

**BEFORE THE
POSTAL RATE COMMISSION**

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DOCKET NO. R2000-1

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

**RESPONSE OF UNITED PARCEL SERVICE TO NOTICE OF
INQUIRY NO. 1 CONCERNING BASE YEAR DATA
(February 23, 2000)**

United Parcel Service ("UPS") hereby responds to the Commission's Notice of Inquiry No. 1 Concerning Base Year Data, issued February 2, 2000 ("Notice of Inquiry No. 1"), which requested comments on the "need for FY 1999 data, and how such information might be used . . . in this case." Notice of Inquiry No. 1, at 1.

BACKGROUND

The Postal Service filed its Status Report Regarding FY 1999 Data in Response to Notice of Inquiry No. 1 ("Status Report") on February 14, 2000. In the Status Report, the Postal Service stated that in its request it has generally used FY 1998 data for cost analyses, while it has used FY 1999 data for volume forecasting. Status Report, at 1.

Given the Postal Service's Status Report, Notice of Inquiry No. 1 raises two issues. The first issue is whether the Commission should use FY 1999 data in place of the FY 1998 data used by the Postal Service as its base year. See Notice of Inquiry No. 1, at 4. The second issue is whether or not some FY 1999 data may be used in conjunction with FY 1998 data in arriving at the Commission's rate recommendations.

It is UPS's position that the Commission (1) should require the Postal Service to submit FY 1999 cost, revenue, and volume data (including billing determinants, distribution keys, and all other underlying data) in the same level of detail as for FY 1998, and (2) should use the more recent FY 1999 data for all purposes, if that data is submitted in time to make its use practical. If the FY 1999 data is not submitted in time to be used properly, it should at the very least be used as a check on the accuracy of the Postal Service's presentation based on FY 1998 data.

CHOICE OF BASE YEAR

UPS agrees that it is generally preferable to use the most recent data available when developing rates for the future. See Notice of Inquiry No. 1, at 3. That is why Commission Rule 54 requires a Postal Service request for new rates to contain "total actual accrued costs during the most recent fiscal year for which they are reasonably available." 39 C.F.R. § 3001.54(f)(1). Even where costs for the most recently-concluded fiscal year are not "reasonably available" when the Postal Service files its request, the Postal Service must file preliminary or pro forma data for that year. *Id.* Moreover, under the rule final data must be "substituted" for the preliminary data once the final data becomes available. *Id.*

Thus, the Commission's rules *require* the Postal Service to "set forth the total actual accrued costs" for FY 1999 in this case once that information becomes available. This does not mean that the Postal Service must repeat the roll-forward process using FY 1999 instead of FY 1998 as the base, or propose new rates based on such a roll-forward. It simply means that the Postal Service should submit the same data, with the

same level of detail, for FY 1999 -- including distribution key data and all supporting information -- as it has submitted for FY 1998. See 39 C.F.R. §§ 3001.54(f)(3), (h).

The remaining question, then, is whether the Commission should use the FY 1999 data in place of the Postal Service's FY 1998 base year data when the Commission develops its recommended rates. The answer to that question depends largely on whether the FY 1999 data will be submitted in time to make its use practical.

In its Status Report, the Postal Service indicated that the FY 1999 CRA report should be available the week of April 3, 2000. Status Report, at 3. The Postal Service also indicated that "it could have the FY 1999 billing determinants for all the classes of mail ready by sometime in the vicinity of the week of March 27." *Id.* Of necessity, all supporting data should be available, and therefore should be submitted, at about the same time.

Assuming that the Postal Service submits the FY 1999 information by the dates indicated in the Status Report, there would still seem to be adequate time for meaningful review and use of that information in this case. Using FY 1999 data should improve the accuracy of test year estimates by eliminating a full year of interim cost and revenue projections. Furthermore, FY 1999 data would more fully and more accurately reflect the effect of the new rates and classifications adopted in Docket No. R97-1.

Efficiency and expedition would be promoted were the Postal Service required to provide a side-by-side comparison by class and subclass of mail of total and unit attributable costs by cost segment and component for actual vs. projected FY 1999 data, as well as a side-by-side comparison by class and subclass of mail of actual vs. projected 1999 volumes.

In light of the uncertainty concerning when the FY 1999 data will actually be submitted, it may not be practical for the Commission to substitute FY 1999 data for the FY 1998 data used by the Postal Service. In that case, the Commission should at least use the actual FY 1999 information as a check on the accuracy of the Postal Service's presentation, adjusting that presentation as necessary and appropriate.

**THE COMMISSION SHOULD USE
MATCHING COST AND VOLUME DATA.**

The second issue is whether it is appropriate to use, *e.g.*, cost data from one fiscal year and volume data from another to determine appropriate rates.

As the Commission has already noted, it is important that cost data and billing determinant data correspond. Notice of Inquiry No. 1, at 4. As a rule, "mixing and matching" data from different years leads to incorrect results. The Commission has summed it up best by stating, "A partial update with only cost data, for example, might not produce more reliable results since the data would not be directly comparable." *Id.*

That is not to say, however, that data from one year may never be used in conjunction with data from another year. Where such "mixing and matching" can be done without distorting the result, it may be a feasible option. However, the Commission must exercise great caution in doing so to make sure the process does in fact yield a sensible result.

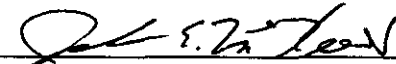
IMPACT ON PROCEDURAL SCHEDULE

The Commission has also requested comments on the potential impact of the use of FY 1999 data on the procedural schedule. Notice of Inquiry No. 1, at 5. In light of the substantial benefits of using the most recent information available in determining

future rates -- rates that will most likely be in effect for at least two years, and perhaps longer -- and since the FY 1999 data are expected to be available in early or mid-April, the procedural schedule should be designed so as to provide the parties with as much of an opportunity as is possible, within the statutory ten month constraint, to use FY 1999 data in their direct cases.

Efficiency and the quality of the parties' presentations are better served by allowing enough time "up front" for adequate analyses, than by requiring premature filings which may later need to be supplemented or revised. UPS believes that the schedule it has proposed in its filing of February 14, 1999, provides a greater opportunity for participants to incorporate FY 1999 data in their analyses than do the other schedules that have been proposed.

Respectfully submitted,



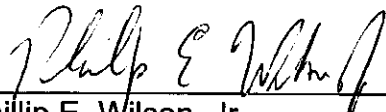
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CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document by first class mail, postage prepaid, in accordance with Section 12 of the Commission's Rules of Practice.



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Dated: February 23, 2000
Philadelphia, Pa.

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