

ORIGINAL

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

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Special Services Fees and Classifications

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY
Docket No. MC96-3

REVISED 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 6, 1996)

The Office of the Consumer Advocate hereby submits the revised answer of Pamela A. Thompson to interrogatory USPS/OCA-T400-21, initially filed on November 4, 1996, redirected from witness Collins. Please note that the final paragraph of the response has been rewritten. The revised response is attached.

Respectfully submitted,

Emmett Rand Costich

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Assistant Director
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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

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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.

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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.

Revised 11/6/96

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

In R94-1, projected total attributable costs for special services for FY 95 were \$1,366.7 million; revenues were \$1,542.8 million. See Appendix G, Schedule 1. Actual total FY 95 attributable costs for special services were \$1,360.5 million; revenues were \$1,563.8 million. PRC-LR-2, Base Year (FY 1995), and USPS-T-5C. Special service actual attributable costs for FY 95 were thus \$6.2 million less than R94-1 projections, while actual revenues were \$21.1 million in excess of the Commission's projections. Clearly, if the purpose of MC96-3 were to bring special service rates back "in line" with R94-1, then no increase in net revenues would be needed.

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 6, 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 6, 1996