DOCKET SECTION

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

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-T1-13)

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

Respectfully submitted,

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February 10, 1998

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 USPS Interrogatories

USPS/MMA-T1-13.

At page 20 of your testimony you state: "In past studies, the Service's technical staff has uniformly found that the cost of processing two-ounce letters is no more than the cost of processing one-ounce letters..."

(a) Please cite all Postal Service technical staff studies, which support this claim.

RESPONSE:

The Postal Service's Competition Services Task force found that the "incremental ounce cost [i.e., rate] for First-Class mail is extremely high compared to the incremental increase in the cost of handling" (R97-1 Tr. 4:1444-45). The Service's Three-In-One Study reported that, for 1992, the additional-ounce rates produced the following markups over attributable costs (R97-1 Tr. 4:1446):

Ounce Interval	Current Markups: Letters
0 – 1 oz.	37%
1 – 2 oz.	125%
2 – 3 oz.	199%

Not surprisingly, the Three-In-One Study recommended eliminating the additional-ounce rate for First-Class letters under three ounces (R97-1 Tr. 4:1444-45).

In Docket No. R90-1, the Service submitted a study (USPS-LR-F-177) which MMA/ABA's witness interpreted as showing that one-ounce and two-ounce presorted letters' attributable costs are (R97-1 Tr. 4:1442-43):

ATTRIBUTABLE COSTS FOR PRESORT MAIL

Ounce Categories	Average Weight (Ounces)	Attributable Cost/Piece ($)
0.1 – 1	0.50	0.095
1 – 2	1.50	0.118
2 – 4	2.66	0.141

Most recently, beginning in early 1995, the Postal Service conducted live tests of barcoded third-class, second class and First-Class letter mail weighing between 3.0 and 3.3071 or 3.376 ounces and, as a result, has published a final rule increasing the maximum weight at which barcoded mail pieces are accepted for barcoding rates to more than 3 ounces (R97-1 Tr. 19-B: 8802-03. See *Id.* at 8761-64.).

Major Mailers Association Witness Richard E. Bentley
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At page 20 of your testimony you state: "In past studies, the Service's technical staff has uniformly found that the cost of processing two-ounce letters is no more than the cost of processing one-ounce letters..."

(b) For each of these studies, describe whether the study includes an analysis of the costs of all facets of mail processing, delivery and transportation costs.

RESPONSE:

The context of my quotation obviously refers to mail processing.

Transportation costs, represent only a small percent (4%) of total costs. In response to an interrogatory in Docket No. MC95-1, I stated that the "cost impact of weight on transportation costs is less than one cent per ounce." (USPS/MMA-T2-6(e))

Also, I know of no reason that delivery costs (for the 3% of letters weighing between 1.1 and 2 ounces) would be appreciably different for one-ounce letters than for two-ounce letters. In this regard, I note that the Postal Service charges the same rate for Commercial Standard A letters weighing one ounce and two ounces (and up to 3.3 ounces), implying that the Service's costs for processing, transportation and delivery do not increase for letters of any of these weights.

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(c) Please identify which of these studies has been relied upon by the Postal Rate Commission as a basis for recommending additional-ounce rates.

RESPONSE:

I do not know what studies the Postal Rate Commission relied upon when it concluded more than ten years ago that "[l]etters up to two ounces for the most part can be processed on the new automation at a cost no higher than a one ounce letter." (R87-1 Op., p. 448) This view was further strengthened when the Commission concluded that "letters processed with automation incur minimal or possibly no extra cost for letters weighing up to three ounces." (R94-1 Op., p. V-9)

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At page 20 of your testimony you state: "In past studies, the Service's technical staff has uniformly found that the cost of processing two-ounce letters is no more than the cost of processing one-ounce letters..."

(d) Please explain how your claim is consistent with Postal Service engineering study results reported at Tr. 4/1761 (Docket No. R97-1) which indicate that automation throughputs are 34,100 pieces per hour with 0 percent heavy weight pieces, while the throughput for 1.75 ounce pieces is 24,710 pieces per hour.

RESPONSE:

During the classification case, Docket No. MC95-1, USPS witness Pajunas produced an engineering study which, as stated in this interrogatory, purports to show that "heavier" letters reduce the "throughput" in automation machinery.

There are several reasons why the engineering study does not show that the Service incurs any extra costs for processing two-ounce letters. The first reason is that the study does not purport to say anything about costs at all. The study is an *engineering* study, not a *cost* study. Based upon an unrepresentative sample (as I will explain next), the engineering study reported that, although the throughput rate decreases only gradually as a letter's weight increases to about 2.5 ounces, throughput decreases at a faster rate as a letter's weight increases from 2.5 ounces to 4.5 ounces.

But the engineering study does not include any statement that the reported decrease in throughput will increase unit costs. The Postal Service's

costing witnesses in Docket No. MC95-1 also admitted that they had no data quantifying whether "heavyweight" letters weighing even up to 2.9 ounces are more costly to handle than letters weighing one ounce.

There is a second defect in the engineering study. That study examined heavyweight samples that are unrepresentative of the actual mailstream. For example, the reported throughput of 34,100 resulted from a test run of letters consisting of "typical #10 enveloped pieces", without defining the weight of such an envelope. On the other hand, the reported throughput of 24,710 resulted from a test run of letters all weighing 1.75 ounces. In fact, however, only a tiny fraction of First-Class letters weighs between 1.75 and 2.0 ounces. (Indeed, only about 3% of First-Class letters weigh between 1.1 and 2 ounces.)

In order to test the significance of the service's engineering study, during Docket No. MC95-1, I performed my own sensitivity study, using the unrepresentative assumption that all pieces in the mailstream weigh the same "heavy" amount. I testified about my study on the record in Docket No. MC95-1. Even on that "worst case" basis, I demonstrated in my sensitivity study that the "unit attributable costs would increase very little."

Additionally, the engineering study showed that throughput decreases by only 2% when the percent of "heavier mailpieces" "intermixed with typical #10 enveloped pieces" is 3%. "Heavier mailpieces" are not defined and could weigh as much as 4.5 ounces. Since (as I said) only about 3% of First-Class letters weigh between 1.1 ounces and 2 ounces, it appears to me that the 2% throughput reduction and the resulting cost increase is inconsequential.

Finally, when heavier pieces are intermixed with typical letters, there is virtually no impact on througnput rates. This was shown by the engineering study's test of heavyweight letters that made up one percent of the test set of letters (which is more representative of the actual mailstream). In that test, the heavyweight letters decreased throughput by only six-tenths of one percent.

For these reasons, I believe that my "claim" is perfectly consistent with the results found by the engineering study.

DECLARATION

I, Richard Bentley, declare under penalty of perjury that the answers to interrogatories USPS/MMA-T1-13 of the United States Postal Service are true and correct, to the best of my knowledge, information and belief.

Executed 2/11/98

Richard Bentley