

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

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OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

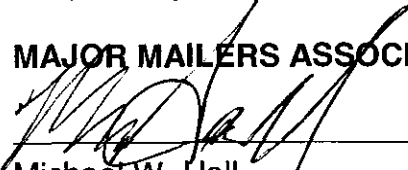
**RESPONSES OF MAJOR MAILERS ASSOCIATION
WITNESS BENTLEY TO INTERROGATORIES OF
THE UNITED STATES POSTAL SERVICE**

Major Mailers Association hereby provides the responses of witness Richard E. Bentley to the following interrogatories of the United States Postal Service: USPS/MMA-T1-1-6, filed on June 1, 2000.

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

Respectfully submitted,

MAJOR MAILERS ASSOCIATION



Michael W. Hall
34696 Bloomfield Road
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Dated: Round Hill, Virginia
June 14, 2000

Certificate Of Service

I hereby certify that I have this date served the following discovery responses upon the United States Postal Service, the Designated Officer of the Commission and other participants who have requested service of all discovery documents.

Dated June 14, 2000



Michael W. Hall

USPS/MMA-T1-1

In your testimony, you recommend [for First-Class Mail letters] that the basic automation discount be increased by 0.2 cents and the 3-digit automation discount be increased by 0.3 cents. Your recommendations for the other presort categories, nonautomation presort, 5-digit automation and carrier route, are the same as the Postal Service's proposed discounts (MMA-T-1 at 24). You recommend the following increases in the discounts for workshared letters: 0.2 cents for Automation Basic and 0.3 cents for 3-Digit Automation (MMA-T-1 at page 8).

- (a) Please confirm that the basic automation discount you describe above is being measured in relation to the metered benchmark, while the 3-digit, 5-digit, and carrier route discounts described are in terms of the previous automation tier (for example, 3-digit in terms of basic automation or 5-digit in terms of 3-digit automation). If you cannot confirm, please explain why not.
- (b) Please confirm that if discounts are measured in terms of the proposed single-piece rate of 34 cents (instead of the benchmark or the previous automation tier), the table below results. If you cannot confirm, please explain.

| Rate Category | Discount from Single-Piece Letter Rate | | |
|------------------|--|----------------------------------|---------------------------------|
| | Current Discount | USPS Proposal Docket No. R2000-1 | MMA Proposal Docket No. R2000-1 |
| Basic Automation | 6.0 | 6.0 | 6.2 |
| 3-Digit Letter | 6.9 | 6.9 | 7.4 |
| 5-Digit Letter | 8.7 | 8.7 | 9.2 |
| Carrier Route | 9.2 | 9.2 | 9.7 |

RESPONSE:

- (a) Confirmed. Please see Table 5 on page 13 of my testimony where I indicate the benchmark from which each cost savings is measured. For consistency and ease of understanding, I have used the same benchmark levels (in terms of definition) as USPS witness Miller.

(b) Confirmed. Please see Table 10 on page 25 of my testimony for the specific proposed rates. The difference between each proposed rate and the 34-cent First-Class Basic rate equals the difference shown in your table above.

USPS/MMA-T1-2

Please confirm that in developing your letter automation proposals in Docket No. R97-1 you used bulk metered mail as your benchmark.

RESPONSE:

In Docket No. R97-1, I answered the same question, as follows (see response to interrogatory USPS/MMA-T1-9C):

Q. Please confirm that in developing your letter automation proposals, you used bulk metered mail as the benchmark, as did witness Fronk in developing the Postal Service proposal. If not confirmed, please explain.

A. Confirmed. In order to support my proposal of at least a .2-cent reduction from the Postal Service's proposed First-Class Automation rates, the 20 to 24 percent increase in the derived cost savings, representing 1.5 to 2.6 cents, was much more than sufficient for my purposes. For this reason, I did not specifically accept or reject the Postal Service's use of bulk metered mail as the appropriate benchmark for measuring First-Class Automated letter cost savings. (Citation omitted)

In addition, as I have consistently recommended for the past twenty years, mail preparation costs should be reflected in the measurement of workshare cost savings. In Docket No. R97-1, I stated this on page 17 of my direct testimony. The benchmark in this case represents a different situation. Please review pages 19 – 22 of my direct testimony where I discuss the inappropriateness of using bulk metered mail (BMM) as the benchmark from which to measure workshare cost savings for Basic Automation letters. Although a case could be made to use average nonpresorted letters as the appropriate benchmark, I have used metered mail letters (MML) as the benchmark in order to be conservative. The only difference between the BMM and MML benchmark mail pieces is that

MML pieces incur mail preparations costs while BMM pieces do not incur mail preparation costs. Workshare letters enable the Postal Service to avoid mail preparation costs of facing, culling and canceling, so such costs should be reflected in the cost savings analysis. To the extent that collection costs are attributable, such cost are also averted. I have not included collection costs in my cost savings analysis, however.

As indicated on page 21 of my testimony, witnesses Fronk and Miller claim that BMM is the “mail most likely to convert to workshare.” I disagree. As defined by the Postal Service, BMM is voluntarily packed and faced in trays and deposited at a post office location. There is no clear evidence that BMM letters actually exist in today’s mailstream, making it clearly inappropriate to assume that BMM is the most likely source of new workshare volumes. Moreover, there is ample evidence that BMM is not the source for new workshare volumes. A more logical source consists of letters that exhibit various cost attributes, including payment by both meter imprint and stamps, and which are *not* brought to the post office neatly packed and faced in trays. For these reasons, I do not believe that BMM is an appropriate benchmark to use in setting presorted rates that affect 47 billion letters in the test year.

USPS/MMA-T1-3

Please refer to Table 10 of your testimony (MMA-T-1), which presents MMA proposed increases in First-Class Mail rates. For 3-digit automation letters and 5-digit automation letters (the two largest categories of workshared First-Class Mail), MMA proposes increases of 1.9 percent and 2.1 percent, respectively. The Postal Service has proposed increases for other subclasses of mail that are significantly higher than these increases, for example, Standard (A) Regular a 9.4 percent increase or Outside County Periodicals a 12.7% increase (Exhibit USPS-32D).

- (a) In developing your First-Class rate proposals, did you compare your proposed percentage increases to the rate increases for other classes of mail? If not, why not?
- (b) The fourth pricing criterion (39 U.S.C. § 3622(b)(4)) of the Postal Reorganization Act concerns the effect of rate increases upon the general public, business mail users, and enterprises in the private sector of the economy. How did you take account of this pricing criterion in developing your rate proposals?

RESPONSE:

- (a) No, I have not developed my rate proposals by comparing MMA's proposed percentage increases in presort rates to the proposed percentage rate increases for other classes of mail. To evaluate the rates for all subclasses by application of the ratemaking criteria of the Act would require a full-blown rate filing similar to that submitted by the Postal Service. I doubt that MMA (or any other intervenor for that matter) has the resources in terms of time, money and manpower to make such a large-scale proposal.

I have developed my specific rate proposals based, in part, on the Commission's stated long-term objective to lower the First-Class revenue burden. In case after case the Commission seems to have consistently raised First-Class rates to levels that are higher than it would like to.

Please see pages 4 and 5 of my testimony where I discuss specific references to the last four Commission Opinions. The Postal Service's proposal in this case will raise that revenue burden even more, as I show in Table 2 on page 7 of my testimony. Even with MMA's proposal for lowering First-Class rates, the resulting revenue targets will still be substantially higher than the Commission has indicated it would prefer.

I have also developed my specific rate proposals, in part, to correct the Postal Service's tendency to understate workshare cost savings. Within First Class, workshare letters continue to be burdened with the highest cost coverage of all major subclasses and contribute an extremely high proportion of the overall contribution that First Class makes to institutional costs. While the mark-up index of First-Class single piece was projected to hover near the average since Docket No. R90-1 (with a mark-up index of 100), the mark-up index for workshare letters was targeted at 269 in Docket No. R97-1, and 262 at the Service's proposed rates. See the table below.

| Rate Category | Mark-Up Index | | | |
|-------------------|---------------|-------|-------|-------|
| | R90-1 | R94-1 | R97-1 | R00-1 |
| First Class: | | | | |
| Nonpresorted | 97% | 102% | 89% | 102% |
| Presorted | 231% | 226% | 269% | 262% |
| Total First Class | 124% | 133% | 132% | 145% |

Workshare letters' disproportionate contribution to institutional costs is attributable, in large part, to the Postal Service's continued attempt to raise workshare rates by artificially reducing derived worksharing cost savings. As discussed in my testimony, there are four major factors that produce the understatement of derived cost savings: use of the USPS proposed cost attribution methodology, removal of relevant cost pools from being considered as related to worksharing, use of BMM as the benchmark from which to measure Basic Presorted cost savings and USPS witness Miller's decision not to reflect additional worksharing activities that First-Class presort mailers perform as part of the Service's analysis.

I also believe that the Postal Service has understated the importance of the workshare programs in terms of providing the necessary monetary incentives to maintain the complete cooperation of mailers who, in due time, will be prebarcoding more than half of all First-Class letters. Because the Service's barcoding capabilities are at capacity, Mr. Miller's extremely narrow definition of workshare savings fails to consider the potentially disastrous impact on postal operations if First-Class presort mailers lose their incentive to properly prepare and deposit their mail.

- (b) I believe I gave adequate weight to the proposed impact of my rate proposals upon "the general public, business mail users, and enterprises in the private sector of the economy." My proposals result in moderately

lower rate increases, compared to the Service's proposed rates; therefore my proposals will have less of an adverse impact on mailers.

MMA/USPS-T1-4

In your testimony you state:

Because USPS witness Daniel failed to isolate the specific impact of weight on costs, it is not possible to conclude, as USPS witness Fronk apparently still does, that 2-ounce letters cost more than 1-ounce letters solely *because they weigh more*. [MMA-T-1 at 29; emphasis in original.]

Please provide a specific citation to where witness Fronk states that 2-ounce letters cost more than 1-ounce letters solely because they weigh more.

RESPONSE:

At TR 12/4751 USPS witness Fronk was asked whether the Daniel study provided any specific, non-aggregated information regarding the impact on cost caused by the additional ounce of a 2-ounce First-Class letter. Mr. Fronk's answer is yes.

At TR 12/4753-4 USPS witness Fronk was asked whether he considered the Commission's statement from the Docket No. R94-1 Opinion that "letters processed with automation incur minimal or possibly no extra cost for letters weighing up to three ounces"? His answer was that even though he was aware of that statement, his conclusions about additional ounce costs were "guided" by the Daniel study.

At TR 12/4755 Mr. Fronk was asked if the Daniel Study refuted the Commission's statement that "letters processed with automation incur minimal or possibly no extra costs for letters weighing up to three ounces. His answer was yes.

Base on these answers, it seems clear to me that Mr. Fronk believes that the Daniel study somehow proves that 2-ounce letters cost more than 1-ounce letters *because* of the extra ounce. I do not agree with Mr. Fronk's assessment. As I note on page 28 of my testimony, the Daniel study "still fails to address the Commission's desire for reliable information regarding the specific cost impact of the second ounce of a letter. I also note on page 29 of my testimony that "since the Daniel study reflects the costs of several cost-causing attributes (in addition to weight), the results, in effect, treat additional ounces as a separate subclass."

USPS/MMA-T1-5

Please refer to page 29 of your testimony (MMA-T-1) where you propose extending the current 4.6-cent heavyweight discount, which applies to presort mail of all shapes weighing more than 2 ounces, to only letter-shaped mail weighing between 1-2 ounces. In its decision in Docket No. R97-1, the Commission noted that the discussion at the time the discount was introduced focused on flats. PRC Op. R87-1 at ¶ 5103.

- (a) How do you justify extending the discount only to letters when the intent of the discount was to focus on flats?
- (b) On page 29 of your testimony you state that you are confident that letters, not flats or small parcels, incur little or no extra cost when they weigh 2 ounces rather than 1 ounce. Please describe the basis for your confidence.

RESPONSE:

I found no reference to the presort heavyweight discount applying to flats in paragraph 5103, which you cited in your interrogatory. However, I did read in subsequent paragraphs that the original intent for the heavyweight discount was to give a rate reduction for flats, rather than letters, because "letters up to two ounces for the most part can be processed on the new automation at a cost no higher than a one ounce letter." See Docket No. R87-1 PRC Op. at 448.

- (a) It is now 13 years later and the Postal Service has still provided no meaningful empirical data (after repeated Commission requests) on the impact of a second ounce on the costs of processing letters. Nevertheless, the Postal Service has never reduced the second ounce rate to give effect to the Commission's commonsense views on this subject. Now is the time, long overdue in my opinion, for the Commission to act on significantly lowering the rate for that second ounce. My proposal to extend the heavyweight discount to letters weighing over one ounce does so while, at the same time, taking into

account the Commission's reluctance to modify the First-Class rate structure (see page 30 of my testimony). The result is a much more equitable rate for 2-ounce letters.

I also state on page 30 of my testimony:

My testimony concerns letters only. It is not to say that flats and small parcels do not deserve rate relief, but the impact of weight on costs for letters is far more predictable than for flats and small parcels.

(b) There is ample evidence that the second additional ounce causes little or no extra processing cost. Automated equipment is designed to handle letters weighing over three ounces so it is logical to conclude that, if successful, 2-ounce letters can be sorted at the same cost as 1-ounce letters. The Standard Mail (A) rate structure recognizes this fact by charging the same unit rate for letters up to 3.3 ounces. Notwithstanding the Postal Service's reluctance to admit the obvious or disprove my contention, the Commission also seems to be convinced that this is true. Consequently, I am confident that the current 22-cent First-Class rate for the second ounce is too high.

USPS/MMA-T1-6

On pages 31 and 32 of MMA-T-1 testimony, you estimate that your proposals will reduce Postal Service Test Year revenues by \$250 million. You propose that this revenue be made up not from other mailers, but by conveniently reducing the Postal Service's contingency allowance below 2.5 percent. If the Commission does not change the contingency allowance, how would you recommend that the \$250 million shortfall be made up?

RESPONSE:

First, I did not "conveniently" reduce the Postal Service contingency allowance. As stated at page 32 of my prepared testimony:

[T]he Postal Service has requested an extraordinary amount in contingency "costs" compared to the amount of additional revenues required to cover actual costs. For example, the Postal Service's entire rate request raises about \$3.6 billion in additional contributions to institutional costs. Of this amount, \$1.9 billion represents anticipated cost increases and \$1.7 billion represents contingency costs. Therefore, the Postal Service's anticipated cost increases could be too low by 85% and its requested contingency would still enable it to break even.

See also the prepared testimony of Lawrence G. Buc, DMA-T-1.

Second, as I also discussed in my prepared testimony:

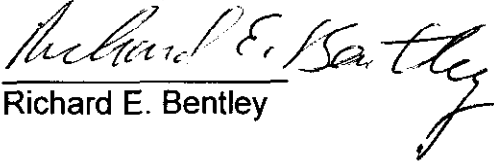
[MMA's] proposed revenue reduction of \$250 million from the Service's revenue target is not insignificant. However, this revenue reduction is a maximum potential loss, since any new volumes attracted by the lower (and still very profitable) First-Class presorted rates will reduce the revenue shortfall. This is even more apparent for presort volumes since such pieces make such a disproportionately large contribution to recovery of institutional costs as a result of the extremely high cost coverage for presorted letters.

Finally, my proposal to reduce First-Class rates is based on the ratemaking criteria required by the Postal Reorganization Act and the stated objectives of the Commission. The Postal Service's First-Class rate proposals

continue to exploit First-Class mailers. OCA witness Callow provides some convincing testimony on this subject. See OCA-T-6 at 6-20. I have suggested one means for reducing the First-Class revenue target and allowing the Postal Service to break even, if the Commission accepts my proposals. There are many other ways and I am confident that the Commission can and will do so within the framework of its stated goals and the criteria of the Act.

DECLARATION

I, Richard E. Bentley, declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information, and belief.


Richard E. Bentley

Dated: June 14, 2000
Vienna, Virginia