

**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-T1-17) ERRATA**

Major Mailers Association hereby provides notice that it is filing a corrected version of the responses of witness Richard E. Bentley to United States Postal Service Interrogatory: USPS/MMA-T1-17. The original response was filed on October 2, 2006. This errata filing makes the following changes:

1. In the table entitled "Derivation of Unit Delivery Cost Savings Due To Worksharing," which is part of the response to USPS/MMA-T1-17 (b), the heading for Column (4) should read "TY Unit Delivery Cost Per Originating Piece If Equal % Delivered*."
2. In the notes to this same table, the note for Column (4) has been changed to Col (1) x Col (3).
3. In the table included as part of the response to USPS/MMA-T1-17 (d), two numbers that inadvertently were red are now black.

The attached USPS interrogatory is stated verbatim and is followed by the corrected response.

Respectfully submitted,

MAJOR MAILERS ASSOCIATION

Dated: Middleburg, Virginia
October 3, 2006

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

USPS/MMA-T1-17. Please refer to page 15 of your testimony, including Table 5, and the following sentence at the top of page 16:

There can be no argument that Postal Service data indicate that Presorted letters cost, on average, 3.38 cents less to deliver than single piece letters.

a. Please confirm (or if not confirmed, explain fully) that the following table correctly presents (from the response to MMA/USPS-T30-31) the total delivery costs (without collection) and the relevant volumes, used to derive the respective unit delivery costs shown in columns 1 and 2 of your Table 5 (and reproduced in this table as well) for Single Piece and Presorted letters.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	TY Total Delivery Cost Without Collection (000)	TY Originating Volume (000)	TY Unit Delivery Cost per Originating Piece (without collection)	TY Unit Delivery Cost (Cents) Difference Per Originating Piece	TY Delivered Volume (000)	TY Unit Delivery Cost (Cents) Without Collection Per Delivered Piece	TY Unit Delivery Cost (Cents) Difference per Delivered Piece
Single Piece	\$1,782,394	34,594,330	5.15		21,167,692	8.42	
Presorted	\$1,977,153	47,482,864	4.16	0.99	42,543,546	4.65	3.77

Source – MMA/USPS-T30-31

b. If “Presorted letters cost, on average, 3.38 cents less to deliver than single piece letters” as you say, then there must be some Presorted letters unit delivery cost X, such that X times the Presorted letters volume equals the total delivery costs for Presorted letters (\$1.977 billion), and (X + 3.38 cents) times the Single Piece volume equals the total delivery costs for Single Piece letters (\$1.782 billion). Using the total delivery cost figures and either set of volume figures in the table above, please derive such a value of X that reconciles with the total delivery cost figures for both categories.

c. On page 15, you refer to the 3.77-cent difference between the unit delivery costs per delivered piece of Single Piece letters and that of Presorted letters (shown at the bottom of Column 3 of your Table 5) as the “unit cost savings,” and you state that since the workshared discounts apply to all workshared volume (including those that are not delivered), it is necessary to spread the unit cost savings over all workshared volumes. Suppose that instead of a discount for workshared mail, the relevant rate difference was considered to be a surcharge for Single Piece mail. In that case, please confirm that, in order to develop the surcharge, it would be necessary under your logic to spread the unit cost difference (3.77 cents) over all Single Piece mail, that it would thus be necessary under your methodology to multiply the unit cost difference by the percentage of Single Piece letters that are actually delivered (61 percent), and the conclusion

you would reach would be that the Single Piece letters cost, on average, 2.31 cents more to deliver than Presorted letters. If you cannot confirm, please explain fully.

d. Please confirm that it is logically impossible for Presorted letters to cost, on average, 3.38 cents less to deliver than single piece letters, while Single Piece letters cost, on average, 2.31 cents more to deliver than Presorted letters. If you cannot confirm, please explain fully.

e. Please confirm that from your Table 5, one can identify 0.99 cents as the difference between the unit delivery costs (without collection) per originating piece of Single Piece and Presorted letters, and one can identify 3.77 cents as the difference between the unit delivery costs (without collection) per delivered piece of Single Piece and Presorted letters, but that the result of the calculation you present in Column 4 as the “Unit Delivery Cost Savings Per Originating Piece” is meaningless, and does not represent the “Unit Delivery Cost Savings Per Originating Piece,” which is 0.99 cents. If you cannot confirm, please explain fully.

f. Please refer to Table 6 on page 16, and confirm that the Delivery Unit Cost Savings you report in that table are based on the same methodology, and hence are equally as flawed and meaningless, as the figures you derive in Column 4 of Table 5 and mislabel as “Unit Delivery Cost Savings Per Originating Piece.” If you cannot confirm, please explain fully.

RESPONSE:

a. I can confirm all of your numbers except for column (4). The TY unit delivery cost savings difference per originating piece is a meaningless number because, as you show in columns (2) and (5), only 61% of the First-Class Single Piece letters incur delivery costs while 90% of the First-Class Presort pieces incur delivery costs.

Another way of looking at this is to focus on the “TY Unit Cost Per Originating Piece”. For the First-Class Single Piece letter, only 61% of that originating piece is delivered. For the Presort letter, 90% of that originating piece is delivered. Obviously, you cannot deliver just a fraction of a piece. Thus, the “TY Unit Cost Per Originating Piece” is merely a theoretical cost because only a fraction of the originating piece is actually delivered.

Your unit delivery costs per originating piece for First-Class Single Piece and Presort, as shown in column (3) would be comparable **only** if the

percentage of pieces actually delivered was identical for both Single Piece and Presort. Since the percentages are vastly different, the “TY Unit Cost Per Originating Piece” for Single Piece and Presort letters is not comparable and the computation of the difference that you show in Column (4) is not meaningful.

- b. The unit delivery cost savings between a First-Class Single Piece letter and a Presort letter is 3.77 cents. You have recomputed this savings in your table as shown in part (a). The volumes and total delivery costs are as shown in your table and reproduced below:

	(1)	(2)	(1) x (2)
First-Class Category	TY Unit Delivery Cost (Cents) Without Collection Per Delivered Piece	TY Delivered Volume (000)	TY Total Delivery Cost Without Collection* (000)
Single Piece	8.42	21,167,692	\$1,782,394
Presorted	4.65	42,543,546	\$1,977,153

*Computations are not exact due to rounding

The savings of 3.77 cents per piece occurs only if letters are actually delivered. Only 90% of Presorted letters are delivered. Therefore the total savings is 3.77 cents x 42,543,546,000 letters or \$1,605,163,000. Note that this computation is not exact due to rounding. When these savings are divided by the total originating pieces, the average savings per originating piece is \$1,605,163,000 divided by 47,482,864,000 letters or 3.38 cents. Therefore, the average delivery cost savings per originating Presorted letter is 3.38 cents, which should be reflected in a traditional methodology for supporting the workshared discounts.

The average workshared unit cost savings of 3.38 cents, as derived in my testimony, represents an average cost savings under the assumption that **90% of both** First-Class Single Piece and Presort letters are delivered.

A second way to derive this unit cost savings can be achieved by taking the difference between the First-Class Single Piece unit delivery costs **IF 90% OF THE PIECES ARE DELIVERED** and the Presorted unit cost, where

90% of the pieces are also delivered. The actual computation is shown in MMA-LR-2, page 1, but has been reproduced for you based on the Table you provided in part (a):

**Derivation of Unit Delivery Cost Savings Due To Worksharing
(Cents)**

	(1)	(2)	(3)	(4)	(5)
First-Class Category	TY Unit Delivery Cost Per Delivered Piece	Actual % of Letters Delivered	% of Presorted Letters Delivered	TY Unit Delivery Cost Per Originating Piece If Equal % Delivered*	TY Unit Delivery Cost Savings Per Original Letter
Single Piece	8.42	61%	90%	7.54	
Presorted	4.65	90%	90%	4.16	3.38

*Computations are not exact due to rounding

- (1) Col (6) of Table in part (a)
- (2) Col (5) / Col (2) of Table in part (a)
- (3) From Col (2) for Presorted
- (4) Col (1) x Col (3)
- (5) Subtraction of Col (4)

- c. Confirmed. If one were to develop a surcharge for First-Class Single Piece as you suggest, the extra cost incurred **to deliver** a Single Piece letter is the same 3.77 cents savings derived in part (a) above. The additional delivery costs would be the unit cost savings times the number of pieces delivered: 3.77 cents x 21,167,692,000 or \$798,655,000. Note that this computation is not exact due to rounding. Since this extra cost needs to be recovered equally in the rate for **all** First-Class Single Piece letters, the average surcharge would be \$798,655,000 divided by 34,594,330,000 or 2.31 cents per piece.
- d. Not confirmed. The results shown are perfectly logical. The savings is always going to be 3.77 cents per piece **for letters that are actually delivered**. However, the rate design does not give workshared discounts for savings that accrue if mail is not delivered. Therefore, the savings has to be shared equally by all originating workshared pieces. Therefore, the savings per piece is a function of how many of the originating pieces are actually delivered.

Another way of looking at this is to assume that, under the discount scenario, all originating Presorted letters share the benefits of the \$1,603,892,000 total savings. Similarly, under the surcharge scenario, all originating Single Piece letters must pay for the \$798,022,000 extra delivery costs incurred by those single piece letters that actually require delivery. There is no particular reason why these amounts must be equal, and they certainly will not be equal if the percentages of Single Piece and Presorted letters actually delivered are different.

There is nothing magical about the 3.38 cents workshared delivery cost savings and the 2.31 cents delivery cost surcharge. The 3.38 cents simply represents the average savings for all Presorted letters even though these savings were achieved by only the 90% of the letters that are delivered. Similarly, the 2.31 cents represents the average surcharge required to be paid by all Single Piece letters, even though only 61% of the letters actually incurred these extra delivery costs.

A simple exercise might convince you of the logic. Suppose you could agree that the unit cost per delivered piece is 8.42 cents and 4.65 cents for Single Piece and Presorted letters, respectively. This is, after all, based on the data you provided to me. These unit costs are also shown in your table in part (a).

The top half of the table below re-computes the 3.38 cost savings and the 2.31 unit cost surcharges under the actual situation where percentages to total letters that are actually delivered between Single Piece and Presorted letters are significantly different. The bottom portion re-computes these same figures under the ***hypothetical assumption*** that 100% of both Single Piece and Presorted letters were delivered. As you can see from the results, the unit cost savings and surcharge are different in the first instance but are identical in the second instance. In fact, the unit cost savings and surcharge will only be identical if the percentage of total letters actually delivered is identical for both Single Piece and Presorted letters. The Excel

file attached to this interrogatory will allow you to change the percentages so that you can prove this to your own satisfaction.

	(1)	(2)	(3)	(4)	(5)	(6)
First-Class Letter Category	% of Letters Actually Delivered	TY Originating and Delivered Volume (000)	TY Unit Delivery Cost Per Delivered Piece (Cents)	TY Unit Delivery Cost Difference (Cents)	Total Delivery Cost Savings (\$000) (1) x (2) x (4) x .01	Unit Delivery Cost Savings or Surcharge (Cents) (5) / (2)
Discount Scenario						
Single Piece	61%	34,594,330	8.42			
Presorted	90%	47,482,864	4.65	3.77	1,605,163	3.38
Surcharge Scenario						
Single Piece	61%	34,594,330	8.42	3.77	798,655	2.31
Presorted	90%	47,482,864	4.65			

	(1)	(2)	(3)	(4)	(5)	(6)
First-Class Letter Category	% of Letters Actually Delivered	TY Originating and Delivered Volume (000)	TY Unit Delivery Cost Per Delivered Piece (Cents)	TY Unit Delivery Cost Difference (Cents)	Total Delivery Cost Savings (\$000) (1) x (2) x (4) x .01	Unit Delivery Cost Savings or Surcharge (Cents) (5) / (2)
Discount Scenario						
Single Piece	100%	34,594,330	8.42			
Presorted	100%	47,482,864	4.65	3.77	1,791,523	3.77
Surcharge Scenario						
Single Piece	100%	34,594,330	8.42	3.77	1,305,240	3.77
Presorted	100%	47,482,864	4.65			

- e. Not confirmed. The 0.99 cents that you call “the difference between the unit delivery costs (without collection) per originating piece of Single Piece and Presorted letters” is a meaningless number. See my answer to part (a). It is the difference between two numbers that are **not comparable** because only 61% of Single Piece letters actually incur delivery costs while 90% of Presorted letters actually incur delivery costs. The actual cost difference between a Single Piece letter and a Presorted letter is 3.77 cents **if both letters are delivered**.

The “Unit Delivery Cost Savings Per Originating Piece” is the total delivery costs incurred (for letters actually delivered) divided by the total originating volume. Since only delivered letters produce savings, it is simply an average of the total savings per originating letter. It is obviously meaningful and pertinent to develop average workshared cost savings for all pieces that result from delivery of a portion of those pieces.

I would have no problem if you wanted to add the word “Average” before “Unit Delivery Cost Savings Per Originating Piece”.

- f. I do not confirm that my entire analysis of delivery cost savings is “flawed and meaningless”. The figures derived in Column 4 of Table 5 are not mislabeled as “Unit Delivery Cost Savings Per Originating Piece.” Those figures represent the total delivery cost savings resulting from worksharing for letters actually delivered ***spread over all originating letters***. The delivery unit cost savings shown in Table 6 reconcile to the results shown in Table 5, except that the unit costs for Presorted letters have been de-averaged.

Computation of Unit Delivery Cost Savings or Surcharge Using Actual Percentages of Mail Delivered

	(1)	(2)	(3)	(4)	(5)
First-Class Letter Category	% of Letters Actually Delivered	TY Originating and Delivered Volume (000)	TY Unit Delivery Cost Per Delivered Piece (Cents)	TY Unit Delivery Cost Difference (Cents)	Total delivery Cost Savings (\$000) (1) x (2) x (4) x .01
Discount Scenario					
Single Piece	61%	34,594,330	8.42		
Presorted	90%	47,482,864	4.65	3.773	1,605,163
Surcharge Scenario					
Single Piece	61%	34,594,330	8.42	3.77	798,655
Presorted	90%	47,482,864	4.65		

Actual Percentages

Computation of Unit Delivery Cost Savings or Surcharge Using Changeable Percentages of Mail Delivered

	(1)	(2)	(3)	(4)	(5)
First-Class Letter Category	% of Letters Actually Delivered	TY Originating and Delivered Volume (000)	TY Unit Delivery Cost Per Delivered Piece (Cents)	TY Unit Delivery Cost Difference (Cents)	Total delivery Cost Savings (\$000) (1) x (2) x (4) x .01
Discount Scenario					
Single Piece	100%	34,594,330	8.42		
Presorted	100%	47,482,864	4.65	3.77	1,791,523
Surcharge Scenario					
Single Piece	100%	34,594,330	8.42	3.77	1,305,240
Presorted	100%	47,482,864	4.65		

Change Percentages Here

(6)

Unit Delivery Cost Savings or Surcharge (5) / (2)
3.38
2.31

d

(6)

Unit Delivery Cost Savings or Surcharge (5) / (2)
3.77
3.77

0%
0%