

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

Proposed Amendments to  
Filing Requirements

Docket No. RM2003-1

INITIAL COMMENTS OF THE UNITED STATES POSTAL SERVICE

(February 12, 2003)

Introduction and Background

On December 13, 2002, the Postal Rate Commission issued Order No. 1355, soliciting comments on proposed changes in Rules 53, 54, and 64 regarding filing requirements for rate and classification cases. The proposed rule changes would require the Postal Service to include with its rate and classification filings the testimony of a "roadmap" witness. The dual purposes of this testimony would be to explain how the Postal Service's other testimonies fit together, and to identify material methodological changes.

The Postal Service hereby offers its initial comments on the proposed new rules. While generally sympathetic to the proclaimed need for a better overview of its case at the time of filing, the Postal Service submits that moderately refocusing the proposed rules would more likely achieve the apparent objectives of the rulemaking. In addition to discussion within these comments of the Postal Service's concerns and suggestions, attached is what the Postal Service views as a more workable version of the proposed rule changes.

At the outset, however, it may be useful to recognize the characteristic of postal

rate proceedings that gives rise to the types of concerns this rulemaking is intended to address -- an abundance of informational wealth. Over the years, in accordance with successive modifications in the Commission's rules, the Postal Service has provided more and more documentation with each of its rate filings. Vast quantities of materials that were never produced in earlier proceedings, or were produced only in response to specific discovery requests, are now routinely provided at the time of filing. Rate case participants have immediate access to a broad array of information, presented in minute detail, on postal costs, operations, volumes, and revenues. This wealth of information, however, has periodically caused the very same rate case participants who previously were clamoring for its production to shift the focus of their concern to the extent of measures taken by the Postal Service to aid in their digestion of the materials provided. The inherent irony is inescapable of a cycle in which greater efforts by the Postal Service to provide more information appear to generate little more than renewed calls for greater efforts, once again solely on the part of the Postal Service, to simplify the presentation of that material.

Nonetheless, as it has done throughout the years, the Postal Service is willing to make reasonable efforts to better explain the structure and outline of its rate case presentations, with the hope that this will facilitate the ratemaking process for all participants. If the vehicle identified to advance that objective in this instance is an overview of the filing, unified within one document, the Postal Service is willing to attempt to undertake such an endeavor. Moreover, rather than adopting a grudging minimalist approach to the task of complying with any new requirements, the Postal Service is willing to commit to good-faith efforts to make such a document, as outlined

in these comments, as useful as possible to the broadest possible audience. In the event that additional ways to enhance the utility of the document become apparent in the future, either in the course of preparing the next general rate case, or preparing subsequent cases, the Postal Service will not shy away from those opportunities simply because they were not identified over the course of this rulemaking. By the same token, however, despite an intent to be open-minded to future opportunities, the Postal Service is compelled to favor a rule which features requirements that are both realistic and attainable based on present experience. Therefore, these comments should be interpreted not as establishing the absolute maximum that the Postal Service would ever be willing to provide in terms of a roadmap document, but rather as indicating what the Postal Service believes to be useful standards to be incorporated into the proposed rule, and what participants could practicably expect in the near future in response to the promulgation of such a rule.<sup>1</sup>

#### Evidentiary Nature of the Roadmap Document

Under the proposed rules, the roadmap document would actually be part of the Postal Service's evidentiary presentation, and would be the testimony of a postal witness. For several reasons, the Postal Service believes this feature of the proposal

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<sup>1</sup> As suggested by the discussion on page 3 of Order No. 1355, given the time and workload constraints it faces in preparing rate cases, the Postal Service has previously been unconvinced that the benefits of a roadmap document will necessarily outweigh the costs to the Postal Service of providing it. Once the Postal Service is nonetheless placed in the position of having to prepare such a document anyway, however, its own interests are best served by a document that anticipates as much as possible the types of information and explanations that otherwise would likely have to be provided as discovery responses. For this reasons, among others, the Postal Service will be seeking to make the roadmap document as useful as possible, as indicated above.

should be revised. The roadmap document would be more effective as an institutional pleading, part of the administrative record, but not the evidentiary record.

The most obvious reason to eschew sponsorship by a witness is the immediate question of who would qualify to present the testimony. What individual would be able to become sufficiently familiar with the testimonies of the entire panoply of Postal Service witnesses to explain their contents and how they interrelate? Moreover, even if such an individual could be found, would it likely be a useful expenditure of his or her abilities to devote the time and energy necessary to prepare the testimony, respond to discovery, and withstand potential cross-examination? An additional concern would be the possibility of confusion regarding the scope of the testimony of the roadmap witness, and the scope of the testimony of each of the substantive witnesses. It would seem inevitable that questions properly directed to the substantive witnesses would constantly show up directed to the roadmap witness. Sound litigation practice counsels against simultaneous sponsorship of testimony by two separate witnesses covering the same subject matter.

Consider the alternative scenario, in which the roadmap document is filed with the request, but is presented as an institutional pleading prepared with input from numerous sources, rather than as testimony of a single witness. As a practical matter, it is unclear what additional functional purposes are believed would be served by requiring a witness, as opposed to simply relying on an informational document. On the other hand, if the roadmap document is institutional, each of the substantive witnesses would still be available to respond to inquiries on their respective testimonies.

From a legal perspective, the need to present the roadmap document as

testimony would present other troubling concerns. Order No. 1355 makes quite clear that one purpose of the roadmap document is to discuss material changes in methodology, relative to previous Commission methodologies, and the impact of such changes. As the Postal Service has emphasized on numerous prior occasions, its witnesses should not be required to sponsor testimony regarding Commission methodologies which they believe do not provide the appropriate basis to estimate costs. Therefore, when the Postal Service files the PRC versions of costing materials in response to current Rule 54(a), those materials are not sponsored by a witness, and are instead filed as Category 5 (Disassociated Material) library references. PRC Version costing material is not part of the Postal Service's direct case, and does not enter the evidentiary record through any action on the part of the Postal Service.

Under the proposed rule, a Postal Service witness would be required to present evidence regarding PRC versions, to the extent that such materials differ from the results obtained using the methodologies sponsored by the Postal Service's substantive witnesses. That evidence would be in the form of testimony describing the differences in methodology, and the impact of such differences. It would, however, be inappropriate to include such discussion in testimony, when the results of only one of the two sets of methodologies are being sponsored by postal witnesses. Once again, the straightforward resolution of this dilemma is to submit the roadmap document not as the testimony of a witness, but as an informational pleading which remains part of the administrative record.

Order No.1355 makes manifest throughout that the purpose of the roadmap document is to allow participants to better understand the Postal Service's filing at the

outset of the proceeding. The nature of the document dictates that its utility would be at its height immediately following the filing, and would rapidly diminish thereafter. In this respect, its function is similar to many other documents filed concurrently with the Request that facilitate understanding of the mechanics by which the elements of the case are assembled. Those documents, such as the master list of library references, the attorney-witness assignment list, and the compliance statement, have never been part of the evidentiary record. There is no apparent reason why the roadmap document should be either. In the attachment to these initial comments, the proposed rules have been revised to reflect the Postal Service's views on this issue.

#### Contents of the Roadmap Document

As stated above, the Postal Service strongly disagrees with the proposal that the roadmap document be provided as the testimony of a postal witness, rather than as one of the many institutional pleadings filed with the Request. The Postal Service likewise has several concerns regarding the contents of the document. In substantial measure, these concerns relate not so much to the text of the proposed rule, but instead to the discussion in Order No. 1355 accompanying the proposed rule changes. There are several instances, however, in which the text of the proposed rules does need to be revised.

##### A. Interrelationships between Testimonies

For a map to serve its intended function, a clear perception of its intended function is necessary. A map intended to portray an overview of the path of 19<sup>th</sup> century westward expansion across the American continent would not profitably try to display details of information regarding every single town and village. Conversely, a map

designed to illustrate the activities and troop movements of Day Three of the Battle of Gettysburg would hardly need to extend across the entire state of Pennsylvania. The scale, scope, and level of detail incorporated into a map should be commensurate with its intended use. Relevant and necessary features should be included, while extraneous details should be omitted.

These generalities regarding maps apply equally to any potential rate case roadmap document. The Postal Service understands the intended function of the document to be a device by which individuals (including those who might be totally unfamiliar with previous rate cases) could quickly gain an understanding of the organization of the filing. Such an understanding would be based on two types of information. First, it is necessary to understand the functional components of a rate filing. In perhaps the most truncated form possible, Order No. 1355 lays out those functional components in two paragraphs, starting on page 5 and ending on page 6. While the outline of functional components could be expanded well beyond the detail presented in Order No. 1355, the essence of that outline does appear, and would remain fundamentally consistent moving from rate case to rate case. The second type of necessary information would be identification of the witnesses whose testimonies fulfill each of the functions described in the outline. This type of information is much more case specific (although one cannot help but note a certain amount of consistency over time in the witnesses utilized by the Postal Service to perform certain functions within rate case filings).

A rate case roadmap which first explained the general functional components of the rate case, and then identified the specific testimonies fulfilling each of those

functions, should suffice to inform readers of the organization of the filing. Such a document, moreover, would appear to conform with the stated requirements of proposed Rule 53(b) regarding the “Overview of filing,” putting aside for the moment those aspects of that subsection relating to methodological changes. Perhaps, in the abstract, one could quibble over whether a document following the above outline would sufficiently explain how the testimonies of the postal witnesses interrelated, as the proposed new rule would require. Implicitly, however, the description of the functional organization of the filing would encapsulate the informational flows that define the interrelationships between the testimonies. Additionally, the Postal Service would have no problem with explicitly summarizing, as appropriate, specific sources of material inputs used by a witness, and/or specific downstream witnesses whose testimonies use as inputs the outputs of a particular witness. Indeed, as noted in Order No. 1355 at page 7, examples of such summaries can already be found in the testimonies of postal witnesses, such as that of witness Van-Ty-Smith (USPS-T-13) in Docket No. R2001-1.

The difficulty arises, from the Postal Service’s perspective, with the further statement at page 7 of Order No. 1355 that the proposed rule “would require something more” from the roadmap document. Specifically referring to the testimony of witness Van-Ty-Smith, the Order continues (page 8) that the new rule would require a roadmap document that “would, among other things, explain the linkage between her analysis and the testimony of those witnesses who rely on it.”

To understand why the Postal Service is puzzled regarding what “more” would be appropriate for the roadmap document, it helps to appreciate the actual content of witness Van-Ty-Smith’s testimony:

The mail processing volume-variable costs by cost pool provided in LR-J-55 **[the library reference constituting her primary output, described in her preceding paragraph]** are the starting points for witness Kay's development of incremental costs (USPS-T-21). Aggregated at the CRA level, these costs are integrated into witness Meehan's base year costs (USPS-T-11) and are rolled-forward into the test year by witness Patelunas (USPS-T-12). LR-J-55 also updates other types of information coming out of the methodology for mail processing costs which are used by other witnesses, such as witnesses Smith (USPS-T-15), Mayes (USPS-T-23), Eggleston (USPS-T-25), and Miller (USPS-T-22), as the source of inputs for some of their cost studies.

USPS-T-13 (Docket No. R2001-1) at 1. This appears to be a perfectly adequate explanation of the interrelationship between the testimony of witness Van-Ty-Smith, and the testimonies of the downstream witnesses (base year, roll-forward, incremental cost, and cost studies) who subsequently rely upon her results.<sup>2</sup>

While this information was presented in Docket No. R2001-1 only within the text of the testimony document (i.e., USPS-T-13), the Postal Service envisions that, under the proposed rule, the same information could be reproduced in the roadmap document as well. In the context of a comprehensive roadmap document, the above description would perhaps be even more useful, because any potential questions with respect to the more specific purposes of, for example, the testimony of witness Miller, could be quickly resolved by other information within the roadmap document discussing Mr. Miller's cost study testimony. Thus, while the reader of witness Van-Ty-Smith's testimony in Docket No. R2001-1 would have had to refer to USPS-T-22 to determine the cost studies conducted by Mr. Miller in which he was putting to use the inputs

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<sup>2</sup> On the next page of her testimony, witness Van-Ty-Smith likewise identified the *upstream* witnesses whose work provided the analytic foundation and input data for her analyses.

obtained from her testimony, the reader of the roadmap document would be able to determine the same information by referring to other portions of the roadmap document itself. This format, in other words, would work to meet the objective of creating one centralized location for information regarding the testimonies and their interrelationships.

Obviously, on the other hand, this format and this level of detail would not suffice to establish exactly which inputs Mr. Miller gets from witness Van-Ty-Smith, exactly where those materials enter his analysis, or exactly where those figures can be found within the body of materials she sponsors. That function is instead fulfilled by the complete documentation submitted by each witness, with the extensive cross-referencing that allows virtually all numbers to be traced back to their ultimate sources. That level of detail, however, is potentially overwhelming, and would presumably be of interest only to those participants who are actually engaged in an effort to replicate the analysis of a particular witness. The intended function of the roadmap document is purposefully distinct from the function of the cross-referencing requirement. "Too much information" would stand to jeopardize the utility of the roadmap document just as much as too little information.

Too much information, moreover, is a very real danger when one considers the scope of the roadmap document. While for purposes of abstract discussion it makes eminent sense to focus on the testimony of one witness (e.g., witness Van-Ty-Smith), it must be recalled that, in Docket No. R2001-1 for example, the roadmap document would have covered 42 pieces of testimony. In giving an overview of those 42 pieces of testimony, the frame of reference cannot be limited to the testimony of just one

witness. Someone hoping to get an overview of the case under these circumstances should be prepared to read the information presented about each piece of testimony. Thus, when the purpose and scope of Mr. Miller's cost study testimony is fully presented in that portion of the document focused on his testimony, it would be counterproductive to resummmary the purpose and scope of his testimony every time it is referenced elsewhere in the document.<sup>3</sup> Readers attempting to gain an understanding of the broad outlines of the case would simply get bogged down. On the other hand, readers likely to identify the testimonies of witnesses Van-Ty-Smith and Miller as critical parts of the portion of the Postal Service's case that they need to understand in depth will already

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<sup>3</sup> Consider the following discussion on page 8 of Order No. 1355:

In Docket No. R2001-1, witness Robinson's rates for First-Class Mail relied upon, among others, the testimony of witnesses Miller, Schenk, and Smith. Under the proposed rules, the roadmap testimony should identify any linkage among the various pieces of testimony, briefly describing how it (sic) is employed.

This discussion adopts witness Robinson as the exclusive frame of reference. (The same issues arise in the previous paragraph on page 8, in which it is witness Smith who is proffered as a solitary frame of reference.) In reality, however, witnesses Miller, Schenk, and Smith generate outputs which are relied upon by many other witnesses besides witness Robinson. (Actually, it does not appear that witness Robinson got any of her inputs directly from witness Smith, and therefore the relationship between their testimonies probably would not warrant significant discussion under any circumstances.) Trying to describe their testimonies only in relation to her testimony would be highly inefficient. Similar description would have to be repeated in the context of the other witnesses who use the outputs of witnesses Miller, Schenk, and Smith. Since the functions of those three witnesses would be described in the portions of the roadmap document specifically addressing their testimonies, it should be sufficient for the portion focusing on witness Robinson to point to those witnesses who are the sources of her direct inputs. (Further details, of course, would be provided in the testimonies themselves, and in their supporting documentation.) Fundamentally, however, an overview document must maintain one high level focus, rather than an ever-shifting frame of reference that changes as discussion moves from one witness to another across all pieces of testimony.

be, first, reading those testimonies in their entirety and, second, moving directly to the workpapers, library references, and spreadsheets of those witnesses.

For these reasons, the Postal Service suggests that the purposes of proposed Rule 53(b) regarding a single document that “provides an overview of its filing, including identifying the subject matter of each witness’s testimony [and] explaining how the testimony of its witnesses interrelates” would best be met by a presentation commensurate with that provided by witness Van-Ty-Smith in USPS-T-13 in the last case. This will adequately alert readers to the linkages between witnesses, and full details on those linkages can then be garnered from individual pieces of testimony and the substantial body of documentation already required by other portions of the Commission rules of practice. To the extent that the discussion in Order No. 1355 suggests that “something more” would be necessary, the Postal Service is unclear what that “something more” would be, and doubts that “something more” would aid rather than hinder the primary purpose of the roadmap document articulated in the Order.<sup>4</sup>

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<sup>4</sup> On the other hand, as indicated at the outset of this pleading, the Postal Service is not intending in this discussion to suggest that future improvements are out of the question. For example, until the pieces of an actual roadmap outlining an actual rate filing are pulled together into one document and reviewed, it may be difficult to predict whether the chosen level of detail will be inadequate, excessive, or just right. Order No. 1355 appears to indicate a preference for more detail. On the other hand, the Postal Service is inclined to the view that, when summaries of (for example) 42 pieces of testimony are placed end-to-end, more detail may be counterproductive. Regardless of such initial views, however, the best approach will ultimately require a thorough review of a draft document, and fine tuning, perhaps on a testimony-by-testimony basis, in accordance with that review.

## B. Changes in Methodology

The proposed changes in rules would also require identification of methodological changes, and some attempt at quantification of the effects of each change. The proposal specifically identifies costing methodologies, volume forecasting methodologies, and rate design methodologies. Because the Postal Service has concerns specific to each of these, they will be discussed separately.

### 1. Costing Methodologies

The Postal Service assumes that the term “cost methodology,” as used in the proposed rules, refers both to what are sometimes referred to as “subclass costs” or “CRA costs,” as well as what are sometimes referred to as “cost study” costs, which tend to relate to estimates of cost avoidances or cost differences below the subclass level (i.e., at the rate category level). To the extent that current Rule 54(a) refers exclusively to “attribution principles,” the Postal Service interprets the requirements of the current rule to be limited to the methodologies by which subclass costs are derived and presented at the CRA level. In that sense, cost studies do not fall within the scope of the current rule. Notwithstanding that fact, the Postal Service has voluntarily provided PRC versions of cost study results with its filing in the last several cases, so as to avoid having to deal with the matter at even less convenient stages of the ratemaking process. For examples of PRC-version cost study materials filed by the Postal Service in the last proceeding, see library references USPS-LR-J-80-81, 83-88. It is our perception that the results of these efforts have generally been satisfactory to all, and nothing within Order No. 1355 appears to contradict that perception.

The Postal Service believes that an appropriate response to the “cost methodology” portion of proposed Rule 53(b-c) would be as follows. First, the roadmap document would include summaries of the testimonies of each witness, including costing and cost study witnesses. By their nature, these summaries would identify any material new proposals in cost methodology.<sup>5</sup> Second, the summaries could be accompanied by presentations which attempt to compare the results of the Postal Service’s proposed methodology with the results obtained applying the cost methodology utilized by the Commission in the most recent rate proceeding, in those instances in which there are material differences. In most such instances, these presentations would simply consist of the extraction of the relevant material from the PRC-version library references, for a side-by-side comparison of that material with the results presented in the testimony of the witness.

Thus, to use Docket No. R2001-1 as an illustrative example, within the roadmap document, following the summary of witness Van-Ty-Smith’s testimony regarding Cost

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<sup>5</sup> At pages 11-12, Order No. 1355 discusses an instance in Docket No. R2001-1 in which a postal witness failed to identify and explain an adjustment in the distribution of Parcel Post highway transportation costs. While the Postal Service does not question the proposition that participants would have been better served by testimony which identified and explained the change, it seems unlikely that anything relating to the proposed rules would have altered that particular situation. In that instance, it was fully the intention of the witness in question to include the appropriate discussion in her testimony. Until receiving the cited interrogatories, it was her belief that such a discussion had been included in the testimony. When the questions came in and she actually checked the testimony, however, it quickly became clear that, in the rush of putting the pieces of the testimony together, one piece had inadvertently been omitted. Most germane to the instant discussion, this instance of “dropping the ball” lends no support to a rule change, because the only shortcoming was one of execution. Unfortunately, the exact same type of mistake, where the best of intentions are not matched by actual performance, would be no less likely to occur under the proposed rule than under existing practice in the absence of such a rule.

Segment 3 would be a comparison of her distribution of Cost Segment 3 costs with the distribution of Cost Segment 3 costs otherwise featured in USPS-LR-J-74, PRC Version/Base Year Model. This would allow direct focus on the differences in mail processing cost attribution and distribution between the Postal Service and PRC base years. Similarly, accompanying the summary of the testimony of witness Bozzo could be a comparison of the cost pool variabilities he was proposing, versus those implicit in USPS-LR-J-74. Presentations of this type would provide the clearest possible indications of the effects of the methodological differences.

As noted earlier, the Postal Service believes that these presentations are best made in the context of a roadmap document that would exist as part of the administrative record, but not the evidentiary record. Two conclusions flow from this. First, as noted earlier, it would be inappropriate for the roadmap document to be sponsored by a postal witness. Its purpose is best fulfilled by an institutional pleading. Second, presentation of these comparisons should be separate from the testimony of the postal witness, because the Postal Service's witnesses sponsor the Postal Service version, and do not sponsor the PRC version. To the extent that proposed Rule 53(c) suggests that the comparison information instead be included in the testimony of the postal witness, the Postal Service is submitting the attached proposed revisions to the proposed rule. The proposed revisions would shift the location of the discussion of impact from the testimony of the "sponsoring" witness to the roadmap document, and

thus, in the context of the proposed rules, would shift the location of the governing language from subsection (c) of Rule 53 to subsection (b).<sup>6</sup>

The approach outlined above for handling cost methodology changes under the proposed rules would seem to be no less feasible than the approach used in response to the existing portion of current Rule 54(a) regarding the alternate cost presentation (i.e., PRC version). It is important to stress, however, that current Rule 54(a) presents a host of problems as well. This can be observed by noting the four most likely sources of changes in reported costs moving from year to year. These are updates of system outputs, other updates, operational changes, and new analytic procedures. Far and away, the most common source of change is updated input information from basic statistical reporting systems, which show up every year as the composition of the mailstream changes. There is no doubt that if all of the differences between the Postal Service's base year costs and the Commission's base year costs in the previous case were caused by new reporting system outputs, there would be no need under Rule

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<sup>6</sup> Similarly, the testimonies of postal witnesses are structured to discuss changes relative to previous Postal Service submissions, rather than relative to previous versions utilized by the Commission. For example, in Docket No. R2001-1, using a long-established format, witness Meehan's base-year volume variable cost testimony starts with the postal base year in the previous case, BY 1998, discusses changes in each intervening fiscal year, and concludes with a discussion of changes between fiscal year 2000 and base year 2000. See USPS-T-11 at pages 3-7. This is appropriate for several reasons. First, as stated repeatedly, postal witnesses sponsor USPS versions, not PRC versions. Second, and also supporting to the first point, there are instances in which the postal witnesses do not completely understand what the Commission actually did in the previous case. Once again, however, the existing structure of Postal Service testimonies does not appear to have created any contention in recent cases, because salient changes tend to have been the same regardless of the baseline, and those changes have been adequately discussed. That structure, therefore, should remain appropriate going forward. This does require, however, a minor edit in the proposed wording of subsection 53(c), which is also reflected in the attachment.

54(a) for an alternate cost presentation. At the other end of the spectrum, there are analytic procedures, proposed in the past by either the Commission or the Postal Service, which the other entity has not adopted. Examples include single subclass cost estimation (as part of volume variable costs) and econometric estimates of mail processing cost pool variabilities. As long as those analytic differences persist, there may be a perceived need for the alternate cost presentation.

Ambiguities creep in, however, with respect to the other three items (other updates, operational changes, new analytic procedures) on the above list. For example, if the Postal Service conducts an update of a special study that feeds into subclass cost attribution or distribution, how should the results of that effort be reflected in a rate filing? If it is simply an update, it seems clear that it would likely be treated the same as updates emanating from statistical reporting systems. What often happens, however, is that updates of this variety also include what are intended to be analytic improvements as well.<sup>7</sup> Consider the case of the new carrier cost information provided in Docket No. R2000-1, intended to replace carrier data dating back to the mid-1980s. Obviously, this was more than just an update, but the new approach had never been rejected by the Commission. To the extent that there was a significant update component to the material, there was good reason to believe that the Commission would want to take advantage of the more recent information. That argued in favor of

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<sup>7</sup> For example, if a certain type of data tends to be collected only once every five years, there is a substantial premium placed on giving careful thought to the intended use of those data, and designing an update that does the best possible job of meeting the objectives of the exercise. Often, this means seeking to identify deficiencies in earlier efforts, and make adjustments to avoid those shortcomings.

including that material in both the USPS and PRC versions, and thereby focusing the difference in those two versions on those areas with known analytic disputes between the Postal Service and the Commission. If the Commission were likely to accept the update, leaving it out of the PRC version would appear to be artificially overstating the difference between the two versions. In hindsight, however, the Commission did not accept the new material, and it should have been left out of the PRC version. That was not known, however, until the Commission, in essence, found that the new analytic components outweighed the update components, and further found the new procedures to be wanting. The difficulty with current Rule 54(a) is that it requires the Postal Service to try to outguess how the Commission will resolve these types of issue, with no opportunity for guidance.<sup>8</sup>

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<sup>8</sup> Paradoxically, the situation only tends to get worse when there is guidance. In its Recommended Decisions, the Commission will occasionally identify perceived shortcomings in costing methodologies, even when it has to rely on those methodologies because there was nothing better on the record. Often under those circumstances, the Commission will also mention a recommend approach to rectify the deficiency. When the Postal Service attempts to respond to these concerns, it will, by definition, be deviating from the methodology employed by the Commission in the previous case. Yet if the Postal Service is doing exactly what the Commission suggested, which version is the true PRC version? If the Postal Service addresses the matter, but using a slightly different approach, does this change the answer? In such a situation, if the Postal Service believes that it has a methodological change that is likely to be viewed by all concerned as an unambiguous improvement, does it make any sense to expend significant effort to present the results of a previous methodology that even the Commission found unsatisfactory? What if the Postal Service is not so sure how its intended improvement will be received, because of a realization that some party will be unhappy with the direction of the substantive results, regardless of their methodological merit? In reality, while there rarely are any black and white answers to these questions, the Postal Service has tried to employ a rule of reason in dealing with them in the context of current Rule 54(a), and would continue to do so under the proposed new rules.

Similar problems occur with changes in operations. The Postal Service's air transportation network changed substantially between Docket No. R2000-1 and Docket No. R2001-1. In preparing the filing in Docket No. R2001-1, it was impossible to rely on what had been recommended by the Commission in Docket No. R2000-1. The Postal Service had proposals to deal with the operational changes, and no way of knowing whether those proposals would be accepted by the Commission or not. Once again, the choice is between trying to limit differences between the two versions to known differences of opinion, versus trying to mechanistically go back and come as close to the earlier Commission results as possible, notwithstanding changes in operations. While the choice in this instance may be more clear (because it may literally be impossible to apply the previous PRC methodology), the issues are similar. Moreover, in reality, it is often changes in operations which trigger the need to update special studies, which then create the opportunity for potential analytic improvements. All three elements can easily be present when attempting to decide whether the ultimate results can legitimately be characterized as consistent with existing Commission methodology, or whether they should be included in a USPS version, but excluded from the PRC version. (If the latter conclusion is reached, of course, then the further issue must be resolved of what can be used as an alternate cost presentation in the PRC version.)

As the above discussion suggests, compliance with the existing alternate cost presentation portion of Rule 54(a) has not been easy. Compliance efforts with respect to that requirement consume staff resources at the time during the case preparation process when demands for those resources for purposes of developing the Postal Service's own case are at their peak. The Postal Service has every right to be

concerned that further requirements not create undue interference with its ability to develop, present, and support the best possible rate proposals for the Postal Service and its customers. In particular, when the Postal Service goes to extraordinary lengths in its workpapers, spreadsheets, and library references to decompose the elements of its case down to the most minute level of detail, fundamental fairness calls into question the magnitude of the further efforts that can appropriately be required to compel the Postal Service to put those same pieces back together in a different format that may be contrary to the interests of the Postal Service, and that may favor the interests of its adversaries. Ultimately, once necessary inputs have been made available, those who advocate different results must bear the burden of developing and defending the procedures which they believe justify their positions.

The approach outlined above regarding compliance with the proposed rules (as modified) regarding costing changes, however, appears to create a workable balance between the stated broader purposes of the rulemaking (i.e., facilitating litigation of a complex ratemaking proceeding within a tight statutory time limit) and the concerns of the Postal Service. A roadmap document consistent with the above discussion would provide participants with a centralized source of information on the overall structure of the Postal Service's costing presentation, would identify material changes, and would provide quick insight into the significance of the difference between Postal Service and Commission costing methodologies. While the administrative and professional effort required to implement and coordinate this effort would undoubtedly be substantial, hopefully, in the words of Order No. 1355, it would "not add to [the Postal Service's] burden appreciably."

## 2. Volume Estimation

The proposed rule includes the volume forecasting presentation within the scope of those subjects for which the roadmap document needs to highlight proposed changes. This is somewhat surprising for several reasons. First of all, unlike many other portions of the rate case, the volume forecasting area is one that has largely been devoid of significant controversy over the last three or four cases. Participants tend not to focus much of their efforts on this area, and what little interest they show is usually designed to elicit support for arguments in other areas of the case, rather than in pursuit of alternative volume forecasts. Second, and not unrelated to the first point, the relationship between subclass volume forecasts and subclass rates is much more tenuous than, for example, the relationship between subclass costs and subclass rates. Participants trying to quickly get a handle on what is driving specific rate proposals are seldom likely to find much of interest in the forecasting area.<sup>9</sup> Third, and perhaps most importantly, there has been no discernible difference in approach to forecasting between the Postal Service and the Commission. There is, for example, no PRC version versus a USPS version. Rather, forecasting differences have tended to be primarily, if not exclusively, a function of different after-rates.

In general, the forecasting testimony has been fairly concentrated in terms of the number of witnesses, fairly standardized in terms of organization, and there has been no reason to believe that rate case participants have had any trouble negotiating their

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<sup>9</sup> Thus, to the extent that methodological changes would warrant mention in the roadmap document only if they “have a material effect on rates” (Order No. 1355 at 9), one might surmise that changes in the volume forecasting procedures would only rarely *not* be excluded by virtue of that criterion.

way through this material. For that reason, the Postal Service suggests that specific inclusion of “volume estimation” as an element of the proposed rule does little to further the purposes of that rule. As long as the roadmap document points parties interested in the forecasting methodology in the direction of the witnesses sponsoring the forecasting testimonies, further information about those testimonies is as likely to clutter up the roadmap document as to provide details that any significant number of readers would find useful.

Having said that, however, the Postal Service would not foresee major difficulties in complying with this portion of the proposed rule were it retained. Over many cases, the testimony of Prof. Tolley has specifically included a separate section identifying improvements in the forecasting methodology. See, e.g., USPS-T-7, Docket No. R2001-1, page 22. That information could easily be reproduced in the roadmap document as well. Whether it would be of interest to a sufficient number of readers to justify its inclusion is a question on which the Postal Service is willing to defer to the judgment of others, although our preference would be to omit specific reference to “volume forecasting” from the rule.<sup>10</sup>

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<sup>10</sup> In terms of addressing the effects of changes in forecasting procedures, the situation is somewhat different from that of costing methodologies. In costing, the focus is on historical costs, and we subsequently obtain little information that reveals whether those historical subclass costs were accurately estimated or not. In volume forecasting, however, forecast are made prospectively, and subsequently can be evaluated against actual reported volumes. Forecasting changes tend to be made in instances in which the forecasted volumes appear to be deviating excessively from observed actuals. When virtually any new forecasting parameter is proposed, therefore, its effect could uniformly be described as causing the model to better fit the historical data. A change that did not improve the fit of the model is a change that is unlikely to be made. At page 9-10, Order No. 1355 speaks of addressing “volume estimates based on alternative specifications of demand equations.” The Postal Service’s rate case forecasts,

### 3. Rate Design

Order No. 1355 states:

Changes in rate design present a vexing problem. Rate levels may be affected by myriad factors that manifest themselves through changes in rate design, e.g., new modeled costs, different distribution keys, or revised benchmarks. Changes of this nature that materially affect rate levels fall within the scope of the proposed rules. The Commission will accept good faith estimates to comply with this aspect of the new requirements while experience is gained on reasonable levels of detail.

*Id.* at 10. The Postal Service might agree that changes “in rate design present a vexing problem.” The Postal Service does not agree, however, that changes in rate levels caused by changes in modeled costs, distribution keys, or benchmarks reflect changes in rate design. Such changes in rate levels are generally caused by changes in *inputs* to the rate design process, not changes in the rate design process.<sup>11</sup> Therefore, such changes should not be considered to fall within the scope of the proposed rules, or, at least, not in the context of the “rate design” portion of the rule. They would be relevant, if at all, with respect to changes in cost methodology.<sup>12</sup>

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however, are based only on the proposed specifications. Alternative specifications are discussed in the “choice trail” required under Rule 31(k)(2)(iv)(d), but forecasts based on those alternatives are not routinely produced.

<sup>11</sup> A possible exception relates to selection of the appropriate benchmark for purposes of cost avoidance estimation. There are instances in which the rate design witness is involved in that selection, and includes discussion of that issue in his or her testimony. (In other situations, the selection falls within the exclusive purview of the cost study witness.) In such instances, and when the outcome of the selection process is a change in the benchmark employed, it naturally makes sense to expect that benchmark revision would be among the issues mentioned within the roadmap summary of the testimony of the rate design witness.

<sup>12</sup> If the Order intends to suggest that somewhere within the Postal Service’s filing should be information which summarizes in one place all of the factors which have caused a particular rate to change relative to the existing rate level, the Postal Service

Changes in rate design are much more likely to be a function of proposed classification changes, the significance of which Order No. 1355 does not discuss. In the presence of a proposed classification change, it could become extremely difficult to meaningfully contemplate the relationship between the rate design used by the Commission in the last case, and the new rate design proposed by the Postal Service. There are indeed, however, examples of changes in rate design methodology unrelated to changes in inputs, and unrelated to classification changes. Practically speaking, any such change would be expected to be identified and discussed in the testimony of the relevant rate design witness. Within the framework of the proposed new rules, it would likewise seem appropriate for the more material of such changes to be mentioned in the summary of the testimony of each rate design witness that would be included within the roadmap document.

The need for any extensive discussion within the roadmap document, however, is open to serious question. It seems inconceivable that participants interested in the rates for a particular subclass would not be reading the testimony of the rate design witness for that subclass. In terms of rate design, therefore, the primary function of the roadmap document would appear to be simply pointing parties in the right direction by

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views any such expectation as decidedly unrealistic. (That possibility appears to be most palpably suggested on page 8, in which one stated function of the proposed roadmap witness is to enable parties “to identify all witnesses affecting the development of a particular rate.”) Given the thousands of rate cells and dozens (if not hundreds) of rate categories, and given the myriad of inputs that flow through the ratemaking process into the development of each individual rate, any such attempt at summarization would simply end up being a replication of the entire rate case documentation. It cannot be done within the testimony of a rate design witness, and it certainly cannot be done within the confines of a roadmap document.

identifying the subclasses or services covered in the testimony of each of the rate design witnesses. As noted, however, identification of any material rate design changes (whether associated with a classification change or not) would also seem appropriate, to facilitate quick identification of the more salient issues presented by the filing.<sup>13</sup> This suggests that the summaries of rate design testimonies are perhaps likely to be more detailed than those applicable to upstream witnesses.

### CONCLUSION

Order No. 1355 clearly indicates that the purpose of the instant rulemaking is to use the concept of a roadmap to facilitate litigation of complex rate cases within the tight time limits imposed by statute. By the same token, however, the Order likewise makes clear that the intent is not to appreciably exacerbate the Postal Service's burdens in preparing its filing. The Postal Service believes that it is possible to achieve both of these objectives using the approach described in these comments, along with relatively modest revisions in the proposed rules.

The approach contemplated by the Postal Service requires a roadmap document, rather than roadmap testimony from an individual witness. At one level, it

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<sup>13</sup> To the extent that the approach being suggested here by the Postal Service with regard to rate design matters is to allow the roadmap document simply to pick up rate design issues within the summaries of the rate design testimonies, it could be observed that the Postal Service is suggesting that issues involving rate design matters be treated no differently than issues involving other material aspects of the case (with the exception of cost methodology changes). As a practical matter, this observation would be correct. On that basis, one could further suggest that the language in proposed subsections 54(b-c) specifically mentioning "rate design" is essentially extraneous. As with respect to "volume estimation," however, the Postal Service has no strong preference whether the specific reference to "rate design" is retained or omitted, as long as the Postal Service is able to satisfy the intent of the rule with the approach outlined above.

might appear that the information on the pieces of paper would be the same when it matters most (at, and immediately following, the time of filing), regardless of whether or not several months later somebody has to stand up and sponsor that material as testimony. In reality, however, postal witnesses (presumably the same as all rate case witnesses) display a healthy caution regarding the need to understand the details of materials that they are expected to sponsor under oath. Therefore, imposing a requirement that the roadmap be submitted as testimony fundamentally constrains the scope of information likely to be included. This constraint is totally unnecessary, however, because there is no apparent functional advantage to be gained by having the material submitted as testimony rather than as an institutional document. As indicated in Order No. 1355, the purposes to be served by the roadmap are most compelling at the “outset of the proceeding,” not several months down the road when formal creation of the evidentiary record begins. Equally importantly, submitting the roadmap as an institutional document avoids unnecessary contention over the question of sponsorship by postal witnesses of testimony addressing matters relating to the PRC versions of costs.

The roadmap document envisioned by the Postal Service would start with a general description of the different functional components of a rate filing, and the flow of information between those components. The document would then explain how each piece of postal testimony fits within that framework. Each piece of testimony would be summarized, and, as appropriate, significant sources of inputs and recipients of outputs would be identified. Particular attention would be paid in the summaries to ensure that material methodological changes were duly noted. For costing testimonies,

presentations would show the effect of any material methodological deviations from PRC versions by extracting comparable results from the postal testimony and the respective PRC version for side-by-side comparison. Since the rate design testimonies present the actual rate and classification changes ultimately likely to be of the most interest to participants, the summaries of those witnesses would be suitable candidates for a heightened level of detail.

It bears repeating, however, that at some point the level of detail incorporated into the roadmap document and its inherent utility to readers become inversely related. Be that as it may, probably the most useful device to insure a worthwhile roadmap document would be careful review of a preliminary draft, with focus on how well the sum of the parts meets the intended objective of the exercise. The Postal Service is committed to the conduct of such a review, and consequent adjustments, as necessary, to provide a document with the actual potential of facilitating the ratemaking process.

In order to reconcile the approach outlined above with the proposed rules, certain revisions in the proposals are necessary. Attached to these comments is the Postal Service's revised version of the proposed rules. The relatively modest changes

displayed in the attachment are as discussed throughout these comments.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux  
Chief Counsel  
Ratemaking

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Eric P. Koetting  
Attorney

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-2992/ FAX: -5402  
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## THE POSTAL SERVICE'S REVISIONS TO THE PROPOSED RULE CHANGES

The Postal Service is not suggesting any revisions to proposed subsections 53(a), 54(a), or 63(a-b).

In subsections 53(b-c), suggested revisions are indicated by placing in brackets material to be deleted, and by presenting in bold type material to be added (some of which is merely relocated material). Material in italics is material that the Postal Service recommends omitting, but to which the Postal Service does not maintain strong objections.

### Rule 53

(b) Overview of filing. As part of its direct evidence, the Postal Service shall include a single [piece of testimony] **document** that provides an overview of its filing, including identifying the subject matter of each witness's testimony, **and** explaining how the testimony of its witnesses interrelates[.]. [and]**This document should highlight[ing]** changes in *volume estimation, rate design, and cost methodology*[, volume estimation, or rate design], as compared to the manner in which they were calculated by the Commission to develop recommended rates and fees in the most recent general rate proceeding, **and should include a presentation of the impact of each material cost methodology change on the levels of estimated costs.** This [testimony] **document** should also identify, with reference to the appropriate testimony, each witness responsible for addressing any methodological change described in subsection (c).

(c) Proposed changes. As part of its direct evidence, the Postal Service shall submit testimony that identifies and explains each material change in cost methodology, volume estimation, or rate design, compared to the method employed [by the Commission] in the most recent general rate proceeding. This requirement shall not apply to any such change adopted by the Commission in an intervening proceeding. [The testimony required in this subsection (c) shall also include a discussion of the impact of each such change on the levels of attributable costs, projected volumes, and rate levels.]

To avoid any possible misinterpretation, the Postal Service is suggesting subsections 53(b) and (c) that would read as follows:

(b) Overview of filing. As part of its direct evidence, the Postal Service shall include a single document that provides an overview of its filing, including identifying the subject matter of each witness's testimony, and explaining how the testimony of its witnesses interrelates. This document should highlight changes in cost methodology, as compared to the manner in which they were calculated by the Commission to develop recommended rates and fees in the most recent general rate proceeding, and should include a presentation of the impact of each material cost methodology change on the levels of estimated costs. This document should also identify, with reference to the appropriate testimony, each witness responsible for addressing any methodological change described in subsection (c).

(c) Proposed changes. As part of its direct evidence, the Postal Service shall submit testimony that identifies and explains each material change in cost methodology, volume estimation, or rate design, compared to the method employed in the most recent general rate proceeding. This requirement shall not apply to any such change adopted by the Commission in an intervening proceeding.

**CERTIFICATE OF SERVICE**

I hereby certify that, in accordance with section 12 of the Rules of Practice, I have this day served the foregoing document upon all participants of record.

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Eric P. Koetting

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-2992/ FAX: -5402  
February 12, 2003