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

POSTAL RATE AND FEE CHANGES **Docket No. R2000-1**

Initial Brief Of KeySpan Energy And Long Island Power Authority On QBRM Issues

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Pursuant to the procedural schedule, KeySpan Energy ("KeySpan") and the Long Island Power Authority ("LIPA") hereby submit their initial brief. KeySpan presented evidence on QBRM reply mail issues through the testimony and exhibits of Richard E. Bentley, an expert witness who has testified before this Commission in numerous rate and mail classification proceedings for over twenty years.

KeySpan's And LIPA's Interests In This Proceeding

KeySpan is engaged primarily in the distribution of natural gas and the generation of electricity. KeySpan is a large user of mail services. KeySpan Energy incurs over $12,000,000 annually in total postal charges, primarily for customers' billing and Qualified Business Reply Mail ("QBRM").

LIPA, a limited intervenor in this proceeding, is a corporate municipal instrumentality and political subdivision of the State of New York. LIPA, through a wholly owned subsidiary, is engaged primarily in the purchase and distribution at retail of electricity in Nassau and Suffolk Counties, and a portion of Queens County, New York. The area served contains a population of approximately three million. In connection with the provision of electric service, LIPA is a large user of mail services, primarily for customers' billing and QBRM.

This brief will use "KeySpan" to refer to both KeySpan and LIPA, unless the context requires otherwise.

Executive Summary

- KeySpan agrees that QBRM fees should be de-averaged by establishing separate fee structures for High Volume and Low Volume QBRM recipients. Conceptually, this framework is very similar to the rate structure the Postal Service recently instituted for nonletter-sized BRM.[1]

- KeySpan supports the concept of establishing a separate, fixed fee for the rating and billing ("accounting") functions for High Volume QBRM.[2]

- KeySpan also supports establishment of separate per piece fees for High Volume and Low Volume QBRM recipients. When QBRM is received in high volumes, the Postal Service has the opportunity to employ highly efficient counting methods, such as the BRMAS system, End Of Run ("EOR") Reports, Weight Averaging Techniques, and Special Counting Machines.[3] Separate per piece fees will allow implementation of per piece fees that track more closely the costs that are incurred for these different types of QBRM recipients, reducing inequitable cross subsidization of low volume recipients by high volume recipients.

- The way the Postal Service has derived the two separate QBRM per piece fees is fundamentally flawed. Instead of heeding the Governors' directive to "explore . . . the extent to which reply mail volume should influence fees charged to different recipients," the Service effectively assumes that volume has no effect on the counting methods used or the cost of counting. Instead of using current data that was already-in-hand, the Postal Service improperly relied upon the invalid results of a special study called the 1997 BRM Practices Study and productivity factors developed over a decade ago for the BRMAS fee structure that combined the costs of all three functions (counting, rating, and billing) into a one-fee-fits-all per piece fee.

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1 TR 39/17577. *See Classification And Fees For Weight-Averaged Nonletter-Size Business Reply Mail, 1999*, Docket No. MC99-2, Opinion And Recommended Decision, issued July 14, 1999.

2 The current method of recovering the costs of these functions in a single per piece fee assumes that all QBRM processing costs are variable in nature. Accounting function costs are not variable. Once a final count is obtained, the costs to complete the QBRM accounting function, largely clerical in nature, are essentially the same whether an account receives 1 piece, 1,000 pieces, or 10,000 pieces at a time. KE-T-1 at 5; USPS-T-29 at 14.

3 Conversely, when QBRM is received in low volumes, the Postal Service has fewer opportunities to employ such highly efficient counting techniques and in some cases may have to resort to inefficient manual counting. USPS witness Campbell undeniably failed to recognize this fact.

Background

Business Reply Mail ("BRM") is classified as a "special service" because it is a service in addition to the basic First Class Mail service that BRM recipients receive and pay for. QBRM is a relatively small service, accounting for only $23 million or .03% of the Postal Service's total revenues. Nevertheless, for those who rely upon BRM, it is vital service. For this reason, KeySpan has, in several omnibus rate proceedings, devoted substantial resources in an effort to develop rational BRM fee proposals.[4]

Over the years, KeySpan's vigilance has been a necessary counter weight to the Postal Service's sometimes neglectful attitude to BRM. Until the Commission effectively put a stop to it in Docket No. R87-1, the Postal Service was perfectly content to propose BRM per piece fees by updating the wage rates contained in a 1972 special study of BRM even though the methods of handling BRM had changed dramatically in the intervening years. As the Commission stated:

> To recapitulate, because of the deplorable state of the record, we have been forced to make numerous costing assumptions regarding BRM costs. As explained above, we are dealing with a costing presentation based on 17 year old data that does not account for changes in postal operations since 1972. The Service's insistence on relying on this study for developing certain functional costs such as delivery costs even though it is almost certain that technological changes, including implementation of the BRMAS, have and will have significant impact on these costs is incomprehensible.

Postal Rate And Fee Changes, 1987, Opinion And Recommended Decision, issued March 4, 1988, at 799.

For several years prior to the last omnibus rate proceeding, Docket No. R97-1, all BRM service recipients who maintained advance deposit accounts and whose reply mail pieces met certain automation standards were charged a per piece fee of 2 cents. These recipients were generally referred to as BRMAS BRM recipients. In Docket No. R97-1, the Postal Service proposed to "de-average" the BRMAS BRM fees by (1) instituting a new type of business reply mail service, called Prepaid Reply Mail ("PRM"), for high volume business reply mail recipients, and (2) establishing Qualified Business

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4 One of KeySpan's subsidiaries, The Brooklyn Union Gas Company ("Brooklyn Union") has participated actively on BRM issues for over 15 years, since the R84-1 proceeding.

Reply Mail ("QBRM") as the service for the remaining, lower volume BRMAS BRM recipients. KeySpan's subsidiary, Brooklyn Union, actively supported the Postal Service's proposal to implement the new PRM service and rate category.

The Commission recommended approval of the new PRM service *exactly* as the Postal Service proposed it. *Postal Rate And Fee Changes, 1997,* Docket No. R97-1, Opinion and Recommended Decision, issued May 11, 1998, at 320-22 ("Op. R97-1"). The Commission also approved QBRM but found that the per piece fee should be set at 5 cents, not 6 cents as proposed by the Postal Service. *Id.* at 319-320.

In June 1998, the Board of Governors took the unprecedented step of rejecting the Postal Service's own Commission-approved proposal for PRM service. [5] For high volume BRMAS BRM recipients such as Brooklyn Union, the immediate effect of the Governors' rejection of PRM was that the per piece fee they paid went from 2 cents to 5 cents (the QBRM per piece fee intended for lower volume BRMAS BRM recipients), a 150 percent increase and a patently unfair result. [6]

Although the Governors rejected PRM, they *specifically* directed the Postal Service to "explore further such matters as the extent to which reply mail volume should influence fees charged to different recipients." [7] Therefore, the Governors gave BRM recipients like KeySpan and LIPA hope that the immediate financial harm resulting from rejection of PRM would be addressed by the Postal Service and redressed promptly.

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5 Decision of the Governors Of The United States Postal Service On The Recommended Decisions Of The Postal Rate Commission On Prepaid Reply Mail And Courtesy Envelope Mail, Docket No. R97-1, issued June 29, 1998 ("*Governors' PRM Decision*") at 1-4.

6 Upon rejecting the 2-cent PRM fee, the Governor's did not modify the cost analysis underlying the 5-cent fee for other QBRM. Consequently, the impact of 333.7 million low-cost qualifying PRM pieces were omitted completely from the QBRM unit cost derivation. See KE witness Bentley's response to KE/USPS-T1-1, 27 and KE-T-1 at 5 (footnote 3).

7. *Governors' PRM Decision* at 3.

The Postal Service's QBRM Fee Proposals

In this proceeding, the Postal Service has proposed to de-average the fees for QBRM service by instituting a new service for high volume QBRM recipients. Recipients electing High Volume QBRM service would pay a fixed quarterly fee of $850 to recover the cost of rating and billing QBRM plus a per piece fee of 3 cents to cover the cost of counting QBRM.[8] Low Volume QBRM recipients would pay a higher per piece fee of 6 cents, but no separate fixed fee for the rating and billing functions. Finally, the Postal Service recommends that the QBRM First-Class rate be raised by 1 cent, to 31 cents.

The Postal Service's de-averaging proposal for QBRM is misleading. In reality, the Service has limited de-averaging just to the billing and rating functions of QBRM. De-averaging occurs because these costs are reflected in the separate fixed accounting fee for High Volume QBRM but combined with all other costs in the Low Volume per piece fee. Except for these accounting costs, the per piece fees for High and Low Volume QBRM are *identical*, because, without studying how QBRM volumes affect counting techniques, the Postal Service ***merely assumed that there is no difference in the costs of counting High and Low Volume QBRM***.

As KeySpan shows below, there are a myriad of flaws and errors in the Postal Service's approach to the costing and pricing of QBRM. However, we begin with a simple, commonsense comparison that should have immediately alerted the Service to the problems inherent in its proposed rate for High Volume QBRM. The Postal Service recently proposed, and the Commission and Governors have approved, a permanent classification and rate structure for nonletter-sized BRM, consisting primarily of small, bulky packages that contain film canisters. As with High Volume QBRM, the Postal Service employs a per piece fee and separate fixed accounting fee for this BRM. Significantly, the 1-cent per piece fee, designed to recover costs of counting these bulky

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8 According to USPS witness Mayo, the "breakeven volume" implicit in a fixed annual fee of $3,400 is 113,000 pieces per year. The Postal Service estimates that 1,358 qualifying High Volume QBRM recipients will receive a total of 154 million pieces. USPS-LR-I-168.

parcels received in high volumes,[9] is based on a unit cost of 0.57 cents. USPS-LR-I-160, Section K, p. 1. In comparison, the Service's per piece fee for High Volume QBRM is based on a derived cost of 2.00 cents. USPS-LR-I-160, Section B, p. 2. In other words, implicit in this comparison is the absurd notion that it costs ***three and one-half times*** as much to process uniform, compact QBRM letters and cards as it does to process non-uniform, bulky parcels.

Analysis of the Postal Service's presentation shows that the Service arrived at what even its own witness recognized is a counter intuitive result because it never studied the very thing the Governors directed it to study – the effect that volumes have on the processing of QBRM. Instead, the Postal Service's costing witness in this case, Chris Campbell, was instructed by his manager to make use of data contained in then 1997 BRM Practices Study. In dutifully following those instructions, effectively to the exclusion of all other factors, Mr. Campbell disregarded commonsense evidence, such as the comparison between the counting costs for QBRM and nonletter-sized BRM, ***both of which he derived***. Moreover, ***the BRM Practices Study did not differentiate between how Postal operations were affected by volumes received by individual recipients.*** This led Mr. Campbell to his unsupported and implausible assumption that QBRM processing was not impacted even when daily volumes were extremely high. He himself testified that QBRM for recipients receiving large volumes is usually brought to the postage due unit ***in full trays***, and requires ***no*** sortation. Yet, without giving a moment's thought to this revelation, Mr. Campbell blindly continues on to derive a QBRM high volume unit cost that, astoundingly, assumes ***67% of all those pieces not only must be counted by hand but also require very expensive additional sortation.*** This Commission cannot accept a unit cost based on such illogical reasoning.

Mr. Campbell also closed his eyes and mind to more reliable, current data regarding the highly efficient methods actually used to count High Volume QBRM

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9 Originally, the breakeven volume was set at 103,000 pieces per year, but in this case the Postal Service proposes to lower this threshold to 80,000 pieces. TR 14/5566-7.

recipients' reply mail. Amazingly enough, this volume data was retrieved by Mr. Campbell himself from Postal Service databases. During telephone discussions with field personnel at the postal facilities, Mr. Campbell verified the counting method used for each of the recipients. TR 14/6185. This actual data conclusively refutes the non-representative findings of the 1997 BRM Practices Study, not just for High Volume QBRM but for Low Volume QBRM as well.[10]

The fact that witness Campbell still relied upon the discredited BRM Practices Study and disregarded the more reliable actual QBRM information he himself gathered is, to KeySpan at least, a sign that the Postal Service is returning to its old habit of disregarding the legitimate interests of BRM recipients. KeySpan finds further support for this conclusion in Mr. Campbell's unsupportable assertions that processing QBRM is so costly because, "in reality" it is not processed efficiently (TR 14/6152) and that his QBRM cost figures should be accepted until the Postal Service has yet another chance to conduct the next special study of QBRM processing (TR 39/17510).

KeySpan submits that in this new millennium, the Commission cannot adopt the Postal Service's archaic approach to determining the appropriate counting costs of High Volume and Low Volume QBRM, especially where the record conclusively demonstrates that QBRM is not processed by the predominantly manual method suggested by the 1997 BRM Practices Study and assumed by Mr. Campbell. Nor can the Commission in good conscience adopt a 2.00 cent per piece cost for counting uniform, compact QBRM letters and cards received in high volumes when the record shows that it only costs .57 cents per piece to count bulky nonletter-size BRM packages received in lower volumes. The Postal Service cannot be rewarded with higher fees for assuming inefficient QBRM processing, especially where as here the actual data on QBRM volumes and processing methods conclusively refutes those assumptions.

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10 The data supplied by Mr. Campbell in response to KeySpan interrogatories provided the method of counting for a total of 241.4 million QBRM letters. The Postal Service estimates that total QBRM letters will reach 461.6 million pieces. Thus, Mr. Campbell chose to ignore actual data for more than half of the total QBRM universe in favor of the 4-year old BRM Practices Study. TR 29/14029-31.

KeySpan's QBRM Proposals

KeySpan accepts the basic de-averaging framework proposed by the Postal Service, namely:

- Separate fees for High Volume and Low Volume recipients.
- For High Volume recipients, a fixed accounting fee and a separate per piece fee.
- For Low Volume recipients, a single, per piece fee.

Substantial evidence in this record shows that the Postal Service's proposed per piece fees for both High and Low Volume QBRM recipients are based on unit costs that are way too high. Accordingly, KeySpan recommends per piece fees of 0.5 cents for High Volume (based on a unit cost of .17 cents) and 4.5 cents for Low Volume (based on a unit cost of 3.43 cents), respectively. KeySpan's proposed High Volume fixed accounting fee is $12,000, payable in monthly installments of $1,000.[11] Finally, KeySpan recommends that the First-Class rate for QBRM reply mail be raised by .5 cents, to 30.5 cents.

Table 1 compares the QBRM fees proposed by KeySpan with those proposed by the Postal Service.

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11 Under KeySpan's proposals, the breakeven volume for High Volume recipients would be 300,000 pieces per year. KeySpan estimates that some 300 recipients will elect High Volume QBRM service and that they will receive a total of approximately 345 million pieces annually. *See* TR 29/14002; Library Reference KE-LR-1, which provides current QBRM data by account for almost all of the large accounts. As shown, there are 288 recipients who have either received more than 300,000 pieces in the past 12 months, or in FY 99.

Table 1
Comparison Of USPS And KeySpan Proposed QBRM Fees
(Cents)

Category	USPS	KeySpan
QBRM High Volume		
Per Piece Fee	3.0	0.5
Annualized Fixed Fee	$3,400	$12,000
QBRM Low Volume		
Per Piece Fee	6.0	4.5
QBRM First-Class Rate	31.0	30.5

As Table 1 shows, the principal area of disagreement between KeySpan and the Postal Service lies in the levels of the per piece fees for High and Low volume QBRM recipients.[12] The dramatically different results and recommendations reached by KeySpan witness Richard E. Bentley are directly attributable to the fundamentally different approach he took to developing the relevant costs for counting QBRM. Unlike USPS witness Campbell, Mr. Bentley:

- did not simply ***assume, as witness Campbell did,*** that volumes received by individual QBRM recipients have no effect on the methods used to obtain piece counts;
- found that the method used to count QBRM depended heavily upon the volume received by individual recipients and that such processing methods resulted in lower costs for High Volume QBRM recipients;
- did not rely ***exclusively*** on the 1997 BRM Practices Study, as witness Campbell did;[13]

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12 KeySpan is proposing a higher fixed accounting fee for high volume QBRM recipients. However, the level of KeySpan's proposed accounting fee does not reflect any dispute over the underlying accounting costs. KE-T-1 at 8. As explained below, KeySpan's higher accounting fee was intended to be conservative by making the breakeven volume high enough to ***insure*** that the Postal Service can count high volume QBRM efficiently. TR 29/14077.

13 As discussed below, reliance upon the outmoded 1997 BRM Practices Study led Mr. Campbell into other methodological errors, including the use of a manual processing productivity of 951 PPH that inappropriately overstates manual counting costs because it includes not just manual ***counting*** but also manual ***sortation*** that all First Class mailers, including QBRM recipients, pay for in the First Class rate.

- obtained and used the representative, recent information about the actual methods used to count QBRM that is received in high volumes;

- conducted his own study to derive a conservative productivity of 2,746 pieces per hour ("PPH") for manual counting of QBRM (TR 29/14035);

- similarly developed a productivity of 68,091 PPH for counting QBRM by weight averaging (*id.*), rather than simply assume that counting by weight averaging techniques and special counting machines is no more efficient than counting manually;

- utilized a cost model methodology that coincides with the newly proposed QBRM fee structure;

- used a logical means for estimating the number of QBRM recipients likely to take advantage of the reduced High Volume fee based on actual data available, rather than assuming, as USPS witness Mayo did, that every QBRM recipient received ***exactly*** the breakeven volume; and

- estimated total High Volume QBRM letters by analyzing actual data available rather than simply guessing, as Ms. Mayo did.

Argument

I. There Is No Serious Dispute Regarding The Need For, Or Benefits Of, Reforming The Existing QBRM Rate Structure

This is the second case in which the Postal Service has proposed to restructure BRM service and de-average the existing fees that recipients pay. The Service's first effort was aborted at the thirteenth hour when the Governors took the extraordinary step of rejecting the Service's PRM proposal *after* this Commission considered and approved it *exactly as proposed by the Postal Service*.

Even though the Governors did reject PRM, leaving a one-fee-fits all QBRM rate structure in effect since January 1999, the Governors implicitly recognized the unfairness inherent in their action. As the Governors stated in approving the 5-cent QBRM per piece fee:

> The per-piece fee we accept for QBRM does not distinguish between sites that use automated [BRMAS BRM] accounting procedures and sites that do not. In this regard, we are concerned that our approval of this fee does not sufficiently encourage the use of available automated postal accounting procedures. We are also disappointed by the degree to which the evidence in this case *appears* to suggest that the automated [BRMAS]

> BRM accounting program has not met expectations. Notwithstanding our acceptance of the recommended QBRM per-piece fee, we expect that postal management will further examine BRM accounting operations to determine why the cost savings expected in connection with the implementation of the automated [BRMAS] BRM accounting procedures following Docket No. R87-1 remain to be realized. ***We anticipate that management will explore whether such factors as the volume received per reply mail account materially affect costs and should influence the fees charged to different reply mail accounts.*** Alternative accounting procedures are needed that will be less costly to both the reply mail recipient and the Postal Service while meeting revenue protection standards and customer satisfaction objectives. ***The Postal Service must seize this opportunity to explore improvements within reach and to determine whether the universal QBRM per-piece fee accepted in this proceeding is an appropriate long-term solution.***

Governors' Principal Decision at 5 (emphasis added).[14]

There is no serious dispute about ***whether*** the existing one-fee-fits-all QBRM rate structure is inequitable and in need of change. All parties agree that it must be changed. The only remaining question is ***how*** to change the QBRM rate structure so that it is fair to all recipients. That is the central issue presented in this proceeding.

Before proceeding to the issues on which KeySpan and the Postal Service disagree, it is useful to list briefly the areas of agreement. First, KeySpan and the Postal Service agree that it is necessary and appropriate to implement separate fee structures for High Volume and Low Volume QBRM recipients. As KeySpan witness Bentley observed, this "is an excellent starting point for improving the relationship between the fees charged and the costs incurred for high and low volume QBRM recipients. This rate structure is very similar to the rate structure recently approved by the Commission for nonletter-size BRM." TR 29/13985. Second, KeySpan and the Postal Service agree that a separate, fixed accounting fee should be established for High Volume recipients. In addition to recovering the non-volume variable costs of rating and billing QBRM, this fixed fee effectively establishes the minimum volume for High Volume QBRM service, thereby making it possible for the Postal Service to

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14 Although the Governors used the term "accounting," it is obvious from the context that they were referring to the methods of "counting" BRM. During cross examination, USPS witness Campbell confirmed his understanding that "counting" was what the term meant. TR 14/6078, 6082.

implement a lower per piece fee that better reflects the much more cost effective counting processes that are employed when QBRM recipients receive reply mail in high volumes. TR 29/13988.

II. The Postal Service Failed To Satisfy The Governors' Directive To Study The Advisability Of Implementing Different Per Piece Fees Based On The Volumes Of QBRM Received

As discussed above, when the Governors rejected PRM in R97-1 they directed the Postal Service to explore current operations and seize opportunities to reform what it termed "the universal QBRM per-piece fee." In so doing, the Governors provided a fairly clear blueprint for the Postal Service to follow and outlined the guiding principles that should have led the Postal Service management to meet the Governors' challenge in this case.

The Postal Service had eighteen months, ample time to reflect upon what the Governors said and implement a system of QBRM fees that is fair and equitable. While the Postal Service has proposed in this proceeding to establish a ***framework*** for QBRM fees that ***conceivably could*** meet the Governors' goals, the Service's specific per piece fee proposals fall far short of the standards set by the Governors. Mr. Campbell's management directive to rely on the 1997 BRM Practices Study has led him to disregard, rather than reexamine, how volumes affect QBRM counting operations. This fundamental flaw results in unreliable and inaccurate derived unit costs for counting High Volume and Low Volume QBRM, and proposed fees that are both anomalous and intuitively too high.

USPS witness Campbell claimed that his cost proposals respond to the Governors' directive (TR 14/6079) but the record conclusively refutes that claim. Mr. Campbell admitted he ***wanted*** to study whether it costs less to count QBRM received in high volumes than it costs to count QBRM received in low volumes, admitted "that data obtained from such a study could improve the cost estimates presented in this rate case filing," (TR 14/6015) but claimed that "time constraints" precluded him from conducting such a study. TR 14/6014-17. He also clearly failed to meet his objective of coming "up with new and updated data if that were appropriate." TR 14/6078.

Mr. Campbell further acknowledged that, although he traveled to three Chicago area postal facilities to observe how QBRM was processed, he "[did] not have specific

recollection of discussions with Postal Service personnel regarding whether the QBRM reply letters they were counting were addressed to high volume recipients or addressed to low volume recipients" and "[did] not recall specific volumes or percentages of the 'high volume' pieces observed in relation to the QBRM recipient's total pieces received on that day." TR 14/5978, 5980-81, 5982. Such apparent disinterest and lack of attention to the impact of volumes on QBRM counting efficiencies is hardly responsive to the Governors' directive.

During cross examination Mr. Campbell subsequently testified "I recall that there was definitely a concern [about how volumes received might affect costs that the Governors voiced in their PRM Decision]. ***It did not specifically relate to my objective that I was given***."[15]

The record shows that the primary "objective" that Mr. Campbell was given by his manager was to employ the results of the 1997 BRM Practices Study, as he emphasized several times during cross examination.

> Generally, my task was to incorporate a practices study that was conducted at the beginning of FY97, any relevant data that could be used to somehow de-average QBRM ***based on the results of that study***. (TR 14/6071 (emphasis added)).
>
> [A]t the time [de-averaging QBRM fees] was not the objective. The objective was to incorporate as much of this useful data as we possibly could, and, subsequently I did. (TR 14/6072).
>
> Well, again, my manager suggested that I incorporate the study done in FY '97, the Business [sic] Study. *Id.*

USPS witness Campbell also took the position that it was not necessary to conduct a new study because the 1997 BRM Practices Study contained "useful" information. TR 14/6120. That position is untenable. The 1997 BRM Practices Study has little or no relevance to the central inquiry that the Governors challenged the Postal Service to make. That study was used primarily for the purpose of supporting the Postal Service's proposed QBRM "one-fee-fits-all" per piece of 6 cents in Docket No.

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15 TR 14/6078 (emphasis added). Mr. Campbell also did not recall having any discussions with postal management regarding what had been done in light of the Governors' expressed concerns. TR14/6078-79.

R97-1. Since the Postal Service also proposed to institute a separate PRM service for reply mail recipients receiving 200,000 pieces or more per year in that case, the Postal Service's reliance upon the 1997 BRM Practices Study in Docket No. R2000-1 is questionable at best. That study simply fails to provide specific information on how volumes received impact the manner in which QBRM is processed.

Moreover, the 1997 BRM Practices Study is a "special" study that develops broad projections based on limited sample data. As discussed below, this record contains far more reliable and current information about actual volumes received by QBRM recipients and the counting methods actually employed by the Postal Service. Such current information squarely contradicts the findings of the 1997 BRM Practices Study and raises the question whether those findings were ever representative of any portion of the QBRM universe, even when the study was first conducted.

III. The Postal Service Failed To Live Up To Commitments It Made To This Commission And To QBRM Recipients

On June 3, 1999, Presiding Officer Omas issued an information request in Docket MC99-2 seeking information from the Postal Service, in relevant part as follows:

> Given the apparent success with its recent experiment [involving nonletter-size BRM], the Commission is interested in learning whether the Postal Service is actively pursuing the possibility of extending the apparent benefits of weight averaging, now available only to mailers of nonletter-size pieces, to other BRM mailers.
>
> Therefore, the Postal Service is requested to provide an informational report on . . . the status of any work or planning that may be underway, or anticipated, related to testing or implementing weight-averaging ***or other cost effective methods of counting, rating, and billing letter- or card-size BRM.***[16]

The Postal Service's June 18, 1999 response contained the following statements that are relevant to the issues presented in this case:

> [T]he current 5-cent per-piece QBRM accounting fee is based upon an average of the costs of various methods (primarily manual piece counts), notwithstanding the intuitive notion that there may be very significant cost

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16 *Classification And Fees For Weight-Averaged Nonletter-Size Business Reply Mail, 1999*, Docket No. MC99-2, Presiding Officer's Information Request, issued June 3, 1999, at 2 (emphasis added).

differences among the various accounting methods employed for reply mail letters and cards.

In response to the Decisions of the Governors in Docket No. R97-1 (June 29, 1998), postal management has established two objectives. The first is to focus on improved utilization of machine- or automation-based QBRM accounting alternatives to the manual accounting method.

* * *

Given the relatively high degree of automation-compatibility of QBRM letters and cards, ***the Postal Service is committed to more fully utilizing its capacity to perform automated- or machine-based accounting, where appropriate***. Particularly with higher-volume QBRM letter and card recipients, as each separate recipients mail is isolated, the opportunity exists – either during mail processing or in the accounting function – to obtain a machine count of such mail, ***to a greater extent than is currently being done***.

Postal Service POIR Response at 3-4 (emphasis added).

The Postal Service has not lived up to that commitment in this case. The record shows that there has been increased deployment of automated processing equipment, especially DBCS equipment, since 1996 when the BRM Practices Study was conducted. The record also shows that the percentage of mail receiving automated processing increased significantly, from 78 percent in 1995 to 93 percent by FY 99 and is projected to increase to 94 percent by the Test Year. TR 5/1675; TR 14/6093-94.

Mr. Campbell was not familiar with these statistics demonstrating that there has been marked improvement in the percentage of First Class mail that receives automated processing. TR 14/6092. And the 1997 BRM Practices Study obviously did not take into account this development. KeySpan submits that the Postal Service's failure to study and make appropriate adjustments to the automated processing percentages (BRMAS and EOR counts) for QBRM in light of the significant improvement in the automated mail processing environment underscores the Postal Service's lack of commitment to QBRM recipients. The actual data obtained by Mr. Campbell confirms how harmful this oversight was for QBRM recipients in general and High Volume recipients in particular.

This is but one example of how the Postal Service's QBRM fee proposals in this case stack the deck against QBRM recipients. Another blatant example of this

phenomenon is the assumption that a ridiculously low manual productivity factor, which itself is unnecessarily lowered even further by inclusion of sorting costs, is representative of the productivities for processing QBRM counted using Special Counting Machines and weight averaging techniques.

IV. KeySpan's QBRM Fee Proposals Are Reasonable

The 1997 BRM Practices Study that USPS witness Campbell used to derive per piece fees for High and Low Volume QBRM services contains little or no useful information upon which to base a deaveraging of rates. That study simply did not address the basic question that must be answered to support the de-averaging of rates, i.e., how QBRM processing costs might differ for QBRM received in high volumes versus low volumes. Therefore, KeySpan used its best efforts to obtain more recent, representative data and information regarding actual counting practices for high volume recipients from the Postal Service during discovery.

At first, the Postal Service sought to avoid providing recent volume data altogether. On February 14, 2000, KeySpan posed the following interrogatory to USPS witness Mayo, the QBRM pricing witness:

> What was the volume per year for each of the top 100 QBRM recipients for FY 98 or the latest year for which such information is available? If the requested information is not available in the form requested, please provide the total QBRM revenue, or similar data, for each of the top 100 QBRM recipients for FY 98 or the latest year for which such information is available.

On February 28, Ms. Mayo responded with the following demurrer:

> I am unable to provide the requested information since the Postal Service does not track ***all*** QBRM mailers in any ***centralized*** data system.

TR 14/5572-73 (emphasis added). Had KeySpan left the matter there, the record in this case would contain ***no*** relevant recent information about individual High Volume QBRM recipients or the methods actually used to count their reply mail pieces. Fortunately, KeySpan did not take Ms. Mayo's first non-responsive answer as the final word on the subject. Later, when it directed further, even more searching inquiry to her, on April 4, Ms. Mayo finally acknowledged:

> I am aware of ***one*** database that tracks BRM mailers. This database is the Corporate Business Customer Information System (CBCIS). CBCIS is

a ***centralized*** system and contains information for ***the majority of the QBRM mailer universe***.

TR 14/5583, 5585 (emphasis added).[17] Ultimately, as the result of inquiries to USPS witness Campbell, KeySpan finally received very relevant information regarding the top 77 high volume recipients, ***almost three months after it had directed its first interrogatory to Ms. Mayo and only days before its testimony was due***.[18]

KeySpan submits that this history is a sorry, but accurate, commentary on the Postal Service's approach to the discovery process.

A. Derivation Of KeySpan's Proposed Fees For High Volume QBRM

1. The High Volume Per Piece Fee

KeySpan proposes a 0.5-cent per piece fee for High Volume QBRM based on a unit cost of 0.17 cents, as shown in Table 2.

Table 2
Derivation Of Unit Counting Cost
For High Volume QBRM
(Cents)

Counting Method	Percent	Unit Cost
BRMAS	51.6%	0.00
EOR	28.1%	0.00
Manual	11.2%	1.50
Weighing/SCM	9.2%	0.06
Total	100.0%	0.17

17 Even then she omitted mention of the PERMIT system, another centralized database that contains information about QBRM mailers because she "wasn't aware that this tracks the information you wanted." TR 14/5620.

18 As discussed below, even witness Campbell withheld relevant information about the largest QBRM recipient. On rebuttal he tried to use it to discredit KeySpan's analyses but that tactic backfired.

In deriving the unit cost of .17 cents per piece, Mr. Bentley uses the same unit cost that USPS witness Campbell uses for the BRMAS and EOR counting methods (zero cents, by definition). For pieces counted manually and by weight conversion techniques or special counting machines ("SCM"), Mr. Bentley had to develop his own productivity factors because Mr. Campbell, improperly, used a combined counting and sorting productivity (951 PPH) for manual counting and, further, assumed that the very inefficient 951 PPH productivity applies to counting by Weighing/SCM.

Mr. Bentley performed studies to determine appropriate productivity factors for counting QBRM manually (2,746 PPH) and by weight conversion (68,091). TR 29/14032-35; Library Reference KE-LR-2. During cross examination, Mr. Campbell himself confirmed that it would not be difficult to develop a proper productivity for counting QBRM manually:

> ***Q*** Well, now, really, for QBRM that was going to be high volume QBRM, you were doing something new, weren't you? You were taking out the costs of rating and billing and putting those into a separate quarterly fee where you developed costs so that the Postal Service could propose a separate quarterly fee to recover those costs, isn't that correct?
>
> ***A*** Correct. I deaveraged that 360-some pieces per hour that you referred to earlier into smaller components.
>
> ***Q*** Right. So, now, really, what you are left with, because of what you are doing, which is different from what Witness Schenk was doing is you are left with the question of counting the pieces, isn't that right?
>
> ***A*** Exactly.
>
> ***Q*** So, if you had developed -- you could have developed, couldn't you, a study to determine how many pieces would actually be counted in an hour?
>
> ***A*** That is an approach one could take, yes.

TR 14/6120-21. The approach suggested by witness Campbell is precisely what Mr. Bentley did. TR 29/14033-35; Library Reference KE-LR-2.

The productivity factors Mr. Bentley developed for manual counting and counting by weight averaging are very conservative.[19] In both cases, Mr. Bentley reduced his measured productivity factors by 40 percent to arrive at the "effective PPH" productivity factor. *See* TR 29/14035.[20] That discount factor takes into account the facts that approximately 40 percent of a clerk's time (or 24 minutes of each hour worked) is unproductive and that there are other tasks related to the counting function. Even Mr. Campbell admitted that Mr. Bentley's use of this 40% discount factor could be considered conservative. TR 39/17569.

Mr. Bentley next determined the percentages that would be counted by each counting technique. During discovery, the Postal Service produced actual current data on the methods used to count QBRM received by the highest volume accounts. This is information that the Postal Service had at its disposal but never used in the derivation of its proposed High Volume QBRM per piece fee. Using this data, which accounted for 241 million QBRM pieces or more than 50% of the QBRM universe, Mr. Bentley was able to project the volumes and percentages that would be counted by each of the counting methods for all High Volume QBRM recipients, by making some reasonable assumptions, as shown on Exhibit KE-1B (TR 29/14025-31).

For example, the actual CBCIS data provided the counting method for 241 million of total High Volume QBRM letters (345 million). To estimate the counting method for the remaining 104 million letters, Mr. Bentley computed new sample percentages by counting method after removing the top two QBRM recipients. Since the volumes received by these two largest recipients were so much higher than a "typical" High Volume QBRM recipient, Mr. Bentley reasoned that the processing for such accounts might not be representative of the other accounts. For example, whereas the two largest recipients averaged over 47 million pieces per year, the rest of the sample ranged from a low of 874,000 to a high of 9.4 million. TR 29/14067. Mr. Bentley then

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19 Postal Service "overhead" costs, which generally reflect non-productive work time, usually constitute about 22% of total time worked. TR 39/17568. ***This is considerably less than Mr. Bentley's 40% assumption.***

20 As note 6 shows, the "Effective PPH" in Column 6 is determined by multiplying the pieces per hour shown in Column 5 by. 0.6

applied the resulting percentages by counting method to the 104 million pieces for which he had no specific counting method information. However, many of those pieces were indeed processed in the same offices for which Mr. Bentley was provided information. As he stated:

> Moreover, I have determined from the CBCIS data that accounts that receive 300,000 to 875,000 pieces are often processed in the same offices where the 74 accounts comprising my sample are processed. Accordingly, 57% of the pieces that were received by accounts in quantities of over 300,000 pieces, but were not included in the top 74 account sample, were processed in those very same offices for which I know the method used for counting. Consequently, I feel that the extrapolation of my sample to the universe is very reasonable.

TR 29/14067-68.

For these reasons, Mr. Bentley's estimates were built securely on a bedrock of reliable actual volume data and counting method information and reasonable inferences drawn therefrom. Accordingly, notwithstanding Mr. Campbell's "criticisms" of Mr. Bentley's derivation of High Volume counting methods and volumes, that evidence is the ***only*** accurate and reliable information on the record in this proceeding.

2. KeySpan's Fixed Fee For High Volume QBRM Recipients

For the separate fixed fee designed to recover accounting costs, Mr. Bentley accepts USPS witness Campbell's monthly cost of $232 ($2,784 per year). However, in order to be conservative, he recommends that the fixed fee collect $12,000 per year rather than $3,400, the amount proposed by the Postal Service.[21]

KeySpan's fixed annual fee amount is higher than the Postal Service's amount because KeySpan wants to be certain that High Volume QBRM recipients will receive sufficiently high volumes each year (at least 300,000 pieces) to warrant use of the highly efficient QBRM counting methods. In addition to providing a conservative annual breakeven volume, the fee provides additional revenue that will be credited to QBRM recipients. TR 29/13992.

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21 Under KeySpan's proposal, High Volume QBRM recipients will pay $1,000 per month. Under the Postal Service's proposal, there would be a quarterly fee of $850. KE-T-1 at 10.

3. KeySpan's Per Piece Fee For Low Volume QBRM Recipients

For Low Volume QBRM service, KeySpan uses the combined per piece fee approach used by the Postal Service but proposes that the fee be set at 4.5 cents per piece, rather than 6 cents as the Service proposes. Table 3 shows how KeySpan witness Bentley derived his 3.43 cent per piece fee cost for Low Volume QBRM.

Table 3
Derivation Of Unit Cost
For Low Volume QBRM
(Cents)

QBRM Processing	Percent	Unit Cost
PERMITS Rating & Billing	46.0%	0.55
Manual Rating & Billing	44.4%	5.52
BRMAS Rating & Billing	9.6%	0.00
Total Accounting	100.0%	**2.70**
Manual Counting	48.0%	1.50
Weight/SCM Counting	7.7%	0.06
BRMAS Counting	21.0%	0.00
EOR Counting	23.3%	0.00
Total Counting	100.0%	**0.73**
Combined Total		**3.43**

Mr. Bentley accepted USPS witness Campbell's productivities and costs (0.55 cents for PERMIT and 5.52 cents for manual) for the accounting (rating and billing) functions. For the cost of counting QBRM received in low volumes, Mr. Bentley uses the same productivities for hand counting and weight conversion techniques that he developed for High Volume QBRM. TR 29/14027.

Overall, the results of Mr. Bentley's studies are very reasonable. For example, Mr. Bentley estimated that 44% of ***all*** High and Low Volume QBRM will be counted using BRMAS equipment. TR 29/13998. This is reasonable since Mr. Campbell found, just for the top 77 recipients, that 142 million pieces are processed by BRMAS (TR 29/14040) and Mr. Bentley's use of 44% implies that, of the remaining 319 million

QBRM pieces not included in Mr. Campbell's survey (461 minus 142), 61 million, or just ***19%*** will be processed by BRMAS equipment.

V. There Is No Substance To The Postal Service's Criticisms Of KeySpan's Proposals

On rebuttal, witnesses Mayo and Campbell have criticized KeySpan's QBRM proposals. There is no merit in their criticisms. Moreover, there is a common thread in these criticisms: they depend upon information either not offered by the Postal Service in its case-in chief (for example Ms. Mayo's last minute opt-in/opt-out proposal) or withheld during discovery (Mr. Campbell's belated disclosure that the largest QBRM recipient maintains 2500 accounts).

A. Ms. Mayo's Frivolous Criticisms

Witness Mayo accuses KeySpan of "cater[ing] to only the highest volume QBRM mailers" and "limit[ing] the high volume QBRM classification to a small group of mailers with comparable mail volumes to KeySpan." TR 39/17653. There are obvious problems with her overblown claim. First, she did not even know how many pieces of QBRM KeySpan receives each year. TR 39/17699. In fact, if KeySpan had limited its proposal to "comparable" mailers, only 4 or 5 recipients would qualify. TR 39/17700.[22]

Second, while Ms. Mayo claims that fewer recipients will elect KeySpan's High Volume QBRM service than the her version of high volume service, she has no idea how many recipients will qualify for her own service.[23] She also had to admit (but only

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22 This is very significant since one of the reasons why the Postal Service justifies the much lower unit cost for nonletter BRM is that the market consists of only six recipients. If KeySpan thought there was any merit to this argument, KeySpan could have limited its High Volume QBRM proposal to only the top five or six largest accounts. TR 39/17525.

23 Ms. Mayo's original estimate of 1,358 High Volume recipients simply resulted from the purely mathematical exercise of dividing her guestimated annual volume for High Volume service (153,870,000 pieces from Library Reference USPS LR-I-168) by the minimum annual breakeven volume (113,333 pieces). Such a computation assumes that each and every recipient receives the exact minimum of 113,333 letters. Since just two accounts receive 95 million pieces (Exhibit KE-1D at 4), such an assumption is ludicrous. In contrast, KeySpan's estimate that 300 recipients would take advantage of its proposal was based on actual data that the Postal Service had but never used for any purpose until it "discovered" the information only after KeySpan's persistent interrogatories. TR 14/5617-20

after being instructed by the Presiding Officer to verify the number first hand) (TR 39/17701-04) that ***far more pieces (345 million) will qualify under KeySpan's proposal than under the Postal Service's (154 million)***.[24] In any event, if the Commission is concerned that KeySpan's proposed fixed fee inappropriately limits recipients' access to the High Volume service, there is plenty of room to lower that fee.[25]

Undeterred by the facts, Ms. Mayo claims, in a related argument, that KeySpan's proposal lacks an opt-in/opt-out feature that would allow recipients to take advantage of High Volume fees in quarters when they receive high QBRM volumes and elect the Low Volume single per piece fee when their volumes are low. This feature of the Postal Service's proposal was announced for the first time in Ms. Mayo's rebuttal testimony.[26] Although Ms. Mayo claimed she had discussed the opt-in/opt-out feature with USPS costing witness Campbell (TR 39/17693-94), Mr. Campbell admitted, but only after considerable effort to avoid answering these questions, that he could not recall any such discussions with witness Mayo, had no knowledge of this feature when his original testimony was prepared, and had not made any allowance for opt-in/opt-out costs in his cost analyses. TR 39/17535-36TR 39/17533-55.

The short answer to Ms. Mayo's opt-in/opt-out criticism is that KeySpan does not care if such a feature is engrafted upon the High Volume service. As the KeySpan witness made clear, the purpose of proposing a high fixed fee was to insure that the Postal Service will achieve the processing efficiencies possible when QBRM is received in high volumes. If the Postal Service is satisfied that it can achieve these results at a lower breakeven quantity than KeySpan proposed and/or can do so with a quarterly opt-

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24 The record shows that the annual volume received by just the top 75 QBRM recipients (183 million pieces) exceeds the Postal Service's estimate for the volume it expects ***all*** 1,358 High Volume mailers to receive. TR 39/17704. Yet, the Postal Service has not seen fit to correct its unsupported and now demonstrably unreasonable original estimates.

25 Mr. Campbell recognized that lowering the fixed fee would increase the number of potential participants. TR 39/17529-30.

26 Although Ms. Mayo claimed to have discussed the opt-in/opt-out feature of her proposal in her direct testimony, there clearly is no mention of such an option. TR 39/17686. Furthermore, in all of her discussions of the breakeven volume, she always referred to the breakeven volume on an annual basis.

in/opt-out feature, KeySpan has no objection. Indeed, since KeySpan's proposed fixed fee is a monthly fee, it would be possible to implement the opt-in/opt-out on an even shorter, more flexible basis than the Service belatedly claims it is proposing. But, once again, that is the Postal Service's call.

B. Mr. Campbell's Illogical Objections

USPS witness Campbell faults Mr. Bentley's cost analysis primarily for counting EDS Customer Relationship Management, Inc. ("EDS"), the highest volume QBRM recipient with 56 million pieces annually, as High Volume because, in reality, today EDS maintains 2,500 separate accounts. There is absolutely no merit in his criticism. Mr. Campbell never checked with EDS to see how its operations might change as a result of the Postal Service's proposals in this case.[27] Unlike Mr. Campbell, Mr. Bentley did check with the recipient. As EDS confirmed in an August 22, 2000 letter to the Presiding Officer, EDS can achieve substantial savings in caller fees and reduced QBRM fees by combining all of its accounts into one or more High Volume accounts. Ms. Mayo later verified the fees and related savings calculation showing that the postage savings **per year** would range from $3,550,850 under the Postal Service's proposal to $4,102,250 under KeySpan's proposal.[28] EDS is also facing a proposed 36% increase in caller box service, from $550 to $750 per year per account. That $200 increase multiplied by 2,500 separate accounts amounts to $500,000. Indeed, EDS has already considered saving the entire caller service charges of $1,875,000 by eliminating the current separate account set-up. Ms. Mayo also confirmed it would even make

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27 Mr. Campbell obviously was confused about EDS. In his rebuttal testimony, he suggests that none of the 2,500 accounts would qualify as a High Volume account. TR 39/17503-04. During cross examination he quickly abandoned that position (TR 39/17523) and even suggested at one point that as many as 650 of those accounts could qualify for the Postal Service's minimum of 113,333 pieces per year. TR 39/17524. Had Mr. Campbell bothered to check directly with EDS, as Mr. Bentley did, he would have learned that, as presently structured, none of the 2,600 accounts would qualify as High Volume QBRM, and would not have had to hedge his bet during cross examination.

28 TR 39/17717. A material portion of the potential savings (under both the KeySpan and Postal Service proposals) is attributable to annual savings of almost $1,874,250 that EDS can achieve by consolidating 2,500 caller service accounts into one master account. *Id.* Note that these savings are still somewhat understated since EDS, in its letter to the Presiding Officer, indicated that it now has approximately 2,600 separate post office box address, 100 more than Mr. Campbell believed.

sense to change the recipients' current operations just to achieve the potential caller service fee savings. TR 39/17718.

Of course, changing operations would also permit EDS to achieve the higher QBRM fee savings, ranging from $1,680,000 to $2,227,250 under the Postal Service and KeySpan proposals, respectively. As Ms. Mayo correctly stated of the Postal Service's High Volume QBRM per piece fee proposal, "I don't think I need to study the market to say that I think mailers who could save money, high volume mailers, would take advantage of it." TR 14/5661-62. KeySpan agrees.

Mr. Campbell's criticism of Mr. Bentley effectively backfired. Mr. Campbell obviously failed to use any common sense or reasonable judgment when he concluded, without even inquiring, that EDS would not or could not respond to the financial incentives that the Postal Service was offering. Currently, there is no charge for the Postal Service to separate and sort EDS' QBRM letters to each of the 2,500 accounts. However, under the Service's QBRM fee proposals, in the future EDS would have to pay an extra 3 cents per piece for that service. Even Mr. Campbell should have realized that, with 56 million pieces, EDS might think twice before turning down $1,680,000 (56 million times 3 cents) in annual postage savings. Under KeySpan's proposal, which of course Mr. Bentley was working with, the incentive (4 cents per piece) to change operations would be even greater. Accordingly, there is no question but that Mr. Bentley was correct in assuming that EDS' QBRM will indeed qualify for the High Volume QBRM per piece fee.[29]

Instead of pointing out an error in Mr. Bentley's analysis as he obviously intended, Mr. Campbell has inadvertently focused the Commission's attention on the fact that QBRM recipients can and will modify their existing operations if a reduced per piece option is made available to them. EDS may be the model for this phenomenon but it certainly is not unique. The Commission need look no further than its experience with discount fees for presort mail. Introduction of presort discounts has spawned an

29 According to EDS' August 22, 2000 letter, EDS already has in place the appropriate equipment to perform the sortations to all of its 2,600 separate accounts in-house.

entire industry devoted to aggregating and upgrading into high, dense volumes of mail gathered from relatively small mailers. Those developments have been mutually beneficial to mailers and the Postal Service. Introduction of a reasonable, cost-based per piece fee for High Volume QBRM can generate the same mutually beneficial cost savings for reply mail recipients and the Postal Service.

Mr. Campbell's other criticisms are equally illogical and/or misdirected. For example, he complained that Mr. Bentley's manual counting productivity of 2,746 PPH was "inflated"[30] and chastised Mr. Bentley for a "lack of understanding of the postage due activities" and a misunderstanding of the methods witness Pham employed in arriving at the 951 PPH manual counting productivity first used in Docket No. R90-1. TR 39/17498-17500. However, during cross examination Mr. Campbell (1) recognized that Mr. Bentley's productivity factors were based on conservative assumptions (TR 39/17569), (2) conceded that in Docket No. R90-1 Mr. Pham was dealing only with activities relating to ***counting, rating, and billing***, whereas some 10 years later Mr. Campbell had introduced the entirely new concept of sorting "above and beyond" that which is required for First-Class basic automation letters (TR39/17536-41), (3) acknowledged that he was unfamiliar with Mr. Pham's study design (TR 39/17542), (4) confirmed that witness Pham made a "special effort to ensure that no double counting of relevant cost element is involved," (TR 39/17512) ***including double counting of sortation costs*** (TR 39/17541-42, 17544-45, 17546), and (5) testified that it "certainly seems reasonable" to conclude that Mr. Pham was sensitive to the double counting question ***specifically because Mr. Bentley had flagged that as a problem in the Docket No. R87-1 case***. TR 39/17552.[31]

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30 Mr. Campbell also complained about the productivity factor Mr. Bentley derived for counting by weight averaging. The record refutes his complaints. The record shows that the productivity for counting by weight averaging is much higher than for counting manually. TR 39/17584. Moreover, Mr. Bentley's productivity factor (68,091 PPH) had no material impact on the derived unit per piece cost because so few pieces are counted by weight averaging. TR 39/17580-81.

31 See also TR 39/17555-60.

While conceding that "it might be 'logical' to assume that more efficient accounting methods are used to a higher degree with larger accounts" (TR 39/17509), Mr. Campbell nevertheless quibbles with the way in which Mr. Bentley derived the counting percentages for QBRM recipients who receive more than 300,000 pieces per year. TR 39/17504-06.[32] Not only is it logical to assume that more efficient counting methods are used on high volume accounts but that is what the record conclusively shows. If there is a lack of information on the record, that fault lies squarely with the Postal Service. It was witness Mayo who tried to avoid providing KeySpan with any actual data. Had it not been for KeySpan's persistence, the record would not contain any information about the counting methods used for high volume accounts. If Mr. Campbell really believed that Mr. Bentley's methodology was flawed, he had the resources and more than ample time to produce ***actual*** information to discredit Mr. Bentley's estimates with actual information. Since Mr. Campbell failed to produce any credible evidence, the Commission can and should conclude that had he done so the information would have ***supported*** KeySpan's position.

Implicitly recognizing the weakness in his arguments against KeySpan's proposals, Mr. Campbell states:

> Although it might be "logical" to assume that more efficient accounting methods are used to a higher degree with larger accounts, the only information which definitively shows what methods are applied to particular accounts is reflected in response to KE/USPS-T29-49 (Tr. 14/6025, 6026, 6030). Another comprehensive BRM Practices Study is needed before we can take de-averaging to the next level.

TR 39/17509-10. See also TR 21/9466-67. The Commission should reject this appeal for further time in which to redress fully the harm visited upon QBRM recipients by the rejection of PRM and the imposition of a per piece fee in this proceeding that has now been demonstrated to be wholly unreasonable because it was based on the patently unreliable 1997 BRM Practices Study. Even Mr. Campbell realized that manual

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32 Mr. Campbell incorrectly criticizes Mr. Bentley for excluding the top two accounts when he calculated the counting method percentages for the remaining 226 High Volume recipients. Mr. Bentley chose to be ***conservative*** and exclude these two largest recipients so as not to overstate the automated counting percentages. TR 26/14066-67. Therefore, Mr. Campbell's criticism on this score is clearly misplaced.

counting for High Volume QBRM recipients is only a problem in a few postal facilities. TR 21/9467.

The ***last*** thing we need is another "comprehensive BRM Practices Study." The only reason for designing and conducting such special studies was that the Postal Service lacked basic information about Business Reply Mail processing. Today, with the computerized databases and instantaneous communications available to it, the Postal Service already has on hand, or can easily gather, sort and synthesize all the relevant information in a ***fraction*** of the time it took to produce the flawed 1997 BRM Practices Study. The fact that Mr. Campbell was able to furnish accurate information about the top QBRM recipients in such a short time demonstrates the point.

VI. The Postal Service's QBRM Per Piece Fee Cost Analysis Is Flawed And Must Be Rejected By The Commission

The Postal Service's QBRM per piece costs and resulting fees are based on a flawed cost analysis that severely overstates the cost of counting both High Volume and Low Volume QBRM. Accordingly, the Service's costing analysis must be rejected by the Commission.

A. Conceptual Flaws In The Postal Service's QBRM Cost Approach

1. Failure To Follow The Governors' Directive

The principal flaw in the Postal Service's QBRM cost analysis is that the Service never studied the very question that the Governors directed them to study: whether and how QBRM processing costs are affected by the volumes recipients receive. Instead, USPS witness Campbell made what was then a counter intuitive, and now is demonstrably incorrect, assumption that the cost of counting QBRM received in high volumes would be the same as the cost of counting QBRM received in low volumes. TR 29/13995-97.

2. Turning A Blind Eye To Reliable Actual QBRM Data

Perhaps the most obvious flaw in the Postal Service's QBRM presentation is that the Service disregarded recent actual information from its own computer data systems, called the CBCIS system, that ***directly*** refute the BRM Practices Study its witness relied upon to determine the percentages of QBRM counted by the various counting methods.

Table 4, below, compares the percentages of QBRM counted by various counting methods based directly on the CBCIS system data and Mr. Campbell's telephone survey with similar percentages taken from the 1997 BRM Practices Study.[33] Note that the percentages assumed by Mr. Campbell are ***identical*** for High and Low Volume QBRM -- because the 1997 BRM Practices Study ***did not differentiate the counting method*** used based on the volume received by individual recipients.

Table 4
Comparison of Percentages of QBRM Letters Counted By Various Methods From Two Data Sources

QBRM Category	Data Source	% Of QBRM Counted By:					Total
		BRMAS	EOR	SCM	Weight	Manual	
High Volume QBRM	BRM Practices Study	14%	19%	10%	9%	47%	100%
	CBCIS Data System	52%	28%	1%	8%	11%	100%
Low Volume QBRM	BRM Practices Study	14%	19%	10%	9%	47%	100%
	CBCIS Data System	21%	23%	1%	7%	48%	100%
All QBRM	BRM Practices Study	14%	19%	10%	9%	47%	100%
	CBCIS Data System	44%	27%	1%	8%	20%	100%

This up-to-date, customer-specific QBRM information shows that for High Volume QBRM recipients, (1) the very efficient BRMAS counting, rating, and billing system is much more widely used (52%) than assumed by Mr. Campbell (14%); and (2) hand

33 As Mr. Bentley explains (TR 29/13998), USPS witness Campbell obtained volume data for 74 of the top 77 QBRM recipients and then conducted a telephone survey to determine the counting method used for each recipient. TR 29/14038. Utilizing that data, Mr. Bentley estimated the percentage by counting method for all High Volume QBRM pieces. He also estimated comparable percentages for Low Volume QBRM using the method described in Exhibit KE-1G (TR 29/14060-61).

counting is used much less frequently (only 11%[34]) than the 1997 BRM Practices Study showed (47%).[35] Moreover, the total percentage of High Volume QBRM that receives automated counts through BRMAS and EOR counts (80%) compares very favorably with USPS witness Pham's prediction that 85% of BRMAS qualified BRM would receive automated processing.[36] Despite this irrefutable evidence that he himself gathered and gave to KeySpan witness Bentley, when Mr. Campbell testified on August 24, 2000 he was clinging to the untenable position that "we, the Postal Service, subsequently have ascertained that the BRMAS program did not – has not fully met [Mr. Pham's] expectations." TR 39/17561. Such intransigence in the face of clear evidence is no virtue.

Even for Low Volume QBRM, the percentages actually counted by BRMAS and EOR counts is ***much higher*** (44%) than the 1997 BRM Practices Study predicts (33%). Mr. Bentley was conservative when deriving these percentages as well. He assumed that 100% of the QBRM received in quantities of less than 100,000 pieces per year (46 million pieces according to CBCIS data) will be counted manually. TR 29/14061. Even Mr. Campbell testified that QBRM pieces received in low volumes sometimes are counted by automation. TR 39/17548.

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34 Based on the telephone survey data that Mr. Campbell provided to Mr. Bentley, four post offices that processed QBRM for only six accounts allegedly hand counted 10.3 million pieces a year on a routine basis. TR 29/14038. The average volume received by each of these accounts is 1.7 million pieces per year, or 6,883 pieces per day based on a five day week. Although Mr. Bentley assumed that these 10.3 million pieces would be counted manually for purposes of his unit cost derivation, KeySpan finds it highly unlikely (and highly inefficient) that Postal clerks will hand count such quantities day in and day out, particularly when weighing techniques are so much easier, faster and less costly. ***Astoundingly, one post office allegedly hand counted volumes for three of the top 59 accounts.*** Ultimately, it may be the Postal Service's choice to operate in an extremely inefficient manner. But the Commission is under no obligation to ***reward*** the Postal Service by basing rates on assumed inefficiencies, especially where as here the inefficient operations are not the norm.

35 USPS witness Campbell's derived unit cost for high volume QBRM is based on a 67% manual counting percentage since he combined the percentages for Weighing/SCM with manual counting.

36 It appears that EOR counts have developed as an efficient cost effective alternative to the BRMAS system. While Mr. Pham did not predict this development, his basic prediction – that automated processing would replace manual processing – has proven remarkably accurate, much more so than the 1997 BRM Practices Study indicated and perhaps more than the Postal Service would like to admit.

There is absolutely no question that the BRMAS counting percentage derived by the 1997 BRM Practice Study and adopted by Mr. Campbell is wrong. As shown in Table 4, that study showed that only 14% of the total 461 million test year QBRM letters, or 66 million pieces, would be processed by BRMAS equipment. Yet, actual data taken from recent Postal Service records and the results of Mr. Campbell's own telephone survey found that 142 million QBRM letters from just 74 of 10,000 accounts would be processed by BRMAS equipment. The 142 million letters represents about 31% of the Postal Service's 461 million piece QBRM universe. Mr. Campbell failed to understand the significance of this fact and continued to claim, without foundation, that his estimate of 66 million pieces based on the BRM Practices Study was more accurate. TR 39/17609–21.

Nor, ***apparently***, could Mr. Campbell understand that the 31% derived by his telephone survey represents an absolute minimum or floor, since the 142 million QBRM letters were received by only 74 accounts. He stated that he understands how the 31% was derived but still, somehow, maintains that the 14% he took from the 1997 BRM Practices Study is more accurate. TR 39/17620. Mr. Campbell's "judgment" on this matter is simply incredible in view of the actual QBRM counting data that he himself provided to Mr. Bentley. There simply is no logic or factual basis for his judgment.

If the remaining 10,000 accounts are included, ***the 31 percent must go up***. Since these 142 million pieces already represent 31% of the total QBRM universe, that percentage cannot possibly go down to 14% as Mr. Campbell would prefer. In contrast to Mr. Campbell's illogical approach, Mr. Bentley estimated that for all QBRM, the total processed by BRMAS equipment would be 44%. This is reasonable since it implies that of the remaining 319 million QBRM letters (461 minus 142), 61 million, or just 19% would be processed by BRMAS equipment.

3. The Premium Sortation Myth

Another very significant defect in the Postal Service's case lies in the study design utilized by the Service. That defect is most apparent in the case of High Volume QBRM but it also affects Low Volume QBRM as well.

For High Volume QBRM, USPS witness Campbell correctly isolated and measured the costs associated with the rating and billing functions. Therefore, the only

cost remaining to be recovered in the High Volume QBRM per piece fee is the cost of counting the reply mail pieces. ***That was precisely what Mr. Campbell did when he developed the .57-cent per piece fee cost for counting nonletter-size BRM.*** For QBRM, however, Mr. Campbell's convoluted study design first uses a 951 PPH productivity factor for manual counting that combines counting and sorting functions and then deducts ***some, but not all,*** of the sortation costs.

In case after case, the Commission has stated that the BRM per piece fee is intended to recover only the costs of counting, rating and billing, and nothing more. See, e.g., *Postal Rate And Fee Changes, 1984,* Docket No. R84-1, Opinion And Recommended Decision, issued September 7, 1984, at 390. In Docket No. R94-1, the Commission stated:

> The purpose of the BRMAS costing analysis is to measure the cost of the special services feature, i.e., counting, rating and billing for BRMAS mail. It is not to measure other attributes of BRM which may be common to other mail.

Postal Rate And Fee Changes, 1994, Opinion and Recommended Decision, issued November 30, 1994, at V-145. The costs of all other sorting and delivery services are not included in the QBRM fee because the recipient pays for them in the First-Class rate.

KeySpan agrees with the Commission that the additional QBRM per piece fee (or fees in the case of high volume QBRM) should only include the costs for counting, rating and billing the reply mail pieces. Indeed, even USPS witness Campbell agrees that QBRM "is entitled to have it sorted to the addressee for whatever First Class rate he pays." *See* TR 14/6140.

Unfortunately, Mr. Campbell's study design does not accurately follow the conceptual framework described above. Instead of limiting the QBRM per piece fee to counting costs, he has included a very significant amount of sortation costs.

Mr. Campbell sought to justify this error in his approach to costing QBRM with the fanciful notion that QBRM recipients must pay for "premium sortation" that is "above and beyond" the sortation to which they are entitled as First Class mailers. Curiously, Mr. Campbell never even mentioned, much less tried to justify, imposition of this additional sorting cost in his prepared testimony. Indeed, when pressed on cross

examination, he stated that such a concept "I think was "implicit through my presentation of the costs." TR 14/6169. The premium sortation concept only surfaced, belatedly, in response to KeySpan's interrogatories. As discussed further in the context of technical flaws in Mr. Campbell's costing approach, Mr. Campbell's error stems in part from the fact that he did not properly follow the methodology of USPS witness Pham who developed the 951 PPH manual productivity factor in Docket No. R90-1.

Since Mr. Campbell's per piece fee reflects both counting and sorting, his costing approach improperly charges high and low volume QBRM recipients ***twice*** for the same sortation costs, once in the QBRM First-Class rate and again in the QBRM per piece fee.[37]

B. Technical Deficiencies of USPS Witness Campbell's QBRM Cost Analysis

There are several technical deficiencies in the two per piece cost analyses USPS witness Campbell presents in support of Ms. Mayo's per piece fee proposals for High Volume and Low Volume QBRM. These flaws all tend to significantly overstate the true costs of providing QBRM service. While the specific problems discussed below refer to high volume QBRM, most apply to low volume QBRM as well.

All these issues were squarely addressed by KeySpan witness Bentley. TR 29/14044-54. Mr. Campbell never took exception to Mr. Bentley's analysis in his rebuttal testimony and Postal Service counsel did not even cross examine Mr. Bentley. TR 29/14079.

1. The Assumption That A High Percentage Of QBRM Will Be Sorted And Counted Manually Is Unfair

In Docket No. R90-1, USPS witness Pham focused primarily on automated BRMAS operations in his study of BRMAS BRM costs. He also assumed that BRMAS processing would expand rapidly throughout postal facilities and estimated that 85% of BRMAS BRM volumes would be processed on the automated equipment in the test year of that case.

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37 This error also affects low volume QBRM recipients.

In contrast, when USPS witness Campbell's derived his unit cost for QBRM in this case, he assumed that 66.5% of the pieces are sorted and counted manually at a cost of 4.32 cents per piece. Such an assumption is extremely unfair to QBRM recipients for two reasons. First, QBRM letters are prebarcoded and automation-compatible by regulation. Consequently, QBRM letters are more susceptible to being processed on automated equipment than other First-Class letters. Whether or not these pieces are processed by automation is purely a management decision. This is well beyond the control of the QBRM recipients; they should not be penalized by having to pay rates that reflect such operational choices, which one would at least hope are beneficial to all mailers.

Second, the Postal Service claims that QBRM is processed manually because automated incoming secondary equipment is already at full capacity. *See* TR 14/6088-89. If the equipment is being used to sort other First-Class mail, it unfair to penalize a subset of First-Class letters when other First-Class letters are receiving the benefit of automation. The rate for First Class is based on an average of all processing methods available for that mail.[38] Since QBRM is part of that subclass, the Postal Service cannot justify charging QBRM for the alleged high probability that QBRM will receive manual processing.[39]

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38 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.

39 According to Mr. Campbell, QBRM is 7 times more likely to be processed manually than other First-Class letters. Mr. Campbell agreed that he assumed 41.6 % of QBRM received a manual sort to destination in the postage due unit. He also agreed that, according to USPS witness Kingsley, only 6% of First-Class letters were sorted manually in the incoming secondary sort. TR 14/6094-96.

2. 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.[40] 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 and 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. (***but not the sorting function***).

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.[41] Then he subtracted out a ***weighted*** incoming secondary cost that reflected proportionately the same percentages of processing methods used to develop the unit cost in the first place. For example, when deriving both the BRMAS unit cost and the avoided incoming secondary cost, Mr. Pham made similar assumptions regarding the processing methods for these pieces.

Mr. Campbell fails to understand or apply this method consistently. Unlike Mr. Pham, Mr. Campbell derives his QBRM unit cost under the assumption that 66.5% of QBRM pieces will be sorted manually. But when determining the unit incoming secondary cost to subtract in order to avoid double counting sorting costs, he assumes

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40 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.

41 As mentioned above, Mr. Pham projected that a majority of BRMAS qualified BRM would receive automated processing.

that only 10% of QBRM will be sorted manually. *See* TR 14/5963-64. Thus, he is inconsistent in his attempt to avoid double counting of incoming secondary sort costs. Since automated costs are so much lower than manual costs, his derived QBRM net unit cost, adjusted for avoided incoming secondary sort costs, is severely overstated. He defines these costs, which he fails to remove, as "premium" sortation costs. There is no legitimate reason to include any sortation costs in the QBRM per piece fees. TR 29/13991, 13994-95, 14049.

b. Sorting Costs For 25% Of The QBRM Volumes Were Never Removed

Even assuming that it were necessary or appropriate to include sortation costs in the per piece fees for High and Low Volume QBRM in the first place, Mr. Campbell's methodology is still flawed. When deriving his QBRM unit per piece fee cost, USPS witness Campbell assumes that 66.5% of these pieces are hand counted. *See* LR-I-160, Schedule B at 2. Thus, he applies his 4.32-cent manual sorting and counting unit cost to 66.5% of the pieces. But when it comes to subtracting out the incoming secondary sortation cost, he applies the 2.11-cent First-Class Basic Automated unit cost to only 41.6% of the pieces. Thus, for 24.9% of the pieces he made ***no adjustment whatsoever*** for removing the avoided sorting costs.

Such pieces represent letters that were sorted by automation but counted manually. *See* TR 14/5928. By including these pieces in the derivation of the QBRM unit cost before the adjustment, Mr. Campbell already has included the cost of hand-sorting these pieces. Thus he errs twice. First, he assumes a manual sorting and counting productivity of 951 PPH for these pieces, which are really sorted by automation. Second, he never subtracts out any avoided sorting costs for these pieces. Thus, the resulting net unit cost not only double counts sorting costs, but assumes a manual sortation and counting cost for pieces that are presumed to be sorted by automation. The end result is a significant overstatement of the QBRM unit cost.

3. Use Of The 10-Year-Old 951 PPH Productivity Factor For Manually Sorting And Counting QBRM Is Inappropriate

a. Incoming Secondary Automation Has Increased Considerably

The 951 PPH productivity factor Mr. Campbell used for manually sorting and counting QBRM letters within the postage due unit is taken from USPS witness Pham's 10-year old study. Although USPS Mr. Campbell asserts that this operation has not changed in ten years, the manner in which BRM letters is provided to the postage due unit has. In the last ten years the Postal Service has spent billions of dollars on automation equipment. At a minimum, it seems reasonable that today and in the test year a far greater percent of QBRM is sorted to the final addressee before going to the postage due unit than was the case 10 years ago. Such mail would not need any sorting, certainly impacting the amount of sortation that would need to take place in the postage due unit. USPS witness Campbell's field observations do not address these changed circumstances.

Moreover, the CBCIS data provided by Mr. Campbell shows that 82%[42] of the 241 million pieces received by the largest 74 recipients are ***completely*** sorted and counted by BRMAS or EOR systems before the mail ever reaches the postage due unit. TR 29/14040. Thus, his assumption that 66.5% of high volume QBRM would be counted and sorted manually in the postage due unit at a productivity of 951 PPH is way off base.

b. The 951 PPH Productivity Factor Relies Too Heavily On Data From One Very Inefficient And Unrepresentative Office

Mr. Bentley pointed out that the 951 PPH manual sorting and counting productivity USPS witness Campbell applied to QBRM letters is based upon decade old data that was highly influenced by the operations of one office that, at that time, had almost 10,000 separate accounts. TR 29/14051. USPS witness Campbell could not even verify the identity of that office, and did not know whether that office still has

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42 The actual data provided by USPS witness Campbell indicated that 198 million pieces are counted by automation. This amount is considerably more than the 154 million total high-volume QBRM letters projected by USPS witness Mayo. Mr. Campbell's estimate that 66.5 percent are counted manually cannot possibly be accurate.

10,000 separate accounts, or whether the operations of that office manually sorts and counts QBRM today. He simply ***assumed*** the 951 PPH productivity factor would still be representative of the current environment for counting QBRM received in both high and low volumes for the test year.

Had Mr. Campbell removed this one office from the derivation of the 951 PPH, the PPH would have become 1,097, reducing his High Volume unit cost, from 2.00 to 1.61 cents. *See* TR 14/6033-35. Mr. Bentley's criticism of the 951 PPH productivity factor is unchallenged.

c. There Is No Support For Mr. Campbell's Unreasonable Assumption That The 951 PPH Manual Productivity Factor Is A Good Proxy For Deriving The Cost Of QBRM Counted By Weight Conversion Techniques And Special Counting Machines

Of the 66.5% of QBRM that USPS witness Campbell treats as counted manually, almost one-third (19.3%) that, according to the flawed 1997 BRM Practices Study, was counted by special counting machines or by weighing techniques. TR 29/13998. Because he had no data on the productivities for special counting machines or weighing techniques, Mr. Campbell simply ***assumed*** that the 951 PPH productivity factor applies to such pieces as well. *See* TR 14/5916-17, 5957, 6033-35, 6112-13, 6117-19, 6170-71. Since the productivity for counting by special counting machines or weighing techniques is so much higher than for hand counting, Mr. Campbell's derived cost estimate for manually counting QBRM is overstated. TR 29/14035.

When finally pressed on cross examination, Mr. Campbell grudgingly agreed with the suggestion that 7,272 pieces per hour, the productivity factor for weighing bulky non-letter size parcels derived in Docket No. MC99-2, might be a reasonable, even "conservative" productivity factor for counting uniform QBRM pieces by weight averaging. TR 14/6174-75. As he admitted,

> ***A*** I would expect that [7,272 PPH] productivity to be a conservative productivity.
>
> ***Q*** And so then why wouldn't you have used that? Or will you agree now that that should be used?
>
> ***A*** That is one approach to this methodology, yes.

Q And you would think that would be appropriate, an appropriate adjustment to make to your methodology?

A Again, one could apply this productivity and perhaps obtain a reasonable estimate as weight averaging productivities for letter size mail.

TR 14/6175. While KeySpan considers a productivity of 7,272 PPH to be much too low, especially as compared to the productivity Mr. Bentley developed specifically for uniform QBRM letters and cards, the Commission can and should recognize that the absolute lower limit of a reasonable productivity is, by USPS witness Campbell's own admission, some 8 times the productivity factor he used.

4. There Is No Possible Justification For The Postal Service's Convenient Assumption That Costs Vary 100% With Volume

USPS witness Campbell assumed that the 951 manual productivity for counting and sorting QBRM was 100% variable with volume. In contrast, in Docket No. R97-1 USPS witness Schenk's manual productivity was assumed to be 79.7% variable with volume. Mr. Campbell's terse "explanation" for this change is that it was an "institutional decision". TR 14/5961.

This "institutional decision," for which Mr. Campbell did not even attempt a justification, runs directly counter to the Postal Service's position that labor costs do ***not*** vary 100% with volume. Had Mr. Campbell assumed the same 79.7% variability as USPS witness Schenk did in the last case, his derived unit cost for High Volume QBRM would have been reduced to 1.41 cents. TR 29/14052. Accordingly, the Commission should judge Mr. Campbell's adjustment for what it really is – a poorly disguised, opportunistic attempt to artificially inflate QBRM costs and, ultimately, the QBRM per piece fees.

Without this adjustment, Mr. Campbell's High Volume unit cost would have been well below the 2.00 unit cost he derived. Thus, after adding the .05 cent contingency allowance, Ms. Mayo's indicated procedure of simply rounding up to the next whole cent interval (to arrive at her proposed 3-cent per piece fee) would have reduced her proposed fee by a full cent. USPS-T-39 at 25. Mr. Campbell's reliance on an institutional assumption that runs directly counter to the Service's stated position on cost

variability clearly was orchestrated to justify a much higher, preordained fee than would ordinarily be justified.

5. Additional Data Ignored By USPS Witness Campbell Casts Serious Doubt On How Representative The Data From The 1997 BRM Practices Study Will Be For The Test Year.

a. Manual Processing In The Incoming Secondary

USPS witness Campbell's uncritical acceptance of the 1997 BRM Practices Study is questionable to say the least. Among other things, that study estimated that 41.6% of prebarcoded, automation-compatible QBRM letters would be sorted to the customer through manual distribution methods. TR 14/5915. Mr. Campbell's use of that "finding" without any adjustment increased his unit incoming secondary sort cost by more than two cents. TR 14/5963-64. Such a result is patently unreasonable in view of the Postal Service's report that 94% of all barcoded letters will be finalized by automated incoming secondary operations in the test year, up significantly from 78% as recently as 1995. TR 5/1675. Mr. Campbell was unaware of this new development. TR 14/6092. It apparently did not seem to bother him, but should have, that under his assumption, QBRM is 7 *times* more likely (41.6% vs. 6%) to be manually sorted than an average barcoded letter. There simply is no factual or logical explanation for this.

Moreover, USPS witness Campbell ignores the fact that the Postal Service's capacity for handling automated mail increased substantially between 1996 and the test year, as indicated by the DBCS Machine Deployment Schedule. *See* Library Reference USPS LR-I-271.

These and similar lapses or failures to exercise common sense all had the effect of stacking the cost derivation against QBRM recipients and in favor of the Postal Service. This was no way for the Postal Service to propose rates after the Governors' specific directive to study QBRM processing methods. In any event, the Commission should not countenance such lapses of judgment.

b. Counting By Weight Conversion Techniques

A USPS study performed in 1987 indicated that at least half of all BRM was counted by use of weight conversion factors. If such a practice was so widely used in 1987, it casts doubt on USPS witness Campbell's conclusion that only 8.9% of QBRM

was being counted by weighing techniques in 1996. Mr. Campbell was unaware of this study (TR 14/6074, 6171) and could not explain why counting by weight conversion techniques might have declined so drastically during the 1987 – 1996 time period.

c. Actual Postal Service Data On High Volume QBRM Recipients Indicate Significant Differences

USPS witness Campbell could have utilized data from the Postal Service's CBCIS system, which tracks QBRM data for almost all recipients. But he failed to update or compare the data from the 1997 BRM Practices Study with this additional data source. The CBCIS data indicates, particularly for high volume recipients, that BRMAS processing is ***much more*** prevalent than Mr. Campbell believes. Based on the CBCIS data provided by Mr. Campbell, 52% of QBRM pieces received by the top 74 recipients is processed by BRMAS equipment. TR 29/13998. This is almost four times the 14% he assumed in his derivation of the per piece cost for High Volume QBRM. Indeed, the volume of QBRM pieces found to be counted by BRMAS equipment for just the 74 top QBRM accounts is ***more than twice*** the total number of QBRM pieces that USPS witness Campbell estimates ***for all QBRM***.[43]

In addition, manual counting is performed much less often than Mr. Campbell assumed based on the 1997 BRM Practices Study. As Mr. Campbell confirmed, when offices counted QBRM by various methods, the counting method for the largest accounts is never manual. *See* TR 14/6189. This certainly contradicts his own unsupported assumption that the counting method is unrelated the volume per account. In any event, the CBCIS data indicates that only 11% of High Volume QBRM is counted manually, whereas Mr. Campbell's data indicated that eight times that amount, 66.5%, would be counted manually.

Based upon his analysis of the CBCIS data, Mr. Bentley also estimates that only 20% of all QBRM is counted manually, ***less than one-half of the 47.2% predicted by the 1997 BRM Practices Study*** (TR 14/6116-19), and ***less than one-third of the 66.5% assumed by Mr. Campbell in his cost derivations*** (USPS-LR-160, Section B

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43 Mr. Campbell assumed that only 14.2% of all QBRM pieces would be counted by BRMAS. For the test year, his estimate is 65.5 million pieces (14.2% of 461.6 million pieces). The recent actual CBCIS data from just 74 accounts indicates that 142 million pieces are counted by BRMAS. TR 29/14040.

at 2 and 3). This casts serious doubt on how well that study represents the QBRM universe and further explains why USPS witness Campbell has overstated the unit costs for both high and low volume QBRM.

For all of these reasons, the Postal Service's per piece fee costs for both High Volume and Low Volume QBRM must be rejected.

II. KeySpan's Proposed First-Class Rate For QBRM Is Reasonable

The current First-Class rate for QBRM is 30 cents. In this case, the Postal Service proposes a First-Class rate of 31 cents while KeySpan proposes a rate of 30.5 cents. Mr. Bentley employed the same cost savings derivation methodology as the Postal Service did with the following exceptions:

- Mr. Bentley uses the Commission's cost methodology for attributing costs whereas Mr. Campbell uses the Postal Service's proposed method which assumes that labor costs do not vary 100 percent with volume;
- Mr. Bentley uses a more stable Cost and Revenue Analysis ("CRA") proportional adjustment factor than the CRA adjustment factor witness Campbell uses; and
- Mr. Bentley recognizes and credits QBRM recipients with a portion of avoided window service costs.

Mr. Campbell's use of the First-Class Non-Automation CRA proportional adjustment factor has been all but nullified by the Service's admission of problems that arose during its data collection of such costs. *See* Response Of The United States Postal Service To Questions Raised At Hearings On August 3, 2000, dated August 14, 2000; Response Of The United States Postal Service To Presiding Officers Ruling No. R2000-1-116, dated August 18, 2000; Supplemental Response Of The United States Postal Service To Presiding Officers Ruling No. R2000-1-116, dated August 25, 2000.

In rebuttal testimony, Mr. Campbell did not even address this issue. Accordingly, the Commission should find that the appropriate First-Class rate for QBRM is 30.5 cents, as recommended by Mr. Bentley.

Conclusion

KeySpan ends with the same thought it began the brief with: common sense is the key to resolving the QBRM per piece fee issues. The Postal Service's convoluted costing proposal for de-averaging QBRM did not make sense from the beginning. Commonsense should have guided USPS witness Campbell to the inescapable conclusion that it cannot possibly cost three and one-half times as much to count uniform QBRM pieces received in High Volumes as it costs to count non-uniform bulky packages. Yet that is the illogical leap of faith that the Postal Service is asking the Commission to make in this case.

Because the Postal Service's QBRM per piece fee proposals in this case defy credulity, the Commission should recommend that QBRM High Volume recipients pay a reasonable per piece fee of 0.5 cents. Low Volume QBRM recipients should pay a per piece fee of 4.5 cents. Finally, the First-Class rate for all QBRM recipients should be 30.5 cents.

Respectfully submitted,

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Dated: Round Hill, Virginia
September 13, 2000

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all parties to this proceeding, in compliance with Rule12 of the Commission's Rules of Practice.

Dated this 13th day of September 2000.

Michael W. Hall