

DOCKET SECTION

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

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U.S. POSTAL SERVICE

POSTAL RATE AND FEE CHANGES, 1997)

) Docket No. R97-1

**RESPONSE OF MAJOR MAILERS ASSOCIATION
WITNESS RICHARD E. BENTLEY TO INTERROGATORIES
OF UNITED STATES POSTAL SERVICE
(USPS/MMA-T1-7 THROUGH 12)**

Major Mailers Association (MMA) hereby provides its witness' Responses to the above-described interrogatories, filed on January 16, 1998.

Respectfully submitted,



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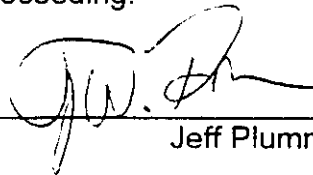
January 30, 1998

Counsel for MMA

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document, by First-Class Mail, upon the participants in this proceeding.

January 30, 1998



Jeff Plummer

Major Mailers Association Witness Richard E. Bentley
Answers to USPS Interrogatories USPS/MMA-T1-7-12

USPS/MMA-T1-7. On page 11, line 2 of your testimony, you state that retaining the current 32-cent stamp would reduce First-class revenues by \$800 million. If other classes or subclasses of mail are asked to make up this revenue loss, how would you propose this be accomplished, that is, which specific rates would you recommend be increased?

RESPONSE:

Although I stated in my testimony (page 10) that “[i]n view of the Service’s recent prosperity, the Commission might want to consider retaining the current 32-cent stamp,” I did not make any affirmative proposal in this regard. The reference to which you refer indicates that revenues would have to be increased by “just over \$800 million.” In my workpaper MMA-1A W/P I, page 3, I estimate the revenue loss to be \$809 million.

I assume that if the Commission decides to retain the 32-cent stamp, it would do so both by reducing the Service’s revenue requirement and by increasing some rates for certain mail classes or subclasses. I cannot speculate on either the possible Commission reduction in revenue requirement or increase in rates. I note that it is unlikely that the Commission would make up the entire revenues attributable to a one-cent reduction in the First-Class stamp by increasing Commercial Standard A rates since that would produce a First-Class markup index of 112 and a Standard Mail A markup index of 124, a result that I would not recommend.

Major Mailers Association Witness Richard E. Bentley
Answers to USPS Interrogatories USPS/MMA-T1-7-12

USPS/MMA-T1-8. On page 2 of your workpaper MMA1A W/P I, you calculate mark-up indices for First-Class Mail letters and commercial Standard A mail, assuming First-Class letter revenue is reduced by \$800 million and commercial standard A revenue is increased by \$800 million.

(a) Please identify which specific Standard A rates you would increase in order to raise \$800 million in additional revenue from Standard A mailers.

RESPONSE:

The purpose of my workpaper is to illustrate the test year finances if the Commission decides to retain the current 32-cent stamp and if all the lost revenues were to made up by Commercial Standard A Mailers. As I discuss in my response to USPS/MMA-T1-7, I would not recommend such a proposal. In my analysis, I did not identify which standard mailers would have to make up the \$809 million. I simply added \$809 million to the Commercial Standard A Mail revenue requirement, as stated in footnote 2.

Major Mailers Association Witness Richard E. Bentley
Answers to USPS Interrogatories USPS/MMA-T1-1 Through 6

USPS/MMA-T1-8. On page 2 of your workpaper MMA1A W/P I, you calculate mark-up indices for First-Class Mail letters and commercial Standard A mail, assuming First-Class letter revenue is reduced by \$800 million and commercial standard A revenue is increased by \$800 million.

(b) Does your calculation include the impact of the applicable elasticity effects for Standard A mail rates you would adjust. Please explain full.

RESPONSE:

No. There is no need to take into account the applicable elasticity effects for Standard A mailers since I have not adjusted their rates. I have merely computed the illustrative test year finances assuming that the Commercial Standard A revenue requirement were increased to offset the First-Class revenue loss.

Major Mailers Association Witness Richard E. Bentley
Answers to USPS Interrogatories USPS/MMA-T1-7-12

USPS/MMA-T1-8. On page 2 of your workpaper MMA1A W/P I, you calculate mark-up indices for First-Class Mail letters and commercial Standard A mail, assuming First-Class letter revenue is reduced by \$800 million and commercial standard A revenue is increased by \$800 million.

(c) In order to increase Standard A revenue by \$800 million, is it your proposal that rates for Standard A nonprofit mail should be increased as well? Unless your answer is an unqualified "yes," please explain how your proposal is consistent with the provisions of section 3626 that were added by the Revenue Forgone Reform Act.

RESPONSE:

I do not propose that Standard A mail rates be raised to make up the \$800 million nor have I considered such a rate impact on Standard A nonprofit mail. Please see my responses to USPS/MMA-T1-7 and 8(a), (b).

Major Mailers Association Witness Richard E. Bentley
Answers to USPS Interrogatories USPS/MMA-T1-7-12

USPS/MMA-T1-9. On pages 11 (lines 18-19) and 12 (lines 1-3), you discuss the Commission's opinion in Docket No. MC93-2 and state the following:

In that concurring opinion, the five commissioners left no doubt about their belief that "discounts which reflect the savings inuring to the Service from worksharing, and which are solidly grounded in costs, are to the advantage of the Postal Service, mailers, and the society at large."

(a) Please confirm that the approach used by witness Fronk is consistent with the Commissioners' opinion stated above. If not confirmed, please explain.

RESPONSE:

Not confirmed. The Commission could not and did not contemplate that the Postal Service would derive First-Class Automation letter cost savings assuming that labor costs did not vary 100% with volume. Moreover, the Commission could not and did not contemplate that the Postal Service would alter the entry requirements, specifically with respect to address requirements and inserted reply mail envelopes, that would result in additional cost savings.

**Major Mailers Association Witness Richard E. Bentley
Answers to USPS Interrogatories USPS/MMA-T1-7-12**

USPS/MMA-T1-9. On pages 11 (lines 18-19) and 12 (lines 1-3), you discuss the Commission's opinion in Docket No. MC93-2 and state the following:

In that concurring opinion, the five commissioners left no doubt about their belief that "discounts which reflect the savings inuring to the Service from worksharing, and which are solidly grounded in costs, are to the advantage of the Postal Service, mailers, and the society at large."

(b) Please confirm that in developing your letter automation proposals, you use the same categories of cost —namely, mail processing and delivery—that witness Frank used in developing the Postal Service proposal. If not confirmed, please explain.

RESPONSE:

Confirmed. However, as explained in my response to USPS/MMA-T1-6, such a methodology underestimates cost savings because of its failure to reflect move updates, qualified pre-barcode reply envelope insertions, collection costs and mail preparation costs.

Major Mailers Association Witness Richard E. Bentley
Answers to USPS Interrogatories USPS/MMA-T1-7-12

USPS/MMA-T1-9. On pages 11 (lines 18-19) and 12 (lines 1-3), you discuss the Commission's opinion in Docket No. MC93-2 and state the following:

In that concurring opinion, the five commissioners left no doubt about their belief that "discounts which reflect the savings inuring to the Service from worksharing, and which are solidly grounded in costs, are to the advantage of the Postal Service, mailers, and the society at large."

(c) Please confirm that in developing your letter automation proposals, you used bulk metered mail as the benchmark, as did witness Fronk in developing the Postal Service proposal. If not confirmed, please explain.

RESPONSE:

Confirmed. In order to support my proposal of at least a .2-cent reduction from the Postal Service's proposed First-Class Automation rates, the 20 to 24 percent increase in the derived cost savings, representing 1.5 to 2.6 cents, was much more than sufficient for my purposes. (See Exhibit MMA-1E, p. 2) For this reason I did not specifically accept or reject the Postal Service's use of bulk metered mail as the appropriate benchmark for measuring First-Class Automated letter cost savings.

Major Mailers Association Witness Richard E. Bentley
Answers to USPS Interrogatories USPS/MMA-T1-7-12

USPS/MMA-T1-9. On pages 11 (lines 18-19) and 12 (lines 1-3), you discuss the Commission's opinion in Docket No. MC93-2 and state the following:

In that concurring opinion, the five commissioners left no doubt about their belief that "discounts which reflect the savings inuring to the Service from worksharing, and which are solidly grounded in costs, are to the advantage of the Postal Service, mailers, and the society at large."

(d) Please confirm that the only reason your calculated cost savings are different from those of the Postal Service is that the starting costs (costs as the CRA level) you chose to use do not reflect the costing improvements proposed by the Postal Service in this filing. If not confirmed, please explain.

RESPONSE:

I do not agree that the Service's newly proposed cost methodology can accurately be described as an improvement, for the reasons discussed in my testimony on pages 7 – 10. Aside from this, my calculated cost savings were provided to me by the Postal Service in response to several MMA interrogatories and motions to compel. In those interrogatories, the Postal Service was asked to provide its cost savings computations assuming that labor costs varied 100% with volume. Assuming that the Postal Service made no other changes, then I can confirm that the only reason my derived unit cost saving figures differ from those provided by USPS witness Fronk is that they assume that labor costs vary 100% with volume.

In order to support my proposal of at least a .2-cent reduction from the Postal Service's proposed First-Class Automation rates, the 20 to 24 percent increase in the derived cost savings, representing 1.5 to 2.6 cents, was much more than sufficient for my purposes. (See Exhibit MMA-1E, p. 2) For this

reason I did not attempt to quantify the additional cost savings identified on pages 16 – 18 of my testimony.

As I state in my response to USPS/MMA-T1-6(b), the impact of including the cost savings due to reduced move updates and mail preparation costs adds about a penny more to the Postal Service's derived unit First-Class Automation letter cost savings.

Major Mailers Association Witness Richard E. Bentley
Answers to USPS Interrogatories USPS/MMA-T1-7-12

USPS/MMA-T1-10. On page 12 of your testimony, lines 4-6, you state that "...the Service wants to decrease First-Class automation letter discounts by 0.1 cents to 0.6. (see table 6.)" Please explain how the 0.6 cents is derived and what rate category it applies to.

RESPONSE:

The Service's proposed .6-cent discount reduction applies to First-Class Carrier Route letters. It is computed from the data provided in Table 6 as follows:

Current Discount:	9.0 Cents
Minus: USPS Proposed Discount:	8.4 Cents
Equals: USPS Proposed Reduction	0.6 Cents

Major Mailers Association Witness Richard E. Bentley
Answers to USPS Interrogatories USPS/MMA-T1-7-12

USPS/MMA-T1-11. On page 18, lines 17-20 of your testimony, you state that the Commission should consider reducing the second ounce rate for letters that weigh between one and two ounces, though you do not make a specific rate proposal. You also note that postal revenues will be reduced by \$26 million for each penny the rate is reduced for letters in this weight step.

(a) Please confirm that your recommendation is limited to letters and does not include flats. If confirmed, please explain why flats weighing between one and two ounces are excluded.

RESPONSE:

Confirmed. My proposal with respect to letters is supported by the use of automated equipment to successfully process the mail. As discussed in my testimony on page 19, it is obvious that letters successfully processed on automated equipment are done so independent of weight. I did not study the processing of flats, either manually or by automated equipment. Consequently, my proposal is applicable to letter-shapes only.

Major Mailers Association Witness Richard E. Bentley
Answers to USPS Interrogatories USPS/MMA-T1-7-12

USPS/MMA-T1-11. On page 18, lines 17-20 of your testimony, you state that the Commission should consider reducing the second ounce rate for letters that weigh between one and two ounces, though you do not make a specific rate proposal. You also note that postal revenues will be reduced by \$26 million for each penny the rate is reduced for letters in this weight step.

(b) If flats were included in your proposal, please quantify the revenue reduction that would result for a one-penny reduction in the rate for flats in this weight step.

RESPONSE:

In my analysis of volume by weight increment, I derived First-Class volumes separately for letters and for non-letters. Non-letters include flats and SPRs combined. Therefore, I cannot determine the number of First-Class flats that weigh between 1.1 and 2.0 ounces, or the revenue loss from reducing the second ounce rate for First-Class flats by one cents.

Major Mailers Association Witness Richard E. Bentley
Answers to USPS Interrogatories USPS/MMA-T1-7-12

USPS/MMA-T1-11. On page 18, lines 17-20 of your testimony, you state that the Commission should consider reducing the second ounce rate for letters that weigh between one and two ounces, though you do not make a specific rate proposal. You also note that postal revenues will be reduced by \$26 million for each penny the rate is reduced for letters in this weight step.

(c) Please explain why letters weighing between two and three ounces are not included in your proposal.

RESPONSE:

I have chosen to limit my proposal to letters weighing between one and two ounces for two reasons. First, Postal Service witnesses have testified that "heavier letters" might reduce throughput rates for barcode sorters and optical character readers. See, for example, the response to MMA/USPS-T25-12. Although the term "heavier letters" is not specifically defined, it is possible that the Postal Service may assert that throughputs are reduced for letters weighing near three ounces (although that does not appear to be a serious concern to the Postal Service). My second reason is my wish to be very conservative in asking the Commission to recommend this first-time rate reduction that is long overdue.

Certainly the Postal Service cannot argue that it is concerned about the possibility of slower throughput rates for two ounce letters. The Service continues to offer Standard Mail A rates that are identical for letters weighing less than one ounce and up to 3.3 ounces. It has experimented with letters that weigh as high as 3.5 ounces and has decided to allow certain 3.5 ounce

letters to qualify for Standard mail Automation rates. Finally, Postal Service's witnesses continue to assume that weight has no impact on labor costs. In their mail flow/cost models, USPS witnesses Hatfield and Daniel apply the same productivity rates to First-Class letters (that average .61 ounces) and to Standard letters (that average .94 ounces, a full 53% higher).

In Docket No. R94-1 the Commission stated "[s]ince Docket No. R90-1, information has become available indicating letters processed with automation incur minimal or possibly no extra cost for letters weighing up to three ounces." (PRC Op. page V-9) Accordingly, I have chosen to take a very a cautious and conservative approach, by limiting my proposed rate decrease to letters that weigh up to two ounces rather than three ounces.

Major Mailers Association Witness Richard E. Bentley
Answers to USPS Interrogatories USPS/MMA-T1-7-12

USPS/MMA-T1-11. On page 18, lines 17-20 of your testimony, you state that the Commission should consider reducing the second ounce rate for letters that weigh between one and two ounces, though you do not make a specific rate proposal. You also note that postal revenues will be reduced by \$26 million for each penny the rate is reduced for letters in this weight step.

(d) Please explain why flats weighing between two and three ounces are not included in your proposal.

RESPONSE:

Please see my answer to parts (a) and (c) of USPS/MMA-T1-11. I did not study the processing of flats, either manually or by automated equipment. Consequently, my proposal applicable to letter-shapes only. I did not consider letters (or flats for that matter) that weigh between two and three ounces for the reasons stated in part (c)

Major Mailers Association Witness Richard E. Bentley
Answers to USPS Interrogatories USPS/MMA-T1-7-12

USPS/MMA-T1-11. On page 18, lines 17-20 of your testimony, you state that the Commission should consider reducing the second ounce rate for letters that weigh between one and two ounces, though you do not make a specific rate proposal. You also note that postal revenues will be reduced by \$26 million for each penny the rate is reduced for letters in this weight step.

(e) If flats and letters weighing between two and three ounces were included in your proposal, please quantify the revenue reduction that would result from a one-penny reduction in the rate for letters and flats, respectively, in this weight step.

RESPONSE:

Please see my answer to part (b) of USPS/MMA-T1-11. In my analysis of volume by weight increment, I derived First-Class volumes separately for letters and for non-letters. Non-letters include flats and SPRs combined. Therefore, I cannot determine the number of First-Class flats that weight between 2.1 and 3.0 ounces, or the revenue loss from reducing the second ounce rate for First-Class flats by one cents.

Major Mailers Association Witness Richard E. Bentley
Answers to USPS Interrogatories USPS/MMA-T1-7-12

USPS/MMA-T1-12. Please refer to your testimony about reducing the additional ounce rate for letters weighing between one and two ounces (page 18, lines 17-20). Assume that your proposal involved a one-cent reduction in the rate for such letters, which would reduce the additional-ounce rate from 23 cents to 22 cents for such letters.

(a) Please confirm that if Aunt Minnie were mailing a two-ounce letter, she would affix 22 cents in postage for the second ounce. If not confirmed, please explain.

RESPONSE:

Confirmed. Under the Service's proposed 33-cent stamp and MMA's proposed 1-cent reduction in the second ounce letter rate, the required postage for a 2-ounce letter would be $33 + 22 = 55$ cents. The Postal Service proposes that the rate for a 2-ounce letter should be $33 + 23 = 56$ cents.

Major Mailers Association Witness Richard E. Bentley
Answers to USPS Interrogatories USPS/MMA-T1-7-12

USPS/MMA-T1-12. Please refer to your testimony about reducing the additional ounce rate for letters weighing between one and two ounces (page 18, lines 17-20). Assume that your proposal involved a one-cent reduction in the rate for such letters, which would reduce the additional-ounce rate from 23 cents to 22 cents for such letters.

(b) Please confirm that if Aunt Minnie were mailing a two-ounce flat, she would affix 23 cents in postage for the second ounce. If not confirmed, please explain.

RESPONSE:

Confirmed. Under the Service's proposed 33-cent stamp, the required postage for a 2-ounce flat would be $33 + 23 = 56$ cents. This is the same as the Postal Service's proposed rates.

Major Mailers Association Witness Richard E. Bentley
Answers to USPS Interrogatories USPS/MMA-T1-7-12

USPS/MMA-T1-12. Please refer to your testimony about reducing the additional ounce rate for letters weighing between one and two ounces (page 18, lines 17-20). Assume that your proposal involved a one-cent reduction in the rate for such letters, which would reduce the additional-ounce rate from 23 cents to 22 cents for such letters.

(c) Please confirm that if Aunt Minnie were mailing a three-ounce letter, she would affix 22 cents in postage for the second ounce and 23 cents in postage for the third ounce. If not confirmed, please explain.

RESPONSE:

Not Confirmed. Under the Service's proposed 33-cent stamp and MMA's proposed 1-cent reduction in the second ounce rate, the required postage for each ounce of a 3-ounce letter would be 33+22+24 (for a total of 79 cents), but Aunt Minnie could pay the required postage by affixing one 33-cent stamp and two 23-cent stamps. I do not propose a change from the Postal Service's proposed rate for a 3-ounce letter. Please see Attachment 2, page 2 to my testimony.

Major Mailers Association Witness Richard E. Bentley
Answers to USPS Interrogatories USPS/MMA-T1-7-12

USPS/MMA-T1-12. Please refer to your testimony about reducing the additional ounce rate for letters weighing between one and two ounces (page 18, lines 17-20). Assume that your proposal involved a one-cent reduction in the rate for such letters, which would reduce the additional-ounce rate from 23 cents to 22 cents for such letters.

(d) Please confirm that if Aunt Minnie were mailing a three-ounce flat, she would affix 23 cents in postage for the second ounce and 23 cents for the third ounce. If not confirmed, please explain.

RESPONSE:

Confirmed. Under the Service's proposed 33-cent stamp, the required postage for a 3-ounce flat would be $33+23+23 = 79$ cents. I do not propose a change from the Postal Service's proposed rate for a 3-ounce flat.

**Major Mailers Association Witness Richard E. Bentley
Answers to USPS Interrogatories USPS/MMA-T1-7-12**

USPS/MMA-T1-12. Please refer to your testimony about reducing the additional ounce rate for letters weighing between one and two ounces (page 18, lines 17-20). Assume that your proposal involved a one-cent reduction in the rate for such letters, which would reduce the additional-ounce rate from 23 cents to 22 cents for such letters.

(e) Do you think these rate relationships could confuse Aunt Minnie?

RESPONSE:

When all factors are considered, I believe that even if that possibility might exist, the overriding criterion of offering rates that are fair and equitable makes the result worth the risk.

My proposal reduces the rate for First-Class two-ounce letters to enable the rates to more closely track costs. In doing so, I believe that First-Class single piece mailers will benefit from fairer rates and will be subject to a rate schedule that is no more difficult to understand than the current rate schedule.

Currently, if Aunt Minnie does not go to a post office, she would benefit from having both a template with which to measure the size of her letter to determine if a nonstandard surcharge is necessary *and* a scale to determine the number of additional ounces. Given that Aunt Minnie (including businesses) mailed 325 million nonstandard letters, 3.2 billion 2-ounce letters, and 1.2 billion 3-ounce letters in FY 1996, she has responded fairly well to the current set of regulations.

My proposal will not change much. Aunt Minnie will still need the template to see if her 2-ounce letters are in fact letters, and she will still need

her scale to see how many extra ounces of postage is required. The only other item she will have to be aware about is how to compute the postage for her 2-ounce letter. In this regard, she will be rewarded with a discount. Given the choice, I believe Aunt Minnie would choose to accept the discount.

Please see also my answer to part (f) of USPS/MMA-T1-12.

Major Mailers Association Witness Richard E. Bentley
Answers to USPS Interrogatories USPS/MMA-T1-7-12

USPS/MMA-T1-12. Please refer to your testimony about reducing the additional ounce rate for letters weighing between one and two ounces (page 18, lines 17-20). Assume that your proposal involved a one-cent reduction in the rate for such letters, which would reduce the additional-ounce rate from 23 cents to 22 cents for such letters.

(f) Please evaluate your proposed, though not specified reduction, in terms of the pricing criterion calling for "simplicity of structure for the entire schedule [of postal rates and fees] and simple, identifiable relationships between the rates or fees charged the various classes of mail for postal service" (section 3622(b), Title 39, United States Code).

RESPONSE:

Please see my answer to part (e) of USPS/MMA-T1-12.

The pricing criteria you cite must also be considered in conjunction with the other criteria, including Section 3622(b)(1), which states that rates must be "fair and equitable". For the reasons described in my testimony, I believe that the current and USPS proposed rate for a 2-ounce letter is much greater than its cost. Consequently, a decrease in the second ounce rate for such pieces will make the rates fairer. In developing my proposal I considered the simplicity of rate structure criterion and felt that it was more important for the Postal Service to reduce the current cross subsidization of two-ounce letters and worth the risk of potential confusion among a relatively small number of First-Class single piece mailers. In 1996, for instance, there were 3.2 billion 2-ounce First Class single piece letters, many of which were mailed by businesses.

Rather than limit my proposal to sophisticated First-Class presorted mailers only, I concluded that the advantages of a rate reduction to all single piece mailers outweighed any disadvantages of potential confusion. If the Commission finds that First-Class single piece mailers would be unduly confused by a rate reduction, the Commission would still have no reason to deny the reduced second ounce rate to presort mailers. It would not be fair to continue to overcharge First-Class presort mailers, denying them of a more equitable rate, simply because the new second ounce letter rate might be less simple for single piece mailers.

You are correct in that I have not specified an exact reduction per piece in my proposal. If the Commission accepts my proposal, it will undoubtedly consider the revenue needs of the Postal Service and will determine the amount of revenue reduction that is appropriate within those guidelines.

DECLARATION

I, Richard Bentley, declare under penalty of perjury that the answers to interrogatories USPS/MMA-T1-7-12 of the United States Postal Service are true and correct, to the best of my knowledge, information and belief.

Executed 1/30/98

Richard Bentley