

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
KEYSPAN ENERGY (KeySpan/APWU-T1-1)
UNITED STATES POSTAL SERVICE (USPS/APWU-T1-1-6)
MAJOR MAILERS ASSOCIATION (MMA/APWU-T1-1-6)
(February 8, 2002)

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

KeySpan Energy (KeySpan/APWU-T1-1)
United States Postal Service (USPS/APWU-T1-1-6)
Major Mailers Association (MMA/APWU-T1-1-6)

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 8, 2002


Susan L. Catler

RESPONSE OF AMERICAN POSTAL WORKERS UNION, AFL-CIO
WITNESS RILEY TO INTERROGATORY OF KEYSpan ENERGY

KeySpan/APWU-T1-1 Are you aware that USPS witness Miller changed the methodology for estimating QBRM cost savings from the methodology employed by the Commission in Docket No. R2000-1 less than one year prior to the time Mr. Miller filed his direct testimony in this case? If yes, please explain all of those changes, as you understand them, provide the separate impact of each such change upon measured QBRM cost savings, and provide copies of all work papers or other documents prepared by you or under your direction and supervision prior to the date your Direct Testimony was filed that set forth or discuss an analysis of Mr. Miller's changes in the methodology for estimating QBRM cost savings. If no, please explain the extent to which you studied USPS witness Miller's derivation of QBRM cost savings.

RESPONSE

I am aware that at pages 26 – 27 of USPS witness Miller's testimony he explains changes he made to the methodology used by USPS witness Campbell to estimate QBRM cost savings in Docket No. R2000-1. Any more specific questions concerning the methodology changes in witness Miller's testimony and the impact of those changes should be directed to USPS witness Miller.

**RESPONSE OF AMERICAN POSTAL WORKERS UNION, AFL-CIO WITNESS RILEY
TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE**

USPS/APWU-T1-1

Please refer to your testimony at page 4 at (lines 9-11) where you state, "From August 1993 to July 1998, I held the position of Senior Vice President and Chief Financial Officer of the U.S. Postal Service."

- a. Please confirm that the USPS Request in Docket No. R97-1 (an electronic copy of which may be accessed and examined via the PRC website) was filed at the Postal Rate Commission on July 10, 1997. If not confirmed, please explain.
- b. Please confirm that you were the Senior Vice President and Chief Financial Officer of the Postal Service at the time that the Postal Service prepared its Docket No. R97-1 Request, submitted to the USPS Board of Governor for approval, and filed it at the Postal Rate Commission. If not confirmed, please explain.
- c. Please confirm that the Certification found in Attachment D of that Request was signed by John A. Reynolds, Manager, Product Finance, Finance Department, USPS Headquarters. If not confirmed, please explain.
- d. Please confirm that in July, 1997, the Finance Department operated under the direction of the Senior Vice-President and Chief Financial Officer. If not confirmed, please explain.

RESPONSE

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. Confirmed.

RESPONSE OF AMERICAN POSTAL WORKERS UNION, AFL-CIO WITNESS RILEY
TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE

USPS/APWU-T1-2

Please refer to your testimony on page 24 (lines 6-9), where you state, "In summary, I recommend that the Postal Rate Commission set discounts for First-Class mail at levels between 80 percent and 100 percent of the estimated cost avoided by the Postal Service."

- a. Please provide the quantitative basis for your lower bound of 80 percent.
- b. Please explain in full the qualitative basis for your lower bound of 80 percent.

RESPONSE

a & b. Historically, some discounts were set at approximately 80 percent of the estimated cost avoided. The rationale for setting discounts at less than the estimated cost avoided includes acknowledging that revenue assurance shows that actual cost avoided is less than estimated cost avoided. Especially in light of the Postal Service's current financial situation, erring on the side of more revenue to the Postal Service is prudent. It also is appropriate where cost avoided is declining over time to send the appropriate investment signals to mailers.

RESPONSE OF AMERICAN POSTAL WORKERS UNION, AFL-CIO WITNESS RILEY
TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE

USPS/APWU-T1-3

- a. Please refer to your testimony on page 10 at 9-11 where you state, "In this case, the CRA cost system will properly register the 'actual' costs of the mail with the resulting contribution from such mail being less than had been anticipated." Please confirm that the CRA is designed to capture costs related to all mail. If not confirmed, please explain.
- b. Please refer to witness Miller's testimony (USPS-T-22) on page 8 at 15-16. Please confirm that witness Miller's analysis relied upon CRA mail processing unit cost estimates. If not confirmed, please explain.
- c. Please refer to witness Miller's testimony (USPS-T-22) on page 17 at 1-9. Please confirm that CRA adjustment factors were applied to witness Miller's test year model cost estimates. If not confirmed, please explain.
- d. Please refer to USPS LR-J-60, page 51. Please confirm that witness Miller's cost models rely upon actual accept rates for all mail processed on letter sorting equipment. If not confirmed, please explain.
- e. Please refer to your testimony on page 10 at 3-9 where you state, "Since the Postal Service's proposed discounts are based upon special studies which develop "should cost" estimates of cost avoided by pre-barcoding and pre-sorting, in those cases where the mail is not presented in the prescribed manner but is granted the discount anyway, the result certainly will be the Postal Service experiencing higher costs than had been estimated." Please explain how the Postal Service will experience higher costs than it has estimated, if its costs estimates are based on data representing actual mail pieces, including mail pieces accepted and processed despite not being presented in the prescribed manner.

RESPONSE

- a. I agree that the CRA cost system is designed to take the total costs incurred by the Postal Service and to identify them, to the extent possible, by class.
- b. Mr. Miller states that his analysis "relies upon shape-specific CRA mail processing unit costs, which are reported by cost pool in the In-Office Cost System (IOCS)". This does not mean that his cost estimates by rate category are reported in the CRA system.
- c. I can confirm that the heading at line 1 is "CRA Adjustments". Witness Miller needs to make adjustments because the CRA does not report unit costs by rate category.
- d. Not confirmed. Page 51 indicates that the source of some of the data is "Engineering" and Docket No. R97-1. I also note that this table does not show accept rates for all rate categories.
- e. As I have explained, the "should cost" estimates by First-Class rate category do not account for the added costs of mail presented at a category for which it does not qualify.

RESPONSE OF AMERICAN POSTAL WORKERS UNION, AFL-CIO WITNESS RILEY
TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE

USPS/APWU-T1-4

Please refer to your testimony on page 15 at 14-17 where you state, "Good economics and public policy require a limit of discounts to a maximum of cost avoided. The Postal Rate Commission has said as much in its past orders and this is correct."

- a. Please refer to PRC Op. R2000-1, page 243, Table 5-3. Please confirm that the recommended passthrough of avoided cost for the First-Class Mail nonautomation presort letters rate category was 500 percent ($2.0\phi \div 0.4\phi$).
- b. Please confirm that discount for First-Class Mail nonautomation presort letters, as modified by the Decision of the Governors of the United States Postal Service on the Recommended Decision on Further Reconsideration of the Postal Rate Commission on Postal Rate and Fee Changes, Docket No. R2000-1 (May 7, 2001) is 1.8 cents.
- c. Please confirm that the passthrough of avoided cost for the First-Class Mail nonautomation presort letters rate category, as modified by the Governors in Docket No. R2000-1 was 450 percent ($1.8\phi \div 0.4\phi$).
- d. Are you aware of any other mail classes within which the Postal Rate Commission has recommended passthroughs in excess of 100 percent for particular rate categories since Docket No. MC95-1? If so, please list all such categories and the recommended passthroughs.

RESPONSE

- a. The Postal Rate Commission's explanation for its recommendation to decrease the nonautomation presort letters discount from 2.5 cents to 2.0 cents is found at §5065 of the Commission Recommended Decision, page 235-6:

[5065] The Postal Service proposes to reduce the nonautomation presort letters discount from 2.5 cents to 2 cents. The 1999 IOCS method may have caused the costs of nonautomation presort to be overestimated. The cost savings from presortation is smaller than the proposed discount. The Service cautions that this discount may be smaller in the future. No participant comments on this proposal, and thus the Commission recommends the suggested 2-cent discount.

This puts the referenced discount in prospective.

- b. Confirm that the current discount is 1.8 cents.
- c. The math is correct.
- d. I have not done a thorough search and suspect the Postal Rate Commission has done so in unique circumstances. I believe the one you cited above was one such unique circumstance and I am only recommending that generally the Commission not go above 100 percent pass-through. I have also recommended that the Commission generally not go below 80 percent although I trust that they may have situations in which they recommend pass-through percentages below 80 percent.

RESPONSE OF AMERICAN POSTAL WORKERS UNION, AFL-CIO WITNESS RILEY
TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE

USPS/APWU-T1-5

Please refer to your testimony at page 11 (lines 9-12), where you state, "If the larger discounts drive greater volume into pre-barcoded and pre-sorted mail, then the Postal Service will realize a smaller return on its investment in automation equipment." In addition, please refer to your testimony at page 20 (lines 11-13), where you state, "One feature of capital investment in the high tech equipment is that these machines are expected to recover their costs in the first year or two."

- a. In reference to the first statement, please identify the sources of the mail volume that would convert or migrate to prebarcoded and presorted status. Please fully explain the basis for your conclusions.
- b. Please refer to witness Miller's response to KE/USPS-T22-1 (Tr. 7/1357-60) and identify which pieces of postal letter mail processing equipment referenced in that response you consider to be "high tech equipment."
- c. Of the equipment identified in response to subpart (b), to the best of your knowledge, please identify the equipment for which deployment was either completed or substantially completed more than two years ago.

RESPONSE

- a. The most likely source of such mail would be Non-automation Presort Rate and Single-Piece Rate mail pieces.
- b. The statement you cite at page 20 of my testimony refers to the concern Ms. Robinson has for the mailers who have who have invested significantly and changed their way of processing or generating mail. The equipment you cite is that purchased and owned by the Postal Service rather than the mailers.
- c. I believe my answer to (b) above indicates that I am referring to mailers investments and you are referring to Postal Service investments.

RESPONSE OF AMERICAN POSTAL WORKERS UNION, AFL-CIO WITNESS RILEY
TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE

USPS/APWU-T1-6

Please refer to your Table I and Table II, Column (4) of your testimony.

- a. Please confirm that cost methodology changes will affect the costs in Table II, Column (4). If not confirmed, please explain.
- b. Please confirm that the results in Column (4) would change if the Postal Service, in support of its Docket No. R2001-1 cost presentations, had adopted the Postal Rate Commission's approach to volume variability, as reflected in PRC Op. R2000-1, Appendix F.
- c. Please confirm that Docket No. R2001-1 witness Miller (USPS-T-22) has made cost pool classification adjustments that differ from those relied upon by the Commission in Docket No. R2000-1. (See USPS-T-22, pages 9 (line 23) - 10 (line 4). If not confirmed, please explain.
- d. Please confirm that Docket No. R2001-1 witness Miller (USPS-T-22) has adopted a delivery unit cost estimate proxy for Bulk Metered Mail (BMM) letters that differs from that relied upon by the Commission in Docket No. R2000-1. (See USPS-T-22, page 20 (lines 19-24). If not confirmed, please explain.

RESPONSE

- a. If the Postal Service changes the methodology it uses to calculate avoided costs, the cost avoided calculated using the new Postal Service methodology could differ from the cost avoided calculated using the Postal Service methodology used in this case.
- b. I have not attempted to trace the impact of changes in methodology. I have simply objected to the Postal Service passing on savings greater than it has estimated it will save. Witness Miller has reported estimated savings, the Postal Service used his figures to develop its rate proposal and so have I.
- c. See my response to (b) above.
- d. See my response to (b) above.

RESPONSE OF AMERICAN POSTAL WORKERS UNION, AFL-CIO
WITNESS RILEY TO INTERROGATORIES OF THE MAJOR MAILERS
ASSOCIATION

MMA/APWU-T1-1 Please refer to page 6 of your Direct Testimony where you state that you “used the estimated avoided costs sponsored by USPS Witness Miller.”

- A. Did you independently verify the estimated cost savings derived and presented by USPS witness Miller? If yes, please explain exactly how you did so and provide copies of all studies, workpapers, and any other documents you prepared or reviewed in connection with that effort. If you did not prepare any of these documents, for each such document please identify the person that did so.
- B. Were you aware that Mr. Miller changed the methodology for estimating workshare cost savings from the methodology employed by the Commission in Docket No. R2000-1, less than one year prior to Mr. Miller’s filing of his direct testimony in this case? If yes, please list and explain each of those changes, as you understand them, provide the separate impact of each such change upon measured workshare cost savings, and provide copies of all workpapers or other documents prepared by you or under your direction and supervision prior to the date your Direct Testimony was filed that set forth or discuss an analysis of Mr. Miller’s changes in the methodology for estimating workshare cost savings. If no, please explain the extent to which you have studied USPS witness Miller’s derivation of workshare cost savings.
- C. If the Commission’s exact methodology for measuring workshare cost savings had been proposed by the Postal Service in this case, would the First-Class workshare discounts proposed in the settlement be greater or less than the cost savings? Please explain your answer and provide citations to all sources and set forth clearly the formulae and computations used to support your answer.

RESPONSE

- A. No.
- B. No. USPS witness Miller states at page 17, lines 15 – 17 of his testimony: “In Docket No. R2000-1, I used an improved worksharing related savings calculation that was subsequently relied upon by the Commission. I again use that methodology in this docket.” (Footnote omitted). Any more specific questions concerning the methodology changes in witness Miller’s testimony and the impact of those changes should be directed to USPS witness Miller.
- C. This is beyond the scope of my testimony. Any questions concerning the methodology in witness Miller’s testimony compared or contrasted with an alternate methodology should be directed to USPS witness Miller.

RESPONSE OF AMERICAN POSTAL WORKERS UNION, AFL-CIO
WITNESS RILEY TO INTERROGATORIES OF THE MAJOR MAILERS
ASSOCIATION

MMA/APWU-T1-2 Please refer to page 8 of your Direct Testimony where you recommend changes only to the proposed settlement rates for First-Class letters. Please also refer to the Direct Testimony of Joseph D. Moeller (USPS-T-32), page 23, lines 15 – 18, where Mr. Moeller recommends a 150% passthrough of the cost difference for 5-digit automated Standard letters. Please explain why you are proposing to establish First-Class discounts that are less than the alleged cost savings, but have ignored Standard rate discounts that are greater than the alleged cost savings.

RESPONSE

The American Postal Workers Union, AFL-CIO opposed the rate design proposed for First-Class Mail. It did not file an opposition to the rate design for Standard Mail.

RESPONSE OF AMERICAN POSTAL WORKERS UNION, AFL-CIO
WITNESS RILEY TO INTERROGATORIES OF THE MAJOR MAILERS
ASSOCIATION

MMA/APWU-T1-3 Please refer to pages 9 and 10 of your Direct Testimony where you discuss your contention that the "actual" cost avoided is less than the "should cost" estimated cost avoided, as measured by the Postal Service. Please confirm that the Postal Service's model-derived unit costs are reconciled to the CRA-derived unit costs and that the CRA-derived unit costs reflect test year projected costs that are based on actual costs. If you cannot confirm, please explain.

RESPONSE

See response to USPS/APWU-T1-3.

RESPONSE OF AMERICAN POSTAL WORKERS UNION, AFL-CIO
WITNESS RILEY TO INTERROGATORIES OF THE MAJOR MAILERS
ASSOCIATION

MMA/APWU-T1-4 On page 11 of your Direct Testimony you propose lower workshare discounts to attract more First-Class single piece letters and higher revenues. Please confirm that First-Class single piece volumes have remained fairly stagnant over the past 30 years. See USPS-T-7, page 34. If you cannot confirm, please explain.

RESPONSE

I do not propose lower workshare discounts to attract more First-Class single piece letters and higher revenues on page 11 of my testimony. I am proposing lower workshare discounts to stop giving mailers more in discounts than the Postal Service is saving by their mail preparation.

I cannot confirm that First-Class single piece volumes have remained fairly stagnant over the past 30 years. There was no such rate category in 1970. With respect to First-Class letter mail volume, it is important to note that in 1970 all letters in First-Class Mail were what is now called single piece First-Class letters. Since then other rate categories for First-Class letters have been created. Those other rate categories for First-Class letters now have a total volume approximately equal to the current single piece First-Class letter volume. In addition, in 1970, personalized information could not be sent in a Third-Class letter. Now personalized information can be sent in a Standard Mail letter. For the single piece First-Class letter rate category to maintain the volume it had in 1970 while there has been a huge migration of business mail to other First-Class letter rate categories and to Standard Mail letters does not represent stagnation of single piece First-Class letters.

RESPONSE OF AMERICAN POSTAL WORKERS UNION, AFL-CIO
WITNESS RILEY TO INTERROGATORIES OF THE MAJOR MAILERS
ASSOCIATION

MMA/APWU-T1-5 On page 12 of your Direct Testimony you suggest that the unit contribution to institutional costs for First-Class discounted workshare letters be at least as great as the contribution for "comparable" non-discounted single piece letters.

- A. Please explain exactly how you would measure the unit contributions for First-Class workshare letters and single piece letters. Should the distance traveled be the same? Should the weight be the same? Would you compare the workshare unit contribution to that of an average single piece letter, an average clean letter, an average metered letter, an average bulk metered letter, or something else?
- B. Please provide the unit contributions for First-Class workshare letters and comparable single piece letters that would result if your proposed workshare rates, as shown in your Table 1, were adopted by the Commission. Please provide citations to all sources and set forth all formulae and computations used to support your answer.

RESPONSE

- A. On page 12 of my testimony at lines 12 through 14 I explain how the contribution for a piece should be measured, I explain, "so that the contribution of any piece will be the same regardless of in which rate category in the subclass that piece enters the mail stream."
- B. I have not calculated the specific numbers. In the case of an 80 percent pass-through, the contribution of a comparable single piece letter would be lower and thus the comparable workshare letter would have a higher value to the Postal Service. In the case of a 100 percent pass-through the same piece would make the same contribution regardless of the rate category the mailer chose.

RESPONSE OF AMERICAN POSTAL WORKERS UNION, AFL-CIO
WITNESS RILEY TO INTERROGATORIES OF THE MAJOR MAILERS
ASSOCIATION

MMA/APWU-T1-6 On page 24 of your Direct Testimony you recommend that the First-Class work-share discounts be set at 80% of the costs avoided, as determined by USPS witness Miller. Please provide for the test year in this case, a table of postal finances that includes First-Class workshare mail, First-Class single piece mail, and all mail. Please be sure to provide for each category the total revenue, cost, contribution to institutional costs, cost coverage, markup index, and the percent increase that would result from implementation of your proposed rates. Please include as part of your response to this interrogatory clearly labeled keys to all of the source documents, inputs, outputs, and calculations used in your analyses.

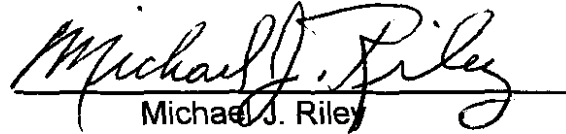
RESPONSE

I have not performed the cited calculations.

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 8, 2002


Michael J. Riley