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

POSTAL RATE AND FEE CHANGES

Docket No. R2006-1

**Reply Brief Of
Major Mailers Association**

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Major Mailers Association (MMA) hereby submits its reply brief on issues relating to the rates for First Class presort mail and selected special services.¹

MMA has received and reviewed initial briefs (IB) filed by several parties who address issues regarding First Class presort rates.² MMA and other First Class presort mailers generally support the specific discounts proposed by the Postal Service and its innovative delinking proposal. See MMA IB at 1, 4, 11-19; ABA IB at 13; NAPM-NPPC IB at 2; PB IB at 26-27; USPS IB at 178-82, 195-200.

For the most part, MMA and other proponents of delinking have anticipated and already responded to arguments raised by APWU and OCA, the only two parties who oppose the Postal Service's delinking proposal and offer alternate, much lower First Class presort discount proposals. Accordingly, in the interests of brevity, we will refer the Commission to the relevant portions of the initial briefs filed by MMA and others where appropriate.

Of course, MMA could not anticipate certain parties' misstatements of material facts, obvious mischaracterizations of MMA's positions on the issues, and outright mistakes. A prime example of such errors comes from the Postal Service, MMA's "ally" on issues concerning First Class presort discounts. The Postal Service (IB at 250) incorrectly alleges that "despite . . . declarations of fidelity and allegiance to the Postal Service's de-linking approach to rate design" MMA witness Bentley "can[not] resist the urge to propose that workshare

¹ On December 21, 2004, MMA filed two initial briefs. one on issues regarding First Class presort rates (**MMA IB**) and one dealing with selected special service issues (**MMA SSIB**)

² MMA has carefully reviewed initial briefs ("IB") filed on behalf of the following parties: American Bankers Association (ABA), American Postal Workers Union (APWU), National Association of Presort Mailers and National Postal Policy Council (NAPM-NPPC) Office of Consumer Advocate (OCA), Pitney Bowes, Inc. (PB) and the United States Postal Service (Postal Service).

discounts be further increased.” See also Postal Service IB at 253 (claiming that MMA’s proposal to use Metered Mail Letter costs as the benchmark from which to measure workshare **cost savings** “would conveniently expand the workshare **discounts**” (emphasis added). Such allegations are patently false. There is **absolutely nothing** in Mr. Bentley’s testimony, exhibits, library references or elsewhere in the record that supports that charge. In fact, Mr. Bentley stated very clearly in the summary of his testimony that “I support the specific workshared rates proposed by the Postal Service”. MMA-T-1 at 2. He also **specifically declined** to “tinker . . . with small rate changes that could upset the break-even equilibrium that the Postal Service has worked so hard to achieve in this case. MMA-T-1 at 11. See also MMA IB at 5 and particularly page 7 where MMA stated: “Mr. Bentley’s very conservative cost savings analysis would support higher workshare discounts than those proposed by the Postal Service. **Nevertheless, MMA continues to support the specific, lower discounts proposed by the Postal Service**” (emphasis added)). For the record, MMA reaffirms here and now that it is not wavering from its consistent support for adoption of the specific First Class workshared discounts proposed by the Postal Service.³ Finally, MMA’s position did not result from blind “allegiance” to the Postal Service. Before supporting delinking and the Postal Service’s specific presort discounts, MMA witness Bentley completed a thorough, independent assessments of principles embodied in delinking, the workshare costs savings both under delinking and more traditional methods and confirmed that despite the name, delinking would maintain existing relationships between the presort and single piece categories for the foreseeable future.

Nor could MMA anticipate that some parties would simply deny that evidence contradicting their positions even exists. Once again, the Postal Service provides the prime example, asserting (IB at 21 (emphasis added) that

³ As discussed in MMA’s initial brief, witness Bentley’s cost savings analysis provides a more rational and reasonable assessment of, and support for, the specific First Class workshared discounts proposed by the Postal Service. All of the percent passthroughs are well under 100%, clearly satisfying the legal requirements of the new law passed by Congress. But there is a world of difference between deriving realistic measures of workshared **cost savings** and, as the Postal Service erroneously claims, proposing even higher **discounts** based on those cost savings. MMA IB at 21-23).

“[t]he **only** challenge to IOCS methods came from the National Newspaper Association (NNA) regarding cost estimates for Within-County Periodicals.” **Not true!** In testimony (MMA-T-1 at 19-21, 35; Exhibit MMA-1A) and on brief, MMA has taken issue with the Postal Service’s IOCS redesign, pointing out that IOCS “redesign” had the effect of artificially and without explanation shifting \$146 million of costs to First Class. Moreover, as MMA witness. Bentley explained, the lion’s share (\$107 million) of this inexplicable cost shift was imposed on First Class workshare mailers:

My analysis indicates that, but for IOCS redesign and assuming no shift from single piece to workshared letters, attributable costs for First-Class letters would have been lower by \$146 million -- \$39 million for single piece and \$107 million for presorted letters. See Exhibit MMA 1A. This factor alone, which is totally independent of worksharing, nevertheless serves to reduce derived workshared costs savings simply because presorted letter costs increase much more (6.2%) in relation to the benchmark MML costs (-.2%).

MMA-T-1 at 21. The Postal Service’s failure to even **mention** that MMA complained about the adverse impact of IOCS redesign on derived workshare cost savings is a continuation of its efforts to frustrate MMA’s diligent efforts to get to the bottom of the issue. See MMA-T-1 at 19-20.⁴

There is at least one more preliminary matter that needs to be addressed. Some parties have suggested that the Commission’s recommended decisions in R2001-1 and R2005-1 provide precedential support for their positions. For example, after noting that the Commission adopted the BMM benchmark in R97-1 and R2000-1, the Postal Service adds (IB at 195 fn 22) “[a]nd was offered no compelling basis for re-examining the issue in Docket Nos. R2001-1 and R2005-1.” In a similar vein, discussing the QBRM discount, the Postal Service confuses matters by attempting to convert consistency with its own **position** in R2001-1 and R2005-1 with consistency with Commission **decisions** in those

⁴ The Postal Service first claimed that the IOCS redesign made comparisons of FY 2005 costs with costs for prior periods inappropriate. See Tr. 4/603-04. Now, in a stunning about face, it claims that such comparisons are not only possible, but relevant and material. See Postal Service IB at 221. This only confirms that MMA had good cause to be extremely skeptical and troubled by the Postal Service’s obscure explanations regarding the impact of IOCS redesign on First Class.

cases. Thus, the Postal Service avers (IB at 231-32) that the method it has proposed for measuring QBRM cost savings is consistent with the Commission's R97-1 decision and the method the Postal Service *proposed* in R2001-1, R2005-1 and this case, then accuses MMA witness Bentley of "expanding the QBRM cost analysis *beyond this accepted precedent*." USPS IB at 232 (emphasis added). Contrary to the Postal Service's suggestion, there is absolutely no "precedential" effect to methods it proposed in R2001-1 and R2005-1 because both cases were settled. Indeed, the Postal Service's suggestion that its position is consistent with the Commission's decisions in those cases is contrary to the specific terms of the settlements drafted by the USPS and approved by the Commission.

Argument

I. **There Is No Merit In Criticisms Of Delinking**

APWU and OCA are the principal opponents of the Postal Service's delinking proposal. APWU and OCA try but fail to support positions by claiming that adoption of the Postal Service's delinking concept will unfairly shift costs from First Class workshared mailers to single piece mailers, result in "excessive" discounts for workshared mailers,⁵ sever the existing relationship between First Class single piece and presort rates, and constitute an end run around the Commission's recommended decision in MC95-1 by conferring **de facto** subclass status on presort mail. APWU also charges that delinking is unlawful.

Before discussing the specific demerits of APWU's and OCA's arguments against delinking, it will help the Commission to clarify and delineate areas where no significant controversy exists and identify areas that are very contentious. Speaking for itself, MMA agrees with the general principle that over the long term First Class presort discounts should be designed to pass through no more than 100 percent of avoided costs. Indeed, in this case, MMA witness Bentley went further and supported the specific discounts proposed by the Postal Service even though his very conservative cost savings analysis for delinking showed that the

⁵ APWU and OCA advance similar claims when it comes to issues regarding their preferred workshared cost savings methodologies.

Postal Service's discounts would result in passthroughs ranging from 57% to 85%, well below the 100% standard. MMA IB at 22, Table 5. Table 6 (MMA IB at 25) shows that, under traditional methods, the percent passthroughs range from 57% to 96%. Accordingly, MMA has no quarrel with APWU or OCA on this score.

The problems with APWU's and the OCA's views on the issues is that they are using the wrong yardsticks to measure workshared cost savings. Accordingly, in considering charges of excessive discounts and unfair cost shifts, the Commission must keep in mind that the views of APWU and OCA are misguided by their own overly narrow and restrictive views of relevant workshare cost savings.

APWU's proposal to reduce discounts dramatically, essentially rolling back presort discount to pre-MC95-1 levels, places heavy reliance upon the "calculations" of its witness, Kathryn Kobe. Indeed, APWU repeatedly crows that "no one disputed the accuracy of her calculations" and "[h]er calculations of the rates presented are unquestionably correct, inasmuch as none of the several witnesses who responded to Ms. Kobe's testimony at the policy level questioned her calculations." APWU (IB at 10 fn 2, 20 fn 6)

Accurate calculations do not count for anything if the principles, analysis and judgments regarding relevant factors and policy choices that underpin those calculations are flawed. As the record shows, Ms. Kobe's "calculations" are fundamentally flawed because the foundation for them is not solid.

Ironically, Ms. Kobe's biggest mistake has nothing to do with her derivation of workshared cost savings. Ms. Kobe failed to take into account the impact of her presort discount proposals on workshare mailers and the financial well being of the Postal Service. APWU proposes to roll back presort discounts to pre-MC95-1 levels. MMA IB at 47 fn 37. APWU apparently believes that discounts can be lowered with impunity because either (1) despite steep reductions in discounts both in absolute and relative terms, presort mailers will continue to participate in the workshare program, or (2) if presort mailers stop worksharing and must pay the full single piece rate, they will still continue to

perform all the beneficial functions that today provide the Postal Service with significant cost savings.⁶ If so, this is just wishful thinking on APWU's part. In any event there is no record support for such beliefs.

APWU has a very naive view of the presort mail market. Gone are the days when the Postal Service could exercise monopoly powers because bills and other financial documents had to be sent First Class and business mailers had no viable alternative means of delivering these documents. Mailers now have many more choices and the Postal Service's grip on their business has weakened. See MMA IB at 49-51. Very high volume mailers such as Verizon and CSG Systems place a high value on the First Class mail applications they use. But like many other presort mailers, they operate in highly competitive markets and, as a matter of sound business practice, must control all costs, **including postage**. First Class mail is a useful tool for them but mail is not their core business or a profit center. Accordingly, presort mailers cannot and will not simply sit on their hands if APWU's proposal to roll back workshared discounts is adopted. They will react by making even greater use of readily available, lower cost electronic document delivery and payment systems that are not subject to the financial and regulatory risks associated with mail. Moreover, large mailers like Verizon and CSG Systems' clients have the ability and resources to give the consumers they serve **much greater** incentives to switch from mail to Internet-based billing and payment procedures. The record indicates that this is exactly what these large workshared mailers will do if discounts were to be significantly lowered. Tr. 38/13169,13194-95.

Another fatal flaw in APWU's case for dramatically lower presort discounts involves Ms. Kobe's choice to base her cost savings analyses and rate recommendations on the Postal Service's attributable cost methodology. As discussed in MMA's Initial Brief (at 52-53), Ms. Kobe made and defended several

⁶ Part of APWU's thinking seems to be that mailers will perform these functions because they want to get "better service." Workshared mailers want to believe the Postal Service's perennial promises of "better service" whenever it proposes new, complex and expensive changes to the qualification requirements. However, as MMA witness McCormack testified, Verizon "seeds" its mail and has found that the Postal Service does not meet applicable service standards **about 50% of the time**. Tr. 38/13179-180.

of her methodological choices based on whether they conformed with Commission policies and precedent. Therefore, her decision to base her cost savings on USPS attributable costs rather than the Commission’s attributable costs stands out as a methodological “sore thumb.” Ms. Kobe’s choice in this regard had a **material** impact on the cost savings she derived, as MMA demonstrated (IB at 53, Table 16 (Columns 5 and 6)). That table shows that using PRC attributable costs could increase her derived unit cost savings by 1.0 to 1.8 cents, **an increase of between 26 and 31 percent.**⁷ This does not represent a minor glitch in APWU’s case for **dramatically** lower presort discounts. It calls into question APWU’s ability to fund its related proposal for a 41 cent First Class basic rate, and most certainly reduces her “Step 2” proposed presorted first ounce rates.⁸

As MMA explained in its Initial Brief, there are other errors associated with Ms. Kobe’s cost analysis. First, she relied on cost models that derived unit costs for prebarcoded letters that, inexplicably, are higher than the unit costs for letters that are not prebarcoded. MMA IB at 37, Table 9. The proof of this inconsistency is shown **and highlighted** in Table 1:

**Table 1
Comparison of NonAutomation, Machinable Mixed AADC (NAMMA)
and Automation Mixed AADC (MAADC) Letter Unit Costs
(Cents)**

First Class Category	Worksharing Related Unit Cost		
	USPS	APWU	MMA
NAMMA	4.57	5.72	8.12
MAADC	4.68	5.82	4.81
Prebarcode "Savings"	-0.11	-0.10	3.32
Source: Document Page Number	USPS-LR-48 Page 2	APWU-LR-1 Page 3	MMA-LR-1 Page 3

⁷ Table 16 in MMA’s Initial Brief also reflects use of the Postal Service’s cost pool classifications.

⁸ If APWU’s “Step 2” presort rates were reduced, as they certainly would be with a 100% passthrough of cost savings derived using the Commission’s attributable costs, then the new “Step 1” rates, would likewise be lowered. Thus, there is a good possibility that even with APWU’s overly optimistic volume projections, the increased revenue from the alternative “Step 1” presort rates would not be sufficient to justify a 41 cent basic First Class rate.

Table 1 illustrates the incredibly illogical results that Ms. Kobe incorporated by simply adopting the Postal Service's mail flow model results **and** failing to correct for the very obvious understatement of RBCS costs. NAMMA letters and MAADC letters are similar in the sense that both are presorted to the same degree. However, there is also a **crucial** difference between NAMMA and MAADC letters. NAMMA letters do not include a barcode and, therefore, **require** RBCS processing. In contrast MAADC letters bypass the RBCS because they are **prebarcoded**. Ms. Kobe asks the Commission to believe that NAMMA letters costs 0.1 cents **less** to process than MAADC letters.⁹ This outrageous result can be traced directly to her adoption of USPS witness Abdirahman's use of one, single CRA Proportional Adjustment factor to reconcile all presorted letters to the CRA. That uninformed decision causes her to understate Nonautomation letters unit costs and, at the same time, overstate Automation letter unit costs. MMA has already discussed the consequences of the Postal Service's failure to accept Mr. Bentley's criticism that the mail flow models severely understate RBCS costs. See MMA IB at 33-38. We also note that the Postal Service and APWU completely ignored this criticism in their initial briefs.

In contrast, MMA witness Bentley's cost analysis shows that NAMMA letters cost 3.32 cents more to process than MAADC letters. Such a result is reasonable and entirely consistent with the different cost-causing attributes of these two types of letters. Further, this proves just how flawed the models are with respect to understating RBCS costs. Mr. Bentley takes these critical considerations into account by using two CRA Proportion Adjustment factors to reconcile the model derived cost to the CRA – one of letters that **require** RBCS processing (such as NAMMA) and one for letters that **bypass** the RBCS (such as MAADC).¹⁰

⁹ It is completely unreasonable to expect, as both APWU and the Postal Service do, that prebarcoded MAADC letters, which bypass the RBCS, cost more to process than NAMMA letters, which are not prebarcoded and, therefore, must go through the RBCS in order to have a barcode applied.

¹⁰ In rebuttal testimony, USPS witness Abdirahman foolishly characterized Mr. Bentley use of two CRA adjustment factors as "tortuous." On brief, the Postal Service admits (at 184) that in the past its witnesses, including Mr. Abdirahman, have used two the mail processing cost models have used two CRA adjustment factors.

Ms. Kobe did not make any adjustments to reflect this obvious shortcoming and, in a cavalier attitude, seemed to accept this obvious error with no regard whatsoever. For example, when asked to focus on this problem, she stated that the models indicated that “a higher percentage of the auto MAADC letters are being manually processed than are the NonAuto mixed AADC letters and that a smaller percentage of them end up in DPS.” Since NonAuto letters are not prebarcoded and not necessarily machinable, such a conclusion is ridiculous on its face. Yet Ms. Kobe found no problem with relying upon such results with no specific adjustments.

In another instance, Ms. Kobe exhibited the same cavalier attitude: (Tr. 20/7123)

Q. Please confirm that, according to your cost analysis, it costs the Postal Service more to process Auto MAADC letters that include a prebarcode than NAMMA letters, which have to be barcoded by the Postal Service. If you cannot confirm, please explain.

A. The models indicate that a higher percentage of the auto MAADC letters are being manually processed than are the nonauto mixed AADC letters and that a smaller percentage of them end up in DPS.

In the **real world**, prebarcoded Auto MAADC letters are not processed manually more often than Nonautomation MAADC letters that need to be read and barcoded by the Postal Service within the RBCS. In fact, Ms. Kobe, compounded her error by ignoring the obvious understatement of RBCS processing costs as simulated by the models. She failed to properly apply separate CRA Proportional Adjustment factors, depending upon whether letters required RBCS processing (such as NonAutomation and BMM letters) or whether letters bypassed the RBCS (such as Automation letters). As a result, she end up with nonsensical results showing, for example, that BMM letters cost almost 4 cents more to process than similar NAMMA and Nonautomation letters, and that NAMMA and Nonautomation letters cost about the same to process as Automation MAADC letters. MMA IB at 42, Table 12.

Finally, Ms. Kobe erred in selecting the method she used to estimate workshared cost savings due to delivery operations. She used a workshared category, Nonautomation letters, as the benchmark. As we explained (MMA IB at 46), it simply is not possible to properly isolate and estimate workshared cost savings between two letter categories if both categories include some of the cost sparring attributes of worksharing. Such comparisons effectively stack the deck against presort mailers.

Correcting these additional problems associated with Ms. Kobe's cost analysis would increase her derived workshare cost savings even further.

Contrary to APWU's position (IB at 12-15), there is nothing unlawful about delinking. APWU's entire argument on this score is based on general statements from the legislative history of the Postal Reform Act regarding universal service and delivery in rural areas, provisions of the Act and one court decision to the effect that rates must be fair and equitable. None of these "authorities" directly addresses or provides any support for APWU's legal arguments. Moreover, substantial record evidence demonstrates that presort rates based on the principles of delinking will not adversely affect single piece mailers. In fact, MMA's analysis shows that delinking will maintain the existing relationship between single piece and presorted rates for the foreseeable future.

For all these reasons, the Commission should embrace delinking and recommend the specific presort discounts proposed by the Postal Service. The Commission should rely upon MMA witness Bentley's careful, **conservative** cost savings analysis as support for those discounts. See MMA IB at 21-23; MMA-T-1 at 6-10 and App I.

II. The Bulk Metered Mail Benchmark No Longer Serves Any Useful Purpose And Produces Artificially Low, Unreasonable Workshare Cost Savings

The Bulk Metered Mail (BMM) benchmark is a concept whose time has come **and gone**. Time and significant technological changes have rendered continued use of the BMM benchmark (1) unfair and unduly prejudicial to First Class workshared mailers because its use artificially reduces derived workshared cost savings, and (2) fosters unwise postal policy because an unnecessarily

narrow view of workshared cost savings only serves to drive highly profitable First Class presort letter volumes from the postal system to more cost effective electronic alternatives.

MMA and several other parties have explained in detail why BMM no longer is a useful or representative benchmark. See MMA IB at 6-7, 11-14, 15-20, 24-30; MMA-T-1, Appendix (App) I at 2-4. USPS IB at 195-96.

APWU (IB at 15-19) and OCA (IB at 7, 98-103)¹¹ argue that the BMM benchmark should be retained. In contrast, the Postal Service's position on the issue of an appropriate benchmark for determining workshared cost savings is somewhat schizophrenic. USPS witnesses Taufique, Thress and Bernstein all provided very sound reasons why BMM should no longer be used as the benchmark. See MMA IB at 6, 12, 13 fn 9, 15-20; USPS IB at 33-34, 57, 195-200. The Postal Service relies upon this testimony in support of its delinking proposal but then argues (IB at 253) that, if the Commission does not accept its delinking proposal, BMM is the "only" available benchmark.

APWU and the OCA both rely heavily upon the rebuttal testimony of USPS costing witness Abdirahman to support their claims that BMM is the only appropriate benchmark.¹² Such reliance is misplaced for several reasons. First, as discussed in MMA's Initial Brief (at 28 fn 19), USPS witness Abdirahman only *appeared* to contradict the seminal testimony of USPS pricing witness Taufique on this issue. During cross examination by counsel for Pitney Bowes, he clarified that he did not necessarily endorse using BMM as the benchmark if delinking was rejected by the Commission and that his "position" was simply that

¹¹ In a related argument, OCA asserts that it is unnecessary to provide presort mailers with what it characterizes as lower discounted rates to meet goals of economic efficiency. See OCA IB at 104-108). OCA's reliance upon the testimony of MMA witness Gorham is misplaced and misleading. CSG Systems witness Gorham did not "threaten" the Postal Service or anyone else as OCA implies (IB at 99).

¹² OCA has not presented any independent evidence supporting retention of the BMM benchmark. OCA witness Thompson claimed she was not a cost witness, simply relied on the summary sheet provided in USPS-LR-141 for which there is no sponsoring witness, and could not answer even the most basic questions regarding the figures incorporated into the summary sheet that she based her entire proposal on. See MMA IB at 51.

BMM has already been litigated - “that’s all I was saying. That was my whole point.” Tr. 35/12051-52.¹³

Second, Mr. Abdirahman’s claim that the BMM benchmark issue has already been litigated relied on the Commission’s statement from R2000-1 that BMM is the most likely type of single piece letters to shift to presorted. Thus, when asked if there was any basis to assume that BMM is the type of single piece letters most likely to shift from single piece to bulk, Mr. Abdirahman first tried to rely upon the Commission’s statements in PRC Op. R2000-1. When Mr. Abdirahman was pressed and asked for *his* opinion if the apparent maturation of the presort rate category may have overtaken the Commission’s observations in PRC Op. R2000-1, Mr. Abdirahman would not give his expert opinion. Instead, he *quite properly* bucked the question to Mr. Taufique, the USPS pricing witness who already testified in his direct testimony that BMM no longer is the most likely type of single piece letter to shift to presort. Tr. 35/12005-06. Subsequently, Mr. Abdirahman was asked if he would defer to witness Taufique on the issue whether BMM was still the appropriate benchmark. He answered, “the benchmark [question] has shifted from me to Altaf Taufique, Witness Taufique.” Tr. 35/12052. Accordingly, a full review of Mr. Abdirahman’s cross examination testimony demonstrates beyond cavil that there is no merit in APWU’s claim (IB at 16-17) that during cross examination Mr. Abdirahman “twice” reiterated the conclusory views expressed in his rebuttal.

Third, contrary to APWU’s claim (IB at 17), Mr. Abdirahman’s personal observation of “hundreds” of trays of BMM does not prove anything. Mr. Abdirahman was remarkably uninformed about this mail. For example, he did not know whether the mail came from one or several mailers, what type of mailer(s) entered the mail in question, where it was entered, how it was entered,

¹³ Mr. Abdirahman’s claim (Tr. 35/11952) that BMM should be used because it has been litigated in three cases is wrong and misleading. First, using BMM as the benchmark was not litigated in MC95-1. The Commission merely suggested that the Postal Service consider using BMM as the benchmark. PRC Op. MC95-1 at IV-136. No party objected to using BMM when it was first introduced in R97-1. As Mr. Bentley explained, it was not a contentious issue in that case. Tr. 21/7849-51. In R2000-1, MMA and other parties strenuously but unsuccessfully objected to the use of BMM as the benchmark. The following two cases, R2001-1 and R2005-1, were both settled so, by definition, the issue was not “litigated” in those cases.

when it was entered, whether or not this was an every day occurrence and, most importantly, whether this mail was even a candidate for conversion to presort mail. Tr. 35/12009-12013. In this last regard, the Commission should recognize that, as Mr. Abdirahman conceded (Tr. 35/12012-12013), some BMM always has been and will continue to be entered at the full rate regardless of the level of workshared discounts offered for meeting the myriad difficult pre-qualification requirements imposed by the Postal Service.

Fourth, random sightings of BMM simply cannot provide the substantial evidence required to support use of BMM as the benchmark mail piece for measuring cost savings that will be used to set rates covering almost **50 billion** presort letters. OCA recognizes (IB at 100) “[t]he Commission has used the BMM benchmark because it represents the mail most likely to either convert to or from presort mail.” The record in this case shows beyond question that this **indispensable** functional linkage between BMM and presort mail no longer exists. Today and in the future, the small amount of mail being converted from single piece to presort has the characteristics of average single piece mail, not the hypothetical characteristics assumed for BMM. Indeed, the growth, if any, in presort letter volumes comes primarily from very high volume mailers like CSG Systems and Verizon who increase their use of presort mail when they expand existing business or enter into new business ventures made possible by rapid technological changes, especially in the last ten years. The explosive growth in cell phone usage is a good example of this growth. Not so many years ago, cell phones were expensive and therefore used by relatively few consumers. As the result of rapid technological change, however, the price of cell phones and service plans has plummeted, making them much more affordable. Today, cell phones are ubiquitous, indispensable instruments. As cell phone usage exploded, companies like Verizon and many clients of CSG Systems increased their use of mail for bill presentment and payment systems. These incremental mail volumes did not come from conversion of BMM or other single piece mail to

presort. They came as existing workshared mailers succeeded in expanding their businesses, as MMA witness Bentley testified.¹⁴ MMA-T-1, App. I at 2 fn 1.

Moreover, it is indisputable that the advent and rapid acceptance of electronic alternatives to traditional paper-based bill presentment and payment methods make it increasingly unlikely that large volumes of presort mail will simply “revert” to single piece and pay the full rate if the Commission is unwise enough to adopt APWU’s proposal which amounts to a roll back of presort discounts to pre-MC95-1 levels.¹⁵ See MMA IB at 19-21. For these reasons, the principal justification for using BMM as the benchmark simply is not relevant in today’s fully mature workshared mail market. See MMA IB at 6.

As for the Postal Service’s two faced position on the benchmark question, the simple answer is that the Postal Service cannot have it both ways. USPS witness Taufique, the Postal Service’s principal pricing witness, specifically testified that BMM no longer represented the type of letters that were most likely to convert to First Class Presort or the type of letters to which Presort letters would revert if presort discounts were reduced or eliminated. See Tr. 16/4932-3, 4937, 4939, 4946-7, 5039; Tr. 38/13346-49, 13372-73. Mr. Taufique testified further that his position was that, if one were to measure cost savings, the most

¹⁴ APWU argues (IB at 18) that no presort mailers provided “any evidence of the makeup of the mail they presort.” Contrary to APWU’s arguments on this score, it is obvious from the testimony of Verizon witness McCormack and CSG Systems witness Gorham that the very high volumes of mail they presort are almost exclusively high quality letters that they create from scratch in furtherance of Verizon’s core businesses and those of CSG System’s clients. Tr. 38/13162-163, 13187-191. APWU’s attempts to discredit or marginalize NAPM witness Bell are just plain foolish. Her cogent testimony is entirely consistent with, and provides even further support for, USPS witness Taufique’s conclusion that average single piece letters, not BMM, is the type of mail being converted to presort.

¹⁵ OCA’s proposed workshared discounts are almost identical to those proposed by APWU. See MMA IB at 9 (Table 2) but would apply to letters weighing up to 4 ounces. MMA members such as Verizon and CSG Systems welcome the meaningful reduction in the additional ounce rate proposed by the Postal Service. The 15.5 cent additional ounce rate for presort letters will bring the rate into better (but still far from perfect) alignment with the very minimal cost that additional ounces impose on the Postal Service. It will also serve to discourage presort mailers’ practice of sending out two letters – a one ounce First Class letter and a separate Standard letter – when the total content exceeds one ounce. See MMA IB at 57-58. In contrast, under the OCA’s proposal, presort mailers would pay a much higher first ounce rate in order to finance not only the reduction in the additional ounce rate they pay but also the much more expensive reduction in rates paid for much heavier and more numerous single piece letters. *Id.* Accordingly, the OCA’s proposal to increase the first ounce rate for presort is a trade off that is far too expensive and disruptive for presort mailers.

appropriate benchmark would be average single piece. Tr. 16/4932-3, 4937, 4939, 4946-7, 5039. Moreover, as the Postal Service correctly points out (IB at 196) Mr. Taufique's testimony is consistent with the testimony of NAPM witness Bell and PB witness Panzar. All of this evidence is every bit as applicable and probative under a more traditional cost savings approach as it is under the Service's (**and MMA's**) preferred delinking approach.

Finally, there is no basis for concluding that the derivation of BMM unit costs for either processing or delivery are accurate enough to base presorted rates upon. The CRA develops costs separately for First-Class single piece letters, metered mail letters (MML), Nonautomation letters and Automation letters. Now that the Postal Service has repudiated the separately obtained costs for Nonautomation and Automation letters, there are only three categories for which accurate data are available: single piece, MML and Presorted. No party, including APWU has offered the Commission a BMM unit cost that is both accurate and reliable.¹⁶

For all the foregoing reasons, the Commission should find that BMM is no longer a representative benchmark mail piece, that BMM derived costs are not sufficiently accurate, that using BMM produces an overly restrictive measurement of workshared cost savings, and that using BMM in worksharing cost analyses produces First Class presort rates that are **not** fair and equitable.

III. There Is No Merit To The Postal Service's Criticisms Of MMA's Cost Pool Classifications

MMA witness relied upon Pitney Bowes witness Buc's analysis and classification of mail processing cost pools. See MMA IB at 13-14. The Postal Service (IB at 250-255) takes issue with the way in which Messrs Buc and Bentley have classified the cost pools.

¹⁶ In this regard, MMA finds it more than just "curious" that as a result of IOCS redesign, First-Class Single Piece and Presorted unit costs increased 2.0% and 6.2%, respectively between FY 2004 and 2005. At the same time, the unit costs for First-Class MML, used to estimate BMM costs, **decreased** by .2%. MMA-T-1 at 20, Table 8. This is just another reason for the Commission to be suspicious about the Postal Service's implementation of IOCS redesign, as discussed, **supra**, p.2.

In the interest of brevity and administrative efficiency, MMA will let Pitney Bowes take the lead role on this issue. However, we do have to set the record straight insofar as the Postal Service's has made incorrect statements about MMA witness Bentley's methodology ***and its own method***.

The Postal Service (IB at 253) alleges, without citations or any further discussion, "the classifications used by witness Bentley do not even correspond to those he has relied upon as a MMA witness in past dockets." This statement simply is not correct.¹⁷ In R2000-1, the last litigated case, he recommended that all cost pools should be left in the workshare cost savings analysis, precisely the position he has taken in this case (MMAT- 1, App. I at 6-10). See. R2000-1, Testimony Of Richard E. Bentley On Behalf Of Major Mailers Association, Exhibit MMA-T-1, p. 16 where, under the heading "**The Commission Should Not Remove Relevant Costs Pools From The Cost Savings Analysis**" (emphasis in original), he opposed USPS witness Miller's proposal to exclude 22 MODS cost pools from the analysis. At pages 12-13 of that same testimony, he stated:

Rather than accepting USPS witness Miller's proposal to disaggregate cost pools into three categories, i.e., workshare-related (proportional), workshare-related (fixed) and non-workshare related (fixed), ***I utilized the Commission's method from Docket No. R97-1 encompassing just the first two categories.***
(Emphasis added)

Indeed, Mr. Bentley testified in this case "[t]here are sound reasons to include ***all*** cost pools in the cost savings derivation. As discussed in my R2000-1 direct testimony, the arguments I provided in opposition to removing any cost pools are still valid. " MMA-T-1, App I at 6 (emphasis added). Accordingly, the Postal Service's allegation is false. Similarly, the Postal Service's claim (IB at 252) that "Mr. Bentley also admits his analysis was somewhat arbitrary" is flat wrong. The

¹⁷ We assume that the Postal Service is **not** referring to R2001-1, ***in defense of the proposed settlement***, when Mr. Bentley used the Postal Service's cost pool classifications, purely as a matter of convenience and to spare litigation costs for MMA in connection with a challenge by APWU and because cost pool classification issues did not need to be litigated. Any such reference would violate the terms of the Settlement approved in that case and must be disregarded by the Commission.

accompanying citation does not contain any such admission. In any event, Mr. Bentley affirms that he never made any such “admission.”

Speaking of inconsistencies and misleading statements, however, the Postal Service’s claim (IB at 252) that the Commission’s analysis in R2000-1 supports USPS witness Abdirahman’s position in this case is inaccurate and misleading. In R2000-1, the Commission used 3 cost pool categories. Mr. Abdirahman uses only 2 categories. Moreover, Mr. Abdirahman has changed the definition of “proportional.” In R2000-1, it measured the cost changes due to **worksharing**. In this case under delinking the word “proportional” pertains only to cost changes due to the **degree of presort**. This is a fundamental difference between delinking and the traditional method for workshared deriving cost savings.

Equally inaccurate and misleading is the Service’s assertion (IB at 252-53) that “[I]f a given cost pool contains tasks that are included in the mail flow models, that cost pool is classified as proportional. If not, that cost pool is classified as fixed. That same principle holds true in this case.” Simply not true. In this case, Mr. Abdirahman uses the term “proportional” to signify cost pools that were modeled. He conceded that cost pools that were not included in his models could be “proportional” but he simply did not study them. Tr. 4/580. Certainly, cost pools not reflected by the model may be “proportional,” and similarly, “proportional” cost pools do not always have to be reflected by the models. These considerations serve to refute the Postal Service’s criticisms (IB at 250-51) of PB witness Buc’s determination of which cost pools are proportional to presort level and which are not.

IV. There Is No Merit In The Postal Service’s Proposal To Exclude Delivery Cost Savings From The Workshared Cost Savings Analysis

The Postal Service (IB at 185, 255-56) devotes a few paltry paragraphs to a crucial issue – its proposal to eliminate delivery cost savings from the workshare cost savings analysis. In contrast, the Postal Service has devoted a full **six pages** of its brief taking MMA witness Bentley to task for alleged errors in

the way he has calculated unit delivery cost savings due to worksharing. The Postal Service's lack of balance is astounding.

Basically, the Postal Service's whole argument boils down to unsupported claims that it is rejecting its longstanding, consistent practice of recognizing that worksharing has a definite, positive effect on delivery costs because "the past methodology [is] lacking a sufficiently reliable foundation" and, according to USPS witness Abdirahman "there is no conclusive evidence to suggest that the DPS percentages actually vary among the machinable rate categories. USPS IB at 185. The Postal Service "bolsters" these self-serving conclusory statements with charges that MMA and others have produced "specious" and "suspect" delivery cost savings due to worksharing because they had the temerity to rely upon the Postal Service's consistent past practice. USPS IB at 255.

MMA (IB at 43-46) anticipated and has already addressed the many flaws in the Postal Service's proposal. See also PB IB at 11-14. Therefore, there is no need to address this matter further. Suffice to say that the Postal Service has provided no, much less substantial, evidence sufficient for the Commission to wipe out in one fell swoop under the "traditional" cost saving method an average of 3.38 cents per piece or 32% of the total worksharing unit costs savings – totaling a whopping \$1.63 billion of cost savings that accrue to the benefit of the Postal Service thanks to the efforts of workshare mailers.¹⁸ These computations of the impact under delinking and the "traditional" method are based on data provided in Library References MMA-LR-1 and MMA-LR-2 and the tables that derive these figures are provided in Appendix A.

V. MMA Witness Bentley's Derivation Of Unit Delivery Cost Savings Is Very Reasonable And Eminently Fair

In an amazing display of arrogance and ignorance, the Postal Service (IB at 256-262) attempts, but fails utterly, to discredit MMA witness Bentley's derivation of delivery cost savings that result from worksharing. From the rambling analysis presented by the Postal Service in *six full pages*, it is

¹⁸ Under delinking, adoption of the Postal Service's proposed elimination of delivery cost savings would wipe out an average of 0.31 cents per piece or 9.3% of total worksharing unit cost savings, totaling over \$143 million in delivery cost savings.

abundantly clear that the Postal Service simply does not understand the simple procedure Mr. Bentley followed, which took MMA exactly **one paragraph** to explain in its Initial Brief. See MMA IB at 46-47. Perhaps the Postal Service required the extra words to write out in longhand formulas culled from its interrogatories (IB at 256), hurl false accusations at Mr. Bentley,¹⁹ and devise meaningless, derisive metaphors ("[r]ather than mixing 'apples' with 'oranges' (a practice of which he accuses the Postal Service . . .), Mr. Bentley is injecting something into the fruit bowl which is perhaps more akin to a hockey puck than to any of the spherical fruits" (IB at 259). These Postal Service tactics cannot obfuscate the important issues before the Commission.

The Postal Service's hyperbolic, logically challenged arguments say more about the Service's and USPS witness John Kelley's frustration at not being able to grasp simple concepts than they do about Mr. Bentley's method of computing delivery cost savings due to worksharing. MMA **strongly** urges the Commission to see through the Postal Service's uncalled for invective and set the record straight once and for all by accepting Mr. Bentley's conclusions, based on USPS witness Kelley's own delivery cost analysis, that worksharing saves (1) 3.77 cents for each presorted letter that is actually delivered, and (2) on average, 3.38 cents for each presorted letter that is mailed.²⁰

There is no controversy about the relevant costs and cost savings figures. Mr. Kelley has confirmed that the unit delivery cost per **delivered** letter is 8.42 cents for single piece letters and 4.65 cents for presort letters. See Tr. 12/3507-8, Tr. 21/7885. The difference in these two unit cost figures is 3.77 cents, which represents the savings between an average presorted letter and an average single piece letter **when both are actually delivered**. There is no controversy

¹⁹ According to the Postal Service Mr. Bentley "concoct[ed] a **specious** measure of unit delivery costs" (IB at 258), "fabricates a **bogus** computation" and his "attempts to **torture** a different result out of these numbers are simply an exercise in **smoke and mirrors**" (IB at 261). Emphasis added.

²⁰ As discussed further below, an "average" presorted letter incurs delivery costs only 89.6% of the time. Therefore, the workshared delivery cost savings **per originating** presorted letter, which is required to support a discount **per originating** presorted letter, is reduced as follows: 3.77 cents x 0.896 = 3.38 cents. It is this simple explanation that the Postal Service cannot seem to comprehend.

about this unit cost savings figure either. Indeed, Mr. Bentley confirmed the 3.77 cents as requested by the Postal Service. See. Tr. 21/7885-86.

Nor is there any apparent controversy about the significance of the 3.77 cents unit cost savings. The 3.77 cents cost savings per **delivered** letter represents the cost savings for each average presort letter that is mailed **and delivered** compared to an average single piece letter that is also delivered. Under this example, the presorted letter costs 3.77 cents less to deliver than the single piece letter. Certainly, even the Postal Service can understand this.

However, as Mr. Bentley explained again and again **and Mr. Kelley himself confirmed** (Tr. 12/3359), not all presorted letters incur delivery costs because, in fact, 10.4 percent of presorted letters are addressed to and placed in post office boxes.²¹ Therefore, Mr. Bentley multiplied the 3.77 cents unit cost savings by 89.6%, the percent of presort letters actually delivered, to obtain an **average** cost savings of 3.38 cents per **originating** presorted letter.²² In other words, he performed this calculation because presort letters that are not delivered **by definition** do not produce the 3.77 cents per letter delivery cost savings. To ignore this fact would have produced average cost savings per originating letter that were too high.

It is hard for MMA to understand why the Postal Service would quibble about Mr. Bentley's methodology, since his resulting unit cost saving (3.38 cents) is correctly **lower** than the Postal Service's cost saving (3.77 cents). Mr. Bentley adjusted the Postal Service's cost savings number to account for the fact that only 89.6% of presort letters is actually delivered by city or rural carriers. Had he not made this adjustment, the Postal Service would have had a legitimate claim that he overstated the average unit cost savings per originating letter and, therefore, inappropriately tried to inflate workshare discounts.

²¹ By definition, "delivery costs" are incurred only for letters that are delivered outside the office by city or rural carriers.

²² The 3.77 cent cost savings is "variable" in that for each presorted piece that is delivered, the delivery cost savings compared to a delivered single piece letter is 3.77 cents. The 3.38 cent cost savings is an average delivery cost savings per originating presorted letter, where **theoretically**, 89.6 % of that average presorted letter is delivered generating 3.77 cents of cost savings --and 10.4% of that average presorted letter does not produce any delivery cost savings whatsoever.

The Postal Service apparently cannot grasp the simple logic behind Mr. Bentley's straightforward adjustment despite Mr. Bentley's diligent efforts to explain the reasons for this simple and necessary procedure. Mr. Bentley's efforts to inform the Postal Service even included an interactive model produced in the form of an Excel file that permitted the Postal Service to see how the unit delivery cost savings change in relation to changes in the mix of single piece and presort volumes. Tr. 21/7889-90. Apparently still unable to understand the relationships involved, the Postal Service totally disregards Mr. Bentley's good faith efforts to respond to its many, mostly irrelevant questions regarding the significance of the 3.38 **average** cost savings per originating presorted letter.

The interactive model provided by Mr. Bentley responded the Postal Service's alleged problem with the conclusion that 3.38 cents worth of savings, on average, resulted when single piece letters became presorted; and that, on average, it costs 2.31 cents more per originating piece when presorted letters reverted to single piece. This model proved, **mathematically**, that the 3.38 cent average savings and 2.31 cent average surcharge were perfectly logical and consistent with one another. The Postal Service must have misunderstood this mathematical proof because it certainly ignored it when it continues to complain (IB.at 260) that this relationship is "sheer nonsense". The USPS' problem is its insistence on equating the average delivery cost per originating piece with the variable unit cost per delivered piece. As proven by Mr. Bentley's model, such a conclusion is correct if, **and only if**, the percentage of originating pieces is identical for both single piece and presort. MMA recommends that appropriate staff members the Commission review Mr. Bentley's model for themselves to confirm the relationship that the Postal Service cannot comprehend.

The Postal Service charges (IB at 256-57) that Mr. Bentley utilized a "contrary to fact" assumption:

The only way he could get a single piece unit delivery cost that is 3.38 cents more than his Presorted unit delivery cost was to assume, "**contrary to fact**" that 46 percent more Single Piece is delivered (by carriers) than is actually the case. Tr. 21/7912 (emphasis in original).

The Postal Service then posits various “counter-factual scenarios” of its own (IB at 259-60)²³ and concludes with a complaint about Mr. Bentley’s alleged “exercise in smoke and mirrors.” Id. at 261. There is absolutely no merit in the Postal Service’s accusations. A review of the complete interrogatory response shows that the Postal Service’s selective use of the term “contrary to fact,” which formed the predicate for its subsequent diatribe is taken completely out of context. See Tr. 21/7885-93, 7910-14. In those responses, Mr. Bentley carefully considered each of the Postal Service’s specific questions and obviously spent a great deal of time, sadly to no apparent avail, to provide succinct and thorough explanations of the ***theoretical situations and assumptions*** posed by the Postal Service’s interrogatories.

In the ***full*** paragraph from which the Postal Service plucks and misuses the term “contrary to fact,” Mr. Bentley actually stated:

Keep in mind that my derivation of the 7.54 cents, which ***assumes, contrary to fact***, that 90% of Single Piece letters are actually delivered, is developed for only one purpose – to enable an appropriate comparison with the unit delivery cost for Presorted letters, 90% of which ***in fact*** are actually delivered. ***If the percentage of letters actually delivered for Single Piece and Presorted letters is not identical, then any comparison of the unit delivery cost per originating piece is inappropriate.***

Tr. 21/7912 (emphasis added but only to the last sentence). Obviously, Mr. Bentley was merely illustrating a point in response to the Postal Service’s question that itself was based on a ***theoretical*** comparison. The last sentence reiterates the self-evident concept that seems to have eluded USPS witness

²³ After accusing Mr. Bentley of engaging in “counter factual scenarios,” the Postal Service asks the following hypothetical question: ***and then, to add insult to injury, presumes to answer it for Mr. Bentley:***

Would he feel the same about a scenario that assumes that 26 percent of both categories are delivered, which by his methodology would yield a 0.99 unit cost difference (3.77 cents times 0.26), a figure that coincidentally also happens to be the actual unit cost difference per originating piece? In the world of counter-factual assumptions, there is nothing less “magical” about 26 percent than there is about 61 percent or 90 percent.

Such arguments are improper and irresponsible. In fact, Mr. Bentley did address the “scenario” and concluded that the 0.99 cent cost difference was “a meaningless number.” Tr. 21/7890 (response to part (e) of USPS/MMA-T1-17). See also Tr. 21/7885-86 (question and response to part (a) of the same interrogatory).

Kelley: if the percentage of single piece letters actually delivered is not *identical* to the percentage of presort letters actually delivered, Mr. Kelley's comparison of cost savings per originating piece is very "inappropriate."²⁴ Moreover, a review of the entire interrogatory and Mr. Bentley's response shows that he was simply responding to yet another erroneous assertion by the Postal Service, namely that use of a unit cost he derived in response to a different USPS interrogatory would produce total single piece delivery costs that exceed the actual costs "by over \$800 million, or approximately 46 percent" (Tr. 21/7910), a claim the Postal Service repeated in its initial brief (at 257). Mr. Bentley's patient explanation, which the Postal Service brief disregards entirely, was as follows:

Not confirmed. Your math is correct but your logic is mistaken. Your error is that, for Single Piece, you are comparing a theoretical unit cost with an actual unit cost. The result is a comparison of an "apple" to an "orange."

The 7.54 cents unit cost per originating Single Piece letter is not an actual cost because it **ASSUMES**, theoretically and **solely for the purpose of making a comparison to Presorted letters**, that 90% of the originating Single Piece volume is actually delivered. Therefore, the computation you make obviously would overstate actual delivery costs because, in reality, only 61% of First-Class Single pieces are actually delivered. There should be no surprise that your computation of the total delivery cost is high by 46% because the unit cost of 7.54 cents already assumes, theoretically, that the number of pieces actually delivered has increased by 46% from 61% to 90%.

Tr. 21/7911-12. After presenting a table that reconciled the costs in question and corrected the Postal Service's mistakes, Mr. Bentley concluded that the Postal Service's interrogatory "erroneously overstated the volume of Single Piece letters actually delivered by the same 46% that your question claims I have overstated

²⁴ The average unit cost per originating piece is, by definition, not the same as a variable unit cost. Since some portion of those originating pieces do not incur delivery costs, the average cost per originating piece will go up or go down, depending upon whether an additional originating piece is delivered or not. In contrast, the cost per delivered letters is variable and remains the same, independent of volume changes. The Postal Service needs to understand this distinction, which explains why a comparison between two average unit costs per originating piece is not meaningful.

total delivery costs.” Tr. 21/7912.²⁵ Accordingly, it was the Postal Service's own interrogatory, not Mr. Bentley's response, which was based on "counter factual" information.

At the core of the Postal Service's apparent difficulty in comprehending the simple but critical concept underlying Mr. Bentley's derivation of the 3.38 unit delivery cost savings per originating piece are USPS witness Kelley's mistaken beliefs that (1) the unit delivery cost per **originating** letter is “quite meaningful” and relevant, and (2) the unit delivery cost per **delivered** letter is not meaningful or relevant. See USPS IB at 258. Mr. Kelley's basic problem is illustrated by Table 2 below, which is based upon a simplified example that MMA put to Mr. Kelley. See Tr. 12/3392.

Table 2
Simplified Example Illustrating the Relationship Between
the Average Delivery Cost Per Originating Piece
and the Unit Cost Per Delivered Piece

	(1)	(2)	(3)
Letter Category	Cost Per Originating Piece (Cents)	% of Letters Actually Delivered	Cost Per Delivered Piece (Cents)
			(1) / (2)
A	5.0	60.0%	8.33
B	7.0	90.0%	7.78
A - B	(2.0)		0.56

Sources: Tr. 12/3392

As shown in the table, USPS witness Kelley's method of comparing the unit costs per originating letter (Column (1)) incorrectly indicates that Category B letters cost 2 cents more to deliver than Category A letters. In contrast, under the appropriate method for deriving delivery cost differences employed by Mr.

²⁵ The full response of Interrogatory USPS/MMA-T1-27 is attached hereto as Appendix B for the Commission's convenience. MMA is attaching the complete interrogatory and response because it appears that, perhaps in the process of duplicating the document, emphasis in the original, entire words and column numbering were garbled or not reproduced at all. In addition, reproduction of color highlighting in the table appearing in the response to part (c) makes the table illegible.

Bentley (Column (3)), Category A letters actually cost 0.56 cents more to deliver than Category B letters.

As the table illustrates, unless the percentage of Category A letters actually delivered is *identical* to that of Category B letters, it is not possible to determine which Category of letters costs more to deliver just by looking at the two unit costs per originating letters. Of course, in the simplified example, **as in the real world**, the percentage of letters actually delivered for each Category is *not* identical. Therefore, to correctly determine which letter Category actually costs more to deliver, it is necessary to compare the unit costs per delivered letter.²⁶

Mr. Kelley obviously failed to understand or correctly answer the most basic questions regarding this simplified example. See Tr. 12/3392 where he could not confirm, given the information in all three columns of Table 2 above, that letter A cost more **to deliver** than letter B. Moreover, this example illustrates why comparing the delivery unit cost per **originating** letter is not appropriate and debunks the Postal Service's position (IB at 258) that such a comparison is "quite meaningful".²⁷ Such a comparison provides the wrong conclusion, namely that Category A letters cost 2 cents **less** to deliver than Category B letters. But the fact is -- Category A letters cost 0.56 cents more to deliver than Category B letters. Only the Postal Service's stubborn infatuation with the delivery cost per **originating** letter prevents it from understanding the accurate situation.

The Postal Service's final, inappropriate argument (IB at 260-61) – is that the methodology Mr. Bentley uses in this case is inconsistent with the position MMA took on brief in R2005-1. Frankly, MMA does not understand the Postal Service's argument on this score. Contrary to the Postal Service's claims, the quoted passage does not lay out two methods and then express a preference for

²⁶ Comparing the unit costs per originating letters will reflect the accurate relationship if, **and only if**, the percentage of letters actually delivered is the same for each category.

²⁷ As Mr. Kelley stated, a comparison of the delivery costs per originating piece is meaningful because "both are the ratios of volume variable delivery costs (costs segments 6, 7, and 10) to originating volume." Tr. 12/3392. However, what Mr. Kelley failed to recognize was that once the volume variable delivery costs are divided by the number originating pieces, some of which **do not incur** those costs, the resulting ratio is no longer a volume variable unit cost. MMA still contends that such a comparison is not meaningful.

a method different from that used by MMA witness Bentley in this case. MMA's initial brief in R2005-1 advocated exactly the same methodology used by Mr. Bentley in this case.

For all these reasons and those set forth in MMA's initial Brief (at 43-46), the Commission should reject the Postal Service's proposal to eliminate delivery cost savings from the workshare cost savings analysis and use Mr. Bentley's 3.38 cents average delivery cost savings per originating piece as the delivery component of workshared cost savings.

VI. The Postal Service's Unduly Narrow View Of QBRM Cost Savings Improperly Denies QBRM Recipients A Fair Share Of The Cost Savings They Make Possible

The Postal Service (IB at 180) proposes to reduce the discount QBRM recipients earn from 3.2 to 2.5 cents. The proposed reduction is based upon USPS Abdirahman's "finding" that QBRM cost savings enjoyed by the Postal Service have dropped precipitously to 1.495 cents from approximately 4 cents when the Commission the Postal Service first proposed and the Commission adopted a 3 cent discount. PRC Op. R97-1 at 303. Based on Mr. Taufique's proposed 2.5 cent discount, which includes a "167 percent passthrough of witness Abdirahman's cost avoidance estimate" (USPS IB at 202), the Commission might well wonder why MMA and Time Warner (TW) are not just grateful for the Service's beneficence. The short answer is that MMA and TW have looked this gift horse in the mouth and found its teeth are rotten and the gift horse is as lame as Mr. Abdirahman's cost savings estimate.

Under a proper and Commission-approved measurement of cost savings, the savings are over 6 cents. At the 4 cent QBRM discount proposed by MMA and TW, the resulting passthrough is considerably less than the 75% passthrough approved by the Commission in R97-1.

The causes for the wide discrepancy in the Postal Service's and MMA witness Bentley's cost avoidance calculation are twofold:

1. Contrary to applicable Commission precedent, USPS witness Abdirahman arbitrarily stops counting the cost savings at the point QBRM and HAND letters receive the first barcode sortation. In contrast, consistent with Commission precedent, Mr. Bentley gives

QBRM proper credit for substantial savings that continue to occur after the first sort; and

2. Contrary to logic and fact, Mr. Abdirahman erroneously applies one CRA adjustment factor to both QBRM and HAND costs derived from his models. In contrast, Mr. Bentley recognizes that essential differences in the cost attributes of HAND and QBRM letters and the mail flow model's propensity to understate RBCS costs requires application of two separate CRA proportional adjustment factors.

For the most part MMA (IB at 5-9) and TW (IB at 57-59) anticipated and have already responded to the Postal Service's arguments on brief. However, MMA could not anticipate the Postal Service's warped views of what constitutes "precedent" and which precedent is applicable.

The Postal Service argues (IB at 231-32 (emphasis added; citations omitted)):

MMA witness Bentley also mischaracterizes Postal Service witness Abdirahman's cost analysis as a departure from past Commission precedent. However, as witness Abdirahman's rebuttal testimony states, the Docket No. R2001-1 QBRM cost analysis was revised to follow the methodology originally presented by the Postal Service, and approved by the Commission, in Docket No. R97-1. This methodology was also followed in Docket No. R2005-1, and is again followed by witness Abdirahman in this docket. Clearly, witness Abdirahman's QBRM cost avoidance analysis is consistent with past Commission approved methodology. Witness Bentley, on the other hand, **proposes expanding the QBRM cost analysis beyond this accepted precedent.**

The Postal Service's convoluted argument confuses consistency with its own position with consistency with PRC precedent. Taking the same consistent position in several cases does not constitute "precedent," especially where, as in this case, the position is consistently wrong.

Moreover, the Postal Service says it is being consistent with the Commission's recommended decision in R97-1 and the method **proposed by USPS witnesses in R2001-1, R2005-1 and this case.** Contrary to the Postal Service's distorted view about what constitutes binding precedent, this is not a game of checkers or leap frog, where the rules allow the Postal Service "jump"

over and ignore the Commission's recommended decision in R2000-1 on this issue.

There is absolutely no merit in the Postal Service's suggestion that Mr. Abdirahman's methodology in this case is consistent with the Commission's recommended decisions in R2001-1 and R2005-1 and that MMA's position goes "beyond this **accepted precedent**." USPS IB at 232 (emphasis added). The R2001-1 and R2005-1 cases were settled. Accordingly, the Postal Service's position in those cases cannot have **any** precedential value because the Commission approved settlements in those cases. In so doing, it did not make any merits determination regarding the methodology Mr. Abdirahman is using in this case.

For these reasons, the Commission's rulings in R2000-1, the last litigated proceeding, do have precedential effect and the QBRM cost analysis proposed by USPS witness Campbell and approved by the Commission is the starting point for judging the Postal Service's proposal made in this case.

From this discussion, it is also clear that MMA witness Bentley correctly characterized Mr. Abdirahman's cost savings analysis in this case as "a departure from past Commission precedent." In fact, USPS witness Abdirahman made **two** material changes from the method used in R2000-1. First, he stopped the model after the first sort, rather than using the USPS witness Campbell's more complete and equitable cost savings analysis that the Commission approved. Second, he deviated from the Commission's method for reconciling model derived costs to the CRA. In R2000-1, the Commission used the CRA Proportional Adjustment factor for NonAuto letters. PRC Op. R2000-1, Library Reference PRC-LR-12, Part B, QBRM SUMMARY sheet, fn 1. In this case, Mr. Abdirahman used the BMM CRA Proportional Adjustment factor to reconcile his model-derived costs to CRA costs.

MMA (IB at 7-9) has already discussed the reasons why the Postal Service's unduly restrictive, truncated approach to QBRM cost savings analysis is flawed and patently unfair to QBRM recipients. The Postal Service's arguments on brief do not warrant any further reply on this issue. On the other

hand, the Postal Service's arguments for applying the BMM CRA Proportional Adjustment factor to the model derived costs for HAND **and** QBRM do warrant further discussion.

The Postal Service tries but fails to justify use of this one adjustment factor for both types of letters. The Postal Service (IB at 231) maintains that using one adjustment factor is appropriate "because all three mail types are components of the single-piece First-Class Mailstream." This "factoid" is true but not relevant to a resolution of the issue. What is important is that HAND and QBRM letters have very distinct cost causing attributes. HAND letters are very much like BMM letters in that both types of letters have to be processed in the RBCS to, hopefully, receive a barcode. In contrast, QBRM letters share the same cost causing attributes with Automation letters in that both types of letters bypass the RBCS because they already have pre-approved, mailer applied barcodes. MMA IB at 9.

Whether or not letters have to be processed in the RBCS is very significant. As discussed in Mr. Bentley's direct testimony (MMA-T-1 at 17-19, App I at 11-17, App I at 4-6, MMA-LR-3), MMA's initial brief (12, 34-37) and in Section I, pages 7-9 of this reply brief, the Postal Service's mail flow models obviously understate the cost of RBCS processing. Therefore, applying the same CRA Proportional Adjustment factor to both HAND and QBRM letters makes no sense. For HAND letters, application of the BMM Proportional Adjustment factor will bring the model-derived unit cost into alignment with the CRA since each of those types of letters requires RBCS processing. For QBRM letters that bypass the RBCS, there is no need to make such an adjustment. In fact, applying the BMM Proportional Adjustment factor to letters that bypass the RBCS artificially removes cost savings that QBRM letters achieve by virtue of the fact that they avoid RBCS processing. See also MMA-T-1, App. II at 3-5.

For these reasons, the Commission should

1. Reject the Postal Service's unduly narrow review of relevant QBRM cost savings and recommend Mr. Bentley's analysis, consistent with its ruling in R2000-1, and

2. Recommend use of the BMM CRA Proportional Adjustment factor to reconcile the model-derived cost of HAND letters, as the Postal Service has proposed, **but** recommend that the CRA Proportional Adjustment factor for Automation letters be used to bring QBRM letter costs into alignment with CRA costs.

Based on this cost savings analysis, the Commission should recommend a modest increase in the QBRM discount to 4 cents. This recommendation will allow QBRM recipients and the Postal Service to share in the cost savings of over 6 cents.

VII. The Postal Service's Efforts To Salvage Its Flawed BRM Practices Study Are Futile

The Postal Service (IB at 375) touts the 2005 BRM Practices Study (2005 Study) as “the most statistically sound study of the BRM universe available today.” MMA’s response is that if this statement is accurate, the Commission should send Mr. Loetscher back to the field to design, plan, and conduct a real study of HV QBRM counting methods. For HV QBRM, the 2005 Study is useless and cannot be salvaged.

The 2005 Study was conceived in haste and designed to meet an artificial deadline imposed by the Service’s BRM Team. MMA SSIB at 13. The record does not show the reasons for the unduly tight time limitations imposed upon Mr. Loetscher and his consulting firm. The Postal Service may have intended to present the study in a regular omnibus rate case and then shelved the study when the Postal Service filed its across-the-board rate increase proposal in R2005-1.²⁸ Whatever those reasons may have been, the ineluctable fact is that Mr. Loetscher and the Postal Service had over **a year** to review and correct the 2005 Study results prior to filing it on May 3, 2006. But, **solely as the result of errors pointed out to him by MMA on December 6, 2006**, Mr. Loetscher and the Postal Service have embarked upon a thirteenth hour crusade to rewrite history and expunge their errors from the record by filing “errata” to the Library Reference USPS-LR-L-34, the original 2005 BRM Practices Study and

²⁸ The Postal Service last studied the counting methods for HV QBRM in R2001-1. Why it waited until five months prior to filing its rate request in R2006-1 to re-consider this issue is anyone’s guess.

underlying data collected during the sampling period, Library Reference USPS-LR-L-193 (the library reference filed with Mr. Loetscher's rebuttal testimony on November 20, 2006) and the "final" rebuttal testimony of Mr. Loetscher (submitted to the Commission on December 13, 2006, a full week **after** MMA cross examined him on that testimony. The next day, December 14, MMA moved to have these errata filings rejected.²⁹

Then, in what can only be described as an outstanding display of chutzpah, the Postal Service blames MMA for not bringing these errors to its attention sooner.³⁰ Blaming the messenger cannot hide the fact that this study is fatally flawed.

MMA has already explained (SSIB at 11-12 and MMA December 18 Reply at 3),³¹ that as of August 10, 2006 the status of the record was such that MMA had no reason to attack Mr. Loetscher's 2005 BRM Practices Study. In this regard, MMA's cross examination of Mr. Loetscher on August 10, 2006 revealed that he had absolutely no knowledge of many vital facts and considerations. Most notably he was totally unaware that the 1997 BRM Practices Study's finding that 47% of **BRM** was counted by hand had been thoroughly discredited by KeySpan Energy, repudiated by USPS witness Campbell, and rejected by the Commission in R2000-1. This crucial piece of information is absolutely critical because Mr. Loetscher relied upon the 1997 Study as a test of reasonableness for his 2005 Study's finding that 27% of **HV QBRM** is hand counted. In sum, Mr. Loetscher's own testimony demonstrated that the 2005 Study results were fundamentally flawed and could not be relied upon to support the conclusion that 27% of HV QBRM could possibly be manually counted day in and day out.

²⁹ See Major Mailers Association's Motion To Strike Errata To Library References And Rebuttal Testimony Of USPS Witness L. Paul Loetscher And For Order Directing The Public Service To Supplement The Record, dated December 14, 2006.

³⁰ See Opposition Of The United States Postal Service To Major Mailers Association Motion To Strike Errata To Library References And Rebuttal Testimony Of Postal Service Witness Loetscher, dated December 15, 2006. The Postal Service (IB at 375) claims that Mr. Loetscher's direct testimony demonstrated that the 2005 Study is "statistically sound." Mr. Loetscher's direct testimony contained exactly one ten line paragraph dealing with the Study.

³¹ Reply Of Major Mailers Association's To December 15, 2006 Opposition Of The United States Postal Service To Major Mailers Association Motion To Strike Errata To Library References And Rebuttal Testimony Of Postal Service Witness Loetscher

Accordingly, there was no reason for MMA to further investigate the 2005 Study in depth because Mr. Loetscher effectively discredited his own study.

Faced with the realization that the 1997 Study “yardstick” he had used to test the reasonableness of the 27% hand counting percentage was broken, Mr. Loetscher **should have** re-examined his finding and found a new “yardstick.” He did not take this reasonable and responsible step. Instead, on November 20, 2006, Mr. Loetscher filed rebuttal testimony attacking USPS witness Campbell’s R2000-1 survey of HV QBRM counting methods, the Commission’s R2000-1 recommended decision on HV QBRM, and USPS witness Miller’s R2001-1 expanded survey of HV QBRM counting methods.

There is absolutely no merit in Mr. Loetscher’s eleventh hour revelation that these surveys and, by necessary implication the Commission’s R2001-1 rulings on HV QBRM, all suffered from “selection bias and measurement bias” (USPS IB at 375-76). These allegations are completely undercut by the Postal Service’s admission in R2001 that the 1997 Study, which Mr. Loetscher considers to be a “statistically-sound” had **a very significant limitation**. Noting this limitation, the Postal Service conceded that the 1997 Study “it...was not a census which permits one to determine which accounting methods are employed at every site for every account, large and small.” In this case, the Postal Service is claiming just the opposite is true - the census surveys conducted by USPS witness Campbell and relied upon by the Commission and then expanded by Miller are invalid because they violate “statistically-sound.” principles. PRC Op. R2000-1 at 551. Certainly, the Postal Service has argued both sides of the issue, and chooses a side based on which result is consistent with its current position. The Commission must not accept such disingenuous arguments and outright arrogance.

Nor is there any merit in the Postal Service's stroke of Midnight "errata" filings. They cannot mask the fact that the original Library Reference USPS-LR-L-34 was fatally deficient.³²

Notwithstanding the Postal Service's "errata" filings, the record is *still* barren. There is an "intermediate" file that shows the study's inflated data, but this file indicates that 18%, not 27% of HV QBRM letters are counted by hand. See MMA SSIB at 15, 17. The Postal Service still has not provided a usable electronic file that shows how it arrived at the final, fatal finding that 27% of HV QBRM volumes are counted manually.

These facts and series of events demonstrate that the 2005 BRM Practices Study was flawed from the get go.³³ Accordingly, the Commission should not only grant MMA's December 14 Motion but also refuse to accept the study's unreasonable and obviously flawed conclusion that 27% of HV QBRM is counted manually.

The Postal Service (IB at 376) characterizes the 2005 BRM Practices Study as "unbiased" and "statistically-sound" and faults MMA Bentley for relying upon "flawed statistical studies in prior cases" for his derivation of High Volume QBRM (HV QBRM) in this case. There is no substance behind the Postal Service's sobriquets and epithets.

First, what the Postal Service's argument fails to note is that the statistical studies in prior cases that it only now labels "flawed" are studies that Mr. Bentley prepared, with the help of USPS witness Campbell, and the Commission accepted in R2000-1. That was the last case in which per piece fee issues were litigated. Moreover, in R2000-1, the supposedly "statistically-sound" 1997 BRM Practices Study was discredited by KeySpan Energy witness Bentley, repudiated

³² At that time, after a more thorough review, MMA determined that the Postal Service's documentation did not meet the strict standards set out by the Commission's rules and regulations. Among other things, the data provided in both library references consisted primarily of machine readable files with no line or column headings. In late November, MMA requested and the Postal Service finally provided some of the data in readable Excel files. It took only a cursory review to uncover the errors that now the Postal Service is attempting to correct.

³³ Of course, the Commission's Rules Of Practice place the onus for providing adequate, comprehensible documentation on the filing party in its direct case and for correcting errors in a timely fashion. It is obvious that no party could possibly replicate Mr. Loetscher's study from the any of the data provided to the Commission, including the "errata."

by Mr. Campbell, and rejected by the Commission. Ironically, it was also discredited by the Postal Service when it admitted “it is apparent” that the BRM Practices Study relied on by Campbell understates the percentage of high-volume QBRM that is counted by BRMAS.” PRC Op. R2000-1 at 551.

The Postal Service also omits mention of a specific, official Postal Service policy to utilize automated counting methods. See PRC Op. R2000-1 at 548. MMA contends that manually counting 27% of HV QBRM, or more than 40 million pieces per year, cannot possibly be consistent with that directive.

USPS witness Loetscher’s failure to acknowledge and confront these studies, counting method surveys, and especially the Commission’s rulings in R2000-1³⁴ demonstrate that the Postal Service has failed to meet its burden of proof on this issue. Of course, MMA hastens to point out that the lion’s share of blame for Mr. Loetscher’s ignorance of key facts, Postal Service policies, Commission precedent, and survey results (which should have led him to question and re-examine his 2005 Study results) must be placed at the feet of the Postal Service Headquarters’ BRM Team that “advised” Mr. Loetscher. After all, it was the BRM Team who advised him that the last “comprehensive” statistical study was the 1997 BRM Practices Study. And it was the BRM Team that neglected to even mention that the 1997 BRM Practices Study was discredited in R2000-1.³⁵ Indeed, Mr. Loetscher admitted he had discussions with USPS witness Miller, author of the R2001-1 survey, about the possible effect that seasonality might have on his study, yet Mr. Miller somehow also failed to mention the previous study that he had performed on this issue.

MMA has already catalogued many additional errors, flaws and questionable results produced in the 2005 Study. See MMA SSIB at 13-21. This laundry list of errors strips away whatever remaining claim the 2005 Study had to the label “statistically-sound”, particularly as it relates to HV QBRM. It also

³⁴ In R2000-1, the Commission recognized that the number of pieces hand counted by postal employees for HV QBRM was an extremely contentious issue. It devoted 31 paragraphs and 10 pages of its R2000-1 Opinion to the subject. See PRC Op. R2000-1 at 545 – 555.

³⁵ USPS witness Abdirahman was central to this issue because his task was to utilize the results of Mr. Loetscher’s study. He admitted that he read “as a background” the previous record pertaining to HV QBRM counting methods. Tr. 4/622. But he inexplicably failed to pass this important and relevant information on to his contractor who was hired to study that very issue.

explains why the 2005 Study's "finding" that 27% of HV QBRM is hand counted does not even pass the smell test. As the Commission's stated about the 1997 Study's finding that 47% of BRM was hand counted, "[I]t is easy to believe that high volume offices would use the more efficient counting methods; it strains credulity to think that offices receiving large volumes would hand count most or all of the pieces," PRC Op R2000-1 at 552. That conclusion is equally applicable to the 2005 Study results.

On brief, the Postal Service has offered additional facts that cast even further doubt on the 2005 Study finding that 27% of HV QBRM is hand counted. Under the heading "Substitution of manual for automated processing is rare and becoming rarer," the Postal Service states (IB at 74-75 (emphasis added):

The Postal Service's automated letter and flat sorting equipment can sort pieces at much lower cost than manual operations, so "mail is directed to sorting operations on the basis of physical characteristics, most significantly automation compatibility and [for letters] barcode presence." USPS-T-12 at 14. Witness McCrery notes that manual processing in plants is generally limited to physically nonmachinable pieces and machine rejects. USPS-T-42 at 11-12, 19. Witness Oronzio further describes that Postal Service operating procedures seek to minimize the need for manual processing of machinable pieces, and notes that seasonal fluctuations in manual operations' usage depends primarily on seasonal variations in mail characteristics rather than volume per se. USPS-RT-15 at 12; Tr. 36/12294-12297.

As most letter- and flat-shape mail is automation compatible, the vast majority of sorts are carried out on automation. ***In BY 2005, mail processing facilities carried out 364.0 billion letter sorts (MODS TPH) on automation, versus 13.7 billion manual letter sorts (96.4 percent automation)***; in flats, there were 32.9 billion automated sorts versus 6.9 billion manual sorts (82.7 percent automation). Tr. 10/2568, 2570, 2573. While automated and manual processing technically may be substitutable to some extent, manual and automated processing actually are not close economic substitutes. ***As should be obvious, directing even small fractions of automatable mail to manual would vastly increase the Postal Service's costs, and thus not constitute a good use of managerial "discretion."*** Thus, "manual sorting is not... an economical substitute for automated sorting when the latter is technically feasible." USPS-T-12 at 22.

The Postal Service has good reason to be proud about the fact that 96.4% of all sorts were performed by automation. This very high percentage for automated letter sorting is remarkable in view of the fact that significant percentages of these total letters include hand addressed letters and other letters that for various reasons cannot be upgraded to automation in the RBCS system. However, the Postal Service's success in sorting letters on automation equipment calls into question the reasonableness of the 2005 Study's finding that 27% of all HV QBRM must be counted by hand. HV QBRM letters are automation compatible by definition and meet stringent Postal Service requirements. In this regard, Postal Service specifications require that HV QBRM letters be pre-approved, prebarcoded and automation-compatible.

In light of these facts, it is absolutely astounding that only 4.6 % off *all* letter sorts are manually performed but the Postal Service is trying to convince the Commission that ***more than five times*** as much, 27% of all HV QBRM, is manually counted.

Also very significant for purposes of the HV QBRM counting methods issue is the Postal Service's recognition in the above statement of policy that "directing even small fractions of automatable mail to manual would vastly increase the Postal Service's costs, and thus not constitute a good use of managerial "discretion." Moreover, this policy statement is entirely consistent with another important statement of Postal Service policy specifically addressing the methods used to count HV BRM, issued more than five years prior to Mr. Loetscher's data collection effort. Specifically, in response to an information request of the Presiding Officer in MC989-2, Postal Service Management stated, in relevant part,³⁶

In response to the Decisions of the Governors in Docket No. R97-1 (June 29, 1998), management has established two objectives. The first is to focus on improved utilization of machine- or automation-based QBRM accounting alternatives to the manual accounting method . . . [sic]

³⁶ Docket No. MC99-2, Response of United States Postal Service to Presiding Officer's Information Request (June 18, 1999) at 3.

Given the relatively high degree of automation-compatibility of BRM letters and cards, the Postal Service is committed to more fully utilizing its capacity to perform automated or machine-based accounting, where appropriate. Particularly with higher-volume QBRM letter and card recipients, as each separate recipient's mail is isolated, the opportunity exists – either during mail processing or in the accounting function – to obtain a machine count of such mail, to a greater extent than is currently being done.

In R2000-1, the Commission took particular notice of this important policy statement in resolving issues involving counting of HV QBRM. See PRC Op. R2000-1 at 548. It also noted that a national QBRM task force was studying the development of “best practices” to be deployed locally. *Id.* at 552 fn 173.

In view of all these operating policies and procedures and national efforts to implement “best practice” at the local level, plus the greater availability of automated barcode sorters, which make possible cost free End Of Run Reports, BRAMAS and the fact that readily available counting machines and weighing techniques that are about **13 times more productive** than hand counting, at a minimum, Mr. Loetscher and the BRM Team should have taken a hard look at the 2005 Study results. Their failure to do so leaves HV QBRM recipients and the Commission with many questions and too few answers. Mr. Loetscher and the BRM Team have failed to satisfy MMA and the Commission that the 2005 Study is reliable.

Mr. Loetscher's ignorance of these commonsense operating policies contributed to his erroneous conclusion that hand counting 27% of all HV QBRM was a reasonable and effective use of Postal Service resources. Reliance on a comparison of his findings with the repudiated 1997 Study finding that the Postal Service hand counted 47% of BRM, led him to opine that 27% represented an improvement. As he testified his “primary conclusion was that the proportion of mail that is manually counted has decreased substantially between the two studies.” Tr 7/1574-75.

Moreover, even if the Postal Service could show that 27% of HV QBRM in fact is hand counted, it does not follow that this percentage should be used in calculating the per piece fee cost. In R2000-1, the Postal Service proposed

creation of the HV QBRM category and the Commission approved it, with the intention of having the per piece fee track costs where high volumes of QBRM enabled the Postal Service to use very efficient counting methods. PRC Op. R2000-1 at 551. If, contrary to all relevant evidence on this record, the Postal Service really is ignoring commonsense operating policies and procedures and hand counting 27% of all HV QBRM, that “problem” can be solved by raising the quarterly fee so that the breakeven volume is higher. In R2000-1, KeySpan Energy proposed that the quarterly fee be set so that the breakeven volume would be approximately 300,000 pieces per year. Id. at 545. Ultimately the quarterly fee was set at a much lower volume based on the Postal Service’s testimony and desire to make HV QBRM available to more recipients. If the minimum qualifying volume is too low for very efficient, “best practices” counting methods to be used for HV QBRM, the quarterly fee should be raised. It makes no sense to force higher HV QBRM recipients to pay more and subsidize lower volume HV QBRM recipients whose volumes allegedly require the Postal Service to use slow, inefficient and costly hand counting.

While the 2005 Study cannot be used to set HV QBRM per piece fees in this case, the Postal Service could use of the discredited 2005 Study by using it first to identify which offices count a high percentage of HV QBRM by hand. Then using that information, it could implement “best practices” counting methods at the local level, just as the national QBRM task force QBRM task force planned to do. Certainly that process can be completed before the R2006-1 rates are implemented.

For all these reasons, the Commission should reject the 2005 BRM Practices Study as inherently unreliable as far as HV QBRM is concerned. MMA witness Bentley’s cost analysis shows that the cost of counting HV QBRM ranges from 0.012 to 0.070 cents per piece. See MMA-T-1, App. II at 8

(Tables 4 and 5). Based on these per piece costs the Commission should recommend MMA's proposal to reduce the per piece fee to 0.5 cents.³⁷

VIII. The Postal Service's Arguments Regarding MMA's Proposal For Confirm Service Do Not Present Any Obstacle To Adoption Of MMA's Proposal

MMA (SSIB at 2-3, 22-26) has already explained why the Postal Service's ill-conceived proposal to radically alter the rate structure for its new Confirm Service should be rejected out of hand. We also described the proposal of MMA witness Bentley to provide unlimited scans to First Class presort mailers subject only to a reasonable annual set up fee for each subscriber and discussed how adoption of this proposal will attract new subscribers and assist the Postal Service's efforts to retain or increase First Class presort mail volumes. Several other parties have complained about the Postal Service's illogical and inequitable proposal to revamp the rate structure for Confirm Service.

The Postal Service (IB at 387-88) states that MMA's proposal may be worth examining and "may be interesting in concept.". MMA appreciates the Postal Service's support.

However, the Postal Service then proceeds (IB at 388) to construct obstacles that would not permit MMA's proposal to be implemented in this proceeding. The obstacles suggested by the Postal Service (IB at 388) appear to be that a classification change would be required to "bundle" Confirm Service with one or more classes of mail and the need for Confirm Service to cover its costs. under Section 3662 (b)(3). Neither of these "obstacles" would block adoption of MMA's proposal in this case.. No classification is changed because there is not bundling of Confirm service. First Class mailers will still be Confirm Service customers and will still pay an annual or quarterly fee for that service. The concept that MMA is proposing is no different than the Postal Service's proposal to charge First Class and Standard mailers differently.

³⁷ The Commission should recognize that MMA has only addressed flaws and other irregularities in the 2005 Study as they relate directly to HV QBRM. Other regular QBRM, High Volume BRM and Low Volume BRM recipients may be adversely affected by these or other flaws not yet revealed. These recipients do not have a voice in this proceeding. Nevertheless, the Commission should be concerned for their welfare.

Nor is there any problem with having Confirm Service cover its costs. First, it is not clear that Confirm Service needs to or will not cover its attributable costs under MMA's proposal, because the increased revenues the Postal Service is seeking are clearly excessive and adoption of MMA's proposal is likely to attract new subscribers. Second, if there were a "shortfall," the Commission can always adjust upwards the annual set up fee.

For all these reasons, the Commission should reject the Postal Service's proposal and adopt MMA's proposal.

Conclusions

For all of the foregoing reasons, the Commission should adopt MMA's proposals in this case as described more fully at pages 61-63 of MMA's Initial Brief and in its Special Services Brief.

Respectfully submitted,

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January 4, 2007

Docket No. R2006-1
Reply Brief Of Major Mailers Association
Appendix A

Table I
Impact of Eliminating Delivery Cost Savings Under Delinking
(000's except for unit costs which are in cents)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
First-Class Letter Automation Category	Total Workshared Unit Costs MMA-LR-1	Total Unit Cost Savings Col (1)	Delivery Unit Costs MMA-LR-1	Delivery Unit Cost Savings Col (3)	Unit Cost Savings W/O Delivery (2) - (4)	% Savings Reduction (4) / (2)	Volume (000) MMA-LR-1	% Volume Col (7)	Total Delivery Cost Savings (000) (4) x (7) x .01
MAADC	12.17	0.00	4.45	0.00	0.00	N/A	2,875,272	6%	-
AADC	10.22	1.95	4.28	0.17	1.78	8.80%	2,500,365	5%	4,284
3-Digit	9.53	2.64	4.20	0.25	2.39	9.41%	22,908,988	49%	56,952
5-Digit	7.30	4.87	4.00	0.45	4.41	9.32%	17,449,671	38%	79,120
Car Rt	7.30	4.87	4.00	0.45	4.41	9.32%	673,921	1%	3,056
Weighted Average	8.86	3.31	4.14	0.31	3.00	9.34%	46,408,216	100%	143,412

Table II
Impact of Eliminating Delivery Cost Savings Under Traditional Methods
(000's except for unit costs which are in cents)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
First-Class Letter Presorted Category	Unit Cost Savings MMA-LR-1	Delivery Cost Savings MMA-LR-2	Unit Cost Savings W/O Delivery (1) - (2)	% Savings Reduction (2) / (1)	Volume MMA-LR-1	% Volume Col (5)	Total Delivery Cost Savings (3) x (5) x .01
NonAuto	2.88	2.85	0.03	99%	1,739,317	4%	49,531
MAADC	8.50	3.09	5.41	36%	2,875,272	6%	88,888
AADC	10.45	3.26	7.19	31%	2,500,365	5%	81,582
3-Digit	11.15	3.34	7.81	30%	22,908,988	48%	765,173
5-Digit	13.37	3.54	9.82	27%	17,449,671	36%	618,568
Car Rt	13.37	3.54	9.82	27%	673,921	1%	23,890
Weighted Average	11.49	3.38	8.11	32%	48,147,533	100%	1,627,631

Docket No. R2006-1
Reply Brief Of Major Mailers Association
Appendix B

USPS/MMA-T1-27 Please refer to your (revised) response to USPS/MMA-T1-17. In part b. of the question, you were asked:

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 $(X + 3.38 \text{ cents})$ 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.

In your response to part b., you did not specifically derive a value you identify as X (as requested in the question), and you did not specifically tie back to the total delivery costs of \$1.782 billion for Single Piece letters and \$1.977 billion for Presorted letters (as requested in the question). You did, however, present a table at the end of your (revised) response to part b. which in Column (4) shows unit delivery costs “per Originating Piece if Equal % Delivered” of 7.54 cents for Single Piece and 4.16 cents for Presorted, such that, if X is 4.16 cents, $X + 3.38 = 7.54$ cents.

- a. Please confirm that your 4.16 cent Presorted unit delivery cost per originating piece (as derived in your table as described above), times the Presorted originating volume of 47,482,864(000), equals the actual Presorted total delivery cost of \$1.977 billion. If not confirmed, please explain fully.
- b. Please confirm that your 7.54 cent Single Piece unit delivery cost per originating piece (as derived in your table as described above), times the Single Piece originating volume of 34,594,330(000), equals \$2.608 billion, which does not equal the actual Single Piece total delivery cost of \$1.782 billion, and in fact exceeds that amount by over \$800 million, or approximately 46 percent. If not confirmed, please explain fully.
- c. Please confirm that your statement that “Presorted letters cost, on average, 3.38 cents less to deliver than single piece letters” is not correct, because it presupposes over \$800 million of single piece delivery costs that do not exist. If you do not confirm, please explain fully.

RESPONSE:

a. Confirmed. This computation is shown in the following table.

	(1)	(2)	(3)	(4)	(5)	(6)
First-Class Category	TY Unit Delivery Cost Per Delivered Piece (Cents)	% Delivered	TY Unit Delivery Cost Per Orig Piece (Cents) (1) x (2)	Total Originating Volume (000)	Volume Delivered (000) (2) x (3)	Total Delivery Cost (\$000) (1) x (5) x .01 or (3) x (4) x .01
Presorted	4.65	90%	4.16	47,482,864	42,543,546	1,977,153

Note that these computations are not exact due to rounding.

The total delivery cost as shown in Column (6) can be computed in either of two ways: (1) the unit delivery cost per delivered piece (4.65 cents) x the volume delivered (42,543,546) or (2) the unit delivery cost per originating piece (4.16 cents) x the originating volume (47,482,864).

However, perhaps I need to state the obvious. Of the total originating volume of 47,482,864,000, only 90% of the pieces, or 42,543,546,000 letters, actually incur the delivery cost of 4.65 cents, which is the cost per **delivered** letter.

Therefore, if you insist on focusing on the average originating piece, please note that the delivery cost for 10% of the average originating piece is **zero** because 10% of Presorted pieces are addressed to post office boxes. 90% of that average originating piece actually incurs delivery costs.

Therefore, for an average piece, the following equation applies:

$\text{Cost/Orig Pc} = \text{Cost/Pc if Delivered} \times \% \text{ Delivered} + \text{Cost/Piece Not Delivered} \times \% \text{ Not Delivered}$ $4.16 \text{ Cents} = 4.65 \text{ Cents} \times .90 + 0.00 \text{ Cents} \times .10$
--

Note that this computation is not exact due to rounding.

b. Not confirmed. Your math is correct but your logic is mistaken. Your error is that, for Single Piece, you are comparing a theoretical unit cost with an actual unit cost. The result is a comparison of an “apple” to an “orange.”

The 7.54 cents unit cost per originating Single Piece letter is not an actual cost because it **ASSUMES**, theoretically and **solely for the purpose of making a comparison to Presorted letters**, that 90% of the originating Single Piece volume is actually delivered. Therefore, the computation you

make obviously would overstate actual delivery costs because, in reality, only 61% of First-Class Single pieces are actually delivered. There should be no surprise that your computation of the total delivery cost is high by 46% because the unit cost of 7.54 cents already assumes, theoretically, that the number of pieces actually delivered has increased by 46% from 61% to 90%. Both computations are shown in the following table using the exact same format as shown in part (a):

	(1)	(2)	(3)	(4)	(5)	(6)
First-Class Category	TY Unit Delivery Cost Per Delivered Piece (Cents)	% Delivered	TY Unit Delivery Cost Per Orig Piece (Cents) (1) x (2)	Total Originating Volume (000)	Volume Delivered (000) (2) x (3)	Total Delivery Cost (\$000) (1) x (5) x .01 or (3) x (4) x .01
(A) Theoretical Single Piece	8.42	90%	7.54	34,594,330	30,995,718	2,609,948
(B) Actual Single Piece	8.42	61%	5.15	34,594,330	21,167,692	1,782,394
(C) Difference (A) - (B)					9,828,026	827,554
(D) % Difference (C) / (B)		46%			46%	46%

Note that these computations are not exact due to rounding.

As shown in Column 5 of the table above, the 9,828,026,000 piece difference between the theoretical Single Piece volume and the actual Single Piece volume represents the volume of theoretical letters that are not really delivered. Therefore, the extra delivery cost of \$827,554,000 represents a cost that is not actually incurred. The final proof is shown in Row (D), where you have erroneously overstated the volume of Single Piece letters actually delivered by the same 46% that your question claims I have overstated total delivery costs.

Keep in mind that my derivation of the 7.54 cents, which **assumes, contrary to fact**, that 90% of Single Piece letters are actually delivered, is developed for only one purpose – to enable an appropriate comparison with the unit delivery cost for Presorted letters, 90% of which **in fact** are actually delivered. If the percentage of letters actually delivered for Single Piece and Presorted letters is not identical, then any comparison of the unit delivery cost per originating piece is inappropriate.

- c. Not confirmed. My statement is absolutely correct. Let me state this in two different ways as illustrated in the following table.

	(1)	(2)	(3)
First-Class Category	TY Unit Delivery Cost Per Delivered Piece (Cents)	% Delivered	TY Unit Delivery Cost Per Orig Piece (Cents) (1) x (2)
(A) Single Piece	8.42	90%	7.54
(B) Presorted	4.65	90%	4.16
(C) Presorted Savings	3.77	90%	3.38

Note that these computations are not exact due to rounding.

In the table above, yellow represents actual unit costs and delivery percentages. Aqua represents theoretical unit costs and delivery percentages. Since 3.38 cents is the difference between the Single Piece theoretical unit cost (7.54) and the Presorted actual unit cost (4.16 cents), or the product of the actual unit cost savings (3.77 cents) times a theoretical delivery percentage (90%), the 3.38 cent Presorted savings is similarly a theoretical unit cost savings (under the assumption that 90% of both Single Piece and Presorted letters are actually delivered)

- (1) If a First-Class Single Piece letter (unit delivery cost of 8.42 cents) and Presorted letter (unit delivery cost of 4.65 cents) are both actually delivered by city or rural carriers, the delivery unit cost savings is 3.77 cents (8.42 cents – 4.65 cents). However, not all Presorted pieces are delivered. Since only 90% of Presorted letters are delivered, the average savings **per originating letter** is 0.90×3.77 cents = 3.38 cents, as shown in Column (3) of the Table.
- (2) If one assumes that 90% of both First-Class Single Piece and Presorted letters are actually delivered by city and rural carriers, then the unit cost for city and rural carriers to deliver Single Piece letters is still 8.42 cents. When the 8.42 cents unit cost is spread over all originating pieces, the average unit cost per originating Single Piece letter is 0.90×8.42 cents = 7.54 cents.

Similarly, the unit cost for city and rural carriers to deliver a Presorted letter is still 4.65 cents. When the 4.65 cents unit cost is spread over all originating Presorted pieces the average unit delivery cost per originating Presorted letter is $0.90 \times 4.65 = 4.16$ cents.

Now the two unit costs shown in Column 3 are comparable. As shown in Row C of Column 3 in the Table the delivery cost savings due to worksharing is

$7.54 \text{ cents} - 4.16 \text{ cents} = 3.38 \text{ cents}$
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Therefore, as I state on page 16 of my direct testimony, “[t]here 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.”

Please refer to the table in response to part (b), which explains how the \$800 million is derived and is not actually incurred because the assumed percentage of Single Pieces delivered is 46% higher than the actual percentage of Single Pieces delivered.