

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

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POSTAL RATE AND FEE CHANGES

POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY  
Docket No. R2000-1

**KeySpan Energy's Notice  
Of Corrections To Testimony And Exhibits  
Of Witness Richard E. Betnley (ERRATA)**

KeySpan Energy hereby submits corrected pages that reflect the following corrections to the testimony and exhibits of its witness Richard E. Bentley:

KE-T-1, p. 3	Change "Mayo" to "Fronk" on line 23.
Ex. KE-1A, p. 1	Insert "(Cents)" below the title
	Insert "(000) after TY First-Class Volume.
	Change Total QBRM Savings to "5.203"
	Change footnote [11] to [6] +[7] +[10].
Ex. KE-1E, p. 4	Insert "that" in second line.
Ex. KE-1E, p. 8	Insert "this" in the first line of footnote 5.

Respectfully submitted,

**KeySpan Energy**

By: 

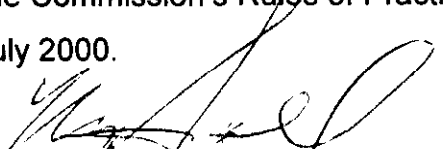
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Counsel for  
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Dated: Round Hill, VA  
July 3, 2000

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document upon all parties to this proceeding in accordance with the Commission's Rules of Practice.

Dated this 3rd day of July 2000.

  
Michael W. Hall

1 the counting methods for QBRM received in high versus low volumes. These  
2 unsupported assumptions led him to calculate a high volume per piece fee cost which,  
3 simply put, makes no sense. For example, the Postal Service's cost presentation here  
4 suggests that it costs almost four *times* as much to count uniform, prebarcoded  
5 automation-compatible letters, as it does to count non-uniform, bulky, small packages. I  
6 submit that such a result is illogical on its face and should not be accepted by the  
7 Commission.<sup>1</sup>

8 USPS witness Campbell's basic idea of establishing separate QBRM fee  
9 structures for high and low volume recipients is an excellent starting point for improving  
10 the relationship between the fees charged and the costs incurred for high and low  
11 volume QBRM recipients. This rate structure is very similar to the rate structure  
12 recently approved by the Commission for nonletter-size BRM.

13 Using Mr. Campbell's basic rate structure, I have developed fees for high and low  
14 volume QBRM that make more sense and are based on highly relevant new information  
15 about the QBRM market and QBRM counting methods that witnesses Campbell and  
16 Mayo apparently did not consider at the time their testimonies were prepared.

17 In this case, the Postal Service proposes per piece fees of 3 cents for high  
18 volume QBRM and 6 cents for low volume QBRM. In my opinion, these fees are much  
19 too high because they are based on a flawed cost analysis. My cost analyses indicate  
20 that the high volume and low volume QBRM per piece fees should be .5 cents and 4.5  
21 cents, respectively.

22 I also examined the Postal Service's analysis of the cost savings attributable to  
23 the prebarcode feature of QBRM letters. USPS witness Fronk recommends a 1-ounce  
24 First-Class rate of 31 cents for QBRM based on Mr. Campbell's reported cost savings of  
25 3.4 cents. My derived 5.2-cent QBRM unit cost savings is significantly higher. As a  
26 result, I propose a slightly lower QBRM First-Class rate of 30.5 cents.

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<sup>2</sup> I also find it remarkable that such a result did not "concern" Ms. Mayo, the Postal Service's pricing witness. See TR 14/5566-68, 5653.

**Cost Avoidance Calculation for QBRM Discount  
(Cents)**

**CRA Proportional Adjustment** 1.190 [1]

	<b>Model Cost</b>		<b>Total Worksharing Related Unit Cost</b>
<b>HANDWRITTEN</b>	7.595	[2]	9.039 [3]
<b>QBRM</b>	4.587	[4]	5.459 [5]
<b>Processing Cost Avoidance</b>			3.580 [6]
<b>Window Service Savings</b>			1.619 [7]
<b>Stamp Printing Costs (\$000)</b>	\$ 209,827	[8]	
<b>TY First-Class Volume (000)</b>	52,877,658	[9]	
<b>Avoided Unit Stamp Printing Cost</b>			0.004 [10]
<b>Total QBRM Savings</b>			<span style="border: 1px solid black; padding: 2px;">5.203</span> [11]

[1] See LR-MMA-1A, CRA PROP ADJ (ALL PRESORT) spreadsheet (page 8)

[2] See L-2 (handwritten cost sheet)

[3] [1] \* [2]

[4] See L-3 (QBRM cost sheet)

[5] [1] \* [4]

[6] [3] - [5]

[7] TR 21/8909

[8] TR 14/6038

[9] Exhibit MMA-1B at 1A

[10] [8] / [9]

[11] [6] + [7] + [10]

available for that mail.<sup>2</sup> Since QBRM is part of that subclass, the Postal Service cannot justify charging QBRM for the alleged extremely high probability that QBRM will receive manual processing.

#### **4. Mr. Campbell Does Not Apply The Pham Method Correctly**

In Docket No. R90-1, USPS witness Mr. Pham noted that his study results included certain automated and manual sorting costs.<sup>3</sup> Recognizing this fact, Mr. Pham adjusted his unit per piece fee cost by subtracting out a weighted incoming sortation cost for such pieces. *Id.* at 9. More specifically, the sortation costs he removed generally reflected the same sorting processes (i.e., manual vs. automated) as the BRM sorting costs he originally added into his model. Accordingly, when Mr. Pham subtracted out the relevant sorting costs, his derived unit cost represented just the cost for the BRM functions of counting, rating and billing.

Although witness Campbell used the Pham methodology, he does apply it correctly.

##### **a. Inconsistent Assumptions Regarding How High Volume QBRM Letters Are Processed**

In Docket No. R90-1, Mr. Pham developed a BRM unit cost based on the separate costs for various automated and manual processing methods.<sup>4</sup> Then he

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<sup>2</sup> According to the Postal Service, 42% of QBRM (TR 14/6096) is processed manually in the incoming secondary whereas only 6% of all other letters (TR 14/6091) is processed manually in that same operation.

<sup>3</sup> For example, Mr. Pham recognized that the BRMAS system performed not only the counting, rating and billing functions (for which recipients properly should pay the BRMAS BRM fee) but also the final sort to the end user as well. See Docket No. R90-1, USPS-T-23 at 3. In other words, the BRMAS operation combined all four of these functions into one.

<sup>4</sup>As mentioned above, Mr. Pham projected that a majority of BRMAS qualified BRM would receive automated processing.

**6. The changed assumption that postage due costs vary 100% with volume, when USPS witness Schenk assumed such costs were 79.7% variable with volume, is not explained**

USPS witness Campbell assumed that the 951 manual productivity for counting and sorting QBRM was 100% variable with volume, in contrast to USPS witness Schenk's PPH that was 79.7% variable with volume in Docket No. R97-1. His explanation for this change is that it was an "institutional decision". See TR 14/5961. Had he assumed the same 79.7% variability as USPS witness Schenk, his derived unit cost for high volume QBRM would have been reduced to 1.41 cents.

**7. Additional data ignored by USPS witness Campbell casts serious doubt on how representative the data from the BRM Practices Study will be for the test year.**

**a. Manual processing in the incoming secondary**

USPS witness Campbell's acceptance of the BRM Practices Study is questionable to say the least. That study indicates that 41.6% of prebarcoded, automation-compatible QBRM letters is sorted to the customer through manual distribution methods. See TR 14/5915. Such processing increases unit costs by more than two cents. See TR 14/5963-64. One cannot help but ask how such a result is reasonable when the Postal Service also reports that 94% of all barcoded letters will be finalized by automated incoming secondary operations in the test year. See TR 5/1675. Although Mr. Campbell was unaware of this (TR 14/6092), it did not seem to bother him that under his assumption, QBRM processing is 7 times more likely to be manually sorted than an average barcoded letter. (41.6% vs. 6%) There can be no logical explanation for this.<sup>5</sup>

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<sup>5</sup> Nor, in my view is this particularly relevant since sorting costs should not enter into the cost deriv QBRM processing costs.