

**BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001**

**POSTAL RATE AND FEE CHANGES**

**Docket No. R2006-1**

**RESPONSES OF MAJOR MAILERS ASSOCIATION  
WITNESS RICHARD E. BENTLEY TO INTERROGATORIES OF  
THE UNITED STATES POSTAL SERVICE (USPS/MMA-T1-27)**

Major Mailers Association hereby provides the responses of witness Richard E. Bentley to the following interrogatories of the United States Postal Service: USPS/MMA-T1-27, filed on October 4, 2006.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

MAJOR MAILERS ASSOCIATION

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Dated: Middleburg, Virginia  
October 18, 2006

**USPS/MMA-T1-27** Please refer to your (revised) response to USPS/MMA-T1-17. In part b. of the question, you were asked:

If “Presorted letters cost, on average, 3.38 cents less to deliver than single piece letters” as you say, then there must be some Presorted letters unit delivery cost  $X$ , such that  $X$  times the Presorted letters volume equals the total delivery costs for Presorted letters (\$1.977 billion), and  $(X + 3.38 \text{ cents})$  times the Single Piece volume equals the total delivery costs for Single Piece letters (\$1.782 billion). Using the total delivery cost figures and either set of volume figures in the table above, please derive such a value of  $X$  that reconciles with the total delivery cost figures for both categories.

In your response to part b., you did not specifically derive a value you identify as  $X$  (as requested in the question), and you did not specifically tie back to the total delivery costs of \$1.782 billion for Single Piece letters and \$1.977 billion for Presorted letters (as requested in the question). You did, however, present a table at the end of your (revised) response to part b. which in Column (4) shows unit delivery costs “per Originating Piece if Equal % Delivered” of 7.54 cents for Single Piece and 4.16 cents for Presorted, such that, if  $X$  is 4.16 cents,  $X + 3.38 = 7.54$  cents.

- a. Please confirm that your 4.16 cent Presorted unit delivery cost per originating piece (as derived in your table as described above), times the Presorted originating volume of 47,482,864(000), equals the actual Presorted total delivery cost of \$1.977 billion. If not confirmed, please explain fully.
- b. Please confirm that your 7.54 cent Single Piece unit delivery cost per originating piece (as derived in your table as described above), times the Single Piece originating volume of 34,594,330(000), equals \$2.608 billion, which does not equal the actual Single Piece total delivery cost of \$1.782 billion, and in fact exceeds that amount by over \$800 million, or approximately 46 percent. If not confirmed, please explain fully.
- c. Please confirm that your statement that “Presorted letters cost, on average, 3.38 cents less to deliver than single piece letters” is not correct, because it presupposes over \$800 million of single piece delivery costs that do not exist. If you do not confirm, please explain fully.

**RESPONSE:**

a. Confirmed. This computation is shown in the following table.

|                      | (1)   | (2)         | (3)  | (4)                            | (5)                              | (6)  |
|----------------------|---|-------------|--|--------------------------------|----------------------------------|--|
| First-Class Category | TY Unit Delivery Cost Per Delivered Piece (Cents) | % Delivered | TY Unit Delivery Cost Per Orig Piece (Cents) (1) x (2) | Total Originating Volume (000) | Volume Delivered (000) (2) x (3) | Total Delivery Cost (\$000) (1) x (5) x .01 or (3) x (4) x .01 |
| Presorted            | 4.65  | 90%         | 4.16   | 47,482,864                     | 42,543,546                       | 1,977,153  |

*Note that these computations are not exact due to rounding.*

The total delivery cost as shown in Column (6) can be computed in either of two ways: (1) the unit delivery cost per delivered piece (4.65 cents) x the volume delivered (42,543,546) or (2) the unit delivery cost per originating piece (4.16 cents) x the originating volume (47,482,864).

However, perhaps I need to state the obvious. Of the total originating volume of 47,482,864,000, only 90% of the pieces, or 42,543,546,000 letters, actually incur the delivery cost of 4.65 cents, which is the cost per **delivered** letter.

Therefore, if you insist on focusing on the average originating piece, please note that the delivery cost for 10% of the average originating piece is **zero** because 10% of Presorted pieces are addressed to post office boxes. 90% of that average originating piece actually incurs delivery costs.

Therefore, for an average piece, the following equation applies:

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| $\text{Cost/Orig Pc} = \text{Cost/Pc if Delivered} \times \% \text{ Delivered} + \text{Cost/Piece Not Delivered} \times \% \text{ Not Delivered}$ $4.16 \text{ Cents} = 4.65 \text{ Cents} \times .90 + 0.00 \text{ Cents} \times .10$ |
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*Note that this computation is not exact due to rounding.*

b. Not confirmed. Your math is correct but your logic is mistaken. Your error is that, for Single Piece, you are comparing a theoretical unit cost with an actual unit cost. The result is a comparison of an “apple” to an “orange.”

The 7.54 cents unit cost per originating Single Piece letter is not an actual cost because it **ASSUMES**, theoretically and **solely for the purpose of making a comparison to Presorted letters**, that 90% of the originating Single Piece volume is actually delivered. Therefore, the computation you

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make obviously would overstate actual delivery costs because, in reality, only 61% of First-Class Single pieces are actually delivered. There should be no surprise that your computation of the total delivery cost is high by 46% because the unit cost of 7.54 cents already assumes, theoretically, that the number of pieces actually delivered has increased by 46% from 61% to 90%. Both computations are shown in the following table using the exact same format as shown in part (a):

|                              | (1)   | (2)         | (3)  | (4)                            | (5)                              | (6)  |
|------------------------------|---|-------------|--|--------------------------------|----------------------------------|--|
| First-Class Category         | TY Unit Delivery Cost Per Delivered Piece (Cents) | % Delivered | TY Unit Delivery Cost Per Orig Piece (Cents) (1) x (2) | Total Originating Volume (000) | Volume Delivered (000) (2) x (3) | Total Delivery Cost (\$000) (1) x (5) x .01 or (3) x (4) x .01 |
| (A) Theoretical Single Piece | 8.42  | 90%         | 7.54   | 34,594,330                     | 30,995,718                       | 2,609,948  |
| (B) Actual Single Piece      | 8.42  | 61%         | 5.15   | 34,594,330                     | 21,167,692                       | 1,782,394  |
| (C) Difference (A) - (B)     |   |             |  |                                | 9,828,026                        | 827,554  |
| (D) % Difference (C) / (B)   |   | 46%         |  |                                | 46%                              | 46%  |

Note that these computations are not exact due to rounding.

As shown in Column 5 of the table above, the 9,828,026,000 piece difference between the theoretical Single Piece volume and the actual Single Piece volume represents the volume of theoretical letters that are not really delivered. Therefore, the extra delivery cost of \$827,554,000 represents a cost that is not actually incurred. The final proof is shown in Row (D), where you have erroneously overstated the volume of Single Piece letters actually delivered by the same 46% that your question claims I have overstated total delivery costs.

Keep in mind that my derivation of the 7.54 cents, which **assumes, contrary to fact**, that 90% of Single Piece letters are actually delivered, is developed for only one purpose – to enable an appropriate comparison with the unit delivery cost for Presorted letters, 90% of which **in fact** are actually delivered. If the percentage of letters actually delivered for Single Piece and Presorted letters is not identical, then any comparison of the unit delivery cost per originating piece is inappropriate.

- c. Not confirmed. My statement is absolutely correct. Let me state this in two different ways as illustrated in the following table.

|                       | (1)   | (2)         | (3)  |
|-----------------------|---|-------------|--|
| First-Class Category  | TY Unit Delivery Cost Per Delivered Piece (Cents) | % Delivered | TY Unit Delivery Cost Per Orig Piece (Cents) (1) x (2) |
| (A) Single Piece      | 8.42  | 90%         | 7.54   |
| (B) Presorted         | 4.65  | 90%         | 4.16   |
| (C) Presorted Savings | 3.77  | 90%         | 3.38   |

Note that these computations are not exact due to rounding.

In the table above, yellow represents actual unit costs and delivery percentages. Aqua represents theoretical unit costs and delivery percentages. Since 3.38 cents is the difference between the Single Piece theoretical unit cost (7.54) and the Presorted actual unit cost (4.16 cents), or the product of the actual unit cost savings (3.77 cents) times a theoretical delivery percentage (90%), the 3.38 cent Presorted savings is similarly a theoretical unit cost savings (under the assumption that 90% of both Single Piece and Presorted letters are actually delivered)

- (1) If a First-Class Single Piece letter (unit delivery cost of 8.42 cents) and Presorted letter (unit delivery cost of 4.65 cents) are both actually delivered by city or rural carriers, the delivery unit cost savings is 3.77 cents (8.42 cents – 4.65 cents). However, not all Presorted pieces are delivered. Since only 90% of Presorted letters are delivered, the average savings **per originating letter** is  $0.90 \times 3.77$  cents = 3.38 cents, as shown in Column (3) of the Table.
- (2) If one assumes that 90% of both First-Class Single Piece and Presorted letters are actually delivered by city and rural carriers, then the unit cost for city and rural carriers to deliver Single Piece letters is still 8.42 cents. When the 8.42 cents unit cost is spread over all originating pieces, the average unit cost per originating Single Piece letter is  $0.90 \times 8.42$  cents = 7.54 cents.

Similarly, the unit cost for city and rural carriers to deliver a Presorted letter is still 4.65 cents. When the 4.65 cents unit cost is spread over all originating Presorted pieces the average unit delivery cost per originating Presorted letter is  $0.90 \times 4.65 = 4.16$  cents.

Now the two unit costs shown in Column 3 are comparable. As shown in Row C of Column 3 in the Table the delivery cost savings due to worksharing is

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| $7.54 \text{ cents} - 4.16 \text{ cents} = 3.38 \text{ cents}$ |
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Therefore, as I state on page 16 of my direct testimony, “[t]here can be no argument that Postal Service data indicate that Presorted letters cost, on average, 3.38 cents less to deliver than single piece letters.”

Please refer to the table in response to part (b), which explains how the \$800 million is derived and is not actually incurred because the assumed percentage of Single Pieces delivered is 46% higher than the actual percentage of Single Pieces delivered.