

**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
KBE (APWU -T-1) TO NATIONAL ASSOCIATION OF PRESORT MAILERS
INTERROGATORIES NAPM/APWU-T1-7-9
(October 20, 2006)**

The American Postal Workers Union, AFL-CIO provides the responses of witness Kathryn Kobe to the follow up interrogatories of the National Association of Presort Mailers submitted on October 6, 2006. Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

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NAPM/APWU-T1-7. Please refer to NAPM-T1-1, part c, which asked you to explain the circumstances under which you would endorse discounts that exceed or are smaller than avoided costs. You responded in part (emphasis added):

For a new discount and for any discount where the costs are difficult to determine, the Postal Service should err on the side of a smaller pass through *because once a discount is in place it is very hard to reduce.*

- a. Are any of the marginal discounts you propose for First-Class Automation Letter Mail smaller than the current discounts?
- b. Please confirm that the current marginal discount for First-Class 3 Digit Automation Mail is 0.9 cents. Please fully explain any failure to confirm without qualification.
- c. Please confirm that the Postal Service has proposed a marginal discount for First-Class 3 Digit Automation Mail of 0.4 cents per piece. Please fully explain any failure to confirm without qualification.
- d. Do you contend that the Commission has failed to reduce existing presort discounts when the record has warranted? If so, please identify each instance during the past ten years.

Response:

- a. Yes, my proposed rate for 3-digit automated presort letters is 0.4 smaller than the proposed rate for auto AADC letters. The current rate for 3-digit automated letters is 0.9 lower than the rate for auto AADC letters.
- b. Confirmed.
- c. Confirmed that the Postal Service has made that proposal.
- d. The Commission makes its decisions based on the record and its consideration of the various policies of the PRA. There have been instances where the Postal Service has made proposals to reduce

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discounts and the Commission has not agreed with those proposals.

However, my comment was a more general one about the reluctance to take away/ or have something taken away once it has been given.

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NAPM/APWU-T1-8. Please refer to NAPM/APWU-T1-6, part b, where you were asked to confirm that if Single-Piece First-Class letter rates were deaveraged across the set of characteristics defining “clean” mail and “dirty” mail and rates were set to comport with the Efficient Component Pricing Rule, the per-unit contribution for “clean” mail and “dirty” mail would be the same. You responded in part:

The Efficient Component Pricing Rule is used for determining worksharing related costs avoided. The Postal Service does not produce clean or dirty mail, it simply processes what is presented to it. Consequently, one can not replace a Postal Service activity related to producing a clean mail piece with a similar mailer activity.

- a. Please confirm that the Postal Service provides free forwarding and returns of First-Class Mail. Please explain fully any failure to confirm without qualification.
- b. Please confirm that the Postal Service incurs costs for forwarding and returning First-Class Mail. Please explain fully any failure to confirm without qualification.
- c. Please confirm that First-Class Presort mailers must perform certain addressing hygiene practices to qualify for discounts. Please explain fully any failure to confirm without qualification.
- d. Please confirm that the Postal Service would likely incur additional costs for forwards and returns if mailers were not required to perform these activities. Please explain fully any failure to confirm without qualification.
- e. Please confirm that First-Class Presort mailers could undertake additional activities, beyond those currently undertaken, that would reduce the need for some forwards and returns. Please explain fully any failure to confirm without qualification.

Response:

- a. Confirmed.
- b. Confirmed

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- c. Confirmed. Although they are not the only First Class mailers that are performing address hygiene activities.
- d. Confirmed
- e. Presumably so

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NAPM/APWU-T1-9. Please refer to NAPM/APWU-T1-6, parts a and d, which asked you to identify the complete set of characteristics that distinguishes “clean” mail from “dirty” mail, as you use the terms, and asked you to confirm that deaveraging across this set of characteristics would reduce total combined mailing costs in the society as compared to the current pricing approach. You responded to part d as follows:

Not confirmed. Deaveraging across characteristics, depending on the extent to which it was taken, could result in a multitude of rates about which Single Piece users would have to make decisions. Transactions costs are added to the extent Single Piece users spend time trying to figure out which rate would apply and tracking down the “right” postage for their piece of mail. Postal Service revenue verification and protection costs and difficulties would likely increase as would the costs of customer education and service to assist Single Piece mailers in determining the correct postage. To the extent some people would expend more than postage savings to convert to cleaner characteristics, there would be additional costs. It would reduce the postage for mailers who are already mailing clean mail but whether it would overcome their transaction costs is not clear. The significance of transaction costs for Single Piece users, especially households, can be seen in the appeal of the Forever stamp. People do not want to expend the time and energy to deal with procuring and making decisions about “makeup” stamps. The Postal Service also expends resources on making those transactions.

- a. Do First-Class Single-Piece mailers under current rates have to spend time figuring out how much the piece weighs?
- b. Would mailers of First-Class Single-Piece letters under your proposed rates have to spend time figuring out how much the piece weighs?
- c. Would mailers of First-Class Single-Piece mail under your proposed rates have to spend time figuring out whether the piece is a letter, a flat, or a parcel?
- d. Please confirm that deregulation and increased competition have

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increased in recent years the complexity of the prices offered to consumers for services such as telephony, banking, and lending. Please explain fully any failure to confirm.

- e. Would consumer welfare be increased if the prices for other commonly-used consumer services such as retail telephony and consumer banking and lending were reaveraged and simplified? If so, please explain fully, and cite all data, studies, and analyses on which you rely.
- f. Would consumer welfare be reduced if the Postal Service allowed presort bureaus and other third-party consolidators to “assist Single Piece mailers in determining the correct postage” in exchange for a share of the cost savings from deaveraging (e.g., by allowing presort bureaus to obtain value added rebates (“VARs”) for mail bearing indicia of payment of full Single-Piece postage)? If your answer is anything but an unqualified negative, please explain fully, and cite all data, studies and analyses on which you rely.

Response:

- a. Only in some cases.
- b. Probably to the same extent they do now.
- c. In certain cases they would.
- d. In some cases it has but not in all cases. There used to be schedules of long distance rates and now a large percentage of the population gets their long distance “free” on their cell phones, for example.
- e. There certainly are many cases in which banks and telephony companies sell bundled services to consumers. The individual price of each of the services becomes very difficult to compare or evaluate.

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Some consumers seem to like that lessening of complexity and others do not.

- f. I have not studied the issues surrounding value added rebates for mail with Single Piece indicia but, in concept, it would not seem to reduce consumer welfare.