well. This is your opportunity to voice  
19 your points of view and I encourage you to use this summit  
20 for just that purpose.

21 We are also planning more meetings in this process  
22 and we want to cover any area, that's any area, where there  
23 is substantial broad interest in achieving reforms. Again,  
24 let your voice be heard.

25 The Postal Reorganization Act is over 30 years old

1 and needs updating. But, I believe the current legislation  
2 has more flexibility in it, than has been used so far. I  
3 know fundamental change is always a challenge, especially  
4 with so many different interest and points of view to  
5 bridge. But, I, also, think everyone believes the process  
6 should be improved. This is our chance.

7 Change and progress are necessary to keep  
8 America's postal services dynamic and affordable. It's  
9 everyone's postal system. Let's pull together to make this  
10 process work. And, again, I want to thank you for being  
11 here.

12 Let me now turn to the Chairman of the Postal Rate  
13 Commission, George Omas, and I want to thank him and the  
14 rest of the folks from the Postal Rate Commission for  
15 helping get this process organized. George has some  
16 introductory remarks. George, thank you.

17 (Applause.)

18 MR. OMAS: I'd like to thank you, Jack,  
19 personally, for inviting us here today, and asking the  
20 Postal Rate Commission to be a part of what I think is a  
21 very significant event in the postal community. It was you,  
22 Jack, that got -- had the idea to convene a summit and to  
23 get everyone's views on how to -- how we can develop and  
24 implement changes and make the process of ratemaking less  
25 disruptive to all concerned.

1           Typically, you, Jack, was more interested in  
2 trying to develop a consensus than in taking any credit, and  
3 we commend you for that. I'm glad to be here today, as well  
4 as my fellow Commissioners, Ruth Goldway and Danny  
5 Covington. We intend to carefully review both the  
6 transcripts of today's discussion and any written comments  
7 you may submit later, and that includes comments from those,  
8 who are unable to be here today. Our goal is to learn.

9           We are optimistic at the Postal Rate Commission,  
10 that this summit will lead to positive results. The Postal  
11 Rate Commission is a part of the process. But unlike  
12 mailers, competitors, or the Postal Service, itself, we have  
13 no institutional stake in whether rate changes are large,  
14 small, frequent, or infrequent. The Commission's role is to  
15 insure that the rate changes are consistent with policies  
16 set out by law. We want the process to be efficient and  
17 effective. I am confident that making the process better  
18 suited to your needs will further both the legal and  
19 operational policies.

20           And we probably will not reach many consensus on  
21 every -- consensus on every issue today. But, if you  
22 explain your particular needs and problems, we can move  
23 toward finding solutions that better balance things for  
24 everyone concerned. That will make this summit a success.

25           Thank you for sharing your time. Thank you,

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1 General Potter, for -- and Jack for having us here today.  
2 And I'll look forward to a very positive outcome of this  
3 summit. Thank you.

4 (Applause.)

5 MS. BIZZOTTO: Okay. Well, I mentioned earlier  
6 that we've enlisted the assistance of an expert, to help  
7 facilitate today's discussion. Charles, or Charlie Pou, is  
8 a mediator and dispute resolution expert in D.C., and we put  
9 his considerable experience in this field at work, as we  
10 designed today's agenda. Charles is the guy, who is going  
11 to be wandering around in the audience, making sure that we  
12 stay on subject and that we get a chance to hear from as  
13 many as you, as possible today. So, I think you're going to  
14 be seeing Charlie around the audience, so you're going to  
15 talk from there. I'm happy to introduce Charlie Pou.

16 (Applause.)

17 MR. POU: Thanks Anita. In dispute resolution, an  
18 awful lot of what I tend to do is play traffic cop and  
19 that's my primary role today, as we defined it. You will  
20 not be penalized for going too fast. We may have problems,  
21 if you go too slow or if you get off track, though. But, in  
22 order to make sure that everybody knows what the ground  
23 rules are, let me take a couple of minutes to set out a few  
24 for you.

25 Our purpose today, of course, is to let the Postal

1 Service and the Postal Rate Commission hear from you, on how  
2 the postal ratemaking process can be improved, particularly  
3 in the Omnibus ratemaking setting. Each panel structure  
4 will be fairly similar. Each panel will start with a Postal  
5 Service official, who will begin with a brief presentation,  
6 setting forth some of the main issues and concerns for the  
7 remainder of that panel's discussion. Each panelist will  
8 then have four or five minutes to set up the discussion, by  
9 offering some views of topics of interest to them.

10           After the initial presentations by the three or  
11 four other members of the panel, the bulk of the time for  
12 each of the panel will be for audience members to  
13 participate, to give ideas, to raise issues. Basically,  
14 we're trying to promote a very lively discussion here today,  
15 that adds to our general common understanding.

16           After each panel is -- after the panel's comments,  
17 audience members will have the opportunity to speak. Any  
18 audience member wishing to speak should go to one of the  
19 four microphones here. I will recognize you to speak and  
20 you will have a limited time to make your basic points.  
21 Just as a matter of reference, let's assume that you will  
22 have 90 seconds to make your basic points. I reserve the  
23 right to bend those time limits very, very modestly,  
24 sometimes in the interest of giving you a little more time  
25 and sometimes a little less time.

1           We will also reserve the final few minutes of each  
2 panel, so that the panelists have the opportunity, if they  
3 want to take advantage of it, to put any closing remarks out  
4 or to ask members of the audience questions, based on  
5 something that they heard and want to get a little more  
6 information on. And we will adjourn on time.

7           The substantive goals of the panel, as we've  
8 defined it, is basically to create an atmosphere, in which  
9 we can get maximum audience participation, promote mutual  
10 education, and generate good ideas for improving future  
11 Omnibus ratemakings. There are some things that we're not  
12 going to get into today and I guess part of my job is to try  
13 and herd you all in the right direction. We're not going to  
14 get into questions of what the Postal Service is going to  
15 do, in terms of its substantive plans. We're not going to  
16 give people a chance to ask the Postal Rate Commission how  
17 it might rule on any particular case or issues. And we're  
18 not going to dwell on the past. We're going to look on what  
19 we can do to move forward, as well as we possibly can.

20           A few other points: this is day one of the  
21 summit. A second day has already been scheduled for June  
22 27th and registration is open. If you're interested in  
23 attending, you should register in the same manner that you  
24 registered for this particular program today.

25           Also, anyone, who doesn't have a chance to make

1 all of their points today, is encouraged to file comments by  
2 the end of this week. That will then be factored into the  
3 next ratemaking summit or the next day of the summit. You  
4 should send your follow-up comments to Jacquelyn Gilliam at  
5 the Postal Service and e-mail them to the Postal Rate  
6 Commission. This information is also posted on the Postal  
7 Service's website and the Commission's website.

8           Just logistically, we'll have breaks at 10:45 and  
9 2:15. That is between panels one and two and between panels  
10 three and four. Refreshments will be in the same location  
11 as the continental breakfast this morning and lunch will  
12 also be obtained there. We'll have only 45 minutes for  
13 lunch, so please keep that in mind. And we'll going to  
14 start on time in the afternoon. And just bathrooms are  
15 located out there and in the same general vicinity as the  
16 food. Telephones are available for people, who want to use  
17 them. They're on the other side of the registration area  
18 that you came into, when you entered the building.

19           A couple of final thoughts: first, unlike  
20 virtually everybody else in this room, I don't eat, drink,  
21 you know, live, breath postal ratemaking. In fact, I don't  
22 even speak postal ratemaking. And I hope you'll appreciate  
23 that there may be one or two others like me; not a lot, I  
24 realize, but one or two, who would appreciate it if you use  
25 plain English to the greatest extent possible. And,

1 finally, and certainly not least, anybody with a pager or a  
2 cell phone, please turn it off. The traffic cop will take  
3 note.

4 I'd like to turn it over to the first panel now  
5 and ask them to come up on stage. And we'll have direct  
6 presentations from the panel and then kick off the  
7 interactive part with the audience. Thanks.

8 (Pause.)

9 MR. STRASSER: Good morning. My name is Dick  
10 Strasser, from the Postal Service. And I guess just to  
11 frame this morning's discussion a little bit, we've talked  
12 among ourselves quite frequently about rates and the rate  
13 increases and we've used words such as smaller or none at  
14 all, predictable, regular, and I guess the idea this morning  
15 is to try to put some more frame of definition around that.  
16 The Postal Service launched a survey recently with the  
17 transformation plan and asked a question about having  
18 predictable rate increases of the target surveyors.

19 Consumers -- 53 percent of consumers favored  
20 having predictable rate increases, 60 percent of small  
21 businesses favored having predictable rate increases, and 66  
22 percent of what was defined as medium businesses favored  
23 having predictable rate increases. I guess one of the key  
24 questions I what are predictable rate increases.

25 The ultimate goal, I think, is to -- among many



1 individual's thoughts is to smooth out the increases that  
2 are absolutely necessary and how we go about doing that in  
3 an Omnibus rate case is a key question. From a Postal  
4 perspective, we found it increasingly challenging to  
5 forecast, in a very volatile environment, forecast long-  
6 term, generally, in a period of at least a year, year-and-a-  
7 half, two years out, and, as I said, a volatile environment,  
8 the economic circumstances, the industry circumstances, as  
9 well as our own -- our own unknowns that we have.

10 And it, also, seems as if we end up in a position  
11 of increasing rates at the absolutely worst possible time,  
12 when the economy is slowing down. If you look at the  
13 history of rate setting, you know, we -- going way back into  
14 the mid-'70s, increasing rates rapidly during the recession  
15 in the mid-'70s; increasing rates substantially in the early  
16 '90s, just before that recession; and coming into this last  
17 couple of years, increasing rates. So, it's a challenge  
18 that, from a Postal perspective, we've been frustrated with,  
19 in the sense that it seems as if many of the -- many of the  
20 increases come at times that were less ideal.

21 Interestingly enough, the dimension seems to be  
22 divided between two audiences, broad audiences: business  
23 and their reaction to postal prices; and consumers and  
24 consumer's reaction to postal prices. In that same survey  
25 that was taken, 50 percent of the consumers responding felt

1 that their postal service is funded by tax dollars. So, you  
2 know, it's an interesting aspect. No matter how much we try  
3 to communicate, we still have 50 percent of the consumers  
4 responding that postal service is funded by tax dollars.

5 We, in this room, I think, pretty much know that  
6 that's not the case. And the 30-year experiment has been  
7 substantially successful, the missed break even by six  
8 billion dollars on a revenue stream that exceeds one-  
9 trillion-fifty-billion dollars over those 30 years, which is  
10 quite a remarkable turnaround from the time frame of the  
11 '60s.

12 But, that sort of the frame of reference that we  
13 come at this. We -- as the Postal Master General mentioned,  
14 there will be another Omnibus rate case coming. The  
15 commitment is to hold off rate increases until 2004 calendar  
16 year. And it's really our perspective that we'd like to  
17 find out if there's a way that we can -- we can more  
18 carefully or, at least, put some parameters around some of  
19 these words that we've used in the past: smaller,  
20 predictable, regular, those types of -- those types of  
21 descriptors.

22 And so, that's basically all that I have, Charlie,  
23 to say, at the outset.

24 MR. POU: Our panel has decided that -- can you  
25 hear me? Our panel has decided that they want to -- can you

1 turn the mic on?

2 (Mic turned on.)

3 MR. POU: Our panel has decided -- to proceed  
4 alphabetically. The bios are in your material; so rather  
5 than spend a lot of time giving you background about each  
6 individual panelists, I'd like to turn it over to each of  
7 them, in turn, and start with John Crider, who is going to  
8 talk about the relationship of budgets to predictable rates.  
9 Thank you.

10 MR. CRIDER: Good morning. On the idea of the  
11 panel going alphabetically, I was the only one that voted.  
12 I wasn't real sure I liked that idea, but I didn't mind it,  
13 I guess. I would like to go on record, though, first of  
14 all, thanking Mr. Potter and Mr. Omas, in holding this  
15 meeting or this summit. I feel that this is a great  
16 stepping stone that -- to bridge a lot of unknowns, that  
17 both the industry and the Post Office needs to know and  
18 understand about each other. And I think if we all keep an  
19 open mind, both sides, that this will be a very positive  
20 summit and the ones that will follow it will also be very,  
21 very, very successful. I'm very enthused with the idea of  
22 these summits.

23 On the idea of predictable rates, the company I  
24 work for, which is Sprint, is a very large and complex  
25 company, as far as budgeting is concerned. The area that we

1 -- the largest part of it is Spring mailing services, as far  
2 as mail is concerned, and we oversee some of the budgets  
3 throughout the company, as far as smaller areas. But, every  
4 marketing vice president, which there are several throughout  
5 the country, has their own budget and every department of  
6 any size has their own budget, also. And they're always  
7 calling us for information, asking us when is the next rate  
8 case; how much is it going to be; we've got to get this in  
9 our budget; we didn't meet our -- we were over our budget  
10 last year.

11           So, for us, it would be an excellent idea to know  
12 the -- what the rates will be, the predictability of a rate,  
13 and when it will come in, and for how long that rate would  
14 be, would be a pretty good idea for us. It would be able to  
15 -- to fit into our program. We would be able to manage our  
16 budgets a lot better and, also, at the same time, hopefully  
17 not go over them as bad as we do every year, seems to be.

18           We're very interested in the work sharing parts of  
19 the program that's coming up. We're also very interested in  
20 the idea of the negotiated service agreements that are  
21 coming down the pike, that we feel that we're very  
22 interested in.

23           The phased rates idea coming in is also something  
24 that we're very interested in. We do have some concerns  
25 about it, just like everybody else does, about the unknowns,

1 of what happened if you're in the middle of one of these  
2 phased rates that's lasting over a period of three, four, or  
3 five years, or whatever the case may be, and something  
4 happens on the unknown. How would it adjust? How would we  
5 be able to handle that? Would it be something that we could  
6 deal with on an ongoing basis?

7           And one other thing that we would like to kind of  
8 see, that once rates have been set on the implementation  
9 side of it, we would like to see approximately 60 to 90 days  
10 to have those rates implemented, because a software program  
11 -- some of our software programs that our vendors give us,  
12 we have to merge in with our software programs, testing,  
13 doesn't always work out the first -- first go around. So,  
14 we have to send the software back with some situations and  
15 they fix that and send it back and it takes some time. So,  
16 we'd like to see some time there, also, on the tail end of  
17 this.

18           And that's about all I have.

19           MR. POU: Thanks John. Shelly Dreifuss is going  
20 to talk about how to accommodate consumer interest and the  
21 interest of mailers, in the ratemaking process.

22           MS. DREIFUSS: Hi. I'm Shelly Dreifuss. I  
23 represent consumer interest. And among this distinguished  
24 group of panelists, I'm probably the counterpoint, I think.

25           When we talk about flexible and frequent price

1 increases, I think that's usually come to mean phased rates.  
2 It turns out that that's not such a good thing from the  
3 consumer point of view. I get a great deal of mail in the  
4 consumer advocate's office, complaining about the frequency  
5 of rate increases. Those, who pay postage through stamps,  
6 often wind up having to go to a post office, to purchase  
7 them. And when a rate increase is about to take place, it  
8 may mean an emergency trip to the post office. Sometimes,  
9 those experiences are not entirely satisfying. And so, from  
10 the consumer perspective, frequent small increases really  
11 are not ideal; quite the opposite.

12 But, I've given some thought to how consumer  
13 interest can be protected and, at the same time, have these  
14 -- have phased rate increases or more frequent smaller rate  
15 increases. And I believe the solution may be a non-  
16 denominated first-class stamp. In this way, consumers can  
17 buy a stock of stamps that are good from here on in. When  
18 the prices go up on their next visit to the post office,  
19 they'll just be paying a little bit more. And I do think  
20 that that's probably the best way to make possible phased  
21 rates and still promote consumer satisfaction.

22 I think another matter that enters into this, when  
23 we're talking about non-denominated stamps, is I think we  
24 may finally be able to free ourselves from the integer  
25 constraint in first class. I think it might be possible to

1 some multiples of first class stamps. The rate, itself,  
2 would be fractional; but the way I envision it, consumers  
3 would pay only in whole cents. That's another thing I'd  
4 like to see come out of the -- of a new ratemaking process,  
5 in which phased rates is considered.

6           And, finally, one concern I have about a test year  
7 that lasts longer than simply one year, sometimes three  
8 years has been discussed, is that it becomes very, very  
9 difficult to estimate cost and revenues the further out you  
10 go. I think that's pretty well established in Commission  
11 proceedings. How many of us know what our -- what our  
12 incomes will be five years from now, let's say; what our  
13 expenses will be five years from now? We have that very  
14 same difficulty in postal rate proceedings, in trying to  
15 make estimates. We have trouble making estimates even two  
16 years out or three years out, let alone five years out.

17           Because of that difficulty, I think there's a  
18 great risk that prior year losses may be much larger than  
19 we've seen them before. As a result of that, what I'd like  
20 to see in a phased rate case, if one were to be scheduled  
21 sometime in the next year, let's say, would be to have a  
22 tracking system put into place, in which costs and revenues  
23 of each subclass would be very carefully tracked, so that by  
24 the time we have our next rate case, we could see where  
25 those revenue and cost estimates may have been off and which

1 subclasses were, in particular, creating the prior year  
2 losses.

3 I tend to represent first class interest, in  
4 particular. That could wind up being first class, the  
5 estimates for which have been way off and, therefore,  
6 contributing largely to prior year losses. But, in any  
7 event, I think equity would demand that each subclass's  
8 costs and revenues be carefully tracked right from the  
9 beginning of the phased period.

10 Thank you.

11 MR. POU: Vincent Giuliano is going to talk about  
12 his perspective on the relationship of predictability and  
13 the needs of business.

14 MR. GIULIANO: Good morning. I'm Vince Giuliano  
15 with Advil, Incorporated. And I wanted to give you some  
16 thoughts about the meaning for predictability and the  
17 associative behaviors that need to be additionally employed,  
18 to make predictability meaningful.

19 My headline is this: rate predictability is  
20 essentially, but it's not enough. Now, the obvious  
21 essential reasons for predictability are businesses need  
22 certainty; uncertainty just raises havoc with business. The  
23 FUD factor, fear, uncertainty, and doubt, is an enemy of  
24 strong economic and sustainable business growth.  
25 Predictability allows business planning; corporate



1 budgeting; companies can make contractual arrangements with  
2 customers and vendors; capital investments can be made with  
3 confidence; stakeholders and outside companies are more  
4 willing to commit for the long term. Predictability  
5 stabilizes corporate wealth and enables the longer enactment  
6 of business strategies.

7           Now, why is predictability not enough? You know,  
8 in a sense, we've got predictability now. Post Master  
9 General Potter has stated that rates will not rise until  
10 calendar year 2004. But what does that mean? At what  
11 amplitude? An inflation increase, or a 15 percent or  
12 greater increase? The rhetoric for a larger increase has  
13 been building for some time. But, how much?

14           Now, that's not predictability. Large increases  
15 are harmful, whether you know they're coming or not. For  
16 the Postal Service to keep its prices below inflation, it  
17 needs a pricing strategy that enables compounding volume  
18 growth. Growth in volumes will lead to necessary growing  
19 revenues that will provide for capitalization, debt  
20 repayment.

21           You know, in previous economic cycles, businesses  
22 grew revenues by raising their prices. That business  
23 practice is over. An enlightened Postal Service, you know,  
24 needs an enlightened pricing strategy, to be supported by a  
25 revamped ratemaking process.

1           Now, the current process is just too  
2 destabilizing. From the forecast predicting financial  
3 gloom, to the predictions of the magnitudes, to the -- to  
4 the -- you know, to the proposal, the litigation, the  
5 recommendation, the rejection, modification, all of that  
6 creates -- it creates havoc. It's not complementary for  
7 businesses to achieve its objectives.

8           Now, they should -- rates should change in a  
9 predictable manner. They should not exceed inflation. And  
10 if they kept below inflation, then the real -- then the real  
11 prices will decline over time.

12           And to benefit from predictability, you need  
13 manageability of rate changes. What we mean is well  
14 designed products and rates, delivery, service reliability.  
15 Rates should be market based. They should be set in a way  
16 that encourages competition, not protects competitors from  
17 competition.

18           The technical approaches and questions for  
19 revamping the ratemaking process should not be set in a  
20 vacuum. The entire process needs to be examined, in the  
21 context of the Postal Service's current financial condition,  
22 its financial strategies, and the current environment of  
23 declining volumes and revenues.

24           Intermediate and long-term predictability won't be  
25 possible, until the Postal Service starts to address its

1 fundamental financial stability issues, its balance sheet,  
2 it's deferred liabilities. Without addressing that  
3 financial solvency, the rates won't be, in a sense, be  
4 meaningful over a long enough period of time, even though we  
5 find a way to make them predictable. Now, while  
6 predictability is essentially, it must be timely,  
7 quantifiable, and manageable, and that's what we mean by  
8 predictability.

9 Thank you.

10 MR. POU: Thanks, Vince. Finally, Howard Schwartz  
11 is going to give some views about practical concerns he's  
12 got about flexible pricing.

13 MR. SCHWARTZ: Thank you. First, I'd like to  
14 thank Ashley Lyons for inviting me to be a part of this  
15 panel. And I guess more importantly, I'd like to thank my  
16 wife, Ann, for convincing me about a month ago to go on a  
17 diet, so I can fit into this suit and shirt. That was an  
18 impossibility two weeks ago.

19 I guess number one on our, you know, fantasy list,  
20 dealing with Omnibus rate cases, is not to have them at all.  
21 But, reality bites and I guess you can only believe that in  
22 fantasy land and Disney World. But based on, you know,  
23 what, I guess, former Chairman Gleiman of the PRC and the  
24 current Chairman Omas say, that NSAs are legal and  
25 legitimate or hopefully legal and legitimate, so we'd love

1 to see NSAs and more experimental, you know, rates and  
2 service filings. I know, we were very successful in the  
3 periodical industry with the ride-along rate and, hopefully,  
4 there are more of those great creative ideas out there, that  
5 could circumvent the 10-month or 12-month terms that turn a  
6 rate around, that is part of an Omnibus rate case.

7           If there was pricing flexibility in the future, I  
8 guess being selfish, our idea of flexibility is for the  
9 Postal Service to be able to lower rates, but not  
10 necessarily raise them. And if there was to be increases,  
11 you know, at all, we'd love to see them smaller and very  
12 infrequent. But all of that is probably also in fantasy  
13 land.

14           Phasing of rates is a very interesting subject;  
15 but, you know, as they say, the devil is in the details.  
16 Because, again, not being an economist and not being a math  
17 major or an accountant, I'm not really sure how it works,  
18 and that's -- the next panel is going to, you know, be  
19 addressing that, in greater detail.

20           But, one of the concerns that we would have is how  
21 the rates are factored in per se over, I don't know, a  
22 three-year period or whatever. In the last year, would you  
23 actually wind up with a higher percentage increase of the  
24 total? In other words, if you have 10 percent going in,  
25 would you wind up with 11 or 12 percent in the last year,

1 which would be the base, you know, of the next increase.

2 So, it could actually wind up costing you more.

3 Predictability of rates, I think, is extremely  
4 urgent, if not almost mandatory. I know going into this --  
5 the case that's going to be finalized on June 30th, when we  
6 first started it, at least for periodicals, I wound up  
7 budgeting a humongous 25 percent. And then over the months  
8 that followed, we reduced it to 15 percent and, then,  
9 ultimately, to what the 10 percent on average it's going to  
10 be on June 30th.

11 I mean, my biggest concern -- it's easy for me to  
12 throw numbers of a dart board. But when people do business  
13 plans, when you throw out 25 percent, it could cost people  
14 their jobs. And that would be a great concern to me, going  
15 forward, especially in this economy, that people could  
16 actually be eliminated, you know, from the game plan, based  
17 on just a plugged number.

18 I, also, agree that there needs to be a mandatory  
19 or standardized implementation period after the Board of  
20 Governors approves an increase, because of software vendor  
21 problems. We've had this in a situation in almost every  
22 single rate case, especially as rates became more complex.  
23 You need at least 60 days, some say 90, I don't know. I  
24 know the Mailer's Council has already had a meeting with the  
25 Postal Service, to try to come up with some type of a

1 standard, which would make life a lot easier for both the  
2 service, as well as the mailers.

3 And last, I would hope that, as far as when rates  
4 are to be implemented, that it's never part of the year when  
5 you have the fall mailing season. Because, I think if you  
6 destroy mailers' predictability and the volumes of mail,  
7 they're going to drop, it could cause service chaos.

8 That's it. Thank you.

9 MR. POU: Thanks, Howard. Well, we've already  
10 heard quite a bit from the panel about the role of  
11 ratemaking and its implications for lots of large and  
12 relatively practical issues, as well. I'd like to basically  
13 turn it to the audience now and get some of your  
14 perspectives about the ratemaking process, in general, and  
15 how it might be improved. And maybe we can factor that into  
16 some of our discussions throughout the day.

17 Anybody want to step up to the mic first? This is  
18 going to be a real quick day. Does anybody have anything  
19 they'd like to contribute? Sir?

20 MR. LORENZ: Is this on?

21 MR. POU: Yes.

22 MR. LORENZ: Oh, good. Hi, I'm Scott Lorenz,  
23 Director of Postal Operations at Time, Inc. Many of you  
24 know Jim O'Brien. He would have been here today. It's his  
25 25th wedding anniversary and his wife told me to tell you

1 that if he was here, there wouldn't be a 26th. So --

2 I'd just like to support the concept of phased  
3 rates. The Postal Service is AOL-Time Warner's largest  
4 vendor. We spend more on postage than on paper or on  
5 printing or on our CDROM purchases. The scale of this is so  
6 great, that we need some sort of predictability to manage  
7 that. For example, Canada Post has given their rate  
8 increases for January of 2003 and 2004. So, that's -- it's  
9 easy to see how that cost is managed.

10 If rate changes were known in advance of their  
11 effective date, we could budget appropriately, and accurate  
12 budgeting is so important on a number of levels. During our  
13 budget process, it's a lot like the dart board Howard  
14 mentioned. You just kind of have to look out there in the  
15 future and think what might happen and try to hit close to  
16 that center target. But, if our estimate is too high, the  
17 company allocates too much money for postage and we either  
18 lose interest or we lose the opportunity cost of that money.  
19 If the estimate is too low, our profitability projections  
20 are not met and our stock price suffers, as you've seen. I  
21 don't want to comment on that and I'm not blaming the Postal  
22 Service for our stock price, believe me. We're fine with  
23 that.

24 So, predictability is a good thing. Phased rates  
25 is a good thing. It would allow especially for budgeting

1 over a multi-year period and our investors would also  
2 benefit. So, thank you.

3 MR. POU: Great, thanks. Another perspective back  
4 here in the back.

5 MR. STAPERT: Yes. I'm John Stapert with the  
6 Coalition of Religious Press Associations. I represent a  
7 constituency that's, for the most part, not only not-for-  
8 profit, but also small circulation, high editorial content.

9 I want to continue in the theme of predictability  
10 and phased increases. The income for most of the  
11 periodicals of my constituency comes from subscriptions.  
12 Those are sold usually on a calendar-year basis and many of  
13 them are attached to our membership here, which is a  
14 calendar year. So, 60 days, 90 days has been mentioned, in  
15 terms of a predictability window. But, if a major postal  
16 rate increase comes in the second quarter of a year, then my  
17 constituency, locked in on its subscriptions, which are  
18 contracts, to a lesser degree, advertising revenues are also  
19 a factor -- those rates are announced on a calendar-year  
20 basis -- makes it very difficult to absorb a large increase.

21 So, if the increase coming down were, let us say,  
22 in the vicinity of 12 to 15 percent, in effect, could be  
23 phased over, say, a three-year period, it would at least not  
24 hit so hard for those first few months of the new rate  
25 increase. And then in the coming year, subscription rates,



1 advertising rates could be stepped up to meet a predictable  
2 increase in rates.

3 MR. POU: This microphone here.

4 MR. SMITH: Hi. Marcus Smith, Postal World. I  
5 write about this stuff, but I have to make comment on Ms.  
6 Dreifuss's notion, which is something I thought about, was  
7 around the nondenominational stamp.

8 You're talking about predictable rates. Rates are  
9 money. And when you have a nondenominational stamp, you've  
10 created a situation, in which you have a new opportunity for  
11 new revenue; in other words, such a thing as postal futures.  
12 It's entirely possible for someone, like Time Life, ADVO,  
13 who ever, to effectively buy a million dollars worth of  
14 postage credit for a year ahead of time and the Postal  
15 Service gets the use of the money a year ahead of time.  
16 But, then, again, you have to come across with the service a  
17 year later.

18 Now, that creates whole new opportunities for you  
19 guys to make money. So, that's also a possibility that  
20 would go along with that nondenominational stamp.

21 MR. POU: Any of the panelists care to comment on  
22 that opportunity?

23 MR. STRASSER: If we had benefit of that  
24 opportunity, it would have to have authority to invest in  
25 other than the U.S. Treasuries.

1 MR. POU: Back in the back.

2 MALE SPEAKER: A very brief observation on -- a  
3 more generalized observation than on any one thing that all  
4 of the excellent panelists have said. It struck me as  
5 interesting that the model that all of you are working on is  
6 the inevitability of price increases and, therefore, the  
7 best way to have customers adjust to those increases.

8 Vince alluded earlier to how businesses operate  
9 and I think he touched, if I could be so bold, a little bit  
10 on the point I'm trying to make, which is that businesses,  
11 like Vince's and the others in this room, don't, I think,  
12 set out a business model that three years from now there's  
13 going to be successive increases or one large increase three  
14 years from now. What they're looking for is to keep their  
15 price stable and, if possible, in a competitive economy, and  
16 a changing economy for technology reasons, to cut prices.

17 You cannot have this model inevitably, in the long  
18 run, with the implicit assumption that rates will rise and  
19 that the best way to get out of it is, well, how do we  
20 ameliorate that in the short term.

21 Post Master General Potter has put out an  
22 interesting transformation plan. It talks about short-run  
23 steps. In some sense, that's what we're doing here today.  
24 But, it, also, talks about long term. And I don't think any  
25 of us can say where the short term and the long term will

1 meet. But, at that point, I believe a strategic decision  
2 has to be made by the Postal Service and with the customer  
3 involvement, of course, that the inevitability of increases  
4 is just going to be accepted as the conventional wisdom.

5           To get out of this severe postal crisis, the  
6 Postal Service has to think outside of the box. And with  
7 due respect to everybody here, who has put together this  
8 amazing conference, what we're talking about here are short-  
9 term fixes. We're not talking about fixing the long-term  
10 problem and we have to think outside of the box.

11           MR. POU: Thanks, very much.

12           MR. STOVER: I'm David Stover with the Greeting  
13 Card Association and I have, I guess, a general question  
14 mostly for the business representatives on the panel.  
15 There's been discussion of both phasing with the emphasis on  
16 predictability of the annual increases and on such devices  
17 as negotiated service agreements, experimental rates,  
18 experimental niche classifications and the like. I would be  
19 interested to know people's thoughts on how any significant  
20 variations in revenue, or especially net revenue, that are  
21 produced by these NSAs and other smaller scale changes  
22 during the life of a set of phased rates are going to be  
23 dealt with, if the rates are all set out ahead of time, in  
24 the initial -- the original decision establishing the phased  
25 schedule.

1 MR. POU: Anybody want to comment on that? Well,  
2 interesting questions. I'm sorry, Vince?

3 MS. BIZZOTTO: We might be able to address that in  
4 the second panel.

5 MR. POU: Yeah. I mean, part of the goal here  
6 with the first panel is just to set up some of these issues,  
7 so we can get into them, in more detail, as the day goes  
8 along. But, Vince, did you have something else to say?

9 MR. GIULIANO: Well, you know, the long-term  
10 solvency of the Post Office, I mean, rate predictability, by  
11 itself, is not going to achieve that. And you need to have  
12 a framework -- a revamped framework for ratemaking; but, it  
13 needs to also, in the future, coexist with -- how is that  
14 going to coexist with NSAs? How is the contracting? You're  
15 going to have contracts that eventually are going to made  
16 with mailers, hopefully. And what are you going do, disrupt  
17 that contracting prices in the middle of a ratemaking?  
18 There needs to be a coexistence; otherwise, there won't be  
19 stability.

20 MR. POU: Thanks, Vince.

21 MR. THOMAS: Joel Thomas, National Association of  
22 Pre-sort Mailers. I think I have a more mundane question  
23 that was a reference to a transcript and an ability for  
24 people that were not here and, presumably, some of us that  
25 are here, to submit comments later on. When will that

1 transcript be available and how to people that are not here?

2 MR. POU: That's a real good question. I'm not  
3 sure I -- the transcript available tomorrow. Good work.  
4 How will they get it?

5 MR. REPORTER: I have a few work orders. But, if  
6 anyone wants one, they can come up to me and I can give them  
7 the number to call.

8 MR. POU: Steve?

9 MALE SPEAKER: The transcript will be available on  
10 the committee's website on Tuesday -- on Thursday.

11 MR. POU: All right. Comment?

12 MR. SEARSAL: Yes. I'm Jerry Searsal with Direct  
13 Marketing Association. I wanted to just raise a discussion,  
14 try and tie a little bit between what Howard said and what  
15 Vince had said, on amplitude of a rate increase and  
16 predictability and also the lead time. We've heard  
17 discussion of 60 to 90 days for software development of  
18 needed lead time.

19 But, right now, my members -- my catalogue members  
20 are ordering for the holiday season and they are ordering  
21 goods that are going to have to be sold and so forth and,  
22 therefore, have to plan how they're going to try and get it;  
23 how are they going to send -- how many catalogues they're  
24 going to send out; how big the catalogue will be and so  
25 forth. So, that 60 to 90 days is not really -- the idea of

1 looking of software is not the lead time that's necessary.

2           You really need some predictability for this kind  
3 of process, so that they can set, my members can set and  
4 know what's going to happen during this fall mailing season,  
5 which is really the importance. Forty to 50 percent of  
6 revenue for those catalog mailers come in during that  
7 season. And that's why, in part, predictability is needed.

8           I think with the religious press talking about  
9 subscriptions and advertising contract rates, I think the  
10 idea that you have to think about on this is that there are  
11 a lot of things that are fixed and set in planning, not just  
12 budgeting, that are really affected by significantly high  
13 postal increases.

14           If you have phased rates that are manageable, that  
15 are small, you can budget better. You can make a mistake  
16 and not be really harmed. But, if you're looking at, and  
17 Howard was thinking about a 25 percent rate increase, if  
18 your wrong, if Howard went down to 10 percent and suddenly  
19 it went up to 25, that huge change can devastate companies.  
20 So that you have to look at the whole business plan of how  
21 people plan mailings, what they're doing, how postage rates  
22 affect it -- and postage is not the only thing; you guys get  
23 blamed a lot, but it's not the only thing: paper prices,  
24 etc. are big factors, as well. But, the phased rates, the  
25 time needed, the budgeting all tie in together.

1           So, I think from our perspective, as we look at in  
2 next panels and so forth, is to take a look at a cycle. You  
3 desperately need to know what's happening, so you can plan  
4 and the numbers should be low enough, so if you make a  
5 mistake, you're not going to be devastated. That's why I --  
6 that's what I think from my membership, both the catalogues,  
7 the magazines, and so forth, that's what we're looking for,  
8 as we come through this, is try to look at that planning.  
9 Thanks.

10           MS. BIZZOTTO: -- predictability drive growth and  
11 volume --

12           MR. SEARSAL: Well, predictability --

13           MS. BIZZOTTO: -- or can it?

14           MR. SEARSAL: It can drive growth and volume,  
15 because you know what's going and you make a plan. And if  
16 you don't get burned -- some of our members, if they have  
17 planned and planned incorrectly, they get hurt and you're  
18 going to hurt your volume. But, I don't think  
19 automatically, Anita, that predictability is going to mean a  
20 growth in volume. It's going to help companies stay alive,  
21 so it's going to -- so you're going to maintain volume for  
22 sure. And if it -- if you can hold the amplitude down --  
23 like I said, you're only one-third of the costs, if you  
24 figure -- and it may be a little bit different. Paper is a  
25 third and -- for cataloguers, paper is a third and postage

1 is a third and then everything else is the other third. If  
2 you can hold those costs down, you're going to get some  
3 growth in volume. But, predictability is a big key to  
4 keeping people alive and in the business.

5 MR. WARDEN: Herb Warden, American Banker's  
6 Association. While we certainly agree with a lot of the  
7 comments about the desirability of predictability of rates  
8 and stability of rates, if it's possible, there are a couple  
9 of things that concern me. One, is we have constant  
10 reference to negotiated service agreements. I would  
11 disagree perhaps with both -- most of the folks here and  
12 indicate what we can have under the current scheme might  
13 more properly be labeled niche classifications. Because, if  
14 we do have to go with the classification mechanism, which  
15 has a lot of consequences and that -- a real contract rate  
16 negotiated service agreement, we would argue, probably would  
17 not be legal, under the current statutes. And I think that  
18 that's an important distinction, because we -- you know,  
19 we're dealing with something that we really all know a lot  
20 about, because we do it all along.

21 The other thing I'd like to mention is, quite  
22 frankly, I'm a little concerned about the agenda, because it  
23 seems a great deal seems to be pitched towards making it  
24 easier for the Postal Service to raise rates the way they  
25 want to. And I don't see anything on there, and everybody



1 else talk about nasty things like the monopoly. We have had  
2 some discussion on universal service obligation and, quite  
3 frankly, the crushing institutional cost burden on first  
4 class mail, which doesn't seem to be getting any better.

5           There are a lot of things that have to be  
6 considered and the institutional bias of the Postal Service  
7 would seem to be, and quite probably understandably so, to  
8 change its rates, in a way that shifted more -- as much cost  
9 as possible onto the people, who can't get away from the  
10 Postal Service.

11           Thank you.

12           MR. SMITH: Anita, you were talking about  
13 predictable volumes or increasing volumes. I remember  
14 attending a conference, where I was brought into a room with  
15 some other reporters, and it was explained to me why the  
16 Postal Service budget was totally out of whack, is because  
17 mailers did not come across with the volume that they said  
18 they were going to come across with, at which point I asked  
19 the question, in my own mind, what incentive did they have  
20 for giving you accurate numbers. They have no incentive.  
21 They have incentive to give you sandbag numbers. Why?  
22 Because, they know the more volume they say they're going to  
23 give you, the more transportation management equipment will  
24 be available; the more extra people you will put on board to  
25 make sure the volume gets handled, if they do come across

1 with it.

2           My father was a grocery store owner for 40 years  
3 and he received a rebate once a quarter from his wholesaler,  
4 by meeting or exceeding his volume purchase for that  
5 quarter. If the Postal Service changed the paradigm, and  
6 this, again, goes back to the futures concept, of saying,  
7 okay, if you meet your prediction within plus or minus two  
8 percent, five percent, whichever is appropriate, then you  
9 get a rebate. You already have a valued added refund  
10 program -- rebate program in the United -- in the Postal  
11 Service. Why not simply expand it and say, meet or exceed  
12 your predicted volume for the quarter and you'll get that  
13 percentage within certain amounts, as part of the overall  
14 pricing structure? That might help give you, again, more  
15 level rates, more predictable volume for your purposes, and  
16 actually might cut cost.

17           MR. WEAVER: Yes. Good morning. I'm David Weaver  
18 with the Mailing and Fulfillment Service Association. We're  
19 the letter shops and the mail houses of the country. The  
20 psychological impact of large single increases can just be  
21 devastating to my members, who are out there competing  
22 against other advertising media.

23           I'm reminded of my brother's. Two of my brothers  
24 were very accomplished runners. And in cross country, my --  
25 I remember my one brother telling me that when he was in the

1 lead, as he usually was, and he came around the corner and  
2 those behind him lost sight, he would sprint ahead as far as  
3 he could and then slow down. When they came around the  
4 corner and saw how far ahead he was, it just knocked them in  
5 the stomach and they were very discouraged.

6           It's the same thing when you have a large single  
7 rate increase every few years. The people that are in the  
8 medium are trying to decide which medium to stay in, go to a  
9 broadcast or direct mail. And when you hit them -- like in  
10 the early '90s, that was very serious stuff when, you know,  
11 a couple of years in a row there, we had 20, 25, 30 percent  
12 increases. So, this is all in support of phased predictable  
13 rates.

14           MR. POU: Thanks.

15           MR. BENJAMIN: Yeah. I'm Maynard Benjamin. I'm  
16 with the Envelope Manufacturers Association. For the last  
17 year, we've been doing some financial modeling, looking at  
18 the impact of rates on volumes. And one of the interesting  
19 things that I think we're really coming up with is that,  
20 one, that volume declines occur in some sort of a stair step  
21 fashion; that once rates go beyond a certain increase in a  
22 time period you get more than average decrease in postal  
23 volume. So that as you're increasing rates beyond the cost  
24 of inflation, what you're doing is setting up volume  
25 declines that are greater than the amount you're increasing.

1 That's number one.

2           Number two, I think the way we ought to be looking  
3 at, at least some of this analysis, to back up what Jerry  
4 just told you, is predictable increases will slow the level  
5 of decline. It will slow the level of decline. Whether or  
6 not they lead to any increases or not, that is a real  
7 question that we still have, given the sort of analysis that  
8 we are doing right now. .

9           And I would remind all of us, there was a very  
10 interesting statement that was made several years ago by  
11 Graham John, who is the managing director of Australia Post,  
12 and what Mr. Graham said was there are optimum sizes for  
13 postal service. And I would ask all of you to think about  
14 whether or not the Postal Service of the United States has  
15 reached an optimal size or is it operating at a level where  
16 it is too big for the market it's going to serve in the  
17 future.

18           MR. BRINKMAN: Bob Brinkman. I'm representing  
19 myself this morning. As I've watched the Postal Service  
20 over 20 years, I think I have two observations. One,  
21 clearly rate predictability is necessary for businesses.  
22 People have been saying that for years; yet, I think people  
23 have to give some serious thought to the incentives of the  
24 Postal Service, when the difference between having two  
25 increases in six years and having three increases in six

1 years is that the Postal Service gets blasted publicly three  
2 times instead of two times. And I think there's a certain  
3 incentive there, even though the Postal Service is listening  
4 to its mailers and wants to meet their needs, that some sort  
5 of understanding has to be reached, that the public  
6 relations volume of the mailing community is not going to  
7 increase, if there are more frequent, but smaller increases.  
8 Because if you read the rhetoric over the years, every time  
9 there is an increase, there's always two points that they're  
10 blasted for: (1) how big the increase is; and (2) when was  
11 the last increase.

12           The second observation, I think, is, Gene Del  
13 Pilito has said for years that part of the problem with the  
14 Postal Service are the incentives that the Postal Service  
15 responds to, and I really haven't seen much discussion. And  
16 I think if people are going to get serious about this, as  
17 opposed to being cosmetic about this, that there has to be  
18 serious discussions of whether more frequent increases and  
19 making it easier to raise rates or lower rates, but, also,  
20 easier to raise rates is going to change the incentives of  
21 the Postal Service and whether it may change the wrong way.

22           MR. POU: Thanks. Neither of these microphones  
23 has gotten a whole lot of use. Is that just because  
24 everybody is sitting over here? Well, let me see if the  
25 panel have any reactions to the comments that have been made

1 so far. Do you want to follow up or ask any questions of  
2 the people, who have put some ideas forward?

3 Okay. Here's somebody.

4 MR. COSTAGE: Wouldn't want these microphones to  
5 go unused. I'm Brant Costage. I work for Ms. Dreifuss.  
6 And when the OCA was considering the possibility of phased  
7 rates, we recognized the problem for first class single  
8 piece rates, which have always been integers, which, if they  
9 were subjected to phasing, would almost certainly become  
10 non-integer.

11 At that point, we came up with the idea of non-  
12 denominated stamps and we learned that the Royal Mail  
13 already has that, at least for first and second class.  
14 Customers at Royal Mail can buy as many first or second  
15 class stamps as they want, at a particular rate, and they're  
16 good forever.

17 Once we had thought of that, we, also, thought of  
18 what Marcus mentioned, that the Postal Service would have  
19 the early use of the money. What we didn't consider was  
20 that the Postal Service would invest that money in Treasury  
21 Bills. What we thought was that the Postal Service would  
22 use that money for the backlog of capital projects that it  
23 has, which have a much higher hurdle rate of return than the  
24 rate on Treasury Bills.

25 MR. POU: Thanks. Well, the reason we're here

1 today is to gather as many good ideas as we can about how to  
2 improve the ratemaking process going forward, to take into  
3 account some of the kinds of things that we've heard already  
4 today. I would suggest that this is your opportunity to put  
5 some of those ideas on the table, to talk about the  
6 practical implications, and talk -- and maybe we want to  
7 segue into something that's a little more specific, in terms  
8 of the implications for the actual ratemaking process.

9 Sir?

10 MR. BARTZEN: Hold on a second. Let me get mine  
11 in and then you can switch to that. Mrs. Dreifuss, you were  
12 talking about -- people were talking about rate  
13 predictability for businesses, but it seems that there's  
14 consumer and there's businesses. As a consumer, I see rate  
15 increases -- predictable rate increases and phased-in rate  
16 increases as, like, what business is going to tell me in two  
17 years that they're going to be increasing their cost every  
18 two years, every two years. As just a consumer, what do you  
19 think that will do for the public perception of the Postal  
20 Service?

21 MS. DREIFUSS: What do I think the perception  
22 would be if --

23 MR. BARTZEN: Yeah, all of these phases -- rate  
24 increases that the public sees, every two years, we're going  
25 to have a rate increase, what kind of business -- coming

1 from a consumer point of view, what business operates like  
2 that, is going to tell people to do that. What will their  
3 perception be?

4 MS. DREIFUSS: Well, I guess -- I guess the fact  
5 that the increases are somewhat smaller each time they're  
6 announced, I supposed that may offset the frequency issue.  
7 I've come to learn that -- as I said before, most of the  
8 mail that I get really expresses frustration at the  
9 frequency of the increases, and we're talking about  
10 increased frequency. But, I think that frustration is a  
11 result of just running out of the stamps that will now be  
12 necessary, once -- once the price goes up.

13 I think, actually, there could be one distinct  
14 advantage in the non-denominated stamp that I had mentioned  
15 earlier, and that is, I think that consumers may be willing  
16 to buy large -- much larger quantities of stamps than they  
17 have in the past, because they know that they'll be good  
18 forever and they won't need to think about getting a makeup  
19 stamp or a stamp of a few pennies.

20 The Postal Service, I think, has to spend about 26  
21 cents on a dollar, when it sells postage at a retail  
22 counter. If, indeed, consumers bought much larger  
23 quantities of stamps and visited less often, maybe it would  
24 be 26 cents on several dollars. So, I see -- I do see an  
25 advantage in that way, too.



1 MR. POU: Am I missing somebody here?

2 MR. GIULIANO: That's a great question that just  
3 came. There is a great commonality between businesses and  
4 consumers and we have the same common interest of having a  
5 healthy postal service. The last thing that businesses do  
6 is go out and publish, where their customers are saying, you  
7 know, you're going to have a predictable schedule. We try  
8 to drive cost out of the business.

9 If you look at products and services, prices are  
10 declining. Color T.V. sets aren't the same price that they  
11 were several years ago. They're coming down -- products are  
12 coming down. Services are coming down. I mean, there's a  
13 lot of things that goes involved, you know, in a whole  
14 regiment of doing business and having a pricing mentality.

15 Hopefully, Anita, your voice is going to become  
16 louder than operations. There's going to start becoming a  
17 market -- a marketplace voice in the ratemaking, that's  
18 going to have the perspective of the marketplace and what is  
19 -- and to set tone of rates. You're going to have a  
20 behavior on operations that's going to want to drive out  
21 costs. You're going to have a behavior on the part of the  
22 financial officer to redo the balance sheet, so you can get  
23 rid of liabilities and assets that don't have anything --  
24 any meaningful relation to the products and services that  
25 are being designed now and for next year.

1           There has to be a whole turn of behaviors here.  
2   It's not just looking at phasing rates. And I'm glad to see  
3   that phasing is starting to take effect. I mean, the idea  
4   and concept is coming along. I mean, that was -- it was a  
5   result of mailers asking for help of these large  
6   destabilizing rate increases that came over a period of  
7   time, looking for a technique. But that technique can  
8   always become a trick pony, a one-time event, unless there  
9   is a wholesale change of behavior that goes on and is more  
10   than just phasing.

11           You want to drive volume, then you have to have a  
12   behavior that goes out and sense that volume. You've got to  
13   be able to contract, lock it in, give incentives for people  
14   wanting to do more business with you. There is no reason to  
15   want to mail another million pieces with the Postal Service.  
16   For what? I mean, it's almost as if -- do you get anything  
17   for it? No. There's no -- you can't even wholesale the  
18   price of postage, which is not a bad concept to put out  
19   there. But, you ought to -- you ought to start thinking  
20   creatively of how to drive the marketplace.

21           Okay. That's a little passionate.

22           (Laughter.)

23           MR. POU: I don't mind. Thanks. Any other  
24   panelists want to weigh in?

25           MR. SEARSAL: Well, this is -- this is for Shelly.

1 I've worked with Shelly for a long time. Shelly, I it's a  
2 great idea, the nondenominational stamp. I don't know how  
3 it's going to work altogether. All I know is people, who  
4 lived around New York City, used to -- because I had phone  
5 calls when I was at the Commission -- you used to think, you  
6 know, you buy a whole slew of subway tokens, because even if  
7 the price went up, you still had a token to slug in. And  
8 that's exactly the idea and I think that makes some sense.

9 I think there's another thing. In that report  
10 that Shelly quoted, the transition -- transformation report  
11 with that appendix that showed 24 cents cost per dollar  
12 revenue for window service, if you bought stamps at the  
13 grocery store, it was six-tenths of a cent per dollar.

14 It's time, as we try to look at the citizen, I  
15 think -- the Postal Service is different -- David Stover  
16 wrote about this a long time ago -- very different from the  
17 point of view of some delivery companies; that you have the  
18 big mailer that pays a good deal of money, both first class  
19 and standard, and you, also, have the consumer, which other  
20 big transportation companies don't have the consumer, as a  
21 big huge customer and a big voice. So, you kind of have two  
22 different types.

23 I think it makes sense, if it costs a lot less, to  
24 have people buy at a grocery store, to buy at a 7-11, to buy  
25 out of an ATM, that you ought to give people a discount, to

1 try and get people to go there. It makes sense to try and -  
2 - Vince is right, shift the costs. If it costs 24 cents for  
3 me to go the post office to buy stamps, why don't you charge  
4 me 95 cents for the dollars worth of stamps, if I buy it at  
5 the grocery store. Try and get me, the consumer, to make  
6 that move, so you can get people out of the post office and  
7 going in that direction. And I think that that makes a good  
8 deal of sense.

9           The other thing is that with Marcus, who is not --  
10 who is gone, is I'm not sure -- it's pretty expensive to put  
11 stamps on a piece of mail versus having a permanent imprint.  
12 So, I'm not sure -- Vince, you can answer this, would Advil  
13 buy a whole slew of stamps before and put the -- put stamps  
14 on? Would that be cost effective? I guess it depends on  
15 how big the rate increase was.

16           MR. GIULIANO: No. If we got reasonable pricing,  
17 we'd buy a whole block of postage stamps in the next several  
18 years.

19           MR. SEARSAL: All right. Well, anyway, that's --  
20 so, Shelly, I think it's a great idea and something we  
21 should look at. And I think we ought to take it a step  
22 further, using that 24 cents and try to bring it down to the  
23 six-tenth of a cent.

24           MR. COSTAGE: Brant Costage. When the OCA was  
25 considering the non-denominated stamp, it was solely as a

1 matter of convenience for first class mailers. Then, we did  
2 recognize there might be a little money in it for the Postal  
3 Service. But, Marcus's idea sounds terrific and I don't  
4 think there would be any reason to restrict the future --  
5 you know, the current purchase of postage for future use to  
6 just first class stamps. If the Postal Service can get on  
7 that money early and use it for capital projects with a  
8 higher rate of return, we're all better off.

9 MR. COHEN: I just wanted to say, I spoke to a  
10 British postal official yesterday about these  
11 nondenominational stamps. He said, we'll they're great. He  
12 said, we don't have to top off our stamps. He said that  
13 we've been doing that for 10 years, since about 1992. And,  
14 recently, in France, they started the same program. And,  
15 further, he said that they're not available to commercial  
16 mailers, because you can't get any discounts if you use  
17 these stamps. So, the program is strictly for consumers.  
18 I'm Bob Cohen from the Postal Rate Commission.

19 (Laughter.)

20 MR. SMITH: If I could add on to my own idea. I  
21 didn't know I was going to be spoken by -- I would have  
22 gotten a cup of coffee. I'm shocked. I appreciate being so  
23 thought of. But, again, I was driving at the notion, very  
24 simply, of buying postage now against the next increase. If  
25 you bought a given number of units equal to at least the

1 current value, so that the Postal Service would then have an  
2 incentive that you could not use those units until after the  
3 next rate increase, the incentives switches over to the  
4 Postal Service to keep the next rate increase as low as  
5 possible, in which case, in the meantime, the Postal Service  
6 is getting use of that money effectively, at a rate of  
7 return that might very well be lower. I don't know what the  
8 current -- what percentage do you pay right now, Dick, on  
9 your money that you have, that you borrowed?

10 MR. SCHARFMAN: The last portfolio turnover, we  
11 got about 2.6 percent.

12 MR. SMITH: Well, if you could keep the next rate  
13 increase below 2.6 percent, you'd save money. If it's more  
14 than 2.6 percent, you'd lose money.

15 MR. THOMAS: It strikes me -- Joel Thomas,  
16 National Association of Pre-sort Mailers, again. It strike  
17 me that this notion of a nondenominational stamp almost  
18 presupposes somewhat limited rate increases at any one time.  
19 Otherwise, the day before, you could really have quite a  
20 rush on the Post Office, because the postage would be usable  
21 the next day at a highly discounted rate for a very short  
22 period of when it was held -- the additional revenue was  
23 held by the post office for a very short period of time.

24 The other question I have is, how would the post  
25 office account for this? Can it, in fact, recognize -- I

1 mean, there's a future liability inherent in these pre-  
2 purchased stamps, at this point. Is there any way to  
3 recognize that, so all of this money is not sort of  
4 forgotten about and then we come up on the next rate case  
5 and that money is gone, in some ways? So, I think that it  
6 would be interesting to know how you'd account for that.

7 MS. DREIFUSS: I would look at how the U.K. is  
8 handling that now. As Bob mentioned, they've been doing it  
9 for 10 years successfully. So, a country about the quarter  
10 size of the U.S. and if it's been successful for over 10  
11 years, I'm sure there are means of making that work.

12 MR. VOLNER: There must be, because the British  
13 have been doing it for decades. But on the second part of  
14 Joel's question, the fact of the matter is the Postal  
15 Service, right now, accounts for postage in the hands of the  
16 public. It's called PHOP. Now, it's always been  
17 suspiciously low in value and the interest is negligible,  
18 but there certainly would be ways of account for it.

19 MS. DREIFUSS: I think it's very interesting to  
20 have this discussion, but I wanted to go back to the other  
21 issue in front of us, which is phased rates, and ask a  
22 question that was based on a comment. Somebody mentioned  
23 that Canada Post has already announced its rate increases  
24 for January 2003 and 004. How is it doing that and is it  
25 doing that for all users or just the larger users? I'd like

1 more information.

2 MR. LORENZ: That's through the NSAs of Canada  
3 Post.

4 MR. POU: You have to go to the microphone.

5 MR. LORENZ: They're between three and seven  
6 percent. Anybody here from Canada Post? I don't think so.  
7 That's for all class of mail in the NSAs.

8 MR. POU: There seems to be a certain amount of  
9 speculation here and not a lot of authoritative data.

10 Well, we've heard an awful lot of suggestions for  
11 thinking outside the box and an awful lot of endorsement of  
12 predictable phased rates. Does anybody want to put any  
13 issues on the table, in terms of what those might mean, in  
14 terms of the next Omnibus ratemaking process?

15 MR. COUGHLIN: Yeah, I will. Mike Coughlin. This  
16 has been an interesting discussion, some interesting ideas.  
17 But, to get, I think, to the question you started to ask  
18 about 15 minutes ago, about where does this take us, in  
19 terms of the immediate ratemaking process, it seems to me it  
20 gets to questions, when you talk about phased rates, of  
21 what's the time horizon you're talking about.

22 Today, we talked generally about one year. It's  
23 at least no less than -- there are no more than two years  
24 out in the future. Are we talking about one year? Two  
25 years? Three years? That's one thing,



1           Can you distinguish, in that process, between the  
2 first class single piece mailer, the consumer, and the  
3 commercial mailer, and put them on different paths, under  
4 the current law? I'm not sure, but it's an issue that's got  
5 to be -- got to be addressed here.

6           What are the information requirements coming --  
7 that have to come from the Postal Service, to satisfy the  
8 Commission, in that kind of a situation, not just during the  
9 litigation of the case, itself, but during the actual time  
10 when the rates are in effect, if you're talking about longer  
11 than a one-year period?

12           And on the issue of incentives, it strikes me that  
13 if there is, for example, a three year phased rate cycle out  
14 there and there are known rates out there for the three  
15 years, say, for example, on January 1st of each year, and  
16 the adjustment process for the Postal Service is a very  
17 difficult one, it strikes me, then, that you've got the  
18 Postal Service locked in pretty much. And I don't think  
19 you're going to have the kind of incentive problem that I  
20 think Bob was talking about, because they're going to be  
21 forced to get their costs under control there.

22           MR. POU: I think the next panel is going to get  
23 into some of those issues.

24           MS. RUSH: Tunda Rush of the -- Association. The  
25 next panel may be addressing this; but, if not, I'd like to

1 put one question on the table about the phased rate process.  
2 I think as Howard said, the devil is in the details. And  
3 one of the questions would be, if there were a process for  
4 phased rates, where the Commission might authorize a revenue  
5 requirement over a period of time, and a phasing process  
6 were recommended or possibly settled, as we ran into in the  
7 last rate case among the parties, who would bind the  
8 Governors? How would the Governors' voice come into this  
9 process, so that at the end of it, whatever the parties  
10 agreed to or the Commission heard and recommended wouldn't  
11 be adjusted or changed by the Governors, at the end of the  
12 modification process?

13 Or, I think, a greater fear of some mailer groups  
14 is that the phasing would accelerated within the authorized  
15 revenue requirement and the time span to meet some more  
16 urgent financial need of the Postal Services.

17 And those are two, I think, of the devils that  
18 probably still live in these details and I'd like to hear  
19 some comment about that.

20 MR. POU: These are really good questions and I  
21 know that the next panel does plan to get into those. I  
22 don't know whether it will be in detail or not, but at some  
23 length, anyway.

24 Anybody else want to make a comment or pose a  
25 question to the panel, generally? If not, I'd like to see

1 if the panel has any questions for the audience or wants to  
2 follow up on any of these topics, in greater detail?

3 MS. DREIFUSS: I'd like to follow up on Tunda's  
4 question. OSA gave out some thought and we felt it would  
5 probably be best, if the Postal Service presented a -- if  
6 they do present a phased rate case to the Commission, one  
7 that actually set out the exact dates that rates would be  
8 increased and bind -- and the Governors would bind  
9 themselves to that schedule. It would have to be very clear  
10 that they would not accelerate. In fact, the Commission  
11 would approve those increases for those dates.

12 MR. POU: Okay. But the effect of this, in  
13 relation to the Board of Governors, is --

14 MS. DREIFUSS: Right. It's about as close a  
15 binding commitment as we were able to come up with.

16 MR. POU: Any panelists want to follow up on any  
17 of the discussion? Well, I propose to adjourn this panel  
18 and --

19 MR. SCHARFMAN: Charles, I just had one factual  
20 statement I wanted to make --

21 MR. POU: Sure.

22 MR. SCHARFMAN: -- less there be any confusion.  
23 The Postal Service's capital freeze is not and has not  
24 frozen any projects -- any capital projects that have return  
25 on investment. We have continued to finance those, as

1 rapidly as we can deploy any capital investment that has a  
2 return on investment. The only capital freeze that has  
3 occurred is in the arena of facilities and facilities is a  
4 very difficult area to get any return on investment. In  
5 fact, most of our delivery units are a requirement of our  
6 universal service requirement and the expansion of the  
7 delivery network, as fast as it grows, as you know. We have  
8 not frozen any capital investment or slowed any capital  
9 investment down, as a result of the freeze.

10 We have provided for the cash. We've been  
11 fortunate enough with the work hour reductions to have cash.  
12 As the Post Master General announced, we anticipate the  
13 deficit this year only being 1.5 billion. The other aspect  
14 of it is that, as all of you in this room know, we're going  
15 to be the beneficiaries of a rate increase on June 30th,  
16 which will provide the cash necessary to continue to finance  
17 capital investments that have large rates of return.

18 MR. POU: Thanks, Richard. I'd like to thank the  
19 first panel for setting the state for the remainder of the  
20 day's discussion. And I'd like to basically give you folks  
21 a 15 minute break now and ask you to come back at 10:45.  
22 And we will then move to panel two, which will take up some  
23 of the issues that were posed in the latter part of this  
24 discussion.

25 (Whereupon, a brief recess was taken.)

1           MR. BRIZZOTTO: If everybody could start taking  
2 their seats, we'll get going.

3           Okay, are we ready to get started with our second  
4 panel? Well, given some of the things that came up in the  
5 earlier panel, I look forward to an exciting discussion  
6 around this notion of predictability, particularly regarding  
7 phased rates.

8           A little disclaimer from the panel, our remarks  
9 are intended to provoke discussion from the audience, and we  
10 certainly hope that we do that.

11          I guess when you start with this notion of  
12 predictability, and you talk about how one serves the need  
13 for predictability, a lot of people have different opinions  
14 about what might be. I mean, some think that an annual rate  
15 increase is predictable.

16          You know, having cases on some sort of regular,  
17 set schedule would be predictable. Some promises not to  
18 raise rates before a particular period of time is a former  
19 predictability. But of course, all of those really involve  
20 the timing and not the magnitude of the increase; and I  
21 think the magnitude of the increase is as important, if not  
22 more important than the timing.

23          But more often than not, when one talks about the  
24 ways to deal with the predictability need, the issue of  
25 phasing come up.

1           Now that can mean many things to many people, and  
2   that's some of what we hope to discuss and delve into a  
3   little bit today. It could mean that all of the prices go  
4   up, the same set percentage every year, or whatever the  
5   period of the phasing might be.

6           It could mean that prices go up some pre-  
7   determined amount, but not necessarily the same percentage.  
8   It might mean that all prices go up, but not necessarily at  
9   the same time or at the same percentage.

10          There is a fair amount of discussion, some of  
11   which we heard earlier this morning, and we'll certainly  
12   hear again, around this notion about, if you're phasing  
13   rates, what are the triggers; or do there need to be  
14   triggers to move into the next set of phased rates as you  
15   go?

16          I, from a personal standpoint, might argue that  
17   once you build in triggers to move to the next phase, you no  
18   longer have predictability. I think that is worth some  
19   discussion.

20          So there are a lot of questions and, in some ways,  
21   a discussion around phased rates, at least at this  
22   particular time, is one that may raise more questions than  
23   answers. So you'll hear a lot of questions actually coming  
24   from the panel.

25          But, you know, let's go through some of the

1 questions, and then folks on the panel will help to address  
2 some of those.

3           One is, what is the test period under a phased  
4 rate scenario, and how would the Postal Service meet its  
5 statutory break-even requirement? Would we do that -- would  
6 we have to break even within each individual phase, or would  
7 the break even requirement apply over the entire span of the  
8 phased rate cycle?

9           How are rates designed for each phase? Do we  
10 design a full set of rates for each phase of the rates, or  
11 are the rates indexed in some way to maintain relationships,  
12 moving forward in the phasing? So there are a number of  
13 different ways that could be approached.

14           As I mentioned earlier, this notion of how one  
15 moves in between phases; is it simply automatic, or does  
16 there need to be some sort of triggers in order to do that?

17           From a very technical perspective, what rules need  
18 to be changed or waived, in order for the Postal Service to  
19 even file or the Commission to litigate a phased case?

20           How are things like classification changes  
21 handled? Right now, omnibus cases are the places where a  
22 fair amount of changes in work sharing discounts are  
23 introduced. How might we do that in a phased rate scenario?

24           And in fact, do all rates need to change on the  
25 same schedule; or should, in fact, the consumer rates, or

1 the more retail related rates, change on a different  
2 schedule from the commercial rates?

3 So those are just some of the things to start the  
4 discussion. I think we're going to lead off with Eon  
5 Volner, who has been thinking about the notion of phased  
6 rates for quite some time and, in fact, has written a couple  
7 of very thoughtful papers about the notion of phasing, and  
8 how the Postal Service and the mailing community might go  
9 about making that a reality.

10 So, Eon?

11 MR. VOLNER: I have been thinking about it longer  
12 than I'm willing to admit. And I'm going to do the classic  
13 lawyer cop-out. Anita has raised a series of interesting  
14 questions, none of which, in my judgment, are insoluble.

15 But from a legal perspective, we cannot compel the  
16 Postal Service to file a rate case, which means that the  
17 first step in the process is for the Postal Service to  
18 figure out what they want to do and to tell us; but not at a  
19 summit, or not in leaks, or on their otherwise unreadable  
20 website.

21 (Laughter.)

22 MR. BRIZZOTTO: Oh, I am personally insulted by  
23 that, Eon.

24 (Laughter.)

25 MR. VOLNER: Sorry, Anita -- we have a legal



1 assistant who, when she wants to find something on your  
2 website, goes through the Post.com website. That was not an  
3 advertisement for my firm.

4 (Laughter.)

5 MR. VOLNER: They've got to file a waiver with the  
6 Rate Commission. They've got to file a plan which  
7 identifies how they want to do it and answers many of the  
8 questions, or perhaps all of them, that we've been  
9 discussing this morning, and are obviously going to discuss  
10 for the rest of the day.

11 They've got to tell us how long an interval  
12 between increases; they've got to tell us what the test year  
13 is; they've got to tell us whether they want a single test  
14 year or multiple test years. And I have to tell you, on  
15 that subject, I know I wrote a letter about it. I've  
16 changed my mind.

17 I originally thought that there should be multiple  
18 test years. I think that's a bad plan. I think there  
19 should be a single test year, and it should be out some  
20 distance beyond what the current Rate Commission rule  
21 requires.

22 The Postal Service regularly seeks waivers from  
23 the Rate Commission, and the Rate Commission, by and large,  
24 grants them. The only difference between dealing with this  
25 issue, because of its novelty and its complexity, and what

1 normally happens, is the Postal Service normally files its  
2 waiver requests when it files all 250 tons of the case.

3           What I'm suggesting is that these issues can be  
4 vetted and resolved if, but only if, the Postal Service  
5 files its request for waiver, laying out the phasing plan,  
6 the triggers -- if there are to be triggers -- and the other  
7 issues on how they intend to deal with them in the filing.

8           But they've got to make that waiver request four,  
9 five, maybe six months before the case actually gets filed.  
10 That allows everybody in the room and beyond to see it, to  
11 understand it, to comment on it, and it allows the  
12 Commission what it critically needs -- the opportunity to  
13 see for itself that it will be able to perform its job, and  
14 grant waivers where it thinks waivers are appropriate,  
15 before the case is filed.

16           It also, not incidentally, provides the Postal  
17 Service with the benefit of knowing, in advance, whether  
18 this thing is going to fly.

19           If there is a critical issue, and the Commission  
20 comes back and says, no, we will not waive our rule, because  
21 of a misbegotten belief, in my judgment, that the rule is  
22 statutorily driven, we better know it before rather than  
23 during the case.

24           So to me, the core of this is for the Postal  
25 Service to pull together what it's learning from this

1 session, sit down, and file its waiver requests.

2           Now Jack Potter has said that rates will not  
3 increase earlier than calendar 2004. Given the lag time  
4 that the Postal Service has to put a case together, it seems  
5 to me that that waiver request should be forthcoming as soon  
6 as humanly possible.

7           There are a couple of issues, however, about the  
8 substantive process, none of which, do I regard as  
9 insuperable, that do bear discussion.

10           The first is the one that Tonda Rush raised. That  
11 is, does it bind? It has to bind the Governors, and it has  
12 to bind the Board of Governors, I mean, to be technically  
13 correct here, before the case is filed.

14           Now there's nothing in the statute that prevents  
15 the Governors from saying, on the day that they file the  
16 case, we are going to implement rates in the first phase,  
17 not less than 90 days after the decision from the  
18 Commission; and we are going to implement the second phase  
19 on a date certain. There's absolutely nothing in the  
20 statute that gets in the way of that.

21           There is this mystic that surrounds the Board of  
22 Governors, in which the Postal Service claims it can't speak  
23 for the Board of Governors, and the Board of Governors can't  
24 speak for itself.

25           I don't think that those are things that should

1 get in our way, because the thing we have to remember is  
2 that the last rate case settled based on some promises that  
3 Jack Potter made, that he has lived up to. But those were  
4 extraordinary circumstances. We're hopefully not going to  
5 be in extraordinary circumstances when this next rate case  
6 gets filed. It's got to bind. Tonda is absolutely right.

7           The question of triggers is a hard one in the  
8 sense that I think mailers would prefer not to have  
9 triggers. By a trigger, what we mean is, the second phase  
10 is on a date certain, unless certain conditions exist, and  
11 the Postal Service then decides they have to accelerate.

12           I think that that's something that needs to be  
13 talked about, and I hope we will hear from people about  
14 that, as we go through this today.

15           Dick Strasser's comment that their timing has  
16 always been bad is not surprising, because they increase  
17 rates as the economy declines. Maybe the solution is, no  
18 triggers. But that's an issue that has to be dealt with.

19           The other issues are econometric, and I'm going to  
20 turn them over to Rita in one second. But let me tick off  
21 some that have occurred to me.

22           (Laughter.)

23           MR. VOLNER: Shelley Dreyfuss has taken away, to  
24 me, what was one of the more difficult problems to deal  
25 with. That was her recognition that the whole cent image,

1 maybe its time has not only come and gone, but has long  
2 gone.

3 I've never understood why the American consumer  
4 can go to a grocery store, and understand that three apples  
5 are a dollar, but one apple is not 33.3 cents; but they  
6 can't go to a Post Office and figure the same thing out.

7 Shelley has said that maybe the time has come for  
8 the whole cent image to go away. I think it probably has,  
9 and I think that greatly solves a large part of the problem  
10 of how you structure the phasing.

11 There is another problem that has not been  
12 discussed. There are apparent cost fluctuations in some of  
13 the smaller classes, and they seem to bounce from year to  
14 year.

15 I think we need to look at it. My own feeling is  
16 that it's the problems with the sampling system, and not the  
17 cost fluctuations. But it's a question that has to be dealt  
18 with, because it involves some sensitive classes -- in  
19 county, in particular, non-profit ERC are just two examples  
20 of small classes where there are marked cost fluctuations  
21 from year to year.

22 The final problem is one that Rita and I have  
23 already casually discussed. That is, are we going to pay  
24 more? You bet your life we're going to end up paying more,  
25 over the long run, because the Postal Service essentially is

1 going to have to build into the case, in some way or  
2 another, the time value of the money that they are not  
3 getting from the one-time hit.

4 Now there are a lot of different things about  
5 that, not the least of which we are going to discuss this  
6 afternoon. If we can shorten the length of the rate case,  
7 that problem becomes a lot more manageable.

8 But the other thing that I think that the  
9 mailers -- and it's not the inside-the-Beltway crowd -- it's  
10 the mailers have to decide for themselves, am I better off  
11 allowing the Postal Service to invest my money at 2.6  
12 percent, or whatever it was that Dick told us, or am I  
13 better off holding my money at the rate that I am able to  
14 get on it, and pay slightly more, or to put it in the  
15 vernacular?

16 It's a question for Rita, really. Am I better  
17 off, in the long run, paying 13 percent for an increase that  
18 would otherwise have been 12 percent, but the 13 percent is  
19 spread over an interval of three years, perhaps; whereas,  
20 the 12 percent would have been paid all up front, at the end  
21 of the rate case?

22 To me, the answer, at least from what I'm told by  
23 my mailer clients, is perfectly obvious. But it's a  
24 question that has to be dealt with.

25 Rita?

1 MS. COHEN: Oh, thanks a lot, Eon. I'm supposed  
2 to deal with the economics.

3 I would say that while I think, as a general rule,  
4 the magazine publishers do support the notion of smaller,  
5 predictable rate increases, that that is not a unanimous  
6 viewpoint.

7 There are some among my membership who have  
8 suggested to me that they do prefer the longer timeframe for  
9 some of the same reasons about the net present value.

10 I'm not really going to try to give us solutions.  
11 I think our idea this morning is to raise some questions,  
12 and then promote discussion. So I'm going to talk about  
13 some of the issues that I see, if we were to try to move  
14 forward with the phased case.

15 One of the things that came up in the last rate  
16 case, when the first idea was that we might phase that, as  
17 well, was that the Postal Service needed most of the money  
18 up front.

19 So I think one of the questions is, we have in our  
20 mind that this would be kind of even increases. But if the  
21 Postal Service has a different concept in mind, where they  
22 get a lot of the money up front, and then there's a second  
23 or third phase that's smaller; I think we need to know that,  
24 going in.

25 I think it's now been mentioned twice, but it

1 certainly bears repeating, when you do have phased  
2 increases, and that becomes the baseline for the next  
3 increase, that will be a higher number. So there is,  
4 ultimately, an increase in what we are paying; and it, you  
5 know, kind of multiplies, as time goes on. That's called  
6 pounding, from Bob, for you.

7           This is just, I guess, maybe a cynical point of  
8 view, from having been in rate cases for a lot longer than  
9 I'd like to say. I worry a little bit about the perception.

10           When the Postal Service asks for a rate increase,  
11 I think there is some pressure on them to keep that number  
12 manageable; that you're not going to going to in and say,  
13 I'm asking for 25 percent, because there will be terrible  
14 push-back.

15           I think if you break it up, there is at least an  
16 argument that it would be easier for them to ultimately put  
17 a bigger number out there, because it wouldn't sound as big,  
18 broken up into the annual increases. I just think it's  
19 something we need to talk about.

20           In terms of, you know, we wanted it to be smaller  
21 and predictable, let's talk about predictable a little bit.  
22 What really is the length of the phasing?

23           I think a lot of the people who have been involved  
24 in the postal reform debate found one of the best parts of  
25 the proposals that were out there, the notion of rates that



1 were indexed to inflation; and they would be phased  
2 continuously. I mean, this would be, you knew what to  
3 expect.

4           If we're talking about phasing within the context  
5 of a rate case, does it give us enough predictability? What  
6 timeframe are we talking about?

7           If businesses do their planning over a five year  
8 cycle, I think it's sort of unlikely that we will get that  
9 much time in a phasing environment.

10           Certainly, Dick Strasser mentioned this morning,  
11 there is a tradeoff; the longer the timeframe, the less  
12 accuracy in the forecast.

13           That certainly brings us to the question of  
14 guarantees. If there is a financial deterioration, it seems  
15 to me, there could be two solutions. One would be filing a  
16 new case. The other would be acceleration of the phasing.

17           I think we would need to know, in advance, what  
18 that was going to be. Because I could envision a situation  
19 where you would get two rate increases going into place at  
20 the same time; one from the old case and one from a new  
21 case. That's not necessarily something we're looking  
22 forward to.

23           Eon also mentioned the issue of costing, and Anita  
24 also talked about the cost, and whether we would have one  
25 base year, or one test year, or multiple test years. Would

1 costs have to be covered during the entire phasing process,  
2 or just in the test year that was designated? For some  
3 classes that are close to that cut-off, it's an important  
4 question.

5 I think one other thing is the software issue, and  
6 it was brought up this morning, but maybe not as clearly as  
7 we need to think about it.

8 It seems to me, we don't want to have to do  
9 software over every year. So it would ideally be the case  
10 that the increases were built in, in the version that came  
11 out after a rate case was completed, with automatic kick-ups  
12 to the next level, at the next point of rate increase;  
13 rather than having to re-do software every year, because  
14 that would be a substantial burden for mailers to pay for  
15 the software, to implement it, and test it.

16 I think one of the questions I certainly want to  
17 know is, would the Postal Service propose, not only the  
18 amount of the increase, but the phasing schedule? Would the  
19 Commission be able to determine or evaluate whether they  
20 approved the amount, as well as the phasing? Might they  
21 change the phasing?

22 If the Governors were to modify the Commission's  
23 decision, would they change the total amount only, or would  
24 they change the phasing, as well? So I think that there are  
25 a lot of questions we need to resolve.

1           MR. COHEN: The subject of phasing has been  
2 discussed around the Rate Commission for years and years.  
3 In fact, Janet Steiger made a proposal called the two-by-  
4 four, back, oh, about 14 years ago, I think, concerning  
5 phasing, which grew out of discussions -- informal  
6 discussions at the Commission.

7           The two-by-four proposal was actually fleshed-out  
8 and written down in a report called the Postal Service Rate  
9 Commission Task Force Report, or something like that, which  
10 I believe was issued in 1992, where it was fleshed-out in  
11 all its details. Eon has also fleshed-out another phasing  
12 proposal.

13           So this is an old idea, and I'm glad to see that  
14 finally the Postal Service is really taking it very  
15 seriously.

16           Around the Commission, when we talk about phasing,  
17 a few issues come up all the time. The first question is,  
18 how long is it going to be: two years, three years, four  
19 years? When you talk about that, you worry about the  
20 reliability of the estimates. Everybody knows that the  
21 further out you make an estimate, the more inaccurate or  
22 more cause for error you have.

23           It could be that if you go out fours -- we have a  
24 hard time actually, if you think about the 2000 case,  
25 forecasting what's going to happen, just a few months in

1 advance of issuing the decision.

2           You can imagine issuing a decision now for what's  
3 going to happen in the year 2006. Your likelihood of  
4 scoring anything in the realm of actual costs would be  
5 small.

6           So what are we going to do about the inaccuracy  
7 inherent in the distant forecast? If you're very  
8 inaccurate, and if you don't have adjustment mechanisms,  
9 then the public, both the commercial and the retail public,  
10 will lose faith in the whole process of setting rates.

11           That brings up the issue of the contingency. Are  
12 you going to have a larger contingency, so that you can be  
13 reasonably certain that you'll break even in the distant  
14 years; because the further out you go, the more uncertainty?  
15 Contingency is supposed to allow for or eliminate the  
16 problems of uncertainty in the Postal Service's break even  
17 quest.

18           Then you have the problem of adjustment mechanisms  
19 or mid-course corrections. If you have one, then the  
20 question is, what is it based on? Is it going to be based  
21 on USPS labor costs, USPS total costs, Postal Service  
22 revenues, or is it going to be some exogenous variable like  
23 the CPI or the Employee Cost Index, the ECI. Those are  
24 questions that have to be asked.

25           And if it's not based on Postal costs, and it's

1 based on an external measure, how are you going to make sure  
2 the Postal Service is breaking even, with that kind of an  
3 adjustment mechanism?

4 Then you have the very important issue of work  
5 sharing discounts. Work sharing discounts have come to  
6 dominate many aspects of rate proceedings, and they are  
7 based on actual costs avoided, which are not necessarily  
8 tied to the CPI or the Postal Service's total cost  
9 structure.

10 So how are you going to make sure that the work  
11 sharing discounts stay in line with the costs avoided,  
12 rather than these other matters?

13 And if you don't have an adjustment mechanism, I  
14 guess you can give the Governors flexibility in setting the  
15 rates or the dates that the rates will be implemented.

16 But without that kind of flexibility, or without  
17 an adjustment mechanism, rates and costs will almost  
18 certainly get way out of sync. Then we either have the  
19 Postal Service earning large profits, or accruing large  
20 deficits.

21 Then I guess the final question is, what happens  
22 to an individual sub-class, which has a small markup, say,  
23 to start out, if its revenue, over time, really falls well  
24 below cost? Is there any system for making sure that class  
25 breaks even?

1           The Commission, by law, is supposed to see that  
2 the Postal Service not only breaks even, but that each sub-  
3 class covers its attributable cost, and makes a reasonable  
4 contribution to institutional costs.

5           So if it's setting rates way out into the future,  
6 is it going to have any assurance that that part of the  
7 statute is complied with? Then if it's not, what happens if  
8 a complaint is filed, is it going to throw all the rates  
9 into consideration, or just the rates for that little sub-  
10 class?

11           MS. BRIZZOTTO: So at that, we're going to turn it  
12 over to Charlie. We hope we've stimulated some thoughts and  
13 some opinions out there, and we look forward to the first  
14 person moving to the microphone.

15           MR. POU: Thanks, Anita; I have one or two issues  
16 there. I think one of two of you may have actually gotten  
17 away with making a comment in the last panel discussion  
18 without giving your name.

19           We're not going to let that happen again. So  
20 please make sure that you do identify yourself, so we can  
21 make sure that your remarks are attributed approximately.

22           MR. MCCLEAN: Bob McClean with the Mailers Council  
23 -- I wanted to mention something that was referenced at the  
24 earlier panel, and that is, the meetings that the Mailers  
25 Counsel has had recently with some of Anita's folks and

1 folks from finance, retail, and other departments concerning  
2 the setting of a standardized rate implementation period.

3           Because when you talk about triggers, I think we  
4 have to recognize that there are a certain number of things  
5 that have to occur before any rate change.

6           In this process, it was a valuable learning  
7 experience for me, and the best testimony I can think of for  
8 taking Postal managers and loaning them to people in the  
9 private sector mailers, so that you can sit for three months  
10 on the other side of the table, and see what life is like.

11           Because I learned a lot, and I know that, Anita,  
12 your managers learned a lot; and what we found was, we're  
13 both struggling with the same issues.

14           But the higher up the food chain we go with the  
15 Postal Service, the more convinced the VPs and the SPVs are  
16 that when the mailers say, we have to have more time for a  
17 rate increase, they start rolling they eyes. They don't  
18 hide their disgust or disdain for what we're saying.  
19 They're convinced that we're just playing for time.

20           But what we found is, and Rita referenced it  
21 briefly also, there are software changes, there are many  
22 changes, there are many steps that have to happen in steps  
23 that cannot overlap. The software people have to do  
24 something before Reader's Digest can do the next thing,  
25 before Time can do something else.

1           It was a really wonderful, educational process.  
2   So whenever we talk about the triggers, that's one of the  
3   reasons why we, the Mailers Council, have been lobbying for  
4   a 90 day minimum rate implementation period.

5           Many Postal managers think that if it's a re-  
6   class, they say, well, that's different. What's so hard  
7   about a rate change? I mean, it's just a few keystrokes,  
8   isn't it, on the computer? I mean, how hard is it to change  
9   computer codes?

10          They don't understand the procurement that has to  
11   go in; how many chips John Campo's company has to buy; how  
12   much work Scott's people have to do; the programmers, the  
13   training, the bodies, the steps that have to go into any  
14   kind of a rate increase.

15          The most important point to stress, I think, is  
16   that it doesn't matter if it's this big or this big. Any  
17   change at all, domestic or international, has an enormous  
18   ripple effect.

19          So when you start talking about the triggers, my  
20   point is, let's remember that a lot of things have to  
21   happen. They cannot overlap. We have to do certain things  
22   that are consecutive, not anything that can overlap. It's  
23   becoming more complicated; not less complicated.

24          I know that sounds counter-intuitive to say, with  
25   computers, this should becoming more complicated. But



1 that's one of the other things that we learned in the  
2 meetings with the Postal Service, that there are now more  
3 steps that have to occur.

4           So remember that we have to have time. We're not  
5 just trying to push out the inevitable; and anybody who  
6 wants more details, I'd be glad to give it to you later.

7           MR. WARDEN: Herb Warden, American Bankers  
8 Association -- with the concept of phased rates, or anything  
9 else which is intended to actually put to greater use the  
10 crystal ball at the Rate Commission, the Postal Service, and  
11 intervenors, to figure out what's going to happen in the  
12 future, I think we see a greatly increased need for better  
13 forecasting.

14           The last two rate cases have shown what happens  
15 when things don't go according to forecasts. The Postal  
16 Service needs to work on it, the Rate Commission, and  
17 everyone else.

18           But what I'd like to point out is, several of the  
19 people who are present here today, some of these entities,  
20 have submitted suggestions for things to be considered, like  
21 early submission of data, I believe, various types of  
22 financial transparency, a lot of things.

23           Eon mentioned the point of perhaps the samples are  
24 too small in some class or sub-classes, et cetera. But  
25 there's a lot of things like that, that have been suggested,

1 that would, I think, be necessary, and would greatly aid any  
2 process involving phase rates. Thank you.

3 MR. SMITH: Hi, I'm Marcus Smith, Postal World. I  
4 actually had a question for the entire panel -- whoever  
5 would care to comment on it. It's the paradox of phased  
6 rates and triggers.

7 It sounds to me like a trigger situation reduces  
8 the incentive to the Postal Service to maintain a fixed  
9 phasing schedule.

10 On the one hand, you need to have a fairness for  
11 the special situation where cost may suddenly jump up; but  
12 on the other hand, to have a built-in trigger that  
13 automatically goes off, without some form of gatekeeper,  
14 reduces the incentive for keeping costs down.

15 So has there been any thought about how to balance  
16 those two opposing forces?

17 MR. VOLNER: The answer is, yes, and Bob Cohen  
18 kind of alluded to it. You can do triggers, if you do  
19 triggers at all, in one of two ways. You can do it based  
20 upon Postal Service internal costs; or you can base it on  
21 external consideration: the rate of inflation or other  
22 factors such as that volume or the overall state of the  
23 economy, and there are external considerations.

24 But you do need to consider whether you want to do  
25 triggers at all, in view of what Dick Strasser said this

1 morning. Because the problem with the trigger is not that  
2 the Postal Service has a perverse incentive to accelerate  
3 the rate increase, other than their normal incentive to take  
4 as much money as they can, as early as they can.

5           The problem with the trigger is that if the Postal  
6 Service, as we've now learned, is really subject to the  
7 general laws of the economy, using an external factor might  
8 produce a rate increase, as Dick put it -- and I was struck  
9 by it; I hadn't really thought about the timing of rate  
10 increases over time, over the 30 years -- at the worst  
11 possible time for such a rate increase.

12           So maybe you've got to build in some other  
13 considerations. Where do they stand in terms of their  
14 borrowing? Can they help the economy and help the mailing  
15 economy, in particular, get through a bad time, if the  
16 trigger goes off, or would otherwise go off?

17           There are lots of different ways of deal with a  
18 trigger. I will tell you that, based upon my conversations  
19 with mailers, they would prefer not to have a trigger.

20           I also would like to just briefly refer to Bob  
21 Cohen's comment about the uncertainty. There are two  
22 illusions under which we operate. It is absolutely true  
23 that the further out you attempt to forecast, the less  
24 accurate you are going to be.

25           It does raise issues with respect to the

1 contingency reserve, and the contingency has always carried  
2 with it, although never explicitly as in other regulated  
3 industries, a time value of money to the Postal Service. We  
4 can deal with shortening those problems this afternoon.

5 But to pretend that we have certainty now, and  
6 that adding two years to the test year is going to make it  
7 more certain, is an illusion. If that becomes an issue,  
8 this thing is going to founder.

9 We've got to accept the reality that we are  
10 dealing with a forward-looking test year; that it is  
11 forecast; that there is going to be error; and that there  
12 are mechanisms in the statute to address serious errors,  
13 should they occur. The most obvious one is the one that Bob  
14 referred to, the 3662 complaint process.

15 MR. COHEN: Are you saying that you don't think  
16 that the forecast area gets larger, the further out you go  
17 in time?

18 MR. VOLNER: I do, and that's part of the reason I  
19 said that we're going to pay more. We're going to pay more,  
20 because they are going to pack some of that uncertainty into  
21 the contingency; and they're going to pack, and I hope they  
22 would do it explicitly. Whoever made the comment about  
23 transparency is absolutely right. They are going to pack  
24 their perception of the time value of money to them into it.

25 But that's when I go back to the beginning.

1 Postal Service, you've got to tell us what it is you've got  
2 in mind. I hope you find all this discussion interesting.  
3 But ultimately, you guys are the ones who file the rate  
4 cases. We can't, and the Commission cannot start one on its  
5 own.

6 MR. DREIFUSS: I'm Shelly Dreifuss from the OCA.  
7 I want to endorse Eon's idea that if a phase rate case is  
8 really likely, that we deal with all of these complex and  
9 devilish issues beforehand.

10 I think it would probably be best to handle it in  
11 a rulemaking proceeding; a set of rules that go into effect  
12 for a phased rate case, at least to minimize the questions  
13 that would arise during the case. Because, of course, the  
14 Commission is faced with a 10 month deadline. The clock  
15 will start running, once the Postal Service submits that  
16 case. So let's get these details worked out and ironed out  
17 beforehand.

18 The other thing I would like to add is, if we are  
19 talking about a phased omnibus rate case, the next one  
20 coming up, I really think it's important to keep out any  
21 extraneous issues in this next case.

22 Let's keep out any new classifications, any new  
23 and complicating costing methodologies. There should be  
24 individual classification cases to deal with any  
25 classification changes the Postal Service is considering.

1           If the Postal Service is now working on any  
2 complicated new methodologies -- not limited to costs; I  
3 mean, there can be other kinds of complications, as well --  
4 that those all have to be brought out beforehand.

5           MR. VOLNER: With one caveat, I absolutely agree  
6 with what Shelley said.

7           I have developed a positive aversion to  
8 rulemaking. There are two problems with rulemakings. The  
9 first is, you have to really know in advance everything you  
10 are going to need to know, and that's almost impossible.

11           The advantage of a waiver approach is, we have a  
12 set of rules. We've been doing these cases for 30 years.  
13 We know what the rules say. You can figure out which ones  
14 are in the way and which ones are not. It's a much more  
15 fluid situation and it permits solidity.

16           I think Shelly's comment about, let's try not to  
17 get -- we were told that the 2001 rate case was going to be  
18 a plain vanilla rate case. Had that been true, it would  
19 have been the first one in history and it wasn't true.

20           MR. STRAUSS: I'm David Strauss, America Business  
21 Media. The assumption, I think, thus far on the phased  
22 increase has been that somehow the Postal Service's increase  
23 in year one would be less than might otherwise be justified;  
24 but that the average over, say, three years, would equal  
25 what it needed.

1           For example, if in the next case, they really need  
2   ten percent, we'd see five percent, and then ten percent,  
3   and then fifteen percent over three years, so it would  
4   average ten.

5           Of course, that would leave them behind, because  
6   the second and third years would be greater, or the  
7   increases wouldn't be enough to cover cost increases in the  
8   second and third years. People have said there could be a  
9   very big increase by the end of the three year phasing.

10          The question for the panel is whether you think it  
11   would be legal or practical or make sense to have --  
12   especially now that we're always in a catch-up phase and  
13   we're not into a phasing system -- to have the increase in  
14   the first year be the break even increase for that first  
15   year, with a series of automatic CPI-type increases for a  
16   couple of years thereafter, which would give some  
17   predictability, and probably extend the time until the next  
18   big increase hit. It wouldn't end big increases, but it  
19   would space them out even further.

20          The other point is that Rita said that people  
21   would be concerned. I think our membership probably  
22   supports phased increases, but there are some members who  
23   think that a phased increase will simply allow the Postal  
24   Service to spend more. It won't have the discipline of  
25   giving them an increase and making them live with it for as

1 long as they possibly can.

2           There was an Administrative Law Judge at the  
3 Federal Energy Regulatory Commission, several years ago, who  
4 said that the purpose of rate regulation is to give the  
5 utility just enough money to allow it to crawl back in for  
6 its next increase.

7           (Laughter.)

8           MR. STRAUSS: Giving somebody a series of annual  
9 increases probably prevents that kind of crawling.

10          MR. VOLNER: Bob, what do you think?

11          MR. COHEN: Well, I wanted to just comment on your  
12 reply to Shelly. Shelly was talking about rulemaking in  
13 advance.

14          The same would go, I think, if you wanted to  
15 handle this via a waiver request, that the waiver take place  
16 in advance of the case. Otherwise, the Commission is faced  
17 with sort of a fait de compli. If the Postal Service came  
18 forward with a whole complex waiver, when it filed the rate,  
19 and the 10 month clock was ticking, there wouldn't be lots  
20 of ways to modify that waiver request.

21          But if it happened a couple months or several  
22 months in advance, then the parties could have a real shot  
23 at making changes and so forth.

24          MR. VOLNER: Anita, can I respond to David  
25 Strauss' point?



1 MS. BRIZZOTTO: Certainly.

2 MR. VOLNER: David, we see it differently. I  
3 don't know. Maybe your approach is viable; I hadn't thought  
4 of it.

5 What we see is, instead of a break even in the  
6 first year, at the first step, that the break even would  
7 occur at the last step.

8 So you're not trying to adjust for -- I mean,  
9 historically, the process has been, in theory, Postal  
10 Service makes money in the first year, breaks even in the  
11 second, and loses in the third year what it made it in the  
12 first year, to come out over time at an equilibrium.

13 The reality is, the Postal Service makes too much  
14 money in the first year, never makes money in the second  
15 year, and then loses even more in the third year. So we end  
16 up with prior year losses that just don't ever seem to go  
17 away.

18 What we saw in developing our thought was, start  
19 at the end of the test year. If they need 18 percent, four  
20 year from now, back that down, and essentially, just work  
21 backwards from the end gain, so that they would achieve  
22 break even, in theory -- but it's always in theory, anyway -  
23 - in the ultimate test year and not in the intermediate  
24 years.

25 There's nothing in the statute, as John Burzieu

1 has pointed out more times than I care to remember, that  
2 says they have to break even every year; much less that they  
3 have to break even every week. So it seems to me that this  
4 break even problem s another red herring.

5 MR. STRAUSS: Well, you really would have to break  
6 even, over the three year period, not in the third year.

7 MR. VOLNER: No, you would have to break even in  
8 the third year, the way we see it. Now maybe I'm --

9 MR. STRAUSS: Even if you lost money or made money  
10 in the first two years?

11 MR. VOLNER: That's the policy.

12 MR. STRAUSS: I mean, over time, you would have to  
13 break even --

14 MR. VOLNER: Well, now the Postal Service --

15 MR. STRAUSS: -- every three years. I mean, over  
16 time, you would have to break even.

17 MR. VOLNER: Well, the Postal Service owes \$15  
18 billion, or whatever it was, that they piled up in the years  
19 between 1990 and 1995, and I literally don't see it that  
20 way. But it's something that needs to be worked through.

21 MS. CALVER: Linda Calver, LCK Associates -- I've  
22 been a consultant in a number of rate cases. Two concepts  
23 that I haven't heard this morning are incentives and  
24 transparency.

25 I know that it's very common in many, many

1 jurisdictions to regulate rates, and also streamlining is  
2 another concept, by having the one rate case, and then  
3 escalating the rates by the Consumer Price Index, or some  
4 other similar index, with an discount for incentives for  
5 productivity. I'm proposing that that might be proposed in  
6 Postal ratemaking.

7           The usual drawback to incentive ratemaking is that  
8 you don't know the basis for the escalation. You've got  
9 market baskets of different kinds of rates. But they may  
10 not have been examined carefully enough.

11           One advantage of an omnibus rate case is that the  
12 costs are very closely scrutinized, and the allocation of  
13 costs to sub-classes. Therefore, the basis for escalation,  
14 assuming that this occurred for a few years between omnibus  
15 rate cases and not indefinitely, seems to me to provide a  
16 good mix of the two types of ratemaking. That's my  
17 suggestion.

18           MR. GLEIMAN: Ed Gleiman, and I won't identify  
19 myself, other than as EJG Consulting, in the interest of not  
20 embarrassing anybody I do work for. Although after I say  
21 what I'm going to say, I might not have any more clients.

22           Having sat here and listened a little bit, and  
23 having been a long-time advocate of phased rates without, I  
24 must admit, fully understanding all the complexities, the  
25 question arises in my mind as to whether we really need

1   phased rates.

2               Bob talked, and had an exchange with Eon, about  
3   what happens with projections, as you get further out in  
4   years. Shelly made a suggestion which, if I were going to  
5   be here this afternoon, I would lay on the table, but  
6   someone else will do it for me. That is, how do you go  
7   about simplifying omnibus rate cases, for example, excluding  
8   methodologies and classification changes?

9               If you can really get towards Eon's plain vanilla,  
10   and if the Postal Service is serious about transparency,  
11   sharing more information up front, maybe having technical  
12   conferences before rate cases are filed, so that people can  
13   understand information -- maybe you can actually reduce the  
14   time for the Postal Service to prepare for omnibus rate  
15   cases, and perhaps take a big chunk out of the time that it  
16   currently takes to litigate omnibus rate changes, and do  
17   omnibus rate cases every two years.

18              That gives a modicum of predictability. I see  
19   someone rolling their eyes and falling back in their chair,  
20   and I have the utmost respect for that individual.

21              (Laughter.)

22              MR. GLEIMAN: But inasmuch as the purpose here is,  
23   I thought, to throw some ideas out on the table, and not  
24   railroad an issue, necessarily, I thought that I would just  
25   throw that one out.

1           If you're talking about a phased rate case that's  
2 three years in duration, it's not altogether clear to me, if  
3 you could really simplify the omnibus rate case procedure.

4           What you would gain from a three year phased rate  
5 case, that you wouldn't also gain from doing an omnibus rate  
6 case, that was very simple in nature, every two years.  
7 Certainly, the business predictability is there.

8           I'm not sure what you gain in that third year of a  
9 phased rate case, given the idea of having to necessarily  
10 meet the break even in the third year, and then back out of  
11 that. That's just a thought that I wanted to share with you  
12 all.

13           MR. VOLNER: Take a look at what has happened  
14 over, what is it now, eight years that we've had it. It  
15 started out with their version of a two-by-four, except it  
16 was one and-a-quarter.

17           There were no hearings. The Commission, the FCC,  
18 got so confused, and the consumer in this case -- we're  
19 dealing overwhelmingly with consumers; not commercial  
20 mailers -- were going crazy because of the quarterly true-  
21 ups, which is the theory of the two-by-four.

22           Every time they true-up'ed the rates would go up  
23 and people were complaining, and the local consumer  
24 protection groups were complaining.

25           So the Commission finally came up with a scheme

1 which say, well, you don't really have to true-up. If you  
2 make too much money, you've got to kind of hold your rates  
3 they are now. You're supposed to adjust them downward.  
4 We'll let inflation catch up.

5 And if you're losing money, and you really,  
6 really, really have to make it up, then do it annually, but  
7 don't do it more than annually.

8 The point that Vince and that Jack Potter made  
9 this morning is not trivial. Two-by-fours don't work,  
10 because they give you a modicum of predictability. They  
11 don't give you predictability, the way these guys are  
12 thinking about it, and they don't make manageable rate  
13 increases.

14 If you've got a 15 percent increase coming in  
15 January of 2004, I'd rather have, or at least I think my  
16 clients would rather have, three five percent increases  
17 coming in 2004, 2006 and-a-half, before the mailing season  
18 and in 2008. I don't think that variations on the two-by-  
19 four work.

20 MS. COHEN: I was also going to add, I mean, I  
21 think that one of the key concepts that we have to keep in  
22 mind is that we do want the increases to be manageable, and  
23 that we want to know when they're going to occur.

24 I think if you start having more and more cases  
25 coming in, you really lose that, because you only know that

1 there's going to be a case; you really don't know what kind  
2 of an increase you're going to be facing, and that's really  
3 one of the key things you need for planning.

4 MR. COHEN: I'll just say a kind word for the two-  
5 by-four, and that is it would be a better system than a  
6 three year system, for keeping the rates aligned with costs.

7 The second thing is, while it involves, I guess,  
8 50 percent more rate cases than the three year case or a  
9 third more rate cases than the three year case, the second  
10 case in the two-by-four could be a fairly simple one, where  
11 you just look at a couple of measures of Postal Service  
12 finances.

13 I'm not advocating it. I'm just saying that it is  
14 an alternative which is viable, as compared to the three  
15 year or four year cycle case.

16 MR. VOLNER: If I could just clarify, because I'm  
17 not leaving because somebody disagreed with me, but I have  
18 another commitment that I have to make --

19 (Laughter.)

20 MR. VOLNER: -- I might have done that in the  
21 past, but no longer. In any event, I hope you didn't think  
22 I was talking about the 1992 proposal for a two-by-four. I  
23 was talking about cases every other year, and I understand  
24 the need for predictability.

25 All I'm suggesting to you is that as we work our

1 way through the issues associated with phasing and talking  
2 about three year phased rate cases, that we keep an open  
3 mind about some of the pros and cons, we can really simplify  
4 and make much easier the current omnibus rate proceeding.

5 I don't know, in the final analysis, and I'm  
6 sorry, I can't stay and listen to the rest of the  
7 discussion, but I might flip the other way, later on today.  
8 But I do think you ought to keep an open mind, given the  
9 pros and cons, and the potential downside of adding a third  
10 year in a phasing situation, and what that really gives you,  
11 in the way of predictability.

12 I understand the time value of money, also. But I  
13 thank you for considering the thoughts.

14 MR. STRAUSS: Ian, and this is David Strauss, I  
15 think you were comparing apples and something else.

16 If the Postal Service needs 15 percent in the  
17 first year, and you give them five percent in the first  
18 year, another five percent in the second year, and another  
19 five percent in the third year, they'll lose \$6 billion in  
20 year one, putting them over the debt ceiling.

21 They'll probably lose another \$6 billion or \$7  
22 billion in year two, and probably lose another \$6 billion or  
23 \$7 billion in year three, because their 15 percent cost  
24 increase is in year one, not in year three.

25 To produce the dollars they need to match costs,



1 assuming they could justify a 15 percent increase in year  
2 one, if you wanted a five percent increase in year one,  
3 you'd have to have 15 in year two, and 20 percent in year  
4 three; and you still wouldn't catch up, because you wouldn't  
5 take care of the year two and year three inflation.

6 MR. VOLNER: Well, I think it's really a question  
7 for the economists. But to me, if you work back from a test  
8 year that is far enough out, it solves itself.

9 MR. STRAUSS: I don't disagree with that. But if  
10 you were comparing a 15 percent increase in year one, and  
11 prefer five percent in year one, five percent in year two,  
12 and five percent in year three, everyone except the Postal  
13 Service would prefer that, because it produces billions of  
14 dollars of less money.

15 We need to understand that a three year phase-in  
16 isn't going to save us a penny. It's just going to collect  
17 the dollars in a different way.

18 MR. VOLNER: That is absolutely correct. That's  
19 absolutely correct. It's not going to save us a penny in  
20 the long run.

21 MR. COSTAGE: Brant Costage, OCA -- first, I'd  
22 like to thank Eon for the comments that he submitted in  
23 advance. I think they were the most comprehensive of any,  
24 even more comprehensive than the OCA's. Second, I'd like to  
25 express my puzzlement that I find myself agreeing with most

1 of what Eon says.

2 MR. VOLNER: Oh, dear; that shouldn't be.

3 (Laughter.)

4 MR. COSTAGE: But first, on triggers, I think, you  
5 know, Eon has expressed a preference for no triggers, and I  
6 would have to express the same preference. Triggers remove  
7 the very predictability that phased rates are supposedly  
8 being implemented for.

9 Second, if you have triggers, then there's all  
10 sorts of opportunities or temptations to gain the whole  
11 system; first, in creating the trigger, and second, in  
12 pulling it.

13 So really, I think we have to have -- if we are  
14 going to have phasing, we have to have a rigid, known-in-  
15 advance schedule, with no triggers, no updates, nothing. It  
16 just has to be the schedule, and that's it. If things go so  
17 bad that the Postal Service has to file a new rate case,  
18 then that's what happens.

19 As far as the test year goes, you know, the OCA's  
20 position is that we really ought to have rules for that.  
21 Eon's position is, the fewer rulemakings, the better.

22 If one wants to go for a minimalist approach, the  
23 OCA, in its written comments, suggested that we could keep  
24 the test year as we have it, and simply add one more line  
25 item to the test year balance sheet, that says, adjustment

1 for phasing.

2           That's a matter of form over substance, I think,  
3 because you still have to do all that complicated work of  
4 figuring out just what the financial consequences of  
5 phasing, all the way out, are; and then bringing them  
6 forward, or back -- I don't know which that is -- bringing  
7 them into the test year, in present value form.

8           But that, at least, eliminates a lot of the work  
9 of rulemaking. It's just a matter of doing the technical  
10 work, and bringing it into the test year, as we currently  
11 have it.

12           Another issue that had come up was the phasing for  
13 work-share discounts. I don't see where the problem is. If  
14 there's a change in the discounts during the rate case, then  
15 they're phased in, just like everything else.

16           That's another point that I think needs to be hit  
17 really hard; that the percentage increases have to be the  
18 same for everybody, and they have to be implemented at the  
19 same time; again, if you allow for flexibility in those  
20 areas, create temptations for all sorts of lobbying or other  
21 attempts to gain the system.

22           MR. POU: Panelists?

23           MR. SMITH: I just have a question that really was  
24 a concern, when you were talking about a plain vanilla case.

25           There's a very important process that the Postal

1 Service is going through right now, called Project Design.  
2 It's already, by my calculation anyway, unless I'm mistaken,  
3 been pushed back by a year, by the next rate case, which  
4 probably would be filed next year, for implementation in  
5 2004. Now if that becomes the phased case, and you want a  
6 vanilla, what then happens to Product Redesign?

7 I remember, just as food for thought here, years  
8 ago, pushing almost 15 years at this point, the Postal  
9 Service came up with, for lack of a better way of describing  
10 it, a grid, internally, that I got my hands on, that  
11 described the perfect mail piece; in other words, the least  
12 cost mail piece. At that time, it was a first-class one  
13 ounce envelope, with a bar code and those other "doo-dads."

14 Instead of discussing whether it's a plain vanilla  
15 or not, why not simply discuss what the Postal Service's  
16 current technology is, and is likely to be over the next  
17 several years, which hopefully will be at least a little bit  
18 more predictable than the economy; and then figure out what  
19 is the least cost piece, and then figure out what proportion  
20 all other pieces then become -- in other words, base rates  
21 on a Postal unit.

22 This would allow you to have both your plain  
23 vanilla case, and Product Redesign, without interfering with  
24 each other. At least, I'm trying to find out if that would  
25 work.

1 MR. COHEN: I just don't know.

2 One of the underlying features of a product  
3 redesign case, it is revenue neutral between sub-classes.  
4 So I don't know if you have to go to the extent that you're  
5 talking about of simply putting out the base rate, and let  
6 all the other rates be calculated later by Product Redesign.

7 I think if you just hold to the principle of  
8 revenue neutrality, you can rearrange all the rates a second  
9 time, under Product Redesign.

10 MR. VOLNER: The problem with things like problem  
11 re-design and, in fact, the whole process by which after a  
12 rate case is decided, the Postal Service announces it's  
13 implementing rules, which either make things very different  
14 than you thought they were, or make things that you thought  
15 possible, impossible.

16 Not all the things that the Postal Service is  
17 talking about in Product Redesign have the unqualified  
18 support of the people who are going to be subject to them.  
19 What you're trying to do, given the complexity of doing  
20 phasing, is to keep classification issues out of the case.

21 There is nothing, however, to prevent, if we  
22 succeed, as I believe we should, in accelerating the next  
23 rate case through this afternoon's discussion. There's  
24 nothing to prevent the Postal Service from coming forward  
25 with Product Redesign and a revenue neutral basis, just as

1 soon as that case is concluded.

2           It may result in changes within classes, which is,  
3 in some sense, inconsistent with predictability. But to  
4 the extent that it results in changes in classes that reduce  
5 rates for more less costly kinds of mail, all to the better.  
6 I mean, those are the sorts of realities -- I mean, we can't  
7 lock them in forever to the current classification schedule.

8           MR. BAKER: Bill Baker, private lawyer -- if you  
9 have phased rates with a trigger, then the only thing that's  
10 predictable is the timing and not the amount.

11           Under the statute we currently operate, the Postal  
12 Service -- you know, the statute we are currently operating  
13 under doesn't really talk about rate increases being  
14 predictable. But it does talk about rates covering costs,  
15 which leads me to the question of costs, and I would be  
16 interested in any thoughts on this action.

17           If the costs to the Postal Service is negotiated  
18 in the Union contracts, and actually ultimately decided,  
19 when they can't agree, by the Arbitrator, are larger than  
20 assumed by the Postal Service when they make the filing, is  
21 that increase of the cost above the estimate going to be  
22 subject to a trigger.

23           MR. VOLNER: They are not.

24           MR. BAKER: Why not; because if it is, your rates  
25 are not predictable. If it is not, then the Postal Service

1 may have financial hardship.

2 MR. VOLNER: If you use an external trigger or you  
3 use no trigger, the answer is that that would not be a  
4 defining event.

5 MR. BAKER: Well, is it external or internal? If  
6 an Arbitrator decides, it, you know --

7 MR. VOLNER: No, no, no, no, no.

8 (Laughter.)

9 MR. BAKER: No, that's not quite what I meant by  
10 external. It uses, to use Bob Cohen's, I think, more  
11 applicable expression, exogenous factors, the CPI and so  
12 forth.

13 But the short answer is that unlike some utility  
14 systems, they can pancake rate cases, which they've never  
15 done, for reasons that have always mystified me. Second,  
16 there are complaint mechanisms.

17 Both of those provide guard bands for the kinds of  
18 problems, both for the Postal Service and for the mailing  
19 community. I mean, 3652 was not written in the abstract.  
20 It was a recognition that between rate cases, something  
21 might go wrong.

22 You can't guarantee predictability, but you can  
23 make a lot better effort than we have done to date, to get  
24 there.

25 MS. RUSH: Tondra Rush, National Newspaper

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1 Association -- this is the last panel, I think, where we had  
2 this economist, -- on our panel, and I want to see what both  
3 Rita and Bob have got to say about this looming question  
4 about the contingency.

5 I mean, if it's true that you're going to try to  
6 get a test year that's further out, and then you've got to  
7 adapt to the unpredictability of it, by increasing the size  
8 of the contingency request, how should it be dealt with in a  
9 cost-based rate system?

10 I think we came upon that a little bit in 2000.  
11 The unknowable questions out of that, I think, confounded a  
12 great many of us, when the Postal Service would say -- well,  
13 we'd say, what do you need it for? We don't know. What are  
14 you going to spend it on? Well, we don't know that, either.  
15 Well, what do you think is driving the need for it? Well,  
16 we knew it wouldn't be a contingency fee.

17 And it gets to the point where it's half of the  
18 revenue requirement. You're going out five years or six  
19 years for a test year at this point, for maybe a three or  
20 four year phased rate. Will you even have cost-based rates  
21 at that point, and how do you deal with that?

22 MR. COHEN: Well, I'm the one that raised the  
23 question, and I don't know how to deal with that. But it is  
24 an underlying problem for dealing with the uncertainty of  
25 distant test years.



1           The statute has built-in bias that the Postal  
2 Service break even, and the Commission is charged with  
3 providing rates that allow the Postal Service to break even.  
4 So this is a very important problem, from the Commission's  
5 standpoint, but I don't know how to solve it, as you get  
6 further and further out, in forecasting cost and revenues.

7           MS. COHEN: I certainly wouldn't want to see a  
8 larger contingency. I think, if anything, we really feel  
9 that the direction should be the opposite.

10           I think, you know, we have talked about the fact  
11 that you can have pancaked cases, as he said. I mean, it  
12 could be argued, you should have no contingency. You should  
13 just go forward, and then if there is a need for another  
14 case, you file another case.

15           MR. SEARSEL: Hi, it's Jerry Searsel with Direct  
16 Marketing Association. First, I wanted to back what Eon  
17 said, from the point of view of no triggers. That just  
18 destroys any type of predictability, which is one of the  
19 things that you're looking at in phased rates.

20           The other thing is that, as mailers, we're  
21 certain, if you had rates increase on January 1st, 2003, and  
22 with three year phasing, we know that with phased rates,  
23 that on December 31st, 2006, that our rates would be higher  
24 under phased rates than they would be if we had the normal  
25 rate case that lasted for three years.

1           That's one of the things that raises the big deal  
2 for me, on looking at phased rates. They don't work if  
3 Postal Service costs are out of control.

4           If you cannot keep costs within inflation or very  
5 close to inflation, you're going to get a situation where  
6 we're very worried about what happens here and there, and  
7 any phased rate is going to have a huge increase in the  
8 beginning, to then have other phases, or else have the  
9 increase in the third year be huge, in order to give a break  
10 even for the Postal Service.

11           So I think one of the things that we have to look  
12 at here is to make sure that we keep in mind that the Postal  
13 Service isn't going to survive, if it doesn't hold costs  
14 within some modicum of range to the CPI, or hopefully even  
15 lower, because it's just going to drive us out.

16           The other item that was raised talked about  
17 information, and being able to look and check what's going  
18 on. From a mailer perspective, having the Postal Rate  
19 Commission costs and so forth set up under one costing  
20 methodology, and having the Postal Service come out with its  
21 financial statement under another costing methodology, is  
22 ludicrous.

23           We have to spend lots of money to try and figure  
24 it out, to make sure to see where people are, and how the  
25 Postal Service is actually doing.

1           If you're going to have phase rates, the Rate  
2 Commission and the Postal Service have to agree on what's  
3 coming forward. I know that's a panel for this afternoon,  
4 and I'll raise it then. But that's something that is also  
5 very important, in looking at it.

6           But I don't believe phased work, if the Postal  
7 Service has cost increases far, far above the rate of  
8 inflation.

9           MR. VOLNER: Jerry, does anything work?

10          MR. SEARSEL: Because it would blow what the  
11 mailers are looking at. Go ahead, Eon.

12          MR. VOLNER: Does anything work at the Postal  
13 Service is unable to control its costs?

14          MR. SEARSEL: Maybe the Internet; I don't know.

15          (Laughter.)

16          MR. VOLNER: Yes, but I mean, that's the point. I  
17 think your point is absolutely well taken, but I also don't  
18 think it has to do with phased rates.

19          MR. SEARSEL: Except that I do think my members,  
20 looking at, if rates are very -- not rates, excuse me -- if  
21 costs are going up very high, they are not expecting, right  
22 now -- I mean, I'd have to do a big sale.

23          But I don't think that my members are expecting  
24 right now what would happen in year three, if you have a  
25 three year rate cycle, of how high that level of rates would

1 be in phased rates, if costs are way out of control.

2 MS. COHEN: I think that actually something came  
3 up earlier, -- try to control this, if you did the test year  
4 close-in, as opposed to far out, I think, as David  
5 suggested, and maybe not even have a contingency, but just  
6 pick a test year that's close and set the rates for it; and  
7 then allow an increase based on inflation from that for the  
8 period of the phasing, you essentially take the uncertainty  
9 out of the picture.

10 You also have a very strong incentive then for the  
11 Postal Service to stay within inflation, which I think gives  
12 all of us what we're hoping for.

13 MR. SEARREL: That's basically the two-by-four,  
14 that I think had been written about a long time ago, when I  
15 was at the Rate Commission, so it was before 1992. I think  
16 the final report came out in 1991 or whatever. I wasn't  
17 even at the Rate Commission in 1991.

18 But I think that's a good point, Rita. The point  
19 is that at the Postal Service, however, you would have  
20 situation, when that phase is over you might have a huge  
21 increase, with the test year.

22 MS. COHEN: If they don't control costs.

23 MR. SEARREL: Then it will have to go out to CPI.  
24 So that's the kind of thing on how that works.

25 I do have to say, Gleiman left, but I have to make

1 one statement on this thing. He's now in favor of rate  
2 increases more often, because he's a consultant.

3 (Laughter.)

4 MR. POU: We have time for about two more comment.

5 MR. MEROWITZ: Leonard Merowitz, LEMA Consulting -  
6 - Bob Cohen hit us with a two-by-four, and Jerry Searrel is  
7 bashing triggers. I'd like to say a word in defense of  
8 triggers.

9 I admit that there's a contradiction between  
10 phasing and triggers. But I think triggers are the spirit  
11 of HR-22, and they get you to incentive rate making.

12 The idea was that if the Postal Service could live  
13 within CPI, or as more progressive jurisdictions that  
14 perhaps have better productivity increases, CPI minus "x,"  
15 most people in this room would be satisfied to keep Postal  
16 increases to the CPI, and we've made that concession.

17 So I think that you should see triggers as a type  
18 of incentive regulation; and we kept costs at the CPI, then  
19 we can raise rates -- the Postal Service, if they have that  
20 achievement, then they can raise rates within that class,  
21 under the price cap, up to the price cap.

22 MR. VOLNER: With a consumer dividend for the  
23 minus "x"?

24 MR. MEROWITZ: Yes.

25 MR. VOLNER: Since both of you are suggesting a

1 well accepted approach to rate making, that probably is  
2 lawful under this statute, or at least I think it is. But  
3 is there a consumer dividend, and how do you value it?

4 MR. MEROWITZ: You mean, is there an "x" -- is  
5 there a non-zero "x"?

6 MR. VOLNER: Yes.

7 MR. MEROWITZ: The CPI minus "x" -- well,  
8 hopefully, I mean, the Postal Service has to be  
9 congratulated in what it did with letter mail. It hasn't  
10 had great success on flats, which is the other major shape.

11 I think that part of it is not its fault. Work-  
12 share discounts are very popular. Rate increases that are  
13 put off in time are what many of the people in this room  
14 spend their lives doing, and that doesn't leave the Postal  
15 Service with any retained earnings. No reasonable business  
16 can live without retained earnings.

17 And retained earnings, you know, we're always in  
18 the situation where we have a capital investment plan that's  
19 written very nicely for five years in the future, and we  
20 never live up to it, because of contingencies that seem to  
21 be beyond our control.

22 So the thinkers in this room have to plan  
23 something a little more systematic to save the goose that  
24 lays the golden egg.

25 MR. STOVER: David Stover, Greeting Card

1 Association -- I have one possible contribution on the  
2 question that Tondra Rush raised about what would happen to  
3 the contingency or to the people who pay for the contingency  
4 under phasing.

5           Possibly,, this could be alleviated, if Eon would  
6 reconsider on multiple test years. I think if there were  
7 multiple test years, you could, so far as I know, have a  
8 separate level of contingency for each of them, and it could  
9 be clearly lower in the close years, when forecasting is  
10 less risky, and higher in the out years, when it is more  
11 risky; possibly an advantage to having a year by year test  
12 period, rather than a single remote one, as we've been  
13 discussing.

14           MR. VOLNER: The only reason I changed my mind  
15 about multiple tests years -- and I did write a letter,  
16 which I am sure Jean posted on the website some place -- to  
17 Dan Fucheau, in which I did suggest multiple test years.

18           The only reason I changed my mind is my concern,  
19 which we are going to talk about this afternoon, that at  
20 that point, the Commission would insist that they have to  
21 reconcile revenues and costs in each one of the test years.  
22 That, to me, defeats the whole point of trying to do  
23 phasing.

24           Now when I go back to John Burseo's point, they  
25 don't have to; but will the Commission understand,

1 particularly if we do a rulemaking rather than a waiver  
2 approach, that we're using multiple test years to try to  
3 keep control over the contingency -- because I think your  
4 point is well taken. It certainly work very well that way -  
5 - and not insist that they achieve break even in each one of  
6 those years.

7 MR. STORER: Okay, Ian, you answered my first  
8 question, which was whether you were really talking about  
9 year by year break even.

10 I think probably if the Commission will go back  
11 and read the NAGCP-3 case again, it's fairly clear that  
12 breaking even, over time, is quite permissible.

13 It's hard to see why the existence of multiple  
14 test years in a system explicitly geared to phasing would  
15 lead the Commission to think that there had to be break even  
16 in each of those years, as long as the predictable result of  
17 the process was break even over the whole cycle.

18 MR. STRASSER: I have just a comment about  
19 inflation in Postal costs. There are two types of inflation  
20 that the Postal Service has. The first, of course, is the  
21 normal inflation that businesses incur. A lot of it is tied  
22 to ECI/ECI minus one, or whatever the result is of our labor  
23 outcomes.

24 The other cost is the addition to the network of  
25 1.5 million to 1.7 million additional deliveries. That is



1 an inflation in cost that is not automatically incurred by  
2 businesses who don't choose to expand. The Postal Service  
3 does not have the decision as to whether we choose to  
4 expand.

5           So there's two types of inflation. So for someone  
6 to say, well, you should just keep your rates within CPI,  
7 you have to build into that the assumption that the model is  
8 held for 30 years, which is that increases in mail volume  
9 will sustain that kind of situation.

10           This year, for example, we're going to lose more  
11 than six billion pieces of mail, compared to last year, at  
12 an average per piece of 34 cents. We're delivering this  
13 year 40 less pieces per delivery in every delivery that  
14 we're making.

15           So as a result, not only do we have the increasing  
16 network costs, but we've got declining mail volume per  
17 delivery and that, of course, is the larger reason for the  
18 whole transformation plan and the examination business  
19 model.

20           But in the shorter term, as we're talking about  
21 phased rates and caps and ceilings and things, we need to  
22 keep in mind that CPI is not the only inflator that the  
23 business incurs; it's the additional delivery network, also.

24           MR. POU: I'd like to turn it back to the panel  
25 for the last few minutes to react to anything that's been

1 said, to make any further comments, raise any issues for the  
2 audience.

3 MS. BRIZZOTTO: I guess I'd like to make one  
4 comment. I'm neither an economist nor a lawyer, so I won't  
5 pretend to comment substantively on some of the issues  
6 raised from that perspective.

7 But from my position, one of the things I would be  
8 extremely concerned about, if we went into a phased rate  
9 environment, is that we are not creating an environment that  
10 is, in fact, more complex than the one that we live with  
11 today; that does not, in fact, take more resources devoted  
12 to dealing with issues around the phasing, or the potential  
13 of triggers, if a trigger exists, and take those resources  
14 away from continuing to work with the customers to look for  
15 opportunities to make life better for all of us.

16 You know, Eon and a couple of folks talked about  
17 the notion of the need for vanilla rate cases. I guess  
18 that's great. But what happens now in an omnibus rate case  
19 is it's our opportunity and the industry's opportunity to  
20 build into new work-sharing discounts, new products, and  
21 other opportunities that are good for the Postal Service,  
22 from a revenue standpoint, and good for the industry, in  
23 terms of helping fuel growth.

24 So I certainly wouldn't want to up a system that  
25 made it more difficult to grab onto those opportunities,

1 when they existed. So I would hope that whatever regime we  
2 walk out of those whole process with, is one that provides  
3 us more time to devote to looking for opportunities to work  
4 with the industry, to identify things that are good for both  
5 of us.

6 MS. COHEN: I certainly don't really think that we  
7 have to have a plain vanilla case, even if we do examine the  
8 issues of phasing, I mean, I agree that they are complex.  
9 But I think most of our rate cases are complex, and I think  
10 some of the goals of new classifications and interesting  
11 rate adjustments are important, and we don't want to put  
12 that on a back burner. But I do think that we can handle it  
13 in the same case. I think we have a lot of that, sometimes.

14 MR. VOLNER: I think we need to be careful with  
15 it. I mean, my friend Vince Juliano is sitting there, and  
16 he was the victim of one of the innovations in this last  
17 rate case, which didn't get litigated, because it got  
18 settled. It's going to cost his company and his company's  
19 customers money, because it creates an impossible situation  
20 for him.

21 On the other hand, there were things in the last  
22 rate case that were attractive to some other mailers in the  
23 room. You never can really sort them out as to whether it's  
24 going to be controversial or non-controversial.

25 But there are lots of mechanisms. There's nothing

1 that says there can only be one case pending before the Rate  
2 Commission at a time. In other agencies, there are cases  
3 going on all the time, and they all eventually come together  
4 when they all get decided.

5 But if you've got classification or innovation  
6 ideas, there's nothing that says the world has to stop,  
7 because we've got an omnibus rate case going on.

8 MS. BRIZZOTTO: To the notion of keeping costs  
9 down, we need to make sure that we're doing that within a  
10 reasonable amount of resources. Because it does take a  
11 tremendous amount of resources, both in the marketing and  
12 the finance and the law department, in order to litigate  
13 even a small case.

14 You know, what I would be concerned about is  
15 raising the costs or raising a need for resources, as a  
16 result of having many little things going on at the same  
17 time. If they are, in fact, little things, then perhaps  
18 some of the discussion around opportunities to streamline  
19 the current process will go a long way to helping them be  
20 littler things.

21 That's great, because we can do more things to  
22 move forward together. But certainly, I would not enjoy  
23 looking at world where we have to devote even more resources  
24 to dealing with sort of the day-to-day work associated with  
25 rate making.

1           MR. COHEN: The Rate Commission is a service  
2 organization. When the Postal Service wants to raise its  
3 rates or change classifications, they come to the  
4 Commission, and we're ready to serve. But we would like to  
5 know in advance if you're thinking of having product resign  
6 and a major rate case, at the same time, because we would  
7 have to change our staffing a little bit.

8           MR. POU: Thanks to our panel.

9           It's lunch time, and we'll be back here at 1:00  
10 for the third panel.

11           (Whereupon, at 12:17 p.m., a lunch recess was  
12 taken.)

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A F T E R N O O N   S E S S I O N

(1:00 p.m.)

MR. KEARNEY: Why don't we get started. Good afternoon, everyone. I hope you enjoyed your lunch. Welcome back inside. Thank you for being here today. I'm Steve Kearney, the vice president of Pricing and Classification. And as Anita and others have said, we are committed to working with the Postal Rate Commission and all of our customers to find ways to improve ratemaking for the Postal Service. And I thought we had a very productive, lively discussion this morning that covered the whole issue of making rate changes more predictable quite well, and also touched on a lot of issues that we hope to dig deeper into this afternoon.

The Postal Service views rate changes as a very important part of our business strategy, and that business strategy, as outlined in the transformation plan, is changing as the marketplace becomes more competitive and there are more alternatives to mail. So perhaps one of the changes that we need to recognize is that rate cases cannot be viewed as a win/lose situation, where the Postal Service tries to win as much revenue as quickly as it can, and the mailers then are the losers, or vice versa, but more as a tool that we need to use to continue to build a successful business over time in concert with our customers, where it's

1 a win/win.

2 To that end, in this panel we want to talk about  
3 several things related to the procedures, what happens  
4 related to omnibus rate cases and in between omnibus rate  
5 cases. And we have divided that type of information in the  
6 agenda into three categories. But as everyone knows,  
7 they're very closely related. The first one listed there is  
8 the provision of information by the Postal Service to the  
9 public and the rate commission, what information would be  
10 useful for us to provide between omnibus cases that we're  
11 not already providing. And the main information we're  
12 providing now in addition to our regular financial  
13 statements is the revenue pieces and weight data by quarter,  
14 the RPW report, and the CRA, the cost and revenue analysis  
15 annually, as well as annually we provide detailed volume  
16 data by every rate category, known as the billing  
17 determinants. And only our very competitive products are  
18 delayed in that disclosure by a year. All the others are  
19 provided as soon as we have the data.

20 So the question there is how would providing even  
21 more information and being more transparent between rate  
22 cases help the whole process to be more effective and  
23 efficient.

24 Secondly, as a number of folks have raised costing  
25 issues, both in the submissions for this conference, but

1 also many times in the past and in many rate cases, and this  
2 is an opportunity to bring up suggestions about what costing  
3 issues or approaches should be reevaluated by the Postal  
4 Service and/or the Postal Rate Commission. Examples of  
5 those are volume variability or the city carrier costs or  
6 using cost avoidance as the benchmark for work sharing  
7 discounts, which Bob Cohen mentioned this morning. I'm sure  
8 folks have many other examples.

9           Finally, it has been suggested this morning and in  
10 some people's advance comments that we should somehow  
11 resolve issues outside of omnibus rate cases through some  
12 process in between those rate cases, maybe a proceeding with  
13 the Rate Commission, maybe a rulemaking or request for a  
14 variance. And typically, folks have mentioned costing  
15 methodologies as one of the main things that they would like  
16 to resolve in between rate cases. So we're interested in  
17 your comments on that also.

18           I would like to echo one more thing Anita said  
19 towards the end of the morning because I'm sure you were all  
20 thinking about lunch at that point, and now that you're well  
21 fed, I just want to repeat it. It's really become quite  
22 clear to me working in this job the last few months that  
23 some of the discussion this morning seemed to have an  
24 assumption that the Postal Service is not taking advantage  
25 of its legal capabilities. And if it just figured that out,



1 it could go and do something. And I have found that there  
2 is another big limiter to what we're able to do, which is  
3 the time and resources and cost that it takes to do things.  
4 And Bob Cohen mentioned that about the Commission if we were  
5 to file two big things at once.

6           The Postal Service has been talking about a lot of  
7 innovations for many years. And I think a lot of them have  
8 not been carried through simply because of the time and  
9 resource issues. And partly we have listened to our  
10 customers, and we have downsized our headquarters and  
11 streamlined our staffs there. We need to figure out what  
12 these innovations and new ways of doing things are worth and  
13 whether we can afford to invest in the resources, the money,  
14 and the time to get them done. So I would ask you to  
15 comment on that point also and take that into account in  
16 your suggestions.

17           I'd like to now turn it over to Steve Scharfman,  
18 the general counsel of the Postal Rate Commission.

19           MR. SCHARFMAN: Continuing with the theme that  
20 Steve has provided, it seems to me that many of the things  
21 that we have talking about already today and that we're  
22 going to talk about during the rest of the day involve  
23 trade-offs. I thought that Anita was very, very helpful  
24 when she pointed out that predictable rates are antithetical  
25 to flexibility in the ability to change rates on a regular

1 basis, or frequently, as it seems appropriate. And both of  
2 those things are goals that we all want. We want  
3 predictability, but we want flexibility, too. And there has  
4 to be some recognition that some of the things that we're  
5 talking about today don't necessarily go together hand and  
6 hand.

7           For instance, you can have a faster rate case  
8 process, but there are trade-offs to going through the  
9 process more quickly. You may not be able to be as thorough  
10 in your evaluation of the facts that you're using to develop  
11 rates. Another trade-off might be between the costs of  
12 litigating a rate case and the thoroughness with which you  
13 delve into the issues in front of you.

14           There was some discussion this morning from Rita  
15 and from Ed Gleiman that more predictable rates would  
16 probably wind up being more costly to mail users. And I  
17 think it is interesting that mail users, or some mail users,  
18 seem to be willing to make that trade-off. But it's  
19 something that should be focused on, and informed statements  
20 should be made.

21           There is going to be discussion about whether the  
22 Postal Service should be more open or transparent. It does  
23 that at a cost of competitive advantage. The more open it  
24 is, the more likely it is that someone will see some way to  
25 take business from it. And mailers have precisely the same

1 problem. If they are participating in an open proceeding,  
2 they may be giving away business secrets.

3 Finally, the issue that Steve just raised, I have  
4 heard complaints about how long it takes for the Postal  
5 Service to be able to implement changes, implement changes  
6 that it knows itself it wants to do, but it has to write  
7 regulations, and it has to decide whether mail pieces meet  
8 certain qualifications or whether programs for implementing  
9 rates are accurate.

10 The Postal Service could shorten the process  
11 itself by placing more resources in these areas. And I say  
12 that knowing that the people who appear before the Rate  
13 Commission on behalf of the Postal Service work  
14 extraordinarily hard to meet the deadlines that the  
15 Commission sets. And they do so with a minimum of  
16 complaint. But presumably, if they had more resources  
17 available to them, they could do still more. And so these  
18 are choices that will have to be made by postal management  
19 as well.

20 MR. KEARNEY: Go ahead, Bill.

21 MR. OLSON: Okay. This panel actually comes very  
22 well after the morning session because it does give us the  
23 chance to build on what went before. We haven't heard too  
24 much today about some of the comments that were filed in  
25 advance on rate cases, omnibus rate cases, taking too long,

1 being too complex, with too much discovery and too expensive  
2 to litigate. And I want to focus us on that criticism. We  
3 heard that particularly under a prior postmaster general,  
4 and not quite so much now. But we have to think about that  
5 for a moment.

6 I would submit that there is nothing in the law  
7 nor in the Postal Rate Commission rules that requires  
8 omnibus rate cases to be as complex as they have become. It  
9 is the Postal Service's choice to interject complex  
10 classification changes or complex costing issues into rate  
11 cases, and when it does it really shouldn't be too surprised  
12 that parties that are aggrieved by those changes, or at  
13 least the ones that can't even figure out exactly what was  
14 happening ask a lot of questions and take some time to look  
15 at it.

16 So let's talk -- let's take these questions in  
17 inverse order, first looking at what would happen in an  
18 interim case that was not -- that focused on cost issues or  
19 classification issues, a case in between rate cases. And  
20 the lesson we have is that -- well, there is a certain  
21 amount of gamesmanship in all this, of course. The Postal  
22 Service, when it files its mail classification changes  
23 within an omnibus rate cases very often gives the Commission  
24 no rates for the existing classifications. And it says to  
25 them if you want to refuse our proposal, you better pick

1 your own rates because we're not going to give it to you.

2           On the other hand, the Commission buries  
3 classification changes into their opinions and recommended  
4 decisions. But the Postal Service is getting better at  
5 spotting these. And in our R2000-1, there were four of them  
6 they picked out and said, you know, nobody asked for this.  
7 One of these was proposed in their reply brief or in an  
8 initial brief, and there is no record evidence for it, and  
9 so we reject.

10           I don't think it would be easy to have much  
11 gamesmanship in a separate case that dealt with costing  
12 issues that dealt with classification issues.

13           Now turning to costing issues, the Postal Service  
14 knows that many of these proposals in costing are complex.  
15 They know that when you change levels of volume variability  
16 and you talk about cost pools and all, you're going to  
17 engender a certain amount of mailer interest. So if Ian  
18 doesn't like rulemaking cases, why don't we call this a  
19 methodology case or a complex costing case, and let's have  
20 one of those, and let's sever the issues and put it into  
21 there so that we could have a simple rate case, that vanilla  
22 rate case we're talking about. And in that case, we would  
23 talk about what are the new machines the Postal Service is  
24 buying, and what are the productivities that have changed,  
25 and how have revenue projections changed, interest

1 projections changed? What are the economic forecasts?

2           There would be new data, but there would not be  
3 new systems. And then Rich Panalunus (phonetic) can come in  
4 and talk about other programs and cost reduction and all of  
5 that. But that would be the end of it. There would be  
6 fewer witnesses, fewer pieces of testimony, fewer  
7 interrogatories, shorter hearings, and maybe five or six  
8 months, the case could end. And the Postal Rate Commission  
9 would not be incentivized to ask people to update data in  
10 the middle of the case.

11           I mean, this next case is not going to be filed  
12 until February because if it's filed before that, the  
13 Commission will require the update of the data, and then  
14 we'll all want to shoot ourselves by the time the case is  
15 over. Nothing personal, but I don't think that was the best  
16 choice in that case.

17           With respect to provision of information prior to  
18 rate cases, if you had separate complex costing cases or  
19 classification cases, you really wouldn't need very much  
20 between cases.

21           I'll give one or two thoughts here. One is that  
22 the funny thing about the Postal Service is the closer they  
23 get to filing an omnibus rate case, paradoxically, under the  
24 new thinking, the more clammed up they get in terms of  
25 talking to mailers. They don't want to let anything slip,

1 so they tend to shut down and just get into the preparation  
2 mode. And I can't blame them, but we're talking about  
3 something that would be quite different than that.

4           Somebody this morning talked about technical  
5 conferences, and I've always found technical conferences to  
6 be almost useless. They come so early in the process. The  
7 lawyers are there; the economists are there. They come  
8 early in the process, before you can even figure out what  
9 the witness is doing, and you don't know enough to ask an  
10 intelligent question. And think is somehow if they were  
11 delayed a bit, it might be helpful.

12           And let me just comment on one thing. There was a  
13 proposal to limit the number of interrogatories, and I know  
14 that is for the next panel. I think that's my least  
15 favorite idea because in any given case you never know what  
16 issues are going to hit, periodicals or priority mail or any  
17 one else. And one case could be you'd have a free ride, and  
18 in one case you'd be working like a dog. And I don't think  
19 you can limit the number of interrogatories very  
20 effectively.

21           I'd like to see a simple rate case, and I'd like  
22 to see that done in a short period of time. And I think  
23 that would solve a lot of our problems.

24           Let me give a couple of quick comments on costing,  
25 and then I'll be done. I think we could put everyone to

1 sleep with costing issues in short order, but I want to  
2 mention one or two. One is that we have probably seen the  
3 limit of what we can learn from the in-office cost system  
4 and IOCS tallies. And I got to -- I think Joe Moeller  
5 (phonetic) was the one who put into his testimony as we get  
6 to have more and more rate cells and we -- I think he said  
7 we slice and dice the tallies more and more. That was a  
8 great picture that he put into the testimony. And it has  
9 become -- it's impossible, and it becomes increasingly  
10 capable of being anticipated that the data show that a 3-  
11 ounce piece costs less -- costs more to handle than a 6-  
12 ounce piece because the data were not designed to make those  
13 kinds of distinctions.

14               So I think the Postal Service is going to have to  
15 spend some money, and they're going to have to take another  
16 look at the way they handle some of their basic cost systems  
17 because you cannot slice and dice, as Joe said, that finely.

18               The transformation plan had a section where they  
19 talked about product based costing system and how that was  
20 what was needed. I really don't know what that means, but  
21 whatever it was, it sounded very good, and I would encourage  
22 them to move along. And the last thing is that we have had  
23 proposals in various cases to rely more on bottom-up  
24 costing.

25               John Haldy (phonetic), who took an early flight to



1 Germany and couldn't be here today, has been forcing me to  
2 edit a paper he is writing on this. And when we distribute  
3 that, then I hope the Postal Service will immediately see  
4 the wisdom of the approach, and we'll go from there.

5 But I do hope that this forum does lead to some of  
6 these costing issues being looked at because the forum may  
7 be on rate setting, but the basics of rate setting is good  
8 costing.

9 MR. KEARNEY: Thank you, Bill. Tonda.

10 MS. RUSH: I suppose in a way the client I  
11 represent, which is the National Newspaper Association, is  
12 unique within the panel of speakers here because we  
13 represent less than 1 percent of domestic mail volume. We  
14 probably create more than 10 percent of the Postal Service's  
15 headaches. We had a huge force on Capitol Hill to see to it  
16 that the Postal Service remembers our place in the mailbox.  
17 And we probably are uniquely threatened by changes in rates  
18 and in some of the costing methodologies that we have had to  
19 deal with over the past few years.

20 These newspapers are primarily mail distributed.  
21 They are primarily locally owned and operated. They are not  
22 in the mailing business. They are in the publishing  
23 business. And they try to do everything they can to keep  
24 from knowing any more about the Postal Service and mailing  
25 systems than they actually have to. They call Sonny Boon

1 and me and Max Heath, who most of you know, to try to figure  
2 out why this rate schedule is so complex and why all this  
3 paperwork has to happen.

4           At the same time, we're probably one of the oldest  
5 products of the mailstream. We represent a product group  
6 whose rates were free and were set to be free by Congress in  
7 the middle of the 19th century as a way of trying to break  
8 the influence of the New York newspapers, and who have had  
9 to undergo shocking rate increases as they moved in 1964  
10 from being free to actually having to bear their own costs.

11           So from the point of view of these publishers, the  
12 Postal Service is very badly broken because they have had  
13 huge increases over the years.

14           My first rate case was 1984. And there are a lot  
15 of people in this room who have got a lot greater wisdom and  
16 knowledge and background in this system than I have, and I  
17 have been the beneficiary of being able to pick their brains  
18 in a lot of cases, including right here in the panel that we  
19 headed a little bit ago, where I could ask Rita things and  
20 Bob Cohen things I couldn't have asked them in any place  
21 probably.

22           But I would like to say this. The rate cases  
23 themselves have become hugely more complex. I can remember  
24 when a couple of policy witnesses could get before the  
25 Commission and explain their mailing story, and things would

1 happen to the numbers as a result. That can't happen  
2 anymore. We're now looking at a process of hugely expensive  
3 attorneys and economists to come up with rates, and we have  
4 become dependent on the Postal Service to work with us  
5 before rate cases so that we can understand what is about to  
6 happen to us. And the fact is that has happened. And we  
7 have found in the past 10 years the Postal Service has been  
8 enormously responsive to us and has tried to help us find  
9 solutions to difficult problems.

10 But the future that we look at is not very  
11 encouraging. Whereas it may be true -- and I'm sure it is  
12 true that if Howard throws up a 25 percent increase on his  
13 dart board and Conde Nast publishers begin to lay off 45 or  
14 50 people in response to the fears that he evokes in our  
15 industry, they look around for someone to come buy the  
16 paper, or they look for a way to close it down because they  
17 just can't absorb those kind of increases.

18 How do you thread a needle for a mailer of this  
19 importance and the mailbox value in the complexity that we  
20 have to deal with by dealing with the tools that are  
21 presently available? And I think the answer to it is it's  
22 awfully difficult.

23 I can imagine a case to deal with costing  
24 methodologies, and I can just see myself going before the  
25 Newspaper Association to say you have got to come up with

1 \$100,000 to fund this litigation on costing methodologies.  
2 What? A what? Fund it for what? Well, how much is it?  
3 What are they going to do with our rates? What is it going  
4 to cost us if this happens? We don't know. Well, is it  
5 only going to go up 10 percent or 20 percent? Well, we  
6 don't know. Well, are they going to go down any? They  
7 never go down any, do they? Well, sometimes they do. But  
8 what is it really going to cost? Why do we have to do this?  
9 There is no rate increase? We'll wait this one out.

10 And we would be sitting on the sidelines while we  
11 watched the deeper pockets resolve these kinds of issues, at  
12 the end of which we would be dealing with costing  
13 methodologies that we had no opportunity to influence.

14 So it is a daunting prospect. I think that one of  
15 the things that we have got to remember in this discussion  
16 is the equivalent of the old discussion that I haven't  
17 really labeled as this lately, but I've heard it come up in  
18 a variety of ways, and that's the Postal Service's essential  
19 conundrum about whether a pound of bricks and a pound of  
20 feathers ought to be counted the same way within the postal  
21 system.

22 I'm hearing in product redesign and product-based  
23 rates some questions about whether we ought to get to that.  
24 Let's just price things by size and by weight and by speed  
25 of service and market-based pricing. And I think that the

1 reason we don't do that is that if we do, the value of what  
2 shows up in the mailbox is going to shift. It's easy to  
3 design a Postal Service that meets the needs of very large  
4 mailers. It's a lot harder to design one to meet the needs  
5 of smaller mailers and the ones that fall outside the main  
6 design of postal operations and postal systems.

7           But if we don't do that, I think what we're going  
8 to see is a shift in the paradigm in the public. Right now,  
9 most of us think the Postal Service is broken because we  
10 have had rate increases with daunting speed and complexity.  
11 But you know what? The public doesn't think the Postal  
12 Service is broken. Even during 9/11 and during the anthrax  
13 scares, the mail still came. Some of it came fried, and  
14 some of it got caught in Washington and stayed here for a  
15 long time. But from the point of the view of the consumer  
16 -- and you can look at any of the consumer surveys -- the  
17 Postal Service is doing a pretty good job.

18           If we succeed in shifting the system so  
19 dramatically in our goals to achieve productivity gains and  
20 efficiency and predictability and all the things that  
21 businesses really need -- and I'm not discounting any of  
22 that -- the things that begin to show up in the mailbox are  
23 going to shift enough that people are going to wonder why to  
24 go to the mailbox to get the mail. And this is something I  
25 think the Postal Service understands that the mailers

1 sometimes don't.

2           So in the course of trying to figure out how we do  
3 rate cases better, I think some of the intangibles that go  
4 into why the Postal Service needs to exist and why it's  
5 where it is is a factor that has got to be brought into the  
6 equation. And it sometimes does work counter to just pure  
7 numbers and efficiency.

8           MR. POU: Great. Thanks to our panel. I'd like  
9 to put these issues out to the audience now. Don't all  
10 rush.

11           MR. FELDMAN: I'm Stephen Feldman, and I'm going  
12 to make just some very brief remarks on behalf of the  
13 National Federation of Independent Publications and of the  
14 Coalition of Religious Press Associations.

15           First of all, I think we'd like to strongly  
16 endorse many of the points Tonda Rush just made. The  
17 mailbox value of the mail to the people is not necessarily  
18 the most perfectly designed mail piece, but what the content  
19 of the mail piece is and what it means to the person  
20 receiving it.

21           The ongoing debate, is the Postal Service a  
22 business or not a business, affects rate making, of course,  
23 because then issues like competitive factors, public policy  
24 value of the mail all get involved. While it's perhaps a  
25 more apt topic for the next panel, I'll just briefly allude

1 to a matter which crossed my mind as Tonda was talking about  
2 the conundrum that small publishers face, you know, how do  
3 we -- you know, we have all these different rate cases, and  
4 how do we simplify rate cases so people can afford to  
5 participate in them.

6           Oftentimes, with the best of intentions and the  
7 greatest of sincerity, the Postal Service will object to the  
8 disclosure of information on the grounds it is proprietary.  
9 And I think under the current rules and even under the law,  
10 they have a good argument from time to time on that, and  
11 often their competitors are the ones who raise the question  
12 asking for information that the Postal Service  
13 understandably doesn't want to hand over.

14           But I think that as we get into the details of  
15 questions like that in the next panel, we should keep in the  
16 background that the Postal Service is not like its  
17 competitors. It has a mission far greater than its  
18 competitors, and that whatever it is belongs to the people.  
19 It doesn't belong to the Postal Service except as a guardian  
20 of the information. It is public information, and where  
21 lines are drawn, I think, are often very skillfully drawn by  
22 the presiding officer in a particular rate case. And I  
23 would hope that, as has been true in the past, that the  
24 Commission and the presiding officers of the future will  
25 keep in mind that this is not the case of one corporation

1 seeking the information and trade secrets of another  
2 corporation, but of a public entity that is held in trust by  
3 the Postal Service.

4 MR. VOLNER: Having represented small resource  
5 constrained organizations before the Commission and before  
6 the Postal Service, I'm not unsympathetic to what Tonda  
7 says. On the other hand, there is a middle ground. And one  
8 of the collect problems -- and maybe this is next panel  
9 conversation -- is the Postal Service's failure, and quite  
10 frankly the Rate Commission's failure, to carry out business  
11 in an orderly, cost effective manner.

12 You don't have to have a full hearing to deal with  
13 methodological issues. Agencies all the time issue what are  
14 called policy statements. They are not binding on the  
15 agency, though they have something approaching the force of  
16 law. We could deal with methodological issues along the  
17 lines of what Bill Olson has suggested through a series a  
18 notice and comment, no hearings, no witnesses.

19 I mean, witnesses on methodological issues are, as  
20 we have established over the last 30 years, an utter waste  
21 of time, of manpower, and quite frankly a drain on your  
22 client's resources and bigger organizations' resources as  
23 well.

24 What I find disheartening is this seeming  
25 attitude, well, we have always done it this way, and as bad



1 as it is right now, the public doesn't think it's so bad, so  
2 let's just keep on doing it the way we have done it. I  
3 think the time is way past for that to continue to be our  
4 mindset. And, I mean, there are two beautiful statutes  
5 here, the 1947 Administrative Act, which is wildly flexible  
6 and permits an enormous amount of creative, cost-efficient  
7 ways of dealing with issues so you don't have to litigate  
8 them in full-blown, trial type hearings.

9           And the other statute that is a lot more flexible  
10 than people seem to be willing to admit around here is the  
11 Postal Reorganization Act of 1970. Though I have not seen  
12 anybody yet today say, well, we can't do it under the law,  
13 which is part of what disturbs me -- we have always done it  
14 this way; let's just keep on doing it this way, and the  
15 devil take the hindmost.

16           I would like to make one comment to Steve. The  
17 issue is not transparency between rate cases. I mean, to  
18 the extent that the CRA is comprehensible and the old AP  
19 reports were comprehensible, and the billing determinants  
20 are comprehensible, that's not the problem. And some of us  
21 faithfully read them. And as difficult as your web site is,  
22 we actually now get them down off the web site.

23           The issue is as you get close to a rate case, the  
24 only thing that we learn until the case is filed is what  
25 leaks out of headquarters, and that is a) incomplete, and b)

1 sometimes outright confusing. Let's be polite about it.

2           There are ways of addressing those problems with  
3 burdening your resources. As I said in my little, you know,  
4 what do you want to talk about, you can't ask the Postal  
5 Service to build a rate case in a fish bowl. We're not  
6 asking for that. But if you have got an idea for a new  
7 costing methodology, one of which seems to be rattling  
8 around in the transformation report that in some circles is  
9 called allowance for funds used during construction -- if  
10 you're going to trot that out in the next rate case, you  
11 would do yourself a favor, as well as the whole process, by  
12 doing more than drilling it into the transformation report,  
13 telling us what you have in mind, why you have it in mind,  
14 how it would cost out in rough ballpark terms -- you're not  
15 bound to it -- and getting a sense of what our reaction is  
16 likely to be, because it might cause you, at least in some  
17 of these issues, to rethink your position.

18           MR. McLEAN: Bob McLean with the Mailers Council  
19 again. We talked surprisingly little about labor costs  
20 today. There has been a little mention of it. But the one  
21 thing that drives rate cases is labor costs. And one of the  
22 notes on this session is that we're going to talk about what  
23 issues might be considered prior to filing omnibus rate  
24 cases. And so my question is for Steve or, Steve, if you'd  
25 like to punt to anybody in the audience who has more

1 familiarity with labor, or any of your former colleagues who  
2 might be more candid. Larry, Mike, you know who you are.

3           And it's worth noting, by the way, that the rural  
4 letter carriers arbitration case that was just settled a few  
5 weeks ago is resulting in an average drop in income for  
6 rural letter carriers of between \$1- and \$3,000 a carrier.  
7 For those of you who aren't aware of this, postal employees  
8 are losing \$1,000 to \$3,000 i their annual income, which is  
9 why George smiles so much more than Ken Parmaly (phonetic)  
10 these days.

11           But my question to the postal folks is this. How  
12 much consideration is given by the Postal Service to the  
13 size of a rate increase and how that might influence the  
14 outcome of the next major arbitration case with the NALC or  
15 the APWU. And should you be given more consideration to the  
16 fact that by setting out for a large increase you might be  
17 significantly influencing the size of the next increase  
18 given to postal employee trade unions.

19           MR. KEARNEY: I'm not sure which Steve you were  
20 offering the punt opportunity to.

21           (Laughter)

22           MR. BRINKMAN: Bob Brinkman. As somebody that has  
23 had to pay the outside counsel for a considerable amount of  
24 time -- and even though my counsel has been very good about  
25 that over the years -- taking the methodology issues out of

1 the rate case and handling them separately, whether in a  
2 case or by notice and comment, is really a very, very  
3 intelligent idea that I'd like to endorse. If you really  
4 just resolve the rate case and took it down to the issues  
5 that didn't deal with methodologies, it strikes me after  
6 watching this for years and years, things would go an awful  
7 lot smoother.

8 MR. POU: Well, just looking at the comments that  
9 came in before today's session, there seemed to be an awful  
10 lot of folks who thought that it would be a good idea to  
11 separate out that part of the case and to provide additional  
12 information to the Postal Service. I just wonder if any of  
13 those people would like to follow up with more detail, or  
14 anything else you'd like to talk about.

15 MR. THOMAS: Joel Thomas, National Association of  
16 Presort Mailers. I was one of the people who endorsed this  
17 concept in the written comments. I'd like to identify  
18 myself with a lot of what Bill said about this process. I  
19 think it could be dramatically simplified. I think you  
20 could significantly -- and the only opportunity to  
21 significantly shorten the litigation cycle is to eliminate  
22 the multiple activity that goes on of changing  
23 classification, methodologies and numbers, volume numbers,  
24 cost numbers all at the same time, mixing them up in the  
25 bowl so that nobody can -- it takes the full 10 months to

1 even start to sort the soup out and find out what is causing  
2 things to change and where the problems are.

3           So I think that if we really want to significantly  
4 shorten this process, we have got to go that way. I'm not  
5 sure I agree with Ian that a mere -- depending on the issue,  
6 whether notice and comment is quite sufficient. And I would  
7 respond to Tonda by saying that if you had a methodologic-  
8 like proceeding, it ought to be possible, in fact it ought  
9 to be required, that they would state under current rates,  
10 not some hypothetical future rate, that if this methodology  
11 is changed, then using the numbers from the last rate case,  
12 this would be the changes in the rates.

13           So it ought to be possible to quantify and tell  
14 people this is what the order of magnitude of the numbers  
15 are. It's not an exercise in a complete vacuum.

16           MS. RUSH: Steve, could I just respond to that  
17 quickly? Joel's comment, he just added on the one thing  
18 that I really wanted to say about this. I tend to agree  
19 that trying to take the methodology questions out of the  
20 rate cycle would help us. I'm not opposed to the idea on  
21 the face of it. Clearly, it would simplify the rate cases.  
22 That part of it makes a lot of sense to me. And certainly,  
23 possibly it would make it a little bit less adversarial  
24 because we'd be looking at things outside the context of a  
25 rate decision. And I could see some value in doing that.

1 But if the methodology changes weren't taken to  
2 some conclusion of rate impact, for most of our mailers, our  
3 end clients, the meaning of getting involved in this process  
4 would be lost. We'd be left to go back to them and say we  
5 need to get involved in this process because if we don't  
6 it's going to be a 10 percent increase in your rates or a 30  
7 percent increase in your rates. Otherwise, it becomes -- my  
8 client, of course, tends to be probably one of the most  
9 cynical about what goes on inside the beltway.

10 Otherwise, this becomes so many attorneys and  
11 economists inside the beltway trying to think of more ways  
12 to have angels dance on the heads of pins. And to me,  
13 making the process concrete and transparent to the mailers  
14 and not just to all of us that litigate is one of the  
15 challenges we have in rate cases.

16 MR. OLSON: Steve, let me add that the interesting  
17 thing about looking at a costing methodology issue in the  
18 abstract is that sometimes you don't know whose ox is being  
19 gored. It's a little bit like -- I think, Steve, the  
20 Commission put out for comment in R2000-1 the issue of  
21 whether the mailers wanted the costs updated, and most  
22 people said, well, let me see the costs and see how my  
23 client did, and then we'll let you know. And it might be  
24 that kind of dynamic that causes there to be actually less  
25 adversarial interest based on oxes being gored in looking at

1 getting to better costing.

2 I feel like Todd Ackerly (phonetic) has said his  
3 only motivation was just to have better costing and better  
4 rate setting. They had other than that no interest in the  
5 process.

6 MR. SCHARFMAN: I think also there are two models  
7 that I have heard, and one is taking costing out of the rate  
8 case entirely, deciding how certain costs would be treated,  
9 and then as a year came in, you would apply the reported  
10 costs to that methodology to get your rates. That might  
11 speed up the process. The alternate that Ian suggested,  
12 where you would talk about a new way to do costs, but of  
13 course you wouldn't be precluded from raising that issue  
14 once the case came, I think would wind up not saving any  
15 time at all because anybody who thought that they were going  
16 to suffer as a result of the new methodology would certainly  
17 want to litigate it during the case, and so you wouldn't  
18 have any benefit from that.

19 I'm not under attack. I'm not under attack.

20 MR. VOLNER: I alluded to my feeling of need for  
21 the rate commission to exercise greater control over the  
22 cases. Your comment is fair. A policy statement is not  
23 binding on the agency. And as Jerry said earlier today, we  
24 have got this endless war between the two CRAs that doesn't  
25 make a lot of sense. It's a waste of time.

1           But the Commission can do things, which have the  
2 effect of forcing acceptance of a policy statement, which is  
3 done on a notice or a comment or a truncated, simplified  
4 hearing process, one of which is called issue preclusion.  
5 Look, guys, we have litigated this issue 19 times. We have  
6 decided it 18 times. We are not going to litigate it again,  
7 and we simply will not take evidence on it, and that's the  
8 end of that song. You don't like it, there is recourse.  
9 And that applies not just to the Postal Service. It also  
10 applies to mailers, who sometimes decide for the 45th time  
11 they're going to try another route.

12           The other side of the Commission's need to take  
13 greater control over it is a form of issue preclusion. If a  
14 change is proposed and no one contests it, the Commission  
15 has got to learn that they may not like it, but it is almost  
16 by definition consistent with the statute. And if you  
17 really are going to choose to take on issues that have not  
18 been contested, you have got to let us know very early on, I  
19 mean really early on, in the process that you guys may think  
20 this is not a problem, but we do. And you better come up  
21 with some testimony or some discovery or whatever it is you  
22 want to do on the issue. And in the last two rate cases,  
23 there were at least two instances where the process itself,  
24 because of the Commission's unwillingness to accept the  
25 notion of issue preclusion on uncontested matters engendered



1 uncertainty, engendered more work, engendered perhaps more  
2 discovery, engendered certainly a lot of hearing time that  
3 didn't need to take place.

4 MR. BENTLEY: Rich Bentley. I represent Major  
5 Mailers Association. I just thought I'd add a couple of  
6 cents worth of my point of view. While I have worked with  
7 this issue -- I think it's since 1994 -- on maybe five or  
8 six different cases, from a technical point of view, it is a  
9 tremendous amount of work to always being doing things  
10 twice, once with the Postal Service methodology, once with  
11 the Commission's methodology.

12 I think it was R97 when I was on the witness  
13 stand, and I suggested this should not be part of the rate  
14 case. It should be a separate case. And this is going back  
15 now. That's five years ago, and we still have the issue. I  
16 still think it should be decided outside the rate case so  
17 that these cases are complicated enough as it is. We can  
18 get rid of this and move on. We have been litigating it,  
19 almost the same thing, with some changes through the years.  
20 But now it has been eight years, and I think it's time  
21 really that we do not see the same issue in the next case so  
22 that we can concentrate on some of these other complex  
23 issues.

24 MR. POU: Any of the panelists want to comment on  
25 that?

1           MR. OLSON: Just one thing. I mean, the real  
2 problem there, I think, Richard, is that the Postal Service  
3 simply doesn't accept the authority of the Commission to  
4 make these decisions. And at some point, things go awry  
5 when there is usurpation of someone else's authority. And I  
6 don't know -- you know, sometimes I represent clients who  
7 are benefitted by what the Postal Service is doing. But I  
8 still don't understand the rationale for the Postal Service  
9 refusing to accept the jurisdiction of the Commission in  
10 this area.

11           So there is a fundamental legal issue there. But  
12 it is never going to be resolved the way we're doing it.  
13 We're going to go on for the rest of our careers litigating  
14 it this way until the law changes, I guess.

15           MR. BENTLEY: Well, if I could just respond  
16 quickly here. I think I've learned enough at the last  
17 couple of rate cases. I've sort of ignored the Postal  
18 Service's filing. I just knew the Commission was going to  
19 do what they were going to do, and I just concentrated on  
20 the Commission's costs. But, of course, that's not part of  
21 the filing. And if I ask an interrogatory, I don't get an  
22 answer from the Postal Service witness. I get it from an  
23 institution. And it still hinders how I can look at those  
24 costs.

25           So if that's a legal issue, you know, they have

1 got to solve it somehow, solve it throughout a separate case  
2 of some sort because it's just not going to get solved in  
3 these rate cases.

4 MR. COUGHLIN: Mike Coughlin again. First of all,  
5 I think Bob McLean deserves some comment on a question he  
6 raised about labor assumptions. And in this, if I answer  
7 it, Steve doesn't have to take any responsibility for it, or  
8 anybody else.

9 I can tell you that certainly through '98 or '99,  
10 the Postal Service, in terms of its labor assumption rate  
11 cases, was following pretty much the 1984 arbitration award,  
12 where there was this moderate recovery principle that was  
13 put in place. And I think starting in the early '90s, we  
14 actually went to a formal ECI minus 1. Now I don't -- there  
15 was some debate about what the assumption was in the last  
16 case, as I recall. But I think by and large they have  
17 looked at that principal rather than hanging something out  
18 there as either being too much or too little as it looked  
19 forward to labor negotiations. I don't think they really  
20 looked at that particular issue that carefully.

21 A couple of things about this most recent  
22 discussion here. It strikes me that some of this is very  
23 instructive for the Postal Service about the level of  
24 resources it may or may not or should or should not be  
25 applying to some of this stuff. And frankly, my own

1 reaction, to be perfectly honest, is some of the stuff we're  
2 talking about here, if it takes a few more people, it's  
3 chicken feed, and it probably ought to be addressed. Again,  
4 I understand you have got to look at what the benefit is  
5 down the road.

6           The other thing, there was a comment made about --  
7 I think Bill made it -- about the Postal Service accepting  
8 or not accepting the premise of the role of the Commission  
9 and some others in certain things. It also seems to me that  
10 this whole thing is very instructive about what is at stake  
11 here for the Postal Service. And Ian has said it as well as  
12 anybody in the room. Whatever anybody else in this room  
13 says doesn't make any difference at all unless the Postal  
14 Service is willing to give up some of the things that it has  
15 not been willing to give up heretofore in terms of  
16 information, in terms of what it shares in advance, even in  
17 terms of -- and I think it's a little bit like an individual  
18 sovereign country being willing to give up some piece of its  
19 sovereignty, for example, when it goes into an international  
20 organization.

21           So far, the Postal Service hasn't given up much,  
22 and I'll admit to being a part of that at times in the past.  
23 But if any of this is ever going to work, it's going to take  
24 the Postal Service recognizing that it's the one that has  
25 got to initiate it and has got to be willing to cede some of

1 that authority.

2 MS. CONNO: Hi. Mariel Conno. I'm with Sidley,  
3 Austin, Brown & Wood. Speaking from my past life, I always  
4 wondered why we couldn't have -- my background was  
5 litigation in Federal District Court. And I always was  
6 wondering why in my other job as the general counsel we  
7 couldn't have a motions practice before the Postal Rate  
8 Commission with motions for summary judgment, motions in  
9 limine, which are limiting, narrowing issues, and interim  
10 rulings could be made, motions to dismiss. And in terms of  
11 trying to model after other federal regulatory agencies or  
12 the federal courts, I think that's something to consider for  
13 both the Postal Service and the Commission.

14 In reference to the labor question, that is the  
15 big elephant in the room. That's 80 percent of the costs, or  
16 a little bit under that. And I think for purposes of giving  
17 Bob the answer to his question, what the Postal Service  
18 concept was in rate cases, and I assume still is, is not  
19 necessarily trying to feed the next labor negotiation, but  
20 there would be a concept of what would be preferred to be in  
21 the rate case. So they don't take what necessarily was the  
22 ECI minus 1 or ECI. But there would be a concept of ECI.  
23 I'm not sure that is still the measure, but that was --  
24 there is definitely a connection when the Postal Service  
25 puts its rate case together, understanding that

1 relationship.

2 MR. POU: Here comes somebody.

3 MR. STAPERT: Thank you. John Stapert, Coalition  
4 of Religious Press Associations. Just an idea on a topic  
5 that hasn't been specifically mentioned, and that's the  
6 Postal Services revenue requirement in each of the omnibus  
7 rate cases.

8 From time to time, some of us who have intervened  
9 have addressed the revenue requirement or some parts of the  
10 revenue requirement, I think fairly inadequately. It takes  
11 time before the Commission to do that. And I'm wondering  
12 about the possibility of the Commission assigning to the OCA  
13 the responsibility for addressing the Postal Service's  
14 revenue requirement. OCA might need additional staffing to  
15 do that. OCA might benefit from having a preview of what  
16 that revenue requirement might be before the case is  
17 actually filed. But that might speed up the process.

18 MR. POU: Anybody want to comment on that?

19 MS. DREIFUSS: Well, certainly, I guess it's  
20 incumbent on me to respond to that. I'd welcome that role.  
21 I think it probably would involve more resources than I have  
22 right now. So to some extent, I can't come right out and  
23 volunteer to do it. But assuming the Commission would give  
24 me the resources, yes, I'd be very happy to do that.

25 MR. OLSON: Shelly, I'd be glad for you to do it

1 because I don't think any client is going to pay for it.  
2 And the reason they're not going to pay for it is what  
3 happened in R2000-1. When the notice -- when the two  
4 notices of appeal, which were filed based on what the  
5 governors had done in modifying, the rates, when they were  
6 withdrawn, I think we lost all hope of having meaningful  
7 Commission review of the revenue requirement because the  
8 parties didn't choose to litigate it, which was not my hope,  
9 but I was sort of outvoted.

10 But the governors have this power to modify. They  
11 have now used it for the third time. They have used it in  
12 MC78-2. They used it in R80-1, I think. And they used it  
13 in R2000-1. And the governors are sitting in a room acting  
14 unanimously. After they have bounced it back to the  
15 Commission, and it has come back, they wave their hands, and  
16 they say, there is an inadequacy of revenue, which means  
17 whatever they want it to mean. And I'll mention that in a  
18 minute, what it meant in R2000-1. And then they say, we're  
19 going to -- we make a finding that our rates are in  
20 accordance with the record and in accordance with the act,  
21 and we sign it. And bingo, any rates we choose to implement  
22 are now the rates, irrespective of any due process rights of  
23 parties, irrespective of the role of the Commission,  
24 irrespective of the litigation process, the adversarial  
25 process.

1           Whatever the governors do, they do, and then those  
2 are the rates. And it was quite curious, I think -- and  
3 this gets back to the issue of the revenue requirement.  
4 When we went back to look at what the revenue requirement  
5 was in R2000-1, it was very hard to figure out what the  
6 Postal Service asked for in R2000-1. It was nowhere  
7 expressly stated. But when the Commission asked them to  
8 update certain numbers, they said, well, based on that, we  
9 now need more money, and they said that they -- because of  
10 the interim update, they had the authority to modify.

11           That was the benchmark they worked with. And  
12 unfortunately, I don't really know, no matter how great work  
13 OCA does as to whether it's really going to make any effect,  
14 because I think unless mailers are willing to litigate this  
15 and take it to court to challenge this exercise, what I  
16 would consider arbitrary exercise, the modification power,  
17 everything that we do here, every aspect of the rate making  
18 process, every improvement that we do, is capable of being  
19 wiped away by the governors as long as they can act  
20 unanimously.

21           MR. REILLY: Hi. I'm Mike Reilly. I'm  
22 representing myself at the moment for this particular  
23 comment. I'd like to point out a couple of things that I  
24 think need to be addressed. The first is the assumption  
25 that has been accepted as being part of the law that the



1 Postal Service is supposed to at best break even or time.  
2 And I remind everybody that in the years when the Postal  
3 Service has a big profit, the rate increase is typically  
4 none, or in one rare case very small. In years when the  
5 Postal Service has a big loss, the rate increase is huge.

6           Maybe there is a connection. Good profits, good  
7 service, good morale, and good customer satisfaction all go  
8 together, and you have the alternative of trying to force  
9 the Postal Service to break even over time, and we have  
10 opted for the latter.

11           As to costing, the Postal Service has gotten  
12 dramatically behind the eight ball with those people who are  
13 not represented by a union. In Washington, D.C., a GS-15 at  
14 the top end earns 119,400 and some odd dollars per year. At  
15 the top end, an EAS-25, which was at one time equivalent,  
16 earns \$87,000 in the Postal Service. 119,000 is  
17 significantly above 87,000. There are some upward cost  
18 pressures going on, and there is also a recognition, should  
19 be a recognition, of what it takes to keep price increases  
20 down. You either pay me now or pay me later. And the  
21 option has been lately to end up in a situation where the  
22 Postal Service has, for a variety of reasons in each of the  
23 last three major rate cases shortchanged itself to where it  
24 is, despite Dick Strasser's (phonetic) best efforts, making  
25 wrong decisions and not investing where it needs to invest

1 for the long-term health of the Postal Service and the  
2 mailing community.

3 MR. POU: We have a little time left in this  
4 panel. I mean, one of the purposes of today's day one of  
5 the summit is for people to put ideas on the table that the  
6 Post Service might take back and turn into some proposals or  
7 prototypes or other kinds of ideas that would then be  
8 discussed on June 27th.

9 Anybody want to put any bright ideas on the table  
10 that might be worth a closer look? Panelists? Anything?

11 MR. OLSON: I've got one. I would ask that  
12 whoever has authority over witnesses ask them to double  
13 check their citations before they submit their testimony.  
14 And if you're referencing a library reference that has 450  
15 pages, please reference a page. Please don't reference 14-  
16 link spreadsheets and say, I defy you to figure out where I  
17 found the date I used in my testimony, because I think that  
18 is -- talk about the cost of the litigation. The  
19 imprecision of some of the references has been -- and I know  
20 everybody is trying to throw the case together quickly, and  
21 I think they do a great job, basically, at doing it. I just  
22 wish the governors gave them another week to double check  
23 things before it went it. And maybe it will never be able  
24 to be possible, but it would sure save -- talk about a  
25 practical solution. That's a very easy practical

1 recommendation.

2 MR. POU: Others?

3 MR. SCHARFMAN: Well, one thought that occurs to  
4 me is that there is a lack of knowledge, at least as far as  
5 I know, with what kind of resources the Postal Service has  
6 to use in order to put together a rate case. We heard  
7 earlier this morning that it was difficult in that often  
8 information came available just at the very end when a case  
9 was about ready to be filed. And I think that if the Postal  
10 Service were willing to allow people to understand better  
11 the processes it went through in order to put together a  
12 rate case, perhaps there would be less criticism because  
13 people would understand better what it was that they were  
14 struggling to achieve. And at the same time, there might be  
15 more ability on behalf of both customers and the service to  
16 focus on areas where the additional expenditure of resources  
17 might yield the maximum amount of improvement for all  
18 concerned.

19 MR. STAPERT: This is John Stapert again. I just  
20 can't let the session close without a little response to my  
21 friend Bill Olson. And I don't know if a chill came over  
22 the whole room when he reminded us of what happened at the  
23 board of governors in R2000-1. But my hope is that this  
24 summit will be a turning point of sorts and that we will  
25 find ourselves engaged in a meaningful process that is more

1 cooperative in the future than has been in the past.

2 MR. BRINKMAN: Since the question is to anything  
3 else on the table in terms of procedure, for the life of me,  
4 I must admit I never understood why an economist has to  
5 stand in front of the Commission for six or seven hours, or  
6 eight or nine hours, and be cross-examined without people  
7 coming in and taking depositions before that. It seemed to  
8 me that if parties got in the habit of taking depositions,  
9 trying to understand the testimony through depositions, that  
10 all of the time and effort of the Commission that was spent  
11 on the stand could be significantly reduced.

12 MS. RUSH: Let me just make one comment. Maybe  
13 this is an outside-the-box comment, too. But it continues  
14 to occur to me that some of the contention that goes on  
15 before the Commission is a little bit of mailer frustration  
16 that the mailers cannot address the body that we probably  
17 ought to be talking to about some of these things, and  
18 that's the board of governors. On some of the issues,  
19 they're related to cost control.

20 The revenue requirement tends to become the proxy  
21 by which the mailers all come in to complaint about the fact  
22 that the processing costs are out of control or the labor  
23 costs are out of control, or some other part of management  
24 of the Postal Service isn't going the way we want them to.  
25 And the Commission can't do anything about that. And often,

1 certainly by the time we're in a rate case, the management  
2 can't do anything about the things that have already  
3 happened.

4           But we don't have a forum by which we talk to a  
5 representative body to deal with mailers about those issues,  
6 other than Postal Service management, which can choose to be  
7 open or not open, depending upon what the mood of management  
8 is at the time. Certainly in the years I have done postal  
9 issues, we have seen a lot more openness in the Postal  
10 Service than we once did have, and a lot more willingness to  
11 work cooperatively on cost control kinds of things.

12           But really, that's what we're talking about a lot  
13 of the time. We're talking about not predictability of  
14 rates as much as size of rates. And the trade-off between,  
15 as we were discussing in the phased rates things, between,  
16 yes, you can have predictable rates, but then it's going to  
17 be more expensive and you're going to have a higher  
18 increase. To the mailer mind, it does not compute because  
19 in private businesses, what you do is you cut your costs to  
20 try to stay within the resources that are available in your  
21 pricing mechanism. And that conversation back and forth  
22 between the mailer community and the Postal Service is one  
23 that continues, I think, to have to happen in some form.

24           As to the rate mechanism and rate setting process,  
25 from the point of view of a small mailer with limited

1 resources for litigation, I think the thing that I would  
2 like to say to the Postal Service that would be the most  
3 helpful is maybe more of a psychological sermon to the  
4 witnesses. I know it's very difficult once you get into the  
5 rate cases not to just want to win. And it's also  
6 difficult, I think, for the witnesses when they have got  
7 piles of discovery questions on their desks and a limited  
8 time to answer them not to get impatient and feel defensive  
9 about it.

10 But very often, in our cases, we have been trying  
11 to get answers to things that have made the witnesses  
12 defensive. And we get defensive answers, and then we have  
13 to ask more questions. We had a case, one case, where we  
14 spent our entire litigation budget trying to get one  
15 question answered, and finally ran out of resources and had  
16 to give up. And that sort of thing ought not happen.

17 I think the Postal Service has made big progress  
18 in trying to help us to avoid that kind of thing in recent  
19 years. But it could go back to the other direction. That's  
20 a very human driven kind of thing, and it's because of the  
21 people that are involved in the departments.

22 If the Postal Service really wants to have the  
23 process work better, I think its own commitment to  
24 transparency is the biggest thing that can help that to  
25 happen.

1           MR. OLSON: Let me just add one thing, which is  
2 that, you know, when it comes right down to it, I really  
3 don't think the system is broken. I think it can be  
4 improved, but I really think that if there is one thing that  
5 actually works pretty well, it's the way by which we set  
6 postal rates, which are said to be the biggest rate cases in  
7 the history of the world. I don't know if they are, but I  
8 think there is every reason to admire the system. And one  
9 of the reasons the system works is that there are a number  
10 of people who are at the Postal Service who are their  
11 lawyers who have been there forever and who will be tough,  
12 but they won't play games, and their word is good. And  
13 that's one of the reasons that the system works as well as  
14 it does.

15           So there are some enormous pluses to build on.  
16 And I hope that the very fact that the topic of the session  
17 is how to improve things doesn't allow people to accept the  
18 assumption that something is badly broken because are an  
19 enormous number of positives, and the way we do things is  
20 not all that bad.

21           MR. POU: A couple of final comments.

22           MS. DREIFUSS: I can't resist the opportunity to  
23 respond to an open invitation. A lot of you know that the  
24 OCA has taken probably a heightened interest in service  
25 issues and performance issues in this last case. And that's

1 a continued interest of ours.

2 I'd like to see the Postal Service -- and this  
3 would be basically a no-cost change for them -- to regularly  
4 release some of the performance data that it collects on a  
5 regular basis, like EXFC. Don't hold that only when asked  
6 in a rate case, but file that every year, or put it up on  
7 your web site, if you prefer. There is priority end to end  
8 data. I think that ought to be released regularly.

9 The Postal Service is probably pretty close to  
10 offering a confirmed service. I don't see too many  
11 obstacles in that case moving through in a timely fashion at  
12 the Commission. Use that information so you can regularly  
13 release information about first class performance of your  
14 confirmed participants, of standard mail participants.  
15 Let's release that performance data.

16 In addition, I've got to go beyond that and say  
17 I'd like to see the Postal Service collect and report  
18 performance data or the subclasses where they're not doing  
19 it now and for special services, where generally they're not  
20 doing anything like that either.

21 MR. POU: I must say now I'm curious to know what  
22 EXFC is all about.

23 MS. DREIFUSS: External first class measurement.

24 MR. POU: Okay. Next to the last comment.

25 MR. SWINDERMAN: Yes. Allen Swinderman, Greeting



1 Card Association. In terms of refinement of the process,  
2 our suggestion would be that the Postal Service have a  
3 prefiling conference. We certainly have it in trials and  
4 hearings, where we have a pretrial conference or prehearing  
5 conference. This would be a prefiling conference in which  
6 the service would basically lay out its case, who it's  
7 calling, who its witnesses are going to be, and what the  
8 subjects they're going to cover. It will be an opportunity  
9 to ask some questions. It would not be a situation of  
10 interrogation or cross-examination. But it would give the  
11 parties a heads-up as to what is coming down the pike in  
12 addition to hopefully some of the other information that the  
13 Postal Service is going to be releasing.

14 I'd also agree with Bill. Certainly library  
15 references, I would like to see the Postal Service get away,  
16 or the parties get away, from burying testimony in library  
17 references, following up with what Tonda said, that parties  
18 that have limited resources, it really stretches you in  
19 terms of time, both human resources and expense in terms of  
20 trying to uncover buried information. That certainly would  
21 assist in the process.

22 MR. POU: Panelists?

23 MR. KEARNEY: I just want to thank Tonda, Steve,  
24 and Bill for participating in this panel, and everybody who  
25 participated from the audience. I think it was a very

1 helpful discussion. Thank you very much. And we're taking  
2 a 15-minute break now.

3 (Recess)

4 MS. GIBBONS: I think we're ready to get going.  
5 I've been asked to recommend to people that if you need a  
6 taxi to get to the airport or to get to wherever, to please  
7 step outside to the registration desk and let them know at  
8 this point because they may need to order some extra. So  
9 hopefully, the entire room won't leave for that reason.

10 Why don't we get going with our last panel? I'm  
11 Mary Anne Gibbons and joining me today are John Waller, who  
12 is also playing the role of Ed Gleiman. Ed Gleiman had to  
13 leave, but never being one to be too shy, he left his proxy  
14 and many of his comments with John. And then, Bill Baker,  
15 another veteran of postal ratemaking law.

16 This panel continues in the general arena of the  
17 prior panel on process and approach to the omnibus  
18 ratemaking case. We'll deal with issues in a couple of  
19 different areas -- changes in the postal ratemaking rules  
20 for the filing requirements, discovery and any other rate  
21 case procedures that people might want to recommend that we  
22 can work on improving. Also, what policy and design issues  
23 should be reevaluated.

24 Finally, we've talked a little bit about this  
25 before, but how could the parties -- the Postal Service and

1 the various other stakeholders collaborate between rate  
2 cases. I know we've already touched on this, but to make  
3 things go smoother once we actually get into the rate cases.

4 Just a couple of thoughts that the Postal Service  
5 has on this in terms of the filing. We'd like to hear from  
6 you. Are we filing documents or producing information when  
7 we do our filings that really are of no use to people or  
8 very little use? So if we are, we shouldn't waste any more  
9 time on that.

10 Is there other information that we could filing or  
11 could be producing? I know we talked about produce between  
12 cases, but also at the time that we file a case that might  
13 actually be more useful to you, because then we would spend  
14 our time in a little bit more productive manner.

15 In the discovery area, I know we had one  
16 suggestion on how we could introduce some of what's going on  
17 in the courts for the last 5 to 10 years into the rates  
18 process. That was the potential for a motions practice.  
19 There are numbers of other things that go on in the courts,  
20 as most of you would know, to limit discovery, tie up  
21 discovery conferences -- ADR is in big use these days.

22 Is there a way to introduce ADR, Alternative  
23 Dispute Resolution, into the ratemaking process that might  
24 speed it along or limit issues or resolve issues in a way  
25 that's a little bit more efficient than we're doing today?

1           Are there any other process limitations? Question  
2 on whether limiting cross examination or limiting length of  
3 briefs or anything like that would be useful. My lawyers  
4 cringe at that because lawyers get paid by the word, and  
5 they might hate to have to do that. Does anybody think that  
6 there are some things that can be done there?

7           In the rate and policy design issue, you know that  
8 for years the Postal Service has tried to get more of a  
9 market-based approach in ratemaking. How far do you think  
10 we can push that? I know we've had some other comments on  
11 that earlier today.

12           As far as collaboration between cases, we, as I  
13 know many of you were pleased with the great collaboration  
14 that we had with all the stakeholders when we were able to  
15 settle the last rate case. I think the fact that we're all  
16 here today is a good sign of the Postal Services' interest  
17 in collaborating a lot more with all the stakeholders.

18           We would intend to do that even if we didn't have  
19 the Summit and even if we didn't have the chance to talk  
20 about that today. What would be some ways that you think we  
21 could collaborate better with the various stakeholders at  
22 any point along the way in the process, whether it's during  
23 rate cases or between rate cases?

24           So just some of the Postal Services thoughts and  
25 I'm going to turn it over to the ghost of Ed Gleiman here,

1 John Waller. John will be Ed to start with and then he'll  
2 shift back to himself at a later point.

3 MR. WALLER: It's a great opportunity to say, I  
4 guess, whatever I want and blame it on Ed. Of course, he  
5 gave -- he always start off with a story. He quotes the  
6 story, I guess, Sam Levinson said that it's so simply to be  
7 wise. Just think of something stupid to say, and then don't  
8 say it. And with that, he left me his notes.

9 (Laughter.)

10 MR. WALLER: He wanted to emphasize that he's been  
11 a long-time advocate. I think he mentioned this when he got  
12 this morning to speak of the phased rates, but he's not  
13 going to be able to participate in that today. He's also  
14 the nitch classifications, which are the subject of the  
15 follow-up one.

16 But his intent was to make some comments that  
17 would simplify and reduce the time in his mind of the rate  
18 cases as they were proceeding, both in terms of the time and  
19 the money that would have to be spent for everybody  
20 involved. His former staff members would probably  
21 appreciate that, too.

22 The first adjustment to the conventional rate case  
23 thing, he makes a very clear statement. He is in favor of  
24 limiting the classification changes that would come up in a  
25 rate case, and excluding cost methodology changes from a

1 rate case. That there is enough to be covered in the just  
2 development of the rates, start from the process of knowing  
3 how your costs are being developed and agreed upon  
4 beforehand.

5 He emphasizes, and he has certainly lived through  
6 it with some very late-night hearings, the methodology  
7 issues consume substantial amounts of time and money. That  
8 they should be issues, in his mind, of a separate rate case  
9 that occur between rate cases.

10 Now I'm sure he would have picked up on some of  
11 the comments in the last one when Tanya was making the  
12 difficulty this presents for the small associations, the  
13 small participants. The immediate thought I had, and it was  
14 one that Joel said, that if there is going to be some  
15 methodology change, whether it's part of a regular rate case  
16 or it is part of a separate case, that there should be  
17 estimates made of the impact on the rates so that people can  
18 decide whether they should participate and fairly convey to  
19 their members or whoever is paying them what the reasons are  
20 getting into this one. That's something that probably can  
21 be done. Joel came up and said that, but I reemphasize  
22 that.

23 He also thought that the hybrid test years are  
24 possible, given the Services upgraded information systems,  
25 and they maybe desirable, but avoiding cost issues such as a

1 potential need to update as through the future.

2 I asked him, well, what was he -- because he has  
3 had, in the past, some critical comments about the data  
4 systems -- what was he referring to in the upgraded  
5 systems? He was thinking of things like Postal One, the  
6 greater information unlike what's being submitted for  
7 mailing; what's being processed and being able to move away  
8 more from some of the data collection efforts that require  
9 statistical efforts, and having operational data on which to  
10 make the decision.

11 On collaboration between the customer and the  
12 Postal Service, he thought transparency has such great  
13 potential; particularly, between rate cases of having more  
14 data available for parties to make projections on, decisions  
15 on to evolve their own strategy. And coming out definitely  
16 in advance of rate filings.

17 I know it's one comment I wanted to make that the  
18 more data that comes out the better. Unfortunately, we do  
19 seem to have two CRAs coming along, but at one time CRA with  
20 the last cases methodology wasn't produced. It is now  
21 produced. I think it is to the Postal Service's credit that  
22 they do produce that for the benefit of the parties.

23 I think it could go maybe a step further in  
24 providing some of the support work papers -- going beyond  
25 Ed's comments here. Some of the B work papers and some of

1 the data that goes into that, maybe the Modge (phonetic)  
2 data that would provide productivity estimates. It could be  
3 then used by someone to update the engineering models to  
4 develop the avoided costs estimates. It could be going all  
5 the way in providing estimates of the avoided costs given  
6 the current method.

7 He also is in favor of the technical conferences  
8 or meetings between the parties, but that are semi-official  
9 or informal should not be the sole purview of the rate  
10 cases. That the should occur in between. This could be  
11 something short of a full case on a methodology issue. It  
12 could be when data comes out.

13 When the CRA comes out, that there could be a  
14 conference at which people were invited that was broadcast  
15 over the Net that the parties could ask technical questions  
16 about the data that had been raised, or if they send trends  
17 underway in the costs in certain areas -- certain product  
18 lines that they could ask the questions then and there and  
19 get on top of the problem of why flat costs are going up or  
20 down or changing or that the ASFM 100 is not performing as  
21 expected, et cetera, or is performing better and follow-up  
22 on those implications.

23 Now I hope everyone has seen Shelley's  
24 announcements when she made one of her revisions to the  
25 issue statement. That they're going to have a conference.



1 They're going to release a report on one of these big  
2 methodology issues of the last several rate cases, the  
3 variability issue that had commissioned to study in  
4 anticipation of it going into this case.

5           She is going to be releasing it at the end of the  
6 month -- this week. That a seminar, they're calling it, is  
7 going to be held on the 20th of June. This is somewhere  
8 between a technical conference, and it's certainly not a  
9 rate hearing. But it's going to be allowed an issue to be  
10 aired that has been very controversial.

11           It's kind of setting an example for what a lot of  
12 parties are asking for the Postal Service to bring out  
13 information. Well, here they are raising the information or  
14 developing it. They are going to bring it out instead of  
15 waiting until a rate case and make it a part of their  
16 litigation strategy. I hope everyone participates in the  
17 seminar that has an issue in this.

18           The last issue that -- and I expanded on Ed there.  
19 The last issue that he left here that it maybe time to  
20 establish retail versus commercial sub-classes in several  
21 areas, and particularly, in first class this distinction  
22 could result in the averaging of all the single piece mail  
23 -- the greeting cards, the reply mail things together and  
24 keeping all the bulk discount issues separate from that.

25           He just throws that out as an issue that maybe

1 it's time to pursue.

2 MS. GIBBON: Thank you, John, as Ed. Bill?

3 MR. BAKER: Thank you. I've been doing postal  
4 cases since 1987, and I find myself as the only practicing  
5 lawyer here and pleased that all my colleague in the bar  
6 please jump up and speak. I don't want to have to carry the  
7 water first myself here.

8 As far as the Postal Service, we are dealing with  
9 a government agency with annual revenues somewhere around  
10 \$70 billion or so. It has a unique role in the U.S.  
11 economy. When we're talking about procedural rules to make  
12 the rate-setting process better for want of a better word,  
13 there are things that have to balance. There is the  
14 gyroflex expedition and simplicity. There is  
15 countervailing --perhaps countervailing value of fairness to  
16 all.

17 I'd be more welcomed to look at procedural changes  
18 that simplify or speed things along. I would not be happy  
19 to look at changes to procedural rules that would actually  
20 have substantive effects that may favor some interested  
21 mailers over other interested mailers. So there is a  
22 principal of neutrality I'm interested in when we talk about  
23 simplifying the cases as a procedural matter.

24 As far as some specifics of what we might consider  
25 doing, in every recent omnibus case that I've seen, the

1 Postal Service has accompanied its rate request with not  
2 only around 40 witnesses testimony and massive numbers of  
3 library references, but also a routine motion for wavier of  
4 a number of the Commission's rules.

5           As far as I can recall that motion for waiver is  
6 never opposed and is always granted and that's one obvious  
7 place we could look to take a look at the Commission's rules  
8 without really changing a whole lot, but it might simplify  
9 things a little bit.

10           Secondly, and as the previous panel talked about,  
11 we have duplicate, parallel costing methodologies. Frankly,  
12 people this is ridiculous. I concur with the people who  
13 spoke before that if the Commission goes through this, it  
14 sets a costing methodology and the Postal Service really  
15 ought to live with it. They may not like it, but we don't  
16 have a perfect world. We can't always get what we want.

17           Along those lines, I would agree that a cost in  
18 cases in between the omnibus cases would speed up the  
19 costing case -- the omnibus case and could even simplify the  
20 omnibus case. The only question I'd raise is do we really  
21 want the omnibus cases sped up. Some people kind of like  
22 the length of time it takes because it postpones the  
23 implementation of new rates. I'll just leave that there and  
24 let other people see what they think.

25           One procedural innovation the Commission came up

1 with a few cases back, which I think addresses some of the  
2 concerns we have; particularly, if we're not going to do in  
3 between costing cases, is the trial brief. I have always  
4 found them very useful. In fact, if one suggestion that I  
5 might make is the Postal Service filed theirs a lot sooner  
6 in the process, and that, they could tell us we're changing  
7 this costing methodology for the following reasons or for  
8 the reasons expressed by witness so and so.

9           If you want to see the old methodology, look in  
10 library reference "x," if the new ones, then library  
11 reference "y." It could make it a lot clearer for us, and  
12 if we could see that right at the outset, it would make life  
13 easier for practitioners to find the information we want.  
14 That, of course, would apply only if we're not -- there's  
15 all of these things in smaller cases in between.

16           We had some discussion about looking at what the  
17 courts do and limits on interrogatories. Surprise --  
18 probably not a big surprise. I am not in favor of limiting  
19 the number of interrogatories. Most of us, frankly, do not  
20 ask interrogatories for the fun of it. We don't have enough  
21 time. We ask them because we want to know the answer.

22           Each of us can think of an instance when Airock  
23 (phonetic) has been gorged and we've had need to ask lots  
24 and lots of interrogatories. But if you look at O, Vi and  
25 Arch over the members of the bar, I think that typically

1 there are only one or two active participants in rate cases  
2 that routinely file unrigid interrogatories, and we all know  
3 who they are. Most of don't, and I don't think those  
4 outlawries are sufficient reason to adopt a limitation to  
5 the number of interrogatories.

6           So the Postal Service you could do us all a favor  
7 is not to redirect an interrogatory to a different witness  
8 unless we ask you to. We ask to follow the questions. We  
9 usually direct it to a particular witness for a reason. And  
10 it's quite a surprise sometimes to see it's answered by  
11 someone whose testimony you might not even have looked at

12           But when you direct it to someone else -- you can  
13 call us and say, we're thinking of redirecting it to this  
14 other wise, do you object? Then we'll tell you over the  
15 phone, yes, we do or no, we don't. I just want to know why  
16 and so we're not surprised. That might help things and it  
17 might avoid some motion practice down the road. Enough on  
18 interrogatories.

19           Collaboration or talking to the mailers ahead of  
20 time I'm a little queasy about that. I don't like the idea  
21 of the Postal Service developing rate proposals in a vacuum  
22 without talking to people. That doesn't seem like a good  
23 idea. I would want them to talk to everybody who might be  
24 concerned, not just the mailers who might benefit from a  
25 particular change.

1           When they talk to the people who might be  
2 aggrieved by the change, we would ask you to tell us  
3 honestly what you're to do. I can think of an instance in  
4 the fairly distance past where the Postal Service told my  
5 client one thing would certainly not occur, and there it  
6 was. As soon as the case was filed, two weeks later there  
7 is was. That did not improve relations.

8           So tell us about it. Tell us about it honestly.  
9 Give us a chance to talk you out of it. Also, find a way to  
10 talk -- give us a chance to talk you out of it. Don't make  
11 it just a courtesy call where you've already made up your  
12 mind. Find a way to talk to the single piece first class  
13 mailers, maybe do focus groups.

14           Something that's -- you know, you can't talk to  
15 all 270 million of us, but you can talk to some of them and  
16 try to think of something so you can at least say you've  
17 taken an effort to talk to them.

18           I'm not appearing on their behalf because they  
19 really wouldn't want to be tied to some of this. I would  
20 say we should another look at what we put in the revenue  
21 requirement. As said before, until the costs are managed or  
22 under control, I mean, there is not a whole lot that we can  
23 really do about enforcing and preserving rate stability or  
24 inflation-level rate increases.

25           A couple of points on that. I would like to see

1 the Commission be more aggressive on costing and on what  
2 they might disallow. The governors will have heartburn on  
3 that, but if you want the process to work better, that is  
4 worth considering. At the same time, and now I'm going to  
5 offend the other half of the room, this way we would cover  
6 prior year losses is absurd. This notion that we recover  
7 one-ninth of the prior year losses is adjusted per year is  
8 silly because, as we all know, we incur new allowances that  
9 offset the losses we're recovering and we never catch up.

10           If you have an obligation over time to break even,  
11 and we've chosen to account for them the way we have, it  
12 seems to me the Postal Service has to be more aggressive in  
13 recovering its prior year losses. Maybe they can come up  
14 with a cogent way of converting that to capital expenditures  
15 or investments of some kind to make it more appetizing to  
16 mailers who would have to pay for it, but that's something I  
17 think we should consider.

18           Finally, along the lines of costing, and this is  
19 one that the Commission really doesn't have much to do with,  
20 but the Postal Service does. If you really want to create a  
21 competitive pressure -- if the Postal Service want to  
22 instill the notion of competition into its own costing, it  
23 should consider carefully and selectively relaxing the  
24 private express statute, and particularly, to allow more  
25 competition to come in and see if that actually would have

1 the effect of restraining costs increases on the labor side.

2 At that, I think I'd better stop talking.

3 MR. WALLER: I'll make just a few more comments  
4 since I did slip several in under Ed's name. My objective,  
5 looking at the rate cases, presuming that it's operating as  
6 normal is to get as much information out and understandable  
7 as quickly as possible for both the Commission's purpose of  
8 analysis and for the parties to be able to ask further  
9 questions and to fill holes through the interrogatory  
10 process.

11 In that regard the information comes to us, the  
12 more complete it is the better, but it isn't just to have it  
13 being a -- filling all the day they're suppose to be filed,  
14 and the analysis. But it's to make it useable right away.  
15 In many cases the analysis is dependent upon somewhat  
16 difficult programs to understand that will not run on any PC  
17 format.

18 In the past we've always had to convert SAS  
19 programs to run, not on the main frame, but run on PCs. The  
20 last case ran into an instance where something that was  
21 written in Fortran couldn't even be converted and it was  
22 either going to be at a great costs, if at all possible. I  
23 think that there should be great effort expended to avoid  
24 that whenever possible.

25 The current electronic filing of rulemaking is got



1 within it, not only of a filing electronically, but a  
2 requirement that things come in, in a form that if there are  
3 programs associated with it, they can be run on PC with  
4 applications that are readily available.

5           Also the date, if you look back through the last  
6 PRs and the interrogatories that get issued initially, there  
7 is some pattern to requesting of data that has not been  
8 filed. Under the rules, could or couldn't, but it could be  
9 at least guidance to the Postal Service as they start to  
10 decide what they're going to file. The service standard  
11 information is becoming much more in demand. Shelley  
12 mentioned that, to report it regularly or to have it come  
13 in, too, automatically in cases.

14           A lot of times statistical information on the data  
15 sets is lacking, such as sample design, et cetera. They get  
16 filled pretty quickly when answering an interrogatory.  
17 Also, you could use the Commission's prior decision  
18 sometimes as a source of things in which information is  
19 going to be required in the next case.

20           Clearly, the last case ended with several issues  
21 that were still on the table that were raised, but not  
22 resolved surrounding work-sharing discounts and they're  
23 probably going to come up next time. So the more informed  
24 information that can be provided on that the better.

25           I was sorry to hear Bill Olsen say that technical

1 conferences were -- that he didn't like them that much or  
2 didn't find them very useful. A lot of the things that were  
3 written beforehand serve a general request of being able to  
4 talk directly, have experts talk to each other directly.  
5 The technical conference is the one means by which that can  
6 occur

7           I agree sometimes they're so early that you aren't  
8 exactly up on all the issues that need to be asked, but many  
9 that I've participated in, at least, always surfaced some  
10 useful information and short circuit some later need for  
11 interrogatories. They could maybe be expanded a little bit  
12 in their scope. There is usually the admonishment about,  
13 well, we limit it to this type question and then everybody  
14 dances around trying to ask a question in a non-why way.

15           Also, you may use current technology to make it  
16 available to more people. Broadcast it on the internet and  
17 have some person there that would act as a -- operating one  
18 the instance messages services, so that somebody that can't  
19 come in from Chicago or New York could participate in the  
20 technical conference by listening, and then, if they have  
21 questions, submitting them through an instance message  
22 system. And then, somebody raising it that is there.

23           Keep using innovative approaches to try and  
24 resolve the disputes on the interrogatory responses. I  
25 think it was back in R2000 that the new engineering

1 standards data was introduced and people were having a lot  
2 of difficulty trying to identify the questions and what they  
3 wanted to bring on the record.

4           The Postal Service was having a lot of trouble  
5 sorting it out. Eventually, the Commission raised the idea  
6 of having a -- I guess it was called a technical conference  
7 with the people that had generated the data. That allowed a  
8 direct communication between the generators of the data and  
9 the people who now wanted to analyze it and allowed more  
10 precise questions to result later, I believe, in my opinion.  
11 And also, didn't fill the docket room with just piles of  
12 data. It limited more what came into it.

13           I don't have too much comments on the  
14 interrogatory. We depend on them to produce information,  
15 and what's frustrating, I can say just watching them, is  
16 sometimes waiting to see finally an answer come out or a  
17 decision not to. I don't know if there is -- I'll throw  
18 that to Steve. If there is any way to reduce the number of  
19 cycles of where they are in the process.

20           Rate design issues -- clearly, the work-sharing  
21 issues. Take the last case where the arguments were about  
22 is going to be a rate design issue, and the more we can  
23 prepare for that the better, both with current data and  
24 making sure information is submitted right away and that the  
25 right people are there as witnesses.

1           Lastly, the Commission indicated in the last  
2   decision that the mark-up index needs some review and  
3   looking at it. We are looking at it. If the rates don't  
4   even change, there's just a shift in the mail that's  
5   causing the index to change. To the extent that people use  
6   that as an indicator of their share of the burden, it  
7   warrants review and looking at possibly before the case  
8   starts.

9           MS. GIBBONS: Okay. Thank you, before we throw it  
10   open, it occurs to me from Bill's comment in the last panel  
11   that while we're fixing something we don't want to undo  
12   something that's already good. So maybe people might have  
13   thoughts before we leave today on what is not broken in  
14   addition to what's broken so that we don't make things worse  
15   when we're trying to make them better. So if there is  
16   anything you think is working well, that might be useful to  
17   hear.

18           MR. POU: Okay, audience comments on discovery?

19           MR. THOMAS: Joel Thomas from the National  
20   Association of Pre-sort Mailers again. I made a number of  
21   comments which have been reflected in a lot John's remarks  
22   and I assume it's not necessary to run down what was  
23   submitted in writing.

24           One thing I didn't comment on was the limitation  
25   of interrogatories. I share the reservations that others

1 have expressed about whether that would be a good idea or  
2 even workable. In multi-party litigation of this sort,  
3 there are some parties that don't ask nearly as many  
4 interrogatories as others. If the limit is set high enough  
5 to allow those people that have a serious issue to pursue,  
6 you're going to be able to find somebody who hasn't used  
7 their quota and get them to ask your questions for you if  
8 you're at all subtle about it, and it might even be fairly  
9 obvious what's going on. But it would still comply with the  
10 rules. I don't think you're going to get a great advance  
11 out of saying, well, let's limit interrogatories. That  
12 works best in automobile accident cases where there's a  
13 plaintiff and a defendant and not a lot of other parties  
14 running around.

15 I would hesitate to suggest that, that would save  
16 a lot of time. I think what would save the post office a  
17 lot time is that an enormous number of these interrogatories  
18 that are filed come out of the Commission and the OCA. What  
19 they reflect to me is a failure of the Postal Service and  
20 the Commission to be exchanging the kind of information that  
21 at least one of the two parties wants on a regular basis  
22 outside the case.

23 If they could get some kind of protocol that would  
24 result in the exchange of information between them and  
25 perhaps, we, as interested parties would be third-party

1 beneficiaries of the flow of that information. But if they  
2 could simply solve, between themselves, a number of these  
3 issues, then they wouldn't be asking all of those  
4 interrogatories that have been stored up in the context of a  
5 rate case, which would, at a minimum, free up some other  
6 resources within the Postal Service to address other issues  
7 that are raised by other parties I should think.

8 MR. STRAUSS: David Strauss, American Business  
9 Media. I think I'm going to disagree with NAA's current  
10 counsel and it's prior in-house counsel when apparent. I  
11 don't think depositions would work at all in these cases. I  
12 think you'd need a team of lawyers to represent each party.

13 Bob, I know you think -- Mr. Brinkman still here?  
14 You think that it could speed things up, but right now there  
15 is an awful lot of discipline that lawyers exercise in the  
16 hearings. I think what's not broken is the fact that these  
17 can be completed in 10 months is extraordinary.

18 Those of us who practice before other regulatory  
19 agencies practitioners there would deem it impossible to  
20 finish a case like this in less than a couple of years, and  
21 to try to get it to less than 10 months is going to hurt the  
22 process, I think.

23 The only reason the process works is we can go  
24 through six or seven witnesses in one day instead of six or  
25 seven days for one witness, which is often the case in other

1 places, and that's because the lawyers know that the  
2 commissioners are going to get pretty angry at them if they  
3 take eight hours for one witness when there is 10 other  
4 parties and 5 other witnesses.

5           If you start with deposition, you're going to have  
6 five-hour depositions per attorney. You're going to need a  
7 team of attorneys to cover all of the depositions. There  
8 won't be any time for anything else, and you'd have two  
9 parties in each case by the time it was over.

10           In my written suggestions I suggested something  
11 which is going to sound even stranger than being opposed to  
12 depositions, which is the possibility that the whole  
13 interrogatory process has run its course, and actually  
14 impedes progress in these cases.

15           There aren't many people in this room, who like me  
16 where in R711, but the Postal Service attorneys at that  
17 time, and I was one of them, didn't spend all of our days  
18 answering interrogatories. We worked on the case. We did  
19 that case with four or five attorneys and only three or four  
20 of those actually did anything. The other one got a  
21 distinguished service award, and John knows who it is.

22           (Laughter.)

23           MR. STRAUSS: But so many of these interrogatories  
24 in these cases are carefully crafted questions by lawyers  
25 that come out with carefully crafted answers by lawyers and

1 really don't advance the case at all. The lawyers in the  
2 case, the parties in the case, save their good questions for  
3 oral cross anyway because they want the witness to answer  
4 them, not a committee to answer them.

5 I'm not suggesting we abandon written cross  
6 examination all at once. I'm not suggesting we abandon  
7 written discovery. I think discovery has a place. We're  
8 discovering information, not asking, as you said John, the  
9 "y" questions. There are so many questions, if you read  
10 them all, and nobody does, I'm sure. They're bad questions  
11 or silly questions. The answers are never used. They're  
12 going to be designated in the record because people  
13 designate everything.

14 But if somebody did a study of how many answers to  
15 interrogatories actually make it into the briefs, I think  
16 there would be a shocking small number. And maybe what we  
17 need to do or what the Commission should do is experiment  
18 with one witness and see what happens if you limit discovery  
19 to true discovery and allow the parties to cross examine. I  
20 don't think you're going to get much more oral cross  
21 examination that you get now.

22 I think that the time you save in the discovery  
23 process could be significant. Now as Dennis Miller would  
24 say, that's my opinion and I could be wrong and I probably  
25 am and I don't think there's a need to speed up the process.



1 But there is a perceived need to speed up the process, I  
2 think an experiment with limiting discovery to true  
3 discovery and not interrogatories might be a way to do it.

4 MR. FELDMAN: Steve Feldman for the National  
5 Federal of Independent Publications and the Coalition of  
6 Religious Press Associations. I have just a couple of  
7 comments coming out of the panel discussion on discovery.

8 I first want to say to Mary Anne's suggestion  
9 about we ought to a little bit anyway about what works. I  
10 want to say that maybe I've just been lucky in the last few  
11 years, but I've noticed a refreshing trend among the Postal  
12 Service attorneys that I've dealt with regarding witnesses  
13 that I happen to be interested in, in a case, being very  
14 cooperative. And by that, I mean, oftentimes, before I ask  
15 a question, one of those famous written interrogatories, or  
16 maybe I've asked the interrogatory and I still pick up the  
17 phone before the answer is due.

18 I've had the opportunity to have a dialogue with  
19 the responsible attorney, who, of course, checks with his  
20 client and oftentimes we are able to either narrow the scope  
21 of the question or to at least assure that it's going to be  
22 a question and answer, and not a springboard for 20 more  
23 questions.

24 I definitely remember a little further back in  
25 time that, that just didn't seem to be the way it worked. I

1 don't know if this is an official Postal Service policy, but  
2 it is an openness on the part of the Postal Council I work  
3 with, and I'd just like to commend them. And if I'm just  
4 the lucky one who hits the nice guys, I urge all the postal  
5 attorneys to be nice guys. If you are nice guys, thank you  
6 very much.

7           It does make a big difference and it does limit  
8 it. I would urge the folks like me who represent  
9 associations and corporations to extend the same courtesy to  
10 the Postal Service to try to get some of these -- to sharpen  
11 up the questions, to sharpen up the answers, to make sure  
12 that everybody understands what's being asked for and so  
13 that the -- if you still need to ask that question, it's the  
14 best possible question.

15           And the other side, they actually have advance  
16 notice of what's being required. Get the gamesmanship out  
17 of it, and again, I believe that the Postal Service Law  
18 Department is doing its best to do that in many instances,  
19 if not all instances.

20           Now I'll take the other side of things and say I  
21 have never understood the growing use of the famous mass  
22 institutional witness. This entity came out of nowhere, I  
23 think, sometime in the 1980s, anyone can correct me and they  
24 probably will, and just has gotten bigger and bigger.  
25 Common sense tells us that there is a real -- either a

1 person behind the institutional witness or a group of  
2 people, which is perfectly normal. It may be in the area  
3 where it involves cross discipline or several witnesses in  
4 several spots. So it's more convenient to say the  
5 institution is answering the question.

6           What I would suggest is that the key person, even  
7 if it's among a group of witnesses or even an individual in  
8 the Postal Service who isn't actively a witness sign his or  
9 her name to that. They maybe doing that now, a signature  
10 may be attached. I honestly can't remember offhand. I  
11 think it is. But that there be somebody who potentially can  
12 be called for oral cause.

13           Like David Strauss' previous comments, I don't  
14 think this is an instance where you're going to see a huge  
15 explosion in oral cross examination if an institutional  
16 response has a human sponsor.

17           MR. POU: Thanks.

18           MR. BAKER: Before he does that I would agree with  
19 what Steve said that you get fewer interrogatories if you  
20 call the counsel who propounded the interrogatory and say,  
21 what is it that you really want? And that question can't  
22 really be answered the way you ask it because of all these  
23 things that we weren't aware of when we asked the question.

24           That can actually help the process. We get a  
25 better answer. You get an answer that's helpful. You get

1 an answer that disposes of the question so you don't get  
2 more further motion practice or further interrogatories on  
3 it and that's helpful. I've always felt the notion of  
4 depositions of Postal witnesses would be just ghastly. I  
5 didn't want to sit through that.

6 What we could do, and make more use for requests  
7 for admissions. It's in the rules, but people don't do them.

8 MR. SWINDERMAN; Allen Swinderman, Greeting Card  
9 Association. Several points. One, to address the situation  
10 where you get a witness on the stand and he or she says "I  
11 didn't review that. You need to direct that question to so  
12 and so." Oftentimes, you hope that, that witness is the  
13 subsequent witnesses; but there have been instances when  
14 it's been a prior witnesses. Whether that can be addressed  
15 with regards to having a witnesses grouped or having them as  
16 panelists so that you get a coherent response with regard to  
17 issues, whether it be first class, standard or whatever.

18 Picking up on several threads, one by David  
19 Strauss, which I would echo, and that is trying shorten the  
20 process. A number of the parties here simply do not have  
21 the human resources to throw at a shortened or condensed  
22 period of time. It's amazing, I agree with David, that  
23 we're able to accomplish what we can within the 10-month  
24 framework.

25 Then also, picking up with what Bill sand, and

1 that is, having the Postal Service have a great dialogue  
2 with first class mailers and with the OCA, which I think  
3 could be improved upon. In that light, although, Bill I'm  
4 not expecting the Postal Service to advocate relaxation of  
5 the private express statutes, what I would urge is that the  
6 Postal Service begin thinking as if there were no private  
7 expressed statutes and how they would compete on that basis  
8 in the first class arena.

9 MR. VOLNER: I think I want to come back to Mike  
10 Coughlin's comment. Let's start with Bill Baker's fair  
11 question. Do we really want to speed it up? It depends on  
12 what you mean by "speed it up." We've already established  
13 that shorten time intervals doesn't work. The move of  
14 discovery responses from 14 days to 10 days produced just  
15 reams of papers saying I'm sorry we're late, but we couldn't  
16 help it. That's not shortening the process.

17 Shortening the process is simplifying the process  
18 by getting rid of some extraneous stuff. David Strauss has  
19 put his finger on something that might be worth exploring  
20 more vigorously. There is discovery and then there is  
21 discovery. Discovery designed to find information which is  
22 not readily apparent is a legitimate exercise. Contention  
23 interrogatories have no place in this business. And again,  
24 I come back to my comment about the Commission needing to  
25 take control, maybe request for admissions work. Frankly,

1 I've never seen them work very effectively in this kind of  
2 complex environment.

3           Let's talk about, for a moment, why from a mailers  
4 perspective it works to our advantage to simplify and  
5 thereby expedite the process. It simply comes down to this.  
6 If they say it takes them five months to build a case, it  
7 takes us 10 months to get the case done with. It takes  
8 another month for the Board of Governors to act, and we say,  
9 and quite properly we say, we need 90 days to get  
10 implemented. That's almost 20 months.

11           Then we stand around in these cases in utter  
12 amazement at the contingency. If you could cut five months  
13 out of the rate case, the advice from counsel to Dick  
14 Strasser, who I noticed has decided to hide during this part  
15 of the war, is cut the contingency because you know you're  
16 going to get those rates, not in 11 or 12 or 15 months, but  
17 you're going to get them 8 months, giving us the full 90  
18 days that we need. That changes the whole revenue dynamic  
19 very significantly.

20           It does require that a lot issues be pulled out of  
21 the case -- the methodological costing issues. It requires  
22 that the Postal Service give up something, which is greater  
23 transparency before the case is filed and not two days  
24 before the case is filed -- a month, two months, three  
25 months before the case is filed. It does not have to be

1 closed sessions, Bill. Those sessions have to be open to  
2 everybody and anybody, including the OCA, who wants to  
3 attend.

4           The Commission, for its part, has to exercise much  
5 more control than they do now. At the beginning of every  
6 decision there is recital of the number of days of hearing  
7 and the length of the record. The only thing that, that  
8 length of the record proves is that no human being, much  
9 less the whole staff of the Rate Commission, has read it.

10           Ten thousand pages is not something to be proud  
11 of, and it doesn't produce good decisions . So it seems to  
12 me that we've got to pick up some of these ideas, including  
13 limiting the number of interrogatories. I don't believe  
14 that Joel's concern is valid. But if you limit the number  
15 of interrogatories, you might get people to use them for  
16 their real purpose, which would in turn reduce the length of  
17 the record, which would in turn simplify the process and  
18 thereby expedite it.

19           MR. SEARSAL: Jerry Searsal with Direct Marketing  
20 Association, again. I would like to commend David Strauss.  
21 I think that he has a very good idea that we should look and  
22 experiment on.

23           I do think that -- there are a couple of things  
24 with asking interrogatories in lieu of oral cross  
25 examination, which was the real reason to start this process

1 was to cut the length of the proceedings, is that now with  
2 the transcript and so forth, it makes it very much more  
3 expensive and so forth. It's easier if we had an oral  
4 transcript as well without the written interrogatories  
5 inside to be able to search it much more easily.

6           The expense for getting the full transcript is  
7 much more difficult to try to do searches on as we do  
8 briefs. But the point that I think on the experiment that  
9 we have to pick up on what David said to go with the  
10 experiment. The post office should pick -- the Rate  
11 Commission, excuse me, should pick one witness and try and  
12 have technical conferences. Then maybe some true discovery  
13 of what was used here and so forth. Then go to oral cross  
14 examination and have that be the first witness because the  
15 next person after David did talk about, oh, no, I'm the  
16 wrong witness to talk to. It's someone else who's already  
17 come and gone. So on the first experiment should be the  
18 first witness up and give it a try. I think that's really  
19 an important factor.

20           One other thing that -- the climate at rate cases  
21 is very different, and looking at this past rate case and  
22 the settlement in this past rate case, one of the things  
23 that Direct Marketing Association did and felt that they had  
24 to do to try to move things along, looking at times and  
25 dates, was to try and get a settlement-type conference put



1 together. But we did it with all the parties in the rate  
2 case except one. We purposely did not invite the United  
3 States Postal Service.

4 We felt that, that was an important factor in  
5 moving forward with the settlement so that the parties could  
6 talk freely without the Postal Service being there. They  
7 probably learned as soon as the meeting was over what went  
8 on it, but that tells you the attitude that is out there as  
9 we look at these proceedings.

10 We invited United Parcel Service. We invited the  
11 OCA, but we absolutely did not invite -- we told them so,  
12 the Postal Service. So it's an interesting thing to take a  
13 look at, as the Commission and the Postal Service look at  
14 trying to fix and work these rate cases, that there is not a  
15 feeling among the parties that there can be open dialogue.

16 Looking at trying to get a settlement where people  
17 are going to give and take in trying to work a settlement  
18 with Postal Service, the view is don't have the Postal  
19 Service there because you want to have a united front to the  
20 Postal Service. Here's what the settlement is.

21 So I think, as you look at this entire practice in  
22 shortening things, you have to take a look at what are  
23 attitudes of all the players with each other. We work with  
24 the Postal Services and so forth, and many instances -- the  
25 Direct Marketing Association works with the Postal Service

1 all the time, but in some instances in the case, we don't  
2 see cooperation from the Postal Service as you look at the  
3 case.

4           They are the most adversarial of any of the  
5 parties, including United Parcel Service, at least that's  
6 the view of a lot of mailers. You have to take a look at  
7 that in how this is going to work. You have to change that  
8 attitude before you can really simplify this process. It  
9 may not be -- the attitude of the Postal Service admits the  
10 attitude of the mailers would have to change, but whatever  
11 it is, that's the problem that we see..

12           MS. GIBBONS: Jerry, do you have any specific  
13 suggestions on what it would take to change that?

14           MR. SEARSAL: Well, I think that one of things  
15 that we have a problem with, whenever you met with the  
16 Postal Service, and that includes, and this is no offense on  
17 Dan or his staff, they don't have authority to speak for the  
18 Postal Service. Here is the line that I have -- this is the  
19 text that I've been approved of talking for and go off the  
20 text. Therefore, if you have any meeting to try and work in  
21 cooperation, they can't step off it.

22           So that you have meetings -- we had the meeting on  
23 the rate case settlement with people who were able to agree  
24 and make positions and make compromises for their clients at  
25 this meeting and you can't have the Postal Service at that

1 because they usually don't have the authority to do so.

2           So that's the first thing you have to do. You  
3 have to empower your representatives, or at least, if you  
4 have these meeting, have someone who has authority to do it  
5 to come forward. I know the Board of Governors creates a  
6 huge problem for the Postal Service, but that's one of the  
7 things that's a problem, I think, in the process.

8           MR. LORENZ: Scott Lorenz, Time, Inc. I'd  
9 actually like to change direction briefly and talk about  
10 your fourth bullet, Rate Policy Design Issues. What rate  
11 policy design issues and approaches should be reevaluated?  
12 I'd like to make a couple of comments on the development of  
13 cost-based rates to encourage efficient mailing practices.

14           I guess the specific question is, why not let the  
15 rates reflect the true costs of the mail. I've got an  
16 example here. It's a very simple one. If you would imagine  
17 a couple of pallets. The first pallet has carrier route  
18 packages on a five digit pallet entered at the FCF. The  
19 second one has carrier route packages on a ADC pallet  
20 entered at the same facilities.

21           The copies in those packages pay exactly the same  
22 piece rate, but clearly that first pallet has a benefit to  
23 the Postal Service. It's going to be crossed dock. It  
24 should never enter that facility. So the costs of the  
25 copies and pieces on that pallet should be reflected in the

1 rates, and their not. They're just all paying the same  
2 rate.

3           We've looked at our sortation of our publications,  
4 and we know we could reduces processing costs, but right now  
5 there is just no incentive to do so.

6           In the work that we did in the current rate case,  
7 which is about 31 days away, we played with sortation on  
8 several of our publications. Fortune Magazine, for example,  
9 We tried to optimize that magazine so that it was most  
10 efficient for the Postal Service, not necessarily for us.  
11 Not necessarily for service, but driving costs out of the  
12 Postal Service.

13           Based on our best estimate of what your costs are,  
14 we could drive, just for that one publication, between 3 and  
15 \$400,000 a year out of your costs. We're not going to do it  
16 because there is no reason right now that we should. There  
17 is no savings to us. Instead, we still have all that sack  
18 mail that's got the same piece rate as most of the pallet  
19 mail. So it's just a question, why not let the rates  
20 reflect the true costs. .

21           I'd also like to make a comment about the fourth  
22 bullet -- the collaboration between customers and the Postal  
23 Service. I want to support what Bob McClean said earlier  
24 and ask that during the implementation of rates to please  
25 understand and consider the difference -- I'm talking about

1 software design now -- of simple sale changes versus  
2 structural changes to pre-sort software.

3           The structural changes need more time, 60 days  
4 isn't enough. So it's basically the time between the  
5 proposed Federal Register and the final Federal Register  
6 notice that we have to do our work when there are complex  
7 software changes involved. I would just like everyone to be  
8 aware that we need as much information up front so that we  
9 can get all that stuff done without having to program and  
10 then throw out the programming later because things changed.

11           Thanks very much for this opportunity. It's been  
12 a great start. Thank you.

13           MR. POU: Other comments on the rate design or  
14 collaboration, rule changes?

15           MR. VOLNER: On behalf of America Business Media,  
16 forget what I said before. I've got 200 interrogatories for  
17 Scott.

18           (Laughter.)

19           MR. POU: Anybody else want to offer anything  
20 before we conclude.

21           MS. GIBBONS: Dan Fushou (phonetic) is right here.  
22 You can talk to him about all 200 today.

23           MR. VOLNER: My point, exactly. I did want to  
24 take a moment to actually commend the Rate Commission for  
25 one thing that they've done to improve the process, and that

1 is, their website. The posting of interrogates -- all of it  
2 -- filings and the cases are posted on their website  
3 promptly, reasonably promptly, and it's in a, I think,  
4 pretty indexed way, in a formatted way. It has greatly  
5 eased the process of keeping track of the paper; keeping  
6 track of the interrogatories, whether they've been answered  
7 or not; and pulling things together. It's been a great help  
8 and I thank the Commission very much for having done that.  
9 It has certainly reduced the cost participation to some  
10 degree.

11           There is now a proposal pending on E filing. We  
12 will be filing comments on that later in the next month, I  
13 suppose. But I think that's one thing the Commission has  
14 done on it's own, with the cooperation of the Postal Service  
15 and the parties. It's been a big help.

16           MR. POU: Thank you for the comment. It's allowed  
17 the staff now to work all through the night as the  
18 interrogatories -- you know, we used to kind of wait around  
19 until 5:00 o'clock. Now we can go home and go on our own  
20 home computer and see all the interrogatory traffic that  
21 night.

22           Anybody else want to add anything for the common  
23 good or for your own good?

24           MS. GIBBONS: I think we're at the end of the day.  
25 Let me start by saying thank you to a number of different

1 people -- our panelists, who because we didn't have too much  
2 time to plan this conference, that very short notice that  
3 they had to put together some thoughts and be here, we  
4 really appreciate all of our panelists.

5           We very much appreciate all of you who came today.  
6 We know that it was a difficult day for many people;  
7 particularly, for those of you who are from out-of-town. So  
8 we appreciate your being here and all of the thoughtful and  
9 very candid comments.

10           Thanks again to the Postal Rate Commission --  
11 Steve Scharfman and all the other people from the Rate  
12 Commission who are here, for working together to plan this  
13 first day. What I think you've seen from the Postal Service  
14 here today, and I think it's not the first time that you've  
15 seen it over the last several months is, an increased  
16 openness to working as closely as we can with all the  
17 stakeholder in this process as well as many of our other  
18 processes.

19           Everybody on our executive committee is either  
20 here today or represented by people from their staff. So  
21 they'll have an opportunity to hear what went on today and  
22 take that into account as we move forward. So you probably  
23 want to know, so what are the next steps? What will happen  
24 after this?

25           I want to remind you again that for people who

1 didn't get to submit comments or talk today or have further  
2 thoughts as you leave here, please get those comments into  
3 us by the end of this week. You can do that in the same way  
4 that you registered. So go back on the website of the  
5 Postal Service -- the Rate Commission and get them back in,  
6 in that way.

7           What the Postal Service will do is then take  
8 everything that we heard today as well as those comments,  
9 and as Ian said, we need to tell you now what we think we  
10 can do with that. So get that together and at the next day  
11 of this Summit, which is June 27th, hopefully, we'll be able  
12 to -- not hopefully, but we will report back and tell you  
13 what we think we can make of that for the next rate case and  
14 have a chance then to maybe have some final dialogue on  
15 that. So that's our commitment to you.

16           The next day is June 27th and registration is now  
17 open and we hope to see everybody here again as well as, of  
18 course, some of those who could attend today. It's in the  
19 middle of the week so it's a little easier, a little more  
20 notice so you can maybe get those reduced air fares if you  
21 didn't get them today. So please do register again.

22           We're asking that you register by June 14th so,  
23 again, we'll have some time to plan for food and logistics  
24 and all of that.

25           I think that's it. Again, thanks to everybody and



1 safe trips home and hope to see everybody back again on the  
2 27th of June.

3 (Whereupon, at 3:31 p.m., the hearing in the  
4 above-entitled matter was adjourned until June 27, 2002.)

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REPORTER'S CERTIFICATE

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DOCKET NO.: N/A  
CASE TITLE: U.S. Postal Service-Postal Rate Commission  
HEARING DATE: May 28, 2002  
LOCATION: Washington, D.C.

I hereby certify that the proceedings and evidence are  
contained fully and accurately on the tapes and notes  
reported by me at the hearing in the above case before the  
Postal Rate Commission.

Date: May 28, 2002

  
Gabriel Rosenstein

Official Reporter

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