

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

COMMENTS OF
THE NEWSPAPER ASSOCIATION OF AMERICA
ON NOTICE OF INQUIRY NO. 2 CONCERNING BASE YEAR COSTS
(May 8, 2000)

The Newspaper Association of America ("NAA"), hereby respectfully submits its brief comments in response to the Commission's Notice of Inquiry No. 2 Concerning Base Year Data ("NOI").¹ This second NOI solicits suggestions for the most appropriate methods of incorporating newly available Fiscal Year ("FY") 1999 data.

NAA agrees with the Commission that "using more recent data is the preferred basis for developing future rates."² NAA further agrees that, particularly in view of the length of time between the Postal Service's Base Year and the Test Year,³ that the inevitable inaccuracies of forecasting in any roll-forward models should be mitigated through appropriate use of actual 1999 costs and billing determinants, which are now available.⁴

¹ Issued April 21, 2000.

² Notice of Inquiry No. 1 Concerning Base Year Data at 3 (February 2, 2000).

³ *Id.* at 4.

⁴ As Chairman Gleiman recently stated:

Generally, using the most recent available data is desirable in that it minimizes the timeframe over which we must project future cost changes.

See the Prepared Speech of the Honorable Edward J. Gleiman to Mailcom (May 3, 2000). <<http://www.prc.gov/tsp/44/mailcom.htm>>.

Notice of Inquiry No. 2 suggests several alternative treatments of FY 1999 costs. These include: (1) substituting FY 1999 as the Base Year for all analyses; (2) continued use of the FY99 estimates filed by the Postal Service with the Request; or (3) some other result. In general, while it would always be better to use the most current data as the base year, to do so at this stage of this case may be quite time-consuming and expensive. Instead, NAA recommends a version of alternative (3).

It should be recognized that the cost and revenue data generally used in these proceedings are estimates (of varying reliability) based a complex array of data collection and estimation processes, special costing analyses, econometric modeling of volumes and costs, and forecasts of future developments. In this light, evidence of actual results in an interim year can indeed helpfully serve as a reality check.

With this in mind, NAA does not necessarily see a compelling need to recalculate all Base Year analyses using the newly available, actual 1999 data. However, the Commission and the parties should not ignore obviously relevant data. Actual 1999 cost and billing data are far too relevant, and available sufficiently early in this proceeding, to be discarded in favor of older estimates. This is particularly true when, as it appears, some of the older estimates are materially off the mark.

In addition, other reasons favor making use of actual 1999 data. It would improve consistency to the extent that it matches 1999 actual costs with the 1999 volume data used by Postal Service witnesses. Also, as NAA noted in response to the Notice of Inquiry No. 1 Concerning Base Year Data, using FY 1999 data would reflect the effects of the rate changes implemented from the decisions in the Docket No. R97-1 rate case and improve the credibility of the rates resulting from this

proceeding.⁵

Accordingly, NAA recommends that parties be allowed to use FY 1999 data to show that Test Year costs may well differ from those forecast by the Postal Service. For example, the attachments to the second NOI show that actual costs for Standard A ECR mail exceeded the Postal Service's forecasts by at least 4.6 percent, which Standard A Regular costs were below estimated levels by roughly the same percentage. Absent cost aberrations in FY99, these actual costs, if worked into the roll-forward Test Year estimates, could be expected to result in different levels of projected costs. These would imply, in turn, that cost coverages at the Postal Service's proposed rates may be higher or lower than as presented in witness Mayes' testimony. This would provide a beneficial reality check to the Postal Service's proposed rates. Parties may, on this basis, argue for greater or lesser cost coverages for particular subclasses.

For the foregoing reasons, NAA submits that parties should be free to use the 1999 CRA data in this manner. This would enable the Commission to have a reality check on Postal Service's forecasts, would allow parties to use relevant evidence in


⁵ However, NAA sees no need to require the Postal Service to redo any of the special costing studies using FY99 data.

support of their positions, and would also allow the proceeding to continue on its current schedule.

Respectfully submitted,

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Certificate of Service

I hereby certify that I have this 8th day of May, 2000, caused to be served the foregoing document upon the United States Postal Service and the Office of the Consumer Advocate in accordance with sections 12 and 20(c) of the rules of practice.


William B. Baker