

POSTAL REGULATORY COMMISSION

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PORTSMOUTH FIELD HEARING
ON UNIVERSAL POSTAL SERVICE
AND THE POSTAL MONOPOLY

- - -

CITY COUNCIL CHAMBERS
1 Jenkins Avenue
Portsmouth, New Hampshire

JUNE 19, 2008

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APPEARANCES

POSTAL REGULATORY COMMISSIONERS:

Dan G. Blair, Chairman
Mark Acton, Vice Chairman
Ruth Goldway, Commissioner
Tony Hammond, Commissioner
Nanci Langley, Commissioner

WITNESSES

PANEL 1:

Jamie Trowbridge, President, Yankee Publishing, Inc.
Liz Robert, President, The Vermont Teddy Bear Company
Jeanie Schnell, Postmaster
Tom Underkoffler, Director, corporate Logistics, Medco
Health Solutions, Inc.

PANEL 2:

Steve Smith, Director of Distribution, Christian Science
Publishing Society
Jody Berenblatt, Senior Vice President Postal Strategy,
Bank of America
Laura A. Timmons, Area Marketing Manager, Northeast
Area, USPS
Richard Moses, City Letter Carrier

Court Reporter:

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P R O C E E D I N G S

CHAIRMAN BLAIR: Good afternoon everyone. Welcome to Portsmouth. It's a beautiful day and we're doing some, I'm told they're doing some work to the roof of the City Council Chambers. So if you hear a loud thud, don't take cover, it's just work that's going on up above us.

But I'm pleased to be here this afternoon and to be able to welcome everyone. This is the third hearing that we've had in our road show as the Commission has embarked upon this study, the Universal Service Obligation and the Postal Monopolies.

Congress tasked the Commission with this job back in December of 2006 when it passed the Postal Accountability and Enhancement Act. And in this past year we initiated our study earlier through an extensive notice in the Federal Register. We had some comments by the end of June with replied comments due by July 29. In an effort to reach out beyond Washington, we've gone to Flagstaff, St. Paul, Minnesota, and now we're in Portsmouth, New Hampshire.

1 We conducted a workshop in Washington, D.C.
2 last week and we're going to conclude on July 10
3 with another hearing in Washington as well.

4 We've heard a number of themes from these
5 hearings as well. We've heard about the need to
6 maintain access from the Postal Service and the
7 importance that local post offices play in
8 providing community identity in the face of the
9 federal governmental role in remote locations
10 throughout our country.

11 At the workshops, many of the mailer
12 representatives stressed the need to maintain
13 affordable postal practices and writings. Some
14 urge the Commission to review potential trade-offs
15 in service reductions should this off set future
16 increases in the cost of mail.

17 The sanctity and security of the mail has also
18 been a reoccurring theme with most witnesses
19 generally favoring the current mailbox
20 restrictions.

21 Defining Universal Postal Service along with
22 estimating the cost of universal obligations is in
23 deed a very broad task. That's why we've come to

1 Portsmouth today to hear from a variety of
2 witnesses whom I'd like to introduce at this point.

3 Our first panelist is comprised of Jaime
4 Trowbridge who is the President and CEO of Yankee
5 Publishing in Dublin, New Hampshire. Our second
6 witness this afternoon is Liz Robert, President of
7 the Vermont Teddy Bear Company in Shelburne,
8 Vermont. Jeanie Schnell joins us today from the
9 remote island of Monhegan off the coast of Maine,
10 where she serves as the Monhegan Postmaster. And
11 Tom Underkoffler completes the first panel and
12 serves as the Director of Corporate Logistics of
13 Medco Health Solutions in Franklin Lakes, New
14 Jersey. Welcome.

15 Our second panel of witnesses today, and I'll
16 introduce them when they begin to testify, include
17 Steve Smith, Director of Distribution of the
18 Christian Science Publishing Society in Boston;
19 Jody Berenblatt, Senior Vice President of Postal
20 Strategy of the Bank of America in New York; Laurie
21 Timmons, Area Marketing Manager for the U.S. Postal
22 Services Northeast Area; and Richard Moses, a U.S.
23 Postal Service City Letter Carrier since 1972, and

1 he's based in Boston.

2 Your statements will be made part of the
3 Commission's hearing record today and a transcript
4 of today's hearing will also be available on the
5 Commission's web site.

6 At this point, I welcome you and I'll yield to
7 my fellow Commissioners to say a few words.
8 Commissioner Hammond.

9 COMMISSIONER HAMMOND: Thank you,
10 Mr. Chairman. And I want to thank all our
11 witnesses for taking time out of your schedules to
12 be with us today. I've commended the Chairman
13 before for taking this on the road, so to speak, to
14 get out of Washington, D.C. to get a varied group
15 of individuals who are involved in various aspects
16 of mail delivery and postal service and from
17 stakeholders and all, and that I think it's been
18 very good for us and I look forward to a nice
19 discussion today. Thanks.

20 CHAIRMAN BLAIR: Commissioner Goldway.

21 COMMISSIONER GOLDWAY: I'll second everyone's
22 welcoming remarks. I'm delighted that you are all
23 here and I'm looking forward to a range of

1 interesting discussions and an opportunity for us
2 to ask you some questions to further broaden the
3 dialogue that we have on universal service
4 obligation.

5 CHAIRMAN BLAIR: Thank you. We're kind of
6 mixing it up on the panel today. We have a new
7 member of the panel today, Nanci Langley. Welcome,
8 Nanci, your first official hearing at the
9 Commission.

10 COMMISSIONER LANGLEY: Thank you.

11 CHAIRMAN BLAIR: Do you have any opening
12 remarks you'd like to make?

13 COMMISSIONER LANGLEY: Well, I do want to
14 welcome everybody and join my colleagues in
15 thanking you for coming. Thank you, Mr. Chairman
16 for his foresight in going out of beyond
17 Washington, D.C. I think the Commission is going
18 to benefit greatly from the diverse and varied
19 opinions that we've heard so far.

20 There have been many witnesses who have
21 discussed the societal benefits of the postal
22 service and it's universal service obligation.
23 Others have brought up the sanctity of the mail.

1 And just in looking at the testimony from today, I
2 was reminded that the Postal Service is a
3 designated, critical infrastructure by the
4 Department of Homeland Security, and I was reminded
5 of this when I looked at Mr. Moses' testimony, and
6 he discussed the issue of the city's readiness
7 initiative and, because the Postal Service sits on
8 the Postal and Shipping Sector Committee on the
9 Department of Homeland Critical Infrastructure
10 Advisory Council, I think this is something that we
11 also need to keep in mind when we are looking at
12 the different functions of the postal service.

13 It certainly is a critical infrastructure,
14 both in the Federal government viewpoint, but also
15 the huge economic impact that the postal sector has
16 on the economy. This is an important topic. Thank
17 you.

18 CHAIRMAN BLAIR: Thank you, Commissioner
19 Langley. I'd like to introduce now the Vice
20 Chairman of the Postal Regulatory Commission, Mark
21 Acton.

22 VICE CHAIRMAN ACTON: Thank you, Mr. Chairman.
23 Congress has charged this Commission with an

1 important mission and that's the Universal Service
2 Obligation, as well as the monopoly mandate. I
3 thank you for your time and testimony. It's a
4 great contribution toward the work that we need to
5 be doing.

6 As the Chairman mentioned, this is our third
7 of three hearings in the field. There's a couple
8 of individuals that have an important role that I'd
9 like to thank on the record. The first is the
10 Chief of Staff, Ann Fisher, who is here today. And
11 she's also our Acting Director of Government
12 Affairs and Public Relations. And the second is
13 Judy Grady, who is the agency's Director or
14 Assistant Director of Administrative Services and
15 Strategic Mission. The two of them have done a lot
16 of the yeoman's work in preparing for these events
17 and they have been very helpful and thanks again.

18 CHAIRMAN BLAIR: We're ready to start. So,
19 with that, why don't we go from my left to my
20 right, which would be from your right to your left.
21 So we'll start with Mr. Trowbridge.

22 Welcome. I appreciate you coming before the
23 Commission. I look forward to hearing your

1 testimony today.

2 MR. TROWBRIDGE: Thank you, Mr. Chairman. And
3 a credit to you all for getting out of Washington
4 and for coming to New Hampshire. I hope you have
5 time to enjoy the state while you are here.

6 My name -- I'm just going to read the prepared
7 statement and then I'd be happy to answer your
8 questions.

9 My name is Jamie Trowbridge. I am the
10 President and CEO of Yankee Publishing,
11 Incorporated, which is headquartered in Dublin, New
12 Hampshire, which is about two hours west of here.
13 I appreciate this opportunity to testify before the
14 Commission.

15 Yankee Publishing was founded in 1935 by my
16 grandfather Robb Sagendorph. He was a frustrated
17 freelance writer who had a vision for a magazine
18 that would be the expression of our great New
19 England culture. Yankee was not very successful at
20 first, but my grandfather bought the rights to
21 publish The Old Farmer's Almanac in 1939, and
22 things started to look up financially after that.
23 The Old Farmer's Almanac is America's oldest

1 continuously published periodical. It was started
2 by Robert B. Thomas in 1793, when George Washington
3 was still in his first term as President. Yankee
4 still publishes both Yankee and the Old Farmer's
5 Almanac. We have 55 employees. 45 at our company
6 headquarters in Dublin, New Hampshire, and 10 at a
7 sales office in Boston. And the company, 75 years
8 old, is still family-owned.

9 Today, we use the Post Office and the Postal
10 Service quite extensively to distribute Yankee
11 Magazine to our 325,000 subscribers. Yankee
12 Magazine is New England's magazine, the essential
13 resource for people who want to know and enjoy the
14 New England way of life today.

15 Our readers live in both urban and rural
16 areas, and about half of them live outside New
17 England, which is unusual for a regional magazine.
18 The outsiders use the magazine as a way of staying
19 in touch with the region that they love.

20 A year and a half ago in January 2007, we cut
21 our publishing frequency to six times per year and
22 reduced our circulation in an effort to recast the
23 magazine's publishing economics. Reducing our

1 frequency and our circulation was a way to reduce
2 our production and distribution expenses which had
3 really grown beyond our ability to afford. At the
4 same time, even though we changed the size of our
5 magazine, it was a 6 by 9 inch magazine that we
6 changed it to a standard size magazine. Increasing
7 trim size not only provided a better visual
8 presentation for our readers, but it gave readers
9 more content per issue. New Englanders don't like
10 change and some of them let us know they didn't
11 like our changes but, for the most part, the change
12 has been well-received and has been very
13 successful.

14 Changing the size of Yankee from digest size
15 to a more common size allowed us to join the comail
16 pool of our printer, Quad Graphics. It also
17 allowed us to switch to a printer that was closer
18 to where most of our readers are. We switched from
19 printing in Wisconsin to printing in New York.
20 Through comailing, we are able to qualify more than
21 80 percent of our copies for Carrier Route rates
22 and over 90 percent of our copies for destination
23 entry rates.

1 In addition to distributing Yankee magazine to
2 subscribers through the Postal Service, we also use
3 the Postal Service extensively to support our
4 subscriptions by sending acknowledgements,
5 invoices, and renewal notices and use it for
6 attracting new subscribers by sending promotions
7 and special offers for magazines and related
8 products.

9 The Postal Service is extremely important to
10 our business because mail serves as our primary
11 means of contact with our readers.

12 While we do sell copies on newsstands,
13 subscriptions comprise more than 90 percent of our
14 circulation. We expect that the subscription
15 channel for Yankee magazine will continue to be the
16 major component of our magazine's circulation for
17 the foreseeable future. All subscription copies
18 are delivered by the Postal Service.

19 Given the large increase in recent years in
20 the costs of producing and distributing magazines,
21 as well as changes in media consumption patterns,
22 Yankee magazine has established a successful
23 Internet companion website, YankeeMagazine.com,

1 where we serve about 90,000 unique visitors per
2 month. We are focusing our investment resources on
3 the web, as we expect are many mail users are, as
4 businesses in general continue to explore ways in
5 which technology can facilitate quicker, less
6 expensive, and more effective communication with
7 customers.

8 While we don't expect the circulation of our
9 magazine to continue to grow much in the future, we
10 do believe the magazine will continue in print form
11 for a long time to come. Our customers tell us
12 they prefer receiving the material that way. I've
13 been told that magazines and other mailed
14 periodicals have been called an anchor of the
15 mailbox, eagerly awaited by consumers. And I feel
16 confident that is true for Yankee's subscribers.
17 There is a good reason that mail with educational,
18 cultural, scientific, and informational value, such
19 as magazines and newspapers, have received special
20 treatment under postal law throughout the years.

21 Ever-increasing production and distribution
22 costs may force magazines to raise prices for
23 consumers and for advertisers. Unfortunately, our

1 subscribers and advertisers are more focused on
2 their costs and they are very, very price
3 sensitive.

4 Realistically, the only way we can accommodate
5 increased costs in production and distribution is
6 by cutting back the least profitable aspects of our
7 business as they turn unprofitable. That decreases
8 the volume of our business and it decreases the
9 volume of the USPS. Thus begins the downward
10 spiral. To keep our businesses viable, we need a
11 viable, reliable and affordable Postal Service now
12 and in the future.

13 I wish to offer the following observations in
14 response to the Commission's questions regarding
15 universal postal service.

16 Maintaining a universal postal system is in
17 the national interest. Facilitating nationwide
18 distribution of the printed word was a fundamental
19 justification for the original establishment of
20 America's government-sponsored postal system. More
21 than 200 years later, magazines, like Yankee, still
22 make a difference in people's lives, and in the
23 life of the nation.

1 What does universal service mean? Several
2 features of universal service are particularly
3 important to Yankee and magazine publishers in
4 general. If I could presume to speak for them.

5 To hit a point I've already stressed, postal
6 rates must remain affordable. Consistent with the
7 recently-enacted postal reform law, this can be
8 achieved by constraining periodicals rate increases
9 to inflation. As a small mailer, I can tell you
10 how hard it is to absorb increasing business costs,
11 paper, fuel, health insurance, those in addition to
12 and postage.

13 As the only truly universal service provider,
14 the Postal Service should continue delivery to each
15 and every business and residence as it does today.
16 I feel this is important.

17 Six days per week delivery we'd like to see
18 continued. Certain magazines may be best received
19 just prior to or on the weekend when readers have
20 more time to devote to perusing the magazine.
21 Other magazines may be best received early in the
22 week to provide useful information a reader can
23 utilize during the workweek. I'm speaking here for

1 magazines as a category more than I am for our own
2 magazine.

3 The Postal Service should provide reliable
4 service, with clearly articulated service
5 standards, a service measurement and reporting
6 system, and avenues of recourse if the standards
7 are not met. We believe that current service
8 levels provide adequate service for magazines and
9 should be maintained.

10 The Postal Service must continue to deliver
11 the variety of mail that publishers and other
12 mailers want to send. Publishers use the Postal
13 Service to distribute a broad spectrum of magazine
14 formats, ranging from ounces to ones that weight
15 pounds; from digest size to tabloid size; from
16 unwrapped to polywrapped.

17 I realize that the potential declines in mail
18 volumes could make funding universal service more
19 challenging in the future. It is likely that the
20 Postal Service will need to look internally for
21 cost reduction opportunities. I understand that
22 one such opportunity is for the Postal Service to
23 streamline its processing network to reach an

1 optimal configuration. The Postal Service should
2 be given substantial flexibility to do so as long
3 as it continues to meet its universal service
4 obligation.

5 Finally, I wish to offer the following
6 observations in response to the Commission's
7 questions regarding postal monopoly laws.

8 One reason the Postal Service is able to pay
9 for its nationwide and truly universal network of
10 carriers delivering mail to each and every business
11 and residence in the nation is through the
12 monopolies it has been granted over the delivery of
13 letters and access to mailboxes. This seems to be
14 a reasonable approach to me. The Commission should
15 not recommend changes to these monopolies that
16 could jeopardize universal service.

17 I understand that magazine publishers have
18 tested alternate delivery options and concluded
19 that efficient and affordable delivery requires
20 large quantities of mail. Allowing new entrants to
21 cream-skim the Postal Service's most profitable
22 mail volume could deprive the service of the volume
23 and revenue needed to underwrite the cost of the

1 universal service obligations.

2 It really seems to me that keeping the volume
3 of the USPS up is going to be essential to its
4 long-term survival.

5 Thank you for your time and attention. And I
6 would be pleased to answer any questions you may
7 have.

8 CHAIRMAN BLAIR: Thank you, Mr. Trowbridge.
9 Ms. Robert. I hope I'm pronouncing it right.

10 MS. ROBERT: Yes, you are.

11 CHAIRMAN BLAIR: Okay. Thank you.

12 MS. ROBERT: Very fortuitous for someone in my
13 position.

14 Mr. Chairman and Commissioners, on behalf of
15 the employees and customers of The Vermont Teddy
16 Bear Company, I thank you for the opportunity to
17 appear before you today. I am Liz Robert,
18 President and Chief Bear Officer of our company.
19 Vermont Teddy Bear represents a segment of commerce
20 that some believe is vanishing in America today,
21 and that is domestic manufacturing, but one that
22 remains critically important to thousands of small
23 companies like ours to collectively employ millions

1 of Americans.

2 We make teddy bears in Vermont, but we
3 position them uniquely in the marketplace as Bear
4 Grams in order to compete against low cost imported
5 teddy bears. Bear Grams are customized teddy bears
6 that are delivered directly to recipients as
7 personalized greetings for special occasions such
8 as birthdays, anniversaries, weddings and new
9 babies, as well as holidays, such as Valentine's
10 Day, Christmas, and Mother's Day.

11 We're also a cataloger. In fiscal 2007
12 Vermont Teddy Bear mailed over 20 million catalogs
13 that generated approximately 43 percent of its
14 annual sales.

15 Catalog remains extremely important to the
16 future of our business, as we continue to expand on
17 the national and international level. The recent
18 postal rate increases applicable to catalogs have
19 had a material impact on the profitability of our
20 company, as I set forth previously in a March 2007
21 letter to the then Chairman Miller.

22 We are a small business today by national
23 standards, but one of the largest Vermont

1 employers. We're number 31 according to Vermont
2 Business Magazine, with about 300 high-skilled
3 jobs, including 52 engaged in all aspects of teddy
4 bear manufacturing.

5 We believe, in fact, we are the only
6 manufacturer of teddy bears in North America with
7 virtually all plush toys and gifts being made in
8 China. And, therefore, we are the stewards of
9 Teddy Roosevelt's American tradition of the teddy
10 bear. Our Shelbourn and Newport, Vermont
11 facilities demonstrate our commitment of preserving
12 manufacturing. Newport is an economically
13 depressed area with one of the highest unemployment
14 rates in the State of Vermont.

15 And our factory in the city, which is one of
16 the smallest cities in America, provides high
17 paying manufacturing jobs not generally available
18 elsewhere in the area.

19 To be a successful American manufacturer,
20 we've been innovative, consistently innovative,
21 adopting lean and other advanced manufacturing
22 techniques to be competitive. We continually
23 invest in our domestic manufacturing capabilities,

1 not only because we believe that the Vermont made
2 theme reinforces our brand identify, but also
3 because we sincerely believe that times are a
4 changing. That the pendulum is, in fact, swinging
5 back and that our domestic manufacturing will be a
6 real strategic asset in the future.

7 As we monitor closely the increased cost of
8 doing business in China, related in part to rising
9 energy prices, we have a new vision that with
10 continued innovation and a competitive mind set, we
11 can leverage this asset as a real opportunity for
12 growth in the near future.

13 I'm here today to convey three points that I
14 believe are relevant as you contemplate changes to
15 our national mail systems, and the role the U.S.
16 Postal Service plays in enabling commerce,
17 particularly for smaller U.S. based companies and
18 its greater benefits to rural America in providing
19 higher paying employment than might be available in
20 a local fast food restaurant or a convenience
21 store.

22 So, number 1. The U.S. mail among many other
23 things is a direct marketing channel delivering

1 advertising content on behalf of direct marketers
2 to every individual address in America. It's a
3 channel paid for by advertisers, including
4 catalogers delivering advertising content in much
5 the same fashion as radio and television. And this
6 channel allows small business in America, even
7 those businesses that are located in remote rural
8 areas, such as our company in northern Vermont,
9 access to a national marketplace.

10 The Vermont Teddy Bear Company and companies
11 like it would not exist if it were not for direct
12 marketing, including catalogs delivered by the
13 mail.

14 We tried more than once in our history, but we
15 could not compete with imports, imported teddy
16 bears, on the thin margins of wholesale or with the
17 expensive infrastructure of brick and mortar
18 retail. Our small business was too nitch. We
19 couldn't reach enough people with our
20 differentiated product message.

21 It was not until the company turned to direct
22 response in the early 1990's, principally radio and
23 catalog, that it was able to make the transition

1 from a struggling start up to an expanding success
2 story growing from 17 to 75 million dollars in
3 annual sales in eight years.

4 As an agency of the U.S. Government, the U.S.
5 Postal system, I believe, has a responsibility to
6 understand its role in an enabling commerce,
7 particularly that of small business, the heart of
8 the U.S. economy, helping to level the playing
9 field in an increasingly competitive global supply
10 change.

11 Further, a properly managed postal system
12 enables future growth for thousands of small
13 marketers like us who use the U.S. mail to connect
14 to consumers, producing in turn increased mail and
15 package volume that can increasingly, but
16 competitively cover the costs of maintaining
17 universal service to all Americans.

18 Point number 2. Some consider the U.S. Postal
19 system to be a full monopoly in every market
20 segment outside of packages and overnight delivery.
21 And I would say to you that the experience of our
22 company, the Vermont Teddy Bear Company, does not
23 bear this out -- no pun intended.

1 We have a variety of alternatives in how we
2 can allocate our marketing dollars. Our behavior
3 is driven by economics. We compare the cost of
4 each medium to the return that medium delivers, and
5 while we have worked hard to counter postage
6 increases for our catalog with lower paper weights,
7 reduced page counts and more sophisticated comail
8 programs, our company is mailing significantly
9 fewer catalogs in the coming year and is committed
10 to reducing its mail dependency in the future.

11 We are shifting more of our marketing dollars
12 as a percentage of total dollars spent to other
13 direct response channels, including radio, TV, and
14 web advertising, as we seek an improved return on
15 each advertising dollar spent. We do not have a
16 choice.

17 Some tell us that catalog postage went up
18 significantly because flats are not profitable to
19 send through the mail; however, we understand that
20 catalog companies have not been engaged in this
21 discussion and we're, in fact, the only major
22 mailer group that was not involved in the debate of
23 how to allocate the high fixed cost of running our

1 postal system.

2 In making costs and pricing decisions, no one
3 from our industry was available to challenge the
4 claim for some that flats were not profitable or,
5 more importantly, given the chance to explore ways
6 to tailor catalogs or automate catalog processing
7 methods. More specifically, to reduce the cost
8 impact on the Postal system.

9 Since it appears that the current status quo
10 is to have the effect of actually driving large
11 numbers of catalogs out of the mail and, therefore,
12 completely missing a sizeable growth opportunity
13 for the benefit of the Postal Service and its
14 universal service obligation, we would really urge
15 an immediate review and reconsideration of the
16 decisions that have been made over the past few
17 years as it relates to catalog postage.

18 Because cataloging is complicated to do this
19 effectively, we think it requires experts within
20 the United States Postal Service on our industry
21 segment, on cataloging, who can partner with
22 catalogers, increase the value of mail by the
23 impact of response it generates while reducing the

1 cost of handling the mail through such initiatives
2 as flats, automation.

3 Point number 3. I believe that the USPS has
4 an opportunity to compete effectively, not only in
5 delivering advertising, competing against radio and
6 television, but also with common carriers in
7 package delivery. Again, for the benefit of
8 preserving its universal service obligation.

9 Vermont Teddy Bear over the years has
10 repeatedly attempted to work with the USPS on
11 package delivery of its BearGram gifts, but it's
12 consistently run into road blocks.

13 First, USPS pricing of its parcel delivery
14 services is not competitive currently, except in
15 certain localized situations. Second, tractability
16 en route while the package is in transit, not just
17 delivery confirmation is critical to our gift
18 delivery product, and that's not available when
19 shipping via the USPS. And third, the local Post
20 Office and distribution unit have not been
21 adequately set up to provide adequate support of
22 the injection of significant package volume into
23 the mail stream at the holidays.

1 And we've tested persistently the USPS over
2 the years. So we sincerely believe, based on our
3 experience that investment in management systems
4 and technology, the USPS can become a viable
5 competitor to both UPS and Federal Express in the
6 package delivery industry.

7 So, in conclusion, the universal service
8 obligation debate is largely driven by changes in a
9 USPS volume that make it increasingly difficult for
10 remaining mail volume to cover the cost of frequent
11 delivery to every address in America.

12 For a relevant lesson in adapting to changing
13 consumption patterns, one might consider the
14 experience, the recent experience of the common
15 carriers, UPS and FedEx in particular. In recent
16 years their bread-and-butter business on which they
17 had long depended to maintain an efficient delivery
18 platform is disappearing. Electronic word
19 processing documents, e-mail, PDF files, and even
20 electronic signatures all reduce the demand for
21 overnight document delivery. And at the same time
22 another market shift was occurring. Internet
23 driven E-commerce dramatically exploded the global

1 parcel delivery volume. Because so much parcel
2 delivery occurs at major holidays, such as
3 Valentine's Day and Christmas, these common
4 carriers became capacity constrained on these
5 certain critical days that tend to be holidays.

6 At the same time, their consistent daily base
7 document business supporting the existing
8 infrastructure was shrinking. FedEx, on the one
9 hand, unwilling to invest in additional capacity,
10 presumably because the seasonal variability made
11 such investment uneconomical, they established caps
12 on and eliminated discounts to larger shippers,
13 larger holiday shippers such as Vermont Teddy Bear,
14 limiting the VTBC packages it will carry on
15 Valentine's Day.

16 UPS, on the other hand, was innovative and
17 aggressive. It leveraged more broadly its
18 integrated ground and air systems to handle the
19 added seasonal parcel volume and won over a large
20 number of shippers, larger shippers, including
21 Vermont Teddy Bear as a consequence.

22 Struggling to recapture lost business, more
23 recently FedEx has now eliminated these seasonal

1 caps. And the experience demonstrates in my mind
2 two distinct approaches to adjusting to societal
3 shifts in demand, such as electronic distribution
4 to printed material.

5 One is to try to govern the demand and reprice
6 current services in an effort to cover the cost of
7 existing infrastructure as contribution margins
8 change. The second, and I believe the premise for
9 a viable and free market economy, is to innovate
10 and adapt to societal changes and demands.

11 We see a parallel here for the USPS as it
12 adapts to the loss of its bread and butter, the
13 first-class letter. E-commerce is the catalyst for
14 an increase in direct marketing and the USPS, as I
15 just mentioned, has a long-standing business
16 partner to a plethora of direct marketers and
17 virtually all catalog direct marketers, is
18 perfectly positioned to benefit, both in delivering
19 the incremental volumes of advertising and parcels.
20 By leveraging its existing infrastructure with
21 improved efficiencies and advanced relevant methods
22 to support direct marketing, it seems there is an
23 opportunity to compete profitably in a developing

1 marketplace that could then in turn support some
2 responsible level of Universal Service Obligation
3 tailored to the electronic age.

4 On the other hand, it seems futile to me to
5 focus on the reverse approach of meeting an
6 outdated standard by raising prices on services for
7 which there is no competitive market, thereby
8 reducing demands for those services and creating a
9 negative spiral while trying to support an outdated
10 and likely over extensive obligation or
11 infrastructure.

12 We the catalog industry are sincerely ready to
13 partner with the USPS to help facilitate its
14 competitive opportunity to support reasonable
15 universal service. Right now is the time to invest
16 in U.S. commercial platforms, as American industry
17 is once again poised to compete in a rebalancing of
18 an evolving marketplace.

19 So thank you again for the opportunity to
20 share with you today my point of view and I very
21 much appreciate your ears.

22 CHAIRMAN BLAIR: Thank you, Ms. Robert.
23 Mr. Underkoffler, if I'm pronouncing that

1 correctly.

2 MR. UNDERKOFFLER: Correct. Correct.

3 Mr. Chairman, Vice Chairman, Commissioners,
4 thank you for allowing me to present today.

5 Good afternoon, my name is Tom Underkoffler.
6 I'm Director of Logistics for Medco Health
7 Solutions. My responsibilities require extensive
8 involvement in postal affairs, and I also represent
9 Medco with a number of associations, including the
10 Parcel Shippers Association where I serve on their
11 executive committee. I'm also a member of the
12 Mailers Technical Advisory Committee and cochair of
13 the Impact Subgroup on Service Standards for
14 Packages.

15 Medco Health Solutions is a leading Pharmacy
16 Benefit Manager or PBM, and we operate the nation's
17 largest and most advanced mail-order pharmacy
18 operation. In fact, we've spent almost 95 million
19 prescription via our mail order pharmacy last year.

20 Almost more importantly though, is our level
21 of quality. We have our highly automated,
22 proprietary pharmacy systems in our Las Vegas,
23 Nevada and Willingboro, NJ pharmacies. Those are

1 significantly more accurate than hospitals or
2 retail operations, in dispensing accuracy,
3 exceeding Six Sigma® levels of dispensing. And Six
4 Sigma is a statistical standard used to
5 characterize a near-perfect production environment,
6 representing a 99.997 percent error-free rate,
7 unmatched by any retail pharmacy.

8 In addition to that, we are also presently
9 underway in building a \$140 million facility to
10 develop a next-generation mail-order facility in
11 Whitestown, IN.

12 So in terms of what Medco uses with the Postal
13 Service, we utilize many classes of mail. We
14 utilize first-class mail and standard mail flats
15 for our correspond between our clients, ourselves
16 and our patients. We also receive first-class Mail
17 letters containing new prescription orders from our
18 patients on a daily basis. Our mail-order
19 pharmacies dispense almost a million and a half
20 packages per week, largely via our Expedited Drop
21 Shipment program containing standard mail parcels.
22 That also includes our Priority Mail -- your
23 Priority Mail distribution process. In addition,

1 we use first-class mail parcels, Priority Mail,
2 Express Mail and we utilize a third party for
3 Parcel Select.

4 In short, the USPS assists Medco in providing
5 a value proposition to our clients and service
6 convenience to our patients. Universal, affordable
7 delivery of its products is critical to Medco, its
8 clients, and its patients.

9 So our clients and patients have come to
10 depend upon the ability of the USPS to
11 cost-effectively deliver the mail, our prescription
12 mail six days per week today. And reduction in
13 Postal Service delivery days to Zip codes with
14 existing volume without a corresponding improvement
15 in service would ultimately lead to delays in Medco
16 receiving new orders as well as our patients
17 receiving their medication.

18 Saturday delivery also complements our 24-hour
19 dispensing process during the week. Although the
20 concept of eliminating Saturday delivery has been
21 brought up, this is a large concern to us as it
22 would create a period of two consecutive days
23 without delivery, clearly impacting service to our

1 patients.

2 We are also concerned that reducing the number
3 of delivery days per week would result in degraded
4 service during the inevitable peak volume periods
5 during the year. People say Thanksgiving,
6 Christmas, et cetera.

7 That being said, however, we also understand
8 the state of the current economy, and the likely
9 impact it will have on the existing volume trends
10 for the USPS. We certainly want to see a
11 financially healthy USPS in the future, but any
12 changes made need to protect the existing value
13 proposition, which is affordable service.
14 Degrading service to control costs will not likely
15 enhance either customer's satisfaction nor future
16 volume growth.

17 My experience at Medco, and my role with MTAC
18 in the effort to develop delivery service standards
19 for the Postal Service, reinforces my opinion that
20 simply mandating universal service is not
21 sufficient.

22 Unpredictable or unreliable delivery service
23 for our products would, obviously, be problematic.

1 We at Medco appreciate the role this Commission is
2 playing in the development of service standards and
3 performance measurement systems and publicly thank
4 you for that. We look forward to commenting, as
5 you invite, in your order from yesterday.

6 Medco residents and patients reside in all 50
7 states and U.S. Protectorates. And, from that
8 aspect, the continued ability of the USPS to offer
9 cost-effective service to all locations is very
10 important to us. In fact, ordering medication from
11 PBM's like Medco is the most convenient,
12 cost-effective way for many Americans to access
13 their medications especially in rural areas.

14 To maintain the USPS density existing letter
15 and mailbox monopolies should be protected.
16 Reducing the scope of these monopolies could
17 jeopardize the Postal Service's ability to comply
18 with the Postal Accountability Enhancement Act's
19 CPI's based price cap for market-dominant products,
20 an outcome that Medco believes would be
21 unacceptable.

22 In addition, the security of the mailboxes
23 that is provided by the existing monopoly is of

1 great importance. American citizens need to
2 continue to trust the contents of their mailbox, as
3 the present law ensures.

4 In exchange for these protections, we feel
5 strongly that the Universal Service Obligation
6 should include all areas and should definitely
7 include first-class mail and standard mail parcels.

8 Of course, care must be taken to ensure that
9 delivery to higher cost areas be affordable as
10 affordability is a key element in any Universal
11 Universal Service Obligation.

12 As previously stated, we do understand the
13 need for the Postal Service to continually look for
14 ways to reduce costs. Worksharing, in particular,
15 has proven to be a valuable and effective method
16 for reducing total network cost. Medco has
17 embraced this concept, and currently sorts Standard
18 Mail parcels by 3 and 5-Digit Zip Codes and injects
19 them in the DSCF and DDU's today.

20 We look forward to additional incentives that
21 will allow us to inject additional parcels deeper
22 into the USPS in the near future.

23 In summary, we feel that to best service our

1 patients, the USO should protect existing delivery
2 schedules. We appreciate the devotion of the USPS
3 to constantly look for ways to reduce costs, but
4 would not expect service to be reduced as a result.

5 We look forward to the continued requirement
6 for all existing mail products, including parcels,
7 to be included in the USO.

8 In the best interests of the USPS, we would
9 support the protection of the letter and mailbox
10 monopolies, as will best ensure the overall value
11 proposition of USPS products.

12 Thanks for this opportunity and your
13 attention. I will be pleased to answer any
14 questions. Thank you.

15 CHAIRMAN BLAIR: Mr. Underkoffler, thank you
16 very much. Ms. Schnell, welcome.

17 MS. SCHNELL: Thank you.

18 CHAIRMAN BLAIR: Did you get here by boat
19 today?

20 MS. SCHNELL: Yesterday, actually.

21 CHAIRMAN BLAIR: Yesterday. Okay.

22 MS. SCHNELL: Mr. Chairman, distinguished
23 Commission members, my name is Jeanie Schnell. I

1 am Postmaster of Monhegan, Maine, and I am
2 testifying on behalf of the 40,000-member National
3 Association of Postmasters of the United States.
4 Please understand that my statement and views do
5 not necessarily reflect the policy of the U.S.
6 Postal Service. Nonetheless, I strongly believe
7 that I am very qualified to assist the Commission
8 with its report on universal postal service.

9 Monhegan is a remote and literally isolated
10 community. The Postal Service is our commercial
11 and interpersonal lifeline. Located approximately
12 ten miles off the coast, Monhegan Island is a mile
13 and a half long and half a mile wide.
14 Three-quarters of the island is a forested, natural
15 preserve with 17 miles of trails through wooded
16 areas and over rocky ledges up to some of the
17 highest ocean cliffs on the Maine coastline. It is
18 accessible only by boat, an hours ride in good
19 weather; and there are no cars or paved roads on
20 the island. There is a church, a library, a
21 museum, and a one-room school house for grades K
22 through 8, but no high school, no bank, no drug
23 store; certainly no doctor, not even a nurse.

1 Monhegan has a year-round population of around 60
2 residents; however, during the summer months the
3 population grows more than tenfold.

4 Painters, photographers and bird watchers from
5 round the world come each year to escape the
6 hustling cities and rushing highways and rejuvenate
7 on Monhegan. Indeed, many return year after year.
8 Some buy summer homes and pass them down from one
9 generation to the next.

10 And then there are those, like my husband and
11 me, who come to stay and work and live with
12 families that go back five and more generations.
13 Please note the word "work" because, while quite
14 quaint and picturesque, Monhegan is first and
15 foremost a working community.

16 Monhegan's economy is dependent on, of course,
17 lobstering and fishing, but also the tourist
18 industry. The inns, the cottage trade, the summer
19 shops and restaurants, even Winter Works, a co-op
20 selling crafts made by the winter community. And
21 central to all this work and central to this whole
22 remarkable isolated place is its Post Office.

23 Of course, visitors send letters and cards,

1 but every single business on this island, and every
2 family depends on our Post Office. Packages are
3 sent and received, financial transactions are
4 carried out, prescriptions and medications are
5 sent, and reservations are made. The Post Office
6 is Monhegan's lifeline. It is our bank, our
7 pharmacy, and our commercial center. If there were
8 no Post Office on Monhegan, there would be no year
9 round community on Monhegan.

10 On a personal note, I will add that the Post
11 Office provides us with the priceless ability to
12 communicate with our children who must, out of
13 necessity, leave the island for boarding school at
14 the tender age of twelve. Speaking as a parent
15 who's been through the ordeal, nothing quite
16 compares with sending or receiving a care package
17 from home.

18 While private-courier transported parcels do
19 reach the island, the packages sit on the Port
20 Clyde dock for days, since there is no economic
21 justification to load the boat with the packages as
22 they arrive and convey them to Monhegan. They are
23 considered delivered when they reach Port Clyde

1 Dock. And, of course, there is no private-courier
2 service provided from the island to the mainland.
3 Indeed, without the mail contract, there would be
4 no incentive for the boat-line to run during the
5 winter months.

6 I am proud that the Postal Service provides
7 universal service, and that universal service is
8 not characterized solely by economics.
9 Nonetheless, I caution the Commission that if you
10 define universal service in economic terms, rather
11 than based upon its societal impact, you will be
12 arranging for the demise of communities like mine.
13 I am proud that I play a small, but vital role in
14 providing universal service. I strongly believe
15 that a universal postal service is a sacred,
16 government-guaranteed obligation, which must be
17 preserved for the sake of small-town, back-roads
18 America, places like Monhegan Island.

19 Thank you very much.

20 CHAIRMAN BLAIR: Thank you very much, Ms.
21 Schnell. We will go to some questioning. And I
22 think this first question is for the first three
23 witnesses. The Postal Service has embarked on some

1 ambitious new programs, such as implementation of
2 the intelligent mail bar code and the flat
3 sequencing sortation systems. How do these impact
4 you? How do these impact the Universal Service
5 Obligation and the need to provide universal
6 service? Is this being done in a vacuum? Is the
7 USO something separate and distinct from this, or
8 is this all part of giving greater value to the
9 mail, and this is -- and these programs which are
10 incurring costs are passed on to all postal
11 customers, but how does that factor into what will
12 increase or does it? I'll take whoever wants to
13 have that 10,000 foot question.

14 MR. TROWBRIDGE: I don't feel qualified
15 Mr. Chairman, to answer specifically. Is the
16 program one, the bar coding, one that allows mail
17 orders to advance the mail further into the mail
18 stream; is that what this is?

19 CHAIRMAN BLAIR: It will allow mailers to
20 better track their mail and they'll know when it's
21 delivered and when it's entered into the system.

22 MR. TROWBRIDGE: Okay.

23 CHAIRMAN BLAIR: So it gives value to that --

1 it gives value to the center because that way
2 they'll be able to understand how the Postal
3 Service is performing in delivering that specific
4 piece of mail.

5 MR. TROWBRIDGE: I understand your question
6 better. Liz, so maybe you should --

7 CHAIRMAN BLAIR: And, excuse the --

8 MS. ROBERT: The thunder from above.

9 CHAIRMAN BLAIR: Knock three times.

10 MS. ROBERT: I don't believe that our company
11 would necessarily see great value in being able to
12 track its catalog distribution. I think we have a
13 great deal of confidence that once the catalogs are
14 injected into the mail stream, the vast majority
15 get delivered on time. I do think however, on the
16 parcel side, the tractability of packages in the
17 system in order to make the service competitive
18 with the services of UPS and FedEx would be
19 valuable.

20 In our case, the customer can be very anxious.
21 Two days before Valentine's Day, the young man
22 wants to know that the teddy bear's going to reach
23 his girlfriend and he calls us quite frequently to

1 find out exactly where it is. And without that
2 tractability, we really aren't able to use UPS --
3 USPS as a competitive product in delivering our
4 packages. But as far as catalogs are concerned, I
5 mean, the advertising side of the channel, I don't
6 believe there will necessarily be that much added
7 value.

8 MR. UNDERKOFFLER: Mr. Chairman, I think from
9 an IMB perspective, I think there would be some
10 longer term benefits from that from what we've seen
11 so far; however, we are looking to the overall
12 value proposition. In other words, being able to
13 completely identify what the complete requirements
14 are so we can put together: A. The cost model to
15 figure out what it would cost to completely engage;
16 and then B. From a cost differential perspective,
17 what the likely enhancement or benefits would be.
18 So I think if we have those two important pieces of
19 the puzzle, we would be better suited to take a
20 position on that.

21 CHAIRMAN BLAIR: How important is it to the
22 universal service allocation and to the study of
23 the Universal Service that the Postal Service

1 implement a viable and cost-effective performance
2 measurement system?

3 MR. UNDERKOFFLER: I think it's an integral
4 part of the USO. You can't have one without the
5 other. From my perspective, the Universal Service
6 offering really means being able to have,
7 regardless of urban area, super rural area, you
8 need to be able to have consistent, reliable
9 deliveries and cost-effective.

10 MS. ROBERT: Again, speaking as an advertiser,
11 I believe that the system is reliable and that it
12 would be difficult to justify a huge investment in
13 developing a system whereby you could track the
14 flats, the catalogs in delivering the advertising
15 component of the mail stream. But, again, there
16 may be others who find that there would be a
17 material advantage. I can't say that we would find
18 a material advantage to them.

19 CHAIRMAN BLAIR: Well, there's an old maxim,
20 what gets measured is what gets done.

21 MR. TROWBRIDGE: That's the part I like. I
22 mean, I agree with Liz, actually, in terms of
23 delivery of the magazines, we are satisfied with

1 the current level of service and it seems very
2 reliable, but just in terms of management of the
3 USPS business, the more information you have about
4 how things are working, the better qualified you
5 are to make improvements.

6 MS. ROBERT: I think if the objective is to
7 try to drive costs down in the system, that would
8 be a major reason for it to be worthwhile.

9 COMMISSIONER GOLDWAY: May I just interrupt?
10 It seems to me, Mr. Trowbridge, you do want
11 tracking for your packages, you do want more
12 measurements and accountability for your packages.

13 MS. ROBERT: Yes, but I think the question was
14 related to flats.

15 CHAIRMAN BLAIR: Well, just your postal
16 products generally.

17 COMMISSIONER GOLDWAY: You are talking about
18 measurements and accountability, intelligent mail
19 bar code, which has some costs to it, and we're
20 concerned about the balance between the cost for
21 implementing a new system and the benefits that are
22 received, and how important it is to have a
23 measurement system in place. So that same IMB

1 would work for your packages.

2 MS. ROBERT: Again, I think for the package
3 side of the business, it would be valuable because
4 it would certainly enable us to use the USPS for
5 package delivery versus UPS or FedEx. But on the
6 catalog on the advertising side, the flats, which
7 is where I thought the question was going, I don't
8 believe it's as important. So if it were possible
9 to implement it for one component of the mail
10 stream and not another, I would certainly support
11 more it being adopted for package delivery.

12 CHAIRMAN BLAIR: Change gears a little bit.
13 Ms. Schnell, would you describe for us your typical
14 day as being a Postmaster of Monhegan Island? Do
15 you have delivery -- how do residents receive their
16 mail? How often do they receive it?

17 MS. SCHNELL: All residents come to the Post
18 Office. They all have P.O. boxes. There's 155
19 boxes at the Post Office. So everybody -- it is
20 the place to go. Everybody has to go there. And
21 the mail comes usually, about six months out of the
22 year it comes at 10:00. And then six months out of
23 the year it comes Monday, Wednesday, Friday weather

1 permitting, and an hour later.

2 CHAIRMAN BLAIR: So it comes three days a week
3 on the mainland?

4 MS. SCHNELL: November first through May
5 first, yes. And then six days a week every day the
6 other six months of the year.

7 CHAIRMAN BLAIR: Anything else that, apart
8 from the public service aspect of providing mail
9 service, how long has the Post Office been on the
10 island?

11 MS. SCHNELL: That's a good question. I don't
12 have the answer. I know that once upon a time it
13 came by sail boat, and that was actually thrown
14 onto the dock. That was out of Boothbay and that
15 I'd have to go back. I would say that would
16 probably be 1900. It may have been earlier. I'm
17 not positive.

18 CHAIRMAN BLAIR: Mr. Acton.

19 VICE CHAIRMAN ACTON: Thank you, Mr. Chairman.
20 Ms. Schnell, Postmaster Schnell, you mentioned the
21 circumstances with private courier delivery. Is
22 that UPS and FedEx?

23 MS. SCHNELL: UPS and FedEx. They do provide

1 service. It is delivered to the boat line in Port
2 Clyde, and that is where they say, okay, we're
3 done. And they, you know, if you are tracking it,
4 you are tracking your package wondering where it is
5 and you say, you'll see that it's delivered, when,
6 no, it hasn't made it to made Monhegan.

7 CHAIRMAN BLAIR: What do you mean to the boat
8 line in Port Clyde?

9 MS. SCHNELL: My mail is delivered -- the
10 Postal Service has a contract with Monhegan Boat
11 Lines, which is located in Port Clyde, Maine.

12 CHAIRMAN BLAIR: Okay. And where is Port
13 Clyde? It's not on the island?

14 MS. SCHNELL: No.

15 CHAIRMAN BLAIR: Okay.

16 MS. SCHNELL: It's an hour away by boat.

17 VICE CHAIRMAN ACTON: So that arrival at Port
18 Clyde is the final milestone scan for that type of
19 delivery?

20 MS. SCHNELL: For UPS --

21 VICE CHAIRMAN ACTON: For UPS and FedEx.

22 MS. SCHNELL: Yes. And then, the boat line
23 does deliver it to Monhegan and there's an

1 individual on the island who takes it from there
2 and delivers it to your home.

3 VICE CHAIRMAN ACTON: The individual other
4 than a Postal person?

5 MS. SCHNELL: Correct, yes.

6 VICE CHAIRMAN ACTON: But is it accurate to
7 represent that without the Postal Service, there
8 would be no express delivery to the residents of
9 the island. For instance, you are getting express
10 delivery via the Postal Service product.

11 MS. SCHNELL: Correct. I'm not --

12 VICE CHAIRMAN ACTON: I'm saying that the
13 Postal Service is able to provide a service --

14 MS. SCHNELL: Yes.

15 VICE CHAIRMAN ACTON: -- for express delivery
16 that the private sector competitors cannot.

17 MS. SCHNELL: Correct. And, like I said,
18 there was no service at all from the private
19 courier's going in the opposite direction.

20 VICE CHAIRMAN ACTON: Thank you.

21 Mr. Trowbridge, you mentioned in the course of your
22 testimony that one of the provisions that you are
23 hopeful for is some avenue of recourse when

1 standards are not met by the Postal Service. I'm
2 wondering if you have some particular approach in
3 mind.

4 MR. TROWBRIDGE: No, I don't. I just think
5 that having -- it's what the Chairman said, what
6 gets measured gets done. I think that having those
7 standards and tracking those standards will help
8 the Postal Service itself, manage itself and
9 probably help you as a Commission also when you are
10 looking at different ways to evaluate the Postal
11 Service.

12 VICE CHAIRMAN ACTON: But it sounds as if you
13 have -- you contemplate some forum or procedure
14 whereby mailers who are dissatisfied with the
15 service that has been promised may go for relief or
16 resolution.

17 MR. TROWBRIDGE: I don't have any specifics
18 along those lines, and I don't want that to be your
19 main take away from my testimony.

20 VICE CHAIRMAN ACTON: Okay. One last question
21 for Ms. Robert. You emphasized that package
22 pricing by the U.S. Postal Service isn't
23 competitive. I'm wondering if you can speak to

1 that a little bit.

2 MS. ROBERT: Sure. We manage delivery of our
3 packages through both the common carriers, UPS and
4 Federal Express, as well as the U.S. Postal
5 Service. And we have a means by which, based on
6 the weight of our packages, the level of service
7 requested by the customer, and the destination,
8 i.e. the zip codes, means by which algorithmically
9 or through a computer to determine the actual rate
10 per package.

11 And we monitor this on a daily basis and it is
12 a rare occasion when a package would automatically
13 be chosen to be delivered on the basis of cost by
14 the U.S. Postal Service. Obviously, we deliver
15 packages to P.O box addresses via the USPS, but our
16 rate shopping mechanism enables us to determine the
17 cheapest rate. And we do have, you know, analyses
18 also to support the difference in package delivery
19 cost via courier.

20 VICE CHAIRMAN ACTON: So your algorithm will
21 often convey to you that there are better choices
22 than the Postal Service in terms of affordability.

23 MS. ROBERT: Exactly.

1 VICE CHAIRMAN ACTON: Thank you.

2 CHAIRMAN BLAIR: Commissioner Hammond.

3 COMMISSIONER HAMMOND: Thank you,
4 Mr. Chairman. I was wondering, Mr. Trowbridge,
5 you said, as I see your magazine, Yankee magazine,
6 is now six times yearly.

7 MR. TROWBRIDGE: That's correct.

8 COMMISSIONER HAMMOND: Every other month. And
9 yet, every time we'd have periodical people talk to
10 us during this process, they have stressed the
11 importance of with, Universal Service, how
12 important six day a week delivery is. And I know
13 you said you were speaking as much on behalf of
14 other periodicals as yourself when you were talking
15 about how important that was, but could you expound
16 a little bit on, if, what kind of effect do you
17 think it would have on your customers if that six
18 day service was to disappear? I mean, we've heard
19 that from magazine and newspaper people, especially
20 more than anyone else.

21 MR. TROWBRIDGE: Yes. When I was speaking for
22 the group magazines, I still feel very much that we
23 are in the business of journalism and that we are

1 delivering news. Now, it's true that if you are
2 delivering a magazine only every two months, what's
3 the difference if it was two months and a day. So,
4 for us as a publisher, I think if there really
5 were, if push came to shove and you all decided
6 that you really could substantially concentrate the
7 same mail volume into fewer delivery days, and then
8 that would save the USPS money and make Postal
9 service more affordable, that would work for us in
10 a way that it wouldn't work for a news weekly.

11 But I feel bound to speak for the other
12 publishers whose material is more time sensitive
13 because I think that using the mail to deliver news
14 and journalism and information is, you know, was
15 what I think really got the USPS going and should
16 remain a viable part of what the USPS does.

17 COMMISSIONER HAMMOND: Okay. Thank you.
18 Mr. Underkoffler, I was wondering if maybe you
19 could, and I don't know all the specifics about
20 this, but in thinking about the monopoly on the
21 mail box, most time we are focusing on universal
22 service, but monopoly is just as important in part
23 of what we are doing. And you have prescription

1 drugs, things like that. It is prescription drugs.
2 Is what you -- I know. I can go to the nearby
3 pharmacy and get mine, but my hound dog who suffers
4 from depression, I have to order it through the
5 mail. It's the only way I can get it, and it's
6 required by law to be overnighted and a signature
7 has to be -- they can't leave it without. And so,
8 that leads me to think about the restrictions that
9 you all have and if there were not a monopoly, we
10 keep hearing from people that customers care about
11 the security of their mail and you all have
12 specific requirements on what you have to do.
13 Could you talk about what not having the monopoly
14 or a change in that might make as far as things
15 like prescription drugs and the federal
16 requirements that you currently have?

17 MR. UNDERKOFFLER: Sure. Based on the type of
18 medication that's shipped out, there are a number
19 of different rules that we follow internally, as
20 well as externally based on federal guidelines and
21 as such, signature required, other options like
22 would be required on certain types of medications.

23 So from a security perspective at the mail box

1 level, I think our greatest concern would be that
2 additional opportunities for others to have entries
3 into that would mean that, from a customer/patient
4 perspective, it could necessarily trust who was
5 entering mail or packages, in our perspective, who
6 was entering packages into the mail box. So, as
7 far as where that actually came from, was it the
8 USPS? Again, this is theoretical, would it be some
9 other kind of courier. And I think that's kind of
10 our concern there, make sure it's still protected.
11 It is still one, just one, the USPS.

12 COMMISSIONER HAMMOND: Okay. I can go on, but
13 I know we're starting to run late.

14 CHAIRMAN BLAIR: Commissioner Goldway.

15 COMMISSIONER GOLDWAY: Yes. All of you have
16 given really interesting testimony that raises a
17 lot of questions for me. I want to point out that,
18 Ms. Robert, your testimony includes some detailed
19 descriptions of your dealing with USPS and some
20 frustrations you have, and the marketing people for
21 the region are here and you should make sure that
22 you talk to them and see what you can do in terms
23 of getting more recognition of your concerns about

1 handling packages at certain times of the year and
2 special arrangements for that. I'm sure the Postal
3 Service is now more than ever willing to work with
4 you on those issues.

5 You do say something about wanting cheaper,
6 faster, greater impact delivery of advertising
7 mail. So does that mean the current service
8 standards aren't adequate or is there some other
9 way of delivering products that you think would be
10 better? I mean, what do you mean? What were you
11 thinking of in more specific terms in that
12 sentence?

13 MS. ROBERT: I think I was thinking in terms
14 of being competitive with other means of
15 advertising. For instance, our other largest
16 channels are radio and television. And it's
17 primarily directed at the issue of cost. And I
18 think up until fairly recently the return on our
19 catalog advertising dollars was relatively
20 comparable to the other channels we use, but with,
21 you know, as we approach a 24 percent increase of
22 postage began to really create a much wider
23 discrepancy in the cost of delivering a catalog and

1 its related return as compared to radio and
2 television advertising. And, as such, we have
3 shifted dollars away now from catalog, back to
4 those other channels. So, really, the primary
5 thrust of my comment in my written testimony was
6 related to the cost of delivering advertising.

7 COMMISSIONER GOLDWAY: So investment in
8 something like the FSS, which we hope would reduce
9 some cost of handling these flats and, therefore,
10 keep the prices down, is something that you think
11 is important?

12 MS. ROBERT: And I, you know, I understand
13 that, you know, in recent years there's been a huge
14 investment in automation for standard envelopes.
15 And while I can appreciate the value, obviously, of
16 that to the system, there are huge advertising
17 dollars being spent by people who put flats into
18 the mail and it seems like many of those dollars
19 should be allocated in trying to develop automation
20 and more cost-effective means of handling flats so
21 that catalogers aren't subject to increases in
22 postage and they can benefit from cost reductions
23 in fact or mitigation of cost increases by way of

1 automation and improved processes for that
2 particular segment of the mail stream.

3 COMMISSIONER GOLDWAY: Thank you.
4 Mr. Underkoffler, I wonder, I think it was
5 Commissioner Langley mentioned that there is this
6 Homeland Security Task Force in which the Postal
7 Service participates. Has anybody from your
8 company been involved in giving advice to the
9 Postal Service about distribution of pharmacy and
10 drug products in a crisis? Is that --

11 MR. UNDERKOFFLER: Without going into too much
12 detail, we've had some discussions with the Postal
13 Service. I think there still remain to be many
14 discussions to be had. We also had discussions
15 with the CDC a few weeks ago on the same topic. I
16 think there was an opportunity there that can be
17 explored a little further than it is today.

18 COMMISSIONER GOLDWAY: Yes. I really think
19 that the opportunity to have a partnership with
20 your kind of firm and the Postal Service is just
21 the sort of thing that needs to happen in the
22 future --

23 MR. UNDERKOFFLER: I would agree.

1 COMMISSIONER GOLDWAY: -- and build on Ms.
2 Langley's comments about the essential nature of
3 the Postal Service.

4 Now, quick question for Ms. Schnell. I have
5 so many. Isn't that where On Golden Pond was set?
6 The film, On Golden Pond?

7 MS. SCHNELL: No.

8 COMMISSIONER GOLDWAY: No? That was a
9 different island.

10 MR. TROWBRIDGE: That was set on Squam Lake,
11 about two hours north of here.

12 COMMISSIONER GOLDWAY: Oh, a different one.
13 Okay. Now, you have a library on the island.

14 MS. SCHNELL: Correct.

15 COMMISSIONER GOLDWAY: Do they use media mail
16 or book rates?

17 MS. SCHNELL: Library rates.

18 COMMISSIONER GOLDWAY: Library rates to get
19 books back and forth.

20 MS. SCHNELL: Yes.

21 COMMISSIONER GOLDWAY: So they need that kind
22 of mail service, as well, and that's an important
23 part.

1 MS. SCHNELL: Yes.

2 COMMISSIONER GOLDWAY: And you mentioned
3 something about banking?

4 MS. SCHNELL: There's no bank on the island so
5 and, especially the summertime all the employees
6 that come out to work at the inns and stuff, they
7 all come to the Post Office to get money orders so
8 that we can send their earnings to their banks.

9 CHAIRMAN BLAIR: Any ATM's on the island?

10 MS. SCHNELL: There are as of, I think two
11 years ago, there are two. And, of course, the
12 Postal Service has the debit card where you can get
13 a few dollars.

14 COMMISSIONER GOLDWAY: And people have
15 internet? They use the internet on the island?

16 MS. SCHNELL: We just got -- well, we just got
17 high speed in March of this year, so we're just
18 getting it now.

19 COMMISSIONER GOLDWAY: Okay. Really
20 interesting. And Mr. Trowbridge, do you do seeding
21 of your publication to know how quickly they arrive
22 now. Do you do your own internal measurements?

23 MR. TROWBRIDGE: We have done that for the,

1 over the years, but we don't currently do it. We
2 really depend on just the customers to let us know
3 when the service isn't up to speed. And when I
4 said I was satisfied with the level of service we
5 see that, particularly, where we are moving the
6 mail so far through the stream that delivery is
7 very consistent.

8 COMMISSIONER GOLDWAY: So the copolitization
9 has helped you with cost and with service.

10 MR. TROWBRIDGE: Right. Because, I mean,
11 basically, you know, when a carrier route gets the
12 bundle, I mean, there they are. They are all in
13 the right order and all that's got to be done is
14 fed in the boxes along the street. There's much
15 less to go wrong along the way.

16 COMMISSIONER GOLDWAY: Thank you. Thank you
17 very much.

18 CHAIRMAN BLAIR: Mrs. Langley.

19 MS. LANGLEY: All of your testimony was very
20 interesting and I think Postmaster Schnell's
21 testimony brought some real life example of why
22 delivery density and/or distance are not always
23 viable factors in costing true value of Postal

1 Service and Universal Service.

2 I have many questions for you because I think
3 it's fascinating. And I just want to ask, how do
4 you get food? Do people bring it in or do you also
5 use, do residents use the Postal Service?

6 MS. SCHNELL: For food? Most residents will
7 go on shore and buy groceries in bulk, usually a
8 months' supply. And there are two, you know, local
9 stores that have staples on the island.

10 MS. LANGLEY: Okay.

11 MS. SCHNELL: Very expensive.

12 MS. LANGLEY: So you do have, you are not like
13 the Alaska bypass mail system whereby you are using
14 the Postal Service for many products.

15 MS. SCHNELL: I would say medication is a big
16 one and Netflix is a big one.

17 MS. LANGLEY: All right. Mr. Underkoffler,
18 speaking about density, you mentioned that
19 maintaining density of deliveries is important and
20 that Medco serves all 50 states and the U.S.
21 territories.

22 Given the special considerations that you have
23 with certain types of medication, do you have to

1 take into account the distances you are serving,
2 say, for Alaska or Hawaii or any of the rural areas
3 out in Montana, you know, up in Maine, how do you
4 factor this into your system?

5 MR. UNDERKOFFLER: Yes, we do.
6 Simplistically, from temperature sensitive
7 medications, we do ship quite a few of those each
8 day each week as well, and certainly there are
9 certain areas in Alaska and Hawaii and certain
10 parts of the continental U.S. as well that are just
11 very difficult to get to. So that certainly plays
12 a part in determining what origin we ship from
13 based on what destination it needs to go to, and
14 how to pack it, and make sure it's there in a
15 timely manner. So in certain areas we have to, we
16 certainly choose amongst all four shippers, but
17 certain areas, the Postal Service is the means we
18 use to get it there.

19 MS. LANGLEY: And if you run into problems,
20 you have people you can go to. I mean, do you see
21 any difficulties in certain areas more than others?

22 MR. UNDERKOFFLER: Certain areas are so remote
23 that it does require a completely different

1 standard operating plan in terms of how to ship it
2 out and get it there. So, yes, it does play a
3 part.

4 MS. LANGLEY: You are very sensitive to any
5 diminution in service?

6 MR. UNDERKOFFLER: Yes.

7 MS. LANGLEY: Thank you.

8 MS. SCHNELL: Could I add one more thing?
9 Your question, I will say that catalog shopping,
10 that is huge. Food, no, but everything else, we do
11 rely on catalogs.

12 MS. LANGLEY: I'm sure the catalogers love to
13 hear that. Thank you.

14 CHAIRMAN BLAIR: Thank you, Commissioner
15 Langley.

16 I think we have someone doing the soft shoe up
17 there so, on that note, I want to thank the
18 witnesses here today. We could go on, but I know
19 that you all have things to do this afternoon, but
20 we really appreciate you taking the time and effort
21 to come and prepare the testimony and deliver it
22 before us.

23 Again, your full remarks will be included in

1 the record. It will be part of the transcript that
2 will be available. And if you have any questions
3 for us, please let us know. Again, on behalf of
4 the Commission, thank you for coming in today. We
5 greatly appreciate it.

6 We have a second panel of witnesses here
7 today. If you all would proceed to come up to the
8 witness table. We have Steve Smith, who is with
9 the Christian Science Publishing Society in Boston.
10 Steve's been a great host. I've had the
11 opportunity to visit the Westcoast publishing
12 facility of the Christian Science Monitor and
13 appreciate learning about that.

14 We have Jody Berenblatt, Bank of America, and
15 Jody's been a witness before before the Postal
16 Regulatory Commission. So, again, welcome.

17 We have Laurie Timmons, the Area Marketing
18 Manager for the U.S. Postal Services Northeast
19 Area, looking forward to hearing about that.
20 That's quite a large area that you have, isn't it.

21 MS. TIMMONS: Yes, it is.

22 CHAIRMAN BLAIR: And then we have Richard
23 Moses, a U.S. City letter carrier, based in Boston.

1 So, Mr. Moses, thanks for coming to testify.

2 On that note, we are going to start off with
3 you, Mr. Moses.

4 MR. MOSES: Thank you very much.

5 Good afternoon Chairman Blair and other
6 distinguished members of the Postal Rate
7 Commission. My name is Richard Moses and I am a
8 full-time city letter carrier and have been since
9 1972. The Postal Service hired me immediately
10 after I left the military and I have carried routes
11 in Boston, Quincy, Brookline, and West Roxbury in
12 the years since. Thank you for the opportunity to
13 share my views on the importance of
14 six-days-per-week service from a city letter
15 carrier's perspective.

16 I speak to you today with over 36 years of
17 experience delivering the mail and serving my
18 communities everyday as a trusted employee of the
19 federal government. I'm proud to wear my uniform
20 and I am proud to work for an agency that has won
21 the confidence and trust of the American public. I
22 am also proud to be a long time union member. I
23 belong to the National Association of Letter

1 Carriers, Branch 34. My union has long sought to
2 represent members like me while keeping an eye out
3 for the long-term health of the Postal Service. We
4 understand the importance of working hand in hand
5 with the Postal Service to serve our customers,
6 both senders and recipients of the mail, as well as
7 the community we live in.

8 Universal service is more than just delivering
9 the mail to each address every day at an affordable
10 price, though that is certainly important. In
11 fact, we are proud to be part of the most efficient
12 and affordable service in the world and we know the
13 postal services are like water and electricity and
14 good roads. They make it possible for businesses
15 to grow and for communities to prosper. But as a
16 letter carrier, I know how important the Post
17 Office is to residents that make up any community
18 in ways that are less obvious.

19 I'll begin with the Carrier Alert program.
20 Nobody knows what's happening throughout a
21 community like a letter carrier. We deliver to the
22 same home each day and we know when something has
23 changed. If cars haven't moved, if the lawn is

1 overgrown, or especially if the mail is piling up,
2 we know there is reason to be concerned. Through
3 the Carrier Alert program, carriers throughout the
4 country have saved hundreds of lives by keeping an
5 eye out for elderly or disabled citizens who sign
6 up for the program. When carriers notice something
7 out of the ordinary, they get help to people who
8 have fallen ill or become immobile.

9 As a steady daily presence on America's
10 streets, carriers are often at the right place at
11 the right time to help fallen fellow citizens.
12 Whether it's helping victims of traffic accidents,
13 aiding lost children, reporting crimes or house
14 fires, letter carriers have a broad definition of
15 public service. NALC honors many of these carriers
16 at our annual Heroes of the Year ceremony held in
17 Washington, D.C. Each year a committee is tasked
18 with reading through hundreds of stories detailing
19 letter carriers' heroic and humanitarian acts while
20 on the job. Six eventually are selected and
21 honored by the NALC and the Postal Service. Having
22 more than 200,000 letter carriers on the streets
23 everyday is an invaluable way to keep watch on

1 America's neighborhoods and communities.

2 Letter carriers have always agreed to actively
3 participate in the Cities Readiness Initiative, or
4 CRI, a federally funded effort to prepare major US
5 cities and metropolitan areas to effectively
6 respond to a large scale bioterrorist event by
7 dispensing antibiotics to entire communities within
8 48 hours of the decision to do so. The Postal
9 Service and the NALC have agreed to participate in
10 CRI by working with major cities and develop Postal
11 Plans, under which letter carriers will distribute
12 medicine to all affected homes in the event of an
13 attack.

14 Letter Carriers are also instrumental in the
15 fight against hunger. NALC's annual "Stamp Out
16 Hunger" food drive is conducted in over 10,000
17 towns and cities throughout America once a year.
18 On Saturday, May 10, 2008 carriers hit the streets
19 again and collected a record 73.1 million pounds of
20 food donations in the nation's largest one-day
21 effort to combat hunger. The food was delivered to
22 local food banks, pantries, shelters to help needy
23 families in 50 states and U.S. jurisdictions.

1 Playing a role in community service programs is an
2 extremely rewarding dynamic of serving as one the
3 nation's letter carriers.

4 I know that lots of businesses rely on the
5 Postal Service for their existence. Whether it's
6 the home-based business that sell products on E-bay
7 or publishers that distribute their books and
8 magazines through the mail. But I hope you will
9 also remember the human element that the
10 down-to-earth role the Postal Service plays in
11 their communities as you conduct your study.

12 Beyond the economic impact, there are many
13 advantages to having letter carriers out delivering
14 mail to their communities six days a week.

15 Protecting the mailboxes and the sanctity of the
16 mail, coming to the aid of the customers we serve,
17 and promoting safe neighborhoods are all pieces of
18 the importance of universal service.

19 The Postal Service has a long history of
20 providing its customers with high quality and
21 consistent service. Over the decades, we have
22 worked hard to build confidence and trust. That is
23 something very valuable and worth preserving. I

1 urge this Commission to consider all the factors
2 involved, both fiscal and social, when studying and
3 making recommendations on the Universal Service
4 Obligation.

5 That concludes my testimony, and I would be
6 happy to answer any questions you may have. Thank
7 you.

8 CHAIRMAN BLAIR: Thank you very much,
9 Mr. Moses, and I really appreciate your testimony.
10 Ms. Simmons, welcome.

11 MS. SIMMONS: Good afternoon, Mr. Chairman,
12 Commissioners, ladies and gentlemen.

13 My name is Laurie Timmons and I am the Manager
14 of Marketing for the United States Postal Service's
15 Northeast Area. I welcome you to Portsmouth, New
16 Hampshire and thank you for giving me the
17 opportunity to speak with you today.

18 As the manager of Marketing for the Northeast
19 Area, I oversee marketing and retail operations for
20 the six New England states and Upstate New York.
21 This area includes Connecticut, Maine,
22 Massachusetts, New Hampshire, Rhode Island, Vermont
23 and New York, with the exception of the New York

1 Metropolitan area. It extends as far north as the
2 Canadian border and as far south as Stamford,
3 Connecticut.

4 More than 60,000 Postal Service employees
5 serve our customers in the Northeast Area bringing
6 mail to 8.5 million delivery points and 1.6 million
7 Post Office boxes six days a week. The only
8 exception to our six-day delivery schedule is
9 Escourt Station, Maine, a town located in the
10 wilderness near the Canadian border. There are no
11 clear roads to this town from the United States, so
12 our carrier must travel through Canada to deliver
13 the mail to Escourt Station. In this small rural
14 town, we deliver mail to the 16 compartment
15 collection box unit, two days a week.

16 Our employees process and deliver more than 20
17 billion pieces of mail annually for a diverse range
18 of customers, from the residents of one of
19 America's oldest cities, Boston, Massachusetts, to
20 the French-speaking residents of the small rural
21 town of Escourt, Maine. And, delivery service in
22 the Northeast does not stop at the businesses and
23 residents on dry land. As you heard, we also

1 travel on water and by air to provide service to
2 our customers.

3 Here in New Hampshire, the Wolfeboro, New
4 Hampshire Post Office uses a boat to deliver mail
5 to summer residents on the islands in Lake
6 Winnepesaukee.

7 In Maine, we also provide seasonal deliveries
8 by mail boat to residents along the Belgrade Lakes.
9 And we make daily deliveries by ferry to the Casco
10 Bay islands off the coast of Portland, Maine. We
11 also deliver by ferry and by small planes to
12 Monhegan, Vinalhaven, Northhaven, and to many other
13 islands throughout the Northeast Area's coastal
14 towns. It sometimes takes more than an hour by
15 ferry just to get to the islands for some of these
16 deliveries.

17 Deliveries to the islands and other remote
18 locations in the Northeast can be very challenging
19 in blizzards and other rough weather, especially
20 during the winter months. These customers are
21 dependent upon our services, sometimes for their
22 very survival.

23 This past winter, New Hampshire had its

1 snowiest winter in 135 years with a record snowfall
2 of 113.4 inches. And in February of 2008, Parish,
3 New York received more than 80 inches of snow in 36
4 hours. But it was Aroostook County, Maine that
5 tested our ability to deliver when nearly 200
6 inches of snow contributed to a major flood in the
7 Fort Kent area in early spring forcing the
8 evacuation of more than 600 of the town's 4,233
9 residents.

10 Through it all, the snow, the rain, the floods
11 and most recently, the extreme heat, our employees
12 delivered exceptional mail service to our
13 customers. And our customers have recognized our
14 efforts each and every year for more than 15
15 consecutive years by rating the Northeast Area
16 number one in the nation in Customer Satisfaction
17 as measured by the Gallup Organization.

18 We provide a number of convenient services to
19 meet our customers' growing needs. These include a
20 number of online services available at usps.com,
21 including the ability to purchase stamps and other
22 postal products, the ability to prepare postage
23 paid packages, and even to have those packages

1 picked up by their letter carrier whether they live
2 or work in a city or rural area.

3 Customers who visit the usps.com site can also
4 print customized stamps featuring personal photos
5 and they can purchase and send greeting cards, with
6 or without gift cards, to almost anywhere in the
7 world without ever leaving their home or their
8 office.

9 We've added other conveniences in the
10 community as well, including 120 Automated Postal
11 Centers in our Post Office lobbies and 456 Contract
12 Postal Units in local businesses. We offer Stamps
13 on Consignment in thousands of supermarkets and
14 other retailers and aggressively publicize the
15 ability to purchase stamps by phone, by fax or by
16 computer.

17 The Northeast Area is also very active in
18 engaging employees to seek new revenue
19 opportunities through a number of programs, like
20 Business Connect, Customer Connect, and Rural
21 Reach. These programs allow postmasters, city
22 carriers, and rural carriers to suggest new
23 business prospects based upon their day-to-day

1 contacts. The Business Development Teams work with
2 these contacts to identify postal options that
3 offer them the most efficient and cost effective
4 shipping methods available. They also provide
5 follow up to ensure that we are meeting and
6 exceeding the customers' expectations.

7 Our efforts with the community do not stop
8 there. We have some of the most active Postal
9 Customer Councils in the nation. Postal Customer
10 Councils are a partnership between postal officials
11 and community members, including business owners,
12 and serve to identify opportunities of mutual
13 benefit. In the Northeast Area, 9 of our 22 PCCs
14 received national recognition last year.

15 Our partnership with our customers is very
16 important to us. One of the proudest moments in my
17 own career was being selected as the 2007 PCC
18 Person of the Year. I was nominated for the Award
19 by Industry PCC leaders for the support that we
20 provide to all the PCC Co-Chairs to ensure that
21 their organizations and annual events are
22 successful and valuable to all of our customers.

23 Some examples of the successful events the

1 PCCs have hosted include Area-wide Co-Chair
2 meetings; certification classes for Mail Center
3 Management, and education seminars for all of our
4 customers on pricing changes. Affordable,
5 universal service is a top priority that is often
6 discussed at these meetings.

7 Changes to the universal service obligation
8 could affect access and delivery and it could
9 impact the bottom line for thousands of businesses
10 in our area.

11 The Postal Service's ability to fund its
12 universal service obligation is due in large part
13 to the postal monopoly on letters and the mailbox.
14 As I mentioned earlier, the Northeast Area has 8.5
15 million delivery points, 2.5 million of which are
16 rural deliveries like those to the residents of
17 Aroostook County in Maine and the Adirondacks in
18 Upstate New York. Potential changes to the postal
19 monopoly could affect the Postal Service's ability
20 to provide customers in rural locations with
21 universal service at affordable prices.

22 As you have heard, we do what we must to keep
23 all of our customers connected to the world,

1 whether it's delivering mail by land in postal
2 vehicles, on the water using mail boats and
3 ferries, or by air in little small planes. Keeping
4 all of our customers connected is our mission and
5 we do it with pride because we consider it our
6 civic duty as employees of the United States Postal
7 Service to do so.

8 Thank you for your time today. I'd be happy
9 to take any questions.

10 CHAIRMAN BLAIR: Thank you very much, Ms.
11 Timmons. Ms. Berenblatt, welcome.

12 MS. BERENBLATT: Mr. Chairman and Members of
13 the Commission, thank you for the opportunity to
14 appear here today and discuss the universal service
15 obligation. My name is Jody Berenblatt and I'm
16 Senior Vice President at Bank of America and I'm
17 here today for the National Postal Policy Council.

18 Bank of America and the USPS have a long
19 history together. Our former CEO, Rudolph
20 Pederson, was a member of the Kappel Commission in
21 1968. And we were a strong supporter of the 2006
22 Postal Reform law.

23 NPCC members unanimously support a robust

1 postal system as a key to their business success
2 and the health of the economy generally.

3 I'll summarize our views on the USO and
4 request that my formal statement be placed on the
5 record.

6 What is the legal basis of the USO? I'm not a
7 lawyer, but the question appears to be an academic
8 exercise. Whether or not the law explicitly
9 requires it, all of the stakeholders in the postal
10 system have expectations that currently affordable
11 levels of service shall continue.

12 Does the USO mean everywhere in all delivery
13 points? Yes. But how the Postal Service serves
14 those delivery points is a different question. So
15 long as each recipient, individual or business has
16 reasonably affordable access at reasonably
17 frequency regardless of how that is accomplished,
18 the obligation has been satisfied.

19 The Commission and the Congress should allow
20 local stakeholders and the USPS to determine
21 appropriate arrangements for remote locations or
22 other specific circumstances. The Commission
23 should intervene only if negotiations break down.

1 Does the Universal Service Obligation mean six
2 days a week? There's no simple answer to this
3 question. Six days a weeks service is essential to
4 some mailers, but not others. Reducing the number
5 of days of mail delivery may not produce
6 significant cost savings. And any cost savings
7 could be offset by increases in the cost of
8 handling and storing the additional inventory of
9 undeliverable mail.

10 There is also likely to be a lively
11 disagreement among mailers over which delivery days
12 to skip.

13 What about the current level of access to
14 facilities and services? Access to services
15 appears to be at the correct level. Access to
16 facilities is probably excessive. The Postal
17 Service probably operates far more retail
18 facilities than is necessary or cost effective.
19 Network optimization where politically possible
20 should match up with facilities with current
21 population trends, technology, real estate expenses
22 and other relevant factors.

23 What about the current range of product

1 offers? All market dominant products should be
2 included in the USO. The service should expand its
3 products offerings to meet its customer demand.
4 For example, establishing a distance-related rate
5 for workshared first-class mail would likely expand
6 the overall demand for mail. For truly competitive
7 products, in our view, USPS should be careful to
8 preserve Universal Service because delivery
9 everywhere is one of the most consistent selling
10 points.

11 How do rates and quality of service factor
12 into the USO? The quality of universal service
13 that the Postal Service can afford to provide very
14 much depends on its financial health. Ultimately,
15 the value of extra service quality must be balanced
16 against its cost. And the affordability of rates
17 to support it are quite conceivably costs to
18 taxpayers for an appropriation to subsidize it.

19 Should the letter monopoly be continued?
20 Tinkering with the scope of the letter monopoly now
21 would be imprudent. The USPS just should wait
22 until domestic economic conditions stabilize, the
23 2006 Postal legislation is fully implemented, and

1 the consequences of the elimination of curtailment
2 of the letter monopoly in certain European
3 countries become much clearer before we seriously
4 explore whether to conduct such a radical
5 experiment on our own soil.

6 Should the mail box monopoly be continued?
7 Yes. At least at this point NPPC members believe
8 that opening the mailbox monopolies to third-party
9 delivery companies could raise the reality or the
10 perception of security issues.

11 What effect will environmental issues have
12 over the next three to five years?

13 The mailing community is an environmentally
14 enlightened group that is taking many steps to
15 ensure that mail is environmentally friendly form
16 of commerce. We can and will do more as an
17 industry. Some claim otherwise. The legislative
18 suppression of advertising mail that they seek
19 would reduce mail volume and depress postal
20 revenues to the point of destroying the financial
21 basis for Universal Service.

22 Given the paper and the mailing industries
23 efforts on recycling, reforestation and much more,

1 this is a solution in search of a problem. As we
2 examine what sustainability means for each of us, I
3 invite businesses and citizens to leverage the
4 greatest carpool on earth, the United States Postal
5 Service, and to join Bank of America and the rest
6 of NPPC members in a stronger commitment to the
7 environment.

8 Thank you for this opportunity, and I'll be
9 pleased to answer any questions.

10 CHAIRMAN BLAIR: Thank you, Ms. Berenblatt.
11 Mr. Smith, welcome.

12 MR. SMITH: Thank you, Commissioner and
13 Chairman and the Commission.

14 My name is Steve Smith. I am the Distribution
15 Director for the Christian Science Publishing
16 Society, headquartered in Boston, Massachusetts. I
17 very much appreciate the opportunity to testify
18 before the Commission on this important topic.

19 The Christian Science Publishing Society
20 serves as the publishing arm of The First Church of
21 Christ Scientist in Boston, Massachusetts. The
22 publishing activities include a daily and weekly
23 newspaper, and periodicals issued in a variety of

1 frequencies and formats. We are also publishers of
2 books and other related collections and materials
3 in support of the general public and members
4 worldwide. The Christian Science Publishing
5 Society has maintained a longstanding relationship
6 with the United States Postal Service, beginning
7 shortly after 1875. Our daily newspaper, The
8 Christian Science Monitor, is among the last
9 nationally available newspapers distributed
10 primarily through the U.S. mail. Approximately 83%
11 of our subscribers and commercial outlets receive
12 their newspaper by date of issue through the mail.
13 We depend on the mail as a necessary service for
14 our readership.

15 In my position at Christian Science
16 Publishing, I plan the worldwide distribution
17 strategy of our periodicals, products and written
18 communications. During the past 22 years, my
19 responsibilities have included direct management of
20 the pre-press, printing, mailing and distribution
21 roles. All of this activity was performed with the
22 clear goal of understanding, negotiation and
23 continual improvement in the construction of our

1 wide variety of products and their subsequent
2 delivery through the mail.

3 The Christian Science Publishing Society also
4 uses every class, subclass and mail product
5 available from the USPS. Just to highlight a few
6 examples, our mail consists of first-class letters
7 expressing thanks and welcome to members and the
8 general public. first-class invoices for
9 periodical subscriptions are a requisite of the
10 publishing business, and an important
11 acknowledgement of the subscribers' value to the
12 publisher. Standard mail is used to support our
13 renewal efforts and communicate updates to the
14 domestic audience. Media mail and library rate are
15 integral to the cost-effective delivery to
16 addresses we serve throughout the United States.

17 The Commission's study of the universal
18 service obligation and the postal monopoly is of
19 great interest to mailers like the Christian
20 Science Publishing Society. We rely on the Postal
21 Service to:

22 Deliver our publications, newsletters,
23 documents, and written communications to urban and

1 rural addresses throughout the United States and
2 internationally through contractual relationships
3 with foreign posts to the extent possible.

4 To deliver our mail to all addresses on a
5 regular and predictable basis.

6 Provide service at affordable prices that do
7 not increase faster than the Consumer Price Index.

8 We support the continuation of the postal
9 monopoly over delivery of letter mail, at least for
10 the foreseeable future, to ensure that the Postal
11 Service has the necessary revenues to continue to
12 provide essential services. The potential threat
13 of "cream-skimming" that could result from
14 relaxation of the postal monopoly is of significant
15 concern to The Christian Science Publishing Society
16 and all nonprofit organizations. We also support
17 continuation of the mailbox monopoly, which
18 protects the actual and perceived privacy and
19 security of the mails as a medium for transmitting
20 bills, statements and other confidential and
21 personal information.

22 Universal service should continue to have its
23 generally recognized attributes: geographic scope;

1 range of product offerings; access to postal
2 facilities and services; frequency of delivery;
3 rates and affordability; and, finally, quality of
4 service. We believe the current dimensions of
5 universal service are generally appropriate, and do
6 not advocate changing them now. At the same time,
7 however, the Postal Service needs to retain
8 sufficient flexibility to change its operations in
9 response to future changes in economic conditions.

10 For our organization and nonprofits generally,
11 universal reach to everyone is of paramount
12 importance. The inclusion of all is inherent in
13 the mission of the nonprofit community. At the
14 same time, we recognize that the Postal Service
15 must have some flexibility to adopt reasonable
16 economies, for example, delivery to cluster boxes
17 and college mailrooms rather than to individual
18 houses or apartments when more personalized
19 delivery to the ultimate addressee would not be
20 cost effective. Any review of universal service
21 must take into account the economic constraints on
22 the size and scope of the postal infrastructure.
23 Furthermore, the optimum tradeoff between the cost

1 and the level of universal service is likely to
2 change if Postal Service mail volume continues to
3 decline or, in the opposite direction, if advances
4 in technology improve the Postal Service's
5 financial health. For these reasons, the
6 Commission and Congress should avoid freezing the
7 current level of universal service in place by
8 prescribing detailed and rigid rules governing the
9 geographic scope of universal service.

10 Similarly, we believe that six-day delivery is
11 of great value to publishers and readers, and
12 should be provided to virtually all addresses, as
13 occurs today. Nevertheless, one can imagine future
14 circumstances that might warrant broader or
15 narrower departures from the six-day delivery
16 requirement, and the Commission should avoid
17 recommending rules that would tie the Postal
18 Service's hands.

19 Affordability is another critical component of
20 tomorrow's postal system. With substantial cost
21 reduction initiatives throughout the industry,
22 postage costs are becoming a greater and greater
23 portion of the prices that we must pass along to

1 our subscribers. Those rising costs make it quite
2 challenging to maintain, much less grow, our
3 subscriber base. Hence, continuation of the
4 existing universal service model cannot be at any
5 cost. The industry must be allowed to participate,
6 examine and co-develop standards and alternatives
7 when we experience the continued diminishment of
8 affordability with any mail service.

9 Thank you for your time and attention. And I
10 would be pleased to answer any questions you may
11 have.

12 CHAIRMAN BLAIR: Thank you, Mr. Smith. I'll
13 start off by going with Mr. Moses. You said you've
14 been with the Postal Service since 1972?

15 MR. MOSES: Yes.

16 CHAIRMAN BLAIR: What was your job like then
17 and how much has it changed since that time? You
18 know, what's the life of a letter carrier today
19 versus what it was in that 1970 environment?

20 MR. MOSES: Well, back when I started, there
21 were a lot more older gentlemen and ladies working.
22 Mainly, I think, because of the way automation and
23 the way they brought in the scanners and the

1 progression. I don't think the older people wanted
2 to adapt to the way the Post Office was going. So
3 now they are getting out right at 55 when they can.
4 Back then they were working until, I mean, we had
5 guys 70-years-old working. And I don't think it's
6 so much the work load that's chasing them out, I
7 think it's just the automation. Everything's
8 changing that way. I think that's what's causing a
9 lot of people.

10 CHAIRMAN BLAIR: What do you think the
11 workplace of the future's you going to be like?

12 MR. MOSES: I think -- I think it's going to
13 be scaled down a bit, as far as the numbers go.

14 CHAIRMAN BLAIR: Fewer letter carriers?

15 MR. MOSES: Yes. Only because the automation
16 is in and it's doing a lot of work that we were
17 doing a few years ago.

18 CHAIRMAN BLAIR: I think one of the areas
19 where the Postal Service hopes to achieve savings
20 is through that implementation to have those flat
21 sequencing orders. Now, my question for Ms.
22 Timmons is: how many are going to go in the New
23 England area? Where are they going to go and what

1 do you think will be -- what's the customer impact?

2 MS. TIMMONS: I don't know the answer to the
3 exact numbers that are going. I know that some are
4 going in Boston and some are going in the
5 Connecticut and/or Massachusetts area. Some of
6 that is set and then there are still some
7 negotiations going on for additional FSS machines.

8 In terms of the impact to the customers, I
9 think it varies depending on the customer that you
10 talk with. Certainly, we're looking to automate
11 the process, which means that the carriers will see
12 their flats, various flats and catalogs put
13 together. And for some customers, they talk about
14 whether or not that's a benefit, and for others, as
15 long as it keeps the cost down, that's a good
16 thing.

17 CHAIRMAN BLAIR: My question for Ms.
18 Berenblatt and Mr. Smith is, is there a difference
19 between the Universal Service Obligation and the
20 ability of the Postal Service is provide services
21 over and above that, or do you think that the
22 obligation, should it be defined, is it a floor or
23 a ceiling or somewhere in between? For instance,

1 if you mandate five-day a week delivery, that
2 wouldn't prohibit six-day a week delivery, but
3 would that be a de facto to dictate it five days a
4 week?

5 MR. SMITH: Why don't you go first.

6 MS. BERENBLATT: Okay. Well, I'm not -- the
7 way in which I was thinking about the universal
8 service obligation is not focused on the particular
9 number per se. So it's a, from my perspective,
10 it's a philosophical belief system to serve the
11 American public and that includes both citizens and
12 businesses, and so, that depends on what's
13 reasonable for the circumstance.

14 CHAIRMAN BLAIR: So you see it as a floor and
15 not -- you see it as providing a minimal level of
16 service or the maximum level of service?

17 MS. BERENBLATT: I'm not sure how to
18 translate. I could say yes to both. Really, it's
19 a manner of what's appropriate for the
20 circumstance. And when we look at some areas
21 that's remote where it's not physically possible to
22 get there in less than two days or more than two
23 days a week, then that's what's needed, you know,

1 for that group and for that community.

2 If that community was in greater need, let's
3 say there's an increase in pharmaceutical needs,
4 then maybe we need to be creative about dropping
5 drugs via helicopters to the Postal people to
6 deliver, you know, the pharmaceuticals. You know,
7 I'm not going to box that in.

8 MR. SMITH: Mr. Chairman, if I may take an
9 honorable stab at that. Let's assume that it is a
10 floor. And as a floor, Universal Service related
11 to frequency of delivery. And we say that it's a
12 floor and there's no option against a six day. The
13 natural development of the market would probably
14 include differentiation by class of mail. That six
15 day may be optional only for first-class and time
16 value news, weekly or daily frequency or less. And
17 you would see some, perhaps, unanticipated
18 consequences of the mail as a result.

19 Right now, the Postal Service has delivery
20 standards, and thank you very much for your
21 assistance as a Commission in helping to achieve
22 that. With those delivery standards you actually
23 have a sort of frequency of commitment of delivery,

1 if you will.

2 You are speaking to the producers of the mail,
3 but the actual recipients, the consumers of the
4 mail, are the ones that make the driving difference
5 in what we do as those producers of the mail. And
6 if they didn't want a six-day of delivery to avoid
7 the 43 cent stamp, as an example, there's not a
8 practical way for them to understand or best
9 differentiate how would they, by a statement which
10 is standard mail versus an invoice which is mailed
11 to them first-class which is their credit card
12 receipt, you would end up with a very confused
13 consuming public because they are not part of this
14 process.

15 CHAIRMAN BLAIR: My final question for the
16 panel is, as the mix of mail changes, we've seen
17 now the standard classes, they dominate in terms of
18 volume class of mail, and as first-class, should it
19 continue its decline in terms of volume and
20 percentage of overall mail mix, does the changing
21 mix of mail have any impact on the obligation of
22 the federal government to provide this universal
23 mail service?

1 MS. TIMMONS: If I may speak, I would say, no,
2 it doesn't. I think that packages are just as
3 important as letters, whether it's first-class or
4 standard mail. I think as we move forward, I think
5 that there are opportunities in some of our
6 competitive products where packages, it may become
7 more important in terms of Universal Service.

8 MR. MOSES: I agree.

9 MS. BERENBLATT: Well, I think the mail mix
10 primarily affects the bottom line of the Postal
11 Service. It doesn't affect the obligation of serve
12 and delivery.

13 CHAIRMAN BLAIR: We'll start with Commissioner
14 Langley.

15 COMMISSIONER LANGLEY: Oh, thank you.

16 CHAIRMAN BLAIR: We'll mix it up a little.

17 COMMISSIONER LANGLEY: We'll mix it up. Okay.
18 First of all, I really would like to compliment Mr.
19 Moses and Postmaster Schnell for their appearance
20 today. I think we've put them into roles that they
21 are not commonly accustomed to, and both did very
22 well. So thank you for appearing.

23 I do have a question for Ms. Berenblatt

1 regarding your written testimony. You have
2 mentioned the need for reasonably affordable access
3 at reasonable frequency, and you do mention on page
4 four of your testimony, "the lack of population
5 density makes it prohibitively expensive to engage
6 daily transport, particularly in places where daily
7 transport systems don't currently exist." And you
8 use, I'm assuming the neighbor island of Hawaii.
9 Is that what you are referring to, everything
10 except the island of Oahu?

11 MS. BERENBLATT: I was referring to on the
12 basis of my experience in the service standards
13 workgroups where there were some individuals that
14 thought that it was unreasonable for certain outer
15 islands in Hawaii not to get daily delivery
16 service. And they pointed to a tourist helicopter
17 that brought them over there and wondered why, you
18 know, mail couldn't just be using that transport
19 mechanism. And the local operations postal folks
20 informed them that that was purely for tourists and
21 that that they wouldn't carry freight under any
22 circumstances, even if the Postal Service could
23 afford to use them.

1 And then a discussion ensued about other
2 islands that don't even get tourists that often and
3 how the transport is really a boat and has to wait
4 until the waters are calm enough.

5 COMMISSIONER LANGLEY: Okay. Certainly, the
6 transportation of mail outside the island of Oahu
7 sometimes results in spirited discussions with the
8 local facilities there, and it was something that
9 peaked my interest.

10 I do want to turn to Ms. Timmons. You know,
11 for one thing, I think it will be helpful for the
12 Commission to have more information on the Cities
13 Readiness Initiative. And I don't know that -- you
14 are not the individual to provide that, but perhaps
15 it can -- the request can made to the Postal
16 Service to give us more information on that and
17 information on the Postal Service as a critical
18 infrastructure.

19 MS. TIMMONS: Yes, I would not be the person
20 to provide it, but I certainly will take that
21 message back.

22 COMMISSIONER LANGLEY: I would appreciate that
23 and I know for the financial industry, that's also

1 an important consideration. We definitely heard
2 from Postmaster Schnell and from Ms. Timmons
3 testimony that there's significant challenges in
4 this northeast region. And one of the
5 recommendations, or not recommendations, but one of
6 the points that you make, Ms. Timmons, is that
7 there are a number of online services available to
8 customers.

9 Given the diversity of geographical areas,
10 population density, has the Postal Service done any
11 survey to understand the percentage of citizens
12 with internet access?

13 MS. TIMMONS: I'm sure the Postal Service has
14 done surveys related to that. Do I have the
15 results that I can tell you? No, I don't, but I
16 certainly think we can get you that information.
17 They've looked at -- I know that they've looked at
18 online services from different views from what we
19 are able to provide to customers and then also how
20 customers use online, and then how they ship what
21 they buy online, be it Postal Service or other
22 competitors.

23 COMMISSIONER LANGLEY: So that they are seeing

1 a usage of the internet and they are extrapolating
2 it, perhaps, you know, such and such community,
3 like Postmaster Schnell mentioned, just they have
4 high speed internet now.

5 MS. TIMMONS: Right. So they will be able to
6 possibly purchase their postage; however, if they
7 still order through the catalog, we would hope to
8 be able to ship those packages and get those
9 packages back to those people.

10 COMMISSIONER LANGLEY: I mean, it's helpful to
11 know that the Postal Service is attempting to have
12 an understanding of the breath of internet access
13 before sometimes, you know, eliminating services.
14 Thank you.

15 CHAIRMAN BLAIR: Ms. Goldway.

16 COMMISSIONER GOLDWAY: Okay. Ms. Timmons,
17 would you be in a position to know what the cost
18 differential is for the Postal Service in serving a
19 place like Escourt Station versus Boston, the
20 delivery costs? You know, we have a commitment of
21 universal service to provide service to everybody
22 and to provide rates that are equal to everybody.
23 There's a subsidy there. So does the Postal

1 Service keep track of what those cost differentials
2 are and do you have this particular cost?

3 MS. TIMMONS: I don't have that particular
4 information, and they do keep track of costs. So,
5 again, that's something I can take back and they
6 can provide that to you.

7 COMMISSIONER GOLDWAY: And then with regard
8 again to service, was it a hundred inches of snow
9 or something like that?

10 MS. TIMMONS: Over a hundred inches of snow;
11 that's right.

12 COMMISSIONER GOLDWAY: Neither rain nor sleet
13 nor snow, did the Postal Service actually have to
14 delay delivery as a result of bad weather and on
15 how many occasions did that occur?

16 MS. TIMMONS: We attempt delivery every day,
17 and in some cases where the streets aren't plowed,
18 we cannot deliver the mail. In other cases where
19 there was a lot of sleet and it was too dangerous
20 for the carrier to drive the vehicle, we did not
21 deliver the mail. We tracked by day the number of
22 deliveries that were not made. And, again, that's
23 something we can provide for you. I don't have

1 that with me.

2 COMMISSIONER GOLDWAY: Did you get complaints
3 about it or did you think citizens in the area
4 understood?

5 MS. TIMMONS: Most of the citizens and most of
6 the news coverage is very positive with the fact
7 that we do get most of our mail delivered and very
8 little of it not delivered. And we also worked
9 with our citizens and massive chore system to do
10 whatever they can do to make sure that their walks
11 are cleared and that their steps are cleared. That
12 makes it a lot easier for us to ensure the mail
13 gets delivered assuming, of course, that the road's
14 plowed.

15 COMMISSIONER GOLDWAY: Mr. Moses, one of the
16 issues that we talked about today is the
17 responsibility of the Postal Service to work in an
18 emergency situation and, perhaps, in a serious
19 situation to deliver medicine or to continue to
20 deliver mail even if there is a threat.

21 Do you take that responsibility seriously, and
22 do you see that responsibility as differentiating
23 you from other carriers in the private sector?

1 MR. MOSES: Well, what type of threat would
2 you be talking about?

3 COMMISSIONER GOLDWAY: Oh, like the anthrax
4 threat.

5 CHAIRMAN BLAIR: Or the case of the pandemic
6 influenza.

7 COMMISSIONER GOLDWAY: A pandemic influenza
8 where there might be some spreading disease and,
9 yet, the Postal Service carriers are obligated to
10 get the medicine to as many people as possible, the
11 vaccine. Do you see that as an obligation that
12 differentiates you from UPS or FedEx?

13 MR. MOSES: No, I don't see it as a hindrance
14 at all. Just, the offices that I've worked in, the
15 employees are dedicated and they'll do whatever has
16 to be done to complete their job.

17 COMMISSIONER GOLDWAY: And you think even the
18 younger people who are coming in understand that?

19 MR. MOSES: Yes, they are more dedicated, yes.

20 MS. LANGLEY: I just want to add, you know,
21 anyone who has attended the Hero's of the Year
22 ceremony would see that, you know, the letter
23 carriers go far and beyond what is required of

1 them. Same thing, all postal worker's, you know,
2 there's, during Hurricane Katrina, you could see
3 Postal trucks out there hoping to save people. I
4 think, you know, they really do a yeoman's job.

5 COMMISSIONER GOLDWAY: Yes. I just think
6 there's a certain premium in that responsibility
7 that has to be factored in somehow in the way we
8 measure the Universal Service Obligation.

9 Both Mr. Smith and Ms. Berenblatt talked about
10 the efficiencies of using cluster boxes in one way
11 or another, or that option as being quite valuable.
12 In other words, you don't have to deliver to
13 everybody's home and hand them the letter
14 individually. But there has been some talk about
15 the mail moment and how important it is for people
16 to feel they get their mail individually, and I
17 wondered, in your experiences, whether there is a
18 trade off between the more individualized delivery
19 and the group delivery in terms of the impact you
20 get back.

21 MR. SMITH: Commissioner, thank you. You can
22 tell from the slowness of my speech I didn't grow
23 up in New England. I come from the desert

1 southwest where the opportunities to pick up mail
2 were community events at the Post Office. And
3 that's still quite common in communities that would
4 surprise you. Communities that have greater
5 disposal incomes than most of middle America and
6 still go to the Post Office because there's no home
7 delivery to the condo or to the megahome. That
8 said, the development of cluster boxes was a
9 natural extension of what many people had
10 experienced in some form, if they have went to the
11 community college or a university or worked in any
12 sort of office environment. And that was
13 considered an improvement for delivery. At least
14 they didn't have to go into town.

15 Does it abridge or change the mail moment?
16 Perhaps, but they know when they open that box,
17 even though it's one of several and, again,
18 consider apartment dwellers, both rural and urban,
19 when they open that box, that box is theirs. The
20 content is theirs. There's a sense of ownership
21 that's in view. All of us, if we think back can
22 remember the first letter we received with a stamp
23 on it. We can remember, not necessarily the

1 contents, but we began to take ownership of mail.

2 If you are changing the delivery location and
3 the device, and that's what preserves the mail, you
4 are beginning the process of negotiations with your
5 consuming public. I think if it's properly
6 communicated and they understood and these boxes
7 are properly located, people will be more willing
8 to work with the Postal Service and the mailers on
9 them. You do lose things that have been said
10 before by Mr. Moses. You lose vital intelligence
11 that's gathered every day about the condition of
12 the community and the condition of our patrons, our
13 consumers. And when you distance yourself from
14 that feedback, the Postal Service will have to
15 spend more money to gather information about how
16 people use mail and what they did with it.

17 MS. BERENBLATT: Okay. I'll get very
18 personal.

19 MR. SMITH: Okay.

20 MS. BERENBLATT: I live in New York City, so I
21 never had door-to-door delivery. I still had mail
22 moments on a personal level, and I honestly can
23 report the next generation had a mail moment in an

1 urban environment without a door-to-door delivery.
2 I mean, when my daughter got her college
3 application, she got the college advertisement, she
4 did think that it was literally written for her,
5 the advertisement. And when we she got the
6 acceptance, she didn't open the envelope until she
7 got up the elevator and into the apartment and then
8 her friends videotaped her opening it. So I would
9 simply share that story to echo Steve's comments.

10 COMMISSIONER GOLDWAY: Okay. Those are great
11 stories. One other question for Mr. Smith. Well,
12 I actually have lots for Christian Science
13 Publishing Company. It's fascinating and that it
14 still hangs in there in New England. But do you
15 send materials internationally?

16 MR. SMITH: Yes, ma'am, we do on a daily basis
17 to 35 countries, 60 countries a month. In the
18 course of a quarter, 125 countries.

19 COMMISSIONER GOLDWAY: Do you view the Postal
20 Services service of delivering your materials
21 internationally to be part of the Universal Service
22 Obligation?

23 MR. SMITH: That's a fascinating question.

1 The obligation for the person on the street and
2 then for the people in the industry is the bridge
3 when the Postal Service has made, through due
4 diligence, the arrangements to hand off to an
5 authorized party in the receiving country, be that
6 the Post -- or the recipient Postal authority,
7 let's say Germany, that you've made those
8 arrangements and the private citizen doesn't have
9 to worry about where it goes. But once you've
10 handed it off to that nation's representative then
11 your obligation is over. That that falls to the
12 delivery country and goes through that delivery
13 process, but that's something I'd like to think
14 about and reflect on, if I may submit comments
15 appropriately?

16 COMMISSIONER GOLDWAY: I'd really appreciate
17 it. Yes, thank you.

18 MR. SMITH: I'm fascinated by the construct of
19 it.

20 CHAIRMAN BLAIR: Thank you. Mr. Hammond.

21 COMMISSIONER HAMMOND: I want to thank you,
22 Mr. Chairman. Mr. Smith, as far as your major
23 newspaper publication talking about periodicals

1 now, you said about close to 85 percent --

2 MR. SMITH: 83 percent, sir.

3 COMMISSIONER HAMMOND: 83 percent is received
4 through the mail by -- on the date, on the same
5 date.

6 MR. SMITH: Yes, sir. So, for example,
7 today's paper, Thursday, and the Chairman has seen
8 one of our three printing plants, print that paper,
9 and then at our expenses move through truck and air
10 to 43 different entry points around the country to
11 put that into the mail stream as close to the
12 delivery point at possible, so that 83 percent of
13 the people and firms that subscribe to the
14 newspaper can receive the paper, see that it's
15 Thursday's date, and that it was written last
16 night, put to bed and printed just like another
17 major metropolitan newspaper, except this one is
18 going completely across the country.

19 COMMISSIONER HAMMOND: So I assume like other
20 dailies that would be mostly delivered through
21 e-mail, if you do not have six-day delivery that, I
22 mean, your customers -- just take, for example, if
23 there wasn't any mail on Wednesday, they get their

1 Wednesday paper along with their paper on Thursday,
2 do you think that would have a negative effect? Do
3 you think they would care that much or what kind of
4 effect would it have on you?

5 MR. SMITH: We have a surprising loyal
6 subscriber base based on the circulation life
7 history of the individual. And they bear that --
8 what, the grouping, when it's called bunching --
9 they bear that okay. They don't complain
10 vigorously and they do not cancel as a group when
11 they say, I'm here in Toledo. I'm getting
12 regularly Wednesday and Thursday, Wednesday's on
13 Thursday at the same time and it's been going on
14 for weeks. Our subscribers may tolerate it, but my
15 publisher certainly would not. I'm at 83 percent
16 and my publisher would like very much for me to be
17 at 90 percent. And that's something that we
18 discuss on a somewhat regular basis.

19 We have a weekly product currently that's
20 available outside the United States, and that
21 weekly product is a practical recognition that news
22 is needed internationally, but you cannot deliver,
23 except to Canada and perhaps parts of Mexico, a

1 daily newspaper by date of issue. So we produce a
2 weekly issue to accommodate that.

3 If you weren't delivering on Wednesday, we,
4 like other publishers from whom you have heard may
5 change our frequency. There are currently papers
6 in Wisconsin and in New Mexico in the capital
7 cities that have changed their frequency of
8 publication, and this calendar year to accommodate
9 costs. One more day of nondelivery, they could
10 actually have an interesting problem of saying,
11 okay, you are going to drive us to the internet
12 where content is available. And that's not a
13 desirable situation because that loss of volume
14 will have a material effect on the Postal Services'
15 ability to support the infrastructure.

16 COMMISSIONER HAMMOND. I think Commissioner
17 Goldway had a follow up.

18 COMMISSIONER GOLDWAY: How do you know that
19 it's 83 percent?

20 MR. SMITH: We measure that very carefully.
21 We participate in organizations like Red Tag.
22 We're one of the three daily newspapers that are in
23 that, in addition to weekly's and monthly's. We

1 also have seeded programs where approximately 100
2 people across the United States receive our paper
3 separate from Red Tag and they provide a listing
4 log, in addition to the ability to have news
5 bureaus around the country, they can actually tell
6 us, because they are our direct employees, okay,
7 this is when I'm receiving the following
8 periodicals. So it's a very good opportunity to
9 review that.

10 And the Postal Service can tell you a very
11 complimentary story about how, with the area
12 managers and the district managers at events like
13 its National Postal forum where we bring takeaways
14 that are physical handouts that measure and tell
15 them to the zip code how they are doing by their
16 area, and we can actually count on that
17 information. So we put a great deal of
18 infrastructure time in counting that, and applaud,
19 applaud the Postal Service for that delivery.

20 It's a remarkable thing to have that many
21 copies or that percentage of copies through the
22 U.S. mail by date of issue. If I fall below 80
23 percent, you won't see me anymore.

1 COMMISSIONER HAMMOND: Were you done?

2 COMMISSIONER GOLDWAY: That's it.

3 COMMISSIONER HAMMOND: Ms. Berenblatt, in
4 reading through your testimony, I was struck by
5 part of it on cost savings and albeit, where it
6 looked like and maybe this was, like, what we call
7 back in the envelope estimate or so, but you talked
8 in here about that possibly eliminating one day of
9 delivery could save at most about two percent of
10 Postal Service cost, and even if we eliminated
11 three additional deliveries days a week, would save
12 only about seven percent of Postal Service costs.

13 And do you have any other information on that?
14 Have you all done any further study or about that
15 kind of change? We've had several people, or while
16 I'm talking about it, if anybody has any cost
17 estimates that you've come up with, the question
18 has come up several times during these hearings and
19 the workshops that we've had of, well, if you would
20 tell us what the cost would be if this change were
21 made, we could then decide whether we might be
22 willing to alter things that way, but did you just
23 do this on the back of the envelope, so the speak,

1 or have you got anything else you can share with
2 us?

3 MS. BERENBLATT: I did specifically do that
4 for this testimony, and I think it is like your
5 hour data. The cost revenue analysis data has the
6 public data that the Postal Services publishes
7 regarding it costs, right? And so, on the flip
8 side, in terms of, while I sort of positive the
9 notion that it would increase costs possibly by
10 storing the mail as opposed to delivering it, I
11 don't believe the CRA data has that information
12 available, so that's why I didn't provide it.

13 There has been extensive studies done in the
14 economic regulatory field of the Postal sector
15 worldwide as it relates to the question of the
16 costs of delivery days. And if you don't have it,
17 I might point you to what Sweden did, I think, two
18 years ago in terms of an analysis of delivery days
19 to the rural areas that are required by obligation
20 by their regulator. If there's something in
21 particular that you are interested in, I'm thrilled
22 to be able to provide it, if you want something
23 more in depth, I will certainly look into doing

1 that.

2 I would point out to you that there are many
3 areas in contrast that are either bigger expense or
4 comparable expenses, as you are well aware, for
5 instance, the Postmaster General had declared an
6 attack on the cost of undeliverable addressed mail
7 and that's two percent. So, you know, we are all
8 actively, both the Postal Service and the industry
9 attacking that cost under the assumption that that
10 is real waste that could be effectively eliminated
11 as opposed to the actual delivery days of the
12 retail facilities where there's this seeming belief
13 that there's a cost there that doesn't appear to be
14 a lot of money to be saved by reducing those areas.

15 COMMISSIONER HAMMOND: Yes. Well, in deed
16 there's some of the studies that you mentioned we
17 are looking at, have looked at, and our group is
18 going to be helping compile, but I welcome any
19 information on that that we can get because it
20 seems from some of the estimates, thus far, it
21 depends on exactly how you wish to calculate as to
22 what might be there or what might not be there, but
23 anything you got, okay, will be helpful.

1 MS. BERENBLATT: Okay.

2 COMMISSIONER HAMMOND: And, Mr. Smith?

3 MR. SMITH: Commissioner, if I may amplify in
4 a related way to what Jody just said. One of the
5 ways in looking at the information that you do
6 receive is, and I know you have an incredibly
7 gifted economist available to you, there are net
8 mail consumers in the system and there are net mail
9 produces in the system. It's not uniform. The
10 geography doesn't allow that. People live where
11 they live and by virtue of the income they have,
12 they dispose of it ordering, subscribing, doing the
13 things that they do. But you need to take a look
14 at how mail is used by, as a percentage of the
15 population of a true ratio. There are areas that
16 consume more mail per population density than
17 others. And that can be the remoteness of the
18 location. It could be a very desirable and scenic
19 vista where people with higher disposable income
20 live and they subscribe to everything. Those
21 things need to be taken into consideration. It's
22 not a uniform tablet when you are looking at the
23 service obligation and the density.

1 We've heard some compelling stories about what
2 is done in remote locations and what is done in
3 urban areas to make sure that mail moves
4 efficiently. And we've heard in industry, in
5 formal meetings that during inclement weather
6 periods that are prolonged in a region, catalog
7 ordering goes up.

8 Now, the catalogers know this, but no ones'
9 ever done a comprehensive and authoritative study
10 to say, hey, we had a great snow storm in New
11 England, how many weeks after that will ordering
12 kick in because catalogs were, 1. Available in the
13 home; and 2. They were -- they could still reach
14 out and know that what they ordered, when the
15 weather broke, it would be delivered. And it's
16 something that, in the industry, we're going to be
17 asking for of our colleagues, you know, this is
18 information that you should come forward with
19 because there is a direct relationship there. If
20 population growth can occur after a blackout,
21 cataloging can go up.

22 COMMISSIONER HAMMOND: I'll be brief here, but
23 I did want to say to Mr. Moses that he did, just to

1 echo what Commissioner Langley said, I know I've
2 gotten an invite and gotten to go the Hero's of the
3 Year luncheon in the past, and I think everyone on
4 the Commission here has been able to go to that
5 over the years. And it may be kind of corny to
6 say, but it's inspiring when we hear those stories
7 of the dedication of the letter carriers and all.
8 So I appreciate you mentioning that and talking
9 about it today.

10 And Ms. Timmons, I won't ask you any questions
11 because we got to have a nice discussion recently
12 in a Postal gathering and all, and I'll just defer
13 off. Thank you.

14 CHAIRMAN BLAIR: Thank you, Commissioner
15 Hammond. And to wrap it up, we have our Vice
16 Chairman, Mark Acton.

17 VICE CHAIRMAN ACTON: Thank you, Mr. Chairman.
18 I have one question for Witness Moses. Universal
19 Service Obligation and the universal service
20 question in general drew a lot of our attention at
21 the end of these discussions, but the federal
22 mandate on the mail box monopoly is an important
23 part of our review as well. Some of your fellow

1 panelists are speaking about the concerns they have
2 about opening mail to private sector delivery
3 services, and I think you referenced the sanctity
4 of the mailbox, which I believe is also a term for
5 the the conflicts. And so, I'm wondering from a
6 person who delivers the mail on a daily basis what
7 sort of issues do you see arising from elimination
8 of the mailbox monopoly?

9 MR. MOSES: Only maybe a customer themselves
10 might feel violated by other people being able to
11 invade their mailbox. That's basically their
12 mailbox and their personal lives are in that mail
13 box.

14 VICE CHAIRMAN ACTON: So it's a security
15 concern?

16 MR. MOSES: It is.

17 VICE CHAIRMAN ACTON: How about the time you
18 may spend at the mailbox, do you think that would
19 change? For instance, if folks were leaving things
20 in the box other than outgoing mail?

21 MR. MOSES: It might. It might back up and
22 then the mail we put in there might fall out,
23 eventually get lost or get wet, ruined. You know,

1 it's possible.

2 VICE CHAIRMAN ACTON: One last thing. Witness
3 Timmons, I think you mentioned there was one
4 locality in your area that did not receive six-day
5 a week service; is that right?

6 MS. TIMMONS: Correct, year-round; correct.

7 VICE CHAIRMAN ACTON: Thank you.

8 CHAIRMAN BLAIR: Well, on that note, I want to
9 thank you all again for spending a beautiful
10 afternoon indoors with us, but I think this is very
11 important. It helps us out tremendously as we
12 undertake this study to hear directly from you,
13 directly benefits us. So with that, I want to,
14 again, thank you. I want to thank our first panel
15 of witnesses as well and, at that point, this
16 hearing will be concluded. Again, thank you.

17 (The hearing concluded at 4:19 p.m.)

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C E R T I F I C A T E

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