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

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

Reply 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 reply brief.[1] The Postal Service is the only other party to address QBRM issues in detail. USPS Initial Brief ("IB") at VIII 15-27.

Introduction

On brief, Postal Service *counsel* acknowledges what USPS witness Campbell should have, but stubbornly refused to, admit on the witness stand – new data makes it "apparent that the [1997] BRM Practices Study understates the percentage of high-volume QBRM which is counted by BRMAS." USPS IB at VIII-22. The impact of such an admission is that Mr. Campbell's derived High Volume QBRM unit cost is overstated by **at least 56%** (2.00 cents compared to 1.28 cents). As important as such an admission is, it does not go far enough.

The Postal Service still seeks to isolate and limit the practical effect of this belated admission by claiming that the new data only refutes the 1997 BRM Practice Study's finding as to the percentage of High Volume QBRM counted by BRMAS and

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

that the study results are otherwise valid.[2] Indeed, the Postal Service criticizes the counting method percentages derived by KeySpan witness Bentley because they "show little resemblance to the percentages derived in the Postal Service's [1997] BRM Practices Study." USPS IB at VIII-25. That observation is accurate, but the implied criticism is misplaced. The results of Mr. Bentley's analysis bear little resemblance to the results obtained by the 1997 BRM Practices Study because that study contained major flaws that the new QBRM data have revealed and, in any event, did not differentiate between accounts that received high versus low volumes.

KeySpan did not anticipate the Postal Service's ***specific*** admission regarding overstatement of the unit costs for High Volume QBRM but KeySpan did and anticipate and respond to most of the Postal Service's arguments in its Initial Brief.[3] Therefore, in

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2 Citing TR 39/17626, the Postal Service asserts that USPS witness Campbell ***suggested "[a]ll else equal,*** the effect of [understating the BRMAS counting percentage] would appear to be an overstatement of unit costs for high-volume QBRM, perhaps of a magnitude" of 0.72 cents. USPS IB at VIII-22 (emphasis added). A review of the record shows that Mr. Campbell agreed that this would be the mathematical result of substituting a BRMAS coverage factor of 30.7%, the BRMAS counting percentage based on the new data he obtained in response to KeySpan's interrogatories, for the 14% reported in the 1997 BRM Practices Study. The record also shows that Mr. Campbell claimed that he could not accept this specific modification to his cost analysis since "I don't feel comfortable using the 30-something percent, because I don't have representative data." As discussed below, that adjustment is but ***one of several*** changes that would have to be made to Mr. Campbell's methodology, not as Postal Service counsel now suggests, a ***maximum*** "order of magnitude" adjustment.

3 For example, KeySpan addressed the Service's criticism (IB at VIII-24-25) that Mr. Bentley incorrectly treated as High Volume QBRM the 56 million pieces received by EDS. *See* KeySpan IB at 24-26. The only additional point KeySpan would make is that, in a September 6, 2000 statement, Mr. Campbell has highlighted the fact that it is not just High Volume QBRM recipients, but also the Postal Service, that stands to benefit from de-averaging QBRM per piece fees. As Mr. Campbell states "sites having 200 to 300 accounts that manually count QBRM pieces may find it more efficient to count QBRM pieces for one large account using an automated method." His statement, which we have included as Attachment I for the convenience of the Commission, was accepted into the evidentiary record by POR 2000-1/142, issued September 8, 2000. The one-size-fits-all per piece fee currently in effect does not provide any incentive for QBRM recipients to consolidate their accounts. A new de-averaged rate structure will give recipients a positive incentive to do just that, as the EDS example illustrates. Mr. Campbell's statement shows that this will be a win-win situation for QBRM recipients ***and the Postal Service***.

the interests of brevity we will refer the Commission to the appropriate portion of KeySpan's Initial Brief.[4]

As KeySpan stated in its initial brief (at 5-6), common sense is the key to resolving the QBRM issues raised in this case. Common sense alone dictates that there is something obviously wrong with the Postal Service's proposal of a 3-cent per piece fee for High Volume QBRM and a 1-cent fee for high volume nonletter-size BRM. Conceptually, the Service's proposal to establish separate fee structures for High Volume and Low Volume QBRM recipients is very similar to the rate structure the Postal Service recently instituted for nonletter-sized BRM.[5] The Postal Service's proposed per piece fees for High Volume QBRM and nonletter-size BRM are based on unit costs of 2.0 and 0.57 cents, respectively. 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, when each is received in high volumes. *See* KeySpan IB at 7.

The 1.28 cent[6] partial "fix" suggested by USPS counsel on brief is also fundamentally illogical and grossly unfair to High Volume QBRM recipients. The 1.28 cent unit cost alternative still implies that it costs two and one-quarter times more to count uniform, compact High Volume QBRM pieces as it costs to count non-uniform, bulky packages. Simply put, this cannot be so. Common sense indicates that it should cost ***less*** to count QBRM than to count nonletter-size BRM, ***and, in fact, it does cost less to count QBRM.*** For these reasons, the 0.57 unit cost developed for nonletter-sized BRM represents a common sense upper limit or cap on the unit cost for counting High Volume QBRM. In other words, the realistic unit cost to count highly efficient High Volume QBRM must be ***lower*** than 0.57 cents. Mr. Bentley's cost analysis is consistent with this common sense approach.

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4 KeySpan also anticipated and has already responded completely to the Postal Service's criticism (IB at VIII-26-27) that KeySpan's $12,000 annual accounting fee for High Volume QBRM is too high and denies some still relatively high volume QBRM recipients the opportunity to participate. See KeySpan IB at 22-24.

5 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.

6 TR 39/17626.

Argument

I. Deriving A Reliable Unit Cost For High Volume QBRM Is Not As Difficult As The Postal Service Suggests

The Postal Service argues that the Commission should settle on a 3-cent per piece for High Volume QBRM in this case and wait until another comprehensive study of QBRM can be designed and conducted before "taking de-averaging to the next level." USPS IB at VIII-25. There are several problems with that argument. First, setting the High Volume per piece fee at 3 cents (or some unspecified lower level as counsel suggests on brief) would condemn High Volume QBRM recipients to pay an excessive per piece fee for an additional lengthy period. The Commission has already witnessed the adverse impact on High Volume recipients of the one-size-fits-all 5-cent QBRM fee that resulted when the Governors took the astounding, and for the Commission entirely unpredictable, step of rejecting the Postal Service's own PRM proposal in Docket No. R97-1. Against this historical background, the Postal Service's alternative of perpetuating unreasonably high fees for the indefinite future is not justifiable.

Second, contrary to USPS witness Campbell's purposefully narrowed perspective[7] and the Postal Service's arguments on brief,[8] the 1997 BRM Practices Study is not a representative study and produces wildly irregular results, especially for High Volume QBRM. On brief, the Postal Service praises the study:

> The Docket No. R97-1 BRM Practices Study represents the most comprehensive estimate of the degree to which various [counting] methods are being employed in the field to perform the QBRM accounting function.
>
> * * *
>
> The [1997 BRM] Practices Study is based on BRM data collection at nearly 450 sites using statistical sampling methods. The sample universe

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7 Mr. Campbell attempted to defend the 1997 BRM Practices Study. He had to, since making maximum use of the study was the primary objective his manager gave him. See KeySpan IB at 13. Of course, focusing primarily on the 1997 BRM Practices Study did not allow him to take into account such other obvious objectives as determining whether the cost of counting QBRM is lower when QBRM is received in high volumes, an area the Governors ***specifically stated should be studied***. KeySpan IB at 10-13.

8 USPS IB at VIII-17-18, 25.

> consisted of over 10,000 postal facilities that could be identified as processing destinating BRM or were likely to report BRM revenues.

USPS IB at 17-18 and footnote 11. Closely related to this claim is the Postal Service's suggestion that the state of QBRM processing methods is substantially de-centralized and disorganized. Thus, the Postal Service's brief stresses the factors that allegedly make the overall process inefficient and driven by local decisions and exigencies:

> Witness Campbell's testimony establishes that there are no national standards that determine which accounting methods should be used and under what circumstances. Such factors as local mail processing equipment capacity, total QBRM at a site, critical mail processing windows, and the degree to which account volumes fluctuate all influence local decision-making about what practices to employ.

USPS IB at 18. The Commission should not heed these arguments. This record shows that QBRM processing and counting methods are based on a much sounder footing than the Postal Service apparently believes or cares to admit. Moreover, the processing of almost all QBRM is limited to very few field offices, representing less than 1% of the "10,000" possible field sites noted by the Postal Service. This more accurate picture of the QBRM market and processing is demonstrated by the new volume and counting method data supplied by USPS witness Campbell himself.

First, the fact that, theoretically at least, there may be 10,000 offices where QBRM ***could*** be received is irrelevant. The new volume and counting method data show that there are ***only 94 offices*** with accounts that receive 300,000 or more pieces per year.[9] Those 94 offices account for 442.9 million pieces, fully ***96%*** of the Postal Service's total projected QBRM universe of 461.6 million pieces. Even more significant is the fact that these same 94 offices receive 104.7 million pieces or ***90%*** of all Low Volume QBRM pieces. Importantly, the QBRM processing market is much less diverse than the Postal Service suggests. In fact, as the CBCIS data show, the processing of most QBRM volume is quite centralized.

Second, the new data Mr. Campbell obtained at KeySpan's request show the counting methods ***actually*** used for each of the top 74 High Volume accounts. He

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9 The annual volume of 300,000 is the breakeven volume under KeySpan's proposal. Under the Postal Service's proposal the annual breakeven volume is 113,333 pieces.

obtained that data by contacting ***only 48 sites*** where those accounts are located.[10] The new counting data he produced indicate that those 48 offices processed ***81% of all QBRM pieces***, as the following table illustrates.

Table 1
QBRM Processing Details
(Volumes in Millions)[11]

Description	High Volume QBRM		Low Volume QBRM		Total QBRM Universe	
	Pieces	Percent	Pieces	Percent	Pieces	Percent
48 Offices Surveyed By Campbell	297.3	86	78.9	68	376.2	81
Other Offices Not Surveyed	47.7	14	37.7	32	85.4	19
Total QBRM Universe	345.0	100	116.6	100	461.6	100

Table 1 also shows that, by contacting only 48 offices, Mr. Campbell easily obtained the actual counting method for 86% of all High Volume pieces. Finally, Table 1 shows that 68% of all Low Volume QBRM is received at the 48 offices for which he determined the actual counting methods used for High Volume QBRM.

These facts demonstrate beyond question that the world of QBRM processing is not as complicated or chaotic as the Postal Service has portrayed it. ***Had Mr. Campbell expanded his telephone survey to include the remaining 46 offices that process High Volume QBRM, his survey would have accounted for virtually all High Volume QBRM and 90% of all Low Volume QBRM***.

These facts also conclusively debunk the notion that what is needed is another comprehensive national study of QBRM processing methods like the 1997 BRM Practices Study. The actual counting data Mr. Campbell obtained from only 48 offices with very little effort is far more reliable than all the statistical sampling and data

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10 As discussed in KeySpan's initial brief (at 6-7), Mr. Campbell was able to retrieve the QBRM volume data from Postal Service databases. Next, he verified the counting method used for each of the recipients in telephone discussions with field personnel at the postal facilities where the top 75 accounts are located. TR 14/6185. This entire effort was completed in response to KeySpan interrogatories about four months after Mr. Campbell filed his direct testimony.

11 Source For Data In Table 1: CBCIS and other data provided to KeySpan by USPS witness Campbell.

collection at 450 sites that went into production of the flawed 1997 BRM Practices Study. Another such "study" is the last thing that QBRM recipients need.

II. The QBRM Unit Costs Derived By Witness Bentley Are Reasonable

Having admitted that the new counting data produced for KeySpan shows that "it is apparent the [1997] BRM Practices Study understates the percentage of high-volume QBRM which is counted by BRMAS,"[12] the Postal Service criticizes essentially every element of KeySpan witness Bentley's derivation of unit costs for both High and Low Volume QBRM and concludes with the charge that he used "artificially inflated counting productivities in combination with skewed counting method percentages." USPS IB at VIII-25. The record will not support such sweeping claims. Mr. Bentley's methods for determining QBRM unit costs were logical, reasonable and objective. When applying his expert judgment, Mr. Bentley took the conservative route. Ultimately, his derived unit costs are intuitively sensible and support fees that are both fair and rational.

It is astounding that witness Campbell finds fault with the manner in which Mr. Bentley analyzed the new QBRM counting method data Mr. Campbell ***himself*** provided for the record. The Commission can and should ask itself why Mr. Campbell, who the Postal Service claims on brief (at VIII-18) is endowed with "mail processing, engineering, and analytical expertise" did not, on his own initiative, make use of this very current actual volume and counting method data, ***which was already on hand,*** to develop reasonable, supportable unit costs for de-averaging High and Low Volume QBRM.[13] Had he done so there likely would have been far less heat and far more light on this record.

KeySpan also wishes to emphasize at the outset just how important it is for any analyst contemplating de-averaging QBRM per piece fees to recognize and take into account how volumes affect the available choices of the most efficient counting techniques. That is the essence of the analysis Mr. Bentley conducted using the new

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12 USPS IB at 22.

13 The most charitable explanation KeySpan can find in the record is the indication that Mr. Campbell's manager either directly ordered or strongly influenced him to place primary reliance on the 1997 BRM Practices Study. See KeySpan IB at 13. ***The more obvious reason is that he did not know about, or think to take advantage of, the CBCIS database.***

volume and counting method data. Unfortunately, it is the antithesis of the "analysis" Mr. Campbell performed.

Because Mr. Campbell relied primarily on the 1997 BRM Practices Study, which was never intended to measure the effect of high volumes on the choice of counting methods, he made the totally unreasonable assumption that the counting method percentages would be the same regardless of the volumes received by a recipient. Since the actual data that Mr. Campbell provided to KeySpan categorically refutes both the findings of the 1997 BRM Practices Study and the erroneous assumptions Mr. Campbell made based on that study, it came as no surprise that Mr. Campbell would somehow find fault with Mr. Bentley's separately derived counting percentages for High and Low Volume QBRM.

A. The Importance of QBRM Volumes by Counting Method

One might ask why KeySpan has devoted so much time and effort to determining the QBRM volumes that are actually counted by each of the available counting methods – BRMAS, EOR, Weight Averaging Techniques, Special Counting Machines ("SCM"), and Manual (listed in descending order of efficiency). The reason is simple: it is absolutely essential to know the volumes by counting method in order to determine the unit counting costs ***separately*** for High and Low Volume QBRM. After all, the Postal Service has proposed to de-average the fees ***separately*** for High and Low Volume QBRM. But it makes absolutely no sense to simply assume, as Mr. Campbell did, that the unit costs to count High and Low Volume QBRM are identical.[14]

Because High Volume QBRM can be and, in fact, is counted by different, much more efficient methods than the primarily manual methods that are used for very low volumes, it is necessary to estimate the volumes counted by each of the five methods **separately** for High and Low Volume QBRM. Using the volumes for each counting method (separately for High and Low Volume QBRM), it is then possible to compute a

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[14] As discussed in KeySpan's Initial Brief (at 5-6, 9, 12-13), Mr. Campbell merely assumed that the unit costs to count QBRM were identical for High and Low Volume QBRM. The only difference is that the unit cost for Low Volume QBRM included not only the cost for counting but also accounting costs (rating and billing). The unit cost for High Volume QBRM ***should*** reflect only the costs for counting, although Mr.

weighted average, based on the productivities of each method, to obtain the two unit costs.

B. Mr. Bentley's Methodology Is Conservative

Mr. Bentley used the new counting method data provided by Mr. Campbell to estimate the number of QBRM letters counted using each of the five counting methods that are used in the field: BRMAS, EOR, weighing, SCM, and hand counting.

1. High Volume QBRM

To determine the unit cost for counting High Volume QBRM, Mr. Bentley started with information for the top 74 largest QBRM accounts (including EDS) for which Mr. Campbell provided the actual volumes received by each High Volume account and the method used to count the recipients' QBRM. *See* Exhibit KE-1D at 4 (TR 29/14040). This sample consisted of 241.6 million pieces that were processed in 46 different offices.

Also based on this new data, Mr. Bentley found that (1) the potential High Volume QBRM market consisted of 288 separate accounts that received at least 300,000 QBRM letters or cards per year and (2) those 288 accounts received a total of 342.1 million pieces annually. For his test year estimate, Mr. Bentley rounded the number of accounts to 300 and increased the total High Volume QBRM to 345 million pieces.[15]

Since Mr. Bentley knew the actual counting method used for 241.6 of the 345 million piece total High Volume QBRM universe, the next step was to estimate in what proportions the various counting methods were used to count the remaining 104.4 million pieces of the High Volume QBRM market for which Mr. Campbell had provided volumes but not the counting method. The new data did identify the specific accounts receiving those 104.4 million pieces and the offices where those accounts are located. As Mr. Bentley testified, 57% of these other High Volume QBRM pieces were processed in the same offices that processed the 241 million pieces for which he already had

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Campbell's unit costs also include sorting costs that QBRM recipients already pay for in the First-Class rate they pay. KeySpan IB at 18, 36-38.

precise counting method information. TR 29/14067-68. Therefore, it was entirely reasonable for him to assume that the same counting methods would be used, in the same percentages, to count the remaining 104 million pieces.[16]

Mr. Bentley's analysis was very conservative. First, the sample comprising Mr. Campbell's data on counting methods entailed accounts that received from 874,000 to 56,000,000 pieces. Mr. Bentley considered that the counting methods used for the highest volume accounts (57 million and 38 million pieces per year) might not be representative for the other large accounts since the annual volumes were so much higher than the next highest volume account (9.4 million pieces annually). Accordingly, he removed those top two accounts, representing 95 million pieces, from the sample when determining the counting method percentages that he applied to the remaining 104 million pieces to complete the derivation of volumes counted by each method for the High Volume universe.

Second, Mr. Campbell confirmed that when offices routinely counted QBRM by various methods, the counting method for the largest accounts is **never manual**. TR 14/6189; TR 29/13996, fn 13. Thus, there is clear evidence that Mr. Campbell's assumption that volumes do not dictate the counting method is wrong.

Third, for the purpose of his analysis Mr. Bentley accepted data from Mr. Campbell's telephone survey indicating that postal clerks count by hand a large portion of the QBRM received by 13 accounts that received 19.9 million pieces per year. This represented more than 8% of the total volumes received by the top 74 accounts. As

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15 Mr. Bentley's High Volume QBRM market was defined by an actual census of QBRM recipients, which is far superior to USPS witness Mayo's guess as to the number of qualifying accounts and the volume received by those accounts.

16 In perhaps the most obvious of all contradictions, the Postal Service finds fault with Mr. Bentley's assumption that the counting methods experienced by the "ultra-high" QBRM accounts could be used to approximate the counting methods for other very large (over 300,000 pieces per year), but not "ultra-high" accounts. See USPS at VII-25 (fn 23). In an example of illogical mental gymnastics, the Postal Service boldly asserts "there is no information upon which to base an assumption" that counting methods are related to volumes. The Postal Service obviously forgot that the Postal Service's own witness, Mr. Campbell, testified that High Volume QBRM arrives at the postage due unit in full trays, therefore requiring no sorting, and can be counted by more efficient methods than low volumes. Mr. Bentley simply ascertained logically a conservative volume level (300,000 pieces per year or 1200 pieces per day) at which those counting efficiencies likely will be attained.

shown in Table 2, Mr. Campbell found that QBRM for accounts receiving the following annual volumes are counted by hand, each and every day, day-in and day-out:

Table 2
Offices From Campbell's Survey That Manually Count Extremely High QBRM Volumes[17]

Post Office	Customer	Rank	Annual QBRM Volume
35	78	11	3,527,732
35	77	20	2,400,709
48	37	23	2,041,767
48	37	25	2,009,549
48	32	35	1,479,436
28	4	36	1,497,313
48	6	41	1,277,445
35	76	57	1,046,671
25	35	60	986,135
46	23	64	930,710
19	48	65	921,137
10	71	66	920,323
14	73	73	875,224
		Total	19,914,150

KeySpan finds it difficult, if not impossible, to accept as fact (and for ratemaking) that postal clerks are required to hand count QBRM received in such high volumes day-in and day-out. Such patently inefficient operations cut against all common sense ideas of what sound processing practices should be ***and in fact are in virtually every other facility that handles High Volume QBRM.*** In that regard, the record shows that the problem High Volume accounts routinely counted by hand are grouped in a few offices. TR 21/9460-63.

Elsewhere in its initial brief, the Postal Service makes a statement of principle

17 Source for data in Table 2: Exhibit KE-1D at 4 (TR 29/14040).

that has direct application to this situation:

> This is not to suggest, however, that mailers need be, or should be, required to pay higher rates in order to fund operational practices which demonstrably can be improved. In these circumstances, the deficient practices need to be identified, tangible improvements need to be developed and implemented, and the estimated costs upon which rates will be based need to be adjusted to reflect the attainable efficiency savings.

USPS IB at II-25. KeySpan agrees. Application of this principle to the deplorable and entirely anomalous situation in which almost all the offices that process High Volume QBRM are able to use highly efficient counting methods, such as BRMAS and EOR, while very few offices continue to count QBRM received in High Volumes by the most inefficient counting method would require excluding the results obtained from those offices from derivation of the unit cost for High Volume QBRM and leaving remedial procedures to the Postal Service.

Mr. Campbell agreed that, armed with the information synthesized by KeySpan from the new data he provided, the Postal Service could improve the QBRM counting operations at the few problem offices identified:

> ***Q*** [A]s a matter of fact, the information that's provided in Column 4 [of Ex. KeySpan-Campbell-XE-2] for volume hand counted or percentage of volume hand counted, does come from information that you obtained for us by making specific phone calls to the individual sites; isn't that right?
>
> ***A*** That is correct.
>
> ***Q*** And, once again, that whole odyssey began because we asked you to give us information about the top 75 QBRM accounts, nationwide; isn't that right?
>
> ***A*** Correct.
>
> ***Q*** So, once, again, with this information, you could at least develop a short list, as we have done here, of sites that perhaps the Postal Service should examine to determine if there are improvements that are possible; wouldn't that be correct.
>
> ***A*** That is correct.

On this basis, Mr. Bentley would have been justified in excluding these anamolous counting results as "unrepresentative." The fact is that he did not do so. Since Mr. Bentley accepted Mr. Campbell's data with no adjustment, he purposefully allowed for such inefficiencies that tended to increase the derived High Volume unit cost. This demonstrates just how conservative his unit cost for High Volume QBRM is.

For the foregoing reasons, Mr. Bentley's methodology for developing the 0.17 cent per piece unit cost for High Volume QBRM is very reasonable. ***Moreover, the unit cost of 0.17 cent for High Volume QBRM passes the most important test, the common sense test***. As a "check for reasonableness," Mr. Bentley compared his 0.17 cent QBRM unit cost with the 0.57 cent unit cost that USPS witness Campbell derived for counting bulky nonletter-size BRM packages, also received in high volumes, by a weight conversion technique. As he testified, the relationship between the two unit cost figures makes sense:

> The QBRM unit cost of .17 cents implies that QBRM letters can be counted for approximately 1/3 the unit cost of counting nonletter-size BRM packages. QBRM letters are much more uniform and compact than nonletter-size packages. 10,000 letters take up 20 small trays while 10,000 small parcels occupy about 90 sacks. *See* TR 14/6200-01. Therefore, the counting cost ratio of 1 to 3 is high if anything, but certainly acceptable.

TR 29/13992. Even Mr. Campbell finally agreed that it would be easier, more efficient, and less costly to count uniform, compact QBRM pieces (TR 14/6202) and that it could take 9 times longer to weigh and count nonletter-size BRM than to weigh and count QBRM (TR 39/17584).

2. Low Volume QBRM

Mr. Bentley also derived Low Volume QBRM percentages by counting method using the new data provided by Mr. Campbell. His first step was to identify the size of the Low Volume QBRM universe, 116.6 million pieces, which he did by subtracting total High Volume pieces (345 million) from the Postal Service's total QBRM volumes (461.6 million).

In determining a unit cost for Low Volume QBRM, Mr. Bentley first recognized that some significant portion of Low Volume QBRM was received in such high volumes as to eliminate hand counting from contention. By comparing the time it took to count

QBRM by hand and by weighing, Mr. Bentley reasoned that it would be conservative to assume that above 400 pieces per day, it would not make economic sense to hand count such pieces.[18] The 400-piece per day cutoff is equivalent to about 100,000 pieces per year.[19] Using the new counting method data, Mr. Bentley identified approximately 423 accounts that receive between 100,000 and 300,000 QBRM pieces per year will receive a total of 70.2 million pieces.[20]

The second step in determining a unit cost was to derive a counting method for the 70.2 million pieces received by accounts that received between 100,000 to 300,000 pieces per year. Mr. Bentley assumed that such pieces would be counted in a similar manner as his sample of High Volume QBRM that ranged from 874,000 to 9.4 million, namely 35% BRMAS, 39% EOR, 12% Weight Conversion/SCM, and 14% manual. Exhibit KE-1B at 5 (TR 29/14030). This assumption was very reasonable and conservative for several reasons:

- 78.9 million pieces or 68% of ***all*** Low Volume QBRM is processed at the same 48 offices where High Volume QBRM for the top 75 accounts is processed. Of those 78.9 million pieces, 73 million or 92% are received in volumes of between 100,000 to 300,000 pieces per year. See Table 1 and Library Reference KE-LR-1.

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18 Although Mr. Campbell criticized Mr. Bentley's use of 400 pieces as the appropriate cut-off for assuming that manual counting would not longer be cost efficient, he cannot state whether the 400 piece cut-off was too high or too low. He states, "I have no judgment on that" and "I have no basis to make a judgment on that 400 pieces per day". TR 39/17605). Apparently, Mr. Bentley is the only expert on the record to actually study this issue (See footnote 19 below) and (astoundingly) the Postal Service has not ever developed a cut-off daily volume above which it is not efficient to hand count QBRM. *See* Attachment I.

19 The annual figure of 100,000 pieces was derived by multiplying 400 pieces per day times 250 work days.

20 The choice of 100,000 piece annual cutoff for hand counting, based on 400 pieces per day, is conservative. As Mr. Bentley discussed, he experimented by counting actual QBRM letters by hand and by weighing and found that 400 pieces was a conservative cut-off above which counting by weighing was much faster. TR 29/14072. For example, he found that 400 QBRM letters can be counted manually in about 5 minutes. *See* Exhibit KE-1C at 3 (TR 29/14035). In contrast, he found that 400 QBRM letters can be counted by weight conversion in about one minute. *See* Library Reference KE-LR-2. Therefore, 400 pieces is very conservative. Such a number implies that Mr. Bentley could have used a much lower number, rather than 100,000, as his cutoff for hand counting. Obviously, that would have further reduced his unit cost for Low Volume QBRM.

- It is logical to assume that a facility will employ the same processing methods for other relatively high volume accounts as Mr. Campbell found they in fact use for High Volume QBRM.

- As already discussed, the choice of a 100,000 pieces per year cutoff for hand counting is itself a reasonable assumption. Also in that regard, the highly efficient BRMAS processing used for 92%[21] of the 2,600 separate accounts maintained by EDS shows that very efficient counting methods can be applied to accounts having much lower annual volumes.[22]

- Even though Mr. Bentley assumed that the 70 million pieces in the 100,000 to 300,000 pieces per year range could be processed very efficiently, his application of the High Volume counting percentages implicitly assumes that 14% of such pieces will be counted manually. See Exhibit KE-1B at 5 (TR 29/14030).

The final step in deriving a unit cost for Low Volume QBRM involved determining an appropriate counting method for the remaining 46 million QBRM pieces received by Low Volume accounts in volumes of less than 100,000 pieces per year. Once again, in order to be conservative, Mr. Bentley assumed that ***all 46 million pieces would be hand counted***. Such pieces are probably counted by all five methods since, and, on any given day, volumes could be sufficient enough to warrant counting by weighing, EOR, BRMAS or SCM. This conservative assumption tends to overstate the derived unit cost of Low Volume QBRM.

In conclusion, the Postal Service has in its possession the actual data required to derive reasonable unit costs for High and Low Volume QBRM. Because it chose not to provide that data, Mr. Bentley estimated the percentage by counting method using the best data available. Mr. Bentley's presentation is far superior to the unit costs USPS witness Campbell derived based on the 1997 BRM Practices Study that was discredited by the very new volume and counting method data he produced. Accordingly, the Commission can and should rely upon Mr. Bentley's unit cost calculations.

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21 Exhibit KE-1D at 4 (TR 29/14040).

22 As Mr. Campbell testified, the average volume for these accounts is only 22,400 per year. TR 39/17504.

III. Mr. Bentley's BRMAS Counting Percentage Is Reasonable

On brief (at VIII-25), the Postal Service has claimed that Mr. Bentley used "data manipulation" to "leap" from what it characterized as "the ***'corrected'*** 30.7 percent estimate of QBRM counted using BRMAS" to his final, overall BRMAS counting percentage of 51.6. Such a charge will not stick for several reasons.

First, Postal Service counsel has mixed up the facts. Mr. Bentley did not derive a 51.6% BRMAS coverage factor for all QBRM accounts. That coverage factor applies only to High Volume QBRM, i.e. accounts where the annual volume is 300,000 pieces per year or more. His overall BRMAS coverage factor is much lower - only 44%. In addition, Mr. Bentley's 30.7% BRMAS coverage factor related not to all High Volume QBRM, just the 74 of the top 77 accounts for which Mr. Campbell identified the counting method.

Since, the 30.7% BRMAS coverage factor represents just the ***actual percentage of High Volume QBRM received by the top 74 accounts that is counted by BRMAS,*** using the 30.7% coverage factor would assume, contrary to common sense and substantial record evidence, that BRMAS is not used to count any other QBRM. The Commission need look no further than the example of EDS to see how unreasonable such an assumption would be. Currently, EDS receives 56 million pieces of QBRM each year. In rebuttal testimony, Mr. Campbell revealed that this total volume is separately counted for over 2,500 accounts and testified that the average volume per account is only 22,500 pieces per year. Thus, EDS' current operations show clearly that BRMAS counting is not just employed for what the Postal Service now terms "ultra-high" QBRM accounts.

Since it would have been unreasonable to assume that only 30.7% of all QBRM is counted by BRMAS and because Mr. Campbell did not provide counting method information for other High Volume accounts or Low Volume QBRM, Mr. Bentley had to make reasonable inferences based on the evidence he did have. This evidence included the following facts:

- The overwhelming majority (86%) of all High Volume QBRM is received at the same 48 offices where the top 74 accounts are located. Therefore, in terms of the 226 High Volume accounts for which he did not have specific counting information, 55.9 million pieces (16%) were received at the same 48 offices

for which specific volumes and counting method information had been provided by USPS witness Campbell.

- Over 78.9 million pieces or 68% of all Low Volume QBRM is processed at the same 48 offices where High Volume QBRM for the top 74 accounts is processed.

Contrary to the arguments of Postal Service counsel, there was no leap of faith involved in Mr. Bentley's derivation of the 51.6% BRMAS coverage factor for High Volume QBRM. It was entirely logical to assume that the counting methods used for the top 74 accounts would be used for other High Volume accounts in the same offices.[23] Using that assumption just for these 55.9 million pieces received at the 48 offices would result in a total BRMAS coverage factor of 47% for High Volume QBRM.

Nor is a leap of faith involved in the application of counting method percentages to High Volume QBRM received at the other offices. At this point in his analysis, Mr. Bentley was only dealing with 47.7 million High Volume pieces received at an additional 46 offices. It would have been illogical to assume, as Postal Service counsel would prefer, that such offices count High Volume QBRM in some different, materially more inefficient manner.

For these reasons, there were very sound empirical and analytical bases for the 51.6 percent BRMAS coverage factor Mr. Bentley used in developing his 0.17 cent per piece unit cost for High Volume QBRM.

IV. Mr. Bentley's Productivity Factors For Manual Counting And Counting By Weight Averaging Techniques Are Reasonable

As discussed in KeySpan's initial brief (at 18), 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.

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23 As discussed above, it was also logical to assume that these same counting practices would also be applicable to Low Volume accounts in the 100,000 to 300,000 pieces per year range.

impact on the reasonableness of KeySpan's proposal of a 0.5 cent per piece fee for High Volume QBRM.[25]

What Postal Service counsel's arguments do not even address and cannot deflect is the absurdity of Mr. Campbell's application of a flawed 951 PPH manual counting productivity[26] to 66.5% of all QBBRM pieces that his own new volume and counting method data definitively show is counted by much more efficient methods, including weight conversion and SCM methods. See KeySpan IB at 34, 37, 38-39, 41-42.

V. Mr. Campbell's Counting Method Cannot Be Used As The Starting Point For A Reasonable "Middle Ground" Estimate For The High Volume Per Piece Fee

Citing *Association Of American Publishers v. Governors Of The United States Postal Service*, 485 F.2d 768 (D.C. Cir 1973) ("*AAP*"), the Postal Service urges the Commission to adjust Mr. Campbell's methodology in order to establish a "middle ground" cost estimate upon which to base a reasonable per piece fee for High Volume QBRM. USPS IB at 25-26. The short and complete answer to this argument is that Mr. Campbell's method, such as it is, simply is too flawed to form the basis for any reasonable High or Low Volume QBRM cost estimate.

KeySpan's devoted a significant portion of its initial brief to cataloging and explaining the many conceptual and technical flaws in Mr. Campbell's cost methodology. *See* KeySpan IB at 28-42. Mr. Bentley identified and discussed these flaws, ***at length***, in his testimony and exhibits. TR 29/13994-99, 14044-54. Mr. Campbell never responded to this evidence in his rebuttal testimony and Postal Service

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25 The unit cost for Low Volume QBRM is impacted by an even smaller amount, increasing from 3.43 cents to 3.47 cents. TR 39/17580-81.

26 See KeySpan IB at 31-33, 35-38.

counsel has failed to respond on brief as well. Under these circumstances, no useful purpose will be served by trying to use Mr. Campbell's method as the starting point. [27]

This is not a case that fits in the *AAP* mold. Here, there are not two "helpful but not wholly reliable" cost estimates from which the Commission could fashion a reasonable split the difference alternative. Here we have one method, Mr. Campbell's, which is not reliable at all because, among many flaws, it ignores the Governors' basic directive and does not even ***attempt*** to de-average the per piece fee costs for High and Low Volume QBRM.[28] And we have a competing method – Mr. Bentley's – which, consistent with the Governors' directive, finds that volumes do affect counting costs, and proceeds to develop common sense per piece fees based on verifiable actual data regarding the volumes and counting methods used for High Volume QBRM. As discussed above, Mr. Bentley's method is very reliable and conservative.[29]

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

KeySpan has proposed a 3.5 cent discount to the First-Class basic rate for all QBRM recipients, based on cost avoidance of 5.2 cents. The Postal Service proposes a 3 cent discount, based on a cost avoidance of 3.4 cents per piece.

Although USPS witness Campbell never addressed the issue in rebuttal testimony, Postal Service counsel now faults KeySpan witness Bentley for including

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27 The Commission cannot possibly rely on, or give any credence to, Mr. Campbell's costing analysis because it (1) assumes, contrary to logic and all available evidence, that QBRM received in high quantities costs the same to count as QBRM received in low quantities, (2) severely understates the QBRM volume that is processed by automation, (3) includes sorting costs as part of the QBRM counting function (for High and Low Volume QBRM), (4) assumes counting by weighing and SCM has the same, inefficient productivity as counting manually, (5) assumes that QBRM processing is inherently inefficient, and (6) reaches the nonsensical conclusion that counting QBRM is ***three-and-one-half times*** as expensive as counting nonletter-size BRM.

28 Indeed, the 1997 BRM Practices Study on which Mr. Campbell placed principal reliance was never intended to study what the Governors directed Postal Service management to study. See KeySpan IB at 6, 12-14.

29 If there is any "adjustment" to be made in KeySpan's proposals, it should be limited to an adjustment to KeySpan's proposed $12,000 annual fixed accounting fee for High Volume QBRM recipients. As discussed in KeySpan's initial brief (at 23), if the Postal Service is satisfied that it can achieve processing efficiencies at a lower breakeven volume than KeySpan proposed and/or can do so with witness Mayo's opt-in/opt-out feature, as the Postal Service apparently believes (IB at 26-27), KeySpan has no objection to lowering the $12,000 accounting fee.

window service cost avoidance of 1.6 cents in his formula. USPS IB at VII-32-33. The Postal Service's arguments lack merit.

Contrary to Postal Service counsel's assertion, there is a sound basis for including window service cost avoidance in determining the appropriate First-Class rate that QBRM recipients should pay. To blunt USPS witness Campbell's admission of the obvious – that QBRM mailers have no reason to go to a post office window, counsel now suggests that perhaps there are some window service transaction costs that QBRM may still incur. However, aside from unspecified "inquiries about QBRM,"[30] counsel never identifies what transactions there may be.

People who mail QBRM have no reason to go to a window service clerk at the post office because postage is paid by the recipient. To suggest that QBRM mailers will go to a post office window because they have questions about whether QBRM requires a stamp is disingenuous at best. Attachment II to this brief shows that each piece bears the following prominent notice: "No Postage Necessary." Postal patrons, including the much maligned Aunt Minnie, certainly are smart enough to read this notice and recognize when something is free to them. Moreover, whatever questions patrons may have had when BRM service was first instituted have long since been answered.

The Postal Service's reliance (IB at VII-33) upon the Commission's ruling in *Postal Rate And Fee Changes,* 1977, Docket No. R77-1, Opinion and Recommended Decision, issued May 11, 1998 ("Op. 77-1") is misplaced. The Postal Service, improperly, has taken one snippet of the ruling out of context. As the Commission explained after the phrase relied upon by the Postal Service:

> If presorted first-class mail were not presorted, it would still be metered or imprinted and deposited in bulk. Therefore, these cost effects are present regardless of presorting and are not properly included as avoided costs.

Op. 77-1 at 259. That principle has no equivalent application to QBRM. For this same reason, the Postal Service's effort (IB at VII-33) to embroil QBRM in policy issues raised by Pitney Bowes' proposed discount for metered mail must fail. Recognizing that First-

30 USPS IB at VII-32, fn 25.

Class rate includes window service costs that QBRM recipients never incur does not involve "the larger issue [of] whether it is appropriate to de-average the single-piece First-Class Mail postage rate based on the method of postage payment. Instead, recognizing that QBRM saves window service costs of 1.6 cents per piece is entirely consistent with the reasons that prompted the Service to institute the discounted First-Class rate for QBRM in Docket No. R97-1 (*Postal Rate And Fee Changes, 1997,* Opinion And Recommended Decision, issued May 11, 1998 ("Op. R97-1") at 303, 306) and the Commission's ruling approving it (Op. R97-1 at 319 (stating QBRM " is an appropriate response to longstanding concerns that certain BRM distributors have not been given an opportunity to obtain a discount recognizing the costs that pre-approved, prebarcoded pieces save the Postal Service.")).

For these reasons, the Commission should approve the 3.5 cent discount proposed by KeySpan.

VI. The Commission Must Guard Against A Repeat Of The PRM Debacle

As the Commission knows all too well, the Postal Service's first effort to de-average the per piece fees for QBRM by instituting the PRM service for high volume recipients like KeySpan and LIPA ended in disaster. Although the Commission approved PRM ***exactly the way the Postal Service proposed it,*** the Governors rejected the Postal Service's own proposal. See KeySpan IB at 4. As a result, BRMAS BRM recipients who had been paying a per piece fee of 2 cents have been forced to use QBRM service, the only reply mail choice available, and pay the 5 cents per piece fee designed for lower volume recipients. *Id.* That debacle alone will cause KeySpan to pay ***an additional million dollars*** in QBRM fees between January of 1999 and the time new rates are implemented after a decision is made in this case. TR 29/13987, fn 4.[31]

The Commission could not reasonably have been expected to anticipate and guard against the Governors' rejection of the Service's own, unmodified PRM proposal. However, now that the impossible has happened once, the Commission should take appropriate measures to insure there is no repeat of the PRM debacle.

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31 That amount does not include the adverse impact of the PRM rejection on LIPA.

Consistent with the Postal Service's basic framework for de-averaging QBRM fees, KeySpan is proposing separate per piece fees of 0.5 cents for High Volume QBRM and 4.5 cents for Low Volume QBRM. However, against what we hope is an infinitesimally small possibility that lightning will strike high volume QBRM recipients twice, Mr. Bentley's analysis does show that the combined unit cost for High and Low Volume QBRM is 1.18 cents. Exhibit KE-1B at 3 (TR 29/14028). Such a cost includes all of the QBRM-related functions of counting, rating and billing.

For these reasons, the Commission's recommended decision on QBRM should include a finding that the unit cost applicable to all QBRM is 1.18 cents and a ***contingent*** recommendation that, if de-averaging is rejected, the QBRM per piece fee should be no more than 1.5 cents.

Conclusion

For all the reasons set forth herein and in KeySpan's initial brief, 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. The Commission should also make the finding and contingent fee recommendation discussed in the immediately preceding section of this brief.

Respectfully submitted,

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Dated: Round Hill, Virginia
September 22, 2000

Attachment I

STATEMENT BY CHRIS F. CAMPBELL
ON BEHALF OF UNITED STATES POSTAL SERVICE

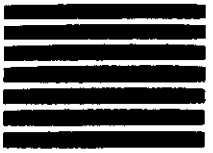
On August 24, 2000, Michael Hall, representing KeySpan Energy, cross-examined me before the Postal Rate Commission concerning my rebuttal testimony (USPS-RT-23). During cross-examination, Mr. Hall asked me whether or not I recalled a discussion at a July 12, 2000 MTAC meeting concerning Business Reply Mail (Tr. 39/17606). Specifically, Mr. Hall inquired if I recalled one or more Postal Service operations personnel at the meeting providing "a break-point number above which hand-counting [QBRM pieces] was no longer efficient." I stated that I did not recall such a statement (Tr. 39/17606). Mr. Hall proceeded to ask me whether or not I would accept "subject to check with...[my] own people that that number was approximately 200 to 300 [QBRM] pieces per day." I accepted the statement subject to check (Tr. 39/17607).

Since my August 24, 2000 cross-examination by Mr. Hall, I have spoken with the three Postal Service operations personnel who attended the July 12, 2000 meeting (Kerry Troxel, Operations Support, Barbara McGinnis, P&DC Operations, and Patrick Killeen, P&DC Operations). All three deny making the statement regarding "a break-point number above which hand-counting was no longer efficient." Furthermore, all three deny making any statement to the effect that any such break-point "number was approximately 200 to 300 pieces per day."

Ms. Troxel indicated that she might have stated that sites having 200 to 300 accounts that manually count QBRM pieces may find it more efficient to count QBRM pieces for one large account using an automated method.

Attachment II

NO POSTAGE
NECESSARY
IF MAILED
IN THE
UNITED STATES



BUSINESS REPLY MAIL
FIRST-CLASS MAIL PERMIT NO. 1319 FARMINGDALE NY

POSTAGE WILL BE PAID BY ADDRESSEE

PROXY SERVICES

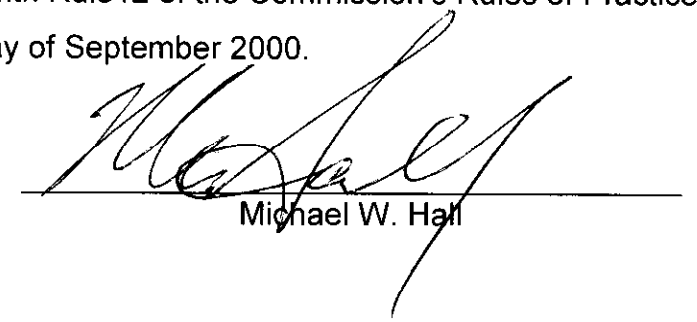
P.O. Box 9072

FARMINGDALE NY 11735-9579

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 22nd day of September 2000.



Michael W. Hall