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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

SPECIAL SERVICES FEES
AND CLASSIFICATIONS

Docket No. MC96-3

TESTIMONY OF
RICHARD E. BENTLEY
ON BEHALF OF
MAJOR MAILERS ASSOCIATION



September 30, 1996

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**TESTIMONY OF RICHARD E. BENTLEY
ON BEHALF OF MAJOR MAILERS ASSOCIATION**

1 My name is Richard Bentley. I am president of Marketing Designs, Inc., a marketing and
2 consulting firm. I have testified before the Commission frequently, and my qualifications are detailed
3 in Attachment 1 to this testimony

I. Overview And Summary

5 The purpose of my testimony is to oppose the Postal Service's proposal to establish new rates
6 and classifications without disclosing information showing the consequences of using the Commission-
7 approved methodology for attributing city carrier delivery costs. The only evidence before the
8 Commission on city carrier delivery costs is the Postal Service's own evidence, which uses a
9 methodology that the Commission has rejected

10 Earlier in this proceeding, the Commission "direct[ed] the Postal Service to provide versions of
11 [its evidence] that are consistent with" the Commission-approved method for attributing city carrier
12 delivery costs (Order No 1126) The Commission did not tell the Postal Service to withdraw the
13 portions of its own filing that are based upon the nonapproved methodology. The Commission did not
14 tell the Service to substitute the Commission-approved methodology in place of the nonapproved
15 methodology. The Commission only asked the Service to provide information that would enable the
16 Commission to compare the effects of both methodologies But the Postal Service declined to make
17 disclosure of this information

18 On September 20, 1996, the Commission issued Order No. 1134. Although the Commission
19 found that "the Service has presented no consistent rationale or persuasive explanation for its refusal to
20 provide the information sought by Orders No. 1120 and 1126" (Order No 1134 at 12) and indicated that

1 it "is dismayed by the Service's refusal to comply with its lawful order," (Order No. 1134 at 16), the
2 Commission did not find it appropriate to order procedural sanctions, at this time. Instead, to minimize
3 delay in the proceedings, the Commission directed its staff to prepare two Library References. Library
4 Reference MC96-3, PRC-LR-1, which shows the BY 1995 calculation of direct and indirect city delivery
5 costs using the established methodology of single subclass stops, and Library Reference MC96-3, PRC-
6 LR-2, which shows BY 1995 costs rolled forward to TY 1996

7 I understand that this proceeding involves only a few postal services, but that is not a compelling
8 reason for the Commission to accept the Postal Service's nondisclosure--and to decide this case on a
9 record that shows the consequences of apportioning city carrier delivery costs only by use of a
10 nonapproved costing methodology. As a matter of proper ratemaking, I do not believe that the
11 Commission should use a methodology for one set of services in one case that apportions attributable
12 costs in ways that are significantly different from the methods used for other postal services in other
13 cases.

14 While the dollar consequences of the Postal Service's use of a nonapproved methodology may
15 not impact the Service's proposed rates significantly in this proceeding, the Commission should be aware
16 that the dollar consequences are huge if the Commission follows the practice, as I think it should, of
17 using consistent cost allocation methodologies in all its rate proceedings. Thus, as I show later in my
18 testimony, comparing the techniques for attributing city carrier delivery costs, the Commission-approved
19 methodology attributes \$1.1 billion more costs than the Service's methodology. Regarding that \$1.1
20 billion, the Postal Service's methodology assigns \$130 million more in institutional costs to First-Class
21 Mail than does the Commission's methodology.

22 There is an additional reason to insist upon full disclosure in this proceeding. I doubt that the

1 Postal Service is advocating that the Commission use the Service's nonapproved attribution methodology
2 in this case only. The attribution methodology that the Postal Service uses in this case is similar to that
3 which the Service has used, and the Commission has rejected, in prior cases. And, in this case, when
4 the Service refused to provide the Commission with information showing the consequences of using the
5 Commission-approved methodology, it argued that "[t]he Postal Service simply cannot abandon its
6 position that the [Commission's] single subclass costing approach is wrong." (See August 2, 1996
7 Statement of USPS Concerning Order No. 1126, p.4.) It is evident that the Service plans to use the
8 nonapproved allocation methodology in future cases. The Commission should not accept the Service's
9 nondisclosure in this case and should require the Service to provide the information using the
10 Commission's approved cost apportionment.

**II. General Consequences of the Failure To Resolve
the Stalemate Over Costing Methodologies**

13 The choice of methodologies for attributing city carrier delivery costs has significant
14 consequences for ratemaking. Before the Commission introduced its own methodology for attributing
15 city carrier delivery costs, in Docket R90-1, those costs were treated mostly as institutional (or overhead)
16 costs. The increased amount of cost attribution by the Commission raises the floor or minimum amount
17 of revenue required to cover direct and indirect costs for all subclasses and services. The additional costs
18 attributed to First-Class, however, are less than the amount of institutional costs that are assigned by the
19 Postal Service's nonapproved methodology. Consequently, when the Commission's R90-1 methodology
20 increased the portion of city carrier delivery costs that is classified as "attributable," that methodology
21 reduced the total cost burden for First-Class Mail. And the Commission's methodology increased the
22 costs attributed to other types of mail, including advertising mail. The Postal Service's refusal to accept
23 the Commission's R90-1 methodology for city carrier delivery costs has thus meant that the Service's

1 derivation of the First-Class Mail revenue burden is higher than the Commission's, while the Service's
2 revenue burden for advertising mail is lower than the Commission's

3 There are other consequences as well. The Postal Service has failed to incorporate the
4 Commission's R90-1 methodology into the Service's Cost and Revenue Analysis (CRA) Reports or its
5 filings in other rate and classification proceedings before the Commission. Because of this, it is difficult
6 to compare financial data from year to year, or to compare cost information from one Commission
7 proceeding to another. It is also virtually impossible to compare the Service's published cost information
8 (such as the CRA Reports) with the cost figures used in the Commission's decisions. For example, in
9 this proceeding, actual USPS financial data for BY 1995 are not comparable to data underlying the three
10 previous Commission Opinions. Because of these problems, the Commission's regulatory oversight of
11 the Postal Service is made more difficult.

**III. The Impact on First-Class Mail and Advertising Mail
of the Commission's Methodology, As Compared
With The Impact of the Service's Methodology**

15 Earlier I said that the dollar consequences of choosing a methodology for apportioning city
16 carrier delivery costs are huge if the Commission uses consistent methodologies in all rate cases.
17 Making a comparison between the Commission's and the Postal Service's methodologies is difficult
18 because of the noncomparability of the published data sources. Therefore, it would have been helpful
19 to have access to calculations of the Commission's methodology as applied to the Postal Service's base
20 year and test year costs, presented on the record by a Postal Service witness. Unfortunately, because
21 of the current impasse between the Commission and the Service, there is no such presentation on the
22 record. I am thus compelled to seek a second-best basis for the calculation.

23 In making that calculation, I have used the most recent cost information available--BY 1995

1 finances, at the current rates. The Commission staff has provided BY 1995 cost data in response to
2 Order No 1134. For USPS cost data, I have used information from Postal Service witness Patelunas'
3 exhibits in this case.

4 The results of my computation may be briefly summarized. Using the Commission's
5 methodology for apportioning city carrier delivery costs, I conclude that nearly \$1.1 billion in costs--that
6 the Service treats as overhead costs--would be classified as attributable costs.

7 Focusing on this \$1.1 billion--the Service assigns more than three times as much overhead costs
8 to First-Class Mail as it assigns to advertising mail, yet the Commission's attributable costs for First-
9 Class are only 39% higher than for advertising mail. Consequently, as compared with the Commission's
10 methodology for apportioning city carrier delivery costs, the Postal Service's methodology transfers about
11 \$130 million of attributable costs (as classified by the Commission) *from* other subclasses *to* First-Class
12 Mail; and about \$174 million of attributable costs (as classified by the Commission) *from* third-class mail
13 *to* other subclasses and services.¹

IV. The Impact on Other Mail Classes of the Commission's Methodology. As Compared With The Impact of the Service's Methodology

16 As noted above, the Commission's cost methodology attributes almost \$1.1 billion more than
17 the Postal Service's methodology. Of this amount, \$922 million is attributed to First-Class Mail and

¹ My computations are shown in a two-page document entitled "Apportionment of 'Attributable' and 'Institutional' Costs Using PRC and USPS Attributable Cost Methodologies for BY 1995 in Docket No MC96-3." In Docket No. R94-1(Tr 13A 6086-91, 6106-09), similar information was accepted in evidence as exhibits attached to my testimony, Exhibit MMA-T-1. Recognizing that the Postal Service objected to the introduction of this material into evidence, and that some of the material is derived from a Commission library reference in that proceeding, I have submitted my two-page document in this proceeding as a library reference, designated as MMA-LR-1. I also note that the Postal Service stated in this proceeding "If the Commission takes the Postal Service up on its offer to produce 'Commission' costs except for single subclass costs, the Postal Service plans to provide these costs in a library reference." (See August 22 Opposition of USPS to OCA Motion Under 39 USC §3624(c)(2) For Day-To-Day Extensions, n. 8.) I have provided the Office of the Consumer Advocate and the Postal Service with copies of MMA-LR-1, and I will supply the document to any other party upon request.

1 advertising mail while the remainder, almost \$150 million, is attributed to the other subclasses and
 2 services. Because these other subclasses and services contain much smaller volumes compared to First-
 3 Class Mail and advertising mail, the impact of this additional \$150 million can be substantial.

4 For example, under section 3622(b)(3) of the Act, all subclasses and services are required to
 5 recover their direct and indirect costs. If the Postal Service's CRA Report fails to attribute this extra
 6 \$150 million, how can the Commission know if a particular subclass or service generates enough
 7 revenues to cover its attributable costs? It cannot

8 Similarly, the preferred subclasses are supposed to generate sufficient revenues to recover their
 9 attributable costs. Again, if the CRA Reports exclude this \$150 million, the Commission cannot reliably
 10 know whether or not the reported revenues are sufficient to recover those costs.

11 Based on actual BY 1995 financial data,² it is apparent that the existing rates for three subclasses
 12 are too low to generate revenues sufficient to cover their attributable costs. These subclasses are listed
 13 below:

14	<u>Subclass</u>	<u>Cost Coverage</u>
15	Classroom Publications	81.1
16	Third-class Single Piece	59.2
17	Library Rate	83.8

18 When the rates for these subclasses and services were recommended in Docket No. R94-1, using the
 19 Commission's attributable cost methodology, the projected revenues were sufficient to cover the
 20 attributable costs

21 In future rate proceedings, it will not be possible to determine whether USPS proposed rates will

² FY 1995 RPW revenues; Commission's FY 1995 attributable costs from Library Reference PRC-LR-2

1 meet the minimum revenue requirements established by the Act, unless the Postal Service is obligated
2 to provide, as an integral part of its initial rate request, attributable costs for all subclasses and services
3 based on Commission-approved methodologies

V. Conclusion

5 For the reasons I've stated, I believe that it is important that the Commission continue to insist
6 that the Postal Service provide information that discloses its costs not only on its preferred
7 methodologies, but also according to the Commission-approved methodologies.

8 It is equally important the Service be required to disclose this information in future proceedings--
9 and to do so at the outset. The Postal Service should remain free to challenge the Commission-approved
10 methodologies, to ask for reconsideration of those methodologies, and to seek Commission or court
11 action to overturn previously-approved methodologies. But this proceeding (and its predecessors)
12 illustrate why the Postal Service must not be allowed to file its initial evidence without disclosing this
13 essential information. This case has been on file for many months, hearings have begun, and the Postal
14 Service continues to withhold this information notwithstanding Commission orders requiring disclosure.

15 In Order No. 1134 (at 10), the Commission stated that it will consider modifying its filing rules
16 to require that--as part of any rate change filing--the Postal Service must show the financial impact of
17 any proposed rate changes using the Commission's most recently-approved cost attribution methodology
18 I strongly support such a change and believe the same requirement should apply to classification cases
19 The rule suggested in Order No. 1134 would be fair to the Service, the Commission, and affected
20 mailers. If the Postal Service wishes to offer changes to any Commission-approved methodology, it
21 could still make such a proposal as part of its filing. Thus, the Rule would not diminish the Postal
22 Service's flexibility in presenting its proposals before the Commission. At the same time, it would

- 1 provide the Commission and other interested parties with a suitable means of evaluating the impact of
- 2 any proposed cost methodology changes. This will also allow all interested parties to be able to evaluate
- 3 consistent postal cost data from year to year and from case to case
- 4 That completes my testimony

QUALIFICATIONS OF RICHARD E. BENTLEY

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

2 Mr. Bentley began his career as a market research analyst for the Postal Rate Commission in
3 1973 and remained until 1979. As a member of the Officer of the Commission's technical staff (now
4 Office of the Consumer Advocate) his responsibilities included analysis of USPS costs, volumes, rates
5 and operations. As a witness on behalf of the Officer of the Commission, he testified before the Postal
6 Rate Commission in four separate proceedings. In Docket No MC73-1, Mr. Bentley filed rebuttal
7 testimony concerning the Postal Service's bound printed matter proposal, but the case was settled before
8 he had an opportunity to testify

9 In Docket Nos. MC76-1 and MC76-3, Mr. Bentley testified on changes proposed by the Officer
10 of the Commission to the Domestic Mail Classification Schedule. Those changes concerned proposals
11 to establish local First-Class rates and to eliminate third-class single piece as a separate subclass

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

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

19 In 1979, Mr Bentley left the Postal Rate Commission to become a senior program engineer for
20 Systems Consultants, Inc. (now Syscon Corporation), a national consulting firm. There Mr Bentley's
21 responsibilities included the analysis and estimation of life cycle costs required to research, develop,

1 manufacture, and maintain various weapon system programs for the Department of Defense. He
2 developed cost estimating relationships and completed a computerized model for estimating future
3 weapon system program costs.

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

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

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

14 In Docket No. C86-3, Mr. Bentley testified on behalf of Roadway Package Systems concerning
15 a proposed special rate increase for parcel post

16 In Docket Nos. R87-1 and R90-1, Mr Bentley testified on behalf of the Council of Public Utility
17 Mailers, the National Retail Federation, Brooklyn Union Gas, and other First-Class mailers. Mr. Bentley
18 recommended and supported various rate discount proposals for presorted First-Class mail, and a lower
19 fee for "BRMAS" business reply mail.

20 In the last omnibus rate proceeding, Docket No R94-1, Mr. Bentley testified on behalf of Major
21 Mailers Association with respect to several issues that concerned First-Class rates. These included the
22 relationship between the proposed cost coverages for First-Class and third-class, the rates for First-Class
23 incremental ounces, prior year losses, and the Postal Service's changes to the Commission's city delivery

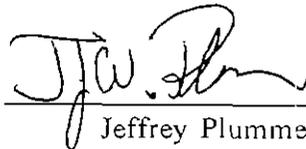
1 carrier out-of-office cost methodology In addition, Mr. Bentley also advised Brooklyn Union Gas in
2 that company's efforts to have the Postal Service's proposed tripling of the "BFMAS" BRM fee rejected,
3 although Mr. Bentley did not file any formal testimony.

4 In Docket No. MC95-1, Mr Bentley again testified on behalf of MMA and recommended that
5 the Commission accept the Postal Service's proposed classification restructuring for First-Class Mail with
6 one exception. He suggested that the additional-ounce rates for First-Class letter-shaped pieces weighing
7 between one and three ounces be lowered to better reflect the costs associated with processing those
8 pieces.

9 In 1972, Mr Bentley received a Bachelor of Science degree in Industrial Engineering/Operations
10 Research from Cornell University. The following year, Mr. Bentley was awarded a Master's degree in
11 Business Administration from Cornell's graduate school of Business and Public Administration (now the
12 Johnson Graduate School of Management) Mr Bentley is a member of Tau Beta Pi and Alpha Pi Mu
13 Engineering Honor Societies

CERTIFICATE OF SERVICE

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



Jeffrey Plummer

September 30, 1996