

ORIGINAL

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

SPECIAL SERVICES REFORM, 1996

Docket No. MC96-3

UNITED STATES POSTAL SERVICE
INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS TO
THE OFFICE OF THE CONSUMER ADVOCATE WITNESS THOMPSON
(USPS/OCA-T200-1-9)

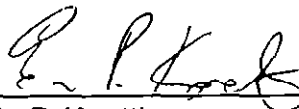
Pursuant to rules 25 and 26 of the Rules of Practice and Procedure and rule 2 of the Special Rules of Practice, the United States Postal Service directs the following interrogatories and requests for production of documents to the Office of the Consumer Advocate witness Thompson: (USPS/OCA-T200-1-9).

Respectfully submitted,

UNITED STATES POSTAL SERVICE

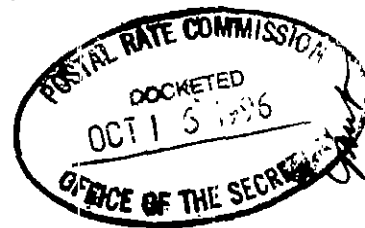
By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



Eric P. Koetting

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October 16, 1996



USPS/OCA-T200-1.

(a) Please confirm that the Postal Service Board of Governors Resolution No. 95-9 does not limit the amount of net income to be earned by the Postal Service but rather states that net income may equal or exceed the cumulative prior years' loss recovery target prescribed by the Resolution. If you do not confirm, please explain what amount net income is limited to by the Resolution and how you determined the amount of the limit.

(b) Please confirm that the transcript of the Board of Governors meeting that you quote on page 9 of your testimony indicates that the Board was informed of the fact that Postal Service actual and planned net income exceeds the amount required by Board of Governors Resolution No. 95-9. If you cannot confirm, please explain why.

USPS/OCA-T200-2. On page 5 lines 10-12 of your testimony you state that "Docket No. MC96-3 abandons the earlier classification reform initiative goal of net revenue neutrality". On page 6, lines 8-12, you claim that "it is unfair and inequitable to depart from the earlier classification reform policy of net revenue neutrality by burdening special services alone with additional non-attributable net revenue requirements."

(a) In your opinion, would the proposals made by the Postal Service in this case have been more fair and equitable if Docket Nos. MC95-1 and MC96-2 had never been filed? Please explain your answer fully.

(b) In your opinion, must all future classification cases be based on the philosophy of net revenue neutrality espoused in Docket No. MC95-1? Please explain your answer fully.

USPS/OCA-T200-3. Under the omnibus rate case scenarios you postulate on pages 12-13 of your testimony (where \$339.4 million of revenue requirement is spread over all classes of mail or all classes except First Class Mail), could the first two goals for this case articulated by witness Lyons on pages 2 and 3 of USPS-T-1 be accomplished for the special services which are the subject of this docket? If your answer is other than no, please explain how these goals could be accomplished.

USPS/OCA-T200-4. At the bottom of page 4 and the top of page 5 of your testimony, you quote selected portions of statements from the Postal Service's Request in Docket No. MC95-1 in order to characterize the intent of "classification reform." Please confirm that the statements of which you have quoted portions were limited in scope to clarifying the intent of the Request in Docket No. MC95-1, and did not purport to address generic "classification reform." If you cannot confirm, please explain fully.

USPS/OCA-T200-5.

(a) Please confirm that most (if not all) classes of mail and types of services face some type of competition, in the sense that users usually have some alternatives

available to perform the same function performed by the class of mail or type of service? If you cannot confirm, please explain fully.

(b) Please confirm that the relationships between a service and the potential alternatives provided by competitors, in terms of price, quality, convenience, effectiveness, etc., are generally considered relevant in pricing that service. If you cannot confirm, please explain fully.

(c) Please confirm that the relationship between a postal service and the potential alternatives provided by competitors are specifically relevant in postal ratemaking. If you cannot confirm, please explain fully, including why such factors should not be reflected in consideration of 39 U.S.C. §§ 3622(b)(2), (4), and (5).

(d) Please confirm that the relationships between postal services and the potential alternatives provided by competitors are not necessarily static, and that the pace of change in the markets for postal products may vary considerably across postal products. If you cannot confirm, please explain fully.

(e) Please confirm that developments in the market for a particular postal product, independent of any general cost level increases or any specific changes in attributable costs for that product, may justify adjustments in the rates or fees for that product, under circumstances in which no omnibus rate changes are required.

(Adjustments can be thought of as "justified" if, had the market developments in question occurred prior to the last general rate case and been considered during such a case, the result would or could have been different rates than those recommended.) If you cannot confirm, please explain fully.

USPS/OCA-T200-6. Please consider the following hypothetical. A new analysis conducted by the Postal Service shows that, in light of a variety of market considerations, users of one particular postal service are getting an extraordinarily "good deal," and that higher rates for that service could be implemented that would be fully in accord with the ratemaking factors of the Act. Assume that it is not open to question that the higher **rate levels** suggested by the analysis comport with all factors of the Act, including fairness and equity. Because the Postal Service does not plan to file a general rate case in the immediate future, however, it has two options. Option One is to act immediately to bring the rates for this product in line with demand by filing a case seeking rate increases limited to that product. Option Two is to leave the rates unchanged until the next general rate case, at which time the rates will be increased in light of the new analysis.

(a) Please confirm that, under this hypothetical, the users of the service have done nothing to entitle them to continuation of this "good deal." If you cannot confirm, please explain fully.

(b) Please confirm that continuation of the "good deal" deprives users of all other services of a potential increased contribution to net revenue that could be provided by users of the service in question. If you cannot confirm, please explain fully.

(c) In your opinion, under this hypothetical, should the Postal Service be allowed to pursue Option One -- selective, but justified, price adjustments? Please explain your answer fully.

(d) Further assume that the new market analysis probably could have been conducted at the time of the last general rate increase if attention had been focused in that direction, but was not. Would this additional assumption change your answer to any of the previous subparts? Please explain any necessary changes fully.

USPS/OCA-T200-7. Please refer to page 14 of your testimony.

(a) Would it be fair to equate your testimony on this page with a "sporting" theory of postal ratemaking, in which parties participate in a designated "game" known as an omnibus rate case, and it is thus "unsporting" of the Postal Service to try to alter the results of that game to the detriment of some of the "winners," whether they deserved to win or not? Please explain your answer fully.

(b) Is your objection to what you refer to as "divide-and-conquer ratemaking" based on a perceived inability of the Commission to distinguish between "justified" selective interim rate adjustments and "unjustified" ones? Please explain your answer fully.

(c) In your view, whose interests would be served by a ratemaking process in which beneficial selective interim rate adjustments could be identified, but could not be implemented under the theory that either they should have been proposed in the last omnibus rate case, or they should wait until the next omnibus rate case? Please explain your answer fully. In particular, please identify any objectives of regulation (e.g., the objective stated by Prof. Baumol -- Docket No. R84-1, USPS-T-5, pgs. 8-11 -- and many others, such as Alfred Kahn in his 1970 treatise The Economics of

Regulation at page 17, that regulation should act as a surrogate for free market forces) that you believe would or would not be enhanced by such a constraint.

USPS/OCA-T200-8. Please refer to page 15, lines 8-12, where you state:

If a classification initiative is filed and the revenues generated by the class or subclass of mail undergoing reform fail to cover costs, then rate increases may be appropriate. The rate increases should be designed to be contribution neutral.

(a) Please confirm that if a subclass has costs exceeding revenues (i.e., negative contribution), any rate increase designed to correct that situation cannot be contribution neutral. If you cannot confirm, please explain fully.

(b) Was it your intent to suggest that the rate increases should be designed to yield the contribution target for the subclass initially set in the last general rate case? If not, please explain fully.

USPS/OCA-T200-9. Please refer to page 12 of your testimony, where you claim that the "choice of a few special services as the source of additional revenue was entirely coincidental and thus capricious."

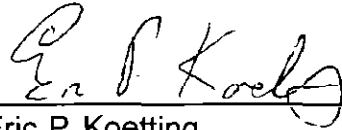
(a) Is it your testimony that, out of all the classes of mail and types of services, the special services which are the subject of this case were chosen entirely at random? If not, what do you mean by the phrase "entirely coincidental." Please explain your answers fully.

(b) Is it your testimony that the determination to seek additional net revenue in this filing was made **before** any analysis of which special services could be improved

and thus should be included within the scope of the request for a recommended decision? If so, what is the basis for this testimony? If not, would you agree that such analysis makes the statement quoted above inapposite? Please explain your answers fully.

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.

A handwritten signature in cursive script, appearing to read "Eric P. Koetting", is written over a horizontal line.

Eric P. Koetting

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