

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

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POSTAL RATE COMMISSION
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 NEWSPAPER ASSOCIATION OF AMERICA**

Major Mailers Association hereby provides the responses of witness Bentley to the following interrogatories of the Newspaper Association of America: NAA/MMA-T1-1-2, filed on June 16, 2000. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

Major Mailers Association



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Dated: Round Hill, Virginia
June 30, 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 this 30th day of June 2000


Michael W. Hall

NNA/MMA-T1-1

Please refer to page 6 of your testimony where you state that a 33 cent First Class rate, while justifiable under the Postal Service's proposal, would require all other mailers to shoulder the entire \$3.6 billion rate increase which could be "very difficult for all other mailers to do." You also note, at lines 26-27, that retaining the 33 cent stamp while retaining the proposed Standard (A) commercial rates would produce a net revenue loss of about \$1 billion (line 8) and face a "possible \$1.3 billion net revenue shortfall" (line 26). Please reconcile the \$1 billion net revenue loss (from a penny reduction from 34 cents) at line 8 with the \$1.3 billion net revenue shortfall at line 26.

RESPONSE:

The \$1 billion net revenue loss referred to on page 6 (lines 7-9) pertains to the current 33-cent 1-ounce rate only (100 billion pieces times a 1-cent reduction in the Postal Service's proposed 34-cent 1-ounce rate = \$1 billion).

The \$1.3 billion net revenue shortfall referred to on page 6 (lines 26-27) pertains to the current 33-cent 1-ounce rate and the current 22-cent additional ounce rate. The Postal Service proposes to raise the 1-ounce rate to 34 cents and the additional ounce rate to 23 cents. Thus, the potential net revenue loss is greater in this instance.

NAA/MMA-TI-2

Please refer to the testimony of DMA *et al.* witness Buc (DMA *et al.*-T1 at 23), which states that if the contingency factor were reduced to 1 percent, the revenue requirement would decline by \$1.01 billion. Note that the cited amount approximately corresponds to the “net revenue loss” that you calculate from a penny reduction in the First Class stamp.

(a) If the Commission were to reduce the contingency factor as recommended by witness Buc (resulting in the reduced revenue requirement calculated by witness Buc), how would that affect your conclusion as to the “difficulty” of retaining a 33 cent stamp? Please explain your answer.

(b) Please provide a revised version of Table 2 reflecting the 33 cent stamp and witness Buc’s proposed reduction in the contingency.

RESPONSE:

(a) If the Commission accepts DMA *et al.* Witness Buc’s recommendation to reduce the contingency from 2.5% to 1.0 %, then the situation under which the Commission will consider First-Class rates will change significantly. As shown on page 5 of Exhibit MMA-1B, the projected net revenue loss with a 2.5 % contingency and no increase in the First-Class rate is \$1.252 billion. As shown in the Attachment to this response, the projected net revenue loss with a 1.0 % contingency and no increase in the First-Class rate is \$242 million. Therefore, the amount of additional revenues required from other subclasses and services, to make up for the additional revenue not received from First Class, would be reduced by just over \$1 billion. However, rate increases from other subclasses and service would still have to be increased by another \$242 million above the level proposed by the Postal Service in order for the breakeven requirement to be met.

In my opinion, it would be a very bold and courageous decision by the Commission to maintain First-Class rates. The Commission’s stated goal is that “the

largest volume subclasses in First-Class and Standard Mail should have roughly equivalent markup indices.” As shown in the attachment and my response to part (b), there is a long way to go in order for the Commission to actually meet this goal. If the Commission rejects the Postal Service’s proposed First-Class rate increases, then the mark up indices for First Class and Commercial Standard Mail will be 139.5 and 80.6, respectively. In my opinion, such a result is still not “roughly equivalent”. The ultimate question, which the Commission seems to face now in every rate case, is whether the other subclasses and services can shoulder the necessary increases to justify no increase in the First-Class rates. It is my hope that the Commission can make such a bold decision; but even with a reduced contingency, it would still be a difficult decision.

(b) The following table revises Table 2 from my testimony with a 33-cent rate and a 1.0% contingency. As you can see, there is very little change in the mark up Indices.

**Comparison of Mark Up Indices
(33 Cents Assumes 1.0 % Contingency)**

	First-Class	Standard Mail (A)
PRC Recommended R97-1	132.0	95.8
USPS Proposal R00-1 (34 Cents)	145.0	75.9
USPS Proposal R00-1 (33 Cents)	139.5	80.6
Source: Exhibit MMA-1B at 2A, 5A and Attachment to NAA/MMA-T1-2		

Summary of Estimated Test Year After Rates Finances
(Includes 33-Cent First-Class 1-Ounce Rate and 1% Contingency)
(PRC Cost Methodology)
(Thousands Except For Units)

Description	Vol Variable Costs With Contingency (1)	Vol Variable Costs With Contingency (2)	% of Vol Var Costs (2) / Total (2) (3)	Revenue (4)	Cost Coverage (4) / (2) (5)	Contrib To Oth Costs (4) - (2) (6)	% of Other Costs (6) / Total (6) (7)	Mark Up (5) - 1 (8)	Mark Up Index (8) / Total (8) (9)	Mail Volume (10)	Unit Revenue (4) / (10) (11)	Unit Cost (2) / (10) (12)	Unit Contrib (11) - (12) (13)
First-Class Mail													
Single-Piece Letters 1/	14,780,313	14,564,016	33.30%	22,306,818	153.2%	7,742,802	32.50%	53.2%	97.60%	53,213,828	0.4192	0.2778	0.1414
Presort and Automation Letters	5,453,740	5,373,929	12.29%	12,783,497	237.9%	7,409,568	31.10%	137.9%	253.12%	47,047,898	0.2717	0.1159	0.1558
Total Letters	20,234,053	19,937,945	45.58%	35,090,315	176.0%	15,152,370	63.60%	76.0%	139.52%	100,261,726	0.3500	0.2018	0.1482
Single-Piece Cards	592,305	583,637	1.33%	803,902	103.5%	20,265	0.09%	3.5%	6.37%	2,770,783	0.2180	0.2138	0.0042
Presort and Automation Cards	181,167	178,516	0.41%	448,787	251.4%	270,271	1.13%	151.4%	277.94%	2,670,168	0.1681	0.0678	0.1002
Total Cards	773,472	762,153	1.74%	1,052,689	138.1%	290,536	1.22%	38.1%	69.98%	5,440,951	0.1935	0.1422	0.0513
Total First-Class Mail	21,007,525	20,700,098	47.32%	36,143,004	174.6%	15,442,906	64.81%	74.6%	136.96%	105,702,677	0.3419	0.1987	0.1432
Priority Mail	3,332,232	3,283,468	7.51%	5,542,259	168.8%	2,258,791	9.48%	68.8%	126.29%	1,249,750	4.4347	2.6663	1.7684
Express Mail	705,801	695,472	1.59%	1,068,567	153.6%	373,095	1.57%	53.6%	98.48%	72,301	14.7794	9.7620	5.0174
Mailgrams	1,134	1,117	0.00%	1,136	101.6%	18	0.00%	1.6%	2.99%	3,340	0.3400	0.3395	0.0005
Periodicals													
Within County	84,139	82,908	0.19%	81,847	98.7%	(1,060)	0.00%	-1.3%	-2.35%	862,061	0.0949	0.0976	-0.0027
Outside County	2,522,213	2,485,303	5.68%	2,416,926	97.2%	(68,376)	-0.29%	-2.8%	-5.05%	9,459,105	0.2555	0.2666	-0.0111
Total Periodicals	2,606,352	2,568,210	5.87%	2,498,774	97.3%	(69,436)	-0.29%	-2.7%	-4.96%	10,321,166	0.2421	0.2525	-0.0104
Standard Mail (A)													
Regular	7,402,439	7,294,111	16.68%	9,070,437	124.4%	1,778,326	7.46%	24.4%	44.71%	40,998,656	0.2212	0.1806	0.0407
Enhanced Carrier Route	2,635,907	2,597,333	5.94%	5,162,024	198.7%	2,564,692	10.76%	98.7%	181.27%	32,828,211	0.1572	0.0803	0.0769
Total Commercial	10,038,346	9,891,443	22.61%	14,232,461	143.9%	4,341,018	18.22%	43.9%	80.57%	73,826,867	0.1928	0.1360	0.0568
Nonprofit	1,425,673	1,404,809	3.21%	1,543,087	109.8%	138,277	0.58%	9.8%	18.07%	11,425,579	0.1351	0.1248	0.0103
Enhanced Carrier Route	222,129	218,878	0.50%	264,218	120.7%	45,340	0.19%	20.7%	38.03%	2,851,875	0.0926	0.0779	0.0148
Total Nonprofit	1,647,802	1,623,688	3.71%	1,807,305	111.3%	183,617	0.77%	11.3%	20.76%	14,277,454	0.1266	0.1154	0.0112
Total Standard Mail (A)	11,886,148	11,515,131	26.33%	16,039,766	139.3%	4,524,634	18.99%	39.3%	72.13%	88,104,321	0.1821	0.1326	0.0494
Standard Mail (B)													
Parcel Post	1,081,997	1,066,163	2.44%	1,211,453	113.6%	145,290	0.61%	13.6%	25.02%	374,096	3.2383	2.8923	0.3461
Bound Printed Matter	481,326	474,282	1.08%	563,443	118.8%	89,161	0.37%	18.8%	34.51%	524,743	1.0738	0.9173	0.1565
Special Rate	311,038	306,486	0.70%	338,764	110.5%	32,278	0.14%	10.5%	19.33%	205,789	1.6462	1.5114	0.1347
Library Rate	48,828	48,113	0.11%	49,672	103.2%	1,559	0.01%	3.2%	5.95%	28,432	1.7470	1.7174	0.0297
Total Standard Mail (B)	1,923,189	1,895,045	4.33%	2,163,332	114.2%	268,287	1.13%	14.2%	25.99%	1,133,060	1.9093	1.6973	0.2119
Penalty										348,543			
Free-for-the-Blind	43,501	42,864	0.10%	0	0.0%	(42,864)	-0.18%			56,675	0.0000	0.7676	-0.7676
Total Domestic Mail	41,305,882	40,701,406	93.05%	63,456,837	155.9%	22,755,431	95.51%	55.9%	102.64%	206,991,833	0.3066	0.1996	0.1070
International Mail	1,451,585	1,430,342	3.27%	1,747,558	122.2%	317,216	1.33%	22.2%	40.71%	1,031,627	1.6940	1.4071	0.2869
Total All Mail	42,757,467	42,131,748	96.32%	65,204,395	154.8%	23,072,647	96.84%	54.8%	100.54%	208,023,460	0.3134	0.2055	0.1079
Special Services													
Registry	82,759	81,548	0.19%	94,993	116.5%	13,445	0.06%	16.5%	30.27%	11,174	8.5013	7.4064	1.0949
Certified Mail	507,537	500,110	1.14%	577,361	115.4%	77,251	0.32%	15.4%	28.36%	274,934	2.1000	1.8460	0.2540
Insurance	78,113	76,970	0.18%	106,070	137.8%	29,101	0.12%	37.8%	69.41%	44,680	2.3740	1.7483	0.6257
COO	16,727	16,482	0.04%	19,968	121.1%	3,486	0.01%	21.1%	38.83%	3,544	5.6343	4.7198	0.9145
Money Orders	152,143	149,917	0.34%	305,488	203.8%	155,571	0.65%	103.8%	190.51%	226,435	1.3491	0.6719	0.6772
Stamped Cards	3,444	3,394	0.01%	8,317	245.1%	4,923	0.02%	145.1%	266.34%	415,873	0.0200	0.0083	0.0117
Stamped Envelopes	12,473	12,290	0.03%	16,041	130.5%	3,751	0.02%	30.5%	56.03%	400,000	0.0401	0.0312	0.0089
Box/Caller Service	578,812	571,327	1.31%	814,060	142.5%	242,733	1.02%	42.5%	78.00%	17,958	45.3313	32.2871	13.0442
Other	199,606	196,685	0.45%	419,918	213.5%	223,233	0.94%						
Total Special Services	1,632,614	1,608,722	3.68%	2,362,217	146.8%	753,495	3.16%	46.8%	85.99%				
Total Mail & Services	44,390,081	43,740,470	100.00%	67,566,612	154.5%	23,826,142	100.00%	54.5%	100.00%	208,023,460	0.3248	0.2134	0.1114
Other Costs	24,584,124	24,224,356											
Other Income				383,847									
Prior Years Loss Recovery	268,257	268,257											
Continuing Appropriations				67,093									
Investment Income				(27,621)									
Grand Total	69,242,462	68,233,083		67,989,931		(243,153)							

(1) Exhibit MMA-1B at 6

(2) (1) / 1.025 * 1.01

(3) Exhibit MMA-1B at 6

(9) Id.