

DOCKET SECTION

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

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U.S. DEPARTMENT OF JUSTICE
OFFICE OF GENERAL COUNSEL

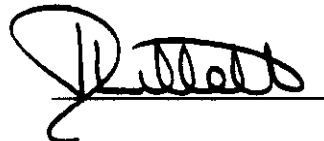
POSTAL RATE AND FEE CHANGES, 1997)
_____)

) Docket No. R97-1

**RESPONSE OF MAJOR MAILERS ASSOCIATION
WITNESS RICHARD E. BENTLEY TO INTERROGATORIES
OF ADVERTISING MAIL MARKETING ASSOCIATION
(AMMA/MMA-T1-1-3)**

Major Mailers Association (MMA) hereby provides its witness' Responses to the above-described interrogatories, filed on January 28, 1998.

Respectfully submitted,



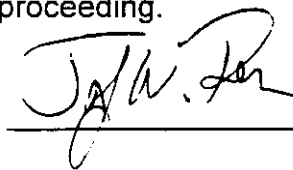
Richard Littell
Suite 400
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(202) 466-8260

February 10, 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.



February 10 __, 1998

Jeff Plummer

Major Mailers Association Witness Richard E. Bentley
Answers to AMMA Interrogatories

AMMA/MMA-T1-1.

On Page 2, Line 12 through Line 15 of your testimony you state that the Postal "Services [sic] Proposed First Class [sic] Mail rates be scaled back. My first preference is to have the First Class [sic] stamp rate continue at 32 cents. In any event, I propose that the Commission recommend modest reductions in the Services' [sic] proposed rates for rates for Automation and 2-ounce letters." Table 1 below summarizes the reduced revenue for each of your preferences/proposals.

| <u>Preference/Proposal</u> (1) | <u>Testimony Reference</u> (2) | <u>Revenue Reduction (Million)</u> (3) |
|---|-----------------------------------|---|
| 1. Retention of 32 cent stamp | Page 11, Line 2 | \$800 |
| 2. Increase in First Class Automation Discounts | Page 14, Line 16 | 72 |
| 3. Reduce Second Ounce Rate for First-Class Letters | Page 18, Line 19 | <u>26</u> |
| 4. Total | | \$898 |

- a. Please confirm the revenue reduction's for each preference/proposal noted in Table 1 above. If you are unable to confirm, please provide the appropriate revenue reduction and explain the cause of the difference with the values in Table 1.

RESPONSE:

The revenue reductions as shown in Table 1 are correct, although your figures as stated have been rounded.

On page 11, line 2 of my testimony, I state that retention of the current 32-cent stamp would result in revenue losses of "just over \$800 million." As shown in MMA-1A W/P I, p. 3, the revenue loss is estimated to be \$809 million.

On page 14, line 16, I note that if the Commission accepts my recommendation to reduce the Service's proposed First-Class Automation discounts by .2-cents, then revenues would be reduced by "about \$72 million." The actual reduction will probably be less than that amount since I did not take into account additional volumes that could be attracted by the reduced rate. For example, USPS witness Fronk's USPS-T-32 Workpaper I, p. 5 indicates that there will be 35.9 billion First-Class Automation and Carrier Route Letters for the test year at USPS proposed rates: 35.9 billion pieces times .2 cents equals \$71.8 million. More importantly, I estimate a maximum revenue loss of \$35.9 million per one-tenth cent decrease in the Service's proposed First-Class Automation rates.

In Exhibit MMA-1D I estimate the number of 2-ounce letters under the Service's proposed rates to be 2.558 billion pieces. If I assume no price elasticity such that no new volumes will be attracted from a decrease in the second ounce rate, the revenue loss is estimated to be 2.558 billion times 1 cent or \$25.58 million dollars per penny decrease in the second ounce rate. If new volumes are attracted, then the revenue loss would be less.

Major Mailers Association Witness Richard E. Bentley
Answers to AMMA Interrogatories

AMMA/MMA-T1-1.

On Page 2, Line 12 through Line 15 of your testimony you state that the Postal "Service's [sic] Proposed First-Class [sic] Mail rates be scaled back. My first preference is to have the First-Class [sic] stamp rate continue at 32 cents. In any event, I propose that the Commission recommend modest reductions in the Services' [sic] proposed rates for rates for Automation and 2-ounce letters." Table 1 below summarizes the reduced revenue for each of your preferences/proposals.

| <u>Preference/Proposal</u> (1) | <u>Testimony Reference</u> (2) | <u>Revenue Reduction (Million)</u> (3) |
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| 4. Total | | \$898 |

- b. Please show the impact of the proposed revenue reductions noted in Table 1 on the rates and volumes of Standard (A) mail including the rationale for the allocation of all required revenues to Standard (A) mail.

RESPONSE:

I have made no recommendation about the rates for Standard A Mail. As I stated in my response to interrogatory USPS/MMA-T1-7, 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 Mail A rates, since that would produce a First-Class markup index of 112 and a Commercial Standard Mail A markup index of 124, a result that I would not recommend.

Major Mailers Association Witness Richard E. Bentley
Answers to AMMA Interrogatories

AMMA/MMA-T1-2.

Please compare the aggregate value (revenue reductions and costs avoided) for worksharing discounts that occur in Standard (A) mail with the total discounts that occur in First-Class mail. In particular, please address the impact of dropshipping on First-Class vs. Standard (A) costs.

RESPONSE:

This interrogatory asks for a study of the value of worksharing and dropshipping discounts for Standard A mail and First-Class Mail that I have never prepared. I can, however, provide a comparison (for letters only) of the USPS proposed "revenue reductions and costs avoided" by rate category. This comparison is shown in the table below.

| <u>Rate Category</u> | (1) Processing & Delivery <u>Cost</u> | (2) Difference From <u>Benchmark</u> | (3) Proposed <u>Rate</u> | (4) Difference From <u>Benchmark</u> | (5) % Pass Through (4) / (2) |
|---------------------------|--|---|--------------------------------|---|---------------------------------------|
| First Class: | | | | | |
| Bulk Metered Benchmark | 14.7 | | 33.0 | | |
| Presorted | 11.3 | 3.4 | 31.0 | 2.0 | 59% |
| Basic Automation | 9.0 | 5.7 | 27.5 | 5.5 | 97% |
| 3-Digit Automation | 8.2 | 6.5 | 26.5 | 6.5 | 100% |
| 5-Digit Automation | 6.6 | 8.1 | 24.9 | 8.1 | 100% |
| Carrier Route | 6.4 | 8.3 | 24.6 | 8.4 | 101% |
| Standard Mail A: | | | | | |
| Basic Regular (Benchmark) | 13.0 | | 24.7 | | |
| 3/5 Digit Regular | 10.7 | 2.3 | 20.9 | 3.8 | 168% |
| Basic Automation | 8.7 | 4.3 | 18.9 | 5.8 | 135% |
| 3-Digit Automation | 8.1 | 4.9 | 17.9 | 6.8 | 140% |
| 5-Digit Automation | 6.7 | 6.2 | 16.0 | 8.7 | 140% |

Source for Col (1): Exhibit USPS-29C (Rev 10/1/97), pages 1 & 2

The impact of a Standard Mail A dropshipping discount serves to reduce both revenues and costs. I do not know the Service's proposed percent passthrough. However, if the percent passthrough is 100%, then theoretically, the contribution to institutional costs remains the same and the cost coverage will be raised. This result is caused by reducing the numerator and denominator of the cost coverage fraction by the same amount, which mathematically has to raise value of that fraction. Please also see my response to interrogatory CV-CW/MMA-T1-1c.

Major Mailers Association Witness Richard E. Bentley
Answers to AMMA Interrogatories

AMMA/MMA-T1-3.

On Page 16, Lines 5 and Line 6 [sic] you note that "An additional 5 billion pieces [of pre-barcoded mail] are expected to be attracted in just two more years, as projected by USPS witness Tolley. Such growth needs to have appropriate discounts in order to continue to attract large, new volumes."

Please confirm that the growth projected by Tolley is based upon the rates set forth in USPS Proposal in Docket R97-1. If you are unable to confirm, please explain.

RESPONSE:

The basis for my statement can be found on page 5 (revised) of USPS-T-6. As shown in Table 1, the test year before rate growth of First-Class Automated mail is almost 5 billion pieces. Although the context of my statement assumed current rates, a similar conclusion could be drawn under the Service's proposed rates as well.

DECLARATION

I, Richard Bentley, declare under penalty of perjury that the answers to interrogatories AMMA/MMA-T1-3 of the American Mail Marketing Association are true and correct, to the best of my knowledge, information and belief.

Executed 2/11/98

Richard Bentley