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

Postal Rate and Fee Changes, 2006 **Docket No. R2006-1**

RESPONSE OF AMERICAN POSTAL WORKERS UNION, AFL-CIO WITNESS KOBE (APWU-T1) TO UNITED STATES POSTAL SERVICE INTERROGATORIES USPS/APWU-T1-2-8
(October 17, 2006)

The American Postal Workers Union, AFL-CIO provides the responses of witness Kathryn Kobe to the interrogatories of the United States Postal Service submitted on October 3, 2006. Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

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USPS/APWU-T1-2 On page 16 of your testimony, lines 4 to 6, you state "The general steps followed by the Postal Service to calculate the unit cost savings between the benchmark piece and the presort pieces in previous cases were followed to produce the unit cost savings".

a. Please describe each difference between your unit cost savings calculations methodology and the methodology followed by USPS witness Abdirahman in Docket No. R2005-1.
b. Please describe each difference between your unit cost savings calculations methodology and the methodology followed by the Commission in R2000-1.
c. Please describe each difference between your unit cost savings calculations methodology and the methodology presented in USPS-LR-L-141.

Response:

a. The main differences between the calculation of my unit cost savings and the methodology followed by USPS witness Abdirahman in Docket No. R2005-1 consist of the following: 1) I used the combined nonautomated and automated presort cost pools and allocated them using the models witness Abdirahman produced for R2006-1; in R2005-1 Mr. Abdirahman used separate CRA totals for those two groups although he stated at that time that the division of costs between the two types of presort letters was unreliable; 2) witness Abdirahman allocated the 1CANCEL cost pool to workshare-related fixed and I allocated it to non-workshare related; 3) witness Abdirahman allocated the TRAYSORT cost pool to non-workshare related and I allocated it to workshare-related fixed; 4) I used the results of witness Abdirahman's updated R2006-1 models to allocate the presort letter costs to the category level; 5) witness Abdirahman used the unit delivery costs for the nonautomated presort machinable

Mixed AADC letters to proxy the BMM unit delivery cost and I used the nonautomated presort letter unit delivery cost.

b. The main differences between my calculations and those of the Postal Rate Commission's calculations in R2000-1 consist of the following: 1) I used the USPS costs rather than the PRC-version costs; 2) the PRC allocated a third of the cost pool CANCMMP to workshare-related fixed but because that cost pool has now been split into two, I allocated the 1METERPRP cost pool to workshare-related fixed and the 1CANCEL cost pool to nonworkshare related; 3) the PRC allocated the LD41, LD42, LD43 and LD44 cost pools to workshare-related fixed, witness Van-Ty-Smith now combines those cost pools with the STA/BRA NONMODS cost pools and I allocated the combined totals rather than the individual ones; 4) there are some new cost pools that did not exist in R2000-1 and with the exception of TRAYSORT which I allocated to workshare-related fixed, the new cost pools were allocated to nonworkshare related; 5) I used a combined presort letter CRA rather than using separate ones for nonautomated and automated presort.

c. The main differences between my calculations and those in USPS-LR-L-141 are: 1) I used the USPS costs rather than the PRC-version costs; 2) I allocated 1CANCEL to non-workshare related and in LR-L-141 that was allocated to workshare-related fixed; 3) I allocated TRAYSORT to workshare-related fixed and in LR-L-141 it was allocated to non-workshare related; 4) separate cost pools for LD41, LD42, LD43, LD44 were produced for LR-L-141 rather than using the methodology of allocating those cost pools by combining them with the STA/BRA NONMODS cost pools and allocating them together (witness Van-Ty-Smith's methodology in R2006-1 and the methodology I used); 5) I used the combined CRA for presort letters and in LR-L-141 separate nonautomated presort and automated presort CRAs were used although there does not appear to have been a correction for the misallocation problems mentioned in witness Abdirahman's testimony;

6) I followed the PRC's previous methodology of using the nonautomated presort letter unit delivery costs as a proxy for BMM letters unit delivery costs and LR-L-141 used the nonautomated machinable presort mixed AADC unit delivery cost as a proxy for BMM letters unit delivery costs.

USPSAPWU-T1-3 Would the BMM benchmark approach to developing cost avoidances be compatible with a 42 cent single piece rate? If not, please explain why not.

Response:

While in theory there is nothing incompatible between the BMM benchmark approach to developing cost avoidances and the use of a 42 cent Single Piece rate, in this case it is problematic. Once the 42 cent rate is set, the overhead contributions of each Single Piece letter is going to be the same as it was under the Postal Service's proposal. If the discounts for the workshare letters are reduced to better coincide with the costs avoided calculations, it is virtually certain that the revenue requirement will be exceeded. Therefore, other rate adjustments also will have to be made in order to reduce the revenue requirement to the requested level.

As discussed in prior decisions, "[t]he Commission also has consistently been concerned with equity. From the beginning it has wanted to set the discount no larger than the clearly capturable avoided costs, so that the residual mailers would not experience a rate increase because some other mailers were encouraged to workshare." (MC95-1 at 3076 p. III-30.) If discounts equal 100% of costs avoided, a letter pays the same contribution whether mailed as a single piece or as part of a workshare mailing. With such rates, single piece users should not have any upward pressure on their rates because of the discounts. Therefore, when the calculated costs avoided were smaller than the proposed discounts, this goal made it logical to see if the Single Piece rate could be reduced to 41 cents. Since it was possible to do so without the workshare rates increasing by much more than the Postal Service's proposed rate increase for the entire case, it implied that the discounts proposed by the USPS in this case could well be putting upward pressure on Single Piece rates. There might be adjustments to the rates, other than the ones I have proposed, that could achieve this same goal while maintaining the 42 cent Single Piece rate; I have not looked at every rate combination possible.

USPS-APWU-T-1-4 Please confirm that in the past three cases, the Postal Service developed the cost basis for Nonautomation Presort letters separately from the costs for automation Presort letters. If you cannot confirm, please explain.

Response:

Confirmed that in the three cases prior to this one the Postal Service developed the cost basis for nonautomation presort letters separately from those of automation presort letters.

USPS-APWU-T-1-5 Please confirm that in USPS-LR-141, the cost basis for Nonautomation Presort letters is developed separately from the costs for automation Presort letters. If you cannot confirm, please explain.

Response:

Confirmed.

USPS-APWU-T-1-6 Please refer to Witness Smith's response to APWU/USPST13-2 confirming First Class metered letter-shaped mail (USPS version) for the FY '08 Test Year which was attached in that interrogatory.

a) Please confirm that the total unit cost for First Class metered letters which is used as a proxy for BMM is 11.250 cents. If you cannot confirm please explain.

b) Please confirm that table A-2 of your testimony, page 27 shows the total unit cost for First Class metered letters which is used as a proxy for BMM is 11.2209 cents. If you cannot confirm please explain.

c) Please reconcile the above unit costs. If you cannot reconcile, please explain why?

Response:

a) Confirmed

b) Confirmed

c) Table A-2 inadvertently used the Test Year before final adjustments calculation instead of the Test Year after final adjustments that Mr. Smith confirmed. Revised testimony was filed on October 12, 2006 to reconcile this inconsistency.

USPS-APWU-T1-7 Please confirm that if you used, in APWU-LR-L-1, the BMM cost pool classifications that USPS witness Abdirahman used in Docket No. R2005-1, USPS-LR-K-48 that the following would result:

a) The workshared related proportional unit cost would be 6.987 cents.

b) The workshared related fixed unit cost would be 2.753 cents.

c) The nonworkshared related fixed unit cost would be 1.510 cents.

If you cannot confirm any one of these, please explain and provide the appropriate number along with your analysis.

Response:

a) Confirmed (based on numbers in revised testimony filed October 12, 2006).

b) Confirmed (based on numbers in revised testimony filed October 12, 2006).

c) Confirmed (based on numbers in revised testimony filed October 12, 2006).

USPS-APWU-T1-8 Please confirm that USPS-LR-L-147, revised on 8/23/06, contains a PRC version delivery cost of 4.126 cents for nonautomation machinable mixed AADC letter pieces. If cannot confirm, please explain.

Response:

Confirmed.