

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

POSTAL RATE AND FEE CHANGES

Docket No. R2006-1

**RESPONSES OF MAJOR MAILERS ASSOCIATION
WITNESS RICHARD E. BENTLEY TO INTERROGATORIES OF
THE UNITED STATES POSTAL SERVICE (USPS/MMA-T1-10-16)**

Major Mailers Association hereby provides the responses of witness Richard E. Bentley to the following interrogatories of the United States Postal Service: USPS/MMA-T1-10-16, filed on September 15, 2006.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

MAJOR MAILERS ASSOCIATION

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Dated: Middleburg, Virginia
September 29, 2006

USPS/MMA-T1-10 Please refer to page 29 of your testimony where you describe your QBRM analysis in Docket No. R2000-1 and witness Miller's BRM analysis in Docket No. R2001-1.

- a) Please confirm that in Docket No. R2000-1 the rate category of High Volume QBRM did not exist.
- b) Please confirm that the QBRM account data you used in Docket No. R2000-1 were data for the largest 74 QBRM accounts contained in the CBCIS database, where size was determined by volume between AP 6 of FY 1999 and AP 5 of FY 2000.
- c) Please confirm that the data used by witness Miller in Docket No. R2001-1 were FY 2000 data for the largest 150 BRM accounts contained in the CBCIS database, and that the data for those accounts contained data for all types of BRM mail, and thus were not restricted to High Volume QBRM accounts, as indicated on page 29, line 20 of your testimony.
- d) Please confirm that the table below summarizes the data you used to derive your estimate that 11 percent of High Volume QBRM is manually counted.

**74 OF THE TOP 77 QBRM CBCIS ACCOUNT VOLUMES
FY99 (AP6) THROUGH FY2000 (AP5)
Excluding Two Largest Accounts**

Account Size	QBRM Volume In Period	Manually Counted Volume	Proportion Manually Counted
9 to 10 Million	9,433,164	0	0.0%
8 to 9 Million			NA
7 to 8 Million	8,310,062	0	0.0%
6 to 7 Million	6,936,441	0	0.0%
5 to 6 Million	5,500,000	0	0.0%
4 to 5 Million	8,364,551	0	0.0%
3 to 4 Million	17,603,354	3,527,732	20.0%
2 to 3 Million	31,150,141	6,452,024	20.7%
1 to 2 Million	45,320,366	5,300,864	11.7%
0 to 1 Million	13,788,121	4,633,529	33.6%

- e) Please confirm that when a non-random sample is taken and the selection criterion is correlated with the characteristic being measured, the estimate derived from the non-random sample will be a biased estimate of the population, and that this phenomenon is called sample selection bias or selection bias.

- f) Please confirm that in neither Docket No. R2000-1 nor Docket No. R2001-1 was the analysis conducted on the universe of possible High Volume QBRM customers because in each case relatively low volume accounts were excluded.
- g) Please confirm that in both the Docket No. R2000-1 and Docket No. R2001-1 data, low annual volume accounts were more likely to be counted manually. If you cannot confirm, please provide the basis for your conclusion.
- h) In your Docket No. R2000-1 analysis did you investigate or make any adjustments for sample selection bias? If the answer is no, please comment on why you did not address sample selection bias in your analysis. If you did make such adjustments, please describe them and identify where in your testimony or workpapers such adjustments were documented.

RESPONSE:

- a) Confirmed.
- b) Not confirmed. In my R2000-1 testimony I stated that, “Mr. Campbell provided very current volume data for the top 77 QBRM recipients.” R2000-1 Exhibit KE-T1, p. 16. On page 1 of Exhibit KE-1D, I note that the title indicates that the data originates from “74 OF THE TOP 77 QBRM CBCIS ACCOUNT VOLUMES, FY99 (AP6) THROUGH FY2000 (AP5)”. However, this data did not include information from the top two large QBRM recipients, which was analyzed separately as shown on page 4 of Exhibit KE-1D, or from KeySpan Energy, another very large QBRM recipient whose data had been excluded from the CBCIS data. Thus, the derivation of the 11% relied upon the top 77 QBRM recipients, as shown on page 4 of Exhibit KE-1B.
- c) Not confirmed. It is not possible for me to confirm what another witness did, but only my understanding of what that witness did. It is my understanding that USPS witness Miller used the percentages for each counting method in his derivation of the unit cost to count QBRM received in high volumes. This is shown on page 98 of USPS-LR-J-60. Footnote 1

on that page indicates that the source of the percentages is the “Hi Vol QBRM Spreadsheet”. That sheet refers to the “TOP 151 QBRM (TOTAL) ACCOUNTS”. See also Exhibit MMA-XE-1. Tr. 7/1580-82. My use of this data is consistent with the manner in which Mr. Miller used the same exact data in R2001-1 and USPS witness Hatcher used the same exact data in R2005-1. No Postal Service witness in this case has repudiated that study.

While it is certain that not all of the 151 BRM recipients paid the High Volume QBRM fee, it certainly is reasonable to assume that the Postal Service would use the most cost efficient means for counting BRM received in high volumes regardless of the BRM fee paid. As I indicated in my R2000-1 testimony, the top 300 BRM recipients could qualify for the High Volume QBRM fee. See R2000-1 Exhibit KE-1G, p. 2. I do not see any problem using Mr. Miller’s survey-derived counting method percentages even if not all 151 BRM recipients took advantage of the High Volume QBRM fee. The smallest volume recipient included in Mr. Miller’s R2001-1 study received over half a million pieces. I would certainly expect the Postal Service to use methods other than manual means for counting such volumes.

- d) Not confirmed. The data you have selected is derived on R2000-1 Exhibit KE-1D, p. 4, is transferred to Exhibit KE-1D, p. 1, line 4 and then is utilized in Exhibit KE-1B, p. 4, line 2. This data indicates that 14% of the total pieces are counted manually. However, this data excludes volume from the top two QBRM recipients which would exhibit mail processing characteristics that were not used in expanding the surveyed results to the rest of the high volume QBRM universe. You even note that the top two largest accounts are missing in your title. Thus, the data you refer to is used to derive the expanded data shown in Exhibit KE-1B, p. 4, line 3. The 11% of total pieces counted manually represented not 146 million pieces as you suggest in your table but 241 million pieces. This is shown.

in Exhibit KE-1B, p. 4., line 5, which combines data for the top 77 QBRM recipients with the remaining recipients not included in Mr. Campbell's survey.

- e) I cannot confirm or deny your supposition, though it does sound reasonable when performing a probability sampling study to represent a universe, particularly when the sample size is small in relation to the universe.
- f) I cannot confirm or deny your supposition. I can confirm that it is my understanding that in R2000-1 and R2001-1, neither analysis collected information on the universe of possible High Volume QBRM. I presume the reason for this was the difficulty and cost for such a survey.
- g) I cannot confirm or deny your supposition, though it sounds very reasonable to conclude that small volumes are more likely to be counted manually than high volumes. I am not sure precisely how you define a "low annual volume accounts" but I did testify in R2000-1 that it appeared that the volume threshold above which hand-counting becomes inefficient was around 400 pieces. See R2000-1 Exhibit KE-1G, pages 3-4.
- h) Yes. As indicated in my response to parts (b) and (d) above, the top two QBRM recipients were treated separately from other QBRM recipients because their volumes were so much larger than for other recipients that they were deemed to be unrepresentative of other QBRM recipients. See R2000-1 Exhibit KE-1G, p. 3 for the explanation and R2000-1 Exhibit KE-1B, p. 4. My methodology for deriving the percentages by counting method was not a traditional sample study. The survey's sample size included 70% of the projected universe. Moreover, my results were accepted by the Commission in lieu of relying upon the 1997 BRM Practices Study presented by the Postal Service. See R2000-1, PRC Opinion, pages 550-552.

USPS/MMA-T1-11 Please confirm that there is a volume level (the QBRM break-even level) at which the per-piece postage costs (inclusive of quarterly fees) for High Volume QBRM and Basic QBRM are equal, and above this volume level the per-piece postage costs of High Volume QBRM are lower than Basic QBRM and below this level the per-piece postage costs of Basic QBRM are lower than High Volume QBRM. If you cannot confirm, please comment on why this is not the case.

RESPONSE:

Confirmed. The breakeven volume depends upon the quarterly fee and the per piece fees for High Volume QBRM and Low Volume QBRM.

USPS/MMA-T1-12 For the QBRM break-even level referred to in USPS/MMA-T1-11, please confirm the following calculations. If you cannot confirm, please state the reason and provide corrected figures.

- a) The QBRM break-even level for High Volume QBRM versus Basic QBRM can be calculated by dividing the quarterly High Volume QBRM fee by the difference between the Basic QBRM fee and the High Volume QBRM fee.
- b) At the time data were collected for the LR-L-34 study, the QBRM break-even **quarterly** volume for High Volume QBRM versus Basic QBRM was:

$$1800.00/(0.06-0.008) = 34,615.38 \text{ Pieces}$$

- c) At the time data were collected for the LR-L-34 study, the QBRM break-even **annual** volume for High Volume QBRM versus Basic QBRM was:

$$34,615.38 \times 4 = 138,461.5 \text{ Pieces}$$

- d) At the time data were collected for the LR-L-34 study, and assuming 300 processing days per year, at the QBRM break-even volume level, the average daily volume for a break-even QBRM account would have been:

$$138,461.5/300 = 461.5 \text{ Pieces}$$

RESPONSE:

- a) Confirmed.
- b) I am unsure as to when the data for USPS-LR-L-34 were collected. However, at current rates, I cannot confirm your computation. I would compute the quarterly break-even quantity as follows:

$$\text{\$}1900.00/(0.06-0.008) = 36,538 \text{ Pieces}$$

- c) Not confirmed. I am unsure as to when the data for USPS-LR-L-34 were collected. However, at current rates, I would compute the annual break-even quantity as follows:

$$36,538 \times 4 = 146,152 \text{ Pieces}$$

- d) Not confirmed. I am unsure as to when the data for USPS-LR-L-34 were collected. However, at current rates, I would compute the average daily volume for a break-even QBRM account as:

$$146,152/300 = 487 \text{ Pieces}$$

Please also keep in mind that the derived ***minimum volume*** of 487 pieces is still above the 400 piece threshold above which manual counting of letters is not cost effective. See my response to USPS/MMA-T1-10(g).

USPS/MMA-T1-13 In your opinion, is the daily volume of a High Volume QBRM recipient constant or does it fluctuate, such that on some days the recipient receives a large volume of mail and on other days they receive small volumes? Please provide the basis for your response, including any and all studies you have conducted on the subject and descriptions of any visits you have made to measure or observe such fluctuation.

RESPONSE:

In my opinion, there would be no possible way to determine whether QBRM is received, on average, constantly or seasonally without performing a special study. Moreover, such a determination would be difficult to generalize because the QBRM market is quite diverse with recipients relying upon QBRM for various reasons. I suspect that volumes received for some recipients are extremely seasonal while for others are extremely constant. I am familiar with one large QBRM recipient whose volumes are very consistent every day, 300 days a year. However, this mailer cannot be considered typical.

In any event, I would anticipate that the higher the QBRM volume, the greater the likelihood that letters are received on a constant basis. QBRM volumes are directly related to the distribution of BRM letters, either through First-Class mail, Standard mail, Periodical mail or by some other means. It seems logical that as return volumes increase into the millions, distributions of BRM letters would be spread out over time, resulting in more constant volumes being received by QBRM recipients.

USPS/MMA-T1-14 Please refer to page 26, lines 23-25 of your testimony where you state, "This attribute not only reduces incoming secondary sort costs but often eliminates delivery costs as well." Please also refer to your testimony from page 27, line 30, to page 28, line 1, where you state that, "the Postal Service method models QBRM and HAND letters only as far as the first outgoing sortation, thus ignoring entirely the additional savings that accrue after that point in processing."

a) If a given QBRM recipient received a very high volume of QBRM, would you expect that this mail would be finalized as QBRM for that specific mailer (i.e., it would not be "jackpotted" to a bin with all destinating QBRM for that facility and would therefore require no further processing) in an "upstream" operation, such as the automation outgoing primary, or would you expect that it would be processed through the entire system and be finalized in an incoming secondary operation, or in an operation similar to an incoming secondary operation (e.g., BRMAS)? If your response is the latter, please explain how incoming secondary costs are reduced as you describe on page 26.

b) Assume that a given High Volume QBRM mailer were to make the decision not to provide QBRM envelopes, so that its customers would be required to send their correspondence using handwritten letters. If such a change occurred, would you expect the mail volume under the handwritten scenario to differ from the mail volume under the QBRM scenario? Please explain your answer.

c) Please describe all studies (e.g., End-Of-Run report analyses, direct field observations, etc.) that you have conducted to support your claim that there are "additional savings" beyond those measured in the Postal Service version of the cost model contained in USPS-LR-K-69.

RESPONSE:

a) In general, depending upon how much volume is involved and whether the letters are local or nonlocal, I would expect that the mail would be finalized prior to reaching the incoming secondary operation. This could happen in the outgoing primary (if local) but more likely in the incoming primary operation. In this sense, large incoming volumes associated with QBRM (or CRM for that matter) saves money for the Postal Service by avoiding the incoming secondary sort to carrier route. If the high volume QBRM letters are addressed to a post office box, as most are, then the Postal Service also saves carrier sequencing costs as well as delivery costs.

In R2000-1, USPS witness Kingsley testified that constant incoming volumes addressed to one recipient of about 5,000 pieces would most likely be separated in the incoming secondary, though it could be as low as 1,000 daily pieces. She also indicated that volumes of 5,000 pieces would likely not be separated in the incoming primary operation and would need to be closer to 20,000 pieces in order to receive its final separation in the incoming primary. See R2000-1 responses to KE/USPS-T10-3 and 4 and R2001-1 responses to KE/USPS-T39-2.

- b) Yes. In my opinion, part of the reason why QBRM recipients distribute pre-paid, pre-addressed QBRM letters is to increase the response rate. QBRM mailers like the convenience of not having to obtain an envelope, address that envelope and pay the postage.
- c) There is already such a study in the record provided by the Postal Service in response to Interrogatory TW/USPS-6. Tr. 18D/6632-44. The additional savings for operations enjoyed by the Postal Service after the first barcoded sort has already been quantified. See the table below.

Derivation of Additional QBRM Savings After The First Barcoded Sort (Cents)

Type of First-Class Letter	(1) Model-Derived Unit Cost	(2) CRA Proportional Adj Factor	(3) Reconciled Unit Cost (1) x (2)
Operations until the first barcoded Sort			
HAND	1.734	1.564	2.713
QBRM	0.706	0.931	0.657
Savings	1.029		2.056
Operations until QBRM is finalized			
HAND	6.768	1.564	10.589
QBRM	4.122	0.931	3.838
Savings	2.646		6.751
Additional Savings	1.618		4.695

Sources: USPS-LR-L-69 MMA-LR-1
Tr. 18D/6634

As shown in the table, the model-derived cost savings after the first barcoded sort is 1.62 cents. This was also referred to in Appendix II, p. 3

of my testimony. After correct application of the CRA Proportional Adjustment factors, the additional cost savings amount to 4.70 cents.

Also, as discussed in Appendix II, pages 1-2, such savings are intuitive simply because in the first barcoded sort, twice as many hand-addressed letters than QBRM letters are rejected by automation. Therefore, more hand-addressed letters will require very expensive manual processing from that point onward.

USPS/MMA-T1-15 Please refer to your testimony on page 28, lines 19-22 where you state, "With counting machines and weighing techniques that are more than 12 times as productive and readily available to all post offices, there is no excuse for hand counting High Volume QBRM letters."

a) Please confirm that the results from the BRM Practices Study contained in USPS-LR-K-34 reflect the percentage of mail processed using the various methods for the entire postal network and do not reflect the percentages for individual facilities. If you cannot confirm, please explain.

b) Please confirm that the amount of High Volume QBRM that is processed through any given destinating facility is the factor which determines the specific counting, rating, and billing methods that are used, and that some facilities may process this mail manually because they do not receive a significant volume of QBRM, or BRM in general, such that it is cost effective to use alternative procedures. If you cannot confirm, please describe all studies that you have conducted which support your claim that there would be no circumstances under which manual counting, rating, and billing operations would be appropriate.

RESPONSE:

a) It is not possible for me to confirm what another witness did, but only my understanding of what that witness did. I suspect that the BRM Practices Study contained in USPS-LR-K-34 was supposed to reflect the entire postal network. However, it likely failed to meet this objective with respect to the hand-counting of QBRM received in high volumes.

I note that the results of this latest sampling study – 26% of High Volume QBRM were counted manually -- were compared against the results produced by the 1997 BRM Practices Study, which showed that 46% of BRM was counted by hand. Based upon this comparison, Postal Service witnesses Loetscher and Abdirahman concluded that the 26% hand counting produced by the latest Study was reasonable. The problem is that, in R2000-1 the results of the 1997 Study were discredited by USPS witness Campbell, thoroughly refuted by my testimony, and ultimately rejected by the Commission, which specifically adopted my analyses.

Moreover, the 1997 Study was effectively repudiated by USPS witness Miller in R2001-1.

In R2000-1, the Commission found, consistent with my analysis, that 11% was a more reasonable estimate of the percentage of High Volume QBRM that is counted manually. I was surprised to find out that, as the person who sponsors the current BRM Practices Study, USPS witness Loetscher testified that the Postal Service did not even inform him of this very important historical information. See Tr. 4/621 and Tr. 7/1574-76.

I also find it reasonable to expect that, for the LR-L-34 BRM Practices Study, the percentages of mail processed using the various methods do not reflect the percentages for individual facilities, but I have not replicated the study to know this is in fact the case.

- b) Partially confirmed. I find your question convoluted and contradictory. First, you want me to confirm that volume is the factor which determines the specific method to count, rate and bill High Volume QBRM. Then you want me to confirm that some facilities may process this mail (meaning High Volume QBRM) manually because they do not receive a “significant volume of QBRM”. I do not understand how an office can process and deliver High Volume QBRM but does not receive a “significant volume of QBRM.”

The following answer refers to offices in which high volumes of QBRM are processed and delivered.

I can confirm that volume is the most important factor when it comes to deciding which method is used to **count** QBRM, at least insofar as counting by manual or some other automation means is concerned. I do not see any reason to manually count QBRM when the volume received on a given day exceeds about 400 pieces. Therefore, if the volume received on a particular day is less than 400 pieces, it may be more cost

effective to manually count such volumes. My testimony has not addressed the methods for rating and billing QBRM but I suspect that volume as well as the number of accounts are important factors for determining which method to use.

In R2000-1, I sponsored a study that derived a reasonable productivity for counting letters manually. That study was provided in Library Reference KE-LR-2 and Exhibit KE-1C, which are being re-filed in this case as Library Reference MMA-LR-4 for your convenience and that of the Commission. The purpose of Library Reference KE-LR-2 in R2000-1 was to show just how inefficient manual counting of QBRM received in high volumes was. My conclusion as stated on p. 2 of that document was that “the Postal Service has few, if any, justifiable reasons to hand count letters when received by individual accounts in high volumes.” After reviewing the video that was filed as part of R2000-1 Library Reference KE-LR-2, I am even more convinced that manual counting of QBRM volumes received in high volumes is much, much less cost effective compared to weighing techniques.

MMA/USPS-T1-16 Throughout your testimony, you describe Remote Bar Code System (RBCS) operations, of which the Remote Computer Read (RCR) system is a component.

a) Please confirm that the RCR finalization rate, which is often presented with the cost models, has increased significantly over the past ten years. If you cannot confirm, please explain.

b) Please confirm that improved RCR finalization rates would typically impact handwritten mail piece costs only and would not impact QBRM mail piece costs. If you cannot confirm, please explain.

c) Please explain in operational and/or financial terms why the cost difference between a handwritten mail piece and a QBRM mail piece would have expanded from the original 4.016-cent estimate presented in Docket No. R97-1 (USPST- 23, page 11, line 4) to the 6.751-cent estimate presented in your testimony in Table 2 of Appendix II, given that the RCR read rates have continuously improved over time. Please include any analyses and/or studies which you have conducted during the past ten years which would explain this widening cost gap.

RESPONSE:

a) I do not know the RCR finalization rate from R97-1. However, the RCR finalization rate was 69% in R2000-1 and is 78% in this case. I have no basis to confirm or deny whether the percentage increase from R97-1 to R2005-1, whatever that percentage may be, is “significant” or not.

b) Confirmed.

c) The cost savings estimate of 6.75 cents presented in Appendix II to my testimony is based on a methodology that differs from that underlying the nine-year-old estimated cost savings estimate of 4.016 cents from R97-1. Therefore, a direct comparison is not appropriate. Moreover, the Postal Service also claims that a recent change in the way IOCS tallies are collected and assigned makes a direct comparison between costs in the last case just one year earlier with those in this case inappropriate. If the Service’s claim is true, it would also have a bearing on any comparison between R97-1 and R2006-1 costs.

If the Postal Service wants to know why the savings exceed 6 cents in this case, all it needs to do is to study the specific reason(s) why the model-derived unit cost for MML (5.183 cents) is 2.925 cents **lower** than the comparable CRA-derived unit cost (8.108 cents). The 2.925 cents reflects additional costs that are actually incurred by HAND letters during RBCS processing but are not picked up by the mail flow models. When USPS witness Abdirahman applied an identical CRA Proportional Adjustment factor to the modeled-derived unit costs for both QBRM and hand-addressed letters, he effectively assumed that both types of letters are similarly processed in the RBCS operations and incur these “extra” costs. His assumption simply is not true. As discussed in Appendix II, pages 3-6 of my testimony, QBRM letters completely bypass the RBCS. Therefore, applying the CRA Proportional Adjustment factor for HAND letters to QBRM letters makes no sense and effectively penalizes QBRM letters. My application of separate CRA Proportional Adjustment factors for HAND and QBRM letters corrects for this error.