

ORIGINAL

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

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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

Special Services Fees and Classifications

Docket No. MC96-3

ANSWERS OF THE OFFICE OF THE CONSUMER ADVOCATE  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE  
WITNESS: PAMELA A. THOMPSON (USPS/OCA-T200-10-17)  
(NOVEMBER 13, 1996)

The Office of the Consumer Advocate hereby submits the answers of Pamela A. Thompson to interrogatories USPS/OCA-T200-10-17, dated November 1, 1996. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

*Emmett Rand Costich*

EMMETT RAND COSTICH  
Assistant Director  
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NOV 13 1996

ANSWERS OF OCA WITNESS PAMELA A. THOMPSON  
TO INTERROGATORIES USPS/OCA-T200-10-17

USPS/OCA-T200-10. Please refer to your response to interrogatory USPS/OCA-T200-1, where you state that "the terms of [Resolution No. 95-9] will be met in both FY 96 and FY 97 without any rate increases."

- (a) Please refer to the Attachment to OCA/USPS-74 and confirm that the FY 96 and 97 net incomes are estimates. If you do not confirm please explain.
- (b) Please confirm that it is possible for net revenue to fall short of estimates. If you do not confirm please explain why this is not possible.
- (c) Assume the Postal Service falls short of the net revenue amounts estimated in the Attachment to OCA/USPS-74. Under such a scenario is it possible the Postal Service would need additional net revenue in FY 1997 in order to meet the Board of Governors equity restoration target through FY 97? If this is not possible please explain why?

A. (a). Confirmed.

(b)-(c). Anything is possible, including the possibility that net revenue exceeds estimates. However, for FY 96, Postmaster General Runyon stated at the October 8, 1996, Board of Governors meeting, "We now expect to end the fiscal year with a \$1.5 billion net income, second best in postal history." If the Postal Service believes that additional net revenues will be needed in order to eliminate any possibility of failure to meet the Board of Governors' equity restoration target for FY 97, then the Postal Service should specify how much additional net revenue it needs and file an omnibus rate case.

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CONTINUATION OF ANSWER TO USPS/OCA-T200-10:

There is no basis for targeting certain special services to pay what amounts to an insurance premium designed to relieve the Postal Service of the risk that overall net revenues fall below projections in FY 97. The cost of removing that risk has no causal connection with the targeted special services.

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USPS/OCA-T200-11. Please refer to your response to interrogatory USPS/OCA-T200-2(a), where you point out that Dockets No. MC95-1 and MC96-2 used FY 95 as the test year, while Docket No. MC96-3 uses FY 96 as the test year.

- (a) Do you believe that the Postal Service should have used FY 95 as its test year for Docket No. MC96-3? Please explain your views on the selection of the appropriate test year for Docket No. MC96-3 fully.
- (b) Is it your opinion that all classification reform initiatives filed before the next omnibus rate case should use FY 95 as the test year?

A. (a) I am not in a position to tell the Postal Service what test year to use. However, I do object to the Postal Service's arbitrary determination to target special services with an additional net revenue requirement of \$339.4 million simply because a few special services had the bad luck to be ready for a classification reform filing.

(b) Such an approach certainly has advantages, such as reducing the appearance of favoritism as well as the number of issues to be litigated. Rate changes designed solely to bring actual cost coverages or contributions back "in line" with test year projections are only meaningful when the old test year is used as the reference point. When rates are set for a test year, no one expects the same cost coverage or contribution to prevail in years beyond the test year. There is thus no basis for a

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CONTINUATION OF ANSWER TO USPS/OCA-T200-11(b) :

claim that rates are "out of line" when a comparison is made  
between a general rate case test year and some later year.

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TO INTERROGATORIES USPS/OCA-T200-10-17

USPS/OCA-T200-12. Please refer to your response to interrogatory USPS/OCA-T200-2(a), where you quote from the Postal Service's Docket No. MC95-1 Request, at page 2, concerning the Postal Service's proposal to "... establish this framework as the basis for current and future classification reforms...."

- (a) Please confirm that the "framework" referred to in this quote has nothing to do with the Postal Service's contribution neutrality goal for Docket No. MC95-1, which is first presented two pages later in the Request. If you do not confirm, please explain.
- (b) Assume that the "framework" for classification reform referred to on page 2 of the Postal Service's Docket No. MC95-1 relates to defining the classes of mail to reflect different service levels desired by customers. Under this assumption please confirm that Docket No. MC96-3 is consistent with (or unrelated to) the classification reform framework presented on page 2 of the Docket No. MC95-1 Request. If you do not confirm, please explain why?

A. (a) Not confirmed. The Postal Service's Docket No. MC95-1 Request, goes on to state,

The Postal Service has also determined that within this framework the criteria used to define subclasses of mail should be . . . .

The Postal Service has developed the following guiding principles for use in designing specific classification reform proposals: . . . .

Given this systematic approach to classification redesign, the Postal Service's classification reform effort is, by necessity, an ongoing, evolutionary process which will continue over the course of the next few years. This Request addresses those reforms that are ready for Commission review and implementation now. Others will be developed . . . .

Postal costs, volumes and revenues for the reformed subclasses will necessarily change as a result of the classification reform and associated rate changes. The proposed rates are designed so that the

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CONTINUATION OF ANSWER TO USPS/OCA-T200-12(a):

Postal Service will recover approximately the same FY 1995 institutional cost contribution from the reformed subclasses . . . .

This contribution neutrality goal was established . . . .

From the information provided by the Postal Service in its Request, it is clear that changes in volumes, costs and revenues were anticipated. It is also true that the Request addressed reforms that were ready for review. The contribution neutrality goal was established in Docket No. MC95-1. Should I have interpreted the Postal Service's MC95-1 Request as a ruse designed to lull the Commission and all participating intervenors into believing that the "framework," "guiding principles," "systematic approach to classification redesign," and "contribution neutrality goal" were not part of an "ongoing, evolutionary process which will continue over the course of the next few years"? Request of the United States Postal Service For A Recommended Decision on Classification Reform of First-, Second-, and Third-Class Mail, Docket No. MC95-1, at 3.

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CONTINUATION OF ANSWER TO USPS/OCA-T200-12:

(b) I dispute the accuracy of the assumption underlying this question. In Docket No. MC95-1, the Postal Service did not survey special service users. The Postal Service primarily addressed the concerns of MTAC members, who may coincidentally be special service users. In Docket No. MC96-3, the Postal Service did not survey special service users regarding the service levels they desired. For example, the Market Research on Post Office Box Price Sensitivity, USPS-SSR-111, examined users' sensitivity to price level changes, not service levels desired. Postal Service witness Ellard did not ask special service users how they would response to a non-resident box fee. Another example of the Postal Service's failure to consider service levels desired by special service users occurs in return receipt. The Postal Service's decision to eliminate the "return receipt service that does not include address information, which is shown to be preferred by nine-tenths of users" (OCA-T-100 at 11), is inconsistent with the Postal Service's claim that they are considering consumers' desired service levels. Therefore, I am unable to confirm your request. Even putting aside the

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CONTINUATION OF ANSWER TO USPS/OCA-T200-12(b):

issue regarding the contribution neutrality goal, it would seem that the Postal Service's request in Docket No. MC96-3 is inconsistent with its Request in Docket No. MC95-1.

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USPS/OCA-T200-13. Please refer to your response to USPS/OCA-T200-2(b), where you state that "not all future classification cases must be net revenue neutral."

- (a) Please provide an example of a classification case that would not need to be net revenue neutral.
- (b) How would a "classification" case need to be formulated so that you would not consider it to be part of "classification reform" as begun in Docket No. MC95-1?

A. (a)-(b) Please see my response to USPS/OCA-T400-21. To my knowledge, Docket No. MC96-1 filed by the Postal Service was a classification case that was not part of classification reform.

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USPS/OCA-T200-14. Please refer to your response to USPS/OCA-T200-2(b), where you state "if the Postal Service had wanted to use classification reform to generate revenues, it should have done so from the beginning." Assume that the Postal Service had requested additional net revenue in Docket No. MC95-1. Would that make the Postal Service's request for additional net revenue in Docket No. MC96-3 more acceptable to you? If so, please explain why.

A. Please see my responses to USPS/OCA-T400-21 and USPS/OCA-T200-12. If the Postal Service had requested additional net revenues in Docket No. MC95-1 and the need for additional net revenues were somehow attributable to the reformed classes, then such a request would be neither arbitrary nor discriminatory. The request for additional net revenues in Docket No. MC96-3 remains arbitrary and discriminatory and would not be any more acceptable.

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USPS/OCA-T200-15. Please refer to your responses to  
USPS/OCA-T200-6.

- (a) Is it your testimony that rates determined in an omnibus rate case are necessarily fair and equitable? If your answer is other than yes, please explain how unfair and inequitable rates can be established in an omnibus rate case.
- (b) Is it your testimony that rates determined outside of an omnibus rate case are inherently not fair and equitable? If your answer is other than yes, please explain how fair and equitable rates can be established outside of an omnibus rate case.

A. (a) Yes.

(b) Please see my response to USPS/OCA-T400-21.

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USPS/OCA-T200-16. Please refer to your response to interrogatory USPS/OCA-T200-6(d), in which you state that as a result of the Postal Service's request for an across-the-board rate increase in Docket No. R94-1, "certain cost coverages that were 'out of line' did not get adjusted.

- (a) To what cost coverages are you referring?
- (b) Please confirm that the Postal Rate Commission in Docket No. R94-1 rejected the Postal Service's proposed across-the-board rate increase. PRC Op., R94-1, par. 4008. If you do not confirm, please explain fully.
- (c) To the extent that any cost coverages are "out of line", please confirm that it is not as a result of the Postal Service's request for an across-the-board rate increase. If you do not confirm, please explain fully.

A. (a) Please see my response to part (c) below.

(b) Confirmed.

(c) Not confirmed. The Postal Service proposed a 10.3

percent across-the-board increase in rates in Docket No. R94-1.

In PRC Op. R94-1, the Commission stated,

The Postal Service's across-the-board filing is inconsistent with cost-based ratemaking. The request ignores changing differences in costs between the classes of mail, includes no analysis of changing cost patterns within subclasses; and would result in substantial changes in the allocation of institutional costs among the subclasses of mail. The Service's rate proposal ignores changes in attributable costs. It would substantially increase the institutional cost burden on First-Class letters and Priority, and greatly decrease the burden on second-class regular rate and fourth class.

PRC Op. R94-1, para 1017. Further,

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CONTINUATION OF ANSWER TO USPS/OCA-T200-16(c):

The Commission is concerned that data deficiencies in the Postal Service's filing reflect a reduced commitment to the task of developing and providing reliable data for parties in Commission proceedings. Sufficient and accurate cost, volume, and revenue data are essential to determine fair and equitable rates. Reliable data would be necessary to support proposals to restructure the Postal Service's product line.

Id. para 1028. The Commission found itself presented with a "fait accompli" (PRC Op. R94-1, para 1034) and could not bring all rates into line with previously articulated principles.

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USPS/OCA-200-17. Please refer to your response to interrogatory USPS/OCA-T200-8(b), where you state "it is inappropriate to assume that the cost coverages established in Docket No. R94-1 are appropriate for Docket No. MC96-3."

- (a) Please make two assumptions: (1) the Postal Service had selected FY 95 as the test year for Docket No. MC96-3, and (2) the cost coverages in the Commission's Recommended Decision were not determined by the Postal Service's across-the-board proposal. In your opinion, would the cost coverages established in Docket No. R94-1 then be "appropriate" for the special services at issue in Docket No. MC96-3? Please explain your response.
- (b) If your answer to part (a) is not "yes", please explain what cost coverages would be "appropriate" for the special services at issue in Docket No. MC96-3.

A. (a)-(b). Please see my response to USPS/OCA-T200-11. Your hypothetical does not address other issues raised by the Commission in PRC Op. R94-1, and it appears to assume that the sole reason for rate changes is to bring rates back "in line" with the previous general rate case. However, if your scenario assumes that all things were adequately addressed, then it would be appropriate to address actual test year cost coverages that are either above or below the Commission's recommendations, starting with those that are most "out of line." This still involves focusing on the R94-1 test year, since cost coverages beyond the test year would be expected to be different.

DECLARATION

I, Pamela A. Thompson, declare under penalty of perjury that the answers to interrogatories USPS/OCA-T200-10-17 of the United States Postal Service are true and correct, to the best of my knowledge, information and belief.

Executed November 13, 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  
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Washington, DC 20268-0001  
November 13, 1996