

ORIGINAL

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

RECEIVED

Nov 4 2 16 PM '96

POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

Special Services Fees and Classifications

Docket No. MC96-3

ANSWER OF THE OFFICE OF THE CONSUMER ADVOCATE  
TO INTERROGATORY USPS/OCA-T400-21  
OF THE UNITED STATES POSTAL SERVICE  
REDIRECTED TO WITNESS THOMPSON  
(NOVEMBER 4, 1996)

The Office of the Consumer Advocate hereby submits the answer of Pamela A. Thompson to interrogatory USPS/OCA-T400-21 (October 21, 1996), redirected from witness Collins. The interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

*Emmett Rand Costich*

EMMETT RAND COSTICH  
Assistant Director  
Office of the Consumer Advocate



ANSWER OF OCA WITNESS PAMELA A. THOMPSON  
TO REDIRECTED INTERROGATORY USPS/OCA-T400-21

USPS/OCA-T400-21. On page 3, lines 8 and 9 of your testimony you state "I oppose this attempt to raise revenues outside an omnibus rate case".

- a. Is it your testimony that rates and revenue can never be increased except in an omnibus rate case? If your answer to (a) is affirmative, please identify all legal authority of which you are aware that supports your conclusion.
- b. If your answer to (a) is negative, please explain the circumstances under which you feel rates and revenues can be increased and how you reached this conclusion.

A. a. No.

b. I am not in a position to catalog all possible situations in which selective rate increases are justifiable. However, the decision to raise rates outside a general rate case must be rational. When the primary purpose of a rate increase is to generate new net revenue, then an omnibus rate case is appropriate. The predecisional exclusion of certain categories of mail from a rate increase designed to generate new net revenue is unfair, inequitable, arbitrary, and discriminatory.

I can hypothesize a situation in which a selective rate increase would be rational. When it can be demonstrated that a particular category of mail has caused a new revenue burden (e.g., when rates fall below attributable costs), then a targeted rate increase, designed solely to recover the new demonstrated revenue burden, may be appropriate. However, it should be

ANSWER OF OCA WITNESS PAMELA A. THOMPSON  
TO REDIRECTED INTERROGATORY USPS/OCA-T400-21

CONTINUATION OF ANSWER TO USPS/OCA-T400-21:

possible to make even this type of case net revenue neutral. In any given year there are likely to be categories of mail whose cost coverage is too high relative to the Commission's most recent recommendation. Such categories could receive rate reductions designed to neutralize the net revenue effect of any necessary rate increases.

The following discussion refers to OCA-LR-6, page 4. The projected FY 95 (i.e., R94-1 TYAR) cost coverage for total mail and services was 156.8 percent. The actual FY 95 (i.e., MC96-3, BY 95) total mail and services cost coverage was 157 percent. Comparing individual projected cost coverages with actuals indicates that some coverages are above, while others are below, the Commission's Docket No. R94-1 recommendations. For example, consider all cost coverage variances greater than 10 percentage points. The following cost coverages exceed Docket No. R94-1 Commission recommendations by more than 10 percentage points: Special Rate Fourth by 31.2, Priority by 28.3, Money Orders by 27.9, Certified by 26.5, Bound Printed Matter by 25.6, Cards by 19.1, Stamped Envelopes by 12.2, and Registry by 11.8.

ANSWER OF OCA WITNESS PAMELA A. THOMPSON  
TO REDIRECTED INTERROGATORY USPS/OCA-T400-21

CONTINUATION OF ANSWER TO USPS/OCA-T400-21:

Bringing these cost coverages "in line" with the Commission's Docket No. R94-1 recommendations could require each to have a rate decrease. The following cost coverages are below the Commission's Docket No. R94-1 recommendations by more than 10 percentage points: Single Piece Third by 44.5, Second-Class Classroom by 24.6, Special Delivery by 17.5, Fourth-Class Library Rate by 17.0, Insurance by 14.7, COD by 13.9, and P.O. Box/Caller Service by 10.3. Bringing these cost coverages "in line" with the Commission's Docket No. R94-1 recommendations could require each to have a rate increase.

The Postal Service proposes classification reform for select special service offerings. Conceivably, Docket No. MC96-3 could have been net revenue neutral. Several special service rates are "out of line" with the Commission's Docket No. 94-1 recommended cost coverages, and rates could have been adjusted to bring them more "in line." For example: Money Orders, Registry, Special Delivery, Insurance, COD and P.O. Box/Caller service. However, the Postal Service ignored Money Orders and COD and targeted Certified.

ANSWER OF OCA WITNESS PAMELA A. THOMPSON  
TO REDIRECTED INTERROGATORY USPS/OCA-T400-21

CONTINUATION OF ANSWER TO USPS/OCA-T400-21:

The PRC Op. R94-1, Appendix G, Schedule 1, total attributable costs for special services for FY 95 were \$1,145.0 million. Docket No. MC96-3, PRC-LR-2 (revised) shows that total FY 95 costs for special services were \$1,360.5 million. Apparently, a new category of attributable costs included in "Other" is responsible for additional costs of \$216.3 million. Absent the additional attributable costs, special services would have had net revenues of \$419.6 million, \$21.9 million would have been in excess of the R94-1 PRC Op. projections for FY 95.

DECLARATION

I, Pamela A. Thompson, declare under penalty of perjury that the answers to redirected interrogatory USPS/OCA-T400-21 of the United States Postal Service is true and correct, to the best of my knowledge, information and belief.

Executed November 4, 1996

  
Pamela A. Thompson

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 3.B(3) of the special rules of practice.

*Emmett Rand Costich*  
EMMETT RAND COSTICH  
Attorney

Washington, DC 20268-0001  
November 4, 1996