

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

RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-92)

The United States Postal Service hereby provides the responses of the United States Postal Service to the following interrogatory of the Office of the Consumer Advocate: OCA/USPS-92 (filed on March 16, 2000).

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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Chief Counsel, Ratemaking


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March 30, 2000

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OCA/USPS-92. Please refer to witness Mayes's response to interrogatory NAA/USPS-T32-30(a). She states,

[I]n a previous docket, the desire to reduce what had been viewed in an even more distant case as excessive cost coverage may have been thwarted

- (a) Please identify all instances since (and including) Docket No. R90-1 in which a desire to mitigate a rate increase has been "thwarted." For example, in how many dockets has a desire to mitigate the rate effect of the letter-flat cost differential in Standard (A) been "thwarted"?
- (b) Please identify all instances since (and including) Docket No. R90-1 in which a desire to mitigate a rate increase has been successful. For example, in how many dockets has a desire to mitigate the rate effect of the letter-flat cost differential in Standard (A) been successful?

Response:

(a) and (b) The cited response was referring to mitigating cost coverage decreases, not to mitigating rate increases. In the development of its rate proposals, the Postal Service must balance the proposals for all subclasses in the effort to design rates which will achieve financial breakeven while complying with the statutory pricing criteria. At the conclusion of hearings on both the Postal Service's proposals and the counter-proposals offered by intervenors, the Commission must perform the same balancing act with both the Postal Service's and the intervenors' proposals to recommend rates which will permit the postal Service to achieve financial breakeven. At both stages of rate development, tradeoffs must be made.

In the context of the response cited, the reference was to internal postal decisions which were made in the process of developing the proposed rate levels and proposed rates. The reference was not intended to be to results

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which may have occurred because of intervenor testimony or Commission decisions which were not consistent with the Postal Service's proposals. Differences between the Postal Service's proposals and the rates which were ultimately recommended by the Commission would be somewhat easier to document. Differences between what the Postal Service would have liked to propose for each subclass, had the rate design for that subclass been determined in isolation – or for each rate element, had that rate element been designed in isolation – and the rates proposed by the Postal Service would be almost impossible to document.

While it would be possible to go through the testimonies and interrogatory responses of each and every postal rate level and pricing witness in the cases since and including R90-1 to see if and where each witness indicated that the proposals being presented were not the proposals that would have been desirable had that rate been determined in isolation, it is likely that many more such decisions would have been made as the case was being prepared. In virtually any case, there are trade-offs which required that some rates end up higher than would have been viewed, in isolation, as optimal and some rates end up lower than would have been viewed, in isolation, as optimal.

For example, in response to subpart (a) of this question, pricing criterion 3 dictates that each subclass of mail must cover its costs. In many rate cases, adherence to the dictates of criterion 3 has led to some rate increases which

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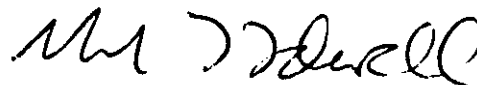
were higher than would have been viewed as optimal, given other criteria such as criterion 4, the impact on mailers. The dictates of the Revenue Forgone Reform Act have led to instances where the rates for preferred rate categories have increased more than might have been necessary to satisfy the pricing criteria. In the absence of the RFRA, the Postal Service might not have proposed rate increases of the magnitudes proposed.

With regard to subpart (b) of this question, in both Docket No. R94-1 and R97-1, the Postal Service proposed rate increases in a narrow range around the systemwide average. In this docket, the Postal Service proposes to mitigate the rate increases for several subclasses for which the costs have increased significantly since the last case.

The Postal Service and the Postal Rate Commission are, in general, afforded sufficient flexibility in rate design to be able to develop systems of rates which are fair and equitable while permitting the Postal Service to achieve financial breakeven. With regard to the specific rate design example mentioned in this question, the Postal Service has been successful in capping the rate differential between letters and flats in Standard Mail (A) since the introduction of this rate differential.

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 "Michael T. Tidwell". The signature is fluid and cursive, with the first name "Michael" and last name "Tidwell" clearly distinguishable.

Michael T. Tidwell

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