

**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-T-1) TO UNITED STATES POSTAL SERVICE
INTERROGATORIES USPS/APWU-T1-9-10
(October 18, 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 4, 2006. Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

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USPS/APWU/T1-9

Please refer to your testimony on page 4 where you state:

In stating that the Presort letter rates would no longer look to the cost base of Single Piece letters, the Postal Service is deaveraging Presort letters and Single Piece letters. From the inception of First Class workshare discounts, there has been an understanding by both the Postal Service and the Commission that discounts must be justified by costs avoided so that similar letters being provided First Class service bear the same amount of the institutional costs of the Postal network.

- a. Please confirm that the delinking methodology proposed by the Postal Service makes it a target that the per-unit contribution from single-piece and presort mail categories are equal and in fact achieve very similar per unit contribution from these mail categories. If you cannot confirm, please explain.
- b. Please confirm that by making equal per-unit contribution a target for single-piece and presort mail, the Postal Service's proposal seeks to achieve the goal of ensuring that "similar letters being provided First Class service bear the same amount of the institutional costs of the Postal network." If you cannot confirm, please explain.

Response:

- a. Confirmed that Mr. Taufique, on page 15 of his testimony, states "[t]he Postal Service proposes that the rate design process begin with establishment of separate revenue requirements for Single-Piece Letters and Presort Letters, with the goal of obtaining similar unit contributions from Single-Piece Letters in the aggregate and from Presort Letters in the aggregate." On page 16 of his testimony he lists the applicable rates for the Single-Piece Letters aggregate to include all the components of the Single-Piece Letters, Flats & Parcels category. Similar unit contributions from such heterogeneous groups is not the same as a piece making the same unit contribution whether or not it is workshared.
- b. Not confirmed. A goal of obtaining equal contributions on average from these two categories is different from obtaining the same contribution from

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two pieces that are essentially the same except that one is workshared and one is not. These two categories are likely to have differing distributions of mail both by shape and by other characteristics. Unless two very similar pieces are compared in setting the rate differentials, it is unlikely that a piece in one group will make the same contribution to overhead costs as an identical piece in the other group.

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Please refer to your testimony on page 7 where you state:

Thus, the proposed methodology, which essentially applies equal contributions to the straight CRA costs, would result in the mailer of the Single Piece “clean” letter paying a larger contribution to overhead than the mailer of the Presort “clean” letter and would constitute a change in an important postal policy.

Assume that, even with a cost avoidance methodology using BMM as a benchmark, the rate for Single-Piece First-Class Mail recommended by the Commission could be 42 cents, instead of the 41 cents that you propose. Please confirm that the under that scenario, the Single-Piece “clean” letter would pay the same larger contribution to the overhead described in your testimony as it would under the proposed delinking methodology. If you do not confirm, please explain.

Response:

If the Single Piece rate is set to 42 cents rather than 41 cents, the “clean” Single Piece letter will pay the same contribution to overhead as it would under the Postal Service proposal. However, that does not address the contribution to overhead that would be made by the similar “clean” presort piece. An adjustment to the discounts would increase the contribution to overhead from that letter. The overall impact would also depend on what other adjustments were made to rates to generate the requested revenue.