

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes,
2006

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Docket No. R2006-1

FIRST INTERROGATORIES OF AMERICAN BANKERS ASSOCIATION
AND NATIONAL ASSOCIATION OF PRESORT MAILERS
TO APWU WITNESS KOBE (ABA/NAPM/APWU-T1-1-13)
(October 4, 2006)

Pursuant to sections 25, 26 and 27 of the Commission's rules of practice, ABA and NAPM direct the following interrogatories to American Postal Workers Union, AFL-CIO witness Kathryn L. Kobe (APWU-T-1). If the witness cannot answer a question or subpart, we request that APWU answer through another witness or submit an institutional response.

Respectfully submitted,

Gregory F. Taylor
AMERICAN BANKERS ASSOCIATION
1120 Connecticut Ave., N.W.
Washington, DC 20036
(202) 663-5028
GTaylor@aba.com

David M. Levy
Paul A. Kemnitzer
SIDLEY AUSTIN LLP
1501 K Street, N.W.
Washington, DC 20005-1401
(202) 736-8000
dlevy@sidley.com

Robert J. Brinkmann
Irving Warden
1101 17th Street, N.W. Suite 605
Washington, D.C. 20036
(202) 331-3037
robert.brinkmann@rjbrinkmann.com
wardenlaw@comcast.net

*Counsel for National Association of
Presort Mailers*

*Counsel for the American Bankers
Association*

ABA-NAPM/APWU-T1-1. In your response to MMA/APWU-T1-6, you indicate that you are not sure how First-Class Presort mailers might adjust to your proposed rates, but that you chose your proposed Presort rates such that they averaged an increase of 8.8%, which is comparable to the overall average increase proposed by the Postal Service in this case. You also note that First-Class Presort rates were recently raised by 5.4%, yet volumes still grew at 3.5% so far this year.

(a) Please confirm that the recent 5.4% increase was an “across-the-board” increase. Please explain any failure to confirm.

(b) Please confirm that the recent 5.4% increase had no effect on the relative Presort discounts among the various presort levels. Please explain any failure to confirm.

(c) Please confirm that the recent 5.4% increase had no effect on the absolute rate differentials between Single Piece and Presorted mail. Please explain any failure to confirm.

(d) Please confirm that your proposed rates would not only affect the relative Presort discounts among the various presort levels but also have a significant effect on the absolute rate differentials between Single Piece and Presorted mail. Please explain any failure to confirm.

(e) Please confirm that presort bureaus rely on the absolute rate differences between Single Piece and Presort rates, i.e., the amount of discounts

from the Single Piece basic rate, to provide a monetary incentive to their customers to engage their services. Please explain any failure to confirm.

ABA-NAPM/APWU-T1-2. In your testimony at page 6, you state that “The First-Class bulk metered mail letter is chosen as the benchmark because it is most like the workshared mail in its general characteristics.” At page 14, you elaborate by saying that: “There have been many discussions about the use of BMM as the benchmark for cost avoided calculations.” Some of these discussions have revolved around which mail is most likely to convert to presort and others have focused on the mail that presort mail would most likely convert to if it left the workshare category.

(a) Please confirm that a major reason for using the traditional Bulk Metered Mail benchmark is that it has been considered the mail most likely to be workshared. If you do not confirm, please explain. Please explain any failure to confirm.

(b) Please refer to Dr. Panzar's testimony (PB-T-1) at pages 36-37, where he summarizes a recent paper of his as follows:

The basic theoretical result was that an efficient allocation of mail processing activity between the Postal Service and mailers requires a worksharing discount equal to the average Postal Service processing cost of the type of mail just at the margin of being profitable for mailers to workshare. This suggests that the previous methodology of basing discounts based upon the avoided processing cost of mail most likely to be workshared, is likely to lead to discounts too low to result in an efficient allocation of mail processing activity.

Please reconcile this result of Dr. Panzar's with your use of the traditional BMM benchmark.

ABA-NAPM/APWU-T1-3. At page 12 of your testimony, you state that:

The revenue impact of these changes has been estimated by using Mr. Thress's worksheets to estimate the volume impacts on all classes of mail from the proposed rate changes in First-Class and then recalculating the resulting revenues for First-Class and Standard based on the new proposed rates (if applicable) and the revised volumes generated from these rates.

(a) Please confirm that Mr. Thress's procedures for estimating both First-Class Single-Piece and Presort volume impacts from proposed First-Class letter rate changes incorporate a factor for the average First-Class worksharing letter discount, and that his Single-Piece letter elasticity for this factor is equal to -0.096. Please explain any failure to confirm.

(b) Please confirm that the negative sign of this elasticity means that, with other factors constant, an increase in the average worksharing discount would cause a *decrease* in First-Class Single-Piece volume. Please explain any failure to confirm.

ABA-NAPM/APWU-T1-4. In your response to MMA/APWU-T1-6, you noted that Presort volume has grown 3.5% year-to-date in FY 2006.

(a) Please confirm, based on Postal Service Library Reference USPS-LR-L- 74, that the cumulative volume growth of First-Class Presort mail for the 2000-2005 period was about 7.4%, or about 1.4% on average per year. Please explain any failure to confirm.

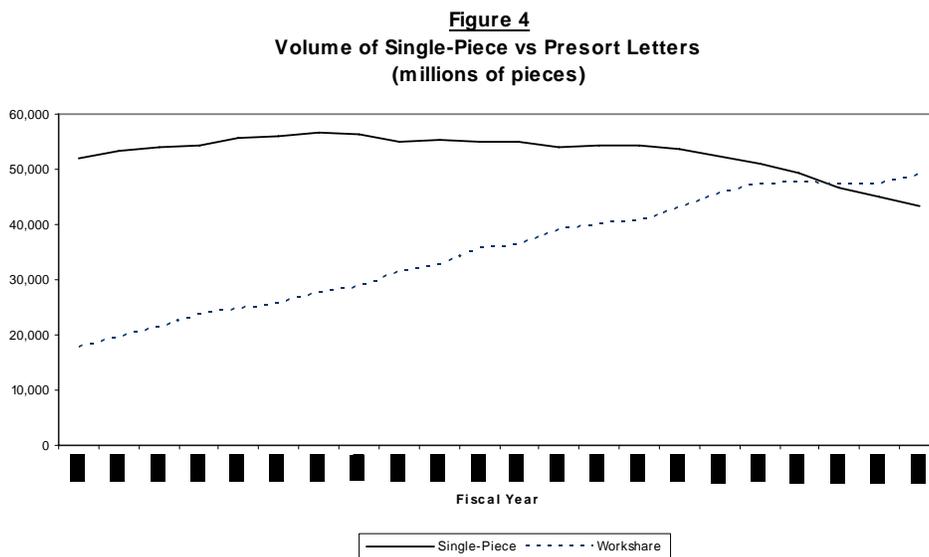
(b) Please confirm that the Consumer Price Index (CPI-U) increased by 14.5 percent, or an average of 2.7 percent per year, during the Postal Service's Fiscal Years 2000-2005 (Sept. 2000 through Sept. 2005), according to Bureau of Labor Statistics data (<ftp://ftp.bls.gov/pub/special.requests/cpi/cpi.ai.txt>). Please explain any failure to confirm.

(c) Please confirm that the rate of growth of Presort First Class Mail was less than the rate of inflation. Please explain any failure to confirm.

ABA-NAPM/APWU-T1-5.

(a) Please confirm that during the 2000-2005 period, First-Class Single-Piece mail volume declined about 18.2%, or about 3.3% annually. Please explain any failure to confirm.

(b) Please consider the following graph, which depicts data from the Postal Service's Library reference USPS-LR-L-74M:



Please confirm that there is now more Presort letter mail in First Class than Single-Piece mail. Please explain any failure to confirm.

ABA-NAPM/APWU-T1-6. Please produce all articles, article, essays, op-ed pieces, seminar presentations, and similar documents (other than testimony to the Commission) that you have written or co-authored since January 1, 2002, concerning the proper methodology for setting (1) rates for Presort First-Class Mail and (2) postal rates generally.

ABA-NAPM/APWU-T1-7. Please produce all available documentation (e.g., prepared text, outline, PowerPoint slides, handouts, transcript, and video or sound recording) for each speech, lecture, panel discussion, symposium comments, or other oral presentation you have given since January 1, 2002, concerning the proper methodology for setting (1) rates for Presort First-Class Mail and (2) postal rates generally. This request excludes oral testimony before the Postal Rate Commission.

ABA-NAPM/APWU-T1-8. On page 6, lines 11-14, of your testimony (APWU-T-1), you state that

there are equally clean pieces of Single-Piece mail that . . . pay the full Single Piece rates because their mailers do not or can not presort or prebarcode their mail.

(a) Please describe in detail the kinds of First-Class mailers that you believe “do not or can not presort or prebarcode” Single-Piece First-Class Mail that is otherwise “equally clean” (*id.* at 6, line 12) as Presort Mail.

(b) Please provide your best estimate of the volume of “equally clean” First-Class Mail that is entered at Single-Piece rates because the mailer does not or cannot presort or barcode.

(c) Please produce all data on which you rely in response to part (b).

(d) Please identify each major factor that makes the presortation or prebarcoding of “clean” Single-Piece First-Class Mail impossible or undesirable for its senders.

(e) Please produce all data on which you rely in response to part (d).

(f) Please confirm that, if the USPS offered value added rebates (“VAR”) on mail with indicia of Single-Piece First-Class postage, *presort bureaus* could convert Single-Piece Mail to Presort Mail before entry at a Postal Service facility. If you fail to confirm without qualification, please explain fully and produce all data, studies and analyses on which you rely.

ABA-NAPM/APWU-T1-9. This is a follow-up to your answer to MMA/APWU-T1-3:

(a) Please confirm that, all other things being equal, a mailpiece with a barcode clear zone is likely to cost less to process than a similar piece without a barcode clear zone. Please explain fully any failure to confirm.

(b) Please confirm that Presort First-Class Mail must have a barcode clear zone. Please explain fully any failure to confirm.

(c) Please confirm that Single-Piece First-Class Mail need not have a barcode clear zone. Please explain fully any failure to confirm.

(d) What percentage of Single-Piece First-Class Mail has a barcode clear zone?

ABA-NAPM/APWU-T1-10.

(a) Does the USPS use computer hardware and software to read handwritten addresses on envelopes and apply a POSTNET barcode?

(b) What percentage of handwritten addresses on envelopes can be ready by handwriting recognition software?

(c) Is handwriting recognition software similar to that used by the USPS also available to the presort industry?

ABA-NAPM/APWU-T1-11. Please assume that there are two postal products, product A and product B, and that product A costs per unit \$10 to supply while product B costs \$1 per unit to supply. There is thus a \$9 cost difference between Product A and Product B. Please assume further that ten cents of that cost difference is due to “avoided costs” and that the remaining \$8.90 of that cost difference is therefore due to “other” cost drivers. Is it your position that the Postal Service should set the discount for product B only at 100% of avoided costs, thus fully recognizing only the ten cents of cost difference due to avoided costs, and ignoring the remaining \$8.90?

ABA-NAPM/APWU-T1-12. This question refers to the classification of cost pools in Appendix Tables A-2 and A-3 of your testimony (APWU-T-1).

(a) For each cost pool that you classify as “fixed—worksharing related” or “fixed—nonworksharing related”, please cite all data, studies and analyses (other than the USPS testimony cited in your testimony) that support your classification.

(b) Please produce all data, studies and analyses cited in response to part (a) but not already on file with the Commission.

ABA-NAPM/APWU-T1-13.

(a) Is the majority of growth in the volume of Presort First-Class Mail due to the conversion of Single-Piece mail?

(b) What percentage of the growth in the volume of Presort First-Class Mail is due to the conversion of Single-Piece Mail?

(c) Please provide all data, studies and analyses on which your responses to parts (a) and (b) rely.