

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-53, 55)

The United States Postal Service hereby provides its responses to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-53 and 55, filed on February 8, 2000.

Each interrogatory is stated verbatim and is followed by the response.

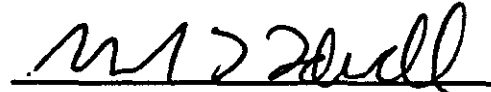
A response to OCA/USPS-54 is forthcoming. An objection to OCA/USPS-56 was filed on February 18, 2000.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



Michael T. Tidwell

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February 24, 2000

**RESPONSE OF U.S. POSTAL SERVICE TO
INTERROGATORIES OF THE OCA**

OCA/USPS-53. Please confirm that during calendar year 2000 the Postal Service plans to produce at least two issues of stamps containing different denominations on the same pane. Please confirm that one issue (U.S. Navy Submarines) will include a 22-cent stamp and a 33-cent stamp.

RESPONSE: The Postal Service does not confirm that during calendar year 2000 it plans to produce at least two issues of stamps containing different denominations on the same pane.

In 2000, the Postal Service plans two philatelic issues containing different denominations of stamps. The first issue will consist of a booklet commemorating U.S. Navy submarines. In addition to descriptive material, this booklet will include within its pagination two pages of stamps. Each page will consist of one each of the following denominations: 22-cent, 33-cent, 55-cent, 60-cent, and \$3.20. While the stamps can be burst from the booklet and used for postage, the booklet is meant as a collector's item. Separately, the Postal Service will be issuing the 33-cent stamp contained in the booklet in panes of 20 stamps.

The second issue is a press sheet commemorating Space Advancement and Exploration. The press sheet will consist of five sections, two sections containing an \$11.75 stamp, one containing \$1.00 stamps, one containing \$3.20 stamps, and one section containing 60-cent stamps. Separately, the Postal Service plans to burst the press sheet into sections and issue panes consisting exclusively of one denomination of stamp.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-55

- (a) Please confirm that larger mailers have expressed a desire to Postal Service management and to the Board of Governors that rate increases, when necessary, be implemented more frequently so as to permit smaller rate increases, thus avoiding sharp increases in mailer costs. If you do not confirm, please explain. Please provide copies of all documents from mailers relating to the frequency or size of postal rate changes.**
- (b) Please explain how Postal Service management and the Board of Governors have responded to the expressed desires of larger mailers for smaller and more frequent rate changes.**
- (c) Please confirm that it is the intent of Postal Service management to limit the period during which new postal rates will be in effect to approximately two years. If you do not confirm, please explain. Please provide all documents relating to the Postal Service's policy with respect to frequency and timing of rate changes.**
- (d) Please confirm that it is a policy of the Board of Governors, or that the Board of Governors has considered a policy, to limit the period during which new postal rates will be in effect to approximately two years. If you do not confirm, please explain. Please provide the minutes and a transcript of any Board of Governors meeting since January 1, 1995, in which the Board discussed or considered the frequency of rate changes. If a resolution or other memorialization of such a policy has been adopted by the Board, please provide a copy.**

RESPONSE:

- (a) Some mailers have expressed the view to Postal Service management and to the Board of Governors that omnibus rate increases should be more frequent and smaller, in order to avoid steeper general increases which could result from deciding to increase rates less frequently. It probably would not be inaccurate to characterize some of these mailers as "larger" than most (if "all" includes the public, in general).**

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE**

Response to OCA/USPS-55 (continued)

The Postal Service has not retained copies of all documents it has received from mailers reflecting their views concerning the relationship between frequency and magnitude of general postal rate changes. Nor has the Postal Service conducted an exhaustive search of all of its files and archives for the purpose of locating all such documents which may exist. A search was conducted of the files of the Office of the Secretary to the Board of Governors for documents received in anticipation of the filing of the Docket No. R2000-1 Request which appear to address the relationship between frequency and magnitude of general postal rate increases. That search identified two letters, copies of which are attached.

A similar search of the files of the office of the Vice-President, Marketing Systems, was initiated, since correspondence addressed to most other components of postal headquarters management concerning the relationship between frequency and magnitude of general rate increases would be forwarded there for review or response. If documents are located (which are not duplicative of those attached), a supplemental response will be filed.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE**

Response to OCA/USPS-55 (continued)

Along the same lines, a search of the files of the USPS Consumer Advocate has been completed. That search did not identify any documents from mailers which discussed the relationship between frequency and magnitude of general rate increases.

- (b) The rate and classification requests filed by the Postal Service at the Commission reflect the efforts of postal management and the Board to discharge their statutory responsibilities in a manner which reflects consideration of the diverse, sometimes conflicting, desires of the various elements of the mailing community.
- (c) It is the objective of postal management to extend the rate cycle for each omnibus rate increase for as long as possible, in concert with meeting the Board's policy on restoration of equity and recovery of prior years' losses. Such interrelated factors as the magnitude of a particular set of rate increases, market response to those rates, postal finances, capital expenditures, collective bargaining results, limitations on borrowing authority, debt reduction policy, and management's ability contain costs affect the degree of success that management is able to achieve.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE**

Response to OCA/USPS-55 (continued)

The timing of omnibus rate cases is a matter left to the discretion of the Board of Governors by the Postal Reorganization Act. The frequency of requests for omnibus rate increases by the Postal Service is a by-product of constant review by management and the Governors to fulfill their responsibility to achieve financial breakeven over time and to meet their various other responsibilities under the Act.

- (d) The Board does not have a policy of limiting the effective period during which new postal rates will be in effect to approximately two years (or any other period). There is no resolution or other memorialization of such a policy. Nor has the Board discussed or considered adoption of such a policy during the period in question.

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October 4, 1999

The Honorable Einar Dyhrkopp
Chairman, Board of Governors
United States Postal Service
475 L'Enfant Plaza, SW
Room 10300
Washington, DC 20260-1000

Dear Mr. Chairman:

As Chairman of the Advertising Mail Marketing Association, I am writing on behalf of our members to urge the Board to reconsider the decision that has apparently tentatively been made to seek an increase in postal rates and fees within the next several months. We make this request because all of the indications are that the Postal Service continues to do well financially and because the premature filing of a postal rate request does not, in the end, serve the interests of the Postal Service or of its customers. We believe that both the filing of the rate case and the implementation of the next round of rate increases can be deferred while still keeping the increase below the cumulative rate of inflation.

Several factors lead us to this conclusion. The Postal Service has completed its fifth consecutive year of surpluses and is currently expected to complete FY2000 in the black. The cost containment program introduced by Postmaster General Henderson earlier this year is succeeding, as the AP reports -- and particularly the report for AP12 -- show. While it is certainly true that the recently announced arbitration award will have effects on Postal Service costs, the impact of that decision will not be felt for another 12 months. Moreover, the full cost effects of that decision may well be offset by the Postal Service's increasing successes in deployment and implementation of automation programs and other productivity initiatives. For example, the 1998 Cost and Revenue Analysis Report shows that the cost of processing First-Class mail was markedly lower in FY1998 than it was in FY1997. While the flats automation program is not yet achieving the same level of success, both mailers and the Postal Service are working very hard on those issues. There is every reason to expect that the benefits of flats automation will begin to reflect

Attachment

DCA/USPS-55 1044

The Honorable Einar Dyhrkopp
October 4, 1999
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themselves, not just in mail processing but in the delivery functions, before the new wage package takes effect.

We think that the Governors and Postal Service management can justifiably take pride in the successes of recent years. At the same time, these accomplishments give rise to the fundamental question whether the Postal Service really needs now to seek additional revenues or whether both the filing of the rate case and the implementation of new rates can be deferred. There have been situations in the past when the deferral of a rate increase served only to result in higher rates later on. We at AMMA can see the logic of the Postal Service's more recent policy of seeking modest rate increases more frequently. But, that policy still requires the Board to calibrate rate increases as closely as possible to Postal Service needs. And, we are convinced that the next round of increases can be deferred while still keeping the overall increase at (or below) the cumulative rate of inflation.

We know, on the basis of our collective experience in the 1997 rate case, what happens when a rate request is filed prematurely. We are highly appreciative that the Board of Governors ultimately concluded that implementation of the last rate increase could be deferred for six months. However, confusion and uncertainty as to the amount of additional revenues the Postal Service would actually need and when those revenues would be needed existed for over a year. That was hurtful to both the Postal Service and to the mailing community, disrupting mailers' budgets and business planning and adversely affecting volume growth.

We, therefore, ask the Board of Governors to take a close and hard look at the Postal Service's current financial situation and the very positive trends in revenues, cost containment and automation improvements that can be expected over the next 12 months before deciding that new rates truly need to be implemented early in 2001.

Very truly yours,

Cary H. Baer

Cary H. Baer
Chairman, Advertising Mail Marketing
Association

cc: Governors of the Postal Service
Postmaster General Henderson

Attachment
OCA/USPS-SS 2 of 4

Miles Kimball

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41 W 8th Ave Oshkosh WI 54906-0100

FAX (920) 231-6775

Michael D. Muoio, Chairman, President and CEO
October 5, 1999

The Honorable Einar V. Dyhrkopp
Chairman
Board of Governors
United States Postal Service
475 L'Enfant Plaza West, SW, Room 10300
Washington, DC 20260

Dear Mr. Chairman:

As you and your Board begin to strategically opine on postal rate increases, I would like to submit what I believe to be some fresh thinking!

For the past several years the USPS has done an outstanding and aggressive job of modernization and automation. The changes that have been put in place, are being put in place, and will be put in place are outstanding capital improvement projects. For this, you, your board, and the USPS should be proud as they represent not just technological enhancements, they produce better universal service for the American people.

In addition to these outstanding capital improvement projects, sensible partnerships have been forged with partners like CTC Distribution Services that leverage the strengths of the USPS well beyond whatever we imagined just a few short years ago.

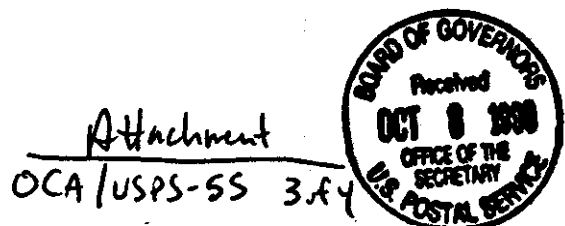
These activities, in a strategic sense, were seeds that you sowed years ago, and these seeds are producing a wonderful harvest for USPS.

Profits have been extraordinary and have permitted the USPS to bring their balance sheet with the American people into order.

This is a terrific performance! You and your colleagues are to be congratulated on solid strategic thinking and good operational execution.

Now for the Fresh Air! Given the circumstances that you have achieved over the past five years, why would you even consider a rate increase? Strategic thinking would suggest a rate decrease to attract incremental volume to a volumetrically hungry, automated system.

The real question you and your Board need to ask yourselves is; will the USPS be better or worse off with any form of a rate hike?



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October 5, 1999

The Honorable Einar V. Dyhrkopp

From my perspective, and we spend over \$30 million per year with the USPS, the answer is very clear – you will be worse off. The elasticity of demand will diminish the automated leverage you have strived for over the past several years. Automation is hungry for volume and any form of a rate hike will diminish volume.

To seriously consider rate hikes in the year 2000 is exactly the wrong thing at exactly the wrong moment of time. You should be doing the exact opposite – considering rate decreases to drive volumetric economies!

Or, at a minimum, you should hold rates for 2-3 years to determine the “value” of automation leverage. My real fear is “bad habits” – the postage service takes rate hikes ever 2-3 years and here we go...

I would strongly suggest a more strategically patient and prudent course for the USPS. You will be delighted with the result and more importantly so will the American people. And, let's say I'm wrong... volume does not pick up with static to declining rates, then you can move to take corrective measures if necessary, but to implement a rate hike for 2001 is clearly premature.

I thank you for your thoughtfulness, and I look forward to a more enlightened rate making strategy in the future!

Truly yours,

MILES KIMBALL COMPANY



MICHAEL D. MUOIO
Chairman, President and CEO

MDM:mlb

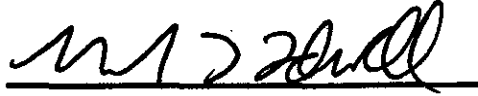
cc: USPS Board of Governors - Robert F. Rider, LeGree S. Daniels, Sam Winters, Tirso del Junco, Ned R. McWherter, S. David Fineman, Ernesta Ballard, Michael S. Coughlin, William J. Henderson

P.S. I've enclosed some of our catalog offerings for your review, as I know they will be useful as the Holidays approach.

Attachment
OCA/USPS - SS 4 of 4

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

A handwritten signature in black ink, appearing to read "M T Tidwell", written over a horizontal line.

Michael T. Tidwell

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February 24, 2000