

ABA/NAA WITNESS CLIFTON ANSWERS TO INTERROGATORIES
OF THE UNITED STATES POSTAL SERVICE

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USPS/ABA/NAA-T1-10. On page 2 of your testimony, at lines 12-14, you state, "Existing analyses have documented that mail processing and delivery costs due to the second and third ounces of workshared First-Class mail are very small."

- (a) The analysis which follows, for example, Table 4 and your Technical Appendices, refer generally to attributable costs and incremental costs, rather than specifically to mail processing and delivery costs. Please explain the difference in terminology.
- (b) In light of your focus on mail processing and delivery costs in the quote above (the costs that witness Frunk used in setting automation discounts for letters; see Table 5 at page 26 of USPS-T-32), do you view your proposal as a discount? If not, please explain.
- (c) Please confirm that under your proposal, a presorted letter weighing between 1 and 2 ounces would find its additional-ounce rate reduced 11 cents, when compared with the USPS proposal (23 cents minus 12 cents).
- (d) Is it your contention that in processing and delivering a presorted letter weighing between 1 and 2 ounces, the Postal Service avoids 11 cents in mail processing and delivery costs, as compared to a letter weighing one ounce or less? Please explain.
- (e) Please confirm that under your proposal, a presorted letter weighing between 2 and 3 ounces would find its additional-ounce rate reduced 22 cents, when compared with the USPS proposal – (23 cents x 2) minus (12 cents x 2); or (46 cents minus 24 cents).
- (f) Is it your contention that in processing and delivering a presorted letter weighing between 2 and 3 ounces, the Postal Service avoids 22 cents in mail processing and delivery costs, as compared to a piece weighing one ounce or less? Please explain.

Answer:

(a) The tables in my Technical Appendices are based on total attributable costs and unit attributable costs. The data on costs are obtained from USPS LR-F-177 which reports attributable cost in total and for detailed categories. Mail processing and

delivery costs comprise the bulk of attributable costs as shown in USPS LR-F-177. For nonpresort (single piece), mail processing and delivery costs account for 65% of total attributable costs (\$7.0 billion out of \$10.7 billion). For presort (workshared), mail processing and delivery costs account for 70% of total attributable costs (\$1.6 billion out of \$2.3 billion).

(b) See my answer to AMMA/ABA/NAA/T-1-5.b.

(c) I am not making a discount proposal so I would not use the term "reduced." Confirmed that I am proposing a 12 cent rate for the second and third ounce which is 11 cents less than the USPS proposed rate of 23 cents.

(d) My proposal is not based upon avoided costs as such, the terminology that would apply to a discount. My proposal is based on the cost studies I cite in Technical Appendix A, attached to my testimony.

(e) The letter would have a total additional ounce price of 24 cents, 22 cents less than the USPS proposed price of 46 cents, a price which carries with it a 920% cost coverage that is not simply excessive, but outrageous.

(f) Since the marginal cost to the USPS of the letter beyond the first ounce appears to be about 5 cents (2.5 cents X 2), to borrow your terminology, the costs "avoided" were that letter one ounce rather than between 2 and 3 ounces would be 5 cents. My 12 cent rate proposal still gives the Postal Service a whopping 420% cost coverage on the extra costs actually incurred for that mailstream.

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USPS/ABA/NAA-T1-11. On page 11, lines 8-10, of your testimony, you propose lowering the additional-ounce rate which applies to the second- and third-ounces of presorted First-Class mail letters from 23 cents per ounce to 12 cents per ounce. Please explain why you did not extend your 12-cent additional-ounce rate to nonpresort letters weighing between 1 and 3 ounces.

Answer:

I did not extend my proposal to nonpresort letters because the available USPS evidence is less extensive for this type of mail. Moreover, part of my case rests on considerations of equity with Standard A workshared letters, which at present have a zero extra ounce rate for the second and third ounces, and which rate structure begins to measure and account for weight only after the third ounce in the pound rate.

USPS/ABA/NAA-T1-12. In Table 5, page 14, of your testimony, you cite "Additional Ounce Model, Workpapers," as the source of the data. Please provide specific cites to Technical Appendices, page and line numbers within your general reference to workpapers.

Answer:

The figures in Table 5 are taken from Technical Appendix A.1 to my Workpaper. The pages within Technical Appendix A.1 are page 6 (volume), page 8 (revenue), and page 10 (volume variable costs). Cost coverage is the ratio of revenue to volume variable costs.

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USPS/ABA/NAA-T1-13. In Table 6, page 15, of your testimony, you cite "Technical Appendix C, Additional Ounce Model; Workpapers," as the source of the data. Please provide specific cites to page and line numbers within this general reference.

Answer:

The figure in Table 6 are taken from Technical Appendix A.1 to my Workpaper. The pages within Technical Appendix A.1 are page 6 (volume), page 8 (revenue), and page 10 (volume variable costs). Cost coverage is the ratio of revenue to volume variable costs. Technical Appendix C is not a source for Table 6.

USPS/ABA/NAA-T1-14. The "alternate proposal" you present in Technical Appendix C, page 3, includes rates for presort cards that are different than those proposed by the Postal Service. The body of your testimony makes no mention of card rates. Are you proposing alternate card rates? If so, what is the justification for your alternate proposal?

Answer:

In Technical Appendix C, the rates for First-Class cards have been set at their current rates instead of at the rates in the USPS proposal. I am not adopting this as part of my formal proposal; my proposal addresses the issues of the rates for extra ounces.

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USPS/ABA/NAA-T1-15. Please confirm that the "alternate proposal" in Technical Appendix C, pages 3-4, proposes alternate rates for Standard Regular and ECR mail, but makes no alternate proposal for nonprofit rates. If confirmed, please provide nonprofit rates that conform to the Revenue Forgone Reform Act.

Answer:

Confirmed.

My testimony addresses the issues of the rates for First-Class workshared additional ounces and the contrast between these rates and the rates for Standard A commercial additional ounces. My model has a great deal of detail for these two types of mail and little detail for other types of mail.

Please see my answer to ADVO/ABA/NAA-T1-13(c).

RESPONSES OF VP-CW/ABA/NAA WITNESS CLIFTON TO INTERROGATORIES
OF VAL-PAK DIRECT MARKETING SYSTEMS, INC., VAL-PAK DEALERS'
ASSOCIATION, INC., AND CAROL WRIGHT PROMOTIONS, INC.

VP-CW/ABA/NAA-T1-1. Please refer to your testimony at page 4, lines 2-4.

- a. Is it your view that the individual physical characteristics of First-Class workshared letter mail are identical to that of Standard A Regular letter mail? If not, please explain.
- b. Is it your view that the mail preparation requirements for First-Class workshared mail and Standard A mail are equally burdensome on mailers? If not, please explain.

Answer:

- a. Essentially, for rate making purposes by automation rate category, yes.
- b. With mail reclassification in 1995, there has been a homogenization of worksharing requirements by rate category as between First Class and Standard A letter mail, and in that sense the preparation requirements have become "equally burdensome on mailers."

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RESPONSES OF VP-CW/ABA/NAA WITNESS CLIFTON TO INTERROGATORIES
OF VAL-PAK DIRECT MARKETING SYSTEMS, INC., VAL-PAK DEALERS'
ASSOCIATION, INC., AND CAROL WRIGHT PROMOTIONS, INC.

VP-CW/ABA/NAA-T1-2. Your proposed First-Class workshared second- and third-ounce rates apply only to letter mail.

- a. Please explain what cost evidence you have developed which supports an 11 cent letter/nonletter rate differential for two-ounce-or-less First-Class workshared mail.
- b. Please explain what cost evidence you have developed which supports a 22 cent letter/nonletter rate differential for more-than-two-ounces First-Class workshared mail.
- c. Did you consider raising First-Class single piece rates to raise the \$138 million revenue loss that you estimate would result for your proposed First-Class workshared second- and third-ounce letter rates? Please explain your answer.
- d. Did you consider raising First-Class workshared nonletter rates to raise the \$138 million revenue loss that you estimate would result from your proposed First-Class workshared second- and third-ounce letter rates? Please explain your answer.

Answer:

a. I am not sure what you mean by "rate differential," but if you mean I am proposing a 12 cent extra ounce rate for First Class workshared mail but not for First Class single piece mail, then the cost evidence on which I based my proposal is fully discussed in Technical Appendix A, attached to my testimony. That evidence (see Table A-5) suggests that the incremental cost of the second and third ounce of First Class single piece mail is about five times that of First Class workshared mail, and as such I could have supported a much lower rate for First Class workshared mail than the 12 cents I propose.

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RESPONSES OF VP-CW/ABA/NAA WITNESS CLIFTON TO INTERROGATORIES
OF VAL-PAK DIRECT MARKETING SYSTEMS, INC., VAL-PAK DEALERS'
ASSOCIATION, INC., AND CAROL WRIGHT PROMOTIONS, INC.

b. See my answer to 2.a. above.

c. First Class single piece rates are subject to a whole cent rounding convention and the very small revenue requirement of my extra ounce rate proposal would not require raising the First Class single piece rate. Moreover, considerations of equity with extra ounce (zero) rates for Standard A mail and the apparent cross subsidy from First to Standard under the USPS proposed extra ounce rates led me to propose a very small increase in the cost coverage of Standard A commercial mail to meet the revenue requirement of my proposal.

d. No, for the same reasons stated above in 2.c.

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RESPONSES OF VP-CW/ABA/NAA WITNESS CLIFTON TO INTERROGATORIES
OF VAL-PAK DIRECT MARKETING SYSTEMS, INC., VAL-PAK DEALERS'
ASSOCIATION, INC., AND CAROL WRIGHT PROMOTIONS, INC.

VP-CW/ABA/NAA-T1-3. In Docket No. R90-1, where the Commission recommended **shape-based** rate categories for third-class mail for the first time, the Commission stated the "shape, as long suspected, does have an effect on costs, but ... this effect is determined in part by presort level and delivery patterns." In addition, the Postal Service's witness testified in Docket R90-1 "that the costs show not only that letters are less costly than flats, but that the differential declines with finer presortation. He also says that the data show that 'presorting is worth roughly 60 percent more for flats than for letters.'" *Op. & Rec. Dec.*, Docket No. R90-1, p. V-226.

- a. If, as you state, First-Class workshared letter mail and Standard A Regular letter mail have similar processing and delivery costs, does it follow that any effect of shape on the respective costs incurred by First-Class workshared letters and nonletters would also be "determined in part by presort level and delivery patterns"? Please explain your answer.
- b. Would your proposed rates be more cost-based if the letter/nonletter rate differential for First-Class workshared mail varied with level of presort and dropshipment? Please explain your answer.

Answer:

- a. I do not know. My testimony focuses on the effect of increasing weight on cost, and not the effect of shape on cost.
- b. Please see my answer to part a.

1 CHAIRMAN GLEIMAN: Does any participant have
2 additional written cross examination for Witness Clifton?

3 [No response.]

4 CHAIRMAN GLEIMAN: If not, we'll move on to oral
5 cross examination, four parties: The Advertising Mail
6 Marketing Association; Advo, Inc.; ValPak Marketing System,
7 ValPak Dealers Association and Carol Wright Promotions,
8 which is all one party; and the United States Postal Service
9 have requested oral cross examination of Witness Clifton.

10 Does anyone else wish to examine the witness?

11 If not, then Mr. Wiggins, we will begin when you
12 are ready.

13 MR. WIGGINS: Thank you, Mr. Chairman.

14 CROSS-EXAMINATION

15 BY MR. WIGGINS:

16 Q Dr. Clifton, Frank Wiggins for the Advertising
17 Mail Marketing Association.

18 Do you have your answer to AMMA Interrogatory 5 to
19 you handy?

20 A I have it. If you will bear with me, I can tab to
21 it.

22 Q Let me know when you have it.

23 A All right.

24 Yes, I have it, Mr. Wiggins.

25 Q I just want to be clear that I understand your

1 answer.

2 I think our question may have been a little bit
3 confused and confusing.

4 You are telling us how you calculate the rate for
5 the incremental ounce and you say that we have done it a
6 little bit wrong and you restate the answer, and I just want
7 to make sure that we are saying the same thing here.

8 For the first ounce, for example in your restated
9 version of the answer, am I correct in thinking that you add
10 23, the total rate number, plus 12 in order to get to the 35
11 cent rate for a two-ounce mail piece?

12 A Mr. Wiggins, we did have trouble reading your
13 question but we are making no proposal in this testimony for
14 the first ounce rate as such. We are only dealing with the
15 second and third ounce rate.

16 What we are proposing in that as opposed to the
17 Postal Service's proposal of 23 cents for the second and
18 third ounce is a rate of 12 cents for the second and third
19 ounce.

20 Q I just want to make sure that I understand your
21 answer here, Dr. Clifton.

22 You say for the weight of one ounce that the total
23 rate is 23 cents and the rate for the incremental ounce is
24 12. That is to get from ounce one to ounce two, is that
25 right?

1 A No. We are talking about incremental ounces here
2 and we interpreted your chart as talking about the -- in
3 light of some of the numbers on your chart -- as talking
4 about the first incremental ounce.

5 The first incremental ounce is the second ounce
6 and you had listed in your chart here 23 cents for the first
7 incremental ounce as being the Postal Service's proposal,
8 which is correct.

9 Our proposal is to have that rate be 12 cents, not
10 23 cents.

11 Q Just so we are clear that we are talking about the
12 same thing, when you say the first incremental ounce, you
13 mean the second ounce of weight, is that correct?

14 A That's correct. That is how we interpreted your
15 question.

16 Q Look at page 7 of your workpaper with me, would
17 you, please?

18 Tell me what you are explaining to me by the
19 articulation set out in lines 5 through 10, would you?

20 That is a verbal formula, correct?

21 A That's correct.

22 Q What is it meant to represent?

23 A Mr. Wiggins, it's simply the way we calculated the
24 second ounces, the total number of second ounces for First
25 Class work shared or Standard A regular or Standard A ECR

1 mail.

2 Q In your additional ounce model, is that right?

3 A That's right.

4 Q I am a little bit confused by this, Dr. Clifton.
5 Maybe I am not reading it right, but as I parse this verbal
6 formula, starting at line 7, we take -- and I am going to
7 use only the First Class work shared version of it, okay?

8 A Okay.

9 Q You take the number of pieces of First Class work
10 shared mail, is that right, and you are going to multiply
11 that, is that correct?

12 A Yes.

13 Q By a fraction, a ratio, the numerator of which is
14 First Class work shared second ounces, correct?

15 A Yes.

16 Q And the denominator of that fraction is First
17 Class work shared, is that correct?

18 A First Class work shared number of pieces so
19 following through the formula, the second ounces is equal to
20 the ratio of work shared -- number of pieces of work shared
21 times the ratio of First Class work shared second ounces to
22 First Class work shared number of pieces, so the numerator
23 cancels out with the denominator and we arrive at a correct
24 measure of the number of second ounces.

25 Q Well, that sort of was the way it seemed to me was

1 that you have got the same factor on two sides of the
2 equation here, which cancel out, is that correct?

3 A That's right, but we are able to compute ratios
4 and we had other information.

5 What we did not have provided by Postal Service
6 data was an ability to look at the number of second ounce
7 pieces directly. We had ratios and we had some other
8 information and that is the reason for these formulas.

9 Q Well, but you're telling me here how you
10 calculated something. Is that right?

11 A Yes.

12 Q What is this meant to calculate?

13 A It's meant to calculate exactly what I mentioned
14 to you a few moments ago. It's meant to calculate the
15 number of second ounces, not the number of pieces of mail
16 traveling at second ounce, but the total number of ounces.

17 Q Right. Then you have two factors here that cancel
18 out, and the only thing left in the equation is second
19 ounces; is that right?

20 A Well, that's how we determined the number of
21 second ounces, which was our proxy for not being able to
22 measure the number of pieces directly. So in our volume
23 estimates in our model we measure the number of second
24 ounces. And the cells in our tables actually measure the
25 number of second ounces and above, the number of third

1 ounces and above, and what have you.

2 Q If I were to look at your Technical Appendix C,
3 where would I look to see the number of second ounces, the
4 number of third ounces? Would I look at page 8 of 26?

5 A No, what we're looking at are the portions of that
6 technical appendix, Mr. Wiggins, labeled volume.

7 Q Okay. So I'd look at page 6 instead of page 8; is
8 that right?

9 A That's right. So for example under Standard
10 Regular, on page 6 of 26 --

11 Q Right.

12 A Where you see listed under Standard Regular the
13 line Standard Regular second ounce, and you see a volume
14 there of 18 --

15 Q 908 --

16 A Billion -- 908 million.

17 Q Right.

18 A That's the number of second ounces.

19 Q And you count --

20 A That's not the number of pieces as such.

21 Q Understood. And you calculated that from a Postal
22 Service information source, did you not?

23 A If you go back to the interrogatory answer,
24 subject to check I believe that's correct.

25 Q And do you know what that Postal Service source

1 is?

2 A The reading from the work paper. I believe the
3 answer to your question is on the work paper we were just
4 talking from. The number of additional ounces for First
5 Class single piece are obtained from Witness Fronk's
6 testimony in this docket, Work Paper 1, and the number of
7 second and third ounces are obtained from the revised
8 attachment to MMA/USPS-T-32-1 for First Class work shared,
9 and LRH-182, which is a Postal Service document study
10 introduced in this case, Standard Mail A unit costs by
11 weight increment.

12 Q Do you have 182 available to you?

13 A I do not; no.

14 Q You testified in answer to our Interrogatory No. 1
15 to you -- if you could put that in front of you, please.

16 We cited you to a part of your testimony in which
17 you said that there was an apparent cross-subsidy to
18 Standard A mail from other mail classes, and we asked you a
19 question about that, what do you mean, cross-subsidy?

20 To which you rejoined with reference to the
21 marginal cost of the extra ounces. Do I have that right?
22 Second and third lines of your response to our No. 1.

23 A Yes, I said this is well above the marginal cost.

24 Q In answer to a interrogatory that the people from
25 ADVO put to you, ADVO No. 4 to you -- do you have that

1 handy?

2 A Yes.

3 Q The beginning of your answer there invokes
4 Professor Baumol in a book called "Toward Competition in
5 Local Telephony" in which he talks about incremental costs
6 and incremental revenues. Right?

7 A Yes.

8 Q And again here you're explaining the notion of
9 cross-subsidy; is that correct?

10 A Yes.

11 Q And you did it first in answer to our question
12 with reference to marginal costs, and here you're talking
13 about incremental costs. Is there --

14 A Which include marginal costs, but they're above.

15 Q Is there a difference, though, between marginal
16 costs and incremental costs in your understanding?

17 A Certainly there is.

18 Q And which is the correct measure for detecting
19 cross-subsidy?

20 A Well, there are a variety of different measures,
21 but if the intent of your question is to ask -- in response
22 to your question here, please define the term cross-subsidy
23 as used in this testimony, I have no difficulty saying
24 marginal costs plus -- and incremental costs. But
25 incremental cost is broader than marginal cost.

1 Q Is one measure better than the other for
2 determining the existence of a cross-subsidy? Do you have a
3 view?

4 A In the definition that I believe you're referring
5 to, which primarily exists in regulatory circles, less so in
6 economic theory, but under that narrow definition then the
7 incremental-cost test is the proper test of cross-subsidy.

8 In answering your question, Mr. Wiggins, I was
9 referring to the older studies done on which I relied in
10 this case, which are total attributable costs, but total
11 attributable costs are a rough proxy, can be seen as a rough
12 proxy for volume variable or marginal costs.

13 Q And what information do you have, if any, Dr.
14 Clifton, about attributable -- or about incremental costs,
15 the incremental costs of Standard A?

16 A The purpose of my testimony, Mr. Wiggins, was not
17 to develop the incremental costs of Standard A mail, it was
18 to measure the marginal and incremental costs of First Class
19 work-shared letter mail to see whether the Postal Service's
20 proposed rate of 23 cents was in line with those costs, and
21 it turned out that it wasn't. But I did not do any cost
22 study as such for Standard A mail. I did take a look at
23 Library Reference 182.

24 Q But you are telling us that there is a
25 cross-subsidy running from someplace to Standard A mail, is

1 that right, is that your testimony?

2 A I have tried to be as technically accurate as
3 possible, and in response to another interrogatory, I have
4 said there is an apparent cross-subsidy. Certainly, when
5 First Class extra ounce mail has a cost coverage of 920
6 percent, which it does under the Postal Service's proposal,
7 it is subsidizing something. The fact that there is no
8 second and third ounce charge in Standard A mail as there is
9 for First Class mail, strongly indicates the existence of an
10 apparent cross-subsidy there.

11 The overall cost coverage, for example, for
12 Standard A regular mail is 154 percent, which includes all
13 the way up to three ounces. The cost coverage for the
14 second and third ounce of First Class mail is 920 percent.
15 So that evidence indicates to me an apparent cross-subsidy.

16 Q I was trying to ask a closely cabined and careful
17 question, and let me -- let me try it in a slightly
18 different way. Isn't it right that if there were a
19 cross-subsidy of Standard A mail, that if the Postal Service
20 discontinued providing Standard A mail delivery, the net
21 revenues of the Postal Service would go up? Isn't that the
22 incremental cost test?

23 A That is one definition of an incremental cost
24 test, yes.

25 Q Well, is it a fair one?

1 A Yes, it's a fair one.

2 Q Do you have any evidence that if the Postal
3 Service discontinued the delivery of Standard A mail its net
4 revenues would increase?

5 A As I mentioned, Mr. Wiggins, providing such was
6 not within the scope of my testimony. I have therefore
7 labeled --

8 Q I understand. Do you have any such evidence?

9 A I did not introduce any such evidence and, for
10 that reason, I refer to it as an apparent cross-subsidy.

11 Q Okay. Understood. And isn't it also -- isn't it
12 also right, Dr. Clifton, that in sort of a more focused look
13 at this question of cross-subsidy, that if it were accurate,
14 that the third ounce of Standard A mail was being
15 cross-subsidized, that if the Postal Service discontinued
16 the delivery of Standard A mail weighing between two and
17 three ounces, its net revenues would go up? By the
18 incremental cost test. Isn't that what would happen?

19 A By the definition you are using, I believe so,
20 subject to check.

21 Q And what on earth would you check, I mean this is
22 theoretical, isn't it?

23 A Well, one of the difficulties with the idea of
24 cross-subsidy is what do you mean by an incremental cost?
25 And, you know, I certainly would include in the definition

1 of an incremental cost a coverage as between classes so that
2 the classes are each bearing their fair share of the
3 institutional cost burden of the Postal Service. And when
4 First Class is paying a 920 percent cost coverage, and
5 Standard A regular mail is paying a 154 percent cost
6 coverage, that is some indication that the Standard A mail
7 may not be passing an incremental cost test, particularly
8 for those second and third ounces. It's a gross inequity.

9 Q But you don't have the rigorous evidence of the
10 incremental cost test that would show you that the
11 discontinuance by the Postal Service of the delivery of
12 Standard A mail weighing three ounces would increase the
13 Service's net revenues, do you?

14 A I don't have evidence, technical evidence, either
15 way on that question.

16 Q So you don't have proof of cross-subsidy, is that
17 correct?

18 A I don't have proof, I have a lot of indicative
19 evidence though.

20 Q Okay. Look at your answer to our No. 4 to you,
21 would you, please?

22 A I have it, Mr. Wiggins.

23 Q You, there is in Part C of your response, point us
24 to some information that was presented in the revised
25 testimony of Postal Service Witness Daniel.

1 A Yes, sir.

2 Q And you tell us that this establishes the virtual
3 identify of the mail processing costs of First Class letter
4 mail and Standard A letter mail, is that right?

5 A Yes.

6 Q Do you recall what Ms. Daniel used the information
7 that you see here for? Do you remember what she was doing?

8 A Ms. Daniel was developing discounts for Standard A
9 mail.

10 Q For drop-shipping among other things,
11 pre-sortation and drop-shipping, is that right?

12 A Amongst other things, yeah.

13 Q Do you know whether the mail processing costs that
14 Ms. Daniel considered for that purpose included something
15 that you talked about in another piece of your testimony,
16 the cost of forwarding mail?

17 A Whether it included the cost of forwarding mail, I
18 do not know the direct answer to that question.

19 Q Returning mail?

20 A I do not know the --

21 Q So, the short of it is that you don't know whether
22 the mail processing costs considered by Ms. Daniel including
23 all mail processing costs or just some subset of mail
24 processing costs, is that correct?

25 A Well, I believe she references what it includes,

1 and I believe that it includes, fundamentally, cost segments
2 3 and 4.

3 Q Does that include forwarding mail, returning mail,
4 do you know?

5 A It may include some steps in that.

6 Q Do you know?

7 A I did not explicitly look at whether her mail
8 processing unit costs included that.

9 Q Okay. Look at your answer to our No. 6, would
10 you, please. And you are there giving us some explanation
11 of material that shows up in your Technical Appendix C.

12 A Yes.

13 Q Do you have that available to you as well,
14 Technical Appendix C, page 17?

15 A Yes, we have referred to it previously in this
16 discussion, Mr. Wiggins.

17 Q Well, we are looking at a slightly different piece
18 of now. I would like you to look at page 17.

19 A Page 17, okay.

20 Q Yes. And you're explaining to me here the number
21 1.35 -- excuse me, 1.357 that shows up on page 17, right?

22 A Yes.

23 Q And, essentially, you say that you copied that
24 number, when you get down to the First Class work-shared
25 pound rate, you copied it from the piece rate, is that

1 right?

2 A Well, my answer (b) to your Interrogatory 6 states
3 what it states. The entry, the pound rate is set equal to
4 the key rate to revenue per piece adjustment for First Class
5 work-shared piece rate mail, yeah.

6 Q Well, I mean is it a fair -- a fair summary of
7 that to say that you couldn't calculate that value for pound
8 rate, is that accurate?

9 A It's fair to say we didn't calculate it.

10 Q Instead of calculating that number for the pound
11 rate, you simply adopted the piece rate number, is that
12 correct?

13 A Yes.

14 Q What is the justification for that?

15 A The justification for it, in complex modeling, as
16 in Postal Service and other sophisticated work, is that we
17 just didn't have the other number, and we had to use the
18 best proxies available.

19 Q Well, you couldn't have that other number, could
20 you? How were these numbers calculated?

21 A I'm not sure what the intent of your question, Mr.
22 Wiggins, is. Are you asking --

23 Q I am trying to understand.

24 A Are you asking me how the pound rate was
25 calculated?

1 Q No, no. I know how the pound rate -- the pound
2 rate was not calculated, it was copied from the piece rate,
3 correct, adopted from the piece rate?

4 A Yes.

5 Q How was the piece --

6 A Yes. I'll just, I'll read you my answer (b) so
7 there is no confusion here. "The entry 1.357 for the key
8 rate to revenue per piece adjustment for First Class
9 work-shared pound rate mail is set equal to the key rate to
10 revenue per piece adjustment for First Class work-shared
11 piece rate mail."

12 Q And what I am trying to understand, Dr. Clifton,
13 is why it is that -- the piece rate number is a calculated
14 number, correct?

15 A The -- let me double check that, but --

16 Q Well, I think -- you can do that. You need to
17 look back at page, it says here at the bottom of the page,
18 page 13, but I believe it is actually page 3, as you
19 responded to us in an interrogatory answer. And you take a
20 number from page 3 and you divide it by a number from page
21 12, isn't that correct?

22 A Yes.

23 Q And so in the piece rate, that is a calculated
24 number, correct?

25 A Well, it's --

1 Q Take a moment and look back at page 3, and look
2 back at page 12, and we can get those numbers straight in
3 your mind.

4 A Yes. On the bottom of page 12, revenue per piece
5 in the alternative proposal is the key rate per piece
6 multiplied by the key rate to revenue per piece adjustment.

7 Q And why, if you can summarize it for us, why was
8 it impossible to calculate the value for the pound rate on
9 page 17?

10 A Well, it's my understanding from working with the
11 staff that we were not able to find that number.

12 Q So you simply adopted the piece rate number as a
13 good proxy?

14 A Yes.

15 Q And is there a reason that we should accept that
16 as a good proxy?

17 A It's the best available information we have.

18 Q Well, but how good is it?

19 A On an absolute scale of zero to 100, I can't tell
20 you. I can tell you it's the best proxy that we have, Mr.
21 Wiggins.

22 Q Close enough for government work?

23 A My answer would be the same, Mr. Wiggins.

24 Q Okay. I appreciate that.

25 Have a look with me at your answer to our number

1 8, would you, please, Dr. Clifton?

2 A To your interrogatory number 8?

3 Q Interrogatory number 8 to you, yes.

4 A Okay.

5 Q I don't want to seem that we were fixated on page
6 17 of technical appendix C, but this interrogatory too
7 concerns it. If you look at the second page of that answer,
8 in a number of places -- for example, under the heading
9 First Class Letters and Flats Work Shared Per-Pound Rate,
10 Non-Automated Presort, and you explain the number that you
11 employ there and you say not available, set equal to one.

12 A Uh-huh.

13 Q Can you explain that? Why did you choose to set
14 that equal to one?

15 A Again, a direct method of calculating that was not
16 available.

17 Q It entailed dividing the number zero by the number
18 zero, did it not? That's why you couldn't perform a
19 calculation? Look back at page 12 and page 3 and I think
20 you will see that.

21 A I'm not sure what your question is, Mr. Wiggins.
22 I'm looking at our answer to interrogatory where we provided
23 you the method of calculating all of the entries on page 17.

24 Q Right. Look at the cell on page 17 that
25 corresponds to the category First Class Letters and Flats

1 Work Shared Per-Pound Rate, Non-Automated Presort. Do you
2 have that?

3 A Yes.

4 Q And you tell me that the number supplied in your
5 alternate proposal was not available, set equal to one,
6 correct?

7 A Yes. There are -- Mr. Wiggins, there is no pound
8 rate for first-class work-shared mail, and in a number of
9 the earlier runs done in preparing this testimony and
10 looking at rate alternatives to the Postal Service's
11 proposed 23 cents with its 920 percent cost coverage, one of
12 the alternatives we considered was trying to effect equity
13 and some bearing on cost was to adopt the pound rate
14 structure or some variant of it that exists for Standard A
15 work-shared mail, import that into first class. That is why
16 all these cells exist here.

17 In the final cut of the model, Mr. Wiggins, we did
18 not adopt any per-pound rate structure for first-class
19 work-shared mail, but the ability for the Commission to use
20 the model and do that is preserved in our model structure,
21 and that's why you see these cells in there for first-class
22 work-shared mail under a pound rate, a possible pound rate
23 structure. But, in fact, that was not our proposal. You
24 might say it remains an artifact of the model and the model
25 -- we could import a pound rate structure into the model,

1 but we didn't.

2 I hope that might give you some perspective on all
3 of that matter.

4 Q Look at your answer, please, to the Postal
5 Service's interrogatory number 6, would you. Do you have
6 that handy?

7 COMMISSIONER LeBLANC: Was that 6, Mr. Wiggins?

8 MR. WIGGINS: Number 6, correct.

9 COMMISSIONER LeBLANC: Thank you.

10 BY MR. WIGGINS:

11 Q That answer has reference to Table A-2 of your
12 technical appendix A?

13 A Yes.

14 Q Do you have that in front of you as well? That's
15 on page A-7, I believe, isn't it?

16 MR. BAKER: On page A-8, I believe.

17 MR. WIGGINS: A-8. I'm sorry. Thank you.

18 Actually, not so.

19 THE WITNESS: I'm still trying to find it here.

20 BY MR. WIGGINS:

21 Q I'm sorry. What I would actually like for you to
22 look at, Dr. Clifton -- I apologize for this -- I would
23 actually like for you to take a look at Tables B-3 and B-4,
24 if you would, please.

25 A All right.

1 Q Those are the things that are actually referred to
2 in the answer.

3 A Okay. B-3 and B-4, I have.

4 Q B-3 is on page B-7 of your technical appendix B,
5 correct? We're in the same pew here, more or less, to use
6 the Chairman's metaphor?

7 A Okay. You want us to look at --

8 Q Take a look at Table B-3.

9 A Table B-3. I have that.

10 Q Yes.

11 A Okay.

12 Q And you're answering -- the question that you're
13 answering here, you're telling me how come you do a thing
14 called smooth unit attributable cost changes, which is in
15 the eighth column of that Table B-3. Are you with me?

16 A Yes. I'm counting across columns, Mr. Wiggins.
17 One, two, three --

18 Q It's the one that --

19 A -- for, five, six, seven, eight.

20 Q -- houses the number 8.99.

21 A Well, can you tell me which --

22 Q Smooth unit attributable cost changes --

23 A Yes. Okay.

24 Q -- cents per ounce, 8.99.

25 A Yes. I have that as column 7, but I'm with you

1 now.

2 Q Okay. As long as we're looking at the same thing.

3 We asked you the question, Dr. Clifton, why did
4 you do this smoothing, and the answer that you supply is
5 that you needed to do that in order to get to the number
6 \$10.7 billion. Do I understand your answer correctly?

7 A Well, are we going back now -- when you say we,
8 Mr. Wiggins, are you referring to the Postal Service or are
9 you referring to --

10 Q Well, they were smarter than me, they asked this
11 question.

12 A Okay. So you're back to referring to the Postal
13 Service question 6?

14 Q I'm referring to Postal Service 6, yes. And they
15 say, why are you doing this smoothing, Dr. Clifton? To
16 which you respond, well, I needed to do that in order to
17 assure that I got to the number \$10.745 billion, correct?

18 A Well, my answer stands as it is, Mr. Wiggins. If
19 you're interpreting my answer in that fashion, then --

20 Q Well, let me just ask you the question fresh. Why
21 did you do the smoothing?

22 A Primarily, and these models take a great deal of
23 work by several people, but as I re-read my answer to this,
24 the purpose of doing the smoothing is to try to get at
25 various weight classes and costs associated with various

1 weight classes. That's fundamentally what it's about.

2 Q The --

3 A If you look towards the end of my answer, to part
4 B, you'll catch that.

5 Q The --

6 A Let me just summarize. The values calculated on
7 Tables B-3 and B-4 are the ones that will reproduce the
8 total attributable costs over all weight classes, and if you
9 look at Table B-3, Mr. Wiggins, you will see that that's
10 what we've done, that that's the procedure that we've used
11 to arrive at total attributable costs by incremental ounce,
12 starting from zero to one, one to two, two to three, and we
13 applied that procedure to try to better estimate incremental
14 costs for our extra ounce proposal, which is for the second
15 ounce and for the third ounce. However, the USPS extra
16 ounce study didn't provide directly the information in this
17 form to us.

18 Q Right.

19 A So that's why we -- that's why we developed the
20 procedure.

21 Q That's Library Reference 177, am I right?

22 A Correct. USPS Library Reference 177.

23 Q And the data contained in 177 were broken down
24 into how many ounce increments, Dr. Clifton, if you recall?
25 This isn't a memory test; look at page B-2 of your appendix

1 B.

2 A I'm not sure what question you're asking about
3 page B-2, Mr. Wiggins, but if you'll reframe the question,
4 I'll try to answer it.

5 Q Sure. Doesn't that show you that the data
6 contained in 177 were actually in five different weight
7 groupings?

8 A That's correct; yes.

9 Q Zero to one ounce --

10 A Yes; um-hum.

11 Q One to two, two to four, four to seven --

12 A That's correct.

13 Q Seven to 12.

14 A Correct; um-hum.

15 Q And that's reflected, is it not, Dr. Clifton, on
16 Table B-3 by the fact that if one looks at the third column
17 over, unit attributable costs, you see that there is a value
18 for one ounce. There's a separate value for one to two
19 ounces. Then there is a single value for two to three,
20 three to four, another value for four to five, five to six,
21 six to seven?

22 A That's correct.

23 Q And that's reflective of the data sets with which
24 you were working; is that correct?

25 A Yes.

1 Q And is there some reason that it is preferable to
2 use the smoothed unit attributable cost that one sees under
3 that heading over to the right side of your page to the unit
4 attributable costs that emerge from the study itself?

5 A Yes, I think there are several reasons, but the
6 most important one is again, to reframe my answer of a few
7 moments ago to you, we propose rates for the second and
8 third ounce of First Class work-shared mail. We do not
9 propose to change the Postal Service's proposal for a
10 four-ounce -- the extra-ounce charge for the fourth ounce.
11 We therefore needed to develop unit attributable costs for
12 zero to one, one to two, two to three, not two to four. And
13 that's what we tried to do in this procedure.

14 There does appear to be a break point both for
15 First Class letter mail as well as Standard A mail when you
16 get above the third ounce, so that is a related technical
17 reason for trying to break out from the older USPS study
18 which just has data for two to four ounces, try to break out
19 two to three and three to four.

20 Q So you smoothed to accomplish that.

21 A We made an effort to estimate the unit
22 attributable costs of the third ounce.

23 MR. WIGGINS: Mr. Chairman, I have nothing
24 further.

25 CHAIRMAN GLEIMAN: Thank you, Mr. Wiggins.

1 I'd like to go a little bit longer, see if we can
2 move it along a little bit.

3 Mr. McLaughlin, do you want to begin your
4 cross-examination and see how far we can get before we break
5 for lunch?

6 MR. McLAUGHLIN: Yes.

7 CROSS EXAMINATION

8 BY MR. McLAUGHLIN:

9 Q Dr. Clifton, let's start with your response to
10 ADVO Interrogatory No. 2.

11 CHAIRMAN GLEIMAN: Mr. McLaughlin, could you pull
12 that a little bit closer. Apparently you're suffering from
13 the same --

14 MR. McLAUGHLIN: I'm pretty close to it right now.

15 CHAIRMAN GLEIMAN: Affliction that I have, you
16 know, soft, soft voice.

17 MR. McLAUGHLIN: I'll try not to bite on it.

18 CHAIRMAN GLEIMAN: Was it my comment or the
19 microphone?

20 BY MR. McLAUGHLIN:

21 Q In your response to ADVO -- well, ADVO
22 Interrogatory 2-B asks you whether under your definition of
23 cross-subsidy are one-to-three ounce Standard A letters
24 being cross-subsidized by zero-to-one-ounce letters, and
25 your answer is quite possibly. Is that correct? Quite

1 possibly there is a cross-subsidy?

2 A Quite possibly; yes. Um-hum.

3 Q And in your response you cite the cost coverage
4 for Standard A regular mail, 154 percent.

5 A Right.

6 Q Of what relevance is the Standard A regular cost
7 coverage to the question about whether there is a
8 cross-subsidy between under-one-ounce pieces and
9 one-to-three-ounce pieces within Standard A letters?

10 A I think that's very relevant, because the
11 incremental-cost test as applied to the Postal Service is
12 not synonymous with covering Postal Service institutional
13 costs, but I think under a fair operational
14 ~~incrementalization~~ ^{implementation} of the idea of an incremental cost test
15 for each class or subclass in total the Postal Service's
16 institutional costs have to be covered, and it is not at all
17 clear to me that with a relatively low, below Postal Service
18 average cost coverage of 154 percent, Standard A regular
19 mail which is being charged the same rate all the way up to
20 three ounces is covering all of its incremental costs
21 properly measured.

22 Q Do you mean all -- that all of Standard A is
23 perhaps below incremental cost, or just portions of Standard
24 A may be below incremental cost?

25 A I am not in a position to answer that, because as

1 I responded to Mr. Wiggins, I haven't done an explicit study
2 of the cost behavior of Standard A mail. My proposal is
3 about First Class work-shared mail. But as I understand it,
4 the 154-percent cost coverage is for the piece rate, which
5 covers everything all the way up to 3.3 ounces.

6 Q Well now the 154-percent cost coverage is a
7 classwide cost coverage that reflects total revenues for
8 Standard A regular mail versus total attributable costs; is
9 that correct?

10 A Yes, it does.

11 Q And within that class, it's possible that there
12 may be some elements that have a higher than a 154 percent
13 cost coverage of their attributable costs, and some may have
14 lower, is that correct?

15 A It's possible, yes.

16 Q Have you done any assessment of how far off of
17 attributable or incremental costs the rates for second and
18 third ounces would have to be so that you would have rates
19 for those second and third ounces that were below cost?

20 A No, I haven't. But if one has for First Class
21 worked-shared mail an overall cost coverage of twenty -- 283
22 percent, and the second and third ounces have a cost
23 coverage of 920 percent, then if the same -- if the same
24 implicit cost coverage exists within Standard A, then the
25 cost coverage for the first ounce would be lower than 154

1 percent and the cost coverage for the second and third ounce
2 would be higher, but we don't know. All we have for
3 Standard A is an overall 154 percent, and it may well be
4 that the cost coverage for the first ounce on -- for
5 Standard A regular mail is higher than 154. I have --
6 again, I haven't done any studies of Standard A mail.

7 Q But in order for there to be a cross-subsidy, the
8 rates for the second and third ounces would have to be below
9 attributable costs, is that correct?

10 A Yes, but there are no rates for the second and
11 third ounces. As long as there are some marginal costs
12 connected with that extra weight mail for the second and
13 third ounce, and the best received studies I think show that
14 there is a small but positive marginal cost to the second
15 and third ounce, and there is no rate at all for the second
16 and third ounce in Standard A.

17 Q Why do you focus on the Standard A regular A --
18 that's a subclass by itself, Standard A regular?

19 A Yes, I focus on Standard A regular because I think
20 the volumes and rate categories for work-shared letter mail
21 in that are the most comparable to First Class work-shared
22 letter mail, other than, of course, carrier route pre-sort.
23 If I were fundamentally concerned with carrier route
24 pre-sort mail in First Class, I would be looking to the ECR
25 subclass for comparability.

1 Q You cite, you earlier characterized the 154
2 percent cost coverage for Standard A regular mail as being
3 relatively low. What is the cost coverage for Standard A
4 ECR mail?

5 A For Standard A ECR mail it's higher than 154. I
6 could not quote it to you by memory.

7 Q Do you know whether it is substantially over 200
8 percent?

9 A It's substantially below the 283 percent for First
10 Class work-shared mail on average. My recollection is it is
11 237 percent, but I would have to check.

12 Q Would you share the same concern in ECR, that
13 there may be cross-subsidies within ECR that you cite may be
14 possible in Standard A regular, given the higher cost
15 coverage of Standard A ECR?

16 A Well, again, the difference between 920 percent
17 cost coverage for the second and third ounce of First Class
18 versus 237 percent for Standard A ECR is a huge gap which
19 indicates the possibility of an apparent cross-subsidy. I
20 can't -- I can't fine tune my answer to you, Mr. McLaughlin,
21 because I haven't done the cost studies for either ECR or
22 Standard A regular mail in terms of the extra ounce, per se.

23 Q A number of times this morning you have referred
24 to the relative cost coverages in terms of determining
25 whether there may be a cross-subsidy. Is it your opinion,

1 as an economist, that relative cost coverages are a test for
2 cross-subsidy?

3 A I think I have already indicated in one answer
4 that incremental costs, properly measured, bear a
5 relationship to cost coverage. A different way of putting
6 this is a different interrogatory answer where I took this
7 from an industrial organization textbook, a well received by
8 Dennis Carlton at the University of Chicago, where we have a
9 more theoretical definition of cross-subsidy, and the focus
10 is there on price discrimination.

11 And if you look at the difference in rates between
12 First Class work-shared mail and Standard A work-shared
13 mail, there is a huge difference in rates, quite apart from
14 the extra ounce issue. But these extraordinary
15 misalignments of cost coverages, 920 percent and a 23 cent
16 extra ounce rate for First Class work-shared mail, much
17 lower cost coverages up to 3.3 ounces for Standard A
18 work-shared mail, zero cent explicit second and third ounce
19 rates, I am going to stop short here of saying it is price
20 discrimination between these similar pieces of mails, but
21 these are whopping inequities.

22 Q Well, in other words, your answer is yes, that you
23 do believe that relative cost coverages between classes are
24 a test of cross-subsidy?

25 A Through the definition that I provide of price

1 discrimination where in essence a much higher price is
2 charged to one group than to another group for essentially
3 the same services and through that price discrimination
4 cross-subsidies can exist.

5 Q Let's turn to your response to ADVO Interrogatory
6 No. 4-A. There we had given you a hypothetical of two
7 classes -- a system with two classes of mail, each of which
8 generates revenues in excess of its volume variable
9 incremental costs.

10 A Right.

11 Q Part A asked whether you would agree in that
12 circumstance that neither class is cross-subsidizing or
13 being cross-subsidized by the other class. Your answer was
14 that our question didn't provide enough information to make
15 that determination.

16 If each class generates revenues that more than
17 cover its costs, what additional information is needed to
18 determine whether there's a cross-subsidy, a cross-subsidy
19 between those two classes?

20 A Well, I think I answered that in my answer to A,
21 Mr. McLaughlin, so to read back to you, the assumptions of
22 the question would also permit a 30-cent rate for the first
23 ounce of Class A and Class B letters, and a zero-cent rate
24 for the second and third ounce of Class A and Class B
25 letters. In this case the single-ounce Class A and Class B

1 mail would be subsidizing the second and third ounces of
2 Class A and Class B mail.

3 Q Now does it follow from your definition that let's
4 say in Parcel Post there is some rate cell in Parcel Post
5 that is not covering its incremental cost, even though
6 Parcel Post as a whole does? Or perhaps in Second Class
7 there is some rate element in Second Class that is not
8 covering its incremental cost, even though Second Class does
9 as a whole, that in those circumstances as well there would
10 be cross-subsidies between those classes and First Class
11 mail?

12 A You know, again, in response to your hypothetical,
13 I'd have to have more information to be able to answer your
14 question, Mr. McLaughlin. And I'm not an expert on Parcel
15 Post.

16 Q Well, what is the difference in your argument?

17 Now I'd like to refer you to your response to
18 again ADVO Interrogatory No. 4, but this time Subpart D-3.

19 A I'm sorry, did you say B in "boy" or D --

20 Q D. D as in "dog."

21 Okay. In this scenario we had posed -- first of
22 all in all of these questions we had posed that both -- each
23 class individually had total revenues in excess of total
24 incremental costs. Do you understand that to be the case?

25 A Yes. Um-hum.

1 Q Part D asked you to assume that in Class A
2 revenues from one-ounce pieces do not cover their volume
3 variable incremental costs, but the revenues from
4 three-ounce pieces more than offset this shortfall, so that
5 total class revenues are greater than total class
6 incremental costs.

7 You there again claim that there may be a
8 cross-subsidy between Class A and Class B. Now if Class B's
9 rates all -- all of its rate elements more than cover
10 incremental costs, there is no cross-subsidy within Class B,
11 is there?

12 A Well, this seems to be a recapitulation of your
13 exact answers and my exact question -- your exact questions
14 and my exact answers. So my answer would be the same. Are
15 you asking about D Subpart little i?

16 Q Little iii.

17 A Little iii.

18 Q The question was whether the appropriate remedy if
19 there is a cross-subsidy within Class A -- whether the
20 appropriate remedy is to raise the rate element in Class A
21 that's below its incremental cost, and your answer is that
22 it's part of the remedy?

23 A Yes. Insofar as we are able to answer your
24 question, we did say part of the remedy to this hypothetical
25 cross-subsidy would be to raise the rate for Class A first

1 ounces, so this rate covers the corresponding volume
2 variable and incremental costs but we added -- without
3 further information on the rates for Class B first ounces and
4 Class B second and third ounces, it is not possible to
5 determine what changes if any should be made to the rates
6 for these two products, A and B.

7 We really would need more information.

8 You can't really get into these issues of
9 cross-subsidies between classes without giving me the rate
10 structure for both classes and also, since we are focused on
11 extra ounce rates here, the extra ounce rates, so we set up
12 the example for you, tried to set up an example for you, if
13 you recall, in the answer to this question.

14 Q You say part of the remedy to this hypothetical
15 cross-subsidy is to raise the rate for Class A first ounces,
16 so that the rate covers its corresponding costs.

17 Why isn't that the whole remedy? What part are we
18 missing?

19 A Well, we need to know what Class B first ounces
20 and Class B second and third ounces are paying. I mean my
21 initial draft in answering this question was much more
22 direct than the hypothetical you set out.

23 The issue here is fairly straightforward. First
24 Class work shared mail is paying horrendous second and third
25 ounce charges in 23 cent rate proposals by the Postal

1 Service, whereas Standard A mail under the proposal is
2 paying zero rate second and third ounce rates.

3 What I am hearing from groups like AMMA and Advo
4 is that, well, my gosh, that extra weight is already built
5 into the rate, the per piece rate structure for anything up
6 to 3.3 ounces, but the fact of the matter is that the
7 overall cost coverage for that is so low, particularly in
8 regular, that it raises the issue of an apparent cross
9 subsidy between the two, and if that supposition is correct,
10 then, no, in your D(i)(3) answer you have to look to Class B
11 mail as well.

12 In other words, in this case going from your
13 hypothetical to the reality, you have to look to Standard A
14 mail to address some of these inequities and you either have
15 to create a second or third ounce charge in Standard A mail,
16 which we didn't propose to do -- we simply proposed to alter
17 the cost coverage of Standard A mail by a minuscule amount
18 in order to effect some equity in these extra ounce rate
19 structures between First and Standard.

20 Q Well, you mentioned the proposed changes you have
21 made in the Standard A rates.

22 Could you return to your response to Advo 14-A?

23 We asked you why you reduced the discounts for
24 standard regular letters and nonletters by 1.2 cents per
25 piece and you state that "The purpose of the increase in the

1 cost coverage for Standard A mail and the increase in
2 revenue is detailed in my testimony."

3 I am not sure you have answered our question.

4 Why did you reduce the discounts by 1.2 cents?

5 A We did not make any explicit recommendation to
6 reduce your discounts. We recommended that the very modest
7 revenue decline from our proposal be financed through a
8 marginal 2.87 percent, if I recall correctly, increase in
9 the cost coverage for Standard A mail as a whole.

10 It is really up to the Commission to decide how to
11 implement that marginal increase in the cost coverage
12 assignment and how it would affect discounts by a subclass
13 and rate category is up to the Commission.

14 It was not part of my testimony to get into that
15 level of detail.

16 Q But you did in fact in your alternate proposal
17 have a great number of varying changes to discounts within
18 Standard A regular and Standard A ECR, is that correct?

19 A Only as illustrative, Mr. McLaughlin.

20 That, if you will, is an artifact of the structure
21 of our model where we can only calculate cost coverages by
22 importing into the model costs and rates and -- but our
23 proposal as such is to simply raise the cost coverage of
24 Standard A mail by a very modest amount of percentage
25 points.

1 Q In other words, you are saying it was not a
2 conscious decision on your part to advocate some change in
3 Third Class rate structure or Third Class discount
4 relationships, that instead these differential discounts
5 that you have in your proposed rates were simply "fill in
6 the blank" kind of numbers designed to generate a certain
7 amount of revenue?

8 A They are primarily designed to generate the
9 increase in revenue relative to First Class, yes.

10 Q You say primarily designed? Is there some other
11 purpose besides just that?

12 A No. That is their purpose.

13 Q So basically you are not asking the Rate
14 Commission to look to your proposed rate discounts and your
15 proposed rate structure in any way as being a proposal of
16 ABA/NAA for their rate structuring Standard A mail?

17 A No, and we have tried to make that clear in
18 technical appendices and elsewhere, that our proposal is to
19 raise the cost coverage for Standard A mail, and we leave it
20 explicitly up to the Commission how to allocate that.

21 Presumably it has to result in some rate increases
22 somewhere but we did not make any explicit proposals for
23 either discounts or rates.

24 Q Okay, in other words, we should not treat your
25 rate tables, proposed rate tables for Third Class, as for

1 Standard A as being a rate proposal?

2 A No, they should be treated as simply illustrative
3 of one solution that the Commission might adopt.

4 There are numerous others that they might adopt.

5 Q And you don't advocate any particular one over
6 another?

7 A No, I do not, sir.

8 MR. McLAUGHLIN: I have no further questions.

9 CHAIRMAN GLEIMAN: Thank you, Mr. McLaughlin.

10 I think we are going to break for lunch now, but
11 before we do, Mr. Tidwell?

12 MR. TIDWELL: Thank you, Mr. Chairman.

13 The Postal Service has a procedural matter it
14 wishes to raise in reference to the testimony of Florida
15 Gift Fruit Shippers Association Witness Merewitz at this
16 moment.

17 CHAIRMAN GLEIMAN: Please proceed. Mr. Wells, do
18 we need to find you some mike space here?

19 MS. DREIFUSS: Thank you, Mr. Chairman.

20 The Postal Service and Florida Gift Fruit Shippers
21 by mutual agreement requests the following, and if my
22 recitation of our mutual agreement is wrong, Mr. Wells is
23 here to correct me.

24 As everyone should be aware, we have pending a
25 motion to strike Dr. Merewitz's testimony.

1 We have been attempting over the past several
2 weeks since that was filed to negotiate our differences.

3 We think at this point we have resolved most of
4 them, however there are still some remaining questions. We
5 are just not sure at this point that we have received
6 everything that we think we should have in order to
7 understand Dr. Merewitz's exhibits. We think we have, but
8 there are people at the Postal Service who are still
9 checking a recently filed Library Reference which we just
10 got this morning against some files that Dr. Merewitz
11 e-mailed to us over the weekend. In addition, we may have
12 some questions about those files in order to confirm that
13 they are the same.

14 What we propose -- would like to propose is that
15 the Presiding Officer of the Commission defer ruling on Dr.
16 Merewitz's motion. We're willing to allow him to take the
17 stand, and if as we hope upon oral cross all of our concerns
18 are resolved, we would at that point orally withdraw our
19 motion. In the event they weren't resolved, we would then
20 at that point state that our motion was still pending, and
21 then Mr. Wells would have an opportunity to respond and a
22 ruling could be issued later.

23 We realize that having the Commission or the
24 Presiding Officer have to rule after the fact to strike
25 testimony is really not preferable, and imposes a burden

1 upon the Presiding Officer and the Commission for which we
2 apologize. However, the reason we're going through this
3 procedure is to try to obviate the need for any ruling at
4 all.

5 CHAIRMAN GLEIMAN: Mr. Wells, do you have anything
6 that you'd like to add to that?

7 MR. WELLS: Mr. Chairman, I think that it ought to
8 be clear that we have attempted to provide all of the
9 information, clarification, and data that the Postal Service
10 has requested. I believe that it has been done. As has
11 been explained, they're checking it now to make sure there
12 has been compliance.

13 We are in agreement with the procedure that Ms.
14 Duchek has outlined, and so believe that we have in fact
15 provided them with all of the data and information that they
16 need to have an understanding of just what the exhibits of
17 Dr. Merewitz pertain to.

18 CHAIRMAN GLEIMAN: The Presiding Officer and the
19 legal staff are always happy to avoid having to issue
20 another ruling if it's at all possible, especially one as
21 extraordinary as we deal with when we have motions to
22 strike. So I appreciate your efforts and will abide by your
23 agreement, and hopefully the matter will be resolved and we
24 will not have to worry about ruling at all on that matter.

25 Thank you both in that regard.

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1 MS. DUCHEK: Thank you, Mr. Chairman.

2 MR. WELLS: Thank you, Mr. Chairman.

3 CHAIRMAN GLEIMAN: Mr. Baker.

4 MR. BAKER: Mr. Chairman, we have had the
5 opportunity to review the designations of written
6 cross-examination, and there was one answer where we needed
7 to write in ABA in the caption to the answer, and we have
8 done so, and with that I'm happy to give those to the court
9 reporter.

10 CHAIRMAN GLEIMAN: I'll rely on your good offices
11 to do that, and I appreciate your help in that regard.

12 Let's come back at a quarter to two, and we'll
13 pickup at that point with cross-examination of Dr. Clifton
14 by Val-Pak. Thank you.

15 [Whereupon, at 12:49 p.m., the hearing was
16 recessed, to reconvene at 1:45 p.m., this same day.]

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AFTERNOON SESSION

[1:30 p.m.]

CHAIRMAN GLEIMAN: We're ready to continue.

Dr. Clifton, Mr. Olson, if you're prepared to begin, and I'm going to turn it over to my trusty colleague, Mr. LeBlanc, for a few moments here so I can duck out and meet with some folks, and I will be back.

I promise to read the transcript, because I don't want to miss any pearls of wisdom. I'll only read y'all's part of the transcript. I won't read mine, because I know I won't be missing any pearls if I read mine -- don't read mine.

COMMISSIONER LeBLANC: Go ahead, Mr. Olson.

MR. OLSON: Okay.

Whereupon,

JAMES A. CLIFTON,

the witness on the stand at the time of the recess, having been previously duly sworn, was further examined and testified as follows:

CROSS EXAMINATION

BY MR. OLSON:

Q Dr. Clifton, my name is Bill Olson, representing Val-Pak and Carol Wright in this proceeding, and I'd like to ask you to begin by turning to your response to ADVO/ABA/NAA-T~~F~~1-4.

1 Do you have that?

2 A Yes.

3 Q Okay. You discussed some of these questions
4 before with counsel for AMMA and counsel for ADVO, but I
5 want to pursue this more in terms of what the definition is
6 that you're using of cross-subsidy, and first of all point
7 you to the definition that you cite there from the
8 Baumol-Sidak book. Do you accept that definition of
9 cross-subsidy?

10 A I accept it as one definition of cross-subsidy;
11 yes.

12 Q Okay. Let's call that definition A for a minute.

13 A Okay.

14 Q Of cross-subsidy. The definition, as I understand
15 it, it says a cross-subsidy is present when the average
16 incremental revenue contributed by a product of a firm is
17 insufficient to cover its average incremental cost.

18 I've read that correctly, haven't I?

19 A Um-hum.

20 Q Okay.

21 A Yes.

22 Q And then the reverse of that would be true, would
23 it not, that a cross-subsidy would not be present when the
24 average incremental revenue contributed by a product is
25 sufficient to cover its average incremental cost.

1 Is that correct?

2 A Correct.

3 Q Okay. So under this definition A of the term
4 cross-subsidy, if the -- if a product, let's take Standard A
5 just for a moment, and let's deal with Standard A Regular
6 and say that if the average incremental revenue of Standard
7 A revenue -- Standard A Regular [~]exceeds the average
8 incremental costs of Standard A Regular under this
9 definition A there is not cross-subsidy; correct?

10 A At the level of aggregation that you are talking
11 about, which is not what was raised in this question, but at
12 your level of aggregation, as you're describing it now,
13 that's correct. But the devil is in the details, Mr. Olson.
14 How do you define and measure average incremental cost?

15 Q Well, in the last 25 years of the Postal Rate
16 Commission I assume you've had occasion to review the
17 literature. You've testified here -- I guess this is your
18 third time; is that correct?

19 A I think this is my fourth appearance.

20 Q Okay. So you're familiar with the way in which
21 these terms are used by the Commission, are you not? The
22 term "cross-subsidy," for example?

23 A Yes, I'm primarily familiar with Professor
24 Baumol's definition of these issues from his paper in R87-1.

25 Q Have you had occasion to review the opinions and

1 recommended decisions of the Commission in prior dockets as
2 to how they used the term "cross-subsidy"?

3 A I probably have, but not explicitly for this
4 testimony. I'm testifying on the basis of my expertise.

5 Q Would you be in a position to give your opinion as
6 to whether the Commission's definition of cross-subsidy as
7 it has used it is similar -- is identical to or different
8 than the definition you cite in response to this answer?

9 A I believe it's fairly close, because my
10 understanding is that the Baumol piece, while it was
11 sponsored by the Postal Service in R87-1, is the seminal
12 contribution in that area, and my understanding is that it's
13 generally been accepted by the Commission.

14 Q Okay. Now let's go back to the caveats you were
15 adding to your response, because I asked you if the average
16 incremental revenue of Standard A Regular exceeded the
17 average incremental costs of Standard A Regular if there
18 would be a cross-subsidy under this definition, and you said
19 no, but. And I wonder if you could elaborate on the "but"
20 now for me.

21 A The issue here is every -- it's very hard to
22 operationalize the theoretical notion of an incremental
23 cost, but I believe what happens in these proceedings is
24 that every class and subclass tries to minimize its
25 incremental costs, and maybe each subclass and class, as you

1 operationalize this definition, is creating sufficient
2 revenue to cover or exceed its own definition of incremental
3 costs. But when you aggregate across all classes and
4 subclasses, the Postal Service's total costs aren't covered.

5 Q Okay. That's the definition of -- that's the
6 difference between costs that are in our parlance attributed
7 versus costs that are institutional, is it not?

8 A In postal parlance that's the difference, but --

9 Q Okay.

10 A I think there are very mysterious games being
11 played with the notion of an incremental cost, because if
12 you add up across all subclasses and classes total
13 incremental costs, if they don't cover the total costs of
14 the Postal Service, then those remaining institutional costs
15 have to be covered somewhere, and they shouldn't exist under
16 the incremental-cost test.

17 Q Okay. You're --

18 A If they in fact do exist, then someone or some
19 groups have measured incremental costs incorrectly. For
20 example, Mr. Runyon's salary --

21 Q Well, you would consider Mr. Runyon's salary --
22 I'm sorry, let me let you finish -- you would consider that
23 that should be not considered in institutional costs but
24 rather should be attributed?

25 A I believe that Mr. Runyon's salary should be part

1 of some group's incremental costs to the degree that his
2 services are necessary for performing those postal services,
3 whether for First Class or Standard Class. That would be
4 part of my definition of incremental cost; yes.

5 Q Would that be part of your definition of
6 attributable costs?

7 A If you could divide his time between classes and
8 subclasses, certainly.

9 Q And, therefore, if there were a way to do that,
10 you would recommend that the Commission attribute the costs
11 like the salary of the Postmaster General to various classes
12 and subclasses of mail?

13 A Well, yes. I don't think it's very practical.
14 But I am making the point here because there is a real
15 problem operationalizing the notion of an incremental cost.

16 Q Okay. But I am trying to get to your
17 understanding of the way the Commission has done this over
18 its existence, and certainly in recent years, and what the
19 Commission has done, has it not, is that it has interpreted
20 B-3 of the Act to require that each class and subclass of
21 mail cover its direct and indirect attributable costs, is
22 that not accurate?

23 A That is accurate.

24 Q And then once that has been accomplished, it has
25 said that the revenues cover the costs and, therefore, that

1 class of mail for which revenues cover costs cannot be
2 cross-subsidized by anyone else, is that not also accurate?

3 A Under that very limited definition of an
4 incremental cost, that would be correct.

5 Q Okay. And that limited --

6 A I don't think that's a correct definition.

7 Q Okay. And so you are challenging, are you not,
8 the definition that the Commission has used in the past, the
9 definition of cross-subsidy?

10 A If I can define those incremental costs and
11 identify them as attributable, then, no, I don't think I
12 would be challenging the Commission's definition.

13 Q Is it your view that the Commission's Opinion and
14 Recommend Decision in R94-1, as modified by MC95-1, resulted
15 in cross-subsidies of First Class mail by Third Class mail?

16 A I did not investigate that particular issue in my
17 testimony. That would require a lot of computational
18 detail, so I am not prepared to answer it.

19 Q Is it your opinion that under the Postal Service's
20 proposal in Docket R97-1 that First Class mail subsidizes
21 Standard A mail?

22 A May I ask a clarification? Are you referring to
23 -- are you asking a question about this testimony, or are
24 you asking a question about my other testimony?

25 Q No, I am asking about this testimony at the

1 moment. And, you know, if you take -- I don't think you
2 take different positions in different pieces of testimony.
3 I guess I am looking for your opinion.

4 MR. BAKER: Let me -- is the question in his
5 opinion --

6 COMMISSIONER LeBLANC: Is your mike on, Mr. Baker?

7 MR. BAKER: I am not clear in my mind, and maybe
8 it is or isn't in the witness's, what the pending question
9 is.

10 MR. OLSON: Okay. Let me restate it.

11 BY MR. OLSON:

12 Q With respect to your analysis of the second and
13 third ounce for First Class mail, work-shared mail,
14 distinguishing that from ~~that~~ the issues that you raise in
15 your other testimony, is it your position that the -- within
16 the context of the second and third ounce of First Class
17 work-shared mail, that First Class mail subsidizes Standard
18 A mail?

19 A Based on the evidence that I have looked at, unit
20 cost contributions to institutional costs, cost coverages,
21 marginal costs of the two groups of work-shared mail, it is
22 my conclusion that there is an apparent cross-subsidy there.

23 Q Okay. Let's go back to, just for a moment, what
24 we called definition A of cross-subsidy, which was the
25 definition of Baumol and Sidak recited in your response to

1 this interrogatory which you said was the -- generally, the
2 position of the Commission in prior dockets. Okay.

3 A Okay.

4 Q Under that test, under this cross-subsidy A
5 definition, under the Postal Service's proposal, is there
6 any cross-subsidy of Standard A mail by First Class mail by
7 virtue of the second and third ounce issue?

8 A If you are talking about First Class mail as a
9 whole, that is not what I wrote about, Mr. Olson. What I --
10 what I wrote about was First Class work-shared mail, not
11 First Class mail as a whole. First Class work-shared mail,
12 from the best cost evidence we have available, rolled
13 forward to test year '98, has a cost coverage, under the
14 Postal Service's 23 cent proposal, of 920 percent. I don't
15 think you have to go far beyond that 920 percent to say that
16 those extra ounce rates are clearly subsidizing something.

17 Q Okay.

18 A When you look at the very low cost coverage of
19 Standard A, particularly regular mail, which is a cost
20 coverage for all weight groupings up to the breakpoint, 3.3
21 ounces, it is only 154 percent. That gives a pretty strong
22 presumption.

23 Q Well, that is what I am challenging. Because if
24 you take a look at the parcel post cost coverage, it is well
25 under 154 percent. Would you say that the rates for parcel

1 post are being cross-subsidized by First Class work-shared
2 mail?

3 A Mr. Olson, I didn't examine parcel post at all in
4 connection with my testimony, and I not prepared to deal
5 with parcel post.

6 Q Well, you -- the reason, you said, that there is
7 this strong presumption of apparent cross-subsidy of First
8 Class work-shared mail flowing toward Standard A is that, is
9 purely the one reason that Standard A regular has a cost
10 coverage of 154 percent. Is that not what you said?

11 A Well, I said that was one, I think the transcript
12 will read I said that is one reason. Unit cost
13 contributions, 18 cents in First Class versus 8 cents for
14 Standard A, and it is essentially very, very similar mail.
15 First Class work-shared letter mail and Standard A regular
16 letter mail are very, very similar mail, have very similar
17 cost characteristics for the same operations.

18 Q If, indeed, I accept, and I have not -- have no
19 reason to accept or reject, I'll just accept for the purpose
20 of the question, your 920 percent cost coverage of First
21 Class work-shared mail, I would ask you this, is not the
22 logical assumption to make that the person that is being --
23 the mailer that is being subsidized is a First Class mailer
24 rather than a Standard A or a parcel post or some other
25 class mailer?

1 A Certainly not. If it is First Class mail paying
2 those very, very high rates, which are way above marginal
3 and incremental costs, those revenues above costs are
4 clearly being used by the Postal Service to subsidize
5 something else.

6 Q Is it your -- could you cite us to a particular,
7 any instance where the Postal Rate Commission has ever used
8 the definition of cross-subsidy that you are recommending?

9 A I can probably provide you with a written answer
10 to that, but I would have to do further research.

11 Q Okay. I would be grateful. Thank you.

12 Let me ask you to look at --

13 COMMISSIONER LeBLANC: Mr. Olson, let me make sure
14 I am with you now.

15 Mr. Baker, is that acceptable to you?

16 MR. BAKER: Yes, sir.

17 COMMISSIONER LeBLANC: Just to clarify the record.

18 MR. BAKER: Yes, sir.

19 COMMISSIONER LeBLANC: Okay. Thank you very much,
20 Mr. Olson.

21 MR. OLSON: Thank you.

22 BY MR. OLSON:

23 Q Let me ask you to turn to your testimony at page
24 6, where you have certain types of products and you set out
25 the cost coverage for those products. Do you have that?

1 A I will in a moment, Mr. Olson.

2 MR. BAKER: What is the citation?

3 MR. OLSON: Page 6.

4 THE WITNESS: Yes, I have it.

5 BY MR. OLSON:

6 Q You provide, the only First Class coverage factor
7 that you provide is for work-shared First Class, correct?

8 A Correct, that's the comparison I am making. My
9 proposal is only for First Class work-shared mail.

10 Q Just for purpose of completeness and seeing this
11 table and how it unfolds, do you know the cost coverage for
12 First Class overall, including cards, and if you don't,
13 would you accept, subject to check, it^{is} 199.47?

14 A Yes, I accept that.

15 Q Okay. So that if that were placed in the chart,
16 at the top, as First Class generic compared to 174.2 for
17 Standard A, averaging the existing subclasses there, which
18 are ECR and Standard A regular, then you would compare for
19 all First Class to all Standard A, 199 to 174, correct?

20 A That is correct.

21 Q Do you have a problem with that, those relative
22 cost coverages for Standard A and First Class? In other
23 words, do you think, looking at it that way, that the First
24 Class coverage factor is unduly high?

25 A Again, I have not addressed that question in my

1 testimony, and I am not addressing First Class single piece
2 rates, and I am also not addressing in this testimony First
3 Class single piece extra ounce rates. What I am addressing
4 is the extra ounce rate for First Class work-shared mail for
5 the second and third ounce, and the closest comparison for
6 that type of mail, in terms of whether rates are above costs
7 or not, whether rates are equitable, is to compare it with a
8 similar mail stream, and the most similar mail stream is the
9 second and third ounce mail in Standard A, particularly the
10 regular subclass.

11 Q Okay. But I am asking --

12 A So I think those are the -- I think those are the
13 germane cost coverage considerations.

14 Q Do I take it from your answer that you do not, in
15 your testimony anyway, take issue with the -- with First
16 Class cost coverage being 199 and Standard A amalgamated
17 being 174?

18 A I haven't addressed that issue in my testimony.
19 The rate proposal I make for First Class would marginally
20 increase the overall cost coverage for Standard A. So the
21 best answer I can give you to your question is that I would
22 support a very modest increase in Standard A cost coverage
23 as a way to keep my proposal revenue neutral.

24 Q Do you have an opinion as to whether First Class
25 cost coverage should be higher or lower or the same as

1 Standard A?

2 MR. BAKER: All First Class?

3 THE WITNESS: I think it is outside the scope of
4 my testimony, Mr. Olson. I have tried to be responsive to
5 --

6 BY MR. OLSON:

7 Q Okay. But you have said, have you not, that
8 Standard A regular at 154^{percent} is simply too low by some
9 subjective test that you have applied?

10 A Yes, but that is mostly work-shared mail, Mr.
11 Olson, whereas, most First Class mail is not work-shared. I
12 am trying to make an apples to apples comparison here in
13 developing extra ounce rates.

14 Q Well, I am afraid what I am trying to get at
15 through my cross-examination is that there may not be apples
16 and apples to compare. You do recognize there are
17 differences between First Class and Standard A mail with
18 respect to various factors that have been considered by the
19 Commission historically in determining the proper coverage
20 factor, do you not?

21 A I am generally aware of that history.

22 Q You are aware of the differences and what is
23 termed intrinsic value of service being higher for First
24 Class?

25 A Yes, and I think the difference in cost coverage

1 between 920 percent versus 154 percent so far exceeds the
2 intrinsic value issue that it is -- the inequity there is
3 just glaring, Mr. Olson.

4 Q Is First Class work-shared mail a subclass?

5 A It is -- it is not formally a subclass under the
6 decisions made in MC95-1.

7 Q Are you proposing that it become a subclass?

8 A No, I am not.

9 Q But you are examining the coverage of the product
10 as though it were a subclass, are you not, and then
11 criticizing it? You are saying the implicit cost coverage
12 of First Class work-shared is simply too high, correct?

13 A I am saying that it is way above marginal and
14 incremental costs and, by comparison with the most similar
15 mail stream we have available, the rates are inequitable.
16 So we can easily take the comparison down below, the
17 Standard A regular subclass level, and look at rate
18 categories specifically, if you would like, and I do that in
19 my model.

20 Q Well, what I'm looking at at the moment is
21 subclasses, which is the only level that the Commission
22 establishes coverage, express coverages for. Are you aware
23 of that?

24 A I'm aware of that, but I'm also aware that the
25 Postal Service has submitted an own-price elasticity for

1 first-class work-shared mail in this case for the first time
2 as if it were a subclass, and I'm also aware that while in
3 Standard A mail, these are rates ostensibly built up from
4 the bottom from costs, people still talk in terms of
5 discounts. So there is the letter of the law in terms of
6 whether something is technically a subclass or not, and then
7 there is actual procedural operations.

8 Q And you take issue with those distinctions as to
9 whether something is actually a subclass? Is that the
10 thrust of your testimony? You disagree with that?

11 A If you could reframe your question, I'll try to
12 answer it. I'm not sure what you're asking.

13 Q Well, at present, work-shared first class is not a
14 subclass. If it were a subclass and it had a coverage level
15 expressly set for it, then presumably we could talk about
16 whether it was too high or too low, but you don't have a
17 position as to whether it should be a subclass? Is that
18 what you're saying?

19 A What I'm saying is that I'm an economist, Mr.
20 Olson, I'm not a lawyer. I think the issue of my proposed
21 rates which follow from a measurement of cost and follow
22 also from considerations of equity with a similar mail
23 stream in Standard A, that's the work of an economist. I
24 think it's up to the Commission to answer legal questions as
25 to whether my proposal -- I view it as a rate proposal, not

1 a discount proposal.

2 Q Would you accept subject to check that the cost
3 coverage for first-class single-piece mail is 173.6? Does
4 that sound about right?

5 A For first-class single-piece mail?

6 Q Yes.

7 A I would accept it subject to check, yes.

8 Q And would you compare that to the Standard A
9 amalgam that you report in your testimony for cost coverage,
10 tell us whether it's higher or lower?

11 A The 173 for first-class single-piece compares with
12 174 Standard A, but it's a meaningless comparison, in my
13 judgment. The two mail streams aren't remotely similar.
14 The one mail stream is heavily work-shared and the other is
15 not.

16 Q Well, let me ask you, with respect to work-shared
17 mail and Standard A -- excuse me -- with respect to
18 first-class work-shared and first-class single piece, is it
19 not true that they both have high priority of delivery
20 relative to Standard A?

21 A Do they have higher priority of delivery? They
22 have higher priority of delivery, yes, but given the windows
23 that are available for Standard A mail, which is known
24 throughout the industry and has been for years, my guess is
25 that Standard A mailers plan quite nicely within those

1 windows and the practical impact is that everybody receives
2 the same delivery service.

3 Q That's your testimony, that the Standard A mail
4 has the same delivery service as first class, in your
5 experience?

6 A What I'm -- I'm not -- no, I do not say that in my
7 testimony, but what I am saying here --

8 Q No, no. I asked if you said that now. I'm trying
9 to clarify what you're saying.

10 A What I'm saying is that the windows of operation
11 for Standard A mail relative to the capacity of the Postal
12 Service for processing that mail are such that my guess is
13 that Standard A mail gets delivered with no problems in the
14 timing of its delivery.

15 Q Can you tell me exactly what your guess is based
16 upon in terms of observation and experience? Or is it a
17 guess?

18 A It is a guess. It's based on reading a part of
19 the record introduced in this case, but it's not something
20 on which we focused an awful lot of detail.

21 Q Is it true that first class work-shared and
22 single-piece mail both get forwarding without additional
23 charge?

24 A They do get forwarding without additional charge.
25 I'm not --

1 Q And Standard A mail does not?

2 A Standard A mail does not, correct.

3 Q And that first-class mail travels by air over
4 longer distances and Standard A mail does not necessarily?

5 A I understand that's changing, but based on today,
6 that's my understanding.

7 Q Okay. And have you ever compared the own price
8 elasticities for first class work-shared mail with, say,
9 ECR?

10 A It's a matter of record that those numbers are in
11 my testimony. I don't think they are in this testimony;
12 they are in my other testimony.

13 Q Do you draw any conclusions from comparing the own
14 price elasticities of work-shared first class and Standard A
15 ECR relative to rate design?

16 A Yes. I think they are both highly inelastic in
17 the overall mix, and I think it has been a real Shibboleth
18 over the years to argue, you know, fine levels of detail
19 that Standard A mail is less inelastic than -- and first
20 class mail is more inelastic. The fact is they're both
21 inelastic and the Postal Service can increase its revenues
22 under the definition of own price elasticity by raising
23 rates on either, not just by raising rates on first class.

24 Q So you consider the own price elasticities of
25 work-shared first class and Standard A ECR to be comparable,

1 then?

2 A In terms of the revenue-raising capability of
3 either class, yes. There do not appear to be so many
4 competitive alternatives in one class versus another that
5 you have a situation of absolute price elasticity. You
6 don't. They're both well under minus 1.

7 Q Let me ask you this. In your testimony, you
8 appear to expressly limit your proposal to second and third
9 ounce work-shared mail and not to first class single-piece
10 mail, correct?

11 A Correct.

12 Q And what is the basis for that decision? Is it a
13 cost-based decision that you made or is it for some other
14 reason?

15 A It's in part cost-based, it's in part data problem
16 based. The -- I won't call it definitive study, but the
17 best study we have available, Library Reference 177, had a
18 lot of sampling, has a lot of data for three ounce and under
19 mail, but the best data in terms of sampling procedures is
20 for first class work-shared. It shows the marginal cost to
21 be about -- incremental cost, actually -- to be about 2.3
22 cents, whereas it's about 12.5 cents for first class
23 single-piece mail.

24 So there's a big difference in cost there, but the
25 believability of the 2.5 cent number is much greater than

1 the believability of the 12.5 cent number.

2 Q Okay. You're going to have to forgive me because
3 I've never really studied first class rate design, but it
4 was my understanding that the first class -- that the lower
5 rate charged to first class work-shared mail compensated
6 --was justified by cost savings that the Postal Service
7 enjoys because it doesn't have to tray that mail, it doesn't
8 have to cancel that mail, it doesn't have to barcode that
9 mail, but otherwise, the mail streams are similar to
10 single-piece. Is that an accurate statement that I've just
11 made?

12 A With regard to letter mail, if you're looking just
13 at letter mail alone --

14 Q Yes.

15 A -- I do not believe first class -- well, there are
16 some additional steps that first class work-shared mail
17 avoids.

18 Q Well, once it's trayed and it's faced and it's
19 cancelled and it's barcoded, doesn't it get processed the
20 same as single-piece first class mail?

21 A Absolutely not. I have testified at length in
22 MC95-1 that the single-piece mail goes through a very, very
23 different kind of processing to fit in with the Postal
24 Service's automation program. It goes to remote barcode
25 sites.

1 Q Okay. I --

2 A There's a lot of manual labor --

3 Q Let me go back --

4 A -- involved in that.

5 Q Let me restate my question. It might not have

6 been clear. I said that after the mail has been trayed,

7 faced, cancelled and barcoded, what are the differences

8 between work-shared first class and single-piece first class

9 in processing?

10 A Oh, you mean when it's out the door and ready to

11 be delivered?

12 Q No. After it's barcoded, trayed, faced and

13 cancelled, at that point, it still has to run over

14 automation, does it not?

15 A Once it's barcoded, if you're saying that it needs

16 to go through the step of being sorted to various levels of,

17 you know, either a three-digit or a five-digit or carrier

18 route presortation -- is that what you're talking about?

19 Q Yes. It would have to be transported, it would

20 have to be sorted, it would have to be delivered. I'm

21 trying to get at -- you made a distinction in your

22 testimony. You said we want to give the discount to

23 work-shared first class, I don't want to give the discount

24 to single-piece first class mail, and I'm trying to explore

25 --

1 A I did not say that I --

2 Q -- why you made that decision.

3 A Yes. I never in my testimony said that I didn't
4 want to extend any discount to first class single-piece
5 mail. I limited my proposal to first class work-shared mail
6 for the reasons that I state in my testimony. The cost data
7 is much better developed and I certainly could not extend
8 the same rate proposal to first class single-piece mail
9 because the marginal cost is 12.5 cents for that second and
10 third ounce, whereas it's only 2.5 cents for work-shared
11 mail.

12 Q Okay. Could you give me the citations to the 12.5
13 and 2 cent number you just provided me.

14 A If you'll bear with me for a moment, I will.

15 I was trying to find in the direct testimony the
16 reference to the 12.5 cents. What I see is the 2.5 cents.
17 So if you'll bear with me, I'm going to have to go to my
18 appendices.

19 If you look at Table A-5, Appendix A, page A-10,
20 you'll see average incremental attributable cost per ounce
21 for single piece. It's actually 12.3 cents, not 12.5, as I
22 earlier stated. For three ounces or less for First Class
23 work-shared presort it's 2.5 cents for three ounces or less.

24 Q Do these costs reflect the additional costs of
25 traying and canceling and bar-coding?

1 A I didn't get into the specific steps of what are
2 involved. Again, these are a Postal Service study. But
3 they include all attributable costs, Mr. Olson, all
4 attributable-cost differences.

5 Q Okay. So they would include the cost difference
6 between First Class work-shared and First Class single piece
7 that arise because First Class work-shared mail is required
8 to be trayed and faced and canceled, and it doesn't have to
9 be canceled, and bar-coded; correct?

10 A That must explain some of it, but on the flip
11 side, you know, processing First Class single-piece mail is
12 just more expensive, and processing the extra ounces of that
13 mail is probably a more labor-intensive operation.

14 Q And you're saying once it's bar-coded --

15 A Um-hum.

16 Q That running the machine -- the mail over
17 automation is more expensive for single-piece than First
18 Class work-shared mail.

19 A No, I'm not saying that. But clearly there's a
20 lot of First Class single-piece mail that you cannot put a
21 bar code on when you run it through an MLOC. That's why
22 it's farmed out to the remote bar-coding sites. And I guess
23 the engineering studies are that it's hard to run any piece
24 of mail through and put a bar code on it reliably if it's
25 over three ounces.

1 Q You know, that gets beyond what I'm asking. All
2 I'm trying to do -- I had understood that the First Class
3 work-shared rates were designed to give a mailer a break
4 because the mailer performed these services, and that those
5 are already built into the fact that First Class work-shared
6 mail pays a lower rate than First Class single-piece mail.

7 A Well, it's true that the extra-ounce cost that we
8 measured from LR-177 are -- about 75 percent of them are
9 mail processing and delivery costs. However, I did not
10 frame my proposal nor did I build my analysis as a discount.
11 I built it on the basis of looking at total unit
12 attributable costs for the second and third ounce, and
13 looked at the cost coverage associated with that, and the
14 Postal Service's 23-cent rate proposal.

15 Q And all I'm trying to get at, Dr. Clifton, really
16 is the only -- is your decision not to extend that to
17 single-piece, because it seemed like if it was a good idea
18 for First Class work-shared, it would be a great idea for
19 First Class single-piece, and maybe the best way to ask the
20 question is to ask you this. If you had a mailing of
21 100,000 letters that were First Class presort and they all
22 weighed an ounce-and-a-half and they were ready to go into
23 the system, and then you had another 100,000 letters that
24 weighed the same that were single-piece mail that had been
25 bar-coded and faced and trayed by the Postal Service, from

1 that point through delivery, are there any cost differences
2 that you know of that you can identify for us here today?

3 A I did not, nor did I need to, get into that level
4 of specificity. What I see from the Postal Service studies,
5 the best one that's been done on the issue is that the
6 incremental costs for First Class single-piece second ounce
7 is 12.5 cents, or is it 12.3 cents, whereas it's only 2.5
8 cents for First Class work-shared mail. I could not have
9 applied the same criteria that I did apply in arriving at my
10 proposed rate for work-shared mail to single-piece mail.
11 For one thing the cost coverage would be dramatically
12 different, and --

13 Q Okay. Let me ask you to turn to your response to
14 ADVO-1, page 2, and this is the other definition that you
15 discussed before with either Mr. Wiggins or Mr. McLaughlin.

16 A Okay.

17 Q And it's the one that comes from the book that you
18 said was highly regarded by Carlton and Perloff. Do you
19 have that?

20 A Yes.

21 Q Okay. And I'm going to ask you to walk through
22 this with me to see if I can understand it. I have not had
23 the opportunity to locate this book and to be able to look
24 at it for myself, but I'm sure you've read this; correct?

25 A Well, it's a standard text on industrial

1 organization, probably the leading text in the United
2 States.

3 Q Okay. And you've read at least the chapter that
4 this is in so you know that this is in context and
5 applicable to the Postal Service issues that we're
6 discussing?

7 A Well, I think the context is public utilities in
8 general, and I make that clear in my reference to it. There
9 is a lot of cross-subsidization in public utility regulatory
10 practice, as Carlton points out.

11 Q All right. Well, let me walk through this
12 definition with you and see if you can help me understand
13 it. It starts off by saying many public utilities
14 cross-subsidize rates. For example, they
15 price-discriminate, charging one group much higher rates
16 than another for identical services.

17 Let me start off by asking you, do you believe
18 that every time price discrimination occurs that a
19 cross-subsidy occurs?

20 A You would have to look at it on a case by case
21 basis.

22 Q So if you were to find an act of discrimination in
23 Postal Service rate design, you would not be prepared to
24 automatically say that was an illustration of there being a
25 cross-subsidization?

1 A That is correct.

2 Q They talk in this definition about charging higher
3 rates to one group for identical services. When they talk
4 about identical services, do you think they mean services
5 that have identical costs?

6 A In this context, yes.

7 Q Okay. And with respect to identical services, do
8 you think it is fair to apply that to a case such as the
9 Postal Service? Do you think all Postal products are
10 identical with each other?

11 A It depends on what you mean by identical. If you
12 are talking about the shape of the mail, such as letter
13 size, what is the difference between delivering a First
14 Class work-shared mail versus delivering a piece of Standard
15 A mail? And what is the difference in extra ounce costs
16 incurred?

17 I mean if you have a lot of extra tonnage because
18 the mail that you are -- Standard A mail you are carrying in
19 the Postal delivery truck is using up more fuel, it's
20 identical to whether you are delivering First Class
21 work-shared mail that is using up more fuel.

22 Why should one rate for second and third ounces be
23 23 cents and for Standard A mail zero cents?

24 Q Do you believe that First Class mail as a whole
25 should have the same cost coverage as Standard A mail as a

1 whole?

2 A Boy, I just don't know what that has to do with
3 this testimony, Mr. Olson, but I will answer it.

4 Q It's an outgrowth of your last answer.

5 A No, I think there is some higher value to First
6 Class service than is provided under Standard A service. I
7 do not believe, however, particularly with regard to these
8 extra ounce rates, that the higher value offered by First
9 Class can at all justify a 23 cent rate for First Class
10 work-shared mail when the marginal costs are 2-1/2 cents or
11 less.

12 Q So, really, you would recommend the rate be even
13 lower than the 2 cent discount you are proposing, would you
14 not?

15 MR. BAKER: Objection. That is a
16 mischaracterization of the proposal of the witness.

17 BY MR. OLSON:

18 Q Well, you would like it to be lower, if it could
19 be, would you not?

20 A My recommendation is, for this case, what it is.
21 I state verbatim in my testimony, and in the technical
22 appendices, that, on the basis of the cost evidence I have,
23 I could easily support a 7.1 cent rate proposal for First
24 Class work-shared second and third ounces. But, mindful of
25 the constraints of this case, and mindful of where we are

1 coming from, where the 23 cent rate has been in effect, I
2 have proposed an extremely conservative proposal of 12
3 cents, which carries with it a 480 percent cost coverage.
4 Isn't that enough of a contribution to institutional costs
5 for this mail, 480 percent?

6 Q Did you ever consider alternatives purely within
7 the First Class subclass as opposed to trying to increase
8 the rates of Standard A mail to solve the problem of an
9 excessive implicit cost coverage of work-shared First Class
10 mail?

11 A Did I explore it? There is not enough of a
12 revenue loss created by my extremely conservative and modest
13 proposal, under the whole cent rounding convention, to make
14 a difference in the proposed 33 cent single piece rate here,
15 if that is what you are getting at.

16 But I looked equally at considerations of equity,
17 and what seemed most egregious to me --

18 Q What --

19 A If I may just finish. Is a 23 cent extra ounce
20 rate for First Class work-shared mail and a zero -- and the
21 existing zero cent extra ounce rate.

22 Q Yeah, I think that's beyond it, I am trying to --
23 we have been over that, but I am trying to discuss whether
24 you considered alternatives within First Class. You just
25 said a second ago that the first -- that the 1 cent

1 limitation on First Class single piece rates was such that
2 it was too large a revenue difference to alter First Class
3 single piece rates, is that what you are saying?

4 A No, it's too small a revenue difference to -- to
5 matter, but that is not the fundamental point. The --

6 Q Let me stick with that one though, for clarity.

7 A All right.

8 Q What does a 1 cent change in the First Class rate
9 get you in revenue, do you know?

10 A I haven't looked at the latest rules of thumb.

11 Q I think it's somewhere around \$800 million.

12 A I think it's more. I actually think it's more
13 than that, Mr. Olson, but I don't have the number off the
14 tip of my --

15 Q Let's just say, for a second --

16 A Lobbyists use those numbers all the time, but I
17 don't have a good one.

18 Q Let me ask you this, if you were to alter the
19 extra ounce rate for second and third ounce pieces by a
20 penny, what is the costs effect for each penny? What is the
21 revenue loss for each penny that you reduce the second and
22 third ounce rate?

23 A Well, I would have to compute that, but we have --
24 our proposal is for an 11 cent difference and the revenue
25 loss to the Postal Service, I would have to look up here, I

1 don't have the number off the top of my head, but it's less
2 than \$150 million, isn't it? So if you will bear with me,
3 I'll get it for you if you want it exactly.

4 Q No, that's all right. I'm just looking if I have
5 any final questions. If you get it while I am looking, you
6 can certainly add it.

7 A All right.

8 MR. BAKER: I'll direct the witness's attention to
9 page 15 of his testimony.

10 THE WITNESS: Thank you, Mr. Baker.

11 Well, essentially, it's \$138 million revenue loss
12 so if we divide that by an 11 cent difference, we'd come up
13 with your answer.

14 BY MR. OLSON:

15 Q Your proposal in altering Standard A rates is to
16 alter both Standard A regular and Standard A ECR, correct?

17 A What I propose is an increase in the cost coverage
18 for Standard A commercial. That is what I ran on my models.

19 I did not discriminate between regular and ECR.

20 Q You do recognize they are different subclasses, do
21 you not?

22 A Yes, I do.

23 Q So you are proposing the same increase for both
24 Standard A ECR and Standard A regular, correct?

25 A I am not proposing any increase in any specific

1 rates within either subclass. I am proposing an increase in
2 the cost coverage for Standard A.

3 It is up to the discretion of the Commission to
4 decide how they would distribute that between the subclasses
5 and within the rate categories of the subclasses.

6 MR. OLSON: Okay, thank you, Mr. Chairman. I have
7 nothing else.

8 CHAIRMAN GLEIMAN: Again I apologize for missing
9 your cross examination and I will make sure to read the
10 transcript.

11 That leaves us with Postal Service for cross
12 examination. Mr. Tidwell?

13 CROSS EXAMINATION

14 BY MR. TIDWELL:

15 Q Good afternoon, Dr. Clifton. Michael Tidwell on
16 behalf of the Postal Service.

17 Let's start out by taking a look at your response
18 to AMMA Interrogatory 1-A.

19 A Okay.

20 Q Do you have that?

21 A Yes, I do, Mr. Tidwell.

22 Q I am particularly interested in the final sentence
23 of that response, in which you state, "In effect, the
24 excessively high First Class extra ounce charge is
25 subsidizing the excessively low Standard A extra ounce

1 charge, i.e., zero cent."

2 Are you familiar with Witness Fronk's rate design
3 methodology?

4 A Yes, I am.

5 Q And are you familiar with Witness Moeller's rate
6 design methodology?

7 A I am familiar with it to the degree that I needed
8 to look at it for this proposal, but I do not pretend to be
9 an expert on Standard Mail rate design.

10 Q Well, do you know whether -- well, with respect to
11 Witnesses Fronk and Moeller, is it your understanding that t
12 hey proposed rates that are designed to meet target markups?

13 A Could you rephrase the question? I am not sure I
14 understand your question.

15 Q Do you understand the process to work as follows,
16 that Witness O'Hara assigns cost coverages to the various
17 classes of mail?

18 A Yes.

19 Q And the rate design witnesses for the various
20 classes, whether it is Witness Fronk in First Class Mail or
21 Witness Moeller, then design rates for their particular
22 class of mail which are designed to meet the revenue target
23 for that particular class?

24 A Yes, I am aware of that.

25 Q Are you aware of any links between the rate design

1 methodologies that Witnesses Moeller and Fronk employ that
2 would cause a decision by one of them with respect to a
3 particular rate element to have an impact on the other's
4 choice of a particular rate proposal?

5 A Those effects clearly exist economically and I
6 have built them into my model.

7 My model is largely constructed from the Postal
8 Service's own models and the links basically revolve around
9 my importing in toto the Tolley and Thress economics into my
10 model.

11 I am assuming that in rate design the Postal
12 Service witnesses are also using those models so those cross
13 linkages must be considered in some way.

14 Q Is it your understanding that for instance if
15 Witness Fronk is setting about to propose an additional
16 ounce rate for First Class Mail that the result that he
17 achieves, the rate that he settles upon, will then in any
18 way affect Witness Moeller's rate design within Standard A?

19 A The two are going to be very interactive, because
20 in a rate case the Postal Service is trying to raise
21 revenues to cover a test year deficiency and once you build
22 in specific rates, they impact volumes across classes and
23 across subclasses and they impact the revenues that are
24 going to be generated from those classes and subclasses, so
25 notwithstanding Mr. O'Hara's testimony and what follows from

1 that in terms of specific rate design, there are economic
2 interactions there and I assume that the different witnesses
3 take that into account, as we have to. The setting of third
4 class rates affects first class volume and vice versa. How
5 can you set cost coverage for one without looking at the
6 other?

7 Q Take a look at your response to Postal Service
8 interrogatory 2-B. Am I correct in understanding your
9 answer there that you indicate that if there was an
10 additional ounce rate in standard mail for the second and
11 third ounce pieces -- for the second and third ounces, that
12 the revenue requirement for Standard A would have been
13 higher?

14 A Yes, I think that's clear from the cost coverage
15 that I computed for that mail stream. It would be
16 marginally -- the cost coverage would be marginally higher,
17 about 2.87 percentage points higher.

18 Q You're saying that the cost coverage would be
19 higher, but would the -- strike that.

20 You have indicated at least some familiarity with
21 Witness Moeller's rate design methodology. I'm going to
22 offer you a description of it and ask you to accept it
23 subject to check. That rate design employs a Commission
24 accepted formula that has the volume variable cost as its
25 first input. The second input is a target markup for the

1 subclass. The result of these first two inputs, multiplying
2 the volume variable cost by the markup, results in a revenue
3 requirement.

4 Is that consistent with your understanding?

5 A Yes. I haven't heard the terminology target,
6 target markup used before. That's what confused me before
7 and a bit again in this question.

8 Q Target cost coverage? Are you familiar with that
9 term.

10 A Okay. Well --

11 MR. BAKER: Is the question whether he's familiar
12 with the term?

13 MR. TIDWELL: Yes. As a synonym for target
14 markup.

15 THE WITNESS: Well, I mean, regardless of the use
16 of the word target, yes, I'm familiar with the procedure
17 that you're --

18 BY MR. TIDWELL:

19 Q Is it your testimony that the Standard A
20 attributable cost would be higher if there were a second and
21 third ounce rate in Standard A?

22 A Holding volume constant, the actual cost of that
23 mail stream wouldn't be any greater.

24 Q Let me move on to a different topic.

25 Is it your understanding that first class mail

1 letter and sealed parcel subclass does not have zoned rates?

2 A I'm sorry, I couldn't hear.

3 Q The first class mail rate structure, is it a zoned
4 rate structure?

5 A I haven't gotten into the issues of zones. Do you
6 mean first day delivery, second day delivery?

7 Q No. If we take a look at the existing first class
8 mail rate structure and even the proposed first class mail
9 rate structure, are there any rates in there that are --
10 that differ on the basis of the difference that the mail
11 piece travels? In priority mail and parcel post and express
12 mail, you've got zoned rates. I'm wondering -- I'm asking
13 you whether there are any zoned rates in first class.

14 A Not in the -- not in the mail stream that I'm
15 considering that I'm aware of.

16 Q Okay. Well, does the absence of zoned rates in
17 first class reflect the Postal Service's belief that there
18 are no incremental costs related to distance within first
19 class?

20 A I don't pretend to know what the Postal Service's
21 basis for not having zoned rates for first class. I assume
22 rate simplicity would be one reason and universal service
23 would be another.

24 Q I mean, so generally, just because the Postal
25 Service doesn't charge an incremental rate for an

1 incremental cost driver in first class like distance doesn't
2 mean that there isn't an incremental cost driver.

3 A Correct.

4 Q Yet when we take a look at page 9, lines 21 to 23
5 of your testimony -- I'll wait for you to get that. You
6 seem to articulate the belief that the absence of additional
7 ounce rates in Standard A does necessarily indicate that the
8 Postal Service believes that there is no incremental cost
9 due to weight, to additional ounce weight in Standard Mail
10 A.

11 Is that a fair characterization of your testimony
12 there?

13 A Well, I think if you look at that paragraph and
14 put this into context, we're talking about the justification
15 that USPS Witness Fronk used in justifying the extra ounce
16 rate, and there's almost none there.

17 The only factors that Mr. Fronk recognized was
18 primarily that it contributes a lot to Postal Service
19 revenue, and it sure does, 23 cent rates when the marginal
20 costs are 2.5 cents. But since when was just a revenue
21 requirement a basis for charging so high above cost?

22 Q Well, I'm having a little trouble finding a
23 reference to Witness Fronk in --

24 A On page 9 --

25 Q -- in that paragraph.

1 A I thought you were talking in the first -- which
2 lines? Perhaps I --

3 Q We were discussing a statement you made on page 9,
4 lines 21 to 23.

5 A I'm sorry, I missed -- I did not hear your line
6 numbers correctly. Pardon me.

7 Q Which refers to Witness Moeller, and you went off
8 on a discussion about Witness Fronk, and --

9 A Okay. I'm sorry, I misread your line numberings.
10 Mr. Tidwell, could you just rephrase the question
11 now that I understand it correctly, what lines?

12 Q I simply asked whether -- asked you to confirm
13 whether in lines 21 to 23, that there reflected a belief on
14 your part that the absence of additional ounce rates in
15 Standard A indicates that the Postal Service believes that
16 there are no incremental costs due to additional ounces in
17 Standard A.

18 A It may or may not, but the point that's being made
19 there is why should first class work-shared mail be treated
20 so differently than Standard A mail. If the Postal Service
21 is recognizing that there are extra costs in Standard A but
22 they're charging a per-piece rate that only has a cost
23 coverage of 154 percent, why -- and this does go back to the
24 first part of that page -- why not, in first class
25 work-shared mail, not have any second or third ounce rates

1 at all given the low marginal cost? Isn't a 283 percent
2 cost coverage enough?

3 Q When you say it may or may not, I note that you
4 give a citation to Witness Moeller's testimony. You cite
5 page 16, lines 1 through 8, page 25, lines 16 through 26 and
6 line 2 as providing a foundation for the assertion in your
7 testimony. Are you saying now that those passages may or
8 may not support the assertion that we've been discussing?

9 A No. I stick with my direct testimony as it is,
10 and I use the word "presumption." There certainly is on
11 record from the Advertising Mail Intervenors in this case
12 that directed questions to me a belief -- I don't think it's
13 a proven one, but a belief that the Postal Service does
14 cover the incremental costs of that extra weight for
15 Standard A mail pieces up to three ounces or 3.3 ounces.
16 But why then is the overall cost coverage for that 154
17 percent, whereas they're charging 920 percent cost coverage
18 for first class work-shared mail? It just seems to me very
19 inequitable.

20 Q Take a look at your response to Postal Service
21 interrogatory 15.

22 A Yes, I have it now, Mr. Tidwell.

23 Q Okay. In that response, you note that you haven't
24 made any proposal for non-profit standard mail. Now, while
25 you haven't formally proposed rates for non-profit, your

1 formal proposal would have a ripple effect on non-profit,
2 would it not, if it were adopted by the Commission?

3 A Ripple effect in what sense, Mr. Tidwell?

4 Q Well, if the Commission adopted your proposal and
5 increased the cost coverage for -- let's assume the
6 Commission adopted your proposal and increased the cost
7 coverage on standard mail, commercial part of Standard A.
8 Is it your understanding that there is a statutorily
9 mandated link between the cost coverage for commercial
10 Standard A and non-profit Standard A?

11 A It is now my understanding that there may well be
12 from -- during the interrogatory process, that became
13 evident.

14 Q And is it your understanding, then, that if the --
15 if your proposal is adopted and the markup for commercial
16 Standard A is raised, then it will result in increases -- or
17 an increase in the coverage or the markup for non-profit as
18 a necessary result?

19 A If that's a necessary result, then so be it. It was
20 certainly not my intent in running the models to exclude the
21 non-profit mail as such. The practical impact of it, I
22 suppose, is that the actual revenue that needs to be
23 recovered from the Standard A classes, subclasses is even
24 less than a modest, you know, 2.87 percent while some gets
25 recovered on the non-profit.

1 My feeling was and I built my model on the grounds
2 that the comparability between the two parts of the
3 work-shared mail stream is best framed on economic grounds
4 in terms of, call it for-profit or commercial mail and first
5 class and standard, and that's why I focused on first class *and*
6 Standard A commercial coverage factors, not including
7 non-profit.

8 Q Let's -- you've gone over some of this ground.
9 I'm going to try to be brief on this. You've gone over some
10 ground with respect to ADVO Interrogatory No. 2, Part B.
11 I'd like to touch on that interrogatory response very
12 briefly.

13 A Certainly. I have it.

14 Q You give some reasons in support of your answer.
15 One of the reasons you give in support of your answer in
16 response to the interrogatory in Part B is your statement
17 that the cost coverage of 154 percent for Standard A Regular
18 is in your words well below the 178 percent -- well below
19 the 178 percent average cost coverage for all mail services.

20 And another reason you give is that the volumes of
21 second and third-ounce mail are considerable, which you
22 support by indicating that of the 38 billion pieces of
23 Standard A Regular mail, nearly 19 billion are eligible for
24 a second-ounce charge, while 11 billion would be eligible
25 for a third-ounce charge.

1 I just wanted to be clear where those volume
2 numbers come from.

3 A They come from the technical appendices where --
4 in those pages that have at the top a volume. While the
5 volumes in those pages are generally in terms of pieces of
6 mail, because of the limitations of existing extra-ounce
7 studies, the numbers reported there for second and third
8 ounces are number of ounces. So I had to frame the answer
9 to that question as number of ounces, pieces of mail that
10 would be eligible for a second-ounce charge in Standard,
11 pieces of mail that would be eligible for a third-ounce
12 charge in Standard. If that helps.

13 Q Would those volume numbers refer to commercial and
14 nonprofit Standard mail together combined?

15 A You know, Mr. Tidwell, I'll have to check that.
16 The intent in framing the answer was that that would be --
17 those would just be commercial volumes, but if you allow me
18 to check that and get back to you in writing?

19 Q Okay. I had two related questions, and maybe
20 we'll need to deal with the same procedure, but I'll throw
21 them out and see if you can respond to them.

22 Would those volume figures also include all shapes
23 of Standard A mail? Do you know that offhand?

24 A I'd have to refer to those technical appendices
25 and look at the breakdowns in terms of how disaggregated the

1 Postal Service's data is for that that we used. But I'd be
2 happy to -- I'd prefer to answer it in writing if I could.
3 If you want to take time with it here, we can go into the
4 technical appendices and try to ferret out an answer.

5 Q I'd rather for once be on the other end of a
6 homework assignment.

7 [Laughter.]

8 A Well, as a former professor, I --

9 Q I had one other related question. Do you know
10 whether the weight distribution for Standard A
11 noncarrier-route presort letters is the same as the weight
12 distribution for all shapes within Standard A?

13 MR. BAKER: Could you run that by me -- repeat the
14 question, Mr. Tidwell?

15 MR. TIDWELL: Okay. I wanted to know whether Dr.
16 Clifton knew whether the weight distribution for Standard A
17 noncarrier-route presort letters is the same as the weight
18 distribution for all shapes within Standard A.

19 THE WITNESS: I would have to delve back into
20 Library Reference 177, Mr. Tidwell. I don't think that
21 library reference discriminates.

22 BY MR. TIDWELL:

23 Q Just for clarification, I intended to ask whether
24 you knew whether the weight distribution for Standard A
25 noncarrier-route presort is the same as the weight

1 distribution for all shapes.

2 A Same answer. I'd have to go back. But I can
3 again try to provide you with a written answer to that.

4 Q I'm very near the end. I'd like to direct your
5 attention right now to your response to Postal Service
6 Interrogatory No. 7.

7 A I have it, sir.

8 Q Am I correct in characterizing your response by
9 saying that there you state that the implied incremental
10 ounce rate for all additional ounce pieces combined, that
11 is, all weight increments and single piece and work-shared
12 mail is 24.02 cents, using the Postal Service's cost
13 coverage of 200.02 percent?

14 A That is what I state in my answer, yes.

15 Q Would that suggest that the current 23 cent rate
16 is about right, assuming a uniform rate for work-shared and
17 non-work-shared mail alike?

18 A I wouldn't be able to draw that conclusion
19 necessarily, no.

20 Q Does your proposal amount to de-averaging what you
21 would consider to be the lowest cost additional ounce
22 pieces?

23 A Would you consider my proposal de-averaging?
24 Yeah, I think that's a fair assessment, and it is primarily
25 driven by the dramatic differences in incremental costs, 2.5

1 cents versus 12.3 cents.

2 Q Okay. In my final line, I would like to direct
3 your attention to your response to Advo Interrogatory No. 1,
4 in particular, your response to Part D, as in David.

5 A Okay. That one is getting worn out. That has
6 seen a lot of mileage today, so.

7 Q I'll try to wear out a different section of it
8 then.

9 A All right.

10 Q Some other folks wore out earlier.

11 A Okay.

12 Q I am going to try to wear out the paragraph that
13 begins -- that's sort of toward the bottom of page 3 of the
14 response.

15 A Okay.

16 Q Or the page that is marked 3. In that paragraph,
17 you state that "It is self-evident to any impartial observer
18 in this regulatory process over time that advertising
19 mailers have been a powerful group, while First Class
20 work-sharing mailers have been a less powerful group, and
21 the results in rate and cost coverage discrimination testify
22 to that." Do you consider yourself to be an impartial
23 observer in these proceedings?

24 A No.

25 Q And when you talk about rates and coverage results

1 over time, are you free to -- I mean are you talking about
2 the rates and cost coverages recommended by the Commission?

3 A Could you rephrase that?

4 Q Well, the cost coverages and the rate results that
5 you refer to in this paragraph, are those the rates that are
6 recommended by the Commission?

7 A I think the process that I am talking about
8 primarily occurs before the Commission ever acts. I think
9 what I am talking about here is the rates as proposed by the
10 Postal Service, which, typically, over the years, may be
11 attenuated at that margins by the Rate Commission, but I
12 think what drives the process, and what I think drives some
13 fundamental inequities between First Class and Standard A
14 work-shared mail, I believe, happens before the Rate
15 Commission even sees the proposal.

16 MR. TIDWELL: I have got no further questions.

17 CHAIRMAN GLEIMAN: Is there any follow-up?
18 Questions from the bench? Commissioner LeBlanc.

19 COMMISSIONER LeBLANC: Mr. Clifton, I am
20 definitely a little confused this afternoon, so bear with
21 me, please. In your colloquy with Mr. Wiggins, I believe
22 you indicated that you used more of a marginal cost base
23 than an incremental cost combination, if you will. Is that
24 a fair statement or not?

25 THE WITNESS: No, I think I answered that

1 Interrogatory as marginal cost, but, in fact, the costs that
2 were developed to frame this rate proposal are incremental
3 costs. They are total unit attributable costs.

4 COMMISSIONER LeBLANC: Okay. That's what I was
5 trying to get at. They are total unit attributable costs
6 then?

7 THE WITNESS: Right.

8 COMMISSIONER LeBLANC: Okay. And in that regard,
9 did I understand you to say that the Postal Service does not
10 measure incremental costs properly for this particular part
11 of the case?

12 THE WITNESS: I believe that that is a distinct
13 possibility. I have not developed my own independent cost
14 estimates for Standard A, which would enable me to answer
15 definitively.

16 COMMISSIONER LeBLANC: But it just seemed like, in
17 a colloquy with one of the counsels, that I wrote that down,
18 so I just wanted to clarify that.

19 THE WITNESS: Right.

20 COMMISSIONER LeBLANC: But you are not
21 specifically saying that. That is your opinion based on
22 what you have seen, at least, is that a way of saying it? I
23 am not trying to mischaracterize. I am just trying --

24 THE WITNESS: No, I understand. What I can say is
25 that I believe there is an apparent cross-subsidy on the

1 extra ounce rates. I haven't proven the existence of a
2 cross-subsidy. In one answer I set out the grounds, strict
3 grounds that I would have to meet to prove that. But I
4 think there are some awfully good indicators that the
5 incremental costs of the heavier weight Standard A may not
6 be being met.

7 I mean there is no second or third ounce charge
8 there, whereas there is a 23 ounce charge for the second and
9 third ounces in First Class. The cost coverages are just
10 wildly differently, so I am skeptical that that extra weight
11 Standard A mail is meeting the incremental cost test, but I
12 haven't been able to prove it.

13 COMMISSIONER LeBLANC: So that might be, what you
14 were talking about when you talked about, quote-unquote,
15 "games with incremental costs", I believe, in your colloquy
16 with Mr. Olson, I believe?

17 THE WITNESS: Right.

18 COMMISSIONER LeBLANC: Okay. You keep throwing
19 out 920 percent cost coverage. Would you please tell this
20 Cajun boy here how you got that, please?

21 THE WITNESS: The 23 cent proposed rate for the
22 second and third ounce First Class work-shared mail, divided
23 by its total unit attributable cost, aged to test year '98,
24 which is 2.5 cents, 23 cents divided by 2.5 cents is 920
25 percent.

1 COMMISSIONER LeBLANC: Okay. I was right, I'll be
2 darned.

3 And, lastly, when we talk about the value of
4 service, like you were talking about, I think with Mr.
5 Olson, in looking at what you are proposing, and trying to
6 compare it apples to apples, oranges to oranges, whatever
7 you want, even apples to oranges, just to get a comparison
8 here for me for a moment, your feeling, though, is, if I
9 understood it right, according to my notes here, that the
10 value of service is a little bit better for First, but there
11 are other things that need to be taken into consideration as
12 far as Standard A is concerned, is that a way of
13 characterizing kind of what you said?

14 THE WITNESS: Yes, I do think the value of First
15 Class is more. More services are provided. But that just
16 doesn't explain this huge gap in extra ounce rates between
17 First Class work-shared and Standard A work-shared, or the
18 great gaps in cost coverages. So the equity issue comes
19 into play and I don't think those wide gaps are explained by
20 the different value of service. I think the gaps are way
21 too high at present to be explained by any difference in
22 value of service. But there clearly is a difference in
23 value of service.

24 COMMISSIONER LeBLANC: And I believe you said that
25 even based at the 12 cents you are talking about there, it

1 was still 400-and-some-odd percent cost coverage, was that
2 correct?

3 THE WITNESS: It is still a pretty healthy cost
4 coverage with my rate proposal, yes, sir.

5 COMMISSIONER LeBLANC: Okay. Thank you, sir.

6 Thank you, Mr. Chairman.

7 CHAIRMAN GLEIMAN: Is there any follow-up as a
8 consequence of questions from the bench?

9 [No response.]

10 CHAIRMAN GLEIMAN: If not, that brings us to
11 redirect. Mr. Baker, would you like some time with your
12 witness?

13 MR. BAKER: Sure.

14 [Laughter.]

15 CHAIRMAN GLEIMAN: Dare I ask how much time you
16 would like? How about 10 minutes?

17 MR. BAKER: That may be more than I need.

18 CHAIRMAN GLEIMAN: Well, it looks like it is time
19 for a break for everybody who was here since lunch. So, 10
20 minutes it is.

21 [Recess.]

22 CHAIRMAN GLEIMAN: Mr. Baker?

23 MR. BAKER: I thank you, Mr. Chairman. We do have
24 a little bit of redirect, but first I wanted to clear up one
25 procedural matter.

1 Dr. Clifton has several homework assignments. He
2 is scheduled to testify, I believe, on Monday for his other
3 piece of testimony, and we are wondering if we got our
4 homework in by next Friday, Friday week, if that would be
5 sufficient?

6 CHAIRMAN GLEIMAN: Mr. Tidwell did not seem to
7 have --

8 MR. TIDWELL: What date is that? I'm in a fog.

9 MR. BAKER: The 27th.

10 MR. TIDWELL: Sure.

11 MR. BAKER: Thank you.

12 CHAIRMAN GLEIMAN: The 27th then is the date that
13 everyone's agreed to, correct?

14 MR. BAKER: Yes.

15 CHAIRMAN GLEIMAN: Please continue with your
16 redirect.

17 REDIRECT EXAMINATION

18 BY MR. BAKER:

19 Q And on behalf of Mr. Warden I have two questions.

20 Dr. Clifton, earlier today you were asked in
21 reference to Interrogatory 4 to you from the AMMA, which
22 inquired to your understanding of the term "virtually
23 identical costs" when you compared work shared First Class
24 letter mail with Standard A letter mail" -- what did you
25 mean by virtually identical costs?

1 A Yes, that term does appear in my testimony. It is
2 important to clear it up.

3 By virtually identical costs I mean that for the
4 same operations that a First Class work shared letter goes
5 through as a Standard A letter, for the same operations the
6 costs appear to be about the same.

7 I did not mean to imply by that that First Class
8 work shared letters and Standard A letters all go through an
9 identical set of operations.

10 Clearly there is forwarding guaranteed for First
11 Class letters including work shared mail, and not for
12 Standard, but when I use the terminology "virtually
13 identical" I mean for the same operations, such as running
14 the letter on the MLOCR or after it is barcoded running it
15 on a barcode sorter, or for delivering the mail in a Postal
16 Service truck -- the costs are identical for the same
17 operations.

18 Q And the second question, in the questions from the
19 bench, Commissioner LeBlanc asked you or got into a
20 discussion of the term "games" with incremental costs.

21 What do you mean by this "game" -- "incremental
22 cost game?"

23 A Well, I tried to point it out in a response to a
24 line of questioning by Mr. Olson but it just seems to me
25 that probably case after the case the Commissioners are

1 confronted with a situation where each participant here
2 tries to minimize its incremental costs burden, but, you
3 know, clearly, at least under my definition of the
4 incremental costs if you add up the incremental costs of
5 every class and subclass they ought to sum to the total
6 costs of the Postal Service in an ideal world where you can
7 attribute all the costs.

8 I'm afraid they don't, because every class and
9 subclass tries to minimize its incremental costs, saying oh,
10 we don't need that part of the Postal Service -- someone
11 else pay for it, and when everyone plays that game, as you
12 add up all the incremental costs it doesn't cover the total
13 costs of the service.

14 It seems to me one indication as to whether a
15 group, a class a subclass is fairly covering its incremental
16 costs are these comparisons of cost coverage, but it is a
17 problem.

18 The operationalization of a valid theoretical
19 concept, incremental cost, is just fraught with all kinds of
20 politics and judgment, and it is difficult to implement.

21 MR. BAKER: That concludes our redirect, Mr.
22 Chairman.

23 CHAIRMAN GLEIMAN: Did the redirect generate any
24 follow-up? Mr. Olson?

25 RE CROSS EXAMINATION

1 BY MR. OLSON:

2 Q Dr. Clifton, just very briefly, could you tell me
3 this? Could you use the words "attributable cost" just as
4 well, substituting for "incremental cost" in the response
5 you just gave to Mr. Baker?

6 A I think, going back to our exchange, Mr. Olson,
7 that in an ideal world where you could attribute all costs,
8 yes, in measuring total incremental costs for each group you
9 would be measuring total attributable costs which would then
10 be identical to total costs.

11 MR. OLSON: Okay, thank you.

12 CHAIRMAN GLEIMAN: Is there any further follow-up?

13 MR. BAKER: Mr. Chairman, if I may?

14 FURTHER REDIRECT EXAMINATION

15 BY MR. BAKER:

16 Q Dr. Clifton, in your answer just now to Mr. Olson,
17 were you -- does your question contemplate a world in which
18 all costs are attributable and there are no institutional
19 costs?

20 A For purposes of the exchange with Mr. Olson, yes,
21 and it certainly has been a longstanding goal of the
22 Commission, as I understand it, to try to attribute as many
23 costs as possible.

24 CHAIRMAN GLEIMAN: Any further follow-up?

25 If there is none, Dr. Clifton, I want to thank you

1 for your appearance here today.

2 We appreciate it and your contributions to our
3 record, and if there is nothing further, you are excused.

4 [Witness excused.]

5 CHAIRMAN GLEIMAN: Mr. Hall?

6 MR. HALL: Thank you, Mr. Chairman. Brooklyn
7 Union calls Richard E. Bentley.

8 CHAIRMAN GLEIMAN: We'll give Mr. Bentley an
9 opportunity to get squared away at the witness table there.

10 Mr. Hall, whenever you and the witness are ready,
11 you can proceed.

12 MR. HALL: Would you like to swear the witness or
13 would you like me to?

14 CHAIRMAN GLEIMAN: Actually, I think I have to do
15 that under the rules -- with all the paper shuffling around
16 I lose track of the fact that you have already identified
17 him.

18 Whereupon,

19 RICHARD E. BENTLEY,
20 a witness, was called for examination by counsel for
21 Brooklyn Union Gas and, having first been duly sworn, was
22 examined and testified as follows:

23 CHAIRMAN GLEIMAN: Please be seated. Counsel?

24 MR. HALL: Thank you, Mr. Chairman.

25 DIRECT EXAMINATION

1 BY MR. HALL:

2 Q Mr. Bentley, for the record, would you give your
3 full name and address?

4 A Richard Bentley, 9133 Ermantrude Court, Vienna,
5 Virginia. Fortunately the post office remembers it.

6 Q Mr. Bentley, do you have before you a multipage
7 document which bears the identification Exhibit BUG-T-1 and
8 is entitled, "Direct Testimony of Richard E. Bentley on
9 behalf of the Brooklyn Union Gas Company"?

10 A Yes.

11 Q Have any changes or corrections been made to this
12 testimony since it was filed on December 30th, 1997?

13 A As a result of an interrogatory from the Postal
14 Service there were some small changes and I guess I can go
15 over them right now?

16 Q Would you please do so?

17 A In the body of the testimony on page 8 in the
18 footnote at the very bottom, the number 4.1 is changed to
19 3.9 and the number 5.8 is changed to 5.6, and the other
20 change in the body of the testimony is on page 10 in the
21 middle of the Table 1.

22 The number 5.2 is now 5.0 and all the way to the
23 right, same row, the number 24.8 is now 25.0.

24 Q Are those all the changes and corrections to your
25 prepared testimony?

1 A That's all the changes in the testimony itself.

2 Q That's fine, thank you. Do you adopt the
3 testimony that we have been discussing as your sworn
4 testimony in this proceeding?

5 A Yes.

6 Q Now do you also have before you a document that
7 bears the identification Exhibit BUG-1A?

8 It consists of five pages and the first page is
9 entitled "Estimation of Labor Plus Delivery Costs for PRM
10 Average Automation and Average First Class Letters"?

11 A Yes, I have that.

12 Q Have any changes been made in this document since
13 it was filed?

14 A Yes. Again as a result of that same interrogatory
15 I have made changes. They were very minor in nature but
16 several numbers did change and I believe at least the Postal
17 Service has been provided those changes in my original
18 answer to that interrogatory.

19 Q Are there any additional changes on page 1?

20 A Yes. On top of that there is one more change,
21 which is just a footnote -- in the first and second column,
22 wherever there is a Footnote 3 it should have been Footnote
23 4 -- that's it.

24 Q I see. Was this exhibit prepared by you or under
25 your direction and supervision?

1 A Yes.

2 MR. HALL: Thank you. Your Honor, let me state
3 for the record that the copies that I have handed to you and
4 to the reporter reflect all the changes that Mr. Bentley has
5 identified and in addition I have given a copy to counsel
6 for the Postal Service and I believe I have perhaps one or
7 two more if there are any parties interested.

8 At this time I would move admission into evidence
9 of Mr. Bentley's prepared testimony, which is identified
10 Exhibit BUG-T-1 as well as Exhibit BUG-1A.

11 CHAIRMAN GLEIMAN: Are there any objections?

12 Hearing none, Mr. Bentley's testimony and exhibits
13 are received into evidence and I direct that they be
14 accepted into evidence and transcribed into the record at
15 this point.

16 [Direct Testimony and Exhibits of
17 Richard E. Bentley, BUG-T-1, were
18 received into evidence and
19 transcribed into the record.]

20
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Exhibit BUG-T-1

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20068-0001

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

DIRECT TESTIMONY OF
RICHARD E. BENTLEY
ON BEHALF OF
THE BROOKLYN UNION GAS COMPANY

December 30, 1997

I. QUALIFICATIONS

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My name is Richard E. Bentley. I am president of Marketing Designs, Inc., a marketing and consulting firm.

I began my career as a market research analyst for the Postal Rate Commission in 1973 and remained there until 1979. As a member of the Officer of the Commission's technical staff, I testified before the Postal Rate Commission in four separate proceedings. After leaving the Commission in 1979, I testified before the Commission as a private consultant in all six major cases, most recently in Docket No. R94-1. I have also testified in two of the more recent classification cases, Docket Nos. MC95-1 and MC96-3.

Since March 1982 I have been president of Marketing Designs, Inc., which provides specialized marketing services to various retail, commercial, and industrial concerns as well as consulting services to a select group of clients.

I received a Bachelor of Science degree in Industrial Engineering/Operations Research from Cornell University in 1972. The following year I was awarded a Master's degree in Business Administration from Cornell's graduate School of Business Public Administration. I am a member of Tau Beta Pi and Alpha Pi Mu engineering Honor Societies.

I have included a more detailed account of my 20 years of experience as an expert witness on postal ratemaking as Attachment 1 to this testimony.

II. PURPOSE OF TESTIMONY

1
2 The Brooklyn Union Gas Company (Brooklyn Union) has asked me to
3 review the Postal Service's proposed classification for Prepaid Reply Mail
4 (PRM). This new rate category is designed to provide large volume First-
5 Class Mail recipients of automation-compatible letters with a lower 30-cent
6 rate, compared to the Postal Service's proposed 33-cent First-Class rate.
7 Under the Postal Service's proposal, qualified PRM recipients will be required
8 to distribute pre-approved, pre-barcoded envelopes to mailers, perform all the
9 necessary accounting functions (counting, rating, bill determination, and record
10 keeping) to determine the amount of postage due, and to prepay the postage.
11 PRM recipients will also be required, as a condition of qualifying for
12 participation in this program, to agree to and complete periodic audit
13 procedures by the Postal Service.

14 Brooklyn Union is currently a large user of BRMAS Business Reply
15 Mail. As such, it is a prime candidate to take part in the PRM program.
16

III. OVERVIEW

17
18 After extensive research, the Postal Service has carefully
19 formulated a rate proposal that focuses on certain types of very
20 efficient, low-cost First-Class letters by establishing a separate rate
21 category for such letters. I have reviewed the Service's testimony and
22 find that there is no question that the PRM concept provides a rate that

1 appropriately and more closely reflects the actual costs of processing
2 such mail.

3 Brooklyn Union views the conceptual underpinning for the Postal
4 Service's PRM rate category very favorably. In general, the Postal
5 Service's PRM proposal represents an important and welcome initiative
6 by the Service to offer new, more flexible services to mailers where the
7 facts and circumstances warrant rates that more closely reflect costs.
8 Brooklyn Union believes that there are reasonable assurances that
9 both the participating mail recipients and the Postal Service will realize
10 material benefits from implementation of the PRM concept.

11 Brooklyn Union is favorably impressed by the concepts inherent
12 in the Postal Service's PRM proposal, and endorses the mailer pre-
13 certification program for determining postage due as well as the \$1,000
14 per month fee to reflect the auditing of accounting procedures
15 performed by the reply mail recipient. There are, however, two minor
16 modifications to the Service's presentation that I urge the Commission
17 to consider.

18 First, under the Service's proposed concept, PRM recipients are
19 required to prepay postage on reply letters that they are "expected" to
20 receive. If the volume of pieces actually returned is different from that
21 expected, accounting adjustments are to be made at some future date.
22 Requiring PRM recipients to prepay postage on the expected volume

1 unnecessarily complicates the proposal. Accordingly, I recommend
2 that postage be paid on the exact number of pieces when they are
3 delivered. Such a proposal would allow participating reply mail
4 recipients to pay postage in the same manner that BRMAS BRM
5 recipients currently pay for the BRM pieces they receive.

6 If my proposal is accepted, then the name of the new rate
7 category should be changed from Prepaid Reply Mail to Bulk
8 Automated Reply Mail (BARM) to avoid confusion to mailers.

9 Second, reply mail received in bulk quantities is almost always
10 addressed to a post office box. Since such mail by definition avoids
11 the carrier delivery system, these additional savings can be
12 safeguarded if such a requirement is implemented. Accordingly, I
13 recommend that all PRM (or BARM, as I call it) be required to be
14 addressed to a post office box.

15

16 IV. THE POSTAL SERVICE'S PRM PROPOSAL

17 In this case, the Postal Service has proposed for the first time to
18 create a separate rate category called Prepaid Reply Mail (PRM), for
19 certain high volume return mail recipients. In concept, the reduced rate
20 of 30 cents is designed to provide an appropriate incentive to high
21 volume recipients to distribute low-cost pre-barcoded and automation-
22 compatible letters to mailers. I note that this is the same First Class

1 Mail rate that the Postal Service is proposing to charge recipients of
2 Qualified Business Reply Mail (QBRM).

3 The concept of offering a lower rate to certain types of reply mail
4 is not new. It has evolved after several years of controversy regarding
5 the wisdom and feasibility of implementing a separate classification or
6 rate category for Courtesy Envelope Mail (CEM) and Public Automation
7 Rate (PAR) Mail.¹ Many business mailers provide self-addressed,
8 automation compatible pre-barcode envelopes to their customers with
9 billing statements, for the convenience of their customers as well as to
10 insure timely receipt of customers' payments. There are many other
11 uses of reply envelopes. In most cases, postage is affixed to these
12 pre-printed reply envelopes by individual mailers, who return the reply
13 envelopes to the original business mailer/recipient. However, in the
14 case of Business Reply Mail, which is simply another form of reply
15 mail, the recipient rather than the mailer pays the postage.

16 The appropriateness of a lower rate relates, in part,² to the lower costs
17 that the Postal Service incurs to process certain kinds of reply mail. Reply
18 mail envelopes that are pre-printed with a pre-barcode and a face identification

¹ The Commission first mandated the establishment of a CEM discount in Docket No. R87-1. The PAR discount was proposed in Docket No. R90-1. In that same docket, Brooklyn Union witness Michael Courtien proposed the establishment of a separate discounted First-Class Mail rate for BRMAS BRM received in bulk.

² In the case of PRM, as discussed more fully below, the fact that the mail is, by definition, delivered in high volumes allows the Postal Service to achieve substantially greater efficiencies.

1 mark (FIM) can be readily identified and separated by facer/canceler
2 machines, processed at lightning speeds on barcode sorters, and delivered
3 expeditiously. The automation-compatible and pre-barcode attributes allow
4 qualified reply mail to incur attributable costs that are far lower than the
5 average First-Class letter. Consequently, this mail currently contributes on a
6 per piece basis far more to institutional costs than most other kinds of First-
7 Class single piece letters.

8 The concept of PRM takes reply mail cost savings one step further.
9 Under the Postal Service's proposal, it will receive \$1,000 per month from
10 PRM recipients. The primary purpose for this \$1,000 per month fee is to cover
11 the Postal Service's cost of establishing and auditing the accounting
12 procedures and functions performed by PRM recipients. An important
13 additional benefit of this fixed monthly fee, however, is that it requires a
14 potential participating reply mail recipient to receive a certain minimum volume
15 of return mail pieces in order for participation in the PRM program to be
16 advantageous to the reply mail recipient.³ Thus, the Service has carved out a
17 portion of the total reply mail universe and limited its proposed PRM rate

³ Under the Service's proposal, the absolute minimum or "breakeven" volume for potential PRM recipients is 200,000 pieces per year. (USPS-T-32, Workpaper III). I should note, however, that this calculation of a breakeven volume does not include the additional recipient-specific administrative costs related to establishing appropriate procedures to insure accurate mail counts and postage payable reporting, the ongoing costs of maintaining and optimizing such procedures, and the costs associated with satisfactorily completing the Postal Service's periodic sampling and audit procedures. If anything, the 200,000 minimum is low.

1 category to those recipients who receive large volumes and who are willing to
2 pay the postage.

3 The advantage to the Postal Service of requiring participating PRM
4 recipients to have a certain minimum volume is two-fold. First, the Service is
5 assured of enjoying not only the cost savings provided by reply mail in general
6 (discussed above), but significant additional savings as well. Reply mail
7 received in large quantities is usually addressed to recipients who are assigned
8 their own unique 9-digit or 5-digit zip codes. This allows the mail to by-pass
9 various postal processing operations, such as (1) the sort to carrier route, (2) the
10 incoming secondary sort, and, in some cases, (3) the incoming primary sort.
11 Moreover, such mail is usually addressed to a post office box, by-passing the
12 entire carrier delivery network with its attendant high unit costs.⁴ As noted
13 above, I recommend that the Commission *require* all PRM to be addressed to a
14 post office box. This requirement will insure that the Postal Service will, in fact,
15 realize additional cost savings because, by definition, all PRM will by-pass the
16 delivery network and will be picked up by the recipient.

17 The second advantage of requiring reply mail to be delivered in large
18 volumes relates to the operational feasibility and administrative efficiency of
19 the PRM program.⁵ The Postal Service's testimony shows that it is very

⁴ According to the Postal Service, delivery costs approximately 4 cents per piece. See Exhibit USPS-29C (revised 10/1/97), p. 1.

⁵ According to the Postal Service, the PRM rate concept is workable only if the recipient pays the postage. USPS witness Fronk assumed that a similar proposal whereby the mailer pays the postage is simply "unfeasible". (Tr. 4/1570) See also USPS-T-32, p. 37.

1 expensive for the Postal Service to perform the counting, rating and billing of
2 reply mail, especially where the volumes received by individual reply mail
3 recipients are relatively small. In contrast, PRM recipients who receive large
4 quantities of mail can perform the counting, rating, and billing functions much
5 more efficiently through the use of weight averaging techniques or computers.
6 In other words, the fact that a PRM recipient, by definition, receives a large
7 volume of reply mail pieces serves to minimize the unit accounting cost. The
8 resulting PRM category is therefore limited by design to a subset of the reply
9 mail universe. Such recipients generate reply letters that are efficiently
10 processed at low cost and achieve even greater efficiencies for the system
11 because the reply mail pieces are received in bulk quantities.⁶

12 In fact, the cost to process and deliver these reply letters is comparable
13 to, if not less than, the cost of processing and delivering a First-Class
14 Automation letter.⁷ To illustrate, consider a national mailer who includes PRM
15 envelopes in its outgoing First-Class Automation mailing. Mailer "A" presorts
16 10,000 outgoing bulk letters and later receives in bulk the 10,000 enclosed
17 PRM reply envelopes returned by individual mailers. Figure 1 graphically
18 illustrates the two contrasting mail flows.

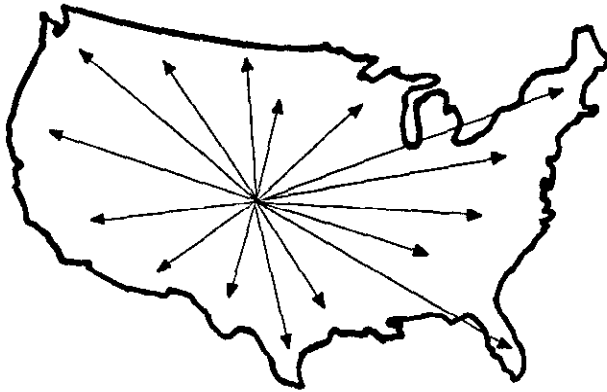
⁶ The basis for the PRM rate is not the reduced cost incurred by reply mail received in bulk. Rather, the PRM rate is based on the cost savings associated with pre-barcoding an automation-compatible letter compared to a non-pre-barcoded, hand-addressed letter.

⁷ The unit labor processing plus delivery cost for PRM is estimated to range from 3.9 to 5.6 cents, depending upon the degree to which PRM is distributed after the outgoing primary sort. Comparable costs for First-Class Automation letters are 6.6 cents (5-Digit), 8.2 cents (3-Digit) and 9.0 cents (Basic). See Exhibit BUG-1A.

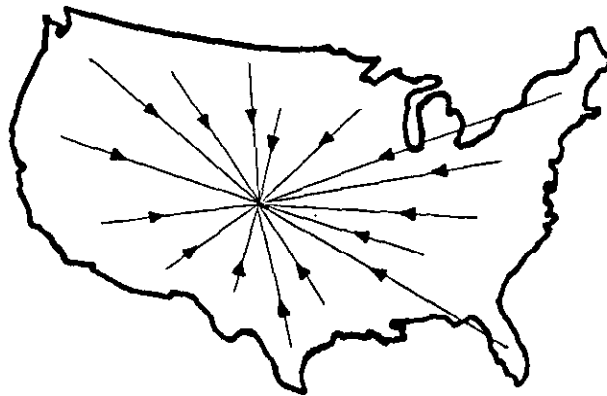
Figure 1

Illustration of National First-Class Automation and PRM Mail Flow

Automation Mailer "A" (Outgoing Automation Letters)



Automation Mailer "A" (Incoming PRM Letters)



1 The Postal Service's costs for processing the mail for each of these two
 2 types of mail is considerably lower than that of an average First-Class letter.
 3 Table 1 provides the estimated unit processing plus delivery costs, USPS
 4 proposed revenues, and the *relative* unit contribution to institutional costs for
 5 Mailer A's outgoing (Automation) and incoming (PRM) letters and for an
 6 average non-presorted First-Class letter.

Table I
 Comparison of Labor Plus Delivery Costs and Unit Revenues
 For PRM, Average Automation and Average First-Class Letters

<u>First-Class Rate Category</u>	<u>Total Labor Plus Delivery (Cents)</u>	<u>USPS Proposed 1-Ounce Revenue (Cents)</u>	<u>Revenue Less (Labor Plus Delivery) (Cents)</u>
Average PRM	5.0	30.0	25.0
Average Automation	7.9	26.2	18.3
Average Non-presorted	16.7	33.0	16.3

Souce: Exhibit BUG-1A

7
 8
 9 Under the Service's proposed rates, PRM will contribute over 6 cents
 10 more per piece to institutional costs than First-Class Automation Mail, and over
 11 8 cents more per piece to institutional costs than an average First-Class letter.
 12 Because of the disparity in the relative required unit institutional cost
 13 contributions, the logic and fairness for charging PRM a reduced rate of 30
 14 cents becomes abundantly clear.

V. ACCOUNTING PROCEDURES

A key provision of the Postal Service's PRM proposal is that the accounting functions of counting and rating are performed not by the Postal Service at postage-due units but by the recipient. USPS Witness Fronk maintains that these functions must be "workable for both mailers and [the] Postal Service." (USPS-T-32, p. 6) He goes on to explain that "... prepayment of postage would be based on the average percentage of envelopes returned, not on the full number of envelopes distributed..." (Id.) But Mr. Fronk has not explained why postage must be "prepaid" through what appears to be an elaborate additional accounting procedure. The prepayment requirement appears to conceptually and administratively complicate the role of the new rate category when, in fact, no such complication is needed. PRM is simply QBRM received in bulk where the recipient performs all the accounting and billing functions normally performed by the Postal Service.

There is no legitimate reason for a requirement that postage be paid when the reply envelopes are distributed to the recipients' customers. For guidance in resolving this matter, the Commission need look no further than the existing advance deposit account mechanism used to pay for BRMAS BRM. BRMAS BRM recipients like

1 Brooklyn Union are not required to make estimates of reply mail return
2 percentages or make deposits into their accounts based on such
3 estimates before the outgoing envelopes carrying the reply mail pieces
4 are placed into the postal system. They are simply required to have
5 adequate funds on deposit to cover the cost of postage before the reply
6 mail pieces are delivered to them by the Postal Service. While I
7 recognize that there is a theoretical difference in having the recipient
8 receive the PRM mail before postage is actually determined and paid,
9 there is no practical reason to create a new, complicated accounting
10 procedure to accommodate this theoretical difference. Instead, a far
11 more workable requirement would be one that sets a minimum account
12 balance that must be on deposit before the recipient takes delivery of
13 the day's reply mail pieces.

14 For example, the minimum balance in an advance deposit
15 account could be set, initially, at the discretion of the Postal Service on
16 a case-by-case basis and adjusted later as the Postal Service and the
17 recipient gain experience with the return mail patterns of the particular
18 recipient. The advantages are obvious. First, there is no need to
19 estimate the percent return, that is, the number of letters that will be
20 returned compared to the number of envelopes distributed. And
21 second, there is no need to adjust the advance deposit account to

1 reflect actual volumes versus anticipated volumes that have already
2 been paid for.

3 Utilizing the BRMAS BRM advance deposit accounting system
4 as a model for the PRM service payment system has other obvious
5 advantages. The Postal Service's own analyses indicate that most of
6 the PRM reply mail volume will come from mailers who migrate to PRM
7 service from BRMAS BRM service. Therefore, utilizing the basic
8 advance deposit accounting mechanism that these mailers already are
9 familiar with will help to smooth the transition to PRM service for PRM
10 mail recipients and the Postal Service operational personnel who must
11 implement the new program.

12 Finally, should the Commission agree that requiring postage to
13 be prepaid unduly complicates the Postal Service's PRM proposal, I
14 recommend that the name of this mail category be changed to avoid
15 confusion. Since the postage would no longer be "prepaid," the name
16 "Prepaid Reply Mail" simply would not apply. Therefore, I recommend
17 that the new rate category be called Bulk Automated Reply Mail
18 (BARM).

19

20 VI. CONCLUSION

21 The Postal Service should be congratulated for developing its
22 new, innovative PRM concept. The goal of offering cost-based rates

1 reduces cross-subsidization within the First-Class single piece rate
2 category, encourages mailers to provide letters that are less costly to
3 process, and results in a rate schedule that is more fair and equitable.
4 The Postal Service's PRM proposal fosters that goal and should be
5 approved by the Commission.

6 One aspect of the Postal Service's proposal, whereby the
7 Service requires prepayment of postage, does not seem necessary.
8 Consequently, I urge the Commission to require postage to be paid on
9 reply mail pieces as they are delivered. As such, the name Prepaid
10 Reply Mail should be changed to Bulk Automated Reply Mail.

11 A second improvement to the Postal Service's proposal should
12 be a formal requirement that all qualifying Bulk Automated Reply Mail
13 be addressed to a Post Office Box. This will insure that this mail will
14 not incur any carrier delivery costs.

15 That completes my testimony.

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Attachment 1

QUALIFICATIONS OF RICHARD BENTLEY

Richard Bentley is president of Marketing Designs, Inc., a marketing and consulting firm.

Mr. Bentley began his career as a market research analyst for the Postal Rate Commission in 1973 and remained until 1979. As a member of the Officer of the Commission's technical staff (now Office of the Consumer Advocate) his responsibilities included analysis of USPS costs, volumes, rates and operations. As a witness on behalf of the Officer of the Commission, Mr. Bentley testified before the Postal Rate Commission in five separate proceedings. In Docket No. MC73-1, Mr. Bentley filed rebuttal testimony concerning the Postal Service's bound printed matter proposal.

In Docket Nos. MC76-1 and MC76-3, Mr. Bentley testified on changes proposed by the Officer of the Commission to the Domestic Mail Classification Schedule. Those changes concerned proposals to establish local First-Class rates and to eliminate third-class single piece as a separate subclass. With regard to the latter, it is interesting to note that in the current proceeding, the Postal Service proposes to eliminate this subclass for similar reasons he gave more than 20 years ago.

1 In Docket No. R77-1, Mr. Bentley presented proposed rates for
2 all classes of mail and services, including the projected volumes that
3 would result from those rates. He also analyzed the rates proposed by
4 the Postal Service and critiqued the volume projections presented in
5 support of its proposals.

6 In Docket No. MC78-1, the Postal Service proposed to
7 restructure parcel post rates by asking the Commission to establish
8 new rates for parcel post mailed in bulk and for a parcel post
9 nonmachinable surcharge. Mr. Bentley presented two pieces of
10 testimony in that docket--one concerned with the rate aspects of the
11 Postal Service's proposal and one concerned with the parcel post
12 volume projections.

13 In 1979, Mr. Bentley left the Postal Rate Commission to become
14 a senior program engineer for Systems Consultants, Inc. (now Syscon
15 Corporation), a national consulting firm. There, Mr. Bentley's
16 responsibilities included the analysis and estimation of life cycle costs
17 required to research, develop, manufacture, and maintain various
18 weapon system programs for the Department of Defense. He
19 developed cost estimating relationships and completed a computerized
20 model for estimating future weapon system program costs.

1 In addition, Mr. Bentley testified before the Postal rate
2 Commission in Docket No. R80-1 concerning presorted First-Class
3 mail rates and second-class within county rates.

4 After leaving Syscon in 1981, Mr. Bentley started his own
5 company, Marketing Designs, Inc., which provides specialized
6 marketing services to various retail, commercial, and industrial
7 concerns as well as consulting services to a select group of clients.

8 In Docket No. R84-1, Mr. Bentley testified on behalf of the
9 Council of Public Utility Mailers and the American Retail Federation in
10 favor of an increased First-Class presort discount. At that time Mr.
11 Bentley presented a methodology for estimating cost differences
12 between processing First-Class single piece and presorted letters that
13 eventually become the foundation for the Commission's "Appendix F"
14 methodology for supporting First-Class presorted discounts.

15 In Docket No. C86-3, Mr. Bentley testified on behalf of Roadway
16 Package System concerning a proposed special rate increase for
17 parcel post. In Docket Nos. R87-1 and R90-1, Mr. Bentley testified on
18 behalf of the Council of Public Utility Mailers, the National Retail
19 Federation, Brooklyn Union Gas, and other First-Class mailers. Mr.
20 Bentley recommended and supported various rate discount proposals
21 for presorted First-Class mail, and a lower fee for "BRMAS" business
22 reply mail.

1 In the last omnibus rate proceeding, Docket No. R94-1, Mr.
2 Bentley testified on behalf of Major Mailers Association with respect to
3 several issues that concerned First-Class rates. These included the
4 relationship between the proposed cost coverages for First- and third-
5 class, the rates for First-Class incremental ounces, prior year losses,
6 and the Postal Service's changes to the Commission's city delivery
7 carrier out-of-office cost methodology. In addition, Mr. Bentley worked
8 on behalf of Brooklyn Union Gas to have the Postal Service's proposed
9 tripling of the "BRMAS" BRM fee rejected, although he did not file any
10 formal testimony.

11 In Docket Nos. MC95-1 and MC96-3, Mr. Bentley again
12 represented Major Mailers Association. In Docket No. MC95-1 he
13 endorsed the overall classification concept proposed by the Postal
14 Service for First-Class Mail and suggested that the First-Class second
15 and third ounce rate be reduced for letter-shaped pieces. In Docket
16 No. MC96-3, Mr. Bentley compared the attributable costing approaches
17 between the Postal Service and Commission and asked that the
18 Commission require the Postal Service to provide the impact of
19 proposed changes utilizing established attributable cost methodologies.
20 This testimony was the impetus for Docket No. RM97-1 and resulted in
21 the Commission amending Rule 54(a)(1) to require the Postal Service
22 to make such a cost presentation.

1 In 1972, Mr. Bentley received a Bachelor of Science degree in
2 Industrial Engineering/Operations Research from Cornell University.
3 The following year Mr. Bentley was awarded a Master's degree in
4 Business Administration from Cornell's graduate School of Business
5 and Public Administration (now the Johnson Graduate School of
6 Management). Mr. Bentley is a member of Tau Beta Pi and Alpha Pi
7 Mu Engineering Honor Societies.

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Exhibit BUG-1A
Page 1 of 5
(Revised 1/30/98)

Estimation Of Labor Plus Delivery Costs for
PRM, Average Automation and Average First-Class Letters

First-Class Rate Category	(1) Total Labor Cost	(2) Delivery Operations	(3) Total Labor Plus Delivery (1) + (2)	(4) USPS Proposed 1-Ounce Revenue	(5) Revenue Less (Labor Plus Delivery) (4) - (3)
PRM (Basic after primary sort)	5.6 1/	0 2/	5.6	30.0	24.4
PRM (3-Digit after primary sort)	5.5 1/	0 2/	5.5	30.0	24.5
PRM (5-Digit after primary sort)	3.9 1/	0 2/	3.9	30.0	26.1
Estimated Average PRM	5.0 1/	0 2/	5.0	30.0	25.0
Basic Automation	5.3 ^{4/} 3/	3.7 ^{4/} 3/	9.0	27.5 4/	18.5
3-Digit Automation	4.5 ^{4/} 3/	3.7 ^{4/} 3/	8.2	26.5 4/	18.3
5-Digit Automation	3.0 ^{4/} 3/	3.6 ^{4/} 3/	6.6	24.9 4/	18.3
Average Automation	4.2 ^{4/} 3/	3.6 ^{4/} 3/	7.9	26.2 4/	18.3
Average Non-presorted	11.7 5/	5.0 6/	16.7	33.0	16.3

1/ See page 2

2/ Assumed to be zero because of high volume received

3/ See page 4

4/ See page 5

5/ LR H-106, p. II-5

6/ Exhibit USPS-29C, p. 1

Estimation of Labor Costs for PRM

	(1)	(2)	(3)	(4)	(5)
	Modeled	Non-Modeled			TY BR
Outgoing PRM Sort Depth	Unit Labor	Unit Labor	Mail	Unit Labor	Est. Volume
<u>After Outgoing Primary Sort</u>	<u>Cost</u>	<u>Cost</u>	<u>Preparation</u>	<u>Cost</u>	<u>Percentage</u>
	(Cents)	(Cents)	(Cents)	(1) + (2) + (3)	
Basic	3.9699	0.9869	0.683	5.6398	33%
3-Digits	3.8123	0.9619	0.683	5.4572	33%
5-Digits	2.4782	0.7503	0.683	3.9115	33%
Weighted Average				5.0023	

Col (1) Derived on pages 3 and 4

Col (2) Col (1) x .1586 + .3573; see Exhibit USPS-25A, p. 1

Col (3) Attachment to POIR No. 5 Question 19 response

Col (5) The exact volume mix after the outgoing primary sortation is unknown. Due to the lack of data, assume an equal distribution. This is a conservative assumption since PRM will exhibit very high densities, especially near the delivery office, because of the high volumes received by each PRM recipient.

Exhibit BUG-1A
Page 3 of 5
(Revised 1/30/98)

Development of First-Class PRM Mail Processing Model Unit Costs
(If Sorted to Basic After the Outgoing Primary)

		Pieces	Wage	Cents	Piggyback	Premium	Cents	Weighted
<u>Outgoing Primary</u>	<u>TPF</u>	<u>Per Hour</u>	<u>Rate</u>	<u>Per Piece</u>	<u>Factor</u>	<u>Pay Adj</u>	<u>Per Piece</u>	<u>Cost</u>
MPBCS/DBCS	9,818	7,467	25.445	0.3408	1.719	0.0037	0.5895	0.5788
Manual	673	662	25.445	3.8437	1.372	0.0423	5.3158	0.3578

Source: Exhibit USPS-T-23D

<u>ADC/AADC Distribution</u>								
Manual	398	759	25.445	3.3524	1.372	0.0369	4.6364	0.1845
BCS	5,569	7,467	26.445	0.3542	1.719	0.0039	0.6127	0.3412

<u>SCF Operations</u>								
Manual	58	896	29.445	3.2863	1.327	0.0361	4.3970	0.0255
BCS	3,397	7,467	30.445	0.4077	1.719	0.0045	0.7054	0.2396

<u>Incoming Primary</u>								
Manual	322	562	\$25.45	4.5276	1.372	0.0498	6.2616	0.2016
BCS	1,496	7,467	\$25.45	0.3408	1.719	0.0037	0.5895	0.0882

<u>Incoming Secondary</u>								
Manual/Non-Auto Sites	1,347	1,143	\$25.45	2.2262	1.372	0.0245	3.0788	0.4147
Manual/Auto Sites	1,482	646	\$25.45	3.9389	1.372	0.0433	5.4474	0.8073
BCS	2,231	6,633	\$25.45	0.3836	1.719	0.0042	0.6636	0.1481
DBCS First-Pass	5,724	8,393	\$25.45	0.3032	2.434	0.0033	0.7412	0.4243
CSBCS First-Pass	5,438	17,124	\$25.45	0.1486	1.948	0.0016	0.2911	0.1583

Source: Exhibit USPS-T-25, Appendix I, p. 13

MODEL COST 3.9699

Exhibit BUG-1A
Page 4 of 5
(Revised 1/30/98)

Development of First-Class PRM Mail Processing Model Unit Costs
(If Sorted to 3-Digits After the Outgoing Primary)

<u>Outgoing Primary</u>	<u>Pieces</u>		<u>Wage</u>	<u>Cents</u>	<u>Piggyback</u>	<u>Premium</u>	<u>Cents</u>	<u>Weighted</u>
	<u>TPF</u>	<u>Per Hour</u>	<u>Rate</u>	<u>Per Piece</u>	<u>Factor</u>	<u>Pay Adj</u>	<u>Per Piece</u>	<u>Cost</u>
MPBCS/DBCS	9,818	7,467	25.445	0.3408	1.719	0.0037	0.5895	0.5788
Manual	673	662	25.445	3.8437	1.372	0.0423	5.3158	0.3578

Source: Exhibit USPS-T-23D

<u>Incoming Primary</u>								
Manual	935	562	\$25.45	4.5276	1.372	0.0498	6.2616	0.5855
BCS	9,657	7,467	\$25.45	0.3408	1.719	0.0037	0.5895	0.5693

<u>Incoming Secondary</u>								
Manual/Non-Auto Sites	1,345	1,143	\$25.45	2.2262	1.372	0.0245	3.0788	0.4141
Manual/Auto Sites	1,242	646	\$25.45	3.9389	1.372	0.0433	5.4474	0.6766
BCS	2,306	6,633	\$25.45	0.3836	1.719	0.0042	0.6636	0.1530
DBCS First-Pass	5,916	8,393	\$25.45	0.3032	2.434	0.0033	0.7412	0.4385
CSBCS First-Pass	1,330	17,124	\$25.45	0.1486	1.948	0.0016	0.2911	0.0387

Source: Exhibit USPS-T-25, Appendix I, p. 16

MODEL COST 3.8123

Development of First-Class PRM Mail Processing Model Unit Costs
(If Sorted to 5-Digits After the Outgoing Primary)

<u>Outgoing Primary</u>	<u>Pieces</u>		<u>Wage</u>	<u>Cents</u>	<u>Piggyback</u>	<u>Premium</u>	<u>Cents</u>	<u>Weighted</u>
	<u>TPF</u>	<u>Per Hour</u>	<u>Rate</u>	<u>Per Piece</u>	<u>Factor</u>	<u>Pay Adj</u>	<u>Per Piece</u>	<u>Cost</u>
MPBCS/DBCS	9,818	7,467	25.445	0.3408	1.719	0.0037	0.5895	0.5788
Manual	673	662	25.445	3.8437	1.372	0.0423	5.3158	0.3578

Source: Exhibit USPS-T-23D

<u>Incoming Secondary</u>								
Manual/Non-Auto Sites	1,345	1,143	\$25.45	2.2262	1.372	0.0245	3.0788	0.4141
Manual/Auto Sites	852	646	\$25.45	3.9389	1.372	0.0433	5.4474	0.4641
BCS	2,427	6,633	\$25.45	0.3836	1.719	0.0042	0.6636	0.1611
DBCS First-Pass	6,227	8,393	\$25.45	0.3032	2.434	0.0033	0.7412	0.4616
CSBCS First-Pass	1,400	17,124	\$25.45	0.1486	1.948	0.0016	0.2911	0.0408

Source: Exhibit USPS-T-25, Appendix I, p. 18

MODEL COST 2.4782

Exhibit BUG-1A
Page 5 of 5
(Revised 1/30/98)

**Estimation of Labor and Delivery Costs
for Average First-Class Automation Letters**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Modeled	Non-Modeled				USPS Proposed		- TY BR
Automation	Unit Labor	Unit Labor	Unit Labor	Unit Delivery	Labor + Del	1-Ounce	TY BR	Volume
<u>Presort Level</u>	<u>Cost</u>	<u>Cost</u>	<u>Cost</u>	<u>Cost</u>	<u>Unit Cost</u>	<u>Unit Revenue</u>	<u>Volume</u>	<u>Percentage</u>
	(Cents)	(Cents)	(1) + (2)	(Cents)	(3) + (4)	(Cents)	(Mil)	(7) / 34,303
Basic	4.2822	1.0365	5.3187	3.7110	9.0297	27.5	4,285	12%
3-Digits	3.6167	0.9309	4.5476	3.6520	8.1996	26.5	20,643	60%
5-Digits	2.3038	0.7227	3.0265	3.5730	6.5995	24.9	9,375	27%
Weighted Average			4.2282	3.6378	7.8660	26.2	34,303	100%

Col (1) Exhibit USPS-25A, p. 1

Col (2) Id.

Col (4) Exhibit USPS-29C, p. 1

Col (7) Exhibit USPS-25A, p. 2

1 CHAIRMAN GLEIMAN: Mr. Bentley, have you had an
2 opportunity to examine the packet of designated written
3 cross examination that was made available earlier to you?

4 THE WITNESS: Yes, I have.

5 CHAIRMAN GLEIMAN: If these questions were asked
6 of you today, would your answers be the same as those you
7 previously provided in writing?

8 THE WITNESS: Yes, except, Your Honor, the same
9 footnote changes that I just spoke about a couple minutes
10 ago should be incorporated to the answers which are shown in
11 Attachment 1 and Attachment 2 on page 1 of those
12 attachments, and I have made those changes on the two copies
13 that I have here.

14 CHAIRMAN GLEIMAN: Mr. Hall, could I ask your
15 assistance in providing the corrected copies to the
16 reporter.

17 Two corrected copies having been given to the
18 reporter of the designated written cross examination of
19 Witness Bentley is -- I direct that it be accepted into
20 evidence and transcribed into the record at this point.

21 [Designation of Written
22 Cross-Examination of Richard E.
23 Bentley, BUG-T-1, were received
24 into evidence and transcribed into
25 the record.]

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF BROOKLYN UNION GAS COMPANY
WITNESS RICHARD E. BENTLEY
(BUG-T1)

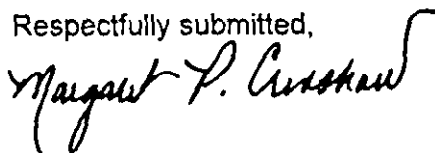
Party

United States Postal Service

Interrogatories

USPS/BUG-T1-1-8

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Margaret P. Crenshaw". The signature is written in a cursive style with a large, sweeping initial "M".

Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
BROOKLYN UNION GAS COMPANY
WITNESS RICHARD E. BENTLEY (T1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:

USPS/BUG-T1-1
USPS/BUG-T1-2
USPS/BUG-T1-3
USPS/BUG-T1-4
USPS/BUG-T1-5
USPS/BUG-T1-6
USPS/BUG-T1-7
USPS/BUG-T1-8

Designating Parties:

USPS
USPS
USPS
USPS
USPS
USPS
USPS
USPS

USPS/BUG-T1-1. Please refer to pages 3 and 4 of Exhibit BUG-1A.

(a) Please confirm that in the unit cost calculations, you identify Exhibit USPS-T-23D as the source for the piggyback factors you used in the Outgoing Primary operations.

(b) Is Exhibit USPS-T-23D the source of the piggyback factors you used in those operations? If not please identify the source.

RESPONSE:

(a) Confirmed.

(b) The piggyback factors I used were not correct. The correct piggyback factors are shown on Exhibit USPS-T23D. Relevant corrections to my Exhibit BUG-1A are shown on Attachment I. The corrections also slightly affect four numbers my testimony: (1) in the first line of footnote 7 on page 8, the range of PRM unit costs should be changed to 3.9 to 5.6 cents; and (2) in the line labeled "Average PRM" on Table 1, which appears on page 10, the numbers in the second and fourth columns should be changed to 5.0 and 25.0 cents, respectively. Appropriate revisions will be incorporated in my testimony and exhibits at the hearing.

The magnitude of these changes is quite small and is in the direction that further supports my conclusion that "the cost to process and deliver these reply letters [PRM] is comparable to, if not less than, the cost of processing and delivering a First-Class Automation letter." (BUG-T-1, p. 8).

Attachment I

Exhibit BUG-1A (Revised 1/30/98)

Exhibit BUG-1A
Page 1 of 5
(Revised 1/30/98)

**Estimation Of Labor Plus Delivery Costs for
PRM, Average Automation and Average First-Class Letters**

First-Class Rate Category	(1) Total Labor Cost	(2) Delivery Operations	(3) Total Labor Plus Delivery (1) + (2)	(4) USPS Proposed 1-Ounce Revenue	(5) Revenue Less (Labor Plus Delivery) (4) - (3)
PRM (Basic after primary sort)	5.6 1/	0 2/	5.6	30.0	24.4
PRM (3-Digit after primary sort)	5.5 1/	0 2/	5.5	30.0	24.5
PRM (5-Digit after primary sort)	3.9 1/	0 2/	3.9	30.0	26.1
Estimated Average PRM	5.0 1/	0 2/	5.0	30.0	25.0
Basic Automation	5.3 3/	3.7 4/	9.0	27.5 4/	18.5
3-Digit Automation	4.5 3/	3.7 4/	8.2	26.5 4/	18.3
5-Digit Automation	3.0 3/	3.6 4/	6.6	24.9 4/	18.3
Average Automation	4.2 3/	3.6 4/	7.9	26.2 4/	18.3
Average Non-presorted	11.7 5/	5.0 6/	16.7	33.0	16.3

1/ See page 2

2/ Assumed to be zero because of high volume received

3/ See page 4

4/ See page 5

5/ LR H-106, p. II-5

6/ Exhibit USPS-29C, p. 1

Estimation of Labor Costs for PRM

	(1)	(2)	(3)	(4)	(5)
Outgoing PRM Sort Depth	Modeled	Non-Modeled			TY BR
After Outgoing Primary Sort	Unit Labor	Unit Labor	Mail	Unit Labor	Est. Volume
	Cost	Cost	Preparation	Cost	Percentage
	(Cents)	(Cents)	(Cents)	(1) + (2) + (3)	
Basic	3.9699	0.9869	0.683	5.6398	33%
3-Digits	3.8123	0.9619	0.683	5.4572	33%
5-Digits	2.4782	0.7503	0.683	3.9115	33%
Weighted Average				5.0023	

Col (1) Derived on pages 3 and 4

Col (2) Col (1) x .1586 + .3573; see Exhibit USPS-25A, p. 1

Col (3) Attachment to POIR No. 5 Question 19 response

Col (5) The exact volume mix after the outgoing primary sortation is unknown. Due to the lack of data, assume an equal distribution. This is a conservative assumption since PRM will exhibit very high densities, especially near the delivery office, because of the high volumes received by each PRM recipient.

**Development of First-Class PRM Mail Processing Model Unit Costs
(If Sorted to Basic After the Outgoing Primary)**

Outgoing Pri	IPF	Pieces Per Hour	Wage Rate	Cents Per Piece	Piggyback Factor	Premium Pay Adj	Cents Per Piece	Weighted Cost
MPBCS/DBC	9,818	7,467	25.445	0.3408	1.719	0.0037	0.5895	0.5788
Manual	673	1,662	25.445	3.8437	1.372	0.0423	5.3158	0.3578

Source: Exhibit USPS-T-23D

ADC/AADC Distribution

Manual	398	759	25.445	3.3524	1.372	0.0369	4.6364	0.1845
BCS	5,569	7,467	26.445	0.3542	1.719	0.0039	0.6127	0.3412

SCF Operations

Manual	58	896	29.445	3.2863	1.327	0.0361	4.3970	0.0255
BCS	3,397	7,467	30.445	0.4077	1.719	0.0045	0.7054	0.2396

Incoming Primary

Manual	322	562	\$25.45	4.5276	1.372	0.0498	6.2616	0.2016
BCS	1,496	7,467	\$25.45	0.3408	1.719	0.0037	0.5895	0.0882

Incoming Secondary

Manual/Non-	1,347	1,143	\$25.45	2.2262	1.372	0.0245	3.0788	0.4147
Manual/Auto	1,482	646	\$25.45	3.9389	1.372	0.0433	5.4474	0.8073
BCS	2,231	6,633	\$25.45	0.3836	1.719	0.0042	0.6636	0.1481
DBCS First-P	5,724	8,393	\$25.45	0.3032	2.434	0.0033	0.7412	0.4243
CSBCS First-	5,438	17,124	\$25.45	0.1486	1.948	0.0016	0.2911	0.1583

Source: Exhibit USPS-T-25, Appendix I, p. 13

MODEL COST 3.9699

**Development of First-Class PRM Mail Processing Model Unit Costs
(If Sorted to 3-Digits After the Outgoing Primary)**

Outgoing Primary	TPE	Pieces	Wage Rate	Cents	Piggyback Factor	Premium Pay Adj	Cents	Weighted Cost
		Per Hour		Per Piece			Per Piece	
MPBCS/DBCS	9,818	7,467	25.445	0.3408	1.719	0.0037	0.5895	0.5788
Manual	673	662	25.445	3.8437	1.372	0.0423	5.3158	0.3578

Source: Exhibit USPS-T-23D

Incoming Primary								
Manual	935	562	\$25.45	4.5276	1.372	0.0498	6.2616	0.5855
BCS	9,657	7,467	\$25.45	0.3408	1.719	0.0037	0.5895	0.5693

Incoming Secondary								
Manual/Non-Auto Sites	1,345	1,143	\$25.45	2.2262	1.372	0.0245	3.0788	0.4141
Manual/Auto Sites	1,242	646	\$25.45	3.9389	1.372	0.0433	5.4474	0.6766
BCS	2,306	6,633	\$25.45	0.3836	1.719	0.0042	0.6636	0.1530
DBCS First-Pass	5,916	8,393	\$25.45	0.3032	2.434	0.0033	0.7412	0.4385
CSBCS First-Pass	1,330	17,124	\$25.45	0.1486	1.948	0.0016	0.2911	0.0387

Source: Exhibit USPS-T-25, Appendix I, p. 16

MODEL COST 3.8123

**Development of First-Class PRM Mail Processing Model Unit Costs
(If Sorted to 5-Digits After the Outgoing Primary)**

Outgoing Primary	TPE	Pieces	Wage Rate	Cents	Piggyback Factor	Premium Pay Adj	Cents	Weighted Cost
		Per Hour		Per Piece			Per Piece	
MPBCS/DBCS	9,818	7,467	25.445	0.3408	1.719	0.0037	0.5895	0.5788
Manual	673	662	25.445	3.8437	1.372	0.0423	5.3158	0.3578

Source: Exhibit USPS-T-23D

Incoming Secondary								
Manual/Non-Auto Sites	1,345	1,143	\$25.45	2.2262	1.372	0.0245	3.0788	0.4141
Manual/Auto Sites	852	646	\$25.45	3.9389	1.372	0.0433	5.4474	0.4641
BCS	2,427	6,633	\$25.45	0.3836	1.719	0.0042	0.6636	0.1611
DBCS First-Pass	6,227	8,393	\$25.45	0.3032	2.434	0.0033	0.7412	0.4616
CSBCS First-Pass	1,400	17,124	\$25.45	0.1486	1.948	0.0016	0.2911	0.0408

Source: Exhibit USPS-T-25, Appendix I, p. 18

MODEL COST 2.4782

**Estimation of Labor and Delivery Costs
for Average First-Class Automation Letters**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Modeled	Non-Modeled				USPS Proposed		
Automation	Unit Labor	Unit Labor	Unit Labor	Unit Delivery	Labor + Del	1-Ounce	TY BR	TY BR
Presort Level	Cost	Cost	Cost	Cost	Unit Cost	Unit Revenue	Volume	Volume
	(Cents)	(Cents)	(1) + (2)	(Cents)	(3) + (4)	(Cents)	(Mil)	Percentage
Basic	4.2822	1.0365	5.3187	3.7110	9.0297	27.5	4,285	12%
3-Digits	3.6167	0.9309	4.5476	3.6520	8.1996	26.5	20,643	60%
5-Digits	2.3038	0.7227	3.0265	3.5730	6.5995	24.9	9,375	27%
Weighted Average			4.2282	3.6378	7.8660	26.2	34,303	100%

Col (1) Exhibit USPS-25A, p. 1

Col (2) Id.

Col (4) Exhibit USPS-29C, p. 1

Col (7) Exhibit USPS-25A, p. 2

USPS/BUG-T1-2. Please refer to pages 3 and 4 of Exhibit BUG-1A.

- (a) Please confirm that in the unit cost calculations, you used non-volume variable productivities for the Outgoing Primary operations.
- (b) Please confirm that for all remaining operations in the unit cost calculations, you then used volume variable productivities.
- (c) Please explain why both non-volume and volume variable productivities were used in your unit cost calculations.

RESPONSE:

(a), (b), (c) Please see my answer to USPS/BUG-T1-1(b). The productivity factors I used for the outgoing primary sortation are incorrect. The source for the productivity factors should be Exhibit USPS-T23D and the relevant corrections are shown on Attachment I. The magnitude of the changes is quite small and is in the direction that further supports my conclusion that "the cost to process and deliver these reply letters [PRM] is comparable to, if not less than, the cost of processing and delivering a First-Class Automation letter." (BUG-T-1, p. 8)

USPS/BUG-T1-3. Your unit cost calculations mixed the results from both the single piece cost models used by USPS witness Miller (USPST-23) and the First-Class presort cost models used by USPS witness Hatfield (USPS-T-25). The costs from those models, however, were based on inputs (e.g., coverage factors, premium pay factors) which were not identical for both First-Class single piece mail and First-Class presort mail. Please explain why you used this mixed cost methodology and the impact that this methodology had on your results.

RESPONSE:

Pages 3 and 4 of Exhibit BUG-1A (corrected in Attachment I to my response to Interrogatory USPS/BUG-T-1(b)) analyze PRM labor costs separately for the outgoing primary operation and all other operations. The outgoing primary operation analysis relies on data provided by USPS witness Miller. As you note, he uses input data that reflect single piece cost models.

After the outgoing primary operation, PRM will take on unique characteristics that are unknown. I used the characteristics of presorted letters as a proxy for the distribution of PRM. I do not know to what presort depth PRM will be sorted to after the outgoing primary. Therefore, I assumed that one-third of PRM letters would be sorted in the same manner and to the same depth as basic automated letters, one-third would be sorted in the same manner and to the same depth as 3-digit automated letters, and one-third would be sorted in the same manner as 5-digit automated letters.

Because PRM will exhibit very high densities, such an assumption is reasonable and conservative. See footnote for Column 5 on page 2 of Exhibit BUG-1A.

For the premium pay factor, I used 1.1 % for both the outgoing primary and all other operations.

The purpose of Exhibit BUG-1A is to show that the cost to process PRM is comparable to, if not less than, the cost of processing and delivering First-Class Automation letters. Since my analysis indicates that PRM costs almost three full cents less than an average First-Class Automation letter, the impact of understating the PRM cost by anything less than 3 full cents is inconsequential.

USPS/BUG-T1-4. Please refer to page 3 of Exhibit BUG-1A.

(a) Explain why the unit cost calculations (sorted to Basic after the Outgoing Primary) shown on this page did not include any Outgoing Secondary costs.

(b) Confirm that the only way Outgoing Secondary costs could be avoided in this situation is if all Outgoing Primary operations in the Postal Service had the bin capacity necessary to finalize all mail pieces to the ADC/AADC level. If you do not confirm, please explain.

RESPONSE:

(a) I assumed that after the outgoing primary, all PRM would be sorted to at least the ADC/AADC level for three reasons. First, PRM letter mail will be characterized by very high densities. Once recognized in the outgoing primary, such mail should be able to be sorted to at least the ADC/AADC level. Second, as shown in USPS-T-25, Appendix I, page 13, less than 9% of the pieces require an outgoing secondary sort. Finally, my assumption that, after the primary sortation process, one-third of PRM will be sorted to basic, one-third will be sorted to 3-digit, and one-third will be sorted to 5-digit is very conservative. For instance, I did not have any means to reflect situations where very large quantities of local PRM letters completely bypass the incoming primary and secondary operations, as discussed on page 7 of my testimony. The operations of potential PRM recipients, like Brooklyn Union, who distribute reply envelopes locally, provide examples of PRM letters that will bypass the incoming primary sort, the incoming secondary sort, and the sort to carrier operations. In such situations, the mail can be sorted beyond carrier route, directly to the end recipient, in one pass during the outgoing primary sortation process. For these reasons, I felt it was reasonable to omit the outgoing secondary sortation.

Nevertheless, I have calculated the impact on PRM unit costs of omitting the outgoing secondary sortation. As shown in Attachment II, the impact is only .09 cents on the basic portion of PRM mail processing model costs shown on page 3, and zero on the estimated average PRM cost shown on page 1.

(b) Not Confirmed. Outgoing secondary costs can be avoided only if in the outgoing primary operation, the Postal Service has sufficient bins necessary to finalize all mail pieces to the ADC/AADC level or better.

**Estimation Of Labor Plus Delivery Costs for
PRM, Average Automation and Average First-Class Letters**

<u>First-Class Rate Category</u>	(1) <u>Total Labor Cost</u>	(2) <u>Delivery Operations</u>	(3) <u>Total Labor Plus Delivery (1) + (2)</u>	(4) <u>USPS Proposed 1-Ounce Revenue</u>	(5) <u>Revenue Less (Labor Plus Delivery) (4) - (3)</u>
PRM (Basic after primary sort)	5.7 1/	0 2/	5.7	30.0	24.3
PRM (3-Digit after primary sort)	5.5 1/	0 2/	5.5	30.0	24.5
PRM (5-Digit after primary sort)	3.9 1/	0 2/	3.9	30.0	26.1
Estimated Average PRM	5.0 1/	0 2/	5.0	30.0	25.0
Basic Automation	5.3 ^{4/} 3/	3.7 ^{4/} 3/	9.0	27.5 4/	18.5
3-Digit Automation	4.5 ^{4/} 3/	3.7 ^{4/} 3/	8.2	26.5 4/	18.3
5-Digit Automation	3.0 ^{4/} 3/	3.6 ^{4/} 3/	6.6	24.9 4/	18.3
Average Automation	4.2 ^{4/} 3/	3.6 ^{4/} 3/	7.9	26.2 4/	18.3
Average Non-presorted	11.7 5/	5.0 6/	16.7	33.0	16.3

1/ See page 2

2/ Assumed to be zero because of high volume received

3/ See page 4

4/ See page 5

5/ LR H-106, p. II-5

6/ Exhibit USPS-29C, p. 1

Estimation of Labor Costs for PRM

	(1)	(2)	(3)	(4)	(5)
	Modeled	Non-Modeled			TY BR
Outgoing PRM Sort Depth	Unit Labor	Unit Labor	Mail	Unit Labor	Est. Volume
After Outgoing Primary Sort	Cost	Cost	Preparation	Cost	Percentage
	(Cents)	(Cents)	(Cents)	(1) + (2) + (3)	
Basic	4.0578	1.0009	0.683	5.7417	33%
3-Digits	3.8123	0.9619	0.683	5.4572	33%
5-Digits	2.4782	0.7503	0.683	3.9115	33%
Weighted Average				5.0363	

Col (1) Derived on pages 3 and 4

Col (2) Col (1) x .1586 + .3573; see Exhibit USPS-25A, p. 1

Col (3) Attachment to POIR No. 5 Question 19 response

Col (5) The exact volume mix after the outgoing primary sortation is unknown. Due to the lack of data, assume an equal distribution. This is a conservative assumption since PRM will exhibit very high densities, especially near the delivery office, because of the high volumes received by each PRM recipient.

Attachment II
Page 3 of 5
(Inc Sec Added to PRM
Sorted to Basic)

**Development of First-Class PRM Mail Processing Model Unit Costs
(If Sorted to Basic After the Outgoing Primary)**

	Pieces		Wage	Cents	Piggyback	Premium	Cents	Weighted
<u>Outgoing Primary</u>	<u>TPF</u>	<u>Per Hour</u>	<u>Rate</u>	<u>Per Piece</u>	<u>Factor</u>	<u>Pay Adj</u>	<u>Per Piece</u>	<u>Cost</u>
MPBCS/DBCS	9,818	7,467	25.445	0.3408	1.719	0.0037	0.5895	0.5788
Manual	673	662	25.445	3.8437	1.372	0.0423	5.3158	0.3578
<u>Outgoing Secondary</u>								
Manual	81	691	25.445	3.6823	1.372	0.0405	5.0927	0.0413
BCS	792	7,467	25.445	0.3408	1.719	0.0037	0.5895	0.0467

Source: Exhibit USPS-T-23D

ADC/AADC Distribution

Manual	398	759	25.445	3.3524	1.372	0.0369	4.6364	0.1845
BCS	5,569	7,467	26.445	0.3542	1.719	0.0039	0.6127	0.3412

TCF Operations

Manual	58	896	29.445	3.2863	1.327	0.0361	4.3970	0.0255
BCS	3,397	7,467	30.445	0.4077	1.719	0.0045	0.7054	0.2396

Incoming Primary

Manual	322	562	\$25.45	4.5276	1.372	0.0498	6.2616	0.2016
BCS	1,496	7,467	\$25.45	0.3408	1.719	0.0037	0.5895	0.0882

Incoming Secondary

Manual/Non-Auto Sites	1,347	1,143	\$25.45	2.2262	1.372	0.0245	3.0788	0.4147
Manual/Auto Sites	1,482	646	\$25.45	3.9389	1.372	0.0433	5.4474	0.8073
BCS	2,231	6,633	\$25.45	0.3836	1.719	0.0042	0.6636	0.1481
DBCS First-Pass	5,724	8,393	\$25.45	0.3032	2.434	0.0033	0.7412	0.4243
CSBCS First-Pass	5,438	17,124	\$25.45	0.1486	1.948	0.0016	0.2911	0.1583

Source: Exhibit USPS-T-25, Appendix I, p. 13

MODEL COST 4.0578

**Development of First-Class PRM Mail Processing Model Unit Costs
(If Sorted to 3-Digits After the Outgoing Primary)**

<u>Outgoing Primary</u>	<u>TPE</u>	<u>Pieces Per Hour</u>	<u>Wage Rate</u>	<u>Cents Per Piece</u>	<u>Piggyback Factor</u>	<u>Premium Pay Adj</u>	<u>Cents Per Piece</u>	<u>Weighted Cost</u>
MPBCS/DBCS	9,818	7,467	25.445	0.3408	1.719	0.0037	0.5895	0.5788
Manual	673	662	25.445	3.8437	1.372	0.0423	5.3158	0.3578

Source: Exhibit USPS-T-23D

<u>Incoming Primary</u>								
Manual	935	562	\$25.45	4.5276	1.372	0.0498	6.2616	0.5855
BCS	9,657	7,467	\$25.45	0.3408	1.719	0.0037	0.5895	0.5693
<u>Incoming Secondary</u>								
Manual/Non-Auto Sites	1,345	1,143	\$25.45	2.2262	1.372	0.0245	3.0788	0.4141
Manual/Auto Sites	1,242	646	\$25.45	3.9389	1.372	0.0433	5.4474	0.6766
BCS	2,306	6,633	\$25.45	0.3836	1.719	0.0042	0.6636	0.1530
DBCS First-Pass	5,916	8,393	\$25.45	0.3032	2.434	0.0033	0.7412	0.4385
CSBCS First-Pass	1,330	17,124	\$25.45	0.1486	1.948	0.0016	0.2911	0.0387

Source: Exhibit USPS-T-25, Appendix I, p. 16

MODEL COST

3.8123

**Development of First-Class PRM Mail Processing Model Unit Costs
(If Sorted to 5-Digits After the Outgoing Primary)**

<u>Outgoing Primary</u>	<u>TPE</u>	<u>Pieces Per Hour</u>	<u>Wage Rate</u>	<u>Cents Per Piece</u>	<u>Piggyback Factor</u>	<u>Premium Pay Adj</u>	<u>Cents Per Piece</u>	<u>Weighted Cost</u>
MPBCS/DBCS	9,818	7,467	25.445	0.3408	1.719	0.0037	0.5895	0.5788
Manual	673	662	25.445	3.8437	1.372	0.0423	5.3158	0.3578
<u>Incoming Secondary</u>								
Manual/Non-Auto Sites	1,345	1,143	\$25.45	2.2262	1.372	0.0245	3.0788	0.4141
Manual/Auto Sites	852	646	\$25.45	3.9389	1.372	0.0433	5.4474	0.4641
BCS	2,427	6,633	\$25.45	0.3836	1.719	0.0042	0.6636	0.1611
DBCS First-Pass	6,227	8,393	\$25.45	0.3032	2.434	0.0033	0.7412	0.4616
CSBCS First-Pass	1,400	17,124	\$25.45	0.1486	1.948	0.0016	0.2911	0.0408

Source: Exhibit USPS-T-25, Appendix I, p. 18

MODEL COST

2.4782

**Estimation of Labor and Delivery Costs
for Average First-Class Automation Letters**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Modeled	Non-Modeled				USPS Proposed		TY BR
Automation	Unit Labor	Unit Labor	Unit Labor	Unit Delivery	Labor + Del	1-Ounce	TY BR	Volume
<u>Presort Level</u>	<u>Cost</u>	<u>Cost</u>	<u>Cost</u>	<u>Cost</u>	<u>Unit Cost</u>	<u>Unit Revenue</u>	<u>Volume</u>	<u>Percentage</u>
	(Cents)	(Cents)	(1) + (2)	(Cents)	(3) + (4)	(Cents)	(Mil)	(7) / 34,303
Basic	4.2822	1.0365	5.3187	3.7110	9.0297	27.5	4,285	12%
3-Digits	3.6167	0.9309	4.5476	3.6520	8.1996	26.5	20,643	60%
5-Digits	2.3038	0.7227	3.0265	3.5730	6.5995	24.9	9,375	27%
Weighted Average			4.2282	3.6378	7.8660	26.2	34,303	100%

Col (1) Exhibit USPS-25A, p. 1

Col (2) Id.

Col (4) Exhibit USPS-29C, p. 1

Col (7) Exhibit USPS-25A, p. 2

USPS/BUG-T1-5. Please refer to page 1 of Exhibit BUG-1A.

- (a) Explain the basis for your assumption that PRM mail pieces would incur zero delivery costs.
- (b) Explain why your analysis does not include any function 2 "(Delivery Services") costs associated with PRM (e.g., carriers collecting outgoing mail at their delivery points, clerks removing collection mail that has been deposited in boxes and slots found at Delivery Units, carriers and clerks consolidating collection mail into rolling stock prior to it being dispatched to a Plant).

RESPONSE:

(a) One of my proposed modifications to the Postal Service's PRM proposal is that all PRM letters would be required to be addressed to and delivered to a post office box. See my testimony, page 7. As such, by definition PRM will bypass the entire delivery network. Accordingly, I have assumed a delivery cost of zero.

(b) If these costs are known and attributable to single piece First-Class mail, then they should be added to the cost of processing and delivering PRM *and* average First-Class Mail, but not to the cost of processing and delivering First-Class Automation mail. I have not explicitly included these costs in my analysis, although I may have included a portion of them in the same manner as USPS witness Hatfield. Please see his response to Interrogatory ABA&EEI&NAPM/USPS-T25-21.

The purpose of Exhibit BUG-1A is to show that the cost to process PRM is comparable to, if not less than, the cost of processing and delivering First-Class Automation letters. Since my analysis indicates that PRM costs almost three full

cents less than an average First-Class Automation letter, the impact of understating the PRM cost by anything less than 3 full cents is inconsequential.

USPS/BUG-T1-6. On page 5 of Exhibit BUG-1A, the table shows 8 columns, but only 5 corresponding notes are listed below. What are the corresponding notes for columns 6 through 8?

RESPONSE:

As shown in the column headings on that page, Column (3) is equal to Column (1) plus Column (2), Column (5) is equal to Column (3) plus Column (4), Column (8) should be corrected to read as Column (7) divided by 34,303, and the footnote for Col (5) should be changed to Col (7). A corrected page 5 is provided as part of Attachment I in response to Interrogatory USPS/BUG-T1-1(b).

USPS/BUG-T1-7. On page 4, lines 1-5 of your testimony, you state that you recommend modifying the Postal Service's PRM proposal so that the postage is paid on the exact number of pieces when they are delivered.

RESPONSE:

(a) On page 8, lines 3-5, of your testimony, you suggest that the mailer could perform these counting and rating functions by using weight averaging techniques or computers. Please elaborate on how the postage calculation would be performed.

(b) Please confirm that the mail recipient would still pay the \$1,000 monthly fee proposed for PRM to cover Postal Service auditing and administrative activities.

(c) Please describe generally the type of Postal Service audit and verification activities that your proposal contemplates.

RESPONSE:

(a) My proposal does not anticipate any changes from what the Postal Service has proposed, except that the actual number of pieces received will be counted rather than projected first and later counted when they are actually received. Since PRM mailers receive so many pieces it does not make sense to me to count them by hand. Therefore, mailers could either (1) weigh the entire delivery and divide by the average weight of sample pieces to estimate the quantity, and/or (2) obtain an automatic count if data from the letters received are entered into a computer. Brooklyn Union and the Postal Service experimented with such procedures for more than a year.

(b) Confirmed.

(c) I have not proposed any changes from what the Postal Service has proposed with regard to audit and verification procedures. In general, I assume

the Postal Service would perform its own PRM letter count on a periodic basis and compare the results with the counts reported by the PRM recipient.

USPS/BUG-T1-8. On page 13, lines 5-7 of your testimony, you state that, "The Postal Service's own analyses indicate that most of the PRM reply mail volume will come from mailers who migrate to PRM reply mail from BRMAS BRM service." Please confirm that witness Fronk testified (USPS-T-32, page 44, lines 10-11 that, "The total estimate of PRM in the Test year is 847.8 million pieces (the sum of 347.8 million BRM pieces and 500 million courtesy reply pieces).

RESPONSE:

Confirmed. At least at the outset of the PRM program, the major source of potential PRM recipients obviously will be existing BRMAS BRM recipients, like Brooklyn Union, since these mail recipients already pay the postage for their customers. In my opinion, the Postal Service's estimate that 500 million courtesy reply mail (CRM) pieces will migrate to PRM is somewhat optimistic. I suspect that mail recipients who choose not to pay their customers' postage for 34 cents (the existing total rate for BRMAS BRM), may still find it economically infeasible to pay their customers' postage for 30 cents (the PRM rate proposed by the Postal Service).

1 CHAIRMAN GLEIMAN: Does any participant have
2 additional written cross examination for the witness?

3 [No response.]

4 CHAIRMAN GLEIMAN: If not, we will move to oral
5 cross examination.

6 The Postal Service is the only party that
7 expressed an interest in cross examining this witness.

8 Does anyone else wish to cross examine Witness
9 Bentley?

10 [No response.]

11 CHAIRMAN GLEIMAN: If not, Mr. Tidwell, when you
12 are ready.

13 CROSS EXAMINATION

14 BY MR. TIDWELL:

15 Q Good afternoon, Mr. Bentley. Michael Tidwell on
16 behalf of the Postal Service.

17 I would like to start out by directing your
18 attention to your response to Postal Service Interrogatory
19 Number 7.

20 A I have it.

21 Q I guess about five, and I'm looking in particular
22 at your response to Part A, and at about five lines into
23 that response where you refer to the adoption of a method by
24 which a bulk automated reply mail recipient could perform
25 the postage due calculation by dividing the total weight of

1 reply mail received by an average weight of sample pieces.

2 Could you describe in more detail how this
3 weight-averaging method would work?

4 A Well, in general the assumption would be that the
5 pieces themselves weight approximately the same amount, and
6 you would be able to weigh the entire amount of mail
7 received on any given day divided by the average weight of a
8 piece, if you know that, and that will give you the total
9 number of pieces, and then you can use the total number of
10 pieces to determine the postage.

11 In general that's how I would do it.

12 Q And this average pieceweight calculation would be
13 an important input in determining postage.

14 A It's somewhat important. It's not totally
15 important because we still assume that all these pieces are
16 going to be under an ounce, so that if you were off by a
17 little bit but all the pieces are still under an ounce,
18 that'd be fine.

19 Q But it would be -- would it not be significant
20 whether the average to determining how much postage to
21 charge, whether -- would it matter to the recipient that
22 whether the average pieceweight was half an ounce or
23 three-quarters of an ounce? Would that have a
24 significant -- would that difference have a significant
25 impact on the total postage due?

1 A No, I don't think so. If the average was closer
2 to one ounce, then you could have some pieces over an ounce
3 and some pieces under an ounce. That might pose a problem.
4 But if you're far from an ounce in your average and you have
5 no reason to expect that these pieces are going to be over
6 an ounce, I don't think that there'd be any problem.

7 Q So for purposes of weight averaging it would be
8 assumed or presumed that each piece weighed an ounce?

9 A Each piece would weigh under an ounce.

10 Q And you would take an average pieceweight and
11 divide that into the total pieceweight to come up with an
12 estimate of the number of pieces, and once you have an
13 estimate of the total number of pieces, you would then
14 multiply that by the applicable postage to come up with
15 postage due.

16 A That's correct.

17 Q And so would it be significant to -- or would it
18 be important to have as accurate a pieceweight average as
19 possible for those purposes? I mean, if the recipient
20 believes that the average piece weighs a half an ounce and
21 the Postal Service believes that the average piece weighs
22 eight-tenths of an ounce, and they separately divide those
23 numbers into the total weight, aren't they going to come up
24 with significantly different piece counts?

25 A If that happened, that would be significant; yes.

1 And I think that that's why in order to get the average
2 weight you might take ten pieces, you might take 100 pieces.
3 But you want to get a broad average of the pieces coming in
4 and then divide that into the total in order to come up with
5 the total number of pieces. I think that way is going to be
6 the safest way of doing it, and certainly much more
7 efficient than counting each piece individually in order to
8 get a very, very accurate number.

9 Q And under your weight-averaging proposal, what
10 sort of auditing would be involved to determine if the
11 average pieceweight and the weight conversion factor needed
12 to be adjusted periodically?

13 A I think that's something that the Postal Service
14 would probably determine based on the individual
15 circumstances whereby the Postal Service would do some
16 estimating itself on the number of pieces, compare it to
17 what the receiver or recipient has been getting, and see how
18 close they are.

19 Q Ummm --

20 A It's my understanding that in the experiment with
21 Brooklyn Union Gas that those numbers were very close.

22 Q Have you analyzed how frequently this -- well,
23 strike that.

24 Could it be that the average pieceweight varies
25 for certain mailers from week to week or month to month,

1 whereas for other mailers that average pieceweight is
2 constant as can be, you could take it to the bank?

3 A I have certainly not studied that, but I would
4 certainly agree that that could happen.

5 Q And so there are some mailers or recipients for
6 which it would be necessary to do more frequent auditing
7 because they might have more variation in their average
8 pieceweights because of the nature of the reply pieces that
9 they generated?

10 A That would make sense to me. I think that's built
11 into this proposal that the Postal Service does have
12 flexibility. The key here is to try to get the best
13 estimate of the number of pieces so that the Postal Service
14 receives its due. Nobody wants to take advantage of the
15 Postal Service, and nobody wants to pay too much postage.

16 Q I'd agree with you on the second; I don't know
17 about the first.

18 Are you familiar with the currently ongoing
19 nonletter-sized business reply mail experiment that resulted
20 from Docket No. -- I believe it's MC97-1?

21 A I don't think I'm familiar with that.

22 Q And so you couldn't tell us -- I'll ask you a
23 couple basic questions just to test the extent of your
24 knowledge.

25 Are you aware that as a result of that

1 experiment -- or as a result of that case the Postal Service
2 is experimenting with different monthly accounting fees
3 charged to participants depending on whether they engage in
4 reverse manifesting or whether they engage in weight
5 averaging of their reply pieces to determine postage?

6 A This has to do with Nashua Photo?

7 Q They are one of the participants in the
8 experiment.

9 A Oh. So I know something about it then.

10 Q Okay.

11 A Okay. Yes.

12 Q Then are you aware that for reverse manifest
13 recipients participating in the experiment there is a
14 \$1,000-a-month fee, accounting fee, and for weight-averagers
15 there is a \$3,000-a-month accounting fee?

16 A No, I'm not aware of that, but I can certainly
17 accept that.

18 Q Are you aware of the basis for the difference in
19 the fees?

20 A Not offhand; no.

21 Q Under your weight averaging proposal, who would
22 calculate the average reply mail piece weight, the Postal
23 Service or the recipient?

24 A It is going to be up to the recipient what the
25 Postal Service's -- the Postal Service being able to check

1 it and audit it on occasion, or however it wants, but it
2 generally is going to be up to the recipient to do the
3 accounting?

4 Q So the recipient would report to the Postal
5 Service that, oh, the other day, we received 10,000 pieces,
6 the average weight was -- oh, we received 500 pounds of
7 mail, the average weight per piece was seven-tenths of an
8 ounce, this is how much we owe you, thank you very much, see
9 you tomorrow?

10 A Well, it doesn't sound like there was a bill over
11 there or there was any payment. I am not proposing any
12 change from what the Postal Service has proposed in terms of
13 determining the postage in their PRM proposal, so let me --
14 let me make that very clear.

15 Q The Postal Service has proposed weight averaging
16 as an element in determining postage under PRM?

17 A I am not sure that they have determined exactly
18 what those procedures are going to be. I have just assumed
19 that weight averaging is going to be one of those
20 techniques, since people have been doing -- performing that,
21 including the Postal Service, since the first business reply
22 study which I looked at, which was 1973 or so.

23 Q You have reviewed the testimony of Witness Fronk
24 in this proceeding, in which he describes the prepaid reply
25 mail proposal?

1 A Yes.

2 Q And it is your understanding that he indicates the
3 Postal Service is willing to allow weight averaging?

4 A It is my understanding he has not said -- he has
5 said that you could not weight average.

6 MR. HALL: Your Honor, could I ask that that last
7 response be read back please?

8 CHAIRMAN GLEIMAN: Yes, could you read back the
9 response, Mr. Reporter?

10 [The reporter read the record as requested.]

11 THE WITNESS: He did not say -- he did not say
12 that you could not weight average, that's my understanding.

13 BY MR. TIDWELL:

14 Q And is that your understanding based upon your
15 review of his testimony, his written testimony, as well as
16 his Interrogatory responses?

17 A As far as I have seen them, yes. I am leaving it
18 up to the Postal Service to determine how the recipients
19 should and could do that.

20 Q And so if the Postal Service were to say that --
21 explicitly enough for everybody to understand in this case,
22 that it wanted no part of weight averaging for PRM, you
23 would be comfortable, you would have no problem with that?

24 A Under the assumption that there was another method
25 that could -- that the mailers could do, that is fine with

1 me.

2 Q Now, I believe you have indicated that the reply
3 mail recipient would calculate an average piece weight and
4 would, using that average piece weight, determine how many
5 pieces it received and how much postage it owed the Postal
6 Service on the reply pieces. Are you aware of -- well,
7 either before it opens each piece, or as it processes the
8 contents of the pieces, are you aware of any potential users
9 of this service who are going to develop any record which
10 tells them either how much each individual incoming piece
11 weighed or what its contents were?

12 I mean, for instance, if -- let's hypothetically
13 say this proposal came through and weight averaging was an
14 essential option in it, and Brooklyn Union Gas was a user of
15 this service, would Brooklyn Union Gas, as a part of its
16 processing of the reply pieces, weigh them, determine a
17 weight and record a weight for the individual pieces?

18 A I am not aware of that, nor would I -- I don't
19 understand why somebody would weight their pieces, just for
20 the sake of weighing them when they come in.

21 Q Well, they have got no independent business reason
22 for wanting to mail the piece other than in connection with
23 calculation of postage?

24 A In terms of weighing that piece, that's correct.
25 I don't weigh my mail when it come in.

1 Q Come on, try it, it's fun. If BARM were -- if
2 your -- excuse me. If your Bulk Automated Reply Mail
3 proposal were implemented with the weight averaging
4 accounting method, and the Postal Service wanted to verify
5 or audit a recipient's estimate of the number of pieces it
6 claims to have received, what process would the Postal
7 Service use to verify the piece count?

8 A Well, there are several methods. They could sit
9 there and count the pieces, if they wanted to. They could
10 send it through a bar code sorter, which counts pieces
11 sometimes. Or they can weigh those pieces. I presume every
12 day, or more often, they are going to weigh the pieces.

13 Q And so this weighing by the Postal Service would
14 take place before it released the mail to the recipient?

15 A If I were the Postal Service, I would do it that
16 way, yes.

17 Q In developing your proposal, did you contact
18 anyone in the Postal Service to determine whether the Postal
19 Service was prepared on a system-wide basis to conduct
20 periodic piece counts or weighing of Bulk Automated Reply
21 Mail before tendering it to recipients?

22 A I didn't contact the Postal Service, no.

23 Q You referred earlier, in response to an earlier
24 question, to the test that the Postal Service conducted with
25 Brooklyn Union Gas back, I don't know, a year or two ago.

1 Are you aware of any determination by the Postal Service
2 that it was sufficiently satisfied with that test to want to
3 roll out the weight averaging procedures for letters that
4 were tested --

5 A I think --

6 Q -- in that experiment, or in that situation, on a
7 nationwide basis?

8 A I think they were satisfied with the results, but
9 I don't know anything about rolling it out to the rest of
10 the nation. I know Brooklyn Union was also satisfied with
11 those results.

12 MR. TIDWELL: We don't have any further questions.

13 CHAIRMAN GLEIMAN: Is there any follow-up?
14 Questions from the bench?

15 I have one question, Mr. Bentley. I have one
16 question. On page 3 of your testimony, you propose some,
17 what you characterize as minor modifications, the first of
18 which is eliminating the prepaid feature, and despite the
19 fact that you characterize it as minor, it ripples out and
20 causes you to change the name of the whole offering that the
21 Postal Service is proposing. Why is that you think that
22 this is minor?

23 THE WITNESS: I think it's minor because it really
24 only concerns the paying of postage, and it seems to me to
25 pay an estimate of postage when those letters go out, and

1 then adjust it when the reply envelopes comes back, seems to
2 complicate the proposal. Whereas, today, there are business
3 reply mailers that receive mail all the time. They pay as
4 the mail gets delivered and it seems so much easier to pay
5 the postage in that regard.

6 CHAIRMAN GLEIMAN: Well, then what distinguishes
7 it from what we have now?

8 THE WITNESS: The biggest distinction is who
9 determines the postage.

10 CHAIRMAN GLEIMAN: Okay. Thank you.

11 Is there any follow-up as a consequence of
12 questions from the bench?

13 [No response.]

14 CHAIRMAN GLEIMAN: If not, that brings us to
15 redirect. Would you like some time?

16 MR. HALL: Just a minute, Your Honor.

17 CHAIRMAN GLEIMAN: Certainly.

18 [Recess.]

19 CHAIRMAN GLEIMAN: Mr. Hall?

20 MR. HALL: I'm ready, Mr. Chairman.

21 REDIRECT EXAMINATION

22 BY MR. HALL:

23 Q Mr. Bentley, during cross-examination by Postal
24 Service counsel, you characterized your response to the USPS
25 Interrogatory No. 7 I believe as your proposal for weight

1 averaging to determine the number of pieces delivered every
2 day. Are you making an affirmative proposal in this case
3 that the Postal Service must use weight averaging?

4 A No, that's not my proposal, that the Postal
5 Service has to do it that way. In fact, as I state in my
6 answer, that I don't anticipate any changes from the Postal
7 Service's proposal as they have proposed PRM in that
8 situation for determining the postage.

9 Q So then would you assume that if weight averaging
10 turns out to be a useful and efficient and secure method as
11 far as the Postal Service is concerned and as far as the
12 participating PRM recipient is concerned, that it might be
13 used, but that it's not the exclusive method of determining
14 the number of pieces?

15 A Yes, that's exactly right.

16 Q Okay. Chairman Gleiman asked you a question about
17 to the effect I believe that the change in the prepaid
18 nature of the mail might be a bigger change than you had
19 characterized it in your testimony.

20 Would you please explain further why you believe
21 it is not a substantial or significant change?

22 A Well, today large recipients of business reply
23 mail have to maintain their advance deposit accounts up to
24 date, so they place in their accounts the money so that it
25 can then be deducted when that mail comes in, so the money

1 is there. It just hasn't been deducted from their account.
2 They don't receive any interest on it. So it really belongs
3 to the Postal Service.

4 So in that regard the mail is in a sense prepaid,
5 but that's why I don't see much of a difference between
6 calling it prepaid and paying a certain amount up front and
7 then adjusting it later versus just paying when the letters
8 are received.

9 Q You weren't suggesting -- let me see -- did your
10 testimony assume that under PRM mailers would be required to
11 maintain advance deposit accounts?

12 A I think that they are required --

13 Q Okay.

14 A To maintain that account.

15 Q And is it part of your proposal to make what you
16 characterize as a minor change that the Postal Service would
17 have the discretion to determine in the first instance what
18 minimum amount the participating PRM mailer had to maintain
19 in its account on a daily basis before it could get the
20 mail?

21 A Yes, that's true. I discuss that a little bit in
22 my testimony, that the Postal Service would determine that
23 on a case-by-case basis or as they gain more experience in
24 terms of the mail coming back.

25 Q Okay. Now in terms of auditing the results of a

1 PRM mailer's initial determination, I believe you indicated
2 that the Postal Service could do its own sampling and its
3 own gross weight of the mail that was being delivered that
4 day, and then compare its results with those produced by the
5 mailer. Is that correct?

6 A That's correct, and again I don't propose anything
7 differently from what the Postal Service proposed in its
8 original proposal.

9 Q Okay. And if a mailer had its mail delivered to a
10 third party, which then generated reports indicating how
11 many pieces were processed, could the Postal Service also
12 use that as part of its auditing procedure?

13 A Absolutely.

14 Q So that would provide a triple check, if you will,
15 on the correctness of the mail count?

16 A Yes.

17 Q And is it your understanding that that's precisely
18 the method that was used in the Brooklyn Union experiment?

19 A Yes, that is my understanding.

20 Q And is it further your understanding that the
21 Postal Service commonly uses average weight methodology to
22 determine the counts for business reply mail including
23 Brooklyn Union's business reply mail?

24 A Yes.

25 MR. HALL: Thank you. No further questions.

1 CHAIRMAN GLEIMAN: Did redirect generate any
2 followup?

3 MR. TIDWELL: Yes, it did, Mr. Chairman.

4 RECROSS-EXAMINATION

5 BY MR. TIDWELL:

6 Q Mr. Bentley, are you aware of the Postal Service
7 having established any national or systemwide standards for
8 the implementation of weight averaging of reply mail outside
9 of the context of the BRM -- nonletter-sized BRM experiment?

10 A If there was an internal document, I wouldn't know
11 about that. No.

12 Q Do you know whether the procedures established in
13 conjunction with the Brooklyn Union test were unique to that
14 situation and whether or not they are procedures that are
15 employed specifically anywhere else in the Postal Service?

16 MR. HALL: Your Honor, could I interject? I think
17 counsel and the witness are going to have a little bit of
18 difficulty. My question on -- my last question on weight
19 averaging went to whether it was used as a routine matter
20 outside of the experiment. And now he's directing his
21 question to merely the experiment. And I believe the
22 witness testified that it was his understanding that the
23 Postal Service -- in other words, to change it a little bit,
24 they'd used it for a long time to determine Brooklyn Union's
25 pieces.

1 CHAIRMAN GLEIMAN: I'm not sure whether you're
2 suggesting to me that that was improper followup or you're
3 just trying to clarify --

4 MR. HALL: I'm just trying to make sure that the
5 witness and counsel understand --

6 CHAIRMAN GLEIMAN: What it was that the witness --

7 MR. HALL: What it was the witness has testified
8 to.

9 CHAIRMAN GLEIMAN: Well, we can't very well take
10 testimony from attorneys.

11 MR. HALL: I understand that.

12 CHAIRMAN GLEIMAN: But just so that we can move on
13 with things, Mr. Tidwell, Mr. Bentley, Mr. Hall, are you all
14 on the same wavelength with respect to the weight averaging
15 and when it was used and when Mr. Bentley said he thought it
16 was used or not used?

17 MR. TIDWELL: A question or two might establish
18 that.

19 CHAIRMAN GLEIMAN: Thank you.

20 BY MR. TIDWELL:

21 Q Mr. Bentley, the weight averaging, the specific
22 procedures used in weight averaging of Brooklyn Union's mail
23 during the tests that occurred a year or two ago, did those
24 procedures in any way differ from weight averaging
25 procedures used by Brooklyn Union in accounting for its

1 business reply mail previous to that test?

2 A Well, previous to the test, Brooklyn Union would
3 not be determining the postage so I don't think that
4 Brooklyn Union would have the opportunity to weigh the mail
5 for any particular reason other than to check the Postal
6 Service figures if they felt like it.

7 Q And was their use of weight averaging to check
8 Postal Service figures before the test exactly the
9 procedures that were utilized during the course of the test
10 to calculate postage?

11 A I don't know for sure but I doubt it. It seems to
12 me that the Postal Service did have some regulations where
13 they may have modified a few things in the exact procedure,
14 so I don't think what Brooklyn Union had done before was the
15 same but I really would not be in a position to know that as
16 we sit here, but I probably could find out.

17 MR. HALL: I think we can undertake to inform the
18 record.

19 CHAIRMAN GLEIMAN: Is that acceptable, Mr.
20 Tidwell?

21 MR. TIDWELL: Sure.

22 CHAIRMAN GLEIMAN: Some type of a written
23 response?

24 MR. TIDWELL: Sure. No further questions.

25 CHAIRMAN GLEIMAN: Is there any further follow-up

1 to redirect?

2 There was going to be, Mr. Hall, but you obviated
3 the need for certain follow-up questions regarding advance
4 deposit accounts so that took care of questions that I had
5 floating around, but I now also know as a consequence of all
6 this the mysterious parties to the experiment that we
7 understood was taking place but never really knew about on
8 the record earlier on, we were only told some time ago that
9 there was an experiment involving reply mail.

10 In any event, if there is nothing further, you are
11 excused or you can take off the hat that you are wearing
12 now, Mr. Bentley, and we appreciate your contributions to
13 the record in this regard.

14 THE WITNESS: Thank you, Mr. Chairman.

15 CHAIRMAN GLEIMAN: We'll let you stay right where
16 you are.

17 You can move your notebooks around if you wish
18 while Mr. Littell is getting settled in and thanks to Mr.
19 Hall, you are already sworn in, so I don't have to do that
20 again or for the first time.

21 Mr. Littell, whenever you are ready. Whenever you
22 and the witness are ready, you can proceed.

23 MR. LITTELL: Thank you, Mr. Chairman.

24 Whereupon,

25 RICHARD E. BENTLEY,

1 a witness, was called for examination by counsel for the
2 Major Mailers Association and, having first been previously
3 duly sworn, was examined and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. LITTELL:

6 Q Mr. Bentley, do you have two copies of a document
7 entitled "Testimony of Richard E. Bentley on behalf of Major
8 Mailers Association" and dated on the face page December 30,
9 1997?

10 A Yes, I do.

11 Q And that document contains an exhibit designated
12 as MMA-T-1 and also Exhibits designated as MMA-1A and MMA-1B
13 and MMA-1C, is that right?

14 A I think it goes up to 1E.

15 Q Thank you.

16 A With that correction, yes, I have that.

17 Q You filed an errata to that testimony on February
18 13th, didn't you?

19 A Yes.

20 Q Do the two copies of the document before you
21 contain copies of the pages that were revised by the
22 February 13th errata?

23 A Yes.

24 Q And was the document prepared by you or under your
25 supervision and direction?

1 A Yes.

2 Q Do you adopt that document as your sworn testimony
3 in this proceeding?

4 A Yes, I do.

5 Q Let me turn for one moment to the interrogatories.

6 Do you have two copies of the official packet of
7 interrogatory responses that the parties designated as
8 written cross examination of you and which was put out on
9 the table this morning?

10 A Yes, I do.

11 Q Do you have several corrections to that testimony
12 which you have -- to those responses that you have already
13 physically incorporated in the copies of the
14 interrogatories?

15 A Yes, I have three corrections.

16 Q Well, if they are in there, I don't think you need
17 to go through them unless the Chair would like you to do so.

18 CHAIRMAN GLEIMAN: I think it would be useful in
19 order to ensure that other parties are familiar with this.

20 MR. LITTELL: All right. He has already shown it
21 to all the other parties.

22 CHAIRMAN GLEIMAN: Mr. Koetting, if you are
23 comfortable then we can proceed.

24 Mr. Koetting, Postal Service counsel, indicates he
25 is comfortable so we can proceed.

1 MR. LITTELL: Would you give me the two copies of
2 the interrogatories so I can hand them to the Chairman?

3 CHAIRMAN GLEIMAN: Thank you, sir.

4 MR. LITTELL: At this point I would like to ask
5 that there be admitted into evidence MMA Exhibits T-1,
6 MMA-1A, 1B, 1C, 1D and 1E.

7 CHAIRMAN GLEIMAN: Are there any objections?

8 Hearing none, Mr. Bentley's testimony and his
9 exhibits through Exhibit E are received into evidence, and I
10 direct that they be accepted into evidence and transcribed
11 into the record.

12 [Direct Testimony and Exhibits of
13 Richard E. Bentley, MMA-T-1, was
14 received into evidence and
15 transcribed into the record.]

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Exhibit MMA-T-1

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

POSTAL RATE AND FEE CHANGES, 1997

)
)
) Docket No. R97-1
)
)

TESTIMONY OF
RICHARD E. BENTLEY
ON BEHALF OF
MAJOR MAILERS ASSOCIATION

December 30, 1997

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1

I. INTRODUCTION

2

A. Statement of Qualifications

3

My name is Richard E. Bentley. I am president of Marketing Designs, Inc., a marketing and consulting firm.

4

5

I began my career as a market research analyst for the Postal Rate Commission in 1973 and remained there until 1979. As a member of the Officer of the Commission's technical staff, I testified before the Postal Rate Commission in four separate proceedings. After leaving the Commission in 1979, I testified before the Commission as a private consultant in all six major cases, most recently in Docket No. R94-1. I have also testified in two of the more recent classification cases, Docket Nos. MC95-1 and MC96-3.

10

11

12

Since March 1982 I have been president of Marketing Designs, Inc. which provides specialized marketing services to various retail, commercial, and industrial concerns as well as consulting services to a select group of clients.

13

14

15

I received a Bachelor of Science degree in Industrial Engineering/Operations Research from Cornell University in 1972. The following year I was awarded a Master's degree in Business Administration from Cornell's graduate School of Business Public Administration. I am a member of Tau Beta Pi and Alpha Pi Mu engineering Honor Societies.

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I have included a more detailed account of my 20 years of experience as an expert witness on postal ratemaking as Attachment 1 to this testimony.

21

1 **B. Purpose and Summary of Testimony**

2 In order to evaluate the Postal Service's proposed changes in costing
3 methodology, the Commission has said, it needs to be able to compare the Service's cost
4 presentation with an equivalent presentation using the Commission's established costing
5 methodology (Order No. 1197). One purpose of my testimony is to present a computation
6 of changes in the Postal Service's costs that result when those costs are calculated in
7 accordance with the Commission's established costing methodology, rather than by the
8 Service's proposed new methodology. I also state why I believe the Commission should
9 adhere to its current costing methodology in order to protect First-Class mailers and the
10 Commission's processes.

11 Finally, after noting the Service's failure to heed Commission requests to reduce
12 the existing burden on First-Class Mail, I suggest that the Service's proposed First-Class
13 Mail rates be scaled back. My first preference is to have the First-Class stamp rate
14 continue at 32 cents. In any event, I propose that the Commission recommend modest
15 reductions in the Service's proposed rates for Automation and 2-ounce letters.

16 **II. THE POSTAL SERVICE'S COSTS UNDER**
17 **THE COMMISSION'S METHODOLOGY**

18 **A. Background: The Commission's Efforts To Have the**
19 **Postal Service Disclose the Impact of Its Rate Proposals**
20 **Under the Commission-Established Costing Methodology**

21 Under the Act, the Commission must apportion the Postal Service's direct and
22 indirect costs for domestic mail service among the mail classes and services. Section
23 3622(b)(3) requires that the first, pivotal step is to determine the "attributable" costs of
24 providing that service. For this purpose, the Commission has evolved its own
25 methodology for establishing those costs, this methodology being last approved in Docket

1 No. R94-1 and reiterated most recently in Docket No. MC96-3. In a series of recent
2 cases, however, the Postal Service has presented its rate and classification proposals
3 based upon costing techniques that differ from the Commission's established
4 methodology. The Service also rebuffed the Commission requests to disclose the
5 Service's costs as computed under the Commission's methodology.

6 Before the current rate proceeding was instituted, the Commission amended its
7 Rule 54(a) by requiring that the Postal Service accompany its rate case filings with "notice
8 of what the impact of its proposed changes in rates would be, measured by [Commission]
9 established attribution methods" (Order No. 1197, page 4). The Service's Rule 54(a) filing
10 in the current proceeding, however, only "partially complied" with Rule 54(a)'s requirement
11 (*Id.*). Subsequently, a party (MMA) propounded interrogatories that asked the Service
12 to "perform the essentially mechanical exercise of quantifying the impact of its rate and
13 classification proposals using [Commission] established attribution principles" (*Id.* at 6).
14 After the Service objected to those interrogatories, the Commission granted a motion to
15 compel answers. In October, over three months after the proceeding began, the Service
16 finally began providing responses to those interrogatories.

17 **B. The Calculations of the Postal Service's Costs**
18 **Under the Commission-Established Methodology**

19 In computing the Service's costs according to the Commission-approved
20 methodology, I have used the Service's October 1997 Responses to Order No. 1197. In
21 its October 16 Response to Order 1197, the Service presented a statement of the
22 Service's costs (denominated as PRC-30B), as computed according to the Commission's
23 methodology (Tr.19-B:8791). On October 24, the Service filed corrections to this PRC-

1 30B (Attachment 3 hereto). Table 1 compares the Service's estimates of postal costs
 2 under both the Postal Service's proposed new costing methodology and under the
 3 Commission's methodology.

4 **Table I. Comparison of TY AR Total Costs**
 5 **Under USPS and PRC Methodologies (000)**

6			
7	<u>Cost Item</u>	<u>O'Hara's Exh. 30B (Rev)</u>	<u>O'Hara's PRC-30B (Rev)</u>
8		<u>Costs: USPS Methodology</u>	<u>Costs: PRC Methodology</u>
9	Attributable Costs	\$34,485,995	\$39,597,165
10	Total Other Costs		
11	(i.e. Institutional)	26,683,278	21,617,178
12			
13	Prior Yrs. Loss Rec.	<u>446,933</u>	<u>446,933</u>
14	Total Costs	\$61,616,205	\$61,661,275
15			

16 **III. REASONS FOR PREFERRING THE COMMISSION'S**
 17 **ESTABLISHED COSTING METHODOLOGY TO**
 18 **THE SERVICE'S PROPOSED SUBSTITUTE**

19 In addition to technical criticisms made by other parties, the Postal Service's
 20 proposed new costing methodology suffers from several serious defects.

21 **A. The Service's Methodology Is Designed To Mask**
 22 **The Service's Failure To Relieve First-Class Mail Of**
 23 **An Excessive Share of the Service's Institutional Costs**

24 The Postal Service's costing methodology tends to hinder monitoring of the
 25 Service's continued overburdening of First-Class Mail. Thus, First-Class letters, which
 26 account for 49 percent of mail volume and only 17 percent of weight, are being asked to

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1 contribute 55 percent of total mail revenues (See Figure 1 and Exh. MMA-1C, p.1). In
2 contrast, Commercial Standard A mail, which accounts for 34 percent of volume and 39
3 percent of weight, is being asked to provide only 20 percent of total mail revenues (*Id.*).
4 Although First-Class Mail and Standard A mail are processed differently in some respects,
5 any differences in costs between the two mail types are already reflected in *attributable*
6 costs, and First-Class Mail is required to generate almost three times as much to total
7 revenue as commercial standard mail. (*Id.*).

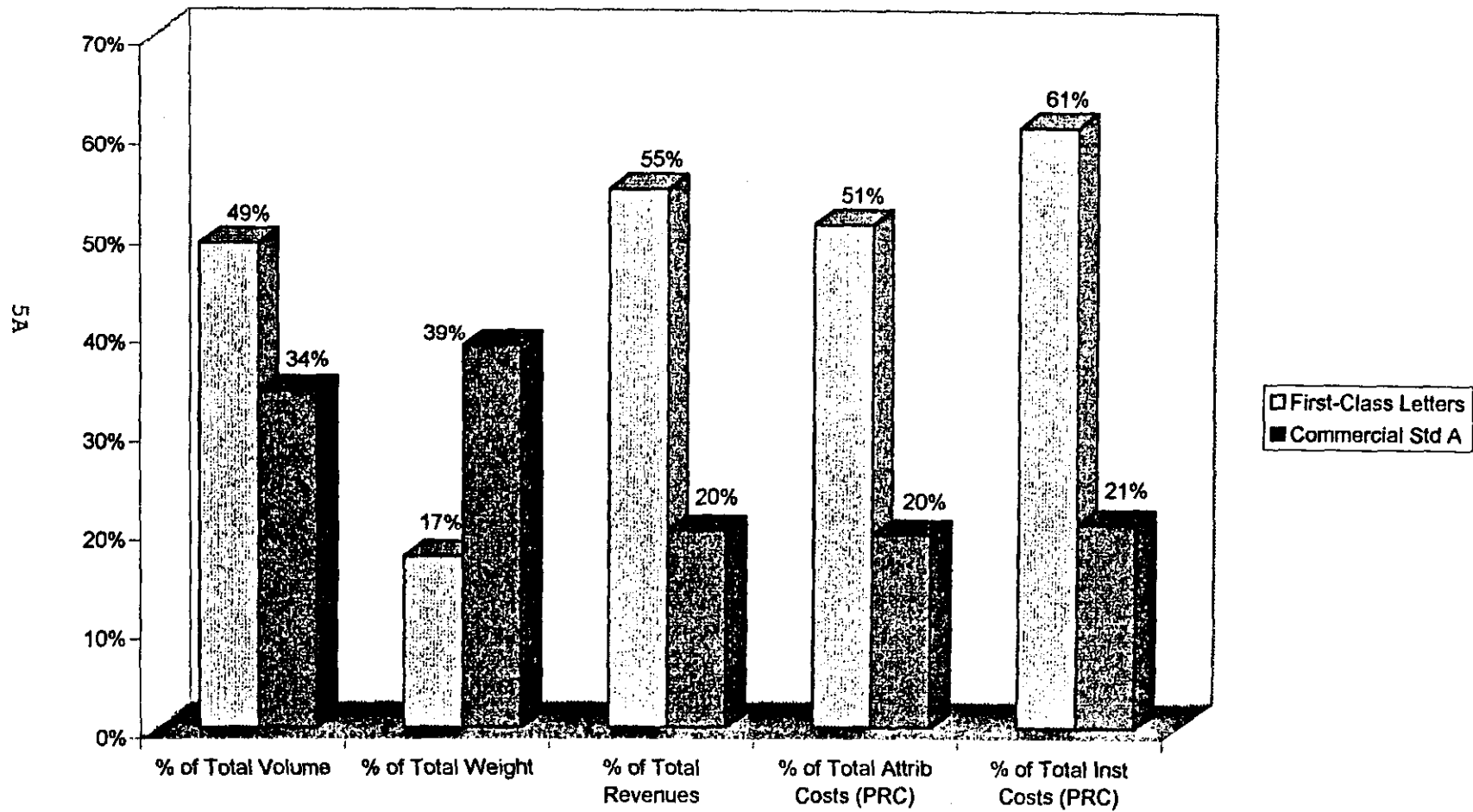
8 The Postal Service accomplishes its overcharging of First-Class Mail by burdening
9 that class with an excessive share of institutional (or overhead) costs.

10 In past cases, the Commission has condemned this practice. In Docket No. R87-
11 1, the Commission articulated its "general goal" to set "First-Class cost coverage...close
12 to the system wide average," while third-class bulk mail (now Standard A Mail) should
13 move towards a cost coverage "near average" (R87-1 Op., pp. 367, 380). In Docket No.
14 R90-1, the Commission expressed displeasure about "perpetuat[ing]" a "situation in which
15 First-Class mailers are providing revenues which more properly should be provided by
16 third-class mailers.... (R90-1 Op., pp. IV 33-34). In Docket No. R94-1, the Commission
17 rejected a proposed settlement that "would only amplify the distortion" in the two mail
18 types' contribution to institutional costs (R94-1 Op., p. IV 16). Finally, in Docket No.
19 MC95-1, the Commission reaffirmed its "view that the largest volume subclasses in First-
20 Class and Standard Mail should have roughly equivalent markup indices" (Docket No.
21 MC95-1, pp. 1-8).

22 In these past cases, the Commission has used a number of measurements to

**Figure 1: Comparison of First-Class and Commercial Standard A
Using PRC Cost Methodology
(Docket No. R97-1, TY AR)**

(Revised 2/11/98)



(Original filed in color)

1 gauge the Service's overassignment of institutional costs to First-Class Mail. But, by
 2 design or otherwise, the Service's new methodology would obscure use of the
 3 Commission's yardsticks to measure how the Service's current proposal compares with
 4 past cases--resulting in a comparison of apples to oranges. Recognizing that problem,
 5 the Service's witness O'Hara wants the Commission to discontinue its traditional markup
 6 index yardstick in favor of a cost coverage index (Exh. USPS-T-30, p. 19).

7 That, I believe, would be unwise. As illustrated when the current proposal is tested
 8 under the Commission-established methodology that I discussed in Part II of this
 9 testimony, the Service's current methodology fails to provide the two major mail groups
 10 with (as the Commission stated as its goal in Docket No. MC95-1) "roughly equivalent
 11 markup indices."

12 **Table 2. Measurements of Coverage, Markups, and Markup Indices**
 13 **For USPS Proposed Rates in Docket No. R97-1 Under PRC Costs¹**

	<u>Coverages</u>	<u>Markups</u>	<u>Markup Indices</u>
15 First-Class Letter	166%	66	119
16 Comm. Std. A	158%	58	106

17 Source: Exh. MMA-1A, p. 2

18 The Commission recognizes that coverage yardsticks "are not the only guide to the
 19 allocation of institutional costs....At the same time [it] is reviewing coverage levels [the
 20 Commission] review[s] the unit contribution and the total dollar contribution likely to be

21 ¹ It is also interesting to note that using the Service's proposed cost methodology, the same
 22 conclusion can be drawn. The "coverage indices" for First-Class Letters and Standard Mail Commercial
 23 are 112 and 98, respectively. The markup indices are 128 and 95 respectively. In order to be consistent
 24 with the Commission's stated objectives, the revenue target for First-Class Letters should be reduced. See
 25 Exhibit MMA-1B, p. 1.

made by each subclass to see whether an inequity or inappropriate relationship may result" (R87-1 Op., p. 394). This unit contribution yardstick shows that the Postal Service's currently-proposed rates will continue to burden First-Class mailers with institutional cost contributions that are more than twice the contribution made by Commercial Standard A mailers. (See Figure 2.)

**Table 3. Comparison of TY AR Unit Contributions
To Institutional Costs For First-Class & Standard Mail (Cents)**

	<u>Dkt. R97-1 Proposed</u>	<u>Dkt. R94-1</u>	<u>Dkt. R90-1</u>
First-Cl. Letters	14.0	15.7	13.3
Comm. Std. A	6.9	6.0	4.5

Sources: Figure 2 and MMA-1A W/P II

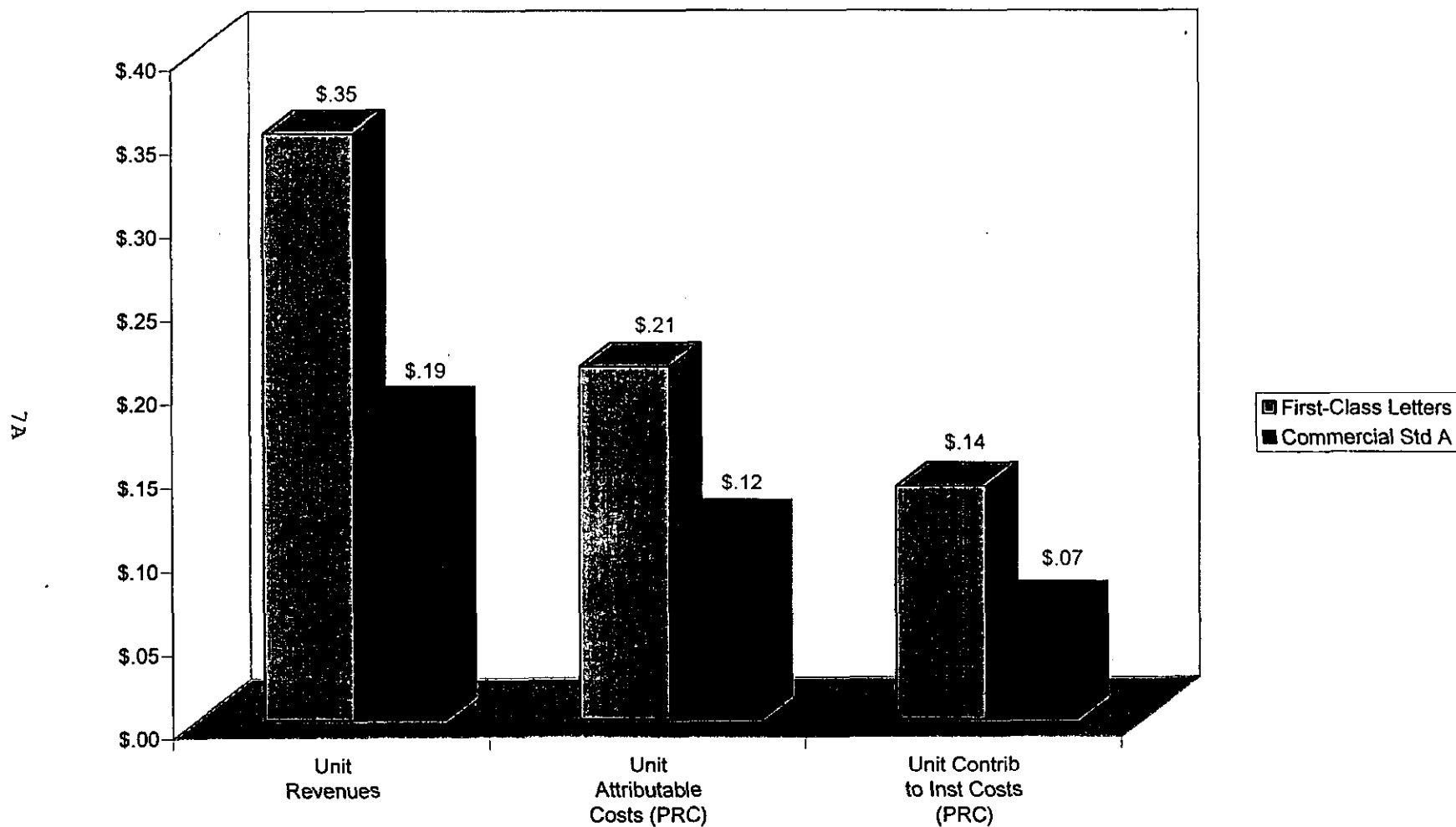
The comparison of unit contributions is especially telling since both types of mail are processed similarly, on the same equipment using the same separation schemes, and both cost about the same. (Exh. USPS-T29 (rev. 10/1), p. 1-2.) And the comparison to total dollar contributions is as disproportionate as the unit contributions. (See Exhibit MMA-1A.)

By adhering to its established methodology, the Commission will emphasize its commitment to pushing the Service towards lessening First-Class Mail's excessive burden of institutional cost.

**B. The Service's Methodology Would Decrease
Objective Cost-Based Ratemaking In Favor
Of Subjective Demand-Oriented Judgments**

There is no secret why the Postal Service prefers its new proposed methodology. That methodology's appeal is its ability to shrink attributable costs, thus increasing the pot of institutional costs--costs which the Service can distribute by discretionary "pricing"

Figure 2: Comparison of First-Class and Commercial Standard A Unit Revenues, Costs and Contributions to Institutional Costs Using PRC Cost Methodology (Docket No. R97-1, TY AR)



1 judgments.

2 Ever since this Commission was born, the Service seems to have campaigned to
3 maximize its discretion over pricing by minimizing objective cost attribution. In the very
4 first postal rate case, the Service classified *fifty percent* of its costs as institutional (R71-1
5 Op., p. 41). The history of subsequent regulation has been dictated by the Commission's
6 struggle to increase the percentage of costs deemed attributable and subject to
7 apportionment by objective costing criteria. Now the Postal Service is trying to reverse
8 this process.

9 If the Service succeeds, First-Class Mail will suffer. As the Commission knows,
10 the Service has traditionally used its discretion over the "pot" of institutional costs to
11 assign an excessive portion to First-Class Mail.

12 In this proceeding, the Postal Service has been able to blunt the impact of its new
13 methodology by asking for a far-below-normal rate increase. Yet, even in this proceeding,
14 the Service's methodology would decrease attributable costs by \$5.1 billion (Order No.
15 1197, note 5) and increase institutional costs by a like amount (Table 1 above).² That
16 has had no practical effect in this proceeding only because, in the midst of its current
17 prosperity, the Service constrained the First-Class stamp increase to one cent.

18 But future cases may not be so benign. The Service's current rate request, which
19 asks for an overall 4.4 percent rate increase, is atypical. The Service's recent rate cases
20 have asked for much greater increases: 10 percent in Docket No. R94-1 and 19 percent
21 in Docket No. R90-1. The Service's request in this proceeding for \$2.4 billion in additional
22 institutional costs is dwarfed by its requests to add \$4.7 billion in Docket No. R94-1 and

23 ² A comparison of the base year attributable costs by cost component for both methodologies is
24 provided in MMA-1A W/P V.

nearly \$6.8 billion in Docket No. R90-1 (*Id.*). Given the Service's propensity to overload First-Class Mail with an excessive share of institutional costs, the Commission should be wary of increasing the Service's discretionary powers.

C. The Service's Proposed Methodology Produces Unreliable Cost Estimates For Supporting Rates

Another flaw in the Service's methodology is that it produces mistaken judgments about costs. A prime example is the Service's estimates of the unit processing and delivery costs for First-Class Automation letters. As compared with the Commission's costing methodology, the Service's method grossly underestimates these attributable costs, as shown in Table 4,

Table 4. Comparison of Unit Attributable Costs For Processing and Delivery of First-Class Automation Letters (Cents)

<u>First-Class Letters</u>	<u>Unit Costs (Proc + Del) USPS Method</u>	<u>Unit Costs (Proc + Del) PRC Method</u>
Bulk Metered Benchmark	14.7	17.3
Automation Basic Presort	9.0	10.1
Automation 3-Digit Presort	8.2	9.1
Automation 5-Digit Presort	6.6	7.0
Carrier Route	6.4	6.4

Source: Exh. MMA-1E

For ratemaking, the consequences of this difference in methodologies is critical. As compared with the Commission's methodology, the Service's methodology understates the costs that are avoided when First-Class mailers presort and prebarcode their mail, as shown in Table 5.

**Table 5. Comparison of Unit Cost Savings For
First-Class Automation Letters
(Cents)**

		Unit Cost Savings	Unit Cost Savings	USPS % Understatement of Cost Savings
	<u>First Class Letters</u>	<u>USPS Method</u>	<u>PRC Method</u>	
	Automation Basic Presort	5.7	7.2	- 20%
	Automation 3-Digit Presort	6.5	8.2	- 21%
	Automation 5-Digit Presort	8.1	10.3	- 21%
	Carrier Route	8.3	10.9	- 24%

Source: Exh. MMA-1E

Because of its underestimate of the Service's savings from worksharing, the Service's methodology led the Service to propose *reduced* discounts. In fact, as I will explain in Part IV of my testimony, the Commission's methodology shows that worksharing discounts could be *increased*. When a methodology like the Service's leads to such misleading results, its reliability is questionable for any purpose.

IV. SPECIFIC RATE PROPOSALS

As I observed in Part III.A of this testimony, the Service has made little progress towards the Commission's goal of achieving "roughly equivalent markup indices" for First-Class Mail and Commercial Standard A mail. (See MC95-1 Op., p. 18.) In order to take a step towards that goal, the Commission should reduce rates for at least some of the First-Class Mail rate elements.

A. Effect of Eliminating the Proposed Increase in the First-Class Stamp Rate

In view of the Service's recent prosperity, the Commission might want to consider retaining the current 32-cent rate for the basic First-Class stamp. If the Commission

1 decides to do so, the Service's proposed \$2.4 billion revenue increase, including a \$606
 2 million contingency allowance, would be reduced by just over \$800 million. If other mail
 3 classes or subclasses were not asked to make up the revenues resulting from a 32-cent
 4 First-Class stamp rate, the Commission would achieve its goal of "roughly equivalent
 5 markup indices" for First-Class Mail (116) and Standard Mail (110). (See MMA-1A W/P
 6 1.)

7 **B. The Postal Service's Proposed Discounts For**
 8 **First-Class Automation Letters Should Be Increased**

9 **1. Background**

10 It is not surprising that the Postal Service is trying to reduce the discounts for First-
 11 Class worksharing letters. Years ago, in Docket No. R90-1, the Service warned that, in the
 12 future, it intended to reduce discounts to First-Class mailers for mail preparation.³ The
 13 Service's first attempt to pull back on discounts occurred in Docket MC93-2, when the
 14 Service increased the First-Class prebarcoding requirement from nine-digit ZIP Codes to
 15 eleven-digit ZIP Codes, but refused to increase discounts to take account of its increased
 16 cost savings. Expressing concern about the Service's action, the Commission "issue[d] a
 17 separate, unanimous concurring opinion reaffirming its support for rate discounts that reflect
 18 costs savings from mailer worksharing..." (MC93-2 Op., p.1). In that concurring opinion,
 19 the five commissioners left no doubt about their belief "that discounts which reflect the

20 ³ See MMA's Initial Brief in Docket No. MC93-2, p. 1, citing R90-1 Exhibit USPS-T18, p. 107.

1 savings inuring to the Service from mailer worksharing, and which are solidly grounded in
 2 costs, are to the advantage of the Postal Service, mailers, and the society at large." (*Id.*,
 3 Conc. Op. at 2.)

4 Notwithstanding the Commission's pronouncement, in this proceeding the Service
 5 wants to decrease First-Class Automation letters discounts by 0.1 cents to 0.6. (See Table
 6 6.)

7 **Table 6. Comparison of Current and USPS Proposed**
 8 **First-Class Automation Discounts**
 9 **(Cents)**

10		Current	Current	USPS	USPS
11		Rate	Discount	Proposed	Proposed
12	<u>Rate Category</u>	<u>Rate</u>	<u>Discount</u>	<u>Rate</u>	<u>Discount</u>
13	First Class:				
14	Bulk Metered Benchmark	32.0		33.0	
15	Basic Automation	26.1	5.9	27.5	5.5
16	3-Digit Automation	25.4	6.6	26.5	6.5
17	5-Digit Automation	23.8	8.2	24.9	8.1
18	Carrier Route	23.0	9.0	24.6	8.4

19 Combined with the one-cent increase in the basic stamp rate (from which Automation rates
 20 are computed), the Service's proposal results in a 3.8 percent overall rate increase for First-
 21 Class letters and a 4.6 percent increase for automation letters.

22 **2. The Cost Data Do Not Warrant Reduced Discounts**

23 When the Commission's costing methodology is used instead of the Service's
 24 version, the Service can be seen to have understated First-Class Automation letters' cost
 25 avoidance by from 1.5 cents to 2.6 cents, as shown in Table 7. That represents an
 26 average understatement of cost savings of 21 percent.

**Table 7. Comparison of Unit Cost Savings For
First-Class Automation Letters
(Cents)**

		Unit Cost Savings	Unit Cost Savings	USPS Unit Cost Cost Savings
	<u>First-Class Letters</u>	<u>USPS Method</u>	<u>PRC Method</u>	<u>Underestimate</u>
	Automation Basic Presort	5.7	7.2	1.5
	Automation 3-Digit Presort	6.5	8.2	1.7
	Automation 5-Digit Presort	8.1	10.3	2.2
	Carrier Route	8.3	10.9	2.6

Source: Exh. MMA-1E

3. MMA's Proposed Discounts

MMA proposes that the Commission recommend discounts that are at least 0.2 cents higher than those proposed by the Service, as shown in Table 8. (In some cases, MMA's proposed discounts are lower than the currently-existing discounts.)

**Table 8. Comparison of First-Class Automation Discounts
(Cents)**

		Current Discount	USPS Proposed Discount	MMA Proposed Discount
	<u>Rate Category</u>	<u>Discount</u>	<u>Discount</u>	<u>Discount</u>
	First Class:			
	Basic Automation	5.9	5.5	5.7
	3-Digit Automation	6.6	6.5	6.7
	5-Digit Automation	8.2	8.1	8.3
	Carrier Route	9.0	8.4	8.6

MMA's proposed discounts result in an 81 percent passthrough of cost savings derived in this proceeding under the Commission's methodology. In contrast, in Docket No. MC95-1, the Commission's recommended discounts (which are now in effect) represented

1 an average pass through of 97 percent.⁴

2 MMA's proposed discounts will produce the First-Class Automation rates shown in
3 Table 9.

4 **Table 9. Comparison of Current, USPS Proposed and MMA Recommended**
5 **First-Class Automation Rates**
6 **(Cents)**

	Current	USPS	MMA
<u>First-Class Letters</u>	<u>Rates</u>	<u>Proposed</u>	<u>Recommended</u>
	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>
7 Basic Automation	26.1	27.5	27.3
8 3-Digit Automation	25.4	26.5	26.3
9 5-Digit Automation	23.8	24.9	24.7
10 Carrier Route	23.0	24.6	24.4

11 If the Commission recommends adoption of MMA's proposed Automation rates, the
12 Postal Service's proposed revenues will be reduced by about \$72 million.

13 **4. Numerous Policy Reasons Justify Increasing**
14 **the Service's Proposed Discounts**

15 In addition to the pure costing reasons I have just discussed, there are numerous
16 other justifications for increasing discounts for First-Class Automation letters.

17 **a. High Proposed Increase.** The Postal Service proposes a 4.6 percent average
18 increase for First-Class Automation letters, which is twice the 2.3 percent average increase for
19 Commercial Standard Automation letters and 50 percent more than the 3.1 percent increase
20 proposed for 1-ounce First-Class Single Piece. This seems rather high and counterproductive
21 for mailers who are cooperating with the Postal Service in order to increase the amount of
22
23
24
25

26 ⁴ Based on the cost savings derived in this proceeding under the Commission's methodology, the
27 currently-effective discounts represent an 81 percent passthrough.

1 letters that are pre-barcoded and can be processed on automated equipment.

2 **b. High Proposed Implicit Cost Coverage.** As shown below in Table 10, the
 3 proposed implicit cost coverage for First-Class worksharing letters is considerably higher than
 4 those proposed for all of the other major contributors to postal institutional costs. This is true
 5 no matter whose cost methodology is used. Worksharing letters, which are comprised of
 6 almost 40 billion pieces, continue to be assigned the highest revenue target of all major types
 7 of mail under the Service's proposed rates. In fact, under the Commission's cost methodology,
 8 presorted letters contribute more to institutional costs than any other types of mail, *including*
 9 *First-Class Single Piece*. As discussed above, this does not seem to be consistent with the
 10 Commission's stated intentions regarding the pricing of First-Class Mail.

11 **Table 10. TY AR 1998 Proposed Cost Coverages and**
 12 **Contributions to Institutional Costs**
 13 **(000)**

Description	USPS Proposed Cost Coverage		Contribution to Institutional Costs	
	PRC Cost Methodology	USPS Cost Methodology	PRC Cost Methodology (\$ Mil)	USPS Cost Methodology (\$ Mil)
<u>First-Class</u>				
Single Piece	143	174	6,654	9,390
Worksharing	241	283	6,710	7,419
Single Cards	119	153	103	229
Presorted Cards	216	267	230	268
Priority Mail	189	192	2,045	2,086
Express Mail	117	205	121	431
<u>Periodicals</u>				
Regular Rate	107	107	116	111
<u>Standard Mail A</u>				
ECR	211	228	2,266	2,419
Regular Rate	140	155	2,281	2,830
<u>Standard Mail B</u>				
Parcel Post	109	104	63	30
Bound Printed Matter	159	152	195	179
Special Services	146	160	645	765
All Mail & Services	155	178	21,933	27,044

35 Source: Exhs. MMA-1A and 1B

1 **c. Inconsistent Price Signal To Mailers.** A third reason to lower presorted First-
 2 Class rates is to send the correct signal to mailers. By comparison to other subclasses,
 3 First-Class worksharing is a very young category whose existence began only twenty years
 4 ago. The Automated categories started just nine years ago.⁵ Since that time more than
 5 31 billion pre-barcoded pieces of mail have been attracted. An additional 5 billion pieces
 6 are expected to be attracted in just two more years, as projected by USPS witness Tolley.
 7 Such growth needs to have appropriate discounts in order to continue to attract large, new
 8 volumes. The automation and worksharing programs have probably contributed, more than
 9 anything else, to the stability of postal rates and costs that all mailers can now enjoy. An
 10 important goal should be to maintain this cooperation with mailers while "working toward
 11 a mailstream that is as barcoded as practicable." (Tr.4:1422) A proposed 5 percent
 12 average increase in the presort rates does not seem to be consistent with that goal at this
 13 point in time.⁶

14 **d. Failure to Credit For Other Cost Reduction Attributes.** There are many new
 15 entry requirements that First-Class Automation letters must meet that are designed to save
 16 postal costs. The full impact of these changes does not appear to be reflected in the
 17 Service's justification for its proposed decreases in the discounts. Omission of these
 18 impacts tends to under-estimate the cost savings resulting from worksharing.

19 ⁵ A pre-barcode rate discount was first recommended by the Commission in Docket No. R87-1.

20 ⁶ In Docket No. R94-1, only 14.5 billion of 32.4 billion presorted pieces were projected to be mailed
 21 under Automated rates for TY 1995. (See PRC Opinion, App. G, Sch.2, p. 1) For TY 1998 BR in this case,
 22 this number is projected to swell to 34.6 billion of 40.0 pieces. (See MMA-1A W/P III, p. 5) Certainly, the
 23 current discount levels have encouraged mailers to pre-barcode their letters and meet the more stringent
 24 entry requirements of re-classification.

1 As a result of re-classification, several new entry requirements were imposed upon
2 worksharing mailers if they wanted to qualify for automation rates.⁷ Of these new
3 requirements, USPS witness Hatfield concedes that he omitted from his analysis of cost
4 savings that result from move updates (Tr.4:1732) and the new requirement that reply
5 envelopes inserted into outgoing automation envelopes be pre-barcoded. (Tr.4:1757) In
6 this regard, note the Postal Service's response to the Presiding Officer's request that the
7 Postal Service explain why "bulk metered mail, which is presumably 'clean' mail, is only
8 1.16 cents cheaper to process than non-metered mail which presumably includes
9 handwritten addressed mail?" In its response, the Service noted that the cost differences
10 between these two types of mail "have likely been narrowed by the FIM letters
11 [prebarcoded, self-addressed reply envelopes that large commercial mailers include with
12 their invoices] that are a significant part of non-metered letters. The low cost of FIM letters
13 likely offsets the cost of handwritten addressed letters." Thus, the impact of First-Class
14 Automation mailers providing pre-barcoded reply envelopes in their outgoing mail is
15 significant. (See response to POIR Request No. 5, 19.f.) Each of the above-mentioned
16 factors reduces postal costs, and the Hatfield methodology does not give automation
17 mailers credit for those savings.

18 In addition, there are other costs that presort First-Class Mail avoids that are not
19 reflected in Mr. Hatfield's cost models. These refer to collection costs (Tr.4:1722) and mail
20 preparation costs--labor processing operations that presorted First-Class letters do not
21 require. For example, Postal Service employees pick up outgoing mail from collection

22 ⁷ The automation entry requirements are spelled out in the Domestic Mail Manual. (Tr.4:1456.)

boxes and mail chutes, or as they deliver mail to homes and businesses. Similarly, after collection, nonpresorted letters have to be culled, faced, canceled and sorted in the mail preparation operations. Bulk mail avoids these costs. In Docket No. R87-1 the Commission specifically noted

The record demonstrates that because these presorters are required by Postal Service regulations...to present their presorted mail in a certain manner the Postal Service avoids the burden of having to prepare those mail pieces and the associated costs...We believe that "fairness and equity" concerns warrant formal recognition of mail preparation cost savings on the 3/5 digit discount...(R87-1 Op., p. 472. Quotation marks in original)

The Postal Service's failure to include these costs in its mail flow models understates presorted bulk mail cost savings.⁸

V. THE RATES FOR ADDITIONAL-OUNCE LETTERS

This proceeding, like earlier ones, contains abundant evidence that First-Class letters weighing between one and two ounces cost no more to process than letters weighing under once ounce. As such, the Commission should also consider reducing the second-ounce rate for letters that weigh between one and two ounces. Although I have not made a specific rate proposal, I note that Postal revenues will be reduced by about \$26 million for each penny that the second ounce is reduced. (See Exhibit MMA-1D.)

⁸ Although there is no formal "Appendix F" type presentation in this proceeding, the derived cost difference between First-Class Single Piece and Non-Carrier Route Presorted letters can be estimated from LR H-106; and it would justify discounts even higher than I propose. Under the Service's assumption that labor processing costs do not vary 100% with volume, the derived unit cost difference is 7.1 cents. (p. II-5) Under the Commission's established methodology whereby labor costs do vary 100% with volume, the cost difference is estimated to be 10.2 cents. The USPS proposed average rate difference between nonpresorted and non-carrier route presorted letters is only 6.2 cents. Consequently, if the Commission decided to use the "Appendix F" methodology to justify rate discounts in this case, it would have a 4.0 cent cushion between the cost difference and the Service's proposed rates. See MMA-1A W/P IV.

1 There are at least four reasons that support the Commission's conclusion that
2 "[l]etters up to two ounces for the most part can be processed on the new automation at
3 a cost no higher than a one ounce letter" (PRC Op., Docket No. R87-1, p. 448).

4 **A. Automated Equipment Successfully Processes Letters**
5 **Weighing Up To Two Ounces**

6 It makes absolute sense that when a letter is successfully processed on automation
7 equipment, the impact of weight is negligible. As I stated in Docket No. MC95-1:

8 The objective of automation sorting equipment is to combine letters of
9 similar destination into separate bins. In doing so, the non-sorted letters
10 are read and transported along conveyor belts until they reach a particular
11 destination bin. At this point the letters are successfully sorted. The
12 physical sortation of this mail, if successful, is unrelated to a letter's
13 weight. Therefore, any cost difference between sorting a one-ounce letter
14 and a three-ounce letter is necessarily minimal. (Response to
15 USPS/MMA-T2-2.)

16 My statement is more apparent when applied to letters weighing up to two ounces rather
17 than three ounces.

18 **B. The Service Continues to Design Rates That Imply**
19 **Weight Has No Impact On Processing Cost**

20 The Postal Service has always designed third-class bulk (and now Standard Mail A)
21 rates that do not change as weight increases from .1 to over 3 ounces. To illustrate,
22 Standard Mail A Automation rates are the same for a letter weighing .6 ounces as for a
23 letter weighing 2.9 ounces. Such a rate structure implies that weight has no bearing on the
24 costs to process bulk letters and sends such a signal to mailers. Surprisingly, the Service
25 has recently increased the weight limit for letters to qualify for these rates.⁹

26 ⁹ USPS witness Fronk states that automation-compatible letters, by definition, could weigh as much
27 as 3.3 ounces. (Response to DFC/USPS-T32-8(C); Tr.4:1432). Moreover, the Service has successfully
28 experimented with letters that weigh as high as 3.5 ounces and has decided to allow certain 3.5-ounce
29 letters to qualify for Standard Mail Automation rates.

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1 **C. The Service's Own Studies**

2 In past studies, the Service's technical staff has uniformly found that the cost of
3 processing two-ounce letters is no more than the cost of processing one-ounce letters, and
4 that staff has stated that the additional charge for two-ounce letters is excessive and should
5 be eliminated. But, although the Commission has repeatedly requested the Service to
6 provide data on the costs of additional-ounce letters, the Service has not done so, saying
7 that it has performed no new studies. (See Tr.4:1438-46.)

8 **D. Postal Service Witnesses Assume That Weight Has**
9 **No Impact On Processing Cost**

10 Finally, Postal Service witnesses implicitly assume that weight has no bearing
11 whatsoever on labor costs in their mail flow analyses that support rates proposed for First-
12 Class and Standard A. Both USPS witnesses Hatfield and Daniel simply assumed identical
13 labor productivity rates for average letters within each class. Yet, Standard A letters weigh
14 on average over 50% more than First-Class letters. Therefore, the Service has assumed
15 in this situation that processing costs do not change if a letter weighs between one and two
16 ounces or under one ounce.

17 **E. Comparison With Previous Proposal**

18 In Docket No. MC95-1, I offered a somewhat different proposal for reducing
19 additional-ounce rates for First-Class letters. As explained in Attachment 2 to this
20 testimony, I have now modified that proposal in ways that obviate the Commission's
21 objections to my Docket No. MC95-1 proposal.

22 **VI. CONCLUSION**

23 In previous rate cases, the Commission has made some reductions in First-Class
24 Mail's burden of institutional costs, but it has also had to defer greater reductions because

1 of "serious concern" about the impact upon non-First-Class mailers. (See *e.g.*, R94-1 Op.,
2 p. IV 16).¹⁰ The resulting "compromises" (*Id.*) have left First-Class Mail's institutional cost
3 burden much too great. Finally, in this proceeding, the Commission has before it a
4 relatively small rate proceeding that does not threaten any type of mail with rate shock.

5 This provides the Commission with an unprecedented opportunity to take another
6 step towards fairer First-Class rates. If not now, when?

7 That concludes my testimony.

8 ¹⁰ See also Docket No. R94-1 (Op. p. IV 16-18; Docket No. R90-1 (Op. IV 33-34, n. 16); Docket No.
9 R87-1 (Op. pp ii, 400).

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Attachment 1
Page 2 of 3

1 parcel post nonmachinable surcharge. Mr. Bentley presented two pieces of testimony in
2 that docket--one concerned with the rate aspects of the Postal Service's proposal and one
3 concerned with the parcel post volume projections.

4 In 1979, Mr. Bentley left the Postal Rate Commission to become a senior program
5 engineer for Systems Consultants, Inc. (now Syscon Corporation), a national consulting
6 firm. There Mr. Bentley's responsibilities included the analysis and estimation of life cycle
7 costs required to research, develop, manufacture, and maintain various weapon system
8 programs for the Department of Defense. He developed cost estimating relationships and
9 completed a computerized model for estimating future weapon system program costs.

10 In addition, Mr. Bentley testified before the Postal Rate Commission in Docket No.
11 R80-1 concerning presorted First-Class mail rates and second-class within county rates.

12 After leaving Syscon in 1981, Mr. Bentley started his own company, Marketing
13 Designs, Inc., which provides specialized marketing services to various retail, commercial,
14 and industrial concerns as well as consulting services to a select group of clients.

15 In Docket No. R84-1, Mr. Bentley testified on behalf of the Council of Public Utility
16 Mailers and the American Retail Federation in favor of an increased First-Class presort
17 discount. At that time, Mr. Bentley presented a methodology for estimating cost differences
18 between processing First-Class single piece and presorted letters that eventually became
19 the foundation for the Commission's "Appendix F" methodology for supporting First-Class
20 presort discounts.

21 In Docket No. C86-3, Mr. Bentley testified on behalf of Roadway Package Systems
22 concerning a proposed special rate increase for parcel post.

Attachment 1
Page 3 of 3

1 In Docket Nos. R87-1 and R90-1, Mr. Bentley testified on behalf of the Council of
2 Public Utility Mailers, the National Retail Federation, Brooklyn Union Gas, and other First-
3 Class mailers. Mr. Bentley recommended and supported various rate discount proposals
4 for presorted First-Class mail, and a lower fee for "BRMAS" business reply mail.

5 In the last omnibus rate proceeding, Docket No. R94-1, Mr. Bentley testified on
6 behalf of Major Mailers Association with respect to several issues that concerned First-
7 Class rates. These included the relationship between the proposed cost coverages for
8 First-Class and third-class, the rates for First-Class incremental ounces, prior year losses,
9 and the Postal Service's changes to the Commission's city delivery carrier out-of-office cost
10 methodology. In addition, Mr. Bentley also advised Brooklyn Union Gas in that company's
11 efforts to have the Postal Service's proposed tripling of the "BRMAS" BRM fee rejected,
12 although Mr. Bentley did not file any formal testimony.

13 In 1972, Mr. Bentley received a Bachelor of Science degree in Industrial
14 Engineering/Operations Research from Cornell University. The following year, Mr. Bentley
15 was awarded a Master's degree in Business Administration from Cornell's graduate school
16 of Business and Public Administration (now the Johnson Graduate School of Management).
17 Mr. Bentley is a member of Tau Beta Pi and Alpha Pi Mu Engineering Honor Societies.

**DIFFERENCES BETWEEN MMA'S PROPOSALS IN
DOCKET NO. MC95-1 AND IN THIS PROCEEDING**

In Docket No. MC95-1, MMA made a proposal to reduce the additional-ounce rates for *both* letters weighing between 1.1 ounce and 2.0 ounces *and* letters weighing between 2.1 ounces and 3.0 ounces. Rejecting that proposal in Docket No. MC95-1, the Commission expressed the following concerns (Opinion, pp. V 51-52):

1. The Commission found that "there is still no definitive evidence of costs associated with additional ounces..." and encouraged the "Postal Service and other parties to address [this deficiency] in future proceedings."
2. The Commission expressed concern that the proposal could "complicate exiting rate relationships, including those between First Class and Priority Mail."
3. The Commission noted that a "reduction of only 1 cent in the rate applicable to second and third ounces of letters would reduce the First-Class revenues by about \$94 million..." and that the "constraint of contribution neutrality in this case..." would require that revenues be "recovered through increases in other rate elements."
4. The Commission found that it would be "more appropriate to review relationships of first-ounce rates and additional-ounce rates...in a future rate or classification proceeding, after some experience with the newly-configured automation categories."

MMA's proposal in this proceeding, Docket No. R97-1, eliminates those concerns.

In this proceeding, MMA recommends reducing the additional-ounce rate *only* for letters weighing between 1.1 ounce and 2.0 ounces.

No longer, then, need the Commission be concerned that the MMA proposal could complicate existing rate relationships since, as shown in Table A, the MMA proposal has no impact whatsoever on First-Class letters weighing over 2.0 ounces. Thus, there can be no impact on the relationship between First-Class letters and Priority Mail.

TABLE A
Reducing The Rate For Two-Ounce
Letters By An Illustrative One Cent

<u>Weight</u> <u>(Ounce)</u>	<u>USPS Proposed</u> <u>First-Class Rate</u>	<u>MMA Proposed</u> <u>First-Class Rate</u>	<u>MMA Proposed</u> <u>Change in Rate</u>
1	\$.33	\$.33	\$.00
2*	\$.56	\$.55	-\$.01
2**	\$.56	\$.56	\$.00
3	\$.79	\$.79	\$.00
4	\$ 1.02	\$ 1.02	\$.00
5	\$ 1.25	\$ 1.25	\$.00
6	\$ 1.48	\$ 1.48	\$.00
7	\$ 1.71	\$ 1.71	\$.00
8	\$ 1.94	\$ 1.94	\$.00
9	\$ 2.17	\$ 2.17	\$.00
10	\$ 2.40	\$ 2.40	\$.00
11	\$ 2.63	\$ 2.63	\$.00

* Standard Letters

** Non-Standard Letters, Flats, SPRs

Secondly, in Docket No. MC95-1 the Commission's concern about the need to recover lost additional-ounce revenues from other mail classes was aggravated by the fact that Docket No. MC95-1 posed the "constraint of [revenue] contribution neutrality" (Opinion, V-52). The situation is different in Docket No. R97-1. Thus, any net revenue can be made up as part of the entire additional revenue package that the Commission sends to the Governors. Moreover, the impact of reducing the second ounce rate by one cent is much less than the Commission anticipated. As shown in Exhibit MMA-1D, a penny decrease in the two-ounce rate reduces First-Class revenues by less than \$26 million.

Third, the Commission no longer needs to wait until after the Service and the parties acquire experience with the rate categories established in Docket No. MC95-1. Two and one-half years will have passed between the date of the Docket No. MC95-1 decision and the likely effective date of the rates to be established in this proceeding. Docket No. R97-1 is therefore the "future rate...proceeding" in which the Commission believed that it would

Attachment 2
Page 3 of 3

1 be "appropriate to review" this matter. (See MC95-1 Opinion, p. V-52.)

2 Finally, the Commission no longer has any reason to defer action because "there is
3 still no definitive evidence of the costs associated with additional ounces" (Opinion, V-51).
4 Only the Postal Service can produce that evidence. Recognizing this, thirteen years ago
5 the Commission began asking the Service to produce such information.¹ Despite the
6 Commission's repeated requests, it is evident now that the Service has no intention of ever
7 producing that information--presumably because its existing studies show that the cost of
8 processing two-ounce letters is no more than the cost of processing one-ounce letters.
9 (See Part V.C of my testimony in this proceeding.) Indeed, ten years ago, before the
10 Postal Service installed its newest and most efficient processing equipment, the
11 Commission already knew that "[l]etters up to two ounces for the most part can be
12 processed on the new automation [equipment] at a cost no higher than a one ounce letter"
13 (R87-1 Opinion, page 448).

14 The time has arrived for the Commission to act upon the information that is now
15 available instead of waiting for studies that will never be produced.

16 ¹ "[T]he Commission...pointed out to the Service in R84-1, its desire for data on the
17 handling costs of additional ounces in future proceedings" (R87-1 Opinion, page 439). Again,
18 in Docket No. R87-1, the Commission issued a "directive to the Postal Service that the provision
19 of definitive empirical information on the effect of additional ounces on costs remains a desirable
20 goal" (R87-1 Opinion, page 443). And, in Docket No. MC95-1, the Commission "encourage[d]
21 the Postal Service and the parties to address [the deficiency in data on additional-ounce costs]
22 in future proceedings" (MC95-1 Opinion, page V-51).

Attachment to Response to MMA/USPS-T32-15(B) et al. p.1 (revised 10-23-97)
SUMMARY OF ESTIMATED FISCAL YEAR 1998 AFTER RATES FINANCES
(Dollars in Thousands) PRC-30B

Line No.	Description	Attributable Costs	Revenues	Percent of Costs (Col 2/Col 1)	Contribution To Other Costs (Col 2 - Col 1)
		(1)	(2)	(3)	(4)
1	First-Class Mail				
2	Single-piece Letters	15,494,399	22,148,759	142.95%	6,654,360
3	Worksharing Letters	4,755,649	11,466,010	241.10%	6,710,361
4	Total Letters	20,250,048	33,614,769	166.00%	13,364,721
5	Single-piece Cards	557,638	661,012	118.54%	103,374
6	Worksharing Postcards	197,982	427,967	216.16%	229,984
7	Total Cards	755,620	1,088,979	144.12%	333,358
8	Total	21,005,668	34,703,748	165.21%	13,698,079
9	Priority Mail	2,307,317	4,352,693	188.65%	2,045,376
10	Express Mail	720,028	841,217	116.83%	121,189
11	Mailgrams	310	4,676	1508.16%	4,366
12	Periodicals				
13	In County	81,866	83,665	102.20%	1,799
14	Outside County				
15	Nonprofit	333,086	342,631	102.87%	9,545
16	Classroom	11,635	10,540	90.59%	(1,095)
17	Regular-Rate	1,573,326	1,688,945	107.35%	115,619
18	Total	1,999,913	2,125,781	106.29%	125,868
19	Standard Mail A				
20	Single Piece	0	0	0.00%	- 0
21	Commercial Regular	5,741,425	8,022,045	139.72%	2,280,620
22	Commercial Enhanced Carrier Route	2,038,198	4,304,004	211.17%	2,265,806
23	Total Commercial	7,779,622	12,326,049	158.44%	4,546,427
24	Nonprofit	1,222,679	1,351,433	110.53%	128,754
25	Nonprofit Enhanced Carrier Route	127,079	201,408	158.49%	74,329
26	Total Nonprofit	1,349,758	1,552,841	115.05%	203,083
27	Total Standard Mail A	9,129,381	13,878,890	152.02%	4,749,509
28	Standard Mail B				
29	Parcel Post	719,927	782,916	108.75%	62,989
30	Bound Printed Matter	329,563	524,608	159.18%	195,045
31	Special Rate	278,431	352,330	126.54%	73,899
32	Library Rate	52,475	52,427	99.91%	(48)
33	Total	1,380,396	1,712,281	124.04%	331,885
34	Free-for-the-Blind, etc.	34,619	0	0.00%	(34,619)
35	International Mail	1,369,844	1,643,844	120.00%	274,000
36	Special Services				
37	Registry	70,029	122,606	175.08%	52,577
38	Certified	341,619	448,962	131.42%	107,343
39	Insurance	47,385	74,453	157.12%	27,068
40	COD	20,825	18,024	86.55%	(2,801)
41	Money Orders	217,763	237,240	108.94%	19,477
42	Stamped Envelopes	10,088	16,008	158.69%	5,921
42a	Stamped Cards	4,585	11,660	254.29%	7,075
42b	Delivery Confirmation	22,139	23,563	106.43%	1,424
42c	BPRS	5,410	8,370	154.71%	2,960
42d	Packaging Service	28,098	34,705	123.52%	6,607
43	Special Handling	1,332			(1,332)
44	Post Office Boxes	634,958	683,362	107.62%	48,404
45	Other		370,652		370,652
46	Total	1,404,232	2,049,606	145.96%	645,373
47	Other Costs	245,457			(245,457)
48	Other Income		217,242		217,242
49	Attributable Costs and Revenues	39,597,165	61,529,977	155.39%	21,932,813
50	Total Other Costs	21,617,178			(21,617,178)
51	Prior Years Loss Recovery	446,933			(446,933)
52	Continuing Appropriations		67,498		67,498
53	Investment Income		54,371		54,371
54	GRAND TOTAL	61,661,275	61,651,846	99.98%	(9,429)

Sources: Attributable Costs: PRC-30F, column (6) times 1.01 (adds 1% contingency);
Revenue: Exh USPS-30B (9-19-97)

USPS Presentation of TY AR Finances Using the Commission's Cost Methodology

Exhibit MMA-1A

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	(1)	(2)	(3)	(4)	(5)	(6)	(7)
		PRC					USPS
		Roll Forward			Attrib Cost		Contribution to
		Costs With	Total Final	Attributable	w/ Contingency	USPS	Institutional
Description	PRC	Penalty Mail	Adjustments	Costs	& Prior Yr Loss	Proposed	Costs
	Roll Forward	Adjustment	PRC Method	PRC Method	PRC Method	Revenue	PRC Method
	LR H-215	Based on (1)	PRC-30F, p. 1&2	(2) + (3)	(4) x 1.01	Exh USPS-30B	(6) - (5)
	Part III, p. 3		(1a)+(2)+(3)+(5)			(Rev. 9/19/7)	
First-Class Mail							
Single Letters	15,183,330	15,183,330	157,660	15,340,990	15,494,399	22,148,759	6,654,360
Presort Letters	4,719,629	4,719,629	(11,066)	4,708,563	4,755,649	11,466,010	6,710,361
Total Letters	19,902,959	19,902,959	146,594	20,049,553	20,250,048	33,614,769	13,364,721
Single Cards	556,767	556,767	(4,650)	552,117	557,638	661,012	103,374
Presort Postcards	195,952	195,952	70	196,022	197,982	427,967	229,985
Total Cards	752,719	752,719	(4,580)	748,139	755,620	1,088,979	333,359
Total	20,655,678	20,655,678	142,014	20,797,692	21,005,668	34,703,748	13,698,080
Priority Mail	2,111,248	2,111,248	173,224	2,284,472	2,307,317	4,352,693	2,045,376
Express Mail	728,222	728,222	(15,323)	712,899	720,028	841,217	121,189
Mailgrams	306	306	1	307	310	4,676	4,366
Periodicals							
In County	80,925	80,925	130	81,055	81,866	83,665	1,799
Regular Rate	1,557,686	1,557,686	63	1,557,749	1,573,326	1,688,945	115,619
Nonprofit	329,710	329,710	78	329,788	333,086	342,631	9,545
Classroom	11,518	11,518	2	11,520	11,635	10,540	(1,095)
Total	1,979,839	1,979,839	273	1,980,112	1,999,913	2,125,781	125,868
Standard Mail A							
Single Piece	248,843	248,843	(248,843)	0	0	0	0
Bulk Rate ECR	2,048,977	2,048,977	(30,960)	2,018,017	2,038,197	4,304,004	2,265,807
Bulk Rate Other	5,929,454	5,929,454	(244,875)	5,684,579	5,741,425	8,022,045	2,280,620
Total Regular	7,978,431	7,978,431	(275,835)	7,702,596	7,779,622	12,326,049	4,546,427
Nonprofit ECR	130,022	130,022	(4,201)	125,821	127,079	201,408	74,329
Nonprofit Other	1,238,346	1,238,346	(27,772)	1,210,574	1,222,680	1,351,433	128,753
Total Nonprofit	1,368,368	1,368,368	(31,973)	1,336,395	1,349,759	1,552,841	203,082
Total	9,595,642	9,595,642	(556,651)	9,038,991	9,129,381	13,878,890	4,749,509
Standard Mail B							
Parcel Post	705,849	705,849	6,950	712,799	719,927	782,916	62,989
Bound Printed Matter	313,431	313,431	12,869	326,300	329,563	524,608	195,045
Special Rate	276,368	276,368	(694)	275,674	278,431	352,330	73,899
Library Rate	51,956	51,956	0	51,956	52,476	52,427	(49)
Total	1,347,604	1,347,604	19,125	1,366,729	1,380,396	1,712,281	331,885
Penalty	215,210	0	(341)	(341)	0	0	0
Free-For-The-Blind	34,284	34,284	(8)	34,276	34,619	0	(34,619)
Total Domestic Mail	36,668,033	36,452,823	(237,345)	36,215,478	36,577,632	57,619,286	21,041,654
Special Services	1,327,840	1,327,840	62,489	1,390,329	1,404,232	2,049,606	645,374
International Mail	1,357,389	1,357,389	(1,108)	1,356,281	1,369,844	1,843,844	274,000
Other Costs	229,530	229,530	13,497	243,027	245,457		(245,457)
Other Income						217,242	217,242
Total Rev & Attrib Costs	39,582,792	39,367,582	(162,467)	39,205,115	39,597,165	61,529,978	21,932,813
Institutional Costs	21,164,580	21,379,790	23,357	21,403,147	21,617,178		(21,617,178)
Prior Year Loss Recovery					446,933		(446,933)
Continuing Appropriations						67,498	67,498
Investment Income						54,371	54,371
Grand Total	60,747,372	60,747,372	(139,110)	60,608,262	61,661,276	61,651,847	(9,429)

USPS Presentation of TY AR Finances Using the Commission's Cost Methodology

Exhibit MMA-1A

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	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Attrib Cost		Contribution to							
	w/ Contingency	USPS	Institutional	Cost	Markups	Markup	USPS	Unit	Unit	
Description	PRC Method	Proposed	Costs	Coverage	Markups	Indices	Projected	Revenue	Attrib Cost	Contribution
	Page 1, Col (5)	Exh USPS-308	PRC Method	PRC Method	PRC Method	PRC Method	Volumes	Revenue	PRC Method	PRC Method
		(Rev. 9/19/97)	(2) - (1)	(2) / (1) * 100	(4) - 100	(5) / 55.3899*100	Exh USPS-308	(2) / (7)	(1) / (7)	(8) - (9)
							(Rev. 8/22/97)			
First-Class Mail										
Single Letters	15,494,399	22,148,759	6,654,360	143	43	78	54,517,802	0.4063	0.2842	0.1221
Presort Letters	4,755,649	11,466,010	6,710,361	241	141	255	41,033,182	0.2794	0.1159	0.1635
Total Letters	20,250,048	33,614,769	13,364,721	166	66	119	95,550,984	0.3518	0.2119	0.1399
Single Cards	557,638	661,012	103,374	119	19	33	3,059,661	0.2160	0.1823	0.0338
Presort Postcards	197,982	427,967	229,985	216	116	210	2,463,385	0.1737	0.0804	0.0934
Total Cards	755,620	1,088,979	333,359	144	44	80	5,523,046	0.1972	0.1368	0.0604
Total	21,005,668	34,703,748	13,698,080	165	65	118	101,074,030	0.3433	0.2078	0.1355
Priority Mail	2,307,317	4,352,693	2,045,376	189	89	160	1,152,413	3.7770	2.0022	1.7749
Express Mail	720,028	841,217	121,189	117	17	30	62,721	13.4120	11.4799	1.9322
Mailgrams	310	4,676	4,366	1,508	1,408	2,542	4,757	0.9830	0.0652	0.9178
Periodicals										
In County	81,866	83,665	1,799	102	2	4	901,870	0.0928	0.0908	0.0020
Regular Rate	1,573,326	1,688,945	115,619	107	7	13	7147574	0.2363	0.2201	0.0162
Nonprofit	333,086	342,631	9,545	103	3	5	2,161,077	0.1585	0.1541	0.0044
Classroom	11,635	10,540	(1,095)	91	(9)	(17)	47,452	0.2221	0.2452	(0.0231)
Total	1,999,913	2,125,781	125,868	106	6	11	10,257,973	0.2072	0.1950	0.0123
Standard Mail A										
Single Piece	0	0	0				0			
Bulk Rate ECR	2,038,197	4,304,004	2,265,807	211	111	201	28,686,181	0.1500	0.0711	0.0790
Bulk Rate Other	5,741,425	8,022,045	2,280,620	140	40	72	37,627,555	0.2132	0.1526	0.0606
Total Regular	7,779,622	12,326,049	4,546,427	158	58	106	66,313,736	0.1859	0.1173	0.0686
Nonprofit ECR	127,079	201,408	74,329	158	58	106	2,571,283	0.0783	0.0494	0.0289
Nonprofit Other	1,222,680	1,351,433	128,753	111	11	19	10,550,968	0.1281	0.1159	0.0122
Total Nonprofit	1,349,759	1,552,841	203,082	115	15	27	13,122,251	0.1183	0.1029	0.0155
Total	9,129,381	13,878,890	4,749,509	152	52	94	79,435,987	0.1747	0.1149	0.0598
Standard Mail B										
Parcel Post	719,927	782,916	62,989	109	9	16	234,660	3.3364	3.0680	0.2684
Bound Printed Matter	329,563	524,608	195,045	159	59	107	574,742	0.9128	0.5734	0.3394
Special Rate	278,431	352,330	73,899	127	27	48	200,511	1.7572	1.3886	0.3686
Library Rate	52,476	52,427	(49)	100	(0)	(0)	28,728	1.8249	1.8266	(0.0017)
Total	1,380,396	1,712,281	331,885	124	24	43	1,038,641	1.6486	1.3290	0.3195
Penalty	0	0	0				297,820			
Free-For-The-Blind	34,619	0	(34,619)				56,390	0.0000	0.6139	(0.6139)
Total Domestic Mail	36,577,632	57,619,286	21,041,654	158	58	104	193,380,732	0.2980	0.1891	0.1088
Special Services	1,404,232	2,049,606	645,374	146	46	83				
International Mail	1,369,844	1,643,844	274,000	120	20	36	1,006,682	1.6329	1.3608	0.2722
Other Costs	245,457		(245,457)							
Other Income		217,242	217,242							
Total Rev & Attrib Costs	39,597,165	61,529,978	21,932,813	155	55	100	194,387,414	0.3165	0.2037	0.1128
Institutional Costs	21,617,178		(21,617,178)							
Prior Year Loss Recovery	446,933		(446,933)							
Continuing Appropriations		67,498	67,498							
Investment Income		54,371	54,371							
Grand Total	61,661,276	61,651,847	(9,429)							

USPS Costing Methodology
Docket No. R97-1, TY98AR
(000's)

Exhibit MMA-1B
Page 1 of 1

Description	(1) CRA Roll Forward Costs USPS-30F (Rev)	(2) Adjusted Attrib Costs w/ contingency USPS-30B (Rev)	(3) USPS Proposed Revenue USPS-30B (Rev)	(4) Cost Coverage (2) / (2)	(5) Contribution to Inst Cost (3) - (2)	(6) Coverage Index (4) / 1.7842	(7) Markup Index (4) - 100	(8) Markup Indices (7) / 7842	(9) Volume USPS-30B (Rev)	(10) Unit Revenue (3) / (9)	(11) Unit Attrib Cost (2) / (9)	(12) Unit Contribution (10) - (11)
First-Class Mail												
Single Letters	12,466,968	12,758,884	22,148,759	174	9,390,095	97	74	94	54,517,802	0.4063	0.2340	0.1722
Presort Letters	4,002,534	4,047,084	11,466,010	283	7,418,926	159	183	234	41,033,182	0.2794	0.0986	0.1808
Total Letters	16,469,502	16,805,748	33,614,769	200	16,809,021	112	100	128	95,550,984	0.3518	0.1759	0.1759
Single Cards	432,141	432,261	661,012	153	228,751	86	53	87	3,059,661	0.2160	0.1413	0.0748
Presort Postcards	158,372	160,123	427,967	267	267,844	150	167	213	2,463,385	0.1737	0.0650	0.1087
Total Cards	590,513	592,384	1,088,979	184	496,595	103	84	107	5,523,046	0.1972	0.1073	0.0899
Total	17,060,015	17,398,132	34,703,748	199	17,305,616	112	99	127	101,074,030	0.3433	0.1721	0.1712
Priority Mail	2,138,518	2,269,217	4,352,693	192	2,080,476	108	92	117	1,192,413	3.7770	1.9965	1.8105
Express Mail	410,906	410,584	841,217	205	430,653	115	105	134	62,721	13.4120	6.5459	6.8662
Mailgrams	502	508	4,676	920	4,168	516	820	1,046	4,757	0.9830	0.1068	0.8762
Periodicals												
In County	80,424	81,360	83,685	103	2,305	58	3	4	901,870	0.0928	0.0902	0.0026
Regular Rate	1,561,708	1,577,869	1,688,945	107	111,056	60	7	9	7,147,574	0.2363	0.2208	0.0155
Nonprofit	327,861	331,471	342,631	103	11,160	58	3	4	2,161,077	0.1585	0.1534	0.0052
Classroom	12,819	12,755	10,540	63	(2,215)	46	(17)	(22)	47,452	0.2221	0.2688	(0.0467)
Total	1,982,010	2,003,475	2,125,781	106	122,306	59	6	8	10,257,973	0.2072	0.1953	0.0119
Standard Mail A												
Single Piece	221,691	(298)	0		298	0		0				
Bulk Rate ECR	1,894,839	1,885,248	4,304,004	228	2,418,756	128	128	164	28,686,181	0.1500	0.0657	0.0843
Bulk Rate Other	5,360,184	5,191,674	8,022,045	155	2,830,371	87	55	70	37,627,555	0.2132	0.1380	0.0752
Total Regular	7,255,023	7,076,922	12,326,049	174	5,249,127	98	74	95	66,313,736	0.1859	0.1067	0.0792
Nonprofit ECR	128,014	125,121	201,408	161	76,287	90	61	78	2,571,283	0.0783	0.0487	0.0297
Nonprofit Other	1,120,767	1,107,105	1,351,433	122	244,328	68	22	28	10,550,968	0.1281	0.1049	0.0232
Total Nonprofit	1,248,781	1,232,226	1,552,841	126	320,615	71	26	33	13,122,251	0.1183	0.0939	0.0244
Total	8,725,495	8,308,850	13,878,890	187	5,570,040	94	67	85	79,435,987	0.1747	0.1046	0.0701
Standard Mail B												
Parcel Post	731,136	753,327	782,916	104	29,589	58	4	5	234,660	3.3384	3.2103	0.1261
Bound Printed Matter	328,929	348,013	524,608	152	178,595	85	52	68	574,742	0.9128	0.6020	0.3107
Special Rate	254,900	256,860	352,330	137	95,470	77	37	47	200,511	1.7572	1.2810	0.4761
Library Rate	48,569	49,085	52,427	107	3,342	60	7	9	28,728	1.8249	1.7086	0.1163
Total	1,363,534	1,405,285	1,712,281	122	306,996	68	22	28	1,038,641	1.6486	1.3530	0.2956
Penalty	0	0	0						297,820			
Free-For-The-Blind	31,429	31,757	0		(31,757)				56,390	0.0000	0.5632	(0.5632)
Total Domestic Mail	31,712,409	31,824,788	57,619,286	181	25,794,498	101	81	103	193,380,732	0.2980	0.1646	0.1334
Special Services	1,209,459	1,284,854	2,049,806	160	764,752	89	60	76				
International Mail	1,193,999	1,208,030	1,843,844	138	437,814	78	36	46	1,006,682	1.6329	1.1980	0.4349
Other Costs	155,139	170,322			(170,322)				0			
Other Income			217,242		217,242				0			
Total Rev & Attrib Costs	34,271,006	34,485,994	61,529,978	178	27,043,984	100	78	100	194,387,414			
Institutional Costs		26,883,278			(26,883,278)							
Prior Year Loss Recovery		446,933			(446,933)							
Continuing Appropriations			67,498		67,498							
Investment Income			54,371		54,371							
Grand Total	34,271,006	61,616,205	61,651,847		35,642							

(Revised (2/11/98))

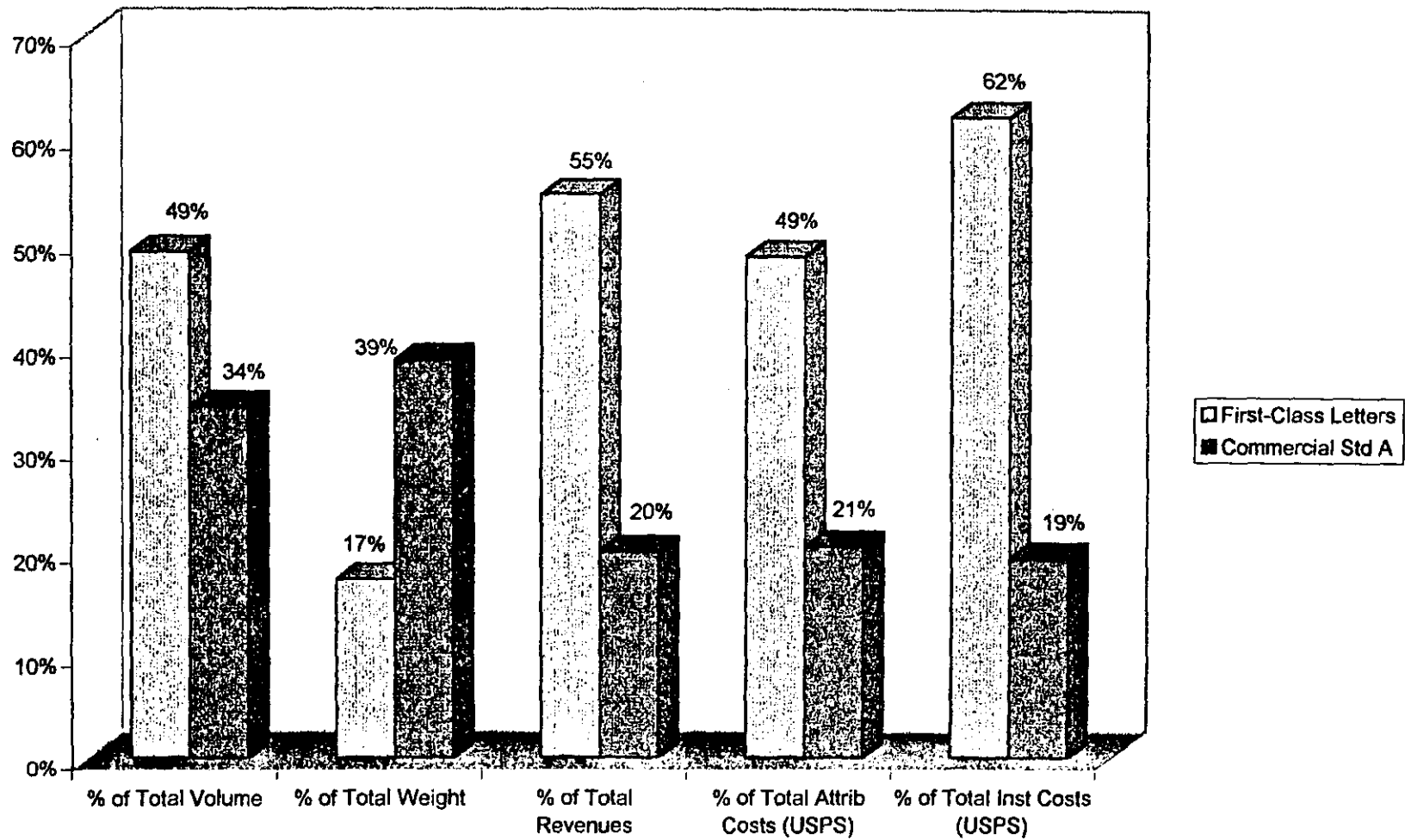
Comparison of Selected TY AR First-Class and Commercial Standard A Data
(Millions)

Exhibit MMA-1C
Page 1 of 5

	(1)	(2)	(3)	(4)	
			First-Class and Standard Mail A		
TY AR Data	First-Class Letters	Commercial Std A	Total	Total All Mail	Source
1 Volume (Pieces)	95,551	66,314	161,865	194,387	Exhibit USPS30G (Rev. 8/22/97)
2 % of Total Volume	49%	34%			
3 Weight (Pounds)	4,075	9,095	13,170	23,489	Exhibit USPS15J, pp. 15,
4 % of Total Weight	17%	39%			
5 Revenues	\$33,615	\$12,326	\$45,941	\$61,530	Exhibit USPS-30B (Rev. 9/19/97)
6 % of Total Revenues	55%	20%			
7 Attributable Costs (USPS)	\$16,806	\$7,077	\$23,883	\$34,486	Exhibit USPS-30B (Rev. 9/19/97)
8 % of Total Attrib Costs (USPS)	49%	21%			
9 Attributable Costs (PRC)	\$20,250	\$7,780	\$28,030	\$39,597	Exhibit PRC-30B (Rev.10/23/97)
10 % of Total Attrib Costs (PRC)	51%	20%			
11 Institutional Costs (USPS)	\$16,809	\$5,249	\$22,058	\$27,044	Line 5 - Line 7
12 % of Total Inst Costs (USPS)	62%	19%			
13 Institutional Costs (PRC)	\$13,365	\$4,546	\$17,911	\$21,933	Line 5 - Line 9
14 % of Total Inst Costs (PRC)	61%	21%			
15 Unit Revenue	\$.35	\$.19	\$.28	\$.32	Line 5 / Line 1
16 Unit Attributable Cost (USPS)	\$.18	\$.11	\$.15	\$.18	Line 7 / Line 1
17 Unit Attributable Cost (PRC)	\$.21	\$.12	\$.17	\$.20	Line 9 / Line 1
18 Unit Contrib to Inst Costs (USPS)	\$.18	\$.08	\$.14	\$.14	Line 11 / Line 1
19 Unit Contrib to Inst Costs (PRC)	\$.14	\$.07	\$.11	\$.11	Line 13 / Line 1
TY AR Data	First-Class Letters	Commercial Std A	First + Standard	All Mail	
20 Volume (Pieces)	95,551	66,314	161,865	194,387	Exhibit USPS30G (Rev. 8/22/97)
21 Revenues	\$33,615	\$12,326	\$45,941	\$61,530	Exhibit USPS-30B (Rev. 9/19/97)
22 Attributable Costs (USPS)	\$16,806	\$7,077	\$23,883	\$34,486	Exhibit USPS-30B (Rev. 9/19/97)
23 Attributable Costs (PRC)	\$20,250	\$7,780	\$28,030	\$39,597	Exhibit PRC-30B (Rev.10/23/97)
24 Unit Revenues	\$.35	\$.19	\$.28	\$.32	Line 21 / Line 20
25 Unit Attributable Costs (USPS)	\$.18	\$.11	\$.15	\$.18	Line 22 / Line 20
26 Unit Attributable Costs (PRC)	\$.21	\$.12	\$.17	\$.20	Line 23 / Line 20
27 Unit Contrib to Inst Costs (USPS)	\$.18	\$.08	\$.14	\$.14	Line 24 - Line 25
28 Unit Contrib to Inst Costs (PRC)	\$.14	\$.07	\$.11	\$.11	Line 24 - Line 26

**Comparison of First-Class and Commercial Standard A Using USPS Cost Methodology
(Docket No. R97-1, TY AR)**

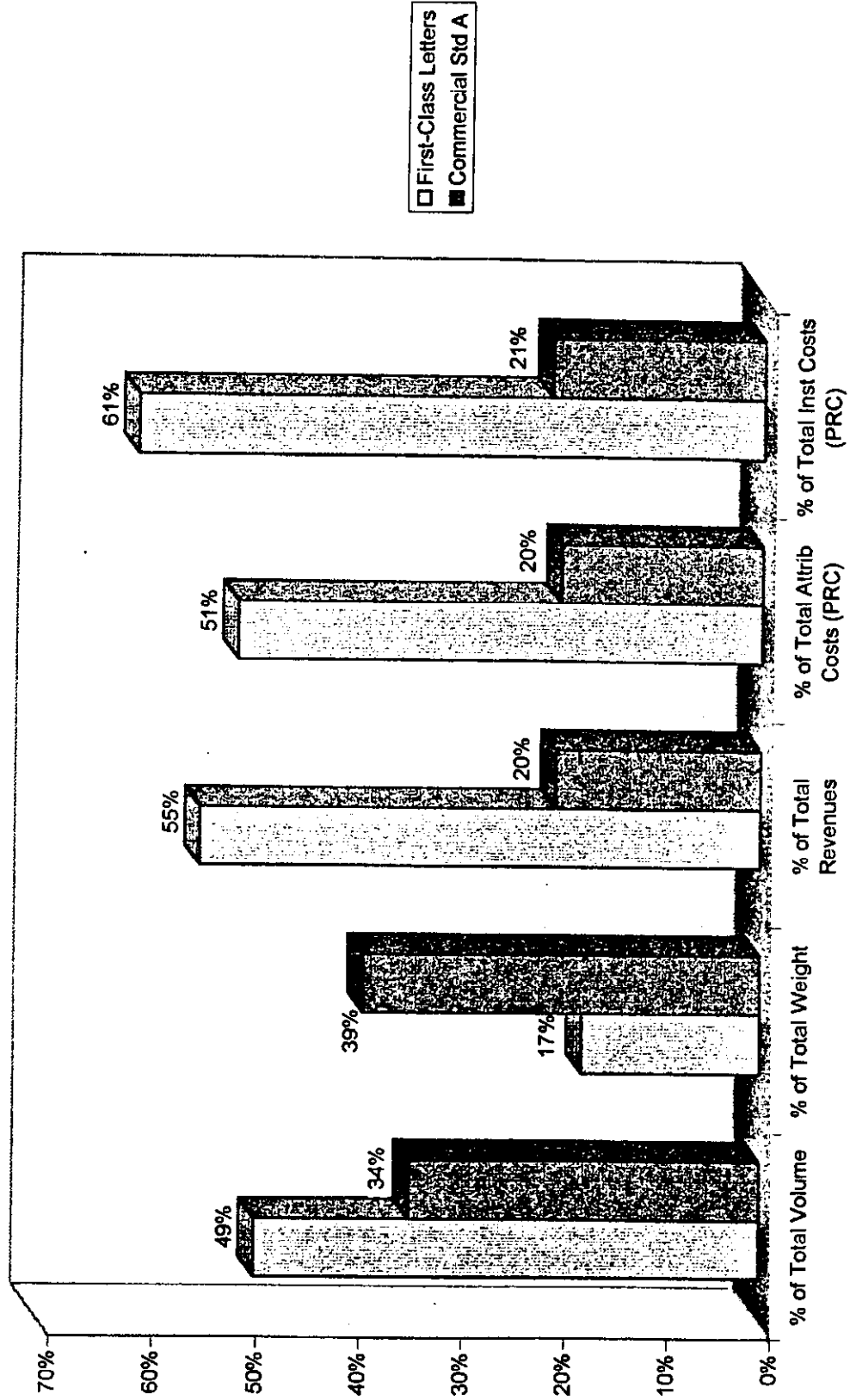
Exhibit MMA-1C
Page 2 of 5
Revised (2/11/98)



(Original Filed In Color)

Comparison of First-Class and Commercial Standard A Using PRC Cost Methodology
(Docket No. R97-1, TY AR)

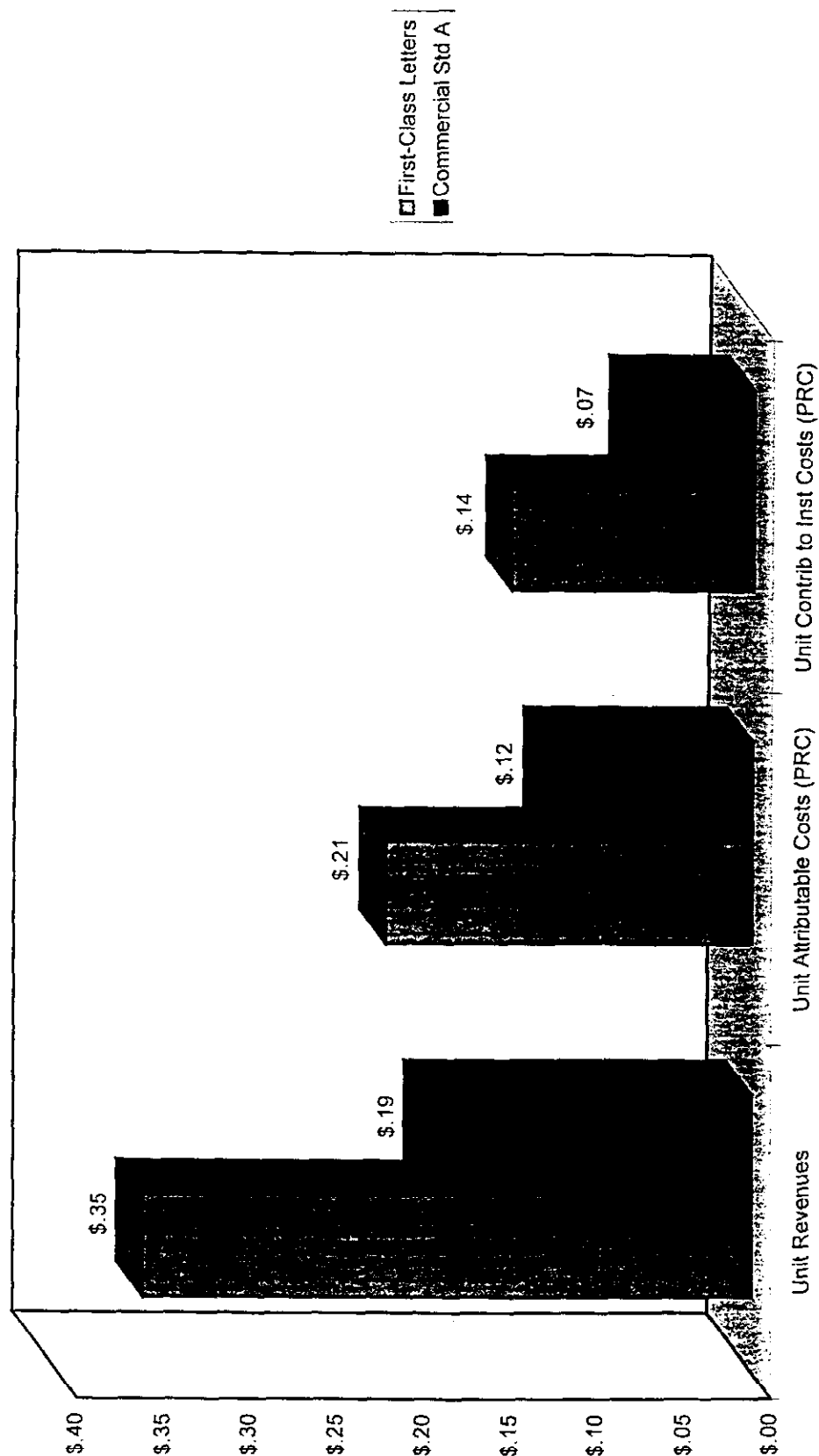
Exhibit MMA-1C
Page 3 of 5
(Revised 2/11/98)



(Original Filed In Color)

Comparison of First-Class and Commercial Standard A Unit Revenues, Costs and Contributions to Institutional Costs Using PRC Cost Methodology
(Docket No. R97-1, TY AR)

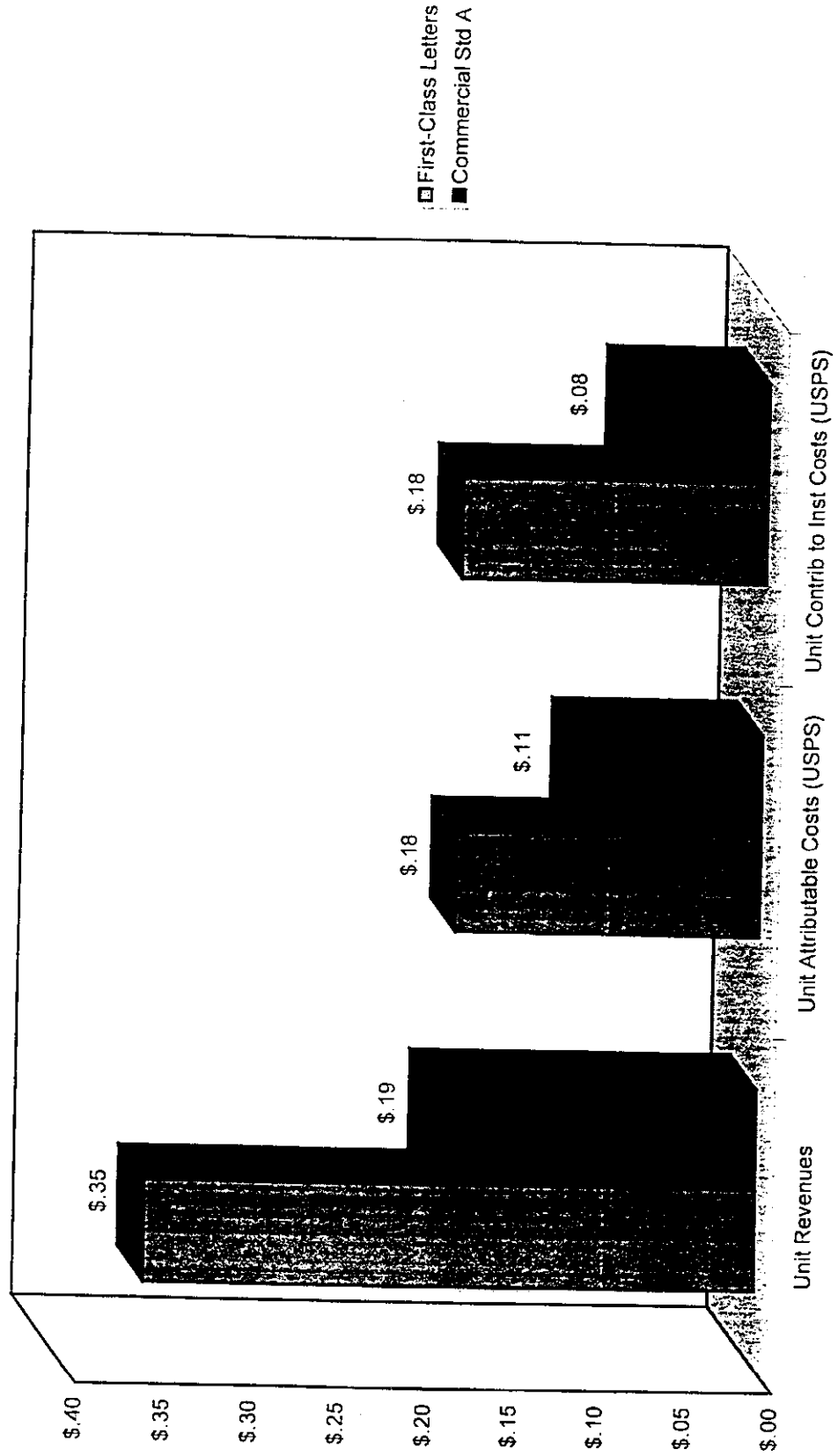
Exhibit MMA-1C
Page 4 of 5



(Original Filed In Color)

Comparison of First-Class and Commercial Standard A Unit Revenues, Costs and Contributions to Institutional Costs Using USPS Cost Methodology
(Docket No. R97-1, TY AR)

Exhibit MMA-1C
Page 5 of 5



(Original Filed In Color)

Distribution of First-Class Letters for TYAR 1998
(Millions)

Exhibit MMA-1D
Page 1 of 1

<u>First Class</u>	<u>Volumes By Ounce Increment</u>											<u>Total</u>	<u>Total</u>	<u>% Add'l</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>Add'l Oz.</u>	<u>Volume</u>	<u>Ounces</u>
<u>Letters</u>														
Nonpresorted	46,895	1,779	290	78	24	9	4	2	1	0	1	2,785	49,082	6%
Presorted	4,375	110	27	4	1	0	0	0	0	0	0	181	4,516	4%
Automated	33,989	626	60	1	0	0	0	0	0	0	0	748	34,676	2%
Carrier Route	1,171	42	4	0	0	0	0	0	0	0	0	51	1,217	4%
Total	86,430	2,558	381	82	25	9	4	2	1	0	1	3,765	89,492	4%
<u>Non-Letters</u>														
Nonpresorted	598	1,531	1,029	647	453	319	235	184	146	107	82	14,585	5,331	274%
Presorted	114	81	88	30	7	6	4	3	3	2	0	499	339	147%
Automated	4	145	68	29	15	8	5	6	4	2	0	585	285	205%
Total	716	1,757	1,185	705	475	333	244	193	152	112	82	15,668	5,954	263%
Grand Total	87,145	4,315	1,566	787	500	342	249	195	153	112	82	19,433	95,447	20%

Source: MMA-1 W/P III, p. 5

Conclusion: Postal revenues will decrease by \$25.58 million per penny reduction in the second ounce rate for First-Class letter-shaped pieces.

Comparison of Processing Unit Costs Under
the USPS and PRC Cost Methodologies
(Cents)

Exhibit MMA-1E
Page 1 of 3

	(1) USPS (<u><100% Var</u>)	(2) USPS (<u>100% Var</u>)	(3) % Change (3) vs. (1) (3) / (1) - 1	
<u>First-Class Letters</u>				
Bulk Metered Benchmark	10.58	13.16	1/ 24%	
Automation Basic Presort	5.31	6.44	21%	
Automation 3-Digit Presort	4.55	5.44	20%	
Automation 5-Digit Presort	3.03	3.43	13%	
Carrier Route	2.29	2.24	-2%	
	(4) Unit Del Cost (<u>100% Var</u>)	(5) Proc + Del USPS (<u><100% Var</u>)	(6) Proc + Del USPS (<u>100% Var</u>)	(7) Proc + Del % Change (6) vs. (5) (6) / (5) - 1
<u>First-Class Letters</u>				
Bulk Metered Benchmark	4.146	14.73	17.31	18%
Automation Basic Presort	3.711	9.02	10.15	12%
Automation 3-Digit Presort	3.652	8.20	9.09	11%
Automation 5-Digit Presort	3.573	6.60	7.00	6%
Carrier Route	4.126	6.42	6.37	-1%

Col (1) USPS-T29C, p. 1 (Revised 10/1/97)

Col (2) Response to MMA/USPS-T25-1, Attachment I, (Revised 11/25/97)

Col (4) Exhibit USPS-T29, p. 1 (Revised 10/1/97)

1/ Response to MMA/USPS-FU-7

Comparison of Unit Cost Savings Under the USPS
and PRC Cost Methodologies

Exhibit MMA-1E
Page 2 of 3

	(1)	(2)	(3)	(4)	(5)
	Unit Cost Savings	Unit Cost Savings	USPS Unit Cost Cost Savings	USPS % Under- Estimate of Cost Savings	TY BY Volume
<u>First-Class Letters</u>	<u>USPS Method</u>	<u>PRC Method</u>	<u>Underestimate</u>	<u>(1) / (2) - 1</u>	<u>(Million)</u>
			(1) - (2)		
Automation Basic Presort	5.70	7.16	(1.5)	-20%	4,285
Automation 3-Digit Presort	6.53	8.22	(1.7)	-21%	20,643
Automation 5-Digit Presort	8.13	10.31	(2.2)	-21%	9,375
Carrier Route	8.31	10.94	(2.6)	-24%	1,553
Weighted Average				-21%	35,855

Comparison of % Pass Through Under Current and USPS Proposed Rates

	(6)	(7)	(8)	(9)	(10)
	<u>Current</u>	USPS Proposed	Potential Discount	Current %	USPS Proposed
<u>First-Class Letters</u>	<u>Discount</u>	<u>Discount</u>	100% Pass <u>Through</u>	Pass <u>Through</u>	% Pass <u>Through</u>
			Col (2)	(6) / (8)	(7) / (8)
Automation Basic Presort	5.9	5.5	7.2	82.42%	76.84%
Automation 3-Digit Presort	6.6	6.5	8.2	80.33%	79.11%
Automation 5-Digit Presort	8.2	8.1	10.3	79.57%	78.60%
Carrier Route	9.0	8.4	10.9	82.27%	76.78%
Weighted Average				80.46%	78.60%

Comparison of % Pass Through Under Current Rates and Derived Cost Savings
Under the Commission's Methodology
(Cents)

	(11)	(12)	(13)	(14)	(15)
	Current	Current %	Current	Unit Cost	
<u>First-Class Letters</u>	<u>Discount</u>	<u>Pass</u>	Cost	Savings	Increase in
		<u>Through</u>	<u>Savings</u>	<u>PRC Method</u>	<u>Savings</u>
			(11) / (12)	Col (2)	(14) - (13)
Automation Basic Presort	5.9	77.9%	7.6	7.0	(0.6)
Automation 3-Digit Presort	6.6	100.8%	6.5	8.1	1.5
Automation 5-Digit Presort	8.2	99.6%	8.2	10.2	2.0
Carrier Route	9.0	94.1%	9.6	10.8	1.3
Weighted Average		97%			

Cols (1), (2) Unit (labor + delivery) cost for each rate category subtracted from
the bulk meter benchmark, see p. 1.

Col (5) Exhibit USPS-25A, p. 2 and USPS-T-32, Workpaper I, p. 5

Col (12) PRC Opinion, Docket No. MC95-1, p. V-22

Impact of MMA's Proposed .2-Cent Increase
In First-Class Automation Discounts

Exhibit MMA-1E
Page 3 of 3

	(1)	(2)	(3)
<u>First-Class Letters</u>	<u>TY AR</u> <u>Volume</u> (Million)	<u>Proposed</u> <u>Discount</u> <u>Increase</u> (Cent)	<u>Revenue</u> <u>Reduction</u> (Million) (1) x (2)
Automation Basic Presort	4.308	.2	\$8.616
Automation 3-Digit Presort	20.879	.2	\$41.758
Automation 5-Digit Presort	9.488	.2	\$18.976
Carrier Route	1.127	.2	\$2.254
Total			\$71.604

Derivation of Percent Pass Through Using MMA Proposed Discounts

	(4)	(5)	(6)	(7)
<u>First-Class Letters</u>	<u>Unit Cost</u> <u>Savings</u> <u>PRC Method</u>	<u>MMA</u> <u>Proposed</u> <u>Discount</u>	<u>% Pass</u> <u>Through</u> (5) / (4)	<u>Volume</u> <u>TYBR</u> (Million)
Automation Basic Presort	7.16	5.7	79.63%	4,285
Automation 3-Digit Presort	8.22	6.7	81.54%	20,643
Automation 5-Digit Presort	10.31	8.3	80.54%	9,375
Carrier Route	10.94	8.6	78.61%	1,553
Weighted Average			80.92%	35,855

Col (1) USPS-T-32, Workpaper I, p. 5

Col (5) Col (7) of page 2 + Col (2)

Col (7) Exhibit USPS-25A, p. 2 and USPS-T-32, Workpaper I, p. 5

1 CHAIRMAN GLEIMAN: Mr. Bentley, you had indicated
2 that there were corrections in this packet of designated
3 written cross examination.

4 With those three changes in mind, if the questions
5 were asked of you today, would your answers be the same as
6 those you previously provided in writing?

7 THE WITNESS: Yes, they would.

8 CHAIRMAN GLEIMAN: That being the case, I am going
9 to provide the two copies of the corrected designated
10 written cross examination to the reporter and direct that
11 they be accepted into evidence and transcribed into the
12 record at this point.

13 [Designation of Written
14 Cross-Examination of Richard E.
15 Bentley, MMA-T-1, was received into
16 evidence and transcribed into the
17 record.]

18
19
20
21
22
23
24
25

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 1997

Docket No. R97-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF MAJOR MAILERS ASSOCIATION
WITNESS RICHARD E. BENTLEY
(MMA-T1)

Party

Interrogatories

Advertising Mail Marketing Association

AMMA/MMA-T1-1
USPS/MMA-T1-1-7, 11, 13

American Bankers Association, Edison
Electric Institute, and National
Association of Presort Mailers

ABA,EEI&NAPM/MMA-T1-1

Office of the Consumer Advocate

AMMA/MMA-T1-1-3
USPS/MMA-T1-1-5
VP-CW/MMA-T1-1a, 1b, 2, 5

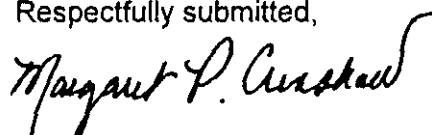
United States Postal Service

AMMA/MMA-T1-1-3
USPS/MMA-T1-1-12
VP-CW/MMA-T1-1-5

Val-Pak Direct Marketing Services,
Val-Pak Dealers Association, and Carol
Wright

VP-CW/MMA-T1-1-5

Respectfully submitted,



Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
MAJOR MAILERS ASSOCIATION
WITNESS RICHARD E. BENTLEY (T1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:

ABA,EEI&NAPM/MMA-T1-1
AMMA/MMA-T1-1
AMMA/MMA-T1-2
AMMA/MMA-T1-3
USPS/MMA-T1-1
USPS/MMA-T1-2
USPS/MMA-T1-3
USPS/MMA-T1-4
USPS/MMA-T1-5
USPS/MMA-T1-6
USPS/MMA-T1-7
USPS/MMA-T1-8
USPS/MMA-T1-9
USPS/MMA-T1-10
USPS/MMA-T1-11
USPS/MMA-T1-12
USPS/MMA-T1-13
VP-CW/MMA-T1-1
VP-CW/MMA-T1-1a
VP-CW/MMA-T1-1b
VP-CW/MMA-T1-2
VP-CW/MMA-T1-3
VP-CW/MMA-T1-4
VP-CW/MMA-T1-5

Designating Parties:

ABA,EEI&NAPM
AMMA, OCA, USPS
OCA, USPS
OCA, USPS
AMMA, OCA, USPS
AMMA, OCA, USPS
AMMA, OCA, USPS
AMMA, OCA, USPS
AMMA, OCA, USPS
AMMA, USPS
AMMA, USPS
USPS
USPS
USPS
AMMA, USPS
USPS
AMMA
USPS, VP-CW
OCA
OCA
OCA, USPS, VP-CW
USPS, VP-CW
USPS, VP-CW
OCA, USPS, VP-CW

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.

Table 1 <u>Reduced Revenues Associated With Bentley</u> <u>Preferences/Proposals</u>		
<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.

Table 1 <u>Reduced Revenues Associated With Bentley</u> <u>Preferences/Proposals</u>		
<u>Preference/Proposal</u>	<u>Testimony Reference</u>	<u>Revenue Reduction (Million)</u>
(1)	(2)	(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

- 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 <u>Through</u> (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.

Major Mailers Association Witness Richard E. Bentley
Answers to ABA/EEI/NAPM Interrogatories

ABA/EEI/NAPM-T1-1. At page 13, line 14 of your testimony for Major Mailers Association (MMA-T-1) you propose that the Commission recommend discounts that are "at least" 0.2¢ higher than those proposed by the USPS for the following FCLM rate categories: Automation Basic Presort; Automation 3-Digit Presort; Automation 5-Digit Presort; and Carrier Route. With respect to such proposal, please confirm the following:

- a. That your proposed discounts for the above-referenced FCLM rate categories are a floor, and that discounts significantly more than 0.2¢ above that being proposed by the USPS for such rate categories can be justified by the unit cost savings of such FCLM rate categories under the "PRC Method" shown in Table 5 at page 10 of your testimony.

RESPONSE:

Confirmed. The unit cost savings as shown in Table 5 of my testimony follow the Postal Service's procedures except that it reflects the Commission's cost attribution methodology utilized to support its Opinion in the last major rate case (Docket No. R94-1), rather than the Postal Service's newly proposed cost methodology.

Had I further corrected these figures to reflect additional presort cost savings that the Postal Service omitted from its procedures, I would have shown that the Postal Service's estimated unit cost savings were further understated by at least an additional penny. Please see my response to USPS/MMA-T1-6(b).

Major Mailers Association Witness Richard E. Bentley
Answers to ABA/EEI/NAPM Interrogatories

ABA&EEI&NAPM/MMA-T1-1. At page 13, line 14 of your testimony for Major Mailers Association (MMA-T-1) you propose that the Commission recommend discounts that are "at least" 0.2c higher than those proposed by the USPS for the following FCLM rate categories: Automation Basic Presort; Automation 3-Digit Presort; Automation 5-Digit Presort; and Carrier Route. With respect to such proposal, please confirm the following:

b. If the Commission recommends a 33c rate for the basic First-Class stamp, instead of maintaining the current 32c rate, it would be even more appropriate for the Commission to recommend discounts for the above-reference FCLM rate categories substantially in excess of 0.2c higher than that proposed by the USPS.

RESPONSE:

Confirmed. My proposal to raise the Service's proposed First-Class Automation discounts by at least .2c is appropriate no matter what First-Class stamp is recommended by the Commission. However, since the Commission must evaluate the revenue requirement for First-Class single piece and presorted combined, it is more appropriate to lower any or all of the other First-Class rate categories under a 33-cent stamp than under a 32-cent stamp. These other rate categories include the presorted First-Class 1-ounce rates and the additional ounce rates.

If the Commission recommends a 33-cent stamp, then in order to better comply with the its First-Class rate objectives of reducing the First-Class revenue requirement, it is more appropriate for the Commission to lower either First-Class presorted rates or additional ounce rates, or both.

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

USPS/MMA-T1-1. Please refer to page 4 of your testimony, lines 20 and 24, where, among many other places in your testimony, you discuss the Postal Service's proposed new "costing Methodology." By "costing methodology," are you referring to the proposed new treatment of mail processing costs, or the combined effect of all proposed costing changes in all cost segments, or something else? Does it mean the same thing throughout your testimony? Please explain fully.

RESPONSE:

The Postal Service's proposed new costing methodology varies from the Commission's established methodology in many ways. The most important differences concern the attribution of direct labor costs and delivery costs. See MMA-1A W/P V for a segment by segment comparison for base year 1996.

With respect to base and test year costs (MMA-T-1, pages 2 -7, 15), my analysis of the Service's new costing methodology is limited to the combined effect of all proposed methodological changes. With respect to the measurement of First-Class Automated cost savings (MMA-T-1, pages 9 - 10), my reference to the Postal Service's cost methodology pertains more specifically to its proposed treatment of mail processing and delivery (labor) costs.

With respect to cost reduction attributes omitted from the Service's mail flow/cost models (MMA-T-1, pages 16 -18) and two-ounce letters (MMA-T-1, pages 18 - 20), my analyses pertain to either the Postal Service's or Commission's cost methodologies.

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

USPS/MMA-T1-2. Please refer to the statement on page 4 of your testimony that "The Service's Methodology is designed to Mask the Service's Failure to Relieve First-Class Mail of an Excessive Share of the Service's Institutional Costs." Please confirm that you have no direct and objective information to refute the fact that each costing change proposed by the Postal Service in this case was designed to improve the accuracy of the cost information available for ratemaking. If you cannot confirm, please provide all direct and objective information necessary to support your statement, and explain fully.

Response

Although it is possible that one of the Service's motivations may have been to improve the accuracy of costing information, I cannot regard it as accidental that the result of the Postal Service's cost methodology tends to "mask" the Service's failure to abide by the Commission's longstanding objective regarding the pricing of First-Class and Commercial Standard A Mail.

Certainly the Service's newly proposed methodology has that result. The Postal Service's new methodology makes it inappropriate to compare markup indices, at the Service's proposed rates, to markup indices that result from previous Commission recommendations. Thus, a review of the Service's test year finances at proposed rates provides no clear indication of whether or not the Commission's goal has been met.

A comparison of markup indices using the Commission's cost methodology indicates that the markup indices are, in fact, not "roughly equivalent" (See Docket No. MC95-1 Op., page I-8). The Service's proposed markup indices for First-Class and Commercial Standard Mail A are 119 and 106, respectively. (See

Exhibit MMA-1A) Therefore, one result of the Service's proposed cost methodology changes is to "mask the Service's failure to relieve First-Class mail of an excessive share of the Service's institutional costs."

My view that this result is not accidental takes account of the Service's insistence, in case after case, to deviate from the Commission's established costing methodology and its reluctance, also in case after case, to disclose the results of its rate proposals as measured by the Commission's methodology. Thus, in Docket No. R94-1, the Service proposed "departures from the cost attribution methods and pricing principles used by the Commission in the previous omnibus rate case" (POR No. R94-1/38, pages 1-2). When MMA filed interrogatories asking the Service to provide information showing the effect of those departures, using the Commission's established methodology, the Service refused to do so. Even after the Commission directed the Service to provide that information (POR No. R94-1/18), the Service declined to comply, causing the Commission to provide that information itself in the form of a library reference (POR No. R94-1/38). And when I relied upon that library reference in my testimony, the Postal Service attempted to strike my testimony (POR R94-1/63).

This scenario was repeated in Docket No. MC96-3. There, once again, the Service's filing "departed from the attribution methodologies utilized by the Commission..." and the Commission "directed" the Service "to submit cost presentations that reflect the Commission's...attribution methodology" (Docket No. MC96-3, Order No. 1120, pages 1-2). The Commission rebuffed an attempt by the Service to escape that requirement (Id., Order No. 1126), but the Service

"announced that it will not respond...to [these] two lawful orders of the Commission" (Id., Order No. 1134, page 1). Once again, the Commission sought to make up the gap in the record by providing a library reference that employed the Commission's methodology but, when I used this information in my testimony, the Service sought to strike my testimony. (See Id., Order No. 1143).

The Service's practice was repeated in this proceeding. The Service's proposals in this case seek to substitute new costing methodologies for the Commission's established procedures. Again, the Service refused to answer MMA's interrogatories seeking information regarding the effect of the Service's proposal as measured by the Commission's established methodology. The Commission issued a strongly-worded Order requiring the Service to provide that information (Order 1197). Only then did the Service provide such information, beginning in October, over three months after the proceeding began.

This sequence of events fortifies my testimony to which this Interrogatory USPS/MMA-T1-2 is addressed.

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

USPS/MMA-T1-3. Please refer to your statement on page 4 of your testimony that the "Postal Service's costing methodology tends to hinder monitoring of the Service's continued overburdening of First-Class Mail," and your statement on page 6 that "the Service's new methodology would obscure use of the Commission's yardsticks to measure how the Service's current proposal compares with past cases - resulting in a comparison of apples to oranges."

a. Please confirm that it is no more difficult to compute cost coverages, markups, unit contributions, or total dollar contributions under the Postal Service's proposals in this case than it would be under any other costing methodologies, including those employed by the Commission in Docket No. R94-1. If you cannot confirm, please explain fully.

RESPONSE:

Not confirmed. In order to compute cost coverages, markups, unit contributions, or total dollar contributions, it is first necessary to know the test year after rate attributable costs for each subclass and service. The attributable costs by subclass under the Commission's methodology were not available until the Postal Service responded to MMA's motion to compel in late October of 1997. This data was received more than three months after the Service's rate request was filed. Please see my testimony, MMA-T-1, pages 3-4. Prior to then, it was extremely difficult to compute cost coverages, markups, unit contributions, or total dollar contributions under the Commission's Docket No. R94-1 cost methodology.

I am also not clear as to whether this Interrogatory question relates to a computation made within the confines of one case only, or whether it relates to evaluating that computation of benchmarks as between one case and its

predecessors. Of course, within the confines of any one case, considered in isolation, once the revenues, volumes and attributable costs for each subclass and service are known, it is no more difficult to compute cost coverages, markups, unit contributions, or total dollar contributions under the Postal Service's proposals in this case than it would be under any other costing methodologies. But such a computation has only limited value if it cannot be compared with the benchmarks computed in other cases. By proposing to change the methodology for computing these benchmarks, the Service has limited their value since they cannot be compared squarely with the benchmarks used in past cases. Indeed, as I testified (MMA-T-1, page 6), Dr. O'Hara recognized that problem by proposing that the Commission discontinue its traditional markup index yardstick.

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

USPS/MMA-T1-3. Please refer to your statement on page 4 of your testimony that the "Postal Service's costing methodology tends to hinder monitoring of the Service's continued overburdening of First-Class Mail," and your statement on page 6 that "the Service's new methodology would obscure use of the Commission's yardsticks to measure how the Service's current proposal compares with past cases - resulting in a comparison of apples to oranges."

b. Please confirm that, as explained by Dr. O'Hara in the testimony you cite, it is inherent limitations in the markup index concept itself (when applied in the instance of material costing changes) that can create difficulties in making valid comparisons between present and past cases, and that there is nothing specific to the Postal Service's new costing methodologies which creates these difficulties (other than that their combined effects constitute material costing changes). If you cannot confirm, please explain why.

RESPONSE:

Not confirmed. I do not agree that the markup index concept itself has "inherent limitations." Almost all comparisons over time, not just markup indices, will experience difficulties when significant cost methodological changes are instituted. For this reason, the Commission has been correct in requesting the Postal Service to provide a test year finances presentation, using the Commission's established cost methodology, in Docket Nos. R94-1, MC95-1, MC96-3 and the instant proceeding. See my answer to Interrogatory USPS/MMA-T1-2.

This question highlights the primary reason of why the Postal Service should meet the requirements of amended Rule 54 at the time of a rate filing in the future. It also suggests why the Commission should consider disallowing cost methodology changes during rate cases so that the parties and Commission

can focus solely on the reason for the proceeding—the changing of postal rates.

Certainly, this would greatly simplify the current proceeding. Perhaps cost methodology changes could and should be considered only in separate rulemaking proceedings.

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

USPS/MMA-T1-4. Please refer to your statement on page 7 of your testimony that the "Service's Methodology Would Decrease Objective Cost-Based Ratemaking in Favor of Subjective Demand-Oriented Judgments," and your statement on page 8 that the "history of subsequent regulation has been dictated by the Commission's struggle to increase the percentage of costs deemed attributable and subject to apportionment by objective costing criteria."

a. Please confirm that the costing process cannot be truly "objective" if any empirical analysis that shows costs to be less volume-variable (and hence less "attributable") than previously assumed is automatically rejected for that reason alone. If you cannot confirm, please explain full.

RESPONSE:

Not confirmed. There are really several related but separate issues that the Commission must consider. The first is the development of direct and indirect costs, as dictated by section 3622(b)(3) of the Postal Reorganization Act. The second is the apportionment of remaining costs as part of the task of ratemaking. The third is the development of specific rates for each rate element. Another issue, of course, is the requirement that the Postal Service "break even" in the test year. I place the words "break even" in quotes since the Postal Service is allowed to make a profit that reflects prior year loss recovery and contingency.

From the ratemaker's point of view, the amount of direct and indirect costs attributable to each subclass and service is a given. Therefore, it is an objective floor or minimum starting point above which all proposed revenue targets must be set. For this reason, I consider the individual levels of attributable costs to be

"objective costing criteria".

My testimony focuses on the results of the Postal Service's proposed costing methodology. Other witnesses have criticized technical merits or flaws in the Service's presentation, and I have not evaluated their criticisms.

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

USPS/MMA-T1-4. Please refer to your statement on page 7 of your testimony that the "Service's Methodology Would Decrease Objective Cost-Based Ratemaking in Favor of Subjective Demand-Oriented Judgments," and your statement on page 8 that the "history of subsequent regulation has been dictated by the Commission's struggle to increase the percentage of costs deemed attributable and subject to apportionment by objective costing criteria."

b. Please confirm that an a priori desire to either increase or decrease "the percentage of costs deemed attributable" would constitute a bias that is inconsistent with objective ratemaking. If you cannot confirm, please explain fully.

RESPONSE:

Not confirmed. The Postal Rate Commission provides a forum for postal ratemaking because of the subjectivity permitted in the allocation of institutional costs and, as is now abundantly apparent, the derivation of attributable costs as well.

The first goal of the Postal Service (and Commission) is to develop a cost system that attributes direct and indirect costs to all subclasses and services as accurately as possible. If all things are equal, it is better to attribute a pot of costs than not to. A separate but related goal of the Postal Service (and Commission) should be to attribute as high a percentage of costs as is reasonably possible. This makes the task of developing revenue targets less reliant on subjective ratemaking criteria and reduces the risk of offering rates that are unduly discriminatory and result in cross subsidization.

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

USPS/MMA-T1-5. Please refer to your statement on page 9 of your testimony that "[g]iven the Service's propensity to overload First-Class Mail with an excessive share of institutional costs, the Commission should be wary of increasing the Service's discretionary powers."

a. In the context of the allocation of shares of institutional costs, please identify the "discretionary powers" of the Postal Service that are not subject to the Commission's review.

RESPONSE:

In my testimony, I did not state that the Commission lacked power to review the Service's discretion over the assignment of institutional costs. Although I am not an attorney, it is my understanding that after the Postal Service files its proposed rate changes, the entire rate filing is subject to the Commission's review. There is, however, a significant difference in the Commission's ability to review the Service's apportionment of attributable costs, on the one hand, and the Service's assignment of institutional (or "overhead") costs, on the other. As I said in answering Interrogatory USPS/MMA-T1-4, the apportionment of attributable costs is a process that facilitates the use of objective costing criteria and, therefore, the Commission's review is relatively straightforward. In contrast, the Service prefers to assign overhead costs by demand-related "pricing" considerations, which is, I believe, a much more subjective process and a process that is more difficult for the Commission to review by objective criteria.

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

USPS/MMA-T1-5. Please refer to your statement on page 9 of your testimony that "[g]iven the Service's propensity to overload First-Class Mail with an excessive share of institutional costs, the Commission should be wary of increasing the Service's discretionary powers."

b. In your opinion, are the current (i.e., Docket No. R94-1) shares of institutional costs the product of the Postal Service's exercise of discretion, or the Commission's exercise of discretion? Please explain fully.

RESPONSE:

I think the answer is both. No case is decided in a vacuum and is dependent upon the current rates at the time of filing and all previous Commission Opinions and Board of Governor Decisions. Specifically, in Docket No. R94-1 the Commission stated its desire to consider a lower First-Class stamp. But it was unable to do so because of the rate shock that would be experienced by other subclasses, in order for the Service to meet its break-even mandate. Instead, it chose to compromise in a way that it found "appropriate in view of the extraordinary considerations in operation here." (Docket No. R94-1, p. IV-16)

As the major player, the Postal Service plays a significant part in the Commission's ratemaking role. Indeed, the Commission's concern about rate shock is the product of a long series of rate actions by the Service that the Commission has accepted with some distaste for the consequences for First-Class Mail. Note the following Commission's 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

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)

In Docket No. MC95-1 the Commission re-classified Commercial Standard Mail into two separate subclasses. In doing so it re-iterated its "view that the largest volume subclasses in First-Class and Standard Mail should have roughly equivalent markup indices". (Docket No. MC95-1, p. I-8)

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

USPS/MMA-T1-5. Please refer to your statement on page 9 of your testimony that "[g]iven the Service's propensity to overload First-Class Mail with an excessive share of institutional costs, the Commission should be wary of increasing the Service's discretionary powers."

c. Is it your testimony that the Commission would be justified in employing something other than the very best available measures of subclass costs in order to further particular pricing (i.e., the allocation of institutional costs) objectives? Please explain your answer fully.

RESPONSE:

The Commission should employ the very best available measures of direct and indirect costs in order to support its pricing recommendations to the Board of Governors.

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

USPS/MMA-T1-6. Please refer to Section III.C on pages 9-10 of your testimony, where you state that:

Another flaw in the Service's methodology is that it produces mistaken judgments about costs. ...As compared with the Commission's methodology, the Service's methodology understates the costs that are avoided when First-Class mailers presort and prebarcode their mail... ...When a methodology like the Service's leads to such misleading results, its reliability is questionable for any purpose.

a. Please confirm that the only alleged "flaw" you identify in that section relating to the Postal Service's methodology is that the results it produces are different from those produced by what you refer to as the "Commission's methodology." (In other words, you focus exclusively on the results of the methodology, rather than the actual content of the methodology.) If you cannot confirm, please explain fully.

RESPONSE:

In my testimony, MMA-T-1, page 4, I noted that my reasons for concern about the Service's proposed new methodology were "[i]n addition to technical criticisms made by other parties...." I do agree that the difference in the estimates of presort mail's costs is due to the Postal Service's cost methodology (that assumes that labor costs do not vary 100% with volume), and results in First-Class Automated measured cost savings that are reduced by more than 20%. Both the Commission and the Service have assumed for more than two decades that labor costs vary 100% with volume. I should also point out that the unit cost savings that I present in my testimony were provided to me by the Postal Service. See my response to USPS/MMA-T1-9(d).

If the Postal Service had not failed to include other cost savings attributes, as discussed on pages 16 -18 of my testimony, *MMA-T-1*, the First-Class Automated measured cost savings would be reduced by much more than 20%. These additional cost savings result from reduced move updates, enclosed pre-barcoded reply envelopes, and avoided collection and mail preparation costs.

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

USPS/MMA-T1-6. Please refer to Section III.C on pages 9-10 of your testimony, where you state that:

Another flaw in the Service's methodology is that it produces mistaken judgments about costs. ...As compared with the Commission's methodology, the Service's methodology understates the costs that are avoided when First-Class mailers presort and prebarcode their mail....
...When a methodology like the Service's leads to such misleading results, its reliability is questionable for any purpose.

b. Please confirm that if one knew with certainty that the Postal Service's proposed methodology produced more accurate cost estimates than the "Commission's methodology," it would follow that it is the "Commission's methodology" that produces mistaken judgments about costs, that overstates the avoided costs, and that leads to misleading results. If you cannot confirm, please explain fully.

RESPONSE:

I cannot make the assumption "with certainty" that the Postal Service's methodology produces cost estimates that are more accurate than the Commission's methodology. As discussed in my testimony on pages 16 – 18 of MMA-T-1, the Postal Service's methodology for measuring First-Class Automation cost savings is very questionable since it fails to include additional First-Class Automation cost savings attributes. See also my answer to part a of this interrogatory. Had I been led to believe that the Postal Service's proposed methodology for attributing labor costs is more accurate *with 100% certainty* than the Commission's methodology for attributing labor costs, I would have attempted to include those additional cost savings attributes in my analysis of First-Class Automated cost savings.

ABA/EEI/NAPM witness Clifton estimates that the additional unit cost savings

due to the Postal Service's mail flow/cost methodology's omission of move update costs is .262 cents. (ABA-EEI-NAPM-T-1, p. 14) The Postal Service estimates that the MODS cost pool 1CancMPP, which represents culling, facing, and cancellation, is .683 cents. (Attachment to Response to POIR No. 5, Question 19 and response to MMA/USPS-T32-29) Together, these two corrections would increase First-Class Automated unit cost savings, as computed under the Postal Service's cost methodology, by almost one full cent. Under the assumption that labor costs vary 100% with volume, the increase in derived cost savings would probably have been higher.

The impact of including qualified pre-barcoded reply envelopes in Automated mailings is not readily quantifiable. However, as I explained in my testimony (p. 17), the impact is significant enough to explain to the Commission why "bulk metered mail, which is presumably 'clean' mail, is *only* 1.16 cents cheaper to process than non-metered mail which presumably includes handwritten addressed mail."

If the Commission finds that the Postal Service costing methodology is superior to the current established methodology, I would urge the Commission to correct the Postal Service's First-Class Automated letter measured cost savings methodology. I would also be somewhat less conservative than I have already been with the recommended percent pass through of those savings, to reflect the change in assumptions regarding cost variability with volume.

I believe I would also come to similar conclusions regarding my recommendations for changes in the Postal Service's proposed rates for First-Class. First, I would recognize that the resulting cost coverage indices of 112 for First-Class

and 98 for Commercial Standard Mail, under the Service's cost methodology, are too far apart. Similarly, the markup indices of 128 for First-Class and 95 for Standard Mail are also too far apart. These conclusions are apparent when viewed in relation to the resulting markup indices that result using the Commission's methodology. Second, the implicit cost coverage of 283 for First-Class presort letters is too high, compared to all other subclasses. Third, it does not seem fair for presorted First-Class letters to make a larger unit contribution to institutional costs than for single piece First-Class letters. (See Exhibit MMA-1B) All this leads me to the same conclusion that First-Class rates are too high, particularly compared to Commercial Standard Mail A, and that First-Class presorted rates should be lowered.

Therefore, I would still recommend First-Class Automated rates that are at least .2 cents lower than those proposed by the Postal Service and a First-Class second ounce letter rate that is at least one cent lower than the 23 cents proposed by the Postal Service.

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

USPS/MMA-T1-6. Please refer to Section III.C on pages 9-10 of your testimony, where you state that:

Another flaw in the Service's methodology is that it produces mistaken judgments about costs. ...As compared with the Commission's methodology, the Service's methodology understates the costs that are avoided when First-Class mailers presort and prebarcode their mail.... ...When a methodology like the Service's leads to such misleading results, its reliability is questionable for any purpose.

c. Please confirm that you have not presented in your testimony the results of any empirical analysis to counter the empirical analysis offered by the Postal Service's witnesses to support their assertion that the new costing methodologies do present more accurate cost estimates than any previous methodology. If you cannot confirm, please explain fully.

RESPONSE:

I have not analyzed the Postal Service's evidence that labor costs do not vary 100% with volume. I have provided empirical evidence that if labor costs do vary 100% with volume, the Postal Service First-Class Automation mail flow/cost analyses underestimate cost savings by more than 20%. I have also presented evidence that the Postal Service's methodology for estimating cost savings, irrespective of whether labor costs vary 100% with ^{volume} ~~labor~~, understates the true cost savings.

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 be 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 Fronk 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 weight 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.

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):

<u>Ounce Interval</u>	<u>Current Markups: Letters</u>
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

<u>Ounce Categories</u>	<u>Average Weight</u> (Ounces)	<u>Attributable</u> <u>Cost/Piece</u> (\$)
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
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..."

- (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.

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..."

- (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)

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..."

- (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 throughput 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.

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. ²⁶²

RESPONSE:

The unit contributions adopted by the Commission in Docket No. R94-1 for First-Class letters were ²⁶²~~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 GP-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.

1 CHAIRMAN GLEIMAN: Does any party have additional
2 written cross examination for the witness?

3 [No response.]

4 CHAIRMAN GLEIMAN: If not, we'll proceed to oral
5 cross examination, three parties requested oral cross
6 examination of Witness Bentley: the Advertising Mail
7 Marketing Association; Val-Pak Marketing Systems, et al.;
8 and the United States Postal Service.

9 Does any other party wish to cross examine this
10 witness?

11 Unless my eyes deceive me, it appears that only
12 the Postal Service had the stamina to make it to the end of
13 the day today along with, of course, the witness and a few
14 of us other hardy souls here at the Commission and our Court
15 Reporter, so unless I hear an outcry, Mr. Koetting, you can
16 begin your cross examination when you are ready.

17 CROSS-EXAMINATION

18 BY MR. KOETTING:

19 Q Good afternoon, Mr. Bentley.

20 I guess I would like to start on a topic we have
21 heard a bit about today, which is the additional allowance
22 rate, and I would direct your attention, please, to your
23 response to Postal Service Interrogatory 12(c), subpart (c)
24 is probably the best place to go.

25 While we are shuffling paper, if you could -- you

1 might as well also look at page 2 of your Attachment 2 -- I
2 think we will be referring back and forth between those two.

3 MR. LITTELL: What was that page number in
4 Attachment 2?

5 MR. KOETTING: Page 2 in Attachment 2 and
6 specifically we'd just be looking at Table A.

7 MR. LITTELL: Thank you.

8 THE WITNESS: Okay, I have it.

9 BY MR. KOETTING:

10 Q Now as I understand Table A, it is labelled, it
11 has an illustrative example of if the Commission were to
12 use -- to reduce the rate by an illustrative one cent, and
13 the reason you are calling it illustrative is because you
14 are not necessarily proposing one cent.

15 That is an illustration of the kind of change the
16 Commission could make consistent with your approach.

17 A That is correct. Ultimately it could be more than
18 one cent.

19 I am not proposing a fraction of a cent.

20 Q Right, but you haven't proposed one cent, and as
21 you say, it could be more than one cent?

22 A Yes.

23 Q And in our Interrogatory 12 we were trying to get
24 at the additional postage as one adds additional ounces and
25 since your proposal only applies to letters, as I understand

1 it, we can limit our discussion to that as well.

2 In 12(c) in your response, as I understand it, you
3 were making the point when we asked for the third ounce of
4 postage, would our hypothetical mailer, Aunt Minnie, pay an
5 additional 23 cents for the third ounce, and you could not
6 confirm that and as I understand your answer and I am
7 looking now at the third line of your answer, what she pays
8 is 33 cents for the first ounce, 22 cents for the second
9 ounce -- that is assuming the illustrative one cent
10 difference, and then for the third ounce the charge then is
11 24 cents, is that correct?

12 A That's one way of looking at it.

13 The other way of looking at it is of course 33
14 cents for the first ounce, 23 for the second and 23 for the
15 third.

16 Either way you get to the 79 cents.

17 Q And that is the most critical part of the proposal
18 is getting back to the 79 cents, am I correct?

19 A No. The most critical part of the proposal is to
20 lower the second ounce rate.

21 Q Okay, but if for example the Commission were to
22 deviate from your illustrative one cent example and instead
23 use 3 cents, under your approach they would still come back
24 to 79 cents as the total postage for a three ounce letter,
25 is that correct?

1 A That's correct. There's going to be no change in
2 the three ounce rate.

3 Q And so under that scenario, you would go -- and I
4 am looking at the, again the equation so to speak -- there's
5 no equation but the numbers you have added in the third line
6 of your response -- those numbers would be 33 cents for the
7 first ounce and then if it were a three cent difference
8 rather than a once cent difference it would be 20 cents for
9 the second ounce, and then in order to get back to 78 cents,
10 the third ounce would be 26 cents so you would be adding 33
11 plus 20 plus 26 and your total postage would still be 78
12 cents for the three ounce letter, correct?

13 A Except that it is 79 cents.

14 Q I'm sorry, 79 cents.

15 A Yes. It is a function of only or limiting my
16 proposal to two ounces and not changing the three ounce
17 rate.

18 Q So the incremental postage -- in the scenario we
19 just went through -- with the three cent reduction rather
20 than the one cent reduction on that second ounce, the
21 incremental postage for the third ounce would be 26 cents,
22 correct?

23 A Yes. Let me add that I would like to have done
24 the same thing similar to my proposal in the last case,
25 which had the fourth ounce being very expensive compared to

1 the second and the third.

2 I think that is appropriate because about three
3 ounces is where the mail changes and cannot go through the
4 letter sorting machines, but in this case I am being so
5 conservative just by looking at two ounces that the jump
6 happens at three ounces instead of four.

7 Q Let's play with this scenario one more time, if
8 you don't mind, and go from a three cent reduction to a six
9 cent reduction.

10 Under your approach for the third ounce the total
11 postage would still come back to 79 cents, correct?

12 A As I proposed it, that is correct.

13 Q And so you would start with 33 cents for the first
14 ounce and with the six cent reduction you would add 17 cents
15 for the second ounce, correct? 23 minus 6 would be 17?

16 A Yes.

17 Q AND then to come back once again to the 79 cents
18 total postage, at this point for the 29 cents -- I mean for
19 the third ounce you would be adding, the incremental postage
20 would be 29 cents to total back to 79 cents?

21 A Well, as I said, the other way of looking at it is
22 33 cents for the first ounce, 23 and 23 will get you to the
23 79 cents.

24 I think you are just taking something that is
25 simple and making it more complicated than it really is.

1 Q Well, Aunt Minnie is going to be mailing a one
2 ounce letter or a two ounce letter or a three ounce letter
3 and if she is going to be mailing any of those three things
4 she needs to know what the rate is for the first ounce, what
5 her rates would be for her letters that weigh two ounces and
6 what the rate would be for letters that weigh three ounces,
7 wouldn't she?

8 A That's right, she doesn't have to know the
9 incremental weight. She has to know the rate for a one
10 ounce piece, the rate for a two ounce piece and the rate for
11 a three ounce piece.

12 Q And it might not cross her mind to question why
13 the second ounce costs her an additional amount of -- under
14 your proposal -- 22 cents and the third ounce costs her an
15 additional 24 cents?

16 A It might cross her mind. I don't know.

17 Q I would like -- if we could go to page 19 of your
18 testimony. I think we can go over this pretty quickly. In
19 the last paragraph there, you are making some comparisons
20 between Standard A mail and First Class mail, correct?

21 A Yes.

22 Q And I just want to go over and confirm with you
23 some differences in rate design between the two subclasses.
24 In First Class, the mail is charged the same rate regardless
25 of the distance that it is mailed, is that correct?

1 A Yes.

2 Q And Standard A, the mailer can lower the rate by
3 entering the mail close to its destination, is that correct?

4 A I think that is a newly instituted discount from
5 one of the last cases, yes.

6 Q R90, I believe. In First Class, other than the
7 non-standard surcharge for one ounce pieces, non-presorted
8 letter and non-presorted flats pay the same rate, with the
9 same weight, is that correct? In other words, there is no
10 shape differential in First Class, other than the
11 non-standard surcharge for pieces one ounce or less?

12 A A flat and a letter shaped piece will pay the same
13 rate, no matter -- as long as it is under one ounce, and
14 they are -- I'm sorry, there is a non-standard surcharge.

15 Q As long as it is over one ounce, --

16 A Over one ounce --

17 Q -- shape is not, or weight, billing determined?

18 A That is correct.

19 Q And in Standard mail there are different rates for
20 letters and flats, is that correct?

21 A Yes.

22 Q Would you agree that First Class makes greater use
23 of air transportation than Standard A mail?

24 A I am sure that is all built into the cost system,
25 yes.

1 Q And would you agree that weight plays a
2 significant role in determining the cost of the air
3 transportation for a piece of mail?

4 A It probably does, but it does not play a
5 significant role in the entire cost for First Class, First
6 Class letters. I believe I used the figure somewhere along
7 the line it was around 4 percent.

8 Q Okay. Shifting gears here. If you could look at
9 your response to Postal Service Interrogatory No. 1, please.
10 In the second paragraph of your response, you
11 indicate how you are using the term costing methodology
12 somewhat differently in the different parts of your
13 testimony. Actually, I guess both in the second and the
14 third paragraph you are discussing that, correct?

15 A Yes.

16 Q And in that first sentence of the second
17 paragraph, you say that on -- with respect to base and test
18 year costs, and you are referring to pages 2 through 7 of
19 your testimony, as well as page 15, when you are talking
20 about the costing methodology, you are talking about the
21 combined effect of all proposed methodological changes, is
22 that correct?

23 A Yes.

24 Q And in the next sentence, you indicate that you
25 are using the term a little more narrowly, pages 9 through

1 10 of your testimony, correct?

2 A Yes.

3 Q And what I would just like to do is kind of fill
4 in the gap there. We have gone 2 through 7 and 9 through
5 10. There is a section of your testimony that starts on
6 page -- at the bottom of page 7 and runs through the top of
7 page 9. And you might want to take -- take a brief glance
8 at that section of your testimony. My question is, in that
9 section, are you still using the term "costing methodology"
10 to refer to the combined effect of all methodological
11 changes?

12 A Up through my discussion of the presorted
13 discounts. Once we get to the presorted discounts, then I
14 am really just looking at labor and the Postal Service's
15 proposed cost ^{change}~~changing~~ whereby the costs do not vary 100
16 percent with volume, that is labor costs do not vary 100
17 percent with volume.

18 Q Right. So if you had indicated pages 2 through 9
19 in your answer, it would have made it clear that you haven't
20 really -- you are not really shifting what you are talking
21 about until you get to that section.

22 A Yes, that's true.

23 Q Okay. I just wanted to make sure we were all
24 talking about the same things. On costing methodologies,
25 you are aware, I presume, that both the Commission and the

1 Postal Service develop costs starting with cost segments,
2 correct?

3 A Yes.

4 Q Total costs are divided into cost segments, and
5 then analysis is conducted to determine the best treatment
6 of cost in that segment, is that correct?

7 A Generally.

8 Q And, if necessary, different components within a
9 cost segment may be treated differently if analysis suggests
10 that is warranted, is that correct?

11 A Yes.

12 Q And you are not suggesting that there is anything
13 wrong with using the cost segment approaching to costing,
14 are you?

15 A No.

16 Q Would you agree that the cost in each cost segment
17 should be examined objectively?

18 A Yes. That's with no pre-determination in mind,
19 yes.

20 Q Would you agree that in order to maintain
21 objectivity with respect to each cost segment, you need to
22 use for that cost segment, the costing methodology that the
23 analysis reveals to be most appropriate?

24 A Well, sometimes that's hard to answer because
25 there may be more than one appropriate method. If you are

1 sure, you use the best method. That's the whole key to the
2 exercise of distributing costs.

3 Q But you focus on the cost segment that you are
4 looking at?

5 A Sure.

6 Q Now, is it your testimony in this case that the
7 Postal Service has done something other than to examine each
8 cost segment objectively and propose the treatment that the
9 analysts who are responsible for that cost segment found to
10 be the best available for that cost segment?

11 A No, I haven't stated that. I really suggest that
12 the result of what the Postal Service has done has caused
13 problems, but I haven't said the Postal Service has done
14 something wrong or unethical in the determination of their
15 costs.

16 Q Well, you state in your response -- well, let's
17 look at your response to Postal Service No. 2. And in the
18 second sentence there, you say you can not regard it as
19 accidental that the result of the Postal Service's
20 methodology tends to mask -- and your sentence continues on.

21 A That is correct. We have had a long history of
22 the Postal Service not providing information that the
23 Commission has asked for and that other mailers have to know
24 in order to determine what is going on with their proposals,
25 and it has lasted far too long.

1 Q Well, the result, and you are talking here, as we
2 determined earlier, about the costing methodology being the
3 combined effect of all these changes. The result comes from
4 a number of individual analyses, correct?

5 A Yes.

6 Q And if each analysis is conducted objectively and
7 independent of the other analyses, then why would you
8 suggest that the result is not an accident?

9 A I don't know that that has been done objectively.
10 It should be done objectively, but I don't know that.

11 Q Well, let's go over some of the changes that have
12 led to this combined effect. First of all, do you know if
13 each cost segment is examined by the same analyst?

14 A No.

15 Q You don't know that, or they are not?

16 A I don't know that.

17 Q Does the Postal Service put forward different
18 witnesses on different cost segments?

19 A I don't think so.

20 Q Well, for example, Dr. Wade testified in this case
21 about vehicle service driver costs, was he being objective
22 when he conducted analysis which raised the variability of
23 vehicle service driver costs relative to previous estimates
24 used by the Commission?

25 A I have no way of answering that question.

1 Q Was Mr. Baron being objective when he conducted
2 analysis which raised the variability of rural carrier
3 delivery costs relative to previous estimates used by the
4 Commission?

5 A I don't know.

6 Q Was Dr. Bradley being objective when he conducted
7 an analysis which raised the variability of purchased
8 transportation highway cost relative to previous estimates
9 used by the Commission?

10 A In that instance, I don't know.

11 Q Was Mr. Degen being objective when he proposed a
12 new distribution methodology that tends to shift mail
13 processing costs away from First Class mail relative --

14 A I -- I don't know.

15 Q Well, and let's finish with Dr. Bradley again.
16 Was he being objective when he presented a new analysis to
17 provide an empirical relationship with the relationship
18 between the cost and volume in mail processing that had
19 previously been based on an untested assumption?

20 A I don't know. I have testified about the results
21 of all those analysis and not how they got there. There are
22 other witnesses that are testifying as to whether they are
23 good or bad, but I have only looked at the results.

24 Q In your view, is the Commission at liberty to look
25 at the overall results and use the overall results, the

1 combined effect of the costing methodologies, in determining
2 whether or not to accept or reject specific costing
3 proposals of the Postal Service?

4 A I think the Commission can look at the total
5 results. The Commission can do what it wants, yes.

6 Q So you are suggesting that it is acceptable for
7 the Commission to evaluate individual costing proposals on
8 something other than the merits of that individual costing
9 proposal?

10 A I haven't said that.

11 Q Well, how else do they take account of the overall
12 results of the -- the combined effect of all costing
13 changes?

14 A In this particular case, those results make it
15 very difficult to follow what the Postal Service is doing.
16 I am saying that one reason why the Commission ought to
17 reject this new costing methodology, aside from the Postal
18 Service having the burden of changing something that has
19 been around for more than 25 years, but one of those results
20 is that the Postal Service is masking what is really going
21 on here with its overburdening of First Class mail with
22 institutional costs, and you can not keep measuring that
23 overburden by -- when you start changing the cost
24 methodologies.

25 Q Well, we'll get to that in a bit. I would like

1 now to look at your response to Postal Service Interrogatory
2 No. 4, and I would like to start with subpart (a).

3 A Okay.

4 Q And I would like to just ask you again, is it your
5 testimony that the costing process can be truly objective
6 even if any empirical analysis that shows cost to be less
7 volume variable than previously assumed is automatically
8 rejected for that reason alone?

9 As you'll notice, I have essentially just restated
10 the question that you got in writing.

11 A I'm not sure how I would change my answer.

12 Q So your answer is that it is your testimony that
13 the costing process can be truly objective even if any
14 empirical analysis that shows cost to be less volume
15 variable than previously assumed is automatically rejected
16 for that reason alone? That's your testimony?

17 A And I have not confirmed that it cannot.

18 Q And can you tell me why you believe such a costing
19 process could still be characterized as truly objective?

20 A I think it's hard without a specific example, but
21 I have no reason to claim that somebody is not being
22 objective when they're trying to do things but it might be
23 wrong. It may not be correct.

24 Q But how would you know that it wasn't correct? If
25 the only thing that you're looking at is the result that is

1 a lower level of variability and for that reason alone,
2 you're rejecting it, how do you know that it might be
3 correct if all you've looked at is the result?

4 A Well, an objective is to find as much costs that
5 can be attributed to a class as possible, and you have to
6 keep that in mind, and if you're going to lower it, you've
7 got to make your case, and the Postal Service hasn't made
8 their case.

9 Q Well, let's look at your interrogatory number
10 4(b), and in there, you say that all things being equal, it
11 is better to attribute a pot of costs than not to, and you
12 also say that the Postal Service and the Commission should
13 have the goal of attributing as high a percentage of cost as
14 is reasonably possible. Is that a fair reading or a
15 paraphrase of your answer there?

16 A Yes.

17 Q Could you tell me what economic principle or
18 theory supports those claims?

19 A Well, for one -- I'm going to read from the UPS
20 trial brief. It says, legally -- this is page 3 -- the
21 court held that the act requires that all costs reliably
22 identifiable with a given class by whatever method be
23 attributed to that class. As the court held, Congress'
24 broad policy was to mandate a rate floor consisting of all
25 costs that could be identified in the view of the expert

1 rate commission as causally linked to a class of Postal
2 Service.

3 Q So, in your view, it's not an economic principle,
4 it's a legal theory?

5 A Legally, apparently, that's what the Commission is
6 supposed to do.

7 Q That's what UPS says the Commission is legally
8 required to do.

9 A The quote will speak for itself.

10 From a ratemaker's point of view, the higher the
11 amount of costs that are attributed, the less ^{subjectivity}~~objectivity~~
12 you have left over for assigning those institutional costs,
13 and that -- so for ratemaking, it's better to be using the
14 objective costs to increase the floor as opposed to
15 assigning those institutional costs.

16 MR. LITTELL: Excuse me. Could I ask the reporter
17 to read back --

18 CHAIRMAN GLEIMAN: Could you turn your microphone
19 on?

20 MR. LITTEL: Could I ask the reporter to read that
21 part of the question -- of the answer in which you began
22 "the higher the amount of costs that are attributed."

23 [The reporter read the record as requested.]

24 CHAIRMAN GLEIMAN: Mr. Koetting, if it wouldn't be
25 too disruptive, I would like to take a ten-minute break

1 right now. Mr. Bentley has been up there -- this is his
2 second time around the block. Let's take ten, we'll come
3 back at 20 of the hour.

4 MR. KOETTING: That's fine with me. If the
5 witness would rather go ahead, I'm prepared to go ahead as
6 well.

7 [Recess.]

8 CHAIRMAN GLEIMAN: Well, we know Mr. Koetting and
9 the witness have been ready forever, and I'm back, so what
10 the heck, let's go.

11 Mr. Koetting, whenever you're ready.

12 MR. KOETTING: Thank you, Mr. Chairman.

13 BY MR. KOETTING:

14 Q Let me try to pick up where we left off, and if
15 you disagree with the way I characterize it, let me know.
16 We were discussing your claims that it is better to
17 attribute a pot of costs than not to, similar statements,
18 and I ask you what principle or theory supports these
19 claims, and you I think reiterated the point in your
20 testimony that if costs are unallocated in the costing
21 process, they will be allocated through the pricing process,
22 which is more subjective. Is that a fair characterization
23 of your statement?

24 A Yes. And somehow ends up being charged to first
25 class more often than not.

1 Q Okay. But let me go back to my question, then.
2 Would you characterize that as an economic principle
3 supporting the notion that it's better to attribute a pot of
4 costs than not to, or would you consider that policy, or is
5 there some other economic principle that you can cite me to?

6 A Well, I think when Congress set out the rules and
7 they said in 3622(b)(3) that the Postal Service has to
8 attribute direct and indirect costs, they had an economic
9 policy in mind that there is going to be a floor, that rates
10 have to cover their variable costs, and that's -- I think
11 that makes sense. It certainly has to be economic.

12 Q There has to be an economic floor, but was there
13 any economic principle that says a higher floor is better
14 than a lower floor?

15 A Yes. I think a higher floor is better than a
16 lower floor in order to make sure that your rates will cover
17 those direct and indirect costs.

18 Q Let me come at a little differently. Are you
19 saying that as an analyst prepares to undertake an empirical
20 examination of the relationship between a particular kind of
21 Postal cost of mail volume, and even before that analyst
22 gathers any data, they should believe that a result showing
23 a higher level of volume variability is to be preferred over
24 a result showing lower volume variability?

25 A No, I don't think I have said that. The analyst

1 has to tie the costs to a particular class as much as
2 possible. All things being equal, it is better to assign or
3 attribute a higher pot of cost than a lower pot of cost.

4 Q But if the pot of costs that we're talking about
5 are the costs in a particular cost segment, the analyst is
6 going to look at that and try to determine a level of volume
7 variability based on their analysis, correct?

8 A Yes.

9 Q And as they undertake that empirical examination,
10 is it your testimony that they should believe that an
11 empirical result showing higher variability is to be
12 preferred over an empirical result showing lower
13 variability?

14 A I don't know if you can have an empirical result
15 that's going to give you both. All things being equal, the
16 higher figure should be strived -- you should strive to get
17 the higher figure.

18 Q And isn't that biased?

19 A No, it's not. You want to try to tie the costs to
20 a particular subclass and you want to try to tie them the
21 best way you can. Now, you're not going to be able to do
22 100 percent. I know we talked about the Postmaster
23 General's salary earlier today. But you want to try to tie
24 as much costs as you can to a particular class, and that's
25 the way I read the act.

1 Q Wouldn't an economist say that you want to have
2 the best measurement of cost for each subclass and whatever
3 those total to be, they total to be?

4 A Yes.

5 Q And therefore, a result that reflects the best
6 economics is to be preferred over a result that doesn't
7 reflect the best economics even if the better economic
8 result yields a lower variability?

9 A You want the best result. All things being equal,
10 you would rather attribute more costs than less costs.

11 Q Why isn't that biased?

12 A I don't think it is biased.

13 Q Well, let me give you two definitions of bias out
14 of my two dictionaries. The Webster's 9th Collegiate -- and
15 needless to say bias has a variety, but these will be the
16 definitions that I'm interested in. Webster's 9th
17 Collegiate refers to bias as a systematic error introduced
18 into sampling or testing by selecting or encouraging one
19 outcome or answer over others. Similarly, Webster's New
20 International has a definition of bias: Propensity or
21 prepossession toward an object or view not leaving the mind
22 indifferent.

23 Now, if someone enters an empirical analysis with
24 the thought that a higher variability is better than a lower
25 variability, haven't they met either of these definitions --

1 in fact, both of these definitions of bias?

2 A The first definition to me sounds like you're
3 doing something wrong. The second definition, not so much.
4 And as I said before, all things before equal, the
5 objective, you're told to attribute as high an amount as
6 possible. Now if you can do that reasonably, that's fine.
7 If you cannot reasonably attribute a higher amount, then you
8 stop.

9 Q Again, when you say you're told to attribute as
10 high an amount as possible, is that an economic principle,
11 or is that a legal principle?

12 A I think they're intertwined, since the act has
13 said that. That makes it legal. And I think from an
14 economics point of view it makes sense to be able to say
15 that you know that a particular rate is covering its direct
16 and indirect costs.

17 CHAIRMAN GLEIMAN: Excuse me, Mr. Koetting.

18 Mr. Bentley, maybe you can help me out a little
19 bit, so that I can understand what Mr. Koetting is asking
20 and what you're saying.

21 When an analyst looks at costs and attempts to
22 determine the level of volume variability or level of
23 attributable costs, however you might want to characterize
24 them, is everything cut and dry, or does an analyst make
25 judgment decisions along the way?

1 THE WITNESS: I'm sure we analysts would wish
2 everything was cut and dry, but no, you have to make --
3 there are grey areas --

4 CHAIRMAN GLEIMAN: There are choices.

5 THE WITNESS: And you have to make some
6 assumptions.

7 CHAIRMAN GLEIMAN: Occasionally you have to decide
8 whether you're going to take path A or B or whether you're
9 going to put another variable into a formula or leave that
10 variable out of a formula that somebody else might -- if he
11 were doing the analysis or she were doing the analysis might
12 put that variable in.

13 THE WITNESS: That's correct.

14 CHAIRMAN GLEIMAN: And that's kind of a subjective
15 thing that comes into play.

16 THE WITNESS: That's right. Analyst A might do it
17 one way; Analyst B might do it another way. And, you know,
18 the objectives may be the same, and they may be perfectly
19 honest, but they're going to get two different results.

20 CHAIRMAN GLEIMAN: Okay. Thank you. I just
21 needed to understand, because I was beginning to believe
22 that there was some magic way of analyzing things where
23 there was no subjectivity at all, where there were no
24 variables that people had to decide whether they wanted to
25 put in or not put into formulas, so I think I understand a

1 little bit better and now I can maybe deal with the
2 questions and the answers in a different context.

3 I apologize again, Mr. Koetting, for the
4 interruption.

5 MR. KOETTING: No problem, Mr. Chairman. In fact,
6 I can follow right up on that.

7 BY MR. KOETTING:

8 Q In making these choices to include variables,
9 exclude variables, analytic procedures, would you agree that
10 if the analyst makes those choices with the result of
11 affecting -- with the purpose of affecting the result in a
12 particular direction, that is bias in the analysis?

13 A I think if the analyst has a predetermined notion
14 that he's going to increase the amount of attributable costs
15 without doing it reasonably, it is biased, but his objective
16 is to ^{attribute} as much as possible and within reason so that he can
17 definitely defend it, you want to attribute the highest
18 amount possible.

19 Q And if the choice is -- if there's any choice
20 between going as high as possible or using the best possible
21 analytic procedures, which should take precedence?

22 A Well, if you've gone too high, but it is not the
23 best, then you've probably come up with some other reason
24 which is incorrect, then I would go with the best.

25 Q If we could go to your response to Postal Service

1 Interrogatory No. 2, please.

2 MR. LITTELL: Would you repeat that number,
3 please?

4 MR. KOETTING: Two.

5 MR. LITTELL: Two. Thank you.

6 BY MR. KOETTING:

7 Q And I'm looking at the first sentence of the third
8 paragraph, down at the bottom of the first page. You state
9 that under the Commission's costing methodology the markup
10 indices for First Class letters and Standard A Commercial
11 mail are not roughly equivalent; correct?

12 A That's correct.

13 Q And that rough equivalence in markup indices I
14 take it is essentially what you were talking about up in the
15 first paragraph of that response when you refer to the
16 Commission's longstanding objectives regarding the pricing
17 of First Class and Commercial Standard mail; correct?

18 A Well, that has been the Commission's objective, is
19 to make those cost coverage or markup indices roughly
20 equivalent.

21 Q Okay. And back in the third paragraph you cite,
22 using the Commission's methodologies, the markup index
23 figures of 119 for First Class mail and 106 for Commercial
24 Standard; correct?

25 A That's what the markup indices come out to be

1 using the Commission's methodology; yes.

2 Q And in your view 119 and 106 really don't meet the
3 standard of "roughly equivalent."

4 A I think it's obvious from the last Commission
5 opinion in Docket R94-1 what they meant by roughly
6 equivalent. The Commission discussed the fact that First
7 Class mail should be paying \$900 million less towards
8 institutional costs than it would like, but because of the
9 rate impact on other classes, it had to go with the 32-cent
10 stamp, and I don't see a transfer or a reduction of the
11 First Class burden of \$900 million in this case. I see
12 roughly the same increase for First Class and for Standard
13 mail.

14 Q But the 119 and the 106, those are the figures
15 that you cite to support your claim over on the top of the
16 next page that one result of the Service's proposed costing
17 methodology changes is to, and here you're quoting from your
18 testimony, quote, "mask the service's failure to relieve
19 first class mail of an excessive share of the Service's
20 institutional costs," correct?

21 A Well, one result is -- yes, that's correct.

22 Q Those are the figures that you cite?

23 A Well, we didn't know those figures until the
24 Postal Service provided those.

25 Q No, but in your answer, those are the figures that

1 you cite, 119 and 106, correct?

2 A Yes.

3 Q Now, if the Postal Service costing methodology
4 masks something that is revealed by utilization of the
5 Commission's methodology and what the Commission's
6 methodology reveals is that, in your view, the figures 119
7 and 106 are not roughly equivalent, and that's been masked
8 using the Postal Service's, then wouldn't it be logical to
9 expect that under the Postal Service's costing methodology,
10 the comparable figures must be roughly equivalent or close
11 to it? Isn't that logical?

12 A I think it's logical that under the Postal
13 Service's methodology, that they would not be roughly
14 equivalent.

15 Q Well, how can the Postal Service methodology mask
16 the fact that the two values are not roughly equivalent,
17 which is the contention that you have made, except by making
18 them appear to be roughly equivalent?

19 A No. The Postal Service's methodology makes the
20 comparison with previous years unreasonable, and that's why
21 it's being masked.

22 Q But we're comparing two numbers from the same
23 year, 119 and 106.

24 A That's right.

25 Q So is it -- how can the Postal Service's

1 methodology be masking the fact that the two values are not
2 roughly equivalent except by making them appear to be
3 roughly equivalent?

4 A I think you're getting this wrong. From what I've
5 said, the Postal Service's methodology masks the
6 relationships so that we can compare it this time around
7 versus what happened in the last case and the case before,
8 and you could not reasonably determine what was happening
9 with the Postal Service's proposed rates compared to the
10 R-94 results because the two numbers were no longer
11 comparable.

12 Q The Commission standard, as I think we just
13 established, was to determine whether or not two numbers are
14 roughly equivalent. Now, where in the Commission standard
15 does it in any way compare numbers from different time
16 periods? It's looking at two numbers in any given point in
17 time in determining whether or not they are roughly
18 equivalent. Is there anything in the Commission standard
19 that refers to comparisons across cases?

20 A The Commission has compared numbers across cases,
21 yes.

22 Q I'm not asking that. I'm talking in the roughly
23 equivalent standard, does that require in any way
24 comparisons across cases to know whether or not a proposal
25 meets or does not meet that criterion?

1 A Yes, it does. All we have right now -- the
2 Commission hasn't defined what it meant by roughly
3 equivalent, but we do know what it said in R-94, R-90, and
4 R-87 when it's trying to get markup indices that are close
5 to one another, and in order to determine whether, in fact,
6 they're getting closer, we have to maintain comparable
7 numbers from case to case, and that's why 119 and the 106
8 are important.

9 Q Let me try one more time.

10 How can utilizing the Postal Service's methodology
11 mask the fact that the two values are not roughly equivalent
12 except by making them appear to be roughly equivalent? What
13 else can the word "mask" mean in this context?

14 A It means that you cannot tell from the Postal
15 Service's numbers in this case, but you can tell once you
16 have the Commission's numbers.

17 That is what I mean by mask. You cannot make a
18 determination as to what is happening in comparison to the
19 previous cases.

20 Q Well, let's look at your testimony on page 6. In
21 the table in the middle of the page we see the 119 and 106
22 numbers we have been talking about, correct?

23 A Right.

24 Q Now in the footnote at the bottom of the page, you
25 also present the comparable markup figures using the Postal

1 Service's proposed costing methodology, correct?

2 A Yes.

3 Q And those figures are 128 for First Class letters
4 and 95 for Standard A commercial, correct?

5 A That is correct.

6 Q And those numbers were derivable on July 10th, the
7 day the Postal Service filed its case, correct?

8 A Yes.

9 Q Was there anything preventing you from examining
10 128 and 95 and seeing whether or not those two numbers are
11 roughly equivalent or not?

12 A They sure don't look roughly equivalent to me
13 right now but at the time, at the time without having that
14 106 and 119 available, you have to get a better feel for how
15 far apart those numbers are.

16 I couldn't say with assurance that that was in
17 fact the case based on what happened in R-94.

18 Q But you knew that the Postal Service cost numbers
19 weren't roughly equivalent -- 128 and 95 are even less
20 roughly equivalent than 119 and 106, correct?

21 A Yes, but they do mean different things.

22 Q But how did it mask that they weren't roughly
23 equivalent when on their face they showed them to be not
24 roughly equivalent?

25 A I am glad that you agree that they are not roughly

1 equivalent because that is what the Commission is aiming for
2 here, but let me answer -- the answer to the question is I
3 could not make a comparison with what those same numbers
4 would have been in previous years in order to confirm that.

5 Q But there is nothing in the rough equivalence
6 criterion that refers back to comparisons across cases, is
7 there?

8 A To me that is the only way you can make that
9 determination and I am glad you admit that they are not
10 roughly equivalent because that is certainly part of our
11 case, but the Postal Service itself does not have to state
12 that those are roughly equivalent in the same sense that the
13 Commission did.

14 Q Still in your response to Number 2, and in the
15 second paragraph near the top there, you talk about the
16 Postal Service's insistence in case after case to deviate
17 from the Commission's established costing methodology,
18 correct?

19 A Well, since R-90, yes.

20 Q In your view, is the Postal Service under any
21 obligation to strive to improve its costing methodologies?

22 A I would hope so.

23 Q Does the Commission ever encourage the Postal
24 Service to improve its costing methodologies?

25 A I would hope so.

1 Q Isn't change in costing methodologies inevitable?

2 A Generally, yes.

3 Q Doesn't the markup index fail to deal with change
4 in costing methodologies, as Dr. Harris testified, as well
5 as the cost coverage index?

6 A I think, as I have discussed in my testimony, that
7 it is not inherent of the markup index. It is -- if you
8 start making large changes in the costing methodology, then
9 any benchmark would not be directly comparable.

10 Q What is more important, having the best possible
11 cost or having benchmarks that are comparable?

12 A I think if I had to choose between the two, I
13 would like to have the best possible costs.

14 I would also like to have those benchmarks so that
15 you could see what is happening, and that is why I suggested
16 at some point perhaps the Postal Service should not be
17 allowed to be making cost changes in a rate case and should
18 do it between cases so that we can all get that under -- out
19 of the way.

20 Q Well, that was in your response to Postal Service
21 3(b) and let's talk about that a little bit.

22 A Okay.

23 Q We had Docket Number R-94 -- coming to that we
24 have markup indices, correct?

25 A We had markup indices from Docket R-94, yes.

1 Q Okay. Now suppose that we had a costing
2 rulemaking and I am not suggesting that it could be done or
3 it should be done but let's suppose that it was done and
4 let's say it was done in 1996, and in that rulemaking let's
5 suppose that the Postal Service proposed and the Commission
6 accepted all of the costing improvements proposed by the
7 Postal Service in this docket.

8 Now along comes Docket Number R-97.

9 Q Don't you have exactly the same problem in trying
10 to use the markup indices from Docket Number R-94 as you
11 have in this case?

12 A No. Then I would start -- we now have a new point
13 of reference and we would start with the current rates at
14 the time that the costing was placed, and that would be our
15 new point of reference.

16 Q You would start with the new rates rather than the
17 markup indices?

18 A Well, I am assuming we haven't changed the rates
19 in 1996 in your example.

20 Q Right. We have the same rates but we have
21 different costs.

22 A So that becomes the new base from which you can
23 measure changes from in the next rate case.

24 Q What becomes the new base?

25 A The cost coverages that result out of the case of

1 this 1996 cost case.

2 Q So you no longer are relying on the markup indices
3 from R-94-1?

4 A Well, no. They have -- now you have a new base.

5 Q They have been superseded?

6 A Yes.

7 Q How is that any different than in this case where
8 the Postal Service is proposing new costing changes and
9 we're saying that you have a new base?

10 A Because it's something new. It's a new
11 methodology which is changing so many different things.
12 It's hard to tell what's going on with the new rates that
13 are being proposed.

14 This case could have been so much less complex if
15 we didn't have to worry about two different sets of costs.

16 Q I'm still not sure how under the circumstances
17 we've just been through you would use the R94 markup
18 indices. I think we've agreed that they've simply been
19 superseded and go away.

20 A Superseded for what?

21 Q For utilization in Docket No. R97, either whether
22 the costing proposals are made in Docket No. R97 or whether
23 or not the costs and proposals were made in this
24 hypothetical rulemaking that occurred before Docket No. R97.
25 In neither case would you be able to rely on the R94 markup

1 indices.

2 A I'm just not sure I follow that.

3 Q In my next line of questions I would like to go to
4 page 3 of your testimony, lines 9 through 10. And there you
5 say that the Postal Service's Rule 54(a) filing in the
6 current proceeding however only partially complied with Rule
7 54(a)'s requirement, and you cite to Commission Order No.
8 11-97, page 4; correct?

9 A Yes.

10 Q Do you recall the context in which the Commission
11 indicated that the initial filing only partially complied
12 with Rule 54?

13 A I think I have; yes. The Postal Service provided
14 the Commission's costs for the base year at the time of
15 filing to the test year two or three weeks later and there
16 were several final adjustments that USPS Witness O'Hara had
17 made as part of the Postal Service's case that were not made
18 as part of the Postal Service's filing using the
19 Commission's costs. So until those final adjustments were
20 made, in my view it did not comply with the spirit at least
21 of Rule 54.

22 Q But that's not what the Commission was at all
23 indicating in Order No. 11-97 when it talked about partial
24 compliance, was it?

25 A I've just given you my understanding of what was

1 missing based on the MMA's motion to compel in order to get
2 interrogatories answered, and I believe the Commission had
3 agreed with MMA in that regard.

4 Q Well, let me just read for you the sentence from
5 Order No. 11-97 that includes the phrase that you've quoted.

6 Postal Service's request in this docket partially
7 complied -- and then it continues -- because it was the
8 first rate request filed under the amended Rule 54, the
9 Postal Service was given additional time to complete and
10 correct its Rule 54(a) presentation. See Library Reference
11 H-215 and P.O. Rulings No. R97-17 and 18.

12 And as you just alluded to, the test year portion
13 of the Rule 54 filing trailed the base year by several weeks
14 and was filed as Library Reference H-215, and it was -- and
15 the partial compliance was completed when H-215 was filed
16 several weeks after the filing of the case.

17 A Okay. But it still wasn't complete. I think
18 we'll all agree there. It was not complete until PRC 30(b)
19 was filed.

20 Q That was filed in response to an MMA interrogatory
21 and wasn't filed in response to Rule 54, was it?

22 A In my view -- well, I don't know the answer to
23 that.

24 Q Okay. But you would agree that in the
25 Commission's view H-215 appeared to complete the filing with

1 Rule 54.

2 A Maybe the Commission at the time thought it did,
3 but because MMA filed its motions to compel, then the
4 Commission realized that the Postal Service had not finally
5 completed its -- the test year costs.

6 Q In ordering the Postal Service to answer the MMA
7 interrogatories, did the Commission make any finding that
8 you're aware of that the Postal Service -- that the
9 materials sought in those interrogatories was -- should have
10 been filed as part of Rule 54?

11 A I'm not sure if they made that statement. It
12 certainly makes sense to me that that information should
13 have been filed in response to Rule 54. It completed the
14 case. You could not compute cost coverages and markup
15 indices until you had that final information.

16 Q Does Rule 54 say anything about cost coverages?

17 CHAIRMAN GLEIMAN: Mr. Littell?

18 MR. LITTELL: Mr. Chairman, I regret very much
19 interrupting this cross-examination, but I wonder if it
20 helps the record at all to have counsel and a witness
21 quibble over the meaning of a Commission order which speaks
22 for itself.

23 MR. KOETTING: In response, Mr. Chairman, all I
24 can say is that the witness chose to partially quote the
25 Commission order in his testimony as support for what he

1 claims to have been something other than an accident the
2 Postal Service made in constructing its filing.

3 I would agree. I certainly would have preferred
4 that Mr. Bentley not get into the procedural history in the
5 course of his testimony, but on the other hand, I don't look
6 forward to receiving a brief from MMA that cites Mr.
7 Bentley's testimony as record evidence that the Postal
8 Service only partially complied with Rule 54(a), when in
9 fact the only partial compliance that the order of the
10 Commission which he cites was referring to was the fact that
11 the test-year portion trailed by several weeks the base-year
12 portion. And I'm satisfied if we can leave the record at
13 that, and any citation in Mr. Littell's brief will be in
14 accord with those facts.

15 CHAIRMAN GLEIMAN: Mr. Littell.

16 MR. LITTELL: That's perfectly satisfactory to me.

17 CHAIRMAN GLEIMAN: Thank you. You are going to --
18 was that your last line of questions?

19 MR. KOETTING: That was, Mr. Chairman. We have no
20 further questions.

21 Thank you, Mr. Bentley.

22 CHAIRMAN GLEIMAN: Thank you, Mr. Littell.

23 Any follow-up?

24 [No response.]

25 CHAIRMAN GLEIMAN: No follow-up questions from the

1 bench?

2 [No response.]

3 CHAIRMAN GLEIMAN: Would you like some time for
4 redirect?

5 MR. LITTELL: None, thank you.

6 CHAIRMAN GLEIMAN: Well, if there is going to be
7 no redirect, that brings our proceedings for the day to a
8 close, according to my script anyway.

9 Mr. Bentley, we want to thank you for your
10 appearance here today wearing your second hat, as well as
11 your first hat, and your contributions to our record. And
12 if there is nothing further you are excused. I hope you
13 make your tennis match, and I think both parties to the
14 tennis match best not play the net tonight.

15 [Witness excused.]

16 CHAIRMAN GLEIMAN: These hearings will resume
17 tomorrow, Thursday, the 19th, when we will receive testimony
18 from Florida Gift Fruit Shipper Association, Witnesses Ball,
19 Davis and Merewitz; Recording Industry Association of
20 America, et al., Witness Andrew; and Coalition of Religious
21 Press Association, Witnesses -- excuse me -- Witness
22 Stapert; and Alliance of Non-Profit Mailer, Witness Haldi.

23 Thank you all. Have a lovely evening.

24 [Whereupon, at 5:12 p.m., the hearing was
25 recessed, to reconvene at 9:30 a.m., Thursday, February 19,

1 1998.]
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