

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

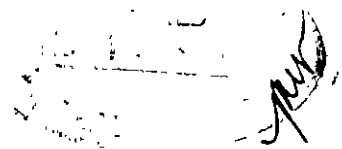
ANSWERS OF THE OFFICE OF THE CONSUMER ADVOCATE
TO INTERROGATORY OF UNITED STATES POSTAL SERVICE
WITNESS: PAMELA A. THOMPSON (USPS/OCA-T200-33)
(NOVEMBER 14, 1996)

The Office of the Consumer Advocate hereby submits the answer of Pamela A. Thompson to interrogatory USPS/OCA-T200-33, dated November 7, 1996. The interrogatory is stated verbatim and is followed by the response. Postal Service interrogatories USPS/OCA-T200-18-32 and 34-37 have been redirected to the OCA.

Respectfully submitted,



EMMETT RAND COSTICH
Assistant Director
Office of the Consumer Advocate



ANSWERS OF OCA WITNESS PAMELA A. THOMPSON
TO INTERROGATORY USPS/OCA-T200-33

USPS/OCA-T200-33. Please refer to your response to redirected interrogatory USPS/OCA-T400-21, where you state that a targeted rate increase may be appropriate "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)..." Please explain specifically what you mean by "caused a new revenue burden." Does this concept extend to situations in which the actual cost coverage is greater than 10 percentage points below the Commission's Docket No. R94-1 recommendations, as you discuss later in your response, or is it limited to situations in which rates fall below attributable costs?

A. Whenever actual net revenues fall below projected net revenues a deficiency in net revenues occurs. Similarly, when actual net revenues are greater than projected net revenues a surplus in net revenues occurs. In my response to USPS/OCA-T400-21, I state,

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: The following cost coverages **are below** the Commission's Docket No. R94-1 recommendations by more than 10 percentage points: . . . (emphasis added).

Interrogatory USPS/OCA-T400-21 requested that I "explain the circumstances under which you feel rates and revenues can be increased" My response stated,

I am not in a position to catalog all possible situations in which selective rate increases are justifiable.

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CONTINUATION OF ANSWER TO USPS/OCA-T200-33:

I go on to

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.

By the expression "caused a new revenue burden" I am simply trying to imagine a situation in which a targeted rate increase would not be arbitrary. I.e., there seem to be at least two necessary conditions to be met. (I do not claim sufficiency for these conditions.) First, there must be a new net revenue need that could not have been foreseen in the last general rate case, is not covered by the contingency provision, and is not offset by unexpected net revenue surplus. Second, there must be a causal connection between the new net revenue need and the categories of mail targeted for rate increases.

The first condition implies an increased revenue requirement. It is a necessary condition because failure to meet it means there is no justification for raising any rates. The second condition is necessary because failure to meet it means

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CONTINUATION OF ANSWER TO USPS/OCA-T200-33:

there is no rationale for singling out the targeted categories. My discussion of cost coverage deviations exceeding ten percentage points was simply a device for focusing on events that were truly unexpected. As I have stated elsewhere, no one expects actual cost coverages to match projected cost coverages exactly.

DECLARATION

I, Pamela A. Thompson, declare under penalty of perjury that the answer to interrogatory USPS/OCA-T200-33 of the United States Postal Service is true and correct, to the best of my knowledge, information and belief.

Executed November 14, 1996

Handwritten signature of Pamela A. Thompson in cursive script.

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 14, 1996