

Major Mailers Association Witness Richard E. Bentley
Answers to VAL-PAC/Carol Wright Interrogatories

VP-CW/MMA-T1-1.

a. You state (at MMA-T-1, p. 6) that the markup indices resulting from rates proposed by the Postal Service for First-Class letter mail (1.19) and for "Commercial Standard A mail" as defined in your testimony (1.06), using the costing methodology you suggest is correct, would not be "roughly equivalent." Please define "roughly equivalent," in this context.

RESPONSE:

I placed the "roughly equivalent" language on page 6, line 10, within quotation marks because, as noted in the parenthetical statement on the same line, the language is a direct quotation from the Commission's language in its MC95-1 Opinion. As stated on page 5 my testimony, the Commission was reaffirming--again in the Commission's own words--its "view that the two largest volume subclasses in First-Class and Standard Mail should have roughly equivalent indices." In using this phrase in my testimony, I meant it to have whatever meaning that the Commission intended.

I understand the Commission's statement in Docket No. MC95-1 to reflect the Commission's distaste, during a long series of rate actions, for the disparity between the relative contributions made to institutional costs by First-Class Mail and by what is now Standard Mail A ECR and Other combined . Note the following Commission statements:

Docket No. R87-1

We have chosen to recommend First-Class rates which produce a greater contribution towards institutional costs than would have been generated by our target First-Class coverage...In future cases we expect First-Class to return to that traditional level.
(Docket No. R87-1, pages 402-3)

Docket No. R90-1

This is the second consecutive case in which we might have raised First-Class rates less, and raised third-class rates more, but for the potential impact of such increases on third-class mailers. Thus, despite our rate adjustments, the situation in which First-Class mailers are providing revenues which more properly should be provided by third-class mailers is being perpetuated. We must comment that the choice between unduly burdening First-Class business and personal correspondence and imposing even greater percentage rate increases on businesses which rely on third-class for essential services is particularly difficult, and the Postal Service and mailers should be aware that the current status is consistent with the Act only as a short-term remedy. (Docket No. R90-1, Pages IV-33-4, footnote 16)

Docket No. R94-1

...the other consequences of implementing [a reduced First-Class rate] in this case would have included average rate increases of 17 percent for third-class regular rate, 24 percent for second-class regular rate, and even greater increases for the parcel subclasses in fourth-class mail...Rate increases of these magnitudes would cause the Commission serious concern about their effects upon mailers...The Commission regards [its] pricing recommendations as compromises, but compromises that are appropriate in view of the extraordinary considerations in operation here. (Docket No. R94-1, p. IV-16)

Major Mailers Association Witness Richard E. Bentley
Answers to VAL-PAC/Carol Wright Interrogatories

VP-CW/MMA-T1-1.

b. i. Please confirm the following historical comparison of markup indices based on Postal Rate Commission recommended rates:

	<u>R71-1</u>	<u>R74-1</u>	<u>R77-1</u>	<u>R78-1</u>	<u>R80-1</u>	<u>R84-1</u>	<u>R87-1</u>	<u>R90-1</u>	<u>R94-1</u>
First-Class Letter	1.13	1.26	1.21	1.00	0.93	1.14	1.20	1.24	1.31
Third-class Bulk	1.22	1.19	1.06	0.83	1.26	0.89	0.84	0.94	0.90

RESPONSE:

Confirmed, based on Commission Opinion, Docket No. R94-1, Appendix G,
Schedule 3, page 2.

Major Mailers Association Witness Richard E. Bentley
Answers to VAL-PAC/Carol Wright Interrogatories

VP-CW/MMA-T1-1.

b. ii. In your opinion, which of these pairs of markup indices are “roughly equivalent”?

RESPONSE:

Please see my answers to Interrogatory VP-CW/MMA/T1-1a and T1-5b, particularly where I quote from the Commission’s Opinions since Docket No. R87-1. Because the Commission continually provides justifications to explain why First-Class rates are too high relative to third class (now Commercial Standard mail A), it appears that at least since that Docket, none of the pairs of markup indices are “roughly equivalent”.

I have not evaluated the Commission Opinion’s prior to Docket No. R87-1.

**Major Mailers Association Witness Richard E. Bentley
Answers to VAL-PAC/Carol Wright Interrogatories**

VP-CW/MMA-T1-1.

c. Please confirm that the markup indices proposed in this proceeding by the Postal Service for First-Class letter mail (formerly First-Class Letters and Sealed Parcels) and for Standard A Commercial (formerly Bulk Rate Regular) are the closest together they have been since 1974. If you do not confirm, please explain fully.

RESPONSE:

Confirmed. Such a comparison incorporates all of the cost methodology rate structure and mail mix changes that have taken place over the past 20 years.

Theoretically, worksharing rates offered to Standard mail, such as destination and saturation discounts, tend to lower postal costs and raise the cost coverage, all other things being equal. First-Class presort mailers are not offered such discounts.

Major Mailers Association Witness Richard E. Bentley
Answers to VAL-PAC/Carol Wright Interrogatories

VP-CW/MMA-T1-1.

d. i. Please state the markup indices for First-Class Letter Mail and for Standard A ECR Mail under both the Postal Service's costing methodology and the costing methodology you say should be used.

RESPONSE:

The costing methodology that I urge the Commission to use is the Commission's methodology used to support the last rate case in Docket No. R94-1.

The markup indices that you request are shown below:

	USPS <u>Costs</u>	PRC <u>Costs</u>
First-Class Letters	128	119
Standard A ECR	164	201
Source	Exh. MMA-1B	Exh. MMA-1A

If comparisons are to be meaningful, I think that it is useful also to compare the markup index for Standard A ECR Mail with the index for Presort Letters. Although one type of mail is a subclass (as a result of Docket No. MC95-1) and one is not, the two types of mail have many similarities in terms of physical characteristics, the manner of mailers' worksharing, the manner in which they are processed, and their ability to yield cost savings for the Postal Service. The markup indices are (*Id.*):

	USPS <u>Costs</u>	PRC <u>Costs</u>
First-Class Presort Letters	234	255
Standard A ECR	164	201

Major Mailers Association Witness Richard E. Bentley
Answers to VAL-PAC/Carol Wright Interrogatories

VP-CW/MMA-T1-1.

d. ii. In your opinion, are these markup indices for such subclasses roughly equivalent? If not, please explain in detail why not.

RESPONSE:

Please see my Response to Interrogatory VP-CW/MMA-T1-1a, where I explained that, as discussed in my testimony on page 5, I have quoted the Commission's Docket No. MC5-1 Opinion, at page I-8, reaffirming its goal that the markup indices for First-Class letters, and Standard Mail A ECR and Other combined, should be "roughly equivalent". I have used the Commission's words "roughly equivalent" in the same context. The Commission has not made a determination of whether the markup indices for First-Class letters and Standard Mail A ECR should be "roughly equivalent". Nor have I.

Major Mailers Association Witness Richard E. Bentley
Answers to VAL-PAC/Carol Wright Interrogatories

VP-CW/MMA-T1-2.

a. Please confirm that, in developing cost coverage for the various classes and subclasses of mail, the Postal Rate Commission is required to, and does, consider the non-cost factors set forth in 39 U.S.C. Section 3622(b).

RESPONSE:

Confirmed. I note that section 3622(b)(3) also requires the Commission to consider the direct and indirect costs for each subclass and service as well.

**Major Mailers Association Witness Richard E. Bentley
Answers to VAL-PAC/Carol Wright Interrogatories**

VP-CW/MMA-T1-2.

b. Please state whether, in making your recommendations with respect to the markup index for First-Class Mail, you considered the non-cost factors set forth in 39 U.S.C. Section 3622(b). If your answer is in the affirmative, please summarize your findings with respect to each factor.

RESPONSE:

I did not make a recommendation with respect to the markup index for First-Class Mail. I did not recommend rates for all subclasses and services and therefore did not independently consider the non-cost factors of Section 3622(b).

In order for the Commission to realize its long-term stated objective with respect to First-Class rates, I suggest ways in which the Commission can attain those objectives and comply with the non-cost factors of the Act. Specifically, I note that (1) the Commission might "want to consider retaining the current 32-cent rate for the basic First-Class stamp." (p. 10), (2) increase the First-Class automation discounts so that they better reflect the true cost savings (pages 12-18) and (3) lower the second ounce First-Class letter rate so that the rate better tracks costs.

**Major Mailers Association Witness Richard E. Bentley
Answers to VAL-PAC/Carol Wright Interrogatories**

VP-CW/MMA-T1-3.

Please refer to your testimony at page 7, lines 6 through 11. Using the numbers in Table 3 of your testimony, please explain if you do not confirm any of the statements in questions (a) through (c) below.

a. Please confirm that the unit contributions proposed by the Postal Service in this docket for First-Class letters are 203 percent of those proposed for Standard Mail A Commercial.

RESPONSE:

Confirmed.

Major Mailers Association Witness Richard E. Bentley
Answers to VAL-PAC/Carol Wright Interrogatories

VP-CW/MMA-T1-3.

Please refer to your testimony at page 7, lines 6 through 11. Using the numbers in Table 3 of your testimony, please explain if you do not confirm any of the statements in questions (a) through (c) below.

b. Please confirm that the unit contributions adopted by the Commission in Docket No. R94-1 for First-Class letters were 206 percent of those proposed for Third-Class Bulk Regular.

RESPONSE:

The unit contributions adopted by the Commission in Docket No. R94-1 for First-Class letters were 206 percent of those adopted by the Commission for Third-Class Bulk Regular.

Major Mailers Association Witness Richard E. Bentley
Answers to VAL-PAC/Carol Wright Interrogatories

VP-CW/MMA-T1-3.

Please refer to your testimony at page 7, lines 6 through 11. Using the numbers in Table 3 of your testimony, please explain if you do not confirm any of the statements in questions (a) through (c) below.

c. Please confirm that the unit contributions adopted by the Commission in Docket No. R90-1 for First-Class letters were 296 percent of those proposed for Third-Class Bulk Regular.

RESPONSE:

The unit contributions adopted by the Commission in Docket No. R90-1 for First-Class letters were 296 percent of those adopted by the Commission for Third-Class Bulk Regular.

**Major Mailers Association Witness Richard E. Bentley
Answers to VAL-PAC/Carol Wright Interrogatories**

V-CW/MMA-T1-3.

Please refer to your testimony at page 7, lines 6 through 11. Using the numbers in table 3 of your testimony, please explain if you do not confirm any of the statements in questions (a) through (c) below.

d. Would you agree, based on your Table 3, that the unit contributions proposed by the Postal Service in this docket for First-Class letters, when compared with those for Standard A Commercial, are significantly less than the respective contributions in Docket Numbers R90-1 and R94-1? If you do not agree, please explain.

RESPONSE:

The unit contributions as shown in Table 3 of my testimony speak for themselves. Given the amount of rate structure changes as well as the changes in volume mixes among the different rate categories, I could not answer whether or not the differences as proposed by the Postal Service in this proceeding are "significantly less than the respective contributions in Docket Numbers R90-1 and R94-1," even if I knew Val-Pac's quantification for the term, "significantly."

My purpose with respect to the figures shown in Table 3 is to illustrate the discrepancy in the relative contributions to institutional costs made by mail--which as I also note in my Response to Interrogatory CP-CW/MMA-T1-1d with respect to Presorted Letters and Commercial Standard A ECR--with similar costs, processed on the same equipment using the same separation schemes. Similarly, my Table 10 with respect to total contributions, shows a First-Class contribution that is nearly three times (\$13.4 billion versus \$4.5 billion) that of Commercial Standard Mail. In the past, the Commission has accepted these

discrepancies with obvious distaste in order to avoid rate shock to non-First-Class mailers, as I note on pages 20-21 of my testimony, but those Commission decisions represented “compromises” (See *e.g.*, R94-1 Op., P. IV 16) that have burdened First-Class Mail with an excessive institutional cost burden.

**Major Mailers Association Witness Richard E. Bentley
Answers to VAL-PAC/Carol Wright Interrogatories**

VP-CW/MMA-T1-4.

Please confirm that in comparing the respective percentages of total weight of First-Class letters and Standard Mail A Commercial (at page 4, line 25 through page 5, line 3 of your testimony, as well as in Exhibit MMA-1C), you state that Standard Mail A commercial accounts for 69 percent of total weight, as opposed to 17 percent for First-Class letters.

Please review the relevant data and advise if you now agree that Standard Mail A Commercial accounts for only 39 percent of total weight, and that your testimony should be corrected.

If you do not agree with this correction, please explain in detail.

RESPONSE:

My Exhibit MMA-1C, page 1, line 3, correctly states that Standard A Commercial mail provides 9,095 million pounds of the 23,489 million total pounds of all mail. As these numbers demonstrate, Standard A Commercial mail thus represents 39 percent (38.72%) of total weight, as stated in Interrogatory CP-CW/MMA-T1-4, rather than 69 percent, and the use of the latter number in my Exhibit MMA-1C, page 1, line 4 and page 5, line 2 of my testimony (and accompanying charts) was the result of an error. In the draft of my testimony, page 5, line 2, I used the correct number--39 percent--and all my conclusions in the text were based on that 39-percent number. However, during the preparation of the final text for reproduction, the discrepancy between the 39-percent number in the text and the 69-percent number in Exhibit MMA-1C (and the charts) was noted. Unfortunately, the 39-percent number in the text was changed to conform to the 69-percent number in Exhibit MMA-1C (and the

charts), instead of the opposite.

MMA is filing an Errata Notice to correct this error. Since my conclusions in the text of my testimony were all based upon the correct 39-percent number, none of those conclusions are affected by the error.

Major Mailers Association Witness Richard E. Bentley
Answers to VAL-PAC/Carol Wright Interrogatories

VP-CW/MMA-T1-5.

- a. Would you agree that as a result of Docket No. MC95-1, Standard A ECR and Standard A Regular are each independent subclasses?

RESPONSE:

Yes.

**Major Mailers Association Witness Richard E. Bentley
Answers to VAL-PAC/Carol Wright Interrogatories**

VP-CW/MMA-T1-5.

- b. Please explain why two independent subclasses should be lumped together and compared collectively with First-Class, rather than being compared independently?

RESPONSE:

On page I-8 in its Docket No. MC95-1 Opinion, the Commission stated, "The Commission's willingness to establish an additional subclass within Standard mail should not be interpreted as a retreat from the view that the largest volume subclasses in First-Class and Standard Mail should have roughly equivalent markup indices."

This Commission statement, as I read it, requires that comparisons must continue to be made between First-Class Mail *and* the aggregate of Commercial Standard A mail, thus including both ECR and Standard. If ECR were to be treated separately, then, I believe, it would still be relevant to compare the markup index for Standard A ECR Mail with the index for Presort Letters. Although one type of mail is a subclass (as a result of Docket No. MC95-1) and one is not, the two types of mail have many similarities in terms of physical characteristics, the manner of mailers' worksharing, the manner in which they are processed, and their ability to yield cost savings for the Postal Service.

Under the Commission's methodology, those markup indices are:

	PRC <u>Costs</u>
First-Class Presort Letters	255
Standard A ECR	201

Source: Exhibit MMA-1A, page 2

The markup indices for First Class Mail and Commercial Standard A

Regular mail, under the Commission's methodology, are:

	PRC <u>Costs</u>
First-Class Letters	119
Commercial Standard A	106

Source: Exh. MMA-1A

See also my Response to Interrogatory VP-CW/MMA-T1-1di

Major Mailers Association Witness Richard E. Bentley
Answers to VAL-PAC/Carol Wright Interrogatories

VP-CW/MMA-T1-5.

- c. Please cite all instances (of which you are aware) where the Postal Rate Commission has combined independent subclasses for purposes of comparing coverage and contribution to overhead.

RESPONSE:

Although I am not aware of other instances, I believe that, for the reasons stated in my Response to Interrogatory VP-CW/MMA-T1-5b, the circumstances of Commercial Standard A ECR's creation in Docket No. MC95-1 justify--even require--continued comparisons of First-Class Mail and the aggregate of Commercial Standard A mail, including both Standard A Regular and ECR.

DECLARATION

I, Richard Bentley, declare under penalty of perjury that the answers to interrogatories VP-CW/MMA-T1-5 of Val-Pac Direct Marketing Systems, Inc., Val-Pac Dealers' Association, Inc. and Carol Wright Promotions, Inc. are true and correct, to the best of my knowledge, information and belief.

Executed 2/11/98

Richard Bentley