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**Official Transcript of Proceedings**

*Before the*

**UNITED STATES POSTAL RATE COMMISSION**

In the Matter of:        **SPECIAL SERVICES FEES AND  
CLASSIFICATIONS**

Docket No.                **MC96-3**

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**VOLUME 6**

**HEARING**

**DATE:**        Tuesday, November 19, 1996

**PLACE:**       Washington, D.C.

**PAGES:**       1881 - 2262

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Washington, D.C. 20005  
(202) 842-0034

1                               BEFORE THE  
2                               POSTAL RATE COMMISSION

3   - - - - - X

4   In the Matter of:                               :

5   SPECIAL SERVICES FEES AND                               :       Docket No. MC96-3

6   CLASSIFICATIONS                               :

7   - - - - - X

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9                               Third Floor Hearing Room

10                              Postal Rate Commission

11                              1333 H Street, N.W.

12                              Washington, D.C. 20268

13

14                              Volume 6

15                              Tuesday, November 19, 1996

16

17                      The above-entitled matter came on for hearing,  
18   pursuant to notice, at 9:35 a.m.

19

20   BEFORE:

21                      HON. EDWARD J. GLEIMAN, CHAIRMAN

22                      HON. W.H. "TREY" LeBLANC, III, VICE CHAIRMAN

23                      HON. H. EDWARD QUICK, JR., COMMISSIONER, PRESIDING

24                      HON, GEORGE W. HALEY, COMMISSIONER

25

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## P R O C E E D I N G S

[9:35 a.m.]

COMMISSIONER QUICK: Good morning. Today, we resume hearings in Docket MC96-3 to receive the direct cases of participants other than the Postal Service, including their rebuttal to the Postal Service.

Today, we receive testimony from Major Mailers Association witness, Richard Bentley, and Nashua Mystic Seattle Witness Haldi.

As a personal matter, I would again like to thank Commissioner Haley for filling in for me yesterday when I had to be gone for a time. In a long day, he did a good job of helping us develop a record in a rather contentious proceeding and I really appreciate it.

At the beginning of yesterday's hearing, I took note of the Postal Service motion to strike the testimony of Witnesses Bentley and Thompson. At that time, I announced that I would accept the Postal Service suggestion to receive the testimony and cross examination of those witnesses into evidence subject to a later ruling on the motion.

I also directed the Postal Service to supplement its motion and establish dates for responses. That discussion appears at Transcript pages 1336 through 1338.

Yesterday, Major Mailers Association filed an opposition to the Postal Service motion. Mr. Littell, the

1 MMA Counsel, thank you very much for your prompt response.  
2 I intend to wait to rule on the Postal Service motion;  
3 however, I appreciate having your views before me now.  
4 You're free to supplement your opposition up until November  
5 28th should you wish to do so.

6 I have one more matter to mention. Nashua Mystic  
7 Seattle Witness Haldi provided several discovery responses  
8 subject to protective conditions. I want to note for the  
9 record that the Commission appreciates the helpful practice  
10 of providing responses to discovery while cooperatively  
11 arranging a means of avoiding motions practice concerning  
12 sensitive, confidential business information.

13 I notice that some discovery responses, subject to  
14 protective conditions, have been designated as written cross  
15 examination. That should pose no problem. However, if any  
16 counsel intends to conduct cross examination on information  
17 provided subject to protective conditions, I would like to  
18 be informed before Dr. Haldi begins his testimony. If  
19 necessary, I will meet with counsel off the record to  
20 arrange a procedure for questioning without violating the  
21 protective conditions.

22 Does any participant have a procedural matter to  
23 raise before we begin?

24 MR. TIDWELL: Mr. Presiding Officer, Michael  
25 Tidwell on behalf of the Postal Service.

1 I'm just informing the Presiding Officer and the  
2 Commission that the Postal Service does intend to conduct  
3 some limited cross examination of Dr. Haldi in reference to  
4 several of his confidential interrogatory responses and we  
5 look forward to working with the Presiding Officer and  
6 Counsel for Nashua in developing an approach that  
7 accommodates everyone's interest.

8 COMMISSIONER QUICK: Thank you and you will be in  
9 consultation before his testimony to work out the procedure.  
10 Thank you.

11 Mr. Littell, will you identify your witness so  
12 that we can swear him in?

13 MR. LITTELL: Thank you, Commissioner Quick.

14 Mr. Bentley, would you please state your name,  
15 address and professional affiliation?

16 MR. BENTLEY: Richard Bentley. I live at 9133  
17 Ermantrude Court, Vienna, Virginia. I'm President of  
18 Marketing Designs which is a marketing and consulting firm.  
19 Whereupon,

20 RICHARD E. BENTLEY,  
21 a witness, was called for examination by counsel for the  
22 Major Mailers Association and, having been first duly sworn,  
23 was examined and testified as follows:

24 DIRECT EXAMINATION

25 BY MR. LITTELL:

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1           Q     Mr. Bentley, do you have a document before you  
2     entitled "Testimony of Richard E. Bentley on Behalf of Major  
3     Mailers Association"?

4           A     Yes.

5           Q     Is it correct that you have no corrections in that  
6     document?

7           A     That is correct.

8           Q     Was that document prepared by you or under your  
9     supervision and direction?

10          A     Yes.

11          Q     Do you adopt it as your sworn testimony in this  
12     proceeding?

13          A     I do.

14               MR. LITTELL: Your Honor, I hand two copies of  
15     that document, the testimony of Mr. Bentley, to the reporter  
16     and ask that it be admitted into evidence as Mr. Bentley's  
17     testimony in this proceeding.

18               COMMISSIONER QUICK: Are there any objections?

19               [No response.]

20               COMMISSIONER QUICK: Hearing none, Mr. Bentley's  
21     testimony and exhibits are received into evidence. I direct  
22     that it be accepted into evidence and be transcribed into  
23     the record at this point.

24                               [The Direct Testimony and exhibits  
25     of Richard E. Bentley, Exhibit No.



1 MMA-T-1, was receive into evidence  
2 and transcribed into the record.]  
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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

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

SPECIAL SERVICES FEES  
AND CLASSIFICATIONS

Docket No. MC96-3

TESTIMONY OF  
RICHARD E. BENTLEY  
ON BEHALF OF  
MAJOR MAILERS ASSOCIATION

September 30, 1996

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**TESTIMONY OF RICHARD E. BENTLEY  
ON BEHALF OF MAJOR MAILERS ASSOCIATION**

1       My name is Richard Bentley. I am president of Marketing Designs, Inc., a marketing and  
2 consulting firm. I have testified before the Commission frequently, and my qualifications are detailed  
3 in Attachment 1 to this testimony.

**I. Overview And Summary**

5       The purpose of my testimony is to oppose the Postal Service's proposal to establish new rates  
6 and classifications without disclosing information showing the consequences of using the Commission-  
7 approved methodology for attributing city carrier delivery costs. The only evidence before the  
8 Commission on city carrier delivery costs is the Postal Service's own evidence, which uses a  
9 methodology that the Commission has rejected.

10       Earlier in this proceeding, the Commission "direct[ed] the Postal Service to provide versions of  
[its evidence] that are consistent with" the Commission-approved method for attributing city carrier  
12 delivery costs (Order No. 1126). The Commission did not tell the Postal Service to withdraw the  
13 portions of its own filing that are based upon the nonapproved methodology. The Commission did not  
14 tell the Service to substitute the Commission-approved methodology in place of the nonapproved  
15 methodology. The Commission only asked the Service to provide information that would enable the  
16 Commission to compare the effects of both methodologies. But the Postal Service declined to make  
17 disclosure of this information.

18       On September 20, 1996, the Commission issued Order No. 1134. Although the Commission  
19 found that "the Service has presented no consistent rationale or persuasive explanation for its refusal to  
20 provide the information sought by Orders No. 1120 and 1126" (Order No. 1134 at 12) and indicated that

1 it "is dismayed by the Service's refusal to comply with its lawful order," (Order No. 1134 at 16), the  
2 Commission did not find it appropriate to order procedural sanctions, at this time. Instead, to minimize  
3 delay in the proceedings, the Commission directed its staff to prepare two Library References: Library  
4 Reference MC96-3, PRC-LR-1, which shows the BY 1995 calculation of direct and indirect city delivery  
5 costs using the established methodology of single subclass stops; and Library Reference MC96-3, PRC-  
6 LR-2, which shows BY 1995 costs rolled forward to TY 1996.

7 I understand that this proceeding involves only a few postal services, but that is not a compelling  
8 reason for the Commission to accept the Postal Service's nondisclosure--and to decide this case on a  
9 record that shows the consequences of apportioning city carrier delivery costs only by use of a  
10 nonapproved costing methodology. As a matter of proper ratemaking, I do not believe that the  
11 Commission should use a methodology for one set of services in one case that apportions attributable  
12 costs in ways that are significantly different from the methods used for other postal services in other  
cases.

14 While the dollar consequences of the Postal Service's use of a nonapproved methodology may  
15 not impact the Service's proposed rates significantly in this proceeding, the Commission should be aware  
16 that the dollar consequences are huge if the Commission follows the practice, as I think it should, of  
17 using consistent cost allocation methodologies in all its rate proceedings. Thus, as I show later in my  
18 testimony, comparing the techniques for attributing city carrier delivery costs, the Commission-approved  
19 methodology attributes \$1.1 *billion* more costs than the Service's methodology. Regarding that \$1.1  
20 billion, the Postal Service's methodology assigns \$130 million more in institutional costs to First-Class  
21 Mail than does the Commission's methodology.

22 There is an additional reason to insist upon full disclosure in this proceeding. I doubt that the

1 Postal Service is advocating that the Commission use the Service's nonapproved attribution methodology  
2 in this case only. The attribution methodology that the Postal Service uses in this case is similar to that  
3 which the Service has used, and the Commission has rejected, in prior cases. And, in this case, when  
4 the Service refused to provide the Commission with information showing the consequences of using the  
5 Commission-approved methodology, it argued that "[t]he Postal Service simply cannot abandon its  
6 position that the [Commission's] single subclass costing approach is wrong." (See August 2, 1996  
7 Statement of USPS Concerning Order No. 1126, p.4.) It is evident that the Service plans to use the  
8 nonapproved allocation methodology in future cases. The Commission should not accept the Service's  
9 nondisclosure in this case and should require the Service to provide the information using the  
10 Commission's approved cost apportionment.

## **II. General Consequences of the Failure To Resolve the Stalemate Over Costing Methodologies**

13 The choice of methodologies for attributing city carrier delivery costs has significant  
consequences for ratemaking. Before the Commission introduced its own methodology for attributing  
15 city carrier delivery costs, in Docket R90-1, those costs were treated mostly as institutional (or overhead)  
16 costs. The increased amount of cost attribution by the Commission raises the floor or minimum amount  
17 of revenue required to cover direct and indirect costs for all subclasses and services. The additional costs  
18 attributed to First-Class, however, are less than the amount of institutional costs that are assigned by the  
19 Postal Service's nonapproved methodology. Consequently, when the Commission's R90-1 methodology  
20 increased the portion of city carrier delivery costs that is classified as "attributable," that methodology  
21 reduced the total cost burden for First-Class Mail. And the Commission's methodology increased the  
22 costs attributed to other types of mail, including advertising mail. The Postal Service's refusal to accept  
23 the Commission's R90-1 methodology for city carrier delivery costs has thus meant that the Service's

1 derivation of the First-Class Mail revenue burden is higher than the Commission's, while the Service's  
2 revenue burden for advertising mail is lower than the Commission's.

3       There are other consequences as well. The Postal Service has failed to incorporate the  
4 Commission's R90-1 methodology into the Service's Cost and Revenue Analysis (CRA) Reports or its  
5 filings in other rate and classification proceedings before the Commission. Because of this, it is difficult  
6 to compare financial data from year to year, or to compare cost information from one Commission  
7 proceeding to another. It is also virtually impossible to compare the Service's published cost information  
8 (such as the CRA Reports) with the cost figures used in the Commission's decisions. For example, in  
9 this proceeding, actual USPS financial data for BY 1995 are not comparable to data underlying the three  
10 previous Commission Opinions. Because of these problems, the Commission's regulatory oversight of  
11 the Postal Service is made more difficult.

**III. The Impact on First-Class Mail and Advertising Mail  
of the Commission's Methodology, As Compared  
With The Impact of the Service's Methodology**

15       Earlier I said that the dollar consequences of choosing a methodology for apportioning city  
16 carrier delivery costs are huge if the Commission uses consistent methodologies in all rate cases.  
17 Making a comparison between the Commission's and the Postal Service's methodologies is difficult  
18 because of the noncomparability of the published data sources. Therefore, it would have been helpful  
19 to have access to calculations of the Commission's methodology as applied to the Postal Service's base  
20 year and test year costs, presented on the record by a Postal Service witness. Unfortunately, because  
21 of the current impasse between the Commission and the Service, there is no such presentation on the  
22 record. I am thus compelled to seek a second-best basis for the calculation.

23       In making that calculation, I have used the most recent cost information available--BY 1995

1 finances, at the current rates. The Commission staff has provided BY 1995 cost data in response to  
 2 Order No. 1134. For USPS cost data, I have used information from Postal Service witness Patelunas'  
 3 exhibits in this case.

4 The results of my computation may be briefly summarized. Using the Commission's  
 5 methodology for apportioning city carrier delivery costs, I conclude that nearly \$1.1 billion in costs--that  
 6 the Service treats as overhead costs--would be classified as attributable costs.

7 Focusing on this \$1.1 billion--the Service assigns more than three times as much overhead costs  
 8 to First-Class Mail as it assigns to advertising mail, yet the Commission's attributable costs for First-  
 9 Class are only 39% higher than for advertising mail. Consequently, as compared with the Commission's  
 10 methodology for apportioning city carrier delivery costs, the Postal Service's methodology transfers about  
 11 \$130 million of attributable costs (as classified by the Commission) *from* other subclasses *to* First-Class  
 12 Mail; and about \$174 million of attributable costs (as classified by the Commission) *from* third-class mail  
*to* other subclasses and services.<sup>1</sup>

#### IV. The Impact on Other Mail Classes of the Commission's Methodolgy, As Compared With The Impact of the Service's Methodology

16 As noted above, the Commission's cost methodology attributes almost \$1.1 billion more than  
 17 the Postal Service's methodology. Of this amount, \$922 million is attributed to First-Class Mail and

---

<sup>1</sup> My computations are shown in a two-page document entitled "Apportionment of 'Attributable' and 'Institutional' Costs Using PRC and USPS Attributable Cost Methodologies for BY 1995 in Docket No. MC96-3." In Docket No. R94-1(Tr. 13A: 6086-91, 6106-09), similar information was accepted in evidence as exhibits attached to my testimony, Exhibit MMA-T-1. Recognizing that the Postal Service objected to the introduction of this material into evidence, and that some of the material is derived from a Commission library reference in that proceeding, I have submitted my two-page document in this proceeding as a library reference, designated as MMA-LR-1. I also note that the Postal Service stated in this proceeding: "If the Commission takes the Postal Service up on its offer to produce 'Commission' costs except for single subclass costs, the Postal Service plans to provide these costs in a library reference..." (See August 22 Opposition of USPS to OCA Motion Under 39 U.S.C. §3624(c)(2) For Day-To-Day Extensions, n. 8.) I have provided the Office of the Consumer Advocate and the Postal Service with copies of MMA-LR-1, and I will supply the document to any other party upon request.



1 advertising mail while the remainder, almost \$150 million, is attributed to the other subclasses and  
 2 services. Because these other subclasses and services contain much smaller volumes compared to First-  
 3 Class Mail and advertising mail, the impact of this additional \$150 million can be substantial.

4 For example, under section 3622(b)(3) of the Act, all subclasses and services are required to  
 5 recover their direct and indirect costs. If the Postal Service's CRA Report fails to attribute this extra  
 6 \$150 million, how can the Commission know if a particular subclass or service generates enough  
 7 revenues to cover its attributable costs? It cannot.

8 Similarly, the preferred subclasses are supposed to generate sufficient revenues to recover their  
 9 attributable costs. Again, if the CRA Reports exclude this \$150 million, the Commission cannot reliably  
 10 know whether or not the reported revenues are sufficient to recover those costs.

11 Based on actual BY 1995 financial data,<sup>2</sup> it is apparent that the existing rates for three subclasses  
 12 are too low to generate revenues sufficient to cover their attributable costs. These subclasses are listed  
 below:

14	<u>Subclass</u>	<u>Cost Coverage</u>
15	Classroom Publications	81.1
16	Third-class Single Piece	59.2
17	Library Rate	83.8

18 When the rates for these subclasses and services were recommended in Docket No. R94-1, using the  
 19 Commission's attributable cost methodology, the projected revenues were sufficient to cover the  
 20 attributable costs.

21 In future rate proceedings, it will not be possible to determine whether USPS proposed rates will

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<sup>2</sup> FY 1995 RPW revenues; Commission's FY 1995 attributable costs from Library Reference PRC-LR-2.

1 meet the minimum revenue requirements established by the Act, unless the Postal Service is obligated  
2 to provide, as an integral part of its initial rate request, attributable costs for all subclasses and services  
3 based on Commission-approved methodologies.

#### V. Conclusion

5 For the reasons I've stated, I believe that it is important that the Commission continue to insist  
6 that the Postal Service provide information that discloses its costs not only on its preferred  
7 methodologies, but also according to the Commission-approved methodologies.

8 It is equally important the Service be required to disclose this information in future proceedings--  
9 and to do so at the outset. The Postal Service should remain free to challenge the Commission-approved  
10 methodologies, to ask for reconsideration of those methodologies, and to seek Commission or court  
11 action to overturn previously-approved methodologies. But this proceeding (and its predecessors)  
12 illustrate why the Postal Service must not be allowed to file its initial evidence without disclosing this  
essential information. This case has been on file for many months, hearings have begun, and the Postal  
14 Service continues to withhold this information notwithstanding Commission orders requiring disclosure.

15 In Order No. 1134 (at 10), the Commission stated that it will consider modifying its filing rules  
16 to require that--as part of any rate change filing--the Postal Service must show the financial impact of  
17 any proposed rate changes using the Commission's most recently-approved cost attribution methodology.  
18 I strongly support such a change and believe the same requirement should apply to classification cases.  
19 The rule suggested in Order No. 1134 would be fair to the Service, the Commission, and affected  
20 mailers. If the Postal Service wishes to offer changes to any Commission-approved methodology, it  
21 could still make such a proposal as part of its filing. Thus, the Rule would not diminish the Postal  
22 Service's flexibility in presenting its proposals before the Commission. At the same time, it would

1 provide the Commission and other interested parties with a suitable means of evaluating the impact of  
2 any proposed cost methodology changes. This will also allow all interested parties to be able to evaluate  
3 consistent postal cost data from year to year and from case to case.

4 That completes my testimony.

## QUALIFICATIONS OF RICHARD E. BENTLEY

1 Richard Bentley is president of Marketing Designs, Inc., a marketing and consulting firm.

2 Mr. Bentley began his career as a market research analyst for the Postal Rate Commission in  
3 1973 and remained until 1979. As a member of the Officer of the Commission's technical staff (now  
4 Office of the Consumer Advocate) his responsibilities included analysis of USPS costs, volumes, rates  
5 and operations. As a witness on behalf of the Officer of the Commission, he testified before the Postal  
6 Rate Commission in four separate proceedings. In Docket No. MC73-1, Mr. Bentley filed rebuttal  
7 testimony concerning the Postal Service's bound printed matter proposal, but the case was settled before  
8 he had an opportunity to testify.

9 In Docket Nos. MC76-1 and MC76-3, Mr. Bentley testified on changes proposed by the Officer  
10 of the Commission to the Domestic Mail Classification Schedule. Those changes concerned proposals  
to establish local First-Class rates and to eliminate third-class single piece as a separate subclass.

12 In Docket No. R77-1, Mr. Bentley proposed rates for all mail classes and services, including the  
13 projected volumes which would result from those rates. He also analyzed the rates proposed by the  
14 Postal Service and critiqued the volume projections presented in support of its proposals.

15 In Docket No. MC78-1, the Postal Service proposed to restructure parcel post rates by asking the  
16 Commission to establish new rates for parcel post mailed in bulk and for a parcel post nonmachinable  
17 surcharge. Mr. Bentley presented two pieces of testimony in that docket--one concerned with the rate  
18 aspects of the Postal Service's proposal and one concerned with the parcel post volume projections.

19 In 1979, Mr. Bentley left the Postal Rate Commission to become a senior program engineer for  
20 Systems Consultants, Inc. (now Syscon Corporation), a national consulting firm. There Mr. Bentley's  
21 responsibilities included the analysis and estimation of life cycle costs required to research, develop,

1 manufacture, and maintain various weapon system programs for the Department of Defense. He  
2 developed cost estimating relationships and completed a computerized model for estimating future  
3 weapon system program costs.

4 In addition, Mr. Bentley testified before the Postal Rate Commission in Docket No. R80-1  
5 concerning presorted First-Class mail rates and second-class within county rates.

6 After leaving Syscon in 1981, Mr. Bentley started his own company, Marketing Designs, Inc.,  
7 which provides specialized marketing services to various retail, commercial, and industrial concerns as  
8 well as consulting services to a select group of clients.

9 In Docket No. R84-1, Mr. Bentley testified on behalf of the Council of Public Utility Mailers and  
10 the American Retail Federation in favor of an increased First-Class presort discount. At that time, Mr.  
11 Bentley presented a methodology for estimating cost differences between processing First-Class single  
12 piece and presorted letters that eventually became the foundation for the Commission's "Appendix F"  
methodology for supporting First-Class presort discounts.

14 In Docket No. C86-3, Mr. Bentley testified on behalf of Roadway Package Systems concerning  
15 a proposed special rate increase for parcel post.

16 In Docket Nos. R87-1 and R90-1, Mr. Bentley testified on behalf of the Council of Public Utility  
17 Mailers, the National Retail Federation, Brooklyn Union Gas, and other First-Class mailers. Mr. Bentley  
18 recommended and supported various rate discount proposals for presorted First-Class mail, and a lower  
19 fee for "BRMAS" business reply mail.

20 In the last omnibus rate proceeding, Docket No. R94-1, Mr. Bentley testified on behalf of Major  
21 Mailers Association with respect to several issues that concerned First-Class rates. These included the  
22 relationship between the proposed cost coverages for First-Class and third-class, the rates for First-Class  
23 incremental ounces, prior year losses, and the Postal Service's changes to the Commission's city delivery


1 carrier out-of-office cost methodology. In addition, Mr. Bentley also advised Brooklyn Union Gas in  
2 that company's efforts to have the Postal Service's proposed tripling of the "BRMAS" BRM fee rejected,  
3 although Mr. Bentley did not file any formal testimony.

4 In Docket No. MC95-1, Mr. Bentley again testified on behalf of MMA and recommended that  
5 the Commission accept the Postal Service's proposed classification restructuring for First-Class Mail with  
6 one exception. He suggested that the additional-ounce rates for First-Class letter-shaped pieces weighing  
7 between one and three ounces be lowered to better reflect the costs associated with processing those  
8 pieces.

9 In 1972, Mr. Bentley received a Bachelor of Science degree in Industrial Engineering/Operations  
10 Research from Cornell University. The following year, Mr. Bentley was awarded a Master's degree in  
11 Business Administration from Cornell's graduate school of Business and Public Administration (now the  
12 Johnson Graduate School of Management). Mr. Bentley is a member of Tau Beta Pi and Alpha Pi Mu  
Engineering Honor Societies.

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document, by First-Class Mail, upon the participants in this proceeding.

  
\_\_\_\_\_  
Jeffrey Plummer

September 30, 1996

1           COMMISSIONER QUICK: Mr. Bentley, have you had an  
2 opportunity to examine the packet of designated written  
3 cross examination that was made available to you earlier  
4 this morning?

5           THE WITNESS: Yes, I have.

6           COMMISSIONER QUICK: If these questions were asked  
7 of you today, would your answers be the same as those you  
8 previously provided in writing?

9           THE WITNESS: They would be, Your Honor, with one  
10 small change on Interrogatory 13D -- actually, there's two  
11 small changes within my answer there.

12           I wish to refer to the fourth paragraph instead of  
13 the second paragraph in answer to USPS/MMA 6-C and  
14 Interrogatory 7C instead of 7B and I have made those  
15 corrections on your copies and the Postal Service's copies.

16           COMMISSIONER QUICK: Thank you. Two copies of the  
17 corrected designated written cross examination of Witness  
18 Bentley will be given to the reporter and I direct that it  
19 be accepted into evidence and transcribed into the record at  
20 this point.

21   [The Designation of Written Cross-  
22 examination of Major Mailers  
23 Association's Witness Bentley was  
24 Received into evidence and  
25 transcribed into the record.]



POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Special Services Fees and Classifications

Docket No. MC96-3

DESIGNATION OF WRITTEN CROSS-EXAMINATION  
OF MAJOR MAILERS ASSOCIATION'S  
WITNESS BENTLEY

The parties listed below have designated answers to interrogatories directed to witness Bentley as written cross-examination.

Party

Answers To Interrogatories

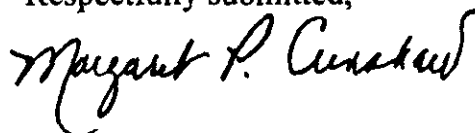
U. S. Postal Service

USPS: Interrogatories MMA 1-5, 6(a)-(b), 6(d)-(e), 7(a)-(b), 8(a)-(c), 8(e), 9(a)-(c), 10(a)-(b), 11, 13(a)-(c), 14(a)-(b), 15(a)-(e), 16, 25 (a)-(b)

Office of the Consumer Advocate

USPS: Interrogatories MMA-3, 6-7, 8 (including attachment MMA-LR-1), 9-11, 13-16, 17 (including attachment MMA-LR-1), 19, and 23-26

Respectfully submitted,



Margaret P. Crenshaw  
Secretary

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USFS/MMA-1.**

- a. Please provide a list of the current members of the Major Mailers Association.
- b. Please identify which of those members are sponsoring Major Mailers Association's intervention in this docket?
- c. Please identify which of those members are sponsoring your testimony in this docket.

**RESPONSE**

MMA informs me that its membership is comprised of telecommunications companies, cable television billing companies and trade associations in the communications and utility industries. Members sponsoring MMA's intervention are as follows: Ameritech, AT&T, Bell Atlantic, BellSouth, Cable Services Group, International Billing Services, NYNEX, Pacific Bell, Southwestern Bell and Sprint. These same members are sponsoring my testimony.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-2.**

Please supply all information and statistics concerning Major Mailers Association's members use of the following special services or categories of mail:

- a. post office boxes;
- b. certified mail;
- c. return receipts;
- d. return receipts for merchandise;
- e. insured mail;
- f. postal cards; and
- g. registered mail.

**RESPONSE**

MMA members are major users of post office boxes. They also use certified mail, return receipts, postal cards and registered mail frequently as a regular part of business. Specific statistics for each of these services are not available. MMA's main area of concern is First-Class mail rates; MMA's members spend hundreds of millions of dollars a year on First-Class postage.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-3.**

- a. Please confirm that Major Mailers Association is not making any classification, rate, or fee proposals to:
- i. post office boxes;
  - ii. certified mail;
  - iii. return receipts;
  - iv. return receipts for merchandise;
  - v. insured mail;
  - vi. postal cards; and
  - vii. registered mail.
- b. If you are unable to confirm any part of subpart (a), please explain in detail what proposal(s) Major Mailers Association is making.

**RESPONSE**

Please see my testimony at page 1, lines 5 through 7 and at page 7, lines 5 through 20. Although MMA is not proposing changes in the rates, classifications or fees of the listed special services, it believes that the Commission should not act upon the Postal Service's proposed changes until after the Postal Service provides the "actual and projected cost information reflecting the cost attribution methods used to develop the rates recommended by the Commission in Docket No. R94-1" (Order No. 1134, p. 2), as required by Order Nos. 1120 and 1126. MMA also believes that the Service should be required to disclose this information in future proceedings--and to do so at the outset--and that the Commission should adopt a filing rule to that effect.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-4.**

At page 1 of your testimony, you state that the purpose of your testimony "is to oppose the Postal Service's proposal to establish new rates and classifications without disclosing information showing the consequences of using the Commission-approved methodology for attributing city carrier delivery costs."

- a. Are you asking the Commission to reject each of the Postal Service's proposals in this docket?
- b. If not, please explain in detail what you are proposing that the Commission do.

**RESPONSE**

Please see my answer to Interrogatory USPS/MMA-3.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-5.**

At page 2 of your testimony, you indicate that the Commission should not "decide this case on a record that shows the consequences of apportioning city delivery costs only by use of a nonapproved costing methodology." If the Postal Service had provided FY 1995 costs using the Commission's methodology in a library reference, would the record then show the consequences of apportioning city delivery costs under the Commission's methodology? Please explain in detail.

**RESPONSE**

I am not an attorney. However, Counsel advises me that, in Docket No. R94-1, where the Commission provided cost information in the form of a library reference, the Commission stated: "The normal rules of evidence apply with respect to the material in these library references. To enter them directly into the record, a stipulation or an attesting witness will be required," (Presiding Officer's Ruling No. R94-1/38, p. 8). Therefore, it would depend on whether a Postal Service witness sponsored the library reference.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-6.**

At page 2 of your testimony, you state "I do not believe that the Commission should use a methodology for one set of services in one case that apportions attributable costs in ways that are significantly different from the methods used for other postal services in other cases."

- a. To what other specific postal services are you referring?
- b. To what other specific cases are you referring?

**RESPONSE**

My statement refers to all postal subclasses and services whose rates or fees were considered during the last Omnibus rate proceeding, Docket No. R94-1 and recent classification proceedings, as well as to subclasses and services whose rates or fees will be considered in any future proceedings.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-6.**

At page 2 of your testimony, you state "I do not believe that the Commission should use a methodology for one set of services in one case that apportions attributable costs in ways that are significantly different from the methods used for other postal services in other cases."

- d. Please explain in detail what you consider a significant difference.
- e. When you speak of a significant difference, are you referring to absolute dollar differences, percentage differences, or both? Please specify upper and lower bounds for what you consider to be significant.

**RESPONSE**

Significant differences in cost methodology occur when they can impact upon a rate. For example, a cost methodology difference might raise a preferential subclass' total attributable cost by, say, \$5 million. In order to be lawful, if such a change requires that the rate be increased by one-tenth of one cent or more (as in the case for second class nonprofit) or one cent or more (as in the case for library rate), then that difference is significant.

With respect to First-Class Mail, a difference of \$5 million may not be significant because of the larger volumes involved. However, I find a difference of just \$60 million to be very significant. Such a difference would have completely covered my proposal for a 2-cent discount in the second and third additional-ounce rates that I made in Docket No. MC95-1.



**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-7.**

On page 2, lines 14-15 of your testimony, you indicate that the Postal Service's use of its methodology "may not impact the Service's proposed rates significantly in this proceeding...."

- a. Have you performed any analysis of the impact on the Postal Service's proposals in this docket of using the Commission's methodology?
- b. If so, please provide that analysis, including all supporting spreadsheets, workpapers, and other related documents.

**RESPONSE**

No. However, I am aware that, according to the Commission, "the Postal Service contends that except for Special Delivery, these differences [in cost coverages among Special Services] are inconsequential" (Order No. 1126, p. 3) and that the Service "admits that its refusal to incorporate approved costing methods has a material impact on the contribution level of one of the services that would be directly affected by its request" (Order No. 1134, p. 7).

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-8.**

On page 2, lines 16-17 of your testimony, you indicate that the Commission should use "consistent cost allocation methodologies in all of its rate proceedings."

- a. Is it your testimony, that the Commission's cost allocation methodology in this case (PRC-LR-1 and 2) is "consistent" with its recommended decisions in Docket Nos. R90-1 (initial), R90-1 on Remand, R94-1 (initial), and R94-1 on Reconsideration? Please explain in detail.

**RESPONSE**

The word "consistent" is a relative term without a precise meaning in the context used here. My dictionary defines consistent as "conforming to the same principles or course of action." In Order No. 1134 (p. 16), the Commission stated that its cost presentation in this case, as provided in PRC-LR-1 and 2, "us[es] the established methodology of single subclass stops" and "us[es] approved methods." In the introduction to PRC-LR-2 the Commission states that "[T]he basic operation of the Commission's cost model is the same as in the last omnibus rate proceeding, Docket No. R94-1." (no page number). I accept the Commission's representations.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-8.**

On page 2, lines 16-17 of your testimony, you indicate that the Commission should use "consistent cost allocation methodologies in all of its rate proceedings."

- b. Is it your testimony, that the Commission's cost allocation methodologies in its recommended decisions in Docket Nos. R90-1 (initial), R90-1 on Remand, R94-1 (initial), and R94-1 on Reconsideration are "consistent"? Please explain in detail.

**RESPONSE**

Please see my answer to Interrogatory USPS/MMA-8(a).

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-8.**

On page 2, lines 16-17 of your testimony, you indicate that the Commission should use "consistent cost allocation methodologies in all of its rate proceedings."

- c. Why do you believe that the Commission should use consistent cost allocation methodologies?

**RESPONSE**

The Commission should use consistent cost allocation methodologies in order to perform its statutory obligations under the Postal Reorganization Act. It is considerably easier for the Commission to project costs when establishing new rates, and to carry out its other responsibilities, when postal costs are comparable from case to case and from year to year. In Order No. 1134 (p. 3), the Commission "emphasized the importance of using methodologically *consistent cost analyses* when evaluating the absolute and relative changes in institutional cost contributions..." (Emphasis added). The Commission also used the word "consistent" three times in one paragraph when describing the role of a precedent cost attribution methodology (Order No. 1126, page 10).

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-8.**

On page 2, lines 16-17 of your testimony, you indicate that the Commission should use "consistent cost allocation methodologies in all of its rate proceedings."

- e. Please explain in detail how use of consistent cost methodologies allows for correction of errors.

**RESPONSE**

Correction for errors will always result in cost methodologies that are consistent, by definition, regardless of whether the resulting differences are significant. For example, suppose the unit cost for a particular subclass is 10 cents. Then suppose after correcting for some error it increases by 10% to 11 cents. This increase is certainly significant but the methodology has not changed. In such a case it would not be valid to compare this unit cost over time unless the error was corrected in all instances or some kind of adjustment was made. If the error changed the result by only a small amount, such as 1%, then a unit cost comparison over time would probably still be valid.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-9.**

On page 2, line 18 of your testimony, you refer to "the Commission-approved cost methodology."

- a. What is the Commission-approved cost methodology? Please explain in detail.

**RESPONSE**

The Commission-approved methodology is that utilized by the Commission in the most recent rate case, Docket No. R94-1. See Order No. 1126 at the bottom of page 1 and the middle of page 7. The Commission also stated: "To carry out its duty to provide a consistent set of cost attribution principles, the Commission attaches precedential weight to pertinent attributable cost definitions and methods applied by the Commission in the most recent proceeding in which they were litigated. In most instances, these will be the definitions and methods applied by the Commission in the most recent omnibus rate proceeding. The currently applicable precedents are found in the Commission's Further Recommended Decision in Docket No. R94-1" (pages 11 and 12).

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-9.**

On page 2, line 18 of your testimony, you refer to "the Commission-approved cost methodology."

- b. Is it the cost methodology used by the Commission in its recommended decision in R94-1 on Reconsideration? Please explain in detail.

**RESPONSE**

Yes, please see my answer to USPS/MMA-9(a) and refer to Order No. 1134 where the Commission stated that "[T]he current, established method for attributing city carrier costs is the method used to develop the rates recommended by the Commission and accepted by the Governors in Docket No. R94-1" (pages 8, 9).

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-9.**

On page 2, line 18 of your testimony, you refer to "the Commission-approved cost methodology."

- c. Is it the cost methodology used by the Commission in this docket? Please explain in detail.

**RESPONSE**

No. See my answer to Interrogatory USPS/MMA-9(a). However, the cost methodology used by the Commission in this docket is very similar, if not identical. See my answer to Interrogatory USPS/MMA-8(a).



**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-10.**

On page 3 of your testimony you state that the Commission "should require the Service to provide the information using the Commission's approved cost apportionment."

- a. Do you believe the Commission should require this of the Postal Service in this docket?

**RESPONSE**

Yes. If the Postal Service is not required to provide this cost information in this docket, the Service will be encouraged to file its next rate case with evidence that shows only its own non-approved cost methodology. The Service will be encouraged to refuse again to provide a cost presentation using the Commission-approved methodology. See also my answer to USPS/MMA-3.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-10.**

On page 3 of your testimony you state that the Commission "should require the Service to provide the information using the Commission's approved cost apportionment."

- b. If so, why do you believe this should be required in light of PRC-LR-1 and PRC-LR-2? Please explain in detail.

**RESPONSE**

The library documents to which you refer are helpful in terms of pointing out the degree to which the results from each of the two cost methodologies differ. But the time has come--and is long overdue--to hold the Service to its obligation to support its rate and classification filings by showing costs based upon the Commission-approved methods, as well as the Service's preferred methods. The Service ought to end its refusals to obey the Commission Orders requesting such information. By requiring this information to be filed in this case--and by adopting a regulation requiring such information to be submitted with the Service's filings in any future cases--the Commission can insure that such information will be filed at the outset of future cases, thus reducing delay and unnecessary litigation. If, however, the Postal Service is not required to provide the information in this docket, it will be encouraged to believe that it will not have to provide similar information in the next rate case.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-11.**

Please explain in detail how the respective "revenue burden" of First-Class Mail and Standard Mail is at issue in this docket.

**RESPONSE**

The revenue burdens of First-Class Mail and Standard Mail are not specifically at issue in this case. My testimony measures the change in the respective revenue burdens, under the Postal Service's and Commission's cost methodologies, and finds that those differences are so significant that they illustrate the importance of choosing an appropriate, consistent methodology. This prolonged debate about attributable cost methodologies has been exhaustive. The Commission has made its decision. Although the Postal Service should be free to ask the Commission to revise the approved methodology, there is no excuse for the Service to continue refusing to provide costing information using the Commission-approved methodology, as well as its own methodology. This proceeding, including my testimony, illustrates the importance of providing information that will allow the Commission to judge the revenue burdens and cost coverages attributable to the different methodologies for all subclasses and services. See also Order No. 1126 at the bottom of page 6 through the middle of page 7.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-13.**

On page 4, lines 18-20 of your testimony, you state that "it would have been helpful to have access to calculations of the Commission's methodology as applied to the Postal Service's base year and test year costs, presented by a Postal Service witness."

- a. Would it be "helpful to have access to calculations of the Commission's methodology as applied to the Postal Service's base year and test year costs, presented on the record by" a Commission witness? Please explain in detail.

**RESPONSE**

Yes. However, this is not the same as having a Postal Service witness provide this information on the record. Counsel advises me that the Postal Service has the burden of proving its case, and that it is the Postal Service's obligation to come forward with evidence conforming to lawful orders of the Commission.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-13.**

On page 4, lines 18-20 of your testimony, you state that "it would have been helpful to have access to calculations of the Commission's methodology as applied to the Postal Service's base year and test year costs, presented by a Postal Service witness."

- b. Is it your belief that the Postal Service has a better understanding of the "calculations of the Commission methodology" than the Commission or its staff? If so, please explain in detail all bases for your belief.

**RESPONSE**

I agree with the Commission's statement, in Order No. 1134 (p.4), that "the Service is in the best position to apply approved attribution and distribution methodologies to its accrued cost data...." In this regard, the Commission recognizes that the Postal Service has sufficient resources to understand and replicate the Commission's cost methodology from any previous docket and in this proceeding. Moreover, the Commission found in Order No. 1126 (p. 15) that "[T]he Postal Service already demonstrated its ability to make the base year adjustments necessary to conform to the established attribution methods. See Docket No. MC93-1, USPS-LR-SP 19, PRC Version of Audited 1992 CRA and accompanying workpapers."

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-13.**

On page 4, lines 18-20 of your testimony, you state that "it would have been helpful to have access to calculations of the Commission's methodology as applied to the Postal Service's base year and test year costs, presented by a Postal Service witness."

- c. What would be the role of the Postal Service witness in presenting "calculations of the Commission's methodology as applied to the Postal Service's base year and test year costs?" Would the Postal Service witness be expected to attest to the accuracy of the calculations underlying the Commission methodology? Would the Postal Service witness be expected to attest to the validity of the theories underlying the Commission's methodology? Would the Postal Service witness be expected to replicate the Commission's methodology, including any errors? Please explain in detail.

**RESPONSE**

See my response to Interrogatory USPS/MMA-13(b). The Service has argued to the Commission that a Service witness would have difficulties in testifying as to the Commission's methodology, along the lines suggested in this Interrogatory, but the Commission has not found those arguments to be valid. (See Order No. 1126, pages 5, 12 & 15. See also Docket No. R94-1, Presiding Officer's Ruling No. R94-1/38, p. 7.)

The Commission has already described the role of a Postal Service witness in Order No. 1126. It stated: "In meeting this burden, the Postal Service is not required to affirm the theoretical soundness or the practical wisdom of the established methods. It is merely required to affirm that it has provided the parties and the Commission with its best estimate of what the consequences of its proposed changes would be, measured by established costing principles" (p. 12).

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-14.**

On page 4, lines 3-4 of your testimony, you state "The Postal Service has failed to incorporate the Commission's R90-1 methodology into the Service's Cost and Revenue Analysis (CRA) Reports or its filings in other rate and classification proceedings before the Commission."

- a. Is it your testimony that the Commission's R90-1 methodology is the approved Commission costing methodology that the Postal Service should have used in this docket? Please explain in detail.

**RESPONSE**

As stated in my answer to Interrogatory USPS/MMA-8(a), the cost methodologies provided by the Commission since Docket No. R90-1 have consistently used the single subclass cost analysis as a basis to attribute city delivery carrier costs. The currently approved methodology incorporates that cost analysis, including all the refinements that have been made since.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-14.**

On page 4, lines 3-4 of your testimony, you state "The Postal Service has failed to incorporate the Commission's R90-1 methodology into the Service's Cost and Revenue Analysis (CRA) Reports or its filings in other rate and classification proceedings before the Commission."

- b. Are you referring to the Commission methodology reflected in the Commission's initial recommended decision in Docket No. R90-1 or the recommended decision on remand in Docket No. R90-1?

**RESPONSE**

It does not matter. The currently approved methodology incorporates the single subclass cost analysis from the original Docket No. R90-1 decision, including all of the refinements that have been made since.



**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-15.**

On page 6, lines 14-17 of your testimony, your present cost coverages for Classroom Publications (81.1 percent), Third-Class Single Piece (59.2 percent), and Library Rate (83.8 percent).

- a. Please confirm that those costs coverages were derived Using FY 1995 RPW revenues and FY 1995 attributable costs from PRC-LR-2. If you do not confirm, please explain in detail.

**RESPONSE**

Confirmed.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-15.**

On page 6, lines 14-17 of your testimony, your present cost coverages for Classroom Publications (81.1 percent), Third-Class Single Piece (59.2 percent), and Library Rate (83.8 percent).

- b. Please confirm that USPS-T-5C, page 1 shows FY 1995 cost coverages of 81.8 percent for Classroom Publications (\$10.3 revenue/\$12.6 attributable cost). If you do not confirm, please explain in detail.

**RESPONSE**

Confirmed.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-15.**

On page 6, lines 14-17 of your testimony, your present cost coverages for Classroom Publications (81.1 percent), Third-Class Single Piece (59.2 percent), and Library Rate (83.8 percent).

- c. Please confirm that USPS-T-5C, page 1 shows FY 1995 cost coverages of 59.3 percent for Third-Class Single Piece (\$152.3 revenue/\$256.7 attributable cost). If you do not confirm, please explain in detail.

**RESPONSE**

Confirmed.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-15.**

On page 6, lines 14-17 of your testimony, your present cost coverages for Classroom Publications (81.1 percent), Third-Class Single Piece (59.2 percent), and Library Rate (83.8 percent).

- d. Please confirm that USPS-T-5C, page 1 shows FY 1995 cost coverages of 83.8 percent for Library Rate (\$46.7 revenue/\$55.7 attributable cost). If you do not confirm, please explain in full.

**RESPONSE**

Confirmed.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-15.**

On page 6, lines 14-17 of your testimony, your present cost coverages for Classroom Publications (81.1 percent), Third-Class Single Piece (59.2 percent), and Library Rate (83.8 percent).

- e. Please confirm that the Postal Service's projected revenues in Docket No. R94-1 (Exhibit USPS-T-7X, page 2) for Classroom Publications, Third-Class Single Piece, and Library Rate "were sufficient to cover the attributable costs." If you do not confirm, please explain in detail.

**RESPONSE**

Confirmed.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-16.**

In your response to MMA/USPS-9(c), you state that the cost methodology used by the Commission in this docket "is very similar, if not identical" to what you define as the approved cost methodology (Docket No. R94-1 on reconsideration). Please explain in detail the basis for your conclusion, including a discussion of all evidence or other information which supports your conclusion.

**RESPONSE**

The basis for my conclusion is the Commission's statement, in Order No. 1134 (p. 16), that the cost methodology used by the Commission in this docket, as provided in PRC-LR-1 and 2, "us[es] the established methodology of single subclass stops" and "us[es] approved methods." In the introduction to PRC-LR-2 the Commission states that "[T]he basic operation of the Commission's cost model is the same as in the last omnibus rate proceeding, Docket No. R94-1." (no page number). I accepted the Commission's representations and made no independent analysis of Library Reference PRC-LR-1 and 2.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-25.**

Please refer to your response to USPS/MMA-3, in which you state the position that the Commission should not act upon the Postal Service's proposed changes in this docket until after the Postal Service provides certain cost information conforming to Commission-approved methods.

a) Please confirm that it is your position that, given the current status of the evidentiary and procedural record of this case, the Commission should delay issuance of its recommended decision. If you confirm, state and explain fully the basis upon which the Commission could delay issuance of its decision. If you do not confirm, please explain fully.

**RESPONSE**

Confirmed. Please see my answers to interrogatories USPS/MMA-10(a), 10(b) and 11.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-25.**

Please refer to your response to USPS/MMA-3, in which you state the position that the Commission should not act upon the Postal Service's proposed changes in this docket until after the Postal Service provides certain cost information conforming to Commission-approved methods.

b) Would your position change in any way if the Commission were to provide the cost information in question, and provide a witness to sponsor, defend and explain it? Please explain fully. Include in any answer any objection you may have to Commission sponsorship of disputed methodologies.

**RESPONSE**

No. Please see my answer to interrogatories USPS/MMA-25(a), 10(a), 10(b) and 11.



**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-3.**

- a. Please confirm that Major Mailers Association is not making any classification, rate, or fee proposals to:
  - i. post office boxes;
  - ii. certified mail;
  - iii. return receipts;
  - iv. return receipts for merchandise;
  - v. insured mail;
  - vi. postal cards; and
  - vii. registered mail.
- b. If you are unable to confirm any part of subpart (a), please explain in detail what proposal(s) Major Mailers Association is making.

**RESPONSE**

Please see my testimony at page 1, lines 5 through 7 and at page 7, lines 5 through 20. Although MMA is not proposing changes in the rates, classifications or fees of the listed special services, it believes that the Commission should not act upon the Postal Service's proposed changes until after the Postal Service provides the "actual and projected cost information reflecting the cost attribution methods used to develop the rates recommended by the Commission in Docket No. R94-1" (Order No. 1134, p. 2), as required by Order Nos. 1120 and 1126. MMA also believes that the Service should be required to disclose this information in future proceedings--and to do so at the outset--and that the Commission should adopt a filing rule to that effect.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-6.**

At page 2 of your testimony, you state "I do not believe that the Commission should use a methodology for one set of services in one case that apportions attributable costs in ways that are significantly different from the methods used for other postal services in other cases."

- a. To what other specific postal services are you referring?
- b. To what other specific cases are you referring?

**RESPONSE**

My statement refers to all postal subclasses and services whose rates or fees were considered during the last Omnibus rate proceeding, Docket No. R94-1 and recent classification proceedings, as well as to subclasses and services whose rates or fees will be considered in any future proceedings.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-6.**

At page 2 of your testimony, you state "I do not believe that the Commission should use a methodology for one set of services in one case that apportions attributable costs in ways that are significantly different from the methods used for other postal services in other cases."

- c. Please explain in detail each way in which the Postal Service apportions attributable costs in this case that is significantly different from each way in which the Commission has apportioned attributable costs in Docket No. R94-1 on Reconsideration. In giving your explanation, please specify each cost segment and component in which such significant differences occur.

**RESPONSE**

In Order No. 1120 the Commission noted that "examination indicates the Postal Service does not reflect, for Base Year 1995 or Test Year 1996, the Commission's city delivery street time single subclass stop analysis, purchased transportation nonpreferential Alaskan or Hawaiian air analyses, or special delivery messenger fixed attribution" (p. 2).

Please refer also to Order Nos. 1126 and 1134 which explain how "the Service supports its requests with costs using methods different from those recently approved by the Commission..." (Order No. 1134, p. 3).

In its August 2, 1996 Statement Concerning Order No. 1126, the Postal Service noted (p. 1) that "certain [of the Commission's costing] methodologies are not employed, because the Postal Service believes they are fundamentally flawed," adding that (p. 5) the Service would "decline to provide any costing presentation which incorporates the Commission's single subclass cost analysis."

The Commission has found that "the Service is in the best position to apply approved attribution and distribution methodologies to its accrued cost data, and that it was neither unduly

**MMA WITNESS: RICHARD BENTLEY**  
**USPS/MMA-6(c)**

burdensome nor otherwise unreasonable to direct the Service to submit this information for the use of participants and the Commission" (Order No. 1134, p. 4). In view of this finding, I have not attempted to make the detailed calculations requested in this Interrogatory. In Order No. 1126 (p. 9), the Commission explained the problems that participants would encounter if they attempted to make such calculations on their own.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-6.**

At page 2 of your testimony, you state "I do not believe that the Commission should use a methodology for one set of services in one case that apportions attributable costs in ways that are significantly different from the methods used for other postal services in other cases."

- d. Please explain in detail what you consider a significant difference.
- e. When you speak of a significant difference, are you referring to absolute dollar differences, percentage differences, or both? Please specify upper and lower bounds for what you consider to be significant.

**RESPONSE**

Significant differences in cost methodology occur when they can impact upon a rate. For example, a cost methodology difference might raise a preferential subclass' total attributable cost by, say, \$5 million. In order to be lawful, if such a change requires that the rate be increased by one-tenth of one cent or more (as in the case for second class nonprofit) or one cent or more (as in the case for library rate), then that difference is significant.

With respect to First-Class Mail, a difference of \$5 million may not be significant because of the larger volumes involved. However, I find a difference of just \$60 million to be very significant. Such a difference would have completely covered my proposal for a 2-cent discount in the second and third additional-ounce rates that I made in Docket No. MC95-1.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-7.**

On page 2, lines 14-15 of your testimony, you indicate that the Postal Service's use of its methodology "may not impact the Service's proposed rates significantly in this proceeding...."

- a. Have you performed any analysis of the impact on the Postal Service's proposals in this docket of using the Commission's methodology?
- b. If so, please provide that analysis, including all supporting spreadsheets, workpapers, and other related documents.

**RESPONSE**

No. However, I am aware that, according to the Commission, "the Postal Service contends that except for Special Delivery, these differences [in cost coverages among Special Services] are inconsequential" (Order No. 1126, p. 3) and that the Service "admits that its refusal to incorporate approved costing methods has a material impact on the contribution level of one of the services that would be directly affected by its request" (Order No. 1134, p. 7).

**MMA WITNESS: RICHARD BENTLEY**  
**USPS**

**USPS/MMA-7.**

On page 2, lines 14-15 of your testimony, you indicate that the Postal Service's use of its methodology "may not impact the Service's proposed rates significantly in this proceeding...."

c. If not, why not?

**RESPONSE**

Please see my responses to Interrogatories USPS/MMA-6(d) and (e) and USPS/MMA-7(a) and (b). I am also aware that the Commission stressed that "It should not be left to the parties or the Commission to disentangle the effect of the Postal Service's proposed changes to established attribution methods from the effects of its proposed changes in fees" (Order No. 1126, p. 12).

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-8.**

On page 2, lines 16-17 of your testimony, you indicate that the Commission should use "consistent cost allocation methodologies in all of its rate proceedings."

- a. Is it your testimony, that the Commission's cost allocation methodology in this case (PRC-LR-1 and 2) is "consistent" with its recommended decisions in Docket Nos. R90-1 (initial), R90-1 on Remand, R94-1 (initial), and R94-1 on Reconsideration? Please explain in detail.

**RESPONSE**

The word "consistent" is a relative term without a precise meaning in the context used here. My dictionary defines consistent as "conforming to the same principles or course of action." In Order No. 1134 (p. 16), the Commission stated that its cost presentation in this case, as provided in PRC-LR-1 and 2, "us[es] the established methodology of single subclass stops" and "us[es] approved methods." In the introduction to PRC-LR-2 the Commission states that "[T]he basic operation of the Commission's cost model is the same as in the last omnibus rate proceeding, Docket No. R94-1." (no page number). I accept the Commission's representations.



**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-8.**

On page 2, lines 16-17 of your testimony, you indicate that the Commission should use "consistent cost allocation methodologies in all of its rate proceedings."

- b. Is it your testimony, that the Commission's cost allocation methodologies in its recommended decisions in Docket Nos. R90-1 (initial), R90-1 on Remand, R94-1 (initial), and R94-1 on Reconsideration are "consistent"? Please explain in detail.

**RESPONSE**

Please see my answer to Interrogatory USPS/MMA-8(a).

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-8.**

On page 2, lines 16-17 of your testimony, you indicate that the Commission should use "consistent cost allocation methodologies in all of its rate proceedings."

- c. Why do you believe that the Commission should use consistent cost allocation methodologies?

**RESPONSE**

The Commission should use consistent cost allocation methodologies in order to perform its statutory obligations under the Postal Reorganization Act. It is considerably easier for the Commission to project costs when establishing new rates, and to carry out its other responsibilities, when postal costs are comparable from case to case and from year to year. In Order No. 1134 (p. 3), the Commission "emphasized the importance of using methodologically *consistent cost analyses* when evaluating the absolute and relative changes in institutional cost contributions..." (Emphasis added). The Commission also used the word "consistent" three times in one paragraph when describing the role of a precedent cost attribution methodology (Order No. 1126, page 10).

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-8.**

On page 2, lines 16-17 of your testimony, you indicate that the Commission should use "consistent cost allocation methodologies in all of its rate proceedings."

- d. Please explain in detail how use of consistent cost methodologies allows for consideration of improved costing methodologies.

**RESPONSE**

I do not see any conflict. The Commission's cost attribution methodology has evolved over the past twenty five years and, hopefully, has improved over that time. Improved costing methodologies do not necessarily result in inconsistent cost methodologies. It is important to note, however, that when an improved cost methodology significantly changes the final results, then the results of the improved cost methodology might not be directly comparable to the results of the previous methodology. In such cases, the two methodologies may or may not be consistent, which I define here as "conforming to the same principles or course of action".

In this case, it appears that the Postal Service's methodology yields results that are significantly different from the Commission's methodology. As stated in my testimony and illustrated in MMA-LR-1, the Postal Service attributes \$1.1 billion less than the Commission. The Postal Service also transfers \$130 million of attributable costs (as classified by the Commission) from other subclasses to First-Class Mail and \$175 million of attributable costs (as classified by the Commission) from third-class (Standard) advertising mail to other subclasses of mail. (A copy of MMA-LR-1 is attached.)

**MMA WITNESS: RICHARD BENTLEY**  
**USPS/MMA-8(d)**

Because of these differences, the Postal Service and Commission methodologies could be considered consistent with one another, under a very broad definition of the word consistent, because of the many similarities. On the other hand, because of the significant differences in the way city delivery carrier costs are attributed, I would consider the two methodologies to be inconsistent from one another.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-8.**

On page 2, lines 16-17 of your testimony, you indicate that the Commission should use "consistent cost allocation methodologies in all of its rate proceedings."

- e. Please explain in detail how use of consistent cost methodologies allows for correction of errors.

**RESPONSE**

Correction for errors will always result in cost methodologies that are consistent, by definition, regardless of whether the resulting differences are significant. For example, suppose the unit cost for a particular subclass is 10 cents. Then suppose after correcting for some error it increases by 10% to 11 cents. This increase is certainly significant but the methodology has not changed. In such a case it would not be valid to compare this unit cost over time unless the error was corrected in all instances or some kind of adjustment was made. If the error changed the result by only a small amount, such as 1%, then a unit cost comparison over time would probably still be valid.

# **MMA-LR-1**

**Apportionment of "Attributable" and "Institutional" Costs Using  
the PRC and USPS Attributable Cost Methodologies  
for BY 1995 in Docket No. MC96-3**

**Sponsored by:  
Richard E. Bentley**

**On Behalf of:  
Major Mailers Association**

**September 30, 1996**

**Docket No. MC96-3**

**USPS Finances For BY 1995 Using USPS and PRC Cost Methodologies**  
**Docket No. MC96-3**  
**(\$000)**

MMA-LR-1  
Page 2 of 2

**Computation of Attributable Cost Difference**

<b>Line</b>	<b>Subclass</b>	<b>USPS Attrib Costs 1</b>		<b>PRC Attrib Costs2/ 2</b>		<b>Difference Attrib Costs 3 (Col 2 - Col 1)</b>	<b>PRC Attrib Cost Factor 4 (Col 3 / 1,068,679)</b>
1	First Class Letters	\$17,856,472	1/	\$18,392,713	3/	\$536,241	50.18%
2	Third Class BRR	\$6,145,129	1/	\$6,531,281	3/	\$386,152	36.13%
3	All Other	\$9,687,755	2/	\$9,834,041	2/	\$146,286	13.69%
4	Grand Total	\$33,689,356	1/	\$34,758,035	3/	\$1,068,679	100.00%

**Computation of USPS Institutional Cost Apportionment Factors**

	<b>Subclass</b>	<b>USPS Attrib Costs 5</b>		<b>USPS Rev Target 6</b>		<b>Institutional Cost Burden 7 (Col 6 - Col 5)</b>	<b>USPS Institutional Cost Apportionment Factor 8 (Col 7 / 20,820,017)</b>
5	First Class Letters	\$17,856,472	1/	\$30,821,411	4/	\$12,964,939	62.27%
6	Third Class BRR	\$6,145,129	1/	\$10,267,615	4/	\$4,122,486	19.80%
7	All Other	\$9,687,755	2/	\$13,420,347	2/	\$3,732,592	17.93%
8	Grand Total	\$33,689,356	1/	\$54,509,373	4/	\$20,820,017	100.00%

- 1/ Exhibit USPS-T-5B, pages 1 and 2  
2/ Grand Total less (First-Class Letters + Third Class BRR)  
3/ Library Reference PRC-LR-2, Matrix by951p.1r. Page 50  
4/ USPS Witness Petalunas' Workpaper WP-A, pages 129-130

**Apportionment of "Attributable" and "Institutional" Costs Using the PRC and USPS Attributable  
Cost Methodologies for BY 1995 in Docket No. MC96-3  
(\$000)**

MMA-LR-1  
Page 1 of 2

Line	Methodology	First-Class Letters 1	Third-Class BBR 2	Other Subclasses and Services 3	Total 4	Ratio of First-Class to Third-Class 5 (Col 1 / Col 2)
<b>Commission Method:</b>						
1	Additional Attributable Costs	\$536,241	1/ \$386,152	1/ \$146,286	1/ \$1,068,679	1.39
<b>USPS Method:</b>						
2	Apportioned As Institutional Costs	\$665,483	2/ \$211,605	2/ \$191,592	2/ \$1,068,679	3.14
3	Difference Due To Method	(\$129,242)	3/ \$174,547	3/ (\$45,306)	3/ \$0	
4	% Difference Due To Method	124%	4/ 55%	4/ 131%	4/ 100%	

**Conclusions:** For every additional dollar of cost that the PRC's methodology attributes to First Class, the USPS assigns \$1.24 of institutional cost to First Class. For every additional dollar of cost that the PRC's methodology attributes to third class, the USPS assigns \$.55 of institutional cost to third class. For every additional dollar of cost that the PRC's methodology attributes to all other subclasses and services, the USPS assigns \$1.31 of institutional cost to those subclasses and services.

1/ Page 2, Col 3

2/ Apportionment Factor from Page 2, Col 8 \* \$1,068,679

3/ Line 1 - Line 2

4/ Line 2 / Line 1



**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-9.**

On page 2, line 18 of your testimony, you refer to "the Commission-approved cost methodology."

- a. What is the Commission-approved cost methodology? Please explain in detail.

**RESPONSE**

The Commission-approved methodology is that utilized by the Commission in the most recent rate case, Docket No. R94-1. See Order No. 1126 at the bottom of page 1 and the middle of page 7. The Commission also stated: "To carry out its duty to provide a consistent set of cost attribution principles, the Commission attaches precedential weight to pertinent attributable cost definitions and methods applied by the Commission in the most recent proceeding in which they were litigated. In most instances, these will be the definitions and methods applied by the Commission in the most recent omnibus rate proceeding. The currently applicable precedents are found in the Commission's Further Recommended Decision in Docket No. R94-1" (pages 11 and 12).

**MMA WITNESS: RICHARD BENTLEY**  
**USPS**

**USPS/MMA-9.**

On page 2, line 18 of your testimony, you refer to "the Commission-approved cost methodology."

- b. Is it the cost methodology used by the Commission in its recommended decision in R94-1 on Reconsideration? Please explain in detail.

**RESPONSE**

Yes, please see my answer to USPS/MMA-9(a) and refer to Order No. 1134 where the Commission stated that "[T]he current, established method for attributing city carrier costs is the method used to develop the rates recommended by the Commission and accepted by the Governors in Docket No. R94-1" (pages 8, 9).

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-9.**

On page 2, line 18 of your testimony, you refer to "the Commission-approved cost methodology."

- c. Is it the cost methodology used by the Commission in this docket? Please explain in detail.

**RESPONSE**

No. See my answer to Interrogatory USPS/MMA-9(a). However, the cost methodology used by the Commission in this docket is very similar, if not identical. See my answer to Interrogatory USPS/MMA-8(a).

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-9.**

On page 2, line 18 of your testimony, you refer to "the Commission-approved cost methodology."

- d. Is it the cost methodology used by the Commission in some other docket?  
Please explain in detail.

**RESPONSE**

Please see my answers to Interrogatory USPS/MMA-9(a) and (b).

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-10.**

On page 3 of your testimony you state that the Commission "should require the Service to provide the information using the Commission's approved cost apportionment."

- a. Do you believe the Commission should require this of the Postal Service in this docket?

**RESPONSE**

Yes. If the Postal Service is not required to provide this cost information in this docket, the Service will be encouraged to file its next rate case with evidence that shows only its own non-approved cost methodology. The Service will be encouraged to refuse again to provide a cost presentation using the Commission-approved methodology. See also my answer to USPS/MMA-3.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-10.**

On page 3 of your testimony you state that the Commission "should require the Service to provide the information using the Commission's approved cost apportionment."

- b. If so, why do you believe this should be required in light of PRC-LR-1 and PRC-LR-2? Please explain in detail.

**RESPONSE**

The library documents to which you refer are helpful in terms of pointing out the degree to which the results from each of the two cost methodologies differ. But the time has come--and is long overdue--to hold the Service to its obligation to support its rate and classification filings by showing costs based upon the Commission-approved methods, as well as the Service's preferred methods. The Service ought to end its refusals to obey the Commission Orders requesting such information. By requiring this information to be filed in this case--and by adopting a regulation requiring such information to be submitted with the Service's filings in any future cases--the Commission can insure that such information will be filed at the outset of future cases, thus reducing delay and unnecessary litigation. If, however, the Postal Service is not required to provide the information in this docket, it will be encouraged to believe that it will not have to provide similar information in the next rate case.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-11.**

Please explain in detail how the respective "revenue burden" of First-Class Mail and Standard Mail is at issue in this docket.

**RESPONSE**

The revenue burdens of First-Class Mail and Standard Mail are not specifically at issue in this case. My testimony measures the change in the respective revenue burdens, under the Postal Service's and Commission's cost methodologies, and finds that those differences are so significant that they illustrate the importance of choosing an appropriate, consistent methodology. This prolonged debate about attributable cost methodologies has been exhaustive. The Commission has made its decision. Although the Postal Service should be free to ask the Commission to revise the approved methodology, there is no excuse for the Service to continue refusing to provide costing information using the Commission-approved methodology, as well as its own methodology. This proceeding, including my testimony, illustrates the importance of providing information that will allow the Commission to judge the revenue burdens and cost coverages attributable to the different methodologies for all subclasses and services. See also Order No. 1126 at the bottom of page 6 through the middle of page 7.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-13.**

On page 4, lines 18-20 of your testimony, you state that "it would have been helpful to have access to calculations of the Commission's methodology as applied to the Postal Service's base year and test year costs, presented by a Postal Service witness."

- a. Would it be "helpful to have access to calculations of the Commission's methodology as applied to the Postal Service's base year and test year costs, presented on the record by" a Commission witness? Please explain in detail.

**RESPONSE**

Yes. However, this is not the same as having a Postal Service witness provide this information on the record. Counsel advises me that the Postal Service has the burden of proving its case, and that it is the Postal Service's obligation to come forward with evidence conforming to lawful orders of the Commission.



**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-13.**

On page 4, lines 18-20 of your testimony, you state that "it would have been helpful to have access to calculations of the Commission's methodology as applied to the Postal Service's base year and test year costs, presented by a Postal Service witness."

- b. Is it your belief that the Postal Service has a better understanding of the "calculations of the Commission methodology" than the Commission or its staff? If so, please explain in detail all bases for your belief.

**RESPONSE**

I agree with the Commission's statement, in Order No. 1134 (p.4), that "the Service is in the best position to apply approved attribution and distribution methodologies to its accrued cost data...." In this regard, the Commission recognizes that the Postal Service has sufficient resources to understand and replicate the Commission's cost methodology from any previous docket and in this proceeding. Moreover, the Commission found in Order No. 1126 (p. 15) that "[T]he Postal Service already demonstrated its ability to make the base year adjustments necessary to conform to the established attribution methods. See Docket No. MC93-1, USPS-LR-SP 19, PRC Version of Audited 1992 CRA and accompanying workpapers."

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-13.**

On page 4, lines 18-20 of your testimony, you state that "it would have been helpful to have access to calculations of the Commission's methodology as applied to the Postal Service's base year and test year costs, presented by a Postal Service witness."

- c. What would be the role of the Postal Service witness in presenting "calculations of the Commission's methodology as applied to the Postal Service's base year and test year costs?" Would the Postal Service witness be expected to attest to the accuracy of the calculations underlying the Commission methodology? Would the Postal Service witness be expected to attest to the validity of the theories underlying the Commission's methodology? Would the Postal Service witness be expected to replicate the Commission's methodology, including any errors? Please explain in detail.

**RESPONSE**

See my response to Interrogatory USPS/MMA-13(b). The Service has argued to the Commission that a Service witness would have difficulties in testifying as to the Commission's methodology, along the lines suggested in this Interrogatory, but the Commission has not found those arguments to be valid. (See Order No. 1126, pages 5, 12 & 15. See also Docket No. R94-1, Presiding Officer's Ruling No. R94-1/38, p. 7.)

The Commission has already described the role of a Postal Service witness in Order No. 1126. It stated: "In meeting this burden, the Postal Service is not required to affirm the theoretical soundness or the practical wisdom of the established methods. It is merely required to affirm that it has provided the parties and the Commission with its best estimate of what the consequences of its proposed changes would be, measured by established costing principles" (p. 12).

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-13.**

On page 4, lines 18-20 of your testimony, you state that "it would have been helpful to have access to calculations of the Commission's methodology as applied to the Postal Service's base year and test year costs, presented by a Postal Service witness."

- d. If the Postal Service has disclosed or provided all data and information needed to replicate the Commission methodology, why would a Postal Service witness be in a better position than any other intervenor witness, such as you, to present the Commission's methodology on the record?

**RESPONSE**

Please see the <sup>fourth</sup> ~~second~~ paragraph of the answers to Interrogatory USPS/MMA-6(c) and 7(b) and my answers to Interrogatories USPS/MMA-13(b) and (c).

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-14.**

On page 4, lines 3-4 of your testimony, you state "The Postal Service has failed to incorporate the Commission's R90-1 methodology into the Service's Cost and Revenue Analysis (CRA) Reports or its filings in other rate and classification proceedings before the Commission."

- a. Is it your testimony that the Commission's R90-1 methodology is the approved Commission costing methodology that the Postal Service should have used in this docket? Please explain in detail.

**RESPONSE**

As stated in my answer to Interrogatory USPS/MMA-8(a), the cost methodologies provided by the Commission since Docket No. R90-1 have consistently used the single subclass cost analysis as a basis to attribute city delivery carrier costs. The currently approved methodology incorporates that cost analysis, including all the refinements that have been made since.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-14.**

On page 4, lines 3-4 of your testimony, you state "The Postal Service has failed to incorporate the Commission's R90-1 methodology into the Service's Cost and Revenue Analysis (CRA) Reports or its filings in other rate and classification proceedings before the Commission."

- b. Are you referring to the Commission methodology reflected in the Commission's initial recommended decision in Docket No. R90-1 or the recommended decision on remand in Docket No. R90-1?

**RESPONSE**

It does not matter. The currently approved methodology incorporates the single subclass cost analysis from the original Docket No. R90-1 decision, including all of the refinements that have been made since.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-15.**

On page 6, lines 14-17 of your testimony, your present cost coverages for Classroom Publications (81.1 percent), Third-Class Single Piece (59.2 percent), and Library Rate (83.8 percent).

- a. Please confirm that those costs coverages were derived Using FY 1995 RPW revenues and FY 1995<sup>\*</sup> attributable costs from PRC-LR-2. If you do not confirm, please explain in detail.

**RESPONSE**

Confirmed.

**MMA WITNESS: RICHARD BENTLEY**  
**USPS**

**USPS/MMA-15.**

On page 6, lines 14-17 of your testimony, your present cost coverages for Classroom Publications (81.1 percent), Third-Class Single Piece (59.2 percent), and Library Rate (83.8 percent).

- b. Please confirm that USPS-T-5C, page 1 shows FY 1995 cost coverages of 81.8 percent for Classroom Publications (\$10.3 revenue/\$12.6 attributable cost). If you do not confirm, please explain in detail.

**RESPONSE**

Confirmed.

**MMA WITNESS: RICHARD BENTLEY**  
**USPS**

**USPS/MMA-15.**

On page 6, lines 14-17 of your testimony, your present cost coverages for Classroom Publications (81.1 percent), Third-Class Single Piece (59.2 percent), and Library Rate (83.8 percent).

- c. Please confirm that USPS-T-5C, page 1 shows FY 1995 cost coverages of 59.3 percent for Third-Class Single Piece (\$152.3 revenue/\$256.7 attributable cost). If you do not confirm, please explain in detail.

**RESPONSE**

Confirmed.



**MMA WITNESS: RICHARD BENTLEY**  
**USPS**

**USPS/MMA-15.**

On page 6, lines 14-17 of your testimony, your present cost coverages for Classroom Publications (81.1 percent), Third-Class Single Piece (59.2 percent), and Library Rate (83.8 percent).

- d. Please confirm that USPS-T-5C, page 1 shows FY 1995 cost coverages of 83.8 percent for Library Rate (\$46.7 revenue/\$55.7 attributable cost). If you do not confirm, please explain in full.

**RESPONSE**

Confirmed.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-15.**

On page 6, lines 14-17 of your testimony, your present cost coverages for Classroom Publications (81.1 percent), Third-Class Single Piece (59.2 percent), and Library Rate (83.8 percent).

- e. Please confirm that the Postal Service's projected revenues in Docket No. R94-1 (Exhibit USPS-T-7X, page 2) for Classroom Publications, Third-Class Single Piece, and Library Rate "were sufficient to cover the attributable costs." If you do not confirm, please explain in detail.

**RESPONSE**

Confirmed.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-16.**

In your response to MMA/USPS-9(c), you state that the cost methodology used by the Commission in this docket "is very similar, if not identical" to what you define as the approved cost methodology (Docket No. R94-1 on reconsideration). Please explain in detail the basis for your conclusion, including a discussion of all evidence or other information which supports your conclusion.

**RESPONSE**

The basis for my conclusion is the Commission's statement, in Order No. 1134 (p. 16), that the cost methodology used by the Commission in this docket, as provided in PRC-LR-1 and 2, "us[es] the established methodology of single subclass stops" and "us[es] approved methods." In the introduction to PRC-LR-2 the Commission states that "[T]he basic operation of the Commission's cost model is the same as in the last omnibus rate proceeding, Docket No. R94-1." (no page number). I accepted the Commission's representations and made no independent analysis of Library Reference PRC-LR-1 and 2.

**USPS/MMA-17.**

Have you performed any analysis of the Commission's costing methodology reflected in PRC-LR-1 and 2? If so, please provide that analysis, including all notes, spreadsheets, workpapers, electronic files, and other related documentation. If not, why not?

**RESPONSE**

See my answer to Interrogatory USPS/MMA-8(a). I did not regard it as appropriate to analyze, to replicate or to attempt to replicate Library Reference PRC-LR-1 and 2 in view of the Commission's representations that Library Reference PRC-LR-1 and 2 "us[es] the established methodology of single subclass stops" (Order No. 1134, p. 16) and "us[es] approved methods" (*id.*) and that "the basic operation of the Commission's cost model is the same as in the last omnibus rate proceeding, Docket No. R94-1" (PRC-LR-2, Introduction).

There are additional reasons that I did not consider it appropriate or necessary to analyze, to replicate or attempt to replicate Library Reference PRC-LR-1 and 2. In Order No. 1126 (p. 9), the Commission explained the problems that participants would encounter if they attempted to make such calculations on their own. In addition, the Commission has found that "the Service is in the best position to apply approved attribution and distribution methodologies to its accrued cost data, and that it was neither unduly burdensome nor otherwise unreasonable to direct the Service to submit this information for the use of participants and the Commission" (Order No. 1134, p. 4) and that it is not the responsibility of the parties to "disentangle the effect of the Postal Service's proposed changes to established attribution methods." (Order No. 1126, p. 12) or "make complex adjustments to the Postal Service's cost presentation of the kind that witness Patelunas describes in Attachment D to the Motion" (Order No. 1126, p. 9). See also my

**MMA WITNESS: RICHARD BENTLEY**  
**USPS/MMA-17**

answers to Interrogatories USPS/MMA-6(c) (fourth paragraph), 7(c), and 13(b).

I did, of course, employ information contained in Library Reference PRC-LR-1 and 2 for purpose of making the analysis contained in Library Reference MMA-LR-1, a copy of which is attached.

# **MMA-LR-1**

**Apportionment of "Attributable" and "Institutional" Costs Using  
the PRC and USPS Attributable Cost Methodologies  
for BY 1995 in Docket No. MC96-3**

**Sponsored by:  
Richard E. Bentley**

**On Behalf of:  
Major Mailers Association**

**September 30, 1996**

**Docket No. MC96-3**

**USPS Finances For BY 1995 Using USPS and PRC Cost Methodologies**  
**Docket No. MC98-3**  
**(\$000)**

MMA-LR-1  
Page 2 of 2

**Computation of Attributable Cost Difference**

Line	Subclass	USPS Attrib Costs 1		PRC Attrib Costs2/ 2		Difference Attrib Costs 3 (Col 2 - Col 1)	PRC Attrib Cost Factor 4 (Col 3 / 1,068,679)
1	First Class Letters	\$17,858,472	1/	\$18,392,713	3/	\$536,241	50.18%
2	Third Class BRR	\$8,145,129	1/	\$8,531,281	3/	\$386,152	36.13%
3	All Other	\$9,687,755	2/	\$9,834,041	2/	\$146,286	13.69%
4	Grand Total	\$33,689,358	1/	\$34,758,035	3/	\$1,068,679	100.00%

**Computation of USPS Institutional Cost Apportionment Factors**

	Subclass	USPS Attrib Costs 5		USPS Rev Target 6		Institutional Cost Burden 7 (Col 6 - Col 5)	USPS Institutional Cost Apportionment Factor 8 (Col 7 / 20,820,017)
5	First Class Letters	\$17,858,472	1/	\$30,821,411	4/	\$12,964,939	62.27%
6	Third Class BRR	\$8,145,129	1/	\$10,267,615	4/	\$4,122,486	19.80%
7	All Other	\$9,687,755	2/	\$13,420,347	2/	\$3,732,592	17.93%
8	Grand Total	\$33,689,358	1/	\$54,509,373	4/	\$20,820,017	100.00%

- 1/ Exhibit USPS-T-5B, pages 1 and 2  
2/ Grand Total less (First-Class Letters + Third Class BRR)  
3/ Library Reference PRC-LR-2, Matrix by951p.1r. Page 50  
4/ USPS Witness Petakunas' Workpaper WP-A, pages 129-130

**Apportionment of "Attributable" and "Institutional" Costs Using the PRC and USPS Attributable  
Cost Methodologies for BY 1995 In Docket No. MC98-3  
(\$000)**

MMA-LR-1  
Page 1 of 2

Line	Methodology	First-Class Letters 1		Third-Class BBB 2		Other Subclasses and Services 3		Total 4	Ratio of First-Class to Third-Class 5 (Col 1 / Col 2)
<b>Commission Method:</b>									
1	Additional Attributable Costs	\$538,241	1/	\$388,152	1/	\$146,286	1/	\$1,068,679	1.39
<b>USPS Method:</b>									
2	Apportioned As Institutional Costs	\$665,483	2/	\$211,605	2/	\$191,592	2/	\$1,068,679	3.14
3	Difference Due To Method	(\$129,242)	3/	\$174,547	3/	(\$45,306)	3/	\$0	
4	% Difference Due To Method	124%	4/	55%	4/	131%	4/	100%	

**Conclusions:** For every additional dollar of cost that the PRC's methodology attributes to First Class, the USPS assigns \$1.24 of institutional cost to First Class. For every additional dollar of cost that the PRC's methodology attributes to third class, the USPS assigns \$.55 of institutional cost to third class. For every additional dollar of cost that the PRC's methodology attributes to all other subclasses and services, the USPS assigns \$1.31 of institutional cost to those subclasses and services.

1/ Page 2, Col 3

2/ Apportionment Factor from Page 2, Col 8 \* \$1,068,679

3/ Line 1 - Line 2

4/ Line 2 / Line 1



**USPS/MMA-19.**

Have you compared or attempted to compare the Commission's costing methodology reflected in PRC-LR-1 and 2 with the Commission's costing methodology from its Docket No. R94-1 recommended decision on reconsideration? If so, please provide any notes, results, spreadsheets, workpapers, electronic files and other documentation related to that effort. If not, why not?

**RESPONSE**

I did not regard it as appropriate to compare the Commission's costing methodology reflected in Library Reference PRC-LR-1 and 2 with the Commission's methodology used in Docket No. R94-1 and in Docket No. R90-1 decisions in view of the Commission's representations that Library Reference PRC-LR-1 and 2 "us[es] the established methodology of single subclass stops" (Order No. 1134, p. 16) and "us[es] approved methods" (*id.*) and that "the basic operation of the Commission's cost model is the same as in the last omnibus rate proceeding, Docket No. R94-1" (PRC-LR-2, Introduction). I have accepted the Commission's representation regarding the methodologies underlying Library Reference PRC-LR-1 and 2 in this case. See also my response to Interrogatory USPS/MMA-8(a). In addition, such comparisons were not necessary in order for me to complete my testimony.

There are additional reasons that any such comparison between Library Reference PRC-LR-1 and 2 and the Commission's methodology used in Dockets Nos. R94-1 and R90-1 need not be made by participants like MMA. If the Postal Service wants such comparisons to be made, it is in the best position to make those comparisons itself. Thus, in Order No. 1126 (p. 9), the Commission explained the problems that participants would encounter if they attempted to make such calculations on their own. In addition, the Commission has found that "the Service is in

**MMA WITNESS: RICHARD BENTLEY**  
**USPS/MMA-19**

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the best position to apply approved attribution and distribution methodologies to its accrued cost data, and that it was neither unduly burdensome nor otherwise unreasonable to direct the Service to submit this information for the use of participants and the Commission" (Order No. 1134, p. 4). See also my answer to Interrogatory USPS/MMA-11.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-23.**

Please refer to PRC-LR-2. Please confirm that the cost model documented in this library reference differs from prior Commission cost models (specifically Docket No. R94-1 upon reconsideration, PRC-LR-17) in at least the following respects:

- a) PRC Component Numbers 309 through 316 (see page 2 of 13 of PRC-LR-2, Component Titles and Numbers) formerly received a redistribution mail volume effect, but now receive a direct mail volume effect.
- b) PRC Component Number 1002 formerly received a non-volume workload effect, but no longer receives such an effect.

If you cannot confirm, please explain fully.

**RESPONSE**

I cannot confirm the requested information because I did not make the comparison between the two documents for the reasons stated in my answer to Interrogatory USPS/MMA-19.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

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**USPS/MMA-24.**

Is it your testimony that, if the Postal Service had attributed costs in this case in a manner consistent with the "Commission-approved method," after such attribution the Postal Service's "institutional cost apportionment factors" (percentage shares of institutional cost burden) would be 62.27% for First-Class Mail, 19.80% for Third Class BRR, and 17.93% for all other? If so, please explain fully why. If not, please explain fully what "institutional cost apportionment factors" would apply, and why.

**RESPONSE**

Yes. Library Reference PRC-LR-2 provides the following attributable cost amounts for BY 1995:

First Class Letters	\$17,856,472
Third Class BRR	6,145,129
All Other	9,687,755

USPS Witness Patelunas' Workpaper WP-A, pages 129-130 provides the following revenues for BY 1995:

First Class Letters	\$30,821,411
Third Class BRR	10,267,615
All Other	13,420,347

The "institutional cost burden" required is the difference between the revenues and attributable costs and are shown below:

First Class Letters	\$12,964,939
Third Class BRR	4,122,486
All Other	3,732,592

The "institutional cost apportionment factors" are then computed by dividing each "institutional cost burden" by the total of \$20,820,017. All of these computations are shown in Library Reference MMA-LR-1, page 2, lines 5-8.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-25.**

Please refer to your response to USPS/MMA-3, in which you state the position that the Commission should not act upon the Postal Service's proposed changes in this docket until after the Postal Service provides certain cost information conforming to Commission-approved methods.

a) Please confirm that it is your position that, given the current status of the evidentiary and procedural record of this case, the Commission should delay issuance of its recommended decision. If you confirm, state and explain fully the basis upon which the Commission could delay issuance of its decision. If you do not confirm, please explain fully.

**RESPONSE**

Confirmed. Please see my answers to interrogatories USPS/MMA-10(a), 10(b) and 11.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-25.**

Please refer to your response to USPS/MMA-3, in which you state the position that the Commission should not act upon the Postal Service's proposed changes in this docket until after the Postal Service provides certain cost information conforming to Commission-approved methods.

b) Would your position change in any way if the Commission were to provide the cost information in question, and provide a witness to sponsor, defend and explain it? Please explain fully. Include in any answer any objection you may have to Commission sponsorship of disputed methodologies.

**RESPONSE**

No. Please see my answer to interrogatories USPS/MMA-25(a), 10(a), 10(b) and 11.

**MMA WITNESS: RICHARD BENTLEY  
USPS**

**USPS/MMA-26.**

Assume that in the roll-forward methodology set out in the Commission's Docket No. R94-1 Recommended Decision on Reconsideration, the Commission, in its "ripple" file (See Docket No. R94-1, PRC LR-17, filename E:\RATE\R94-1\ROLL\R94REC10\RIP94.DAT), distributed components 1208 (Motor Vehicle Service-Personnel-Special Delivery Messengers) and 1219 (Motor Vehicle Service-Supplies & Materials-Special Delivery Messengers) on component 902 (Special Delivery Messengers-Street), but made no such distributions on component 901 (Special Delivery Messengers-Office). Assume further that the Commission, in the methodology described in library reference PRC-LR-2 (see filename PRC96RIP.DAT), distributed components 1208 and 1219 on component 901, in addition to the above-described distributions on component 902. In your opinion, would the Commission's PRC-LR-2 methodology be consistent with the methodology described in the Commission's Docket No. R94-1 Recommended Decisions on reconsideration? Please explain your answer in detail.

**RESPONSE**

I do not know. In my answer to the subparts to Interrogatory USPS/MMA-8, I explained the importance of utilizing a consistent costing approach to support proposed changes in rates and classifications. The Postal Service is in the best position to provide the computations referred to in order to measure the impact and significance of the requested assumptions, as I explained in my answer to Interrogatory USPS/MMA-17.

Since the interrogatory asks me to assume a change in Special Delivery Messenger costs, which I think would be quite small in relation to total postal costs, then I suspect that the final change in costs from your assumption would probably not be of any significance.

1 COMMISSIONER QUICK: Does any participant have  
2 additional written cross examination for Witness Bentley?  
3 Only one participant.

4 THE REPORTER: What is the exhibit number for the  
5 direct testimony, please?

6 MR. LITTELL: It can be designated MMA T-1.

7 COMMISSIONER QUICK: Only one participant, the  
8 United States Postal Service, requested oral cross  
9 examination of Witness Bentley. Does any other participant  
10 have oral cross examination for Witness Bentley? Mr.  
11 Costich?

12 MR. COSTICH: Commissioner Quick, the OCA would  
13 like to pose a couple of questions to this witness.

14 COMMISSIONER QUICK: Fine. Ms. Duchek, will you  
15 please proceed.

16 MS. DUCHEK: Thank you, Commissioner Quick.  
17 Good morning, Mr. Bentley.

18 THE WITNESS: Good morning.

19 CROSS EXAMINATION

20 BY MS. DUCHEK:

21 Q Would you please turn to your response to USPS/MMA  
22 6-A and B?

23 A Yes, I have it.

24 Q That question asked you to refer back to page two  
25 of your testimony where you stated that the Commission



1 should not "use a methodology for one set of services in one  
2 case that apportions attributable costs in ways that are  
3 significantly different from the methods used for other  
4 postal services in other cases."

5 In the past, when the Commission changed from a  
6 cost avoidance type methodology for ~~first-class~~ <sup>First-Class</sup> presort  
7 discounts to an Appendix F methodology, was this the type of  
8 significantly different methodology to which you're  
9 referring in your quote on page two?

10 A No, I wasn't thinking of that kind of a change at  
11 all.

12 Q Why not?

13 A It didn't even occur to me. I was really  
14 concerned with how to attribute costs, not how to find the  
15 cost of a particular segment within first class which  
16 requires a special study of some sort.

17 Q So you were talking about overall attribution of  
18 all costs?

19 A That's correct.

20 Q When the Commission changed its treatment of the  
21 distribution of air transportation costs for ~~priority mail~~ <sup>Priority Mail</sup>,  
22 parcel post and bound printed matter into distance- and  
23 nondistance-related components in Docket No. R94-1, was this  
24 the type of significantly different methodology to which you  
25 were referring on page two of your testimony?

1           A     No, I really wasn't referring to that at all at  
2     that point either for the same reason.

3           Q     That reason being?

4           A     I was referring to how costs are defined in terms  
5     of being attributed to the classes of mail, not how they  
6     would be defined to -- or cause and effect versus making  
7     rates for rate elements.

8           Q     If a costing methodology changes based on a novel  
9     costing theory but the resulting changes to attributable  
10    cost levels are small, would you consider this a  
11    significantly different methodology?

12          A     Yes, I think the methodology has changed even  
13    though the results would not be significantly different.

14          Q     So in determining what is a significantly  
15    different methodology, you don't look only at the results?

16          A     That's correct.

17          Q     So I take it you would also agree that if a  
18    costing methodology changes again based on a novel costing  
19    theory with the resulting changes to attributable cost  
20    levels being small at present but greater in the future,  
21    this also would be a significantly different methodology?

22          A     Yes. And you should be aware of that when you  
23    start comparing the costs before and after that change.  
24    Sometimes the comparison is going to be like apples and  
25    oranges and sometimes it won't be. And if they start

1 changing in the future and those changes are significant,  
2 then you might have to make adjustments if you were to go  
3 back to the past where the methodology was so different.

4 Q Would you please turn to your response to USPS-  
5 MMA-6D and E.

6 A Okay.

7 Q There you discuss significant differences in cost  
8 methodology that have an impact on rates. You specifically  
9 mention one-tenth of one cent as being significant for  
10 second class non-profit and one cent as being significant  
11 for library rate.

12 Does significance here have to do solely with the  
13 amounts of the rate increases you are discussing?

14 A Yes. I'm talking about the impact on what the  
15 cost methodology might be in terms of what the rates might  
16 end up being.

17 Q Is it your testimony that one-tenth of one cent  
18 would not be significant for library rate?

19 A I think that those rates are in terms of pennies,  
20 so, therefore, changing a tenth of a cent wouldn't change  
21 the rate.

22 Q So is it fair to say that significance in terms of  
23 impact on rates varies from category of mail to category of  
24 mail?

25 A Well, when a rate is determined by a penny and

1 you're changing something by a tenth of a penny, that, to  
2 me, has no significance. If you're going to raise a rate  
3 that is measured in tenths of a cent, by a tenth of a cent,  
4 then there is more significance.

5 Q If you're measuring rates in pennies and it  
6 changes one cent or it changes two cents, are both of those  
7 significant or is one or the other significant?

8 A They both are. As long as you're going to make a  
9 change, then it is significant.

10 Q So any sort of change in the rate you would define  
11 as significant?

12 A Yes.

13 Q In that same response, 6D and E, you cite a \$5  
14 million difference for ~~first-class mail~~ *First-Class mail* as possibly not  
15 significant, but you say \$60 million is.

16 What is the barometer of significance here? Is it  
17 the total costs attributed to the mail category or is it the  
18 result in terms of unit costs?

19 A No, it's really the result and the impact on the  
20 rate and the revenue requirement for a particular rate  
21 element or rate subclass. In the case of first class, it is  
22 measured in terms of tenths of a cent for presorted and  
23 pennies for first class non-presorted, and it may be very  
24 difficult to come up with an additional \$5 million by  
25 changing a tenth of a cent, so therefore \$5 million would

1 not be significant in that situation.

2 Q Not significant because it wouldn't change the  
3 rate?

4 A That's correct.

5 Q Would you turn to your response to USPS-MMA-7A and  
6 B. And there, you -- we had referred you back to page 2,  
7 lines 14 to 15 of your testimony where you had indicated  
8 that the Postal Service's use of its methodology, quote,  
9 "may not impact the Service's proposed rate significantly in  
10 this proceeding." And I haven't quoted the whole portion of  
11 it.

12 What is your definition of significant with regard  
13 to the Postal Service's specific proposals in this docket?

14 A Well, of course, it would be interesting to know  
15 what the impact would be had the Postal Service provided the  
16 Commission-approved methodology in the first place, so we  
17 really don't know. The answer is, it is significant if it  
18 would change those rates differently from what the Postal  
19 Service had proposed. I don't know the answer to that.

20 Q So you did not determine -- attempt to determine  
21 that answer from Postal Rate Commission library references 1  
22 and 2?

23 A No, I did not.

24 Q Am I summarizing fairly, then, in saying if the  
25 change in costing methodology would have changed the Postal

1 Service's proposals, then it would be significant under your  
2 definition?

3 A That is correct, but that's not the only reason  
4 why the Postal Service should be providing that cost  
5 information in this case, and I think I have said that in my  
6 testimony.

7 Q I understand that.

8 Would you look at your response to USPS-MMA-8A.

9 A I have it.

10 Q Thank you.

11 You indicate in that response that you have not  
12 attempted to determine whether the Commission costing  
13 methodology presented in this docket in Commission Library  
14 References 1 and 2 is the same, similar to, or consistent  
15 with other Commission costing methodologies presented in  
16 past dockets; is that correct?

17 A Are you referring to the library references?

18 Q Well, I'm referring to your response to 8A where  
19 you stated that you accepted the Commission's  
20 representations. The question had specifically asked if it  
21 was your testimony that the Commission's cost allocation  
22 methodology in this case, PRC Library References 1 and 2,  
23 was consistent with its recommended decisions in past cases.  
24 So my question is, am I summarizing your response to 8A  
25 correctly if I'm saying that you have not attempted to

1           A     Well, I think I have given you the definition that  
2     I have used, and I think I have also stated in one of my  
3     interrogatory answers that the Postal Service methodology  
4     and the Commission methodology have many similarities, and  
5     from a broad definition of consistency, they could be  
6     considered consistent.  However, because of the differences  
7     in the way -- in the manner in which they attribute the city  
8     delivery costs, that they are so different and that the  
9     final results are so different that I would consider the two  
10    methodologies to be inconsistent from one another and I  
11    believe the Commission has also agreed with that based on  
12    their orders 1120 and 1126 and 1134.

13           Q     So is it only the attribution of city delivery  
14    costs that determines for you consistency or lack thereof in  
15    costing methodologies?

16           A     Well, that was one major area and I'm sure that is  
17    the major area.  The Commission also pointed out at least  
18    two others.

19           Q     Under your definition of consistent, would you  
20    look at other things such as total attributable costs for  
21    all categories of mail and how they differ to judge  
22    consistency?

23           A     I think that's part of it.  You also want to look  
24    at the way or the manner in which those costs are  
25    attributed, the distribution queues, things of that nature.

1           Q     So you might also want to look at total  
2     attributable costs for each category of mail separately?

3           A     Yes, I think that's part of it. And, of course,  
4     the more significantly different those results are, the more  
5     you should be concerned about consistency.

6           Q     Would unit costs and unit cost differences figure  
7     into your definition of consistency?

8           A     That would certainly be a measure of the  
9     differences from two different methodologies and, as I said  
10    before, would allow you to be more or less concerned about  
11    the differences in terms of significance and, therefore, the  
12    consistency of the two methods.

13          Q     Would you also look at the type of costs,  
14    transportation, mail processing, delivery, and differences  
15    there?

16          A     Well, I think you would look at the different cost  
17    components, yes.

18          Q     By different cost components, are you specifically  
19    referring to the cost segments and components?

20          A     Yes. And subcomponents within those components.

21          Q     So differences in those would indicate to you  
22    consistency or lack thereof?

23          A     That's a good place to start, yes.

24          Q     I think you said before that consistency and  
25    significance are not exactly the same, although I think I



1 heard you just say that in order to determine consistency,  
2 one of the things you would look at would be if results were  
3 significantly different. Is that correct?

4 A Yes. If the results weren't different, I would  
5 not be as concerned about the consistency of two different  
6 methods. It's when they are different that you have to be a  
7 lot more concerned.

8 Q Would you look at your response to USPS-MMA-8C.

9 A I have it.

10 Q There you quote the Commission as emphasizing the  
11 importance of using consistent cost methodologies, quote,  
12 "when evaluating the absolute and relative changes in  
13 institutional cost contributions." End quote.

14 In your view, would a resulting one percent change  
15 in cost coverage for a particular category of mail under a  
16 costing methodology mean that that methodology was not  
17 consistent with another methodology that didn't show this  
18 one percent change?

19 A That's a tough question to answer. Generally I  
20 would say one percent, I wouldn't worry too much about.

21 Q At what level would you start worrying? Two  
22 percent? Five percent? Ten percent?

23 A That -- as I said, I can't answer that. The  
24 answer is it depends.

25 Q Depends on what?

1           A     It depends on what I'm comparing. What one  
2 percent means to one class might mean a whole lot more to a  
3 different class.

4           Q     What if cost coverage percentages changed by ten  
5 percent but the relative standings or cost coverage  
6 relationships among the categories remained unchanged?  
7 Would that still be consistent?

8           A     I don't know the answer to that.

9           Q     Is it your testimony that there is no conflict  
10 between having consistent costing methodologies and making  
11 improvements to those methodologies?

12          A     I think you can make improvements to the  
13 methodologies and the methodologies do not have to be  
14 consistent. You can make changes, but you must be aware of  
15 those changes if you start comparing the costs under one  
16 methodology versus the cost under a different methodology.

17          Q     So improvements should be made even if that means  
18 that the improved costing methodology ends up being  
19 inconsistent under your definition with the older unimproved  
20 costing methodology?

21          A     Sure. I agree with that.

22          Q     Would you please turn to your response to USPS-  
23 MMA-8E.

24                    You seem to be saying in your response that  
25 correcting errors is always consistent. Is that a fair

1 summary?

2 A Yes.

3 Q What if a correction of an error makes a  
4 significant difference in results in terms of cost coverages  
5 making it difficult to compare them with the previous  
6 methodology? Is this still consistent?

7 A Yes, it would still be consistent by definition  
8 and if it makes the differences so significant that you  
9 could not compare the costs from a previous year of some  
10 sort, then you would have to make an adjustment so that you  
11 could make that comparison.

12 Q But by your definition that's still consistent?

13 A If you are still following the same methodology,  
14 then it would be consistent, yes.

15 Q So your definition of the same methodology would  
16 be that the methodology corrected for errors is still the  
17 same as the methodology that had not been corrected for  
18 errors?

19 A If it is a mathematical error of some sort or a  
20 change in the distribution key because they used the wrong  
21 key but they are following the same methodology then it  
22 would be considered consistent in my definition.

23 Q What if a party is doing the Commission's cost  
24 methodology and finds a change which has a significant  
25 impact on results under your definition and cannot determine

1 whether the change was an error or an intentional change?

2 How does the party decide whether this is an error  
3 and should be corrected or whether it is an intentional  
4 change and needs to be left alone?

5 A I am not sure I could follow that whole thing. We  
6 are looking at a party who is trying to produce the costs  
7 under the Commission-approved methodology --

8 Q That's correct.

9 A -- and now they have come across an area where  
10 they think that there is an error but they are not sure?

11 Q They have come across a change and cannot  
12 determine whether the change is an error or an intentional  
13 change.

14 How is that party to proceed?

15 A And they are not allowed to ask the question, I  
16 take it?

17 Q Well, would it be your testimony that it would be  
18 easier if the Commission answered the question or presented  
19 a witness to answer the question?

20 A Well, I'm -- can we be a little bit more specific  
21 because in general there should be communications so that  
22 whoever is trying to duplicate the Commission's cost  
23 methodology has all the information to do it, and if they  
24 can't do it, even between cases, they should find out the  
25 answers to those questions and try to duplicate that

1 methodology.

2 Q Do you have any suggestions on how a party should  
3 go about doing that?

4 A They could do it both ways and they could say here  
5 is one way we are under a certain set of circumstances and  
6 show what the impact would be under the other set of  
7 circumstances without setting which is better, just saying  
8 we have a problem here and show it both ways and then take a  
9 look at the differences and see if they are significant.

10 If they are not significant, then it is really not  
11 going to matter that much.

12 Q If they are significant, wouldn't it be less  
13 burdensome on the party if the Commission simply presented a  
14 witness to explain its methodology?

15 A I am not sure of all the legal ramifications of  
16 that, but it would certainly be nice if the Commission would  
17 explain their cost methodology so that the parties such as  
18 the Postal Service could understand it -- and there probably  
19 should be a forum for that as well.

20 Q Would you refer to your responses to USPS/MMA 10A  
21 and B and 25A. I will give you a minute to look at both of  
22 them and compare them.

23 A [Reviewing document.]

24 That was 25A?

25 Q 10A and B and 25A, correct.

1           A     Okay.

2           Q     Is it a fair summary of your responses to say that  
3     you are saying that the sole reason for the Commission to  
4     require the Postal Service to produce the Commission cost  
5     methodology in this docket and to delay issuance of its  
6     recommended decision is as a deterrent against future  
7     actions on the part of the Postal Service?

8           A     And I would add to that that the Postal Service  
9     must somehow be forced to provide that information before  
10    the next rate case as part of their original filing, so that  
11    I am not sitting here 26 months from now as I was 26 months  
12    ago in the same situation.

13          Q     Again, I understand what you have just said, but I  
14    am trying to -- I am not sure if you agreed with me or added  
15    something or what.

16                In light of your responses to 10A and B and 25A, I  
17    am asking you if you are saying that the sole reason the  
18    Commission should require the Postal Service to produce the  
19    Commission cost methodology in this docket and to delay  
20    issuance of its recommended decision is to serve as a  
21    deterrent against future action on the part of the Postal  
22    Service?

23          A     And the answer is for my purposes that is correct.

24                As far as the Commission is concerned, they have  
25    stated that they wanted the information from the Postal

1 Service so that would be up to them in order to make a  
2 decision in this case, but for my purposes that is correct.

3 Q Would you refer to your response to USPS/MMA 13B,  
4 please?

5 A I have it.

6 Q I'd ask you to assume that the Commission cost  
7 methodology in this docket has changed in a number of  
8 respects from the cost methodology used by the Commission in  
9 its R94-1 recommended decision on reconsideration.

10 I'd further ask you to assume that these changes  
11 are undocumented and unexplained in PRC Library References 1  
12 and 2.

13 Would you still maintain that the Postal Service  
14 "is in the best position to apply approved attribution and  
15 distribution methodologies to its accrued cost data"?

16 MR. LITTELL: Could we have a moment, please?

17 COMMISSIONER QUICK: Mr. Littell?

18 MR. LITTELL: I would object to that question on  
19 the grounds that the assumption is contrary to the record.  
20 The assumption in the question is that the Commission, in  
21 its library reference in this case, in its method in this  
22 case, has used a method that's inconsistent with that in  
23 prior cases, whereas the Commission has stated in Order No.  
24 1134 that its cost presentation in this case as provided in  
25 the library reference "uses the established methodology of

1 single subclass stops and uses approved methods."

2 Therefore, I think the assumption is contrary to  
3 fact and to anything in this record.

4 MS. DUCHEK: First of all, I would point out that  
5 Commission Library References 1 and 2 are not in the record,  
6 so we can't say that anything is or is not contrary to  
7 something that's in the record.

8 Secondly, I am fully aware of what the Commission  
9 said in Library References 1 and 2 and Mr. Littell said "not  
10 inconsistent." Those are his terms; those were not the  
11 terms of my question. I'm not getting into a debate with  
12 Mr. Bentley or Mr. Littell about their definitions of what  
13 is or is not consistent, and I'm not aware of what the  
14 Commission's definitions are of what is or is not  
15 consistent.

16 All I said was, assume that the Commission cost  
17 methodology in this docket has changed in a number of  
18 respects and assume that these changes are undocumented and  
19 unexplained in PRC Library References 1 and 2.

20 I asked Mr. Bentley would he still say that the  
21 Postal Service, and I'm quoting directly from the  
22 interrogatory, "is in the best position to apply approved  
23 attribution and distribution methodologies to its accrued  
24 cost data."

25 Second point I would like to make is that even if



1 a particular matter is not established on the record,  
2 hypotheticals generally are still allowed.

3 COMMISSIONER QUICK: Mr. Littell?

4 MR. LITTELL: I'll be very brief. Hypotheticals  
5 are allowed when those are established in the record, but  
6 not when they are contrary to the record, and I was not  
7 quoting the consistency language from the library reference  
8 that is not in the record, but rather from the Commission's  
9 Order 1134.

10 Thank you.

11 MS. DUCHEK: One more comment. As I recall, the  
12 Commission's Order 1134 did not say definitively that there  
13 had been absolutely no changes. It talked about approved  
14 methods, it talked about I think maybe basic consistency or  
15 whatever. I do not recall, and I don't have it here in  
16 front of me, any statement that there had been absolutely no  
17 changes.

18 COMMISSIONER QUICK: We have Mr. Littell's  
19 concerns on the record. I think I will, however, allow Ms.  
20 Duchek to go ahead and ask her question and see if Mr.  
21 Bentley wants to respond or not.

22 MS. DUCHEK: Thank you, Commissioner Quick.

23 BY MS. DUCHEK:

24 Q Mr. Bentley, would you like me to repeat the  
25 question?

1           A     No, I think I understand the question. I think  
2     for certain the Commission is the best qualified to carry  
3     out their own methodology. Of all the parties, the Postal  
4     Service is certainly in the best position and has the  
5     responsibility of being able to reproduce that methodology.

6           Q     Would you please refer to your response to  
7     USPS/MMA-14A?

8           A     I have it.

9           Q     I'm particularly asking you to focus on the last  
10    sentence where you state, "The currently approved  
11    methodology incorporates that cost analysis, including all  
12    the refinements that have been made since."

13                   What are the specific refinements to which you are  
14    referring?

15          A     There are about 20 pages of the Docket No. R94-1  
16    opinion which provides that information and I couldn't  
17    dictate it to you.

18          Q     Are you referring to the R94-1 Further Recommended  
19    Decision?

20          A     No. I'm referring to the original opinion which  
21    provides a history of those changes.

22          Q     Do you recall if the refinements discussed there  
23    encompass intentional changes that the Commission has made  
24    or errors that the Commission has corrected or both, if you  
25    recall?

1           A     I think it was both, but again, I'd defer to the  
2     record.

3           Q     Mr. Bentley, is it your belief that the Postal  
4     Service proposes rate changes according to a preconceived  
5     determination of the appropriate proportion of institutional  
6     costs that a particular category of mail should bear?

7           A     Could you repeat just the first part of that,  
8     please?

9           Q     Is it your belief that the Postal Service proposes  
10    changes according to a preconceived determination of the  
11    appropriate proportion of institutional costs that a  
12    particular category of mail should bear?

13          A     Yes, I think the Postal Service does that on  
14    occasion.

15          Q     Could you elaborate on what specific occasions?

16          A     I think that sometimes when the Postal Service is  
17    looking at a rate for First Class mail there will be a rate  
18    amount that will be too high, there will be another one that  
19    will be too low, and therefore since it has to be in whole  
20    rate increments the Postal Service would use the one in the  
21    middle.

22          Q     How does that tie in to the appropriate proportion  
23    of institutional costs that a category should bear?

24          A     It just defines it in a backward manner, so to  
25    speak.

1           Q     So are you testifying that the Postal Service  
2     basically backs into a rate by first determining a specific  
3     percentage of institutional costs that a category of mail  
4     should bear?

5           A     I have testified that in my belief sometimes the  
6     Postal Service might do that.

7                     I am not testifying that I can prove that they  
8     have done it.

9           Q     Don't both the Postal Service and the Commission  
10    determine first what the appropriate, what the attributable  
11    costs are for a particular category of mail and then apply a  
12    markup to generate an appropriate contribution to  
13    institutional costs?

14          A     Yes.

15          Q     Along those same lines, would you please refer to  
16    your response to USPS/MMA 24?

17          A     I have it.

18          Q     As part of your answer you agreed that if the  
19    Postal Service had followed the "Commission-approved method"  
20    for attributing costs, the Postal Service's "institutional  
21    cost apportionment factor" for First Class mail would have  
22    bene 62.27 percent, correct?

23          A     That assumes that the library reference that I  
24    used and the Postal Service, had they applied that  
25    methodology, would provide the same answer.

1           Q     Isn't it true that the amount of costs attributed  
2     to a subclass or category of mail is just one of the many  
3     factors that determine the cost coverage ultimately selected  
4     for that subclass or category?

5           A     I think that makes sense.

6           Q     In fact, the Commission itself typically does not  
7     make reference to "institutional cost apportionment factors"  
8     in recommending rates, does it?

9           A     No. The Commission doesn't normally make the  
10    comparison that I have to make because I now have two  
11    different methodologies that I have to compare, and those  
12    methodologies are a billion dollars apart in terms of the  
13    amount of costs that are attributed and therefore there's a  
14    billion dollars less institutional costs that I have to take  
15    a look at and therefore the Commission doesn't make that  
16    comparison that I am forced to make.

17          Q     But there's nothing magical or set in concrete, is  
18    there, about an institutional cost apportionment factor of  
19    exactly 62.27 percent?

20          A     I disagree with that. I think that once that  
21    amount is set, it is then magical, and that is a point that  
22    we should take a look at when we look at different costs and  
23    different rates that might be affected by those costs.

24          Q     And is it your testimony that the 62.27 percent  
25    factor would hold regardless of what cost attribution

1 methodology were used in this case?

2 A No. The Postal Service is proposing to raise  
3 rates by \$330 million and that would probably impact that  
4 percentage.

5 Q I don't think I understand your response.

6 How would that percentage be changed by what the  
7 Postal Service has proposed in this case?

8 A Because it's going to change the total cost, which  
9 will change the amount of institutional cost and will change  
10 the revenue requirement had there been another rate case,  
11 and therefore those percentages would change.

12 Q So they could change for the reason you have  
13 cited. They could also change depending upon what cost  
14 attribution method was used, correct?

15 A They will definitely change if you change the cost  
16 attribution method.

17 Q One final question, Mr. Bentley. Would you please  
18 refer to your response to USPS/MMA 25B.

19 A I have it.

20 Q Part of the question there had asked for you to  
21 include in your answer any objection you may have to  
22 Commission sponsorship of disputed methodologies.

23 Can I take it from your response that you do not  
24 have any objection to Commission sponsorship of disputed  
25 methodologies?

1           A     I have no objection to that per se.

2                     My problem is it does nothing to change the  
3 precedent of the Postal Service refusing to provide that  
4 cost information when the Commission asks and then the  
5 Commission goes ahead and does it themselves and that is why  
6 we are in the same situation in this case as we were in  
7 Docket R94-1.

8                     MS. DUCHEK: I think that was my last question --  
9 if I could just have a minute.

10                    [Pause.]

11                    MS. DUCHEK: That's all I have for now. Thank  
12 you.

13                    COMMISSIONER QUICK: Thank you, Ms. Duchek.

14                    Mr Costich?

15                    MR. COSTICH: Thank you, Commissioner Quick.

16                               CROSS EXAMINATION

17                    BY MR. COSTICH:

18           Q     Mr. Bentley, could you turn to page four of your  
19 testimony, lines 15 through 16 in particular?

20           A     I have it.

21           Q     Here you say that "The dollar consequences of  
22 choosing a methodology for apportioning city delivery  
23 carrier costs are huge," is that correct?

24           A     That's correct.

25           Q     What is your basis for this statement?

1           A     The basis for that statement is the analysis that  
2     provided in my library reference where I examine the costs  
3     on the Commission's methodology shown in its library  
4     reference and compared it to the Postal Service's  
5     methodology provided by its witnesses in this case.

6           Q     Do you have any other basis independent of the  
7     library reference for your conclusion?

8           A     Oh, yes. I have taken a look at the data from  
9     R94-1 and compared, in several different ways, the total  
10    attributable costs for the Postal Service's methodology  
11    versus the Commission's methodology and in each case, they  
12    are still about a billion dollar apart.

13                   To be more specific, I first compared the test  
14    year results from the Postal Service versus the Commission  
15    on an absolute basis and found that they were just under a  
16    billion dollars apart.

17                   I made some crude adjustments for the differences  
18    in the volumes since the rates proposed by the Postal  
19    Service were slightly different than the rates ultimately  
20    recommended by the Commission and that was still off by  
21    about a billion dollars.

22                   I also took a look at the data at the end of  
23    Appendix D in the Commission's opinion which provides the  
24    cost data for the PRC test year and the USPS cost test year.  
25    Those are off by just under a billion dollars.



1 I have modified those costs to reflect the accrued  
2 costs to make them equal and they are still off by about a  
3 billion dollars.

4 MS. DUCHEK: I would ask that Mr. Bentley's entire  
5 last answer be stricken from the record. He has presented  
6 new data, a new methodology, new supplemental testimony that  
7 was not provided to the parties in time for preparation for  
8 cross examination in this case, and it's a violation of the  
9 parties' due process rights to not have an opportunity to  
10 review these calculations he says that he has made, to  
11 propound interrogatories and to direct cross examination to  
12 Mr. Bentley.

13 This was not part of his testimony; I don't  
14 believe it was referred to in any of his interrogatory  
15 responses. It is new testimony and should not be allowed.

16 MR. COSTICH: Mr. Chairman, this is simply  
17 information in the nature of confirming statements that the  
18 witness has already made. It's certainly relevant and I  
19 think it belongs in the record.

20 MS. DUCHEK: It's a new analysis, new numbers. He  
21 talked about calculations. The Postal Service and other  
22 parties are entitled to see these, to propound discovery and  
23 to conduct cross examination. It cannot be allowed in at  
24 this point in the proceedings.

25 COMMISSIONER QUICK: Mr. Littell?

1           MR. LITTELL: While I think the Postal Service has  
2 opened the door to this, we would have no objection, in view  
3 of the Postal Service's objections, to having the  
4 information provided on the record to the Postal Service and  
5 Mr. Bentley being available for additional interrogatories  
6 and to be recalled if the Postal Service finds that they  
7 need additional questions to deal with these.

8           COMMISSIONER QUICK: Ms. Duchek?

9           MS. DUCHEK: That's acceptable to me, Commissioner  
10 Quick.

11          COMMISSIONER QUICK: Thank you. Proceed, Mr  
12 Costich.

13          MR. COSTICH: Thank you, Commissioner Quick.

14          BY MR. COSTICH:

15          Q     Mr. Bentley, could you look at page five of your  
16 testimony, lines four through six?

17          A     Yes, I have it.

18          Q     Here again, you're referring to the difference of  
19 \$1.1 billion in costs. Do the analyses you just described  
20 also tend to confirm your statement here?

21          A     Yes. The order of magnitude is consistently in  
22 the billion dollar range.

23          MR. COSTICH: Thank you. I have no further  
24 questions, Commissioner Quick.

25          MS. DUCHEK: Commissioner Quick, if I could

1 interject for a moment. If Mr. Bentley will provide these  
2 and the Postal Service decides to conduct written discovery  
3 and oral cross examination, the Postal Service will go along  
4 with this subject to the right to possibly get an extension  
5 of time in order to file rebuttal testimony if the current  
6 schedule cannot be adhered to.

7 Otherwise, I don't think that Mr. Bentley should  
8 be allowed to produce these materials at this late date.

9 COMMISSIONER QUICK: Mr. Littell?

10 MR. LITTELL: I have no objection to that. I  
11 think the best procedure is for Mr. Bentley's documents that  
12 he's referred to to be copied into the record subject to any  
13 further motion the Postal Service wishes to make after  
14 examining them. We would have no objection to the Postal  
15 Service's further examination.

16 COMMISSIONER QUICK: Do we have those documents  
17 available now?

18 MR. LITTELL: Yes. May I conduct redirect and  
19 I'll provide that in the course of redirect.

20 COMMISSIONER QUICK: Fine.

21 MS. DUCHEK: I take it from Mr. Littell's comment  
22 that Mr. Bentley is going to provide everything that he was  
23 discussing in his earlier response. He talked about all  
24 these comparisons, calculation and not just his conclusion  
25 that whatever amount of monies would have been attributed

1 differently, all workpapers, spreadsheets, electronic files,  
2 et cetera?

3 MR. LITTELL: He will provide the documents he's  
4 talked about and if the Postal Service wishes to ask for  
5 additional backup documents, we have no objection to that  
6 either.

7 COMMISSIONER QUICK: Fine.

8 MR. LITTELL: I'm ready to conduct redirect at any  
9 time.

10 COMMISSIONER QUICK: Is there any follow-up cross  
11 examination? Any follow-up cross examination?

12 MS. DUCHEK: I'm sorry, Commissioner Quick. I  
13 just had -- I didn't understand from where we left things  
14 that Mr. Bentley is providing certain materials today?

15 MR. LITTELL: Yes.

16 MS. DUCHEK: I don't think they should be copied  
17 into the record at this point until the Postal Service has  
18 had a chance to review them and make a determination if a  
19 motion to strike or whatever is appropriate.

20 COMMISSIONER QUICK: Mr. Littell?

21 MR. LITTELL: Your Honor, the witness has referred  
22 to them extensively in his answers to OCA today and the most  
23 orderly thing is to put them in the record at the time of or  
24 in conjunction with his cross examination, subject to any  
25 further motion that OCA wants to make since they may or may

1 not make a further motion.

2 If they did not make a further motion, those  
3 documents would be floating in mid-air and not be in the  
4 record and I believe they should be in the record.

5 MS. DUCHEK: I think it's not just the Postal  
6 Service, there may be other parties to this proceeding who  
7 are unaware of this and might have some objection.

8 COMMISSIONER QUICK: Let's get them into the  
9 record now and you can move to strike later if you wish to,  
10 Ms. Duchek. You were the one who called for the documents,  
11 so let's get them available just as quickly as we can, so  
12 that we don't have to extend our schedule, maybe.

13 Is there any follow-up cross? I didn't see  
14 anybody.

15 Do Commissioners have questions?

16 CHAIRMAN GLEIMAN: I have some.

17 COMMISSIONER QUICK: Okay, let's start with the  
18 Chairman.

19 CHAIRMAN GLEIMAN: Mr. Bentley, maybe you can help  
20 me out. I get a little confused about some of this stuff  
21 sometimes.

22 Have you ever seen a list of -- I know there's  
23 some methodology or another that is in dispute here, to use  
24 the terms of the counsel of the Postal Service, disputed  
25 methodologies.

1           Have you ever seen a list of specific questions  
2       presented by the Postal Service as to what it is they don't  
3       understand about the Commission's methodology that someone  
4       could just go down the list and answer?

5           THE WITNESS: No. I have never seen such a list.

6           It's my understanding that the Postal Service has  
7       worked with the Commission to try to understand everything  
8       and I thought that they did understand everything.

9           Apparently they have some problems, but I have  
10      never seen a list of questions.

11          CHAIRMAN GLEIMAN: Have you ever had occasion  
12      between cases to make an inquiry to the Commission about how  
13      it attributed -- how it computed attributable costs in a  
14      particular case or some other methodological question?

15          THE WITNESS: I don't believe I have personally,  
16      no.

17          CHAIRMAN GLEIMAN: Do you know of anyone who has?

18          THE WITNESS: Not off-hand, no.

19          CHAIRMAN GLEIMAN: I was just kind of curious as  
20      to whether you had ever asked questions of the Commission  
21      and received some explanation that proved to be satisfactory  
22      as to some methodological changes or some methodologies that  
23      were used.

24          THE WITNESS: Well, for myself I was -- I can't  
25      really recall any need to know some specific reason as to

1     how something was attributed, but I certainly think that the  
2     Postal Service has that responsibility of understanding what  
3     the Commission did so that they can replicate it and provide  
4     that cost methodology in the future.

5             They were certainly forewarned in the last docket.

6             In fact, I have a section right here -- which is  
7     Roman numeral III, page 48 under "E, Procedural Concerns."

8             There the Commission emphasized that the Postal  
9     Service should be forewarned and has an obligation -- I am  
10    just paraphrasing at this point -- to provide the  
11    Commission-approved methodology in any future rate  
12    proceeding.

13            CHAIRMAN GLEIMAN: Thank you. I apologize for  
14    taking a moment to just collect my thoughts here.

15            Again I want to make sure I understand you.

16            You have never seen any succinct list of questions  
17    devoid of legal arguments and other gobbledegook that one --  
18    that the Postal Service has presented in this or any other  
19    docket asking for specific clarification on specific matters  
20    that would enable them to do specific calculations?

21            THE WITNESS: I have never seen such a piece of  
22    paper and I am not sure I am in a position where I would see  
23    it.

24            CHAIRMAN GLEIMAN: I haven't seen one, but I  
25    thought that maybe --

1 THE WITNESS: Oh, okay.

2 CHAIRMAN GLEIMAN: -- something missed my eye that  
3 may have caught your eye.

4 Now these methodological changes that are in  
5 dispute, now one of them I know has to do with something  
6 called single subclass stops.

7 THE WITNESS: Yes.

8 CHAIRMAN GLEIMAN: Do you know if that is the only  
9 difference in the materials that have been presented by the  
10 Postal Service in this case or whether there are other  
11 methodological changes that were made in R90 incorporated  
12 into R94 and have not been presented in this case by the  
13 Postal Service as part of its methodology?

14 THE WITNESS: I just know what the Commission  
15 stated in I think it was the last order, 1134, where that  
16 was one area and there were two others.

17 CHAIRMAN GLEIMAN: Have you ever seen any list of  
18 questions or disputes about anything called Alaska Air and  
19 treatment of cost with respect to Alaska Air, any  
20 explanations sought by the Postal Service on the record or  
21 off the record or anywhere else that would enable them to  
22 respond to the Commission's position and provide cost  
23 information in the Commission's methodological image with  
24 respect to that matter?

25 THE WITNESS: No, I have never seen any such



1 document.

2 CHAIRMAN GLEIMAN: Now you were asked about the  
3 PRC presenting a witness and you indicated that that might  
4 be helpful.

5 Now if the PRC presented a witness in some forum,  
6 whether it was in this case or some other forum, to explain  
7 or respond to questions, questions we have never really seen  
8 but just heard about on the methodologies in question, do  
9 you think then that the Postal Service, that it would be  
10 incumbent upon the Postal Service to submit its materials in  
11 the image of the methodologies presented as a basis for  
12 recommendations in the R94 decision?

13 THE WITNESS: Absolutely.

14 CHAIRMAN GLEIMAN: So you think if we put the  
15 questions to bed then they have no excuse for not following  
16 through?

17 THE WITNESS: I am not sure they have an excuse  
18 without putting those questions to bed but I agree with you.

19 CHAIRMAN GLEIMAN: Now let me ask you one last  
20 question at this point, and that is -- again, I get confused  
21 every once in awhile.

22 I was not here for R90 but I was here for R94 and  
23 I was here for the remand in R90.

24 The Commission issued a decision, recommended  
25 decision. It contained recommended rates and the

1 recommended rates were based on a methodology, is that  
2 correct?

3 THE WITNESS: Yes.

4 CHAIRMAN GLEIMAN: And the rates were accepted by  
5 the Governors of the Postal Service in R94?

6 THE WITNESS: Yes.

7 CHAIRMAN GLEIMAN: So they adopted rates that were  
8 based on a methodology which the Postal Service refuses to  
9 reflect in its subsequent submissions?

10 THE WITNESS: That's correct.

11 CHAIRMAN GLEIMAN: Thank you.

12 COMMISSIONER QUICK: Commissioner LeBlanc?

13 CHAIRMAN GLEIMAN: Excuse me. Before Commissioner  
14 LeBlanc begins his questioning, I just have an inquiry that  
15 I would make of the Chair. I'm not sure, but I would like  
16 the Chair to think a little bit about how we might achieve  
17 this. I think that we may have to -- or I would like the  
18 Chair to consider the possibility of recalling the Postal  
19 Service's costing witness, because I think that the Postal  
20 Service presented a method -- a proposal that is based on  
21 methodologies which have not been fully examined. It is my  
22 impression that the Postal Service may have made changes  
23 separate and apart from the ones that are in dispute  
24 involving the methodologies that the Commission employed in  
25 R94. The Postal Service may have made changes, small

1 methodological changes, and I think that these changes have  
2 not been fully examined and I think that we may have to  
3 recall the Postal Service costing witness. I would like the  
4 Chair to consider that and perhaps the Postal Service will  
5 have some comments they would like to file in that respect,  
6 because I have questions about Postal Service methodologies.  
7 I don't understand them.

8 COMMISSIONER QUICK: Thank you. I'll certainly  
9 take under consideration the Chairman's request.

10 MS. DUCHEK: Commissioner Quick, if I could ask  
11 for a clarification? You're taking the Chairman's  
12 suggestion under advisement. Should the Postal Service get  
13 comments to you on this at this time, or if there is some  
14 sort of ruling made, should we get them to you at that time?  
15 Quite frankly, I see no necessity for recalling the Postal  
16 Service's costing witness and I would like the opportunity  
17 to brief that for the record before any such ruling is made.

18 COMMISSIONER QUICK: I'll have further comments on  
19 the suggestion following our first break.

20 CHAIRMAN GLEIMAN: I think if the Commission --

21 MS. DUCHEK: Thank you, Commissioner.

22 CHAIRMAN GLEIMAN: If the Commission is put in a  
23 -- Mr. Presiding Officer, if the Commission is put in a  
24 position of having to present a witness to answer questions  
25 which have been talked about but never presented in a timely

1 manner to the Commission, then perhaps we could have our  
2 witness and their witness on the same day if it becomes  
3 necessary.

4 COMMISSIONER QUICK: We'll proceed now. I'll  
5 elaborate further on my thinking on this after our first  
6 break.

7 Commissioner LeBlanc.

8 COMMISSIONER LeBLANC: Okay. Mr. Bentley, as  
9 usual, the Chairman has touched on a number of things that I  
10 had, so that will cut down mine. But on page 6 of your  
11 testimony to the top of page 7 -- line 21 is where it starts  
12 -- you say that in future rate proceedings, and I'm assuming  
13 this is coming from the attributable costing that you talked  
14 about before where the cost coverages were, or maybe in  
15 general, and that's what I'm trying to get a clarification  
16 here on.

17 In future rate proceedings, it will not be  
18 possible to determine whether USPS proposed rates will meet  
19 the minimum revenue requirements established by the Act --  
20 that's pretty strong -- unless the Postal Service is obliged  
21 to provide, and you go on and talk about all the things that  
22 we're talking about here, part of the initial rate request,  
23 attributable costs for all subclasses, and services based on  
24 our methodologies.

25 Now, my question would be, though, are you saying

1     that they won't meet the Act if they -- is that your  
2     reading? I know you're not an attorney, but as an expert  
3     witness, I mean, it is part of your testimony.

4             THE WITNESS: It's my understanding that the level  
5     of attributable costs provides a floor above which rates  
6     must be higher than. If you raise the level of attribution  
7     a billion dollars, that is going to raise the floor for  
8     essentially all rates, all subclasses, and unless it is  
9     decided upon which cost methodology is appropriate, you  
10    won't know whether a particular rate is above that floor or  
11    not until that's decided, and with a billion dollars at  
12    stake, one, we have to decide obviously, and two, if the  
13    Postal Service wants to change that methodology and propose  
14    changes, they're free to do that, it's just that they have  
15    to show what the impact would be of their changes.

16            COMMISSIONER LeBLANC: And so that must be what  
17    you're talking about when you go back on page 4, or part of  
18    what you're talking about, I'm assuming, on line 10 where  
19    you say that the Commission's regulatory oversight of the  
20    Postal Service is made more difficult, or that's at least  
21    one of the things --

22            THE WITNESS: That's at least one of the --

23            COMMISSIONER LeBLANC: -- you're alluding to.

24            THE WITNESS: That's correct.

25            COMMISSIONER LeBLANC: Is there any other thing

1 that you might want to --

2 THE WITNESS: Well, when I was writing that  
3 portion, I realized that I have done in the past comparisons  
4 of unit revenues and unit costs, particularly unit costs,  
5 over time to see how these costs have changed. Particularly  
6 I was looking at first class costs when I did my analysis of  
7 presort discounts and presort cost savings and that matter,  
8 and when comparing those costs, if there are changes in cost  
9 methodology, you have to make adjustments.

10 If you have changes now going from case to case,  
11 you would not be able to make those comparisons without  
12 those adjustments and it's becoming exceedingly difficult  
13 over the past six years now where we have two different cost  
14 methodologies and two different unit costs when I try to  
15 make those comparisons, and I'm sure the Commission is  
16 making similar comparisons --

17 COMMISSIONER LeBLANC: Exactly.

18 THE WITNESS: -- and this makes it difficult for  
19 them.

20 COMMISSIONER LeBLANC: Now, I don't want to put  
21 words in your mouth, but down on that same page, where you  
22 say -- line 18 -- therefore, it would have been helpful to  
23 have access to calculations of the Commission's methodology  
24 as applied to the Postal Service's base year and test year  
25 costs presented on the record by the Postal Service witness.

1           So just clarify, that is not -- you have not --  
2   have you asked for that?

3           THE WITNESS: Well, the Commission asked for that.

4           COMMISSIONER LeBLANC: I understand that, but to  
5   my knowledge, I never saw anything where it was put forth or  
6   -- so what I'm saying is, all your figures that you have got  
7   are still based on what we're talking about initially here?

8           THE WITNESS: Yes. I don't think there was --  
9   that MMA had asked for that information in this case.

10          COMMISSIONER LeBLANC: No, I --

11          THE WITNESS: We asked for it in R94, of course.

12          COMMISSIONER LeBLANC: Right.

13          THE WITNESS: But not in this case.

14          COMMISSIONER LeBLANC: Okay. If this case had  
15   been revenue neutral, what would have happened to the costs  
16   that you've been able to work with? How would it have been  
17   affected?

18          THE WITNESS: I don't think there would have been  
19   any effect on the cost analysis that I had done. We would  
20   still be in the same position. I know the Commission had  
21   accepted --

22          COMMISSIONER LeBLANC: By the same position -- I'm  
23   sorry --

24          THE WITNESS: Same position --

25          COMMISSIONER LeBLANC: Make sure I understand

1     that.

2                 THE WITNESS:  -- of not knowing what the impact  
3     was of using the Commission's cost methodology versus the  
4     Postal Service's methodology.  So that would not have  
5     changed.  I'm aware that the Commission allowed the Postal  
6     Service to provide its own methodology in MC96-1 because it  
7     was revenue neutral and it was a one-time situation.  But I  
8     -- I know also that because this is not revenue neutral, the  
9     Commission has been requesting that information and we have  
10    agreed that that information should have been forthcoming  
11    and should still be forthcoming.  This is doing nothing to  
12    provide an incentive for the Postal Service to provide that  
13    data in the next rate case.

14                COMMISSIONER LeBLANC:  My last question would be,  
15    in your colloquy with the Postal Service counsel, I've  
16    forgotten her terminology, but in effect, I think she asked  
17    you about the switching, I'm going to call it -- these are  
18    my words; I hope I'm not paraphrasing it wrong -- the  
19    switching of dollars between classes of mail, institutional  
20    costs, if you will.

21                Now, is it your testimony that switching to their  
22    or let's say another methodology other than the Commission's  
23    would be a way of hiding institutional costs?  Is that what  
24    you're saying?

25                THE WITNESS:  I am not saying it's hiding



1 institutional costs.

2 The Postal Service's methodology attributes less  
3 costs in total.

4 When you take a look at the assignment of  
5 institutional costs and you look at the apportionment of  
6 both attributable and institutional costs, the Postal  
7 Service's methodology will remove costs or revenue burden  
8 from Third Class and provide more for First Class.

9 Vice versa, the Commission's methodology goes just  
10 the opposite. It removes revenue burden from First Class  
11 and provides more for Third Class and we are concerned that  
12 the Postal Service's methodology --

13 COMMISSIONER LeBLANC: Now "we" being MMA here?

14 THE WITNESS: MMA --

15 COMMISSIONER LeBLANC: Okay.

16 THE WITNESS: -- is taking these costs out of  
17 Third Class and raising the revenue burden for First Class.

18 COMMISSIONER LeBLANC: Thank you very much.

19 Thank you, Commissioner Quick.

20 COMMISSIONER QUICK: Commissioner Haley.

21 COMMISSIONER HALEY: Good morning, Mr. Bentley.

22 THE WITNESS: Good morning.

23 COMMISSIONER HALEY: I take it from the  
24 discussions that we have been having today that you do  
25 understand of course the Commission's cost methodology?

1 THE WITNESS: I would not say that I understand  
2 everything about the Commission's methodology and I am the  
3 first to admit that.

4 COMMISSIONER HALEY: But you have been able to use  
5 it from your --

6 THE WITNESS: I am able to use the results.  
7 I am not able to replicate it.

8 COMMISSIONER HALEY: Okay. Okay --

9 THE WITNESS: Nor have I ever tried.

10 COMMISSIONER HALEY: All right, but to the extent  
11 that you are able to do that, let me ask, is there any  
12 reason why you know that the Postal Service cannot use the  
13 Commission's methodology?

14 THE WITNESS: I know of no reason why the Postal  
15 Service with their vast resources could not figure it out.

16 COMMISSIONER HALEY: Okay. Right. That's all.  
17 Thank you.

18 COMMISSIONER QUICK: Mr. Chairman.

19 CHAIRMAN GLEIMAN: I just want to make a comment.  
20 This is not in the way of a question.

21 I find something particularly troubling. I  
22 understand that the Postal Service for whatever its reason,  
23 whether it is an endgame issue involving attributable cost  
24 attribution, whether it is a substantive difference,  
25 disagrees with the Commission's methodology.

1           That involves, you know, who is the final arbiter  
2   under existing law on methodology. It's a matter of law and  
3   I understand that.

4           What troubles me and troubles me deeply is the  
5   associated assertions that the Postal Service doesn't  
6   understand or that the methodology is so complicated and  
7   burdensome that it would take resource years to present  
8   anything useful.

9           That deals with matters of fact and I think that  
10   when you are dealing with matters of fact that they should  
11   be dealt with in a good faith manner and not used as a  
12   subterfuge to buttress a position that involves a legal  
13   argument which ultimately may wind up back in the courts  
14   before it is all over.

15           I think that the Postal Service has not been as  
16   cooperative as it might and I think that we are involved in  
17   a game here where the Postal Service doesn't ask the  
18   questions that it says it has so that it can produce a  
19   document therefore putting itself in a position of ignoring  
20   a legal order issued by the Rate Commission which then takes  
21   on the task which turns out to be a lot less burdensome than  
22   the Postal Service otherwise makes it out to be in all its  
23   assertions and then the Postal Service turns around and says  
24   well, that is not our document, it's yours and it's not been  
25   attested to.

1           At some point in the interests of moving on, with  
2     getting decisions out of the Commission, the Postal Service  
3     has to participate in a more forthright -- what I consider  
4     to be a more forthright manner.

5           I can't speak for my colleagues, but if someone  
6     wants to take issue with the methodologies, be it single  
7     subclass stop, Alaska Air, or anything else, then they know  
8     how to do it and it's not done I think in the manner that is  
9     being pursued now.

10           The Governors have an opportunity to reject  
11     decisions if they don't like the methodology that the  
12     decisions are based on.

13           COMMISSIONER QUICK: We are going to break until  
14     five after, and we will come back with follow-up questions  
15     that may have resulted from questions from the Bench and  
16     then redirect.

17           MS. DUCHEK: Commissioner Quick, before we break,  
18     I will have follow-up but I would like to make one comment  
19     for just a moment because it may be something you want to  
20     think about while we are on the break.

21           I have been sitting here thinking about this whole  
22     procedure of putting Mr. Bentley's things in the record and  
23     I objected to that and was overruled. I think I was too  
24     hasty in backing off of my motion to strike his comments and  
25     in agreeing to accept his papers and do written and oral

1 discovery.

2 In other circumstances that would be appropriate.  
3 I think it is just too late in the proceedings to make that  
4 workable. It is already November 20th. We have rebuttal  
5 testimony due December 6th, hearings on that testimony from  
6 December 16th to the 20th.

7 Normally parties have about a month. The Postal  
8 Service had about a month I believe to conduct written  
9 discovery in this case and I just don't see that there is  
10 time -- although as a general principle I sort of object to  
11 the sort of new testimony by ambush procedure in any  
12 circumstance. In some circumstances it may be workable. I  
13 just on reconsideration and I apologize for saying we would  
14 accept it to begin with, I just don't think there is  
15 sufficient time in the proceedings and so I renew my motion  
16 to strike Mr. Bentley's comments.

17 I don't think it is acceptable to get his papers  
18 now and give us an opportunity to conduct oral and written  
19 cross. There just isn't enough time to give us a full  
20 opportunity and even with Mr. Littell's offers that we can  
21 do that and recall him as a witness the time would have to  
22 be foreshortened, which would impinge upon the Postal  
23 Service's due process rights or we would be placed, the  
24 Postal Service, in the position of calling for a delay in  
25 the procedural schedule.

1           Since we didn't cause this little problem here, we  
2   should not be placed in that position and therefore I find  
3   the whole procedure unacceptable. I renew my motion to  
4   strike and I renew my objection to placing Mr. Bentley's  
5   things in the record today and I ask for reconsideration of  
6   all of that. Thank you.

7           COMMISSIONER QUICK: Thank you. I will take that  
8   under consideration and we will come back at 15 after the  
9   hour.

10          CHAIRMAN GLEIMAN: Mr. Presiding Officer, while  
11   you are considering that, if you determine to agree to  
12   Postal Service counsel's latest motion, I would also like  
13   you to consider whether we could ask Mr. Bentley to submit  
14   his papers in the alternative as a library reference so that  
15   we could further our knowledge and understanding of this  
16   situation.

17          COMMISSIONER QUICK: Thank you. We will come back  
18   at 15 after.

19          [Recess.]

20          COMMISSIONER QUICK: We'll go back on the record.

21          Before we continue with the cross examination of  
22   Witness Bentley, let me set out the procedural steps that I  
23   intend to follow with regard to the analyses Witness Bentley  
24   referred to in response to questions from OCA Counsel.

25          First, Mr. Littell has represented that during

1 redirect he will lay the foundation for these analyses so  
2 that we can understand better what is involved and produce  
3 these analyses for the record.

4 I will admit those analyses subject to the Postal  
5 Service pending motion to strike. The Postal Service  
6 Counsel may engage in follow-up questioning now. Also,  
7 Postal Service Counsel will have an opportunity to pose  
8 questions generated by redirect from MMA Counsel.

9 I will not issue a definitive ruling this morning.  
10 I will allow the Postal Service until the close of business  
11 on Thursday, November 21st to supplement its oral motion  
12 with any written arguments it may wish to present.  
13 Responses to the motion to strike are due Monday, November  
14 25th.

15 At this time, not having seen the analyses, I have  
16 no idea whether there will be any need to present rebuttal  
17 to them and I am not sure whether any party is able to make  
18 such a determination this morning.

19 If any party believes that it will want to file  
20 rebuttal to these analyses, it should present a statement  
21 explaining the purpose and relevance of the rebuttal it  
22 desires to offer. I would like any such statement to be  
23 submitted by November 25th.

24 As for the Chairman's suggestion that the Postal  
25 Service cost witness might be recalled, I will continue to

1 consider that possibility. If any party wishes to offer  
2 views on that question, I would like those views to be filed  
3 by November 25th as well.

4 Does any participant have follow-up cross  
5 examination as a result of the questions from the bench?  
6 Ms. Duchek?

7 MS. DUCHEK: Yes, I do. One point of  
8 clarification, Commissioner Quick. In the procedure that  
9 you've just set out where you said Mr. Littell would lay the  
10 foundation and you would permit Mr. Bentley's papers into  
11 the record pending our motion to strike and also pending our  
12 follow up on our oral motion by November 21st, you also  
13 said, if I recall, by November 25th, any party who wanted to  
14 do rebuttal to these analyses would have to give you some  
15 indication.

16 Is there any provision being made for assuming  
17 that the Postal Service's motions on this matter are  
18 overruled for written discovery to be conducted on Mr.  
19 Bentley and recalling him for oral cross examination if  
20 warranted?

21 COMMISSIONER QUICK: I think that should be part  
22 of your written supplement to your motion.

23 MS. DUCHEK: The one that would be due by close of  
24 business Thursday, November 21st?

25 COMMISSIONER QUICK: Yes.



1 MS. DUCHEK: Thank you.

2 COMMISSIONER QUICK: Would you like to proceed  
3 with your questioning?

4 MS. DUCHEK: Yes, thank you.

5 FURTHER CROSS EXAMINATION

6 BY MS. DUCHEK:

7 Q Mr. Bentley, in responding to questions from the  
8 bench, I thought I heard you say that in Docket No. MC96-1,  
9 the Postal Service presented its own costing methodology.  
10 Did I hear you state that correctly?

11 A It presented a methodology that was different from  
12 the Commission's approved methodology, yes.

13 Q And Docket No. MC96-1, you are referring to the  
14 experimental, small parcel automation rate category for  
15 *Priority* *First-Class mail*  
~~priority~~ and ~~first class mail~~?

16 A No. Maybe it was MC96-3. Perhaps I should ask  
17 Counsel?

18 Q MC96-3 is this docket.

19 A Oh.

20 Q MC96-2 was the ~~non~~preferred mail reclassification.

21 A It's the docket in which I made my proposal for  
22 the second and third ounce.

23 Q MC95-1, classification reform?

24 A That must be it, 95-1, sorry.

25 Q I thought I also heard you say that it was your

1 understanding that the Postal Service had been working with  
2 the Commission to understand the Commission's cost model, is  
3 that correct?

4 A I think there is something to that effect in one  
5 of the Commission's orders.

6 Q Is that what you were referring to?

7 A Yes.

8 Q If you have that handy, could you point out what  
9 you're referring to and cite the order and page number,  
10 please?

11 A I thought it was in a footnote and sitting here,  
12 it's kind of tough to try and find that.

13 Q That's fine, but I just wanted to confirm that is  
14 what you're referring to and nothing else?

15 A That is what I was referring to.

16 Q Okay. In response to some questions from Chairman  
17 Gleiman, you indicated that you had never seen a list of  
18 questions on the Commission's model posed by the Postal  
19 Service, is that correct?

20 A Yes.

21 Q Have you ever seen a list of questions on the  
22 Commission's model posed by any other party to rate  
23 commission proceedings?

24 A No.

25 Q Have you ever seen a list of questions on the

1 Commission's model posed by the Office of the Consumer  
2 Advocate?

3 A No.

4 MS. DUCHEK: Thank you. I have no further  
5 questions.

6 COMMISSIONER QUICK: Mr. Costich? No.

7 If no one else has any follow up to cross  
8 examination as a result of questions from the bench, that  
9 brings us to redirect. Would you like some time with your  
10 witness, Mr. Littell?

11 MR. LITTELL: No, thank you, Commissioner Quick.

12 COMMISSIONER QUICK: Okay.

13 REDIRECT EXAMINATION

14 BY MR. LITTELL:

15 Q Mr. Bentley, in your testimony at page 4, lines 15  
16 and 16, you made a statement that was discussed with you by  
17 OCA Counsel. Do you recall that?

18 A Yes.

19 Q Your statement was, "The dollar consequences of  
20 choosing a methodology for apportioning city carrier  
21 delivery costs are huge," et cetera?

22 A Yes, that's correct.

23 Q In responding to OCA's cross examination about  
24 that sentence, you discussed some numbers from Docket R94-1  
25 and your conclusions from them. Do you recall that?

1 A Yes.

2 Q Do you have before you three documents which are  
3 designated as OCA/MMA-XE-1, OCA/MMA-XE-2 and OCA/MMA-XE-3?

4 A Yes.

5 Q Are those documents that you were referring to in  
6 replying to OCA Counsel?

7 A Yes.

8 Q Were those the basis for your statements that you  
9 made to OCA Counsel?

10 A Yes.

11 Q Are those documents based on data from Docket  
12 PRC94-1?

13 A Yes.

14 Q Do you have workpapers with you that underlie  
15 those three documents?

16 A There's basically no workpapers. This is it,  
17 except for the source data.

18 Q Do you have some backup pages which show that  
19 source data, some additional pages?

20 A I don't think I have all of them. I know I have  
21 at least one.

22 Q Are you prepared to supply whatever papers you  
23 have to back that up to Postal Service Counsel today?

24 A Yes.

25 MR. LITTELL: Your Honor, I have two copies of

1 documents to which we've referred which I would like to  
2 supply to the reporter and ask that they be copied into the  
3 record as evidence subject to the motion you have discussed.

4 COMMISSIONER QUICK: Subject to the motion. Fine.  
5 Please include them in the record subject to the motion.

6 [Exhibit Nos. OCA/MMA-XE-1,  
7 OCA/MMA-XE-2, and OCA/MMA-XE-3 were  
8 marked for identification, received  
9 into evidence and transcribed into  
10 the record subject to a ruling by  
11 the Commission on the U.S.P.S.  
12 motion to strike the testimony and  
13 exhibits of Witness Bentley.]

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Comparison of PRC and USPS Attributable Costs from TY 1995 in Docket No. R94-1  
(WITH AND WITHOUT ADJUSTMENT FOR ACCRUAL COSTS)

	PRC R94-1 Test year			USPS R94-1 Test Year			Attributable Cost Difference 6/
	Accrued Cost 1	Attributable Cost 2	Percent Attributable 3	Accrued Cost 4	Attributable Cost 5	Percent Attributable 6	
All Cost Segments 1/	\$52,530,344	\$34,193,077	65.09%	\$52,592,438	\$33,266,482	63.25%	\$926,595
All Cost Segments	\$52,530,344	\$34,193,077	65.09%	\$52,530,344 2/	\$33,225,443 3/	63.25%	\$967,634
All Cost Segments	\$52,592,438 4/	\$34,232,418 5/	65.09%	\$52,530,344	\$33,225,443	63.25%	\$1,006,975

1/ PRC Opinion, Docket No. R94-1, Appendix D, p. 4

2/ Accrued Cost adjusted to PRC total

3/  $52,530,344 \times .6325$

4/ Accrued Cost adjusted to USPS total

5/  $52,592,438 \times .6509$

6/ Col 2 - Col 5

USPS Finances For TY 1995 Using USPS and PRC Cost Methodologies at USPS and PRC Rates  
Docket No. MC96-3 (WITHOUT VOLUME ADJUSTMENT)  
(\$000)

~~WPM~~  
Page 2 of 2

Computation of Attributable Cost Difference

Line	Subclass	USPS Attrib Costs 1		PRC Attrib Costs2/ 2		Difference Attrib Costs 3 (Col 2 - Col 1)	PRC Attrib Cost Factor 4 (Col 3 / 943,165)
1	First Class Letters	\$17,515,829	1/	\$18,045,850	2/	\$530,021	56.20%
2	Third Class BRR	\$6,317,013	1/	\$6,591,284	2/	\$274,271	29.08%
3	All Other	\$9,904,450	1/	\$10,043,323	2/	\$138,873	14.72%
4	Grand Total	\$33,737,292		\$34,680,457		\$943,165	100.00%

Computation of USPS Institutional Cost Apportionment Factors

	Subclass	USPS Attrib Costs 5		USPS Rev Target 6		Institutional Cost Burden 7 (Col 6 - Col 5)	USPS Institutional Cost Apportionment Factor 8 (Col 7 / 20,670,749)
5	First Class Letters	\$17,515,829	1/	\$31,788,238	1/	\$14,272,409	69.05%
6	Third Class BRR	\$6,317,013	1/	\$9,739,013	1/	\$3,422,000	16.55%
7	All Other	\$9,904,450	1/	\$12,880,790	1/	\$2,976,340	14.40%
8	Grand Total	\$33,737,292		\$54,408,041		\$20,670,749	100.00%

1/ Docket No. R94-1, USPS-11A, reproduced as Exhibit MMA-1E of Exhibit MMA-T-1

2/ Docket No. R94-1, Appendix G, Schedule 1

USPS Finances For TY 1995 Using USPS and PRC Cost Methodologies at USPS Proposed Rates

(PRC Attributable Costs Adjusted to Reflect USPS Volumes at USPS Proposed Rates)

Docket No. R94-1 (WITH VOLUME ADJUSTMENTS)  
(000)

WP-2

Page 2 of 2

Computation of Attributable Cost Difference

Line	Subclass	USPS Attrib Costs 1	PRC Attrib Costs 2/ 2	USPS Proj Volume 3	PRC Proj Volume 4	Adjusted PRC Attrib Costs 5	Difference Attrib Costs 6 (Col 2 - Col 1)	PRC Attrib Cost Factor 7 (Col 3 / 957,127)
1	First Class Letters	\$17,515,829 1/	\$18,045,850 2/	91,018,165	91,166,641	\$18,075,288	\$559,459	58.45%
2	Third Class BRR	\$6,317,013 1/	\$6,591,284 2/	57,119,463	56,411,919	\$6,509,637	\$192,624	20.13%
3	All Other	\$9,904,450 1/	\$10,043,323 2/	30,909,472	31,113,121	\$10,109,494	\$205,044	21.42%
4	Grand Total	\$33,737,292	\$34,680,457	179,047,100	178,691,681	\$34,694,419	\$957,127	100.00%

Computation of USPS Institutional Cost Apportionment Factors

Subclass	USPS Attrib Costs 5	USPS Rev Target 6	Institutional Cost Burden 7 (Col 6 - Col 5)	USPS Institutional Cost Apportionment Factor 8 (Col 7 / 20,670,749)
5 First Class Letters	\$17,515,829 1/	\$31,788,238 1/	\$14,272,409	69.05%
6 Third Class BRR	\$6,317,013 1/	\$9,739,013 1/	\$3,422,000	16.55%
7 All Other	\$9,904,450 1/	\$12,880,790 1/	\$2,976,340	14.40%
8 Grand Total	\$33,737,292	\$54,408,041	\$20,670,749	100.00%

1/ Docket No. R94-1, USPS-11A, reproduced as Exhibit MMA-1E of Exhibit MMA-T-1

2/ Docket No. R94-1, Appendix G, Schedule 1



1 MR. LITTELL: I have only a couple of brief more  
2 questions.

3 BY MR. LITTELL:

4 Q Your testimony was revised, was it not, after the  
5 Commission issued the workpapers that have been discussed?

6 A Yes. My testimony was generally complete until we  
7 found out about the library references that the Commission  
8 had filed which impacted upon some of the analysis that I  
9 had done.

10 Q It's correct, isn't it, that you -- that MMA asked  
11 the Commission for time to revise your original testimony to  
12 incorporate the data from the library references?

13 A That's correct.

14 Q In the testimony that you had completed before you  
15 asked to revise your testimony, did you also make the  
16 statement that I quoted earlier that the dollar consequences  
17 of choosing a methodology for apportioning city carrier  
18 delivery costs are huge?

19 A I did.

20 Q In making that statement previously, did you rely  
21 on data from Docket R94-1?

22 A Yes.

23 MR. LITTELL: Your Honor, I did not propose to ask  
24 anymore questions, but in view of the statements made by  
25 Postal Service Counsel, I'm prepared, if Counsel would want

1 me to or if the Commission would want me to, to ask the  
2 witness to explain the three documents that are copied into  
3 the record. I will, however, not insist on doing so unless  
4 requested.

5 COMMISSIONER QUICK: Do you have any comment on  
6 that, Ms. Duchek?

7 MS. DUCHEK: I have absolutely no inclination to  
8 have Mr. Bentley explain these documents. It does me  
9 absolutely no good since I have not had an opportunity, nor  
10 will I in the short period of time available today, to  
11 examine these documents and see what they are all about.

12 Any examination I might want to do on those  
13 documents, I'm really effectively precluded from doing by  
14 just getting them today. So I don't see any purpose that  
15 would be served by Mr. Bentley doing anything with those  
16 documents.

17 MR. LITTELL: I will not ask anymore questions.

18 COMMISSIONER QUICK: Fine.

19 MR. LITTELL: I will, therefore, just repeat my  
20 offer to have Mr. Bentley come back and testify regarding  
21 this matter at any time.

22 Thank you.

23 COMMISSIONER QUICK: Thank you, Mr. Littell.

24 Did the redirect generate any further recross  
25 examination?

1 MS. DUCHEK: Yes, just brief, Commissioner Quick.

2 COMMISSIONER QUICK: Fine.

3 RECROSS EXAMINATION

4 BY MS. DUCHEK:

5 Q Mr. Bentley, were you at all involved in the  
6 decision to have MMA request an extension of time to file  
7 your testimony in this case?

8 A Yes, I was.

9 Q And wasn't the basis for that extension so that  
10 you could use the costs presented in PRC LR-1 and 2, as  
11 opposed to the R94-1 data?

12 A Yes. I was basically finished with my analysis  
13 and when this updated information came on, I felt I would  
14 have been embarrassed to file my testimony by ignoring it,  
15 so I wanted to incorporate it since that seemed to be the  
16 second best way of utilizing this data, the first being data  
17 from the Postal Service.

18 Q Well, you really did more than just incorporate  
19 PRC LR-1 and 2, didn't you, Mr. Bentley? Didn't you  
20 effectively supersede the R94-1 analysis that you had  
21 performed and only put the PRC LR-1 and 2 analysis into your  
22 testimony?

23 A Actually both of them gave me the exact same --  
24 well, not the exact same but allowed me to have the same  
25 conclusion, so it really didn't matter, but I would rather

1 use more recent data than older data given the choice.

2 Q But you did not include the R94-1 data in your  
3 initial testimony even though you could have and had planned  
4 to until PRC LR-1 and 2 came out, is that not correct?

5 A Once the new data came out, I saw no need to put  
6 in the older data.

7 Q Were you at all involved, Mr. Bentley, in  
8 assisting counsel -- and I am not trying to inquire into any  
9 attorney-client here at all -- draft ~~of~~ the Major Mailers  
10 Association motion for limited extension of time to file  
11 testimony?

12 A Did I have anything to do with that?

13 Q Yes.

14 A I was there when it was written and I certainly  
15 went over it.

16 Q Did you review it before it was filed?

17 A Yes.

18 Q Let me read you a brief statement from that motion  
19 if I might:

20 *Library References*  
"The new ~~library references~~ filed by the  
21 Commission Staff provide more recent data not available to  
22 MMA when its testimony was prepared. The new data contained  
23 *Library References*  
in these ~~library references~~ effectively supersede the data  
24 MMA used in its original prepared testimony. Now that these  
25 new data are available, it makes no sense to have MMA submit

1 its testimony as originally prepared. That would merely  
2 compound the problem of using inconsistent data requiring a  
3 future modification."

4 Do you recall those sentences being in that  
5 motion, Mr. Bentley?

6 A I certainly believe that they were there. I don't  
7 recall them word for word at this point, no.

8 MS. DUCHEK: I have no further questions.

9 COMMISSIONER QUICK: Is there any additional  
10 further recross examination? If not, thank you, Mr.  
11 Bentley. We appreciate your appearance here today and your  
12 contributions to our record.

13 If there is nothing further, you are excused.

14 CHAIRMAN GLEIMAN: Mr. Presiding Officer, I have a  
15 comment I would like to make if you would indulge me for a  
16 moment.

17 It is obvious that I am somewhat troubled about  
18 the Postal Service's approach to adopting and not adopting  
19 Commission methodologies.

20 Among the methodologies that the Commission -- in  
21 this case among the methodologies that the Commission had  
22 approved in the past but that the Postal Service did not  
23 adopt is the so-called Alaska Air modification in the R90  
24 case.

25 That methodological change at that time involved

1 the shift, I recall from reading the history books, some \$60  
2 million from Parcel Post attributable costs to General  
3 Institutional costs.

4 While the value of the Alaska Air change is  
5 probably somewhat less now than that \$60 million, even a  
6 lesser amount when measured against the overall attributable  
7 cost of Parcel Post, which is on the order of \$600-650  
8 million, would be significant.

9 It could be anywhere from 3 to 10 percent of the  
10 cost of Parcel Post and, as we all know, Parcel Post has a  
11 very small markup, probably on the order of another \$50  
12 million.

13 It is going to be very interesting.

14 I noticed in the Federal Register that the  
15 Governors are going to be considering at their meeting next  
16 month a case involving Parcel Post reclassification, and the  
17 question of whether the Postal Service's position on  
18 Commission methodologies and what is appropriate is going to  
19 be put to a test because the Postal Service is going to have  
20 to decide whether the Alaska Air methodology which it did  
21 not include in this case is going to be included in the  
22 Parcel case, and if course that could have a significant  
23 impact if it is not adopted for the Parcel case on the cost  
24 of parcels in the reclass proposal that might be sent over  
25 here.

1           On the other hand, if it is adopted it certainly  
2   would raise some questions about inconsistencies in the  
3   methodological treatment of Commission positions by the  
4   Postal Service.

5           I look forward to receiving the Parcel reclass  
6   case so we can find out whether the Postal Service is going  
7   to be consistent in its treatment of Commission  
8   methodologies or whether it is going to add substantial cost  
9   to the parcel shippers.

10          Thank you.

11          COMMISSIONER QUICK: Thank you, Mr. Chairman.

12          I'm sure we'll all look forward to receiving that  
13   case.

14          Thank you, Mr. Bentley.

15          [Witness excused.]

16          COMMISSIONER QUICK: We will now proceed with  
17   witness Haldi.

18          Are counsel all settled in and ready to go?

19          Mr. Olson, will you identify your witness so that  
20   I can swear him in, please.

21          MR. OLSON: Commissioner Quick, William Olson  
22   representing Nashua Photo and Mystic Color Lab and Seattle  
23   Filmworks and on their behalf we would like to call Dr. John  
24   Haldi to the stand.

25          COMMISSIONER QUICK: Mr. Haldi, will you rise and

1 raise your right hand.

2 Whereupon,

3 JOHN HALDI,

4 a witness, was called for examination by counsel for Nashua  
5 Photo, Inc.; Mystic Color Lab; and Seattle Filmworks, Inc.  
6 and, having been first duly sworn, was examined and  
7 testified as follows:

8 DIRECT EXAMINATION

9 BY MR. OLSON:

10 Q Dr. Haldi, I'd like to hand you two copies of what  
11 is labelled as "The Direct Testimony of Dr. John Haldi  
12 Concerning Non-Automatable Bulk Business Reply Mail" on  
13 behalf of Nashua, Mystic, and Seattle, which has been  
14 designated as NMS-T1, and first of all ask you if you have  
15 any changes or corrections to that testimony?

16 A Yes, I do -- three very small ones.

17 Q Could you identify those, please?

18 A Yes. On page 15 at line 5, after the word  
19 "pieces" -- the first word in the sentence following "1000"  
20 insert three words: "for five days" so that it now reads,  
21 "The sample consists of 1000 pieces for five days".

22 The next change is on line 11 of the same page.  
23 Change "1000" to "5000".

24 The third and last change in the testimony is at  
25 page 37, on line 8 the last word of that line is "the" --

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1 before the word "the" insert a quotation mark and that,  
2 you'll see there is a quotation at the end of the paren  
3 there and that is the beginning of the quotation.

4 Q Okay. Dr. Haldi, with those changes do you adopt  
5 this document, NMS-T1, as your testimony?

6 A Yes, I do.

7 MR. OLSON: And Commissioner Quick, we would move  
8 the admission of this testimony into evidence and into the  
9 record at this time.

10 COMMISSIONER QUICK: Are there any objections?

11 [No response.]

12 COMMISSIONER QUICK: Hearing none, Dr. Haldi's  
13 testimony and exhibits are received into evidence.

14 I direct that they be accepted into evidence and  
15 be transcribed into the record at this point.

16 [The Direct Testimony of Dr. John  
17 Haldi, Exhibit No. NMS-T-1, was  
18 received into evidence and  
19 transcribed into the record.]

20

21

22

23

24

25

NMS-T-1

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

SPECIAL SERVICES FEES AND CLASSIFICATIONS ) Docket No. MC96-3

Direct Testimony of

DR. JOHN HALDI

Concerning

NON-AUTOMATABLE BULK BUSINESS REPLY MAIL

on Behalf of

NASHUA PHOTO INC.,  
MYSTIC COLOR LAB, AND  
SEATTLE FILMWORKS, INC.

William J. Olson  
John S. Miles  
WILLIAM J. OLSON, P.C.  
8180 Greensboro Dr., Suite 1070  
McLean, Virginia 22102-3823  
(703) 356-5070

Counsel for Nashua Photo Inc.,  
Mystic Color Lab, and  
Seattle FilmWorks, Inc.

October 9, 1996

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## AUTOBIOGRAPHICAL SKETCH

My name is John Haldi. I am President of Haldi Associates, Inc., an economic and management consulting firm with offices at 680 Fifth Avenue, New York, New York 10019. My consulting experience has covered a wide variety of areas for government, business and private organizations, including testimony before Congress and state legislatures.

In 1952, I received a Bachelor of Arts degree from Emory University, with a major in mathematics and a minor in economics. In 1957 and 1959, respectively, I received an M.A. and a Ph.D. in economics from Stanford University.

From 1958 to 1965, I was an assistant professor at the Stanford University Graduate School of Business. In 1966 and 1967, I was Chief of the Program Evaluation Staff, U.S. Bureau of the Budget. While there, I was responsible for overseeing implementation of the Planning-Programming-Budgeting (PPB) system in all non-defense agencies of the federal government. During 1966 I also served as Acting Director, Office of Planning, United States Post Office Department. I was responsible for establishing the Office of Planning under Postmaster General Lawrence O'Brien. I established an initial research program, and screened and hired the initial staff.

I have written numerous articles, published consulting studies, and co-authored one book. Included among those publications are an article, "The Value of Output of the Post Office Department," which appeared in *The Analysis of Public Output*

1 (1970); a book, *Postal Monopoly: An Assessment of the Private Express Statutes*,  
2 published by the American Enterprise Institute for Public Policy Research (1974); and  
3 two articles, "Measuring Performance in Mail Delivery" in *Regulation and the Nature*  
4 *of Postal Delivery Services* (1992), and "Cost and Returns from Delivery to Sparsely  
5 Settled Rural Areas" in *Managing Change in the Postal and Delivery Industries*  
6 (forthcoming).

7 I have testified as a witness before the Postal Rate Commission in Docket Nos.  
8 MC95-1, R94-1, SS91-1, R90-1, R87-1, SS86-1, R84-1, R80-1, MC78-2 and R77-1.  
9 I also have submitted comments in Docket No. RM91-1.

1 **PURPOSE OF TESTIMONY**

2 The purpose of this testimony is describe how the business reply functions of  
3 counting, weighing, rating and billing non-automatable bulk business reply mail  
4 ("BRM") are handled for certain permit holders who use such mail, to explain why  
5 the BRM fee of 10 cents per piece which they currently are forced to pay is  
6 inequitable and in violation of 39 U.S.C. § 403(c) as applied to these and other  
7 similarly situated mailers, and to propose two alternative modifications to the DMCS  
8 designed not only to eliminate the inequity and satisfy all requirements of the Postal  
9 Reorganization Act, but also to comport with and even enhance the objectives of  
10 reclassification as articulated by Postal Service witnesses.

11 As indicated above, my testimony focuses on and is essentially limited to the  
12 treatment of non-automatable bulk BRM. However, in the somewhat extensive  
13 motions practice that has preceded submission of this testimony, the Postal Service  
14 has alluded to work underway by a cross-functional internal ad hoc task force  
15 established sometime "earlier this year [1996]" to conduct "a comprehensive internal  
16 management review of Business Reply Mail."<sup>1</sup> In addition, there also exists a  
17 working group that includes representatives from Nashua and Mystic. The Postal

---

18 <sup>1</sup> Motion of the United States Postal Service for Reconsideration of PRC Order  
19 No. 1129 or, in the Alternative, for Severance of Consideration of the Nashua/Mystic  
20 Proposal in a Separate Proceeding, p. 5 (August 16, 1996).

1 Service has argued that the mere existence of the task force and the working group  
2 should foreclose present consideration of this testimony by the Commission. In light  
3 of this situation, it is pertinent to explain why it is neither necessary nor desirable for  
4 the Commission to await a "comprehensive" solution to the various issues and  
5 problems associated with BRM and the Business Reply Mail Accounting System  
6 ("BRMAS"),<sup>2</sup> and why in this docket the Commission should recommend one of the  
7 alternative proposals advanced here. The proposals advanced in this testimony need  
8 to be viewed within the structure that the Postal Service has sought to create, which  
9 necessitates some ancillary discussion of other BRM issues.

10 It should be clearly understood throughout, however, that it is not the purpose  
11 of this testimony to inject into this docket any issues associated with BRM other than  
12 those directly related to the two alternative proposed modifications to the DMCS that  
13 are recommended herein (Appendix II), which are within the scope of the enlargement  
14 authorized by Commission Order No. 1129 (August 8, 1996).

---

15 <sup>2</sup> Despite the existence of the internal task force, "because the Postal Service, in  
16 organizing for this Docket, had no reason to anticipate the need to assemble resources  
17 to deal with unrelated Business Reply Mail issues, the usual standard of efficient and  
18 expeditious response to discovery is likely to be difficult to achieve." (Motion of the  
19 United States Postal Service for Reconsideration of PRC Order No. 1129, p. 9.) It  
20 would appear that the task force meets only from time to time, as a sort of collateral  
21 assignment (as opposed to being a temporary, but full-time working group).  
22 Moreover, based on responses to NM/USPS-28, 29, 30, 32, 35 and 36, the task force  
23 seemingly has no resources available for operational studies or surveys of business  
24 reply mail.



## INTRODUCTION

This testimony is presented on behalf of three intervenors, which are (i) Nashua Photo Inc. ("Nashua"), which does business as York Photo Labs, (ii) Mystic Color Lab ("Mystic"), and (iii) Seattle FilmWorks, Inc. ("Seattle" or "Seattle FilmWorks").<sup>3</sup> Each firm is a through-the-mail film processor, as all three companies – principally using Business Reply Mail – receive exposed film through the mail, and all three companies thereafter use the postal system to return developed film and prints to their customers.

### Overview of the Film Processing Industry

Collectively, through-the-mail film processors account for approximately 6 percent of the domestic film processing market. The remaining 94 percent of the market is divided among a large number of local, regional and national (*e.g.*, Kodak and Fuji Film) film processing companies that rely on the general public taking their film to a drop-off location and then returning to the drop-off location to pick up the finished prints. In some localities competitors do on-site developing and printing, and offer turn-around times as short as 1 hour.

---

<sup>3</sup> The three firms collectively also will be referred to herein as NMS.

1 Nashua, Mystic and Seattle compete vigorously with each other, but they  
2 compete even more with the multitude of local, regional and national film processors  
3 described above.

#### 4 **Mailing Practices of Nashua, Mystic and Seattle**

5 Mystic and Seattle supply all their customers and prospects exclusively with  
6 specially designed business reply envelopes ("BREs") to use when placing an order.  
7 Some of the reply envelopes that Nashua distributes require the customer to pre-pay  
8 the postage, but a substantial majority of Nashua's orders now arrive in BREs. The  
9 next section contains an extensive discussion of the procedures used to process BREs  
10 at Nashua, Mystic and Seattle.

11 With respect to returning the finished photo product to customers, which does  
12 not involve BRM, and thus is not at issue here, most packages of prints weigh less  
13 than one pound. All three companies use an expedited dropship service to send those  
14 packages to destinating SCFs, at which point the individual customer envelopes are  
15 entered as Standard A (formerly third-class regular) mail, for final delivery.

**I. PROCESSING OF BUSINESS REPLY MAIL  
BY NASHUA, MYSTIC AND SEATTLE**

Nashua, Mystic and Seattle are substantial Postal Service customers using the BRM service, with each firm maintaining an advance deposit BRM account. From this account the Postal Service withdraws funds to cover First-Class postage on all incoming pieces, as well as the BRM fees. The Postal Service has ruled that the type of BRM used by NMS — which is assessed at the current rate of 10 cents per piece — is ineligible for the lower, prebarcoded BRMAS rate of 2 cents per piece because it is not automatable.<sup>4</sup> At the same time, as will be shown here, the counting, weighing, rating and billing functions, which constitute the unique special services feature associated with the business reply aspects of their incoming non-automatable First-Class Mail, are perhaps less costly than those associated with BRMAS-qualifying mail. Although BRM addressed to Nashua, Mystic and Seattle is not handled identically at each location, in each instance the operation requires comparatively little effort by the Postal Service.

The following explanation of how BRM is processed at Nashua, Mystic and Seattle is fundamental to an understanding of the two alternative BRM reclassification proposals submitted herein for the Commission's consideration in this docket. I have personally visited the Nashua plant in Parkersburg, West Virginia, and have visited

---

<sup>4</sup> See Library Ref. LR-NMS-1.

1 both the Mystic and Seattle FilmWorks plants and the New London, Connecticut and  
2 Seattle, Washington Post Offices that process this mail.

3 **Nashua Photo Inc.**

4 Nashua has one central processing facility, located in Parkersburg, West  
5 Virginia. Customers send their film to one of several Nashua post office boxes  
6 located throughout the country. Customer envelopes received at Nashua's post office  
7 boxes are forwarded (via Priority Mail Reship) to Nashua's West Virginia plant.

8 Prior to 1990, all of Nashua's customers paid the required First-Class postage.  
9 In 1990 Nashua began limited experiments with BREs in selected parts of the country.  
10 During this experimental phase, when the number of BREs was fairly limited, the  
11 Postal Service manually counted, weighed, rated and billed Nashua for each such  
12 envelope individually.

13 Nashua began distributing a substantial number of BREs to existing customers,  
14 as well as to potential new customers, in the summer of 1994. From then until  
15 October, 1994, when Nashua implemented the incoming manifest system<sup>5</sup> described  
16 below, BREs were manually counted, weighed and rated individually and the Postal  
17 Service assigned additional employees to do the work. **From October 1994 onward,**  
18 **the Postal Service has not segregated, counted, weighed and rated, or otherwise**  
19 **accounted for, Nashua's BREs at either the location of its post office boxes or in**

---

20 <sup>5</sup> This system has also been referred to by the Postal Service as a "reverse"  
21 manifest system. See response to NM/USPS-34.

1     **West Virginia (other than some inexpensive monitoring of the accuracy of the**  
2     **Nashua-generated manifest).**<sup>6</sup> All incoming mail is merely delivered to Nashua's  
3     West Virginia plant. As described below, all necessary counting, rating and billing  
4     functions are performed at the Nashua plant by Nashua employees who, when opening  
5     each envelope, enter data used by Nashua to prepare an incoming manifest.

6             BREs continue to represent an increasing percentage of exposed film received  
7     by Nashua, and have grown to the point where for the last 12 months they now  
8     represent almost 70 percent of Nashua's incoming mail.

9             **Nashua's incoming manifest system.** The incoming manifest system  
10    developed by Nashua works as follows. Nashua's BREs are combination  
11    envelopes/order forms containing price schedules and employing uniquely coded  
12    "track" numbers. These track numbers indicate whether the envelope was business  
13    reply mail or a mailpiece which required customer-applied stamps. In addition to the  
14    tracking code, Nashua employees enter (i) product codes (*e.g.*, 35mm, 110mm,  
15    126mm disc; and 12, 24 or 36 exposures), (ii) the quantity of each product received,

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16             <sup>6</sup> The Postal Service Motion for Leave to File Brief Response to the  
17    Nashua/Mystic Opposition to the USPS Motion to Reconsider PRC Order No. 1129  
18    (filed September 5, 1996) states that "The Postal Service and Nashua have been  
19    working closely to test a 'reverse manifest' BRM accounting system since the fall of  
20    1995." This statement is not correct. The "test" referred to there has been running  
21    since October 1994, or for almost 24 months (**not 12 months**), it encompasses **all**  
22    BREs received by Nashua, and has become standard operating practice. The local  
23    post office has reassigned to other work all postal employees who sorted, counted,  
24    weighed and rated Nashua's mail immediately prior to October, 1994. The so-called  
25    "test" was in place and ongoing for (i) almost 21 months before Postal Service  
26    headquarters convened the first meeting of the working group, and (ii) well over one  
27    year before the BRM task force was established.

1 (iii) whether rolls of film were enclosed in the plastic film canister that comes with  
2 the film, and (iv) other enclosures, such as a check, coupons, or credits. All of the  
3 preceding factors combined, when entered, are used by Nashua's sophisticated  
4 computer system to calculate the weight and associated appropriate amount of First-  
5 Class postage applicable to each piece, including the non-standard surcharge (if  
6 applicable) plus the BRM fee.<sup>7</sup> The incoming manifest system has been in continuous  
7 use since implementation in October, 1994.

8 **Revenue protection.** The incoming manifest on each piece enables the Postal  
9 Service to conduct daily audits in which individual pieces are weighed and the postage  
10 due is compared with the postage calculated on the incoming manifest. The audit  
11 capability helps assure accountability and revenue protection. The Postal Service uses  
12 basically the same sampling procedures and standards on Nashua's incoming manifest  
13 as it applies to Nashua's outgoing manifest.<sup>8</sup>

14 On a daily basis, Nashua transmits the incoming manifest information to the  
15 Postal Service so that the amount due for First-Class postage and fees can be deducted  
16 from its Business Reply Advance Deposit Account. The Postal Service's only  
17 involvement in the processing of Nashua's BREs is sampling, which consists of

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18 <sup>7</sup> A package with a roll of film is over 1/4 inch thick. If it weighs less than one  
19 ounce, Nashua pays First-Class postage of 32 cents plus the 11-cent, non-standard  
20 surcharge, for total postage of 43 cents. The current BRM fee of 10 cents brings  
21 total postage and fees to 53 cents for an under-one-ounce package.

22 <sup>8</sup> For more information on the procedures followed by the Postal Service, see  
23 *LR-SSR-148, Guide to the Manifest Mailing System*, USPS Publication 401 (July,  
24 1993), pp. 86-87, section on Procedures for Verifying and Adjusting Batched  
25 Mailings.

1 pulling, recording data from, and weighing approximately 50 mailpieces from the  
2 daily incoming shipments.<sup>9</sup> Data from the daily sample are compared, for purposes  
3 of verification, to the data submitted to the Postal Service by Nashua. Each day the  
4 total postage paid by Nashua is subject to adjustment if the sample shows  
5 overpayment or underpayment.

6 The error rate in the sampling procedure can be assessed in two ways:

- 7 i) the number of pieces for which the estimated postage was not  
8 100 percent accurate; and
- 9 ii) the extent to which estimated postage differs from actual  
10 postage.

11 **A. Number of pieces for which postage is mis-estimated.** The Postal  
12 Service response to NM/USPS-34 indicates that in October, 1995, the postage was  
13 estimated incorrectly for some 20.2 percent of the pieces sampled. In June, 1996, the  
14 error rate declined to 16.3 percent of pieces sampled, and in July, 1996, the error  
15 rate was down to 5.7 percent. The decline in the error rate reflects refinements  
16 implemented by Nashua to make the system more accurate.

17 **B. Variation in total postage due.** The Postal Service response to  
18 NM/USPS-34 notes that errors sometimes favor Nashua, and sometimes favor the  
19 Postal Service. This indicates that the system, although subject to error, has no

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20 <sup>9</sup> Since all of Nashua's outgoing mail is plant-loaded, when the incoming  
21 manifest system was implemented the Postal Service already had available an on-site  
22 employee who has been able to accomplish the daily sampling as a collateral duty.  
23 The sampling associated with the incoming manifest system thus caused the Postal  
24 Service to incur no additional costs.

consistent bias one way or the other. The net result is that the errors are largely offsetting. For each of the three months covered in the response to NM/USPS-34, as well as last August, the estimated postage on the manifest as a percentage of the postage for the pieces in the sample was as follows:

October, 1995	93.05%
June, 1996	97.80%
July, 1996	97.75%
August, 1996	98.00%

The system itself has become increasingly accurate. Moreover, since the total postage paid by Nashua is adjusted daily on the basis of the sample, Postal Service revenues are fully protected.

**C. Nashua's costs to develop and operate its incoming manifest system.**

To develop the software program for its incoming manifest system, Nashua has to date incurred a one-time cost of approximately \$10,000. In addition to this non-recurring cost, Nashua incurs annual operating costs of about \$45,000 for the daily verification requirement and the additional keying that operators must do when they process each incoming order. Should BREs expand to the point where they constitute 100 percent of Nashua's volume, the additional cost of keying would increase to between \$55,000 and \$60,000 per year. Any further refinements and improvements to the system will add to the non-recurring cost and, perhaps, to the recurring costs as well. In all respects, Nashua's incoming manifest system is a form of worksharing,



1 wherein mailer effort and expense supplant and replace Postal Service labor and  
2 expense.

3       **Summary.** To sum up, Nashua has developed and operates, at its own  
4 expense, an extremely effective system for handling BRM, under which Nashua does  
5 essentially all work required to process its BRM, and collects all necessary data to  
6 compute First-Class postage and all fees due. The Postal Service has almost no  
7 involvement, aside from on-site sampling inspections and accepting payments.  
8 Nashua's incoming manifest system constitutes an innovative and reliable means by  
9 which the Postal Service is able to collect all First-Class postage and fees due for  
10 Nashua's BRM while incurring only negligible cost.

#### 11       **Mystic Color Lab**

12       Mystic Color Lab has one central processing facility, located in Mystic,  
13 Connecticut. Since its founding in 1970, Mystic has provided its customers with  
14 BREs, which Mystic's customers use to mail their exposed film. All mail for Mystic  
15 is routed to the post office at New London, Connecticut, where it is picked up by  
16 Mystic once daily, around 4:30 a.m., every day except Sunday. As described below,  
17 the New London Post Office and Mystic have developed a highly efficient, low-cost  
18 and mutually beneficial method of handling Mystic's BRM.

1           The daily procedure, in effect for over ten years, is as follows.<sup>10</sup> Upon arrival  
 2           at New London, incoming BREs for Mystic are consolidated by the post office into  
 3           large sacks,<sup>11</sup> which are then weighed.<sup>12</sup> No individual business reply envelopes have  
 4           been counted or weighed, either manually or in any other fashion, since 1985, when  
 5           the New London Post Office started using the current weight-averaging system. After  
 6           subtracting the tare weight of the sack from the gross weight of the sack, the net  
 7           weight is multiplied by a pre-determined **price per pound** to compute the total First-  
 8           Class postage, including the non-standard surcharge (if applicable) and BRM fees due.  
 9           This simplified handling and billing procedure involves some time each night from a  
 10          single Postal Service clerk.

11          After weighing, the sacks are simply held for pickup by Mystic. Importantly,  
 12          no other handling cost is incurred because none of the BREs are reinserted into the  
 13          mailstream for delivery with regular First-Class Mail (as must be done for some

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14          <sup>10</sup> Use of the weight-averaging system by the New London Post Office and  
 15          Mystic predates formation of the Postal Service's internal BRM task force by more  
 16          than nine years. The system has worked successfully and essentially without  
 17          problems at New London for over ten years (and for over 15 years at Seattle  
 18          FilmWorks; see the discussion, *infra*). These facts stand in contrast to the Postal  
 19          Service's statement that "The task force. . . will explore potential opportunities for. .  
 20          .*new* products and services, including alternative methods of BRM processing and  
 21          billing such as 'reverse manifesting' and '*weighing/piece conversion*.'" (Emphasis  
 22          added.) Response of the United States Postal Service to PRC Order No. 1131, p. 2  
 23          (August 23, 1996).

24          <sup>11</sup> Some of Mystic's mail may already have been sorted into separate sacks prior  
 25          to arriving in New London.

26          <sup>12</sup> The only capital cost involved in the weight-averaging system is a large  
 27          capacity scale, which may be used for other purposes as well. By comparison, a far  
 28          higher capital outlay is required for the automation equipment that is used to process  
 29          mail that receives the BRMAS rate.

1 customers that receive small quantities of pre-barcoded BRMAS-qualified mail),<sup>13</sup> nor  
 2 does the Postal Service incur any cost to deliver the mail.

3 The pre-determined price-per-pound is calculated through a periodic sampling,  
 4 conducted jointly by the New London Post Office and Mystic. The sample consists of  
 5 1,000 pieces, <sup>for five days</sup> selected at random, which are weighed and rated individually by  
 6 employees of both the Postal Service and Mystic; *i.e.*, duplicate weighing and rating  
 7 of each piece is performed. As the work can be somewhat tedious, this redundancy  
 8 helps ensure accuracy.<sup>14</sup> Each party prepares its own spreadsheets, the results are  
 9 compared, and any discrepancies between the two are checked and reconciled. The  
 10 First-Class postage, including non-standard surcharge (if applicable) and BRM fees  
 11 for the <sup>5</sup>1,000 sample pieces are summed and divided by their total weight, which  
 12 becomes the price per pound until the next sample is taken.<sup>15</sup>

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13 <sup>13</sup> Additional information on how carriers handle small volumes of BRMAS-  
 14 qualified mail is provided in response to NM/USPS-20. After BRM has been  
 15 segregated so that it can be counted, rated and billed, under certain circumstances it  
 16 may require some additional in-office handling. In this regard, the Commission stated  
 17 that:

18 If the BRMAS piece requires street delivery, the piece is consolidated  
 19 with other mail for walk sequencing and then delivered. If the BRMAS  
 20 piece is addressed to a post office box it may require further  
 21 sequencing to box section number and to the numerical order of the  
 22 post office box. [Docket No. R94-1, *Op. & Rec. Dec.*, p. V-147,  
 23 ¶5456.]

24 <sup>14</sup> The periodic sampling process requires about 1 to 2 days of effort by the  
 25 Mystic employee and by the Postal Service employee.

26 <sup>15</sup> The predetermined price per pound reflects all applicable postage and fees.  
 27 For example, a package with a roll of film that weighs less than one ounce pays First-  
 28 Class postage of 32 cents plus the 11 cent non-standard surcharge, for total postage of  
 29 43 cents. The BRM fee of 10 cents brings total postage and fees to 53 cents for a  
 30 one-ounce package.

1           The New London Post Office and Mystic Color Lab use a weight-averaging  
2           system to handle non-automatable bulk BRM. When 100 percent of the arriving mail  
3           consists of BREs, the weight-averaging system is simple, effective and has been time-  
4           proven for more than 10 years at the New London Post Office.

5           **Seattle FilmWorks, Inc.**

6           Seattle FilmWorks, Inc. also has one central processing facility, located in  
7           Seattle, Washington. Seattle FilmWorks opened its doors for business in 1977. For  
8           most if not all of the 19 years since it was founded, Seattle has provided its customers  
9           with BREs exclusively, which they use to mail their exposed film. All mail for  
10          Seattle is routed to the Seattle, Washington Post Office Annex. After processing, it is  
11          picked up at the terminal station by Seattle FilmWorks twice daily, Monday through  
12          Friday, around 5:00 a.m. and again at 8:00 a.m., and once on Saturday, around 9:00  
13          a.m. As described below, the Seattle Post Office and Seattle FilmWorks have  
14          independently developed a weight-averaging system that is substantially identical to  
15          the one used at Mystic and which has worked successfully and without problems for  
16          over 15 years.<sup>16</sup>

17          For marketing reasons, Seattle FilmWorks distributes BREs with one of three  
18          different P.O. box numbers on them. Consequently, when mail arrives at the Seattle

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19          <sup>16</sup> Use of the weight-averaging system by the Seattle Post Office and Seattle  
20          FilmWorks predates formation of (i) the Postal Service's BRM task force by at least  
21          13 to 14 years, and (ii) the Postal Service's working group by some 15 years or  
22          more.

1 Post Office, it is sorted into different sacks according to the P.O. box number on the  
2 envelope. Following the incoming sortation, the post office simply weighs each  
3 incoming sack.<sup>17</sup> After subtracting the tare weight of the sack from the gross weight  
4 of the sack, the net weight is multiplied by a pre-determined **distribution of pieces**  
5 over all possible rate categories (including the BRM fee of 10 cents per piece). The  
6 resulting distribution of pieces is then multiplied by the applicable rate to compute the  
7 total postage and fees due.<sup>18</sup>

8 As with Mystic, the simplified handling and billing procedure used by the  
9 Seattle Post Office involves, on average, about 1½ to 2¼ labor hours each night by a  
10 single Postal Service employee.<sup>19</sup> Importantly, no other handling cost is incurred  
11 because none of the BREs are reinserted into the mailstream for delivery with regular  
12 First-Class Mail (as must be done for customers that receive small quantities of pre-  
13 barcoded BRMAS-qualified mail), nor does the Postal Service incur any cost to  
14 deliver the mail.

15 The pre-determined distribution is arrived at through a sampling conducted  
16 solely by the Seattle Post Office. Unlike Mystic, Seattle FilmWorks has no

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17 <sup>17</sup> At Seattle, as at Mystic, the only Postal Service capital cost involved in the  
18 weight-averaging system is a large capacity scale which can be used for other  
19 purposes. Automation equipment used for mail that receives the BRMAS rate has  
20 required substantial capital outlays by the Postal Service, as well as recurring costs  
21 for updating software programs.

22 <sup>18</sup> The procedure developed by the Seattle Post Office involves more arithmetic  
23 computation than the procedure at the New London Post Office, but the end result is  
24 essentially the same.

25 <sup>19</sup> This is an average throughout the year. Volumes are subject to significant  
26 variation, both seasonally and daily.

1 involvement in the sampling. Periodically, the Postal Service takes a sample over a  
2 period of one week. The distribution of the sample then becomes the pre-determined  
3 distribution until the next sample is taken. This method of handling non-automatable  
4 bulk BRM, which is essentially equivalent to that used by the New London Post  
5 Office and Mystic, is also a weight-averaging system.

6 When sacks contain all BREs, as they do for both Mystic and Seattle, the  
7 weight-averaging system is simple and effective. In the case of Seattle FilmWorks, it  
8 has been time-proven (over 15 years). As the preceding description indicates, the  
9 weight-averaging system is not a worksharing system.<sup>20</sup> Rather, it is somewhat  
10 analogous to automation, where the Postal Service on its own initiative has  
11 implemented a more efficient method for processing mail.<sup>21</sup>

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12 <sup>20</sup> Mystic and Seattle could, and would be willing to, weigh the incoming sacks  
13 of BRM, thereby relieving the Postal Service of even that small expense and, by  
14 doing so, combine worksharing with the weight-averaging system. This consideration  
15 would appear to be somewhat inconsequential, however, in view of the comparatively  
16 small amount of time and expense which the weighing operation requires.

17 <sup>21</sup> As is discussed *infra*, the Commission has approved and the Postal Service has  
18 implemented lower rates for BRM that is automatable and *potentially* has lower unit  
19 cost, regardless of whether such mail *actually* achieves lower unit cost by virtue of  
20 being processed on automation equipment.

1     **Volume of BRM Received by**  
2     **Nashua, Mystic and Seattle**

3             As strong competitors in a competitive industry, Nashua, Mystic and Seattle  
4     naturally consider data on their incoming volume of BRM to be proprietary and  
5     confidential, both in terms of public disclosure and disclosure to one another. It is no  
6     secret, though, that the film-developing business is somewhat seasonal, with summer  
7     volume substantially exceeding winter volume. Volume in the peak summer months  
8     can exceed volume in a typical mid-winter month by a factor ranging from 1.5 to as  
9     high as 2.5. Even on a slow winter day, however, Nashua, Mystic and Seattle each  
10    receive thousands of customer-mailed business reply envelopes, aggregating hundreds  
11    of pounds and many sacks of mail. Of course, on busy summer days the volumes  
12    received by Nashua, Mystic and Seattle are significantly greater. These volumes  
13    were sufficiently large to have led each respective local post office to help develop  
14    and implement alternative means of ascertaining postage and fees on non-automatable  
15    bulk BRM. The large daily volumes and weight of BRM received by Nashua, Mystic  
16    and Seattle distinguish them among BRM advance deposit account holders, including  
17    the vast majority of those who receive the BRMAS rate.

18    **The Postal Service Incurs a Low Unit Cost**  
19    **to Account for Non-Automatable Bulk BRM**

20            The Postal Service incurs certain accounting costs when it prepares a statement  
21    of postage and fees due and then debits a customer's advance deposit account.  
22    Whatever this particular cost is, it is not unique to non-automatable BRM; rather, it is

1 common to all advance deposit business reply accounts, including BRMAS accounts.  
2 The key cost issue with respect to non-automatable bulk BRM is the amount of work  
3 required by the Postal Service before it can generate a billing statement; *i.e.*,  
4 counting, weighing and rating.

5 **Nashua.** As explained above, the incoming manifest system developed by  
6 Nashua has not caused the Postal Service to incur any additional costs whatsoever,  
7 inasmuch as a full-time Postal Service employee was already on-site for the outgoing  
8 mail operation. Within the approach embodied by the In-Office Cost System  
9 ("IOCS"), however, employees' time is apportioned on the basis of the work they  
10 actually perform. Consequently, a portion of the time of the clerk assigned to Nashua  
11 to supervise the plant load operation would become attributable to the BRM operation  
12 on account of the daily sampling.<sup>22</sup> I estimate that such attribution should at most  
13 represent no more than one hour per day.<sup>23</sup>

14 **Mystic.** With respect to Mystic and the weight-averaging system developed  
15 jointly with the Postal Service, all of Mystic's BRM is handled by only one clerk on  
16 the night shift, even during the peak months of the summer season. Over the course  
17 of a year, I estimate that the time spent by this one clerk handling Mystic's BRM

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18 <sup>22</sup> The IOCS is, of course, unlikely to capture a fraction of only one person's  
19 time.

20 <sup>23</sup> The Postal Service has no information on either the recurring or non-recurring  
21 costs which it incurs to process Nashua's incoming BRM; see response to NM/USPS-  
22 32.



1 would range between 1.4 to 2.0 hours per day.<sup>24</sup> Capital costs, consisting only of  
2 depreciation on the Postal Service's large scale, are negligible.

3 **Seattle.** As noted previously, I estimate that a Postal Service clerk spends  
4 between 1½ and 2¼ hours per night weighing and rating Seattle's BRM.

5 Combining Nashua, Mystic and Seattle, the annual cost to the Postal Service  
6 for handling and billing their BRM, including all fringe benefits and piggybacks,  
7 ranges between \$54,000 and \$72,000. The high end of this range barely exceeds the  
8 cost of one full-time clerk (including piggybacks).<sup>25</sup> Since Nashua, Mystic and Seattle  
9 will each receive millions of BREs during test year 1997, the fully-loaded unit cost  
10 for the three firms combined will average well under 1.0 cent per piece. At 10 cents  
11 per piece, the BRM fee represents a **markup** over average cost substantially in excess  
12 of 1,000 percent. A BRM fee of just 2 cents per piece would represent a **markup**  
13 well in excess of 100 percent over attributable cost; *i.e.*, a **coverage** of well over 200  
14 percent.<sup>26</sup>

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15 <sup>24</sup> This estimate is based on 365 days a year. The Postal Service has no  
16 information on either the recurring or non-recurring costs which it incurs to process  
17 Mystic's incoming BRM; see response to NM/USPS-33.

18 <sup>25</sup> \$43,297.62 per year for one full-time clerk, plus piggyback factors estimated  
19 at 1.533220 to 1.717276 of direct labor cost.

20 <sup>26</sup> Confidential and proprietary data on volumes (as well as a more exact estimate  
21 of unit cost) were developed in a set of confidential workpapers.

**Mutual Benefits Derived from the Incoming Manifest  
and Weight-Averaging Systems**

As indicated previously, through-the-mail film processors compete with a multitude of local and regional film processors. In many metropolitan areas, some local developers offer turn-around times as low as one hour, and overnight service is extremely common.

Through-the-mail film processors obviously cannot compete with local developers on turn-around time, and mail-order customers understand that they cannot have prints returned in one or two days.<sup>27</sup> Nevertheless, total turn-around time from initial mailing by the customer to receipt of prints is an extremely important consideration. When total turn-around time exceeds six or seven days, repeat orders tend to fall off sharply. Since time spent within the Postal Service network greatly exceeds the time required for development and prints,<sup>28</sup> it is critically important that mail move through the Postal Service network as quickly as possible. If the Postal Service actually were to spend many hours, perhaps even days, manually counting, weighing, rating and billing each individual BRE commensurate with the level of

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<sup>27</sup> A substantial portion of people who use through-the-mail film processors reside in rural areas, small towns, and other areas where access to same-day or overnight developing service may be limited. Lack of competition may cause prices to be higher.

<sup>28</sup> All through-the-mail film processors attempt to have finished prints in the outgoing mail within 24 working hours after incoming mail is received from the Postal Service.

1 effort for which they are charging these mailers, repeat orders would decline, a lose-  
2 lose situation for both the Postal Service and film processors.<sup>29</sup>

3 As indicated in the preceding discussion, the weight-averaging system used for  
4 incoming BRM at Mystic and Seattle eliminates all individual manual handling of  
5 BREs by the Postal Service. The procedure greatly enhances efficiency, since sacks  
6 need only to be weighed before being delivered to Mystic and Seattle. At Nashua, as  
7 a result of the worksharing inherent in the incoming manifest system, the Postal  
8 Service does not even have to weigh the sacks. These systems constitute extremely  
9 efficient ways to process non-automatable bulk BRM, and they provide the Postal  
10 Service with enormous savings in comparison to the cost of manually counting,  
11 weighing and rating individual BREs. Elimination of the long-established weight-  
12 averaging system in favor of individually assessing each incoming piece would drive  
13 up Postal Service costs and serve no useful purpose. Elimination of the weight-  
14 averaging system in favor of some so-called "optimum" system (as the Postal Service  
15 has occasionally stated) could do little more than force these mailers to spend large  
16 amounts of time and money on developing new systems without achieving any real  
17 savings to the Postal Service, while prolonging the time that the Postal Service could  
18 collect these extraordinarily-high BRM fees.

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19 <sup>29</sup> To be sure, film processing constitutes the entire business of Nashua Photo  
20 Inc., Mystic and Seattle, but only a minuscule percent of the Postal Service's total  
21 delivery business. Film processors thus have a great deal more at stake than does the  
22 Postal Service. Further, all BRM, automatable as well as non-automatable, represents  
23 only a small portion of Postal Service total revenues, which may help explain why  
24 BRM has not been given greater priority by the Postal Service.

## II. BRIEF HISTORY OF THE BRM/BRMAS FEE STRUCTURE

Business Reply Mail predates the Postal Reorganization Act (the "Act"), and has always been limited to incoming First-Class Mail. Prior to the Act, the BRM fee was 2 cents for mail weighing two ounces or less, and 5 cents for mail over two ounces. (*See* former Title 39, U.S.C., sections 4253(d) and 4303(c).) The only criterion for application of the BRM fee, therefore, was weight.

In the first omnibus rate case heard by the Postal Rate Commission under the Act, **Docket No. R71-1**, the Postal Service did not request an increase in BRM fees. In the second rate case, however, **Docket No. MC73-1**, the Commission recommended, and the Governors approved, a rate schedule distinguishing between regular BRM and the BRM advance deposit system. That new classification schedule became effective September 12, 1976, and resulted in the following fee change: 3.5 cents for mailers maintaining an advance deposit account, and 12 cents for those without such accounts.

In **Docket No. R80-1**, BRM fees were increased to 5 cents (with advance deposit account) and 18 cents (without advance deposit account), respectively, and the annual permit fee was raised to \$40, as requested by the Postal Service. Although no party objected to these increases, there was some debate about the Postal Service's

1       rationale for one of the increases. *See Op. & Rec. Dec.*, Docket No. R80-1, pp. 302-  
2       303.

3               In **Docket No. R84-1**, the Postal Service proposed raising the advance deposit  
4       per-piece fee to 7 cents (from 5 cents) and the non-advance deposit, per-piece fee to  
5       25 cents (from 18 cents). It also proposed an increase in the annual permit fee to \$50  
6       (from \$40), as well as an increase in the annual accounting fee to \$160 (from \$75).

7       The Commission recommended all of the proposed increases, except that the non-  
8       advance deposit, per-piece charge was raised only to 23 cents. It was at this time that  
9       BRM was changed, from a subdivision of First-Class Mail, to a Special Service set  
10      forth in Schedule SS-2 of the Domestic Mail Classification Schedule (DMCS).

11              In **Docket No. R87-1**, the concept of the **Business Reply Mail Accounting**  
12      **System (BRMAS)** was born. The Postal Service had again proposed higher rates, and  
13      the Commission recommended increases to 40 cents and 8 cents, respectively, for  
14      regular and advance deposit mailers. In addition, however, the Commission also  
15      recommended a 3-cent discount for advance deposit, automatable, pre-barcoded BRM  
16      mail (known as BRMAS), making the BRMAS rate 5 cents. In so doing, the  
17      Commission created two subcategories within advance deposit business reply mail.

18              As explained by the Commission in Docket No. R90-1, the rationale for  
19      recommending the lower per-piece fee for BRMAS mail in Docket No. R87-1 was as  
20      follows:

21              The 5-cent per-piece BRMAS rate reflects the lower costs associated  
22      with the Service's counting, weighing, rating and billing operations for  
23      advance deposit BRM pieces since, in the case of a BRMAS piece, a

1 computer can perform these functions. In the case of nonadvance and  
 2 advance deposit BRM these functions are performed through manual or  
 3 mechanical means. [*Op. & Rec. Dec.*, Docket No. R90-1, p. V-411.]

4 It is important to note that the special BRMAS fee was created as a discount,  
 5 to reward the Postal Service's BRM customers whose BRM enabled the Postal Service  
 6 to reduce its costs; *i.e.*, the Commission sought to create subgroupings of BRM that  
 7 were more homogeneous in terms of cost characteristics.<sup>30</sup>

8 In **Docket No. R90-1**, the Commission once again recommended most of the  
 9 Postal Service's proposals, which were 40 cents for regular BRM (no increase), 9  
 10 cents for advance deposit accounts (a 1-cent increase), and an increase in the permit  
 11 fee to \$75; but it reduced the BRMAS fee from 5 to 2 cents (rather than to the 3 cent  
 12 per-piece level proposed by the Postal Service). The Commission, noting the  
 13 substantial fee difference between regular and advance deposit BRM, observed that:

14 the higher per-piece fee represents the higher cost to the Postal Service  
 15 to collect the First-Class postage and BRM per-piece fee amount due  
 16 from the permit holder subsequent to the processing [of] the mail  
 17 piece.... [*Op. & Rec. Dec.*, Docket No. R90-1, p. V-410.]

18 Finally, in **Docket No. R94-1**, most of the Postal Service's proposed fee  
 19 increases were again recommended by the Commission, resulting in increases in the  
 20 permit fee (to \$85), the accounting fee (to \$205), and the per-piece charges for  
 21 regular (to 44 cents) and advance deposit (to 10 cents) BRM. The one exception was

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22 <sup>30</sup> As noted in the previous section, the weight-averaging system, which enabled  
 23 an even greater reduction in average unit costs, had already become the standard  
 24 operating procedure at both Mystic and Seattle before 1987.

1       BRMAS, which the Postal Service asked be increased to 4 cents, but which the  
2       Commission left at 2 cents after it struck the Postal Service's testimony in support of  
3       the increase due to problems with the underlying cost evidence.

1                   **III. THE BRMAS PROGRAM: INCLUSION, EXCLUSION**  
2                   **AND DISCRIMINATION**

3                   The features of the special service Business Reply Mail, as distinguished from  
4                   the features of regular First-Class Mail, to which this special service relates, involve  
5                   the counting, rating and billing of BRM pieces.<sup>31</sup> One way or another, these  
6                   functions are performed on all pieces of BRM.

7                   Prior to Docket No. R87-1, BRM permit holders with an advance deposit  
8                   account paid a uniform per-piece fee; *i.e.*, rate averaging existed for *all* BRM. As  
9                   discussed previously, however, after Docket No. R87-1 the rates for BRM were *de-*  
10                  *averaged*. The BRMAS rate then was created solely for business reply envelopes  
11                  meeting established criteria for automation compatibility, including barcoding. Since  
12                  then, permit holders that receive automation-compatible BRM have been able to  
13                  qualify for and receive the reduced BRMAS rate regardless of how the Postal Service  
14                  actually counts, rates and bills for such mail; *i.e.*, the BRMAS rate applies to all  
15                  qualified BRM letters or cards received by a customer who has been approved for the  
16                  BRMAS program, regardless of whether automation equipment is in fact used to  
17                  process such mail at the post office where it destines.<sup>32</sup> At the same time, BRM

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18                  <sup>31</sup> However, see the response to NM/USPS-22, where the Postal Service  
19                  expresses certain reservations concerning this view.

20                  <sup>32</sup> See response to NM/USPS-18.



1 permit holders who receive non-automatable bulk BRM are summarily denied access  
2 to the BRMAS rate regardless of procedures used or the unit cost incurred by the  
3 Postal Service to accomplish the counting, weighing, rating and billing functions.<sup>33</sup>

4 For First-Class prepaid reply mail, the distinguishing eligibility criterion  
5 between BRMAS and non-BRMAS mail has been *automation compatibility*. At the  
6 same time, the *cost differential* has been the fundamental product-defining criterion in  
7 the Commission's rationale for having different BRM fees – plus, perhaps, some  
8 abstract commitment to automation. The substantial difference between the current  
9 prebarcoded (BRMAS) fee of 2 cents and the much higher regular BRM fee of 10  
10 cents is based entirely on estimated Postal Service costs incurred in the counting,  
11 rating and billing functions necessitated by each BRM service. However,  
12 paradoxically, an identifiable subset of **2-cent automatable BRMAS** mail is counted,  
13 rated and billed manually at **high unit cost**, while an identifiable subset of **10-cent**  
14 **non-automatable BRM** is counted, rated and billed at **very low unit cost**.

15 It should be noted that the foundation for the BRMAS rate is the billions of  
16 dollars spent by the Postal Service to develop and deploy automation equipment,  
17 including BRMAS software and the local programming efforts necessary to implement  
18 that software effectively. The principal involvement by BRM permit holders relates  
19 to their pre-printing a designated barcode on the envelope. Since BRM envelopes  
20 must be printed in any event, including a pre-printed barcode on the envelope requires  
21 no additional outlay by the mailer. In no way is BRMAS equivalent to worksharing

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22 <sup>33</sup> See, for example, LR-NMS-1.

1 programs where mailers undertake significant efforts and incur significant costs (*e.g.*,  
 2 presorting or dropshipping) that otherwise would have to be incurred by the Postal  
 3 Service.<sup>34</sup>

4 With BRMAS, the Postal Service has simply implemented a more efficient  
 5 way of handling a subset of Business Reply Mail. In this respect, BRMAS and the  
 6 weight-averaging system used for non-automatable BRM at the New London and  
 7 Seattle Post Offices are similar. Two critical differences exist, however. First, under  
 8 BRMAS the Postal Service extends a discount to automation-compatible mail, but it  
 9 offers no discount for non-automatable bulk BRM that is counted, rated and billed  
 10 under the weight-averaging system. Second, the Postal Service has incurred  
 11 substantial expense to implement the automation program generally, and the BRMAS  
 12 program specifically, whereas development of the weight-averaging system required  
 13 virtually no capital investment whatsoever. In my opinion, *automation compatibility*  
 14 should be regarded as a means to an end, not as an end in itself. Without further  
 15 justification, the Postal Service's establishing a dividing line based exclusively on  
 16 *automation compatibility* and wholly ignoring all real world operational and cost  
 17 considerations is capricious and unduly discriminatory.<sup>35</sup>

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18 <sup>34</sup> Nashua's incoming manifest system involves far more worksharing effort by  
 19 the BRM permit holder than does BRMAS.

20 <sup>35</sup> The Postal Reorganization Act bars both undue and unreasonable  
 21 discrimination as follows:

22 In providing services and in establishing classifications, rates, and fees  
 23 under this title, the Postal Service shall not, except as specifically authorized  
 24 (continued...)

1       **Discrimination Against Non-Automatable Bulk BRM**

2               Since the BRMAS rate became available following Docket No. R87-1, the  
 3       Postal Service (i) has extended the reduced rate to all approved customers using  
 4       qualifying automation-compatible BREs, regardless of whether such envelopes are in  
 5       fact processed on automation equipment, and (ii) has not required any minimum  
 6       volume (either per day, per week, per month or per year), despite the obvious high  
 7       unit cost associated with low-volume accounts. The absence of such eligibility  
 8       requirements is significant, particularly when compared with the Postal Service's  
 9       treatment of non-automatable bulk BRM. A minimum volume requirement, for  
 10      example, regardless of whether automation equipment is available, would have  
 11      excluded from BRMAS eligibility much automation-compatible mail that the Postal  
 12      Service knows will be manually processed at a high unit cost, averaging up to 10  
 13      cents per piece. Further, the Postal Service could have indicated the post offices at  
 14      which the BRMAS rate would not apply, owing to lack of automation equipment.  
 15      For reasons never articulated, it has elected not to do either.<sup>36</sup>

16             The average cost of counting, weighing, rating and billing the non-automatable  
 17      bulk BRM of Nashua, Mystic and Seattle is quite low in absolute amount, less than

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18             <sup>35</sup>(...continued)

19             in this title, make any undue or unreasonable discrimination among users of  
 20             the mails, nor shall it grant any undue or unreasonable preferences to any such  
 21             user. [39 U.S.C. § 403(c).]

22             <sup>36</sup> See response to NM/USPS-36. It is interesting to note that in Docket No.  
 23             MC95-1 the Postal Service had no reservations about recommending carrier route  
 24             presort discounts that were restricted to facilities not served by presortation on DBCS  
 25             equipment.

1 1.0 cent per piece. That fact alone is sufficient reason to recommend one of the  
2 proposals advanced in the next section of this testimony. Furthermore, as discussed  
3 in Appendix I, the unit cost of counting, weighing, rating and billing non-automation  
4 compatible bulk BRM is low even in relation to the average cost of BRMAS-qualified  
5 mail. Astonishingly, even if all BRMAS-qualified mail were to be processed on  
6 automation equipment (where available), the average unit cost for the NMS BRM  
7 would be lower than the BRMAS unit cost.<sup>37</sup> The unit cost data for BRMAS-  
8 processed mail, presented in Appendix I, admittedly are not precise. Nevertheless,  
9 they are adequate to help demonstrate the discrimination that exists in the current  
10 postal product offerings against low-cost, non-automation compatible bulk BRM.

11 A substantially-reduced BRMAS fee of 2 cents per piece is extended to all  
12 automation-compatible mail. As discussed previously, the Postal Service makes no  
13 effort to exclude any BRMAS-qualified mail that it knows will be processed manually  
14 (at an average cost of over 10 cents per piece) from receiving the 2-cent BRMAS  
15 rate. Whether it makes sense to extend such a low rate to automation-compatible  
16 BRM that is nevertheless known to have predictably high cost characteristics is  
17 perhaps a matter of business judgment within the Postal Service's discretion. At the  
18 same time, however, the Postal Service discriminates without any cost justification by  
19 excluding from the reduced BRMAS rate all non-automation-compatible bulk mail,  
20 even though the average unit cost of counting, weighing, rating and billing such bulk  
21 mail is lower than the average cost of mail that pays the BRMAS rate.

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22 <sup>37</sup> More detail is provided in Appendix I and confidential workpapers.

1           The only reasonable conclusion is that low-cost non-automation-compatible  
2 bulk mail is the object of undue discrimination. Monopolistic exploitation is the most  
3 apt term to describe the profit margins gained by overcharging users of this special  
4 service.<sup>38</sup> The decision as to whether the Postal Service should be permitted to  
5 exploit highly inelastic demand for First-Class Mail subject to its monopoly is  
6 properly a matter to be decided by the Commission; under no circumstances should it  
7 be left to the unfettered discretion or business judgment of the Postal Service.

8           To sum up, if rates for Business Reply Mail are to be de-averaged on the basis  
9 of cost, the lower rate should be extended to all low-cost BRM. It stands to reason  
10 that any system for processing BRM mail that substantially reduces the unit cost of  
11 the counting, weighing, rating and billing functions, and that has an average unit cost  
12 similar to (or even lower than) that achieved by automatable mail, should be entitled  
13 logically and equitably to fees similar to those available for pre-barcoded (BRMAS)  
14 mail.

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15           <sup>38</sup> BRM is a special service applicable only to First-Class Mail, all of which is  
16 subject to the Postal Service's statutory monopoly. With respect to pricing of other  
17 special services under consideration in this docket, the Postal Service has advocated  
18 the principle of "demand pricing" – or, in other terms, charge what the traffic will  
19 bear. That principle must be tempered for classes of mail and special services subject  
20 to the statutory monopoly. Special services tied to monopoly products like BRM are  
21 especially susceptible to abuse, and special care should be taken to avoid  
22 discriminatory pricing by the Postal Service.

### The Prepaid Courtesy Reply Mail Test<sup>39</sup>

Since June, 1995, the Postal Service has been engaged in an exclusive test, with Brooklyn Union Gas Company ("BUGC"), of a product known as Prepaid Courtesy Reply Mail ("PCRM").<sup>40</sup> Under the PCRM test, Brooklyn Union Gas Company mails to its customers monthly invoices and PCRM envelopes to be returned through the mail, without cost to the customers. PCRM envelopes typically contain only a statement of account and a remittance.<sup>41</sup> For each piece of PCRM actually received,<sup>42</sup> Brooklyn Union Gas Company pays only 32 cents per envelope,

<sup>39</sup> The Postal Service's responses to Nashua/Mystic interrogatories 37-65 relating to Prepaid Courtesy Reply Mail were filed on August 13, 1996, but were not responded to until September 23, 1996. Even then, the responses were such as to require follow-up interrogatories which are due to be responded to by Friday, October 12, after this testimony is due. If the responses to those interrogatories necessitate changes to this testimony, which is based on the Postal Service responses as of this date, supplemental or amended testimony will be prepared.

<sup>40</sup> See responses to NM/USPS-37 and 38.

<sup>41</sup> Response to NM/USPS-63.

42 The name Prepaid Courtesy Reply Mail could give the impression that the mailer pays the full postage on each reply envelope that is mailed out, irrespective of the number of such envelopes actually returned, analogous to a mailer who sends out return envelopes with postage stamps. Nonetheless, this is not the way that PCRM works. With PCRM, the mailer "deposits[s] with USPS, in an advance deposit account sums equal to the return postage for prepaid COURTESY ENVELOPES, determined at the first ounce rate of postage for First-Class Mail for each, which sum USPS shall deduct from the BUGC advance deposit account on each day OUTGOING BILLS are mailed." (LR-SSR-149, at para. 2.) After an initial period of weeks, the amount of this advance deposit is adjusted to represent the "historic percent of COURTESY ENVELOPES actually used by BUGC customers for returns." (Id.) And throughout the test, a reconciliation takes place once each month. BUGC submits documentation for an adjustment of prepaid COURTESY ENVELOPE postage which is "in excess of the amount it should have prepaid for postage for the prepaid COURTESY ENVELOPES mailed by its customers in said month." (Id., at (continued...))

1 the rate for the first ounce of a First-Class letter.<sup>43</sup> No additional per-piece fee is  
 2 charged for PCRM, BRM or BRMAS, nor are any additional annual fees paid for  
 3 PCRM permits or PCRM advance deposit accounts.<sup>44</sup> The PCRM test, originally  
 4 scheduled for six months, is now expected to continue at least through November 30  
 5 of this year; *i.e.*, for at least 18 months.<sup>45</sup>

6 A critical consideration for participation in the PCRM test was said to be  
 7 "machinability and automation-compatibility of mail pieces."<sup>46</sup> In other words, in  
 8 order to participate in a test of reply mail that has no per-piece fee, the mail first had  
 9 to meet all qualifications for the pre-barcoded BRMAS rate. In addition, "[i]t was  
 10 also vital to limit the test to mail pieces which could be expected to be uniform and  
 11 not in excess of an ounce in weight, so that issues related to additional-ounce mail  
 12 could be avoided."<sup>47</sup> Further, the Postal Service says that it "preferred to work with a

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13 <sup>42</sup>(...continued)  
 14 para. 6.) The prepayment account is thereafter adjusted for any overpayment of  
 15 postage. In other words, under this test, the mailer is charged only for incoming  
 16 pieces, as with BRM, but BUGC provides to the Postal Service certain advance  
 17 payments which presumably can be used to earn interest so that for approximately one  
 18 month the Postal Service benefits from the "float" on those funds, thereby creating a  
 19 source of funding to offset the expenses incurred by the Postal Service in monitoring  
 20 BUGC's data collection system and other related expenses.

21 <sup>43</sup> Response to NM/USPS-56.

22 <sup>44</sup> Response to NM/USPS-57.

23 <sup>45</sup> Response to NM/USPS-47.

24 <sup>46</sup> Response to NM/USPS-43.

25 <sup>47</sup> *Id.*

1 mailer with a uniform and fairly predictable monthly volume."<sup>48</sup> The monthly volume  
 2 of remittance mail generated by a major public utility company is of course  
 3 substantial. Because the PCRM test is designed only for *automation-compatible*  
 4 "bulk" mail, it obviates the problems that are associated with low-volume BRMAS  
 5 accounts.

6 It is interesting to note that while PCRM is fully automatable and, presumably,  
 7 all sortation is done on automation equipment, such equipment is not used exclusively  
 8 to count the mail. The necessary reply mail function of counting, rating and billing is  
 9 verified by means of what must be perceived to be a very accurate sampling and  
 10 weight-averaging system. According to LR-SSR-149, Attachment 1:

11 [a]t Brooklyn Union's Mail Processing Facility Prepaid Return Mail  
 12 (PRM) will be counted each day by the following steps:  
 13 (a) place 10 pieces of BRM [sic] on postal  
 14 scale for count;  
 15 (b) place full tray on scale; and  
 16 (c) deduct tray weight from total count." [Footnotes  
 17 omitted.]

18 The weight-averaging system used for PCRM is analogous to that used by the  
 19 New London and Seattle Post Offices for Mystic and Seattle FilmWorks, respectively.  
 20 In the case of PCRM, however, each tray of mail is sampled every day for the first  
 21 two weeks, and thereafter bi-weekly (or perhaps monthly - the test procedures are  
 22 ambiguous on this point). The sampling procedure is thus more extensive, and costly,  
 23 than the said-to-be quarterly sampling of BRM at Mystic and Seattle FilmWorks.

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24 <sup>48</sup> Id.



1 Moreover, at Brooklyn Union Gas Company each tray is weighed, as opposed to each  
 2 sack at the New London and Seattle Post Offices. Since sacks contain, on average,  
 3 far more mail than a tray, the weighing operation at Brooklyn Union Gas Company is  
 4 more extensive — and costly — than the weighing operation at the New London and  
 5 Seattle Post Offices. Interestingly, the Memorandum of Test Procedures seems to  
 6 indicate that the Postal Service will continue to rely primarily on "the bin holdout  
 7 counts from the Bar Code Sorter" for its daily count. (LR-SSR-149, Attachment 2.)  
 8 The sampling and weighing appear to be for verification purposes only (termed the  
 9 BUG weight verification"). (*Id.*) As such, rather than PCRM resulting in less work  
 10 for the Postal Service due to additional work performed by BUGC, it appears from  
 11 the documents submitted thus far that the Postal Service is doing more work than it  
 12 ordinarily does with BRMAS. It certainly is doing less work for Nashua, Mystic or  
 13 Seattle than it does for BUGC, while the price charged to these users of non-  
 14 automatable bulk BRM is, literally, infinitely greater than that charged to BUGC.

15 The essence of the justification for the discount (to the extent that a complete  
 16 waiver of fees can be properly described as a discount) appears to be (i) the benefit of  
 17 the "float and (ii) that "[t]he mailer would perform accounting functions based on its  
 18 records to establish the amount of postage."<sup>49</sup> This is not fully explained in the  
 19 documents thus far submitted, but even if true, and BUGC keeps its own records of  
 20 incoming pieces of PCRM, this is, of course, the same work being performed by  
 21 Nashua with its incoming manifesting system. In its response to NM/USPS-49, the

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22 <sup>49</sup> Response to NM/USPS-49.

1 Postal Service appears to recognize quite properly, at least for purposes of the PCRM  
2 test at Brooklyn Union Gas Company, that it should not charge for work being  
3 performed by a mailer of automatable mail where the mailer does virtually all the  
4 work. On the other hand, the Postal Service has thus far expressed no comparable  
5 concern for a virtually identically-situated mailer of non-automatable mail, Nashua.  
6 Whereas the Postal Service is willing to reduce the BRMAS rate from 2 cents to 0  
7 cents for Brooklyn Union Gas Company, it continues to collect the BRM rate of 10  
8 cents from Nashua, Mystic and Seattle. This is true despite the fact that the Postal  
9 Service certainly does much more work for Brooklyn Union Gas Company than it  
10 does for Nashua, and may do more work in the weight-averaging system for Brooklyn  
11 Union Gas Company than it does for Mystic or Seattle. Based on the Postal Service's  
12 treatment of Brooklyn Union Gas Company in this test, the Commission ought to  
13 consider whether mailers should pay no BRM/BRMAS fees at all.

14 If the PCRM test is made permanent or continued, it should be expanded to  
15 include low-cost, non-automatable bulk BRM. The Postal Service should not be  
16 allowed to continue charging Nashua/Mystic/Seattle more than it charges in cases  
17 where it appears to incur higher costs, such as PCRM for Brooklyn Union Gas  
18 Company. Such an approach could operate for Nashua/Mystic/Seattle in the same  
19 way that it does for BUGC, in that these mailers could engage in prepayment of  
20 postage so that the interest earned on those funds would offset any costs that are  
21 incurred by the Postal Service in administering the program.

1           The only stated objective of the PCRM test is "to conduct a trial of the  
2       administration and operations involved in applying *the prepayment concept*."<sup>50</sup>  
3       (Emphasis added.) As discussed above, how the "prepayment concept" of PCRM  
4       actually differs from that involved in BRM is not altogether clear from the  
5       information provided thus far.

6           What is clear is that the Postal Service has undertaken a test of a high-volume,  
7       low-cost subset of mail that would otherwise have paid the BRMAS fee. It is also  
8       clear that the Postal Service has totally overlooked any test of or other equivalent  
9       concern for the prepayment concept for low-cost non-automation compatible bulk  
10      mail. The discrimination in this respect is self-evident. Less clear is why the Postal  
11      Service favors certain customers, or at least certain types of mail, over others.

12          The Postal Service indicates that PCRM is in a "test" status.<sup>51</sup> Beyond that,  
13      both the present status and the future status of PCRM are somewhat ambiguous. On  
14      the one hand, it is not considered to be a classification.<sup>52</sup> On the other hand, the  
15      amount due for First-Class postage is deducted from the BRM advance deposit  
16      account of Brooklyn Union Gas, and no annual fees for PCRM are required beyond  
17      the BRM permit and accounting fees. In other words, the annual BRM fees for a  
18      permit and advance deposit account would appear to include PCRM. Moreover,

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19           <sup>50</sup> Response to NM/USPS-42.

20           <sup>51</sup> Response to NM/USPS-37. It is implied that a study of PCRM is currently  
21      underway (response to NM/USPS-54 and 55), but "No specific criteria have been  
22      formulated to evaluate the test." (Response to NM/USPS-47.)

23           <sup>52</sup> Response to NM/USPS-53.

1 customers of Brooklyn Union Gas Company who mail their remittances in a PCRM  
 2 envelope could otherwise have been expected to use a BRM envelope; *i.e.*, under the  
 3 circumstances PCRM acts as a substitute for BRMAS envelopes. It would thus  
 4 appear that the PCRM test is being conducted as some kind of "subset" or  
 5 "subcategory" that falls within the aegis of BRM — a sort of "rate category" of reply  
 6 mail, except that no rate is charged for PCRM.<sup>53</sup>

7 **BRMAS Eligibility Criteria Are Imposed By**  
 8 **the DMM, Not the DMCS**

9 The DMCS establishes and classifies BRM as a special service, but it does not  
 10 spell out the requirements to qualify for the BRMAS rate. The only description of  
 11 BRMAS in the DMCS is one word appearing in Rate Schedule SS-2, the word "pre-  
 12 barcoded." The DMCS does not expressly identify automation compatibility as an  
 13 essential component of BRMAS.<sup>54</sup> That requirement was established by the Postal  
 14 Service in the DMM, along with other details that are appropriately left to the DMM.  
 15 The Postal Service has authority to amend the DMM so long as the change does not  
 16 conflict with the DMCS. Due to the way in which the applicable DMCS provision is  
 17 written, it would appear that the Postal Service on its own initiative could unilaterally

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18 <sup>53</sup> The Postal Service cites no provision in the DMCS or DMM authorizing it to  
 19 conduct "experiments" where it waives postage or fees for selected mailers. See  
 20 NM/USPS-45.

21 <sup>54</sup> The BRMAS acronym stands for "business reply mail **accounting** system,"  
 22 **not** "business reply mail **automation** system," even though BRMAS has been  
 23 uniquely identified with automation capability.

1 amend the DMM, and extend the BRMAS rates to users of non-automatable bulk  
2 BRM, where the Postal Service's costs are comparable to BRMAS costs.<sup>55</sup> The  
3 requirement of prebarcoding is actually met by both Mystic and Seattle (which do not  
4 use post office boxes around the country like Nashua), and which in fact print a  
5 barcode on their envelopes. This requirement could be waived for mailers (such as  
6 Nashua) which have multiple destination addresses on their order envelopes. The  
7 Postal Service has declined, however, to take any such initiative.

8 I propose the extension of current BRMAS rates to users of bulk, non-  
9 automatable Business Reply Mail (including Nashua, Mystic and Seattle and other  
10 similarly-situated mailers), based upon the important criteria on which BRMAS was  
11 really founded – namely, significant cost savings to the Postal Service. The current  
12 automation standards in BRMAS, as addressed by the DMM, are simply one means  
13 of achieving those savings. The DMM logically should not restrict BRMAS rates to  
14 automatable mail and, to the extent that the Postal Service is right in its view that  
15 DMCS does, it should not be so restricted either.

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16 <sup>55</sup> According to official correspondence from the Postal Service (LR-NMS-1), the  
17 Postal Service uses failure of Nashua, Mystic, Seattle, and other similarly situated  
18 mailers to meet standards set forth in the DMM (not the DMCS) to deny BRMAS  
19 rates.

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2                   **IV. NASHUA/MYSTIC/SEATTLE CLASSIFICATION**  
3                   **PROPOSAL**

4       **Classification Objectives**

5               This Docket is the third in a series of recent dockets aimed at major  
6       reclassification of Postal Service products and services. The first in this series was  
7       Docket No. MC95-1. In that docket the Postal Service's policy witness, Charles C.  
8       McBride, when establishing a foundation for undertaking major reclassification,  
9       reviewed problems that arise when a grouping of mail includes "categories that vary  
10      greatly with respect to both cost and market factors; *i.e.*, they are heterogeneous."<sup>56</sup>

11             Subsequently, when elaborating on objectives guiding the reclassification  
12      effort, witness McBride stated that "Defining [more] homogeneous mail subclasses  
13      with respect to cost and market factors would allow the various pricing factors of the  
14      Act to be applied in an effective manner."<sup>57</sup> In Docket No. MC95-1, witness  
15      McBride was concerned not with BRM, but with improving mail classification by  
16      redefining subclasses within First-, second- and third-class mail. Nevertheless,  
17      witness McBride's general principle – that it is desirable to have more homogeneous  
18      groupings of mail with respect to cost factors – clearly applies to BRM. In fact, the  
19      Commission's recognition of BRMAS rates in Docket No. R87-1 can be viewed as an

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20             <sup>56</sup> Docket No. MC95-1, USPS-T-1, p. 13.

21             <sup>57</sup> *Id.*, p. 25.

1 effort (i) to create subgroupings of BRM that were more homogeneous with respect to  
2 their cost characteristics and (ii) to set rates that were more reflective of those cost  
3 characteristics.

4 After screening eight different criteria which he deemed appropriate for  
5 defining homogeneity, witness McBride narrowed the final list to two criteria: "bulk  
6 bypass of postal operations and use of advanced technology."<sup>58</sup> Elaborating on the  
7 appropriateness of his final bulk bypass criterion, witness McBride stated that:

8 It comes as a surprise to no one that the cost characteristics of bulk-  
9 entered bypass mail are distinct from those of nonbulk, or single-piece  
10 entered mail.<sup>59</sup>

11 This assessment applies equally to BRM — it should come as a surprise to no  
12 one that cost characteristics of BRM received in bulk are quite distinct from those of  
13 BRM received as single pieces or in small quantities that are far below any reasonable  
14 threshold of "bulk."<sup>60</sup>

15 The changes to the DMCS proposed here are in accord with the spirit of  
16 classification reform objectives articulated by witness McBride. Those changes focus  
17 on business reply mail (i) that is received in bulk and (ii) that bypasses all manual  
18 counting, weighing and rating operations. The weight-averaging system used by the  
19 New London and Seattle Post Offices satisfies both of these conditions. In addition,

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20 <sup>58</sup> Id., p. 26.

21 <sup>59</sup> Id., p. 27

22 <sup>60</sup> For more discussion concerning incoming *bulk* mail, see the subsection,  
23 "Definition of 'bulk' mail as it pertains to BRM," *infra*.

1 the incoming manifest system developed by Nashua. also relies on advanced  
2 technology; *i.e.*, innovative use of Nashua's sophisticated computer system.

3 In this docket, the Postal Service policy witness, W. Ashley Lyons, has  
4 enunciated objectives that are specifically tailored to special services. For example,  
5 "[s]pecific pricing reform objectives include . . . the realignment and streamlining of  
6 certain special service offerings to *make them more commercially attractive*." <sup>61</sup>  
7 (Emphasis added.) Also, "three major pricing and classification policy objectives that  
8 Postal Service management is seeking to accomplish in its Request. . .include: (1) to  
9 better reflect market conditions; (2) **to realign fees to reflect costs**; and (3) to  
10 streamline product offerings when appropriate." (Emphasis added.)<sup>62</sup> The changes in  
11 the DMCS proposed here will make non-automation-compatible bulk BRM more  
12 commercially attractive, and will also comport with Postal Service management's  
13 objective to realign fees to reflect costs.

#### 14 **Two Proposals for Amending the DMCS**

15 In this docket, I advance two alternative proposals designed to achieve the  
16 same general result. The first proposal, A, is as follows: for those mailers who  
17 maintain an advance deposit BRM account, add a third category to Rate Schedule SS-  
18 2 of the DMCS, to be known as "non-automatable bulk" BRM as defined by the

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19 <sup>61</sup> USPS-T-1, p. 2.

20 <sup>62</sup> *Id.*, p. 12.



1       Postal Service (in the DMM), with the lower BRMAS rate of 2 cents per piece  
2       extended to the new category. (See Appendix II, Proposal A.)

3               The Commission may not perceive the need to add a third category to Rate  
4       Schedule SS-2. Under that circumstance, I offer an alternative proposal, B, as  
5       follows: for advance deposit account BRM, amend Rate Schedule SS-2 of the DMCS  
6       to change only one word now describing the existing rate category, from "pre-  
7       barcoded" to "BRMAS-qualified," as defined by the Postal Service (in the DMM),  
8       with the explicit understanding that the lower, 2-cent rate shown under the Business  
9       Reply Mail Accounting System would be extended to non-automatable bulk BRM  
10      (i) that the Postal Service does not handle and account for manually on an individual  
11      piece-by-piece basis, but instead can handle under an acceptable alternative system,  
12      such as the weight-averaging system or the incoming manifest system,<sup>63</sup> and (ii) that  
13      meets a minimum quantity requirement for arriving non-automatable bulk Business  
14      Reply Mail, as described *infra*. (See Appendix II, Proposal B.)

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15               <sup>63</sup> The response to NM/USPS-27 states that "[s]ome plants have entered into  
16      local agreements with customers and have established 'reverse manifest' procedures;  
17      however **there is no national policy which requires uniformity in the precise terms**  
18      **of these agreements.**" (Emphasis added.) Of course, the Postal Service has no  
19      national policy on what constitutes "minimal" volumes for automated sorting under  
20      the BRMAS program; see responses to NM/USPS-18 and 19. Similarly, the Postal  
21      Service has no national policies regarding when it will perform manual counts of  
22      BRM for BRMAS accounts; see response to NM/USPS-15. Under the circumstances,  
23      the determination that incoming manifest systems must have a "national policy which  
24      requires uniformity in the precise terms of these agreements" seems not only  
25      discriminatory, but also arbitrary and capricious.

1 Under proposal A, the rate for non-automatable bulk mail would initially be  
2 identical to the BRMAS rate.<sup>64</sup> It would be separately stated, however. Then, should  
3 future cost studies show disparate average costs for automatable BRMAS and non-  
4 automatable bulk BRM, separate rates could be established for each category.<sup>65</sup>  
5 Proposal A would result in more homogeneous groupings of BRM than proposal B,  
6 and would thereby allow the rate for each category to be aligned better with costs. In  
7 this regard, proposal A is superior to proposal B.

8 Under proposal B, the rate for non-automatable bulk BRM would be under a  
9 general BRMAS category, and accounting costs for mailers that use weight-averaging  
10 and incoming manifest systems would be averaged with automatable BRMAS users.  
11 Proposal B furthers simplicity of classification structure, but that simplicity also  
12 results in a grouping that may be less homogeneous.<sup>66</sup>

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13 <sup>64</sup> In Docket No. R94-1, the Postal Service initially thought that it could justify a  
14 fee of 6 cents per piece for BRMAS, which was far higher than the requested across-  
15 the-board rate increase averaging 10.1 percent. What this forebodes for future rate  
16 requests is uncertain.

17 <sup>65</sup> The Postal Service has stated that such a cost study is underway. If extensive  
18 problems still exist with BRMAS, the unit cost may be higher than the unit cost  
19 estimated in Docket No. R94-1.

20 <sup>66</sup> The BRMAS category for automation-compatible mail is homogeneous insofar  
21 as physical characteristics of the mail are concerned. However, it is far from  
22 homogeneous with respect to the way mail is actually handled. A significant portion,  
23 perhaps exceeding 20 or even 30 percent, although automation-compatible, in fact is  
24 processed manually at an average cost exceeding 10 cents per piece. See Appendix I.

1       **Definition of Non-Automatable "Bulk" Mail as It Pertains to BRM**

2               Either of the preceding proposals would effect only a minimal change in the  
3       DMCS, and would leave details of implementation in the DMM to the Postal Service.  
4       However, some discussion is in order concerning the way in which "non-automatable  
5       bulk BRM" should be defined. At the present time, bulk eligibility requirements are  
6       imposed at various places in the DMM, but only for originating mail, not for arriving  
7       mail. Either of the two proposals advanced here thus requires that a new standard be  
8       developed.

9               By way of illustration, for a First-Class originating mailing to qualify for bulk  
10       rates, a minimum of 500 pieces is necessary. In Standard A-Class (formerly third-  
11       class), the minimum is 200 pieces. These minimums apply to each mailing. If a  
12       mailer presents mail to the Postal Service no more than once per day, they in effect  
13       constitute a daily minimum.

14              Common sense indicates that any minimum for arriving non-automatable bulk  
15       BRM mail should represent a threshold above which the Postal Service can and  
16       should utilize a system to avoid manual counting, weighing, rating and billing of  
17       individual pieces. For non-automatable bulk BRM, instead of basing the definition on  
18       pieces, the standard might be set more readily in terms of pounds, because that datum  
19       is readily available from either the weight-averaging system or the incoming manifest  
20       system. In terms of time frame, there is no necessity for a daily minimum. It could  
21       be stated as a minimum number of pounds per week or per month. Based on what I  
22       consider to be an appropriate volume level to permit taking advantage of the

1 economies in handling such mail, I would propose that the definition of bulk be stated  
2 as 100 pounds per day,<sup>67</sup> or 500 pounds per week, or 2,000 pounds per month. The  
3 task of defining and establishing a standard for bulk BRM does not appear to be  
4 unmanageable.

5 It should be pointed out that under either of the two alternative proposals  
6 advanced here, non-automatable bulk mail would receive a reduced rate *only* when  
7 BRM is in fact received in bulk, and *a cost-reduction system is actually used* to  
8 process incoming BREs. In other words, the only non-automatable bulk BRM that  
9 will be eligible to receive a lower rate will have a low unit cost for counting,  
10 weighing, rating and billing (unlike BRMAS, which includes a significant portion of  
11 high-cost, manually handled mail). Non-automatable bulk BRM will be far more  
12 homogeneous, in terms of cost characteristics, than pre-barcoded automatable mail  
13 that qualifies for the BRMAS rate.

#### 14 Conclusion

15 The change to the DMCS proposed by NMS is in accord with classification  
16 objectives recently articulated by Postal Service policy witnesses. Specifically, it will  
17 result in more homogeneous groupings of mail, thereby helping to permit fees to  
18 reflect costs and make non-automatable bulk BRM more commercially attractive. If

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19 <sup>67</sup> In terms of sacks, a 100-lb daily minimum would be two relatively heavy 50-  
20 lb sacks, or four relatively light 25-lb sacks per day; *i.e.*, between two and four sacks  
21 of mail. Translated in terms of pieces, a 100-lb minimum would be equal to 800  
22 pieces averaging exactly two ounces.

1 recommended favorably by the Commission, it will confer the Commission's approval  
2 to charge a lower, cost-based rate for BRM when the counting, weighing, rating and  
3 billing procedures for such mail result in a dramatically lower unit cost for the Postal  
4 Service, regardless of whether that lower unit cost is achieved through Postal Service  
5 automation or by some other means. In other words, in this case the Commission  
6 will apply the principle that it is the end result (efficiency in operation and consequent  
7 low unit cost) that is important, not the means by which that result is obtained. This  
8 result is consistent with the Commission's repeatedly stated desire to set rates that are  
9 more cost-based. It will be up to the Postal Service to establish a definition of bulk  
10 BRM which, when combined with efficient procedures used to account for non-  
11 automatable bulk BRM, the unit cost will be as low as the average unit cost of bar-  
12 coded pieces that qualify for the lower BRMAS fee, currently 2 cents per piece.

13 Assuming that the Commission recommends my proposal for non-automatable  
14 bulk BRM in this docket, the Postal Service can no longer use the terms of the  
15 DMCS as an excuse for exploitative monopolistic behavior by refusing to offer a  
16 lower BRMAS fee when the Postal Service incurs so little cost to handle such mail.

**V. WHY THE NASHUA/MYSTIC/SEATTLE PROPOSAL  
SHOULD BE RECOMMENDED**

As discussed in the preceding section, the two alternative proposals advanced here comport with the objectives of reclassification reform. In addition, they also comply with the applicable provisions of the Postal Reorganization Act.

**The Proposals Are In Accord With the  
Statutory Classification Criteria**

Section 3623(c) of Title 39, United States Code, requires that classification changes be made in accordance with the following factors:

1. the establishment and maintenance of a fair and equitable classification system for all mail;
2. the relative value to the people of the kinds of mail matter entered into the postal system and the desirability and justification for special classifications and services of mail;
3. the importance of providing classifications with extremely high degrees of reliability and speed of delivery;
4. the importance of providing classifications which do not require an extremely high degree of reliability and speed of delivery;
5. the desirability of special classifications from the point of view of both the user and of the Postal Service; and
6. such other factors as the Commission may deem appropriate.

1           When large quantities of non-automatable BRM are subject to the weight-  
2 averaging system (processed by the Postal Service) or the incoming manifest system  
3 (processed by the recipient), the Postal Service's cost of computing postage and fees  
4 due is quite low, less than a penny per piece. However, recipients are charged a fee  
5 of 10 cents per piece because the BRMAS rate applies only to automatable mail. The  
6 existing Postal Service practice unduly discriminates against non-automatable bulk  
7 BRM and prevents the fee for such mail from being cost-based. The proposed  
8 classification change would eliminate the discrimination, and permit non-automatable  
9 bulk BRM to benefit from a lower, cost-based rate which would be more fair and  
10 equitable (Criterion 1).

11           All BRM has significant convenience value to the mailing public. This is  
12 especially true when payment of the correct postage requires the public to weigh the  
13 mail piece, be cognizant of the surcharge for pieces that weigh less than one ounce  
14 and exceed one-quarter inch thickness, and then have the right denomination stamps  
15 available (or else apply more postage than is necessary). The classification change  
16 proposed here is desirable because it will facilitate cost-based rates, encourage wider  
17 use of BRM for non-automatable pieces, and enhance the relative value to all people  
18 who use business reply envelopes to enter mail into the postal system (Criterion 2).

19           When members of the public opt to send their exposed film through the mail,  
20 it goes via First-Class Mail, which is the Postal Service's foundational and most  
21 profitable product. And when members of the public mail exposed film, which is  
22 non-automatable, they want the envelope to reach the addressee with a high degree of

1 speed and reliability (Criterion 3). Such a result is furthered by the weight-averaging  
 2 and the incoming manifest systems used by NMS, both of which avoid unnecessary  
 3 and time-consuming counting, rating and billing procedures. The classification  
 4 change proposed here should promote the adoption and use of these more efficient  
 5 procedures by the Postal Service, whereby mail is delivered more quickly, in  
 6 furtherance of Criterion 3.

7 When people opt to use through-the-mail film processors, instead of local  
 8 drop-off and pick-up, the Postal Service gains business as do its mail processing  
 9 customers. Likewise, an efficient and cost-competitive universal delivery service  
 10 promotes competition in the film development business, and gives the general public  
 11 more options. The proposed classification change is thus desirable from the point of  
 12 view of both users and the Postal Service (Criterion 5).

13 To sum up, the classification change proposed here accords fully with all  
 14 applicable criteria of the Act and should be recommended.

#### 15 **The Proposals Are In Accord With the** 16 **Statutory Pricing Criteria**

17 Section 3622(b) of Title 39, United States Code, requires that postal rates and  
 18 fees be set in accordance with the following factors:

- 19 1. the establishment and maintenance of a fair and equitable schedule;
- 20 2. the value of the mail service actually provided each class or type of
- 21 mail service to both the sender and the recipient, including but not



limited to, the collection, mode of transportation, and priority of delivery;

3. the requirement that each class of mail or type of mail service bear the direct and indirect postal costs attributable to that class or type plus that portion of all other costs of the Postal Service reasonably assignable to such class or type;
4. the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy engaged in the delivery of mail matter other than letters;
5. the available alternative means of sending and receiving letters and other mail matter at reasonable costs;
6. the degree of preparation of mail for delivery into the postal system performed by the mailer and its effect upon reducing costs to the Postal Service;
7. simplicity of structure for the entire schedule and simple, identifiable relationships between the rates or fees charged the various classes of mail for postal services;
8. the educational, cultural, scientific, and informational value to the recipient of mail matter; and
9. such other factors as the Commission deems appropriate.

Criterion 1 requires fees to be fair and equitable. The existing situation is patently inequitable and akin to monopolistic exploitation, which the Commission should take the lead to prevent. Either of the two BRM proposals advanced here by NMS would result in rates that are more cost-based. According to USPS witness Lyons, realignment of fees to reflect costs is among the major pricing and classification policy changes that Postal Service management seeks to accomplish.<sup>68</sup>

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<sup>68</sup> USPS-T-1, p. 12.

1 Cost-based rates have long been regarded as a benchmark in the establishment and  
2 maintenance of a fair and equitable schedule (Criterion 1).

3 Prepaid Business Reply Mail is a special service available only to First-Class  
4 and Priority Mail, and the value of mail service actually provided is already reflected  
5 in those rates (criterion 2). It stands to reason that when the fee for business reply  
6 service is far higher than the associated costs of providing the service (including a  
7 contribution to overhead that is in line with the systemwide average), then the total  
8 amount paid (postage plus fee) becomes distorted and fails to reflect the value of mail  
9 service actually provided.

10 The Postal Service incurs low unit costs for the business reply feature (*i.e.*,  
11 counting, weighing, rating and billing) when it uses the weight-averaging system, and  
12 virtually no such cost when the recipient prepares an incoming manifest. At the  
13 BRMAS rate of 2 cents per piece, non-automatable bulk BRM processed by either  
14 system will cover by a substantial margin the attributable costs associated with the  
15 business reply feature (Criterion 3).

16 The Postal Service has no direct competition for collecting and delivering  
17 BRM from the general public. Indirectly, the Postal Service does compete with  
18 regional courier companies that pick up film and return it to drop-off locations such  
19 as drug stores, supermarkets, etc. Criterion 4 is satisfied because establishing a cost-  
20 based fee structure with a cost coverage in excess of 200 percent for the business  
21 reply features will not disadvantage any company engaged in the delivery of mail  
22 matter other than letters, while benefitting the general public and business mail users.

1 Business reply is widely used to facilitate and encourage mailing by the  
2 general public. In some instances, a number of alternatives may be available. For  
3 instance, some business reply users can provide the option of toll-free telephone  
4 services. However, that is not an option for items such as film, union ballots, or  
5 other physical objects that need to be mailed. Or, when users expect a high  
6 percentage return of the reply envelopes which they distribute (*e.g.*, utility bills), they  
7 can distribute stamped courtesy reply pieces. But that alternative is totally impractical  
8 when the expected return of reply envelopes is low, and/or when the weight is likely  
9 to vary and the 11-cent surcharge for non-standard First-Class Mail under one ounce  
10 may be applicable. For many business reply users, the only alternative is to require  
11 respondents to pay the postage. For through-the-mail film processors and other  
12 similarly-situated users, the Postal Service is in a position to exploit its monopoly,  
13 even though the cost of handling non-automation compatible bulk BRM is quite low.  
14 Criterion 5 requires that the coverage on such mail be tempered so as to be in line  
15 with systemwide coverage, and not set at an implicit level of over 1000 percent.

16 BRM represents incoming mail from individual mailers, so at first blush  
17 Criterion 6, which deals with the degree of preparation performed by the mailer, may  
18 not appear to be directly applicable. In fact, however, it is quite on point with  
19 respect to the weight-averaging and incoming manifest systems at issue here. By  
20 eliminating all counting, weighing, rating and billing of individual pieces, these  
21 systems facilitate the Postal Service's preparation of mail for delivery and reduce  
22 costs to the Postal Service, which satisfies Criterion 6.

1 NMS classification Proposal A would add a single line to Rate Schedule SS-2,  
2 while NMS classification Proposal B would change one word in Rate Schedule SS-2.  
3 Neither proposal would change the DMCS narrative text. Either proposal adopts the  
4 principle, with respect to BRM, that a low unit cost, however achieved, entitles the  
5 recipient to a cost-based fee. In that respect, the reclassification proposals advanced  
6 here promote simple, identifiable relationships between fees charged for BRM service  
7 (Criterion 7).

8 The ESCI provision (Criterion 8) is usually interpreted to apply to magazines,  
9 newspapers, newsletters and other matter mailed at the rate for periodicals (formerly  
10 second-class). As such, this criterion is not applicable to BRM, which is a special  
11 service provided for First-Class and Priority Mail only.

12 Finally, the elimination of undue discrimination and monopolistic exploitation  
13 prohibited by 39 U.S.C. § 403(c) is an important factor that also supports the  
14 proposed classification proposal and should be considered by the Commission  
15 (Criterion 9).

16 To sum up, the two alternative proposals advanced by NMS in this Docket  
17 comport with all relevant pricing criteria of the Act, and one of the two should be  
18 recommended by the Commission.

#### 19 **Operational and Administrative Simplicity**

20 Under either of the two alternative proposals recommended in this Docket, the  
21 Postal Service would not change by one iota its existing operations at Nashua's

1 Parkersburg plant, or at the New London Post Office, or at the Seattle Post Office.  
2 The Postal Service already has in place fully adequate procedures for sampling and  
3 revenue protection. Existing procedures, some of which have been in place for as  
4 long as 15 years, would continue unaltered. No new procedures need be drawn up  
5 and promulgated, nor is any employee training or re-training required. From an  
6 operational standpoint, the proposals here amount to nothing more than "business as  
7 usual." The Postal Service would simply need to promulgate some changes to the  
8 DMM that would conform it to the modified DMCS as well as to existing practice.

9 **No Reason Exists to Wait for Completion of a**  
10 **"Comprehensive Re-engineering Plan" said to be**  
11 **Under Study by the Postal Service Task Force**

12 Existing treatment of non-automatable bulk BRM is unduly discriminatory.  
13 That discrimination should be eliminated without further delay. The two alternative  
14 classification proposals advanced here are designed to do exactly that, and nothing  
15 more. Furthermore, a fundamental principle underlying any "re-engineering" of  
16 BRM should be to eliminate all vestiges of undue discrimination among BRM users.  
17 Implementing that principle within the context of this docket should not in any way  
18 prejudice the Postal Service's ongoing study of BRM. Nothing proposed here  
19 prevents the Postal Service from subsequently offering its own classification and rate  
20 proposals for BRM (including BRMAS and, perhaps, PCRM), on such schedule and  
21 at such time as it so elects.

1           It is undisputed that BRMAS has many problems which need careful and  
2       comprehensive study. Even before rebuttal testimony was submitted in Docket No.  
3       R94-1, the Postal Service knew that its study of BRMAS was fundamentally and  
4       fatally flawed. As indicated above, BRMAS is not a subset of reply mail with  
5       homogeneous cost characteristics. Some pre-barcoded BRMAS mail is handled  
6       manually at a unit cost that is up to 16 times the unit cost of mail processed solely on  
7       automation. Extensive manual handling of pre-barcoded reply mail, which results  
8       from factors that are both *internal* and *external* to the Postal Service, drives up the  
9       average cost. The problems with BRMAS-qualified mail clearly need to be addressed  
10      in a careful, thoughtful manner. However, consideration of such matters is not  
11      pertinent to the two alternative proposals that are the subject of this testimony.  
12      Problems associated with BRMAS mail can be analyzed and discussed without  
13      reference to non-automatable bulk BRM. Likewise, the problem of undue  
14      discrimination against bulk BRM can be solved without consideration of any BRMAS-  
15      related problem.

16           The Postal Service obviously has been in no hurry to address BRM. Since  
17      Docket No. R94-1, the Postal Service has considered the fee for pre-barcoded  
18      BRMAS mail to be too low.<sup>69</sup> Nevertheless, when preparing to file its request for  
19      classification and rate changes in this docket, the Postal Service gave higher priority  
20      to six other special services. An evaluation of PCRM is supposedly underway, but

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21           <sup>69</sup> See response to NM/USPS-22.

1 criteria for evaluating PCRM have yet to be formulated.<sup>70</sup> Whether PCRM will be  
2 part of BRM re-engineering and classification reform is unknown. Under the  
3 circumstances, any BRM filing by the Postal Service could be subject to significant  
4 delay. In addition to unforeseeable events, a possible filing for classification reform  
5 of BRM (including or excluding PCRM) could be overtaken by a number of  
6 foreseeable events, such as other classification cases or an omnibus rate case. In fact,  
7 such a delay might even appear likely; reclassification has been described by Postal  
8 Service witnesses as an ongoing effort, and reclassification for parcels and Priority  
9 Mail are known to have been under active discussion long before the *ad hoc* BRM  
10 task force was formed earlier this year. Filing a reclassification case either for  
11 parcels, or Priority Mail – or both – might preclude a near-term filing for BRM.

12 Furthermore, the Governors have adopted a policy designed to restore the  
13 Postal Service's equity.<sup>71</sup> The budget for FY 1997, which has already begun, has a  
14 planned surplus of only \$55 million, and that is far short of the Governors' \$963  
15 million target for equity restoration. In view of the projected fiscal deterioration  
16 between FY 1996 and 1997, the outlook for FY 1998 is presumably somewhat worse.  
17 Absent a dramatic near-term improvement in operating performance, the Postal  
18 Service may need to file an omnibus rate case sometime during the current fiscal  
19 year. Any such case could also cause re-engineering and reclassification proposals  
20 for BRM to be deferred for a significant period.

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21 <sup>70</sup> See response to NM/USPS-47.

22 <sup>71</sup> LR-SSR-112 .

1       **Revenue Considerations**

2           For the three intervenors combined, adoption and implementation of the pre-  
3       barcoded BRMAS rate for non-automatable bulk BRM would reduce the Postal  
4       Service's net revenues by less than one-third of one percent of the \$340 million in  
5       additional revenues that the Postal Service expects to realize from its other requests in  
6       this docket.<sup>72</sup> By almost any standard, this impact is minimal. Moreover, the Postal  
7       Service can offset even this small negative impact by hastening its comprehensive  
8       study of BRM, which heretofore has been given such low priority. Importantly,  
9       however, the proposals made here should be recommended despite their slight  
10      revenue implications, because they are the result of undue discrimination and  
11      monopolistic exploitation that cannot be tolerated under the Postal Reorganization Act.

12      **Conclusion**

13           Nashua would like to continue using the BRM service, possibly for an  
14      increasing share of its orders, but it needs to be able to pay at the 2-cent, per-piece  
15      BRMAS level. This is fair and reasonable, because Nashua does not merely do *as*  
16      *much work* as those eligible for BRMAS permits, it actually does *more work* in  
17      processing and accounting for its own business reply mail. Nashua believes that a  
18      low fee, such as the BRMAS fee, should apply in circumstances, such as those of  
19      Nashua, where a high volume mailer has established an advance deposit account and

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20           <sup>72</sup> Proprietary data supporting this estimate are contained in confidential  
21      workpapers.



1 does substantially all of the mail handling and data collection work via an incoming  
2 manifest system, and the Postal Service avoids all piece handling even more than it  
3 does with respect to an ordinary BRMAS account.

4       Mystic and Seattle believe that the current 10-cent, per-piece charge on all of  
5 their orders is grossly excessive, since their mail is weight-averaged and not subject  
6 to the usual manual counting, weighing and rating procedures used for low volumes  
7 of non-automatable BRM. In fact, the weight-averaging system is probably one of the  
8 least expensive procedures the Postal Service has ever designed for processing BRM,  
9 including BRMAS.

10       Mystic and Seattle also would like to continue using the BRM service, but  
11 would like their BRM fee to be adjusted to the level of the cost-based BRMAS fee.  
12 This is fair and reasonable, because their BRM is so simple and inexpensive to  
13 process and account for. Mystic and Seattle believe that a low fee, such as the  
14 BRMAS fee, should apply in circumstances such as theirs, where high-volume mailers  
15 have established an advance deposit business reply account, and the accounting system  
16 enables the Postal Service to spend less effort and actually incur less expense than  
17 would result in the case of an ordinary BRMAS account.

18       For all of the foregoing reasons, I would urge the Commission to recommend  
19 favorably to the Board of Governors one of the two alternative classification proposals  
20 contained in this testimony.

## APPENDIX I

### UNIT COST OF BRMAS MAIL

When discussing possible discrimination under 39 U.S.C. § 403(c) (as well as §§ 3622(b)(1) and 3623(c)(1)) of the Act, it is useful to have some benchmark unit cost data on BRMAS mail. The purpose of this appendix is to develop such data.

## Estimation of BRMAS Costs in Docket No. R90-1

In Docket No. R90-1, USPS witness Pham estimated that 94 percent of BRMAS mail receives final processing at facilities with automated processing capability. He further estimated that 85 percent of this volume would be successfully processed under the BRMAS system. The estimate — 85 percent of the volume successfully processed by BRMAS — is referred to by witness Pham as the BRMAS "coverage factor."<sup>1</sup> Based on a coverage factor of 85 percent, the unit cost was estimated at 1.01 cents per-piece. And, as noted previously, the fee for BRMAS mail was set at 2 cents per piece, comfortably above the unit cost.

<sup>1</sup> A coverage factor of 85 percent means that only 80 percent of all BRMAS mail in fact will be processed on automation equipment, since 6 percent of all BRMAS mail will destinate at facilities without such equipment.

# 1 Estimation of BRMAS Costs in Docket No. R94-1

2 In Docket No. R94-1 the Postal Service at first sought to raise the BRMAS  
3 rate to 6 cents per piece, and subsequently amended that proposal to seek an increase  
4 of 4 cents per piece. The estimate of BRMAS unit costs was contested strongly. A  
5 framework for analyzing BRMAS costs was presented in rebuttal testimony by USPS  
6 witness Pham.<sup>2</sup> Specifically, in that testimony, witness Pham stated (p. 4) that:

7 the BRMAS per-piece cost is highly sensitive to variations of the  
8 BRMAS coverage factor, as indicated in the following table:

9 BRMAS Coverage	56%	66%	75%	85%
10 BRMAS Cost/Piece	\$0.0379	\$0.0289	\$0.0209	\$0.0119

11 The per-piece costs in witness Pham's table above represent a weighted  
12 average of BRM pieces (i) processed on automation equipment, at a unit cost of 0.63  
13 cents per piece, and (ii) processed manually at a much higher unit cost of 10.19 cents  
14 per piece.<sup>3</sup> BRMAS mail that, for one reason or another, happens to be processed  
15 manually is thus reckoned to have a unit cost about 16 times greater than the unit cost  
16 of pieces processed on automation equipment. In view of such a wide cost difference,

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17 <sup>2</sup> Docket No. R94-1, USPS-RT-7, p. 4 (submitted but not admitted into  
18 evidence).

19 <sup>3</sup> These are projected 1995 test year costs, and include both direct and indirect  
20 costs; see USPS-RT-7A, p. 1. As discussed *infra*, witness Pham also deducts from  
21 the weighted cost "the per-piece cost of a barcoded FCM incoming secondary  
22 operation." (Docket No. R94-1, USPS-RT-7, p. 5.)

1 BRMAS-qualified mail clearly does not represent a subset of BRM with homogeneous  
2 cost characteristics.<sup>4</sup>

3 Also in Docket No. R94-1, USPS witness Donald L. Mallonee, Jr. reviewed a  
4 number of problems associated with the BRMAS program that, collectively, reduced  
5 significantly the volume of automation-compatible pieces actually processed on high  
6 speed sorters equipped with BRMAS software.<sup>5</sup> Several of these problems were  
7 *internal* to the Postal Service and beyond control of any BRM permit holder. In  
8 summing up his outlook for the future, Witness Mallonee stated:

9 I do not foresee any substantial changes in BRMAS management,  
10 software, or customer requirements in the near term. Management  
11 efforts to improve the BRMAS program will take time. . . . I  
12 therefore conclude that it would be unrealistic to expect that BRMAS  
13 coverage will increase to anywhere near eighty-five percent by the test  
14 year (FY 95) or even through FY 1997.

15 Despite witness Mallonee's less than optimistic assessment, the Postal Service  
16 may have overcome, or may be in the process of overcoming, its *internal* problems  
17 with the BRMAS program. Moreover, the Postal Service's *internal* problems are not  
18 particularly germane to the substantive issues raised in this testimony.

---

19 <sup>4</sup> These comments are not intended as a criticism of BRM/BRMAS generally,  
20 but rather are relevant to the concept of evaluating the Nashua/Mystic/Seattle  
21 proposal, and assessing the presence of discrimination.

22 <sup>5</sup> USPS-RT-8, which was submitted but not admitted to the record in Docket  
23 No. R94-1. This rebuttal testimony was intended to complement the testimony of  
24 witness Pham.

1 Far more pertinent is the problem of insufficient volumes of automatable BRM  
2 encountered by the BRMAS program.<sup>6</sup> The problem of low volume experienced by a  
3 great many business reply accounts is *external* to the Postal Service. No amount of  
4 improvement in the *internal* operations will overcome the problem of low volumes.  
5 Low volume accounts represent an identifiable subset of BRMAS mail with high unit  
6 cost. Witness Mallonee reckoned that in 1993 the average volume per BRMAS  
7 account per day was only 33.18 pieces.<sup>7</sup> Of course, this average includes some  
8 BRMAS accounts with daily volumes substantially above the average, and many  
9 accounts that are below the average.

10 In addition to low average volume, many BRMAS accounts were said by  
11 witness Mallonee to be marked by seasonal fluctuations with daily volumes sometimes  
12 well below their average.<sup>8</sup> In off seasons, this would indicate daily volumes of less  
13 than 20 pieces per account. It should come as no surprise that expensive automation  
14 equipment designed to process up to 36,000 letters per hour is not particularly  
15 economical when sorting to such low volume accounts.<sup>9</sup> Witness Mallonee explained  
16 the situation as follows:

---

17 <sup>6</sup> The persistent problem of low volumes varies from facility to facility; see  
18 response to NM/USPS-19.

19 <sup>7</sup> Docket No. R94-1, USPS-RT-8, p. 8, fn. 5 (not admitted into evidence).

20 <sup>8</sup> The seasonality problem also persists; see response to NM/USPS-18.

21 <sup>9</sup> All BRMAS-qualified mail is incoming First-Class Mail and, as such, is  
22 entitled to receive applicable service standards. In order to process BRMAS mail in a  
23 timely manner on automation equipment, that equipment must be diverted during  
24 critical peak periods. If BRMAS mail could be held and processed at a later time  
25 (*e.g.*, during the day), it might be more economical.

As plants developed BRMAS sort programs they discovered that many bar code sorter stackers received minimal volumes. Consequently, the BRMAS report generation process, [FOOTNOTE: BRMAS produces a one page "bill" for each customer. This process takes considerable time (30 seconds to one minute). Therefore, a sort program with fifty customers receiving 20 pieces per customer may take over one-half an hour for report generation.] combined with the time used to process BRMAS mail pieces, actually took longer and used more resources than did the manual sorting, counting and billing system used prior to BRMAS implementation.

In some cases, BRMAS volumes are so low that separate bar code sorter "hold outs" cannot be justified. [FOOTNOTE: Volume analysis is performed by local In-Plant Support operations to determine the most efficient manner in which to develop sort plans. This analysis is performed due to the limited number of stackers on bar code sorters and efforts to reduce unnecessary rehandlings.] [Docket No. R94-1, USPS-RT-8, p. 9 (not admitted into evidence).]

Because of the unsatisfactory state of the record evidence in Docket No. R94-1, the Commission used an 85 percent coverage factor, updated the unit cost from Docket No. R90-1 (1.01 cents) to 1.2 cents and recommended a BRMAS fee of 2 cents per-piece.

#### **Development of a BRMAS Cost Benchmark To Compare With the Cost of Non-Automatable Bulk BRM**

The unit cost data submitted by witness Pham in Docket No. R94-1 were not admitted into evidence and therefore were not tested. Nevertheless, table A-1 uses witness Pham's model and data to establish some benchmark parameters for the unit costs of processing BRMAS mail.<sup>10</sup>

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<sup>10</sup> As indicated previously, the approach adopted here is based on testimony of USPS witness Pham in Docket No. R94-1, USPS-RT-7. This is not an attempt to (continued...)

1 Column 1 of Table A-1 shows different BRMAS coverage factors. The first  
2 four coverage factors are those used by witness Pham in his Docket No. R94-1  
3 rebuttal testimony, and the last three factors extend BRMAS coverage by 5 percent  
4 increments up to 100 percent. As discussed previously, this represents a weighted  
5 average of BRM pieces (i) processed on automation equipment, at a unit cost of 0.63  
6 cents per-piece, and (ii) processed manually at a much higher unit cost of 10.19 cents  
7 per-piece.

8 Column 2 shows the 1995 weighted cost per piece, including direct and  
9 indirect costs. The first four unit cost figures are from witness Pham's testimony,  
10 and last three are developed in a straightforward manner using his methodology.<sup>11</sup>

11 Column 3 shows the incoming secondary cost for an automation compatible  
12 FCM piece, which witness Pham deducts from the weighted per-piece cost shown in  
13 column 2.

14 Column 4 shows the result of deducting the unit cost in column 3 from the  
15 weighted unit cost in column 2. In column 3, the unit cost of 1.38 cents is seen to be  
16 twice witness Pham's estimated unit cost of BRMAS processing on automation  
17 equipment (0.63 cents). That should not be. This leads to the totally implausible

---

18 <sup>10</sup>(...continued)  
19 rehabilitate that portion of his testimony which endeavored to show that the BRMAS  
20 unit cost is above some specified amount. In fact, for reasons explained below, I  
21 consider his cost estimates to be too low. Nevertheless, indicating how the unit cost  
22 of BRMAS mail varies as the coverage factor changes, in graduated steps, from 56 to  
23 100 percent coverage is a useful exercise.

24 <sup>11</sup> For details, see Exhibit NMS-T-1.

1 result that, at a 100 percent coverage level, it costs less to process BRMAS mail  
2 (including the 6.22 percent that must be processed manually at non-automation sites)  
3 than it costs to process regular First-Class Mail on automation equipment.<sup>12</sup>  
4 Consequently, at all coverage levels, Witness Pham's estimate of the net weighted  
5 cost of BRMAS processing (column 4) is clearly too low. The available cost data  
6 obviously cannot be used to estimate the absolute cost of processing BRMAS mail.  
7 Since the unit costs are known to be uniformly on the low side, however, they can  
8 serve as a benchmark for comparison with the unit cost of processing non-automation  
9 compatible bulk BRM.

10 Column 5 uses the ratio of the 1996/1995 productive hourly wage rate for  
11 clerks/mailhandlers to update the units costs in column 4.<sup>13</sup>

---

12 <sup>12</sup> Even at 100 percent coverage, 6.22 percent of all BRMAS-qualified mail  
13 would be processed manually at a unit cost in excess of 10 cents. Thus, at 100  
14 percent coverage, the weighted cost per piece, prior to the deduction shown in column  
15 3, amounts to 1.22 cents per piece.

16 <sup>13</sup> The updated costs are based on the ratio of the productive hourly wage rates in  
17 1996 and 1995, \$23.952 and \$23.8496, respectively (see response to NM/USPS-79).  
18 The ratio is 1.0042935.



Table A-1

**BRMAS Coverage Factors and Weighted Average Unit Costs  
1995 and 1996**

	(1)	(2)	(3)	(4)	(5)
				1995 Net	1996 Net
		1995 Weighted Cost Per Piece (direct & indirect)	Incoming Secondary Cost for Automation Compatible FCM Piece	Direct & Indirect Weighted Cost of BRMAS Processing	Direct & Indirect Weighted Cost of BRMAS Processing
	BRMAS Coverage				
	56%	\$0.0517	\$0.0138	\$0.0379	\$0.0381
	66%	0.0427	0.0138	0.0289	0.0290
	75%	0.0347	0.0138	0.0209	0.0210
	85%	0.0257	0.0138	0.0119	0.0120
	90%	0.0212	0.0138	0.0074	0.0074
	95%	0.0167	0.0138	0.0029	0.0029
	100%	0.0122	0.0138	-0.0016	-0.0016

# DETERMINATION OF ATTRIBUTABLE COSTS OF BRMAS-QUALIFIED BRM PIECES

## 1. BASIC ASSUMPTIONS

Automation coverage factor	93.78%	[1]
BRMAS coverage factor (net of rejects)	90.00%	[2]
Average productive hourly wage rate for clerk/mailhandler	\$24.06	[3]
Combined BCS Incoming Secondary piggyback factor	1.794304	[4]
Combined manual Incoming Secondary piggyback factor	1.533220	[5]

2. PRODUCTIVITIES	Pieces Per Hour	Direct Cost/Pce	Direct & Indirect Cost/Pce
BRMAS processing net productivity	6880 [6]	\$0.0035 [8]	\$0.0063 [10]
Manual, Postage Due Unit	362 [7]	\$0.0665 [9]	\$0.1019 [11]
3. Weighted cost per piece (direct & indirect)		\$0.0053	\$0.0212 [12]
4. Inc. Sec. cost for automation compatible FCM piece			(\$0.0138) [13]
5. Net direct and indirect weighted cost of BRMAS processing, 1995			\$0.0074 [14]
6. Total Attributable Cost of BRMAS-qualified piece, 1996			\$0.0074 [15]

## Footnotes

- [1] 3-digit automated destinating volume coverage factor; see R90-1, USPS-T-23, Table 1.  
 [2] Chosen for sensitivity analysis purposes.  
 [3] Docket No. R94-1, response of the Postal Service to POIR 3, Item 2 (witness Patelunas)  
 [4] USPS-LR-G105, Page II-1  
 [5] USPS-LR-G105, Page I-1  
 [6] See R90-1, Ex. USPS-23D  
 [7] See R90-1, Ex. USPS-23F  
 [8] [3] divided by [6]  
 [9] [3] divided by [7]  
 [10] [4] \* [8]  
 [11] [5] \* [9]  
 [12] ([1] \* [2] \* ([10]) + ([11] \* (1 - ([1] \* [2]))))  
 [13] See R90-1, Ex. USPS-23E, updated with 1995 hourly wage rate ([3] above) and piggyback factors (LR-G-105, pages I-1 and II-1)  
 [14] [12] + [13]  
 [15] [14] \* \$23.952/\$23.8496; see NM/USPS-79

DETERMINATION OF ATTRIBUTABLE COSTS  
OF BRMAS-QUALIFIED BRM PIECES

1. BASIC ASSUMPTIONS

Automation coverage factor	93.78%	[1]
BRMAS coverage factor (net of rejects)	95.00%	[2]
Average productive hourly wage rate for clerk/mailhandler	\$24.06	[3]
Combined BCS Incoming Secondary piggyback factor	1.794304	[4]
Combined manual Incoming Secondary piggyback factor	1.533220	[5]

2. PRODUCTIVITIES	Pieces Per Hour	Direct Cost/Pce	Direct & Indirect Cost/Pce
BRMAS processing net productivity	6880 [6]	\$0.0035 [8]	\$0.0063 [10]
Manual, Postage Due Unit	362 [7]	\$0.0665 [9]	\$0.1019 [11]
3. Weighted cost per piece (direct & indirect)		\$0.0056	\$0.0167 [12]
4. Inc. Sec. cost for automation compatible FCM piece			(\$0.0138) [13]
5. Net direct and indirect weighted cost of BRMAS processing, 1995			\$0.0029 [14]
6. Total Attributable Cost of BRMAS-qualified piece, 1996			\$0.0029 [15]

Footnotes

- [1] 3-digit automated destinating volume coverage factor; see R90-1, USPS-T-23, Table 1.  
[2] Chosen for sensitivity analysis purposes.  
[3] Docket No. R94-1, response of the Postal Service to POIR 3, Item 2 (witness Patelunas)  
[4] USPS-LR-G105, Page II-1  
[5] USPS-LR-G105, Page I-1  
[6] See R90-1, Ex. USPS-23D  
[7] See R90-1, Ex. USPS-23F  
[8] [3] divided by [6]  
[9] [3] divided by [7]  
[10] [4] \* [8]  
[11] [5] \* [9]  
[12] ([1] \* [2] \* ([10]) + ([11] \* (1 - ([1] \* [2])))  
[13] See R90-1, Ex. USPS-23E, updated with 1995 hourly wage rate ([3] above) and piggyback factors (LR-G-105, pages I-1 and II-1)  
[14] [12] + [13]  
[15] [14] \* \$23.952/\$23.8496; see NM/USPS-79

DETERMINATION OF ATTRIBUTABLE COSTS  
OF BRMAS-QUALIFIED BRM PIECES

1. BASIC ASSUMPTIONS

Automation coverage factor	93.78%	[1]
BRMAS coverage factor (net of rejects)	100.00%	[2]
Average productive hourly wage rate for clerk/mailhandler	\$24.06	[3]
Combined BCS Incoming Secondary piggyback factor	1.794304	[4]
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2. PRODUCTIVITIES	Pieces Per Hour	Direct Cost/Pce	Direct & Indirect Cost/Pce
BRMAS processing net productivity	6880 [6]	\$0.0035 [8]	\$0.0063 [10]
Manual, Postage Due Unit	362 [7]	\$0.0665 [9]	\$0.1019 [11]
3. Weighted cost per piece (direct & indirect)		\$0.0059	\$0.0122 [12]
4. Inc. Sec. cost for automation compatible FCM piece			(\$0.0138) [13]
5. Net direct and indirect weighted cost of BRMAS processing, 1995			(\$0.0016) [14]
6. Total Attributable Cost of BRMAS-qualified piece, 1996			( \$ 0 . 0 0 1 6 ) [15]

Footnotes

- [1] 3-digit automated destinating volume coverage factor; see R90-1, USPS-T-23, Table 1.  
[2] Chosen for sensitivity analysis purposes.  
[3] Docket No. R94-1, response of the Postal Service to POIR 3, Item 2 (witness Patelunas)  
[4] USPS-LR-G105, Page II-1  
[5] USPS-LR-G105, Page I-1  
[6] See R90-1, Ex. USPS-23D  
[7] See R90-1, Ex. USPS-23F  
[8] [3] divided by [6]  
[9] [3] divided by [7]  
[10] [4] \* [8]  
[11] [5] \* [9]  
[12] ([1] \* [2] \* ([10]) + ([11] \* (1 - ([1] \* [2]))  
[13] See R90-1, Ex. USPS-23E, updated with 1995 hourly wage rate ([3] above) and piggyback factors (LR-G-105, pages I-1 and II-1)  
[14] [12] + [13]  
[15] [14] \* \$23.952/\$23.8496; see NM/USPS-79

1

**APPENDIX II**

2

**Nashua/Mystic/Seattle**

3

**Amendment to DMCS**

4

**Proposal A**

5

**Schedule SS-2--Special Services**

6

**Business Reply Mail**

7

**Active business reply advance deposit account:**

8

**Per piece:**

9

**Pre-barcoded: \$0.02**

10

**Non-automatable bulk BRM: \$0.02**

11

**Other: \$0.10**

12

**Payment of postage due charges if active business reply mail advance deposit account not used:**

13

14

**Per piece: \$0.44**

15

**Annual license and accounting fees:**

16

**Accounting fee for advance deposit account: \$205.00**

17

**Permit fee (with or without advance deposit account): \$85.00**

1 Nashua/Mystic/Seattle  
2 Amendment to DMCS  
3 Proposal B

4 Schedule SS-2--Special Services  
5 Business Reply Mail

6 Active business reply advance deposit account:

7 Per piece:

8 ~~Pre-bareoded~~ BRMAS-qualified: \$0.02

9 Other: \$0.10

10 Payment of postage due charges if active business reply mail advance deposit account not  
11 used:

12 Per piece: \$0.44

13 Annual license and accounting fees:

14 Accounting fee for advance deposit account: \$205.00

15 Permit fee (with or without advance deposit account): \$85.00

1           COMMISSIONER QUICK: Dr. Haldi, have you had an  
2 opportunity to examine the packet of designated written  
3 cross examination that was made available to you earlier  
4 this morning?

5           THE WITNESS: Yes, I have, Mr. Chairman.

6           COMMISSIONER QUICK: If these questions were asked  
7 of you today, would your answers be the same as those you  
8 previously provided in writing?

9           THE WITNESS: They would with one small change,  
10 Mr. Chairman, and that change is on Question Number 25 in  
11 the last full line of that question there is a reference to  
12 a response to USPS/NMS-T1-33.

13           That should be changed to read "32, page 1," --  
14 there are no footnotes in my response to 33 and there are  
15 two footnote 1s in my response to page number 32, so it's  
16 the footnote that occurs on page 1 to which I am referring,  
17 and with that change they would be the same.

18           COMMISSIONER QUICK: Two copies of the corrected  
19 written cross examination of Witness Haldi will be given to  
20 the reporter and I direct that it be accepted into evidence  
21 and transcribed into the record at this point.

22                               [The Designation of Written Cross-  
23 examination of Nashua/Mystic/  
24 Seattle Witness Haldi was received  
25 into evidence and transcribed into

the record.]

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POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Special Services Fees and Classifications

Docket No. MC96-3

DESIGNATION OF WRITTEN CROSS-EXAMINATION  
OF NASHUA/MYSTIC/SEATTLE  
WITNESS HALDI  
(T1)

The following discovery responses have been designated as written cross-examination.

Party

Answers to Interrogatories

U. S. Postal Service

USPS: Interrogatories T1-1, 5, 8,  
9, 12-16, 18-21, 23, 25-29, 33-35  
and 37-39  
Interrogatories USPS/NMS-T1-19-  
21 have been provided to USPS  
under protective conditions, subject  
to assertions of privilege by NMS

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Margaret P. Crenshaw". The signature is fluid and cursive, with the first name "Margaret" being the most prominent part.

Margaret P. Crenshaw  
Secretary

Response of Dr. John Haldi to USPS/NMS-T1-1  
Page 1 of 4

USPS/NMS-T1-1.

Please refer to the statement in your testimony at page 12, lines 10-11, that, under the manifest system employed by Nashua, "Postal Service revenues are fully protected." (Emphasis added.)

- (a) Completely explain the basis for your statement.
- (b) Is it your testimony that the Postal Service is satisfied that the manifest system fully protects postal revenues?
  - (i) If so, please provide copies of all documents generated by the Postal Service which support your assertion.
  - (ii) If so, please identify all postal officials who have made representations which support your assertion, and indicate the date on which such representations were made, and identify the persons to whom they were made.

Response:

- (a) Nashua's incoming manifest system operates *in conjunction with and is augmented by Postal Service sampling*. Independent sampling by the Postal Service *should thus be viewed as an integral part of the system*, and this is the component *that fully protects revenues*. Pursuant to the instructions contained in LR-SSR-148, Part 2, Exhibit 3, p. 103, the Postal Service each day samples 50 Business Reply Envelopes at Nashua.<sup>1</sup> This represents a sample of about 18,000 pieces over the course of the year. The postage due on the manifest is adjusted daily, based on the sample. Because a new sample is taken each day,

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<sup>1</sup> See my response to USPS/NMS-T1-5.

Response of Dr. John Haldi to USPS/NMS-T1-1  
Page 2 of 4

seasonality is not even a consideration.<sup>1</sup> For reasons explained in more detail in my response to USPS-T1-32, from time to time (and through no fault of the Postal Service) pieces in the sample cannot be identified in the BRM manifest, even though they in fact have been included in the manifest. Whenever this occurs, adjustments made due to the discrepancy have the effect of increasing postage and BRM fees paid for the day, thereby giving the Postal Service the benefit of all doubt and fully protecting Postal Service revenues.

- (b) As indicated in my testimony at pp. 9-11, the Postal Service has relied on Nashua's incoming ["reverse"] manifest system, augmented by its own daily sampling, to compute revenues due the Postal Service for BRM starting in October 1994. The size of the daily sample was determined initially by the Postal Service. From that time onward, nothing has prevented the Postal Service from expanding the size of the daily sample which it takes at Nashua, or from revising the instructions contained in LR-SSR-148. As noted in my response to USPS/NMS-T1-5, however, the Postal Service has not done so. The Postal Service is well aware that larger samples increase reliability. It would thus appear that the Postal Service does not consider the increased reliability that would

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<sup>1</sup> See my response to USPS/NMS-T1-18.

Response of Dr. John Haldi to USPS/NMS-T1-1  
Page 3 of 4

result from a larger sample to be worth the additional effort. Moreover, for two years the Postal Service has accepted the results of this system to calculate postage due. To this extent, the facts speak for themselves. Beyond that, it would be presumptuous for me to speculate on the extent to which the Postal Service, or its management, is subjectively "satisfied" that Nashua's incoming manifest system fully protects revenues. It should be pointed out that my testimony was not "the Postal Service is *satisfied*," as the question states, but rather that "Postal Service revenues are fully protected."

So long as the Postal Service receives a BRM fee of 10 cents per piece for doing very little work, it has been completely willing ("satisfied"?) to rely on the "incoming manifest/daily sampling" method of computing BRM postage due. On the other hand, when asked to reduce the BRM fee to reflect the very low unit cost which it incurs, the Postal Service seems to question a system that it helped develop and has approved, participated in and relied on for two years.

Finally, I would note that various postal representatives have visited Nashua's plant and had the system explained and demonstrated to them. Only complimentary remarks have been received by Nashua concerning its system. If a problem existed or if revenues were not fully protected, certainly some concerns or reservations would seemingly have been raised over the past two years. Following is a list of Postal Service

**Response of Dr. John Haldi to USPS/NMS-T1-1  
Page 4 of 4**

employees who have visited the plant and observed first-hand the Nashua manifest system:

1. John H. Ward, V-P, Marketing Systems
2. Scott Hamel, Manager, Rates and Classification Service Center,  
Eastern Center
3. Joe DeMay, Classification Support Specialist, Rates  
and Classification Service Center
4. Gary M. Infante, Manager, Product Development
5. Diarmuid Dunne, District Manager, Customer  
Services, Appalachian District
6. Dianne J. Clifford, Product Finance-Cost Studies,  
Operations Research Analyst
7. W. Wayne Wilson, Postmaster, Parkersburg, WV
8. Dean R. Cameron, Product Development, Marketing  
Systems
9. Dean Daglieri, National Account Manager
10. Susan E. Simon, National Account Representative, NE  
Area

Response of Dr. John Haldi to USPS/NMS-T1-5  
Page 1 of 1

USPS/NMS-T1-5.

Please refer to page 11, lines 1-2, of your testimony and confirm that the 50-piece incoming manifest sample size has not been adjusted since the reverse manifest system was implemented.

Response:

Confirmed; this is based on what Nashua has been told by the Postal Service and what it has observed for two years. To the best of my knowledge this practice conforms with the instructions in LR-SSR-148, Part 2, Exhibit 3, p.103.

Response of Dr. John Haldi to USPS/NMS-T1-8  
Page 1 of 2

USPS/NMS-T1-8.

Please refer to page 57, lines 4-5, of your testimony. State the complete basis for your assertion that "[n]o new procedures need be drawn up and promulgated, nor is any employee training or re-training required."

Response:

The reference at p. 57, lines 4-5, of my testimony is to the situation at Nashua. There, on-site Postal Service employees, following instructions contained in LR-SSR-148, take a daily sample of 50 pieces,<sup>1</sup> compute the postage due on the sample, compare that with the postage computed per the manifest, and adjust the total postage due accordingly. Since the procedures which they follow are adequately spelled out in the aforementioned official Postal Service publication, and since those procedures work effectively for outgoing manifests and have worked effectively for two years with respect to Nashua's incoming manifest, I perceive no need to draw up and promulgate any new procedures. In other words, with respect to existing procedures at Nashua, "If it ain't broke, don't fix it."

With respect to employees assigned to the Nashua facility, I have made the implicit assumption that the Postal Service is satisfied that they know what they are supposed to do. I am not aware of any evidence which would indicate that they have not been executing their duties satisfactorily on a daily basis for the last two years. Consequently, since Postal Service employees performing

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<sup>1</sup> See my response to USPS/NMS-T1-5.

**Response of Dr. John Haldi to USPS/NMS-T1-8**  
**Page 2 of 2**

this duty at the Nashua plant are already performing all duties that would be required under my proposal, at this point I can conceive of no need for any employee training or re-training.



Response of Dr. John Haldi to USPS/NMS-T1-9  
Page 1 of 1

USPS/NMS-T1-9.

Please provide your best estimate, on an annual basis, of the number of BRM recipients to which the Postal Service currently tenders mail which would qualify as "non-automation bulk BRM."

Response:

To the best of my knowledge, neither the DMCS nor the DMM contains any reference to "non-automation bulk BRM." Accordingly, the answer to your question is that no mail currently would *qualify* as "non-automation bulk BRM," and the number of recipients of such mail is therefore zero. For further discussion of your related question, see USPS/NMS-T1-10.

Response of Dr. John Haldi to USPS/NMS-T-12  
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USPS/NMS-T1-12.

Please refer to your testimony at page 10, lines 11-13 and fn. 8, and list all months during which the incoming manifest system utilized by Nashua has experienced postage/fee errors of 1.5 percent or less, the level of accuracy required by the USPS publication referenced at fn. 8.

Response:

From inception (October, 1994) through October, 1996, there have been no entire months when the incoming manifest system utilized by Nashua has experienced postage/fee errors of 1.5 percent or less.<sup>1</sup> In this connection it is worth observing that for the past three months the incoming manifest has evidenced increasing accuracy, as follows (estimated postage due on manifest as a percent of the postage due for pieces in the sample):

August, 1996	98.0%
September, 1996	98.1%
October, 1996	98.3%

The October, 1996 accuracy rating is only 0.2 percent below the "postage/fee errors" standard selected by the Postal Service. See my response to USPS/NMS-T1-32 for discussion of the steps taken by Nashua to increase the accuracy of its incoming manifest system. It is worth observing that *Nashua incurs all the costs associated with investigating and improving the accuracy of its incoming manifest system.* When Nashua's BRM manifest

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<sup>1</sup> See my response to USPS/NMS-T1-1 for an explanation as to how an adjustment is made each day for Postal Service fees and postage due pursuant to a daily sample.

Response of Dr. John Haldi to USPS/NMS-T-12  
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consistently achieves an accuracy level of 98.5 percent or better, the Postal Service will then have the option of shifting to an even less costly, less frequent sampling system. At that time, *all* the benefit of further cost reduction (in terms of less time devoted to sampling) will accrue to the Postal Service, and *none* of the cost savings will accrue to Nashua.<sup>1</sup>

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<sup>1</sup> My estimate of Postal Service costs in NMS-WP2 is predicated on the more expensive daily sampling now in effect.

**USPS/NMS-T1-13.**

Please confirm that to the extent that alternative BRM accounting procedures expedite the processing of film and the ultimate return of the finished product to the customers of Nashua, Mystic, and Seattle FilmWorks, these procedures increase the value of the photo processing service to NMS customers.

**Response:**

By way of preface, it should be patently obvious that in the delivery business, value is added – *for the both sender and the addressee* – by any procedure that expedites movement and decreases the time required to put the piece in the hands of the addressee. This is as true when BRMAS automation speeds processing of BRM (which pays a BRM fee of only 2 cents per piece) as it is for alternative BRM accounting procedures.

All BRM pays full First-Class postage and, as such, should be entitled to First-Class service. The Postal Service has for many years published its service standards for First-Class Mail but, as the Postal Service well knows, these standards do not represent any kind of service guarantee or commitment. Moreover, the Postal Service often fails to meet its published standards, especially for First-Class Mail that is supposed to receive two-day and three-day delivery. If the Postal Service were to attempt to weigh and rate each BRM piece individually, much of the incoming BRM at Nashua, Mystic and Seattle FilmWorks would probably fail to meet the service standard for First-Class Mail, perhaps by as much as several days (as happened at Mystic prior to

institution of the weight averaging system).<sup>1</sup> Therefore, to the extent that the alternative BRM accounting procedures enable the Postal Service to come closer to meeting its service standards for First-Class Mail, which much of the incoming BRM would otherwise probably miss, my answer to your question is: Confirmed.

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<sup>1</sup> The highly inconsistent service received by First-Class Mail during recent years may have contributed materially to the declining market share of through-the-mail film processors; see my response to USPS/NMS-T1-37.

Response of Dr. John Haldi to USPS/NMS-T-14  
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USPS/NMS-T1-14.

Please confirm that, to the extent that alternative BRM accounting procedures expedite the processing of film and the return of the finished product to Nashua, Mystic, and Seattle FilmWorks customers, these procedures also increase the value of BRM service to Nashua, Mystic, and Seattle FilmWorks.

Response:

By way of preface, it should be patently obvious that in the delivery business, value is added – *for both the sender and the addressee* – by any procedure that expedites movement and decreases the time required to put the piece in the hands of the addressee. This is as true when BRMAS automation speeds processing of BRM (which pays a BRM fee of only 2 cents per piece) as it is for alternative BRM accounting procedures.

All BRM pays full First-Class postage and, as such, should be entitled to First-Class service. The Postal Service has for many years published its service standards for First-Class Mail but, as the Postal Service well knows, these standards do not represent any kind of service guarantee or commitment. Moreover, the Postal Service often fails to meet its published standards, especially for First-Class Mail that is supposed to receive two-day and three-day delivery. If the Postal Service were to attempt to weigh and rate each BRM piece individually, much of the incoming BRM at Nashua, Mystic and Seattle FilmWorks would probably fail to meet the service standard for First-Class Mail, perhaps by as much as several days (as happened at Mystic prior to

Response of Dr. John Haldi to USPS/NMS-T-14  
Page 2 of 2

institution of the weight averaging system).<sup>1</sup> Therefore, to the extent that the alternative BRM accounting procedures enable the Postal Service to come closer to meeting its service standards for First-Class Mail, which much of the incoming BRM would otherwise probably miss, my answer to your question is: Confirmed.

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<sup>1</sup> The highly inconsistent service received by First-Class Mail during recent years may have contributed materially to the declining market share of through-the-mail film processors; see my response to USPS/NMS-T1-37.

USPS/NMS-T1-15.

Please refer to your testimony at page 11, line 17 through page 12, line 2. Is the only basis for your statement that "the system . . . has no consistent bias one way or the other . . ." the response of the Postal Service to interrogatory NM/USPS-34? Explain fully any negative response.

Response:

No. My response was also based on examination of the results from each day's sample at Nashua during the months of August and September, 1996.



Response of Dr. John Haldi to USPS/NMS-T1-16  
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**USPS/NMS-T1-16.**

Please identify each rate category or special service for which the Domestic Mail Classification Schedule requires prebarcoding of each piece as a condition of rate or fee qualification, but for which the DMCS also permits pieces which are not prebarcoded to qualify for that same rate or fee.

**Response:**

I am not aware of any rate category or special service for which the DMCS requires prebarcoding of each piece as a condition of rate or fee qualification, but for which the DMCS also expressly permits pieces which are not prebarcoded to qualify for that same rate or fee. I would also note that the textual portion of the DMCS that deals with the Business Reply Mail Accounting System ("BRMAS") neither requires nor implies that the mail must be pre-barcoded in order to qualify for the BRMAS rate. The single DMCS reference to pre-barcoding in association with BRMAS is contained in Rate Schedule SS-2, where the term is not defined; see my testimony at pp. 40-41. As I have stated before, the mail of Mystic and Seattle is pre-barcoded, while the only reason Nashua's mail is not barcoded is to offer customers multiple possible return addresses.

Any possible requirement that BRMAS be barcoded related to facilitating the manner in which those pieces would be processed, counted, and billed by the Postal Service. Since the Postal Service cannot and does not use a barcode to count non-automatable bulk BRM received by Nashua, Seattle, and Mystic, no reason exists to apply by rote such an irrelevant requirement. This

**Response of Dr. John Haldi to USPS/NMS-T1-16**  
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is a perfect situation to apply the legal maxim "where the reason for the rule does not apply, so also should not the rule."

Response of Dr. John Haldi to USPS/NMS-T1-18  
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USPS/NMS-T1-18.

Please refer to your testimony at page 19, lines 5-12.

- (a) Explain how seasonality could affect the accuracy of BRM postage due calculations when sampling is used.
- (b) Fully describe how the current sampling of 50 pieces of mail each day at Nashua takes into account the seasonal volume fluctuations that you describe at page 19.
- (c) Is the 50-piece sample drawn from all of Nashua's incoming non-automatable BRM, or are certain types of mail pieces culled out before the sample is taken? If the latter, please describe the culling process and describe the basis for it.

Response:

- (a) At Mystic and Seattle, sampling occurs periodically, not daily. At current rates, postage on individual pieces of non-automatable BRM varies by weight, illustrated as follows:

<u>Ounces</u>	<u>First-Class Postage</u>	<u>Non-Std Surcharge</u>	<u>BRM Fee</u>	<u>Total</u>	<u>Rate Per Ounce</u>
1	\$0.32	\$0.11	\$0.10	\$0.53	\$0.5300
2	0.55	--	0.10	0.65	0.3250
3	0.78	--	0.10	0.88	0.2933
4	1.01	--	0.10	1.11	0.2775

As shown in the last column above, the rate per ounce varies with weight of the business reply envelope. From a purely theoretical perspective, seasonality conceivably could affect accuracy of BRM postage due calculations if the "mix" of arriving BRM pieces, by weight,

**Response of Dr. John Haldi to USPS/NMS-T1-18**  
**Page 2 of 2**

were to vary systematically from one season to the next. Whether the mix actually changes in any systematic way throughout the year is a factual issue. Mystic's experience, which is based on repeated sampling conducted over more than 10 years, indicates that the mix does not change throughout the year. That is, the rate per pound has been remarkably stable regardless of when the sample was taken. Moreover, if the periodic sampling occurs quarterly (or more often), the effect of any seasonal changes should be reduced or eliminated; see my response to USPS/NMS-T1-27.

With respect to Nashua's incoming manifest system, the Postal Service samples mail on each and every day of the year that Nashua operates. Consequently, no possibility exists that a sample taken in one season could be or will be used in some other season. Under the circumstances at Nashua, I cannot even begin to imagine how "seasonality could affect the accuracy of BRM postage due calculations when sampling is used."

- (b) See response to a.
- (c) The incoming sample is drawn from all of Nashua's incoming BRM, and no pieces are culled out before the sample is taken.

## Response of Dr. John Haldi to USPS/NMS-T1-23

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USPS/NMS-T1-23.

Please refer to page 60, lines 13-14, of your testimony and indicate:

- (a) (i) the share of incoming orders for which Nashua currently uses BRM; and
- (ii) the share of incoming orders for which Nashua was using BRM immediately before it began using the incoming manifest system;
- (b) (i) the share of incoming orders for which Mystic currently uses BRM; and
- (ii) the share of incoming orders for which Mystic was using BRM immediately before it began using the weight averaging system;
- (c) (i) the share of incoming orders for which Seattle FilmWorks currently uses BRM; and
- (ii) the share of orders for which Seattle FilmWorks was using BRM immediately before it began using the weight averaging system.

Response:

- (a) As indicated in my testimony, p. 8, Nashua began using its incoming manifest system in October, 1994. Nashua does not know the share of incoming orders using BRM before that date, but it is believed to be a small percentage. Subsequently, from October 1994 onward, Business Reply Envelopes have constituted an ever-increasing percentage of all customer reply envelopes distributed and received by Nashua. As a result, for the 12 months ending September 1996, Business Reply Envelopes represented about 70 percent of Nashua's incoming mail (see my testimony, p. 9; also see my response to USPS/NMS-T1-21).

Response of Dr. John Haldi to USPS/NMS-T1-23  
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- (b) Please see my testimony, p. 13. As stated there, Mystic is providing its customers with Business Reply Envelopes exclusively, and has done so since its founding. Nevertheless, Mystic has always received some prepaid envelopes from a very small percentage of its customers, for reasons that are better known to those customers than to Mystic.<sup>1</sup> Aside from that small percentage of prepaid envelopes, all of Mystic's incoming orders are currently BRM. Likewise, virtually all incoming orders were BRM immediately before the Postal Service began using the weight averaging system for Mystic's BRM.
- (c) Please see my testimony, p. 16. As stated there, Seattle FilmWorks is providing its customers with Business Reply Envelopes exclusively, and has done so since its founding. Nevertheless, Seattle FilmWorks also has always received some prepaid envelopes from a small percentage of its customers, for reasons that are better known to those customers than to Seattle FilmWorks. Aside from that small percentage of prepaid envelopes, all of Seattle FilmWorks' incoming orders are currently BRM. Likewise, virtually all incoming orders were

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<sup>1</sup> These occasional customer prepaid envelopes are included in Mystic's sacks of BRM. Consequently, they are included in the net weight of mail received and Mystic pays postage on the envelopes even though the customer has unnecessarily put stamps on the piece. For this small percentage of envelopes, the Postal Service is thus paid twice.

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**Page 3 of 3**

**BRM immediately before the Postal Service began using the weight averaging system for Seattle FilmWorks' BRM.**

USPS/NMS-T1-25.

Please refer to your testimony at page 20, line 13, and explain the basis for your assertion that BRM sampling should take a postal clerk no more than one hour per day.

Response:

Nashua is required (by LR-SSR-148, Part 1, p. 37) to maintain its own quality control program. Nashua has elected to use the Postal Service verification methods (described in Part 2 of LR-SSR-148) and take its own daily sample of 50 pieces. The average time required by Nashua employees to complete that task is 50 to 60 minutes. I have been unable to perceive of any reason why Postal Service employees should require more time to complete the same task. For additional discussion, see my response to USPS/NMS-T1-32, <sup>2</sup>page 1, footnote 1.



Response of Dr. John Haldi to USPS/NMS-T1-26  
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USPS/NMS-T1-26.

Please refer to your testimony at page 12, lines 12-20, where you describe Nashua's cost to develop and operate its incoming manifest system.

- (a) Is it your testimony that the incoming manifest system was initially developed for the purpose of calculating postage due? If not, please explain.
- (b) Provide an estimate of all developmental and operational costs uniquely attributable to the postage due calculation function and explain the basis for that estimate.

Response:

- (a) With respect to the incoming manifest system at Nashua, the answer to the question is, unequivocally, yes.
- (b) The incoming manifest system built on and drew on the computer system that Nashua already had in place for entering and tracking incoming orders through the plant and out the door (as well as building an in-house database of customers for marketing purposes). As explained in my testimony, p. 12, lines 15-17, "Nashua incurs annual operating costs of about \$45,000 for the daily verification requirement and the additional keying that operators must do when they process each incoming [Business Reply Mail] order." These operating costs relate to the time that Nashua employees must spend on efforts uniquely attributable to computing postage due; *i.e.*, to efforts not required by Nashua's own order entry system. To elaborate, (i) costs are incurred when Nashua's operators must make additional keystrokes on each order

Response of Dr. John Haldi to USPS/NMS-T1-26  
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because creation of the incoming manifest requires a datum not needed for Nashua's own use (that particular datum indicates whether a roll of film was returned in the plastic canister customarily supplied with new rolls of film), and (ii) costs are incurred on account of Nashua's own daily sampling and verification, which is required by the manifest procedures contained in LR-SSR-148, Part 1, p. 37.<sup>1</sup>

The one-time developmental cost of \$10,000 represents an estimate by Nashua's MIS manager of the time and cost for in-house development of computer programming required to produce the incoming manifest. This cost, which is incurred solely by Nashua, is analogous to the programming costs that the Postal Service incurs with respect to its BRMAS software, and which were described in Docket No. R94-1 by USPS witness Donald Mallonee (USPS-RT-8, not admitted into evidence).

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<sup>1</sup> For additional discussion, see my response to USPS/NMS-T1-25.

Response of Dr. John Haldi to USPS/NMS-T1-27  
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USPS/NMS-T1-27.

Please refer to page 15, lines 3-4, of your testimony, where you indicate that the price-per-pound for Mystic sacks is calculated through "periodic sampling."

- (a) Define "periodic." How often is the sample drawn?
- (b) On page 19, lines 5-7, of your testimony, you state, "It is no secret that the film-developing business is somewhat seasonal . . . ." In your opinion, does the frequency of sampling used for Mystic adequately account for this seasonality?

Response:

- (a) Please see my response to USPS/NMS-T1-4, (item no. 4, USPS letter dated 9/12/95 to Dave MacDonald containing confidential information). "Periodic," as defined by the Postal Service in that letter, is quarterly or more often as either party feels warranted:

As we agreed upon today, the sampling will be done once an A/P (quarter) and a new postage factor will be developed at that time. If, at any time, the Postal Service or Mystic Color Lab determines that sampling once an A/P is not providing a wide enough variety of mail, the sampling will be increased.

Prior to 9/12/95, sampling was apparently done semi-annually; see documents nos. 1, 2 and 3 listed in USPS/NMS-T1-4 (containing confidential information).

- (b) As indicated in my response to USPS/NMS-T1-18, Mystic's experience, which is based on repeated sampling conducted over more than 10 years, indicates that throughout the year the mix of incoming BRM does

**Response of Dr. John Haldi to USPS/NMS-T1-27**  
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not change in any predictable way or to any noticeable extent. That is, the rate per pound has been generally stable, subject to normal statistical deviation, regardless of when the sample was taken, and has not been affected by any seasonal change in volume.

Response of Dr. John Haldi to USPS/NMS-T1-28  
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USPS/NMS-T1-28.

Explain the basis for your estimates on page 21 of your testimony that it takes a postal clerk 1.4 to 2.0 hours per day to weigh and rate Mystic's BRM, and 1.5 to 2.25 hours a day to weigh and rate Seattle FilmWorks BRM.

Response:

As indicated in my response to USPS/NMS-T1-29, Mystic and Seattle FilmWorks each weighs every sack of incoming mail daily, for purposes of planning their respective daily workloads. My estimate is based on the time which their employees require to weigh and record each sack, as well as the annual volume of BRM which each firm receives. I have been unable to perceive of any reason why Postal Service employees should require more time to complete the same task. My estimate is also based on personal visits to the Postal Service facilities that process the mail for Mystic (in New London) and Seattle FilmWorks (in Seattle).

Response of Dr. John Haldi to USPS/NMS-T1-29  
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USPS/NMS-T1-29.

In your opinion, will the weight averaging approach to calculating BRM postage due, as used by Mystic and Seattle Filmworks, yield as accurate an estimate as the incoming manifest approach used by Nashua? Please explain your answer.

Response:

The situation with respect to BRM at Mystic and Seattle FilmWorks is quite different from that at Nashua, as I endeavored to explain in my testimony. The methods used to calculate postage due for BRM have evolved in response to the different circumstances and, as explained below, each in its own way is appropriate and accurate.

At Mystic and Seattle FilmWorks, virtually all incoming orders are received in Business Reply Envelopes, because those are the only type of reply envelopes that either firm has ever distributed. Nashua, on the other hand, has for many years distributed reply envelopes that require prepayment by the customer. One consequence of the Priority Mail Reship Program that the Postal Service originally developed in conjunction with Nashua (and which may now be used by other mailers as well) is that Business Reply Envelopes and customer prepaid envelopes arrive in Parkersburg, WV, completely commingled. This commingling, along with the gradually changing mix of the two types of envelopes, precluded use of a weight averaging system to calculate BRM postage. At Nashua, necessity was indeed the mother of invention, and the result has been the incoming manifest system.

Response of Dr. John Haldi to USPS/NMS-T1-29  
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The weight averaging approach to calculating BRM postage due, as used by the New London Post Office for Mystic and by the Seattle Post Office for Seattle FilmWorks – and as also used in the Postal Service's Prepaid Courtesy Reply Mail test with Brooklyn Union Gas – is capable of yielding, and in my opinion does yield, a highly reliable and accurate estimate of postage due.<sup>1</sup> This results from (i) the large samples (a thousand or more pieces) taken by the Postal Service, (ii) the fact that virtually all incoming mail at Mystic and Seattle FilmWorks consists of BRM, (iii) the comparatively stable mix of products received (rolls of 35mm film predominate), and (iv) the fact that the products themselves undergo little or no change over long periods of time (*e.g.*, both the container for a roll of 35mm film and the plastic canister in which new rolls of film are supplied weigh essentially the same today as they did 10, 15 and 20 years ago). *It may be that accuracy of the weight averaging system is sufficient to allow the Postal Service to eliminate incoming fees altogether, as it has done for Brooklyn Union Gas in the Prepaid Courtesy Reply Mail test.*

At Mystic and Seattle FilmWorks, the Postal Service could take a larger sample, and/or it could take samples more often, but any further increase in reliability and accuracy would likely be *de minimis*. I say this based on the fact

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<sup>1</sup> As stated in the memorandum from Richard E. Kunz (discussed in my response to USPS/NMS-T1-3):

Over the three-month period for use of sample data, *the postage charged should come very close to the actual postage which would be charged if each piece were counted and weighed.* [at 3.] [Emphasis added.]

Response of Dr. John Haldi to USPS/NMS-T1-29  
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that for years Mystic and Seattle FilmWorks each has weighed all its incoming mail daily, for purposes of planning its respective daily workloads, and each company has found a very high and consistent correlation between the gross weight of incoming mail and the number of rolls of film to be processed. Were the Postal Service to segregate Nashua's BRM, or if some day essentially all of Nashua's incoming orders were to consist of Business Reply Envelopes, it might be appropriate for the Parkersburg Post office to implement a weight averaging system at Nashua. This would relieve Nashua of the recurring costs discussed in my response to USPS/NMS-T1-26.

Weight averaging is a very low-cost system for the Postal Service, and for recipients of non-automatable bulk BRM there is no cost whatsoever.<sup>1</sup> From the viewpoint of *lowest combined cost* (which principle the Postal Service has previously endorsed), the weight averaging system is undoubtedly better than the incoming manifest system.<sup>2</sup> It may even be "optimal."

Comparing accuracy of the weight averaging system with Nashua's incoming manifest system is difficult because, as discussed in my testimony and my response to USPS/NMS-T1-32, accuracy of Nashua's incoming

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<sup>1</sup> Weight averaging is thus similar to BRMAS, which is also low-cost to the Postal Service and involves no cost to the recipient.

<sup>2</sup> All recipients of non-automatable bulk BRM have an exact count of orders received, since each order is entered into the computer system. The weight averaging system would be extremely accurate and reliable if the Postal Service were to adopt a piece-pound rate design for First-Class *bulk* mail, rather than *base* rates for First-Class bulk mail on a structure designed for single-piece rates.



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manifest system has undergone a "learning curve" effect and has improved over time. With additional investment and effort, it can be expected to become even more accurate. Nashua is presently contemplating additional refinements that would increase the accuracy further. Those refinements, however, would cost somewhat more to implement than the ones already implemented, as described in my response to USPS/NMS-T1-32.

Response of Dr. John Haldi to USPS/NMS-T1-33  
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USPS/NM-T1-33.

Please explain the basis for your proposal to define bulk BRM as "100 pounds per day, or 500 pounds per week, or 2000 pounds per month," as described at page 48, lines 1-4, of your testimony.

Response:

Please see my testimony, p. 47, lines 14-21. If the Postal Service were to weigh and rate individual BRM pieces manually I would expect the cost to average at least 10 cents per piece, the estimated average cost of processing BRM manually in Docket No. R94-1 (see my testimony, Appendix I, p. 1-2, line 13). As indicated in my response to USPS/NM-T1-35, at my suggested qualifying threshold the weight-averaging system should reduce the cost per piece to a small fraction of that amount and, for volumes above the minimum threshold, unit costs would be expected to be lower yet. The minimum qualifying threshold is thus high enough to assure (i) homogeneity of qualifying mail with respect to cost characteristics, and (ii) a low unit cost. At the same time, my minimum suggested threshold is intentionally set far below the volumes received by Nashua, Mystic or Seattle FilmWorks, so as to enable recipients of relatively smaller (nevertheless, still large) volumes of BRM (including some, perhaps all, of the smaller through-the-mail film processors mentioned in my response to USPS/NM-T1-10) to qualify for the lower rate that reflects lower unit cost.

For reasons explained in my testimony at p. 47, it is suggested that the minimum threshold be stated in terms of pounds. In terms of the expected

**Response of Dr. John Haldi to USPS/NMS-T1-33**  
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number of pieces, on average it is perhaps a little larger than the 500-piece minimum required for originating First-Class bulk mail (assuming that the average weight of non-automatable bulk BRM exceeds one ounce). The reason for suggesting a higher minimum is in recognition of the fact that instituting a weight averaging system for an individual recipient of non-automatable bulk BRM may cost more than accepting an originating bulk mailing.

In my response to interrogatory USPS/NMS-T1-10, I discuss the possible desirability of setting monthly, as opposed to daily or weekly, minimums under certain circumstances.

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USPS/NM-T1-34.

On page 12, lines 5-8 of your testimony, the estimated postage on the Nashua manifest is shown as a percentage of the postage for the pieces in the sample for four different months. Please confirm that for all four months shown, the Nashua manifest underestimates the actual postage due.

Response:

Confirmed; in October, 1996 that number has now climbed to 98.3 percent. Of course, as stated elsewhere, the Postal Service is fully compensated for postage due based on its daily 50-piece sampling; see my responses to USPS/NMS-T1-1 and 12 for more detailed information.

Response of Dr. John Haldi to USPS/NMS-T1-35  
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USPS/NM-T1-35.

Please refer to your testimony at page 21, lines 5-10. What would the per-piece costs be for a mailer whose volume is exactly the minimum definition of bulk (100 pounds per day) you propose at page 48, lines 1-2, assuming all pieces average exactly two ounces (page 48, fn. 67).

Response:

Your question obviously presents a hypothetical with important facts left unspecified. Let me preface the answer by stating that "it depends." For example, it would depend on (i) whether the Postal Service used a weight-averaging system and, if so, the number of sacks that would have to be weighed, or (ii) whether the BRM recipient (the "mailer") used an incoming manifest system

IF the Postal Service used a weight-averaging system (which would seem most likely for minimum quantities), and IF an average of four sacks (averaging 25 pounds/sack) had to be weighed, and IF the Postal Service required an average of 3 minutes to ascertain and record the weight of each sack (which is generous), and IF the Postal Service required an additional 15 minutes daily to complete the billing operation, and IF the average cost per effective productive hour for a mail clerk is \$23.952, and IF the appropriate piggyback factor for a manual weighing operation is 1.53322 (the figure used for Mystic and Seattle), then the daily Postal Service cost would amount to \$16.53, and for 800 pieces the unit cost would amount to \$0.021. Please note that this unit cost is for my suggested *minimum* volume, and it is far less

## Response of Dr. John Haldi to USPS/NMS-T1-35

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than the 10.19 cents per piece for BRMAS that the Postal Service handles manually (see my testimony, Appendix I, p. I-2, line 13). Note that under the assumptions and hypothetical conditions here, the Postal Service spends 12 minutes weighing the 4 sacks, and 15 minutes for the billing operation. With higher volumes, the number of sacks and the time spent weighing sacks would increase, but the time for the billing operation should not change, hence unit cost would be expected to decline.

Alternatively, IF the recipient used an incoming manifest system (which seems highly unlikely for minimum volumes), and IF the Postal Service sampled 30 pieces each time it took a sample,<sup>1</sup> and IF the sample were taken daily (a "worst case" assumption),<sup>2</sup> and IF the daily sampling required approximately 36 minutes by the Postal Service employee (at \$23.952 per productive hour),<sup>3</sup> and IF the appropriate piggyback factor is 1.717276 (the figure used for Nashua), then for 800 pieces the daily Postal Service cost would amount to \$24.68, and

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<sup>1</sup> See LR-SSR-148, p. 103; this is the indicated sample size for volumes in the range of your hypothetical.

<sup>2</sup> Continued daily sampling is required only when the discrepancy between the postage due on the sample and the manifest is not less than 1.5 percent for five consecutive days; *i.e.*, if the discrepancy is less than 1.5 percent for five consecutive days, the frequency of the sampling can be reduced.

<sup>3</sup> This time is three-fifths of the maximum one hour assumed for Nashua, where the sample size is 50 pieces per day. At three-fifths of 50 minutes per day (the lower bound assumed for Nashua), or 30 minutes per day, the unit cost would be \$0.026.

the unit cost would amount to \$0.031, based on stated conservative assumptions.

As the largest and therefore lowest cost recipients of non-automatable bulk BRM, Nashua, Mystic and Seattle FilmWorks have no problem with rates based on average costs where their costs are below average, benefitting these other lower-volume – but nevertheless low-cost – BRM recipients.

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USPS/NM-T1-37.

Please refer to your testimony at page 5, lines 10-11, where you state that "through-the-mail film processors account for approximately 6 percent of the domestic film processing market. Please identify the source(s) for the 6 percent figure and provide the underlying calculation for this number.

Response:

The 6 percent figure comes from two sources: (1) the *1995 International Photo Processing Industry Report*, and (2) the Eighth Annual Robinson Report. Copies of the pertinent page from each report are attached.

The *International Photo Processing Industry Report* is based on production shares, by value. You might note that the 1986-1994 data indicate that the share of market held by "Mail Order Macrolabs" has declined steadily from 14 percent in 1986 to 6 percent in 1994. Inconsistent mail service and increased postage rates may have contributed to this decline.

The market shares shown in the Robinson Report are based on the number of rolls processed.



# **The 1995 International Photo Processing Industry Report**

covering worldwide  
amateur/professional  
photo processing  
and  
sensitized photographic  
materials markets

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Apparently, interest in photography is reviving, since the number of households having at least one photographer jumped 2.8% in 1994.

**Table 2-10**

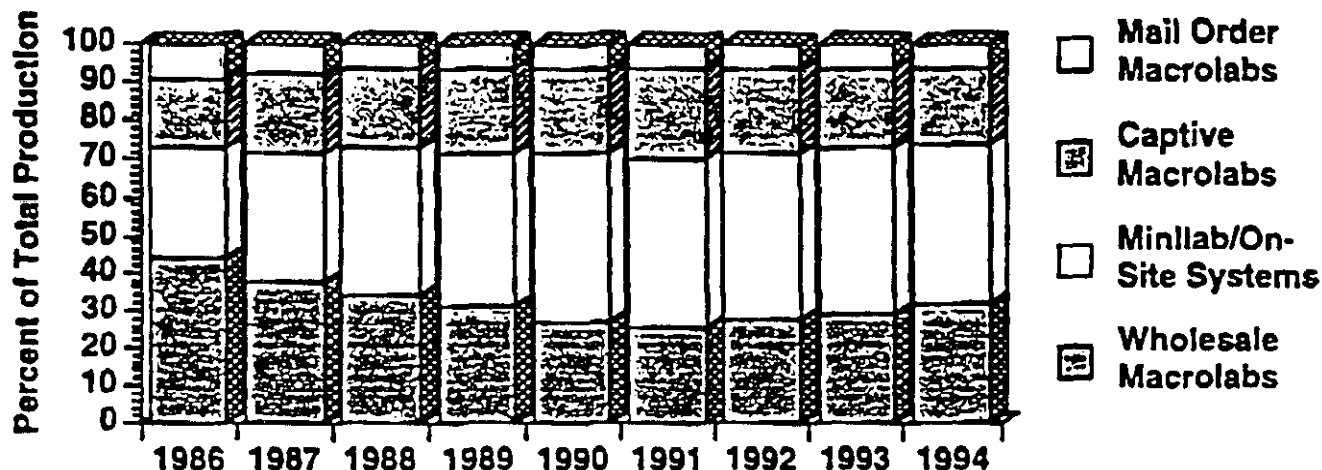
**U.S. Households With At Least One Adult Photographer**

<u>Year</u>	<u>Millions of Households</u>
1988	21.0
1989	20.4
1990	19.2
1991	18.6
1992	18.2
1993	17.6
1994	18.1

Source: National Demographics & Lifestyles (NDL)

**Figure 2-2**

**U.S. Photofinishing Production Shares (By Value)**



Source: Photofinishing News, Inc.

**Table 2-11**

**U.S. Photofinishing Production Shares (by Volume)**

	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
Mail Order Macrolabs	14%	12%	9%	8%	8%	7%	7%	6%	6%
Captive Macrolabs	17%	18%	19%	20%	21%	22%	21%	20%	19%
Minilab/On-Site Systems	25%	27%	30%	32%	34%	36%	36%	37%	35%
Wholesale Central Labs	45%	43%	42%	40%	37%	35%	36%	37%	40%

Source: Photofinishing News, Inc.

**The Eighth Annual Robinson Report:  
The U.S. Consumer Imaging Business in 1995  
with Forecasts for 2000**

Ian & Doug Robinson  
Photographic Consultants Ltd.  
6 Walden Street  
Concord, MA U.S.A. 01742  
fax: 508-287-5135  
phone: 508-287-5130

**Table 4-1. Consumer Color Negative Rolls Processed, 1992 to 1995, by Business Segment: Wholesale, Vertically Integrated, Mail Order and On-Site (Millions of Rolls, including Single-use)**

	1992	1993	1994	1995
<b>Wholesale</b>			280	275
Fraction			0.460	0.464
<b>Vertical</b>			100	107
Fraction			0.177	0.180
<b>Mail Order</b>			42	38
Fraction			0.074	0.084
<b>Central Lab Subtotal...</b>			402	420
Fraction			0.712	0.708
<b>On-site</b>			163	173
Fraction			0.288	0.292
<b>Total Consumer CN Rolls Processed</b>	<b>527</b>	<b>550</b>	<b>585</b>	<b>593</b>
<b>Total Consumer CN Rolls Sold</b>	<b>557</b>	<b>602</b>	<b>601</b>	<b>637</b>

Source: Photographic Consultants Ltd.

Response of Dr. John Haldi to USPS/NMS-T1-38  
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USPS/NM-T1-38.

In your testimony, at page 9 (lines 9-15) and page 10 (lines 1-7), you describe Nashua's current incoming manifest system.

- (a) As a general principle, would you agree that if the Postal Service is drawing a sample of incoming BRM pieces to verify whether the mailer later calculates the correct postage due, that the identity of the pieces in the sample should be unknown to the mailer?
- (b) If the Postal Service is unable to draw a sample that is unknown or unidentifiable to the mailer, how can the Postal Service be sure that the mailer will not focus on the sample and be less careful about the accuracy of the postage due calculation on the large remainder of the mail?
- (c) Under Nashua's current incoming manifest system, does the Postal Service draw a sample that is unknown or unidentifiable to Nashua?

Response:

- (a) I agree that the identity of the pieces in the sample should be unknown to *employees of the BRM recipient (Nashua)* who are responsible for data entries that create the incoming manifest.
- (b) As preface to responding to this part of the interrogatory, I would like to state first that the hypothetical conditions which you posit in this interrogatory are not applicable to the situation at Nashua; please see part *c, supra*. Second, Nashua employees have been trained to enter accurately all information and data which they record for each order because those data are critical to Nashua's internal processing and data

**Response of Dr. John Haldi to USPS/NMS-T1-38  
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collection system, with the exception of only one entry, which is whether the film was mailed in plastic canister in which new rolls of film are customarily supplied. Even under the hypothetical conditions which you posit, I believe that the Postal Service can be reasonably sure that the BRM recipient will not focus on the sample and be less careful about accuracy of the postage due calculation on the large remainder of the mail.

- (c) When the daily sample is taken at Nashua, the Postal Service employee records the tracking number and the account number (or the name and address of the customer if an account number is not available) on the outside of the envelope, and then reinserts the envelope into the arriving mail. Unless the Postal Service employee explicitly marks the envelope, which should not be done and for which no need exists (and which he/she presumably does not do), the Nashua employee who subsequently opens the envelope and records the data for the incoming manifest will have no way of knowing that a particular envelope has been included in the sample that day.

The inescapable innuendo accompanying this interrogatory here is that the sampling at Nashua may somehow be "rigged" – or be subject to "rigging." At the same time, a number of other interrogatories were designed to stress that Nashua's incoming manifest system may have a

Response of Dr. John Haldi to USPS/NMS-T1-38  
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tendency (or "bias") to underestimate postage due (see USPS/NMS-T1-1, 2, 12 and 34). It should be noted for the record that any tendency for Nashua's manifest system to underestimate postage due (which requires extra payments to the Postal Service) inescapably constitutes strong evidence that the sampling procedure is not "rigged" in any way.

Recurrence of the third problem discussed in my response to USPS/NMS-T1-32 offers yet further evidence that samples taken at Nashua are random, and not "rigged."

Response of Dr. John Haldi to USPS/NMS-T1-39  
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**USPS/NM-T1-39.**

- (a) Please confirm that the Postal Service has recently experienced a problem with Seattle FilmWorks applying the wrong ZIP + 4 Code and/or barcode in the return address of some of its BRM pieces.
- (b) Please describe in full when and how the problem developed and all steps that have been taken to correct it.
- (c) Please indicate how many outgoing envelopes with the wrong ZIP + 4 Code and/or barcode were printed and distributed to the mailing public and how many have been mailed in to Seattle FilmWorks.
- (d) Please provide sample copies of the Seattle FilmWorks BRM pieces involved.
- (e) Please provide copies of (i) all correspondence between the Postal Service and Seattle FilmWorks which addresses this problem and (ii) copies of all Seattle FilmWorks internal correspondence and other documents which pertain to this problem.

**Response:**

- (a) Seattle FilmWorks did apply a wrong ZIP + 4 Code and barcode in the return address of a promotional mailing that contained an attached BRM post card. Please note that the post card obviously could not be and was not used to send in rolls of film for development. The problem to which this interrogatory refers had nothing to do with Seattle Filmworks' reply envelopes which, when returned in large numbers, constitute the non-automatable bulk BRM discussed in my testimony. The post cards were processed separately (perhaps on automation equipment) and were not included in any sack where postage due is computed by means of weight averaging.



Response of Dr. John Haldi to USPS/NMS-T1-39  
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- (b) Seattle FilmWorks receives orders in BRM envelopes pre-addressed to three PO Boxes. In addition, Seattle FilmWorks also has four BRMAS authorizations which it uses for promotional mailings. Two BRMAS authorizations are for cards only, and the other two are for one-ounce letters only. The problem which arose was that someone in the marketing department inadvertently printed BRM cards with the PO Box Number and corresponding ZIP + 4 Code that was authorized for letters only. The problem occurred sometime in late July/early August of this year, when the promotional mailing was sent out. Subsequent promotional mailings have been double-checked and cleared with the Postal Service prior to dissemination to the public, and the error has been corrected and not repeated.
- (c) Seattle FilmWorks has not printed or distributed to the public any *envelopes* with the wrong ZIP + 4 Code and/or barcode; see my response to preceding part a. It did print and distribute *cards* with the wrong PO Box Number and ZIP + 4 Code. Responses are still being received, and the response rate to promotional mailings is considered proprietary and confidential information. Based on general industry-wide experience with that type of mailing, the response rate can range from less than 1 percent to as high as 4 or 5 percent.

**Response of Dr. John Haldi to USPS/NMS-T1-39**  
**Page 3 of 3**

- (d) Submitted as Library Reference LR-NMS-2.
  
- (e) The problem to which this interrogatory refers was brought to the attention of Seattle FilmWorks verbally by a Postal Service representative. Subsequently, on August 19th John Metselaar wrote to Postmaster Lee Salazar, Seattle Postmaster, concerning the problem. Then, on September 6th, in what was more or less a reply to Mr. Metselaar's letter, Mr. Richard E. Kunz of the USPS wrote to Ms. Mich Earl (copies of these two letters containing confidential information are already in the possession of the Postal Service, and would be offered, if desired, pursuant to a non-disclosure agreement).

1 COMMISSIONER QUICK: Does any participant have  
2 additional written cross examination for Witness Haldi?

3 MR. TIDWELL: Yes, we do, Commissioner Quick.

4 COMMISSIONER QUICK: Mr. Tidwell?

5 CROSS EXAMINATION

6 BY MR. TIDWELL:

7 Q Dr. Haldi, I've just handed you two copies of your  
8 responses to Postal Service Interrogatories 41, 42, 45 and  
9 48. I'll give you a second to review those documents.

10 A Yes, these are my answers.

11 Q If you were to give those answers today orally,  
12 would those answers be the same?

13 A They would be, yes.

14 MR. TIDWELL: Commissioner Quick, I would move  
15 these into the record as well.

16 COMMISSIONER QUICK: They will be so included in  
17 the record.

18 [The Responses of Dr. John Haldi to  
19 USPS/NMS-T1-41, USPS/NMS-T1-42,  
20 USPS/NMS-T1-45, and USPS/NMS-T1-48  
21 were marked for identification,  
22 received into evidence and  
23 transcribed into the record.]

24

25

Response of Dr. John Haldi to USPS/NMS-T1-41  
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USPS/NMS-T1-41.

Please refer to page 5 of NMS Workpaper 2, where it states that "the unit cost data for Nashua should be highly indicative, if not completely robust, to similar operations."

- (a) Describe in detail the "similar operations" to which you refer.
- (b) Explain what you mean by the term "robust" in this context.
- (c) Please describe the method by which you obtain your daily cost estimates and provide all underlying documentation.
- (d) Explain why you believe Nashua's costs are highly indicative of other BRM users which may qualify for the new special service classifications you propose at Appendices II-1 and II-2.
- (e) Identify all reasons why Nashua's operation may not be "completely robust to similar operations."
- (f) In your opinion, are the weight averaging costs of Mystic and Seattle FilmWorks also highly indicative of other BRM mailers
  - (i) which are currently using weight averaging?
  - (ii) which could employ weight averaging to qualify for the new special service classifications you propose at Appendices II-1 and II-2?
- (g) Other than the three film processors, Nashua, Mystic, and Seattle FilmWorks,
  - (i) are there any other all [sic] Business Reply Mail users whose operations you have studied? If so, please list them and

Response of Dr. John Haldi to USPS/NMS-T1-41  
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- (ii) identify which ones have reverse manifest or weight averaging systems, and
- (iii) indicate which ones identified in response to (iii) you have studied and
- (iv) provide the results of all such studies and the underlying documentation.

Response:

- (a) The term "similar operations" includes all those covered by and included in the Postal Service response to NM/USPS-27, which states that

*Some plants have entered into local agreements with customers and have established "reverse manifest" procedures; however, there is no national policy which requires uniformity in the precise terms of these agreements.*

Please note that the Postal Service response uses the plural with respect to the words "plants," "agreements," and "customers." For details concerning the specific plants, customers and agreements alluded to in the above-cited response, I suggest you consult with the author. I am curious myself about the identity of plants and customers alluded to in the above-quoted response, but historically the Postal Service has been reluctant to disclose such details in response to interrogatories.

Response of Dr. John Haldi to USPS/NMS-T1-41  
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- (b) In the context used here, the term robust means applicable," or "fully transferrable to."
- (c) Please see my response to USPS/NMS-T1-40, and references cited therein.
- (d) As explained in my response to USPS/NMS-T1-35, for a BRM recipient of the minimum volume (at my suggested threshold for non-automatable bulk BRM), the Postal Service's unit cost would range between \$0.026 and \$0.031. As pointed out there, it seems highly unlikely that an incoming manifest system would be developed and put in place for such a comparatively low volume. As volume increases above the lower threshold limit, the unit cost would decline because the time required to sample arriving BRM does not increase proportionately with volume. Furthermore, as I discuss in part e, *infra*, daily sampling by the Postal Service may not be necessary with all incoming manifest systems. Whenever the frequency of sampling can be reduced, the Postal Service's unit cost should fall to a very low figure indeed.

Response of Dr. John Haldi to USPS/NMS-T1-41  
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- (e) The error rate on Nashua's incoming manifest has not been consistently below 1.5 percent (see my responses to USPS/NMS-T1-12 and 34). Consequently, the Postal Service has continued sampling every day in accordance with the instructions contained in LR-SSR-148, and this continued sampling has kept the Postal Service's costs at Nashua higher than they otherwise would be. At the facilities of some of the other customers covered by the agreements alluded to in the Postal Service's response to NM/USPS-27, the error rate may be consistently less than 1.5 percent, requiring little sampling by the Postal Service, in which case the Postal Service's unit costs should be much lower than at Nashua.

As noted in my testimony, a detached mail unit was located at Nashua for many years prior to the time Nashua started using its incoming manifest system to compute postage due. Daily Postal Service sampling at Nashua is accomplished at *no additional out-of-pocket cost* by Postal Service employees who were already assigned to the detached mail unit. In the case of Nashua, my estimated cost is nothing more than a reallocation of costs that were pre-existing and "fixed" vis-a-vis the detached mail unit. If, however, an incoming manifest system were to be initiated where a detached mail unit does

Response of Dr. John Haldi to USPS/NMS-T1-41  
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not already exist, the cost of sampling would represent an additional out-of-pocket cost to the Postal Service.

(f)

(i)-(ii) I have no specific knowledge concerning the practices or costs at post offices serving other BRM recipients for whom weight averaging is currently used to compute postage due. With respect to other BRM recipients for whom, hypothetically, the Postal Service might employ weight averaging, my response to USPS/NMS-T1-35 discusses the unit cost at my suggested minimum threshold. At that minimum volume, unit cost is estimated to range downward from \$0.021 to the unit costs for Seattle FilmWorks in NMS-WP2. Depending upon the volumes received by other BRM recipients, I would consider the unit costs at Mystic and Seattle FilmWorks to be "indicative" or "highly indicative."

(g) (i) No.

(ii), (iii) & (iv) N/A.



Response of Dr. John Haldi to USPS/NMS-T1-42  
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USPS/NMS-T1-42.

Please refer to your testimony at page 15, fn. 15. Please describe the percentage of business reply mail pieces, with the associated weight for each, received by Nashua, Mystic and Seattle, which have the following contents:

- (a) a roll [sic] 35mm 24 exposure film;
- (b) a roll of 35mm 36 exposure film;
- (c) each roll described in (a) and (b) inside its respective plastic canister;
- (d) 2 rolls of 35mm 24 exposure film;
- (e) 2 rolls of 35mm 36 exposure film;
- (f) each roll described in (d) and (e) inside its respective plastic canister;
- (g) a disposable camera with exposed film;
- (h) each piece described in (a) through (g) with a cash payment enclosed.
- (i) each package described [sic] above in (a) through (g) with a payment enclosed which includes coins.

Response:

Objection filed. Including Business Reply Envelope, order form and check,

Nashua's weight (in ounces) for each of the above-listed items is as follows:

	Total Weight ( <u>ounces</u> )
(a) a roll of 35mm 24 exposure film	0.984
(b) a roll of 35mm 36 exposure film	1.084

Response of Dr. John Haldi to USPS/NMS-T1-42  
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(c)	a roll of 35 mm 24 exposure film in plastic canister	1.236
	a roll of 35 mm 36 exposure film in plastic canister	1.336
(d)	2 rolls of 35mm 24 exposure film	1.674
(e)	2 rolls of 35mm 36 exposure film	1.874
(f)	2 rolls of 35mm 24 exposure film in plastic canister	1.488
	2 rolls of 35mm 36 exposure film in plastic canister	1.588
(g)	a disposable camera with exposed film	3.894

Response of Dr. John Haldi to USPS/NMS-T1-45  
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USPS/NMS-T1-45.

Assuming that no other mailers qualify for the classification changes that you propose, do you believe that those classification and fee changes should be adopted solely for your clients?

Response:

The classification and fee changes that I propose should be adopted and implemented in a manner that treats all recipients of non-automatable bulk BRM in an even-handed and non-discriminatory manner. It seems abundantly clear that wherever a weight averaging or incoming manifest system is used for computing postage due on non-automatable bulk BRM, the recipients are being *unduly* discriminated against because the Postal Service's unit cost is at least as low as the average unit cost for all mail that qualifies for the 2-cent BRMAS rate, which is based entirely on such cost savings.

For BRM recipients with advance deposit accounts, the BRM fee has been "de-averaged," and the underlying rationale used by the Postal Service to support the lower rate of 2 cents per piece is the lower unit cost which it incurs on account of the functions uniquely occasioned by the BRM feature (see my testimony, pp. 25-26 and 28-29). However, when de-averaging is proposed on the basis of cost, it should be done in a non-discriminatory manner.

Response of Dr. John Haldi to USPS/NMS-T1-45  
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The existence and perpetuation of such undue discrimination does not further the development of a cost-based structure of rates and fees. Moreover, as an organization that is allegedly trying to become less bureaucratic and more customer-focused and market-driven, it is "unbecoming" – to say the least – for the Postal Service to treat some customers in a discriminatory and unfair manner, even though the combined volume of those recipients (of non-automatable bulk BRM) may be small in the context of total Postal Service volume. On grounds of fairness and equity alone, such undue discrimination has no place in the classification and fee structure of a public service organization. Moreover, from a policy perspective discrimination of this sort is particularly intolerable when one realizes that BRM is part of First-Class Mail, the principal product subject to the Private Express Statutes. Even though the pricing of BRM may be unfair and unreasonable, the monopoly acts to protect the Postal Service's BRM market. Based on the preceding, and in the absence of any other proposal that would better serve the non-discrimination requirement of the Act, my answer is: YES.

The preceding is a general answer to the question. Your assumption that no mailers – other than Nashua, Mystic and Seattle FilmWorks – would currently qualify for my proposed classification changes does not lessen the need to eradicate undue discrimination from the classification and fee

Response of Dr. John Haldi to USPS/NMS-T1-45  
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structure, so my answer would still be YES, absent any other proposal that would better serve the non-discrimination requirement of the Act.

Response of Dr. John Haldi to USPS/NMS-T1-48  
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USPS/NMS-T1-48.

- (a) Please refer to Docket No. R90-1, Exhibit USPS-23C, page 2, and confirm that the record in that proceeding reflects witness Pham's finding that over 27 percent of the mail paying the non-BRMAS fee was actually being processed using BRMAS.
- (b) Please refer to Docket No. R94-1, USPS Library Reference G-136, page 18, as revised on July 13, 1994, and confirm that the record in that proceeding reflects witness McCartney's finding that nearly 26 percent of the mail paying the non-BRMAS fee was processed on BRMAS.

Response:

(a) Confirmed.

(b) Confirmed.

1           COMMISSIONER QUICK: Only one participant, the  
2 United States Postal Service, has requested oral cross  
3 examination of Witness Haldi. Does any other participant  
4 have oral cross examination for Witness Haldi?

5           MR. OLSON: Commissioner Quick, as a preliminary  
6 matter, if I could add one matter, last week -- Dr. Haldi's  
7 testimony refers at various places to the various other  
8 mailers that might be able to qualify for the proposed rate  
9 and special service subclass basically that he is proposing  
10 and he obtained some information last week through the  
11 cooperation of District Photo that results in no changes to  
12 the testimony, no changes to the answers to the  
13 interrogatories, but for the completeness of the matters  
14 before the Commission, we faxed Mr. Tidwell on Friday a  
15 paragraph addition to the confidential workpapers which  
16 we've submitted to the Commission pursuant to the protective  
17 order and the Presiding Officer's Ruling Number 24 in this  
18 docket.

19           We would like to furnish the same documents we  
20 provided on Friday to Mr. Tidwell to the Commission. As I  
21 said, it requires no changes in the testimony or the  
22 responses to interrogatories, but rather, just quantifies  
23 that which was estimated before more precisely with respect  
24 to District Photo's volume.

25           COMMISSIONER QUICK: Is there any objection to

1 that?

2 MR. TIDWELL: No.

3 COMMISSIONER QUICK: Fine. Mr. Tidwell, you may  
4 begin, please.

5 MR. TIDWELL: Thank you, Commissioner Quick.

6 FURTHER CROSS EXAMINATION

7 BY MR. TIDWELL:

8 Q Good morning, Dr. Haldi.

9 A Good morning, Mr. Tidwell.

10 Q Other than the arrangement between Nashua and the  
11 Postal Service, have you studied any manifest systems which  
12 account for mail after it's left the mail stream?

13 A Can you repeat that, Mr. Tidwell?

14 Q Other than the arrangement between Nashua and the  
15 Postal Service, have you studied any reverse manifest  
16 systems which account for mail after it's left the mail  
17 stream?

18 A No, I have not.

19 Q I'd like to ask you a series of questions that  
20 confirm some of the basic details of the Nashua manifest  
21 system.

22 As I understand it, each day Nashua receives a  
23 number of incoming BRM pieces, or business reply mail  
24 pieces, and uses a manifest to calculate the postage and  
25 fees due for those pieces, is that correct?



1           A     That is correct.

2           Q     And each day, the Postal Service takes a sample of  
3     incoming business reply mail pieces and then compares the  
4     postage and fees due for the sample pieces against the  
5     postage and fees due according to the Nashua manifest on  
6     those same pieces to see if the postage and fees Nashua has  
7     calculated on the manifests are accurate, is that correct?

8           A     That's correct.

9           Q     The system has been in place since October of  
10    1994, or thereabouts?

11          A     That's correct.

12          Q     To your knowledge, has there ever been a month for  
13    which the Nashua manifest did not underestimate the amount  
14    of postage and fees due in comparison to the sample?

15          A     Not to my knowledge.

16          Q     And if the Postal Service did no sampling, that is  
17    if we relied exclusively on Nashua's manifest, isn't it the  
18    case that Nashua would pay less postage and fees than is  
19    presently required?

20          A     It would be correct to say that they would pay  
21    less postage and fees than they have been paying.

22          Q     And they are paying the required postage?

23          A     They are paying the required postage. That's  
24    correct.

25                Just to elaborate, there are sometimes omissions

1 between the sample and the manifest and that's been the  
2 biggest -- the source of the largest discrepancies  
3 generally.

4 In fact, the missing pieces which are included in  
5 the sample are typically on the manifest but the Postal  
6 Service can't find them on the manifest, and this is for  
7 reasons of Nashua's doing, not the Postal Service's, so they  
8 get included in the sample and that -- it's a technical  
9 reason, <sup>what</sup> ~~what~~ happens is that the envelopes come in and the  
10 customer <sup>has</sup> ~~put~~ a sticker on the outside that he's been  
11 supplied with, assuming he is a previous customer, and it  
12 has his number on it.

13 When the sample is taken, the Postal Service gets  
14 these envelopes in front of him and, if there's one of these  
15 stickers on <sup>it</sup>, which a large number of them have, he records  
16 that number.

17 He does not record the name and the address  
18 information.

19 If it is a new customer who doesn't have such a  
20 sticker and he has recorded, the new customer has recorded  
21 their name and address on the outside, then the Postal  
22 Service clerk would record the name and the address.

23 Now later when the Postal Service clerk goes to  
24 the manifest to find out how the manifest rated that piece  
25 of mail, he looks it up, using either the number or the name

1 and address.

2 Now if he's used the name and address he always  
3 finds it because that's totally identifiable, but if he only  
4 has the number and he looks up the number and that number  
5 doesn't appear on the manifest, then there is a missing  
6 entry in the manifest so it appears that the postage was  
7 understated.

8 Now as I have tried to explain in one of my  
9 interrogatory responses, there <sup>are</sup> ~~s~~ two times when that occurs.

10 One is because Nashua used to delete the names of  
11 old customers, ~~if~~ <sup>if</sup> a customer came back after two years and  
12 used an old sticker, when the clerk opened the envelope and  
13 entered that number -- went to enter the number -- it would  
14 not appear because it had been deleted by Nashua's computer  
15 system. This is Nashua's computer system now that had  
16 deleted the old number.

17 They have sort of an automatic purging after two  
18 years if there was no reorder from that customer.

19 So the result was Nashua would automatically  
20 assign a new number to that customer and that customer would  
21 in fact be in the manifest, except with a new number, but the  
22 Postal Service clerk has no knowledge of that new number, *and he*  
23 can't find the old number.

24 So it appears that there is an overstatement of  
25 the -- that is, it's in the sample but it's not included in

1 the manifest so it appears that the manifest has understated  
2 the postage due.

3 In fact, that piece is in the manifest.

4 There is another occurrence that they are aware  
5 of. That one, by the way, they have taken steps to correct.  
6 They no longer delete names after two years, and after time  
7 goes by, the frequency with which people use old stickers,  
8 previous customers pull out of their photographic kits an  
9 old sticker they got years ago, that should decline over  
10 time gradually to the point where it disappears if they no  
11 longer delete the names.

12 People will have the stickers and their names will  
13 be in there with one number and only one number.

14 The other thing that occurs is Nashua for many  
15 years distributed just lots and lots of return envelopes,  
16 reply envelopes with price lists on them. <sup>These</sup> ~~that these~~ were  
17 envelopes that the customer would have to prepay, and when  
18 they started sending out business reply envelopes in which  
19 Nashua paid the postage, the price list on the reply  
20 envelopes with business reply postage prepaid is higher than  
21 the price list on the envelopes where the customer is asked  
22 to pay the postage.

23 A problem that has arisen is that people have  
24 realized this, some customers, and they tear off the order  
25 form and price list from the old envelope, which is lower

1 than the price list on the business reply envelope, and they  
2 stick that in the <sup>business reply</sup> envelope and so you get an envelope back  
3 that doesn't use the order form that was attached to the  
4 envelope. They used a cheaper one.

5 This also gives rise to -- for reasons I won't go  
6 into in great detail -- but whenever that occurs, that  
7 customer cannot be found by the Postal Service clerk if the  
8 piece gets sampled, and of course the Postal Service clerk  
9 has no way to know what's in the envelope.

10 The Postal Service clerk only looks at the  
11 unopened envelope on the outside and he has no way of  
12 knowing that on the inside of this business reply envelope  
13 is a form with a different code number and from an envelope  
14 that the customer was supposed to prepay the postage on.

15 Well, the net result of this is that those  
16 envelopes also don't show up in the manifest.

17 They are in the manifest actually.

18 They were entered originally but due to some  
19 things that happened <sup>in</sup> ~~to~~ the computer system they don't show  
20 up, so Nashua in effect is paying the postage twice on those  
21 things.

22 So to say they are paying less than they should  
23 have paid is a strong statement. To say that they were  
24 paying less than they are recorded as paying is the correct  
25 statement.

1           Q     So is it your testimony that even though Nashua  
2     has always underestimated the postage on the manifest system  
3     that the problem will now be taken care of?

4           A     Well, the first problem, as I indicated over  
5     time -- well, both of them should diminish over time  
6     because -- but the second one will take a much longer time  
7     to diminish.

8                     The first problem, which is tied into the sort of  
9     automatic purging after two years, about six months ago they  
10    made that change so that as we sit here today a customer  
11    would have to pull out a price list -- not a price list but  
12    a sticker that they got, a return sticker.

13                    They have their name and number on these little  
14    stickers -- like peel-off stamps there are peel-off stickers  
15    to put on their order.

16                    They would have had to have been a customer over  
17    two and a half years ago.

18                    Six months from now they would have to have been a  
19    customer over 3 years ago and 18 months from now they would  
20    have to have been a customer over 4 years ago, so as time  
21    goes by I would expect less and less of that to occur.

22                    The second one will also diminish over time  
23    because -- but it's only recently, very recently, that  
24    Nashua has stopped distributing the prepaid reply envelopes  
25    with the lower price lists on them.

1           Now over time, but this may take several years  
2   because people sometimes stuff these things away in their  
3   little photographic kit down at the bottom or something,  
4   they should run out of those old price lists, and when they  
5   run out then they will use the price list that presumably is  
6   attached to the business reply envelope, but until that  
7   occurs that second problem will be a problem.

8           Now that can be corrected by some expensive  
9   programming in Nashua's computer system, but they haven't  
10   undertaken to do that yet, so they just pay the extra  
11   postage.

12   I'm sorry you look puzzled. Was that --

13           Q    Oh, no, no, I was thinking ahead.

14           A    Oh, sorry.

15           Q    Puzzled about other matters.

16           A    Oh.

17           Q    Do you happen to know how much time has been spent  
18   by postal personnel in working with Nashua in working to set  
19   up the reverse manifest system in reviewing and monitoring  
20   it to try to get it to meet postal standards of reliability  
21   and accuracy?

22           A    I do not know that, and I don't think those records  
23   would be in Nashua's possession.

24           Q    If either of your proposals, your alternative  
25   classification proposals were implemented, do you know how

1 much time might be spent on average by postal personnel in  
2 working with specific mailers to set up these systems,  
3 either weight averaging or manifest systems?

4 A Well, weight averaging, the Postal Service itself  
5 sets up. In the case of Mystic, as I indicated in my  
6 testimony, Mystic has participated in ~~the~~ doublechecking the  
7 sample and the accuracy of the sample. That's not a  
8 requirement. In fact, Seattle Filmworks has never  
9 doublechecked the accuracy of the Postal Service samples in  
10 the 15 years or more since they have been using the weight  
11 averaging system.

12 The Postal Service takes a sample, tells them what  
13 the results are and that's that. That's the simplest and  
14 easiest system set up as far as I can see. They just decide  
15 to take a sample, and thereafter, weigh sacks of mail until  
16 it's time to take another sample.

17 The incoming manifest system, it depends on the  
18 status of the sophistication of the computer system that the  
19 recipient of the mail is using to start with. Nashua was,  
20 as I've indicated in some of my interrogatory responses,  
21 already recording almost all of the information necessary to  
22 make the weight calculations that they make.

23 The only thing they had to add was a key stroke  
24 indicating whether the film was returned inside of the  
25 plastic canister that new film comes in, or whether the film



1 had just been stuck in the envelope, not inside the plastic  
2 canister, so as to indicate whether there was the weight of  
3 the canister to be included or not.

4 Otherwise, they already indicated whether there  
5 were extra coupons, what the form of payment was, whether it  
6 was check or cash, how many rolls of film obviously, whether  
7 the film was 24 or 36 exposure film or whether it was one of  
8 these little disposable cameras, what it was. That was  
9 already done by the Nashua system.

10 So the costs are twofold on their part. They've  
11 had to do some programming to create the manifest and create  
12 the weights of the postage on the manifest from the  
13 information that was already there. <sup>Plus,</sup> ~~plus,~~ as the person  
14 opens each envelope and records all the information, they  
15 had to also indicate whether it was or was not inside that  
16 canister, the film, assuming there was just film and not a  
17 disposable camera to start with.

18 Now, my understanding is that Mystic does not  
19 have, for example, nearly so sophisticated an order entry  
20 system as Nashua did. They would have to do a lot more work  
21 to get any kind of an incoming manifest system up and  
22 running and so would Seattle.

23 How much work the Postal Service would have to do  
24 to check on that, I don't know, but presumably if they're  
25 starting further behind the eight ball, so to speak, and

1 have to do a lot more stuff, the Postal Service might have  
2 to do a lot more checking as well.

3 Q And if it were determined that the administrative  
4 cost to the Postal Service for setting up and monitoring and  
5 conducting periodic samples of reverse manifest or weight  
6 averaged systems was significantly higher than the  
7 administrative costs surrounding a typical advance deposit  
8 BRM account, should reverse manifest and weight average BRM  
9 recipients pay significantly higher permit fees or  
10 accounting fees?

11 A You're saying, if I understand your question -- I  
12 have to ask for clarification. You said something about a  
13 typical advance deposit BRM account. What is this  
14 benchmark, typical BRM advance deposit account against which  
15 weight averaging and reverse manifests are being compared?

16 Q Any account that doesn't involve reverse  
17 manifesting or weight averaging?

18 A That could be either BRMAS or it could be non-  
19 BRMAS.

20 Q Make it non-BRMAS.

21 A Okay, well, because these mailers also have  
22 advance deposit accounts, they are advance deposit account  
23 BRM recipients, and what was your question then using that  
24 as the benchmark?

25 Q If the administrative costs for monitoring and

1 sampling the reverse manifest accounts and the weight  
2 averaging accounts were significantly greater, say on the  
3 magnitude of two times greater, three times greater, five  
4 times greater, then a standard advance deposit account  
5 should these reverse manifesters or weight averagers pay  
6 significantly higher permit fees or accounting fees?

7 A Well, I have a great deal of difficulty -- this is  
8 a hypothetical, I take it, because --

9 Q Yes.

10 A In the typical advance deposit, non-BRMAS account,  
11 the pieces are all handled individually and if you were to  
12 handle every piece individually, I find it conceptually very  
13 difficult to see how that could be less expensive and  
14 markedly cheaper than handling, in the case of weight  
15 averaging, an entire sack of mail.

16 Q Well, what I'd like to do is separate out the  
17 actual accounting function, the actual manual weighing and  
18 rating of each individual piece and simply focus on the  
19 actual sampling that needs to take place for weight  
20 averaging and development of weight conversion factors and  
21 working with the mailer to establish a reverse manifest  
22 system, aside from the actual process of rating and  
23 weighting the pieces.

24 If those activities generated significantly  
25 greater costs, should those significantly greater costs be

1 reflected in the advanced deposit account -- a different  
2 advanced deposit account fee or a different permit fee?

3 A Well, I've included those costs in my cost  
4 estimates in my Working Paper 2.

5 I was looking at what you might call total system  
6 cost, and that is these -- there are to my knowledge no  
7 administrative costs other than just preparing the daily  
8 bill for a typical BRM account, advanced deposit, non-BRMAS  
9 BRM account that may receive 10, 20, 50 pieces, who  
10 knows? -- some presumably small number.

11 They are weighed and a bill is created. There is  
12 no sampling done so there is no sampling cost, no sampling  
13 time as there would be, say, in a weight averaging system or  
14 in a reverse manifest system.

15 I think the cost of doing the sampling are  
16 attributable costs and I think they have to be covered  
17 either by the annual fee or by the per piece fee. I think  
18 it is appropriate to recover the costs.

19 Whether they should be recovered in an annual fee  
20 or in a per piece fee, that is a matter of six of one and a  
21 half dozen of the other in a sense, as long as they are  
22 recovered.

23 [Pause.]

24 Q I'd like to take a look at your response to  
25 Postal Service Interrogatory 38(c).

1 A Did you say (b)?

2 Q (c).

3 A (c)?

4 Q Yes.

5 A Yes.

6 Q There in the middle of the first paragraph of your  
7 answer you refer to or you talk about how the Postal Service  
8 employee who takes the sample of incoming Nashua BRM at the  
9 Nashua plant reinserts sampled mail pieces into Nashua's  
10 incoming mail, and I want to ask you after weighing and  
11 rating the daily 50 piece sample, does the Postal Service  
12 employee on site at Nashua commingle the sampled mail pieces  
13 into the Nashua processing stream so that they are not  
14 identifiable to Nashua data entry clerks as having been  
15 sampled, or does that Postal employee bring the 50 pieces to  
16 Nashua data entry keyers all in the same container?

17 A It is my understanding they are commingled with  
18 the incoming mail stream..

19 Q Is that what you have been told or is that what  
20 you have observed?

21 A That is what I have been told.

22 Q Well, what I would like to do is ask you to assume  
23 that in fact the opposite is the case and the sample pieces  
24 are returned to Nashua by the Postal employee in a separate  
25 container or tub and in that instance wouldn't it be

1 possible then for the Nashua keyers to know that the 50  
2 pieces in the container that's presented in front of them  
3 are the sample pieces?

4 A Only if the Postal Service employee took the tub  
5 to one of the Nashua people who was opening the envelopes  
6 and doing it. Otherwise they are getting tubs of mail all  
7 day long brought to them.

8 Q And if the sample pieces were identifiable and  
9 known to be sample pieces by the Nashua data clerks, would  
10 you expect these clerks to make any extra effort to be  
11 accurate when they enter data about these particular pieces?

12 A I don't think they would be any more or less  
13 accurate.

14 It's a very repetitive, boring job. They sit  
15 there all day opening envelopes and entering the information  
16 as it comes in. As I say, in most cases they just hit a  
17 keystroke. It's not like they weigh the piece. They just  
18 indicate whether it's got a canister or something in it.

19 I would expect them to be as accurate as they are  
20 most of the time -- any time I mean. I wouldn't expect them  
21 to give any special treatment to those envelopes.

22 Q And have you had an opportunity to conduct any  
23 sort of analysis to test that hypothesis?

24 A No.

25 Q I'd like to turn your attention to your response

1 to Postal Service Interrogatory 45. I'd like to have you  
2 focus your attention on page 2 of that response.

3 At about two-thirds of the way down the page, you  
4 assert that the private express statutes act to protect the  
5 Postal Service's business reply mail market. Are you  
6 referring to the non-automatable bulk BRM for which you are  
7 proposing fee changes in this proceeding?

8 A No, the entire business reply mail market. It's  
9 my understanding all business reply mail -- business reply  
10 is offered to first class and I guess priority mail only.  
11 It is a special service for first class mail.

12 Q But do you understand that the private express  
13 statutes apply to letters and I gather that the incoming BRM  
14 that is mailed to your clients consists of film canisters,  
15 disposable cameras, film negatives?

16 A Yes.

17 Q Is it your understanding that those items are  
18 subject to the private express statutes?

19 A When mailed by an individual, I don't know if  
20 they're subject to the private express statutes or not  
21 because typically they have an order form, they have a check  
22 in it.

23 It's my understanding that simple mailing of  
24 pictures back is not subject to the private express  
25 statutes. I'd have to be a lawyer to give you that fine

1 interpretation of whether the inclusion of an order form,  
2 return address and check would make the envelope subject to  
3 the private express statutes or not. I'm not sure the film  
4 by itself would, but if you send the film without a check and  
5 without an order blank, you're not going to get your film  
6 back.

7 Q At page three of your response to Interrogatory  
8 45, you refer to the potential for some business reply mail  
9 proposal other than your own which might better serve the  
10 nondiscrimination requirement of the Postal Reorganization  
11 Act.

12 Would you agree that a proposal which was based on  
13 a study of a cross section of different types of non-  
14 automatable bulk BRM recipients rather than just on three  
15 film processors would better inform the Commission about how  
16 to address the nondiscrimination issues that are in the  
17 Postal Reorganization Act?

18 A Would I agree that a broader ranging study would  
19 be more informative, is that what I'm asked?

20 Q Yes.

21 A I would presume that the Commission would like to  
22 have as much information available as it could within a  
23 reasonable time frame.

24 Q And its analysis could benefit substantially from  
25 a study about nonautomatable bulk BRM which focused on the



1 entire universe as opposed to one portion of it?

2 MR. OLSON: Excuse me. The entire universe of  
3 nonautomatable bulk BRM or the entire universe of business  
4 reply mail and BRMAS?

5 BY MR. TIDWELL:

6 Q I'd say the entire universe of nonautomatable bulk  
7 BRM that could potentially qualify for the classification  
8 proposals you make in this proceeding?

9 A Well, let me preface that by saying that as I  
10 reread Commission opinions and recommended decisions from  
11 prior cases, they've been pleading for more information on  
12 business reply mail generally, ~~for~~ going way back.

13 I think in terms of studying impacts, obviously  
14 it's better to have more information than less. If you find  
15 that there is undue and unreasonable discrimination against  
16 some mailers, I don't know that you have to go out and find  
17 that there's more discrimination against more mailers to  
18 have a finding in this case.

19 So I am not, it's always better to have more  
20 information than less, but I think if you find undue and  
21 unreasonable discrimination against one -- this group, you  
22 have the basis for taking action.

23 Now you might fashion the remedy hopefully in a  
24 way that would cast a broader net and be -- and not create  
25 discrimination against yet other mailers if you fashion a

1 remedy that is reasonably nondiscriminatory to a whole  
2 class, such as I have defined as non-automatable bulk BRM  
3 recipients.

4 Q Isn't it possible that if you studied the broader  
5 universe of non-automatable bulk BRM that you might reach a  
6 different conclusion about whether there has been  
7 discrimination against a particular portion of that universe  
8 once you have had an opportunity to compare that, let's say  
9 the film processors, to a broader universe of mailers?

10 A Well, maybe I am not understanding you fully, but I  
11 think what I am hearing you say is you have to define the  
12 threshold for what constitutes a non-automatable bulk BRM  
13 recipient as to one who is a recipient but doesn't receive  
14 it in bulk.

15 I have<sup>^</sup> in both my testimony and in some  
16 interrogatory responses<sup>^</sup> I have tried to address the problem  
17 of defining a threshold for what constitutes bulk.

18 At the same time, my layman's<sup>^</sup> understanding of the  
19 proceedings before the Commission <sup>is</sup> ~~are~~ that the Postal  
20 Service has for time not immemorial, but time since 1970,  
21 argued that those definitions belong in the DMM and are not  
22 the province of the DMCS, and they have argued that the DMM  
23 is the province of the Postal Service, not the Commission.

24 So the proposals that I have fashioned would  
25 indeed simply alter or make minimal changes in the DMCS and

1 leave it to the Postal Service to decide what is the  
2 appropriate threshold for bulk, non-automatable bulk BRM.

3 If I am correct in that assumption that the Postal  
4 Service considers that its turf, then I don't know that the  
5 Commission has to concern itself with that.

6 Q Nevertheless, you propose -- well, you suggest  
7 several alternative methods of determining a minimum volume  
8 for your classification proposals and you ask the Commission  
9 to take those into consideration, do you not?

10 A I have made some suggestions as to how you might  
11 define non-automatable bulk BRM. I have asked the Postal  
12 Service and the Commission to consider that it is not an  
13 insuperable operational problem.

14 I think whether the Postal Service accepts any of  
15 those or comes up with its own definition would really be up  
16 to the Service.

17 Those are in the category of what I call  
18 suggestions as opposed to proposals, and I guess you would  
19 call them suggestions to the Service.

20 Q I'd like to move on to your response to Postal  
21 Service Interrogatory 18 and focus particularly on your  
22 response to Part A, page 2.

23 In the paragraph at the top of page 2, you state  
24 that "Mystic's experience, which is based on repeated  
25 sampling conducted over more than 10 years, indicates that

1 the mix does not change throughout the year. That is, the  
2 rate per pound has been remarkably stable regardless of when  
3 the sample was taken."

4 I would like to focus on what you mean when you  
5 say repeated sampling.

6 Currently how frequently is the BRM sample and the  
7 weight conversion factor calculated for Mystic BRM?

8 A The current instructions call for quarterly  
9 sampling, I believe.

10 Q Is that what the instructions call for or is that  
11 what actually occurs?

12 A I cannot tell you how often they have sampled.  
13 The prior instructions called for -- there were references  
14 in prior correspondence to semi-annual sampling.

15 The current instructions call for quarterly  
16 sampling and I can't tell you if they have been sampling  
17 quarterly because I have not investigated that.

18 Q When semiannual sampling was conducted or at least  
19 called for, do you happen to recall what months of the year  
20 those samples were taken?

21 A The correspondence doesn't indicate the month of  
22 the sample, but I assume the correspondence followed the  
23 sample -- it referred to a sample taken recently and said  
24 what the rate was. As I recall, it was like January and  
25 July, maybe February and August, something like that.

1           Q     Would you happen to know during what months the  
2     quarterly samples are scheduled for currently?

3           A     No. The instructions, as I understand it, say  
4     quarterly or more often if either party feels it should be  
5     more often. There was a sample just taken recently but  
6     whether that was a regularly scheduled sample or that was  
7     prompted by virtue of this proceeding, I don't know. I have  
8     a feeling it was prompted by virtue of this proceeding  
9     because one of your consultants did it, as opposed to the  
10    normal Postal Service employees.

11          Q     Is your statement that the mix does not change  
12    throughout the year based on the entire 10-year period you  
13    refer to in your interrogatory response or does it refer to  
14    the more recent period during which the sampling is supposed  
15    to be conducted quarterly?

16          A     Well, I talked to the production manager at Mystic  
17    and they, as I said, weigh their mail regularly for purposes  
18    of their own planning. They have found that using the  
19    weight just for figuring out how many rolls of film they  
20    have to develop each day is very accurate for them and they  
21    are not aware of any change in the seasonality factor at  
22    all.

23          Q     Have they conducted any sort of empirical analysis  
24    or is this just sort of the judgment of somebody?

25          A     This is judgment. They haven't done any

1 systematic empirical analysis of that factor. I might add,  
2 nor has Seattle. I asked them that explicitly.

3 Q Speaking of Seattle, what is the frequency for the  
4 sampling and weight conversion out at Seattle?

5 A My understanding, again, is that it's supposed to  
6 be quarterly, but has not necessarily been quarterly over  
7 the last 15 years.

8 I think I included <sup>in</sup> an interrogatory <sup>response a</sup> ~~responsive~~  
9 letter, I don't know if it's in the record or not, from a  
10 Postal Service employee who said in the letter ~~that~~ I was  
11 able to locate that there were no prior records available  
12 that he could locate in the Postal Service in Seattle on  
13 either the methodology used or the sampling frequency or  
14 anything else.

15 Q I'd like to move next to your response to Postal  
16 Service Interrogatory 18(c) which is at the bottom of page  
17 two of the response here. There you state, "The incoming  
18 sample is drawn from all of Nashua's incoming BRM and no  
19 pieces are culled out before the sample is taken."

20 Has Nashua ever culled out heavier or lighter  
21 pieces of BRM before the sample was taken?

22 A Not to my knowledge, no. In fact, their sampling  
23 is done according to instructions received from the Postal  
24 Service.

25 Q When you say not to your knowledge, is that

1 firsthand knowledge, have you observed their operations  
2 sufficiently to be certain that's the case or is this what  
3 you've been told?

4 A Well, you're asking ever. I mean, if you're  
5 talking going back to when they started this in October of  
6 1994, the answer is no, I was not there and did not observe  
7 what happened in October of 1994 or any part of 1994, or  
8 even early 1995 for that matter.

9 If you're asking currently, the answer is correct.  
10 If you're asking whether they have ever culled any pieces at  
11 ~~a~~<sup>any</sup> time, I don't believe so. I don't know why they would,  
12 but I can't stand here and say that I've been there for two  
13 years and can vouch that they've never culled any pieces  
14 out.

15 Q I'd like you to assume, for the moment, that it  
16 is, in fact, the case that lighter and heavier weight pieces  
17 are culled out and that this culling still takes place  
18 today.

19 Assuming that to be the case, how would it affect  
20 your conclusions about the accuracy or the reliability or  
21 the representativeness of the samples taken in connection  
22 with the Nashua reverse manifest?

23 A Well --

24 MR. OLSON: Commissioner Quick, although I'm not  
25 necessarily objecting, I would just -- as we get into a

1 hypothetical like this, which is diametrically opposed to  
2 the witness' testimony, I'd just ask Postal Counsel to make a  
3 representation that he has reason to believe the Postal  
4 Service believes that Nashua is culling out lighter and  
5 heavier weight pieces and is doing so systematically and the  
6 Postal Service has known it, and has done nothing about it.

7 If he's willing to make that representation that  
8 there's some reality to the hypothetical, then the witness,  
9 I think, can properly answer. If this is totally out of the  
10 blue, it really clutters the record, I would say, and would  
11 object unless he was willing to make that representation.

12 MR. TIDWELL: There will be an opportunity to make  
13 that sort of representation during the rebuttal stage of the  
14 case if it turns out that the facts support it.

15 I am simply asking a hypothetical here.

16 MR. OLSON: Certainly there'd be an opportunity  
17 during rebuttal for Postal Service to put testimony of  
18 whatever it wants, but just as a good faith matter I would  
19 ask counsel to represent that he has reason to believe that  
20 that is exactly what happens before we ask a witness to  
21 assume something that is 180 degrees different than what he  
22 just testified to.

23 MR. TIDWELL: The Postal Service has reason to  
24 believe that this could be the case and we are simply  
25 seeking to test the witness's knowledge.



1           He states that there is no culling taking place.  
2       We have simply then asked him hypothetically if culling were  
3       taking place would it affect his opinion of the reliability  
4       or the representativeness of the sample.

5           MR. OLSON: Commissioner Quick, I am just asking  
6       then that counsel is confirming that the Postal Service has  
7       reason to believe that Nashua culls out lighter and heavier  
8       weight pieces on a consistent basis and that the Postal  
9       Service has done nothing about that. That's their  
10      representation? Then if that is the case I would not  
11      object.

12          MR. TIDWELL: I don't know that I can represent  
13      that the Postal Service has done nothing about it. My  
14      knowledge doesn't extend that far.

15          COMMISSIONER QUICK: It sounds like a fairly  
16      serious thing to me, Mr. Tidwell.

17          MR. TIDWELL: It is, but there are limits to my  
18      knowledge still.

19          COMMISSIONER QUICK: Well, you may proceed.

20                I would suggest you keep -- your hypothetical  
21      ought to be based somewhat on knowledge that things that are  
22      included in your knowledge maybe --

23          MR. TIDWELL: And I have represented that we have  
24      reason to believe that culling takes place on a regular  
25      basis.

1 COMMISSIONER QUICK: And that nothing has been  
2 done about it?

3 MR. TIDWELL: Again, my knowledge is limited. I  
4 can't make any representations about that.

5 COMMISSIONER QUICK: Well, how far to you intend  
6 to pursue this?

7 MR. TIDWELL: Oh, I'm very near the end. I'm  
8 practically at the end of this line.

9 COMMISSIONER QUICK: You are what?

10 MR. TIDWELL: I am practically at the end of this  
11 line of questions. This was my final question on this line.

12 COMMISSIONER QUICK: Well, why don't you go ahead  
13 and ask your question, and if Dr. Haldi wants to answer it,  
14 he can. If he doesn't choose to accept your assumptions he  
15 can do as he pleases.

16 BY MR. TIDWELL:

17 Q Dr. Haldi, do you need me to repeat the question?

18 A No, I don't think so.

19 Q Okay.

20 A I can only point you to this question, which asks  
21 about culling, and other questions which ask about  
22 underestimate of postage, and I haven't actually been there  
23 and observed any culling taking place of any systematic  
24 pieces at all, or any culling of any type.

25 But if they are culling you would think they could

1 do a better job than they have and show that they are  
2 overpaying postage and get a refund rather than always  
3 being -- on a monthly basis being consistently under and  
4 having to pay more postage each month than they would get  
5 from the sampling.

6 Q But going back to my question, assuming that there  
7 is culling taking place, would it affect your opinion about  
8 the accuracy or the reliability or the representativeness of  
9 the sample?

10 A Obviously if culling takes place on a systematic  
11 basis it could. What I would have to do, since the sampling  
12 is done according to instructions received from the Postal  
13 Service, to my understanding, and they are told to -- I  
14 don't have the precise instructions which they get from the  
15 Postal Service -- they are told like, you know, take the  
16 first piece out of every fifth bag or take the 15th piece  
17 out of every fifth bag -- I have no idea.

18 But I'd want to make sure, frankly, that following  
19 Postal Service instructions doesn't result in the appearance  
20 of culling because that could be. If you are told to  
21 systematically ignore bags and take something out of every  
22 fifth bag somebody standing <sup>there</sup> ~~them~~ might say, gee, they are  
23 culling bags of mail out, whereas in fact they are following  
24 the instructions from the Postal Service.

25 Q I was talking about culling out heavier and

1 lighter weight pieces, as opposed to bags.

2 A I am not aware of any culling of that nature.

3 Q That's fine. We're going to move on to another  
4 subject here.

5 Are you familiar with the single use disposable  
6 cameras out on the market today?

7 A I am familiar that they are out there, yes.

8 Q What is your understanding of the trend in the use  
9 of these cameras by the public from year to year during the  
10 current decade? Is it an upward trend or is the public  
11 using more of these cameras every year?

12 A Well, obviously they didn't exist -- I don't know  
13 when they came on the market, but many years ago they didn't  
14 exist and now they are a significant portion of the market.

15 I haven't inquired the exact portion but probably  
16 as much as a fourth of the market.

17 Whether it has levelled off or is still increasing  
18 I don't know. Certainly they increased from zero to their  
19 present market share.

20 Q And within any given year would you expect there  
21 to be surges or peaks in public use of these camera around  
22 holidays or during summer months?

23 A I have no reason to believe that there would be  
24 any greater use any one time of the year than any other.

25 Q And Nashua -- do all three of your clients,

1 Nashua, Mystic, and Seattle develop film from these cameras?

2 A I think they will all develop film from these  
3 cameras, yes, but in the case of Nashua and Mystic, ~~is~~ they  
4 get a significant proportion because they take whatever film  
5 the public buys anywhere out there.

6 Seattle's whole approach to marketing of their  
7 service is to supply free film to people. And I suspect  
8 that they get some of these disposable cameras anyhow, but I  
9 suspect they get a far lower percentage because of their  
10 custom of supplying free rolls of 35 mm film to their  
11 customers than would Nashua or District -- not District,  
12 Mystic.

13 Q We're even.

14 A We're even -- because they don't supply free film  
15 to their customers, Nashua and Mystic don't.

16 Q For a BRM recipient like Mystic, how could the  
17 seasonal or could any seasonal or holiday surges in the use  
18 of these cameras affect the rate per pound calculation?

19 A Well, if you have a surge of these cameras at  
20 particular times that don't show up when you take the sample  
21 in proportion to when they are <sup>received</sup> later, I presume they would  
22 wind up paying different rates of postage. <sup>-</sup> If, in fact, there  
23 is a surge in the usage and inflow of these cameras as you  
24 hypothesize at certain holiday periods or something like  
25 that.

1           I don't know that's the case, however. I have no  
2 evidence whatsoever. People do take more pictures around  
3 holidays, for sure, and there is a surge. I'm told the week  
4 right after July 4th, all these guys get a huge surge of  
5 mail because people took all these pictures over the July  
6 4th holiday.

7           The question is, did they take a disproportionate  
8 number of these disposable cameras as opposed to using their  
9 regular cameras at that time. That, I don't know.

10          Q     In a similar vein, I'd like you to take a look a  
11 your response to Postal Service Interrogatory 42(g).

12          A     Okay.

13          Q     There you refer to a weight for a disposable  
14 camera with exposed film and you give a weight of 3.894  
15 ounces. Is this weight representative of a particular brand  
16 or model disposable camera?

17          A     Yes. I don't know which one but that was a real  
18 camera that was weighed.

19          Q     It doesn't represent sort of an average weight of  
20 whatever different models or brands may be out there?

21          A     No.

22          Q     Would you happen to know offhand which brand and  
23 model it was?

24          A     No, I don't. I don't think they knew. I think  
25 they weighed an envelope that was unopened, but obviously

1 had a camera in it as opposed to rolls of film. You can  
2 certainly tell an envelope with a camera in it from an  
3 envelope with rolls of film in it.

4 Q I'd like to shift your attention to your response  
5 to Postal Service Interrogatory 25. There you explain how  
6 you arrived at your estimate that the business reply mail  
7 sampling at Nashua should take a postal clerk no more than a  
8 hour per day.

9 If I understand your answer to that interrogatory,  
10 your one hour estimate is based upon observation of Nashua  
11 employees, not postal employees, is that correct?

12 A That is correct.

13 Q How many times have you observed the Postal  
14 Service sampling at Nashua?

15 A How many times have I observed Postal Service  
16 sampling at Nashua? I've been to the plant two or three  
17 times. I'm not sure whether I've observed the sampling on  
18 the incoming BRM or not. I don't recall that.

19 Q Your answer to Number 25 refers to a Nashua  
20 quality control program. Can you tell me in what ways the  
21 tasks performed by Nashua employees as part of this quality  
22 control different from the tasks performed by the Postal  
23 Service employees conducting the sample?

24 A I'm not aware of any differences. They have  
25 decided to mimic -- they're required to set up their own

1 quality control program and they've decided to mimic the  
2 sampling done by the Postal Service itself rather than do  
3 anything different.

4 Q How many times have you observed Nashua employees  
5 conducting these quality control checks?

6 A I haven't observed them. I've talked to the  
7 manager who observes them daily.

8 Q Do you know how long Nashua has been taking this  
9 50-piece sample as part of its quality control process?

10 A My understanding is they've been doing it ever  
11 since they set up the system because both the Postal Service  
12 and Nashua had been following the instructions for  
13 manifesting <sup>in</sup> ~~and~~ the library reference mentioned here, Number  
14 148.

15 Q Do you know whether Nashua culls out either  
16 heavier or lighter pieces during the course of their quality  
17 control system?

18 A Not to my knowledge.

19 Q Do you know whether the results of the Nashua  
20 quality control sampling show the same trend as the Postal  
21 Service sample data reflected in your response to Postal  
22 Service Interrogatory 12?

23 A On average, I think pretty much. As I tried to  
24 indicate previously, the biggest source of discrepancies  
25 have been -- they've been trying to track down things so



1 whenever you sample a piece that doesn't show up in the  
2 manifest the way it shows up in the sample, and they've  
3 fingered over time those problems as recurring problems,  
4 both in their own sample and in the Postal Service's sample,  
5 then they've tried to figure out what to do about these  
6 different problems.

7 As I indicated previously, they have now  
8 eliminated or stopped eliminating -- a better way of putting  
9 it -- they've stopped eliminating their old customers; they  
10 carry them indefinitely now.

11 Q I understood you to say that the Nashua quality  
12 control sample pretty much tracks the data reflected in your  
13 response to Postal Service Interrogatory 12.

14 I was wondering if you might be able to provide  
15 any of that data for us so that we could make a comparison.

16 A Yes. I can get some of that data for you.

17 I don't have them with me today -- or let me  
18 correct the record and say I can get those data for you.

19 MR. TIDWELL: Counsel, when might we be able to  
20 expect that? Do we want to assume a week?

21 MR. OLSON: It may be possible to obtain this. I  
22 don't know to what degree they maintain that information but  
23 insofar as this is material that could have been asked for  
24 during discovery, it is questionable as to whether the Chair  
25 would like to impose the duty on us.

1           If you would, we'll be glad to assume it and try  
2   to do the best we can.

3           It is not exactly, it's not something that popped  
4   out of cross examination I don't believe. I think it's  
5   something that was apparent on the record and could have  
6   been sought through follow-up interrogatories and document  
7   requests at the appropriate time.

8           MR. TIDWELL: We would submit that the burden that  
9   from counsel's representations sounds like the burden might  
10   be relatively small, and we would insist that the Chair  
11   favorable rule --

12          THE WITNESS: How much data are you asking for?

13          MR. OLSON: Commissioner Quick, I have made no  
14   such representation that the burden is small, and I would  
15   not want to have my views characterized as that.

16          I have no idea and I think I would just object as  
17   late filed discovery but whatever the Chair rules we will  
18   endeavor to accomplish. I just think it is inappropriate to  
19   use cross examination to bootstrap discovery, which is what  
20   appears to be happening.

21          MR. TIDWELL: I am seeking clarification of the  
22   witness's interrogatory response and he made a  
23   characterization that -- just minutes ago that the quality  
24   control program data tracks Postal Service data and I am  
25   seeking access to that data so that we can confirm that.

1 MR. OLSON: Commissioner Quick, I don't want to  
2 belabor it and I won't go any further if you don't want, but  
3 there is nothing that counsel found out today that he did  
4 not know before and it is late filed discovery basically,  
5 and we would object but of course we'll do what we have to  
6 do.

7 COMMISSIONER QUICK: I think you mentioned that  
8 you would do the best you could earlier on if you were asked  
9 to provide this.

10 MR. OLSON: We will always do the best we can --  
11 and never more.

12 [Laughter.]

13 COMMISSIONER QUICK: Well, why don't you do that  
14 within a reasonable amount of time.

15 What is a reasonable amount of time, Mr. Tidwell?

16 MR. TIDWELL: This is my first time over here in a  
17 year or so. I seem to recall that homework assignments, as  
18 they are called by the witnesses, witnesses are often given  
19 a week to --

20 COMMISSIONER QUICK: What you can come up with in  
21 a week with your best effort will be fine.

22 MR. OLSON: Yes, sir.

23 COMMISSIONER QUICK: And we will avoid further  
24 delay on this matter. Is that satisfactory, Mr. Tidwell?

25 MR. TIDWELL: Yes, Commissioner Quick.

1 COMMISSIONER QUICK: Thank you. Might I ask where  
2 you might be in your interrogations at this point, do you  
3 think?

4 MR. TIDWELL: I believe that we can be finished  
5 within 10 minutes.

6 COMMISSIONER QUICK: Fine. Please proceed.

7 BY MR. TIDWELL:

8 Q Dr. Haldi, I'd like to turn our attention to your  
9 response to Postal Service Interrogatory 41, particularly  
10 your response to Part D of that interrogatory.

11 Do you have it?

12 A Yes.

13 Q There you indicate that your proposed minimum  
14 volume or suggested minimum volume, the unit cost would  
15 range from between 2.6 to 3.1 cents and you also state that  
16 it seems highly unlikely that an incoming manifest system  
17 would be developed and put in place for a such a  
18 comparatively low volume.

19 What is the basis for your conclusion there?

20 A Well, I guess the basis is that the preparation of  
21 an incoming manifest, the whole setting up of the system, is  
22 rather expensive and time consuming and costly and  
23 cumbersome and for a relatively <sup>small</sup> volume like this -- I don't  
24 know how many mailers would make that effort.

25 I know that in the case of the film processors,

1 with which I am familiar, Nashua and -- excuse me, Mystic  
2 and Seattle, who are both smaller, considerably smaller than  
3 Nashua, do not have the sophisticated order entry system  
4 that Nashua has and it would require quite an effort on the  
5 part of each of those to get up to the point where Nashua  
6 is.

7 I simply assume that other smaller mailers would  
8 probably also not have set up such a sophisticated order  
9 entry system as Nashua has.

10 Q But other than those three mailers, you really  
11 haven't connected any sort of study of what the startup or  
12 development costs would be for the establishment of manifest  
13 systems?

14 A No. I mean any firm has some kind of an order  
15 entry system.

16 The point is, to get it up to the point where you  
17 can compute the weight accurately to, you know, one one-  
18 thousandth of an ounce for determining First Class postage  
19 is a lot of work, to take account of all the things that  
20 come in, that add -- that go into the postage calculation.

21 So~~p~~, yes, any firm that receives orders in  
22 whatever form -- prepaid or BRM -- has an order entry  
23 system.

24 The question is how far are they from being able  
25 to set up an order entry system that logs every piece and

1 calculates the postage with considerable accuracy, and I  
2 would be surprised <sup>if</sup> ~~in~~ any of them who have relatively small  
3 volumes have set up a very sophisticated order entry system  
4 that could quickly go to computing postage on every incoming  
5 piece.

6 Q But it's still possible that there may be firms  
7 out there who can develop the systems much less expensively  
8 than Nashua has?

9 A Anything is possible, yes.

10 Q Assume that there are BRM recipients with volumes  
11 right at or above your suggested minimum qualifying volume  
12 ~~of~~ capable of manifesting and qualifying for the category  
13 you propose, is it your testimony that they be charged the  
14 same two cents per piece fee as Nashua and Mystic and  
15 Seattle?

16 A Yes, that's my proposal. There's always got to be  
17 some kind of rate averaging. I think the question you have  
18 to ask is, is a cost category where every piece in the  
19 category has a unit cost that's no higher than this range I  
20 cite here, more homogeneous or less homogeneous than the  
21 other categories that are out there.

22 Right now, you have BRMAS mail with some unknown  
23 proportion being handled manually, a very high unit cost, a  
24 unit cost that exceeds by 16 times the estimated cost of  
25 handling BRMAS mail on automation equipment.

1           Then in non-automatable -- excuse me, in non-  
2   BRMAS BRM you have a significant proportion that's also  
3   being handled on BRMAS. Your own interrogatory pointed that  
4   out, Number 48.

5           So if you consider BRM in sort of three broad  
6   categories here, advanced deposit BRMAS, you have a huge  
7   disparity in the unit cost, depending on whether the mail  
8   is, in fact, being handled on automation equipment or being  
9   handled manually; in ~~the~~ non-BRMAS, non-bulk BRM, you have a  
10  significant proportion being handled on BRMAS at very low  
11  cost but a very significant portion<sup>is</sup> not, so you have a very  
12  non-homogeneous grouping there; and if you created this  
13  grouping that I've proposed, and if the unit cost of every  
14  piece of the grouping were less than -- take the higher  
15  figure, 3.1 cents or 0.31 dollars, you'd have far and away  
16  the most homogeneous grouping by cost of any of the three  
17  groups of BRM.

18           ~~Homogeneous~~<sup>Homogeneous</sup> groupings by cost is one of Mr.  
19  McBride's primary criteria in Docket MC95-1 for  
20  reclassification. He pointed out all the advantages of  
21  having homogeneous cost groupings there. I don't need to  
22  repeat those.

23       Q     I'd like to direct your attention to your response  
24   to Postal Service Interrogatory 1, particularly page 3, the  
25   paragraph at the bottom of the page.

1           There, you indicate that various postal personnel  
2   have visited the Nashua plant and have had the manifest  
3   system explained and demonstrated to them. Then you go on  
4   to say, "Only complimentary remarks have been received by  
5   Nashua concerning its system."

6           I'd like to refer you to the list of postal  
7   employees on page four of that response and ask you to tell  
8   me, one, were you present when these people visited the  
9   Nashua plant?

10          A     No.

11          Q     From which of these employees did Nashua receive  
12   these complimentary remarks?

13          A     I know that Scott Hamel and Joe Demay have been  
14   particularly supportive and worked very closely with the  
15   development of the system because they're in the Rates and  
16   Classification Service Center that has overseen the whole  
17   development of the thing.

18                With respect to the others, I can't tell you  
19   exactly what any of them have said. I do know that Scott  
20   Hamel, as I say, and Joe Demay have been there several times  
21   and have looked at it in-depth.

22                Mr. Ward, I believe, was only there on one  
23   occasion, had one sort of tour of the plant, was shown,  
24   exhibited, explained, but has not worked with it during its  
25   development.



1           MR. TIDWELL: Commissioner Quick, I'm going to  
2 move on to my final line of questions. I have several very  
3 brief questions that relate to two of Dr. Haldi's  
4 confidential interrogatory responses. They are his  
5 confidential interrogatory responses to Postal Service  
6 Interrogatories 19 and 21.

7           I have discussed with Counsel for Dr. Haldi how I  
8 intend to proceed in this area and I can represent to the  
9 Commissioners that I have some very general questions I want  
10 to ask Dr. Haldi about his answers and that neither the  
11 question, nor the answers will require any reference to  
12 specific, commercially-sensitive data contained in the  
13 answers.

14           I will proceed in a manner I think that can  
15 accommodate Nashua's very legitimate interest in protecting  
16 its commercial and proprietary data that it has provided for  
17 the record here.

18           COMMISSIONER QUICK: Is this satisfactory with  
19 you, Mr. Olson?

20           MR. OLSON: Commissioner Quick, I've had the  
21 pleasure of working for some months now I guess with Mr.  
22 Tidwell about protecting confidentiality of documents and  
23 information that he shared with us and we with him, and he  
24 is exceedingly sensitive to the concerns and I am confident  
25 his questions will be appropriate and I have no reservation

1       whatsoever about just proceeding.

2               I would just ask one matter of clarification. I  
3       might as well ask now. We did not, of course, put -- this  
4       is almost silly but it's worth mentioning anyway -- 19, 20  
5       and 21 in the packet of questions that went to the reporter  
6       for transcription into the record.

7               I'm assuming that insofar as they're being treated  
8       differently and under the Presiding Officer's ruling, they  
9       will not be so transcribed inadvertently in the record  
10      that's public.

11              COMMISSIONER QUICK: We'll see to that, that they  
12      won't be.

13              MR. OLSON: Thank you. Otherwise, I have no  
14      question whatsoever that Mr. Tidwell will do a professional  
15      and competent job in protecting our client confidences.

16              COMMISSIONER QUICK: Fine. Good. Please proceed,  
17      Mr. Tidwell.

18              MR. TIDWELL: Commissioner Quick, is there any  
19      handkerchief handy, I'm getting a little misty over here.

20              [Laughter.]

21              MR. TIDWELL: Allow me a second to compose myself.

22              BY MR. TIDWELL:

23              Q     Dr. Haldi, I'd like to ask you a few quick  
24      questions about a couple of these Interrogatory Responses 19  
25      and 21. I'd like to have you take a look at Number 19

1 first.

2 A Any particular page in that?

3 Q I have a very, very general question that won't  
4 necessarily require a reference to any particular page, I  
5 don't think.

6 A Okay.

7 Q Is it your understanding that Nashua does not  
8 report the daily volume number of pieces on a PS-4, Postal  
9 Service Form 8159?

10 A You're talking about the pieces received or the  
11 pieces logged in?

12 Q Pieces received?

13 A The answer is, I believe they do. I guess the  
14 problem is you want it by day of the week. ~~and without~~ *Without*  
15 discussing the data, Nashua works seven days a week, 24  
16 hours a day and they report the pieces that are logged in  
17 that day. *But* ~~but~~ if you say from midnight to midnight, the mail  
18 may come in in the afternoon and that may or may not get  
19 logged in until the next day. So it does get reported, but  
20 it doesn't get necessarily reported on the day that it  
21 arrives. It may get reported on the day it gets opened and  
22 entered.

23 MR. OLSON: Mr. Chairman, may we --

24 THE WITNESS: That's my understanding, at least.

25 MR. OLSON: Have a moment off the record?

1 COMMISSIONER QUICK: Yes, sir. Go off the record,  
2 please.

3 [Discussion off the record.]

4 MR. OLSON: Thank you. I believe we're  
5 resensitized to something.

6 COMMISSIONER QUICK: Okay. Please proceed, Mr.  
7 Tidwell.

8 BY MR. TIDWELL:

9 Q I'm just trying to make clear, is it your  
10 testimony that Nashua does not provide computer-generated  
11 daily, BRM volume reports to the postage due clerk when an  
12 adjustment has to be made to reconcile the difference  
13 between the sample postage and the manifest postage?

14 A No.

15 Q In form does that data come to the postage due  
16 clerk, in a daily report? Please describe it for me.

17 A The questions asked about -- the question  
18 certainly is not confidential and the question wanted to  
19 know the percentage of incoming BRM received by day of week.  
20 All I'm trying to say is Nashua gets large volumes of mail  
21 all year long but particularly in the summertime and there  
22 is a lag between the time the mail is, in essence, dumped  
23 off the trucks that arrive at Nashua in the sacks. The  
24 sacks get opened and the envelopes get recorded.

25 They try to keep the lag time down to no more than

1 -- hopefully, in their case, no more than 12 hours, but they  
2 don't always make that.

3 So if you're asking received by day of week, the  
4 answer is until they actually open the sacks and start  
5 opening the envelopes, they don't make any records or submit  
6 any records to the Postal Service. It sits there waiting to  
7 be processed.

8 Each day, they give the Postal Service a record of  
9 all the mail that was processed that day but that mail may  
10 have arrived the preceding day. The longer the time period  
11 you take, you get away from this daily problem.

12 In the course of a month, they'll report 99-plus  
13 percent of all the mail that arrived that month. On any  
14 given day, however, if you have a very heavy day the day  
15 before, some of the mail may be sitting there overnight,  
16 sitting there in sacks and they don't report the number of  
17 sacks or the gross weight of the mail.

18 They give an incoming manifest of the mail that's  
19 been actually taken out, opened, orders opened and  
20 processed.

21 Q Okay. I'd like to now turn our attention to your  
22 response to Postal Service Interrogatory 21.

23 A Yes.

24 Q Do you have that?

25 A Yes.

1           Q     In response to the interrogatory you provided  
2 percentages of each firm's annual incoming orders which  
3 arrive by BRM on a monthly basis and you gave us for one  
4 firm ~~a~~ report on a monthly basis for the September '95 to  
5 August '96 period, for another firm a January '95 to  
6 December '95 period, and for the third firm a November '95  
7 to October '96 timeframe.

8                     I was just curious as to whether -- or why there  
9 was no coincidence in the reporting periods.

10          A     I didn't know that that was required.

11          Q     I was curious as to why the variance.

12          A     In the case of Nashua, we took -- we had  
13 previously compiled data in response to another  
14 interrogatory for the months September to August, in fact  
15 <sup>and</sup> for another interrogatory<sup>^</sup>for my testimony.

16                     We did that because in Nashua's case, as I have  
17 indicated in my testimony, the percentage of BRM has been  
18 increasing each month, so when I told you the percentage of  
19 BRM that was their total incoming mail I wanted it for the  
20 most recent 12 months that was practical.

21                     When I wrote my testimony September wasn't  
22 possible. We got it up through August and we also had these  
23 data compiled.

24                     In the case of Mystic, I said whatever is the  
25 easiest and he pulled out a report for the previous calendar

1 year and he said well, let me just give you the previous  
2 calendar year, I have it right here. So we took -- I tried  
3 to make it, frankly, as un-onerous and easy on the  
4 respondents as <sup>^</sup>A could, and in the case of Seattle the guy I  
5 talked to there said how about the last 12 months, and I  
6 said sure, why not? So he <sup>gave</sup>~~came~~ me <sup>the</sup>~~that~~ last 12 months.

7 Q Okay. Without discussing particular -- for each  
8 mailer you've got a percentage of volume per month and  
9 without discussing any particular months or any particular  
10 percentages of volume, would it be safe to say that incoming  
11 volume for these mailers varies somewhat depending on the  
12 season or proximity to holidays?

13 A Both. Yes.

14 Q And some of the high volume months can have twice  
15 as much as some of the low volume months?

16 A Correct. I think the data speak for themselves in  
17 that regard, and I said that in my testimony.

18 Q But regardless of volume, do these recipients get  
19 the same percentage every month of incoming disposable  
20 cameras? Do you know that?

21 A I don't know that.

22 Q Or packages containing multiple rolls of film? Is  
23 there sort of a constant flow of packages that contain two  
24 rolls or does that peak at different times of the year?

25 A I can't tell you that -- I mean people take, when

1 people go on vacations they tend to take multiple rolls,  
2 especially when they go away on vacation.

3 To some small extent that may happen more in the  
4 ~~summary~~<sup>summer</sup> than in the winter, although some people take their  
5 envelopes with them. These are just very small, very thin  
6 envelopes. They are in a library reference there.

7 Since they are business reply envelopes, if they  
8 are, let's say, in the Grand Canyon or Yosemite Park or  
9 anywhere ~~out~~<sup>out</sup> there and they shoot up a roll of film, they  
10 can pull out an envelope, drop it in their business reply  
11 envelope and throw it in the nearest mailbox and be done  
12 with it, and when they get home their pictures are there.

13 I think it is more likely when people, let's say,  
14 go on cruises or other types of vacations where it is not so  
15 convenient ~~or~~<sup>are</sup> in a situation where they are just really  
16 shooting a lot of pictures that they get multiple rolls.

17 I am told the vast majority of orders are single  
18 rolls anyhow, single cameras or single rolls.

19 People shoot up a roll of film and I know in my  
20 wife's case it's kind of ironic. Especially over the winter  
21 months she may have a 36-exposure roll and it will take her  
22 three or four months to finally use it up because we don't  
23 take many pictures in winter. The minute that last picture  
24 is taken she wants those pictures back right away.

25 Now some of those pictures have been sitting in



1 the camera for months and why she needs to have them right  
2 now I don't know, but that's the way I think the average  
3 person is, that once they shoot up a roll of film they then  
4 want to get that roll developed.

5 As I say, the BRM makes it particularly easy to  
6 send in a single roll. Doesn't cost them anything. They  
7 don't save any money by waiting till they have two rolls and  
8 chucking them into an envelope to mail them back, which they  
9 would if they were prepaying the envelope if they thought  
10 about that.

11 I can only speak, you know -- you are dealing with  
12 very large numbers here. The only time I have ever used a  
13 disposable camera was tied into a family wedding event which  
14 had nothing to do with holidays.

15 I don't know how many people do that. I just  
16 don't know what the practice is for these things.

17 MR. TIDWELL: Commissioner Quick, we have no  
18 further questions.

19 COMMISSIONER QUICK: Is there any follow-up? Mr.  
20 Littell?

21 MR. LITTELL: No. I would like to raise a matter  
22 before the Commission recesses.

23 COMMISSIONER QUICK: Oh, okay. We aren't going to  
24 recess until we finish with witness Haldi, I think. We  
25 can't.

1           Is there any follow-up cross examination? I guess  
2   there isn't.

3           Questions from the Bench?

4           [Discussion off the record.]

5           COMMISSIONER LeBLANC: Dr. Haldi, I just need one  
6   clarification.

7           Earlier when you were talking about the -- I'm  
8   drawing a blank -- the underestimate of Nashua's sampling,  
9   costing --

10          THE WITNESS: Yes, sir.

11          COMMISSIONER LeBLANC: -- and then you talked  
12   about sampling, you talked about culling, you talked about a  
13   number of things that would affect the cost, Postal Service  
14   cost.

15          Part of your testimony estimated their annual cost  
16   to be between I think \$54,000 and \$72,000 or whatever it is  
17   on a piece basis.

18          My point is, what would that do to the Postal  
19   Service's cost? I think you said it would be very minimal.  
20   Was that --

21          THE WITNESS: I am not sure I am following you.  
22   What would happen if what --

23          COMMISSIONER LeBLANC: I am just trying to --  
24   would you have any way of knowing what -- how that would  
25   affect their cost, the Postal Service costs?

1 THE WITNESS: What would affect it? Weight-  
2 averaging?

3 COMMISSIONER LeBLANC: Yes. Yes, anything like  
4 that that would be a --

5 THE WITNESS: Well, the weight-averaging system is  
6 a very simple -- I mean it's so simple it blows your mind.

7 COMMISSIONER LeBLANC: That was my understanding.

8 THE WITNESS: They weigh a sack of mail. It  
9 mostly takes them two-three minutes to weigh a sack of mail  
10 and record the weight of the sack of mail and if you have  
11 got 10, 15, 20, 30 sacks you just weigh each sack and record  
12 the weight.

13 COMMISSIONER LeBLANC: Record it and it's over.

14 THE WITNESS: And it's over. Yes, sir, it comes  
15 and goes like -- very fast.

16 In the incoming manifest system, the Postal  
17 Service has -- right now it's been for two years daily  
18 sampling at Nashua and I am assuming -- in fact, they have a  
19 guy stationed there, they haven't stationed any more people  
20 there, but I am still attributing part of the cost of that  
21 person there to the sampling effort now that they do that.

22 It's sort of like a collateral duty to the guy  
23 that is stationed in plant, but if they get the system up to  
24 the point where it's consistently less than 1.5 percent  
25 error, the Postal Service under its own guidelines can cut

1 back on that sampling.

2 Now again in the case of Nashua, because the person  
3 is stationed there, they have a plant load operation, the  
4 amount of time devoted to sampling will diminish, and  
5 whether that diminished time devoted to sampling, in the  
6 case of Nashua, whether that would result in any identifiable  
7 cost savings to the Postal Service is kind of questionable.

8 COMMISSIONER LeBLANC: Well, that was my second  
9 question.

10 THE WITNESS: Because the person is still there.

11 COMMISSIONER LeBLANC: But there is no  
12 definitive --

13 THE WITNESS: No. But there is some differences  
14 here.

15 Mystic, for example, is not a plant load  
16 operation. They take the mail to the post office each day  
17 and enter it at the post office. They don't have a postal  
18 employee stationed on the premises the way Nashua does. ~~so~~ So,  
19 if they had an incoming manifest system somebody would have  
20 to go from the post office up there to Mystic's plant every  
21 day and take a sample until they got the sample within this  
22 1.5 percent variance. <sup>And</sup> ~~and~~ then at that point, if they reach  
23 that point, this is always a hypothetical, where they could  
24 then cut down on the amount of sampling at Mystic or  
25 anyplace like that, that would be presumably identifiable

1 savings because that person would not have to go out of the  
2 post office and down to Mystic and then come back to the  
3 post office. That's correct.

4 COMMISSIONER LeBLANC: That answered my question,  
5 and thank you.

6 COMMISSIONER QUICK: Any follow-up cross  
7 examination as a result from questions from the Bench?

8 [No response.]

9 COMMISSIONER QUICK: This brings us to redirect.  
10 Mr. Olson, would you like an opportunity to  
11 consult with your witness before stating whether you want to  
12 have redirect?

13 MR. OLSON: Probably 60 seconds, Commissioner  
14 Quick.

15 COMMISSIONER QUICK: That's great -- 60 seconds,  
16 you've got it.

17 [Pause.]

18 COMMISSIONER QUICK: Mr. Olson.

19 MR. OLSON: Commissioner Quick, I just have two  
20 quick questions.

21 REDIRECT EXAMINATION

22 BY MR. OLSON:

23 Q Dr. Haldi, during your questioning from Mr.  
24 Tidwell, he asked you about the Nashua incoming manifest  
25 system and what happens to account for the 2 percent or so

1 by which the manifest has understated postage in recent  
2 months.

3 You described two different scenarios, one having  
4 to do with Nashua's practice of deleting customers after two  
5 years, and the other doesn't immediately come to mind, but  
6 there were two different reasons.

7 What was the other reason?

8 A The other one was when people use a BRMAS envelope  
9 to mail the order in but use an order form off of an old  
10 customer prepay envelope.

11 Q Okay. If the Postal Service sampler cannot find  
12 the piece, I believe you said before that it is in these  
13 cases nevertheless in there, it's just not in under the  
14 number that they are searching for, is that what you said?

15 A That's correct, that's correct.

16 Q And when the adjustment is made to the amount of  
17 money that Nashua should pay the Postal Service then on a  
18 daily basis based on the sampling, what does that result in,  
19 Nashua paying Postal Service more or less than otherwise?

20 A Okay. I guess I didn't cover that very well, but  
21 I mean if you see the sheets where the sample is taken and  
22 then the manifest postage is -- they get the postage from  
23 the manifest, there's two columns of numbers and there's 50  
24 pieces listed there with some identification for the piece<sup>e</sup>  
25 as I said, a customer number if they have found that on the

1 outside of the envelope or name and address if they haven't.

2 Of course, for every sampled piece there is a  
3 computed postage. The postal clerk has a very accurate  
4 scale and they basically just weigh the piece and compute  
5 the postage, adding in the <sup>BRM</sup>~~PRM~~ fee and the 11 cent  
6 nonstandard surcharge, if that is applicable, and so there  
7 is a postage entered for every piece in the sample under the  
8 sample column. <sup>Then,</sup> ~~and then~~ under the manifest column, they go  
9 into the manifest to find out what the manifest charged for  
10 that piece of mail.

11 Many of the pieces of course are identical, but if  
12 you come across one of these pieces that is omitted or they  
13 couldn't find the piece in the manifest, it is simply  
14 entered under the second column as zero or dash -- usually  
15 they just draw a dash, so when you add up the two columns  
16 you get postage for the sample with the postage for all 50  
17 pieces.

18 When you add up the other column you get the  
19 postage for 49 pieces or 48 pieces -- I don't think I have  
20 ever seen one with more than two pieces where there was a  
21 dash in there -- but they are entered as zero under the  
22 manifest.

23 You then take the postage according to the  
24 manifest as a percentage of the postage according to the  
25 sample and if the postage is, if it's within 1.5 percent,

1 they don't make an adjustment up or down, but if it is more  
2 than 1.5 percent difference so that the postage on the  
3 manifest is, let's say, 98 percent or 97 percent of the  
4 postage on the sample, they then inflate the postage for  
5 that entire day by up to 100 percent. ~~so that~~ <sup>So,</sup> when pieces  
6 can't be located they are entered as a zero, and that causes  
7 the postage to be less on the manifest column of postage  
8 than the sample postage, with the net result that Nashua gets  
9 a hike in the entire manifest for that day.

10 That has the effect then of increasing the  
11 amount -- these omissions have the effect of increasing the  
12 amount of postage that Nashua pays by that amount. It's a  
13 small percentage typically, but they wind up paying more  
14 postage on the whole, however many thousands of pieces they  
15 log in that day.

16 Does that clarify it a little bit? You have two  
17 columns. One is the sample and that's your base, and  
18 whenever you underestimate postage in the manifest, that  
19 means it's going to get jacked up to come up to the sample.  
20 But if you underestimate it completely because they can't  
21 find it, that's the worst possible case. So that then  
22 results in the maximum increase when you make the  
23 comparison.

24 Q Dr. Haldi, on another matter, earlier Mr. Tidwell  
25 asked you questions about the study that you did,



1 specifically including the mailing practices of these  
2 mailers that are the intervenors in this case, Nashua,  
3 Mystic and Seattle, and contrasted your study with the study  
4 of what he described as the universe of non-automatable bulk  
5 business reply mailers.

6           Could you tell us now what you did in your study  
7 to identify that universe of non-automatable bulk business  
8 reply mailers?

9           A     Well, yes. I realize that, you know, it would be  
10 better to have more information rather than less, and  
11 towards that end, I first tried to find out who all the  
12 photo-finishers are who do through-the-mail photo-finishing,  
13 and I identified three other smaller ones. Well, there's  
14 really four. District we know about. Mr. Tidwell and I are  
15 now even; we're both aware of District. They're a very  
16 large photo-finisher, except they don't use BRM except for a  
17 very few small samples they've tried.

18           There are three other through-the-mail photo-  
19 finishers which I identified in response to one of the  
20 interrogatories. I think it was number 10, which didn't get  
21 designated. There's one up in Bennington, Vermont called  
22 Vermont Color Lab; there's one in Hollywood, Florida by the  
23 name of Dale; and one in Austin, Texas by the name of  
24 Skrudland. I do not know whether they use BRM. I have not  
25 even inquired. They are certainly potential users of BRM if

1 they don't use it right now. They obviously receive films  
2 through the mail. Those packets of film are certainly not  
3 automatable. That's not in dispute.

4 But in addition to that, I tried to find out what  
5 other types of firms or types of industries would be regular  
6 recipients of what I've described as non-automatable bulk  
7 BRM, and I really haven't been able to come up with very  
8 much. I have asked various people that I know in the postal  
9 community, heads of certain mailing associations. I've  
10 actually had a former Postal Service employee call some  
11 people he knew in various post offices around the country to  
12 see if they were aware of any extensive use of non-  
13 automatable BRM. We have asked the Postal Service in an  
14 interrogatory response what they knew about who was  
15 receiving large amounts of non-automatable bulk BRM. And I  
16 went to a MailCom meeting down in Dallas, Texas, I asked  
17 people there if -- various people that I met -- there were  
18 some that I knew, some that I ran into, and went to some  
19 industry meetings to see if there was any extensive use of  
20 non-automatable bulk BRM ~~in AM~~, and so far I haven't come up  
21 with very many.

22 The only thing I have come up with is that there  
23 are said to be some medical testing laboratories that supply  
24 physicians with BRM envelopes, and I guess these would be  
25 testing laboratories where the stuff has to travel some

1 distance. I don't know very much about them. I do know  
2 that medical testing has gotten very, very specialized.  
3 Some labs specialize in things and they serve very wide  
4 areas of the country where there is sophisticated testing  
5 equipment. So people may send things from far away.

6 There are some cases I'm told where some of these  
7 -- I have no idea how extensive they are. I presume that  
8 any kind of medical specimens would be non-automatable,  
9 wouldn't be running through your automation machinery.

10 Beyond that, I don't know of anything and I  
11 haven't gotten any more information from the Postal Service  
12 even though they allude to maybe having some by now. That's  
13 all I know.

14 MR. OLSON: We have nothing further. Thank you.

15 COMMISSIONER QUICK: Did redirect generate any  
16 further recross examination?

17 MR. TIDWELL: Just a little, Commissioner Quick.

18 COMMISSIONER QUICK: Fine. Go ahead.

19 RECROSS EXAMINATION

20 BY MR. TIDWELL:

21 Q Dr. Haldi, in your discussion with counsel Olson  
22 you made a -- you referred to two or three possible reasons  
23 for the consistent underreporting of postage in the Nashua  
24 manifest system. Are there potentially other reasons why  
25 the system consistently underreports, or these two or three

1 are just the only ones you've been able to identify or are  
2 there possibly others?

3 A These are the systematic errors and omissions, you  
4 might call it. I have talked to all three of the firms and  
5 they all get a small percentage <sup>of customers who</sup> pay cash. Now, most times  
6 when people pay cash, and it's not very many that send cash  
7 through the mail anyhow -- I'll pull an odd number out -- if  
8 it's \$4.50, they would normally send four dollar bills and  
9 50 cents scotch taped to a piece of paper or something. But  
10 every once in a while, you get some person who, for whatever  
11 reason, will scotch tape eight quarters or ten quarters and  
12 ~~ten~~ <sup>Then</sup> put in two dollar bills or something, but that's -- in  
13 the first place, not many people pay cash at all, and the  
14 people who elect to pay with coins as opposed to using paper  
15 money for the -- and coins only for the odd amounts are very  
16 rare. But they crop up occasionally, and when they do, when  
17 Nashua gets a cash payment in their manifest entry system,  
18 there's a kind of an average weight that goes in. They say  
19 cash, and that -- the average weight that goes in is more  
20 than if people pay by check because they know there's some  
21 coins in there. They don't have a -- you'd have to work  
22 hard to order something from Nashua that came out in even  
23 dollars. The way their whole price structure is, you're  
24 almost likely to have some change included. So if they pay  
25 cash, there's a higher weight imputed or added in than if a

1 person pays by check which is indicated by their order entry  
2 system.

3 But I think it's generally assumed that on  
4 average, people will use dollar bills, paper money, and pay  
5 the odd amount in change, but every once in a while, and  
6 it's totally nonsystematic, you can't do anything about it,  
7 you get this person that will tape a bunch of quarters to a  
8 piece of cardboard or something and stick it in there.

9 Q Does Nashua regard this underestimating problem to  
10 be a significant problem?

11 A Well, they have had an obvious incentive,  
12 especially for the types of things I have indicated, to try  
13 and eliminate it because they wind up paying a higher  
14 postage on average every month, and they're already paying  
15 -- the pieces are in the manifest, and yet, when they're not  
16 ~~yet~~ counted, they wind up paying a higher postage. So they  
17 have had an incentive to try and eliminate this problem that  
18 I've described, because the quicker they can get those  
19 pieces included in the manifest <sup>that are</sup> ~~or~~ in the sample and  
20 eliminate those discrepancies, the quicker they will get to  
21 that point -- even for any given day, if they can do that,  
22 they would pay less postage, additional postage, that little  
23 surplus payment they have to make to bring the thing up to  
24 100 percent of the sample.

25 Q How is it surplus if it just brings it up to 100

1 percent?

2 A Well, if the manifest postage says -- well, let's  
3 say the sample postage says, to make it real simple, it  
4 should have been \$100, just to use a round number -- for 50  
5 pieces, you wouldn't get to \$100, I suppose, but if the  
6 sample postage column for the 50 pieces added up to \$100 and  
7 the postage shown on the manifest added up to \$97, you would  
8 then add to the manifest a little more than three percent,  
9  $3/97$ ths, which is a fraction more than three percent, to  
10 bring that manifest postage up to what you have in the  
11 sample.

12 But if the manifest for the day said the incoming  
13 postage was \$4,000, then you would add three percent to the  
14 \$4,000 to bring it up. So you're paying three percent of  
15 \$4,000 not three percent of those 50 pieces.

16 So those omissions are costing them ~~then~~ a fairly  
17 substantial amount of money, <sup>owing to</sup> the fact that they can't track  
18 them through the manifest. So they have an incentive then  
19 to try and eliminate that, so there will be this coincidence  
20 and they won't have to pay the extra postage.

21 MR. TIDWELL: No further questions.

22 COMMISSIONER QUICK: Thank you, Dr. Haldi. We  
23 appreciate your appearance here today and your contributions  
24 to our record. If there is nothing further, you are  
25 excused.

1 THE WITNESS: Thank you, Mr. Chairman.

2 [Witness excused.]

3 COMMISSIONER QUICK: Mr. Litttell?

4 MR. LITTELL: I'm sorry --

5 COMMISSIONER QUICK: I'm sorry. I didn't -- Your  
6 point related to Dr. Haldi -- okay. Go ahead.

7 MR. LITTELL: I would like to raise a point with  
8 respect to your ruling about the Postal Service providing a  
9 supplement to its motion to strike. First, in view of the  
10 fact that there are two weekend days and a holiday  
11 intervening in the time left for answer, I hope that it  
12 should be understood that the Postal Service will send  
13 copies of its supplement to the related counsel by fax and  
14 not by ordinary mail.

15 COMMISSIONER QUICK: Will Postal Service counsel  
16 take note of that and suggest that to Ms. Duchek or whoever  
17 will be managing this response?

18 MR. HOLLIES: Ms. Duchek, when she reads the  
19 transcript of today's proceedings and sees the tribute that  
20 was paid to me by Mr. Olson, she will do whatever is  
21 necessary to earn such a tribute from counsel here today.

22 COMMISSIONER QUICK: All right. Well, Mr. Littell  
23 makes a good point. Let's get those --

24 MR. HOLLIES: Mr. Littell can rest assured that  
25 Ms. Duchek will fax whatever pleading she files to his

1 office.

2 MR. LITTELL: I have another --

3 COMMISSIONER QUICK: Yes, sir. Go ahead.

4 MR. LITTELL: The reason that Commissioner Quick  
5 has asked for the supplemental brief is that the Postal  
6 Service did not explain -- and I'm reading from the  
7 transcript -- why it failed to adhere to the 14-day  
8 requirement and, Commissioner Quick, you then said, "I would  
9 like the Postal Service to supplement its motion with a  
10 discussion of this point." And I would like clarification  
11 that the Postal Service's supplemental motion is to be  
12 limited to the question of its failure to file on a timely  
13 basis rather than all other points that may have been  
14 raised.

15 COMMISSIONER QUICK: Does anybody want to comment  
16 on that?

17 MR. TIDWELL: Before the Presiding Officer rules,  
18 I would only point out that the Postal Service counsel who  
19 could best address the issue has left the building, and we  
20 would request an opportunity to offer our views on this  
21 issue in writing from Ms. Duchek.

22 MR. LITTELL: I would be happy to return if Ms.  
23 Duchek would return so we could clarify this today. She  
24 doesn't have much time to get her pleading in.

25 COMMISSIONER QUICK: Perhaps -- go ahead.



1           MR. LITTELL: I think it's clear from the  
2 transcript that that is the intention, because at transcript  
3 page 1337, after talking about the 14-day rule and the  
4 failure of the Postal Service to comply with it, the  
5 statement by you, Commissioner, is quote, "I would like the  
6 Postal Service to supplement its motion with a discussion of  
7 this point," end quote, which I don't think opens up for a  
8 discussion of the other points. If it did, that would  
9 violate the rule in the Commission's rules which says there  
10 shall be no answer to answers and, indeed, would prejudice  
11 us since, by filing a prompt reply, we would have subjected  
12 ourselves to an otherwise unpermitted reply to our answer.

13           COMMISSIONER QUICK: Mr. Tidwell?

14           MR. TIDWELL: I have a suggestion, and that  
15 suggestion is that distinguished counsel, at the conclusion  
16 of today's proceedings, call my colleague and determine the  
17 extent to which they have any disagreement on these points,  
18 and then both parties forthwith file pleadings with the  
19 Commission and give the Commission an opportunity to clarify  
20 the dispute.

21           MR. COSTICH: Commissioner Quick, Rand Costich,  
22 OCA.

23           COMMISSIONER QUICK: Yes, sir.

24           MR. COSTICH: At the time of the ruling, I didn't  
25 think there was any ambiguity either. The Postal Service

1 was told to explain why it didn't file 14 days before the  
2 witness appeared, that was it. Now counsel for MMA has  
3 filed its pleading early and Postal Service is now perhaps  
4 going to have the opportunity to file an unauthorized  
5 pleading rebutting it. I don't think there is anything for  
6 counsel to discuss. It's clear what the ruling was.

7 MR. TIDWELL: Can the parties cite to the  
8 transcript so that counsel for the Postal Service can  
9 respond?

10 MR. LITTELL: As I mentioned a few minutes  
11 earlier, the quotation that I made of Commissioner Quick's  
12 ruling appears on yesterday's volume number 5, page 1337,  
13 lines 1 through 6.

14 COMMISSIONER QUICK: We'll go off the record for  
15 just a couple of minutes here.

16 [Off the record.]

17 COMMISSIONER QUICK: Go back on the record,  
18 please.

19 Mr. Littell cites the transcript accurately,  
20 however not completely, and my full ruling through line 20,  
21 particularly lines 17 through 20, where it says, "Further,  
22 the Service is to provide sufficient explanation to enable  
23 me to understand the link between the witnesses' testimony  
24 and the grounds for exclusion relied on by the Postal  
25 Service," I think that that enables the Postal Service to --

1 well, the Postal Service should respond to the whole ruling  
2 and not just the lines cited by Mr. Littell.

3 Counsel for the Postal Service?

4 MR. HOLLIES: This is Mr. Hollies for the Postal  
5 Service.

6 Yes, that was my understanding, that there was  
7 some further discussion than just those lines, and I'm  
8 confident that Ms. Duchek will stay within the bounds of  
9 what you've asked for in the transcript.

10 COMMISSIONER QUICK: Right. She will have, if she  
11 doesn't already, a copy of the transcript for her guidance.

12 MR. HOLLIES: That's correct.

13 COMMISSIONER QUICK: Okay.

14 Mr. Littell, any further --

15 MR. LITTELL: No. I understand that ruling to  
16 mean that the argument of the basic question -- namely,  
17 whether an expert may rely upon material that is not itself  
18 of evidentiary value -- will not be a subject of the  
19 response.

20 COMMISSIONER QUICK: The response will address the  
21 points made by my ruling, and that will be -- whatever Ms.  
22 Duchek and her colleagues are required to do will -- they  
23 will do in order to respond to the ruling.

24 MR. LITTELL: Thank you, Commissioner Quick.

25 COMMISSIONER QUICK: All right.

1 Mr. Olson?

2 MR. OLSON: Commissioner Quick, one point of  
3 inquiry with respect to the date on which designations of  
4 Postal Service interrogatories are due. I haven't had a  
5 chance to look at that volume yet of yesterday's transcript,  
6 but I want to confirm that the extension sought by the OCA  
7 for filing of the 21st is applicable to other -- to  
8 intervenors as well, because we also did not receive that  
9 ruling and had no idea until just about seven minutes ago  
10 that there was such a ruling setting an earlier date.

11 If the extension has been granted to OCA, may we  
12 also file by the 21st?

13 COMMISSIONER QUICK: Sure.

14 MR. OLSON: Okay.

15 And Mr. Quick, one other question, and it has to  
16 do with a number that Commissioner LeBlanc used in his  
17 question from the bench to Dr. Haldi, and I didn't know the  
18 source of it and I just wanted to make sure inadvertently  
19 something didn't slip, but I didn't catch the question  
20 clearly enough to be able to know if that was from the  
21 confidential documents. I'm sure it isn't, but --

22 COMMISSIONER LeBLANC: No.

23 MR. OLSON: No question about it. Then that's all  
24 I have. Thank you.

25 COMMISSIONER QUICK: Okay.

1           That concludes today's hearing. We will reconvene  
2 tomorrow, Wednesday, November 20th, when we will receive the  
3 testimony of the Office of Consumer Advocate Witness  
4 Sherman.

5           Thank you.

6           [Whereupon, at 1:43 p.m., the hearing was  
7 recessed, to reconvene at 9:30 a.m., Wednesday, November 20,  
8 1996.]

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