

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

Postal Rate and Fee Changes, 2006)

Docket No. R2006-1

**RESPONSE OF THE AMERICAN POSTAL WORKERS WITNESS KOBE TO THE
INTERROGATORIES OF MAJOR MAILERS ASSOCIATION
(MMA/APWU-T1 1-14)
September 22, 2006**

The American Postal Workers Union, AFL-CIO provides the responses of witness Kathryn Kobe to the interrogatories of the Major Mailers Association submitted on September 8, 2006. Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

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Response of Kathryn Kobe to the Interrogatories of the Major Mailers Association

MMA/APWU-T1-1

On pages 3 of your testimony, you indicate that bulk metered mail has been used as the benchmark mail piece since R97-1. Is it your view that First-Class presort volumes are still growing and exhibit similar volume shifts from First-Class single piece to workshared in the same manner that such shifts occurred in R97-1. Please explain your answer.

Response:

Based on the RPW, First Class Presort volumes for letters, flats and parcels grew 3.7% in FY2005 and have grown about 3.5% through the third quarter of FY2006. That is a slower growth rate than was seen during the late 1990s. To my knowledge there are no data to indicate how much of that growth is coming from First Class Single Piece mail now nor how much of it came from First Class Single Piece mail then. In my view, not all of the recent decline in Single Piece mail is coming from a shift into the Presort categories but there probably is some Single Piece mail that is still shifting from one category to the other.

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MMA/APWU-T1-2

On page 7 of your testimony you indicate that the Postal Service's current methodology for supporting workshared discounts results "in the mailer of the Single Piece 'clean' letter paying a larger contribution to overhead than the mailer of the Presort 'clean' letter."

- A. Please confirm that classification is an averaging process whereby mail with similar attributes are combined and assessed the same rate. If you cannot confirm, please explain.
- B. Please confirm that, whenever there is an averaging process, there will be some mail within that category that pays more towards institutional costs than other mail. If you cannot confirm, please explain.
- C. Please provide the TY AR unit contribution to overhead for an average single piece "clean letter at the USPS proposed rates, indicating all sources used and explaining how you derived it.
- D. Please provide the TY AR unit contribution to overhead for an average Presort "clean letter at the USPS proposed rates, indicating all sources used and explaining how you derived it.
- E. By how much is the contribution from the single piece "clean" letter higher than the Presort "clean" letter?

Response:

Page 7 of my testimony does not indicate that the Postal Service's current methodology for supporting workshared discounts results "in the mailer of the Single Piece 'clean' letter paying a larger contribution to overhead than the mailer of the Presort 'clean' letter." It indicates this is a likely outcome of the Postal Service's proposed methodology.

- A. Mail receiving similar service from the Postal Service is averaged together.
- B. Confirmed

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- C. I have not derived the unit contributions specified. However, if workshare discounts are calculated to equal costs avoided by the Postal Service the unit contribution of a “clean” piece of mail would be the same whether or not it was workshared.
- D. See C.
- E. See C.

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MMA/APWU-T1-3

On page 7 of your testimony you indicate that the Postal Service's current methodology for supporting workshared discounts results "in the mailer of the Single Piece "clean" letter paying a larger contribution to overhead than the mailer of the Presort "clean" letter".

- A. Please define "cleanliness" as you use the term.
- B. Has "cleanliness" ever been a cost sparing attribute that has been recognized with a discount? If so, please explain.
- C. Please confirm that "dirty" and "clean" letters within First-Class single piece have always paid the same rate. If you cannot confirm, please explain.
- D. Do you believe that a problem exists within First-Class single piece because the Postal Service makes a higher profit on "clean" letters than on "dirty" letters? Please explain your answer.

Response:

Page 7 of my testimony does not indicate that the Postal Service's current methodology for supporting workshared discounts results "in the mailer of the Single Piece 'clean' letter paying a larger contribution to overhead than the mailer of the Presort 'clean' letter." It indicates this is a likely outcome of the Postal Service's proposed methodology.

- A. There is no precise definition of this term and my testimony was not meant to provide one except for the observation that BMM letters (machinable, type written addresses, uniform in size) tend to be at the cleaner end of the continuum. In general, clean mail has tended to be that mail which, for a variety of reasons, is cheaper than average to process.
- B. Not directly

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C. Confirmed

D. I would not characterize contributions toward institutional costs as a “profit”. Uniform rates and cost averaging do result in a system where there are letters with above average costs and those with below average costs. The letters with below average costs are implicitly providing more toward the institutional costs than are the letters with above average costs. The problem is not one of averaging the costs of Single Piece First Class letters it is averaging those costs only over the Single Piece First Class letters instead of over all the First Class letters.

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MMA/APWU-T1-4

On page 7 of your testimony you indicate that the Postal Service's current methodology for supporting workshared discounts results "in the mailer of the Single Piece "clean" letter paying a larger contribution to overhead than the mailer of the Presort "clean" letter".

- A. Does a Single Piece "clean" letter bypass collection costs? Please explain your answer.
- B. Does a Single Piece "clean" letter incur window service costs? Please explain your answer.
- C. Does a Single Piece "clean" letter incur mail preparation costs? Please explain your answer.
- D. On average, is a Single Piece "clean" letter rejected from automation equipment more often than, less often as or as often as a pre-approved, automation-compatible prebarcoded letter? Please explain your answer.
- E. Does a Presort "clean" letter incur collection, window service or mail preparation costs? If so, please explain your answer.
- F. What other costs do Single Piece "clean" letters incur that Presort "clean" letters do not?
- G. How do you know that the discounts offered by the Postal Service to Presort "clean" letters are more than the additional costs incurred by single piece "clean" letters that incur collection, window service and mail preparation costs?

Response:

Page 7 of my testimony does not indicate that the Postal Service's current methodology for supporting workshared discounts results "in the mailer of the Single Piece 'clean' letter paying a larger contribution to overhead than the mailer of the Presort 'clean' letter." It indicates this is a likely outcome of the Postal Service's proposed methodology.

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- A. Some do and some do not.
- B. Perhaps some clean letters would require window service, if a mailer requires a stamp for example.
- C. I do not understand your question. If you mean preparation costs by the mailer then it would incur preparation costs.
- D. I have no data to determine the answer to this.
- E. Presort letters might have window service costs if a mailer chooses to purchase precancelled stamps that way, might have some mail collection costs if there is a plant load agreement, and again I am unsure of what you mean by preparation costs.
- F. I have not looked at the difference between all “clean” First Class Single Piece letters and “clean” Presort letters. The calculations in my testimony focus on the difference in the mail processing costs of a subset of “clean” First Class Single Piece letters, BMM letters and Presort letters. Tables A-2 and A-3 itemize the workshare-related costs for metered mail letters (being used to proxy the costs of BMM letters) and presort letters and provides the basis for determining where the costs differ.
- G. Your question seems to encompass a wide array of clean letters, not necessarily just those that are nearly identical to the Presort letters, and an array of activities that are outside the scope of the discount calculations. As one example, the Commission has determined that window service costs should not be part of the costs avoided calculations. I did not try to compare the costs of the out-of-scope services to the discounts since they are not related to one another.

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MMA/APWU-T1-5

On page 10 of your testimony, you propose higher First-Class presorted rates than your cost savings indicate because “a ‘one step’ adjustment is likely to result in rate shock that probably would cause undue disruption to both mailers and the Postal Service.” Please provide copies of any studies that were performed by or for you prior to filing your testimony in this proceeding that you relied on as the basis for concluding that First-Class presorted rates based on the cost savings you calculated in Table 1 of the Column titled Total Workshare Related Unit Cost Savings on page 8 of your testimony will cause undue disruption to both mailers and the Postal Service.

Response:

I do NOT propose higher First-Class presorted rates than my cost savings indicate on page 10 of my testimony. That is an incorrect reading of my testimony.

I did not rely on specific studies to come to the conclusion that the rates in Table 2 that were calculated using the costs avoided calculated from Table 1 would likely result in rate shock. To my knowledge rate shock has never been precisely defined.

It is my opinion that percentage increases of 16 to 18 percent in the rates for First Class Presort letters would be unlikely to be accepted by the Commission or the BOG given that the overall rate increase sought for this case was 8.5 percent.

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MMA/APWU-T1-6

On page 10 of your testimony, you propose higher First-Class presorted rates than your cost savings indicate because “a ‘one step’ adjustment is likely to result in rate shock that probably would cause undue disruption to both mailers and the Postal Service.” Please provide copies of any studies that were performed by or for you prior to filing your testimony in this proceeding that you relied on as the basis for concluding that the First-Class presorted rates you propose will not cause undue disruption to both mailers and the Postal Service.

Response:

I do NOT propose higher First-Class presorted rates than my cost savings indicate on page 10 of my testimony. That is an incorrect reading of my testimony.

Any rate increase causes some adjustments. The proposed USPS rates would cause some adjustments and the rates proposed in my testimony would cause some adjustments. It is not always clear how large those adjustments will be. In choosing these rates, I noted that the Presort letter volume has grown 3.5% YTD in FY2006 even though a 5.4% rate increase took place at the beginning of the calendar year. I chose Presort letter rates that would show a weighted average increase of 8.8% (based on BY volumes) relatively close to the overall increase that the Postal Service is proposing for this case.

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MMA/APWU-T1-7

On page 15 of your testimony, you claim “it seems highly unlikely that the mail that is converting to presort mail is equivalent to the average collection mail that is coming from individual households, nonprofit organizations, and small businesses.”

- A. Please provide all studies or other information you relied upon in concluding that the mail that is converting from First Class single piece to presort is not equivalent to the average collection mail that is coming from individual households, nonprofit organizations, and small businesses.
- B. How much First Class single piece mail do you believe still “converts” to presort mail? Please support your answer.
- C. Is it your position that, in the absence of worksharing discounts, mailers will voluntarily bring their letters to a local post office, properly faced in trays that are labeled, sleeved and banded? If so, please support your answer.
- D. Is your use of BMM as the benchmark from which to measure workshared cost savings dependent upon the continued existence of significant volume shifts from Single Piece to Presort? Please explain your answer.

Response:

- A. I do not have studies on this topic. Households, many small businesses and many nonprofits do not have a large enough daily volume to qualify for presort discounts offered by the Postal Service. I am unaware of any presort bureaus that will collect household mail for presort, regularstamped letters for presort, nor small and highly variable volumes for presort.
- B. I know of no statistics kept on this topic.
- C. My testimony does not present a position on the absence of workshare discounts because I am not proposing a rate structure without workshare discounts. I would note that many mailers did provide their mail presorted prior to the offering of presort discounts because they believed it got their

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mail delivered faster. In the absence of presort discounts, I would assume that mailers would make decisions about how to enter their mail based on several business factors including speed of delivery and speed of getting return payments.

- D. No. The test is whether a piece of mail will provide the same contribution to overhead whether or not it is workshared. That is not dependent on which mail might or might not transfer from Single Piece in the immediate future. It requires the use of a benchmark piece that is a proxy for workshared mail but does not have worksharing activities associated with it.

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MMA/APWU-T1-8

On pages 19 and 20 you discuss your method to de-average Automation and NonAutomation costs in the same manner as USPS witness Abdirahman.

A. Please confirm your de-averaged mail processing unit costs and those derived by the Postal Service model, as shown in the following table. If you cannot confirm, please provide corrections, along with your derivations.

First-Class Presort Category	CRA (Cents)	USPS Model (Cents)	APWU Model (Cents)
Nonautomation	21.372	6.302	6.173
Automation	3.904	4.522	4.527
Combined	4.587	4.587	4.587

Sources: USPS-LR-151, USPS-LR-L-48, APWU-LR-1, p. 3

B. Please confirm your adjusted model-derived worksharing-related mail processing costs and those derived by the Postal Service for Nonautomation Mixed AADC (NAMMA) letters and BMM letters, as shown in the following table. If you cannot confirm, please provide corrections.

First-Class Letter Category	Adj Model-Derived Unit Cost (Cents)	
	USPS	APWU
NAMMA	5.797	5.715
BMM	9.559	9.559

Sources: USPS-LR-L-48 APWU-LR-1
Tr. 14/4222-28

C. Please confirm that, as shown by the Postal Service’s analysis and your analysis, respectively, the unit processing costs for BMM are 65% and 67% higher than the unit processing costs for NAMMA letters. If you cannot confirm, please provide the correct percentages and explain how they are derived.

D. Please confirm your adjusted model-derived worksharing-related mail processing costs and those derived by the Postal Service for Nonautomation

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letters and BMM letters, as shown in the following table. If you cannot confirm, please provide corrections and explain how they are calculated.

First-Class Letter Category	Adj Model-Derived Unit Cost (Cents)	
	USPS	APWU
NonAuto	6.302	6.173
BMM	9.559	9.559

Sources: USPS-LR-L-48 APWU-LR-1
Tr. 14/4228

- E. Please confirm that, as shown by the Postal Service’s analysis and your analysis, respectively, the unit processing costs for BMM are 52% higher and 55% higher than the unit processing costs for Nonautomation letters, If you cannot confirm, please provide the correct percentages and indicate how they are derived.

Response:

- A. The table provided with the question includes separate CRA costs for nonautomated presort and presort mail. In R2005-1 and in R2006-1, the Postal Service noted that the methods used to allocate CRA costs separately to nonautomated and automated presort mail were not reliable. I used the combined Presort CRA as the starting point of my calculations as did Mr. Abdirahman in LR-L-48. While the Postal Service may have provided the separate CRA costs for nonautomated presort and automated presort in LR-L-151 in response to an interrogatory I do not believe there was any change in the Postal Service’s characterization of those costs as being unreliable. Consequently, I have redone the table to only include the

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CRA costs for the combined Presort letters.

First-Class Presort Category	CRA (Cents)	USPS Model (Cents)	APWU Model (Cents)
Nonautomation		6.302	6.173
Automation		4.523	4.527
Combined	4.587	4.587	4.587

Sources: USPS-LR-L-48, APWU-LR-1, p. 3

- B. The Postal Service did not provide an estimate of BMM letter costs in LR-L-48 and the other costs appear to be an estimate of total mail processing costs.
- C. As stated in B, I can not confirm the Postal Service's numbers in your table. The proxy for the workshare-related mail processing costs for BMM letters is 67 percent higher than the estimate for the workshare-related mail processing costs for Machinable Nonautomation Presort Mixed AADC letters presented in APWU-LR-1. (While not stated precisely in your question, I am assuming you are using NAMMA to be only the machinable portion of the mixed AADC Nonautomated Presort group.) We do not know precisely what the actual worksharing-related costs of BMM letters are since we base it on the CRA for all metered letters and make adjustments to the CRA costs to come closer to an approximation for BMM letters. Consequently, the calculated differential is only an approximation of the mail processing costs avoided by the Postal Service.
- D. The Postal Service did not provide an estimate of BMM letter costs in LR-L-48; the other costs appear to be an estimate of total mail processing costs.
- E. I can not confirm the Postal Service's numbers in your table. The proxy for the workshare-related mail processing costs for BMM letters is about 55 percent higher than the estimate for the mail processing costs for Nonautomated Presort letters presented in APWU-LR-1. We do not know precisely what the actual worksharing-related costs of BMM letters are since

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we base it on the CRA for all metered letters and make adjustments to the CRA costs to proxy the costs of BMM letters.

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MMA/APWU-T1-9

On Page 20 of your testimony you indicate that you use Nonautomation letter delivery costs as a proxy for BMM delivery costs since NAMMA delivery costs are not available.

- A. Please confirm that you would have used NAMMA delivery costs as a proxy for BMM letters because NAMMA letters exhibit similar cost attributes to BMM letters. If you cannot confirm, please explain precisely why you would have used NAMMA letter delivery costs as a proxy for BMM delivery costs.
- B. Please confirm that you used Nonautomation delivery costs as a proxy for the delivery costs of BMM letters because Nonautomation letters exhibit similar cost attributes to BMM letters. If you cannot confirm, please explain precisely why you used Nonautomation letter delivery costs as a proxy for BMM delivery costs.
- C. Please confirm that NAMMA letters and Nonautomation letters are both workshared categories, subject to all of the Postal Service's prerequisite requirements for qualifying for discounted First Class rates, while BMM letters are subject to none of those prerequisite requirements. If you cannot confirm, please explain
- D. Please confirm that, in order to isolate delivery cost savings due to worksharing, it is reasonable to compare the delivery costs for one rate category that is workshared to another rate category that is not workshared, all other factors being equal to the extent possible. If you disagree, please explain.

Response:

- A. Since the data were not available, I do not know what decision I might have made. BMM letters are machinable by definition; therefore, I would have considered if machinable letters were a better proxy than were nonmachinable letters or a mixture of machinable and nonmachinable

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letters. However, the nonautomation presort letter unit delivery costs are what the Commission has used in the past and that also would have been a factor in any decision I might have made.

- B. I used the Nonautomation Presort letter unit delivery costs because they have been the ones used to proxy BMM unit delivery costs in the cost avoided calculation since R97-1 and they were the unit delivery costs used as the proxy for BMM by the Commission in its R2000-1 calculations. In this proceeding nonautomated presort letters appear to be a mostly machinable category of letters, I am not certain what other cost attributes you are making reference to.
- C. I can confirm that NAMMA letters are part of the Nonautomation Presort letter category and subject to the Postal Service's prerequisite requirements for qualifying for discounted First Class rates. There are other nonautomation letters that are not part of a presort category but I assume you were referring to Nonautomation Presort letters in your question. BMM letters are machinable by definition whereas I do not believe that is a requirement for the Nonautomation Presort category although the NAMMA sub-part of that group would be machinable by definition as well.
- D. Partially confirmed. The test is whether a mail piece makes the same unit contribution whether or not it is workshared. Consequently, the unit delivery costs could not be those associated with just any set of non-workshared letter mail. It would need to be compared to mail that is most similar to the workshared letter pool. This is precisely the reason the nonautomated presort unit delivery costs have been used in the past as the proxy for BMM. For example, the comparison would need to be made to typed letter mail that is machinable, and that does not have a widely differing geographic spread from that of presort mail.

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MMA/APWU-T1-10

Please provide the implicit cost coverages for First-Class (1) single piece letters and (2) presorted letters under your proposed rates, and show how you derived them.

Response:

I have not done a complete recalculation of costs using the rollforward model and the complete set of new volume estimates. Consequently, I have not calculated the implicit cost coverages. I expect the implicit cost coverage for Presort mail to be somewhat higher under this proposal than under the Postal Service's proposal and for the Single Piece cost coverage to be somewhat lower.

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MMA/APWU-T1-11

For each of the last 10 fiscal years for which data are available, please provide the volumes of BMM that (1) have converted from First Class single piece to Presort and (2) have not converted from First Class single piece to Presort. Please provide sources for the data you provide in response to this interrogatory. Please explain why BMM pieces have not converted from First Class single piece?

Response:

To my knowledge the Postal Service does not provide volumes of BMM letters nor am I aware of any source of data that provides the conversion information that you seek.

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MMA/APWU-T1-12

For TY 2008, please provide (1) the volume of BMM that is expected to convert to First-Class Presort and (2) the volume of BMM that is expected not to convert to First-Class Presort. For the volume of BMM that is not expected to convert to First-Class Presort, please explain why it will remain BMM.

Response:

I am unaware of any source for the conversion data that you seek.

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MMA/APWU-13

If a presort bureau offered to pick up Economic Consulting Service's (ECS) First Class letters and mail them at discounted rates, please state whether you would recommend that ECS agree to such an arrangement and explain the reasons for your recommendation.

Response:

To my knowledge no presort bureau has ever offered to pick up ECS' First Class letters and mail them at discounted rates; consequently, I can not know what my recommendation would be until all the factors involved in such a transaction were known.

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MMA/APWU-14

Please refer to Table 2 on page 9 of your testimony.

- A. Please confirm the APWU 100% passthrough and proposed rates (in cents) as shown in the following table. If you cannot confirm, please provide any necessary corrections.

First-Class Letter Category	APWU 100% Pass thru Rates	APWU Proposed Rates
Single Piece	42.0	41.0
Nonautomation	38.1	37.1
Mixed AADC	37.8	35.1
AADC	36.6	34.0
3 Digit	36.2	33.6
5 Digit	34.7	32.1

- B. Please confirm the APWU 100% passthrough proposed discounts, as compared to the current and USPS proposed discounts (in cents) as shown in the following table. If you cannot confirm, please provide any necessary corrections.

First-Class Letter Category	Current Discounts	USPS Proposed Discounts	APWU 100% Pass thru Discounts	APWU Proposed Discounts
Single Piece				
Nonautomation	1.9	2.0	3.9	3.9
Mixed AADC	6.4	7.4	4.2	5.9
AADC	7.3	8.5	5.4	7.0
3 Digit	8.2	8.9	5.8	7.4
5 Digit	9.7	10.8	7.3	8.9

- C. Please confirm that you have not proposed the APWU 100% pass through rates because they are “likely to result in rate shock that probably would cause undue disruption to both mailers and the Postal Service.” (Page 10). If you cannot confirm, please explain.

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- D. Please explain whether the following set of proposed rates by the OCA (in cents) are “likely to result in rate shock that probably would cause undue disruption to both mailers and the Postal Service.” Please explain your answer.

First-Class Letter Category	APWU 100% Pass thru Rates	OCA Proposed Rates
Single Piece	42.0	42.0
Nonautomation	38.1	40.0
Mixed AADC	37.8	36.2
AADC	36.6	35.0
3 Digit	36.2	34.5
5 Digit	34.7	33.1

Response:

- A. Confirmed
- B. Confirmed
- C. Confirmed
- D. I have not made a careful study of all the aspects of the OCA’s proposed rates. They are different from the rates that I indicated might cause rate shock and they are different from the rates I proposed. Since the term rate shock has never been precisely defined, I can not explain whether the OCA’s proposed rates fits into that category or not.