

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

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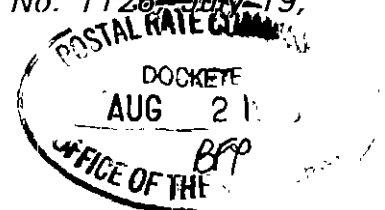
SPECIAL SERVICES REFORM, 1996

Docket No. MC96-3

STATEMENT OF THE UNITED STATES POSTAL SERVICE CONCERNING
ORDER NO. 1126
(August 2, 1996)

The United States Postal Service hereby offers the following comments in response to Order No. 1126.¹ The order directed the Postal Service to reproduce its costing presentations in this case using certain costing methodologies formulated by the Commission. The Postal Service's costing is in almost all respects the same as that developed by the Commission, but certain methodologies are not employed, because the Postal Service believes they are fundamentally flawed. In these limited respects, the Postal Service employs alternative methodologies in producing its ongoing costing (Cost and Revenue Analysis (CRA)), which was used in this case. The costing presentations underlying the Postal Service's Request comply with the specific requirements of the Commission's Rules of Practice and Procedure. The Postal Service, furthermore, in its motion for reconsideration, provided an analysis reflecting the Commission's methodologies. This analysis demonstrated that, for the special

¹ Order Denying Motion to Reconsider Order No. 1120, Order No. 1126 July 19, 1996.



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services that the Postal Service is proposing to change in this case, the differences in methodologies would have no material effect.²

The Postal Service's disagreement in this matter does not concern the production of data. As in the past, the Postal Service has provided, and will continue to provide, the data necessary for the Commission or a party to replicate the Commission's methodologies. The methodologies themselves were designed by the Commission, and they have been executed by it numerous times in the past. In fact, in certain respects in the past there have been uncertainties and unexplained inconsistencies surrounding the Commission's use of certain of its costing approaches. These have not been explained, justified, and reconciled on the record of a proceeding.

Although the Postal Service believes that the Commission's costing is flawed in several respects, the dispute has centered on city carrier costing, specifically the Commission's single-subclass methodology. The crux of the disagreement concerns whether the Postal Service should be directed to create the evidence establishing this methodology on the record, or whether, as the courts have made clear, due process requires that the proponent of a disputed approach must present, explain, and justify it on the record. *See Mail Order Association of America v. United States Postal Service*, 2 F.3d 408 (D.C. Cir. 1993).

² There is a greater effect on special delivery, which the Postal Service proposes to eliminate.

The approach to city carrier costing has been a source of disagreement between the Commission and the Postal Service Governors in the two most recent omnibus rate cases. In those cases, the Commission has continued to adhere to its single subclass approach, while the Postal Service Governors consistently have rejected it. Within the past two years, the Governors have had three separate occasions on which to address this particular costing approach, and on all three occasions have found it to be fundamentally flawed for both economic and policy reasons.

In their initial decision in Docket No. R94-1, the Governors concluded that

the Commission's current approach to the attribution of city carrier delivery costs could unnecessarily limit the ability of the Postal Service to price its services in a manner which adequately reflects the actual costs of postal operations, and could thereby frustrate the legitimate business interests of the Postal Service and the overall welfare of the mailing public.³

Shortly thereafter, in their decision on the Docket No. R90-1 remand, the Governors again rejected the single subclass approach, finding that it was likely to pose a threat to the Postal Service's business interests as well "to impair the value of the postal system to the public."⁴ In particular, the Governors found that the single subclass approach was arbitrary, stating, "[W]e must observe that the result of this attribution method depends more on the way in which the current classes

³ *Decision of the Governors of the United States Postal Service on the Recommended Decision of the Postal Rate Commission on Postal Rate and Fee Changes, Docket No. R94-1, December 12, at 13.*

⁴ *Decision of the Governors of the United States Postal Service on the Recommended Decision on Remand of the Postal Rate Commission on Postal Rate and Fee Changes, Docket No. R90-1, February 21, 1995 at 10.*

are defined, than on how much an additional piece of mail of a given subclass costs to deliver." *Id.* The Governors determined that the single subclass approach "does not trace the costs needed for ratesetting, and will result in uneconomic and unbusinesslike pricing decisions that ultimately will undermine the policies and direction that the Postal Service should take." *Id. at 11.* The Governors stated that the single subclass approach represented a departure from traditional volume variability analyses and pointed out that

[a] succession of eminent economists, including Professors William J. Baumol and John C. Panzar, have cautioned that failure to utilize information regarding volume variable costs for purposes of ratemaking ignores a key ingredient essential to the development of postal rates that are not only economically sound, but are rational in any sense.

Id. at 14. The Governors concluded, "[W]e would expect that the Postal Service would continue to question single-subclass costing in future proceedings." *Id. at 22.*

Finally, in their decision on the Docket No. R94-1 reconsideration, the Governors declared, "[W]e remain of the opinion that the Commission's approach is not in the best interests of the nation's postal system, or in the public interest. We are concerned about the adverse consequences of this approach to the business and public service imperatives of the Postal Service."⁵ The Postal Service simply cannot abandon its position that the single subclass costing approach is wrong. Nor can it agree that a simple pronouncement that a disputed

⁵ *Decision of the Governors of the United States Postal Service on the Further Recommended Decision of the Postal Rate Commission on Postal Rate and Fee Changes, Docket No. R94-1, July 31, 1995, at 3.*

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methodology is binding precedent can override the due process requirements that the architect and principal proponent of that methodology has a duty to explain and defend it on the record.

Accordingly, the Postal Service must respectfully decline to provide any costing presentation which incorporates the Commission's single subclass cost analysis. As in the past, the Commission itself should be able to produce a single subclass analysis from the costing data provided in this docket by the Postal Service.⁶ In light of this central disagreement, the Postal Service is willing to provide the cost presentations presented in this docket using its best attempts at replicating the Commission's cost model, but without single subclass costs, if the Commission so requests. Nonetheless, the Postal Service strongly believes that its initial filing provides full costing information sufficient to allow the Commission to evaluate and make recommendations on the limited proposals presented.

⁶ The Postal Service has worked with the Commission staff in remedying certain problems with its carrier data tapes and is ready to provide assistance should further issues arise.

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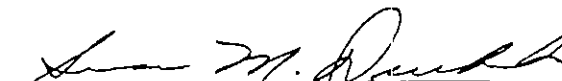
Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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Susan M. Duchek**CERTIFICATE OF SERVICE**

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

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