

ORIGINAL

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

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POSTAL RATE AND FEE CHANGES, 2001 : Docket No. R2001-1

RESPONSE OF AMERICAN POSTAL WORKERS UNION, AFL-CIO
WITNESS RILEY TO INTERROGATORIES OF
AMERICAN BANKERS ASSOCIATION AND THE NATIONAL ASSOCIATION
OF PRESORT MAILERS (ABA&NAPU/APWU-T1-1-16)
(February 13, 2002)

The American Postal Workers Union, AFL-CIO hereby provides the responses of witness Riley (APWU-T1) to the following interrogatories:

American Bankers Association and the National Association of Presort Mailers
(ABA&NAPU/APWU-T1-1-16)

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

AMERICAN POSTAL WORKERS UNION, AFL-CIO

by its attorneys:

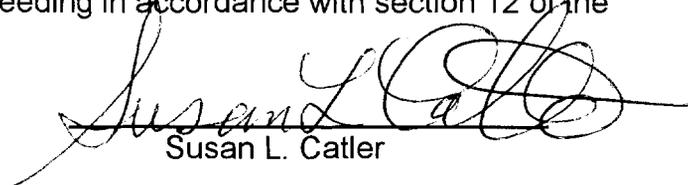


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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the following documents upon all participants of record in this proceeding in accordance with section 12 of the rules of practice.

Date: February 13, 2002



Susan L. Catler

RESPONSE OF AMERICAN POSTAL WORKERS UNION, AFL-CIO
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ABA & NAPM/APWU-T1-1

You argue that USPS should receive a return on its investment in automation equipment.

- a. Are you saying that ONLY USPS should receive such a return on investment in automation equipment, and that private mailers who have also invested hundreds of millions of dollars in automation equipment should receive no return?
- b. If automation investment by the USPS enables the USPS to process mail in a less costly manner than it would be able to without automation investment, is this a return on investment?
- c. Is it your position that when the USPS invests in automation equipment, it should price its mail services so as to return a profit to the USPS on such investment?

RESPONSE

- a. No. Please refer to my testimony on pages 20 and 21.
- b. No, but the lowered cost of processing the mail enters into the calculation of the return on the investment.
- c. I believe it is required by the Postal Reorganization Act that the Postal Service only invest in capital equipment if its expected return on investment exceeds its weighted average cost of capital and that the Postal Service should price its products recognizing this objective.

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ABA & NAPM/APWU-T1-2

Please confirm that your discount proposals, in light of the other test year financial evidence entered into this case by the Postal Service, would produce a profit to the USPS of several hundred million dollars well beyond the break even requirement of CFR Title 39.

RESPONSE

I am not certain that your amount is correct, but I also believe that a "surplus" after the satisfaction of the "revenue requirement" using the data in the current case is not in conflict with the Postal Reorganization Act, especially in light of the problems the Postal Service is facing after September 11th and anthrax.

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ABA & NAPM/APWU-T1-3

Please confirm that one way to address the Postal Service's "dire financial straights" is to cut postal costs, including labor costs.

RESPONSE

Drastic cost cuts forced by severe financial trauma do more harm than good. Organizations struggling for survival often harm their long-term prospects for success by excessive cost cutting.

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ABA & NAPM/APWU-T1-4

You argue a large shift from workshared mail to single piece mail is unlikely as a result of your slashing discounts by 3 or more cents per piece. Have you done any studies of the breakpoint beyond which it would pay business mailers to simply abandon USPS entirely in favor of accelerating the existing trend toward more and more bill presentment and payment by electronic commerce?

RESPONSE

No.

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ABA & NAPM/APWU-T1-5

If, as you imply, your discount proposals do not lead to a diversion of FCM outside of the Postal Service or into the single piece mailstream within the Service, please explain how your discount proposals benefit postal "employees", as you assert they do on page 6, line 25, of your testimony.

RESPONSE

Giving away more in price discounts than is justified by cost avoidance creates a financially weaker Postal Service. This is not good for the Service, its employees or its customers.

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ABA & NAPM/APWU-T1-6

On page 10 of your testimony, you argue that the CRA with its "actual" costs should pick up higher costs from poor barcode readability. Please confirm that the cost difference between FCM single piece letters and presort letters has since 1990 consistently grown right through to the latest CRA, that for PFY 2000.

RESPONSE

I cannot confirm or deny your assertion. To my knowledge, data to answer this question are not in the record.

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ABA & NAPM/APWU-T1-7

At page 15, lines 14 and 15 of your testimony you state that it is “good economics and good public policy” to limit discounts to the maximum of cost avoided. Are you purporting to provide advice to the Commission on allocatively efficient pricing? Are you qualified as an expert to provide advice on allocatively efficient pricing, and if your answer is yes, please provide your qualifications to provide such advice as an expert

RESPONSE

The purpose of my testimony is to recommend discounts at or preferably below avoided costs of First Class Mail to the Commission. This is a policy recommendation. I am an expert on Postal Policy and its effects. My qualifications are shown in my testimony on pages 4 and 5.

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ABA & NAPM/APWU-T1-8

If in fact good economics and good public policy do require a limit of discounts to a maximum of cost avoided, please confirm that the "cost avoided" which should serve as the maximum on discounts, should be accurately measured cost avoided

RESPONSE

Good economics, good business management and good public policy do require a limit to discounts on First Class Mail to a maximum of cost avoided. Cost avoided should be measured as accurately as possible. Discounts should reflect the omission from the models of the continuing problems with mailers entering mail that lacks the readability and accuracy required. I recommend that the Postal Rate Commission set discounts as close to 80% of the estimated cost avoided as possible.

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ABA & NAPM/APWU-T1-9

Please confirm that the United States Postal Service is not by statute a for – profit organization, that it does not issue or trade stock in itself in any equities market, and that it does not submit to the SEC or other bodies the types of information required of for-profit corporations.

RESPONSE

The Postal Service is an independent establishment of the executive branch of the Government of the United States. It does not issue common stock but in its Annual Report it submits to the President, the Congress of the United States, postal employees and the American people the kind of information required of companies that do issue stock. The Postal Service uses Generally Accepted Accounting Principles (GAAP) and has its books audited by Ernst and Young, LLP, a major public accounting firm. It does not use government accounting standards and rules. It has issued publicly traded debt in the past and it obtained a credit rating from Standard and Poors just as any public company would.

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ABA & NAPM/APWU-T1-10

- a. Please confirm that Title 39, section 3621, of the U.S.C. states: "Postal rates and fees shall provide sufficient revenues so that the total estimated income and appropriations to the Postal Service will equal as nearly as practicable total estimated costs of the Postal Service."
- b. As a not for profit organization subject to a "break-even" legal mandate, and in light of the fact that worksharing arrangements apply to well over two thirds of the entire mail volume of the Service please confirm that there is no justification whatsoever for the Postal Service to earn a profit on its worksharing arrangements, i.e. by setting discounts at anything less than correctly estimated avoided costs.

RESPONSE

- a. Your quote stops short of the most important sentence in Section 3621. It goes on to say, "For purposes of this section, "total estimated costs" shall include (without limitation) operating expenses, depreciation on capital facilities and equipment, debt service (including interest, amortization of debt discount and expense, and provision for sinking funds or other retirements of obligations to the extent that such provision exceeds applicable depreciation charges), and a reasonable provision for contingencies." This sentence and the prior sentence mean that the Postal Service should have annual profits and cumulative positive retained equity (the result of profits exceeding losses since its inception).
- b. The Postal Service is not and never has been a "not for profit" organization in the commonly accepted definition of that term. It does not have a "break-even legal mandate" and even if it did, it would mean to achieve at least "break-even." It has failed to achieve zero retained losses in its 31-year history to the great detriment of the American people.

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ABA & NAPM/APWU-T1-11

Assume for the purposes of this interrogatory that fully loaded labor costs for (non-union) mail processing clerks in private sector automated mail processing facilities are \$15 per hour while the (unionized) mail processing clerks in the Postal Service have fully loaded costs of \$31 per hour. Further, assume equal capital and facility costs, as well as borrowing costs, as between the Postal Service and private sector mail processing plants. If mail processing were an “unbundled” postal service priced directly, rather than indirectly through the “avoided cost and discounts” rate regulation concept, please confirm the following.

- a. USPS plants in a free and open market would either have to cut labor costs to compete, or would have to be subsidized by other postal services to compete with the private sector.
- b. Other than for captive collection mail, USPS would have difficulty competing in this market at all if union wage rates prevailed.
- c. The “dire financial straights” of the Postal Service you refer to would be reduced by sending collection mail to the private sector to be processed at lower cost than by having it processed at the higher cost, union shops within USPS.

RESPONSE

- a., b., & c. Not confirmed. The Postal Service has tried to reduce costs by contracting out mail processing operations to companies with lower labor rates on at least two occasions and failed miserably to achieve any savings. Further your question ignores important business considerations other than wage rates.

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ABA & NAPM/APWU-T1-12

In the "for profit" environment that underpins much of your testimony, please answer the following questions.

- a. Please cite any economics textbook or academic economic research article which claims efficient pricing across products in a multi-product organization can be achieved by a uniform absolute-dollar mark-up above the direct costs of all such products.
- b. In marginal cost analysis please explain your understanding of how profit maximization could, if at all, be achieved within a multi-product firm using the mark-up principle you advocate in your testimony.

RESPONSE

My testimony is based on the Postal Service being an independent establishment of the executive branch of the Government of the United States governed by the Postal Reorganization Act as amended, not a "for profit" environment.

- a. I do not recommend a uniform absolute dollar mark-up above direct costs.
- b. My testimony advocates not giving discounts larger than cost avoided.

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ABA & NAPM/APWU-T1-13

On page 6, line 22, you assert that your prices are "in the public interest".

- a. By "public interest" do you mean labor union interests?
- b. If your answer to a. is anything other than an unqualified yes, please explain exactly what economic principle of pricing you are proposing that generates prices that are in the "public interest".

RESPONSE

I believe that it is in the public interest for any organization (be it a government agency, a corporation or a non-profit) to set prices to earn revenues in excess of all costs and to build up its financial health to the point where it can withstand emergencies without needing a government bailout to remain viable. Virtually all organizations achieve profits or in the case of non-profits have revenues greater than expenses with the amount left over designated as an addition to a reserve fund. No one is served if the Postal Service becomes insolvent. It will harm large mailers, small mailers, the U.S. Government which does not need this distraction and cost, and all employees including union employees. By public interest, I mean exactly that, the interest of all who live in this country.

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ABA & NAPM/APWU-T1-14

- a. Please confirm that since postal reorganization in the 1970s, the level of Congressional appropriations for USPS has trended downward substantially while the percentage of total revenues for the Service generated by products and rates has increased.
- b. Please produce a table stating the operating revenue and operating costs of the USPS for each year since re-organization in support of your assertion on page 7, lines 23-24, that the USPS has never achieved a cumulative break even.

RESPONSE

The Postal Service was created to become self-funding and to avoid the continuing need for a government subsidy. The table that you request is provided below:

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ABA & NAPM/APWU-T1-14 -- page 2

U. S. Postal Service
\$ Millions

Fiscal Year	Total Revenue	Total Expense	Profit or (Loss)	Cumulative Net (Loss)
1972	9,417	9,592	(175)	(175)
1973	9,931	9,944	(13)	(188)
1974	10,875	11,313	(438)	(627)
1975	11,657	12,646	(989)	((1,616)
1976	12,915	14,091	(1,176)	(2,791)
TQ	3,462	3,447	15	(2,776)
1977	14,842	15,530	(688)	(3,464)
1978	16,031	16,410	(379)	(3,843)
1979	18,175	17,705	470	(3,374)
1980	19,253	19,559	(306)	(3,680)
1981	20,898	21,486	(588)	(4,268)
1982	23,727	22,925	802	(3,466)
1983	24,789	24,173	616	(2,850)
1984	26,557	26,440	117	(2,732)
1985	29,016	29,267	(251)	(2,984)
1986	31,135	30,830	305	(2,679)
1987	32,505	32,728	(223)	(2,902)
1988	35,939	36,536	(597)	(3,499)
1989	38,920	38,859	61	(3,438)
1990	40,074	40,948	(874)	(4,312)
1991	44,202	45,671	(1,469)	(5,780)
1992	47,105	47,642	(537)	(6,317)
1993	47,986	49,751	(1,765)	(8,082)
1994	49,577	50,491	(913)	(8,995)
1995	54,509	52,739	1,770	(7,225)
1996	56,544	54,977	1,567	(5,658)
1997	58,331	57,067	1,264	(4,394)
1998	60,116	59,566	550	(3,844)
1999	62,755	62,392	363	(3,481)
2000	64,581	64,780	(199)	(3,680)
2001	65,869	67,549	(1,680)	(5,360)

Note: Total Revenue includes mail and other revenues, appropriation revenue, and investment income. Total Expense includes total operating expenses and other costs including interest expense.

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ABA & NAPM/APWU-T1-15 - You state on page 9: "I urge the Rate Commission, whenever it has a range of choices, to pick the one that will generate the most revenue for the Postal Service."

- a. Why do you think regulation of postal rates exists in the institution of the Postal Rate Commission?
- b. Does such regulation exist to set the highest rates possible that the American public will swallow?
- c. What are the antitrust implications of your statement, if indeed the rate Commission followed it?

RESPONSE

- a. See 39 U.S.C. Section 3622
- b. No. See 39 U.S.C. Section 3622
- c. There are no anti-trust implications when a government reserves the provision of certain services to itself.

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ABA & NAPM/APWU-T1-16 - You state on page 11 of your testimony that as a result of your proposed rates, “the Postal Service will have more mail to process and more revenue with which to do it.”

- a. Please confirm that such an outcome would be to the direct benefit of the postal labor union you are representing in this case.

- b. Please confirm that such an outcome would be to the direct detriment of the hundreds of private sector mail processing facilities with which over the past two and a half decades the USPS has worked out various worksharing arrangements.

RESPONSE

A careful reading of page 11, lines 9 to 15, of my testimony shows that I am dealing with events that might occur. I recommend that as a policy matter the Postal Rate Commission should choose lower discounts and give more revenue to the Postal Service to ease the shortfall that exists. All Americans will benefit from a Postal Service that is closer to financial health. Large mailers will benefit the most from the removal or diminishment of the threat of insolvency. Any financial failure of the Postal Service would be a disaster to the economy of the country.

DECLARATION

I, Michael J. Riley, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information and belief.

Dated: February 13, 2002


Michael J. Riley