Exhibit KE-ST-1

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

Postal Rate and Fee Changes

Docket No. R2001-1

SURREBUTTAL TESTIMONY OF
RICHARD E. BENTLEY
ON BEHALF OF
KEYSPAN ENERGY

February 20, 2002

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Surrebuttal Testimony of Richard E. Bentley
On Behalf of
KeySpan Energy

I.   INTRODUCTION

A. Statement Of Qualifications

My name is Richard E. Bentley. I am President of Marketing Designs, Inc., a marketing and consulting firm. My business address is 9133 Ermantrude Court, Vienna VA 22182.

I began my career as a market research analyst for the Postal Rate Commission in 1973 and remained there until 1979. As a member of the Officer of the Commission's technical staff (now the Office of Consumer Advocate), I testified before the Postal Rate Commission in four separate proceedings. Since leaving the Commission, I have testified before the Commission as a private consultant in every major rate case, most recently in Docket No. R00-1, and the most recent major reclassification case, Docket No. MC95-1. A more detailed account of my 20-plus years of experience as an expert witness on postal ratemaking and classification is provided as Attachment I to this testimony.

I have been President of Marketing Designs, Inc. since 1982. Marketing Designs provides specialized marketing services to retail, commercial, and industrial concerns, as well as consulting services to a select group of private clients.

I received a Bachelor of Science degree in Industrial Engineering/Operations Research from Cornell University in 1972. The following year I was awarded a Master's degree In Business Administration from Cornell's Graduate School of Business and Public Administration. I am a member of Tau Beta Pi and Alpha Pi Mu engineering honor societies.

B. Purpose and Overview Of Testimony

KeySpan Energy (KeySpan) is a signatory to and strong proponent of the Postal Service's Stipulation and Agreement[1] (S&A) for establishing negotiated rates. Prompt

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[1]   See Motion of the United States Postal Service Submitting Second Revised Stipulation and Agreement (January 17, 2002).

1   implementation of the S&A rates by June 30, 2002 will provide the Postal Service with

2   about $1.2 billion additional revenues above the revenues it would otherwise receive

3   through the end of the test year if *all* its originally filed rates were approved by the

4   Commission and implemented on or about October 1, 2002. At the same time, the S&A

5   provides the Postal Service and all affected parties with rate certainty and an end to

6   litigation, important benefits during these uncertain times. For mailers of Qualified

7   Business Reply Mail (QBRM) like KeySpan, the S&A mitigates somewhat the

8   disproportionately high rate increase proposed in the Postal Service's initial filing.

9   All participants, except American Postal Workers Union, AFL-CIO (APWU), either

10   affirmatively support or do not oppose the S&A. Even APWU opposes only very limited

11   aspects of the S&A: First-Class workshare discounts that APWU claims are greater than

12   the related cost savings. APWU's position apparently is that the Postal Service and,

13   indirectly APWU members, should receive not only the increased revenues made

14   possible by the June 30, 2002 implementation date but also additional revenues of up to

15   $3.1 billion[2] resulting from implementation of the higher First-Class workshare rates and

16   a drastic reduction, from 3 cents to 0.6 cents, in the QBRM First-Class discount. APWU

17   witness Riley proposes to increase the First-Class rate to affected QBRM recipients by

18   17.4 percent, over twice increase for First-Class single piece in the S&A.

19   Of particular interest to KeySpan, APWU opposes the S&A because it believes

20   that it is inappropriate to offer a First-Class QBRM discount that is greater than the

21   Postal Service's purported cost savings. While I do not necessarily agree that such a

22   premise is inappropriate[3], the purpose for my testimony during this phase of the

23   proceeding is to review the Postal Service's derived First-Class QBRM cost savings,

24   and show that the QBRM discount proposed in the S&A is far less than those cost

25   savings.   To accomplish this, I have focused most of my testimony on the

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[2]   The revenue impact from APWU's unprecedented proposed First-Class rate increases are difficult, if not impossible to project. For comparison sake and simplicity, my analysis assumes that volumes remain unchanged from those projected under the Postal Service's original rate proposals in this case. Mr. Riley has made no any effort to estimate test year volumes at his proposed rates.
[3]   The Postal Service has justified the recommendation of discounts that are greater than its purported cost savings in each of the last three rate cases. Interestingly, APWU witness Riley was Senior Vice President and Chief Financial Officer of the Postal Service when Docket No. R97-1 was filed before the Postal Rate Commission. Tr 12/4875.

1 methodological changes and flaws present in the QBRM cost savings upon which Mr.

2 Riley relies.

3   QBRM consists of machinable letters that bear a pre-approved prebarcode and

4 are mailed as First-Class single piece.[4]   QBRM currently receives a 3-cent discount

5 from the basic First-Class rate. This discount is designed to reflect the reduced postal

6 labor costs that result from processing letters that are both machinable and

7 prebarcoded.

8   In its original filing, the USPS proposed to reduce the First-Class QBRM discount

9 from 3 cents to 2.5 cents, based on claims by USPS witness Miller that QBRM cost

10 savings had shrunk dramatically. Specifically, Mr. Miller claimed that QBRM cost

11 savings shrunk from 3.4 cents in Docket No. R2000-1 to only 0.85 cents in this case.

12 However, on two subsequent occasions, Mr. Miller had to revise his derived QBRM cost

13 savings upwards to correct errors that KeySpan uncovered through the discovery

14 process. Thus, his initial cost savings estimate of 0.85 cents was revised, first to 1.2

15 cents and finally to 1.6 cents. The S&A proposes to leave the QBRM discount

16 unchanged at 3 cents.

17   APWU witness Riley proposes that the Commission totally disregard Mr. Miller's

18 corrected cost savings of 1.6 cents and set the QBRM discount at 0.6 cents based on

19 his preference for using the 0.85 cent cost savings as included in the Postal Service's

20 initial filing.[5] Mr. Miller has withdrawn the methodology used to derive the .85-cent cost

21 savings and has acknowledged that it is erroneous. Moreover, Mr. Riley has

22 demonstrated no knowledge of Mr. Miller's cost savings analyses or the changes that

23 Mr. Miller made to the methodology currently approved by the Commission for

24 measuring such savings. Tr 12/4875. Accordingly, APWU proposes to slash the

25 QBRM discount by 80%, from 3 cents to .6 cents, without any factual or analytical basis.

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[4]   QBRM recipients pay the postage through an advanced deposit account when the QBRM letters are returned to them. In addition, QBRM recipients pay a per piece fee depending upon the volume that they receive. Mr. Miller has overstated per piece unit costs for counting "high" volume QBRM. However, because of the proposed settlement in this case, a discussion of per piece costs and fees is outside the scope of this testimony.

[5]   Mr. Riley was so uninterested in how the Postal Service derived QBRM unit cost savings that he was unsure if Mr. Miller's first revision was the result of a methodological change or simply a typographical error. He was simply interested in relying upon Mr. Miller's lowest estimate of QBRM cost savings. Tr 12/4926-27.

1   I urge the Commission to reject APWU's proposal for QBRM and adopt the

2   S&A's proposal to maintain the discount at 3 cents. At the outset, Mr. Miller's

3   corrections in good faith and under oath of errors that KeySpan pointed out to him

4   during discovery cannot simply be disregarded by the Commission, as Mr. Riley prefers.

5   I know of no logical basis for accepting obviously erroneous statements not even in the

6   record that a witness has recanted while simultaneously ignoring corrected factual

7   evidence that is in the record. Accordingly, there is no support whatsoever for Mr.

8   Riley's 0.6 cents discount proposal.

9   APWU witness Riley claims that Mr. Miller's revised 1.6 cent QBRM cost savings

10   is too high. He is wrong. The problem is not that Mr. Miller's revised estimate of QBRM

11   cost savings is too high, but that his revisions did not go far enough.

12   Mr. Riley apparently did not care that the 0.85 cent cost savings figure he relied

13   upon was not part of the record. Similarly, Mr. Riley either did not know or did not care

14   that, when Mr. Miller subsequently revised his QBRM cost savings, he used a materially

15   different methodology than he used to develop the cost savings included in his originally

16   filed testimony. Mr. Miller's revised cost savings was based on an outdated

17   methodology from Docket No. R97-1 that neither the USPS witness nor the Commission

18   used in the last case, Docket No. R2000-1. More importantly, Mr. Riley apparently did

19   not know or care that, in reconciling his model-derived unit costs to the CRA, USPS

20   witness Miller produced results that are both inaccurate and unreasonable.

21   Tables 1 and 2 summarize, respectively, the QBRM cost savings and discounts

22   that are recommended to the Commission in this case.

Table 1

**Comparison of Proposed First-Class QBRM Cost Savings
(Cents)**

Cost Analysis Provided By (Date):	Derived QBRM Cost Savings
USPS (9/24/01)	0.85
USPS (11/5/01)	1.25
USPS (11/14/01)	1.65
KE (2/20/02)	5.03

Sources: Library References USPS-LR-J-60, KE-LR-J-1

Table 2

Comparison of Proposed First-Class QBRM Discounts
(Cents)

Proposal Provided By:	QBRM Discount
USPS (Pre S&A)	2.5
S&A	3.0
APWU	0.6

As shown in Table 1, the USPS revised both its cost savings and cost savings methodology, resulting in nearly doubling its initial estimate of QBRM cost savings. My analysis of QBRM cost savings shows that the prebarcoding and machinability feature of QBRM saves the Postal Service more than three times the Postal Service's final amount. As shown in Table 2, the currently effective discount of 3.0 cents is much lower than the related cost savings.

In considering the reasonableness of the 3-cent QBRM discount contained in the S&A, the Commission should not simply pick the lowest possible cost savings figure out of the air as APWU witness Riley did. Rather, the Commission should examine critically the accuracy and reasonableness of the derived QBRM savings that parties suggest are appropriate for supporting the First-Class QBRM rate they propose. In this case, USPS witness Miller modified the methodology the Commission relied upon in Docket No. R2000-1 to measure QBRM cost savings. Even after two revisions, his analysis fails to accurately capture a realistic measurement of QBRM savings. Exhibit KE-1A provides a technical explanation why the Commission should reject Mr. Miller's derived QBRM cost savings. As I show in my testimony, a more complete and reasonable QBRM cost savings analysis shows that QBRM cost savings are 5.0 cents, more than sufficient to support maintenance of the 3-cent QBRM discount.[6]

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[6]   If the S&A is not approved, I am fully prepared to show that QBRM savings are even higher than 5.0 cents and would urge that the Commission *increase* the discount. I would also present evidence supporting a much lower per piece fee for High Volume QBRM. However, because KeySpan has agreed to accept the QBRM discount and per piece fee contained in the S&A, the additional savings are not necessary to justify the 3-cent discount proposal, and I have not presented evidence to support these additional savings.

1 Finally, I should also point out that throughout my testimony and analyses, I have

2 relied on the Commission's cost attribution methodology, which generally assumes that

3 labor costs are 100% variable with volume. The impact of using the Commission's cost

4 attribution method is that processing productivities are lower than those assumed by the

5 Postal Service, and the derived unit costs will be higher, all other things being equal.

6 **II.   THE QBRM FIRST-CLASS RATE**

7 The first discounted QBRM rate of 30 cents, a 3-cent discount from the 33-cent

8 First-Class basic rate, was established in Docket No. R97-1. The discount reflected

9 cost savings that result from the pre-approved, prebarcode feature of QBRM.

10 Today, the QBRM discount remains at three cents, so that the rate that QBRM

11 recipients pay is 31 cents. APWU proposes to lower the discount to .6 cents in this

12 proceeding, thereby raising the QBRM rate by 17.4%, from 31 cents to 36.4 cents. This

13 is an extraordinarily increase compared to the system-wide average of 8.7% originally

14 proposed by the Postal Service in its rate filing.

15 **A. Methodology for Measuring QBRM Cost Savings**

16 The methodology for deriving QBRM cost savings has evolved during the last

17 two omnibus rate proceedings. In Docket No. R97-1, the cost savings were measured

18 by comparing the mail processing costs for prebarcoded QBRM to those same letters if

19 postage-prepaid with handwritten addresses (HAND). The comparison was made for

20 processing letters through the Remote Barcode System (RBCS) and the outgoing

21 primary operations. In Docket No. R2000-1, this comparison was expanded to include

22 mail processing through and including the incoming secondary operation. This

23 methodology makes sense because barcoding capabilities and accept/reject rates for

24 operations within the RBCS, and for the outgoing BCS primary, are not identical.

25 Therefore, the QBRM and HAND letter cost-causing attributes will be different after the

26 outgoing primary and will affect mail processing costs downstream.

1   I have utilized the same methodology that the Commission employed in Docket

2   No. R2000-1.[7] In general, the steps include:

3   1. Estimating the unit HAND and QBRM mail processing costs by using a mail

4   flow model;

5   2. Reconciling the derived mail flow model results using similar mail flow models

6   where the CRA-derived unit costs are available;

7   3. Computing the difference in the reconciled mail processing unit costs.

8   The results of my analysis are shown in Table 3.

9   **Table 3**

10
11   **Derivation of QBRM Unit Worksharing-Related Cost Savings**
12   **(Cents)**

Rate Category	Model Mail Processing Unit Cost	CRA Proportional Adjustment Factor	Reconciled Mail Processing Unit Cost	Mail Processing Worksharing Related Savings
HAND Letters	6.82	1.41	9.65	
QBRM Letters	6.52	0.71	4.62	**5.03**

Source. Library Reference KE-LR-J-1

13   QBRM letters cost, on average, about 5.0 cents less to process than those same letters

14   would cost if the addresses were handwritten. The source of these savings include the

15   additional costs necessary to apply barcodes to the HAND letters, and the additional

16   costs incurred downstream because more of those HAND letters will necessarily be

17   processed by manual means rather than by automation.

18   **B. Derivation of Mail Flow Model-Derived Unit Costs**

19   **1. Evaluation of Mail Flow Model Results**

20   In order to develop the workshare-related unit costs for HAND and QBRM letters,

21   it is first necessary to evaluate carefully the quality of the new mail flow model

22   presented by USPS witness Miller in this case. A critical evaluation is important

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In this proceeding, USPS witness Miller recommends that the Commission backtrack to its
Docket No. R97-1 methodology for measuring QBRM cost savings. Because he neglects automation
savings that accrue in downstream operations, Mr. Miller's methodology necessarily understates QBRM
savings.

1   because there are no CRA-derived unit costs for HAND or QBRM letters with which to

2   compare results from the mail flow model. Consequently, there is no way to reconcile

3   the results to the CRA or other known information. As a result, it is not possible to

4   measure directly the consistency, reliability, or accuracy of USPS witness Miller's

5   derived unit costs.

6   Based on my review and analysis of his methodology and assumptions, I

7   conclude that Mr. Miller's new model simply does not reflect the real world very well

8   and, as discussed in further detail below, produces results that are inconsistent and/or

9   implausible.[8]

10   In general, the accuracy and reliability of USPS witness Miller's HAND and

11   QBRM model-derived unit costs can be evaluated by comparing them to the CRA-

12   derived unit costs for other rate categories where that cost information is available, as I

13   have done in Table 4.

14   **Table 4**

15

16   **Comparison of USPS Witness Miller's CRA- and Model-Derived Unit Costs**

17   **(Cents)**

Rate Category	USPS Cost Methodology			PRC Cost Methodology		
	CRA-Derived Unit Cost	Model-Derived Unit Cost	CRA Adjustment Factor 1/	CRA-Derived Unit Cost	Model-Derived Unit Cost	CRA Adjustment Factor 1/
First Class						
BMM Letters	6.447	4.276	**1.508**	7.745	5.476	**1.414**
Non-automation Letters	9.887	6.621	**1.493**	11.576	9.669	**1.197**
Automation Letters	2.138	2.683	**0.797**	2.421	3.416	**0.709**
Standard Mail						
Non-automation Letters	8.155	5.664	**1.440**	9.712	7.896	**1.230**
Automation Letters	2.150	2.656	**0.809**	2.481	3.372	**0.736**

1/ CRA-Derived Unit Cost / Model-Derived Unit Cost

Sources: Library References USPS-LR-J-60, USPS-LR-J-84

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[8]   Mr. Miller uses aggregated input data that, understandably, cause some irregularities. Such problems usually can be minimized by using CRA proportional adjustment factors to reconcile model-derived unit costs to CRA-derived unit costs. Implausible and inconsistent results indicate the existence of further problems with the input data, and cannot be corrected by simply applying the CRA proportional adjustment factors.

1   The comparisons in Table 4 reveal an obvious, disturbing pattern. Two distinctly
2   different results occur depending upon whether or not First-Class letters are processed
3   through the RBCS.[9]   When non-prebarcoded letters are sent through the RBCS, the
4   model significantly **understates** costs. When letters bypass the RBCS, as prebarcoded
5   QBRM letters do, the model significantly **overstates** costs. There can be no doubt that
6   the RBCS costs, as reflected in the Postal Service's mail flow models, are problematic.
7   In sum, the comparison of the model-derived and CRA-derived unit costs in Table 4
8   clearly demonstrates that something is wrong with USPS witness Miller's mail flow
9   model. The critical issues involve the simulation of the RBCS and whether the entry
10   point for a letter under study is at or after that operation.
11   To confirm my suspicion, I changed the entry points in Mr. Miller's model to
12   compare USPS processing costs if the Postal Service applies the barcode versus
13   mailers providing letters with prebarcodes. Obviously, letters that require the Postal
14   Service to apply a barcode should cost more to process than letters that are
15   prebarcoded, all other things equal. However, this is not the case as reflected by USPS
16   witness Miller's model. Table 5 compares the unit costs for non-prebarcoded letters on
17   the one hand, and those same letters if they were prebarcoded. The fact that
18   prebarcoded letters cost more than non-prebarcoded letters illustrates a serious flaw in
19   the cost model.
20   As shown in Table 5, letters that are prebarcoded by mailers cost more to
21   process, according to USPS witness Miller's cost model, than if those same letters are
22   barcoded by the Postal Service within the RBCS. This result is highly unrealistic.

---

[9]   The Postal Service reads, evaluates, sprays on barcodes, and sorts non-prebarcoded letters in
the outgoing RBCS operation. Prebarcoded letters, such as QBRM, Courtesy Reply Mail (CRM) and
Automation letters, bypass the RBCS.

Table 5

**Comparison of Model-Derived Unit Costs
If Non-Prebarcoded Letters Were Prebarcoded
(Cents)**

First-Class Model	Miller Model-Derived Unit Cost (No Prebarcoding)	Adjusted Model-Derived Unit Cost (if Letters Prebarcoded)	Adjusted Model % Change
BMM	4.276	4.630	8.28%
Mach MAADC-AADC	4.289	4.630	7.96%
Mach Single Piece	4.279	4.630	8.19%
Nonstandard Single Piece	9.483	10.985	15.85%
Nonstandard Presorted	7.988	8.463	5.94%

Source: Library Reference KE-LR-J-3

6   The reverse is also true for one First-Class category -- Automation Mixed AADC

7   letters. One would expect that presorted, prebarcoded letters, if not presorted or

8   prebarcoded, would cost significantly more for the Postal Service to process. After all,

9   the Postal Service must be able to read and understand the address, figure out the

10   barcode, spray on the barcode and then sort the letter. Automation Mixed AADC

11   presorted letters normally enter the Postal Service mailstream at the outgoing BCS

12   secondary, bypassing the RBCS and the outgoing BCS primary. However, the Postal

13   Service's *simulated* RBCS operation is so efficient that when such letters are entered

14   directly into the RBCS operation, rather than the outgoing BCS secondary, they actually

15   cost the Postal Service less to process. Such a result is totally unrealistic, further

16   illustrating the problem with Mr. Miller's simulation of the RBCS operation. This

17   implausible result is shown in Table 6.

Table 6

**Comparison of Model-Derived Unit Costs
If Prebarcoded Letters Were Not Prebarcoded
(Cents)**

First-Class Model	Miller Model-Derived Unit Cost (All Letters Prebarcoded)	Adjusted Model-Derived Unit Cost (if All Letters Not Prebarcoded)	Adjusted Model % Change
Auto Mixed AADC Presort	4.280	4.276	-0.09%

Source   Library Reference KE-LR-J-3

6   Since the HAND and QBRM models are constructed from the same overall

7   model presented by Mr. Miller for other rate categories[10], HAND and QBRM letters will

8   be subject to the same infirmities illustrated above in Tables 5 and 6. Therefore, the

9   failure of the model to reasonably reflect the cost for the Postal Service to apply

10   barcodes to non-prebarcoded letters needs to be addressed.

11   HAND letters are first sent through the RBCS operation to obtain barcodes. As

12   shown for other rate categories that require RBCS processing in Table 4 above, the

13   model significantly understates costs. Just the opposite is true for QBRM letters.

14   QBRM letters bypass the RBCS operation completely. For rate categories that bypass

15   the RBCS, the model overstates the true costs. This is shown in Table 4 for automation

16   categories, both in First Class and Standard Mail. The fact that the model understates

17   costs for mail such as HAND letters that require RBCS processing, and overstates costs

18   for mail such as QBRM letters that bypass the RBCS, is not necessarily an error, but

19   does require attention. This fact goes a long way to explain why Mr. Miller's alleged

20   QBRM savings are so low compared to savings I have derived. While Mr. Miller makes

21   no attempt to adjust for this problem[11], my methodology does.

[10]   Generally, the models presented for each rate category are virtually identical. The major difference is the point at which the letters enter the mail stream.
[11]   In fact, his methodology exacerbates the problem, as discussed on pages 20-21 and in Exhibit KE-1A.

2. The Simulated RBCS Operation Understates Costs

In order to fully understand USPS witness Miller's mail flow models for HAND and QBRM models, it is necessary to take a closer look at the RBCS operation as reflected by the model. There are several input variables that could cause the model to understate the cost of processing letters within the RBCS. These input variables include accept and reject rates, productivities, piggyback factors, mail flow densities, and wage rates. Since the Postal Service collects, maintains, adjusts and processes all the data inputs for the models, I am reluctant to simply modify any of the data inputs. However, an even closer look at the RBCS data indicates, for the most part, why the models understate these costs.

a. RBCS Cost Variables

The RBCS system operating in conjunction with the Advanced Facer-Canceler System (AFCS) is very complex. It enables the Postal Service to barcode raw collection letters even if they exhibit a handwritten or less-than-perfect address. Subsequently, letters barcoded by the Postal Service are processed by automation down to and including the delivery sequence sortation. USPS witness Miller's testimony concerning the operating efficiency and cost effectiveness of RBCS is overly optimistic. In discussing the RBCS system, he describes the differences, in terms of mail processing costs, among letters with handwritten addresses, machine printed addresses, and letters, such as QBRM letters, with pre-approved addresses and prebarcodes, and stresses that the cost differences "have been shrinking over time." USPS-T-22 at 5. I have no quarrel with Mr. Miller's position, although he may have over-emphasized the point to which these unit costs are "converging." (Id.) Given the investment that the Postal Service has made in the RBCS, it stands to reason that downstream savings for processing non-prebarcoded letters will accrue. However, there is no concrete evidence that the Postal Service can sort non-prebarcoded letters less expensively than prebarcoded letters, as his models purport to show. The only logical explanation is that RBCS processing costs, as simulated by the cost flow model, are understated.

USPS witness Miller's cost model includes several possible input variables that affect the overall RBCS productivity. These include the number of pieces processed per hour (PPH), mail flow densities, and the accept/reject rates. The accept/reject rates

1   are particularly important since they determine how many letters can be processed

2   downstream by automation through the incoming secondary operation. Thus, all three

3   of these variables potentially are major cost drivers for processing letter-shaped mail

4   through the RBCS.

5   **1. PPH and Density**

6   When letters first enter the mailstream, non-prebarcoded letters are sent to the

7   RBCS for barcoding whereas prebarcoded letters are sent directly to the outgoing BCS

8   primary operation. According to USPS witness Miller, the PPH for the RBCS operation,

9   which involves reading and evaluating addresses, barcoding the letters if possible, and

10   sorting the letters, is significantly higher than the PPH for the outgoing BCS primary

11   operation, which simply involves reading barcodes and sorting the letters.   A

12   comparison of the productivities for these two operations is shown in Table 7.

13   **Table 7**

15   **Comparison of Productivities Utilized by the Postal Service's Mail Flow Models**
16   **(Pieces Per Hour)**

Operation	MODS PPH	RBCS Efficiency Over BCS Primary	Marginal PPH	RBCS Efficiency Over BCS Primary
RBCS Outgoing ISS	6,269	10%	8,142	24%
RBCS Outgoing OSS	9.177	60%	10,240	56%
Outgoing BCS Primary	5,724		6,559	

Source Library Reference USPS-LR-J-60

17   The Postal Service's explanation for the higher RBCS productivity generally

18   centers on the need for fewer personnel to sweep fewer bins.[12] Such an explanation is

19   plausible only if the density of successfully barcoded letters that go directly from the

20   RBCS to the incoming secondary are significantly lower than the density of prebarcoded

21   letters that go directly from the outgoing BCS primary to the incoming secondary.

22   USPS witness Miller agrees with my assessment:

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[12]   Responses to KE/USPS-T22-1, KE-USPS-T39-14 and Tr 14/6031-2 (Docket No. R2000-1).

	[A] DBCS that contained fewer bins would likely maintain
1	higher productivities due to the reduced walking and
2	sweeping time requirements. However, the amount of mail
3	that would have to be rehandled in downstream operations
4	would increase. (Response to KE/USPS-T39-14H)
5	

6   However, the densities used in Mr. Miller's model do not show that "the amount of

7   mail . . . rehandled in downstream operations would increase." In fact, as Table 8

8   shows, letters leaving the RBCS bypass the outgoing secondary and incoming primary

9   and go directly to the incoming secondary 4 to 5 times more often than letters that leave

10   the outgoing BCS primary. This should not happen if there are fewer separations in the

11   RBCS, along with its higher productivity.

12   **Table 8**
13

14   **Comparison of Mail Flow Densities for Letters Sorted**

15   **By the RBCS and Outgoing BCS Primary Operations**

From Operation	Outgoing		Incoming		
	Primary	Secondary	MMP	SCF/Primary	Secondary
RBCS Outgoing ISS	3.22%	28.61%	3.86%	37.94%	26.36%
RBCS Outgoing OSS	2.12%	16.26%	10.74%	36.88%	34.00%
Outgoing BCS Primary		7.29%	35.74%	50.38%	6.59%

Source Library Reference USPS-LR-J-60

16   The higher productivity, combined with the unexpectedly higher density of letters

17   going directly from RBCS to the incoming secondary, could explain why the RBCS

18   operation **appears** to be so efficient in USPS witness Miller's mail flow model. But, in

19   my opinion there is a second, more plausible explanation as explained below.

20   **2. Reject Rate and Automation**

21   Mr. Miller's simulation of the RBCS operation indicates a **very low** reject rate

22   when compared to the outgoing BCS primary operation. Table 9 compares the reject

23   rates for various models.

1

2

3

Table 9

Comparison of Barcoding and Automation Percentages

Model	% of Letters Barcoded to 9/11-Digits	% of Letters Barcoded to 5-Digits	% of Letters Rejected to Manual Operations	% of Letters Processed by Auto Thru the Incoming Secondary
Letters Thru RBCS				
HAND (Revised Testimony)	91.02%	6.86%	2.12%	NA
BMM	98.58%	1.04%	0.38%	84.90%
Mach Single Piece	98.68%	0.88%	0.44%	84.98%
Nonauto Mach MAADC-AADC	97.85%	1.77%	0.37%	84.27%
Letters By-Passing RBCS				
QBRM	NA	NA	4.90%	80.78%
Auto Mixed AADC	NA	NA	4.00%	82.69%
PRC Model, Docket No. R00-1				
HAND	87.50%	6.60%	5.90%	78.54%
QBRM	NA	NA	4.80%	89.29%

Sources Library References USPS-LR-J-60. KE-LR-J-1, PRC-LR-12, Part B (Docket No. R2000-1)

4   Keeping in mind that the RBCS receives raw collection mail, it seems almost
5   inconceivable that the reject rate for the RBCS operation would be lower than that for
6   the outgoing BCS primary. After all, the RBCS must read and interpret addresses,
7   many of which are handwritten and problematic.[13] In contrast, letters sent to the
8   outgoing BCS primary are prebarcoded with machine printed addresses, many of which
9   are pre-approved and checked through the Postal Service's CASS and move update
10 programs. Obviously. as the number of letters that can be barcoded increases, the
11 number of letters processed downstream with automation through the incoming
12 secondary also increases. This significantly reduces mail processing costs.

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[13]   According to the 1999 USPS Address Deficiency Study, 30% of First-Class pieces sampled had
at least one address deficiency. See Library Reference USPS-LR-I-192 in Docket No. R2000-1.

1   The figures shown in Table 9 illustrate the extremely high efficiency provided by
2   the simulated RBCS operation. According to Mr. Miller's data, the RBCS operation
3   barcodes almost 100% of the letters that enter the system. This theoretical result does
4   not square with Postal Service data indicating that the Service barcodes only about 80%
5   to 85% of all non-prebarcoded, machinable letters. Library Reference KE-LR-J-2.
6   Therefore, the barcoding percentages used in Mr. Miller's cost model seem
7   unreasonably high, a primary reason why his modeled-derived costs are so low
8   compared to the CRA-derived costs for letters entering at the RBCS.

9   Another way to view the impact of the high RBCS barcoding percentages
10   assumed in Mr. Miller's models is to compare the resulting percentage of letters
11   processed by automation through the incoming secondary operation to the comparable
12   percentage for prebarcoded letters. Prebarcoded letters are, by definition, virtually
13   100% machinable and barcoded. According to the Postal Service's cost model,
14   however, prebarcoded letters are processed by automation through the incoming
15   secondary *less often* than non-prebarcoded letters. Table 9 also shows these illogical
16   results. Note that the percentage of prebarcoded letters rejected to a manual operation
17   is *much higher* than that for non-prebarcoded letters. This appears to be another
18   illogical result.

19   Finally, it is instructive to compare the barcode and automation percentages for
20   the model presented by the Postal Service in this case to the Commission's accepted
21   model in the last case. There are significant differences. The Commission's model
22   from Docket No. R2000-1 seems much more reasonable compared to results that can
23   be reasonably expected. As shown in Table 9, HAND letters logically have a higher
24   reject rate than QBRM letters in the outgoing primary, and a lower probability of being
25   processed by automation through the incoming secondary operation. Mr. Miller's model
26   in this case unexpectedly and incorrectly *reverses* this relationship.

1   Virtually 100% of all raw collection letters have access to the RBCS.[14] Thus,

2   virtually all the letters that run through the RBCS operation, after the culling operations,

3   are machinable. Since we know the Postal Service successfully barcodes only 80% to

4   85% of those pieces, it is difficult to reconcile this range with the modeled RBCS results

5   that indicate almost 100% of the letters being successfully barcoded to either 5 digits or

6   9 or 11 digits. If HAND and machinable single piece letters are barcoded 97.88 and

7   99.56% of the time, respectively, as shown in Table 9, what could possibly bring the

8   average down to the actual figures? Obviously, the models overstate the RBCS'

9   barcoding capabilities.

10   **b. Derivation of the Unit Cost for HAND Letters**

11   As discussed above, I believe it is readily apparent that the Postal Service's

12   model simulation of letter mail flow through the RBCS operation presents a far too rosy

13   picture of how efficient that operation is. The model inputs reflect (1) reject rates that

14   are too low, (2) productivity rates that are too high, (3) unreasonably high density figures

15   that theoretically permit letters that are successfully barcoded in the RBCS to bypass

16   too many intermediate operations, or (4) some combination of all these factors.

17   I am reluctant to make wholesale changes in the Postal Service's input data.[15]

18   Instead, for purposes of my surrebuttal testimony, I use the Postal Service's model as

19   presented to the Commission without any adjustments. For HAND letters, the model-

20   derived unit cost is 6.82 cents. To reconcile this unit cost to the CRA, I use the

21   relationship obtained for metered mail (MM) letters.[16] Since HAND letters and MM

22   letters both enter the postal mailstream through the RBCS, it is reasonable to use the

23   same relationship of modeled costs to CRA costs as obtained for MM to reconcile the

24   HAND model-derived unit cost. My computations are shown in Table 10.

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[14]   Tr 14/5938-9 (Docket No. R2000-1).

[15]   This is certainly an area that would benefit from additional research. I urge the Commission to direct the Postal Service to commit the necessary resources to correct these flaws before it presents such a study in the next omnibus rate proceeding. If not for the settlement, I would have modified Mr. Miller's mail flow model to increase the cost of letters as they are processed by the RBCS. The result of this analysis would have increased QBRM savings further above the 5-cent level proposed in this testimony. Accordingly, a higher QBRM discount, such as 4 cents suggested by APWU Riley, could be justified in the absence of the settlement. Tr 12/ 4924.

[16]   In my testimony, I use metered mail in the same sense and for the same purpose that USPS witness Miller uses bulk metered mail (BMM). For all intents and purposes, the terms are identical.

Table 10

Computation of the HAND Model-Derived Unit Mail Processing Cost
(Cents)

Rate Category	MM CRA Unit Cost	Model Unit Cost	CRA Adjust Factor	Hand Reconciled Unit Cost
Metered Mail	7.75	5.48	1.414	
Hand		6.82	1.414	**9.65**

Source Library Reference KE-LR-J-1

c. Derivation of the Unit Cost for QBRM Letters

The derivation for the QBRM mail processing unit cost is much easier than for
HAND letters simply because the flaws associated with simulating the RBCS operation
in the mail flow model do not affect prebarcoded QBRM letters. However, there are still
issues that have to be resolved even for letters that bypass the RBCS operation.

As discussed above, the model presented by USPS witness Miller for
prebarcoded letters has a different problem.   While Mr. Miller's model severely
understates actual costs for non-prebarcoded letters, just the opposite is true for
prebarcoded letters. As shown in Table 4 above, the model overstates automation
letter costs by at least 19%. Therefore, reconciling model-derived unit costs for rate
categories where the letters bypass the RBCS operation requires that the costs be
reduced by application of the CRA adjustment factor. In contrast, in the HAND model,
the model-derived unit cost must be *increased* in order to be reconciled to the CRA.
Because QBRM and automation letters are prebarcoded, the Automation letter model is
appropriate for reconciling QBRM unit costs to the CRA. Specifically, I have used the
mail flow for Automation Mixed AADC letters as the basis for reconciling the QBRM
model-derived unit cost to the CRA. Just as in the case for MM and HAND letters, the
simulated mail flow for QBRM and Automation Mixed AADC letters are almost identical.
The only significant difference is that QBRM letters enter the postal mail stream in the
outgoing BCS primary whereas Automation Mixed AADC letters enter the postal mail
stream in the outgoing BCS secondary.

1　　　　The QBRM model-derived unit cost is 6.52 cents. As with the automation mail

2　　models, this unit cost is going to be high compared to the CRA-derived unit cost. To

3　　properly adjust the model-derived cost downward, I have applied the Automation CRA

4　　proportional adjustment factor to the model-derived unit cost as shown in Table 11.

5　　　　　　　　　　　　　　　　　　　**Table 11**
6
7　　**Computation of the QBRM Model-Derived Unit Mail Processing Cost**
8　　　　　　　　　　　　　　　　　　　　**(Cents)**

Model	Auto Mixed AADC Unit Cost	Model Unit Cost	CRA Adjust Factor	QBRM Reconciled Unit Cost
Auto Mixed AADC	3.98	5.61	0.709	
QBRM		6.52	0.709	**4.62**

Source. Library Reference KE-LR-J-1

9　　　　　　　　　　**d. Final Test of Reasonableness**

10　　　　As a final test for reasonableness, I have compared the resulting derived

11　　workshare-related unit cost for QBRM to that for other rate categories. All Automation

12　　letters are prebarcoded, just as QBRM is. The only difference is that QBRM is not

13　　presorted. Therefore, since mail preparation costs are not included in the mail flow

14　　model, QBRM letters should cost slightly more than automation letters. This makes

15　　perfect sense because in the USPS mail flow model, the QBRM entry point is one

16　　processing operation prior to the entry point for Automation mixed AADC.[17] As shown

17　　in Table 12, the relationship between QBRM letters and automation letters is sound.

18　　QBRM letters cost more than Automation Mixed AADC letters but less than BMM

19　　letters.

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[17]　　QBRM letters enter at the outgoing BCS primary. Automation mixed AADC letters enter at the outgoing BCS secondary.

Table 12

Comparison of KE-Derived Unit Costs for QBRM to
Other First-Class Rate Categories
(Cents)

First-Class Rate Category	Reconciled Mail Processing Worksharing-Related Unit Cost
Hand Letters (Using BMM Adj Factor)	9.65
Machinable Single Piece Letters	7.75
Bulk Metered Mail (BMM) Letters	7.75
QBRM Letters (Using Auto Adj Factor)	**4.62**
Automation Mixed AADC Letters	3.98
Automation AADC Letters	3.04
Automation 3-Digit Presort Letters	2.72

Sources: Library References KE-LR-J-1, MMA-LR-J-1

6   Moreover, HAND letters should cost more than BMM letters. HAND letters are

7 normally more difficult to read, incurring additional costs as they are processed through

8 the RBCS. This relationship is also apparent from the unit costs shown in Table 12

9   Finally, for illustrative purposes I have computed the QBRM unit cost using the

10 Postal Service's methodology for reconciling QBRM letters to the CRA. By applying the

11 MM CRA proportional adjustment factor to the QBRM model-derived unit cost, as USPS

12 witness Miller does, the result is totally illogical. These hypothetical results are shown

13 in Table 13.

14   As shown in Table 13, the QBRM unit cost (9.22 cents) using the Postal

15 Service's method for reconciling to the CRA is 4.6 cents greater than for Automation

16 Mixed AADC letters (4.62 cents). There is no way to explain such a difference between

17 prebarcoded letters whose only difference is that one enters the mailstream at the

18 outgoing BCS primary while the other enters at the outgoing BCS secondary. It is

19 inconceivable for the automation BCS primary to add 4.6 cents to the unit cost of QBRM

20 or any other category of letters. Therefore, the only reasonable manner to reconcile

21 QBRM letters to the CRA is by applying the Automation (and not the MM) CRA

22 proportional adjustment factor.

Table 13

Comparison of Unit Costs for QBRM to Other First-Class Rate Categories
Using The Postal Service's CRA Adjustment Factor for QBRM
(Cents)

First-Class Rate Category	Reconciled Mail Processing Worksharing-Related Unit Cost
Hand Letters (Using MM Adj Factor)	9.65
QBRM Letters (Using MM Adj Factor)	**9.22**
Machinable Single Piece Letters	7.75
Bulk Metered Mail (BMM) Letters	7.75
Automation Mixed AADC Letters	3.98
Automation AADC Letters	3.04
Automation 3-Digit Presort Letters	2.72

Another way of viewing the CRA reconciliation issue illustrates why it is necessary to use different factors for HAND and QBRM letters. Because the costs of the RBCS are understated, the MM CRA proportional adjustment factor tends to correct this flaw for HAND letters by raising the model-derived unit cost. For prebarcoded letters that bypass the RBCS operation, no such correction is required. For these letters, the model overstates mail processing costs. Therefore, it is both appropriate and necessary to apply the Automation proportional adjustment factor that tends to reduce the model-derived unit cost.

C. QBRM Derived Unit Cost Savings

The mail processing unit cost difference between HAND and QBRM letters represents savings that result from the prebarcode feature of QBRM. This computation is shown in Table 14.

Table 14

**Derivation of QBRM Mail Processing Cost Savings
(Cents)**

Letter Category	Reconciled Unit Cost	QBRM Savings
HAND	9.65	
QBRM	4.62	5.03

Sources: Tables 10 and 11

III.   SUMMARY AND CONCLUSIONS

APWU witness Riley is way off base when he complains that the QBRM discount proposed in the S&A is too high. Properly measured, QBRM cost savings are at least 5 cents. In a fully litigated case, cost savings of that magnitude might well support an *increase* in the QBRM discount. In any event, the cost savings provide ample support for maintaining the discount at the currently effective level of 3 cents, as the signatories to the S&A agreed upon. This result is fair and equitable. APWU's ill-considered proposal to reduce the discount to a mere .6 cents should be rejected because there is no factual or logical basis for supporting that result.

QUALIFICATIONS OF RICHARD BENTLEY

Richard Bentley is president of Marketing Designs, Inc., a marketing and consulting firm.

Mr. Bentley began his career as a market research analyst for the Postal Rate Commission in 1973 and remained until 1979. As a member of the Officer of the Commission's technical staff (now Office of the Consumer Advocate) his responsibilities included analysis of USPS costs, volumes, rates and operations. As a witness on behalf of the Officer of the Commission, Mr. Bentley testified before the Postal Rate Commission in five separate proceedings. In Docket No. MC73-1. Mr. Bentley filed rebuttal testimony concerning the Postal Service's bound printed matter proposal.

In Docket Nos. MC76-1 and MC76-3, Mr. Bentley testified on changes proposed by the Officer of the Commission to the Domestic Mail Classification Schedule. Those changes concerned proposals to establish local First-Class rates and to eliminate third-class single piece as a separate subclass. With regard to the latter, it is interesting to note that 20 years later, the Commission has eliminated this subclass as one of its recommendations in Docket No. R97-1.

In Docket No. R77-1, Mr. Bentley presented proposed rates for all classes of mail and services, including the projected volumes that would result from those rates. He also analyzed the rates proposed by the Postal Service and critiqued the volume projections presented in support of its proposals.

In Docket No. MC78-1, the Postal Service proposed to restructure parcel post rates by asking the Commission to establish new rates for parcel post mailed in bulk and for a parcel post nonmachinable surcharge. Mr. Bentley presented two pieces of testimony in that docket—one concerned with the rate aspects of the Postal Service's proposal and one concerned with the parcel post volume projections.

In 1979, Mr. Bentley left the Postal Rate Commission to become a senior program engineer for Systems Consultants, Inc. (which became Syscon Corporation and is not part of Logicon), a national consulting firm. There, Mr. Bentley's responsibilities included the analysis and estimation of life cycle costs required to research, develop, manufacture, and maintain various weapon system programs for the Department of Defense. He developed cost estimating relationships and completed a computerized model for estimating future weapon system program costs.

In addition, Mr. Bentley testified before the Postal rate Commission in Docket No. R80-1 concerning presorted First-Class mail rates and second-class within county rates.

After leaving Syscon in 1981, Mr. Bentley started his own company, Marketing Designs, Inc., which provides specialized marketing services to various retail, commercial, and industrial concerns as well as consulting services to a select group of clients.

In Docket No. R84-1, Mr. Bentley testified on behalf of the Council of Public Utility Mailers and the American Retail Federation in favor of an increased

2

First-Class presort discount. At that time Mr. Bentley presented a methodology for estimating cost differences between processing First-Class single piece and presorted letters that eventually become the foundation for the Commission's "Appendix F" methodology for supporting First-Class presorted discounts.

In Docket No. C86-3, Mr. Bentley testified on behalf of Roadway Package System concerning a proposed special rate increase for parcel post. In Docket Nos. R87-1 and R90-1, Mr. Bentley testified on behalf of the Council of Public Utility Mailers, the National Retail Federation, Brooklyn Union Gas, and other First-Class mailers. Mr. Bentley recommended and supported various rate discount proposals for presorted First-Class mail, and a lower fee for "BRMAS" business reply mail.

In Docket No. R94-1, Mr. Bentley testified on behalf of Major Mailers Association with respect to several issues that concerned First-Class rates. These included the relationship between the proposed cost coverages for First and third class, the rates for First-Class incremental ounces, prior year losses, and the Postal Service's changes to the Commission's city delivery carrier out-of-office cost methodology. In addition, Mr. Bentley worked on behalf of Brooklyn Union Gas to have the Postal Service's proposed tripling of the "BRMAS" BRM fee rejected, although he did not file any formal testimony.

In Docket Nos. MC95-1 and MC96-3, Mr. Bentley again represented Major Mailers Association. In Docket No. MC95-1 he endorsed the overall classification concept proposed by the Postal Service for First-Class Mail and suggested that the First-Class second and third ounce rate be reduced for letter-

shaped pieces. In Docket No. MC96-3, Mr. Bentley compared the attributable

costing approaches between the Postal Service and Commission and asked that

the Commission require the Postal Service to provide the impact of proposed

changes utilizing established attributable cost methodologies. This testimony

was the impetus for Docket No. RM97-1 and resulted in the Commission

amending Rule 54(a)(1) to require the Postal Service to make such a cost

presentation.

In Docket No. R97-1, Mr. Bentley represented both Major Mailers

Association and the Brooklyn Union Gas Company with two separate pieces of

testimony. For Major Mailers, he recommended that the Commission reject the

Postal Service's newly proposed cost attribution methodology, increase First-

Class discounts and offer a reduced rate for 2-ounce First-Class letters. For

Brooklyn Union, he endorsed the Postal Service's Prepaid Reply Mail concept,

but asked the Commission to alter it slightly with two modifications.

In the last Omnibus rate case, Docket No. R00-1, Mr. Bentley again

appeared as a witness for Major Mailers Association and KeySpan Energy,

previously known as Brooklyn Union Gas. In that docket, Mr. Bentley showed

the workshare cost savings were greater than those derived by the Postal

Service, and he recommended workshare discounts that reflected those cost

savings. He also provided the Commission with the means for recommending a

two-tiered QBRM fee based on the volume received. This proposal was

originally suggested by the Postal Service, but its supporting analyses were so

flawed that ultimately the Commission was forced to reject them in favor of Mr. Bentley supporting evidence.

In 1972, Mr. Bentley received a Bachelor of Science degree in Industrial Engineering/Operations Research from Cornell University. The following year Mr. Bentley was awarded a Master's degree in Business Administration from Cornell's graduate School of Business and Public Administration (now the Johnson Graduate School of Management). Mr. Bentley is a member of Tau Beta Pi and Alpha Pi Mu Engineering Honor Societies.

1   **Technical Discussion of the Postal Service's**
2   **Understatement QBRM cost savings**

3   Mr. Miller's corrected QBRM unit cost savings --1.6 cents -- is less than one-third

4   of the 5.0-cent cost savings that I derive. There are three separate flaws that lead to

5   such disparate results. First, Mr. Miller omits from his analysis all other additional

6   operations after the outgoing primary. His explanation for this omission is that the cost

7   savings should only reflect the Postal Service's cost of applying a barcode to a

8   handwritten addressed envelope. *See* response to KE/USPS-T22-28A. However, Mr.

9   Miller's position disregards two important facts that have a direct bearing on the proper

10 derivation of cost savings: (1) the Postal Service cannot possibly barcode 100% of

11 HAND letters, and (2) pursuant to USPS requirements, 100% of QBRM letters must be

12 prebarcoded, and the barcodes and other attributes affecting processing costs must be

13 pre-approved. Therefore, Mr. Miller's analysis omits QBRM savings that accrue

14 downstream since, after the outgoing primary, the proportion sorted by automation will

15 be greater for QBRM letters than for HAND letters.

16   Second, Mr. Miller's model understates the unit processing cost for letters that

17 are processed through the RBCS operation and, at the same time, overstates the unit

18 processing cost for letters that bypass the RBCS, such as QBRM. Both of these points

19 are clearly illustrated by the comparison of model-derived and CRA-derived unit costs

20 shown in Table 4 of Exhibit KE-T-1. USPS witness Miller should have recognized these

21 inconsistent results exhibited by his model-derived unit costs.

22   Finally, Mr. Miller compounds the inconsistent results exhibited by his models by

23 inappropriately applying the same BMM CRA proportional adjustment factor for both the

24 HAND and QBRM models. As discussed above, when the entry point for a rate

25 category is the RBCS, the model will understate costs. The BMM CRA adjustment

26 factor corrects this problem by raising the model-derived unit cost. But applying this

27 same BMM CRA adjustment factor to QBRM, which bypasses the RBCS, only makes

28 the problem of overstating QBRM costs worse. Therefore, in order to accurately tie the

29 model-derived unit cost to the CRA, Mr. Miller should have applied the Automation CRA

30 adjustment factor to the QBRM model-derived unit cost.

1   In his Direct Testimony, Mr. Miller did not provide any reason to support his
2   application of the BMM CRA adjustment factor for both HAND and QBRM. Belatedly, in
3   response to a KeySpan interrogatory, he noted that QBRM and HAND letters "are
4   subsets of the First-Class single-piece mail stream." See response to Interrogatory
5   KE/USPS-T22-8C. Mr. Miller's observation, in this instance, is not very useful. While
6   the processing mail flows of HAND and BMM letters are very *similar*, the processing
7   mail flows for QBRM and BMM letters are very *different*. QBRM is unique within the
8   First-Class single piece mailstream because t is prebarcoded, machinable and
9   possesses a complete and accurate address by definition. The fact that QBRM is
10   mailed as single piece and makes up a tiny part of that subclass is simply not important.
11   As discussed above, the most important cost determinant for single piece letters, as
12   presented by Mr. Miller's model, is whether or not the letters are processed in the RBCS
13   operation. Non-automation presorted letters and BMM letters require RBCS
14   processing. Therefore, it is inappropriate to apply either the non-automation[1] or the
15   BMM CRA adjustment factor to reconcile the model-derived unit cost of QBRM that
16   does *not* require RBCS processing.

17   Finally, there was good reason for Mr. Miller's decision to omit processing
18   operations after the outgoing primary after KeySpan pointed out various shortcomings in
19   his original analysis. Had Mr. Miller followed the Commission's methodology from
20   Docket No. R2000-1, which included all operations up to and including the incoming
21   secondary. Mr. Miller would have had even more problems that would have been
22   difficult, if not impossible, to resolve.

23   Table 1 and Table 2 (below) are comparable to Tables 12 and 13 of Exhibit KE-
24   T-1.[2] Table 1 shows a comparison of Mr. Miller's CRA-reconciled workshare-related
25   unit costs. had he not altered the model to stop the flow of mail after the outgoing
26   primary.

---

[1]   In Docket No. R2000-1, the Commission applied the non-automation, presorted CRA adjustment
factor to reconcile the QBRM model-derived unit cost. Based on the new model presented by the Postal
Service in this case, this is no longer reasonable.
[2]   The unit costs shown in Tables 12 and 13 reflect the Commission's Docket No. R2000-1
methodology for measuring workshare-related unit costs. Those shown in Table 1 reflect the Postal
Service's proposed method for measuring workshare-related unit costs.

Table 1

Comparison of Illustrative USPS-Derived Unit Costs
For QBRM to Other First-Class Rate Categories
(Cents)

First-Class Rate Category	Reconciled Mail Processing Worksharing-Related Unit Cost (USPS Costs)
Hand Letters (Using BMM Adj Factor)	8.33
QBRM Letters (Using BMM Adj Factor)	**7.49**
Machinable Single Piece Letters	6.45
Bulk Metered Mail (BMM) Letters	6.45
Automation Mixed AADC Letters	3.41
Automation AADC Letters	2.68
Automation 3-Digit Presort Letters	2.40

Source: KE-LR-J-4

As shown in Table 1, Mr. Miller's reconciled workshare-related unit costs would have been anomalous. It is inconceivable that QBRM letters cost *more* to process than non-prebarcoded machinable single piece letters or BMM letters. Such a relationship simply does not make sense. Nor is it possible to reasonably explain the 4.08-cent difference (7.49 cents – 3.41 cents) between QBRM and Automation Mixed AADC letters.

The anomalous relationship shown in Table 1 is cured by applying the Automation CRA proportional adjustment factor to the QBRM model-derived unit cost, as shown in Table 2. The reconciled QBRM workshare-related unit cost (3.96 cents) is between the unit costs for Automation Mixed AADC (3.41 cents) and BMM letters (6.45 cents). This is where it should be.

1 **Table 2**
2
3 **Comparison of Illustrative USPS-Derived Unit Costs**
4 **For QBRM to Other First-Class Rate Categories Using**
5 **KeySpan's CRA Adjustment Factor**
6 **(Cents)**

First-Class Rate Category	Reconciled Mail Processing Worksharing-Related Unit Cost (USPS Costs)
Hand Letters (Using BMM Adj Factor)	8.33
Machinable Single Piece Letters	6.45
Bulk Metered Mail (BMM) Letters	6.45
QBRM Letters (Using Auto Adj Factor)	**3.96**
Automation Mixed AADC Letters	3.41
Automation AADC Letters	2.68
Automation 3-Digit Presort Letters	2.40

Source   Library Reference KE-LR-J-4

7   Applying KeySpan's recommended CRA adjustment factor to the Postal

8 Service's costs results in a sound, reasonable relationship.[3] Accordingly, I urge the

9 Commission to reject Mr. Miller's method for reconciling QBRM model unit costs to the

10 CRA. It makes much more sense to apply the Automation letters CRA proportional

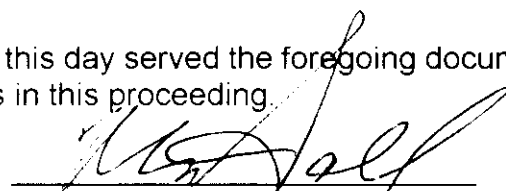11 adjustment factor to the QBRM model-derived unit cost.

12   Since the Postal Service's QBRM model already overstates the derived unit cost,

13 applying the BMM CRA proportional cost adjustment factor, as Mr. Miller does, only

14 exacerbates the accuracy of the derived unit cost. His methodology mistakenly raises

15 the already inflated model-derived unit cost by an additional 51%. (See USPS-LR-J-60,

16 page 10)

17   The combination of these three errors explains why Mr. Miller understates QBRM

18 savings by 3.4 cents per piece.

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[3]   Even if the Commission accepted the Postal Service's cost attribution methodology and Mr. Miller's proposal to eliminate two cost pools from the workshare cost savings analysis, the derived QBRM unit cost is 8.33 cents – 3.96 cents = 4.37 cents. This is still more than sufficient to justify the S&A's proposed QBRM discount of 3 cents.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document, by First-Class
Mail, upon the participants in this proceeding.

_____
Michael W. Hall

Round Hill, VA
February 20. 2002