UNITED STATES POSTAL SERVICE
POSTAL RATE COMMISSION

In the Matter of:       )
)       )
RATEMAKING SUMMIT       )

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

Thursday,
June 27, 2002

The above-entitled matter came on for a hearing pursuant to notice, at 9:00 a.m.

BEFORE:

HON. ANITA BIZZOTTO
Chief Marketing Officer

PANELISTS:

PANEL I:
FLEXIBLE/PREDICTABLE PRICING, PART I

JOHN CRIDER
SHELLY DREIFUSS
VINCENT P. GIULIANO
HOWARD SCHWARTZ
RICHARD J. STRASSER, JR.
PANELISTS: -- CONTINUE --

PANEL I
AUDIENCE MEMBERS:

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

PANEL II:
FLEXIBLE/PREDICTABLE PRICING, PART II

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

AUDIENCE MEMBERS:

BOB McCLEAN
DAVID STRAUSS
LINDA CALVER
BILL BAKER
LEONARD MEROWITZ

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

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

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PANELISTS: -- CONTINUE --

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

WILLIAM B. BAKER
MARY ANNE GIBBONS
JOHN WALLER

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MS. BIZZOTTO: Well, good morning, everybody. My name is Anita Bizzotto. I am the chief marketing officer for the Postal Service. It is my pleasure to welcome you all to Rate Summit, the sequel, I guess, Day 2. How many of you were here at the first day of the Summit.

Well, most of you were here. So you know that there were close to 200 people in attendance at the first day. As Ashley Lyons reminds me, if you look at the transcript, we talked for about 200 pages of material during the day.

Most of our discussion at the last summit really focused on the omnibus ratemaking process. First of all, looking at whether or not there were ways that the Postal Service -- how customers felt about and whether or not there were ways the industry thought that the Postal Service could file a phased rate case.

Then we spent a fair amount of time talking about other ways that we might be able to streamline the current ratemaking process. At the end of that session, the Postal Service promised that we would come back on Day 2 and provide our thoughts on how we might structure a phased rate case.

Our first panel will be talking to you about some
of our preliminary thinking about how this might work. This is by no means the Postal Service’s final decision on how we might go forward with a phased case. It is the result of some fair amount of thinking by the experts in the building about how we think we would approach filing a phased case. We’re presenting this to you today so that we can get your feedback and get some sense of how the industry might react.

The fact is that, we know that there is the philosophical reaction to how a case might be structure, and then, there is the real reaction to how a case might look, depending on where you and your clients end up. But we at least want to get an understanding of your sense of whether or not the structure that we are going to talk about today is one that would work.

Another follow-up from the last Summit was some thoughts back at the group about the discussion we had about streamlining the omnibus case, and Mary Anne Gibbons and others will be leading a discussion about some of our thoughts on how we might do that going forward.

As I said, these are preliminary thoughts. Don’t take away these ideas as our formal proposal, but we do want to get your feedback and some sense from you as to how the industry might react to the approach that we’re going to propose today.

We are going to spend the afternoon talking about Heritage Reporting Corporation
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customized pricing or negotiate service agreements. This
can’t be a new concept to most of you. You or your clients
probably frequently buy and sell all kinds of products and
services through some sort of customized arrangements with
your supplier or some sort of negotiated rate agreement.

Certainly, not new to other posts because most
post in other countries use these mechanisms to set prices
with customers. The Postal Service itself actually is the
beneficiary of customized pricing agreements with folks we
do business with because we are, in fact, a large purchaser
of materials.

We, like other large businesses, sometimes benefit
from our size and scope in terms of the prices that we get
from folks that we buy from. So the fact is that negotiated
service agreements, customized pricing arrangements --
whatever you want to call them, are a normal part of most
everyone’s business today. Except really, in terms of how
the Postal Service does ratemaking.

This afternoon we’re going to explore a couple of
things. We’re going to spend some time listening to some
customers talk about how they believe that some sort of
customized pricing arrangements might be helpful to them in
their business. How those sorts of pricing mechanisms might
or might not, in fact, help the Postal Service in terms of
growth, of volume or different product lines.
We’re going to explore those questions first, and then we’ll spend some time on -- in fact, I’ll be chairing a technical panel later to talk about all the questions that have come up about how these, in fact, might happen from a technical perspective.

So that’s pretty much how the day is going to lay out. I’m going to turn this over now to Charlie Pou. Those of you who were here last time will remember that Charlie is our dispute resolution expert. I’m happy to report that Charlie didn’t have to break up any fights on Day 1 of the Summit, and we’re hoping he doesn’t have to do that today.

He will, again, act as our facilitator for the day. He will spend a couple of minutes now reminding you how the day is going to go, and then, we’ll get into the first panel. Thanks for being here.

MR. POU: Thanks, Anita. Actually, Charlie barely had to open his mouth the last time, and is looking forward to not having to open his mouth much today.

There will be a little bit of difference between today and the last time because the last time was pretty much all panel discussions leading to a more broader interaction with the audience.

Once again, though, our purpose is to explore how the postal ratemaking process can be improved. This time some slightly different aspects as well as some specific...
aspects of the topics that were discussed the last time.
Postal Service official will open each segment with a
presentation.

With panels, each panelist will have four or five
minutes to offer some thoughts on selected issues relating
to that particular topic. Then the remainder of the
available time, whether it’s a discussion generally or a
panel structure, will be available to allow audience members
to give their ideas, raise issues and reactions, and
generally, to have a lively discussion.

As last time, our audience members who want to
contribute should go to one of the four microphones here. I
will recognize an audience member who is in the appropriate
place, and they will have a brief time to share their
thoughts. Generally, probably a minute and a half or
something like that; although, that’s somewhat flexible.

We will reserve the final few minutes of each
panel, when there are panels, to give the panelists a chance
to offer any final thoughts they may want to give or just to
pose some questions back to the audience.

We’ll adjourn on time, and just a couple of notes,
again the proceedings here today are intended to promote
mutual education, generate good ideas -- not intended to
give folks a chance to ask the Postal Service about it
substantive plans, not intended to let anybody put the PRC

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on spot about how it might rule and not to dwell on the past.

We will have a couple of breaks. Lunch will be served at about 11:55, I think, and pretty much in the same place where the continental breakfast was this morning.

Finally, and not least, please turn off your pagers and your cell phones so that we can have a really focused discussion.

I'm going to turn it over to the Postal Service now for the first discussion item. At that point, we may have some time for discussion after the presentation. Thank you.

MR. LYONS: Hi, I'm Ashley Lyons. For those of you who don't know it, I'm the manager of Pricing at the Postal Service. With me today -- one of the things I actually found that these programs are enlightening by looking at the program, I was able to find out the title of two people I've worked with for years.

Andy German, whose the managing counsel. I didn't know that was your title, and Grady Foster, who is the manager of Financial Forecasting. I knew that they sort of managed things, and one was a lawyer and one was in Finance dealing with all sorts of the forecast in the rate case, but I had no idea what their titles were. So I'm truly enlightened from my presentation already here. I hope you
The basic format here is I’ll talk a little bit about rate case phasing -- the options and the issues, if you will. This is sort of the old Monday night football three-man team. I’ll be doing the play-by-play. They will be doing color here. We were trying to decide earlier which one was Danny Don and Howard. I don’t think we had any takers on either of that.

With that in mind, let’s talk a little bit about the issue of the rate case phasing options. As you know, as Anita alluded to earlier, it was a big topic last week and we indicated we would come back with some thoughts on the idea.

Basically, the agenda is we’ll talk a little bit about price change frequency -- the most fundamental issue is how many changes are we talking about here. What would be optimal in terms of the frequency or the number of changes here? And what we’re going to try to do, again, is to present something on how these issues might be resolved in order that we can have something that’s a successful phase rate proposal here.

Also, what’s a test year? How do you meet the break even requirement. There are some fairly technical definitions we’ll discuss here. Also, what triggers this, if you will? How are these things triggered? Do they
happen automatically or does something have to kick off these phases? We’ll talk about that.

Finally, the rate design options. This means are the actual rate designs, would they be proposed and recommended by the rate commission or does the Postal Service have some flexibility in developing phasing issues here.

So that’s basically what we will be talking about here. I forget to click at the time, but, again, we will be talking about the price change frequency or number of changes; the test years, which is a technical concept of how you break even; the rate triggers; and the rate design options.

The assumptions here -- this is sort of the disclaimer page here. Before we get down to the discussion of these issues, this isn’t, say, the formal comprehensive proposal. It’s not designed to say this is the final end all/be all from the Postal Service here.

Basically, what we’ve done is we’ve taken the comments that we have heard from the first day of the Summit and considered those issues that are in play. We have tried to come up with at least one potential approach that balances the goals of phasing with realities of the ratemaking process and the current law and the financial needs of the Postal Service.
Rather than dictate a particular approach, we are hopeful that this presentation will elicit some comments. However, also, hopefully, as part of this discussion, it will be clear that we have given this some thought and what we’ve got is fairly logical here.

So with that in mind, let’s turn to the first issue. We’ll start off -- again, the basic goal of what we’re trying to do here is to balance predictability in financial risk, if you will, once you’re locked or sewed to a phasing schedule.

For the issue of how frequently or how many rate changes, we looked at three options. This will sound a little bit, for the next couple of slides, like Goldie Locks and the three bears with one too hot, one too cold and hopefully, one just right.

The first is business as usually -- really no phasing. The strength of this approach -- we know how to do it. The parties here as intervenors know how to deal with it. The Commission has dealt with it. So obviously, that’s a strength.

One of the things that I heard in the last session -- it was a bit surprising, but it made some sense, that we heard from a couple of customers or their representatives that some customers liked it. They felt that in the essence the Postal Service were deferring rate increases and

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therefore, they were deferring having to pay out money. And when they did, it was with cheaper money later on.

At the same time, we’ve heard many concerns about the volatility of the changes and the lack of predictability for the customers. That’s what lead us to the discussion on phasing. We also saw a potential, as a Postal Service, a better way to better manage our costs and revenues annually.

So with that in mind, we looked at two phasing approaches here. Basically, two rate changes and three rate changes. If you’re looking in terms of predictability, the three rate changes actually give you, in one rate case or three phases, the most predictability.

At the same time, we heard from customers, and even a Commission staff member, raising issues about the ability to forecast over long periods of time. So with that in mind, the two rate change approach appeared to be pragmatic. The forecasting out in the future -- again, I will start heading these buttons here -- appears to be more pragmatic.

Particularly, for the first time out as we’re going through this for the first time, rather than do a three -- phase rates over three years, it seemed to make sense to do it for two years over a shorter horizon. Then you could go back and take a look at how that went.

As with phasing, we evaluated three proposals or
approaches for test years. What we're going to do here when
we talk about it -- this isn't a formal Postal Service
telling you what the tests are going to be, but to give you
an idea or a concept. We thought we would actually put
calendar years or fiscal years, I'm sorry, to show you what
this might look at. This isn't necessarily the test year
for the next rate case.

With that in mind, the first lists two separate
test years. That's mentioned that you do that. Each year
would be constructed with not only the accrued costs --
those are the operating costs. How many of you actually
looked at your glossary the last time here? There was a
glossary that had terms in it and referred to accrued or
operating costs.

Also, that but also the contingency in the prior
year loss recovery. When we do a rate case, for those of
you not real familiar, the break even doesn't even only
included the measured costs in and of itself. It includes
the prior years' loss recovery, which is recovery of the
losses the Postal Service has accrued since it's been vanity
of the Postal Service over the past 30 or so years, along
with a contingency provision there.

We won't get into the issues that come around the
contingency, but nevertheless, that's what the Postal
Service is doing when it breaks even. In a rate case break

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even, it tries to cover the cost, if you will, but only
that. The contingency and pay down the prior years losses.

If you had these two separate test years,
basically, all we would be doing is having two rate cases in
a row simultaneously. We would just be running through two
rate cases. Here we are for 2004. Here are our proposed
rates. Here we are for 2005. Here are our proposed rates.

So it's like, again, you can say about the only
difference is you start from the same base, but we're just
running two rate cases at you at a time there.

One of the concerns is that the Postal Service
would -- there would be no flexibility in how you phase
stuff. We would just be hitting whatever that rate case
break even is. So that Year 1 or Year 2 would have no
flexibility. It would be here it is. We'll be hitting that
rate case break even.

Another option would be a multi-year test period.
Instead of having a test year, it would be a test period.
The idea is that you would break even over 2004 in this
example and 2005 you might lose money in one year, make
money in another year, but you would take that contingency
provision, the recovery of prior year losses, and roll that
all over into that two-year span.

It does require some changes in the Commission
rules, and it also requires some changes in how the Postal

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Service lays out its case. Those are a couple of issues with the multi-year approach.

The final version, if you will, and I think Anne alluded to this some in the last meeting here. Is that you have a test year of a further out year. In this example it’s 2005. By the way, if you haven’t figured out the code here, the gold one is the one we’re eventually are going to say is the one we’re considering.

Basically, the first year the revenue is covers the operating costs, if you will, for those of you who read the glossary, that means an operating break even. That would be our goal there. At the same time, we would be trying to balance that goal.

We don’t want to lose money while we’re raising rates. We would be balancing it with the goal of trying to have a smooth transition to that second year so that the rates wouldn’t jump too much or to have a smooth transition over time to that second year so that you could, at the same time when that second year hits, that you would not only be recovering -- that would be the full rate case break even year. That would have the contingency and the recovery of prior year losses.

So again, the goal of the first year is to cover the costs, but at the same time try to smooth out that transition to Year 2 when you have the rate case break even.
We think that does give some flexibility in terms of providing some options on that interim year there. At the same time, the Commission and everyone is comfortable with that test year concept there. So we think that has some attractiveness there.

I’ll talk about the issue of triggers here. The last time I talked about triggers was when I was, I think, six years old and I got a Roy Roger’s watch that had trigger in the face of it here. I had to think for a second or two about how to spell trigger. Was that the noun or the animal, but nevertheless, be that as it may, we’ll talk about triggers.

Basically, what triggers are, are the issue of how you activate the phases, if you will. There are two alternatives here. One is the automatic rate activation. It just means at a certain specified date you go ahead and raise the rates accordingly.

The second is that there is some predetermined financial criteria used to determine the timing of the rate increase, and also, perhaps, the amount of it. It can be anything from some level of how the Postal Service is performing financially. Some issues related to CPI or other indicates, but the idea is that it’s triggered by some event -- some financial event, if you will.

One of the things is the formula would change
either the size and/or the timing. So it could change the size of the increase or it may cause the Postal Service to move back or move forward the increase. For instance, if better financial performance than we had originally plan would mean the second increase could be reduced or delayed. Presumably, if the opposite occurs, and you have worse financial performance, it would move in the opposite direction.

With that in mind, Option 1, those are the descriptions there. Option 1 more fully meets the stated goals of predictability. You know what the rates are. You know when they’re going into effect. So if predictability is your goal, you can do that.

Arguably, Option 2 provides you the better ability to address unforeseen events. About half of the customers are saying, well, gee, if things are going real well, you might not need that rate increase as much as you thought. Conversely, if things are going worse, the Postal Service might speed it up. This works both ways. It could either speed it up and/or raise the rates.

Given that, that’s all fine and dandy, but in terms of predictability, that’s like we’ve got a second increase coming, but we can’t tell you what or when. So I’m not sure what that does in the name of predictability here, other than you know there is a rate increase looming out.
there.

In summary, we prefer Option 1. If predictability
is what people are looking for, and that’s what we heard
primarily in terms of phasing from Session 1. We believe
that provides that. If you concerned about the issues of
this unpredictability in terms of the financial performance
and aligning the rates with those; particularly, when you’re
having a two years -- and I think it works even in three
years -- it’s not like it’s the end of the world.

If the Postal Service does a little better than
people thought, then the next rate increase, that will be
reflected in the next set of rates. If it does worse than
it thought, then the next set of rates would be adjusted
accordingly and the like.

So given that it’s to the degree that people are
looking at the financial performance or the like dictating
the level of rates, they really would. It would just come
back in the next formal rate increase as oppose to that
second rate change.

One issue that came up or at least was touched on
a little bit was the rates themselves. Does the Commission
recommend the phasing formula or the precise rates? There
is a little experience in the past with regard to the non-
profit phasing schedules, which went on for a number of
years, but nevertheless, we’ll focus now on what it would be
with all the rates changing here.

For instance, the formula might be, say, if you had a two-phase rate change like we were talking about that the rates would move up half the stated amount in the first year and go up the full amount in the second year. That sounds pretty straightforward, but for some of those people involved in the design of rates, nothing is quite that simply because you’re dealing with rates and the rounding of rates. When you though -- I’ll use an example that comes up from time to time. There are drop ship discounts and standard mail, and people are real concerned about the three-tenths of a cent of a gap.

If you’re rounding up rates, sometimes the rounding might occur that three-tenths of a cent. If one rate rounds up and the other rounds down, that gap might go down to a tenth of a cent. The next year the rounding might hit differently and it goes up to a half a cent. When you full goal all along was to preserve a three-tenth of a cent gap. So all that is to say is when you manage to a formula, it doesn’t always take into account judgment there. So that’s an issue there.

Another thing is, without addressing the issues of legality, the Commission would appear to have a preference for recommending actual rates. Most of the people around here are used to seeing the actual rate schedules as oppose
to formulas and the like. As such, it appears, particularly, the first time out, we’d be served by the use of the actual rate schedule. And so, not to bog down the whole phasing discussion in a case, that seems the most simply and the most straightforward proposal.

With that in mind, we will now summarize what our basic proposal is. Basically, two sets of rates. Again, we talked that if we’re after phasing -- the goals of phasing, but we wanted to be a little cautious about it, then the two set as opposed to going out three years made sense.

The other thing was in terms of the test year. In terms of the test year, it’s to cover the total cost in the first year. The total of the operating costs. That would be, perhaps, an operating break even. We would still look to make sure those first year rates smoothly transition into the second year rates.

Then the second year, that would be the full formal rate case break even, covering the contingency and the prior year loss recovery.

No triggers to enter phase two. I can throw away my trigger watch there. We would just sit there -- you would go -- people are laughing. I do have my Trigger watch fully ensconced in a little drawer at home.

No triggers. We believe that if you want predictability, then it predictability. The rates will

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change on this date at this amount there. We think that
provides the predictability there.

Finally, each phase a set of recommended rates, at
least at the initial phasing rate case, to simplify matters
there. So that, in a nutshell, is a possible you can go
about phasing the rates. It's trying to accommodate, again,
what we heard from the first session, and putting some of
the minds here at headquarters.

An important note here, anyone who has a blue
Chevy Comet in the parking lot, Virginia tags AWT481, your
lights are on. If that rings a bell, it's a blue Chevy.
It's Virginia tags, AWT481. You might want to turn off your
lights.

With that in mind, and if there are no questions
about the car and turning off the lights, we'll turn it over
to the panel and we'll hear what questions or comments the
audience has here.

MR. POU: Excuse me, one thing. Please be sure to
state your name so we can credit your remarks to you.

MR. THOMAS: My name is Joel Thomas, Executive
Director National Association of Preferred Mailers.
Actually, I don’t know if you or somebody else wants to
respond to this, but what I have a problem with is, in order
to maintain predictability, when do you do the next phasing
rate case after the first one? How far in advance are

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people going to know when those rates are going to go into
effect?

It seems to me one of the things that causes the
delay is you've got to do that well before the end of the
first set of phase rates in order to have predictability now
in effect going into '06. So it's easier to do it the first
time, but the next time, you're going to have to do it a
little bit earlier in order to maintain, at least, a 12-
month predictability or rates known 12 months in advance.

MR. LYONS: That's an issue. One of the things we
will be doing as this goes along, and again, one of the
issues in the concerns we heard earlier on about triggers
were that people wanted triggers in case things were going
too well or too poorly so they could adjust.

The issue that we would have to balance here is
the predictability later out, but if we ended up preparing a
rate case a year and a half before this second set of rates
ended, that it would not allow us, on either side, to allow
for to fully reflect those events in the interim. So that's
an issue to deal with if you really want us to try to lay
out and have those rate cases done a year ahead of time. It
does mitigate or reduce our ability to reflect the interim
financial events as they occur.

Any other comments? Yes, Marcus? Again, please,
state your name.

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MR. SMITH: Marcus Smith, moving target, Postal Work Newsletter. The question I had in regard to the phasing, is the phasing only for commercial rates. In other words, does the full amount goes increase for retail rates in any of these concepts that you described?

And if so, doesn’t that create a situation in which you’re saying to those who are garnish the 8020 rule -- 20 percent to the customers by 80 percent of your services. Whereas 80 percent by 20 percent of your services. But the 20 percent of the services is brought by the 80 percent, would be paid full rate at the beginning of the phasing, if I understand it correctly.

If I’m wrong, tell me how that would work?

MR. LYONS: What we’re talking about there is the general phasing approach. That would apply to everything. We are considering a variety of ways of designing first class rates. We heard, for instance, from Ms. Dreifuss and other things. There are a variety of issues out there of how you might deal with the individual purchases of individual stamps. We’re looking at everything at that. So we wouldn’t rule anything off the table there, but this is envisioned, for the moment, as a general overall phasing approach. There are other ways and possibilities that deal with the issue of individual stamp purchases. So I wouldn’t rule anything out for the moment.
I just say this approach is designed to deal with all the price changes here.

Yes, David. David, state your full name. I happen to know a lot of the people here, but for the transcript.

MR. STRAUSS: David Strauss. I might not have had enough coffee this morning, but I didn’t follow your basic premise. Let’s say you’ve got a 2005 test year. Is Year 1 -- let’s say you filled back in January 2003. Are the Year 1 rates effectively, say, in 2004 to cover 2005 costs? And then, in 2005 they would be increased to cover 2005 costs, plus contingency and prior year losses?

MR. LYONS: No. Basically, the concept is you would cover, as I understand it, the 2004 costs -- the operating costs of 2004.

MR. STRAUSS: Don’t you have two test years? How do you know what your 2004 costs are if you’re filing a 2005 test year?

MR. LYONS: We do that in any event in a rate case. We do interim years. Do you want to talk about that?

MR. FOSTER: Yes. I mean, this would be in other rate cases at least twice, I think, we implemented rates before the beginning of the test year. We reflect that in our financial statements that we file in the rate case. So we would be following past practice in that respect.
The 2004 break even on an accrued cost or operating costs basis would be -- as Ashley mentioned, it would be a charge more than it would be more like a per say requirement because the overriding objective here that we can't lose sight of is one of the overriding objectives of phased rate increases is to reduce rate shock and have a smooth transition.

That on the one hand, and predictability on the other hand. So that's the way it would be approached.

MR. STRAUSS: Do you expect this type of phasing would extend the time between rate cases at all from what we see today?

MR. FOSTER: No.

MR. STRAUSS: I didn’t think so.

MS. COHEN: Rita Cohen, Magazine Publishers of America. I also probably don’t have enough coffee yet today, but could you explain a couple of things. In this scenario, in absence of it, would the rates have gone up in 2004 or 2005 in this model if you didn’t do it?

MR. FOSTER: If you didn’t do a phasing case?

MS. COHEN: Right. If you didn’t do a phasing case, when would the increase have gone in -- 2004 or 2005?

MR. LYONS: I think in this assumption its that the rates would have gone in, in 2004.

MS. COHEN: Okay, so that there would have been a

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simply rate case in 2004. So I’m trying to identify the
benefit to the mailers, then, is that the test year is a
year out. So they’re not paying the full hit that would
have paid in 2004 in 2004?

MR. FOSTER: That’s correct. When Ashley went
through the Goldie Locks on the tests years, he had three
options up there. Two of those options would have had the
rates going into effect in 2004, including a contingency
allowance and prior year losses recovery.

This approach doesn’t have those elements of the
revenue requirement reflected in the rates until 2005. So
in that -- if you’re looking for what’s sort of the pay off
in terms of rate levels, it’s in that aspect of the
proposal.

MS. COHEN: Right. Well, I was just simply saying
you had used the 2005 test year and that was going to be
when we were going to phase the full rates, and we were
anyway. Then the 2004 wouldn’t really be a benefit. It
would actually be paying more than one would have if the
test year was going to be 2005. That’s what I was trying to
clear up. Thank you.

MR. FOU: Anybody on the panel what to comment
further?

MR. DEL POLITO: Gene del Polito with Post Com. I
hope as we begin to take a look at these ideas, we recognize

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a few things which I think are going to be inescapable. One
is we are entering a period that for the Postal Service and
the postal system is a period of great uncertainty.

That it doesn't exactly look like it has an
optimistic outlook in terms of what its additional revenue
generating possibilities are going to be. We have yet to
experience how quickly it's going to be able to contract its
costs. So the likelihood that we're going to be facing
significant postal rate increased for at least a short
period of time -- God, help us -- is probably going to be
very high.

The second things is, is that I hope that as we
look at this, we recognize that on the proposal of phased
rates, let's not look at it as if it has to phased rated in
perpetuity. We don't necessarily have to marry phased
rates. We only have to agree to live with phased rates for
a short period of time, and then, make our judgments as to
how good or how bad they've been, both for the economy and
for the industry and for the Postal Service after experience
gives us some chance to take a look at it.

MR. LING: My name is Jerry Ling with the
Southeastern Mailers Association. I'm from Atlanta,
Georgia. That's down south. We're a little slower down
there than you folks up north. So I hope you can understand
what I'm saying.
It seems like this is very complicated to me, okay? As a businessman, I raise my costs or my charges once a year, and it’s based on my cost the previous year. I don’t why we are making this so complicated, and there are probably going to be a lot of people that boo this, but I would rather have simple rates that reflect your costs each year -- just like a regular business does with its expenses. We could pass those expenses on to our customers because those are costs that we had to absorb in postage. We pass that on to our customers in the way of charges.

We need to shorten the length of time it takes to do a rate case. And then, do it simply and in small quantities once a year. Make it simple. All this phasing and all this testing, I don’t understand that. From a business standpoint, it doesn’t make sense to me.

Now maybe I’m just a small business, and I don’t understand big business, but raise your rates once a year and keep them as low as you can to reflect your cost. And bam, if we have to raise our costs or our charges, reflect that. Thank you.

MR. FOSTER: Ashley’s from Alabama, maybe he wants to --

MR. LYONS: I was going to say I’m from Alabama and Atlanta was the big city you would go to.

(Laughter.)

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MR. LYONS: So given that, I mean, in one way this does sound complex. At the heart of it, though, I think it’s not that far off from what you’re saying. The idea is that you raise rates once a year, at least through the phasing process, and they do reflect the costs. We do have some requirements in terms of how we’re regulated, but at the heart of it, it is that you raise rates. You raise them relatively more modestly than it all hit at once. It does reflect the costs of doing business. The idea is that you will, in fact, try to do that.

So I’m not sure. It may complex, but I don’t think, conceptually, we that far off from what you’re talking about there. The idea behind this, again, is to raise rates to reflect the costs as they are happening, and to do it in relatively small increments.

MR. CERASALE: Hi, it’s Jerry Cerasale from Direct Marketing Association. I guess, Group, it’s two questions. The first is have you run a scenario, at all, looking at -- we’ve done some numbers and it looks like the phase rates probably work fairly well for mailers if the overall increased revenue needs of the Postal Service are somewhat modest.

But if you needed a huge influx of more revenue, I’m sure whether you saw that you got much rate shock relief in the first instance. Have you run into anything like that
with percentage increase?

MR. FOSTER: We aren't prepared, at this point, to talk specific percentages, but certainly, the principle that you talk about is correct. If there is a sudden infusion of need for significant revenues, phased rates don't work. But let's say the Postal Service has for the last 12 to 18 months has implemented a rate increase, and that's put the Postal Service on reasonably sound financial footing.

Then it goes from being unreasonably sound financial footing to a couple of phased rate increases, that works. We still have to go through some experience here, because as Gene de Polito mentioned, there is a lot of uncertainty. But perhaps, we're in that environment now.

MR. CERASALE: Thanks Grady. That's good. The next question is trying to put together -- I don't drink coffee, so I can't blame that.

But Frank with your response to Rita's questions and Rita's follow-up questions.

MR. LYONS: In retrospect, I should have laid out the base assumption a little bit better what that meant, and that would have set up the other two assumptions.

MR. CERASALE: Yeah, but it's okay. The question I want to ask is, use your example, we have 2005 test year and we're going to put in phase rates in 2004, Step 1. Step 2 will be in 2005. Now the 2004 rates, the idea based on

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that roll forward Year 2004 without any contingency and
without any PYL and the Step 2 rates, the second phase are
rates based on 2005 test year costs, include, plus
contingency and PYL? Is that how you envision it or are the
2004 rates based on the test year of 2005 without PYL and
contingency, and Phase 2 is the 2005 rates with those?

MR. LYONS: No, they were based on the -- 2004
rates were based on the 2004 costs. One of the comments I
made was that the 2005 rates would have to recovery -- the
idea was to transition the 2005 rate where you had an extra
year of inflation along with the contingency in the prior
year loss recovery.

MR. CERASALE: Okay, that’s fine.

MR. LYONS: That’s inflation between 2004 and
2005.

MR. CERASALE: Thank you, Ed.

MS. DREIFUSS: I understand that it’s probably
beneficial to mailers. Of course, I --

MR. POU: Would you tell us who you are?

MS. DREIFUSS: I’m sorry. Shelley, Dreifuss, the
Office of Consumer Advocate at the Postal Rate Commission.

I understand that it is beneficial to mailers, and represent
mailers. So I’m certainly sympathetic to the idea of having
a somewhat smaller percentage increase in the first year.

The percentage increase seems to go up quite a bit
more in the second year, I believe, because operating costs, very likely, will go up a certain amount the first year, a certain amount the second year. In addition, we're going to add on that a prior year loss recovery and contingency recovery.

I'm not following the logic of whip saw effect on price increases and volumes. You'll stimulate a lot of volume in the first year because you're going to keep prices relatively low. You'll depress them even quite a bit more - I mean, more even than you stimulated them in the first year by having a very, very large increase in the second year.

I was wondering if you could explain the logic of not, somehow, dividing the prior year loss recovery and contingency between the two years.

MR. LYONS: I'll talk a little bit. I think when we talked about it, we laid out two goals of our proposal. One was to cover, if you will, the cost of that first interim year. We said also with a smooth transition. So I, basically, by stating that our goal was to have a smooth transition, I thought we were trying to preclude that whip saw effect there.

If you say it's a real precise cost and the costs grow exactly even, matching up costs, then perhaps, that could occur. But one of our fundamental goals in developing
that interim year was to prevent, if you will -- our goals
for rate design was to prevent either the extremely small
increase with a huge increase the second year or having 90
percent of the increase. It's sort of a balancing act.

We trying to balance those things so that we are
not raising rates and still failing to cover your costs, but
also to take into account that whip saw effect, if you will.
I think that was one of our stated goals as we were going
through this.

MR. FOSTER: It's our belief that we will get a
smooth transition in rates with this model. You're
suggesting you don't think it's going work that way.
Clearly, if we don't get a smooth transition in rates, I
think we're going to have to go back and sharpen our pencils
and vary the model somewhat. But it's really an empirical
question that when you sit down and you work all the
detailed numbers out, does it work out this way?

It's our judgment at this point in time, that this
is the best way to proceed. We'll take another look at it
if the numbers don't work out that way.

MR. BAKER: Bill Baker. I have a question. In
each rate case, you always tell us that the contingency is
an important part of the revenue requirements because these
costs are likely to incur. You just don't know what they
are and how large it'll be.
As I understand this, in Year One there would be no contingency built into the revenue requirement; although, in Year 2 it would be, suggest either you’re not expecting unknown costs for Year 1 or in Year 2 the contingency might be larger than it otherwise would be if you had spread it. So it can catch up, if there were any, from the first year, or you’re not going to make larger. In which case you’re accepting the risk of higher year loss from the first year that would be recovered in Year 3.

I was wondering if you could elaborate on your thinking for not having a contingency component in the first year or whether the contingency component in Year 2 would be larger than it otherwise might have been?

MR. FOSTER: We’re not looking at this as a process that would have any particular effect on the level of the contingency that’s asked for.

MR. GERMAN: I think related to that, and Bob Cohen at the last summit noted, that if you’re trying to calculate contingency over a multi-year period, that complicates the test significantly. I think we’re trying to address that concern as well.

MR. THOMAS: Joel Thomas, National Association of Presort Mailers. It seems to me that achieving the stability you’re looking at may depend in large measure upon where you start in terms of the debt and the debt ceiling.

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because if you do all of this, but you start when you’re up
against your debt ceiling, and there is a mistake made,
there is some kind of a crisis brewing if you can’t raise
your prices again and you hit that debt limit.

It seems to me there has got to be some commitment
on the Board if you’re going to get that stability to
borrow, notwithstanding, their desire to keep that down if
in Year 1 you don’t do as well as you expected. I mean, has
anybody considered that?

MR. FOSTER: I think from the Postal Service’s
perspective, the benefit of phased rate increase compared to
the current situation is that it does have a tendency to get
us that first increase a little bit earlier than has been
the case in the past.

From a Postal Service financial perspective, this
can have a positive impact because a cash flow over two
years is greater than a cash flow over one year. So we’re
hopeful that it works out in that way. At the same time,
gives mailers what they want in terms of predictable rate
increase and rate increases that don’t have the rate shocks.
So there is a potential for a lot of win/wins in that.

MR. LYONS: We had talked about that early in the
presentation with, perhaps, our ability to match the
revenues and costs done on an annual basis and the effects
of that would be, perhaps, positive on the cash flow.
MR. DEL POLITO: Yeah, Gene del Polito, again, with Post Com. I hope we also keep in mind that as we talked about periods of uncertainty, there is also an enormous period of uncertainty for everybody who mails for a business reason. Rather than worry a lot about regulatory purity as to whether or not there is a contingency in the first year or not, if there is not contingency in the first year, that means the first year is going to have lower rates.

If I had to gamble in terms of what I would like to see for 2004 for an industry that I know is under stress, I would rather gamble for the lower rates in 2004, and hope to God that the economy would improve enough in 2005 that whatever the result would be in 2005, it would not be all that painful.

The other thing I'd ask you to keep in mind is that rate shock means when rates go up precipitously with very little advance warning with no level of certainty to them. As we know, in an ordinary ratemaking process, the Postal Service proposes. The Rate Commission and the governors ultimately are the ones that make the decision of how it's deposes.

We're talking about the possibility here of actually defining, in advance, what would happen in over two years in a way that I believe, not only fully compensates
the Postal Service over a two-year period, but also uses
some marketing and business smarts in terms of the way that
it lays the burden on business mailers.

MS. GIBBONS: Mary Anne Gibbons with the Postal
Service. I just wanted to point out that I think what this
means is that as we’re doing currently, that clearly, well
through 2004 to avoid some of the risks that there might be
in it for the Postal Service, we have to continue to manage
those costs as aggressively and carefully as possible so we
don’t end up with a bad financial result in 2004.

Gene, I’m glad we have you on tape agreeing with
us. It seems like twice in a row here.

MR. DEL POLITO: It will change this afternoon.

MR. OLSON: Bill Olson. I just wanted to follow
on the concept of aggressively controlling costs. This
maybe outside the scope of this Summit, but just something
for people to think about. We are discussing the mechanism
by which we could phase rates. In sense, assuming the cost
or some external given -- cost increases or some external
given, that are not altered by the rates set in process.
I’m not sure that’s true. I think mailers, at least, hope
that there is some reluctance by Postal Service management
for political reasons or any other reasons you care to offer
to raise rates. And that when rate increases are looming in
the future, they manage costs more aggressively; and that
more rate cases may increase litigation costs, which are
good for some, but they may also increase postal costs,
which are bad for everyone.

It may not be within the scope of the Summit, but
I think we have to consider whether, given the Postal
Service guaranteed rate increases over a multi-year period,
removes one of the few incentives that it has to
aggressively control its costs.

Grady know all about this.

MR. FOSTER: I know nothing about incentives, but
I’ll respond to your question nevertheless. We have out
there a commitment in the transformation plan for a billion
dollar a year in savings for each of the next five years.
There is some real teeth tied to that in terms of the Postal
Services internally planning processes.

You also have the commitment by the Post Master
General to not have another rate increase. I don’t recall
the exact words, but before 2004. I can tell you the senior
management team at the Postal Service realizes that they are
much more subject to the disciplines of the marketplace than
they ever have been in the past because of they way
competition for postal service has developed. So there is
not a sense that Postal Service management can continually
go to the well on rate increases.

I understand Mr. Olson’s sensitivity to that issue
in light of some of the particular clients he's represented
haven't faired that well with rate increase the last couple
times around. Those are the commitments and the plans
that are out there right now.

MR. GERMAN: There is also the governor’s
resolution of recovery of prior year losses, which certainly
drives the desire to reduce our costs. If we’re ever going
to actually recovery them, we have to manage the costs as
Grady said, the transformation plan.

Most of the transformation plan -- about 90
percent of it doesn’t deal with legislative change or other
kinds of more over the horizon events that is directly
attributed to the Postal Service’s actions in reducing
costs.

MR. FOSTER: Just one other support of what the
Postal Service has been doing. This year is rather
extraordinary because I think by the end of the year, the
Postal Service will have incurred something on the order of
$2.5 billion less expense than planned than what was in the
rate case. So there is a lot of action in recent months
that shows that the Postal Service will carry through on its
commitments and work to the good in terms of controlling
costs.

MR. COHEN: I’m Bob Cohen from the Postal Rate
Commission. Maybe I missed something, but are you
planning -- the scenario you laid out, you expect roughly
equal rate increase for the two stages?

MR. LYONS: I’m not sure that they would be
roughly equal. The idea is that they wouldn’t be loudly
disproportionate in the sense that you might not have 80
percent of the rate increase occur the first year or only 20
percent.

The idea is that they would be somewhat smoothed
out, but I can’t describe what would be to get the greatest
point, we’d have to look at the numbers and the like. But
the idea is that you would try to smooth them.

They might not be exactly equal, but they
hopefully would not be very disproportionate so that there
wouldn’t be a jolt in one year or the other. But to say it
would be split 50/50 would be a bit premature at this
point -- at this time.

MR. SMITH: Yes, Marcus Smith of Postal World. I
just wanted to check. You were talking about the
contingency fund and prior year losses, et cetera. I
remember over the years, the Postal Service, when it used to
receive a subsidy for certain operations at the retail
locations. They Board of Governors voted to reduce that
until it’s been gone for years now.

MR. GERMAN: You’re talking about the public
service appropriation?
MR. SMITH: Right. I remember it was done with great pride, saying that how much they didn't need federal subsidy any more. All I can think of is there some way of including in this phasing plan; especially, towards the back end, some sort of incentive such that, let's say, you didn't need the full contingency fund to put it back into either a new discount or a rebate. In other words, have way of incentivizing the whole process of cost savings, et cetera, from the standpoint of almost like getting a tax refund?

MR. LYONS: Well, we had mentioned when we were talking about the two-step approach -- that idea that a financial performance were better than the next rate filing, that could be reflected in either the timing or the size of that rate increase. That's what we had contemplated at the time is, is that how you would adjust to financial events, both favorable and unfavorable. The favorable ones were where some of the contingency would be left, I think, would include that arrangement where you could account -- you could take account of that in second time in the next rate increase.

Do you have any other thoughts?

MR. POU: Comments? Questions?

MR. GERMAN: Just one last thing in terms of the simplified assumptions that went into the summary proposal that Ashley presented. One advantage we saw of that

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proposal is it would require any change in our waiver of any
PRC practice rule. Another point that I don’t know if
anybody wants to discuss or not.

MR. MYERS: Pierce Myers. We used to have a
three-year rate cycle. I was wondering did you explore the
concept of a three-year phase cycle? Why are we at two
years? Could you address that issue? Would it be possible
to set up a three-year phase in schedule?

MR. LYONS: It would be possible. As we talked
about earlier in the presentation, is that, given the fact
that there was a fair amount of discussion -- I think it
came from the OCA, from customers and from the Commission
staff about concerns about our ability to forecast, and also
the fact that we were going into a new kind of process.

For those reasons, we thought the more pragmatic
time approach, at least the first time out, would be to have
the two-phase approach. Then you can look back and see how
that worked. Then you can reevaluate that to get to Gene’s
point. If you want to go to three years, if you need to
raise rates on the same cycle or the like there. But we did
consider that, but we felt that; particularly, for a new
process such as this, and given some concerns people raised
about the ability to forecast, that we were better off going
two years, at least initially.

MR. POU: Anything else people want to address?
Let's move ahead. Let's take a 15-minute break and then come back and talk about the other issues.

(Whereupon, at 10:02 a.m., a short recess was taken.)

MS. GIBBONS: We are ready to start the next panel. Good morning, my name is Mary Anne Gibbons, and I'm the general counsel of the Postal Service.

With me today is Dan Faucheaux, who is the chief counsel for Ratemaking for the Postal Service. I was relieved Grady to know that you still have your Roy Rogers' watch because I was sitting there thinking, gee, we'd have to find one because that would be terrific award for you in the future. But we'll now have to get a little more creative.

Anyway, we'll discuss here potential process changes and improvements that might streamline the ratemaking process. I think it goes to the comment that was made over here. Why don't you just try to move a little faster or smoother? We did promise on Day 1 to revisit that.

We will also talk about measures that the Postal Service might take to improve litigation of the next case. We've taken into consideration the comments, both at the last day of the Summit and suggestions that we've received since that time.
Now on that first day, and in the comments that I have come in, we didn't really hear anything that was entirely new that had never been said before; but it was still very, very useful, we thought, to be reminded of things that have been discussed at one point or another over the years.

We also must acknowledge that there are some things on which the Postal Service has different perspectives from one or more of the mailer constituents or from the Postal Rate Commission. Of course, that's understandable. Many different interest are at stake in any of these proceedings.

The other thing that we must acknowledge is that the Postal Service's business really is the focus of these rate cases. This process is one of figuring out and allocating costs and setting prices in which all of these different interest need to be taken into account. Neither the Commission nor the Postal Service can please or reconcile all of those different interests and all of those different concerns.

As the actors ultimately responsible for operating the nation's mail system, the Postal Service and the governors sometimes have to make hard choices, as, of course, does the Postal Rate Commission. But we felt after the first day of the Summit, and I think throughout these
proceedings that have gone on over the years, that the very
active participation and the mailers and the comments really
have made this a rich process. We certainly look forward to
that kind of continuing and intense dialogue as we go
forward to continue to make this, as much as possible, a
collaborative process.

We can all, we think, continue to look for ways to
simplify this process as we go forward. The other thing
that, of course, we have to keep in mind is the due process
requirement. So although, any of us might like to make this
a one-month process, that certainly wouldn’t satisfy the
statutory requirement that there is due process and that all
the different views have an opportunity to be heard and to
satisfy the Rate Commission’s requirement that they make
sure that, that does happen.

There also must be sufficient evidence in the
record, not only for the Postal Rate Commission, when they
make their recommended decisions, but also for the governors
because, of course, as everybody knows there can always be a
court challenge. So that’s another factor that has to be
taken into consideration.

Customarily, the areas that have tended to
dominate the rate cases have not at all be trivial. They’ve
had consequences, both within and outside the ratemaking
environment. For example, rate case revenue requirements

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involve issues going to the core of the Postal Service’s aggregate financial health and key management and operations policies.

Similarly, accurate determinations of how postal costs behave are vital, not only to setting rates, but also to being able to manage the Postal Service’s resources and budgets.

I think all of this is to say, despite what it may seem like at times, the Postal Service doesn’t set out to make the process more complicated than it needs to be, and likewise, the Commission doesn’t set out to make the process more complicated than it needs to be. Of course, participants can influence the process, and do influence the process because they have obligations to represent their own interests or the interests of their clients.

So let’s get going and let me tell you a little bit about the topics that I want to cover today. We are focused on four areas where we thought it would be useful to follow up on what our thinking was on what we heard at the last day of the Summit and since then.

Costing methodologies, discovery, the idea of advanced notice and consultation with the mailers, and then classification proposals.

On the first one, the costing methodologies, a number of comments suggested that some amount of time and
effort could be saved during the rate case if the costing issues could be split out and handled in a separate proceeding.

Under the statutory scheme, which requires this cost-based ratemaking, the ability to separate those costing issues from the ratemaking issues, to us, doesn’t seem to be obvious. It may not be clear to some participants that the consequences of technical costing matters, if they are presented in the abstract, detached from the rates -- it may not be clear as to how those would play out.

In addition, those are the kinds of issues that give rise to many, many disagreements among the rate case participants and even with the Commission. Those disagreements are not at all trivial. I could easily talk about delay and complexity created by the disagreements over the costing, but the simple fact is that how the costs actually behave and what types of mail cause particular costs to go up or down are vital to the Postal Service as a business, and certainly, to the customers who are impacted by those costing methodologies.

Therefore, there really is a very heavy responsibility on the Postal Service and on the Commission to make sure that, that impact is clear and well thought through when the ultimate rates are set.

The differences of opinion, we think, too are
honest difference of opinion, making even more important to
make sure that those impacts are clear.

The other issue is, if we’re to do a case or a
proceeding in the abstract to talk about the costing
methodologies, it wouldn’t be clear, necessarily, when you
get into the rate case as to how those two match up. So you
might actually have to go back and work through some of
those again, and wouldn’t necessarily end up saving you
time.

The other issue that people talked about was if we
were to separate these two issues, then maybe when we get to
ratemaking that we would ultimately save time. You will
recall that there were some comments made; particularly, by
the small mailers that, for them, that might not actually
help them at all because to participate in even one rate
proceeding is very expensive.

So if they had to pick and chose, and say now
they’re potentially two rate proceedings. They might not be
able to afford to participate at all. That certainly is a
concern of the Postal Services, and no doubt, would be a
concern of the Postal Rate Commission’s.

Even for the Postal Service, certainly, in the
first year, if this were to be done, it wouldn’t necessarily
save any time. It wouldn’t necessarily save any time for
the mailers because now instead of one proceeding, you would
have two proceedings and the overall amount time spent and
the costs of the litigation might ultimately be more.
Perhaps, there could be savings in future years,
but that wouldn’t even be certain because if you didn’t
ultimately resolve all of those costing issues, and there
were no changed circumstances, you might have to continue to
do that until at some point in time that costing methodology
really was resolved and not subject to challenge.

Another concern of the Postal Service is, if you
were to split those two issues and do the costing in one
case and the ratemaking in another, would be the impact on
the governors’ ultimate responsibility for setting Postal
Service rates, and how that would play out if you were to
separate those -- a concern that it might diminish the
governors’ responsibility or somehow improperly interfere
with the governors’ responsibility if we were to split that.

So I think from all the comments that I’ve made,
you’d get -- our conclusion is that it really overall would
not be to the overall benefit of the various concerns that
we have taken into account to do that kind of a split.
That being said, it was very clear, from the
comments and the discussion at the last day of the Summit,
that doing both the costing and the ratemaking together
makes for a very complicated case.

In the 10-month time period it is not always
possible for all the participants to figure it all out and feel that they can both figure it out and then effectively participate. So to accommodate that concern, we do think that the Postal Service can do more to try to help the understanding of all the participants, and would be willing to have a technical conference.

The most likely time might be after the case has been filed. People have had an opportunity to take a preliminary look and then have a sit down with the Postal Service and a walk through so that we can help to say how does this fit with that, answer some of the preliminary questions and in that method, try to bring some people up to speed a little bit to the extent that they might not be, and then help the process to move along a little bit after that.

So that’s the conclusion, at least, at the staff level of where we think we can end up on that issue.

Let me move along and talk a little bit about discovery. A lot of discussion at the last day of the Summit on what we might do with discovery. One suggest was the use of depositions, another suggestion was to limit written discovery to request for information and the production of documents rather than questions challenging the rational for particular proposals for methodologies.

While we’re inclined to agree with the reactions of participants on Day 1 who suggested that these type
proposals would likely cause as many problems as they would
solve. So we don’t think there are too many changes that
can be made there that ultimately would either streamline
the process or make it better.

Several speakers on Day 1 also opined that many of
the difficulties experienced during discovery might best be
addressed by more informal consultation between the parties
sending and receiving discovery. There does seem to have
been improvement over time in this regard, and people
acknowledge, that to the extent that the can call up one of
the Postal attorneys and say, hey, this is what I’m looking
for. What can you give me or why did you do that? That
they can actually cut through some of the number of
questions or the complexity of questions.

Again, we absolutely willing to try to engage in
as much of this informal consultation as would be possible.
We think some of that could be dealt with by a technical
conference were just as many of the basic questions as
possible could be gotten out of the way.

We could have a better understanding of what the
mailers concerns are and what information they might need.
They could have a better understanding of how the case is
put together and how everything relates and that, that might
cut down on discovery. So that’s something that the Postal
Service is willing to commit to putting together at some
point pretty early on in the case.

I think the conference could be broad in scope, narrow in depth so that the parties would have a chance about any piece of testimony, but the discussion on any particular topic wouldn’t go into great detail. I think this is primarily so the conference could occur without going on for days and days, but just go, at least, across the top so everybody gets a pretty understanding and overall strategic view of how the case is put together -- getting the answers to some basic questions.

We think there could also be some additional, informal discussion, perhaps, in more segmented fashion after this overall technical conference. So that if there are mailers or groups of mailers who need a little bit more detail on a particular topic, that, that certainly should be doable and do that in a segmented approach.

Comments on Day 1 also made clear that the parties would like as much consultation as possible before the rate filings occur about the rate filings and like to have as much input and influence in advance.

There was comment by my staff and the other staff that work on it that, gee, you all must think that we have this all figured out months and months in advance and have our heads together and have the ability to do that.

Actually, the truth is very different. Everything is pretty
much down to the wire, given the complexity of putting one
of these cases together -- having to get approval by
management. Then having to schedule it in conjunction with
the monthly Board of Governors meeting and get that
approval, and then be ready to file soon thereafter.

Frequently, it's difficult until right near the
end to know exactly what the Postal Service plans. That
aside though, the Postal Service is committed to continue
what has been occurring over the years -- to consult with
the mailers and to improve in that regard as much as we
possible can.

We are o very much inclined to try to continue
that kind of consultation and involvement, of course, with
the caveat that there maybe a discussion that appears to be
headed in one direction, when it's put together and married
up with the overall preparation, whatever seems like it
might have occurred could change as things get through the
process and work their way all the way through the
governors' process. Certainly, our willingness to consult
as much as possible.

Moving on to the fourth category, conceptually,
there can't be an argument that a rate case with no
classification -- or there can be no argument that a rate
case with no classification proposal would be a simpler
case. So we thought about could you just separate out all

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the classification changes. Do none of those in a rate case
and thereby, cut down on the time or cut down on the
complexity?

What we’ve recognized is that, generally, with the
classification proposals, we’re trying to add some value to
our customers. So to the extent that we can marry those up
with an omnibus rate case and introduce classification
proposals with the rate case, it really is for the purpose
of benefiting our customers. So it seems that we would want
to do that to the extent that, that’s possible, and hope
that it doesn’t add to much extra burden or costs.

Moving forward, we expect to continue to carefully
balance the benefit of incorporating these proposals with
the increased complexity. Again, on those, continue to have
as much interaction with mailers in advance and get as much
input in advance as we possible can, so that when they’re
introduced, as many people as possible understand those
proposals.

That would be another grouping of proposals that,
at a technical there would be an ability to explain what it
is that the classification proposal means and what we hope
the benefit to the mailers and the Postal Service would be
by that proposal.

So now we would like to take comments on any of
these four categories or any of the other ideas that we did

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not discuss and see what the thought is.

MR. POU: Before we start, somebody approached me
during the break and suggested that it would be helpful if
people make sure that they identify where they came from or
who they represented, if they chose to do so. So if you
choose to do so, you're encouraged to do it, but there's
certainly no obligation.

MR. LUBENOW: Okay, I'm Joe Lubenow, from Lubenow
& Associates, current chair of MTAC, and I'm on the steering
committee for the product redesign.

I have a concern, and I read through the
transcript of the previous rate making summit, although I
wasn't able to attend -- but I have a concern that's
related, but different. It concerns the granularity of the
cost data that the Postal Service collects.

So I don't understand where in the process the
mailers have an opportunity to ask for data to be collected,
or that it perhaps should be collected, that is not
collected now.

We are trying to take up issues like this in the
redesign, but even there, the same dilemma will come
forward.

Will the Postal Service be willing to collect cost
data that they are not currently collecting, and what is the
expense and the difficulty of that. And if they don't do
it, then how could they respond to proposals, the
justification of which would require the collection of
additional cost data.

I’ll give one example. I’ll have a different
example this afternoon. My morning example is that an
address in the Postal Service can be complete and correct,
or it can be incomplete, or it can be incorrect; incomplete
if it hasn’t gotten an apartment number that is necessary
for optimal delivery, and incorrect if it’s a house number
that doesn’t exist.

This address can still receive the best rate
outcome that the Postal Service can offer, other things
being equal: density and drop shipping being equal.

That’s a substantive issue, and it’s hard to bring
it up in a rate case, because the Postal Service will simply
say, we don’t have any data on that; and in fact, I did try
to raise that issue in a previous rate case.

So where in this process is there an opportunity,
and it would have to be earlier on, which is one possible
argument for the separation, that you didn’t exactly
endorse, where people could say, the Postal Service should
be collecting a certain category of cost data that it is not
now currently collecting.

MR. FOUCHEAUX: I’m very fortunate in not having
to make those decisions on a daily basis. But as I

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understand the ongoing situation, any mailer that thinks the Postal Service data does not reflect the kind of information that would be needed in order to know something about Postal operations or that could be used in a rate case is free to make suggestions to the managers at the Postal Service who are responsible for data collection.

That doesn’t mean that your requests will be automatically honored, of course, but it is important that we get expressions of interest like that from time to time.

As you probably know, the ongoing collection of data in our system-wide data systems is a very expensive, very time consuming process.

I think our professionals that are in charge of that operation do a very good job of identifying the kinds of information that over the years we have learned the Commission needs in order to do its job, and that the Postal Service needs in order to operate the mail system.

But we’re not perfect. Sometimes we overlook things. The need for particular kinds of information in rate cases is always a very controversial topic.

The fact is, we can’t do everything. We can’t please everybody. We can’t give everybody the kind of information that they feel they need.

We balance resources against need as the Postal Service perceives that need, with consideration of as much
input as mailers are willing to give us; either in a rate
case or between rate cases.

But as I said, I don’t think there’s anything that
prohibits any mailer from writing a letter, calling people
at Postal Service Headquarters in charge of data collection
to make suggestions, and I do know it’s done.

It probably now will be done a lot more than the
people that headquarters, who are responsible for data, want
it to done, but it’s a free country. You know, you can do
that.

Again, that doesn’t mean that your desires are
going to be met automatically or completely. We do have to
balance resources against need. That’s, you know, our
responsibility, and we’ll continue to make those decisions,
as long as we have the authority.

MS. GIBBONS: Joe, it also occurs to me that as we
continue to introduce improved technology into our system,
that it would either, as an example in that situation,
hopefully correct the underlying problem that, you know, you
might be interested in studying; or make the data collection
either expensive, less time consuming, or less burdensome,
so that, you know, at some point, some of the data issues
might diminish.

Of course, there could still be data, you know,
data that we’re either not collecting or not focused on
abrogating and analyzing that, you know, still leave some
significant data needs out there, and then you really would
get into the cost and the time and all that, because cost
does seem to be one of the major issues that comes up, as to
either updating any data study, or doing a new completely
different data study. Just given our size, they’re never
simple.

MS. DREIFUSS: I’m Shelley Dreifuss of the Office
of the Consumer Advocate of the Postal Rate Commission. I
have to admit to being very disappointed at the Postal
Service’s response to the many suggestions that were made at
the last rate making summit. I think straight down the
line, the Postal Service has rejected the many ideas that
were presented, with one or two minor exceptions.

Actually, one may prove to be valuable. The idea
of a global technical conference, I think, has some value.

But there was an outright rejection of the idea of
trying to make decisions with more time than a 10 month rate
case provides on very important costing methodology issues.
As I said, that’s a great disappointment.

OCA took the lead on that, just last week. We had
our consultant present his methodology on the labor demand
of mail processing costs. We did it in a very open and
informal session. It was very worthwhile, I think, for
everybody.
Our consultant was in the hot seat, but we were willing to put him there, with the ultimate goal of making these issues well understood and well discussed, and possibly outside of a rate case. So I’m disappointed that the Postal Service is unwilling to give that serious consideration and has basically rejected the idea.

Classification proposals -- again, it sounds like business as usual. We’re going to see about as many of them as we had before, and they’re not going to be treated particularly in a special classification proceeding.

Maybe there will be a product re-design, but they’re not going to be grouped. We’re not going to be grouped. We’re not going to see more of them take place outside of rate cases. That’s a disappointment.

I would like to pick up on one or two offers that were made -- and they are welcome -- the idea of the global technical conference is a good one. I would further suggest, the Postal Service, with its initial filing, present the global view of what’s in a case.

Often, there are 42 distinct pieces of testimonies on a variety of subclasses and services and cost issues and prices issues. The Postal Service -- and we’ve made the suggestion before -- has resisted the idea of trying to give a broad outline of what’s in a case.

Do it in a large sense, by major issues -- let’s
say, cost, revenues, if there’s something different in this
case than we’ve seen before, and really highlight it; do it
on a class basis. Say, this is what we’re doing with first
class. If you’ve got classification issues there, set them
out, highlight them for everybody. Say that these are the
witnesses that will address those issues.

If you want to look for cost, look in this
witness’ testimony. If you want to look at how the revenues
are handled, look in this other witness’ testimony. That
would be a very, very great benefit to all of us, because we
spend a lot of time just trying to figure out where to find
things.

I would even bring in references to library
references, as well as work papers, and so on. Give a
complete outline at the beginning of every case of how this
case is put together. That could be of great value.

Then when we have the global technical conference,
we’ll be that much better informed and prepared to ask
additional questions.

MS. GIBBONS: Let me respond: and then Dan, I’m
sure you’ll have some comments.

Actually, Shelley, I’m glad that you mentioned the
cconference that you had recently, because I did neglect to
mention that that is another approach that we think might
help to get at least some good in depth discussion going, as
an example, on the costing methodology that the Postal Service could adopt.

So although not a separate proceeding, at least, we would have an opportunity for a good in depth discussion in a similar kind of setting, like the form that you had last week. I’m so glad that you mentioned that, because I neglected to mention that.

Then we’re totally willing to have that, so that everybody can have at it, in terms of methodology, which would hopefully move some of the thinking along on our part, and on everyone else’s part, before we actually get into the rate case.

On the second suggestion, which is to lay out, what does the whole case mean, it sounds like you’re saying, lay that out in writing, either right before or at the time the case is filed.

Knowing how things typically work, and as I mentioned how things are pretty much down to the wire, and the available staff is usually fully engaged with long hours, long weekends, simply trying to get everything together to get it filed, it would seem that that that might be difficult to also have the additional -- you know, have to create this whole other thing, that lays it out probably in more lay person’s terms.

And I think the idea of the technical conference

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would go a long way, you know, in that regard. Dan, you
might want to comment a little further.

MR. FOUCHEAUX: Yes, on that point, that is the
purpose of what we’re calling the global technical
conference.

Shelley’s comment that the OCA has, for many
years, advocated very strongly a development of a road map
to the case that would be filed with the case; and Mary Anne
is exactly right. The reason we tended to resist that is
that it’s a lot more work to do that sort of thing.

I really don’t think anybody understands the
degree to which a lot of these cases are stitched together,
you know, at the last minute. Time is money in Postal rate
making, and we try to get these case out in a timely
fashion, so that we can start receiving the revenue when we
need it.

Our proposal of having a global technical
conference at the beginning of the case to perform the same
function that a written document would, I think, you know,
is a great concession on our part; and maybe one that’s long
overdue. And I’m not even sure it’s going to work all that
effectively, but we’re going to try it.

If it involves, you know, the production of
something in writing to help us explain, then we’ll try to
do that, as well. But we’ve always felt the informal

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technical conference format was a very useful one for mailers and their consultants, in particular; to ask the kinds of questions that we don't need to burden the record with written interrogatories.

The way we try to approach technical conferences, there's a lot of given and take, and there's not really an adversarial atmosphere, mostly. So I think they can be quite helpful.

So we're going to try this, so see if it works. I have great expectations that it will solve a lot of the problems that Shelley -- and I'm not dismissing them as unfounded -- but a lot of the problems that Shelley has articulated, that many of the mailers share.

MS. GIBBONS: Shelley, I think we can also take your comments into consideration, because I think essentially what you're saying is, get something in writing before a technical conference; so that when people come, they are perhaps better able to participate.

You know, you have to look at the timing from when the case is filed, to when people really do have to get "rev'd up" and start litigating it, and how much time it would take to do that. But I think we can take that into consideration.

Maybe it's not that everybody would need that extensive of a written explanation; some might. And I also
think that the methodology for doing that could develop over
time, so that if, you know, we work on the first one, and it
works well, and then you can improve upon it the next time,
you know, that's certainly something that, to the extent
that it can be helpful to people, we can certainly take that
into account.

MS. DREIFUSS: Let me give you a practical
reaction to that. Again, you know, I'm a little
disappointed, because I made a suggestion; and what I heard
basically was, no we've offered what we're ready to offer.

How about this as an idea? I do appreciate how
busy you are, as it's getting close to the time. We all
have that. When OCA files a brief, we're very busy at the
last minute. I understand you would be unimaginably busy,
just filing to the filing of a rate case.

How about this as a suggestion? How about setting
as a target, giving us the outline of the case as I
described it, let's say, three weeks after you file.

That, I know, is not as busy a time for you.
You're ready. You've gotten it all in. You've complied
with the Commission's rules; you've gotten everything to the
Commission that it requires.

How about taking that next three weeks -- let's
set a date for the global technical conference. Let's say,
three weeks into the case or a month into the case; and at
that global technical conference, then come with the outlines that I described.

Because I don’t think, in just the space of a few hours, we’re going to be able to cover, in a systematic way, all of what I’ve mentioned to you. It’s very complex.

There are class by class effects.

For example, there may be some of the minor classes of mail that never get discussed at all at a global technical conference. So those who are interested in those will miss out entirely.

So why don’t we just, as I said, aim for this walk-through, this outline, this thing that puts all the pieces together, at the time of the global technical conference.

MS. GIBBONS: That’s a good suggestion.

MR. FOUCHEAUX: We’ll consider that a counter-proposal. Why don’t you agree not to file any interrogatories for those first three weeks --

(Laughter.)

MR. FOUCHEAUX: -- so that we have complete freedom to work only on that road map. And I would extend that to about 15 other parties, as well.

(Laughter.)

MS. DREIFUSS: Well, you know I’m willing negotiate.
MS. DREIFUSS: I'm not going to reject that idea out of hand, and I would give that some serious thought. If you want to sit down with me and others, and work out an agreement on when we hold off and what you’ll give in return, I think that’s a reasonable way to approach this.

MR. FOUCHEAUX: That would be a perfectly acceptable deal for me to make. But I do kind of wonder whether or not the utility of this document would be the same for everyone, as it is for the OCA. Not everyone looks at the case, from a global perspective, the way the OCA does.

I would add that in additional to the global technical conference, that we would supplement that with the regular kinds of technical conferences, which are pretty much necessary, I think, in order to wade through the vast amounts of very complex documentation that we’re required to file with every rate case.

And again, I’m not minimizing the problem you’re identifying. I’m just saying that we have problems, too.

MS. GIBBONS: Charlie’s ears are really perking up, thinking his mediation skills might be pressed into service here, sooner than he thought.

MR. POU: Maybe, maybe not.

MR. FOUCHEAUX: Could I also clarify something on Heritage Reporting Corporation
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one of Shelley's other points -- on the question of whether
or not we would be engaging in separate proceedings to
consider costing issues between rate cases

For a number of reasons, which we won't debate in
detail here today, we have some serious questions about
whether or not that would be practical or legal. But I
think the practical problems due tend to dominate.

Our view is that over the long run, having
separate proceedings that would be governed by some kind of
a rule framework, in the long run, would be more confusing
and more burdensome for all the parties, as well as the
Postal Service, than trying to incorporate these issues in
cases.

What we have decided that we would be willing to
do, though -- and I think Shelley has laid the ground work
for this sort of thing -- is to discuss issues; even to
discuss Postal Service thinking about proposals between rate
cases in a more informal setting.

The principle obstacle to considering costing
within rate cases is that it is complicated often and very
technical, and people don't always know what the practical
effect is going to be.

We can get over a couple of those hurdles, I
think, by engaging in a dialogue between rate cases, so that
the people that are really interested in these things -- the
economists and the actual people who are interested in rate
design -- can consider, you know, the substance of what we
will be presenting in the next rate case.

Again, I think this is something that we could
make some progress on, and something that we're willing to
do. I think, in the long run, it would be more useful than
having separate proceedings, which legally, I'm not really
quite sure how those would work, or what they would result
in, what kind of decision they would result in, that could
be fit within the statutory scheme.

MS. GIBBONS: More questions?

MR. DEL POLITO: Gene del Polito with PostCom. A
few thoughts, one is that I hope you think about technical
conferences in a way which is a little bit more expansive
than just limiting them to the time of proximity to a rate
case. Not all issues are emergent at the time of a rate
case. Some issues can be explored in a way which is
somewhat detached from the imminence of an immediate rate
case filing.

The other thing is, I must say, I'm kind of
surprised at hearing that gosh, these things are patched
together at the last minute. We don't really know what's
going on here. We don't know what it's going to look like.

This is, without question, one of the most
significant activities that are undertaken by the law
department and the Postal Service, in terms of its interaction with its customers. So I find that kind of a response about, you know, we're victims of the time and the circumstance kind of fascinating.

The other thing, too, is that when you're talking about technical conferences, and some of the aspects of your testimony, I have long been a proponent of, why not take some of those issues and actually videotape what a technical conference might be, or a presentation by a member of the technical expertise of the Postal Service, and make those video tapes part of the record itself.

So instead of having to go through endless hearings, as I've often done, hearing people ask the most elementary questions about the most elementary aspects of Postal operations, or a small change in Postal operations -- to actually let them see, in a multi-media fashion, what it is that you're talking about; what it looks like; how it actually works, and then also provide them with some detailed explanation as to what it is; so that people can actually avail themselves of these materials, either before or during a rate case, without necessarily having to bog down the staff with the additional time that might be associated with actually holding a technical conference.

The other issue is that technical conferences typically are not part of the official record. So

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consequently, I think that you still are going to leave
yourself open to the issue of how do I go about getting into
the record all of the issues that were discussed within the
technical conference, where I can actually hold you
accountable for what it was that you said? I don't know to
what extent you've given that any consideration.

Finally, I must echo a little bit of Shelley's
perplexity here, because I thought one of the challenges
that we were asked to consider in making these
recommendations was how we believe there might be
adjustments in the way rate cases are done to effective
shorten the ratemaking process.

I mean, I have heard endlessly from Governors and
from PMGs, who have said, oh my God, it takes 10 months; it
takes 12 months. There's got to be a shorter way of doing
this.

One would have thought that in the time when the
Postal Service is facing extraordinary financial pressures;
and one would have thought that one of the lessons that was
learned from the last case would have been, to the extent
that I can define and defend what I know is going to be my
revenue need, I might want to do everything that I can to
lock in a process that assures me that I'm going to get an
outcome to allow me to operate on a break-even basis,
without having had the whole process held hostage to what

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might be to some people very, very controversial costing arguments that have been replayed time and time again in rates cases; or very controversial classification changes, for which there is no consensus.

There's a difference -- and I don't believe it's been reflected in your response -- between, as you would classify them, classification changes that are meant to help our customers, and those classification changes that your customers would look at and say, please don't try to help me this way ever again.

(Laughter.)

MR. DEL POLITO: So I've heard why you're not going to do something. Now I'd like to hear something affirmatively about how you believe you think the current process can be re-tailored to shorten the amount of time for rate cases.

MS. GIBBONS: I think we had about three issues in there. Let me start back with the first one, the stitching together.

Dan did not mean it in the stitching together without a lot of thought thrown together idea by any means. Throughout the process of preparing for the cases, there's significant debate within the Postal Service on some key issues as to, you know, what should be in it; how does this work out.
That’s kind of progressing along at the same time that a lot of the costing information is being, you know, gathered, put together, at the same time that the basic paperwork that needs to get filed is being put together. That’s all proceeding during that period of four to six months. Nothing can be official until the Governors have voted on it.

So all of the bits and pieces are being debated, analyzed, decided upon. There’s consultation with customers going on, on a parallel track, and it all comes together at the last minute.

So, you know, by no means is it, you know, a hurry up and try to throw it all together at the last minute. It’s very deliberate, moving forward, and then it all kind of culminates when we get to the Board of Governors meeting.

They have had discussions on the case well before the final vote -- numerous discussions as issues are being surfaced, and people need to get their thought on which way they would want things to go.

But it doesn’t really all come to culmination until that final Board of Governors meeting, where they actually vote; and then sometimes at that final meeting, they’re not ready to vote. Somehow other work has to be done, and it has to go back and come back the next month.

The second issue was what? I forgot the second

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issue -- the technical conferences?

MR. FOUCHEAUX: Yes, whether we should have technical conferences between rate cases, I think.

MS. GIBBONS: Oh, yes; the business of, does having the technical conference preclude getting the issues into the formal record, where people can be held accountable?

I don’t think there’s any thought that they would at all preclude that; but that, in fact, that they would assist. They would serve a number of purposes.

To the extent that people might not be as familiar with the issues, it would be an opportunity to try to level the playing field and bring everybody up to speed.

To the extent that there’s thinking that needs to be changed, on the Postal Service’s part or on the part of any mailer, it’s a good opportunity to really flush out the arguments, and opportunities to influence each other, well before it gets to the point of actually litigating it in a case; but certainly, by no means, to preclude the introduction of the evidence and the arguments as part of the case.

The third one was --

MR. FOUCHEAUX: Do we have any real suggestions on how to shorten the process?

MS. GIBBONS: Oh, I guess I would see one Heritage Reporting Corporation (202) 628-4888
suggestion with the technical conference that, hopefully, that would move things along, in terms of discovery; and really, hopefully avoid some of the time that’s taken up by the Postal Service and the mailers on discovery.

From the last conference, there did not seem to be much consensus that you could significantly shorten that 10 month process. I think there were a fair number of comments to say, to do all of this in 10 months with the complicated nature of this process is pretty spectacular. There didn’t seem to be much, you know, unless we misheard it.

Do you have a thought on that, Dan?

MR. DEL POLITO: Does that mean then that we could stop hearing Postal executives call for a shortening of the time? Because we’re in the best of all possible worlds, can we all agree to that?

MR. FOUCHEAUX: Well, you’re hearing a lawyer’s perspective here.

(Laughter.)

MR. FOUCHEAUX: I think the policy-makers are quite right in setting that as policy goal, and it certainly would be a benefit to the Postal Service in many ways. It may not be a benefit to the Commission or the intervenors.

Quite frankly, the mechanisms that we could think of that would shorten the process, you wouldn’t like: you know, limit discovery on the Postal Service, limit the
amount of irrelevant issues that we have to cover in a rate case.

I think the most effective means of shortening the rate case is the one that we successfully employed in the last one.

That's not to say that that wasn't an extraordinary circumstance. But we can settle issues. If we can remove issues from discussion in rate cases, we can shorten the time it takes to consider the entire case.

Quite frankly, in many instances, there are no disagreements about particular rates the Postal Service proposes. There's a lot of controversy about some rates. There's a lot of controversy about some costing issues.

And I really have a hard time understanding this objection to costing as a serious issue in rate cases, because costing is the heart of ratemaking. If you look at the statute, in a break-even organization, costing are the rates.

It's very important that rates reflect the way the costs actually behave. It's important, not only for pricing, not only for marketing, but it's very important for the operation of the Postal Service, particularly as operations change.

To suppose that we could ignore that or relegate those issues to a subsidiary is just unfathomable. But then
that’s my opinion.

MR. DEL POLITO: Dan, it’s not a matter of saying that they would be relegated to lower edges in the case. One of the reasons why you succeeded in getting a settlement in the last case is that the elements of controversy were somewhat constrained. However, after the case was over, and everyone agreed to it, then there were litany of constituents that would come forward and say, you know, in that case, they proposed this particular classification change, which we don’t particularly like. I guess the thought was, if there is a way in which you can peal out those things that would lessen the likelihood that you would be able to move your audience towards settlement, one would have thought that would have been in your own best interests.

To the extent that classification changes are controversial, or pop-up and become apparently to mailers as controversial, it lessens greatly the likelihood that you’ll be able to move to settlement, and lessen the amount of time in a rate case. That really was what was behind some of these ideas.

MS. GIBBONS: Gene, I actually think every case going forward that the various suggestions that will be made -- although, you know, there is kind of a cut on it, from a Postal Service perspective, at this point, that all of those
will be, you know, well on the minds of people.

So whereas maybe two cases ago or a case ago, it
might have been, we want this number classification cases;
throw them in. There will be, perhaps, much more conscious
thought on, okay, given that we really do want to try to
move as fast as possible under the current system, what will
be the impact of putting this is, versus not putting it in
at this time.

You know, it might just be a little bit sharper on
the minds of people than perhaps it was in the past, you
know, or maybe not.

But certainly, the raising of the issues at day
one of the summit, and the very rich discussion on it, I
think, has made people stop and take a look at what can we
do. And the idea of having the global technical conference,
and then kind of the mini-technical discussions after that,
I think, may have just opened up a lot of minds to gee,
there are different ways to do things.

So I think things, even though we may not be
saying them today, because we haven't thought, okay, there's
these 10 different things that can be done -- I think some
of that will just evolve naturally, because of the raised
consciousness on our part, and hopefully on the parts of all
the participants.

So I would expect more people to pick up the phone
the next time and say, I was going to write these, you know, whatever number of questions; but let me talk to you, first. That’s a huge benefit.

You know, various other things, I think we’ll just start to now happen, because everybody has had a chance to sit back and think about, can we do this differently?

MR. FOUCHEAUX: Let me add that it’s undeniable that if you eliminate issues from a case -- if you eliminate costs and if you eliminate classification proposals -- if you eliminate most sources of controversy in any case, you’re going to enhance the chances that what you do ask for will be settled, and probably speed up the process. But then you really won’t have a rate case.

A lot of these things that we try to do in rate cases, we would want to do anyway, because they benefit the Postal Service and they benefit mailers -- maybe not all the mailers at the same time, but the do benefit.

You can look back in history. We had a case in 1994, where we proposed basically just an across-the-board rate increase.

It was essentially a revenue requirement case, no classification proposals, no costing updates. Not only did we not accomplish everything we tried to accomplish, except for the moderate revenue requirement, which nobody disagreed with in that case.
We were roundly criticized for not updating the cost studies; for not proposing other classification changes. All of these things that might be worthwhile for the Postal Service and mailers, we would have to do anyway.

The question is, you know, do you put them in a rate case? I think it’s much more inefficient to deal with non-controversial changes in separate cases. From the lawyer’s perspective, it certainly is. There’s a lot more paperwork involved.

But your comments are well taken, and they are long held and long expressed, and we’ll continue, as Mary Anne said, to consider them.

MR. POU: We’ve got several people waiting. I think you’ve been waiting the longest.

MR. STOVER: Thank you; I’m David Stover with the Greeting Card Association.

I’d like to revisit, for just a second, the question of the preparation of a filing, and when things are known. I appreciate, of course, partly because I good many years helping to prepare large documents having to do with Postal rates. But nothing is finally settled in any binding sense, until the vote is taken.

My question to the panelists is, I guess, there likely seems to be large decisions taken intermediately, as to large things that may well be in the case, or are going...
to be recommended to the Board, such as an abandonment of a
costing methodology, that has been propounded by the Service
in the past; or a major classification change; or even a
minor one, that's likely to raise hackles.

My question is, how far could the Postal Service
make it known, in advance of the last Governor's meeting?
We are likely to propose "x, y, z and w'" in the next rate
case. Our likely reasons for proposing these will be "A, B,
C, D, E and F."

If you are interested in this, as participants,
you would do well to start studying up on the issue. I'm
not guaranteeing it will be there, because the Governor's
haven't voted, yet.

How far would that be possible; and would the
Service be willing to do it, in the interests of speeding
the process up; incidently, letting participants focus their
often very limited resources better on issues that they know
will be of interest to them.

MS. GIBBONS: I have a couple of thoughts on that.
I think we may be in a particular situation right now,
because if it is the case that we do need to get a case
filed somewhere, in order to have rates go up, at the
beginning of 2004 -- not to say there's been any decision on
that -- but work really needs to get going, pretty much
immediately. To be working on preparing for the filing and
well as having a significant amount of that kind of
disclosure and discussion, might be an issue.

But assuming once we would get past this
particular crunch period, it would seem like you could
certainly try to do more of that; perhaps in the sense of
the technical conference type thing, where there is a
particular issue that the staff has really done a lot of
thinking on. It will very important to get a lot of input
from the people who ultimately, you know, might be impacted
by it.

That is with the caveat that as the preparation is
going forward for a rate case, that here might be a decision
made, and at least at the point when it’s made, it seems to
be pretty sound.

But then as the preparation moves along, something
else might influence whether that’s actually the direction
that the Governors want to go.

Certainly, in this time when we’re relatively
close to the debt ceiling, the Governors, I think, more than
ever before, are really watching every penny.

So they’re very, very involved in, you know,
what’s the impact of any rate filing on the customers; on
the Postal Service’s bottom line, on our ability to deliver
universal service -- so it might be a time when, you know,
we have to be even more careful than ever to try to, you

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know, send a signal that ultimately, as it’s all put
together, the Governors say, gee, we really can’t, you know,
agree with that, even though six months earlier, we might
have thought that was a good thing to do.

But I think the general concept of, to the extent
possible, can we be engaging the mailers and giving them as
much opportunity for input as possible? Certainly, we agree
with that.

MR. FOUCHEAUX: And judging by the hurt looks on
some of my non-lawyer colleagues’ faces out in the audience,
I think we do that, to a very large extent. Certainly, in
the last 10 years, based on my experience, the Postal
Service has been much more interactive.

Many of these issues are debated in the trade
press. Thanks to good reporters like Marcus and Gene, and
many of the policy issues that end up being resolved; and
formulations that are filed with rate cases are openly
debated and resolved, in public, by the Mailers Counsel, in
the fore front.

Some of the cases that we filed in the last few
years have been largely influenced by input from mailers.
The whole idea of having this summit; inviting your comments
-- it’s institutionalizing that.

We haven’t institutionalized it to the degree that
we’re in a position to announce on a web page, you know, on

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a daily basis, what our current thinking is about the next rate case, because quite frankly, a lot of these issues are controversial, even within the Postal Service, and don't get resolved in a real timely fashion.

But I think David's comment about the major costing departures, for instance, is something that we're willing to think seriously about rectifying, along the lines that I discussed earlier; and along the lines that Shelley and her experts have paved the way for; of perhaps holding seminars to consider issues that we are currently thinking about changing.

MS. GIBBONS: The other thing that occurs to me is, we have, in the transformation plan, discussed the Postal Service's desire that has we move forward, we try to reduce overall costs in the mailing industry, to our customer, and to us.

I think that really suggests that we have to be working very closely together with customers; so that if we do this, how does it affect you? If you do that, how does it affect us?

I think that really suggests more, not less, of the kind of collaboration and sharing of information. There are many efforts underway now, with the mailing industry task force, MITF -- you know, various other discussions underway to say, how can we reduce our overall combined
MR. FOUCHEAUX: In the experiences of the classification effort, the major re-classification effort that we embarked on in 1995 and the current process involving product redesign, I think really is inconsistent with your observation.

We are working very hard, and certainly under Anita's supervision, we're working very had to stay very interactive with mailers. We can't please everybody all the time, unfortunately, but we're trying to get as much input in an institutionalized way as we can, and I think we're much better at that than we were, say, 15 years ago.

MS. GIBBONS: Can we get your name for the record?

MR. REEVES: Bob Reeves -- actually, I'm myself. I've been doing this, in one form or another for almost 20 years; and I've got to say again, I agree, 100 percent, the last 10 years. There's been a tremendous improvement, from my perspective, in the way the Postal Service reacts with people and amount of information that's out there. It's just been much, much better, and I think part of it is that the cases have been much, much easier.

But the reason I got up here to make a comment was not that so much, as getting back to pulling the costing out of the rate case.

You know, your comment that you choose to pull

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costing out of the rate case and stick it aside is to kind
of miss the point that that's what it's all about. And you
know, to take that out of a case and not fight about it, I
mean, what's the point?

I think the idea behind the proposal of pulling
the costing out is to pull the right out of the case, and
put it over there, and have the full blown major effort,
outside of the case, in an era or atmosphere where there
aren't necessarily the same time constraints, where there
isn't the question of the Postal Service management wants to
make the rate changes right away, and that's the while
point,

If you have the other fights, other places, and on
some sort of reasonable schedule that's not attached to
changing the rates, what's left over will be a lot less
controversial, a lot less contested, and can go a lot
faster. So I think that that's really the essence of it;
not to de-emphasize it, but to really change the emphasis of
it.

MR. FOUCHEAUX: I certainly understand that
perspective, and there is considerable logic to it. It's
just my own personal opinion is that taking it out would
result in more time being spent on it, more controversy,
less definitive resolution in time to do you any good than
the current process.
I mean, the one good thing about the Postal Reorganization Act is that it gives the Commission what I think is not an unreasonable amount of time, considering all the Commission feels it has to do, and makes them do it within that time limit.

Lawyers that are familiar with other kinds of regulatory practices know that cases in other industries take far longer, precisely because people have more time. The more time you have, the more time and effort you are going to spend on trying to shoot something down that you don't like. It's just the nature of things. We just disagree that that would be a better approach.

MR. WARDEN: Irv Warden, American Bankers Association -- while I agree, the Postal Service has been giving us information, there's a great need for more and earlier.

Anyone who's ever seen the inside of the Rate Commission's hearing room understands the approval process for the Governors. I think you can give us a great deal more information about what you intend to do, and we would understand that it's not necessarily something that's binding.

I'll use my example. Every time a rate case comes up, you know, I go over and pick up a couple of boxes of stuff, and I have to go over there and figure out what's

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changed in costing. What costs are you now measuring as cost avoided for first class work shared mail? I believe that’s changed, at least every time for the last three rate cases. You know, I’m starting from zero, flat-footed.

I think the problem for most of us is, we’re a little too polite in discussing this with the Postal Service. The Postal Service, as is probably understandable for such a large and old institution, has tendencies, things that it tends to do.

One of the things it tends to do is to complain mightily about its disadvantages, and not to think much, at least publicly, about its advantages.

You’ve got a horrible task. You also have terrific advances. You’ve got a lot of people, and a lot very talented people, to prepare this rate case. No one can appreciate that better than somebody who gets that on day one, is working on that only part-time, and has a file drawer for resources.

You know, going through that, even the part that I have to, quite frankly, is moderately challenging. If you can give us information earlier, it would mean that one, we would probably like to ask you a lot fewer interrogatories, and it might be a great deal easier for us to agree to something that might shorten the process.

The 10 month process is not a day too long for the Heritage Reporting Corporation
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way rate cases are conducted now. Just reading all that stuff, you know, and the 42 testimonies you start with or whatever, just scratch the surface.

If we know more about, you know, what you’re planning to do, we could get our consultants on the case, and we could try to understand it. It’s just very important. I believe some of the things Shelley mentioned, I don’t even they need wait until after the rate case is filed, to start telling us a lot of things.

You know, we intend to include these cost-avoided measures, for example, on this type of thing. If you’ve changed; again, tell us you’ve changed. But give us a change to get started on some of this stuff, so that we can at least make comparisons with earlier cases. Thank you.

MS. GIBBONS: I think that message has clearly been heard. And I actually think, as the cases are being prepared in the future, that every time some information is, you know, together, there will probably be maybe a more conscious decision then historically made as to, is this something that we can and should disclose to the mailers at this point? But I think the concern has clearly been heard, which is good.

MR. LUBENOW: Joe Lubenow, Lubenow and Associates -- I’ve listened to what you were saying about the separation of the costing for the ratemaking, and why
you don’t think it’s practical. But I’d like to still revisit that and bring further argument to bear.

I don’t think that the reasons that you gave for not doing that are that strong, compared to the benefits. The reasons you gave included things like, the consequences might be murky, and we wouldn’t understand what had happened to us; and also that the Board of Governors, you know, might not have as much focus, and they couldn’t consider those things together, and a couple other reasons.

But those are relative small, I think, compared to, from an industry perspective, what I see is at stake here. I have been an observer of the results of rate cases for quite a long time. And the results of rate cases some times throw a curve ball to the industry, in ways that upset the practices in the mailing industry.

One example from a long time ago is in the 1980s, where the zoned rates for periodicals -- you needed to get a certain amount of revenue, and you did manage to get the revenue that you needed, but you changed the ratio of the zones in such a way that drop shipping was drastically disincentivized. I think that was in 1984. It was then reincentivized back in 1987.

That would just be one example, and it will have to suffice, that when you have the combined costing and the need for more revenue, then it’s like throwing everything up
in the air and see where it comes down. Everyone is unpredictable, and we have to figure out what we should do differently, and which company should close up, and which company should start up.

So what I think would be a better procedure, considering the impact on us, is that there should be a major costing brouhaha every three or four years, and that would take care of that part of it. Then the need for revenue could be addressed in a simpler proceeding more often.

This would benefit you, because you’re always saying you can’t change your rates flexibly, and your competitors have way advance notice of what you’re trying to do. It would help you on that, and it would help us, because we’d have a more stable environment for work sharing and the suppliers and the people that work with the mailers to get the mail out.

So that’s what I think is a bigger point than perhaps some of the ones that you brought forward.

MR. FOUCHEAUX: You know, probably nothing you’ve said is wrong, from somebody’s perspective. But unless I misunderstood, I think the example you gave was not an example of a costing methodology approach. It was an example of rate design, which is something that would be considered in a rate case, and is, and appropriately, I...
think.

MR. LUBENOW: You know, I don’t agree with that. On the contrary, the smaller rate cases, the less consequential rate cases that I’m talking about, would be more nearly across the board, and the ratio of all the rates would stay the same.

MR. FOUCHEAUX: No, I think I got that part. I was addressing your example of the periodical zones.

MR. BRISKEY: Hi, I’m Brad Briskey. I work at Bri-lane. We’re a parcel shipper/mailer, representing the mailing industry.

First of all, I want to say, I want to thank on behalf of the mailing industry, the good reporters, Gene and Marcus, for presenting the valuable insight and foresight to stand up and give such good commentaries so far.

But to your comment Mary Anne earlier, on the mailers’ ability to afford attending a ratemaking proceeding or global technical conference, I think it is in the mailers’ best interests and they truly owe it to themselves to offer their collaborative input in this process.

They can offer a lot more significance in the long term to their costs than sitting blithely by, and letting the process occur and have rates hit their bottom line, especially with the over-abundant use of the word "rate increase."

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Anyway, I do have a question. You talk about costing and ratemaking, and the combination of the two. I mean, from my perspective, a little bit earlier in this process, I see the importance of those two things. But moreover, I think beyond that, there is an importance of integrating any marketing strategies, technical advances, and operational efficiencies, that the Postal Service has afforded itself, as a business, or operating as a business entity; and integrating those. And terms of setting your rates and making rate adjustments is probably, in my opinion, an important aspect of this.

MS. GIBBONS: Yes, I think we agree with that comment, because that does happen. As efficient as we can get, if we can use technology to reduce costs, that's certainly a mission that we're on, certainly in a big way, and have been on for quite a while.

MR. BRISKEY: Thank you.

MR. GLEIMAN: Ed Gleiman, EJG Consulting -- I have a couple of comments. The first is, people keep missing Kate Muth, who is a good reporter, but is smart enough to report the news, rather than standing up and making comments here about it.

(Laughter.)

MR. GLEIMAN: First, I want to endorse Shelley Dreifuss' suggestion that the Postal Service put together an

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outline. And if you can cut a deal at the front end, that
gives the Postal Service some time to do that, that would be
great.

I always found it helpful that the Rate
Commission, when the staff was able to put together an
outline like that, that showed that things weren’t
stovepiped the way the appeared to be, when the 42 or 45
pieces of testimony came in; but actually cut across and
went up and down, and every way you could think. And I do
think it would be helpful for everybody.

As a matter of fact, perhaps the advisory staff or
the legal counsel of the Commission might want to consider
making the document that the staff puts together available
to everybody, rather than relying on the Postal Service;
because they’ve done a good job on that in the past, at
least from the standpoint of a former Commissioner.

The other comment has to do with something that
Dan said about R-94. You held that out as an example of a
simplified or dumb-down case, if you will, that it still
didn’t work.

Well, as a matter of fact, it did. That’s the
only case in recent memory, I think, the Omnibus rate case,
that was finished in less than 10 months. I think we
finished that one in eight and-a-half months.

And in large part, it had to do not with the

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settlement agreement -- the non-unanimous settlement agreement at the front end when the case was filed, but rather with the fact that there weren’t a lot of changes in there that related to either classification or costing methodology.

So I think people need to understand that when you do have a more simple case, you can do it in less than 10 months, even allowing full-blown discovery; which, by the way, when we have tried to cut down, or the Commission tried to cut down in the past on the length of cases, it was the Postal Service, more often than not, that objected to us cutting time out. They are the ones who always wanted us to run the full 10 months.

MR. FOUCHEAUX: You’re absolutely right and I didn’t mean, in my comments, mean to reflect either on the one objective or one of the objectives that was accomplished; namely, to have a case within the confines of 10 months, and that certainly was done; or the wisdom of Commission’s decision.

When I said it didn’t work, I meant from the perspective that the Postal Service didn’t get what it asked for, in terms of rates, it didn’t work. But I didn’t mean to reflect on the other accomplishments of that case.

MR. SHARFMAN: I’m Steve Sharfman with the Postal Rate Commission. I want to change the topic slightly to Heritage Reporting Corporation

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stay within improving the rate case process, and urge the Postal Service to give consideration to something that requires balancing a number of important issues.

The issues that have to be balanced are the need for accuracy in costing that Mr. Foucheaux spoke of, and the need to watch every penny that Ms. Gibbons spoke of.

But recalling the first summit that we had, Mike Cosler made a statement about how important it was to evaluate the cost benefit of making certain allocations of resources to improving the rate case process.

It appears, based on some of the comments that we heard earlier today, that we may get another rate case filed earlier next calendar year. I would urge the Postal Service to give consideration to having complete and accurate recent year data, fully audited before that case is filed. If it is, I think that will really help the rate case proceed smoothly and perhaps more quickly.

MR. FOUCHEAUX: I agree with you entirely, Steve. But whether it happens is going to depend on circumstances.

MR. SMITH: Hi, Marcus Smith, Postal World -- okay, I have just a couple of questions on this. The last rate case that went so quickly, and everyone seemed to be very happy with was done by way of settlement.

The Postal Service already has an existing body of advisors called MTAC. Why couldn’t there be basically a
constant state of negotiations?

In other words, you already have the data, the costing. Why couldn’t there be a constant state of a test year, formulated 12, 18, 24 months out, pouring the data and effectively be ready to file a rate case, pre-settled, on a moment’s notice, in effect?

You’re talking about speeding up the process. Is there anything against that, as a possible solution?

MS. GIBBONS: I think we are interested in hearing that and additional comments on what would it take to settle, say, a next rate case or rate cases, period. So if there are other thoughts or comments on that, I mean, I think we’d be interested maybe to hear reactions to that comment.

MR. FOUCHEAUX: I’ll comment on it. I think it does make sense to be in a constant of interaction with people. I think if we hope to settle the next rate case, we ought to be talking about, you know, points of contention right now. We will, to the extent we can. It’s just is not all as simple as saying that it portrays it.

MR. POU: We’re getting kind of close to our point of closing up here, so if you can be brief.

MS. DREIFUSS: Sure, I’ll try to make this quick. The MTAC suggestion is actually a very good one. OCA is not a member of MTAC, as anyone might expect. But I have been
attending the MTAC meetings, and have gotten a lot of value out of. I’ve gotten a lot of value out of attending product redesign meetings.

I think it’s possible to settle a lot of controversial issues in advance. But I think the one thing that the Postal Service will have to be very conscious of is that I’ve put some effort into following MTAC now and participating.

I believe our many consumers -- we know that there are some individual intervenors in rate cases, who don’t really follow these matters. So if this is going to work, I think it’s necessary to make the public aware -- that is any and all takers -- come, and if you have something to say about possibly settling in advance, rate case issues, come and attend these meetings.

That was actually one of the reasons R-94 was so much in contention. OCA was never included in any pre-R-94 discussions. It was basically foisted upon OCA.

Perhaps if we had been included, there really could have been an entire settlement of that rate case. And I think it was a mistake to cut us out of the process, and many other segments of the public.

So that would be my one supplement; the suggestion of having MTAC discussions. Make it available to everybody.

MR. FOUCHEAUX: If it makes you feel any better,
Shelley, there are a lot of people inside the Postal Service that were not included in the development of R-94.

(Laughter.)

MS. DREIFUSS: So that’s Dan’s suggestion.

MR. POU: There was one person over her who had a question.

MR. GLEIMAN: Yes, Ed Gleiman -- I have the formula for settlement of the next rate case and the one after that and the one after that -- limit rate increases to no more than the rate of inflation. And I would venture to guess that you will get a fairly unanimous settlement agreement out of most people.

MR. POU: Okay, this is the last comment.

MS. CATLER: Good morning, my name is Susan Catler. I’m the attorney for the American Postal Workers Union.

The American Postal Workers Union is permitted to actively participate, like every other citizen in the United States or business entity, in Postal Rate Commission proceedings, and has chosen to do so, and will continue to do so. That’s my understanding.

The MTAC proceedings do not appear to include the American Postal Workers Union or other stakeholders in the Postal Service. The product redesign meetings that are referred to do not appear to include the American Postal Workers Union.
Workers Union or other stakeholders.

And to go and try to pre-settle the upcoming rate cases by using forums and procedures and meetings to which active participants in the rate cases are not entitled or welcome to participate, I believe would raise, one of my favorites, due process concerns, and I think it would not be in the best interests of the Postal Service. Thank you.

MR. FOUCHEAUX: I’m not sure it would be due process prior to filing the case. But you are quite right, we should be consulting with APWU, as well as any group that’s interested in what we proposed. But I do think that there’s a lot to be gained from trying to resolve controversy before we file a case.

Of course, it didn’t work in your instance, in the instance of the last rate case, with regard to APWU, so we understand that.

MR. SMITH: Can I just respond to that -- Marcus Smith, Postal World. I was only referring to MTAC as an ongoing entity; whereas, the previous negotiation seems to last for awhile and stop. I was only making reference to that, that’s all.

MR. POU: Is there anything else before we go to lunch?

(No response.)

MR. POU: Thank you very much for everybody’s
time. Why don’t we get something to eat and reconvene at 12:45.

(Whereupon, at 11:57 a.m., a lunch recess was taken.)
AFTERNOON SESSION
(12:55 p.m.)

MR. BARRANCA: Okay, can I get your attention?

We'd like to get started. I'll give you a few seconds to
find a seat, and then we'll start the afternoon discussion
sessions.

Okay, my name is Nick Barranca. I'm the Vice
President of Product Development for the Postal Service.
I'll be the moderator for the first session this afternoon.
The topic of our session is customer perspectives on
negotiated service agreements.

Today, we have with us Kerry Knight, Jim Bowler,
Shelley Dreifuss, and Christian Johnson. As they make their
presentations, I'll ask them to say a little bit about who
they are, who they work for, and what they represent, so it
will be more key to their presentation.

I think we're at a point in time where we have the
opportunity to do some things in this area that we've talked
about for a long time.

I think the transformation plan has highlighted
the need to have pricing flexibility, to be more creative in
how we offer prices to our customers, and also how we can
get the market quicker, potentially with things where
there's an opportunity for both us and the Postal Service,
and our customers and the general rate payer across the
I think if you look at the product redesign initiative, and I’ll just reference this, as it was referenced in the last panel, there seems to be a theme that runs through that, that says, one size doesn’t fit all.

Some of the objectives of that effort are to recognize that difference organizations use mail differently. There are some that are very intensive mail users. There are some that are moderate mailers, and there are some that are casual mail users.

I think negotiated service agreements, to a certain extent, extend that concept deeper into the system, in the context that there are some customers in some industries that use mail uniquely, and that we have to recognize that; and as a result, look toward pricing schemes and service initiatives that might relate directly to the needs of that customer and that industry.

The Postal Service would benefit. The customer would benefit, and the public at-large would benefit from doing that.

When I think about negotiated service agreements, as I said, it’s something we’ve talked about for quite a long time, but we haven’t got to the point that we’ve actually done it.

My first exposure to the ratemaking process was

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about 21 years ago, when I was the operations witness in the first automation compatibility case in the zip plus four rate case.

Back then, that was sort of revolutionary, in that we were starting to look at a different way of recognizing the opportunities that were available and the things that different customers could do to make themselves more competitive, and to also help the Postal Service achieve some of its objectives.

So to a certain extent, I think this is an extension of that concept, where there are opportunities that we can proceed with jointly, that not only make the Postal Service more competitive, but I think the bottom line is, it makes our customers more competitive.

I think that’s the important thing. It helps our customers do things for their customers in a way that they can uniquely identify the need.

So while it positions us to be more responsive and more competitive, I think really it positions our customers to be more responsive and more competitive to their customers’ needs and to the environment of the marketplace that they operate in.

So that’s enough for me. I’m the moderator, so I can only get my out briefly. The real purpose of this is to listen to our customers, and to allow our customers to give

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you their perspective on negotiated service agreements now and into the future.

So we will start with Kerry, and I’ll turn it over to Kerry.

MR. KNIGHT: Thank you, Nick.

I’m Kerry Knight. I’m the Director of Distribution and Postal Affairs for the National Geographic Society.

We mail all four classes of mail. Basically, we don’t have any NSAs. We’re not considering any at this time. But I would like to make a couple of comments.

In doing some of the research and having some people do some research for me, we discovered that NSAs in other regulated industries have been around since the late 1970s, and I’m going to cheat from my notes here.

These NSAs basically brought to the table more volume for the customers to use, more volume for the industries to rely on for revenue. Some of the industries that have had it are railroad industry, motor carrier industry, petroleum pipeline industry, and one the ones that we’ve heard about lately in the news is the telecommunications industry.

But Anita, if MCI/WorldCom brings you an NSA, I’d go running.

(Laughter.)
MR. KNIGHT: Some of the issues with NSAs that may be brought up are claims that NSAs or contract rates constitute an undue and unreasonable discrimination against certain mailers; claims that only big mailers would benefit from such arrangements, claims that the USPS cannot recovery their costs on NSAs; or claims that the NSAs or contracts are commercially unattractive because of having long waiting periods before they can be implemented.

What I want to get from today's session is to hear from everybody else -- big mailers, small mailers, Postal Service -- and find out really what are the arguments against it, and what are the benefits from them.

One of the things that I might caution against is, you have to be careful what you ask for. National Geographic did have an NSA or long-term agreement with Canada Post. Recently, we have changed that arrangement. But one of the agreements with them was, we would give them a certain amount of volume.

If we didn't give them that amount of volume, we had to anti-up with the difference at the end of the contract period.

I don't know about many of you, but I control the tail end of the distribution process. I don't control the marketing end. So if marketing tells me, yes, our forecast is we're going to mail "x-million" pieces, and I put that in
the contract and guarantee that -- well, if the economy goes south, or if marketing says, we’re not going to mail that campaign, then that kind of leaves me holding the bag; and do you really want to guarantee volume that you know you’re going to have to pay for, or do you want to just have maybe contract rates, where you have a volume or a tier of levels.

So you know if you have a certain volume, you pay that rate; or a certain volume, you pay that rate. So those are kind of my comments, and I’ll turn it over to Jim.

MR. BOWLER: Thanks; first of all, I’d like to thank the Postal Service for inviting me here today, to give my thoughts on NSAs.

I think NSA offer the first real opportunity to negotiate price with Postal Service, so I’m quite interested in how the rules are developed.

I think it’s great that the Postal Service has recognized they need to take a business-like approach when dealing with their large commercial customers.

I think that if the process is managed correctly and the goals are clearly defined, the result can be beneficial to both the rate payer and the Postal Service, in the form of increased mail volume.

It’s my firm belief that NSA should encourage volume growth, and I further believe that this can be accomplished by offering discounts for incremental volume.

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increases beyond the established historical base.

It's commonly understood that mail creates more mail. I think that NSAs should not be relegated to customized work share agreements, but instead, they should be viewed as a tool for encouraging volume growth.

I think that work sharing has its place, but it should not be the cornerstone of an NSA. If we truly want to help transform the Postal Service into the commercial Government enterprise that Postmaster General Potter talks about, then I think this is a very good place to start.

Publishers Clearinghouse has given presentations to both senior Postal management and to the Postal Rate Commission, demonstrating how discounts on incremental volume develop a significant growth across multiple lines of business for the Postal Service. The bottom line is, increased mail volume and increased revenue for both organizations.

We have agreements currently with several foreign Postal administrations very similar to this, and they've been very successful. I think we need to learn from these successful business models. I think we need to think outside the box. We need to encourage volume growth, and we need to negotiate with the owner of the mail, and that's the rate payer.

MR. BARRANCA: Shelley?

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MS. DREIFUSS: I'm Shelley Dreifuss, the Director of the Office of the Consumer Advocate.

Let me state right off the bat that I'm not an opponent of negotiated service agreements. I think there may have been a belief that OCS might oppose that idea, with the view that it was disadvantageous to consumers. I don't think that's the case.

I do think that we have to have fair procedures in establishing them. I think that there should be a request to the Postal Rate Commission, either for a specific negotiated service agreement or perhaps rules that would apply to many, that could take advantage of that eligibility.

It could be in the form of a classification proceeding for fair rules that would apply to everybody. So there's this notion that everyone should get a chance to participate, as long as they can meet the established standards. That leads us to a question of policy. If we are going to have them, of what type should they be?

I started out by saying that I thought consumers could benefit; and I actually share Jim Bowler's view of this.

If negotiated service agreements can be used to bring new volume and new revenues to the Postal Service and, in particular, new contributions to institutional cost, I
think that's very advantageous to consumers. That would be the guiding principle in having the Commission approve them, in my opinion.

We might part company with others -- and now I haven't heard anybody on this panel suggest it -- if it's used simply as a de-averaging tool; not to bring in new revenues, not to bring in additional institutional costs.

Then I don't see that as advantageous to small mailers. It's obviously disadvantageous. Because what we're talking about here is having the prices for high volume mailings go down, and necessarily, if we're not talking about new revenues, we're talking about the prices for low volume mailings going up.

If the Postal Service is going to try to be in that kind of competitive and business-style position, then I begin to question whether we really need an institution like the Postal Service.

Finally, I know Marcus Smith from Postal World is an avid proponent of prepaid postage. And it occurred to me, when I thought about negotiated service agreements, that this is potentially a tool to do that.

I'm not necessarily advocating it. But I do know that it's one of the issues that has to be addressed, when the Commission reviews negotiated service agreements. That is, what will happen; how will this coincide with phase
rates, perhaps? Will it cut across and go beyond established rates? Again, I don’t know where I stand on that. But I do know that that is potentially one of its uses.

Thank you, and I will pass this along to Kristen Johnson.

MS. JOHNSON: Thank you.

Hi, I’m Kristen Johnson from Discover Financial Services. I would like to start by thanking Ashley Lyons for inviting me to participate on the panel. To be quite honest with you, I think I have more questions regarding NSAs than I do comments.

Coming from Discovery Card, I’m very interested in what NSAs could potentially bring to both large volume mailers, as well as the Postal Service.

On a monthly basis, Discovery Card works very closely with various print and letter shop vendors, to produce mail. We mail millions of pieces of both first and standard mail on a monthly basis. Our goal is to mail as cost efficiently and effectively as possible.

Negotiating rates with our vendors is a vital tool for both parties. It allows us to produce our mail at reasonable rates, and it secures future business and continued revenue for our mailing vendors.

Therefore, similar types of negotiating with the Heritage Reporting Corporation

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Postal Service would help them to secure their future volumes, as well as revenue in years ahead. This especially important with the recent decline in mail volume.

By entering high volume mailings that are prepared according to Postal requirements, which may include address hygiene, automation comparability, presorting, destination entry, the Postal Service will actually be lowering the processing costs. Therefore, it would be a good business concept to share some of those cost savings with the mailing customers in order to ensure their future volumes.

A cost-based accounting system would help to justify the appropriate levels within an NSA. Mail that is ideally prepared for the Postal Service actually costs them less to process. So a higher discount would actually be a great incentive for the mailers to achieve additional Postal requirements.

Currently, as a large volume mailer, the largest percentage of our mailing budget is postage. As postage continues to increase, we’re forced to re-evaluate where our marketing dollars will be best spent.

There are many alternatives to advertising other than direct mail. So it’s important for the Postal Service to focus on being customer oriented and building strong partnerships with their current customers.

After all, any reduction in postage rates will
actually allow the large volume mailers to reinvest their additional cost savings into additional volume.

As a large volume mailer, I would like to see NSAs granted to the owners of the mail. As an owner of the mail, we are in a direct position to affect the volume of mail that is put into the Postal system.

NSAs would be a great avenue for the Postal Service to work directly with the companies that have the most effect on their future revenue and volume. In addition, it gives large mailers the opportunity to increase volumes in coming years.

Also, by granting NSAs to owners of the mail, it gives the large volume mailers the flexibility to use the print and letter shop vendors of their choice; and it gives our smaller mailing vendors the ability to compete effectively in this type of environment.

If NSAs prove to be revenue-neutral for the Postal Service, I think they'll still be a benefit for them; because they'll help to secure future volumes, and they'll also help to stabilize future rates.

Actually, the topic of NSA leaves a lot of questions to think about. For instance, who should be eligible? Should it be the owners of the mail or the producers of the mail? Should they be based on specific volumes? Should they be based on a tiered structure, with

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greater incentives for higher volumes? Should they apply to all classes and all types of mail? How would the rates be discounted? Would it be an automatic discount, or would it be through refunds? What should the duration be? Should they be one year agreements, two agreements? What requirements would need to be fulfilled in order to qualify? Also, what happens if expected volumes are not achieved? What if we happen to co-mingle our mail with other people’s mail? Does it negate the agreement, or can we still qualify? Can confidentiality be assured throughout the process? Finally, are there any other incentives for large volume mailers to continue maintain or increase their volumes in the coming year?

MR. BARRANCA: Okay. Thank you, very much. That was a pretty good introduction to the topic and I think we ended with a lot of good questions. Does anyone want to stand up and state an opinion? Make a comment? Ask a question? Because, this part of the agenda is actually your part of the agenda. So, who is the first one?

MS. HANBERY: No one ever accuses me of being shy and a few people say, you haven’t said anything yet; are you going to say anything. Well, I’ll offer an opinion. I -- give me a second.
MR. POU: Excuse me, could you identify yourself?

MS. HANBERY: Yes. My name is Donna Hanbery and I work with two associations: one is the Saturation Mail Orders Coalition that works with a variety of different types of saturation mailers; and the other one is the Alliance of Independent Store Owners and Professionals, or AISOP, which is a lot of the smallest customers or advertisers out there. So, I kind of work both spectrums of the mail business.

I, also, have my own small law firm and I’d like to offer a couple observations or comments on this, that I think are the perspectives of the small advertiser, small business person, the small, the large mail order, including mail orders that are setting up their own private delivery system, because they don’t trust the Postal Service to be a reliable cost effective vendor. My own view is someone with my own small business.

First, a comment on NSAs or troubled business, in general. Postal Service is losing volume. It’s in trouble. In my business, if I were in trouble, the first thing I would do is go to my key customers, my clients, and try to work to build their business. And it would seem to me that if the focus of NSAs, and many people on our panel didn’t focus on that, so I was glad to see that, is how can we save another penny here, another penny there, and that’s all.
we’re doing. If we’re not looking at the big picture, how
do you get more business in. We can save a lot of pennies,
but you’re still going to be in the stealth spiral that
everybody is hearing about.

Everybody wants to be so fair and so
nondiscriminatory, we may, you know, be -- we’ll fair
ourselves to death. On behalf of the small mail orders and
small advertisers that depend on the Postal Service and
probably don’t have the ability to go set up a competing
medium, we have to just wait until it comes along. You’re
not really hurting our feelings if the Postal Service does
deals with its biggest customers, if it helps leverage your
network and helps build the volume that we need, so that we
are all sharing these costs that are at a more affordable
level. Big is not a dirty word.

I subscribe to a lot of magazines. When Time
sends me my People or all the things I read, I’m the
ultimate consumer. There is a synergism between big and
little in just about everything. And when it comes to who
pays the freight, if we’re so busy worrying about the Postal
Service doing deals with big customers and being really
fair, we’re going to fair ourselves to death. And that’s
one comment, part death.

Again, one of my favorite fantasies if Donna ruled
the world -- no one will let me do it, but I’m more than

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happy to tell you how she would do it. The idea of having
the full Postal Rate Commission and all its wonderful staff
and talent, in all its glory, the site individual deals has,
I think, fairly effectively kept anyone from coming forward
with a deal. So, one idea, that if we think negotiated
service agreements are a good idea, I don’t know how you
would do it. But, I think if you build it, they will come.

If you came up with a fairly efficient way where
you delegate it to like an administrative law judge or a
group of talent, guidelines and rules, here’s how you do it.
We -- hey, we’re the Commission. We set the rules. Got to
be fair. It’s got to have this kind of notice. It’s once
you approve it, then you’ve got to publish it and anyone can
play. Somebody may do the work to get -- you know, Discover
Card may get the first negotiated service agreement, where
they’re going to bring in so much volume or they’re going to
do this. But, then, Capital One can play, too, and other
people can play, too. I think you’d have something that
would work and you’d end up getting a lot of big mailers and
smaller mailers under contract rates or under rates that
work, where everybody can plan their future that much more.

Those are my two cents and thank you.

MR. BARRANCA: Thank you. Any comments from the
panel?

MR. KNIGHT: I’m just wondering, was there a

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question in there?

MR. BARRANCA: No, it was a comment.

MS. HANBERY: No, it was an invitation for comments, I think.

MR. BARRANCA: You did get a big smile out of Jim O'Brien, though. I saw -- I watched that.

MR. WARDEN: I'm Irv Warden from American Bankers Association. ABA represents banks and bank holding companies of all size, from the largest to the smallest, and the holding companies include a lot of different businesses. I've got to say that although I've never heard them, I think that one of the things that would make many of the bankers I deal with put their hands firmly on the wall is to hear monopolists talk about being competitive.

We've got to understand that the victims of monopoly, and I always insist on calling them that, and a lot of the banking industry is under the first class monopoly, are, I think, rightfully concerned. With all due respect to the Postal Service, their ability to make deals that will not adversely impact their financial position -- I'm sorry, I can't get past thinking about Remitco and I don't -- Shelly is smiling. She and I don't have any idea how much you guys lost on that, but it was a ton, I'm sure.

What -- part of the problem is that we have an entity that is not like other entities or industries, and

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the way it's structured and has a different set of incentives. As far as negotiated service agreements, I said it last time, I'll say it now, we can talk about it under the current regulatory structure. When you're talking about a negotiated service agreement, under any rational definition, it's a fantasy until you change the law. If we have to go before the Rate Commission, have niche classifications or whatever you're going to call them, that's fine. And -- but, we have a process and one of the things that I think prevents the discussion from being more capable of putting for a process is that we have this -- we have this huge reality and the reality is that under the current statutory structure, at least it's our position, you can't really have just negotiated agreements between the Postal Service and customers. And we do have, by the way, in the ABA, lots of entities, which would love to be able to do that.

So, we're not taking a position that we're against those. We don't think they're viable. We have taken the position that we haven't seen any proposals for them, fairly concrete proposals that give us comfort that it would be done the way that would particularly protect the monopoly mailers. And so, you know, I think it's just a very, very much an issue of we should look at this discussion in the light of what is possible and what is possible includes many
different types of rate classification actions. But, currently, they basically all have to go before the Commission. And even though that wouldn't be simple and it would complicate my life for sure, that's what -- that's what's real. Thank you.

MR. BARRANCA: Is it fair to paraphrase that you have the position that under the current framework, we don't have the ability to do NSAs?

MR. WARDEN: Yes, with any rational definition of NSA, because you'd have to -- you'd have to have the Commission's involvement.

MR. BARRANCA: Okay, thank you. Would anybody like to respond to that? Shelly?

MS. DREIFUSS: Well, I do think the Commission would need to be involved. That was one of -- you know, one of the all entry principles that I started out with. I do think under the Postal Reorganization Act, that any change in rates or any new classification does have to be presented as a request to the Postal Rate Commission, and there are certain fundamental processes that are associated with that under the Administrative Procedure Act.

Now, the Commission has adopted several rules for expediting certain proposals that have limited impact. There have been a number of ways to cut down on the complexity of such a case and they may be appropriate in a
negotiated service agreement situation. But, I don’t think you can avoid coming to the Postal Rate Commission first, with either an agreement or a set of rules or classifications that apply to the many, and apply equally and fairly to the many.

MR. BARRANCA: Okay, thank you. Any comments from the floor on that?

MR. VOLNER: Yeah. I’m Ian Volner and I represent some mailers and mail associations. I want to start with an irony. Kerry made a point that there are other industries where NSAs or the equivalent are being used, including the telecommunications industry. The fact of the matter is the Postal Service has an NSA with MCI World Com. And if you want to find it, go look in the mailing on-line files, because they submitted it as a part of their filing, in that case, in a redacted form to be sure.

Second, Shelley is absolutely right, that under the current law, you have to do an NSA through the existing process. Why that is such a problem is a mystery to me. Until May of this year, that’s exactly how we did NSAs in the telecommunications industry. They went to the regulator. They had to be approved by the regulator. And after the first four or five or six went through, because of the no discrimination requirement, it became very easy to do them. So, this supposed problem that our supposedly antique...
statute doesn't move me one bit.

Finally, in terms of this question of monopoly and why it doesn't work because the Postal Service is a monopoly and may be other people are not, there are two points that need to be made. First, the monopoly goes beyond the first class mail. It encompasses, as a matter of statute, a very sizable chunk, roughly 50 percent, of what is called standard mail.

Second, the Postal Service, although it doesn't admit it, has other kinds of monopolies for other kinds of products. And I would suggest that anybody, who gets a sound recording through the mail, might wonder why it's not coming through some other vehicle. The monopoly argument doesn't work, because the fact of the matter is that the NSAs were developed in the oil business; they were developed in the trucking business; and they most assuredly were developed in the telecommunications business, when there was if not a monopoly, something very close to an oligopoly, with one company having, at the time we first put them together, 75 to 80 percent of the market. So, those arguments don't fly.

The only thing that needs to be done is for the Postal Service to sit down with an owner or a producer, and they're not mutually exclusive, and do a deal and submit it to the Rate Commission, as Shelley has said, under the
experimental rules and let’s get on with it. We can’t deal
with this problem in the abstract.

We’ve been talking about this -- misfortune to
have to read the Postal Service’s public announcements on
NSAs for the last two years, and I cut it off after 2000,
because it was getting painful. We have been talking about
this in one form or another, according to the Postal
Service, since the 1970s. My memory isn’t what it used to
be, but I recall conversations about it in the 1980s and
continuously ever since. It’s time to stop talking and it’s
time to start doing.

MR. BARRANCA: Thank you.

(Applause.)

MR. BARRANCA: Marcus?

MR. SMITH: I have a question and I’m glad Ian
got before me, because it makes it a lot simpler. I’d like
to hear from Kerry, Jim, or Kristen on this. It’s two
parts. First of all, why hasn’t -- considering the Postal
Service has stated that, in one form or another, an NSA
under experimental filing or some other methodology, where
the equivalent service was available to anyone else, who can
meet the same standards, why hasn’t anyone tried for an NSA,
so far, one; and two, what constitutes the ideal NSA, from
your standpoint? I’d like to hear from any of the --

MR. BOWLER: Well, Marcus, I think I expressed
what is an ideal NSA, the Publishers Clearing House, one that encourages us to mail more volume, which we think would generate more volume for the Postal Service. And, in fact, we've had some casual discussions with them about that. So, I wouldn't say it's not moving at all, but we are talking about it.

MR. BARRANCA: Any other comment?

MR. KNIGHT: From our point of view, we've just -- we've been thinking about it, but it's just one of many things that are on my plate. And when I tell everybody my plate is full, the push back I get is get a bigger plate. So -- so, it's on the plate, but it's just not on the front.

MS. JOHNSON: And with Discover, I think it's more of an increase in mail volume over the past few years that have encouraged us to start looking into this opportunity for us. So, we're definitely looking forward.

MR. BARRANCA: And I've been asked that question, too, and I can be somewhat glib sometime. So, if I offend anybody, I'm sorry, in advance. I sort of characterize it as everybody wants to go to heaven, but no one is standing in line to die. And I think we've got a few people, who want to go to heaven now. So, we might get one soon.

MS. MUTH: Kate Muth, Business Mailers Review. Just a question for -- I have a few questions. Kristen, if Discover had contract rates, would we get fewer

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telemarketing calls from Discover?

(Laughter.)

MS. MUTH: A question about revenue per piece. It seems to me, there would be a loss in revenue per piece, if contract rates were given to a number of large mailers. Has the Postal Service or anybody in the industry looked at how much volume growth is needed to make up the difference in the drop in revenue per piece and how much would be needed to make it profitable?

And then the other couple of points, maybe there’s an NSA for consumers that the OCA has raised in a number of rate cases. A courtesy reply mail discount, that would be a sweetener, perhaps, for the consumer. And, finally, is there maybe a lesson in the telecommunications industry? I thought I heard on Market Report last night that 24 out of 27 telecommunications companies are near bankruptcy. Is that right, Ian? So, they’re basically giving away -- it seems to me, their rates are set below -- way below cost.

MR. VOLNER: No. Their rates are not set way below cost. They operated under the same illusion that we seem to be operating on, that the idea of an NSA is to generate volume. What happened was they built capacity far beyond their needs and they are choking in excess capacity. And if you look at the two or three that are doing just fine, thank you, you’ll find that they did not build vast
quantities of fiber, wandering around the streets of Washington, D.C., which drove me nuts going to work, and it’s all dark. And it’s dark, because there’s no traffic. And the fact of the matter is, that what the telecommunications industry proves, until they went berserk, is that the small consumer, the residential -- we don’t call them many in the telecommunications field, we call them residential users. The residential user was a prodigious beneficiary of the NSAs and remains so, because it’s not gross revenues that matter, it is contribution that matters. And all you need to do is to establish an NSA. In the telecommunications field, they require off peak usage. They require certain minimum volumes. If you don’t meet your minimum, you get whacked. If you exceed your off peak usage, you get whacked. I mean, these things are not terribly complicated. They’re hard to read, because they’re written by lawyers and engineers. But, here, they’d be written by lawyers and economists. It’s going to be the same thing, they’re hard to read.

(MR. VOLNER: The whole conceptual piece of this mystifies me. And I -- I mean, in response to Nick, there are some of us, who are prepared to die.

MR. BARRANCA: Thank you. Gene?

MR. DEL POLITO: Gene del Polito with Post Com. I Heritage Reporting Corporation (202) 628-4888)
can't see why it is incomprehensible that in terms of the
Postal Service's ability to talk with a customer about an
NSA, because we talk about increased volume guarantees, that
they not both look at the possibility that the result of the
contract should be a greater contribution to the Postal
Service's overhead. I can't think of a cheaper form of mail
for the Postal Service to handle, than the money it's going
to get when somebody can't fulfill on the contract and
they're not giving you mail. It's sort of like the racket
you got with Philately, getting money for nobody actually
using the stamps.

And I forgot the other point, but --

(Laughter.)

MR. BARRANCA: Mike Reilly?

MR. REILLY: Thank you. It's Mike Reilly from
Reilly Associates. Kristen, you mentioned something about
the cost of advertising and how if you can cut it, the
Postal Service will do better. My question to you is what's
happened over the last decade or the last five years and the
cost of advertising per thousand for network T.V., for
newspapers, for cable, for Postal, and for the dreaded
telemarketers that I hate just like Kate does?

MS. JOHNSON: Well, currently, direct mail is a
very cost effective medium for Discover to utilize. But, as
postage rates begin to increase, you know, we are starting

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to reevaluate where we're going to be spending our marketing
dollars. So, we're just looking at an NSA to be more of an
incentive, to put more of our dollars back into direct mail.

MR. MCLAUGHLIN: Tom McLaughlin with Burzio &
McLaughlin. I don’t recall whether it was Jim or Kerry, but
one of the two of you mentioned the administrative process
not taking too long in acting on an NSA. Obviously, there
will have to be some kind of a process and the Rate
Commission will be involved. However, if it turns into a
nine or 10 month fully litigated written testimony, cross
examination, discovery, pestering witnesses on the witness
stand, you won’t have NSAs. People will not go through that
process. For one thing, it will greatly increase the cost,
I figure a couple hundred thousand dollars, just to
prosecute an NSA case.

Secondly, that time lag, plus all the discovery
and everything else, is perhaps going to change the
marketplace during the process -- during the time you’re
processing a case. By the time it gets approved, it may no
longer be worthwhile going through with it.

So, I think there has to be some process that
balances the Commission’s need to make a reasoned decision,
but do so in a prompt fashion, so that you don’t end up
having the administrative process to defeat the very purpose
of the NSA.
MR. BOWLER: I would just comment that Publishers Clearing House has agreements with other postal administrations, and some of the first ones we worked on took two years to put together and it was well worth that effort, because it was adjustable as rates went up and so forth. So, it may be a difficult slow process at first, but I don’t think you should abandon it.

MS. BIZZOTTO: Hi, Anita Bizzotto with the Postal Service. I’ll be chairing the technical panel later, so I want to -- I want to talk about -- I want to ask actually the group a question, since this panel is, in fact, the voice of the customer panel. I’ve been engaged in numerous discussions over the last couple of years about NSAs with customers, both in the, you know, are you willing to die version of the story, as well as trying to understand what customers feel comfortable about and what they don’t feel comfortable about, in terms of the Postal Service entering into some sort of customized pricing arrangement, a negotiated service agreement with customers.

Now, listening to the customers on the panel, listening to Shelley representing her group of customers, certainly listening to folks like Donna, it would say that there is a great deal of interest in the Postal Service being able to do something like this, particularly if the results in increased volume, increased contribution, that’s
good for the Postal Service, that's good for the mailing industry.

However, there has been a group of customers throughout this discussion, who has been adamantly opposed to the Postal Service engaging in negotiated service agreements. I don't know if there's anyone here, who would like to represent the interest of that particular group. But, if there are any other particular customer groups here, who feel strongly about either the value of or totally against the notion of NSAs, I think now is an opportunity for you to get up and to tell the entire group sort of what your position is.

Because the fact is, as we get close to the point that Ian talked about, which is actually taking an NSA to the Postal Rate Commission, it will be at least in the initial stages. As we learn how to do these things, it will be the typical litigation process and folks will be coming into the Postal Rate Commission hearing room, to tell folks what they think about it. And I think if there are, you know, customer groups, who are totally opposed to the Postal Service doing NSAs, in any way, shape, or form, that it's important that everybody understand what that position is now. So, I've had groups of customers, who have been adamantly opposed to any side of the Postal Service moving into customized pricing arrangements with individual

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MR. BARRANCA: Okay. I think we have a taker.

MR. STRAUSS: David Strauss. I’ll leave the adamants to the people behind me. American Business Media has been very apprehensive about negotiated service agreements, but not adamantly opposed. We’re concerned that the Postal Service, either on purpose or by accident, will create agreements that don’t, in fact, produce the goals intended in actual -- incremental volumes that wouldn’t have been incremental volumes anyway. With some mailers, volumes are growing naturally. And if the mailers volumes are growing naturally, the Postal Service needs that growth, depends on that growth, has always had that growth, because other mailers mailing are shrinking naturally. And so, if you start rewarding growth simply because it’s growth, you can have a revenue erosion problem.

Economists, I think, would agree that when you have pricing flexibility and you have barriers to entry, like you do in the postal system, you’re going to wind up with rate discrimination.

Kerry, I think you and I and Harvey Slants went to New York together once. I paid more for my Delta Shuttle ticket than Kerry and Harvey did together. And it’s not by weight, because Harvey weighs more than I do. It’s because of price discrimination. The reason was that both the

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Postal Service and National Geographic had a negotiated deal with Delta Airlines and neither I nor my client did. Maybe it was okay; but when you have that kind of price discrimination, you get people angry. Consumers are angry about airline fares, when they have to fly on a Tuesday and Wednesday.

And the Postal Service really has to consider the perception of price discrimination that’s going to accompany negotiated service agreements. The incremental mailing by Discover doesn’t cost the Postal Service any less to handle than the first mailing by another mailer. Maybe it’s justified to charge that mailing less; but there had better be some good support for it and good reasons for it, or it’s going to be a real problem with the perception of the Postal Service as playing favorites.

MR. BARRANCA: Is there another view?

MR. DEL POLITO: You know, I think to a certain extent, we kind of lose our creative edge when we sometimes think about this thing. It’s easy to turn around and say people’s volumes may be growing on the basis of growth and I’ll concede that it is possible that advertising mail could show robust growth despite whatever might happen in other elements of the economy. But, I think you have to be a damn fool not to realize that the opportunities for banks, for telecommunications companies to forgo the mail for
communicating and doing business with their customers is not only here, but it’s likely to get better.

But what advantage would there be for the Postal Service, if they were able to sit down with a bank and say, here’s the deal. Here’s what we expect in terms of commitments relative to first, here’s what we expect in terms of commitments relative to standard mail, and here’s the expected commitments that we have relative to your use of something like a courtesy reply device or a business reply device, which would trigger additional down flow mail volume.

In addition, we always want to think about negotiated service agreements as if they have to be done by an individual company. And I could imagine their reluctance that a Capital One might have, in terms of standing up and talking about what it thought its competitive plans were going to be in the face of an NBNA. But, what about it?

The possibility of entertaining the idea of a -- because one size does not fit all, a negotiated service agreement that is tailored in a much narrower audience, where there might be a NBNA, a Capital One, a First USA, all turning around and saying, these are the things that we would commit to do as an element within the industry and we believe we all can qualify for them, so that you can say that the classification that you are defining for these
people is one that allows them the freedom to escape the one
size doesn’t fit all; but, at the same time, on the basis of
commitments, it could be beneficial not only to the Postal
Service, but to every single person, who claims that they
have a desire to see the maintenance of universal mail
delivery.

MR. LING: Yes, Jerry Ling with Southeastern
Mailers Association. I primarily represent small to medium
sized mailers, who mail for other people. And, of course,
we’re concerned that this might be extended to that part of
the industry, which is a separate part of the industry.
You’ve got people, who mail for others, and then you’ve got
people like the financial institution, insurance
institution, who mail for themselves. And I can see this
type of contract for them.

But, I have to be honest with you, I think we’re
doing a lot of talking here and what we need is for these
companies, these large self mailer companies, to sit down
with the Postal Service, work out a contract, and then give
us that information, and then we can really give you some
feedback, as to whether we think it’s viable or not for our
industry. And I think we’re all really kind of searching
here and we don’t really have anything to hang our hats on
like, do you have a contract that you can show us and here’s
the way it’s going to work. Then, we can really comment on

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something like that. We can give you our opinion and tell you how we think it will affect us in our industry.

So, I think what you need to do right now is, if you think this is a good idea -- and I think the majority of the people feel like it’s not a bad idea. But, until you can show us something in black and white, on paper, okay, that can be mailed, not e-mailed, that can be mailed, then we can have an idea of what it is you’re really talking about doing and give you some honest and reliable feedback.

Thank you.

MR. BARRANCA: That’s good feedback. Thank you.

Marcus?

MR. SMITH: I just wanted to ask the -- the notion was brought up about the concept of discrimination, that somehow or another the Postal Service favors one mailer over another. But, that’s a longstanding thought. Many people comment on why is it the companies that we’ve talked -- talked in here today are able to get discounts based on the fact that you have to have certain minimum volumes and do preparation. And to that degree, it is discriminatory in the loose sense.

The question I’ve got, then, is if an NSA can be filed for a large company, why can’t it be filed for a smaller entity? So, my question is, Ms. Dreifuss, is there any chance that you can simply file an NSA with the Postal Heritage Reporting Corporation (202) 628-4888
Service for small business, like the three cent discount for 250 pieces of bar coded mail that died an untimely death some years ago?

MS. DREIFUSS: I suppose it’s conceivable. I don’t think that -- using your example, I probably don’t know enough about the costs and the needs of specific individual business, to present a contract on their behalf. But, certainly, I’d be willing to foster the presentation of such contracts, if there’s any interest out there in doing so.

In terms of individual consumers, I don’t imagine the Postal Service is going to want to enter into agreements with them on an individual basis. It sounds like an administrative nightmare.

Kate mentioned the notion of courtesy reply mail. Maybe there’s some way of engineering a discount for courtesy reply mail. Now, I did take the position earlier that I didn’t want to see it merely as a de-averaging tool. So, if I’m going to be consistent, I’d have to say -- I somehow have to visualize that, conceptualize that, as generating an increase in contribution to institutional costs.

But, at any rate, if there are small business that want to do so, I would be happy to work with them, in making it possible to present them to the Postal Service. And I

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would hope that the Postal Service, for its part, would not
discriminate against them and say, well, you know, get in
line, but if you’ve got a big contract, come to the head of
the line; if you’ve got a small contract, we’ll get to you
one of these days.

MR. BARRANCA: Okay.

MR. NATHAN: Brad Nathan, Quebecor World

Logistics. A couple of points have been made repeatedly
about who gets the NSA, who owns the rate. And I think it’s
also apparent from the fact that we have the current
legislation that we do, that nobody is really going to own
it. A group of people may go together initially to come up
with the criterion that would be used to get this special
rate. But once that’s done, anyone, who meets those
criterion, would be able to participate. So, I don’t think
ownership, from that perspective, is really as relevant.

There’s also been a lot of discussion about small
versus large mailers and who gets the benefit. I think if
you look at the types of NSAs that are being discussed on a
continuum -- we’ve talked a lot about the value, let’s get
the high volume, NSAs that drive volume. Clearly, an NSA
that is purely value oriented will focus on the owner of the
mail. As a printer or a distribution company, I can’t
generate additional volume.

But, I think most NSAs are going to have a blend.
They’re going to have a volume component, but they’re also probably going to have an efficiency component. You’re not just going to have an NSA that says we’re going to give 10 percent more volume. It will be 10 percent more of the correct volume, the most efficient volume for the Postal Service to handle. So, I think what you’re going to end up having to have for it to work is a group of people working together.

The other advantage of that is when you include the distribution companies or printers or preparers of the mail, is you now have a real opportunity for smaller mailers to participate, which kind of solves a lot of the other issues we had. So, you don’t really have to address who owns the NSA and I think you don’t really have to be as concerned about the size of the mail order, as long as you have an NSA that allows participation. You know, if we talk about things that are volume oriented, but also have these efficiency components, any small mailer that can be those criterion can participate, if it aligns with some other organization that can do it. That’s just one general comment.

Another comment, as someone, who has been, for the last couple of years, having a lot of discussions with a lot of customers about NSAs and how do we do it and how do we move forward more quickly, you know, clearly, the biggest

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barrier for my company moving forward and pushing this is the, you know, completely arbitrary nature of the current process. It’s very difficult to generate support and go to my management and say, I’m going to need a million dollars to fund this process and we have no idea what’s going to come out of it. So, at the point that was made a couple of times earlier, I’m just chiming in agreement that coming up with a more well-defined process for doing this, I think, will immediately trigger a lot of participation.

MR. BARRANCA: Okay. Thank you. I think we’ll go -- stay over to the left. You’ve been standing up for quite a while. Do you want to --

MR. STOVER: David Stover, Greeting Card Association. Anita Bizzotto asked for opponents. I’m not going to claim to be an opponent at this point, but I do have some questions to toss in, which may also be appropriate for the second panel this afternoon.

First, I’m assuming, as many have, that this is going to be a Postal Rate Commission process. One of the obstacles to designing an NSA or evaluating one is how do you define a like situated customer? This is something that I would want to know, if I were going to draft a proposal. How would the PRC decide that, no, this is not something that’s available to like situated customers. This is an unnecessarily restricted one mailer, pseudo tariff, and it’s

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going to be unacceptable for that reason. PRC may want to have guidelines. They may want to have at least a public discussion, as to how that issue is to be settled in a variety of context.

Another question that I think has some ramifications is the term of an NSA. Is it going to be limited to a rate cycle, or a phased-rate cycle, as ratemaking goes forward? If not, if it's going to extend beyond the rate cycle, how is it going to keep current with changing costs?

Long-term service contracts in other areas and commodity contracts commonly have re-openers in them. How do you -- is that an acceptable device? Is it acceptable from the regulatory point of view? Is it acceptable of the parties?

How do you design a re-opener for an organization with a unique set of costs, like the Postal Service? How do you ensure, one way or another, that the increment in that revenue, which I would hope would be the justification for ending that NSA, is going to be maintained? Or if it's not maintained, how it will be made up and, in particular, how it will be made up by not taxing other mailers in classes that are either practically or perhaps even legally not in a position to use the NSA mechanism?

What will be the affect on the uncertainty of Heritage Reporting Corporation
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future Postal Service revenues and costs, if NSAs were to become a widely used technique? Would the -- what I’ll call, for the moment, the rest of us, be facing a bigger contingency provision, for example, in future rate cases, if large portions of bulk volume were to be carried under, let’s say, long-term NSAs, rather than the existing rate -- type of rate schedule that we have?

These are all questions I think would need to be gone into before people, who are not directly contemplating the use of this device, can decide whether they’re for it or against it or willing to stand by and watch it experimented with.

MR. BARRANCA: Okay, thank you. Those are probably more on the technical side. Do you want to deal with those now or roll them over into the other panel?

(No verbal response.)

MR. BARRANCA: Over here.

MS. RUSH: Tonda Rush with National Newspaper Association. We represent community newspapers and I can tell Anita is looking for more people saying they’re willing to die, because I can tell I’m going to, because Gene is over here, to talk right after I do. So, I guess I’m going to, just for the purposes of the transcript, put the dreaded C word onto the record, and that is the concern about competitive impact.

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It’s very difficult for a 3,000 circulation country weekly that’s got a periodical and a shopper to be ever similar situated in any kind of an NSA format with a large volume national mailer. And while NNA has not been categorically opposed to NSAs, we do tend to like the ones that look more like niche classifications that might be able to breakdown cost segments in ways that smaller mailers could take advantage on the costing side, the same kinds of increments on a smaller lever, on a local basis.

That does not solve the problem about the most commonly mentioned kind of NSA, which is the one that produces its price by having a volume that brings in equal to or better than contribution, than they would have had, if they had off the tariff prices, if you will.

There’s no way a small weekly newspaper can ever meet that. And I think that the -- this conversation has a tendency, I think, to write off competitive impact as a legitimate concern, because the large mailers tend to look at it and say, well, why should we carry you. And that’s -- if I were a large mailer, I’d be saying probably the same kinds of things.

But, it is a network that’s been built up over 200 years of taxpayer contribution and not taxpayer supported now. But, the Postal Service has been a public institution with universal service that’s been supported by the American Heritage Reporting Corporation

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public for a very long time. And I think to take it now and
make it available, just on a volume basis, to very large
mailers, that works to the detriment of the very small
mailers, raises some real questions about legitimacy of
having a Postal Service.

So, now that I've gotten up here where I can die
and Gene's going to deliver the final punch. I just -- I
felt like someone needed to say that. So, now, I have said
it and I'll go away and Gene can say what he wants to say.

MR. DEL POLITO: My God, what a horror. First of
all, the issue is not discrimination. We discriminate
throughout the entire rate structure. We always have. We
always will. The issue is unfair discrimination. And I
fully believe that a Postal Rate Commission, in conjunction
with the Postal Service, can devise what will be the concept
for what constitutes unfair discrimination.

The second thing is, is, you know, I knew two
guys, who had 15 acre lots in Montgomery County and they had
a goal of earning $15 million off the sale of those lots.
The trouble is, is the real market value of those lots was
about $12 million. Well, the first guy decided he didn't
want to compromise, my term is "unit contribution costs,"
and he decided he was going to hold at $15 million and not
compromise on the price. He still owns the property.

The second guy subdivided the 15 acre lot into 15
one-acre lots. He sold those lots and made a profit of five
million more than his $15 million goal. It is not an
analogy, so I think some of the circumstances at the Postal
Service faces today in today's marketplace.

MR. GRABER: My name is Jack Graber. I represent
Brylane. One of my colleagues was from the packing side.
I'm from the catalog production side.

I find that -- I think what we're getting hung up
on here, from what I'm looking at, I don't like this term
"negotiated service agreements." I think the fact that it
says "negotiated" is right away setting up a road block for
the small mailer, to indicate that somebody is going to have
more power than somebody else.

I think what we're trying to do is create a set of
creative products for the Postal Service that addresses not
only volume, but addresses, as Brad said, any area that will
contribute positive contribution to the Postal Service's
bottom line. And that, in effect, will affect all mailers,
because if the Postal Service's health is better than it is
today and better than it's forecast to be in the not too
distant future, that's going to benefit all mailers.

I, also, want to echo what Gene said. Your entire
ratemaking process -- we mail over a half a billion pieces
of mail a year. There's a high density rate and there's a
saturation rate. We're a national mailer. We're a big
mailer. We can't get those rates, because I don't have 90 percent of people living in the same area, to be able to get a saturation rate.

So, the whole rate process is fraught -- or consists of a variety of different rates, that each different mailer has to categorize himself into. So, I think perhaps better than calling it negotiated service agreements, we need a vehicle to create some creative additional products that are available to all mailers, that will benefit the Postal Service, which ultimately will benefit all mailers regardless of size, that are not totally volume driven, but that are profit driven, if I should say, to the bottom line of the Postal Service, which will only mean a benefit to every mailer in all classes of mail throughout this particular summit.

MR. BARRANCA: Thank you. Any comments from the panel to that?

(No response.)

MR. BARRANCA: Okay. Next question.

MR. BAKER: Bill Baker, again. I want to ask a few -- no, point out a couple of things. I think one concern is definitional. The descriptions of what the panel has described as NSAs and the description of what the Postal Rate Commission has described as niche classifications do not seem to be the same thing. And the Commission has
reported to Congress on what it thinks might be acceptable in its classifications, in terms of public review and demonstrated cost savings and the like. And there is a disconnect. The phrase "NSA" can mean many things. And if we’re not, you know, careful in the definitions, then we have -- I think we generate a lot of confusion.

In general, I’m skeptical of the concept of lower rates for the other guy are good for me. I share the concern of Mr. Stover, that separating some customers out of the general ratemaking process is necessarily a good thing. That is actually a cause of some concern. And, frankly, the Postal Service experience with negotiating in Remitco is not encouraging. And I’m unaware that the Postal Service’s experience in international rates, where it has much -- has complete pricing flexibility, is particularly inspiring either. So, I think there is a great deal of skepticism that the Postal Service would actually negotiate a serve agreement that would actually be beneficial to the Postal Service.

And, finally, I don’t often agree with Ian Volner on much of anything and his discussion on telecom -- there is some differences between the telecommunications industry and the postal industry that would need to be taken into account, if you’re going to think of the telecom industry as a model. The telecom industry is characterized by high
capital costs and relatively comparatively low labor costs. We have the opposite situation in the Postal Service. The result, when you increase volume in the telecom industry, increase your traffic, you don’t necessarily increase your labor cost at the same time. The Postal Service, pretty much if we think cost of volume variable, you have a big problem whenever you increase the volume, because your cost is going to rise as well.

In the telecom industry, we have shareholders, who can punish management for bad decision. You need only look at the stock price of AT&T and World Com, for example, to see examples of that. We don’t have that in the Postal Service.

And, finally, there are some telephone companies, who do not have pricing flexibility -- who do not do negotiated service agreements. They happen to be, by and large, the local telephone monopolies. They have monopolies. They don’t do NSAs. Those are the only telecom companies right now, who are doing very well financially.

MR. BARRANCA: Okay. Another comment?

MR. THOMAS: Joel Thomas, National Association of Presort Mailers. I think when we get very far down the pipe on these NSAs, I think some definition would helpful of what we’re talking about. But, I am concerned about two things. One is, I think there’s going to have to be public
participation, because unlike most of the other NSAs that people have discussed, the party ultimately responsible for paying, if there's a mistake made and the deal doesn't work, is not really the Postal Service. It's either the other mailers or if it's a catastrophe, the Treasury. But, the Postal Service, in that sense, has no equity with which to pay a mistake and that means that everybody else in the room is a party in interest to these negotiations.

The other problem, and it goes back to something that was touched upon this morning, is the data. Data aren't very good. At the rate category level on first class mail, we have modeled cost. We don't have real cost. And how the Postal Service is going to go into a negotiation and depends on its understanding of its costs with a particular mailer, when we can't get cost data at a rate category level is a mystery to me. And I think when we do go into the proceedings, these are going to become problems.

I would like to see that problem solved. I would like to see the data create. But, we heard this morning that, you know, you can ask, but you're not likely to get, I think is our experience, data developed that would make it possible to assess it. We've heard several references to one Remitco and the problems, but nobody in this room seems to know what that cost the Post Office. But, that's an important issue, if you're going to go into negotiated
service agreements.

MR. BARRANCA: Okay. One more question and then it will be 2:00. We'll move on.

MR. CERASALE: Yes, Gerry Cerasale, DMA. I have to -- in answer to Anita, I don't think I've heard any opposition that we haven't heard before and I have to really agree with Ian, you know, Chairman Olmus and former Chairman Gleiman, he can't change his mind until his contract with DMA ends, though, have both said that -- both said that you can do something like NSAs there and it's time to call their bluffs. And it's time to move forward and try to bring them forward and if it doesn't work, it doesn't work. So, that's the way it is. We have to go through the process with public hearings and so forth and we'll do it.

The second thing I have to do is that I represent all channels of marketing, so I have to make some defense on telemarketers here. And so --

(Laughter.)

MALE SPEAKER: I represent them on this issue, go.

MR. CERASALE: You know that -- that's good. I've got it right here. No, you were supposed to turn off your phone. That, you know, any channel of marketing working together compounds, they complement each other. So, we have to make sure you think about that.

I do the same kind of thing when I talk to John Heritage Reporting Corporation
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McKeever, in telling him that, you know, why are you going after standard rates, because if we get more customers, you’re going to deliver a significant amount of the parcels that they purchase. But -- so, that’s the kind of thing, and I think that we want to make sure you don’t look into that.

The final thing for Kate, on her problem, I have a solution for Kate, though. We will start the business telemarketers review.

(Laughter.)

MR. BARRANCA: Okay, thank you. Well, I think we’re at the end of this session. I think it -- I would characterize the discussion as -- that there’s general support for NSA, although we are dealing with a lot of unknowns. And we need to define the process. We need to define the criteria. And we probably need some papers to work off of, so that we can react to them. And I think that’s a fair -- that’s a fair statement. So, I’d like to thank the panel and we'll move on. I think, at this point, we’ve got a 15-minute break.

(Whereupon, at 2:02 p.m., there was a brief recess.)

MS. BIZZOTTO: Well, hi, again. I’m Anita Bizzotto. With me are Steve Sharfman, who is the general counsel for the Postal Rate Commission; Mike McBride, who is Heritage Reporting Corporation (202) 628-4888
an attorney, representing Dow Jones; and John Haldi, an
economist and a long time -- long time -- all long time on
the postal scene and folks that are up here to help me start
the discussion with all of you about sort of technical
issues around the idea of negotiated agreements or
customized pricing arrangement or pick a name if you don’t
like any of those. But, until we find something different,
let’s just -- let’s just live with these names, even if
we’re not all that comfortable with them.

I guess you know, from the Postal Service side, I
think it’s important that everybody knows that we are, in
fact, are getting, you know, fairly close to jumping in and,
as Nick said, we’ve got some folks, who are ready to die,
and we’re getting ready to test the waters, in terms of
negotiated service agreements. But, I think we all think
that there’s a lot of learning to do.

You know, as we approach the notion of negotiated
service agreements, we have a couple of principles that
we’ve been approaching them with. Certainly, we want to
make sure, under the current process, that any interested
parties are afforded all of their rights. We certainly
would like to find a way, if not immediately, but over time,
to make the process as efficient as possible, that removes
some of the barriers, frankly, to some of the customers, who
may not have a million dollars or, you know, a roomful of
lawyers at their beck and call to work with us and the
Commission, to build customized arrangements that make sense
for both of us.

Certainly, as we've approached these, we have
approached them with the principle that, as we enter into an
arrangement with someone, that the result would be equal or
greater contribution from that customer, so that no only
provides a benefit to the Postal Service, to that customer,
but it provides a benefit to postal customers overall. We
certainly are looking -- we are not looking to harm any
other mailers, as a result of our entering into some sort of
specialized pricing arrangements with customers.

And in terms of volume, we're not looking at
discounts based on -- just based on pure volume, as received
today, but trying to deal with, you know, the opportunity to
build volume looking into the future, as a way of building
the base and helping our customers and their company's
growth and, as a result, the Postal Service can grow.

But, you know, there are certainly a lot of
questions. Some of them were asked already earlier today,
certainly around the question of what does define a
similarly situated customer, what is the measure of
contribution, are they or are they not legal. Certainly,
we've heard some opinions that they may not be something we
can do under the current law. We believe that there's an
opportunity to do things under some of the existing rules. And we plan to test that, to see what happens. But, I’d like to get some thoughts from the folks on the panel about sort of the technical issues and the questions that come up around NSAs and how we can get past them, as we move forward. Steve?

MR. SHARFMAN: Thank you. I’m Steve Sharfman with the Postal Rate Commission. I’m going to offer some thoughts. I want them to be understood as general thoughts. The Commission is open to considering ideas. And I think it’s important to realize that just about everybody, who spoke in the previous panel, said something that was true. What you have is you have different people envisioning different things as negotiated service agreements. Many mailers think about what negotiated service agreement they could currently enter into that would benefit their particular company, and that’s appropriate for them to think about. And at the same time, other organizations or individuals are worried about negotiated service agreements that would harm their particular interest, and it’s appropriate for them to be worried about that.

Everyone in this room could think of a negotiated service agreement that would be essentially illegal, that would harm people inappropriately. And I suspect that most
of us can think of negotiated service agreements that wouldn’t harm anybody, that would be pure win-win situations. And I don’t even mean win-win, in that the Postal Service gets an extra dollar, after going through a great deal of work and filing something with the Postal Rate Commission and trying to change its procedures. I mean it could win substantially and I urge everyone to focus on proposals that have the potential for achieving significant benefits for both the Postal Service, its customers, in general, and the individual companies that would go along with that negotiated service agreement. I don’t think that that’s such a difficult thing to conceive of.

Negotiated service agreements could be national in scope, but they could also be local in scope, in order to overcome short-term problems that the Postal Service has in its own processing network. And agreements could be reached between the Postal Service and its customers that would enable both the customers and the Postal Service to operate more efficiently over the short term, to get around a particular problem that might arise, whether it’s the problem caused by a hurricane that blew out some processing facility, or the purchase of new equipment that is going to be on line in three years, or something else. Think about things that can be of benefit to everybody involved.

I think it’s accepted by the Postal Service that Heritage Reporting Corporation
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the statute requires that there be public awareness of these agreements. I think the word "negotiated" gives the impression that somehow something is going to be worked out in the backroom. Organizations come to agreements. They don’t have to be secret. They don’t have to be hidden. And no one is really trying to pull any -- a fast one on anybody. If it’s a real win-win situation, both sides should be willing to let that agreement be open at the light of day.

Let me, also, suggest, there’s some question as to whether separate procedural rules are necessary immediately. I believe that the current rules that the Commission have would accommodate proposals. It doesn’t mean that at some point, it may not be helpful to have additional rules. I can see that being so. But, I would suggest that we will know what additional rules are necessary better, if we had some experience with the types of proposals that are put forward and the types of questions that are raised by other participants. And then, we can fashion rules that will effectively work to meet the needs of these types of agreements.

Certain factors will have to be considered. David Stover, in the last panel, listed a number, a very complete list -- I had a more simple list -- but certain things, I think, everybody should be aware of, should be made public.

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The physical terms of access to the Postal Service, that is where; how; what times the customer is going to present mail to the Postal Service; what requirements for record keeping there are, to be sure that appropriate amounts of volume were presented; that payments were made properly; that it is possible to evaluate whether the agreement achieved the expected results.

There has to be some way to test whether the agreement was successful, especially if there is any desire to continue the agreement into the future.

There's a question as to how long the service will last, whether the agreement will be short term or open ended.

Some specification of the type of service to be provided by the Postal Service or, if the mailer is to do something additional, the types of activities that the mailer is undertaking to provide.

Some sort of statement as to what procedures will be followed, if the terms of the agreement aren't met. That goes both ways. If the Postal Service is agreeing to provide a special level of service, then it has to agree to make compensation, if it fails to achieve what it has promised to do. And if the mailer fails to do what it has promised, it, also, has to be subject to some sort of penalty.

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Finally, price I guess is something that many people might be interested in and I would expect to see that.

The one other point is the expectation that such an agreement will be open on its terms to similarly situated users. I would suggest that, at least early on in this process, in the first several proposals that the Postal Service makes, it take the time to set out what it would view as similarly situated mailers and what they would have to do, in order to qualify for the same treatment, including such things as how they would make themselves known to the Postal Service, so that if somebody thinks that they should be eligible for the same treatment, they have a way to go forward to the Postal Service and say, look, I can do the same thing at my facilities, what do I do, where do I sign up.

MR. MCBRIDE: I'm Mike McBride. I am with LeBoeuf, Lamb, Greene & MacRae in Washington and I represent Dow Jones. I'll try to be brief. Some of my points have been covered by earlier speakers.

I did want to start with a Dan for show story. Dan is a terrific lawyer, as I'm sure all of you, who participate in PRC matters, know. But the circumstances of Dow Jones are perhaps unique. Thirty some years ago, Dow Jones was moving 100 percent of the Wall Street Journal and Heritage Reporting Corporation

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When I got active in this about 10 years ago, it was to argue the Moah case out of R90-1 in the Court of Appeals against Dan, and other lawyers participated. And I made the point to the Court, at that time, that we were down to 50 percent of the Wall Street Journals and the Postal Service, and that the number was dropping. And I remember when he got back up to do rebuttal, the chief judge of the Court said to him, what are you going to do when all of the Wall Street Journal is leaving the system. And he said, in classic governmental fashion I thought, we’ll cross that bridge when we come to it.

Well, we’ve come to that point in the bridge. There is still enough journals in the system for the Wall Street Journal to enter into a contract with the Postal Service and that’s what we’re here to say we’re willing to do and to talk about.

Now, in fairness to Dan, I think there’s been a lot of debate over the years, as many of you know, about whether negotiated service agreements, or I prefer to just call them contracts, are legal. Twice, at least in my tenure, the Postal Rate Commission have held proceedings to consider that question and my client has filed comments.
citing legions of cases and statutes to point out why
they’re legal. And for whatever reason, the matter has not
proceeded to fruition.

So, I’d be delighted to see the matter finally
proceed to fruition now. One has the sense, based on what
Steve just said and based on the current circumstances of
the Service, that the time is right to do this, and the
Service knows we are willing to do it.

You should know just a little about why Dow Jones
is unique and why a contract with the Service would be so
helpful to it, to the Service, and I submit to the other
mailers, so that those 20 percent of the journals don’t
leave the system and Barons doesn’t leave the system, too.
Because, you see, the problem, if you step back and think
about it for the moment is this: if you, like I, get your
Wall Street Journal delivered in your driveway or at your
office at 6:00 or 7:00 or 8:00 in the morning, you get
spoiled very fast. You want to know what’s happening that
day in business before the market is open and before your
clients call you, to tell you what they expect you to know
for yourself. And if you go back to the mail stream, and
I’m sure you’ve all experienced this, if you go on vacation
somewhere and you try to get your Wall Street Journal
forwarded, you might get it that afternoon or the next day.
And it’s a very different experience and the paper has much
less value to you in the afternoon or the next day.

So, as a practical matter, once Dow Jones starts delivering the Wall Street Journal to people in their driveway or at their office, there’s no going back. So, what the Service needs to do is lock in those journals that it now has, before it loses the rest of them.

Dow Jones prints the Wall Street Journal at 17 different remote locations around the United States. The contents of the paper are beamed by satellite. It’s a miracle to watch, I’ve seen it happen. When they hit deadline, the paper starts to roll off the printer and off a bundler and are bundled, in accordance with the delivery regime. And the furthest points from the -- farthest points from the plant come off first and those trucks are loaded and off they go. So, if you, for example, are at the intersection of I-90 and I-91 in central Massachusetts, western Massachusetts, Chickapee, Massachusetts near Springfield, the trucks are going to Waterville, Maine or the end of Long Island and they get there for delivery the next morning. And they go right to the Postal Service’s bulk processing centers. They never go into the building, at least in general. They come off the truck and they go on to a truck right at the dock.

So, it’s made to order business for the Postal Service, if the Postal Service can provide even the current
level of service that the people that it still has are
getting or, hopefully, improving. And everyone would
benefit, assuming that the rates cover the institutional
costs and make -- or made some contribution to institutional
costs and cover the out-of-pocket costs, because, then,
obviously, the contribution required of everyone else would
be that much less.

I think, also, it would be fair to say, but we can
hear from Mr. Haldi in a minute, whether the other
periodicals, mailers perceive it the same way. But, I would
ask the rhetorical question, perhaps what good would it do
them, if all the Wall Street Journals were gone from the
system.

Briefly, I should say that as to the law, I think
that contracts would satisfy the factors of 3622-B, that is
value to the mailer covering the out-of-pocket costs, making
a contribution, consideration of alternatives available to
the mailer and the like. They would also satisfy the
provisions of the statute about unreasonable discrimination.
Not all discrimination, as we've already heard, is
prohibited, only unreasonable discrimination.

There is much case law in other regulated
industries that justify differences in kind, getting
differences in rate or differences in service, and that that
would not constitute unreasonable discrimination, so long as
those, who are similarly situated, can have the same
arrangement.

It, also, could be that we don’t have to have a
contract that has two signatures at the end. There are
almost 50, maybe even 100 years, depending on how you view
it, of case law in the railroad industry and other regulated
industries that recognizes that an individualized tariff is
treated by the courts as an implied contract, because the
tariff, in order for the customer to be the beneficiary of
it, requires the customer to tender a certain amount of
volume and in a certain container and at certain times and
in certain manners and to work with the service provider to
be the beneficiary of the provisions of that tariff. That
creates an implied contract.

The comments we filed in docket number RM95-4 in
January of ‘96, lay out all of this case law, as of that
time. I’d be happy to provide anyone with a copy of it and
to save you the research, if you want to give me your card
afterward.

I would say, also, that what the PRC is going to
have to confront, of course, is whether the rates, in fact,
make a contribution to institutional costs; whether other
similarly situated customers are going to have a right to
have a similar sort of contract; whether, in fact, what Dow
Jones says is so, that more Wall Street Journals will leave
the system, if we don’t have a contract, because I think that would provide the justification that I think would distinguish it from the situation you heard David Strauss talk about earlier, that somebody is just getting the benefit of a lower rate, because their volume happens to be going up. That is their volume in the mail stream. Our facts are just the reverse, as I told you, so I have no doubt that we can satisfy the standard for justifying such an arrangement.

And the company has authorized me to say that it would be willing to be the poster child and to go first. I understand the Postal Service may have somebody else in the pipeline first, but we would participate actively to defend such a contract at the Postal Rate Commission, and we would look forward to seeing you all there. And I’d be happy to answer your questions.

MR. HALDI: Well, I’ve been asked to focus on the economics of NSAs and so I prepared a few comments here. I want to put a positive spin on things as much as I can, but I do have a number of caveats that I, also, want to raise today.

And I want to start off by proposing some economic ground rules that I think would be considered the baseline for any NSA, starting from where we are today. And I think that the economic issues I’m going to focus on can be
considered sort of threshold viability conditions for an
NSA; that is, you can go through all the -- answering all
the rules, how long could a contract stay in existence, how
is it going to be changed, who qualifies, will it be public,
etc. And at the end of the day, if you get all of those
things done and you don’t have a situation that meets the
basic conditions for economic viability, you don’t have
anything, I don’t think.

Now, I’m going to start with some sort of
generalities, economic generalities, and then I’m going to
try to move to some specific examples. The -- as Steve
emphasized, you want an NSA to be a win-win situation for
people. Well, what is win-win? The focus, I think, on a
win-win situation is very simple and that is that there
should be an increase in the contribution to the Postal
Service’s overhead from where we are today.

Now, I have a simple equation. I don’t have a
slide. I don’t have a blackboard. But, I’d like you to
keep this equation in mind, very simple, you can write it
down: G minus C is equal to N. Now, let me tell you what
it is. It’s very simple. G is the gross increase in
contribution that would come from implementing whatever is
proposed. N is the cost of creating the NSA and getting all
the approvals, in order for it to be implemented. C
represents what economists oftentimes call the transactions

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cost. It’s been referred to by some earlier speakers and N
is simply, then, the net increase in the contribution; so
that you have the growth benefit minus the transaction cost
is equal to the net benefit. And I’d like to spell out the
equation, because that C in there stands, then, as a
reminder, a constant reminder that you need to keep the
transaction costs down.

Now, initially, as some people have said, I think
Ian Volner, first five, six, eight cases, the transaction
costs may necessarily be high, because of the precedent.
The point is, you’ve got to work to get those transaction
costs down, one way or another, and I’m not here to tell you
how to do it and I’m not going to comment on those kinds of
things. But, if you don’t, if you continue with a procedure
that has high transaction costs and you try to do a lot of
NSAs, I think it’s going to be the equivalent of death by a
thousand duck bites, then.

Now, with that in mind, that they were then trying
to distinguish situations, which result in a net increase to
the Postal Service’s institutional cost, at the end of the
day, I would distinguish two possibilities broadly, and I
think you shoehorn an awful lot of real world situations
into these two.

The first one is simply that there is an increase
to the contribution by virtue of decreasing the cost, the
lowest combined cost that some people have said. Now, when
you start looking around for situations where you can talk
about a decrease in cost, a net decrease, you’re talking
about ways that decrease cost beyond the current
requirements. There’s an awful lot of requirements out
there that are in place, to keep cost down. A bunch of them
came out in a reclass case, MC95-1. There’s more in the
works, I guess, in the product redesign case. So, you’ve
got to go beyond those requirements.

The second thing is, you haven’t placed a lot of
work sharing discounts. So, you’re talking about decreasing
cost beyond the work sharing discounts.

So, a net -- now, if you have a situation, though,
where there is a net decrease in cost, then you’re ripe for
a win-win situation. You can give the mailer some of the
cost savings. You keep a little of the cost savings for the
Postal Service, which means it gets spread over the
institutional cost. It keeps the burden down for everybody
else. And that should be an easy one, if you have those
conditions.

The other situation, just generally, where you can
have a net increase, at least in theory, is the revenues go
up, the cost go up, but the cost -- the revenues go up more
than the cost, so that you have an additional contribution.
And I want to talk about that one later.
But, just pushing back, now, to the idea of situations, where you have a decrease in cost beyond the requirements for work sharing, the work sharing discounts, and so forth, I’ve got at least three, and I’m not very proud of them and I don’t want you to take these as some kind of gospel. I would hope that they would just incite you to think of more and better cases that would be ripe, in the cost reduction area. And I like cost reduction, because if you really show cost reduction, as I say, that’s win-win. I’m going to come back to the increased volume that everybody else is focusing on and I have some problems with that. But, it is theoretically possible, and I’ll describe those in a minute.

But, the three quickies: one of them where you could conceivably reduce cost for everybody is by increasing hygiene. The Postal Service has a whole series of address correction devices. Joe Lubenow has spoken often and eloquently about this. It’s one of his pet projects and he’s right. And up to a certain point, you have to cleanse your address -- your list; but then beyond that, there’s no requirement to go further and a lot of the further optional tools that are available are not very much used. And NSAs might be a way for the Postal Service to explore how to get these used more often, how to get cleaner lists, cleaner mail, and avoid all the costs that come from mail that
either has to be forwarded or is totally UAA.

A second one is packaging, second area. We have
certain requirements for packaging, but I cannot believe
that the packaging that exists today is necessarily the
ultimate packaging that will exist five, 10, 20 years for
now for Postal products. And as the Postal Service moves to
put in totally automated facilities with conveyers for
everything that comes off the truck and try to get it right
into their system, I would not be surprised if new forms of
packaging and new forms of equipment handling don't evolve.
And NSAs might be a way to speed up and facilitate the
adoption of evolving technology. Start it in certain
locations; start it with mailers, who use those locations;
encourage them; and particularly over time, in some
evolutionary sense, that would certainly -- by speeding up
the adoption of new technology, which the Postal Service has
been historically very slow to do, that could be a win-win
situation for everybody. Just a side comment, you know, the
Postal Service now has pallets. I think it got using
pallets pretty big time in the 1980s. But pallet technology
and forklift technology was worked out in the 1920s. It was
the backbone of moving things in World War II. So, it took
the Postal Service about 50 or 60 years to get with it.

The third one, this is a little bit of a stretch -
- but there may be better ones -- is transportation. I
think everybody here is aware that when it comes to moving bulk packages, the way destination entry discounts work is that the Postal Service is subject to what the insurance industry would call adverse selection. Mailers take some kind of a mailing, they look at it, and they say, well, I can afford to transport this 400 miles or 600 miles and they draw a circle. Any BMC within that, they transport it to and any BMC beyond that, they give it to the Postal Service. So, the Postal Service winds up with a longer haul, more expensive stuff systematically.

And when you’re in that situation, there sometimes is a basis for a win-win situation. If the mailer were given some kind of a break on that other mail, conceptually, at least he could transport it or have his hauler transport it for less than it cost the Postal Service, to the farther out locations. He would have more control over the mail, if he contracted for all of it at once, instead of splitting it. The Postal Service might wind up saving some money. I don’t know if that’s a fact; but, anyhow, I just throw it out as a way to try and excite your imagination to think of any better ways.

As I say, I’m not terribly proud of these examples. But given all the requirements that exist from reclass and they’re coming down the pipeline through the new case and all the discounts are in place, you’ve got to fish
around a little bit to find further savings that are
generalizable.

Now, this brings me down to a -- my next point
deals with cost. Well, the next point goes to the point
that the NSA should be something that the mailer is not
already doing. I’m aware that a lot of mailers go beyond
the letter of the requirements and they go beyond the spirit
and they do extra things and it does save cost for -- maybe
for the Postal Service only and they do it, because they’re
good citizens. I think a lot of people may be thirsty for
NSAs, saying we’re going to get recognition for what we’ve
been doing all these years to help the Postal Service,
that’s not in the requirements. Well, that may be, but if
all it does is reduce the rate and reduce the contribution
to overhead, that goes directly against the grain of that
little equation I set out before, which says that N should
be greater than zero, the net benefit, starting from where
we are today.

I’m going to skip on here real fast, but I do want
to say something about the NSAs can be specific to
locations, specific to the time of year. There’s a -- I
mean, that’s the whole idea of NSAs, to have a lot of
flexibility and a lot of tailoring and it kind of excites
the imagination that a huge monolithic organization, such as
the Postal Service, can suddenly become more flexible. And
God willing, I hope it will.

But, now I want to talk for just a minute about the cost issue that you’re confronted with. The economic logic, as I said, is that revenue minus cost should make a positive -- an increase in the contribution. Now, that’s a simple equation, too: contribution equals revenue minus cost.

What do you mean by cost? There is the $64 questions when it comes to NSAs. And it’s been alluded to previously, a little bit, and nobody has kind of come on and said, hey, you’ve got a huge problem here. And I think you do. The first question is how you define it and after you define it, the appropriate cost for the NSA. When I say define cost, how do you define the appropriate cost to use or base the NSA on; and after you define it, how do you determine it, in the context of the Postal system and the way they do things.

Now, this is not the time or place for me to express my own views about the Postal Service’s costing system. Some people, obviously, know how I feel. I will venture to say, however, that if the Postal Service and the Commission and mailers ever get pass all the procedural issues, which have been discussed here by Steve and others, and get down to being ready to die, as I think Mike said, they’re going to find themselves face to face with a range...
of very interesting and important cost issues that
heretofore simply have not been addressed.

I just want to give you -- I want to describe just
one to you. It's so obvious, I think, it's painful --
painfully obvious. But, historically, anybody, who tracks
Postal Service sort of data in detail know, is that the
summer months are slack months for the Postal Service. And
if you look at the AP13 report, which shows for all the APs,
the profit or loss, every year, there’s a big loss, a big
dip, the bars go down, big loss in APs 11 -- 10, 11, and 12,
typically. Particularly, it starts at nine, 10, 11, and 12
are big loss making periods. So, it looks like at the
surface that the Postal Service has a lot of fixed costs
somewhere in there. Despite all the alleged flexibility
they have, they seem to have a lot of cost they can’t get
rid of over the summer.

Now, anybody that has high fixed costs and
seasonable variations, any industry, ranging from ski lift
operators, to hotel operators, to airlines, they all try to
encourage volume in the slack periods, because commonsense
says that if you’ve got a lot of slack period, you can take
on more business at no real marginal cost. And on the
surface, that seems to make a lot of sense and it may, in
fact, make real sense. However, if you get down to writing
an NSA that says we’re going to give you more volume at APs

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10, 11, and, or 12, whatever, the question, then, is what is the real cost of additional volume in APs 10, 11, and 12?

There’s a big history of cost issues methodology before the Rate Commission. I only get involved with the details. But, broadly, the Postal Service has said, hey, let me back up, the Commission says, mail processing cost is essentially 100 percent volume variable all year. The Postal Service has said, no, mail processing cost is not 100 percent volume variable. It’s something less than that, whatever it is, 75 percent; but, again, all year. Now, they might both be right or wrong, but in the following sense, the real question here is: does the volume variability of mail processing costs vary in a systematic way throughout the year? Is the volume variability really close to 100 percent during peak seasons, like Christmas, and even normal -- call it normal seasons, like October, November -- September, October, November, and is it less than 100 percent in those slack summer months?

To the best of my knowledge, that’s an issue that simply has never been studied, much less resolved. I don’t think there are any data on it. I don’t think there are any studies on it. But, if the Postal Service came in and said, hey, we’ve got high fixed cost, but low marginal cost in the summer months, and we want an NSA to take advantage of that, because it’s not really going to cost us anything to carry
this mail, how do you prove that point? What costs are you
talking about? You’re certainly not talking about the
averages that are used in every rate case, that’s for sure.
The extreme case would be if the Postal Service
either at some time a year or someplace in the country, for
whatever reason, felt that the marginal cost of both
processing and delivery were zero, supposed they felt in
their gut, the marginal cost was effectively zero of
additional mail volume, there’s a super ripe situation to
write an NSA around, if they’re right. But, I guarantee
you, that based on all the costing systems I’ve ever seen at
the Postal Service, there’s no way you’re going to prove
that they’ve got very low marginal cost in any place or any
time of the year. The costing systems that they use for
ratemaking and other costing simply don’t support it right
now. So, that’s a huge problem.

Let me just skip finally to the -- some of the
problems with the model, where you try to say, hey, the
increase in volume is going to give you an increase in the
contribution. The first question is: are you going to
reduce the rates on all the existing volume or only give --
going to give a lower rate on the new volume? And, of
course, if it’s new volume, you’ve got to define new volume.
How you define that is tricky.

But the second thing is, and I have to point out
that the Postal Service, as we said, everybody knows, is a monopoly. But just about all of the mailers that I’ve ever dealt with and who use the Postal Service are in businesses that are fiercely competitive. There are very few users of the Postal Service, who, themselves are monopolist. And when you start talking about discounts for additional volume, you should ask not how you would define the discount that you’d like to have for your mail, but ask yourself how would you write a discount for your competitor. Do you really want the Postal Service to give a volume discount to your competitor, who may be trying to use that additional volume to get into your business and take your customers away. I know everybody agrees of taking the other guy’s customers way; but, you’ve got to stop and ask yourself, is that something that I want the Postal Service to do for my competitor.

So, when you start talking about a model where the incremental revenues outweigh the incremental costs from incremental volume, and you’re doing it by giving discounts, you’ve got to think of it in the context of, do I want all of my competitors to have a greater or bigger discount than I’m getting. That’s why I come back to focusing on pure cost reduction things to start with for NSAs, as opposed to simply trying to grab on additional volume. It sounds great; but when you start putting the context that most

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mailers of in, of giving discounts to your competitor, so he
can come in and try to steal your customers, I’m not sure
people would be that enthusiastic about it. I’m done.

MS. BIZZOTTO: Mike, go ahead.

MR. MCBRIDE: I just want to make one comment.

John accused me of having said I wanted to die and I didn’t.
I do want to go to heaven. It’s just a religious view of
things, I suppose, that I want to live again in another
form.

(Laughter.)

MS. BIZZOTTO: Well, thank you, all. I think
certainly you all have given us some things to think about.
I’d be interested in hearing how the audience is reacting to
some of those -- some of the thoughts that have been brought
up by the panel. Marcus -- I’m going to let Charley do his
job here, so.

MR. POU: And it’s a very important one, too.

MR. SMITH: Hi. Marcus Smith, Postal World. I
just wanted to broach this whole idea about volume and cost
and the benefits of volume. I’m a little concerned about
Anita’s statement that volume, alone, is not to be factor in
an NSA, if I understood her correctly.

I forget what the number is, but the Postal
Service is always complaining about the fact that the total
number of addresses they deliver to increases every year and
that that means there are certain addresses that, on a daily basis, are losers. Certainly, they must have data, especially as people become more -- using more of the planet code data, to build up profiles of which zip ranges, which addresses are daily losers. If they are losers, then that means if you can shift volume, new volume, not existing volume, but new volume to those locations, it's the same principle as the summer discount, but on a more consistent basis.

So, maybe -- is there any possibility of a volume discount, using existing presort bar coding practices, if you can prove that you are now mailing more mail to those addresses that are effectively subsidized by the other addresses that are receiving more than sufficient volume to justify their deliveries? Because, as I recollect, some years ago, one of the biggest increases the standard mail suffered was when the PRC said, there's more standard mail being delivered to these addresses, especially on Saturdays, than first class mail. And when that was concluded, that's when you saw one of the biggest increases that standard mail ever got.

MS. BIZZOTTO: Well, first of all, let me maybe clarify my statement about volume. As we were talking about how volume plays into NSAs, you know, our going in position has been -- is that we're looking for volume growth over

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where someone is today; that it would make sense, particularly given several principles that says equal or greater contribution, absent cost savings, as John discussed, it would be inconsistent to provide discounts on the same volume that someone is giving us today.

Certainly, we’ve had a number of discussions with folks in the industry about how one makes it -- how the Postal Service could make it less costly for direct marketers, for example, to prospect more, with the notion that if there -- that there are -- there’s a vast number of addresses and potential customers out there, for whom it is just now not economically feasible for that direct marketer -- I’ll just make this up -- a cataloger, for example, to try and reach that -- try and reach that customer. But the argument from the industry has been that if you can make it cheaper for us to reach new customers, that there’s incremental volume growth, as a result of that, not just the catalogs that are flowing to that customer, but the other things that happen when someone becomes a catalog shopper. For example, all of a sudden, your name is on another list and there are other people mailing to you and there’s perhaps packages volume and things resulting as -- you know, as a result of the fact that now, you’re a new mail user.

I mean, have we come to any conclusions about whether or not that’s feasible? We’ve had long discussions,
Marcus, around how do you prove that this is someone, who that -- who that marketer hasn’t marketed to before. So, I mean, there are a lot of technical issues around that and we just haven’t been able to answer them. And, you know, we’re very early in the discussions and we’ve been trying to look at things that are easier to do, as opposed to things that are more complicated to do, you know, in terms of moving out.

MR. HALDI: Anita, could I add something?

MS. BIZZOTTO: Sure, sure.

MR. HALDI: Marcus, the expert on these routes, these low cost -- high cost and low cost routes have been studied quite extensively and probably the leading expert is Bob Cohen. You really should talk to him. But just briefly, the low volume routes, which are the high cost routes, are in the lowest socioeconomic parts of the country. That urban and/or rural. It’s not just -- sometimes people think rural routes as being the losers. There’s an awful lot of poor parts of big cities that get very low volume and, therefore, have a high unit cost. And the problems with trying to increase volume to those routes is based on the characteristics of the people, who live there. But, talk to Bob Cohen. He’ll tell you more.

MR. GLEIMAN: Ed Gleiman. I have two questions, one for Steve Sharfman and one for John Haldi. Steve, at
the bottom of your list that you laid out was a reference to
making sure that agreements are open to similarly situated
users. And earlier on, Jack Graber mentioned that he
thought the phrase or the word "negotiated" was kind of a
lightening rod and that maybe we ought to stay away from it.
And I'm wondering why you have included similarly situated.
I know that it was in some legislation that recently met its
demise. But, when I look at 3623 of the current law and
we're talking about operating under current law, and that's
the classification section, it doesn't have a reference to
similarly situated. If you can -- if you can do it, you can
do it. If you can get in under the umbrella of a
classification, you can get under the umbrella. Why do we
have to have this new concept of similarly situated, if
really what we're doing is creating narrowly drawn
classification cases, very narrowly drawn, let's say?

MR. SHARFMAN: I think that a fair reading of the
law against what we have described as undue discrimination
would look very unfavorably on a negotiated service
agreement that offered particularly low rates for any piece
of mail that was a publication that had Time Magazine
written on top of it, if otherwise it was exactly the same
as a Newsweek or U.S. News and World Report. And I think
that you could argue that the similarly situated Newsweek
and U.S. News and World Report should get the same report,
even if it didn’t put Time on its cover.

MR. GLEIMAN: You envision some type of an agreement that says that a magazine has to have Time on the cover, in order to qualify for a --

MR. SHARFMAN: You’re asking for similarly situated and what I’m suggesting -- you said a narrowly drawn agreement. And a narrowly drawn agreement might be one that says, we’ll give you a low rate, if you put your specific name on the cover and that would be too narrowly drawn to be legal.

MR. GLEIMAN: But short of something like that, is there some reason why you would want to inject this concept?

MR. SHARFMAN: I’m trying to prevent a problem here, by suggesting that in offering an agreement, the Postal Service should think in advance, as to what similarly situated means, so that they can offer the same agreement on fair and equitable terms, to others in the system.

MR. GLEIMAN: So, you’re not suggesting, then, that the Commission has to define that up front; it’s something for the -- it’s something for the Postal Service.

And I don’t want to carry it on. We can talk some more. But, I think that by introducing that concept the way you have, that you’re creating a situation, and we’ve dealt with it in the legislative process, where the question was, okay, this mailer is going to get an NSA, because he can do a half
a dozen things that he doesn’t do now and no one else can do. And then the question is, somebody can do five of those six things, does that make him similarly situated? And my good friend, Bob Brinkmann, educated me on this point, when we were doing the legislation. I just bring that to your attention, because I think you have to think about the words that you use, when you talk about what’s going to be acceptable.

John, you talked about the situation with apparently high fixed costs and APs nine through 12. And there’s an old saying that an optimist says the glass is half full, a pessimist says it’s half empty. And maybe engineers, maybe economists, in this case, economists might say that the glass is twice as big as it needs to be. Is it possible that the glass in the summertime is twice as big as it needs to be and that the Postal Service has -- it staffs to a peak load that’s the wrong peak?

MR. HALDI: Well, I can’t speak for the Service totally. Some of the costs, I think, are -- they’re there, but they’re taking up with vacation. I think they mostly take -- I think their employees take vacation. But, it’s hard to believe that that’s much vacation time. They have slack periods and they have people that don’t have eight hours worth of work to do systematically during those months, I believe.
MR. GLEIMAN: Thank you.

MR. MCBRIDE: Anita, I wonder if I might just provide Chairman Gleiman with a citation to a D.C. Circuit case, since those were my favorite moments.

MR. GLEIMAN: I know -- I didn’t like that title when I was there and I would prefer to be known as Ed, now.

MR. MCBRIDE: All right, Ed. Well, you might, and those in the room, who are interested in the answer to his question about whether similarly situated customers are entitled to the same contractual terms as the first guy through the process, you might look at *Sea-Land*, that’s S-E-A, hyphen, *Land Service Inc. v ICC*, 738 F.2d 1311, at 1317 (D.C. Cir. 1984). It was in my comments six years ago, the PRC, on this point, the Court of Appeals held that a concept of unreasonable discrimination, which is also in the Interstate Commerce Act, requires that similarly situated customers be afforded the same type of contract as the first guy through the mill.

MR. GLEIMAN: I apologize -- I did read it, at the time, but I apologize for not remembering the citation.

(Laughter.)

MS. BIZZOTTO: I’m starting to feel better about the DMM.

MR. O’BRIEN: I’m Jim O’Brien from Time, Incorporated, and I would like all magazines to say, Time,
on the top. Thank you, very much.

(Laughter.)

MR. O’BRIEN: I like the way you think, Steve. I had a question for John. John, you know, you talked about not rewarding people for things they already do. And if you have a mailer that’s already very efficient -- let’s use your example of address quality. You have a mailer that has address quality that’s 99 percent zip plus four coded, to use as an example, and other mailers that aren’t and the mailers that are -- negotiate an NSA, to say we’re going to improve our address quality from this level to this level, what’s to prevent the mailer that has very good address quality right now from saying, you know what, we’re going to let our address quality go to hell for a while and get down to their level, so we’ll be really inefficient and then we’ll get -- we’ll be similarly situated and we’ll now become part of this NSA?

MR. HALDI: Okay. You’re talking about the work sharing. That’s a good question. When you start off with a work sharing -- start off with a situation where there’s pure rate averaging, there’s no work sharing. I’ll answer it in a general way, but it will apply to your case, too. If you give mailers a discount of, say, two cents to do something that saves the Postal Service six cents and a fair number of them climb on board -- there may be a few that are
already doing it, but a large number climb on board and do
for two cents what saves six cents, then the savings are
sufficiently great that the mailers, who were already doing
it, plus the mailers, who come on board, they get a savings,
and all the other mailers, because the other four cents that
goes to the Postal Service, outweighs what their -- the
discount, they, also, benefit. It’s sort of a net, net
benefit situation.

And if the mailers, who aren’t doing it, come in
first, and you can be assured that there’s going to be
enough additional volume from those, who aren’t doing it, to
offset the discounts, you’re going to give to those, who are
already doing it, then you should -- obviously, you’ve got
to make it apply equitably to everybody. But, if you’re
only going to come in and say, we’re only going to negotiate
and give it to people, who are already doing it, and you
don’t bring in other people to do it, it’s going to be a net
loss in the contribution.

MR. O’BRIEN: My only point is it works both ways,
right?

MR. HALDI: Yeah.

MR. O’BRIEN: You don’t want to prejudice yourself
against efficient mailers?

MR. HALDI: Right.

MR. SHIPPEE: Bob Shippee, Capital One. I think
everyone can feel a great deal of anticipation around this subject here in the audience and so, Mr. McBride, I wish you luck in your proposal and if you’re not the first to jump in the pool, I hope whoever is in the pipeline can get in quickly, so we can stop talking so hypothetically about NSAs.

You know, I think about a comment that an earlier panel has made about other posts that are able to do NSAs, and, like him, you know, my company has an agreement with another post. And in contrast to an earlier analogy, I look around at those countries and they actually seem to be profitable. So, I don’t know if there’s something that either from the panel or maybe experts in the audience can tell us that would help us use those kinds of examples to not reinvent the wheel, and maybe boil down what seems to be very complex subjects to something that’s maybe a little simpler.

MR. HALDI: I assume when you say you have a contract with another post, I assume you’re talking about Canada Post, and Canada Post does have NSAs and they don’t publish them. So, it leads to a situation, as I -- as I’ve heard a lot of mailers, a sort of mutual distrust. Nobody knows what the other mailer is getting from Canada Post. And, yeah, Canada Post is profitable, but I understand that they tell you what your rate is going to be and they -- I’ve
also heard Canada Post accused of being very high handed at
the way they raise rates. Maybe you’re totally happy with
Canada Post, but I’ve heard an awful lot of unhappiness with
Canada Post from other, both clients of mine and other
mailers, as well. So, I don’t think Canada Post is above
criticism.

MR. O’BRIEN: I’m not saying that. I’m just
saying they seem to be able to make a profit -- (off mic).

MR. HALDI: Well, a postal service, who claims
they can raise rates the way Canada Post does, they’d be
profitable, too.

MR. MCBRIDE: I would just like to add that about
320,000 Wall Street Journals a day still in the mail stream,
obviously going, for the most part, I would think, to
addresses where there is lots of other mail also going on.
It’s hard to imagine that the Postal Service is not making
money on having Wall Street Journals in the mail mix going
to those addresses and, therefore, would lose something, if
it lost those 320,000 daily copies.

MR. STOVER: David Stover, Greeting Card
Association. One brief comment. I never had the chance to
lecture Ed about the law when he was chairman. Ed, so I am
going to take it now. On the similarly situated point, you
have to look not just at Section 3623, which does not use
that phrase, you, also, have to look at Section 403(c),

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which takes language right out of the Interstate Commerce Act, to forbid undue and unreasonable discrimination or undue preference between mailers. And as Mike pointed out, that is still the law, at least in the D.C. Circuit, and that carries over into -- I believe into mail classification.

MR. VOLNER: I have -- Ian Volner, I have two comments. And since we’re beating up -- it seems to be today’s date to beat up on Ed Gleiman, we’ll do it.

(Laughter.)

MR. VOLNER: Mike McBride was not the only one to cite Sea-Land.

(Discussion on the record.)

MR. VOLNER: What he said for those who couldn’t have heard it is that he’s been re-nominated to the Commission. Mike was not the only one to cite Sea-Land and I need to tell you a story. In the course of preparing those comments, I decided to do a Lexis search, using the word "similarly situated" within some propinquity of a utility company. And the machine told me that I had more than 1,000 cites and I really ought to think about what I was doing. The fact of the matter is that the term has been defined for more than 150 years by state public utility commissions, by federal utility commissions. There is no great mystery to it. And Sea-Land not only imposes it -- I
mean, David Stover is right, it is a mandate in an NSA -- in
the Postal System, precisely because of 403(c) and it’s not
that hard to work out.

The other thing that I wanted to point out, John
Haldi, in your exchange with Mr. O’Brien, the Postal Service
has a proclivity to make everything mandatory on the notion
that they save money and they don’t have to reduce the rates
in order to save money. The problem that the Postal Service
has never really understood is that you can make something
mandatory, but that doesn’t mean that mailers have to do it.
If the price is sufficiently attractive, as it is, for
example, with saturation mail, they will do it.

But my favorite story, which is now out of date,
so it’s safe, is the Postal Service used to have a rule that
said if you had more than 500 pieces of media mail, you had
to sort it to either BMC or five digit, and there was no
rate break. Miraculously, every book publisher in those
days using media -- what is now media mail, never had more
than 499 pieces going out in a mailing. You know, there are
ways of getting around these mandatory rules and that’s why
NSAs are imperative, because they provide the requisite
incentive for someone to do more than is required and,
indeed, as a part of that, to not stop doing the minimum
that Jim was talking about. If I could stop, if you don’t
give me the incentive, I am going to stop, unless the price
MR. MCBRIDE: Ian, I just want to say -- in
response to what you said, you triggered something that I
had heard earlier today. There was concern expressed about
the fact that people would be contracting with a monopolist
and that would somehow lead to some people benefitting to
the detriment of others. But, if you think about it, it's
not an entirely accurate characterization of the Postal
Service, because, certainly, in certain classes, such as
periodicals, at least for my client, and, certainly, in
third class, as well, the Postal Service is not a monopoly.
And, well, Dow Jones delivers 80 percent of the Wall Street
Journals that go to subscription holders every day. So, it
obviously is competing with the Postal Service. Obviously,
there's lots of competition in third class.

So, I think that the concern that people have
about contracting with a monopolist, even if it's well
placed, and I'm not sure that it is, because of what's going
on in the other regulated industry, is certainly not
applicable to other classes.

I would also say that you should look at the
history of what's happened in certain regulated industries.
There are those, who will tell you, including the railroads,
that contract -- the right to sign contracts that Congress
encouraged in 1980, in the Staggers Rail Act, saved the
railroads, and it has transformed the natural gas pipelines. You could argue about what’s happening in the electric utility industry, but I don’t think it’s an issue of contracting. It’s an issue of competition and ground rules. But, there are industries that are far better off today, because they have been allowed to contract. And if you look at history, it may be prologue for the Postal Service.

MR. DEL POLITO: Gene del Polito with Postal. I just want to bring up one point that Mike raise, and Kerry, one step further. He’s trying to use the story of what the Wall Street Journal would do, in terms of moving it from postal delivery to product delivery and essentially saying, if you don’t come up with a deal, it could be that you lose it all.

I subscribe to his publication and I couldn’t care whether he delivered it by mail or whether he delivered it privately, because I’ve got access to it on line. And I think that if the Wall Street Journal or the Economist or someone else like that really wanted to forego a substantial amount of the expense, they might find that that would be the way that they would want to go. So, what I’m saying is, is it’s not the time to take a statement such as his particularly likely -- lightly.

MR. COSTICH: I’m Rand Costich with the OCA.

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Given what we’ve all heard here today, I have to wander whether there will ever be a contract rate or NSA. So many people seem to have problems with the concept.

I’ve tried to come up with what Mike described, the least controversial and least speculative NSA. And I start with John’s principle, that the profit has to be in excess of the transactions costs. I might as well say well in excess of the transactions costs, which means right off the bat, you want to bring a simple proposal as the first one, and, that, in turn, I think, means not a work share proposal. There’s too much speculation involved in estimating the cost that any particular mailer might save. There’s too much speculation involved in estimating what the Postal Service saves, when mailers presort.

I think pick a subclass that has a high cost coverage. If you do that, then you’re not running a risk of setting a rate below cost. If you give a small rate incentive, pick a mailer with low cost in that subclass, so that you’re taking someone, who’s got not just the average coverage, but even a higher coverage at a high coverage subclass. And then give a discount for new volume. And when I say "new volume," I mean, choose a volume target well in excess of what might be called the natural rate of growth in volume for that mailer.

And if you can find a mailer like that, then I

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think you’ve got a candidate for an NSA that is a win-win situation. And if you can’t find a mailer like that, then you’re up against one of the problems or more than one of the problems that have been raised here. If you don’t know what the cost savings really are, if you don’t know how much volume a mailer would have given you, you don’t know how much volume the mailer is going to take out, unless you give him a rate break.

All of those uncertainties and, in fact, unknowables leave you with a situation, where a lot of folks are going to be doubtful about, that you found a win-win situation.

MR. COSTICH: I thought the same thing, Gene.

Once I had my criteria down, I said, oh, my God, what have I done.

(Laughter.)

MS. BIZZOTTO: Poor Vince.

MS. ELCANO: Hi, Mary Elcano. I’d like to put my former general counsel of the Postal Service hat on and pile on Ed Gleiman.

(Laughter.)

MS. ELCANO: There is a similarly situated postal case --

MR. GLEIMAN: I’m going to interrupt you. I don’t mind being piled on and I promise to send my wall to be back
to the University of Baltimore this afternoon. And I will -
- I will use the -- I will use the U.S. Postal Service to
send it back. But, you're missing my point. I may not
appreciate the niceties of the case law; but one of the
problems, and, you know, you hear Rands stand up and say --
people from the Greeting Card Association stand up and say
this, is that, you know, this thing is fraught with
difficulties.

My point is that I understand what's in 403(c).
It says, unreasonable undue discrimination, and I understand
the language about fairness that's in 3623. All I am
suggesting to you is that given people's trouble with the
idea of negotiated agreements, that perhaps it would be best
if people did better than I do and don't do as I do, do as I
say, choose your language better to avoid lightening rods.
That's all I'm suggesting to you. But, go ahead, Mary.

MS. ELCANO: Back to my point, my point is there
is a Third Circuit case in the late 1990s, and I'm sure
someone can tell me the exact date, where we had an
international customized mailing services and they were
customized contractual rates on the international level for
Postal -- U.S. Postal Service and one of the issues was
similarly situated, and it's defined in there. It relies on
the Interstate Commerce Commission Act and there is a lot of
history in court litigation that interprets similarly
situated. So, given as caveat, use the words carefully, I
think there is enough guidance judicially to help us
understand those terms.

MR. MCBRIDE: Mary, Mike McBride here to tell you
that the case is UPS World Forward -- Worldwide Forwarding,
Inc. v. United States Postal Service, 66 F.3d 621, 3d

MS. ELCANO: You're right. I didn't want to bring
up the complainant.

MR. MCBRIDE: But, let me, also, tell the lawyers
in the audience that the case of United Parcel Service v.
United States Postal Service, 455 F. Supp. 857, in the
Eastern District of Pennsylvania, 1978, was affirmed in the
Third Circuit, same circuit, 604 F.2d 1370, held that
contracts would be lawful, if they were submitted to the
Commission for approval.

What went wrong in the UPS case was the Third
Circuit opinion writer called the Service a public utility,
assuming it was a monopoly in all classes, by so describing
it, which, obviously, it is not, and then somehow got the
subject confused by assuming there might be something wrong
with contracts with a public utility, as a result. But
since that very circuit recognized earlier that contracts
might be lawful if submitted to the Commission for approval,
I would submit to you that that 1995 case does not stand in
the way, although that was the case cited by the Postal Rate
Commission in '95, '96, for not pursuing negotiated service
agreements. That was where we hit the wall six years or so
ago. But, I submit that we shouldn’t have been able to --
we should have been able to overcome that.

MS. HANBERY: I’m Donna Hanbery again and I work
with Saturation Mailers and their customers. A couple of
anecdotes or comments here. I was glad to hear Mr. McBride
address an area that we think is ripe for NSA treatment and
that’s the business that the Postal Service stands to lose,
if it doesn’t set prices and regulations that make sense.
We were sort of joking, as we were strategizing one day,
would the last Postal customer be good enough to lick the
$80 billion stamp.

It’s easiest, in this highly contentious
ratemaking environment, to do NSAs with somebody, who is
coming up with a new way to cut cost. It’s easiest, the
second easiest may be to do an NSA with someone, who is
clearly bringing new volume.

What do we have to show to prove you’re losing
business? Well, I want to share an industry survey that
some of my members have done. I’ve got a mailer, I won’t
mention any names, because, I guess, the Postal inspections
came in when he announced he was going private in part of
his market, so I won’t cause him any more grief. But, he

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converted 60,000 of his mail delivery to private carrier. He’s doing very well. His unit costs about eight cents, where it had been than that. He’s now competing with the Postal Service in that market. A lot of the people I work with don’t want to leave the Postal Service. But last year, I traveled with this particular paper, as we called on their customers, all of whom were small businesses that had been with this paper 20 to 30 years. And we asked them, will you react negatively, if the paper leaves the mail. And their response was, no, because people read the paper. They love the paper. They look for my add in the paper. What is it going to cost me and, oh, by the way, are you raising my rates, because I hear there’s -- you know, something is going on with the Postal Service. If you leave the mail, will you keep my cost down. This industry has been doing audits, so they can compete more with the newspapers. They’re doing industry audits of their readership and they found that the readership response was virtually the same whether it came in the mailbox or private delivery. The customers, who are reading these ads, just didn’t care. And, finally, a comment to David Stover. I send 600 Christmas cards every year. I want to keep sending cards; but I guess I firmly believe that if the Postal

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Service doesn’t get its act together with its big, small, medium customers, and keep its class down, I may still be able to afford the cards. But, a lot of the people I send them to won’t and it just makes sense for everyone, at all ends of the spectrum, for the Postal Service to run more like a business, and that includes keeping good customers.

Michael, I’m going to give you my card, because I want all your research.

MR. POU: One last comment?

MS. MUTH: Kate Muth, Business Mailers Review. I want -- speaking as a consumer very educated on postal issues and a small business, I wanted to address Mike McBride’s comment about the concerns of contracting with a monopolist. I think the concerns are: (a) it’s not so much a monopoly -- well, yeah, it is, but, I mean, it is a monopoly, we all know that, but the concern being that the Postal Service doesn’t have a great track record in some contracts, Remitco was mentioned, and John Haldi knows a lot about the mail processing centers and the Emory contract, and that was never looked closely at what failed. I mean, I know John has talked about doing a white paper or something on that. And the concern, I think, is that there’s no real recourse if there’s -- to the Postal Service, there’s no negative fallout. If there’s a -- it’s a bad contract, it falls to the monopoly customers to pick up the tab.
And then on the Canada Post thing, I think there was some concern among critics of Canada Post NSAs that it's all done in secret and there's no -- no one knows really what the prices they're being given or who even has the contract. And there's a further concern that Canada Post sweetens the deal a little, to get their customers to use competitive products offered by Canada Post. And the United Parcel Service people might know a little bit about that, as well, because that's who they compete with. So, I just throw that out there.

MR. MCBRIDE: Well, let me just respond by saying that, first of all, let me counter your concern with a hypothetical. And I'm not saying this is the contract that we would end up negotiating obviously or signing. I don't know what we'll end up with. But, suppose we agreed to pay exactly the same rate that we're paying today for the 20 percent of the Wall Street Journal still in the mail stream, and nothing else changed, in terms of the revenue flow. And I would submit to you, therefore, the costs are going to be identical to what they are today. But by having a contract, we might be able to deliver our papers in various locations, to some place other than the exact street address that the Postal Service now tells Dow Jones it has to deliver to, to get the pallet discount or what have you, what other kind of discount it may be getting under the current rate schedule.
And it turns out that some of those addresses aren't really the right places where the Postal Service needs those deliveries. It might be just down the street or around the corner; literally the same building, but a different street address, if it's got two or more.

So, just by making that one little change, we might be able to save the Postal Service cost by bringing the papers to the right place, instead of the place that some schedule that somebody put out told us we had to bring them. And we would produce the same revenue for the Postal Service at a lower cost. Our deliveries would presumably be better and everybody would benefit.

Now, how could that contract be, in any sense, discriminatory or unfair or harmful to any other mailer in the system, but it might save those journals from leaving the system. That could be where we start. And by the way, just to -- and not beat up on Ed Gleiman any further, but just to make a comment about your comment, Ed, and that is if we don't want to call these negotiated service agreements, that's fine. I agree. Some of the old railroad cases call them individualized tariffs or call them niche classifications. I don't care what you call it. I don't even care if it's an implied contract instead of an expressed contract. But, let's get on with tailoring the service to the customers needs at no cost to the other
customers, to save the Postal Service.

MR. MCLAUGHLIN: I’m Tom McLaughlin, again. About
the only word I’ve heard more than Ed Gleiman is Remitco,
and I don’t even know what Remitco is, except I know it
didn’t involve postal rates and I know it didn’t involve the
Postal Rate Commission.

MALE SPEAKER: It didn’t involve Ed Gleiman.

(Laughter.)

MR. MCLAUGHLIN: So, if that’s the only --
obviously, we have no examples of bad negotiated service
agreements, because there haven’t been any yet. And I think
that the Postal Service would probably be smart enough, at
least coming out of the starting gate, they’re going to make
pretty darn sure that they’re going to have a contract that
they think, in the end, is going to be beneficial for them.
Sure, they might guess wrong. Maybe the mailers are going
to guess wrong. Maybe the Rate Commission taking a look at
it is going to guess wrong. Not every decision, even by the
regulatory, is always the right decision in the end. But,
let’s go forward with it. And, you know, mistakes might be
made. On the other hand, I think it’s a real potential for
a benefit here. And if we get all hung up with, oh,
Remitco, or something else, where the Postal Service made a
dumb mistake, we’re really missing a big opportunity.

MR. POU: Any of the panelists want to offer any
final thoughts?

(No response.)

MR. POU: Thanks, very much.

MS. GIBBONS: Okay. Let me close this out for the day. I wanted to extend the thanks of the Postal Service to the Postal Rate Commission for cosponsoring both day one and day two of this summit. I, also, wanted to thank our panelists for their participation, their preparation, and all that, and their terrific ideas. I wanted to thank all of you, who were here both day one and those, who joined us today, for your active participation. I, also, want to thank Charley, for, I think, your presence has kept us all on track here, and that was helpful and you were very helpful on the planning for this day.

I think the next steps will be -- as I mentioned when I was up here, just the fact that we’ve taken the time out to have this discussion, I think what you’re going to see as we go forward is a lot more consciousness on the Postal Service’s part and I certainly hope on the stakeholder’s part, as we move forward. I think you will see us -- although I think we’ve done a great job over the last years of really inviting people into the process and into our thinking, I think you’ll see us even opening the door more and I really hope that you are knock on the door more, as well. A couple of people have walked up to me and

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said, you know, you're studying this right now, I hope when you get to the end, that you'll share it with us. So, I think to the extent that you have those kinds of ideas and knock on the door, if we don't think to open it, that will be really helpful.

As far as phasing what the next steps, I think, will be, we've gotten some more reaction input today, so we'll have to take that into account. And then whenever it is that the next case needs to get prepared and filed, the staff level and, of course, what we've discussed today was thinking at the staff level, recommendations made to our executive committee and our governors, and the normal input of the stakeholders along the way, and then, you know, ultimately, something would pop out at the end and get filed at the Rate Commission.

As far as the process, there will be planning for how to conduct this technical conference and any mini technical conferences that will occur after the filing of the next rate case, whenever that might be. And so, any additional ideas, in addition to those -- I know Shelley had a lot, but anybody else with other ideas, I think it's helpful to get those into us, as we go forward.

As far as NSAs, this was the first time we've got a good chance to discuss that. There was a lot of very good discussion and I think we'll have to take that into account,
as we continue discussions with some mailers that are going on right now. And, hopefully, there will be more people coming forward. I know we had one -- seems like one taker today. And so, we'll see more as we go forward.

So, a lot of work to do and I think we've kind of started a new era here, us and the Rate Commission, the Rate Commission, us, and all the stakeholders, with really trying to be much more collaborative than we ever have been in the past. Thanks again to everybody and safe home.

(Whereupon, at 3:40 p.m., the summit was adjourned.)
REPORTER'S CERTIFICATE

DOCKET NO.: N/A
CASE TITLE: U.S. Postal Service-Postal Rate Commission
HEARING DATE: June 27, 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: June 27, 2002

[Signature]
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