

**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-T1-18-22)**

Major Mailers Association hereby provides the responses of witness Richard E. Bentley to the following interrogatories of the United States Postal Service: USPS/MMA-T1-18-22, filed on September 19, 2006.

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

Respectfully submitted,

MAJOR MAILERS ASSOCIATION

Michael W. Hall
35396 Millville Road
Middleburg, Virginia 20117
540-687-3151

Dated: Middleburg, Virginia
October 3, 2006

USPS/MMA-T1-18.

(a) Please refer to Table 9 of your testimony, at page 31. Please confirm that Table 9, and its source table (Tr. 14/3918), apply only to Platinum level subscribers. If you do not confirm, please explain why not.

(b) Please confirm that the source table also shows fee decreases of at least 30 percent for all Platinum subscribers using 50 million or fewer scans. If you do not confirm, please explain why not.

(c) Please confirm that those Confirm subscribers using fewer than 61 million scans for First-Class Mail would see a fee decrease of at least 25.8 percent (Current fee of \$10,000 versus proposed fee of \$7,415 (annual fee of \$5,000 plus 9 blocks of units at \$70 each (\$630), plus 51 blocks of additional units at \$35 (\$1,785))). If you do not confirm, please explain why not.

(d) Please confirm that 29 out of the current 45 Platinum subscribers use 61 million or fewer scans, based on witness Mitchum's response to OCA/USPS-T40-57 (Tr. 14/3976). If you do not confirm, please explain why not.

RESPONSE:

(a) Confirmed. In fact, the tables apply only to Platinum level subscribers that purchase First-Class scans and were never intended to represent anything about Standard Mail scans.

(b) Partially confirmed. Your math is correct but your example is based on a faulty premise. A Confirm user who requires 50 million or fewer First-Class scans would more than likely have chosen to become a silver or gold subscriber, thus avoiding the \$10,000 annual platinum subscription charge. Since 50 million First-Class scans can be purchased for \$4,500 at current rates as a gold subscriber, it seems highly unlikely that any First-Class Confirm users would be subject to decreases of at least 30 percent, as your question posits. If a current gold subscriber required 50 million scans, as you suggest in your question, the increase under your proposed fees would be about 56%. $(5,000 + 9 \times 70 + 40 \times$

35) / 4,500 – 1 = 56.2%) Thus the situation facing a subscriber who purchased 50 million scans as a gold subscriber under current rates will not be a 30% decrease but a 56% **increase**.

(c) Partially confirmed. Your math is correct but your example is based on a faulty premise. A Confirm user who requires 61 million or fewer First-Class scans would more than likely have chosen to become a gold subscriber, thus avoiding the \$10,000 annual platinum subscription charge. Since 62 million First-Class scans can be purchased for \$6,000 ($\$4,500 + 2 \times \750) at current rates as a gold subscriber, it seems highly unlikely that any First-Class Confirm users would be subject to decreases of at least 25.8 percent, as your question posits. If a current gold subscriber required 61 million First-Class scans, the increase under your proposed fees would be about 24%. ($5,000 + 9 \times 70 + 51 \times 35$) / 6,000 = 23.6%) Thus the situation facing a subscriber who purchased 61 million First-Class scans as a gold subscriber under current rates will not be a 25.8% decrease but a 23.6% **increase**.

At current rates, a gold subscriber could purchase 98 million First-Class scans for \$10,500. ($\$4,500 + 8 \times \750) Therefore, Table 9 of my testimony starts at 100 million scans since it did not seem reasonable that there would be many platinum subscribers that used fewer than 100 million First-Class scans.

(d) It is not possible for me to confirm what another witness did, but only my understanding of what that witness did. I have reviewed USPS witness Mitchum's response at Tr. 14/3976 and it is my understanding that he estimates that 29 of the current 45 platinum subscribers use fewer than 61 million scans.

However, this estimate is based on the assumption that all of the 29 current platinum subscribers have also required Standard Mail scans which “cost” five times as much as First-Class scans under the proposed rates. Since my testimony only concerns the price impact upon First-Class Confirm subscribers, Mr. Mitchum’s response at Tr. 14/3976 is not very relevant.

USPS/MMA-T1-19.

Please refer to your testimony, at page 31, lines 15-17, where you state that:

I am informed that existing Platinum subscribers, who face double and triple digit increases are considering curtailing or eliminating their use of Confirm.

(a) Please confirm that witness Callow's testimony on page 17, lines 16-20, assumes that a 95 percent fee increase "will have little or no effect on the number of Platinum subscribers."

(b) Do you agree with witness Callow's assumption? Please explain.

RESPONSE:

(a) Confirmed that OCA witness Callow made such a statement. I also note that the 95% increase maintains the current Confirm fee structure, including unlimited scans for Platinum level subscribers. Therefore, it represents the **maximum** increase that First-Class Confirm users could face, which is a far different proposal from that put forth by the Postal Service.

(b) No, I do not agree with OCA witness Callow's assumption. MMA members are concerned with increases of that kind of magnitude. However, it is my understanding that, given a choice between the OCA's proposal and the Postal Service's proposal, MMA members prefer the OCA's proposal. On the other hand, if the Postal Service really is interested in promoting widespread use of Confirm Service to help monitor and manage service standards, as well as cement its relationship with large First-Class mailers by adding value to its premium workshared mail service, it should seriously consider eliminating the Confirm fee as I recommend. Please see my testimony at pages 32-33.

There is another alternative to Confirm Service that will soon be available to certain First-Class mailers. The Postal Service is now offering container scans that allow mail to be traced throughout the mailstream. Since sophisticated workshared mailers can identify their letters by container, such scans will provide mailers with information similar to that provided by Confirm Service. According to USPSNEWS@WORK, "Surface Visibility allows the Postal Service to track individual handling units - trays, tubs and sacks - from origin to destination, by using a series of barcode scans. See the article reproduced below. Such a service, which is free to mailers, will compete with Confirm Service, making it even more important for the Commission to accept my recommendation that Confirm Service be a part of the First-Class first ounce rate. I have attached a recent presentation that was provided to large First-Class mailers.

Surface Visibility helps keep us on track

Surface Visibility scanning helps facilities track the mail with barcodes on handling units, containers and trailers.

Surface Visibility allows the Postal Service to track individual handling units - trays, tubs and sacks - from origin to destination, by using a series of barcode scans.

It's like the old "the knee bone's connected to the thigh bone" song. Each scan builds on previous scans to help us track the mail. And since the scans are cross-referenced, the Surface Visibility system will let you know if you're trying to put a tray, sack or tub into a container where it doesn't belong. Or a container in the wrong trailer.

Surface Visibility - brought to USPS by Network Operations Management and Information Technology. It's changing the way we dispatch mail. To see deployment schedules, activation plans, equipment information and more, go to Blue: Click on *Inside USPS*, then under "Operations," *Network Operations Management*, then under "NOM Spotlight," *Surface*

Source: http://www.usps.com/cpim/ftp/bulletin/2006/html/pb22183/a-p_001.html

USPS/MMA-T1-20.

Please refer to your testimony, at page 32, lines 5-6, where you state that “61% of the [Confirm] costs are totally fixed” Please confirm that library reference L-59, Attachment 19, shows that in the test year (FY2008) 59 percent of costs are “Fixed (Incremental)” (707,000/1,189,000 = 59%).

RESPONSE:

Confirmed. The 61% will be changed to 59% in the near future.

USPS/MMA-T1-21.

Please confirm that the first word of your testimony at page 32, line 20, should be “provide,” rather than “increase.”

RESPONSE:

Confirmed. The word “increase” should be changed to “provide”. This change will be made in the near future.

USPS/MMA-T1-22.

Please refer to page 33 of your testimony.

(a) Please explain further why you direct your primary proposal for Confirm service (an annual fee of \$2,000 and no additional fees for scans) to First-Class Mail Confirm subscribers, rather than other subscribers. Include in your explanation, if appropriate, discussion of your reference in footnote 22 to the “huge institutional cost contribution that First Class workshared mailers make to the postal system.”

(b) Under your proposal, do you believe that Confirm service costs of \$1.2 million should be covered by Confirm service fees paid by its subscribers (including the proposed \$2,000 annual fee to be paid by First-Class Mail subscribers)? If not, please explain.

(c) If your answer to part (b) is yes, please explain how you expect these costs to be covered, including whether Confirm subscribers who use subclasses other than workshared First-Class Mail should pay higher annual or other fees.

RESPONSE:

(a) The purpose of my testimony is to evaluate issues that relate to First-Class mailers in general, and First-Class workshared mailers in particular. Therefore, my testimony does not address the pricing of Confirm Service for Standard mail scans. I have not proposed unlimited Confirm scans, with a setup charge of \$2,000, be expanded to include Standard mail scans as well. I have no position with respect to that issue, though it makes sense to add such value only to First-Class workshared mailers that make a unit contribution to institutional costs that is more than twice the unit contribution to institutional costs that Standard mailers make. I also note that the \$1.2 million cost to provide Confirm Service will be significantly offset by the \$2,000 setup fees and is quite small in comparison to the \$11+ billion contribution to institutional costs provided by First-Class workshared mailers.

(b) No. As discussed in my testimony on page 33, my primary proposal is to include the cost of Confirm Service as part of the First-Class first ounce cost, thus, rolling the cost of providing Confirm Service for First-Class mailers into the overall cost of providing First-Class service. This is how Postal Service competitors treat similar tracking and delivery confirmation services. Another way of looking at my proposal for Confirm Service is to equate it with First-Class forwarding and return service. Such costs are much greater than the \$1.2 million necessary to provide Confirm Service, but they are still “covered” by the First-Class first-ounce rate.

(c) Not applicable.