

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

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POSTAL RATE SERVICE ON  
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

OPPOSITION OF UNITED STATES POSTAL SERVICE TO  
DOUGLAS F. CARLSON MOTION TO COMPEL THE UNITED STATES  
POSTAL SERVICE TO RESPOND TO INTERROGATORIES DFC/USPS-81-84 AND  
DFC/USPS-T31-8, 10-13, 15, and 17  
(May 2, 2000)

The United States Postal Service hereby opposes Douglas F. Carlson's motion to compel a response to interrogatories DFC/USPS-81 to 84 and DFC/USPS-T31-8, 10 to 13, 15, and 17, filed on April 25, 2000 and supplemented in a pleading dated, but not filed on, April 28. These interrogatories generally try to obtain information about what Mr. Carlson considers a "novel proposal to base box fees on facility rental costs, even for facilities for which the Postal Service incurs no rental costs," that is, owned facilities. Motion at 8.

Mr. Carlson greatly overstates and apparently misconstrues the novelty of the Postal Service's approach. The Postal Service and the Commission have long assigned imputed rental costs to owned facilities. See PRC Op., R90-1, Vol. 1, at III-102 ("the Commission's practice of relying . . . on a capped (at booked amounts) imputed rental cost for building occupancy"); PRC Op., R76-1, App. J, at 183-86. On January 12, 2000, when the current proceeding was filed, the Postal Service described the existing approach to costing of owned facilities:

Building and leasehold depreciation are the depreciation of buildings owned by the Postal Service and leasehold improvements made by the Postal Service to buildings leased by it. Volume variable building and leasehold depreciation costs are based in part on current market rental costs, which are reflective of true economic costs.

Library Reference I-1, at 20-3.2

Moreover, the Postal Service is basing post office box fees on the same costs as it always has. These costs are for both leased and owned facilities, including rents and depreciation. USPS-T-40, Workpaper 2. Witness Kaneer's testimony stated clearly that "[c]osts are allocated in this testimony just as they have been in the past, except that the usual pool of Space Provision costs [is] now distributed based on witness Yezer's analysis of location space costs." USPS-T-40 at 7.

Thus, the Postal Service is not proposing to base post office box fees "on phantom rental costs," (Motion at 4) any more than it does now. The costs involved are the same as in previous cases, with the only change being their distribution on the basis of imputed rental costs rather than the outdated distinction between city and non-city carriers. On the back of what Mr. Carlson supposes to be "phantom" costs, he lays a faulty foundation for the interrogatories at issue here.

Mr. Carlson further claims (Motion at 4) that the only possible explanation for the "quirky" post office box fee proposal is to expand box service. This is hardly a fair summary of the testimony of witnesses Kaneer and Yezer. Moreover, it is an equally faulty foundation on which he attempts to justify his interrogatories.

The idea that the costs of owned facilities are zero has long since been disposed of in postal rate cases. The Postal Service owns all Bulk Mail Centers, for instance, but nevertheless assigns an imputed rent cost to this space. Mr. Carlson thus ignores book costs (depreciation and interest) as well as basic opportunity costs. The large and continuing growth in overall facility space by the Postal Service suggests a high opportunity cost of any space use, since space which is made available by eliminating

post office boxes or some other operation can generally be used for other purposes. This reduces the need to obtain additional space. Moving the retail functions out of crowded plants (which the Postal Service generally owns), can free up space for operations that may otherwise require an annex. The use of such valuable space by retail units in plants, even if we own it and it is fully depreciated, leads us to acquire annex space at the going market rates. Mr. Carlson's description of the post office box fee proposal is thus both short sighted and self-serving, and does not justify the conduct of discovery after March 23, 2000. Thus, Mr. Carlson has not established that these interrogatories are material to any issue introduced by the Postal Service's box service proposal in this proceeding.

Moreover, these interrogatories are not proper follow-up. To the extent that shortages of boxes and expansion of box service are proper issues in this proceeding, these issues could have been addressed during the prescribed discovery period.<sup>1</sup> Witness Yezer's response to interrogatories DFC/USPS-T31-1-3 did not reveal any new issues for discovery.<sup>2</sup> Instead, witness Kaneer raised the issue of pricing post office box service to help address box shortages and guide expansion in his initial testimony. USPS-T-40 at 6, 27-29. The Postal Service's costing approach for owned facilities also was clearly addressed well before the end of discovery. Witness Yezer's January 12

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<sup>1/</sup> See Presiding Officer's Rulings No. R97-1/80, at 5, and R90-1/56, at 2, which evaluate follow-up interrogatories based on whether they could have been asked during the regular discovery period, or instead could not have been asked until the Postal Service filed an answer to the original interrogatory.

<sup>2/</sup> To the extent the interrogatories to witness Yezer and the Postal Service constituted legitimate follow-up, responses were filed on April 24.

testimony stated on page 1 that:

"[t]his testimony explains the procedures used to provide a statistically valid means of predicting the current rental value of space used by the Postal Service to provide post office box service. I understand that the Postal Service will use my results to allocate its space provision costs to post office boxes located throughout the United States.

USPS-T-31 at 1. If witness Yezer used some different approach for owned facilities, he would have so stated. Instead, later on page 1 he says that:

The first task of this project was to construct a statistical model of the determinants of rent per square foot at postal facilities across the United States.

Later, witness Yezer states that:

the objective of the modelling effort is to produce estimates of the rent per square foot at Postal Service facilities, particularly those facilities that provide box service.

*Id.* at 3. Nowhere does witness Yezer suggest that owned facilities would be treated differently. Instead, witness Yezer clearly stated on February 25, 2000 that his "econometric model is used to predict rents in all facilities, whether they are rented or postal-owned." Response to interrogatory OCA/USPS-T31-4(b). Thus, an interested intervenor could have known well before the end of discovery that rental values were determined for owned as well as rented facilities. Certainly Mr. Carlson should have been expected to read the Postal Service's post office box testimony and interrogatory responses, including those of witnesses Yezer and Kaneer. His apparent failure to do so is no justification for late filed inquiries into these same matters. Mr. Carlson's discovery thus could have been asked well before the March 23 deadline for discovery.<sup>3</sup>

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<sup>3</sup> In Docket No. R97-1, the OCA asked rebuttal witness Kaneer about how the Postal Service could value owned facilities to implement witness Kaneer's proposal for a new

These interrogatories also do not seek to "clarify" or "explain" the responses on which they purport to follow up. Rule 26(a). Instead, as Mr. Carlson belatedly turned his attention from other issues to post office box service in April, he seeks to use witness Yezer's responses to open up entirely new lines of questioning, concerning shortages of boxes, expansion of box service, and proportions of boxes and facilities in owned facilities.

Mr. Carlson's questions relate to matters raised in the Postal Service direct case. Witnesses Kaneer and Yezer both indicate that post office box fees are to be based upon imputed rental costs; to an analyst with any economics background, this bespeaks opportunity costs. Witness Yezer's use of that term in an interrogatory response thus does not constitute new material warranting untimely follow-up, as he has already explained to Mr. Carlson. See witness Yezer's response to DFC/USPS-T31-14 ("Opportunity cost is the value in an alternative use. Estimated rents indicate the cost to add more space by buying it away from an alternative use").

Mr. Carlson attempts to use the filing of USPS-LR-I-241 to justify his late filed interrogatories. None of the interrogatories for which Mr. Carlson seeks compelled responses actually addresses the contents of LR-I-241. Mr. Carlson cites to LR-I-241's facility-specific information that many facilities do not have a box shortage. Motion at 7. But that fact was clear from witness Kaneer's workpapers, which show that the pattern of previous dockets, in which there are many vacant boxes, continues. USPS-T-40.

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costing approach. Witness Kaneer explained that owned facilities could be evaluated for pricing purposes using market values of the properties. Docket No. R97-1, Tr. 32/17037-38. Thus, notice that the Postal Service might impute rental costs in this proceeding was provided years ago.

Workpaper 4.

Mr. Carlson's supposed follow-up interrogatories to witness Yezer are addressed to topics not addressed in his recent interrogatory responses or in LR-I-241. He testifies about the econometric imputation of rental costs, particularly to facilities with post office box service; he does not address any supposed nationwide shortage of boxes (DFC/USPS-T31-10). DFC/USPS-T31-11 poses a nonsensical question whether box service should be expanded in the absence of demand. DFC/USPS-T31-12 inquires about construction costs when witness Yezer testifies only about imputed rental costs. DFC/USPS-T31-15 poses an incomplete hypothetical regarding consumer surplus so that Mr. Carlson can "weigh the perceived benefits of the opportunity-cost approach against lost consumer surplus". Motion at 5. While the economic consequence of an opportunity cost approach over time should be maximization of the sum of producer and consumer surplus, this interrogatory evidently reflects Mr. Carlson's own interest in pricing post office service and not what the Postal Service proposes. DFC/USPS-T31-17 seeks to isolate from other factors affecting facility locations his own notion of "convenience"; by definition, post office box customers find the location of their boxes convenient in some measure else they would not obtain the service. Witness Yezer testifies about imputed box fees, not convenience.

DFC/USPS-81-82 inquire into post office boxes located in various types of government owned facilities. As the testimony indicates, the Postal Service imputes rent to all facilities regardless of their ownership and, as indicated above, Mr. Carlson's claim that customers at owned facilities are being charged for "nonexistent" rental costs is built upon his own misunderstanding. DFC/USPS-83 pursues Mr. Carlson's unique

concept of proper accounting to support his apparent claim that economic realities are ignored if a general fund accounting system (such as that used by the Postal Service and many other businesses) is employed. Mr. Carlson's economic and accounting naivete have nothing to do with the Postal Service's box fee proposals, and do nothing to justify late filed interrogatories that do not follow upon previous interrogatory responses.

Finally, the Postal Service maintains its burden objection to interrogatory DFC/USPS-81, except for part (d). Mr. Carlson is pushing for responses to those parts (f-i) which would impose the greatest burden. The determination of how many boxes are in owned versus leased facilities is a challenging assignment, and the Postal Service has never had a reason to make such a determination. The Postal Service also notes that witnesses Kaneer and Yezer have duties outside of this proceeding that would make them unavailable to take on this burden during the next two weeks. Also, contrary to Mr. Carlson's claim, responding to this interrogatory would in no way "explain[] the effect of the fee increase on the general public." Supplemental Motion at 4.

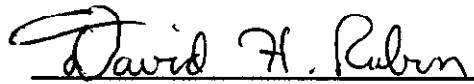
WHEREFORE, Mr. Carlson's motion to compel should be denied.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

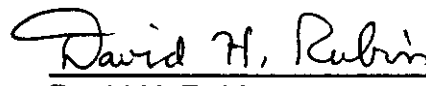
By its attorneys:

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David H. Rubin

**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.

  
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David H. Rubin

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