

**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-T1-28-31)**

Major Mailers Association hereby provides the responses of witness Richard E. Bentley to the following interrogatories of the United States Postal Service: USPS/MMA-T1-28-31, filed on October 6, 2006.

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

Respectfully submitted,

MAJOR MAILERS ASSOCIATION

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Dated: Middleburg, Virginia
October 20, 2006

USPS/MMA-T1-28. Please refer to your response to USPS/MMA-T1-15, and your Library Reference MMA-LR-4 entitled "Study to Derive the Productivity to Count QBRM Letters."

- (a) Please confirm that in the above-referenced study, the hand-counting and counting by weight of QBRM pieces was performed by KeySpan employees and not postal employees.
- (b) Please describe the amount of training and experience the clerks in the study had in hand-counting QBRM pieces prior to performing the study.
- (c) Please describe the amount of training and experience the "experience [sic] KeySpan employee" had in counting QBRM pieces by weight prior to performing the study.
- (d) Based on your knowledge of the process of hand-counting QBRM pieces, does the above-referenced study account for all the tasks or work elements associated with hand-counting QBRM pieces? If not, please list the tasks or work elements that are not accounted for.

RESPONSE:

Your interrogatory asks me about a study that I sponsored more than six years ago in R2000-1 and which was not relied upon at all in the preparation of my testimony, exhibits or library references for this case. I referred to that study in response to your referenced query because it illustrates that counting high volumes of QBRM manually is much less efficient and much less cost effective than counting by weighing techniques. The study also derived a counting productivity of 2,746 pieces per hour (PPH), which was developed to refute USPS witness Campbell's unsupported PPH of 951 that he relied on to estimate the cost for counting QBRM. My derived PPH is fairly close to the 2,932 PPH that I utilize in this case, which is the same productivity relied upon by USPS witnesses Miller and Hatcher in R2001-1 and R2005-1, respectively, and even closer to the 2,869 PPH relied upon by USPS witness Abdirahman in this case.

- (a) Confirmed.
- (b) I do not know the precise answer to your question. The employees shown in the tape were chosen for the study because they worked in KeySpan's mailroom and were experienced in operations involved in

preparing KeySpan's outgoing mail as well as processing KeySpan's incoming QBRM. It is my understanding that KeySpan employees were well accustomed to counting relatively low volumes of QBRM – typically 100 pieces –as part of the method to count by weighing techniques demonstrated on the DVD provided in MMA-LR-4. It is also my understanding that KeySpan employees did **not** count high volumes of QBRM manually because doing so was unnecessary, time consuming and wasteful (i.e. inefficient). Nevertheless, as noted in response to part (a), I find it interesting that the manual counting productivity I developed using this demonstration is in line with the manual counting productivity that USPS witnesses Miller and Hatcher relied upon in R2001-1 and R2005-1, respectively, and with the manual counting productivity that USPS witness Abdirahman relied upon in this case.

- (c) Please see my response to part (b). In addition, I am aware that prior to the time the study on the DVD was conducted, KeySpan was involved in an experiment with the Postal Service whereby high volumes of QBRM were counted daily by KeySpan using weighing techniques for more than one year.
- (d) The study was not intended to account for “all the tasks or work elements associated with hand-counting QBRM pieces.” It was precisely for this reason that the timed PPH of 4,576 was reduced by 40% as shown in Exhibit KE-C, p. 3. If I recall correctly, the 40% was based on actual postal cost data which showed that indirect costs were approximately 40% of direct costs. In any event, the Commission accepted the results from this study and agreed that using the 40% adjustment factor was conservative. (See R2000-1 Opinion and Recommended Decision at 554-55 (¶ 6029). In the next rate case, R2001-1 the Postal Service independently derived a hand counting productivity of 2,932 PPH that was very close to my results in R2000-1.

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Ultimately, for my purposes, the importance of an accurate handcounting PPH is minimal since so few QBRM pieces received in high volumes are counted manually, as indicated by the survey conducted by USPS Miller in R2001-1 of 151 QBRM recipients that received more than 500,000 pieces per year.

USPS/MMA-T1-29. Please refer to your response to USPS/MMA-T1-10 (e). That interrogatory asked you about sample selection bias, or selection bias, and your response stated in part, "it does sound reasonable when performing a probability sampling study to represent a universe."

- (a) Please discuss your level of understanding of each of the following concepts, as they relate to probability sampling studies, and describe the source of your understanding (training, education, experience, etc.):
 - (1) Random sample selection
 - (2) Sample size
 - (3) Sample selection bias, or selection bias
- (b) In your view, how does sample selection bias, or selection bias, affect the soundness of a probability sampling study? Please explain your view fully.

RESPONSE:

- (a) – (b) These questions are much too broad for me to answer concisely. I have not performed any random sampling studies in this case or sponsored the results from any such studies. While I have taken courses in marketing research, which included instruction on use of statistical techniques, when obtaining my MBA from Cornell University, there was no need to perform any kind of sampling study to support my positions in my testimony.

In R94-1, I had an opportunity to assist counsel for Brooklyn Union Gas Company in fully examining the Postal Service's flawed cost study of BRM attributes, derived from a sample of offices that was expanded to represent the entire universe of BRM mail.

Apparently, I exhibited a sufficient knowledge and understanding about the Postal Service's random sampling study to convince the Commission to throw out the entire study just by asking some relevant and thought-provoking questions. See R94-1 Opinion and Recommended Decision at ¶¶ 1036, 1053-1060. As a result, the Commission rejected the Postal Service proposal to triple the per piece fee for BRMAS BRM, from 2 to 6 cents.

In R2000-1, I presented detailed testimony and exhibits to refute the findings and results presented by the USPS' 1997 BRM Practices Study (1997 Study). More specifically, I took special exception to the 1997 Study's "finding" that 47% of High Volume QBRM was counted manually. In that case, the Commission accepted my analysis of the QBRM volumes counted by the various available methods. That analysis indicated very conservatively that at most 11% of High Volume QBRM was counted manually. Once again, the Commission relied upon my analyses to reject the USPS proposed 3-cent per piece fee for High Volume QBRM and support its recommended 1 cent fee. See R2000-1 Opinion and Recommended Decision at ¶¶ 6002-6004.

In R2001-1, USPS witness Miller performed a survey from which he obtained counting methods data for QBRM received in high volumes. For QBRM received in low volumes, he relied on the analysis I presented in R2000-1. See USPS-LR-J-60, p. 99, fn 1.

USPS/MMA-T1-30. Please refer to your response to USPS/MMA-T1-13, where you state:

“...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.”

- (a) In your view, would there be more day-to-day fluctuations in volume for a High Volume QBRM recipient whose volumes received are “extremely seasonal,” than for a High Volume QBRM recipient whose volumes received are “extremely constant?” Please explain fully.
- (b) In your view, if “the QBRM market is quite diverse,” would you expect some fluctuation in the daily volume received by High Volume QBRM recipients? Please explain fully.

RESPONSE:

- (a) As you have indicated in my response to USPS/MMA-T1-13, I suspect that the QBRM market is quite diverse. However, it is not possible to answer the question you pose. It is conceivable that a High Volume QBRM recipient whose utilization is “extremely seasonal” could exhibit more or less day-to-day fluctuations than a High Volume QBRM recipient whose utilization is “extremely constant.” Therefore, I do not agree with your suggestion that one can make a general conclusion about which recipient’s volume would fluctuate more on a daily basis.
- (b) Yes, of course. I would expect there to be “some fluctuation in the daily volume received by High Volume QBRM recipients” even if the QBRM market were **not** diverse. I have no further explanation since to think otherwise would be totally illogical.

USPS/MMA-T1-31. Please refer to your response to USPS/MMA-T1-19, where you claim that the 95 percent Platinum fee increase proposed by witness Callow "represents the **maximum** increase that First-Class Confirm users could face . . ." (emphasis in original). Also, refer to witness Callow's response to USPS/OCA-T5-2, where he agrees that at least 29 Platinum subscribers could pay \$12,800 less by switching to Gold subscriptions, and his response to USPS/OCA-T5-3 where he acknowledges that:

- (1) for his proposal to cover costs at least 7 of these 29 Platinum customers must choose to pay the additional \$12,800 for Confirm (as Platinum rather than Gold subscribers), and
- (2) the Platinum fee under his proposal would have to be increased to \$45,400 to achieve his 127.3 percent cost coverage, if one were to assume that the 29 subscribers were to choose to reduce their fees by becoming Gold subscribers.

Please confirm that the Commission, concerned about a loss of revenue when customers choose the cheaper Gold subscription, might increase the Platinum fee above the fee proposed by witness Callow, so that \$19,500 may not represent the maximum increase for First-Class Mail Confirm users if the current fee design is retained. If you do not confirm, please explain.

RESPONSE:

I confirm that the Commission could increase the Platinum fee above that proposed by witness Callow. I also confirm that the Commission could lower the Platinum fee below that proposed by witness Callow. I also confirm that the Commission could eliminate the Platinum fee, as I recommend.

Your original question asked me about witness Callow's proposal for a 95% increase in the subscription charge for platinum users. My answer assumed that the increase was 95% just as you asked. This represents a maximum increase compared to the Postal Service's proposal which has no maximum associated with the rates offered to current platinum subscribers. My original answer and your references to Witness Callow's responses to interrogatories referenced for the first time in this question appear to have nothing in common.

My recommendation to the Commission is that it should be less concerned about the loss of, at most, a little over \$1 million in revenue (\$1.52 million less \$0.36 million (\$2,000 x 180 (the number of existing subscribers))) and worry more about the big picture – the need to add value to First Class, maintain First-Class presort

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volumes, and monitor actual mail delivery times to make sure that First-Class service is exactly that.