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
SHELDY DREIFUSS
VINCENT P. GIULIANO
HOWARD SCHWARTZ
RICHARD J. STRASSER, JR.

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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

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PANELISTS: -- CONTINUE --

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

WILLIAM B. BAKER
MARY ANNE GIBBONS
JOHN WALLER
MS. BIZZOTTO: Good morning, everybody. My name is Anita Bizzotto. I am the Chief Marketing Officer for the United States Postal Service and, on behalf of the Postal Service and the Postal Rate Commission, it's my pleasure to welcome you this morning. I'm delighted to see that so many of you could join us today.

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

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

Now, as you know, today, we're focused on the issues surrounding the context of an Omnibus rate case, one in which we change all of the rates at the same time. A future summit will focus on some of the other issues, such as how we could perhaps move to negotiate service agreements, thoughts about experimental rate cases, and things like that. But, today, we're going to try and focus...
So, how is today going to work? Well, after this opening, the day is broken up into four panel sessions. And the first we’re going to hear what customers think and think about and need from the ratemaking process. In the second panel, we’re going to focus on phasing, as a response to the off repeated desire by business customers, to have more predictable rates. And the last two sessions will focus more on technical issues, changes that might make the process less burdensome to everyone involved.

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

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

But, first, we’re extremely pleased about the

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

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

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

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

In a moment, George will share his opening remarks. But, for now, I want to personally thank him for
his leadership in the rate case and for helping make this
summit a reality.

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

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

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

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

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

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

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

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

The Postal Reorganization Act is over 30 years old

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

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

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

(APplause.)

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

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

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

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

Thank you for sharing your time. Thank you,

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

(Appraise.)

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

(Appraise.)

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

Our purpose today, of course, is to let the Postal Heritage Reporting Corporation (202) 628-4888
Service and the Postal Rate Commission hear from you, on how the postal ratemaking process can be improved, particularly in the Omnibus ratemaking setting. Each panel structure will be fairly similar. Each panel will start with a Postal Service official, who will begin with a brief presentation, setting forth some of the main issues and concerns for the remainder of that panel's discussion. Each panelist will then have four or five minutes to set up the discussion, by offering some views of topics of interest to them.

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

After each panel is -- after the panel's comments, audience members will have the opportunity to speak. Any audience member wishing to speak should go to one of the four microphones here. I will recognize you to speak and you will have a limited time to make your basic points. Just as a matter of reference, let's assume that you will have 90 seconds to make your basic points. I reserve the right to bend those time limits very, very modestly, sometimes in the interest of giving you a little more time and sometimes a little less time.
We will also reserve the final few minutes of each panel, so that the panelists have the opportunity, if they want to take advantage of it, to put any closing remarks out or to ask members of the audience questions, based on something that they heard and want to get a little more information on. And we will adjourn on time.

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

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

Also, anyone, who doesn't have a chance to make
all of their points today, is encouraged to file comments by the end of this week. That will then be factored into the next ratemaking summit or the next day of the summit. You should send your follow-up comments to Jacquelyn Gilliam at the Postal Service and e-mail them to the Postal Rate Commission. This information is also posted on the Postal Service's website and the Commission's website.

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

A couple of final thoughts: first, unlike virtually everybody else in this room, I don't eat, drink, you know, live, breath postal ratemaking. In fact, I don't even speak postal ratemaking. And I hope you'll appreciate that there may be one or two others like me; not a lot, I realize, but one or two, who would appreciate it if you use plain English to the greatest extent possible. And,
finally, and certainly not least, anybody with a pager or a cell phone, please turn it off. The traffic cop will take note.

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

(Pause.)

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

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

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

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

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

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

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

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

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

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

MR. POU: Our panel has decided that -- can you
hear me? Our panel has decided that they want to -- can you
turn the mic on?

(Mic turned on.)

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

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

On the idea of predictable rates, the company I work for, which is Sprint, is a very large and complex company, as far as budgeting is concerned. The area that we
the largest part of it is Spring mailing services, as far as mail is concerned, and we oversee some of the budgets throughout the company, as far as smaller areas. But, every marketing vice president, which there are several throughout the country, has their own budget and every department of any size has their own budget, also. And they're always calling us for information, asking us when is the next rate case; how much is it going to be; we've got to get this in our budget; we didn't meet our -- we were over our budget last year.

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

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

The phased rates idea coming in is also something that we're very interested in. We do have some concerns about it, just like everybody else does, about the unknowns,
of what happened if you’re in the middle of one of these phased rates that’s lasting over a period of three, four, or five years, or whatever the case may be, and something happens on the unknown. How would it adjust? How would we be able to handle that? Would it be something that we could deal with on an ongoing basis?

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

And that’s about all I have.

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

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

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

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

I think another matter that enters into this, when we're talking about non-denominated stamps, is I think we may finally be able to free ourselves from the integer constraint in first class. I think it might be possible to
some multiples of first class stamps. The rate, itself,
would be fractional; but the way I envision it, consumers
would pay only in whole cents. That's another thing I'd
like to see come out of the -- of a new ratemaking process,
in which phased rates is considered.

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

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

those revenue and cost estimates may have been off and which
subclasses were, in particular, creating the prior year losses.

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

Thank you.

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

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

My headline is this: rate predictability is essentially, but it’s not enough. Now, the obvious essential reasons for predictability are businesses need certainty; uncertainty just raises havoc with business. The FUD factor, fear, uncertainty, and doubt, is an enemy of strong economic and sustainable business growth.

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

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

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

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

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

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

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

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

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

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

Thank you.

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

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

I guess number one on our, you know, fantasy list, dealing with Omnibus rate cases, is not to have them at all. But, reality bites and I guess you can only believe that in fantasy land and Disney World. But based on, you know, what, I guess, former Chairman Gleiman of the PRC and the current Chairman Omas say, that NSAs are legal and legitimate or hopefully legal and legitimate, so we'd love
to see NSAs and more experimental, you know, rates and 
service filings. I know, we were very successful in the 
periodical industry with the ride-along rate and, hopefully, 
there are more of those great creative ideas out there, that 
could circumvent the 10-month or 12-month terms that turn a 
rate around, that is part of an Omnibus rate case.

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

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

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

So, it could actually wind up costing you more.

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

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

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

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

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

That's it. Thank you.

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

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

MR. LORENZ: Is this on?

MR. POU: Yes.

MR. LORENZ: Oh, good. Hi, I'm Scott Lorenz,
Director of Postal Operations at Time, Inc. Many of you
know Jim O'Brien. He would have been here today. It's his
25th wedding anniversary and his wife told me to tell you
that if he was here, there wouldn’t be a 26th. So --

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

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

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

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

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

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

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

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

MR. POU: This microphone here.

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

You're talking about predictable rates. Rates are money. And when you have a nondenominational stamp, you've created a situation, in which you have a new opportunity for new revenue; in other words, such a thing as postal futures. It's entirely possible for someone, like Time Life, ADVO, who ever, to effectively buy a million dollars worth of postage credit for a year ahead of time and the Postal Service gets the use of the money a year ahead of time.

But, then, again, you have to come across with the service a year later.

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

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

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

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

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

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

Post Master General Potter has put out an interesting transformation plan. It talks about short-run steps. In some sense, that's what we're doing here today. But, it, also, talks about long term. And I don't think any of us can say where the short term and the long term will
meet. But, at that point, I believe a strategic decision has to be made by the Postal Service and with the customer involvement, of course, that the inevitability of increases is just going to be accepted as the conventional wisdom.

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

MR. POU: Thanks, very much.

MR. STOVER: I'm David Stover with the Greeting Card Association and I have, I guess, a general question mostly for the business representatives on the panel. There's been discussion of both phasing with the emphasis on predictability of the annual increases and on such devices as negotiated service agreements, experimental rates, experimental niche classifications and the like. I would be interested to know people's thoughts on how any significant variations in revenue, or especially net revenue, that are produced by these NSAs and other smaller scale changes during the life of a set of phased rates are going to be dealt with, if the rates are all set out ahead of time, in the initial -- the original decision establishing the phased schedule.
MR. POU: Anybody want to comment on that? Well, interesting questions. I'm sorry, Vince?

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

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

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

MR. POU: Thanks, Vince.

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

MR. POU: That's a real good question. I'm not sure I -- the transcript available tomorrow. Good work.

How will they get it?

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

MR. POU: Steve?

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

MR. POU: All right. Comment?

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

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

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looking of software is not the lead time that's necessary. You really need some predictability for this kind of process, so that they can set, my members can set and know what's going to happen during this fall mailing season, which is really the importance. Forty to 50 percent of revenue for those catalog mailers come in during that season. And that's why, in part, predictability is needed.

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

If you have phased rates that are manageable, that are small, you can budget better. You can make a mistake and not be really harmed. But, if you're looking at, and Howard was thinking about a 25 percent rate increase, if your wrong, if Howard went down to 10 percent and suddenly it went up to 25, that huge change can devastate companies. So that you have to look at the whole business plan of how people plan mailings, what they're doing, how postage rates affect it -- and postage is not the only thing; you guys get blamed a lot, but it's not the only thing: paper prices, etc. are big factors, as well. But, the phased rates, the time needed, the budgeting all tie in together.
So, I think from our perspective, as we look at in next panels and so forth, is to take a look at a cycle. You desperately need to know what's happening, so you can plan and the numbers should be low enough, so if you make a mistake, you're not going to be devastated. That's why I -- that's what I think from my membership, both the catalogues, the magazines, and so forth, that's what we're looking for, as we come through this, is try to look at that planning.

Thanks.

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

MR. SEARSAL: Well, predictability --

MS. BIZZOTTO: -- or can it?

MR. SEARSAL: It can drive growth and volume, because you know what's going and you make a plan. And if you don't get burned -- some of our members, if they have planned and planned incorrectly, they get hurt and you're going to hurt your volume. But, I don't think automatically, Anita, that predictability is going to mean a growth in volume. It's going to help companies stay alive, so it's going to -- so you're going to maintain volume for sure. And if it -- if you can hold the amplitude down -- like I said, you're only one-third of the costs, if you figure -- and it may be a little bit different. Paper is a third and -- for cataloguers, paper is a third and postage
is a third and then everything else is the other third. If you can hold those costs down, you’re going to get some growth in volume. But, predictability is a big key to keeping people alive and in the business.

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

The other thing I’d like to mention is, quite frankly, I’m a little concerned about the agenda, because it seems a great deal seems to be pitched towards making it easier for the Postal Service to raise rates the way they want to. And I don’t see anything on there, and everybody
else talk about nasty things like the monopoly. We have had
some discussion on universal service obligation and, quite
frankly, the crushing institutional cost burden on first
class mail, which doesn't seem to be getting any better.
There are a lot of things that have to be
considered and the institutional bias of the Postal Service
would seem to be, and quite probably understandably so, to
change its rates, in a way that shifted more -- as much cost
as possible onto the people, who can't get away from the
Postal Service.
Thank you.

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

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with it.

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

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

I’m reminded of my brother’s. Two of my brothers were very accomplished runners. And in cross country, my -- I remember my one brother telling me that when he was in the
lead, as he usually was, and he came around the corner and
those behind him lost sight, he would sprint ahead as far as
he could and then slow down. When they came around the
corner and saw how far ahead he was, it just knocked them in
the stomach and they were very discouraged.

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

MR. POU: Thanks.

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

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

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

MR. BRINKMAN: Bob Brinkman. I'm representing myself this morning. As I've watched the Postal Service over 20 years, I think I have two observations. One, clearly rate predictability is necessary for businesses. People have been saying that for years; yet, I think people have to give some serious thought to the incentives of the Postal Service, when the difference between having two increases in six years and having three increases in six
years is that the Postal Service gets blasted publicly three
times instead of two times. And I think there's a certain
incentive there, even though the Postal Service is listening
to its mailers and wants to meet their needs, that some sort
of understanding has to be reached, that the public
relations volume of the mailing community is not going to
increase, if there are more frequent, but smaller increases.
Because if you read the rhetoric over the years, every time
there is an increase, there's always two points that they're
blasted for: (1) how big the increase is; and (2) when was
the last increase.

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

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

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so far. Do you want to follow up or ask any questions of
the people, who have put some ideas forward?
Okay. Here’s somebody.
MR. COSTAGE: Wouldn’t want these microphones to
go unused. I’m Brant Costage. I work for Ms. Dreifuss.
And when the OCA was considering the possibility of phased
rates, we recognized the problem for first class single
piece rates, which have always been integers, which, if they
were subjected to phasing, would almost certainly become
non-integer.
At that point, we came up with the idea of non-
denominated stamps and we learned that the Royal Mail
already has that, at least for first and second class.
Customers at Royal Mail can buy as many first or second
class stamps as they want, at a particular rate, and they’re
good forever.
Once we had thought of that, we, also, thought of
what Marcus mentioned, that the Postal Service would have
the early use of the money. What we didn’t consider was
that the Postal Service would invest that money in Treasury
Bills. What we thought was that the Postal Service would
use that money for the backlog of capital projects that it
has, which have a much higher hurdle rate of return than the
rate on Treasury Bills.
MR. POU: Thanks. Well, the reason we’re here
today is to gather as many good ideas as we can about how to improve the ratemaking process going forward, to take into account some of the kinds of things that we've heard already today. I would suggest that this is your opportunity to put some of those ideas on the table, to talk about the practical implications, and talk -- and maybe we want to segue into something that's a little more specific, in terms of the implications for the actual ratemaking process.

Sir?

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

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

MR. BARTZEN: Yeah, all of these phases -- rate increases that the public sees, every two years, we're going to have a rate increase, what kind of business -- coming
from a consumer point of view, what business operates like that, is going to tell people to do that. What will their perception be?

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

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

The Postal Service, I think, has to spend about 26 cents on a dollar, when it sells postage at a retail counter. If, indeed, consumers bought much larger quantities of stamps and visited less often, maybe it would be 26 cents on several dollars. So, I see -- I do see an advantage in that way, too.
MR. POU: Am I missing somebody here?

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

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

Hopefully, Anita, your voice is going to become louder than operations. There's going to start becoming a market -- a marketplace voice in the ratemaking, that's going to have the perspective of the marketplace and what is -- and to set tone of rates. You're going to have a behavior on operations that's going to want to drive out costs. You're going to have a behavior on the part of the financial officer to redo the balance sheet, so you can get rid of liabilities and assets that don't have anything -- any meaningful relation to the products and services that are being designed now and for next year.
There has to be a whole turn of behaviors here. It’s not just looking at phasing rates. And I’m glad to see that phasing is starting to take effect. I mean, the idea and concept is coming along. I mean, that was -- it was a result of mailers asking for help of these large destabilizing rate increases that came over a period of time, looking for a technique. But that technique can always become a trick pony, a one-time event, unless there is a wholesale change of behavior that goes on and is more than just phasing.

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

Okay. That’s a little passionate.

(Laughter.)

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

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

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

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

I think it makes sense, if it costs a lot less, to have people buy at a grocery store, to buy at a 7-11, to buy out of an ATM, that you ought to give people a discount, to
try and get people to go there. It makes sense to try and -
- Vince is right, shift the costs. If it costs 24 cents for
me to go the post office to buy stamps, why don’t you charge
me 95 cents for the dollars worth of stamps, if I buy it at
the grocery store. Try and get me, the consumer, to make
that move, so you can get people out of the post office and
going in that direction. And I think that that makes a good
deal of sense.

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

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

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

MR. COSTAGE: Brant Costage. When the OCA was
considering the non-denominated stamp, it was solely as a
matter of convenience for first class mailers. Then, we did recognize there might be a little money in it for the Postal Service. But, Marcus's idea sounds terrific and I don't think there would be any reason to restrict the future -- you know, the current purchase of postage for future use to just first class stamps. If the Postal Service can get on that money early and use it for capital projects with a higher rate of return, we're all better off.

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

MR. SMITH: If I could add on to my own idea. I didn't know I was going to be spoken by -- I would have gotten a cup of coffee. I'm shocked. I appreciate being so thought of. But, again, I was driving at the notion, very simply, of buying postage now against the next increase. If you bought a given number of units equal to at least the
current value, so that the Postal Service would then have an incentive that you could not use those units until after the next rate increase, the incentives switches over to the Postal Service to keep the next rate increase as low as possible, in which case, in the meantime, the Postal Service is getting use of that money effectively, at a rate of return that might very well be lower. I don't know what the current -- what percentage do you pay right now, Dick, on your money that you have, that you borrowed?

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

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

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

The other question I have is, how would the post office account for this? Can it, in fact, recognize -- I
mean, there’s a future liability inherent in these pre-
purchased stamps, at this point. Is there any way to
recognize that, so all of this money is not sort of
forgotten about and then we come up on the next rate case
and that money is gone, in some ways? So, I think that it
would be interesting to know how you’d account for that.

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

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

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

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

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

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

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

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

Today, we talked generally about one year. It's at least no less than -- there are no more than two years out in the future. Are we talking about one year? Two years? Three years? That's one thing,
Can you distinguish, in that process, between the
first class single piece mailer, the consumer, and the
commercial mailer, and put them on different paths, under
the current law? I'm not sure, but it's an issue that's got
to be -- got to be addressed here.

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

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

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

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

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

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

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

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

Anybody else want to make a comment or pose a question to the panel, generally? If not, I'd like to see
if the panel has any questions for the audience or wants to
follow up on any of these topics, in greater detail?

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

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

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

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

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

MR. POU: Sure.

MR. SCHARFMAN: -- less there be any confusion.
The Postal Service's capital freeze is not and has not
frozen any projects -- any capital projects that have return
on investment. We have continued to finance those, as
rapidly as we can deploy any capital investment that has a
return on investment. The only capital freeze that has
occurred is in the arena of facilities and facilities is a
very difficult area to get any return on investment. In
fact, most of our delivery units are a requirement of our
universal service requirement and the expansion of the
delivery network, as fast as it grows, as you know. We have
not frozen any capital investment or slowed any capital
investment down, as a result of the freeze.

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

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

(Whereupon, a brief recess was taken.)

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

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

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

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

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

But more often than not, when one talks about the
ways to deal with the predictability need, the issue of
phasing come up.
Now that can mean many things to many people, and that’s some of what we hope to discuss and delve into a little bit today. It could mean that all of the prices go up, the same set percentage every year, or whatever the period of the phasing might be.

It could mean that prices go up some predetermined amount, but not necessarily the same percentage. It might mean that all prices go up, but not necessarily at the same time or at the same percentage.

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

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

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

But, you know, let’s go through some of the
questions, and then folks on the panel will help to address some of those.

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

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

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

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

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

And in fact, do all rates need to change on the same schedule; or should, in fact, the consumer rates, or
the more retail related rates, change on a different
schedule from the commercial rates?
So those are just some of the things to start the
discussion. I think we're going to lead off with Eon
Volner, who has been thinking about the notion of phased
rates for quite some time and, in fact, has written a couple
of very thoughtful papers about the notion of phasing, and
how the Postal Service and the mailing community might go
about making that a reality.
So, Eon?

MR. VOLNER: I have been thinking about it longer
than I'm willing to admit. And I'm going to do the classic
lawyer cop-out. Anita has raised a series of interesting
questions, none of which, in my judgment, are insoluble.
But from a legal perspective, we cannot compel the
Postal Service to file a rate case, which means that the
first step in the process is for the Postal Service to
figure out what they want to do and to tell us; but not at a
summit, or not in leaks, or on their otherwise unreadable
website.

(Laughter.)

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

(Laughter.)

MR. VOLNER: Sorry, Anita -- we have a legal
assistant who, when she wants to find something on your
website, goes through the Post.com website. That was not an
advertisement for my firm.

(Laughter.)

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

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

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

The Postal Service regularly seeks waivers from
the Rate Commission, and the Rate Commission, by and large,
grants them. The only difference between dealing with this
issue, because of its novelty and its complexity, and what
normally happens, is the Postal Service normally files its waiver requests when it files all 250 tons of the case.

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

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

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

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

So to me, the core of this is for the Postal Service to pull together what it's learning from this
session, sit down, and file its waiver requests.

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

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

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

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

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

I don't think that those are things that should require
get in our way, because the thing we have to remember is
that the last rate case settled based on some promises that
Jack Potter made, that he has lived up to. But those were
extraordinary circumstances. We’re hopefully not going to
be in extraordinary circumstances when this next rate case
gets filed. It’s got to bind. Tonda is absolutely right.

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

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

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

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

(Laughter.)

MR. VOLNER: Shelley Dreyfuss has taken away, to
me, what was one of the more difficult problems to deal
with. That was her recognition that the whole cent image,
maybe its time has not only come and gone, but has long
gone.

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

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

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

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

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

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

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

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

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

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

Rita?

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

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

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

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

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

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

I think it’s now been mentioned twice, but it
certainly bears repeating, when you do have phased
increases, and that becomes the baseline for the next
increase, that will be a higher number. So there is,
ultimately, an increase in what we are paying; and it, you
know, kind of multiplies, as time goes on. That's called
pounding, from Bob, for you.

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

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

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

In terms of, you know, we wanted it to be smaller
and predictable, let's talk about predictable a little bit.

What really is the length of the phasing?

I think a lot of the people who have been involved
in the postal reform debate found one of the best parts of
the proposals that were out there, the notion of rates that
were indexed to inflation; and they would be phased continuously. I mean, this would be, you knew what to expect.

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

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

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

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

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

Eon also mentioned the issue of costing, and Anita also talked about the cost, and whether we would have one base year, or one test year, or multiple test years. Would
costs have to be covered during the entire phasing process, or just in the test year that was designated? For some classes that are close to that cut-off, it's an important question.

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

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

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

If the Governors were to modify the Commission’s decision, would they change the total amount only, or would they change the phasing, as well? So I think that there are a lot of questions we need to resolve.
MR. COHEN: The subject of phasing has been discussed around the Rate Commission for years and years. In fact, Janet Steiger made a proposal called the two-by-four, back, oh, about 14 years ago, I think, concerning phasing, which grew out of discussions -- informal discussions at the Commission.

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

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

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

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

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

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

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

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

And if it's not based on Postal costs, and it's
based on an external measure, how are you going to make sure the Postal Service is breaking even, with that kind of an adjustment mechanism?

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

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

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

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

Then I guess the final question is, what happens to an individual sub-class, which has a small markup, say, to start out, if its revenue, over time, really falls well below cost? Is there any system for making sure that class breaks even?
The Commission, by law, is supposed to see that the Postal Service not only breaks even, but that each subclass covers its attributable cost, and makes a reasonable contribution to institutional costs.

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

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

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

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

MR. MCCLEAN: Bob McClean with the Mailers Council -- I wanted to mention something that was referenced at the earlier panel, and that is, the meetings that the Mailers Counsel has had recently with some of Anita's folks and
folks from finance, retail, and other departments concerning
the setting of a standardized rate implementation period.

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

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

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

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

But what we found is, and Rita referenced it
briefly also, there are software changes, there are many
changes, there are many steps that have to happen in steps
that cannot overlap. The software people have to do
something before Reader’s Digest can do the next thing,
before Time can do something else.
It was a really wonderful, educational process.
So whenever we talk about the triggers, that’s one of the reasons why we, the Mailers Council, have been lobbying for a 90 day minimum rate implementation period.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

But you do need to consider whether you want to do triggers at all, in view of what Dick Strasser said this
morning. Because the problem with the trigger is not that
the Postal Service has a perverse incentive to accelerate
the rate increase, other than their normal incentive to take
as much money as they can, as early as they can.

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

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

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

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

It does raise issues with respect to the

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

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

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

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

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

But that’s when I go back to the beginning.
Postal Service, you've got to tell us what it is you've got in mind. I hope you find all this discussion interesting. But ultimately, you guys are the ones who file the rate cases. We can't, and the Commission cannot start one on its own.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(Laughter.)

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

MR. VOLNER: Bob, what do you think?

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

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

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

MR. VOLNER: Anita, can I respond to David Strauss’ point?
MS. BRIZZOTTO: Certainly.

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

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

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

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

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

There’s nothing in the statute, as John Burzieu

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

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

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

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

MR. VOLNER: That's the policy.

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

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

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

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

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

I know that it's very common in many, many
jurisdictions to regulate rates, and also streamlining is another concept, by having the one rate case, and then escalating the rates by the Consumer Price Index, or some other similar index, with an discount for incentives for productivity. I'm proposing that that might be proposed in Postal ratemaking.

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

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

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

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

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

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

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

(Laughter.)

MR. GLEIMAN: But inasmuch as the purpose here is, I thought, to throw some ideas out on the table, and not railroad an issue, necessarily, I thought that I would just throw that one out.
If you’re talking about a phased rate case that’s three years in duration, it’s not altogether clear to me, if you could really simplify the omnibus rate case procedure. What you would gain from a three year phased rate case, that you wouldn’t also gain from doing an omnibus rate case, that was very simple in nature, every two years. Certainly, the business predictability is there.

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

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

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

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

So the Commission finally came up with a scheme

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which say, well, you don’t really have to true-up. If you make too much money, you’ve got to kind of hold your rates they are now. You’re supposed to adjust them downward.

We’ll let inflation catch up.

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

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

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

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

I think if you start having more and more cases coming in, you really lose that, because you only know that
there's going to be a case; you really don't know what kind
of an increase you're going to be facing, and that's really
one of the key things you need for planning.

MR. COHEN: I'll just say a kind word for the two-
by-four, and that is it would be a better system than a
three year system, for keeping the rates aligned with costs.
The second thing is, while it involves, I guess,
50 percent more rate cases than the three year case or a
third more rate cases than the three year case, the second
case in the two-by-four could be a fairly simple one, where
you just look at a couple of measures of Postal Service
finances.

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

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

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

All I'm suggesting to you is that as we work our
way through the issues associated with phasing and talking
about three year phased rate cases, that we keep an open
mind about some of the pros and cons, we can really simplify
and make much easier the current omnibus rate proceeding.

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

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

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

If the Postal Service needs 15 percent in the
first year, and you give them five percent in the first
year, another five percent in the second year, and another
five percent in the third year, they’ll lose $6 billion in
year one, putting them over the debt ceiling.

They’ll probably lose another $6 billion or $7
billion in year two, and probably lose another $6 billion or
$7 billion in year three, because their 15 percent cost
increase is in year one, not in year three.

To produce the dollars they need to match costs,
assuming they could justify a 15 percent increase in year one, if you wanted a five percent increase in year one, you’d have to have 15 in year two, and 20 percent in year three; and you still wouldn’t catch up, because you wouldn’t take care of the year two and year three inflation.

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

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

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

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

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

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of what Eon says.

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

(Laughter.)

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

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

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

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

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

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

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

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

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

MR. POU: Panelists?

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

There's a very important process that the Postal Heritage Reporting Corporation (202) 628-4888
Service is going through right now, called Project Design. It's already, by my calculation anyway, unless I'm mistaken, been pushed back by a year, by the next rate case, which probably would be filed next year, for implementation in 2004. Now if that becomes the phased case, and you want a vanilla, what then happens to Product Redesign?

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

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

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

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MR. COHEN: I just don't know.

One of the underlying features of a product redesign case, it is revenue neutral between sub-classes. So I don’t know if you have to go to the extent that you’re talking about of simply putting out the base rate, and let all the other rates be calculated later by Product Redesign. I think if you just hold to the principle of revenue neutrality, you can rearrange all the rates a second time, under Product Redesign.

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

Not all the things that the Postal Service is talking about in Product Redesign have the unqualified support of the people who are going to be subject to them. What you’re trying to do, given the complexity of doing phasing, is to keep classification issues out of the case. There is nothing, however, to prevent, if we succeed, as I believe we should, in accelerating the next rate case through this afternoon’s discussion. There’s nothing to prevent the Postal Service from coming forward with Product Redesign and a revenue neutral basis, just as
soon as that case is concluded.

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

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

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

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

MR. VOLNER: They are not.

MR. BAKER: Why not; because if it is, your rates are not predictable. If it is not, then the Postal Service
may have financial hardship.

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

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

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

(Laughter.)

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

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

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

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

MS. RUSH: Tondra Rush, National Newspaper Heritage Reporting Corporation (202) 628-4888
Association -- this is the last panel, I think, where we had
this economist, -- on our panel, and I want to see what both
Rita and Bob have got to say about this looming question
about the contingency.

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

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

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

MR. COHEN: Well, I’m the one that raised the
question, and I don’t know how to deal with that. But it is
an underlying problem for dealing with the uncertainty of
distant test years.
The statute has built-in bias that the Postal Service break even, and the Commission is charged with providing rates that allow the Postal Service to break even. So this is a very important problem, from the Commission’s standpoint, but I don’t know how to solve it, as you get further and further out, in forecasting cost and revenues.

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

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

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

The other thing is that, as mailers, we’re certain, if you had rates increase on January 1st, 2003, and with three year phasing, we know that with phased rates, that on December 31st, 2006, that our rates would be higher under phased rates than they would be if we had the normal rate case that lasted for three years.
That's one of the things that raises the big deal for me, on looking at phased rates. They don't work if Postal Service costs are out of control.

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

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

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

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

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

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

MR. VOLNER: Jerry, does anything work?

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

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

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

(Laughter.)

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

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

But I don't think that my members are expecting right now what would happen in year three, if you have a three year rate cycle, of how high that level of rates would
be in phased rates, if costs are way out of control.

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

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

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

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

MS. COHEN: If they don’t control costs.

MR. SEARREL: Then it will have to go out to CPI.

So that’s the kind of thing on how that works.

I do have to say, Gleiman left, but I have to make
one statement on this thing. He's now in favor of rate
increases more often, because he's a consultant.

(Laughter.)

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

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

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

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

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

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

MR. MEROWITZ: Yes.

MR. VOLNER: Since both of you are suggesting a
well accepted approach to rate making, that probably is
lawful under this statute, or at least I think it is. But
is there a consumer dividend, and how do you value it?

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

MR. VOLNER: Yes.

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

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

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

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

MR. STOVER: David Stover, Greeting Card
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Association -- I have one possible contribution on the
question that Tondra Rush raised about what would happen to
the contingency or to the people who pay for the contingency
under phasing.

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

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

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

Now when I go back to John Burseo’s point, they
don’t have to; but will the Commission understand,
particularly if we do a rulemaking rather than a waiver approach, that we're using multiple test years to try to keep control over the contingency -- because I think your point is well taken. It certainly work very well that way -- and not insist that they achieve break even in each one of those years.

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

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

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

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

The other cost is the addition to the network of 1.5 million to 1.7 million additional deliveries. That is
an inflation in cost that is not automatically incurred by businesses who don’t choose to expand. The Postal Service does not have the decision as to whether we choose to expand.

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

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

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

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

MR. POU: I’d like to turn it back to the panel for the last few minutes to react to anything that’s been
said, to make any further comments, raise any issues for the audience.

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

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

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

So I certainly wouldn't want to up a system that made it more difficult to grab onto those opportunities,
when they existed. So I would hope that whatever regime we
walk out of those whole process with, is one that provides
us more time to devote to looking for opportunities to work
with the industry, to identify things that are good for both
of us.

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

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

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

But there are lots of mechanisms. There’s nothing
that says there can only be one case pending before the Rate
Commission at a time. In other agencies, there are cases
going on all the time, and they all eventually come together
when they all get decided.

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

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

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

That's great, because we can do more things to
move forward together. But certainly, I would not enjoy
looking at world where we have to devote even more resources
to dealing with sort of the day-to-day work associated with
rate making.
MR. COHEN: The Rate Commission is a service organization. When the Postal Service wants to raise its rates or change classifications, they come to the Commission, and we're ready to serve. But we would like to know in advance if you're thinking of having product resign and a major rate case, at the same time, because we would have to change our staffing a little bit.

MR. POU: Thanks to our panel.

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

(Whereupon, at 12:17 p.m., a lunch recess was taken.)
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
To that end, in this panel we want to talk about several things related to the procedures, what happens related to omnibus rate cases and in between omnibus rate cases. And we have divided that type of information in the agenda into three categories. But as everyone knows, they're very closely related. The first one listed there is the provision of information by the Postal Service to the public and the rate commission, what information would be useful for us to provide between omnibus cases that we're not already providing. And the main information we're providing now in addition to our regular financial statements is the revenue pieces and weight data by quarter, the RPW report, and the CRA, the cost and revenue analysis annually, as well as annually we provide detailed volume data by every rate category, known as the billing determinants. And only our very competitive products are delayed in that disclosure by a year. All the others are provided as soon as we have the data.

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

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

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

I would like to echo one more thing Anita said
towards the end of the morning because I'm sure you were all
thinking about lunch at that point, and now that you're well
fed, I just want to repeat it. It's really become quite
clear to me working in this job the last few months that
some of the discussion this morning seemed to have an
assumption that the Postal Service is not taking advantage
of its legal capabilities. And if it just figured that out,
it could go and do something. And I have found that there is another big limiter to what we're able to do, which is the time and resources and cost that it takes to do things. And Bob Cohen mentioned that about the Commission if we were to file two big things at once.

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

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

MR. SCHARFMAN: Continuing with the theme that Steve has provided, it seems to me that many of the things that we have talking about already today and that we're going to talk about during the rest of the day involve trade-offs. I thought that Anita was very, very helpful when she pointed out that predictable rates are antithetical to flexibility in the ability to change rates on a regular
basis, or frequently, as it seems appropriate. And both of those things are goals that we all want. We want predictability, but we want flexibility, too. And there has to be some recognition that some of the things that we're talking about today don't necessarily go together hand and hand.

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

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

There is going to be discussion about whether the Postal Service should be more open or transparent. It does that at a cost of competitive advantage. The more open it is, the more likely it is that someone will see some way to take business from it. And mailers have precisely the same
problem. If they are participating in an open proceeding, they may be giving away business secrets.

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

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

MR. KEARNEY: Go ahead, Bill.

MR. OLSON: Okay. This panel actually comes very well after the morning session because it does give us the chance to build on what went before. We haven't heard too much today about some of the comments that were filed in advance on rate cases, omnibus rate cases, taking too long,
being too complex, with too much discovery and too expensive
to litigate. And I want to focus us on that criticism. We
heard that particularly under a prior postmaster general,
and not quite so much now. But we have to think about that
for a moment.

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

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

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

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

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

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

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

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

I’ll give one or two thoughts here. One is that the funny thing about the Postal Service is the closer they get to filing an omnibus rate case, paradoxically, under the new thinking, the more clammed up they get in terms of talking to mailers. They don’t want to let anything slip,
so they tend to shut down and just get into the preparation mode. And I can't blame them, but we're talking about something that would be quite different than that.

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

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

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

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

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

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

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

John Haldy (phonetic), who took an early flight to
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Germany and couldn’t be here today, has been forcing me to edit a paper he is writing on this. And when we distribute that, then I hope the Postal Service will immediately see the wisdom of the approach, and we’ll go from there.

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

MR. KEARNEY: Thank you, Bill. Tonda.

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

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

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

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

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

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

But I would like to say this. The rate cases themselves have become hugely more complex. I can remember when a couple of policy witnesses could get before the Commission and explain their mailing story, and things would
happen to the numbers as a result. That can't happen
anymore. We're now looking at a process of hugely expensive
attorneys and economists to come up with rates, and we have
become dependent on the Postal Service to work with us
before rate cases so that we can understand what is about to
happen to us. And the fact is that has happened. And we
have found in the past 10 years the Postal Service has been
enormously responsive to us and has tried to help us find
solutions to difficult problems.

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

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

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

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$100,000 to fund this litigation on costing methodologies.

What? A what? Fund it for what? Well, how much is it?

What are they going to do with our rates? What is it going
to cost us if this happens? We don’t know. Well, is it
only going to go up 10 percent or 20 percent? Well, we
don’t know. Well, are they going to go down any? They
never go down any, do they? Well, sometimes they do. But
what is it really going to cost? Why do we have to do this?
There is no rate increase? We’ll wait this one out.

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

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

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

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

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

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

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

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

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

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

The ongoing debate, is the Postal Service a business or not a business, affects rate making, of course, because then issues like competitive factors, public policy value of the mail all get involved. While it's perhaps a more apt topic for the next panel, I'll just briefly allude
to a matter which crossed my mind as Tonda was talking about
the conundrum that small publishers face, you know, how do
we -- you know, we have all these different rate cases, and
how do we simplify rate cases so people can afford to
participate in them.

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

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

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

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

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

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

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

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

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

The issue is as you get close to a rate case, the only thing that we learn until the case is filed is what leaks out of headquarters, and that is a) incomplete, and b)
sometimes outright confusing. Let's be polite about it. There are ways of addressing those problems with burdening your resources. As I said in my little, you know, what do you want to talk about, you can't ask the Postal Service to build a rate case in a fish bowl. We're not asking for that. But if you have got an idea for a new costing methodology, one of which seems to be rattling around in the transformation report that in some circles is called allowance for funds used during construction -- if you're going to trot that out in the next rate case, you would do yourself a favor, as well as the whole process, by doing more than drilling it into the transformation report, telling us what you have in mind, why you have it in mind, how it would cost out in rough ballpark terms -- you're not bound to it -- and getting a sense of what our reaction is likely to be, because it might cause you, at least in some of these issues, to rethink your position.

MR. McLEAN: Bob McLean with the Mailers Council again. We talked surprisingly little about labor costs today. There has been a little mention of it. But the one thing that drives rate cases is labor costs. And one of the notes on this session is that we're going to talk about what issues might be considered prior to filing omnibus rate cases. And so my question is for Steve or, Steve, if you'd like to punt to anybody in the audience who has more
familiarity with labor, or any of your former colleagues who
might be more candid. Larry, Mike, you know who you are.

And it's worth noting, by the way, that the rural
letter carriers arbitration case that was just settled a few
weeks ago is resulting in an average drop in income for
rural letter carriers of between $1- and $3,000 a carrier.

For those of you who aren't aware of this, postal employees
are losing $1,000 to $3,000 in their annual income, which is
why George smiles so much more than Ken Parmaly (phonetic)
these days.

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

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

(Laughter)

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

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

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

MR. THOMAS: Joel Thomas, National Association of
Presort Mailers. I was one of the people who endorsed this
concept in the written comments. I'd like to identify
myself with a lot of what Bill said about this process. I
think it could be dramatically simplified. I think you
could significantly -- and the only opportunity to
significantly shorten the litigation cycle is to eliminate
the multiple activity that goes on of changing
classification, methodologies and numbers, volume numbers,
cost numbers all at the same time, mixing them up in the
bowl so that nobody can -- it takes the full 10 months to
even start to sort the soup out and find out what is causing things to change and where the problems are.

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

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

MS. RUSH: Steve, could I just respond to that quickly? Joel’s comment, he just added on the one thing that I really wanted to say about this. I tend to agree that trying to take the methodology questions out of the rate cycle would help us. I’m not opposed to the idea on the face of it. Clearly, it would simplify the rate cases. That part of it makes a lot of sense to me. And certainly, possibly it would make it a little bit less adversarial because we’d be looking at things outside the context of a rate decision. And I could see some value in doing that.
But if the methodology changes weren't taken to some conclusion of rate impact, for most of our mailers, our end clients, the meaning of getting involved in this process would be lost. We'd be left to go back to them and say we need to get involved in this process because if we don't it's going to be a 10 percent increase in your rates or a 30 percent increase in your rates. Otherwise, it becomes -- my client, of course, tends to be probably one of the most cynical about what goes on inside the beltway.

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

MR. OLSON: Steve, let me add that the interesting thing about looking at a costing methodology issue in the abstract is that sometimes you don't know whose ox is being gored. It's a little bit like -- I think, Steve, the Commission put out for comment in R2000-1 the issue of whether the mailers wanted the costs updated, and most people said, well, let me see the costs and see how my client did, and then we'll let you know. And it might be that kind of dynamic that causes there to be actually less adversarial interest based on oxes being gored in looking at
I feel like Todd Ackerly (phonetic) has said his only motivation was just to have better costing and better rate setting. They had other than that no interest in the process.

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

I’m not under attack. I’m not under attack.

MR. VOLNER: I alluded to my feeling of need for the rate commission to exercise greater control over the cases. Your comment is fair. A policy statement is not binding on the agency. And as Jerry said earlier today, we have got this endless war between the two CRAs that doesn’t make a lot of sense. It’s a waste of time.
But the Commission can do things, which have the
effect of forcing acceptance of a policy statement, which is
done on a notice or a comment or a truncated, simplified
hearing process, one of which is called issue preclusion.
Look, guys, we have litigated this issue 19 times. We have
decided it 18 times. We are not going to litigate it again,
and we simply will not take evidence on it, and that’s the
end of that song. You don’t like it, there is recourse.
And that applies not just to the Postal Service. It also
applies to mailers, who sometimes decide for the 45th time
they’re going to try another route.
The other side of the Commission’s need to take
greater control over it is a form of issue preclusion. If a
change is proposed and no one contests it, the Commission
has got to learn that they may not like it, but it is almost
by definition consistent with the statute. And if you
really are going to choose to take on issues that have not
been contested, you have got to let us know very early on, I
mean really early on, in the process that you guys may think
this is not a problem, but we do. And you better come up
with some testimony or some discovery or whatever it is you
want to do on the issue. And in the last two rate cases,
there were at least two instances where the process itself,
because of the Commission’s unwillingness to accept the
notion of issue preclusion on uncontested matters engendered

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

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

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

MR. POU: Any of the panelists want to comment on
that?
MR. OLSON: Just one thing. I mean, the real problem there, I think, Richard, is that the Postal Service simply doesn't accept the authority of the Commission to make these decisions. And at some point, things go awry when there is usurpation of someone else's authority. And I don't know -- you know, sometimes I represent clients who are benefitted by what the Postal Service is doing. But I still don't understand the rationale for the Postal Service refusing to accept the jurisdiction of the Commission in this area.

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

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

So if that's a legal issue, you know, they have
got to solve it somehow, solve it throughout a separate case of some sort because it's just not going to get solved in these rate cases.

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

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

A couple of things about this most recent discussion here. It strikes me that some of this is very instructive for the Postal Service about the level of resources it may or may not or should or should not be applying to some of this stuff. And frankly, my own
reaction, to be perfectly honest, is some of the stuff we’re talking about here, if it takes a few more people, it’s chicken feed, and it probably ought to be addressed. Again, I understand you have got to look at what the benefit is down the road.

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

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

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

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

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relationship.

MR. POU: Here comes somebody.

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

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

MR. POU: Anybody want to comment on that?

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

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

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

But the governors have this power to modify. They have now used it for the third time. They have used it in MC78-2. They used it in R80-1, I think. And they used it in R2000-1. And the governors are sitting in a room acting unanimously. After they have bounced it back to the Commission, and it has come back, they wave their hands, and they say, there is an inadequacy of revenue, which means whatever they want it to mean. And I’ll mention that in a minute, what it meant in R2000-1. And then they say, we’re going to -- we make a finding that our rates are in accordance with the record and in accordance with the act, and we sign it. And bingo, any rates we choose to implement are now the rates, irrespective of any due process rights of parties, irrespective of the role of the Commission, irrespective of the litigation process, the adversarial process.
Whatever the governors do, they do, and then those are the rates. And it was quite curious, I think -- and this gets back to the issue of the revenue requirement. When we went back to look at what the revenue requirement was in R2000-1, it was very hard to figure out what the Postal Service asked for in R2000-1. It was nowhere expressly stated. But when the Commission asked them to update certain numbers, they said, well, based on that, we now need more money, and they said that they -- because of the interim update, they had the authority to modify. That was the benchmark they worked with. And unfortunately, I don’t really know, no matter how great work OCA does as to whether it's really going to make any effect, because I think unless mailers are willing to litigate this and take it to court to challenge this exercise, what I would consider arbitrary exercise, the modification power, everything that we do here, every aspect of the rate making process, every improvement that we do, is capable of being wiped away by the governors as long as they can act unanimously.

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

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Postal Service is supposed to at best break even or time. And I remind everybody that in the years when the Postal Service has a big profit, the rate increase is typically none, or in one rare case very small. In years when the Postal Service has a big loss, the rate increase is huge. Maybe there is a connection. Good profits, good service, good morale, and good customer satisfaction all go together, and you have the alternative of trying to force the Postal Service to break even over time, and we have opted for the latter.

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

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

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

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

MR. POU: Others?

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

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

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

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

The revenue requirement tends to become the proxy by which the mailers all come in to complaint about the fact that the processing costs are out of control or the labor costs are out of control, or some other part of management of the Postal Service isn't going the way we want them to. And the Commission can't do anything about that. And often,
certainly by the time we’re in a rate case, the management can’t do anything about the things that have already happened.

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

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

As to the rate mechanism and rate setting process, from the point of view of a small mailer with limited
resources for litigation, I think the thing that I would like to say to the Postal Service that would be the most helpful is maybe more of a psychological sermon to the witnesses. I know it’s very difficult once you get into the rate cases not to just want to win. And it’s also difficult, I think, for the witnesses when they have got piles of discovery questions on their desks and a limited time to answer them not to get inpatient and feel defensive about it.

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

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

If the Postal Service really wants to have the process work better, I think its own commitment to transparency is the biggest thing that can help that to happen.
MR. OLSON: Let me just add one thing, which is that, you know, when it comes right down to it, I really don't think the system is broken. I think it can be improved, but I really think that if there is one thing that actually works pretty well, it's the way by which we set postal rates, which are said to be the biggest rate cases in the history of the world. I don't know if they are, but I think there is every reason to admire the system. And one of the reasons the system works is that there are a number of people who are at the Postal Service who are their lawyers who have been there forever and who will be tough, but they won't play games, and their word is good. And that's one of the reasons that the system works as well as it does. So there are some enormous pluses to build on. And I hope that the very fact that the topic of the session is how to improve things doesn't allow people to accept the assumption that something is badly broken because are an enormous number of positives, and the way we do things is not all that bad.

MR. POU: A couple of final comments.

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

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

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

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

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

MS. DREIFUSS: External first class measurement.

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

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

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

MR. POU: Panelists?

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

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

(Recess)

MS. GIBBONS: I think we’re ready to get going.

I’ve been asked to recommend to people that if you need a taxi to get to the airport or to get to wherever, to please step outside to the registration desk and let them know at this point because they may need to order some extra. So hopefully, the entire room won’t leave for that reason.

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

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

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

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

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

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

In the discovery area, I know we had one suggestion on how we could introduce some of what’s going on in the courts for the last 5 to 10 years into the rates process. That was the potential for a motions practice.

There are numbers of other things that go on in the courts, as most of you would know, to limit discovery, tie up discovery conferences -- ADR is in big use these days.

Is there a way to introduce ADR, Alternative Dispute Resolution, into the ratemaking process that might speed it along or limit issues or resolve issues in a way that’s a little bit more efficient than we’re doing today?
Are there any other process limitations? Question on whether limiting cross examination or limiting length of briefs or anything like that would be useful. My lawyers cringe at that because lawyers get paid by the word, and they might hate to have to do that. Does anybody think that there are some things that can be done there?

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

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

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

So just some of the Postal Services thoughts and I’m going to turn it over to the ghost of Ed Gleiman here.
John Waller. John will be Ed to start with and then he’ll shift back to himself at a later point.

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

(Laughter.)

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

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

The first adjustment to the conventional rate case thing, he makes a very clear statement. He is in favor of limiting the classification changes that would come up in a rate case, and excluding cost methodology changes from a
rate case. That there is enough to be covered in the just
development of the rates, start from the process of knowing
how your costs are being developed and agreed upon
beforehand.

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

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

He also thought that the hybrid test years are
possible, given the Services upgraded information systems,
and they maybe desirable, but avoiding cost issues such as a
potential need to update as through the future.
I asked him, well, what was he -- because he has
had, in the past, some critical comments about the data
systems -- what was he referring to in the upgraded
systems? He was thinking of things like Postal One, the
greater information unlike what's being submitted for
mailing; what's being processed and being able to move away
more from some of the data collection efforts that require
statistical efforts, and having operational data on which to
make the decision.

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

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

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

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

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

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

Now I hope everyone has seen Shelley's announcements when she made one of her revisions to the issue statement. That they're going to have a conference.
They're going to release a report on one of these big methodology issues of the last several rate cases, the variability issue that had commissioned to study in anticipation of it going into this case.

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

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

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

He just throws that out as an issue that maybe
it’s time to pursue.

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

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

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

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

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

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

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

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

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

One procedural innovation the Commission came up
with a few cases back, which I think addresses some of the concerns we have; particularly, if we’re not going to do in between costing cases, is the trial brief. I have always found them very useful. In fact, if one suggestion that I might make is the Postal Service filed theirs a lot sooner in the process, and that, the could tell us we’re changing this costing methodology for the following reasons or for the reasons expressed by witness so and so.

If you want to see the old methodology, look in library reference "x," if the new ones, then library reference "y." It could make it a lot clearer for us, and if we could see that right at the outset, it would make life easier for practitioners to find the information we want.

That, of course, would apply only if we’re not -- there’s all of these things in smaller cases in between.

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

Each of us can think of an instance when Airock (phonetic) has been gorged and we’ve had need to ask lots and lots of interrogatories. But if you look at O, Vi and Arch over the members of the bar, I think that typically
there are only one or two active participants in rate cases that routinely file unrigid interrogatories, and we all know who they are. Most of don’t, and I don’t think those outlawries are sufficient reason to adopt a limitation to the number of interrogatories.

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

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

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

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

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

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

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

A couple of points on that. I would like to see Heritage Reporting Corporation
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the Commission be more aggressive on costing and on what
they might disallow. The governors will have heartburn on
that, but if you want the process to work better, that is
worth considering. At the same time, and now I’m going to
offend the other half of the room, this way we would cover
prior year losses is absurd. This notion that we recover
one-ninth of the prior year losses is adjusted per year is
silly because, as we all know, we incur new allowances that
offset the losses we’re recovering and we never catch up.

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

Finally, along the lines of costing, and this is
one that the Commission really doesn’t have much to do with,
but the Postal Service does. If you really want to create a
competitive pressure -- if the Postal Service want to
instill the notion of competition into its own costing, it
should consider carefully and selectively relaxing the
private express statute, and particularly, to allow more
competition to come in and see if that actually would have
the effect of restraining costs increases on the labor side.

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

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

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

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

The current electronic filing of rulemaking is got

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

Also the date, if you look back through the last
PRs and the interrogatories that get issued initially, there
is some pattern to requesting of data that has not been
filed. Under the rules, could or couldn’t, but it could be
at least guidance to the Postal Service as they start to
decide what they’re going to file. The service standard.
information is becoming much more in demand. Shelley
mentioned that, to report it regularly or to have it come
in, too, automatically in cases.

A lot of times statistical information on the data
sets is lacking, such as sample design, et cetera. They get
filled pretty quickly when answering an interrogatory.
Also, you could use the Commission’s prior decision
sometimes as a source of things in which information is
going to be required in the next case.

Clearly, the last case ended with several issues
that were still on the table that were raised, but not
resolved surrounding work-sharing discounts and they’re
probably going to come up next time. So the more informed
information that can be provided on that the better.

I was sorry to hear Bill Olsen say that technical
conferences were -- that he didn't like them that much or didn't find them very useful. A lot of the things that were written beforehand serve a general request of being able to talk directly, have experts talk to each other directly. The technical conference is the one means by which that can occur.

I agree sometimes they're so early that you aren't exactly up on all the issues that need to be asked, but many that I've participated in, at least, always surfaced some useful information and short circuit some later need for interrogatories. They could maybe be expanded a little bit in their scope. There is usually the admonishment about, well, we limit it to this type question and then everybody dances around trying to ask a question in a non-why way.

Also, you may use current technology to make it available to more people. Broadcast it on the internet and have some person there that would act as a -- operating one the instance messages services, so that somebody that can't come in from Chicago or New York could participate in the technical conference by listening, and then, if they have questions, submitting them through an instance message system. And then, somebody raising it that is there.

Keep using innovative approaches to try and resolve the disputes on the interrogatory responses. I think it was back in R2000 that the new engineering
standards data was introduced and people were having a lot of difficulty trying to identify the questions and what they wanted to bring on the record.

The Postal Service was having a lot of trouble sorting it out. Eventually, the Commission raised the idea of having a -- I guess it was called a technical conference with the people that had generated the data. That allowed a direct communication between the generators of the data and the people who now wanted to analyze it and allowed more precise questions to result later, I believe, in my opinion. And also, didn't fill the docket room with just piles of data. It limited more what came into it.

I don't have too much comments on the interrogatory. We depend on them to produce information, and what's frustrating, I can say just watching them, is sometimes waiting to see finally an answer come out or a decision not to. I don't know if there is -- I'll throw that to Steve. If there is any way to reduce the number of cycles of where they are in the process.

Rate design issues -- clearly, the work-sharing issues. Take the last case where the arguments were about is going to be a rate design issue, and the more we can prepare for that the better, both with current data and making sure information is submitted right away and that the right people are there as witnesses.

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Lastly, the Commission indicated in the last decision that the mark-up index needs some review and looking at it. We are looking at it. If the rates don't even change, there's just as shift in the mail that's causing the index to change. To the extent that people use that as an indicator of their share of the burden, it warrants review and looking at possibly before the case starts.

MS. GIBBONS: Okay. Thank you, before we throw it open, it occurs to me from Bill's comment in the last panel that while we're fixing something we don't want to undo something that's already good. So maybe people might have thoughts before we leave today on what is not broken in addition to what's broken so that we don't make things worse when we're trying to make them better. So if there is anything you think is working well, that might be useful to hear.

MR. POU: Okay, audience comments on discovery?

MR. THOMAS: Joel Thomas from the National Association of Pre-sort Mailers again. I made a number of comments which have been reflected in a lot John's remarks and I assume it's not necessary to run down what was submitted in writing.

One thing I didn't comment on was the limitation of interrogatories. I share the reservations that others
have expressed about whether that would be a good idea or
even workable. In multi-party litigation of this sort,
there are some parties that don't ask nearly as many
interrogatories as others. If the limit is set high enough
to allow those people that have a serious issue to pursue,
you're going to be able to find somebody who hasn't used
their quota and get them to ask your questions for you if
you're at all subtle about it, and it might even be fairly
obvious what's going on. But it would still comply with the
rules. I don't think you're going to get a great advance
out of saying, well, let's limit interrogatories. That
works best in automobile accident cases where there's a
plaintiff and a defendant and not a lot of other parties
running around.

I would hesitate to suggest that, that would save
a lot of time. I think what would save the post office a
lot time is that an enormous number of these interrogatories
that are filed come out of the Commission and the OCA. What
they reflect to me is a failure of the Postal Service and
the Commission to be exchanging the kind of information that
at least one of the two parties wants on a regular basis
outside the case.

If they could get some kind of protocol that would
result in the exchange of information between them and
perhaps, we, as interested parties would be third-party

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beneficiaries of the flow of that information. But if they could simply solve, between themselves, a number of these issues, then they wouldn't be asking all of those interrogatories that have been stored up in the context of a rate case, which would, at a minimum, free up some other resources within the Postal Service to address other issues that are raised by other parties I should think.

MR. STRAUSS: David Strauss, American Business Media. I think I'm going to disagree with NAA's current counsel and it's prior in-house counsel when apparent. I don't think depositions would work at all in these cases. I think you'd need a team of lawyers to represent each party. Bob, I know you think -- Mr. Brinkman still here? You think that it could speed things up, but right now there is an awful lot of discipline that lawyers exercise in the hearings. I think what's not broken is the fact that these can be completed in 10 months is extraordinary.

Those of us who practice before other regulatory agencies practitioners there would deem it impossible to finish a case like this in less than a couple of years, and to try to get it to less than 10 months is going to hurt the process, I think.

The only reason the process works is we can go through six or seven witnesses in one day instead of six or seven days for one witness, which is often the case in other
places, and that’s because the lawyers know that the
commissioners are going to get pretty angry at them if they
take eight hours for one witness when there is 10 other
parties and 5 other witnesses.

If you start with deposition, you’re going to have
five-hour depositions per attorney. You’re going to need a
team of attorneys to cover all of the depositions. There
won’t be any time for anything else, and you’d have two
parties in each case by the time it was over.

In my written suggestions I suggested something
which is going to sound even stranger than being opposed to
depositions, which is the possibility that the whole
interrogatory process has run its course, and actually
impedes progress in these cases.

There aren’t many people in this room, who like me
where in R711, but the Postal Service attorneys at that
time, and I was one of them, didn’t spend all of our days
answering interrogatories. We worked on the case. We did
that case with four or five attorneys and only three or four
of those actually did anything. The other one got a
distinguished service award, and John knows who it is.

(Laughter.)

MR. STRAUSS: But so many of these interrogatories
in these cases are carefully crafted questions by lawyers
that come out with carefully crafted answers by lawyers and
really don’t advance the case at all. The lawyers in the case, the parties in the case, save their good questions for oral cross anyway because they want the witness to answer them, not a committee to answer them.

I’m not suggesting we abandon written cross examination all at once. I’m not suggesting we abandon written discovery. I think discovery has a place. We’re discovering information, not asking, as you said John, the "y" questions. There are so many questions, if you read them all, and nobody does, I’m sure. They’re bad questions or silly questions. The answers are never used. They’re going to be designated in the record because people designate everything.

But if somebody did a study of how many answers to interrogatories actually make it into the briefs, I think there would be a shocking small number. And maybe what we need to do or what the Commission should do is experiment with one witness and see what happens if you limit discovery to true discovery and allow the parties to cross examine. I don’t think you’re going to get much more oral cross examination that you get now.

I think that the time you save in the discovery process could be significant. Now as Dennis Miller would say, that’s my opinion and I could be wrong and I probably am and I don’t think there’s a need to speed up the process.
But there is a perceived need to speed up the process, I think an experiment with limiting discovery to true discovery and not interrogatories might be a way to do it. MR. FELDMAN: Steve Feldman for the National Federal of Independent Publications and the Coalition of Religious Press Associations. I have just a couple of comments coming out of the panel discussion on discovery. I first want to say to Mary Anne's suggestion about we ought to a little bit anyway about what works. I want to say that maybe I've just been lucky in the last few years, but I've noticed a refreshing trend among the Postal Service attorneys that I've dealt with regarding witnesses that I happen to be interested in, in a case, being very cooperative. And by that, I mean, oftentimes, before I ask a question, one of those famous written interrogatories, or maybe I've asked the interrogatory and I still pick up the phone before the answer is due. I've had the opportunity to have a dialogue with the responsible attorney, who, of course, checks with his client and oftentimes we are able to either narrow the scope of the question or to at least assure that it's going to be a question and answer, and not a springboard for 20 more questions. I definitely remember a little further back in time that, that just didn't seem to be the way it worked. I
don't know if this is an official Postal Service policy, but it is an openness on the part of the Postal Council I work with, and I’d just like to commend them. And if I’m just the lucky one who hits the nice guys, I urge all the postal attorneys to be nice guys. If you are nice guys, thank you very much.

It does make a big difference and it does limit it. I would urge the folks like me who represent associations and corporations to extend the same courtesy to the Postal Service to try to get some of these -- to sharpen up the questions, to sharpen up the answers, to make sure that everybody understands what’s being asked for and so that the -- if you still need to ask that question, it’s the best possible question.

And the other side, they actually have advance notice of what’s being required. Get the gamesmanship out of it, and again, I believe that the Postal Service Law Department is doing its best to do that in many instances, if not all instances.

Now I’ll take the other side of things and say I have never understood the growing use of the famous mass institutional witness. This entity came out of nowhere, I think, sometime in the 1980s, anyone can correct me and they probably will, and just has gotten bigger and bigger.

Common sense tells us that there is a real -- either a

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person behind the institutional witness or a group of people, which is perfectly normal. It may be in the area where it involves cross discipline or several witnesses in several spots. So it's more convenient to say the institution is answering the question.

What I would suggest is that the key person, even if it's among a group of witnesses or even an individual in the Postal Service who isn't actively a witness sign his or her name to that. They maybe doing that now, a signature may be attached. I honestly can't remember offhand. I think it is. But that there be somebody who potentially can be called for oral cause.

Like David Strauss' previous comments, I don't think this is an instance where you're going to see a huge explosion in oral cross examination if an institutional response has a human sponsor.

MR. POU: Thanks.

MR. BAKER: Before he does that I would agree with what Steve said that you get fewer interrogatories if you call the counsel who propounded the interrogatory and say, what is it that you really want? And that question can't really be answered the way you ask it because of all these things that we weren't aware of when we asked the question.

That can actually help the process. We get a better answer. You get an answer that's helpful. You get
an answer that disposes of the question so you don’t get
more further motion practice or further interrogatories on
it and that’s helpful. I’ve always felt the notion of
depositions of Postal witnesses would be just ghastly. I
didn’t want to sit through that.

What we could do, and make more use for requests
for admissions. It’s in the rules, but people don’t do them.

MR. SWINDERMAN; Allen Swinderman, Greeting Card
Association. Several points. One, to address the situation
where you get a witness on the stand and he or she says "I
didn’t review that. You need to direct that question to so
and so." Oftentimes, you hope that, that witness is the
subsequent witnesses; but there have been instances when
it’s been a prior witnesses. Whether that can be addressed
with regards to having a witnesses grouped or having them as
panelists so that you get a coherent response with regard to
issues, whether it be first class, standard or whatever.

Picking up on several threads, one by David
Strauss, which I would echo, and that is trying shorten the
process. A number of the parties here simply do not have
the human resources to throw at a shortened or condensed
period of time. It’s amazing, I agree with David, that
we’re able to accomplish what we can within the 10-month
framework.

Then also, picking up with what Bill sand, and
that is, having the Postal Service have a great dialogue with first class mailers and with the OCA, which I think could be improved upon. In that light, although, Bill I'm not expecting the Postal Service to advocate relaxation of the private express statutes, what I would urge is that the Postal Service begin thinking as if there were no private expressed statutes and how they would compete on that basis in the first class arena.

MR. VOLNER: I think I want to come back to Mike Coughlin's comment. Let's start with Bill Baker's fair question. Do we really want to speed it up? It depends on what you mean by "speed it up." We've already established that shorten time intervals doesn't work. The move of discovery responses from 14 days to 10 days produced just reams of papers saying I'm sorry we're late, but we couldn't help it. That's not shortening the process.

Shortening the process is simplifying the process by getting rid of some extraneous stuff. David Strauss has put his finger on something that might be worth exploring more vigorously. There is discovery and then there is discovery. Discovery designed to find information which is not readily apparent is a legitimate exercise. Contention interrogatories have no place in this business. And again, I come back to my comment about the Commission needing to take control, maybe request for admissions work. Frankly,
I've never seen them work very effectively in this kind of complex environment.

Let's talk about, for a moment, why from a mailers perspective it works to our advantage to simplify and thereby expedite the process. It simply comes down to this. If they say it takes them five months to build a case, it takes us 10 months to get the case done with. It takes another month for the Board of Governors to act, and we say, and quite properly we say, we need 90 days to get implemented. That's almost 20 months.

Then we stand around in these cases in utter amazement at the contingency. If you could cut five months out of the rate case, the advice from counsel to Dick Strasser, who I noticed has decided to hide during this part of the war, is cut the contingency because you know you're going to get those rates, not in 11 or 12 or 15 months, but you're going to get them 8 months, giving us the full 90 days that we need. That changes the whole revenue dynamic very significantly.

It does require that a lot issues be pulled out of the case -- the methodological costing issues. It requires that the Postal Service give up something, which is greater transparency before the case is filed and not two days before the case is filed -- a month, two months, three months before the case is filed. It does not have to be
closed sessions, Bill. Those sessions have to be open to
everybody and anybody, including the OCA, who wants to
attend.

The Commission, for its part, has to exercise much
more control than they do now. At the beginning of every
decision there is recital of the number of days of hearing
and the length of the record. The only thing that, that
length of the record proves is that no human being, much
less the whole staff of the Rate Commission, has read it.

Ten thousand pages is not something to be proud
of, and it doesn't produce good decisions. So it seems to
me that we've got to pick up some of these ideas, including
limiting the number of interrogatories. I don't believe
that Joel's concern is valid. But if you limit the number
of interrogatories, you might get people to use them for
their real purpose, which would in turn reduce the length of
the record, which would in turn simplify the process and
thereby expedite it.

MR. SEARSAL: Jerry Searsal with Direct Marketing
Association, again. I would like to commend David Strauss.
I think that he has a very good idea that we should look and
experiment on.

I do think that -- there are a couple of things
with asking interrogatories in lieu of oral cross
examination, which was the real reason to start this process
was to cut the length of the proceedings, is that now with
the transcript and so forth, it makes it very much more
expensive and so forth. It's easier if we had an oral
transcript as well without the written interrogatories
inside to be able to search it much more easily.

The expense for getting the full transcript is
much more difficult to try to do searches on as we do
briefs. But the point that I think on the experiment that
we have to pick up on what David said to go with the
experiment. The post office should pick -- the Rate
Commission, excuse me, should pick one witness and try and
have technical conferences. Then maybe some true discovery
of what was used here and so forth. Then go to oral cross
examination and have that be the first witness because the
next person after David did talk about, oh, no, I'm the
wrong witness to talk to. It's someone else who's already
come and gone. So on the first experiment should be the
first witness up and give it a try. I think that's really
an important factor.

One other thing that -- the climate at rate cases
is very different, and looking at this past rate case and
the settlement in this past rate case, one of the things
that Direct Marketing Association did and felt that they had
to do to try to move things along, looking at times and
dates, was to try and get a settlement-type conference put

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together. But we did it with all the parties in the rate case except one. We purposely did not invite the United States Postal Service.

We felt that, that was an important factor in moving forward with the settlement so that the parties could talk freely without the Postal Service being there. They probably learned as soon as the meeting was over what went on it, but that tells you the attitude that is out there as we look at these proceedings.

We invited United Parcel Service. We invited the OCA, but we absolutely did not invite -- we told them so, the Postal Service. So it's an interesting thing to take a look at, as the Commission and the Postal Service look at trying to fix and work these rate cases, that there is not a feeling among the parties that there can be open dialogue.

Looking at trying to get a settlement where people are going to give and take in trying to work a settlement with Postal Service, the view is don't have the Postal Service there because you want to have a united front to the Postal Service. Here's what the settlement is.

So I think, as you look at this entire practice in shortening things, you have to take a look at what are attitudes of all the players with each other. We work with the Postal Services and so forth, and many instances -- the Direct Marketing Association works with the Postal Service.

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all the time, but in some instances in the case, we don’t see cooperation from the Postal Service as you look at the case.

They are the most adversarial of any of the parties, including United Parcel Service, at least that’s the view of a lot of mailers. You have to take a look at that in how this is going to work. You have to change that attitude before you can really simplify this process. It may not be -- the attitude of the Postal Service admits the attitude of the mailers would have to change, but whatever it is, that’s the problem that we see.

MS. GIBBONS: Jerry, do you have any specific suggestions on what it would take to change that?

MR. SEARSAL: Well, I think that one of things that we have a problem with, whenever you met with the Postal Service, and that includes, and this is no offense on Dan or his staff, they don’t have authority to speak for the Postal Service. Here is the line that I have -- this is the text that I’ve been approved of talking for and go off the text. Therefore, if you have any meeting to try and work in cooperation, they can’t step off it.

So that you have meetings -- we had the meeting on the rate case settlement with people who were able to agree and make positions and make compromises for their clients at this meeting and you can’t have the Postal Service at that
because they usually don't have the authority to do so. So that's the first thing you have to do. You have to empower your representatives, or at least, if you have these meetings, have someone who has authority to do it to come forward. I know the Board of Governors creates a huge problem for the Postal Service, but that's one of the things that's a problem, I think, in the process.

MR. LORENZ: Scott Lorenz, Time, Inc. I'd actually like to change direction briefly and talk about your fourth bullet, Rate Policy Design Issues. What rate policy design issues and approaches should be reevaluated? I'd like to make a couple of comments on the development of cost-based rates to encourage efficient mailing practices. I guess the specific question is, why not let the rates reflect the true costs of the mail. I've got an example here. It's a very simple one. If you would imagine a couple of pallets. The first pallet has carrier route packages on a five digit pallet entered at the FCF. The second one has carrier route packages on an ADC pallet entered at the same facilities.

The copies in those packages pay exactly the same piece rate, but clearly that first pallet has a benefit to the Postal Service. It's going to be crossed dock. It should never enter that facility. So the costs of the copies and pieces on that pallet should be reflected in the
rates, and their not. They’re just all paying the same
rate.

We’ve looked at our sortation of our publications,
and we know we could reduces processing costs, but right now
there is just no incentive to do so.

In the work that we did in the current rate case,
which is about 31 days away, we played with sortation on
several of our publications. Fortune Magazine, for example,
We tried to optimize that magazine so that it was most
efficient for the Postal Service, not necessarily for us.
Not necessarily for service, but driving costs out of the
Postal Service.

Based on our best estimate of what your costs are,
we could drive, just for that one publication, between 3 and
$400,000 a year out of your costs. We’re not going to do it
because there is no reason right now that we should. There
is no savings to us. Instead, we still have all that sack
mail that’s got the same piece rate as most of the pallet
mail. So it’s just a question, why not let the rates
reflect the true costs.

I’d also like to make a comment about the fourth
bullet -- the collaboration between customers and the Postal
Service. I want to support what Bob McClean said earlier
and ask that during the implementation of rates to please
understand and consider the difference -- I’m talking about

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software design now -- of simple sale changes versus structural changes to pre-sort software.

The structural changes need more time, 60 days isn't enough. So it's basically the time between the proposed Federal Register and the final Federal Register notice that we have to do our work when there are complex software changes involved. I would just like everyone to be aware that we need as much information up front so that we can get all that stuff done without having to program and then throw out the programming later because things changed.

Thanks very much for this opportunity. It's been a great start. Thank you.

MR. POU: Other comments on the rate design or collaboration, rule changes?

MR. VOLNER: On behalf of America Business Media, forget what I said before. I've got 200 interrogatories for Scott.

(Laughter.)

MR. POU: Anybody else want to offer anything before we conclude.

MS. GIBBONS: Dan Fushou (phonetic) is right here. You can talk to him about all 200 today.

MR. VOLNER: My point, exactly. I did want to take a moment to actually commend the Rate Commission for one thing that they've done to improve the process, and that

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is, their website. The posting of interrogatories -- all of it
-- filings and the cases are posted on their website
promptly, reasonably promptly, and it’s in a, I think,
pretty indexed way, in a formatted way. It has greatly
eased the process of keeping track of the paper; keeping
track of the interrogatories, whether they’ve been answered
or not; and pulling things together. It’s been a great help
and I thank the Commission very much for having done that.
It has certainly reduced the cost participation to some
degree.

There is now a proposal pending on E filing. We
will be filing comments on that later in the next month, I
suppose. But I think that’s one thing the Commission has
done on it’s own, with the cooperation of the Postal Service
and the parties. It’s been a big help.

MR. POU: Thank you for the comment. It’s allowed
the staff now to work all through the night as the
interrogatories -- you know, we used to kind of wait around
until 5:00 o’clock. Now we can go home and go on our own
home computer and see all the interrogatory traffic that
night.

Anybody else want to add anything for the common
good or for your own good?

MS. GIBBONS: I think we’re at the end of the day.

Let me start by saying thank you to a number of different
people -- our panelists, who because we didn't have too much
time to plan this conference, that very short notice that
they had to put together some thoughts and be here, we
really appreciate all of our panelists.

We very much appreciate all of you who came today.

We know that it was a difficult day for many people;
particularly, for those of you who are from out-of-town. So
we appreciate your being here and all of the thoughtful and
very candid comments.

Thanks again to the Postal Rate Commission --
Steve Scharfman and all the other people from the Rate
Commission who are here, for working together to plan this
first day. What I think you've seen from the Postal Service
here today, and I think it's not the first time that you've
seen it over the last several months is, an increased
openness to working as closely as we can with all the
stakeholder in this process as well as many of our other
processes.

Everybody on our executive committee is either
here today or represented by people from their staff. So
they'll have an opportunity to hear what went on today and
take that into account as we move forward. So you probably
want to know, so what are the next steps? What will happen
after this?

I want to remind you again that for people who
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didn't get to submit comments or talk today or have further thoughts as you leave here, please get those comments into us by the end of this week. You can do that in the same way that you registered. So go back on the website of the Postal Service -- the Rate Commission and get them back in, in that way.

What the Postal Service will do is then take everything that we heard today as well as those comments, and as Ian said, we need to tell you now what we think we can do with that. So get that together and at the next day of this Summit, which is June 27th, hopefully, we'll be able to -- not hopefully, but we will report back and tell you what we think we can make of that for the next rate case and have a chance then to maybe have some final dialogue on that. So that's our commitment to you.

The next day is June 27th and registration is now open and we hope to see everybody here again as well as, of course, some of those who could attend today. It's in the middle of the week so it's a little easier, a little more notice so you can maybe get those reduced air fares if you didn't get them today. So please do register again.

We're asking that you register by June 14th so, again, we'll have some time to plan for food and logistics and all of that.

I think that's it. Again, thanks to everybody and Heritage Reporting Corporation (202) 628-4888
safe trips home and hope to see everybody back again on the 27th of June.

(Whereupon, at 3:31 p.m., the hearing in the above-entitled matter was adjourned until June 27, 2002.)
REPORTER'S CERTIFICATE

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
Heritage Reporting Corporation
Suite 600
1220 L Street, N. W.
Washington, D. C. 20005-4018

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