

In the Matter of:)
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RATEMAKING SUMMIT)

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Thursday,
June 27, 2002

HON. ANITA BIZZOTTO
Chief Marketing Officer

PANEL I:
FLEXIBLE/PREDICTABLE PRICING, PART I

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

PANELISTS: -- CONTINUE --

PANEL I

AUDIENCE MEMBERS:

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

PANEL II:

FLEXIBLE/PREDICTABLE PRICING, PART II

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

AUDIENCE MEMBERS:

BOB McCLEAN
DAVID STRAUSS
LINDA CALVER
BILL BAKER
LEONARD MEROWITZ

PANEL III:

CURRENT PROCEDURES AND SUGGESTIONS FOR IMPROVEMENT,
PART I

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

PANELISTS: -- CONTINUE --

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

WILLIAM B. BAKER
MARY ANNE GIBBONS
JOHN WALLER

P R O C E E D I N G S

(9:00 a.m.)

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

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1 of our preliminary thinking about how this might work. This
2 is by no means the Postal Service's final decision on how we
3 might go forward with a phased case. It is the result of
4 some fair amount of thinking by the experts in the building
5 about how we think we would approach filing a phased case.
6 We're presenting this to you today so that we can get your
7 feedback and get some sense of how the industry might react.

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

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

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

25 We are going to spend the afternoon talking about

1 customized pricing or negotiate service agreements. This
2 can't be a new concept to most of you. You or your clients
3 probably frequently buy and sell all kinds of products and
4 services through some sort of customized arrangements with
5 your supplier or some sort of negotiated rate agreement.

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

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

19 This afternoon we're going to explore a couple of
20 things. We're going to spend some time listening to some
21 customers talk about how they believe that some sort of
22 customized pricing arrangements might be helpful to them in
23 their business. How those sorts of pricing mechanisms might
24 or might not, in fact, help the Postal Service in terms of
25 growth, of volume or different product lines.

1 We're going to explore those questions first, and
2 then we'll spend some time on -- in fact, I'll be chairing a
3 technical panel later to talk about all the questions that
4 have come up about how these, in fact, might happen from a
5 technical perspective.

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

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

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

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

23 Once again, though, our purpose is to explore how
24 the postal ratemaking process can be improved. This time
25 some slightly different aspects as well as some specific

1 aspects of the topics that were discussed the last time.
2 Postal Service official will open each segment with a
3 presentation.

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

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

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

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

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

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

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

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

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

19 Andy German, whose the managing counsel. I didn't
20 know that was your title, and Grady Foster, who is the
21 manager of Financial Forecasting. I knew that they sort of
22 managed things, and one was a lawyer and one was in Finance
23 dealing with all sorts of the forecast in the rate case, but
24 I had no idea what their titles were. So I'm truly
25 enlightened from my presentation already here. I hope you

1 will be here.

2 The basic format here is I'll talk a little bit
3 about rate case phasing -- the options and the issues, if
4 you will. This is sort of the old Monday night football
5 three-man team. I'll be doing the play-by-play. They will
6 be doing color here. We were trying to decide earlier which
7 one was Danny Don and Howard. I don't think we had any
8 takers on either of that.

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

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

22 Also, what's a test year? How do you meet the
23 break even requirement. There are some fairly technical
24 definitions we'll discuss here. Also, what triggers this,
25 if you will? How are these things triggered? Do they

1 happen automatically or does something have to kick off
2 these phases? We'll talk about that.

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

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

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

19 Basically, what we've done is we've taken the
20 comments that we have heard from the first day of the Summit
21 and considered those issues that are in play. We have tried
22 to come up with at least one potential approach that
23 balances the goals of phasing with realities of the
24 ratemaking process and the current law and the financial
25 needs of the Postal Service.

1 Rather than dictate a particular approach, we are
2 hopeful that this presentation will elicit some comments.
3 However, also, hopefully, as part of this discussion, it
4 will be clear that we have given this some thought and what
5 we've got is fairly logical here.

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

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

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

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

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

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

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

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

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

25 As with phasing, we evaluated three proposals or

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

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

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

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

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

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

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

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

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

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

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

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

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

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

23 So again, the goal of the first year is to cover
24 the costs, but at the same time try to smooth out that
25 transition to Year 2 when you have the rate case break even.

1 We think that does give some flexibility in terms
2 of providing some options on that interim year there. At
3 the same time, the Commission and everyone is comfortable
4 with that test year concept there. So we think that has
5 some attractiveness there.

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

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

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

25 One of the things is the formula would change

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

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

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

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

1 there.

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

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

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

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

1 with all the rates changing here.

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

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

22 Another thing is, without addressing the issues of
23 legality, the Commission would appear to have a preference
24 for recommending actual rates. Most of the people around
25 here are used to seeing the actual rate schedules as oppose

1 to formulas and the like. As such, it appears,
2 particularly, the first time out, we'd be served by the use
3 of the actual rate schedule. And so, not to bog down the
4 whole phasing discussion in a case, that seems the most
5 simply and the most straightforward proposal.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

6 And if so, doesn't that create a situation in
7 which you're saying to those who are garnish the 8020 rule
8 -- 20 percent to the customers by 80 percent of your
9 services. Whereas 80 percent by 20 percent of your
10 services. But the 20 percent of the services is brought by
11 the 80 percent, would be paid full rate at the beginning of
12 the phasing, if I understand it correctly.

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

14 MR. LYONS: What we're talking about there is the
15 general phasing approach. That would apply to everything.
16 We are considering a variety of ways of designing first
17 class rates. We heard, for instance, from Ms. Dreifuss and
18 other things. There are a variety of issues out there of how
19 you might deal with the individual purchases of individual
20 stamps. We're looking at everything at that. So we
21 wouldn't rule anything off the table there, but this is
22 envisioned, for the moment, as a general overall phasing
23 approach. There are other ways and possibilities that deal
24 with the issue of individual stamp purchases. So I wouldn't
25 rule anything out for the moment.

1 I just say this approach is designed to deal with
2 all the price changes here.

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

6 MR. STRAUSS: David Strauss. I might not have had
7 enough coffee this morning, but I didn't follow your basic
8 premise. Let's say you've got a 2005 test year. Is Year
9 1 -- let's say you filled back in January 2003. Are the
10 Year 1 rates effectively, say, in 2004 to cover 2005 costs?
11 And then, in 2005 they would be increased to cover 2005
12 costs, plus contingency and prior year losses?

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

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

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

21 MR. FOSTER: Yes. I mean, this would be in other
22 rate cases at least twice, I think, we implemented rates
23 before the beginning of the test year. We reflect that in
24 our financial statements that we file in the rate case. So
25 we would be following past practice in that respect.

1 The 2004 break even on an accrued cost or
2 operating costs basis would be -- as Ashley mentioned, it
3 would be a charge more than it would be more like a per say
4 requirement because the overriding objective here that we
5 can't lose sight of is one of the overriding objectives of
6 phased rate increases is to reduce rate shock and have a
7 smooth transition.

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

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

13 MR. FOSTER: No.

14 MR. STRAUSS: I didn't think so.

15 MS. COHEN: Rita Cohen, Magazine Publishers of
16 America. I also probably don't have enough coffee yet
17 today, but could you explain a couple of things. In this
18 scenario, in absence of it, would the rates have gone up in
19 2004 or 2005 in this model if you didn't do it?

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

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

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

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

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

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

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

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

22 MR. POU: Anybody on the panel what to comment
23 further?

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

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

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

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

21 MR. LING: My name is Jerry Ling with the
22 Southeastern Mailers Association. I'm from Atlanta,
23 Georgia. That's down south. We're a little slower down
24 there than you folks up north. So I hope you can understand
25 what I'm saying.

1 It seems like this is very complicated to me,
2 okay? As a businessman, I raise my costs or my charges once
3 a year, and it's based on my cost the previous year. I
4 don't why we are making this so complicated, and there are
5 probably going to be a lot of people that boo this, but I
6 would rather have simple rates that reflect your costs each
7 year -- just like a regular business does with its expenses.
8 We could pass those expenses on to our customers because
9 those are costs that we had to absorb in postage. We pass
10 that on to our customers in the way of charges.

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

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

21 MR. FOSTER: Ashley's from Alabama, maybe he wants
22 to --

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

25 (Laughter.)

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

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

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

23 But if you needed a huge influx of more revenue,
24 I'm sure whether you saw that you got much rate shock relief
25 in the first instance. Have you run into anything like that

1 with percentage increase?

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

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

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

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

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

22 MR. CERASALE: Yeah, but it's okay. The question
23 I want to ask is, use your example, we have 2005 test year
24 and we're going to put in phase rates in 2004, Step 1. Step
25 2 will be in 2005. Now the 2004 rates, the idea based on

1 that roll forward Year 2004 without any contingency and
2 without any PYL and the Step 2 rates, the second phase are
3 rates based on 2005 test year costs, include, plus
4 contingency and PYL? Is that how you envision it or are the
5 2004 rates based on the test year of 2005 without PYL and
6 contingency, and Phase 2 is the 2005 rates with those?

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

13 MR. CERASALE: Okay, that's fine.

14 MR. LYONS: That's inflation between 2004 and
15 2005.

16 MR. CERASALE: Thank you, Ed.

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

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

20 MS. DREIFUSS: I'm sorry. Shelley, Dreifuss, the
21 Office of Consumer Advocate at the Postal Rate Commission.
22 I understand that it is beneficial to mailers, and represent
23 mailers. So I'm certainly sympathetic to the idea of having
24 a somewhat smaller percentage increase in the first year.

25 The percentage increase seems to go up quite a bit

1 more in the second year, I believe, because operating costs,
2 very likely, will go up a certain amount the first year, a
3 certain amount the second year. In addition, we're going to
4 add on that a prior year loss recovery and contingency
5 recovery.

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

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

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

23 If you say it's a real precise cost and the costs
24 grow exactly even, matching up costs, then perhaps, that
25 could occur. But one of our fundamental goals in developing

1 that interim year was to prevent, if you will -- our goals
2 for rate design was to prevent either the extremely small
3 increase with a huge increase the second year or having 90
4 percent of the increase. It's sort of a balancing act.

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

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

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

21 MR. BAKER: Bill Baker. I have a question. In
22 each rate case, you always tell us that the contingency is
23 an important part of the revenue requirements because these
24 costs are likely to incur. You just don't know what they
25 are and how large it'll be.

1 As I understand this, in Year One there would be
2 no contingency built into the revenue requirement; although,
3 in Year 2 it would be, suggest either you're not expecting
4 unknown costs for Year 1 or in Year 2 the contingency might
5 be larger than it otherwise would be if you had spread it.

6 So it can catch up, if there were any, from the
7 first year, or you're not going to make larger. In which
8 case you're accepting the risk of higher year loss from the
9 first year that would be recovered in Year 3.

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

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

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

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

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

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

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

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

22 MR. LYONS: We had talked about that early in the
23 presentation with, perhaps, our ability to match the
24 revenues and costs done on an annual basis and the effects
25 of that would be, perhaps, positive on the cash flow.

1 MR. DEL POLITO: Yeah, Gene del Polito, again,
2 with Post Com. I hope we also keep in mind that as we
3 talked about periods of uncertainty, there is also an
4 enormous period of uncertainty for everybody who mails for a
5 business reason. Rather than worry a lot about regulatory
6 purity as to whether or not there is a contingency in the
7 first year or not, if there is not contingency in the first
8 year, that means the first year is going to have lower
9 rates.

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

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

23 We're talking about the possibility here of
24 actually defining, in advance, what would happen in over two
25 years in a way that I believe, not only fully compensates

1 the Postal Service over a two-year period, but also uses
2 some marketing and business smarts in terms of the way that
3 it lays the burden on business mailers.

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

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

13 MR. DEL POLITO: It will change this afternoon.

14 MR. OLSON: Bill Olson. I just wanted to follow
15 on the concept of aggressively controlling costs. This
16 maybe outside the scope of this Summit, but just something
17 for people to think about. We are discussing the mechanism
18 by which we could phase rates. In sense, assuming the cost
19 or some external given -- cost increases or some external
20 given, that are not altered by the rates set in process.
21 I'm not sure that's true. I think mailers, at least, hope
22 that there is some reluctance by Postal Service management
23 for political reasons or any other reasons you care to offer
24 to raise rates. And that when rate increases are looming in
25 the future, they manage costs more aggressively; and that

1 more rate cases may increase litigation costs, which are
2 good for some, but they may also increase postal costs,
3 which are bad for everyone.

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

9 Grady know all about this.

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

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

25 I understand Mr. Olson's sensitivity to that issue

1 in light of some of the particular clients he's represented
2 haven't faired that well with rate increase the last couple
3 of times around. Those are the commitments and the plans
4 that are out there right now.

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

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

15 MR. FOSTER: Just one other support of what the
16 Postal Service has been doing. This year is rather
17 extraordinary because I think by the end of the year, the
18 Postal Service will have incurred something on the order of
19 \$2.5 billion less expense than planned than what was in the
20 rate case. So there is a lot of action in recent months
21 that shows that the Postal Service will carry through on its
22 commitments and work to the good in terms of controlling
23 costs.

24 MR. COHEN: I'm Bob Cohen from the Postal Rate
25 Commission. Maybe I missed something, but are you

1 planning -- the scenario you laid out, you expect roughly
2 equal rate increase for the two stages?

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

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

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

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

24 MR. GERMAN: You're talking about the public
25 service appropriation?

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

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

21 Do you have any other thoughts?

22 MR. POU: Comments? Questions?

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

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

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

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

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

25 MR. POU: Anything else people want to address?

1 Let's move ahead. Let's take a 15-minute break and then
2 come back and talk about the other issues.

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

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

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

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

21 We will also talk about measures that the Postal
22 Service might take to improve litigation of the next case.
23 We've taken into consideration the comments, both at the
24 last day of the Summit and suggestions that we've received
25 since that time.

1 Now on that first day, and in the comments that I
2 have come in, we didn't really hear anything that was
3 entirely new that had never been said before; but it was
4 still very, very useful, we thought, to be reminded of
5 things that have been discussed at one point or another over
6 the years.

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

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

21 As the actors ultimately responsible for operating
22 the nation's mail system, the Postal Service and the
23 governors sometimes have to make hard choices, as, of
24 course, does the Postal Rate Commission. But we felt after
25 the first day of the Summit, and I think throughout these

1 proceedings that have gone on over the years, that the very
2 active participation and the mailers and the comments really
3 have made this a rich process. We certainly look forward to
4 that kind of continuing and intense dialogue as we go
5 forward to continue to make this, as much as possible, a
6 collaborative process.

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

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

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

1 involve issues going to the core of the Postal Service's
2 aggregate financial health and key management and operations
3 policies.

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

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

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

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

24 On the first one, the costing methodologies, a
25 number of comments suggested that some amount of time and

1 effort could be saved during the rate case if the costing
2 issues could be split out and handled in a separate
3 proceeding.

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

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

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

25 The differences of opinion, we think, too are

1 honest difference of opinion, making even more important to
2 make sure that those impacts are clear.

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

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

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

22 Even for the Postal Service, certainly, in the
23 first year, if this were to be done, it wouldn't necessarily
24 save any time. It wouldn't necessarily save any time for
25 the mailers because now instead of one proceeding, you would

1 have two proceedings and the overall amount time spent and
2 the costs of the litigation might ultimately be more.

3 Perhaps, there could be savings in future years,
4 but that wouldn't even be certain because if you didn't
5 ultimately resolve all of those costing issues, and there
6 were no changed circumstances, you might have to continue to
7 do that until at some point in time that costing methodology
8 really was resolved and not subject to challenge.

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

17 So I think from all the comments that I've made,
18 you'd get -- our conclusion is that it really overall would
19 not be to the overall benefit of the various concerns that
20 we have taken into account to do that kind of a split.

21 That being said, it was very clear, from the
22 comments and the discussion at the last day of the Summit,
23 that doing both the costing and the ratemaking together
24 makes for a very complicated case.

25 In the 10-month time period it is not always

1 possible for all the participants to figure it all out and
2 feel that they can both figure it out and then effectively
3 participate. So to accommodate that concern, we do think
4 that the Postal Service can do more to try to help the
5 understanding of all the participants, and would be willing
6 to have a technical conference.

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

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

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

24 While we're inclined to agree with the reactions
25 of participants on Day 1 who suggested that these type

1 proposals would likely cause as many problems as they would
2 solve. So we don't think there are too many changes that
3 can be made there that ultimately would either streamline
4 the process or make it better.

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

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

20 We could have a better understanding of what the
21 mailers concerns are and what information they might need.
22 They could have a better understanding of how the case is
23 put together and how everything relates and that, that might
24 cut down on discovery. So that's something that the Postal
25 Service is willing to commit to putting together at some

1 point pretty early on in the case.

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

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

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

21 There was comment by my staff and the other staff
22 that work on it that, gee, you all must think that we have
23 this all figured out months and months in advance and have
24 our heads together and have the ability to do that.
25 Actually, the truth is very different. Everything is pretty

1 much down to the wire, given the complexity of putting one
2 of these cases together -- having to get approval by
3 management. Then having to schedule it in conjunction with
4 the monthly Board of Governors meeting and get that
5 approval, and then be ready to file soon thereafter.

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

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

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

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

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

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

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

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

1 not discuss and see what the thought is.

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

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

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

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

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

23 Will the Postal Service be willing to collect cost
24 data that they are not currently collecting, and what is the
25 expense and the difficulty of that. And if they don't do

1 it, then how could they respond to proposals, the
2 justification of which would require the collection of
3 additional cost data.

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

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

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

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

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

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

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

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

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

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

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

24 We balance resources against need as the Postal
25 Service perceives that need, with consideration of as much

1 input as mailers are willing to give us; either in a rate
2 case or between rate cases.

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

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

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

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

24 Of course, there could still be data, you know,
25 data that we're either not collecting or not focused on

1 abrogating and analyzing that, you know, still leave some
2 significant data needs out there, and then you really would
3 get into the cost and the time and all that, because cost
4 does seem to be one of the major issues that comes up, as to
5 either updating any data study, or doing a new completely
6 different data study. Just given our size, they're never
7 simple.

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

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

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

21 OCA took the lead on that, just last week. We had
22 our consultant present his methodology on the labor demand
23 of mail processing costs. We did it in a very open and
24 informal session. It was very worthwhile, I think, for
25 everybody.

1 Our consultant was in the hot seat, but we were
2 willing to put him there, with the ultimate goal of making
3 these issues well understood and well discussed, and
4 possibly outside of a rate case. So I'm disappointed that
5 the Postal Service is unwilling to give that serious
6 consideration and has basically rejected the idea.

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

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

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

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

25 Do it in a large sense, by major issues -- let's

1 say, cost, revenues, if there's something different in this
2 case than we've seen before, and really highlight it; do it
3 on a class basis. Say, this is what we're doing with first
4 class. If you've got classification issues there, set them
5 out, highlight them for everybody. Say that these are the
6 witnesses that will address those issues.

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

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

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

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

22 Actually, Shelley, I'm glad that you mentioned the
23 conference that you had recently, because I did neglect to
24 mention that that is another approach that we think might
25 help to get at least some good in depth discussion going, as

1 an example, on the costing methodology that the Postal
2 Service could adopt.

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

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

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

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

25 And I think the idea of the technical conference

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

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

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

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

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

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

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

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

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

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

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

24 Maybe it's not that everybody would need that
25 extensive of a written explanation; some might. And I also

1 think that the methodology for doing that could develop over
2 time, so that if, you know, we work on the first one, and it
3 works well, and then you can improve upon it the next time,
4 you know, that's certainly something that, to the extent
5 that it can be helpful to people, we can certainly take that
6 into account.

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

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

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

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

23 How about taking that next three weeks -- let's
24 set a date for the global technical conference. Let's say,
25 three weeks into the case or a month into the case; and at

1 that global technical conference, then come with the
2 outlines that I described.

3 Because I don't think, in just the space of a few
4 hours, we're going to be able to cover, in a systematic way,
5 all of what I've mentioned to you. It's very complex.
6 There are class by class effects.

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

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

15 MS. GIBBONS: That's a good suggestion.

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

19 (Laughter.)

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

23 (Laughter.)

24 MS. DREIFUSS: Well, you know I'm willing
25 negotiate.

1 (Laughter.)

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

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

13 I would add that in addition to the global
14 technical conference, that we would supplement that with the
15 regular kinds of technical conferences, which are pretty
16 much necessary, I think, in order to wade through the vast
17 amounts of very complex documentation that we're required to
18 file with every rate case.

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

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

24 MR. POU: Maybe, maybe not.

25 MR. FOCHEAUX: Could I also clarify something on

1 one of Shelley's other points -- on the question of whether
2 or not we would be engaging in separate proceedings to
3 consider costing issues between rate cases

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

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

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

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

23 We can get over a couple of those hurdles, I
24 think, by engaging in a dialogue between rate cases, so that
25 the people that are really interested in these things -- the

1 economists and the actual people who are interested in rate
2 design -- can consider, you know, the substance of what we
3 will be presenting in the next rate case.

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

11 MS. GIBBONS: More questions?

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

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

24 This is, without question, one of the most
25 significant activities that are undertaken by the law

1 department and the Postal Service, in terms of its
2 interaction with its customers. So I find that kind of a
3 response about, you know, we're victims of the time and the
4 circumstance kind of fascinating.

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

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

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

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

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

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

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

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

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

11 (Laughter.)

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

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

20 Dan did not mean it in the stitching together
21 without a lot of thought thrown together idea by any means.
22 Throughout the process of preparing for the cases, there's
23 significant debate within the Postal Service on some key
24 issues as to, you know, what should be in it; how does this
25 work out.

1 That's kind of progressing along at the same time
2 that a lot of the costing information is being, you know,
3 gathered, put together, at the same time that the basic
4 paperwork that needs to get filed is being put together.
5 That's all proceeding during that period of four to six
6 months. Nothing can be official until the Governors have
7 voted on it.

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

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

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

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

25 The second issue was what? I forgot the second

1 issue -- the technical conferences?

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

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

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

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

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

22 The third one was --

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

25 MS. GIBBONS: Oh, I guess I would see one

1 suggestion with the technical conference that, hopefully,
2 that would move things along, in terms of discovery; and
3 really, hopefully avoid some of the time that's taken up by
4 the Postal Service and the mailers on discovery.

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

11 Do you have a thought on that, Dan?

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

16 MR. FOUCHEAUX: Well, you're hearing a lawyer's
17 perspective here.

18 (Laughter.)

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

23 Quite frankly, the mechanisms that we could think
24 of that would shorten the process, you wouldn't like: you
25 know, limit discovery on the Postal Service, limit the

1 amount of irrelevant issues that we have to cover in a rate
2 case.

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

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

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

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

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

24 To suppose that we could ignore that or relegate
25 those issues to a subsidiary is just unfathomable. But then

1 that's my opinion.

2 MR. DEL POLITO: Dan, it's not a matter of saying
3 that they would be relegated to lower edges in the case.

4 One of the reasons why you succeeded in getting a
5 settlement in the last case is that the elements of
6 controversy were somewhat constrained. However, after the
7 case was over, and everyone agreed to it, then there were
8 litany of constituents that would come forward and say, you
9 know, in that case, they proposed this particular
10 classification change, which we don't particularly like.

11 I guess the thought was, if there is a way in
12 which you can peel out those things that would lessen the
13 likelihood that you would be able to move your audience
14 towards settlement, one would have thought that would have
15 been in your own best interests.

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

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

1 will be, you know, well on the minds of people.

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

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

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

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

25 So I would expect more people to pick up the phone

1 the next time and say, I was going to write these, you know,
2 whatever number of questions; but let me talk to you, first.
3 That's a huge benefit.

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

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

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

18 You can look back in history. We had a case in
19 1994, where we proposed basically just an across-the-board
20 rate increase.

21 It was essentially a revenue requirement case, no
22 classification proposals, no costing updates. Not only did
23 we not accomplish everything we tried to accomplish, except
24 for the moderate revenue requirement, which nobody disagreed
25 with in that case.

1 We were roundly criticized for not updating the
2 cost studies; for not proposing other classification
3 changes. All of these things that might be worthwhile for
4 the Postal Service and mailers, we would have to do anyway.

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

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

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

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

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

23 My question to the panelists is, I guess, there
24 likely seems to be large decisions taken intermediately, as
25 to large things that may well be in the case, or are going

1 to be recommended to the Board, such as an abandonment of a
2 costing methodology, that has been propounded by the Service
3 in the past; or a major classification change; or even a
4 minor one, that's likely to raise hackles.

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

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

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

19 MS. GIBBONS: I have a couple of thoughts on that.
20 I think we may be in a particular situation right now,
21 because if it is the case that we do need to get a case
22 filed somewhere, in order to have rates go up, at the
23 beginning of 2004 -- not to say there's been any decision on
24 that -- but work really needs to get going, pretty much
25 immediately. To be working on preparing for the filing and

1 well as having a significant amount of that kind of
2 disclosure and discussion, might be an issue.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

21 I think that really suggests more, not less, of
22 the kind of collaboration and sharing of information. There
23 are many efforts underway now, with the mailing industry
24 task force, MITF -- you know, various other discussions
25 underway to say, how can we reduce our overall combined

1 costs. So, you know, that's a great thing.

2 MR. FOUCHEAUX: In the experiences of the
3 classification effort, the major re-classification effort
4 that we embarked on in 1995 and the current process
5 involving product redesign, I think really is inconsistent
6 with your observation.

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

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

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

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

25 You know, your comment that you choose to pull

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

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

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

20 MR. FOUCHEAUX: I certainly understand that
21 perspective, and there is considerable logic to it. It's
22 just my own personal opinion is that taking it out would
23 result in more time being spent on it, more controversy,
24 less definitive resolution in time to do you any good than
25 the current process.

1 I mean, the one good thing about the Postal
2 Reorganization Act is that it gives the Commission what I
3 think is not an unreasonable amount of time, considering all
4 the Commission feels it has to do, and makes them do it
5 within that time limit.

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

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

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

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

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

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

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

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

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

25 The 10 month process is not a day too long for the

1 way rate cases are conducted now. Just reading all that
2 stuff, you know, and the 42 testimonies you start with or
3 whatever, just scratch the surface.

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

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

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

23 MR. LUBENOW: Joe Lubenow, Lubenow and
24 Associates -- I've listened to what you were saying about
25 the separation of the costing for the ratemaking, and why

1 you don't think it's practical. But I'd like to still
2 revisit that and bring further argument to bear.

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

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

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

23 That would just be one example, and it will have
24 to suffice, that when you have the combined costing and the
25 need for more revenue, then it's like throwing everything up

1 in the air and see where it comes down. Everyone is
2 unpredictable, and we have to figure out what we should do
3 differently, and which company should close up, and which
4 company should start up.

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

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

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

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

1 think.

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

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

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

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

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

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

1 Anyway, I do have a question. You talk about
2 costing and ratemaking, and the combination of the two. I
3 mean, from my perspective, a little bit earlier in this
4 process, I see the importance of those two things.

5 But moreover, I think beyond that, there is an
6 importance of integrating any marketing strategies,
7 technical advances, and operational efficiencies, that the
8 Postal Service has afforded itself, as a business, or
9 operating as a business entity; and integrating those. And
10 terms of setting your rates and making rate adjustments is
11 probably, in my opinion, an important aspect of this.

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

17 MR. BRISKEY: Thank you.

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

23 (Laughter.)

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

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

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

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

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

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

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

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

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

14 MR. FOUCHEAUX: You're absolutely right and I
15 didn't mean, in my comments, mean to reflect either on the
16 one objective or one of the objectives that was
17 accomplished; namely, to have a case within the confines of
18 10 months, and that certainly was done; or the wisdom of
19 Commission's decision.

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

24 MR. SHARFMAN: I'm Steve Sharfman with the Postal
25 Rate Commission. I want to change the topic slightly to

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

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

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

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

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

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

24 The Postal Service already has an existing body of
25 advisors called MTAC. Why couldn't there be basically a

1 constant state of negotiations?

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

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

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

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

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

23 MS. DREIFUSS: Sure, I'll try to make this quick.
24 The MTAC suggestion is actually a very good one. OCA is not
25 a member of MTAC, as anyone might expect. But I have been

1 attending the MTAC meetings, and have gotten a lot of value
2 out of. I've gotten a lot of value out of attending product
3 redesign meetings.

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

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

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

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

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

25 MR. FOUCHEAUX: If it makes you feel any better,

1 Shelley, there are a lot of people inside the Postal Service
2 that were not included in the development of R-94.

3 (Laughter.)

4 MS. DREIFUSS: So that's Dan's suggestion.

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

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

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

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

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

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

1 Workers Union or other stakeholders.

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

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

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

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

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

24 (No response.)

25 MR. POU: Thank you very much for everybody's

1 time. Why don't we get something to eat and reconvene at
2 12:45.

3 (Whereupon, at 11:57 a.m., a lunch recess was
4 taken.)

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A F T E R N O O N S E S S I O N

(12:55 p.m.)

1 MR. BARRANCA: Okay, can I get your attention?
2
3 We'd like to get started. I'll give you a few seconds to
4 find a seat, and then we'll start the afternoon discussion
5 sessions.
6

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

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

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

20 I think the transformation plan has highlighted
21 the need to have pricing flexibility, to be more creative in
22 how we offer prices to our customers, and also how we can
23 get the market quicker, potentially with things where
24 there's an opportunity for both us and the Postal Service,
25 and our customers and the general rate payer across the

1 system.

2 I think if you look at the product redesign
3 initiative, and I'll just reference this, as it was
4 referenced in the last panel, there seems to be a theme that
5 runs through that, that says, one size doesn't fit all.

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

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

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

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

25 My first exposure to the ratemaking process was

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

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

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

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

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

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

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

3 So we will start with Kerry, and I'll turn it over
4 to Kerry.

5 MR. KNIGHT: Thank you, Nick.

6 I'm Kerry Knight. I'm the Director of
7 Distribution and Postal Affairs for the National Geographic
8 Society.

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

12 In doing some of the research and having some
13 people do some research for me, we discovered that NSAs in
14 other regulated industries have been around since the late
15 1970s, and I'm going to cheat from my notes here.

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

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

25 (Laughter.)

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

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

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

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

22 I don't know about many of you, but I control the
23 tail end of the distribution process. I don't control the
24 marketing end. So if marketing tells me, yes, our forecast
25 is we're going to mail "x-million" pieces, and I put that in

1 the contract and guarantee that -- well, if the economy goes
2 south, or if marketing says, we're not going to mail that
3 campaign, then that kind of leaves me holding the bag; and
4 do you really want to guarantee volume that you know you're
5 going to have to pay for, or do you want to just have maybe
6 contract rates, where you have a volume or a tier of levels.

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

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

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

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

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

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

1 increases beyond the established historical base.

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

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

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

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

25 MR. BARRANCA: Shelley?

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

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

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

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

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

23 If negotiated service agreements can be used to
24 bring new volume and new revenues to the Postal Service and,
25 in particular, new contributions to institutional cost, I

1 think that's very advantageous to consumers. That would be
2 the guiding principle in having the Commission approve them,
3 in my opinion.

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

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

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

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

22 I'm not necessarily advocating it. But I do know
23 that it's one of the issues that has to be addressed, when
24 the Commission reviews negotiated service agreements. That
25 is, what will happen; how will this coincide with phase

1 rates, perhaps? Will it cut across and go beyond
2 established rates? Again, I don't know where I stand on
3 that. But I do know that that is potentially one of its
4 uses.

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

7 MS. JOHNSON: Thank you.

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

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

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

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

25 Therefore, similar types of negotiating with the

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

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

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

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

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

25 After all, any reduction in postage rates will

1 actually allow the large volume mailers to reinvest their
2 additional cost savings into additional volume.

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

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

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

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

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

1 greater incentives for higher volumes?

2 Should they apply to all classes and all types o
3 mail? How would the rates be discounted? Would it be an
4 automatic discount, or would it be through refunds? What
5 should the duration be? Should they be one year agreements,
6 two agreements? What requirements would need to be
7 fulfilled in order to qualify?

8 Also, what happens if expected volumes are not
9 achieved? What if we happen to co-mingle our mail with
10 other people's mail? Does it negate the agreement, or can
11 we still qualify?

12 Can confidentiality be assured throughout the
13 process? Finally, are there any other incentives for large
14 volume mailers to continue maintain or increase their
15 volumes in the coming year?

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

22 MS. HANBERY: No one ever accuses me of being shy
23 and a few people say, you haven't said anything yet; are you
24 going to say anything. Well, I'll offer an opinion. I --
25 give me a second.

1 MR. POU: Excuse me, could you identify yourself?

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

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

18 First, a comment on NSAs or troubled business, in
19 general. Postal Service is losing volume. It's in trouble.
20 In my business, if I were in trouble, the first thing I
21 would do is go to my key customers, my clients, and try to
22 work to build their business. And it would seem to me that
23 if the focus of NSAs, and many people on our panel didn't
24 focus on that, so I was glad to see that, is how can we save
25 another penny here, another penny there, and that's all

1 we're doing. If we're not looking at the big picture, how
2 do you get more business in. We can save a lot of pennies,
3 but you're still going to be in the stealth spiral that
4 everybody is hearing about.

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

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

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

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

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

22 Those are my two cents and thank you.

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

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

1 question in there?

2 MR. BARRANCA: No, it was a comment.

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

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

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

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

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

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

18 So, we're not taking a position that we're against
19 those. We don't think they're viable. We have taken the
20 position that we haven't seen any proposals for them, fairly
21 concrete proposals that give us comfort that it would be
22 done the way that would particularly protect the monopoly
23 mailers. And so, you know, I think it's just a very, very
24 much an issue of we should look at this discussion in the
25 light of what is possible and what is possible includes many

1 different types of rate classification actions. But,
2 currently, they basically all have to go before the
3 Commission. And even though that wouldn't be simple and it
4 would complicate my life for sure, that's what -- that's
5 what's real. Thank you.

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

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

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

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

22 Now, the Commission has adopted several rules for
23 expediting certain proposals that have limited impact.
24 There have been a number of ways to cut down on the
25 complexity of such a case and they may be appropriate in a

1 negotiated service agreement situation. But, I don't think
2 you can avoid coming to the Postal Rate Commission first,
3 with either an agreement or a set of rules or
4 classifications that apply to the many, and apply equally
5 and fairly to the many.

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

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

17 Second, Shelley is absolutely right, that under
18 the current law, you have to do an NSA through the existing
19 process. Why that is such a problem is a mystery to me.
20 Until May of this year, that's exactly how we did NSAs in
21 the telecommunications industry. They went to the
22 regulator. They had to be approved by the regulator. And
23 after the first four or five or six went through, because of
24 the no discrimination requirement, it became very easy to do
25 them. So, this supposed problem that our supposedly antique

1 statute doesn't move me one bit.

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

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

22 The only thing that needs to be done is for the
23 Postal Service to sit down with an owner or a producer, and
24 they're not mutually exclusive, and do a deal and submit it
25 to the Rate Commission, as Shelley has said, under the

1 experimental rules and let's get on with it. We can't deal
2 with this problem in the abstract.

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

12 MR. BARRANCA: Thank you.

13 (Applause.)

14 MR. BARRANCA: Marcus?

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

25 MR. BOWLER: Well, Marcus, I think I expressed

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

7 MR. BARRANCA: Any other comment?

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

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

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

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

1 telemarketing calls from Discover?

2 (Laughter.)

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

10 And then the other couple of points, maybe there's
11 an NSA for consumers that the OCA has raised in a number of
12 rate cases. A courtesy reply mail discount, that would be a
13 sweetener, perhaps, for the consumer. And, finally, is
14 there maybe a lesson in the telecommunications industry? I
15 thought I heard on Market Report last night that 24 out of
16 27 telecommunications companies are near bankruptcy. Is
17 that right, Ian? So, they're basically giving away -- it
18 seems to me, their rates are set below -- way below cost.

19 MR. VOLNER: No. Their rates are not set way
20 below cost. They operated under the same illusion that we
21 seem to be operating on, that the idea of an NSA is to
22 generate volume. What happened was they built capacity far
23 beyond their needs and they are choking in excess capacity.
24 And if you look at the two or three that are doing just
25 fine, thank you, you'll find that they did not build vast

1 quantities of fiber, wandering around the streets of
2 Washington, D.C., which drove me nuts going to work, and
3 it's all dark. And it's dark, because there's no traffic.

4 And the fact of the matter is, that what the
5 telecommunications industry proves, until they went berserk,
6 is that the small consumer, the residential -- we don't call
7 them many in the telecommunications field, we call them
8 residential users. The residential user was a prodigious
9 beneficiary of the NSAs and remains so, because it's not
10 gross revenues that matter, it is contribution that matters.
11 And all you need to do is to establish an NSA. In the
12 telecommunications field, they require off peak usage. They
13 require certain minimum volumes. If you don't meet your
14 minimum, you get whacked. If you exceed your off peak
15 usage, you get whacked. I mean, these things are not
16 terribly complicated. They're hard to read, because they're
17 written by lawyers and engineers. But, here, they'd be
18 written by lawyers and economists. It's going to be the
19 same thing, they're hard to read.

20 (Laughter.)

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

24 MR. BARRANCA: Thank you. Gene?

25 MR. DEL POLITO: Gene del Polito with Post Com. I

1 can't see why it is incomprehensible that in terms of the
2 Postal Service's ability to talk with a customer about an
3 NSA, because we talk about increased volume guarantees, that
4 they not both look at the possibility that the result of the
5 contract should be a greater contribution to the Postal
6 Service's overhead. I can't think of a cheaper form of mail
7 for the Postal Service to handle, than the money it's going
8 to get when somebody can't fulfill on the contract and
9 they're not giving you mail. It's sort of like the racket
10 you got with Philately, getting money for nobody actually
11 using the stamps.

12 And I forgot the other point, but --

13 (Laughter.)

14 MR. BARRANCA: Mike Reilly?

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

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

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

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

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

21 So, I think there has to be some process that
22 balances the Commission's need to make a reasoned decision,
23 but do so in a prompt fashion, so that you don't end up
24 having the administrative process to defeat the very purpose
25 of the NSA.

1 MR. BOWLER: I would just comment that Publishers
2 Clearing House has agreements with other postal
3 administrations, and some of the first ones we worked on
4 took two years to put together and it was well worth that
5 effort, because it was adjustable as rates went up and so
6 forth. So, it may be a difficult slow process at first, but
7 I don't think you should abandon it.

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

20 Now, listening to the customers on the panel,
21 listening to Shelley representing her group of customers,
22 certainly listening to folks like Donna, it would say that
23 there is a great deal of interest in the Postal Service
24 being able to do something like this, particularly if the
25 results in increased volume, increased contribution, that's

1 good for the Postal Service, that's good for the mailing
2 industry.

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

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

1 customers.

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

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

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

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

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

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

16 MR. BARRANCA: Is there another view?

17 MR. DEL POLITO: You know, I think to a certain
18 extent, we kind of lose our creative edge when we sometimes
19 think about this thing. It's easy to turn around and say
20 people's volumes may be growing on the basis of growth and
21 I'll concede that it is possible that advertising mail could
22 show robust growth despite whatever might happen in other
23 elements of the economy. But, I think you have to be a damn
24 fool not to realize that the opportunities for banks, for
25 telecommunications companies to forgo the mail for

1 communicating and doing business with their customers is not
2 only here, but it's likely to get better.

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

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

18 The possibility of entertaining the idea of a --
19 because one size does not fit all, a negotiated service
20 agreement that is tailored in a much narrower audience,
21 where there might be a NBNA, a Capital One, a First USA, all
22 turning around and saying, these are the things that we
23 would commit to do as an element within the industry and we
24 believe we all can qualify for them, so that you can say
25 that the classification that you are defining for these

1 people is one that allows them the freedom to escape the one
2 size doesn't fit all; but, at the same time, on the basis of
3 commitments, it could be beneficial not only to the Postal
4 Service, but to every single person, who claims that they
5 have a desire to see the maintenance of universal mail
6 delivery.

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

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

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

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

11 MR. BARRANCA: That's good feedback. Thank you.
12 Marcus?

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

22 The question I've got, then, is if an NSA can be
23 filed for a large company, why can't it be filed for a
24 smaller entity? So, my question is, Ms. Dreifuss, is there
25 any chance that you can simply file an NSA with the Postal

1 Service for small business, like the three cent discount for
2 250 pieces of bar coded mail that died an untimely death
3 some years ago?

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

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

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

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

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

6 MR. BARRANCA: Okay.

7 MR. NATHAN: Brad Nathan, Quebecor World
8 Logistics. A couple of points have been made repeatedly
9 about who gets the NSA, who owns the rate. And I think it's
10 also apparent from the fact that we have the current
11 legislation that we do, that nobody is really going to own
12 it. A group of people may go together initially to come up
13 with the criterion that would be used to get this special
14 rate. But once that's done, anyone, who meets those
15 criterion, would be able to participate. So, I don't think
16 ownership, from that perspective, is really as relevant.

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

25 But, I think most NSAs are going to have a blend.

1 They're going to have a volume component, but they're also
2 probably going to have an efficiency component. You're not
3 just going to have an NSA that says we're going to give 10
4 percent more volume. It will be 10 percent more of the
5 correct volume, the most efficient volume for the Postal
6 Service to handle. So, I think what you're going to end up
7 having to have for it to work is a group of people working
8 together.

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

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

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

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

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

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

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

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

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

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

25 What will be the affect on the uncertainty of

1 future Postal Service revenues and costs, if NSAs were to
2 become a widely used technique? Would the -- what I'll
3 call, for the moment, the rest of us, be facing a bigger
4 contingency provision, for example, in future rate cases, if
5 large portions of bulk volume were to be carried under,
6 let's say, long-term NSAs, rather than the existing rate --
7 type of rate schedule that we have?

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

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

16 (No verbal response.)

17 MR. BARRANCA: Over here.

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

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

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

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

22 But, it is a network that's been built up over 200
23 years of taxpayer contribution and not taxpayer supported
24 now. But, the Postal Service has been a public institution
25 with universal service that's been supported by the American

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

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

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

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

25 The second guy subdivided the 15 acre lot into 15

1 one-acre lots. He sold those lots and made a profit of five
2 million more than his \$15 million goal. It is not an
3 analogy, so I think some of the circumstances at the Postal
4 Service faces today in today's marketplace.

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

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

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

22 I, also, want to echo what Gene said. Your entire
23 ratemaking process -- we mail over a half a billion pieces
24 of mail a year. There's a high density rate and there's a
25 saturation rate. We're a national mailer. We're a big

1 mailer. We can't get those rates, because I don't have 90
2 percent of people living in the same area, to be able to get
3 a saturation rate.

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

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

18 (No response.)

19 MR. BARRANCA: Okay. Next question.

20 MR. BAKER: Bill Baker, again. I want to ask a
21 few -- no, point out a couple of things. I think one
22 concern is definitional. The descriptions of what the panel
23 has described as NSAs and the description of what the Postal
24 Rate Commission has described as niche classifications do
25 not seem to be the same thing. And the Commission has

1 reported to Congress on what it thinks might be acceptable
2 in its classifications, in terms of public review and
3 demonstrated cost savings and the like. And there is a
4 disconnect. The phrase "NSA" can mean many things. And if
5 we're not, you know, careful in the definitions, then we
6 have -- I think we generate a lot of confusion.

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

20 And, finally, I don't often agree with Ian Volner
21 on much of anything and his discussion on telecom -- there
22 is some differences between the telecommunications industry
23 and the postal industry that would need to be taken into
24 account, if you're going to think of the telecom industry as
25 a model. The telecom industry is characterized by high

1 capital costs and relatively comparatively low labor costs.
2 We have the opposite situation in the Postal Service. The
3 result, when you increase volume in the telecom industry,
4 increase your traffic, you don't necessarily increase your
5 labor cost at the same time. The Postal Service, pretty
6 much if we think cost of volume variable, you have a big
7 problem whenever you increase the volume, because your cost
8 is going to rise as well.

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

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

20 MR. BARRANCA: Okay. Another comment?

21 MR. THOMAS: Joel Thomas, National Association of
22 Presort Mailers. I think when we get very far down the pipe
23 on these NSAs, I think some definition would helpful of what
24 we're talking about. But, I am concerned about two things.
25 One is, I think there's going to have to be public

1 participation, because unlike most of the other NSAs that
2 people have discussed, the party ultimately responsible for
3 paying, if there's a mistake made and the deal doesn't work,
4 is not really the Postal Service. It's either the other
5 mailers or if it's a catastrophe, the Treasury. But, the
6 Postal Service, in that sense, has no equity with which to
7 pay a mistake and that means that everybody else in the room
8 is a party in interest to these negotiations.

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

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

1 service agreements.

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

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

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

18 (Laughter.)

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

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

25 I do the same kind of thing when I talk to John

1 McKeever, in telling him that, you know, why are you going
2 after standard rates, because if we get more customers,
3 you're going to deliver a significant amount of the parcels
4 that they purchase. But -- so, that's the kind of thing,
5 and I think that we want to make sure you don't look into
6 that.

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

10 (Laughter.)

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

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

23 MS. BIZZOTTO: Well, hi, again. I'm Anita
24 Bizzotto. With me are Steve Sharfman, who is the general
25 counsel for the Postal Rate Commission; Mike McBride, who is

1 an attorney, representing Dow Jones; and John Haldi, an
2 economist and a long time -- long time -- all long time on
3 the postal scene and folks that are up here to help me start
4 the discussion with all of you about sort of technical
5 issues around the idea of negotiated agreements or
6 customized pricing arrangement or pick a name if you don't
7 like any of those. But, until we find something different,
8 let's just -- let's just live with these names, even if
9 we're not all that comfortable with them.

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

17 You know, as we approach the notion of negotiated
18 service agreements, we have a couple of principles that
19 we've been approaching them with. Certainly, we want to
20 make sure, under the current process, that any interested
21 parties are afforded all of their rights. We certainly
22 would like to find a way, if not immediately, but over time,
23 to make the process as efficient as possible, that removes
24 some of the barriers, frankly, to some of the customers, who
25 may not have a million dollars or, you know, a roomful of

1 lawyers at their beck and call to work with us and the
2 Commission, to build customized arrangements that make sense
3 for both of us.

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

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

19 But, you know, there are certainly a lot of
20 questions. Some of them were asked already earlier today,
21 certainly around the question of what does define a
22 similarly situated customer, what is the measure of
23 contribution, are they or are they not legal. Certainly,
24 we've heard some opinions that they may not be something we
25 can do under the current law. We believe that there's an

1 opportunity to do things under some of the existing rules.
2 And we plan to test that, to see what happens.

3 But, I'd like to get some thoughts from the folks
4 on the panel about sort of the technical issues and the
5 questions that come up around NSAs and how we can get past
6 them, as we move forward. Steve?

7 MR. SHARFMAN: Thank you. I'm Steve Sharfman with
8 the Postal Rate Commission. I'm going to offer some
9 thoughts. I want them to be understood as general thoughts.
10 The Commission is open to considering ideas. And I think
11 it's important to realize that just about everybody, who
12 spoke in the previous panel, said something that was true.

13 What you have is you have different people
14 envisioning different things as negotiated service
15 agreements. Many mailers think about what negotiated
16 service agreement they could currently enter into that would
17 benefit their particular company, and that's appropriate for
18 them to think about. And at the same time, other
19 organizations or individuals are worried about negotiated
20 service agreements that would harm their particular
21 interest, and it's appropriate for them to be worried about
22 that.

23 Everyone in this room could think of a negotiated
24 service agreement that would be essentially illegal, that
25 would harm people inappropriately. And I suspect that most

1 of us can think of negotiated service agreements that
2 wouldn't harm anybody, that would be pure win-win
3 situations. And I don't even mean win-win, in that the
4 Postal Service gets an extra dollar, after going through a
5 great deal of work and filing something with the Postal Rate
6 Commission and trying to change its procedures. I mean it
7 could win substantially and I urge everyone to focus on
8 proposals that have the potential for achieving significant
9 benefits for both the Postal Service, its customers, in
10 general, and the individual companies that would go along
11 with that negotiated service agreement. I don't think that
12 that's such a difficult thing to conceive of.

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

25 I think it's accepted by the Postal Service that

1 the statute requires that there be public awareness of these
2 agreements. I think the word "negotiated" gives the
3 impression that somehow something is going to be worked out
4 in the backroom. Organizations come to agreements. They
5 don't have to be secret. They don't have to be hidden. And
6 no one is really trying to pull any -- a fast one on
7 anybody. If it's a real win-win situation, both sides
8 should be willing to let that agreement be open at the light
9 of day.

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

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

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

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

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

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

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

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

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

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

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

1 Barons in the Postal Service. Today, 20 percent of the Wall
2 Street Journal moves in the Postal Service, still about 90
3 percent of Barons.

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

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

20 Now, in fairness to Dan, I think there's been a
21 lot of debate over the years, as many of you know, about
22 whether negotiated service agreements, or I prefer to just
23 call them contracts, are legal. Twice, at least in my
24 tenure, the Postal Rate Commission have held proceedings to
25 consider that question and my client has filed comments

1 citing legions of cases and statutes to point out why
2 they're legal. And for whatever reason, the matter has not
3 proceeded to fruition.

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

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

1 less value to you in the afternoon or the next day.

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

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

24 So, it's made to order business for the Postal
25 Service, if the Postal Service can provide even the current

1 level of service that the people that it still has are
2 getting or, hopefully, improving. And everyone would
3 benefit, assuming that the rates cover the institutional
4 costs and make -- or made some contribution to institutional
5 costs and cover the out-of-pocket costs, because, then,
6 obviously, the contribution required of everyone else would
7 be that much less.

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

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

22 There is much case law in other regulated
23 industries that justify differences in kind, getting
24 differences in rate or differences in service, and that that
25 would not constitute unreasonable discrimination, so long as

1 those, who are similarly situated, can have the same
2 arrangement.

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

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

20 I would say, also, that what the PRC is going to
21 have to confront, of course, is whether the rates, in fact,
22 make a contribution to institutional costs; whether other
23 similarly situated customers are going to have a right to
24 have a similar sort of contract; whether, in fact, what Dow
25 Jones says is so, that more Wall Street Journals will leave

1 the system, if we don't have a contract, because I think
2 that would provide the justification that I think would
3 distinguish it from the situation you heard David Strauss
4 talk about earlier, that somebody is just getting the
5 benefit of a lower rate, because their volume happens to be
6 going up. That is their volume in the mail stream. Our
7 facts are just the reverse, as I told you, so I have no
8 doubt that we can satisfy the standard for justifying such
9 an arrangement.

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

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

22 And I want to start off by proposing some economic
23 ground rules that I think would be considered the baseline
24 for any NSA, starting from where we are today. And I think
25 that the economic issues I'm going to focus on can be

1 considered sort of threshold viability conditions for an
2 NSA; that is, you can go through all the -- answering all
3 the rules, how long could a contract stay in existence, how
4 is it going to be changed, who qualifies, will it be public,
5 etc. And at the end of the day, if you get all of those
6 things done and you don't have a situation that meets the
7 basic conditions for economic viability, you don't have
8 anything, I don't think.

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

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

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

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

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

24 The first one is simply that there is an increase
25 to the contribution by virtue of decreasing the cost, the

1 lowest combined cost that some people have said. Now, when
2 you start looking around for situations where you can talk
3 about a decrease in cost, a net decrease, you're talking
4 about ways that decrease cost beyond the current
5 requirements. There's an awful lot of requirements out
6 there that are in place, to keep cost down. A bunch of them
7 came out in a reclass case, MC95-1. There's more in the
8 works, I guess, in the product redesign case. So, you've
9 got to go beyond those requirements.

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

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

21 The other situation, just generally, where you can
22 have a net increase, at least in theory, is the revenues go
23 up, the cost go up, but the cost -- the revenues go up more
24 than the cost, so that you have an additional contribution.
25 And I want to talk about that one later.

1 But, just pushing back, now, to the idea of
2 situations, where you have a decrease in cost beyond the
3 requirements for work sharing, the work sharing discounts,
4 and so forth, I've got at least three, and I'm not very
5 proud of them and I don't want you to take these as some
6 kind of gospel. I would hope that they would just incite
7 you to think of more and better cases that would be ripe, in
8 the cost reduction area. And I like cost reduction, because
9 if you really show cost reduction, as I say, that's win-win.
10 I'm going to come back to the increased volume that
11 everybody else is focusing on and I have some problems with
12 that. But, it is theoretically possible, and I'll describe
13 those in a minute.

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

1 either has to be forwarded or is totally UAA.

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

24 The third one, this is a little bit of a stretch -
25 - but there may be better ones -- is transportation. I

1 think everybody here is aware that when it comes to moving
2 bulk packages, the way destination entry discounts work is
3 that the Postal Service is subject to what the insurance
4 industry would call adverse selection. Mailers take some
5 kind of a mailing, they look at it, and they say, well, I
6 can afford to transport this 400 miles or 600 miles and they
7 draw a circle. Any BMC within that, they transport it to
8 and any BMC beyond that, they give it to the Postal Service.
9 So, the Postal Service winds up with a longer haul, more
10 expensive stuff systematically.

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

22 As I say, I'm not terribly proud of these
23 examples. But given all the requirements that exist from
24 reclass and they're coming down the pipeline through the new
25 case and all the discounts are in place, you've got to fish

1 around a little bit to find further savings that are
2 generalizable.

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

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

1 God willing, I hope it will.

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

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

18 Now, this is not the time or place for me to
19 express my own views about the Postal Service's costing
20 system. Some people, obviously, know how I feel. I will
21 venture to say, however, that if the Postal Service and the
22 Commission and mailers ever get pass all the procedural
23 issues, which have been discussed here by Steve and others,
24 and get down to being ready to die, as I think Mike said,
25 they're going to find themselves face to face with a range

1 of very interesting and important cost issues that
2 heretofore simply have not been addressed.

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

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

1 10, 11, and, or 12, whatever, the question, then, is what is
2 the real cost of additional volume in APs 10, 11, and 12?

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

19 To the best of my knowledge, that's an issue that
20 simply has never been studied, much less resolved. I don't
21 think there are any data on it. I don't think there are any
22 studies on it. But, if the Postal Service came in and said,
23 hey, we've got high fixed cost, but low marginal cost in the
24 summer months, and we want an NSA to take advantage of that,
25 because it's not really going to cost us anything to carry

1 this mail, how do you prove that point? What costs are you
2 talking about? You're certainly not talking about the
3 averages that are used in every rate case, that's for sure.

4 The extreme case would be if the Postal Service
5 either at some time a year or someplace in the country, for
6 whatever reason, felt that the marginal cost of both
7 processing and delivery were zero, supposed they felt in
8 their gut, the marginal cost was effectively zero of
9 additional mail volume, there's a super ripe situation to
10 write an NSA around, if they're right. But, I guarantee
11 you, that based on all the costing systems I've ever seen at
12 the Postal Service, there's no way you're going to prove
13 that they've got very low marginal cost in any place or any
14 time of the year. The costing systems that they use for
15 ratemaking and other costing simply don't support it right
16 now. So, that's a huge problem.

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

25 But the second thing is, and I have to point out

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

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

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

4 MS. BIZZOTTO: Mike, go ahead.

5 MR. MCBRIDE: I just want to make one comment.
6 John accused me of having said I wanted to die and I didn't.
7 I do want to go to heaven. It's just a religious view of
8 things, I suppose, that I want to live again in another
9 form.

10 (Laughter.)

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

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

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

23 I forget what the number is, but the Postal
24 Service is always complaining about the fact that the total
25 number of addresses they deliver to increases every year and

1 that that means there are certain addresses that, on a daily
2 basis, are losers. Certainly, they must have data,
3 especially as people become more -- using more of the planet
4 code data, to build up profiles of which zip ranges, which
5 addresses are daily losers. If they are losers, then that
6 means if you can shift volume, new volume, not existing
7 volume, but new volume to those locations, it's the same
8 principle as the summer discount, but on a more consistent
9 basis.

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

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

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

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

24 I mean, have we come to any conclusions about
25 whether or not that's feasible? We've had long discussions,

1 Marcus, around how do you prove that this is someone, who
2 that -- who that marketer hasn't marketed to before. So, I
3 mean, there are a lot of technical issues around that and we
4 just haven't been able to answer them. And, you know, we're
5 very early in the discussions and we've been trying to look
6 at things that are easier to do, as opposed to things that
7 are more complicated to do, you know, in terms of moving
8 out.

9 MR. HALDI: Anita, could I add something?

10 MS. BIZZOTTO: Sure, sure.

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

24 MR. GLEIMAN: Ed Gleiman. I have two questions,
25 one for Steve Sharfman and one for John Haldi. Steve, at

1 the bottom of your list that you laid out was a reference to
2 making sure that agreements are open to similarly situated
3 users. And earlier on, Jack Graber mentioned that he
4 thought the phrase or the word "negotiated" was kind of a
5 lightening rod and that maybe we ought to stay away from it.
6 And I'm wondering why you have included similarly situated.
7 I know that it was in some legislation that recently met its
8 demise. But, when I look at 3623 of the current law and
9 we're talking about operating under current law, and that's
10 the classification section, it doesn't have a reference to
11 similarly situated. If you can -- if you can do it, you can
12 do it. If you can get in under the umbrella of a
13 classification, you can get under the umbrella. Why do we
14 have to have this new concept of similarly situated, if
15 really what we're doing is creating narrowly drawn
16 classification cases, very narrowly drawn, let's say?

17 MR. SHARFMAN: I think that a fair reading of the
18 law against what we have described as undue discrimination
19 would look very unfavorably on a negotiated service
20 agreement that offered particularly low rates for any piece
21 of mail that was a publication that had Time Magazine
22 written on top of it, if otherwise it was exactly the same
23 as a Newsweek or U.S. News and World Report. And I think
24 that you could argue that the similarly situated Newsweek
25 and U.S. News and World Report should get the same report,

1 even if it didn't put Time on its cover.

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

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

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

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

18 MR. GLEIMAN: So, you're not suggesting, then,
19 that the Commission has to define that up front; it's
20 something for the -- it's something for the Postal Service.
21 And I don't want to carry it on. We can talk some more.
22 But, I think that by introducing that concept the way you
23 have, that you're creating a situation, and we've dealt with
24 it in the legislative process, where the question was, okay,
25 this mailer is going to get an NSA, because he can do a half

1 a dozen things that he doesn't do now and no one else can
2 do. And then the question is, somebody can do five of those
3 six things, does that make him similarly situated? And my
4 good friend, Bob Brinkmann, educated me on this point, when
5 we were doing the legislation. I just bring that to your
6 attention, because I think you have to think about the words
7 that you use, when you talk about what's going to be
8 acceptable.

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

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

1 MR. GLEIMAN: Thank you.

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

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

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

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

21 (Laughter.)

22 MS. BIZZOTTO: I'm starting to feel better about
23 the DMM.

24 MR. O'BRIEN: I'm Jim O'Brien from Time,
25 Incorporated, and I would like all magazines to say, Time,

1 on the top. Thank you, very much.

2 (Laughter.)

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

18 MR. HALDI: Okay. You're talking about the work
19 sharing. That's a good question. When you start off with a
20 work sharing -- start off with a situation where there's
21 pure rate averaging, there's no work sharing. I'll answer
22 it in a general way, but it will apply to your case, too.
23 If you give mailers a discount of, say, two cents to do
24 something that saves the Postal Service six cents and a fair
25 number of them climb on board -- there may be a few that are

1 already doing it, but a large number climb on board and do
2 for two cents what saves six cents, then the savings are
3 sufficiently great that the mailers, who were already doing
4 it, plus the mailers, who come on board, they get a savings,
5 and all the other mailers, because the other four cents that
6 goes to the Postal Service, outweighs what their -- the
7 discount, they, also, benefit. It's sort of a net, net
8 benefit situation.

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

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

21 MR. HALDI: Yeah.

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

24 MR. HALDI: Right.

25 MR. SHIPPEE: Bob Shippee, Capital One. I think

1 everyone can feel a great deal of anticipation around this
2 subject here in the audience and so, Mr. McBride, I wish you
3 luck in your proposal and if you're not the first to jump in
4 the pool, I hope whoever is in the pipeline can get in
5 quickly, so we can stop talking so hypothetically about
6 NSAs.

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

18 MR. HALDI: I assume when you say you have a
19 contract with another post, I assume you're talking about
20 Canada Post, and Canada Post does have NSAs and they don't
21 publish them. So, it leads to a situation, as I -- as I've
22 heard a lot of mailers, a sort of mutual distrust. Nobody
23 knows what the other mailer is getting from Canada Post.
24 And, yeah, Canada Post is profitable, but I understand that
25 they tell you what your rate is going to be and they -- I've

1 also heard Canada Post accused of being very high handed at
2 the way they raise rates. Maybe you're totally happy with
3 Canada Post, but I've heard an awful lot of unhappiness with
4 Canada Post from other, both clients of mine and other
5 mailers, as well. So, I don't think Canada Post is above
6 criticism.

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

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

12 MR. MCBRIDE: I would just like to add that about
13 320,000 Wall Street Journals a day still in the mail stream,
14 obviously going, for the most part, I would think, to
15 addresses where there is lots of other mail also going on.
16 It's hard to imagine that the Postal Service is not making
17 money on having Wall Street Journals in the mail mix going
18 to those addresses and, therefore, would lose something, if
19 it lost those 320,000 daily copies.

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

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

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

10 (Laughter.)

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

13 (Discussion on the record.)

14 MR. VOLNER: What he said for those who couldn't
15 have heard it is that he's been re-nominated to the
16 Commission. Mike was not the only one to cite Sea-Land and
17 I need to tell you a story. In the course of preparing
18 those comments, I decided to do a Lexis search, using the
19 word "similarly situated" within some propinquity of a
20 utility company. And the machine told me that I had more
21 than 1,000 cites and I really ought to think about what I
22 was doing. The fact of the matter is that the term has been
23 defined for more than 150 years by state public utility
24 commissions, by federal utility commissions. There is no
25 great mystery to it. And Sea-Land not only imposes it -- I

1 mean, David Stover is right, it is a mandate in an NSA -- in
2 the Postal System, precisely because of 403(c) and it's not
3 that hard to work out.

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

13 But my favorite story, which is now out of date,
14 so it's safe, is the Postal Service used to have a rule that
15 said if you had more than 500 pieces of media mail, you had
16 to sort it to either BMC or five digit, and there was no
17 rate break. Miraculously, every book publisher in those
18 days using media -- what is now media mail, never had more
19 than 499 pieces going out in a mailing. You know, there are
20 ways of getting around these mandatory rules and that's why
21 NSAs are imperative, because they provide the requisite
22 incentive for someone to do more than is required and,
23 indeed, as a part of that, to not stop doing the minimum
24 that Jim was talking about. If I could stop, if you don't
25 give me the incentive, I am going to stop, unless the price

1 is right.

2 MR. MCBRIDE: Ian, I just want to say -- in
3 response to what you said, you triggered something that I
4 had heard earlier today. There was concern expressed about
5 the fact that people would be contracting with a monopolist
6 and that would somehow lead to some people benefitting to
7 the detriment of others. But, if you think about it, it's
8 not an entirely accurate characterization of the Postal
9 Service, because, certainly, in certain classes, such as
10 periodicals, at least for my client, and, certainly, in
11 third class, as well, the Postal Service is not a monopoly.
12 And, well, Dow Jones delivers 80 percent of the Wall Street
13 Journals that go to subscription holders every day. So, it
14 obviously is competing with the Postal Service. Obviously,
15 there's lots of competition in third class.

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

21 I would also say that you should look at the
22 history of what's happened in certain regulated industries.
23 There are those, who will tell you, including the railroads,
24 that contract -- the right to sign contracts that Congress
25 encouraged in 1980, in the Staggers Rail Act, saved the

1 railroads, and it has transformed the natural gas pipelines.
2 You could argue about what's happening in the electric
3 utility industry, but I don't think it's an issue of
4 contracting. It's an issue of competition and ground rules.

5 But, there are industries that are far better off
6 today, because they have been allowed to contract. And if
7 you look at history, it may be prologue for the Postal
8 Service.

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

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

25 MR. COSTICH: I'm Rand Costich with the OCA.

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

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

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

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

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

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

13 MR. COSTICH: I thought the same thing, Gene.
14 Once I had my criteria down, I said, oh, my God, what have I
15 done.

16 (Laughter.)

17 MS. BIZZOTTO: Poor Vince.

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

21 (Laughter.)

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

24 MR. GLEIMAN: I'm going to interrupt you. I don't
25 mind being piled on and I promise to send my wall to be back

1 to the University of Baltimore this afternoon. And I will -
2 - I will use the -- I will use the U.S. Postal Service to
3 send it back. But, you're missing my point. I may not
4 appreciate the niceties of the case law; but one of the
5 problems, and, you know, you hear Rands stand up and say --
6 people from the Greeting Card Association stand up and say
7 this, is that, you know, this thing is fraught with
8 difficulties.

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

17 MS. ELCANO: Back to my point, my point is there
18 is a Third Circuit case in the late 1990s, and I'm sure
19 someone can tell me the exact date, where we had an
20 international customized mailing services and they were
21 customized contractual rates on the international level for
22 Postal -- U.S. Postal Service and one of the issues was
23 similarly situated, and it's defined in there. It relies on
24 the Interstate Commerce Commission Act and there is a lot of
25 history in court litigation that interprets similarly

1 situated. So, given as caveat, use the words carefully, I
2 think there is enough guidance judicially to help us
3 understand those terms.

4 MR. MCBRIDE: Mary, Mike McBride here to tell you
5 that the case is UPS World Forward -- Worldwide Forwarding,
6 Inc. v. United States Postal Service, 66 F.3d 621, 3d
7 Circuit, 1995.

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

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

17 What went wrong in the UPS case was the Third
18 Circuit opinion writer called the Service a public utility,
19 assuming it was a monopoly in all classes, by so describing
20 it, which, obviously, it is not, and then somehow got the
21 subject confused by assuming there might be something wrong
22 with contracts with a public utility, as a result. But
23 since that very circuit recognized earlier that contracts
24 might be lawful if submitted to the Commission for approval,
25 I would submit to you that that 1995 case does not stand in

1 the way, although that was the case cited by the Postal Rate
2 Commission in '95, '96, for not pursuing negotiated service
3 agreements. That was where we hit the wall six years or so
4 ago. But, I submit that we shouldn't have been able to --
5 we should have been able to overcome that.

6 MS. HANBERY: I'm Donna Hanbery again and I work
7 with Saturation Mailers and their customers. A couple of
8 anecdotes or comments here. I was glad to hear Mr. McBride
9 address an area that we think is ripe for NSA treatment and
10 that's the business that the Postal Service stands to lose,
11 if it doesn't set prices and regulations that make sense.
12 We were sort of joking, as we were strategizing one day,
13 would the last Postal customer be good enough to lick the
14 \$80 billion stamp.

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

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

1 converted 60,000 of his mail delivery to private carrier.
2 He's doing very well. His unit costs about eight cents,
3 where it had been than that. He's now competing with the
4 Postal Service in that market.

5 A lot of the people I work with don't want to
6 leave the Postal Service. But last year, I traveled with
7 this particular paper, as we called on their customers, all
8 of whom were small businesses that had been with this paper
9 20 to 30 years. And we asked them, will you react
10 negatively, if the paper leaves the mail. And their
11 response was, no, because people read the paper. They love
12 the paper. They look for my add in the paper. What is it
13 going to cost me and, oh, by the way, are you raising my
14 rates, because I hear there's -- you know, something is
15 going on with the Postal Service. If you leave the mail,
16 will you keep my cost down.

17 This industry has been doing audits, so they can
18 compete more with the newspapers. They're doing industry
19 audits of their readership and they found that the
20 readership response was virtually the same whether it came
21 in the mailbox or private delivery. The customers, who are
22 reading these ads, just didn't care.

23 And, finally, a comment to David Stover. I send
24 600 Christmas cards every year. I want to keep sending
25 cards; but I guess I firmly believe that if the Postal

1 Service doesn't get its act together with its big, small,
2 medium customers, and keep its class down, I may still be
3 able to afford the cards. But, a lot of the people I send
4 them to won't and it just makes sense for everyone, at all
5 ends of the spectrum, for the Postal Service to run more
6 like a business, and that includes keeping good customers.
7 Michael, I'm going to give you my card, because I want all
8 your research.

9 MR. POU: One last comment?

10 MS. MUTH: Kate Muth, Business Mailers Review. I
11 want -- speaking as a consumer very educated on postal
12 issues and a small business, I wanted to address Mike
13 McBride's comment about the concerns of contracting with a
14 monopolist. I think the concerns are: (a) it's not so much
15 a monopoly -- well, yeah, it is, but, I mean, it is a
16 monopoly, we all know that, but the concern being that the
17 Postal Service doesn't have a great track record in some
18 contracts, Remitco was mentioned, and John Haldi knows a lot
19 about the mail processing centers and the Emory contract,
20 and that was never looked closely at what failed. I mean, I
21 know John has talked about doing a white paper or something
22 on that. And the concern, I think, is that there's no real
23 recourse if there's -- to the Postal Service, there's no
24 negative fallout. If there's a -- it's a bad contract, it
25 falls to the monopoly customers to pick up the tab.

1 And then on the Canada Post thing, I think there
2 was some concern among critics of Canada Post NSAs that it's
3 all done in secret and there's no -- no one knows really
4 what the prices they're being given or who even has the
5 contract. And there's a further concern that Canada Post
6 sweetens the deal a little, to get their customers to use
7 competitive products offered by Canada Post. And the United
8 Parcel Service people might know a little bit about that, as
9 well, because that's who they compete with. So, I just
10 throw that out there.

11 MR. MCBRIDE: Well, let me just respond by saying
12 that, first of all, let me counter your concern with a
13 hypothetical. And I'm not saying this is the contract that
14 we would end up negotiating obviously or signing. I don't
15 know what we'll end up with. But, suppose we agreed to pay
16 exactly the same rate that we're paying today for the 20
17 percent of the Wall Street Journal still in the mail stream,
18 and nothing else changed, in terms of the revenue flow. And
19 I would submit to you, therefore, the costs are going to be
20 identical to what they are today. But by having a contract,
21 we might be able to deliver our papers in various locations,
22 to some place other than the exact street address that the
23 Postal Service now tells Dow Jones it has to deliver to, to
24 get the pallet discount or what have you, what other kind of
25 discount it may be getting under the current rate schedule.

1 And it turns out that some of those addresses aren't really
2 the right places where the Postal Service needs those
3 deliveries. It might be just down the street or around the
4 corner; literally the same building, but a different street
5 address, if it's got two or more.

6 So, just by making that one little change, we
7 might be able to save the Postal Service cost by bringing
8 the papers to the right place, instead of the place that
9 some schedule that somebody put out told us we had to bring
10 them. And we would produce the same revenue for the Postal
11 Service at a lower cost. Our deliveries would presumably be
12 better and everybody would benefit.

13 Now, how could that contract be, in any sense,
14 discriminatory or unfair or harmful to any other mailer in
15 the system, but it might save those journals from leaving
16 the system. That could be where we start. And by the way,
17 just to -- and not beat up on Ed Gleiman any further, but
18 just to make a comment about your comment, Ed, and that is
19 if we don't want to call these negotiated service
20 agreements, that's fine. I agree. Some of the old railroad
21 cases call them individualized tariffs or call them niche
22 classifications. I don't care what you call it. I don't
23 even care if it's an implied contract instead of an
24 expressed contract. But, let's get on with tailoring the
25 service to the customers needs at no cost to the other

1 customers, to save the Postal Service.

2 MR. MCLAUGHLIN: I'm Tom McLaughlin, again. About
3 the only word I've heard more than Ed Gleiman is Remitco,
4 and I don't even know what Remitco is, except I know it
5 didn't involve postal rates and I know it didn't involve the
6 Postal Rate Commission.

7 MALE SPEAKER: It didn't involve Ed Gleiman.

8 (Laughter.)

9 MR. MCLAUGHLIN: So, if that's the only --
10 obviously, we have no examples of bad negotiated service
11 agreements, because there haven't been any yet. And I think
12 that the Postal Service would probably be smart enough, at
13 least coming out of the starting gate, they're going to make
14 pretty darn sure that they're going to have a contract that
15 they think, in the end, is going to be beneficial for them.
16 Sure, they might guess wrong. Maybe the mailers are going
17 to guess wrong. Maybe the Rate Commission taking a look at
18 it is going to guess wrong. Not every decision, even by the
19 regulatory, is always the right decision in the end. But,
20 let's go forward with it. And, you know, mistakes might be
21 made. On the other hand, I think it's a real potential for
22 a benefit here. And if we get all hung up with, oh,
23 Remitco, or something else, where the Postal Service made a
24 dumb mistake, we're really missing a big opportunity.

25 MR. POU: Any of the panelists want to offer any

1 final thoughts?

2 (No response.)

3 MR. POU: Thanks, very much.

4 MS. GIBBONS: Okay. Let me close this out for the
5 day. I wanted to extend the thanks of the Postal Service to
6 the Postal Rate Commission for cosponsoring both day one and
7 day two of this summit. I, also, wanted to thank our
8 panelists for their participation, their preparation, and
9 all that, and their terrific ideas. I wanted to thank all
10 of you, who were here both day one and those, who joined us
11 today, for your active participation. I, also, want to
12 thank Charley, for, I think, your presence has kept us all
13 on track here, and that was helpful and you were very
14 helpful on the planning for this day.

15 I think the next steps will be -- as I mentioned
16 when I was up here, just the fact that we've taken the time
17 out to have this discussion, I think what you're going to
18 see as we go forward is a lot more consciousness on the
19 Postal Service's part and I certainly hope on the
20 stakeholder's part, as we move forward. I think you will
21 see us -- although I think we've done a great job over the
22 last years of really inviting people into the process and
23 into our thinking, I think you'll see us even opening the
24 door more and I really hope that you are knock on the door
25 more, as well. A couple of people have walked up to me and

1 said, you know, you're studying this right now, I hope when
2 you get to the end, that you'll share it with us. So, I
3 think to the extent that you have those kinds of ideas and
4 knock on the door, if we don't think to open it, that will
5 be really helpful.

6 As far as phasing what the next steps, I think,
7 will be, we've gotten some more reaction input today, so
8 we'll have to take that into account. And then whenever it
9 is that the next case needs to get prepared and filed, the
10 staff level and, of course, what we've discussed today was
11 thinking at the staff level, recommendations made to our
12 executive committee and our governors, and the normal input
13 of the stakeholders along the way, and then, you know,
14 ultimately, something would pop out at the end and get filed
15 at the Rate Commission.

16 As far as the process, there will be planning for
17 how to conduct this technical conference and any mini
18 technical conferences that will occur after the filing of
19 the next rate case, whenever that might be. And so, any
20 additional ideas, in addition to those -- I know Shelley had
21 a lot, but anybody else with other ideas, I think it's
22 helpful to get those into us, as we go forward.

23 As far as NSAs, this was the first time we've got
24 a good chance to discuss that. There was a lot of very good
25 discussion and I think we'll have to take that into account,

1 as we continue discussions with some mailers that are going
2 on right now. And, hopefully, there will be more people
3 coming forward. I know we had one -- seems like one taker
4 today. And so, we'll see more as we go forward.

5 So, a lot of work to do and I think we've kind of
6 started a new era here, us and the Rate Commission, the Rate
7 Commission, us, and all the stakeholders, with really trying
8 to be much more collaborative than we ever have been in the
9 past. Thanks again to everybody and safe home.

10 (Whereupon, at 3:40 p.m., the summit was
11 adjourned.)

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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


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