

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

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**Postal Rate and Fee Changes, 2006**

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**Docket No. R2006-1**

**RESPONSE OF AMERICAN POSTAL WORKERS UNION, AFL-CIO WITNESS  
KOBÉ (APWU-T-1) TO NATIONAL ASSOCIATION OF PRESORT MAILERS  
INTERROGATORIES NAPM/APWU-T1-1-6  
(September 29, 2006)**

The American Postal Workers Union, AFL-CIO provides the responses of witness Kathryn Kobe to the interrogatories of the National Association of Presort Mailers submitted on September 15, 2006. Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

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**NAPM/APWU-T-1-1.** Please refer to page 7 of your testimony where you quote the Postal Rate Commission's Opinion in R2000-1, as follows:

This may mean that the institutional cost burden of First-Class workshare mail is increasing. However, when discounts pass through 100 percent of avoided costs to the workshare mailer, the contribution made by that mailer to institutional costs is the same as the mailer would have made without worksharing. Thus, workshare mailers and non-workshare mailers provide the same contribution, which is fair and equitable.

a. Please confirm that discounts set at 100 percent of avoided costs are both fair and equitable. If you cannot confirm, please explain why.

b. Please confirm that, in general, you would endorse setting rates so that discounts pass through 100 percent of avoided costs.

c. Please explain the circumstances under which you would endorse discounts that exceed or are smaller than avoided costs.

**Response:**

- a. Fair and equitable as used in postal rate proceedings is, as I understand it, a legal concept contained in the PRA and I am not a lawyer. As I stated in my testimony, setting discounts equal to costs avoided provides a basis for ensuring that a piece of mail would pay the same contribution to overhead whether or not it was workshared.
- b. I think the pass through of 100 percent of costs avoided provides the correct economic signals. For an agency that must weigh efficiency against its public policy responsibilities to the American public at large, I recognize that may not be the only criterion for a decision.
- c. 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. There is an argument that, in cases where it is uncertain how a discount would operate, there is a reason for the Postal Service to be conservative in

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setting the discount until the impacts are better understood. The rates that I have proposed in my testimony pass through more than costs avoided for several rate categories. As was stated in my testimony, this proposal was made to reduce the possibility of rate shock with the goal of making a full adjustment at a later date.

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**NAPM/APWU-T-1-2.** Please confirm that in Table 4 on page 21 of your testimony (APWU-T-1), the Total Worksharing Related Unit Cost Savings in column (5) are equivalent to costs avoided.

**Response:**

They are a proxy for costs avoided. The Bulk Metered Mail letter benchmark can not be measured directly and can only be derived from a broader category that is measured; therefore, it is quite possible there are costs in the workshare related cost pools used to proxy the BMM costs that are not applicable to BMM letters.

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**NAPM/APWU-T-1-3.** Please confirm that, in general, you believe that discounts and costs avoided should be measured on an on a cumulative basis (i.e. from the benchmark to each rate category) rather than on an incremental basis (i.e. from one rate category to the next). If you do not confirm, please reconcile your response to how you have presented discounts and cost avoidances in your testimony.

**Response:**

I presented the costs avoided from a single benchmark point in Table 1. If the discounts are set equal to costs avoided, the incremental approach would come out to the same place as a calculation from a single benchmark point. It is only in a case where the pass through is not 100% that there is a difference. In this instance I set the nonauto presort discount to equal the costs avoided but the discount for AADC was set to be greater than costs avoided. The other proposed automated rates were set very close to the incremental costs avoided from the rate category directly "above" it. However, I do not consider the other automated rates to be in alignment just because the incremental differences are met.

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**NAPM/APWU-T-1-4.** Please refer to pages 6-7 of your testimony (APWU-T-1), where you state, in pertinent part, that “[d]ifferences in per unit costs based on differences in the total CRA costs for Presort mail and Single Piece mail may reflect a whole range of characteristics that do not relate to the cost avoidances for workshare activity.” Please list all the nonworksharing characteristics that you believe could have a material effect on the cost of mail processing for Single Piece letter shaped mail and Presort letter-shaped mail.

**Response:**

I do not think it is possible to list all of the characteristics. Size and shape of the envelopes, hand written or typed addresses, geographic distribution of the mail, the choices the Postal Service makes for how to process that mail, the accuracy of the address are some of the factors but it is not an exhaustive list.

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**NAPM/APWU-T-1-5.** Please produce any economic or operational analyses you have performed or relied upon to support your classification of cost pools as proportional, worksharing related-fixed, or non-worksharing related-fixed. Please also provide electronic files and narrative explanation or instructions sufficient to enable interested parties to understand, test and replicate your analyses.

**Response:**

As I stated in my testimony, I have mostly allocated those categories as they were used in the past rate cases. The changes I made had to do with changes in configuration of the costs pools in the past few years. I looked at Mr. Abdirahman's descriptions of the cost pools and why he allocated them the way he did as presented in POIR 4 Question 11 in the R2005-1 Docket. I considered the responses of Mr. Abdirahman, Mr. Miller, and Mr. McCrery to various operational questions. I considered the various responses of Ms. Van-Ty-Smith to questions about the changes in cost pools that were asked in earlier cases. I also considered some anecdotal information from mail processing clerks on what activities took place in specific operations but I would not call consideration of this data an operational analysis.

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**NAPM/APWU-T-1-6.** Please refer to pages 5 and 6 of your testimony (APWU-T-1), where you discuss “clean” mail and “dirty” mail in the Single-Piece First-Class letters mail stream.

a. Please identify the complete set of characteristics that distinguishes “clean” mail from “dirty” mail, as you use the terms.

b. Please 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. Please explain fully any failure to confirm without qualification.

c. Please confirm that deaveraging across this set of characteristics would provide better pricing signals for efficient behavior than the current pricing approach. Please explain fully any failure to confirm without qualification.

d. Please confirm that deaveraging across this set of characteristics would reduce total combined mailing costs in the society as compared to the current pricing approach. Please explain fully any failure to confirm without qualification.

**Response:**

- a. See Response to MMA/APWU-T1-3 (a).
- b. 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. Consequently, your question about the resulting equal contributions to overhead can not be answered in that context.

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- c. As was stated in (b ), the Postal Service does not produce clean or dirty mail, therefore, such a deaveraging would not be based on a worksharing concept with the usual costs avoided calculations. If by deaveraging across these characteristics you are simply proposing offering clean mail a lower rate than dirty mail then there would be a clearer signal for leakage in the system. Existing mail with clean characteristics would stop paying the higher contribution it pays now and would pay a lower contribution assuming it was nearly costless for them to determine the correct new rates and get the new stamps or run the new meter strips. Whether it would produce more efficient behavior is not clear. That would depend on whether or not the discount was large enough to cover single piece mailers' costs of converting a dirty piece to a clean piece and if the resulting clean piece still fit the objective of the mailer. For example, a birthday card may not be readily convertible into all the characteristics of the cleanest piece of mail. Particularly for households it might also depend on the convenience and transaction cost of using multiple rate stamps. There is also a question as to whether it might provide some mailers an incentive to make changes that cost them more than the discount they would receive from the lower price. Sometimes, if the price differential is small, the most efficient behavior is to not make any change. I am not aware of studies that show what level of incentive is necessary for Single Piece users to convert a dirty piece of mail to a clean piece or that measure whether such an incentive level is consistent with the differentials that might be produced under a system of price deaveraging as you seem to propose. A deaveraging such as the one proposed would also be a significant move away from the policy of a uniform rate for letter mail.
- d. 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

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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 “make-up” stamps. The Postal Service also expends resources on making those transactions.