

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

RECEIVED  
FEB 13 4 24 PM '02  
MAIL  
OFFICE

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

RESPONSE OF AMERICAN POSTAL WORKERS UNION, AFL-CIO  
WITNESS RILEY TO INTERROGATORIES OF  
UNITED STATES POSTAL SERVICE (USPS/APWU-T1-7-10)  
(February 13, 2002)

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

United States Postal Service (USPS/APWU-T1-7-10)

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

Respectfully submitted,

AMERICAN POSTAL WORKERS UNION, AFL-CIO

by its attorneys:

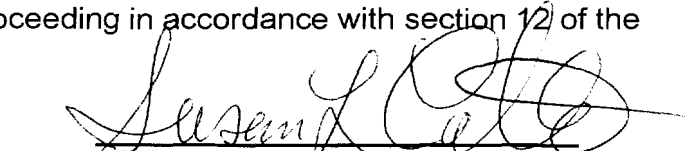


Susan L. Catler  
O'Donnell, Schwartz and Anderson, P.C.  
1300 L Street NW, Suite 1200  
Washington, DC 20005-4126  
(202) 898-1707/FAX (202) 682-9276  
Email: scatler@odsalaw.com

**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 WITNESS RILEY  
TO INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE

**USPS/APWU-T1-7**

Please refer to page 19 of your testimony (line 6) where you state that: "[t]he added single piece volume from any decrease in discounts is likely to be extremely small." You support this claim with a citation to Postal Service witness Thress's testimony (USPS-T-8 at 22) where he states that "[i]n the aggregate, workshared First-Class letters volume is virtually unaffected by Postal rates."

- (a) Please confirm that the aggregate rate elasticity cited by witness Thress (-0.028) refers to the price impact on postal volume assuming all postal rates (including worksharing rates, single-piece rates, and worksharing discounts) are changed equally or approximately equally. If you cannot confirm, please supply your understanding of the interpretation of this elasticity.
- (b) Please confirm that you propose different rate changes for discounted and non-discounted First-Class letters, and worksharing discounts that decrease at the same time that worksharing rates would be increasing. If you cannot confirm, please explain fully.
- (c) Have you or any person working in consultation with you or under your direction in relation to Docket No. R2001-1 made any effort to estimate test year volumes at the rates that you have proposed? If so, please provide the results of such analysis and all underlying workpapers.
- (d) In comparison to current First-Class Mail rates, please state the percentage rate change that you are proposing for each First-Class Mail rate category or rate element.

**RESPONSE**

- (a) Witnesses Tolley and Thress find very small price elasticities and cross-elasticities. This means that the overall volume change and the volume that will switch from discounted mail to single piece will be very small.
- (b) Confirmed.
- (c) No.
- (d) I am not proposing that the Commission set rates by looking at the percentage change in any rate category. However, over the last ten years, the percentage increase in discounted rates has been significantly less than the percentage increase in single piece rates. If one wants to look at percentage changes in rate categories, the only thing that makes sense is to do so over a long period of time.

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

**USPS/APWU-T1-8**

At page 9 of your testimony, you state that during your postal tenure, you instituted a revenue assurance unit "to focus on mailers who received unearned discounts or otherwise failed to pay all the postage that was due."

- (a) Please confirm that the Postal Service's base year and test year revenue estimation procedures reflect actual mailer behavior with respect to both over- and under-payment of postage. If you cannot confirm, please explain why and fully state your understanding of the revenue estimation procedures used by the Postal Service in this filing and supply the detailed basis for your understanding.
- (b) Please confirm that any improvements in mail preparation procedures or revenue receipts due to the actions of the revenue assurance unit that were implemented during your tenure would have accrued by the Docket No. R2001-1 base year and would be rolled forward to the test year. If you cannot confirm, please explain.
- (c) Please confirm that any improvements in mail preparation procedures or revenue receipts due to the actions of the revenue assurance unit that are not accounted for in the base year or the rollforward will improve the Postal Service's financial position relative to what is estimated in the Postal Service's filing. If you cannot confirm, please explain.

**RESPONSE**

- (a) Not confirmed. The Postal Service base year includes all actual costs and revenues as measured and estimated by the accounting system and management judgment. As we all know, the test year submitted by the Postal Service is badly outdated by the events that occurred on September 11 and the Anthrax Terrorist attack. The Postal Service has chosen to not update its test year to reflect reality so it is unlikely to reflect actual mailer behavior.
- (b) Not Confirmed. I began a program to find short paid mail, to learn how and why it occurred and to find solutions. The Merlin system that the Board of Governors recently funded despite great financial difficulties was justified based on some of the findings.
- (c) To date Postal management has not enforced its own rules for mail preparation and it has overruled the Revenue Assurance unit in this matter. It is entirely possible that the impact of this inaction will be to further distort the relationship of what "actual" costs will result in the test year as compared to the estimates of "should cost" that are now before the Rate Commission.

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

**USPS/APWU-T1-9**

- (a) Are your rate proposals based on an alternate implementation date to the June 30, 2002, date reflected in the settlement agreement? If so, please indicate that alternate date.
- (b) Please confirm that, all other things equal, a rate implementation date that is later than June 30, 2002, will result in less revenue for the Postal Service in Fiscal Year 2002 than a June 30, 2002 implementation date.

**RESPONSE**

- (a) No. My testimony contains no recommendation about an implementation date. It is my opinion that the Postal Service should implement the rates as soon as possible after the Commission issues its decision.
- (b) Postal revenue in FY2002 will be a function of the rates implemented for all classes of mail, the timing of the rate increase and mailer behavior.

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

**USPS/APWU-T1-10**

- (a) Compared to the rates originally requested by the Postal Service, what is the impact of the rate changes you are proposing on Postal Service test year after rates revenues and expenses?
- (b) How will the rate changes you are proposing impact the total revenue requirement originally requested by the Postal Service (see USPS-T-6)?
- (c) Will the rate changes that you have proposed result in a test year surplus? If your answer is other than affirmative, please explain fully.

**RESPONSE**

- (a), (b) & (c) The test year concept develops a revenue requirement based on a legal fiction. I recommend that the Commission adopt rates that pass through only 80% of the avoided costs as measured by the Postal Service. This will increase test year revenues and slightly decrease test year expenses. It should cause a careful calculation of any test year surplus or deficit to become more of a surplus. I recommend that the Postal Rate Commission recommend rates that provide the highest possible test year surplus to recognize the public policy concern about the dire financial situation of the Postal Service.

**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