

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO INTERROGATORIES OF AMERICAN POSTAL WORKERS UNION, AFL-CIO
(APWU/USPS-T31-1-8)

The United States Postal Service hereby files the responses of witness O'Hara to above-listed interrogatories, filed on July 14, 2006.

The interrogatories are stated verbatim and are followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO INTERROGATORY OF AMERICAN POSTAL WORKERS UNION**

APWU/USPS-T31-1.

On page 4 of your testimony you make the statement “[i]n re-examining the relationship between costs and prices, it became clear that the current rate structures did not adequately reflect the greater costs of handling a flat or parcel as compared to a letter.”

- a) What prompted the re-examination of these relationships?
- b) Weren't these relationships clear to the Postal Service five years ago when the previous realignment of rates was done?
- c) How was the decision reached to begin the deaveraging of costs as seen in this docket?
- d) Was it your decision to deaverage costs using shape and other factors as presented in this docket? If not, which witness(es) made those decisions?

RESPONSE:

- a) These relationships have been examined as part of the process of preparation for each omnibus rate-case since at least since Docket No. R97-1. For example, for single-piece First Class Mail, there have long been different first-ounce rates for letters versus nonletters (flats and parcels) and non-machinable letters.
- b) The relationships were clear but the Postal Service decided that changing the rate structure for flats and parcels in First-Class Mail and parcels in Standard Mail was not as high a priority as the proposed changes that were included in previous cases.
- c) This decision was reached through the usual process of preparing for an omnibus rate case. The existing rate design is reviewed, as well as the relevant subclass volume, cost, and revenue data. Specific proposals are developed which reflect this information in a manner that is consistent with the strategic goals of the Postal Service. The proposals are reviewed, and the process culminates with the approval by the Governors and the filing of the Request. As my response to part (a) suggests, the proposals in this

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO INTERROGATORY OF AMERICAN POSTAL WORKERS UNION**

RESPONSE to APWU/USPS-T31-1 (continued):

case are not the "beginning" of shape-recognition (or de-averaging) but rather a restructuring and extension of the way shape had previously been incorporated in the rate structure.

- d) This decision was not made by any witness. Please see my response to part (c).

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO INTERROGATORY OF AMERICAN POSTAL WORKERS UNION**

APWU/USPS-T31-2.

Does deaveraging costs and increasing the number of rates in the schedules tend to make it more difficult for users to determine the correct postage for a given mail piece?

RESPONSE:

Depending on how it is done, increasing the number of rates in the schedules for single-piece mailers can make it more difficult for them to determine the correct postage, and this aspect of the proposed rate-structure change for First-Class Mail was considered as part of the decision process.

The transition to the new structure will require mailers to learn how to determine where a given piece falls with respect to the letter/flat/parcel lines, but once the new structure has been in place for a while, I do not think it will be much more difficult for single-piece mailers to determine the correct postage than it is under the current structure.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO INTERROGATORY OF AMERICAN POSTAL WORKERS UNION**

APWU/USPS-T31-3.

On page 20 of your testimony you make the following statement about the First Class cards subclass "[t]he proposed rate level reflects a balanced consideration of all the relevant criteria: it is fair and equitable (criterion 1)." On page 19 of your testimony you make the statement about the First Class letters subclass that the "proposed rate level is fair and equitable (criterion 1); it reflects a careful consideration of the §3622(b) criteria." These statements seem to imply that it is your understanding that the first criterion of §3622(b) is determined by how well the other eight criterion in the section are followed. Is that a correct understanding of these statements?

RESPONSE:

Not correct. I do think Criterion 1 has a somewhat different role than the other criteria. I view it as an instruction to consider, from the broad perspective of fairness and equity, the result that has been reached by considering the other criteria individually. If such consideration gives rise to fairness and equity concerns, the balance among the other criteria may need to be re-examined, and/or some factor not explicitly mentioned in the other criteria is important enough that it should have been considered under criterion 9.

In my view, the "overall evaluation" role of criterion 1 stems from its broad and inclusive nature. In fact, I do not see how it could be usefully applied without having already considered the subject matter of the other criteria.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO INTERROGATORY OF AMERICAN POSTAL WORKERS UNION**

APWU/USPS-T31-4.

In your testimony, you discuss the nine criteria listed in section 3622(b) of the Postal Reorganization Act (PRA). You will observe that the first paragraph of section 3622(b) requires that the Commission make a recommended decision "in accordance with the policies of this title and the following factors:"

- a) Is it the position of the Postal Service that the phrase "in accordance with the policies of this title" adds nothing to the requirement that the recommendation be in accordance with the nine listed factors?
- b) If your answer to a above is yes, why did Congress refer to the "policies of this title" in 3622(b) instead of just referring to the nine factors?
- c) Does your testimony make reference to any policy of the PRA other than those stated in the nine factors listed in 3622(b)?
- d) If your answer to c above is yes, point out the place or places in your testimony where that reference(s) is made, point out where in the Act the policy in question is stated, and explain how your reference weighs the policy in question.
- e) In your testimony, did you make any reference to the requirements of section 3622(a) of the PRA that the Postal Service's requested rate changes must "be ... in accordance with the policies of this title"?
- f) If your answer to e above is yes, point out the place or places in your testimony where that reference(s) is made.
- g) If your testimony makes reference to the requirement of section 3622(a) that the Postal Service request be "in accordance with the policies of this title," does it make reference to any specific policy of the PRA that is not one of the nine factors listed in 3622(b)?
- h) If your answer to g above is yes, point out the place or places in your testimony where that reference(s) is made point out where in the Act the policy in question is stated, and explain how your reference weighs the policy in question.

RESPONSE:

- a) No.
- b) Not applicable.
- c) Yes.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO INTERROGATORY OF AMERICAN POSTAL WORKERS UNION**

RESPONSE to APWU/USPS-T31-4(continued):

- d) Please see my discussion of § 3626 (rates for preferred subclasses) at page 15, line through page 16, line 16. The policies in this section are stated in terms of specific numerical relationships; they are required to be met "as nearly as practicable," not weighed relative to other policies in the Act. I would also note that policies in § 3623 (classification criteria) are discussed by the pricing witnesses.
- e) Not explicitly.
- f) Not applicable.
- g) Please see my response to subpart (d).
- h) Please see my response to subpart (d).

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO INTERROGATORY OF AMERICAN POSTAL WORKERS UNION**

APWU/USPS-T31-5.

Section 101(a) of the PRA states, in part:

“The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people.”

- a) Do you agree that this provision of the PRA states a policy of Title 39 of the United States Code within the meaning of section 3622(a) of the Act?
- b) If your answer to a above is yes, does your testimony discuss or consider this policy?
- c) If your answer to b above is yes, point to the statement or statements in your testimony that discuss or consider this policy.

RESPONSE:

- a) While I am not an attorney, I do understand the quoted sentence to be a policy of the Postal Service and the Postal Reorganization Act.
However, the question of whether any one of the numerous policies of the Act outside of chapter 36 is relevant to postal ratemaking requires a legal conclusion that I am not qualified to make.
- b) My testimony does not discuss this policy, but I believe that it is directly reflected in criterion 8 (ECSI value) of § 3622(b). For Periodicals, in addition to the substantial recognition of ECSI value in determining its cost-coverage relative to other subclasses, the rate structure explicitly treats editorial matter more favorably than advertising.
- c) Not applicable.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO INTERROGATORY OF AMERICAN POSTAL WORKERS UNION**

APWU/USPS-T31-6.

Section 101(a) of the PRA states, in part:

“The Postal Service...shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities.”

- a) Do you agree that this provision of the PRA states a policy of Title 39 of the United States Code within the meaning of section 3622(a) of the Act?
- b) If your answer to a above is yes, does your testimony discuss or consider this policy?
- c) If your answer to b above is yes, point to the statement or statements in your testimony that discuss or consider this policy.

RESPONSE:

- a) While I am not an attorney, I do understand the quoted sentence to be a policy of the Postal Service and the Postal Reorganization Act.
However, the question of whether any one of the numerous policies of the Act outside of chapter 36 is relevant to postal ratemaking requires a legal conclusion that I am not qualified to make.
- b) Not applicable.
- c) Not applicable.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO INTERROGATORY OF AMERICAN POSTAL WORKERS UNION**

APWU/USPS-T31-7.

Section 101(a) of the PRA states, in part:

"The costs of establishing and maintaining the Postal Service shall not be apportioned to impair the overall value of such service to the people."

- a) What is your understanding of the term "the people" in the passage of the Act quoted above?
- b) On pages 3-4 of your testimony, you state:

"[I]n this case as in previous cases, the Postal Service's overall objective has been to craft a price and classification proposal that not only addresses concerns about the relationships between cost drivers and prices but that also provides its customers with an increased number of choices allowing them to elect the postal products and services that have the most value in meeting their business needs."

Does the Postal Service's "overall objective" take into consideration the value of postal services to all "the people" or only to business people?

- c) If your answer to b above is that the Postal Service's overall objective takes the value of postal services to all the people into consideration, where in your testimony is there any discussion of the value of postal services to people who are not in business?

RESPONSE:

- a) The entire population of the United States, acting in their various capacities as users and beneficiaries of the postal system.
- b) The Postal Service takes into consideration the diverse needs of all the people, both directly as users of postal services to transmit correspondence, payments, and packages, and indirectly through their purchases of products and services produced by businesses and other organizations that they operate which businesses and organizations that use postal services to a greater or lesser degree.

My use of the word "overall" in the quoted paragraph appears to have generated some misunderstanding. It would have been better to say

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO INTERROGATORY OF AMERICAN POSTAL WORKERS UNION**

RESPONSE to APWU/USPS-T31-7 (continued):

that one of the Postal Service's broad objectives for business customers is increased choices.

One example is splitting the 3/5 presort rate for Standard Mail flats into separate 3-digit and 5-digit rates, and letting the customer choose whether to presort to none, some, or all the 5-digit areas in a given mailing. Under the current 3/5 rate structure, 5-digit sortation is required.

- c) My testimony does not explicitly discuss the "value of postal services to people who are not in business." Value of service is an attribute of the particular postal service in question and does not depend on whether the service is being used for personal or business purposes.

For example, the Forever Stamp proposed in this case will be available for single-piece First-Class Mail sent for either personal or business purposes. Nonetheless, I believe it will be of greatest value (in terms of convenience) for mail that people send in their non-business roles. I think this is also the case for the experimental Premium Forwarding Service.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS O'HARA
TO INTERROGATORY OF AMERICAN POSTAL WORKERS UNION**

APWU/USPS-T31-8.

Section 101(a) of the PRA states, in part:

“The Postal Service shall provide a maximum degree of effective and regular postal services to rural areas, communities and small towns where Post offices are not self-sustaining. No small post office shall be closed solely for operating at a deficit, it being the specific intent of the Congress that effective postal services be insured to residents of both urban and rural communities.”

- a) Do you agree that this provision of the PRA states a policy of Title 39 of the United States Code within the meaning of section 3622(a) of the Act?
- b) If your answer to a above is yes, does your testimony discuss or consider this policy?
- c) If your answer to b above is yes, point to the statement or statements in your testimony that discuss or consider this policy.

RESPONSE:

- a) While I am not an attorney, I do understand the quoted sentence to be a policy of the Postal Service and the Postal Reorganization Act.
However, the question of whether any one of the numerous policies of the Act outside of chapter 36 is relevant to postal ratemaking requires a legal conclusion that I am not qualified to make.
- b) Not applicable.
- c) Not applicable.