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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

OCA-T-1
Docket No. R2000-1

DIRECT TESTIMONY

OF

TED P. GERARDEN

ON BEHALF OF

THE OFFICE OF THE CONSUMER ADVOCATE

MAY 22, 2000

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UNITED STATES OF AMERICA
Before The
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Postal Rate and Fee Changes, 2000)

Docket No. R2000-1

DIRECT TESTIMONY
OF
TED P. GERARDEN

1 I. STATEMENT OF QUALIFICATIONS

2 My name is Ted P. Gerarden. I am the Director of the Office of the Consumer
3 Advocate ("OCA") at the Postal Rate Commission ("Commission"). I joined the
4 Commission in that capacity in February 1999.

5 Prior to joining the Commission, I was in private practice in Washington, D.C.,
6 primarily representing energy companies in proceedings before the Federal Energy
7 Regulatory Commission ("FERC") and the courts. In that capacity I represented clients
8 in a number of rate and certificate proceedings before the FERC. Although I normally
9 acted in the role of counsel in proceedings, I did appear as a witness before the
10 National Energy Board of Canada as an expert witness on United States energy law. I
11 am an attorney and am admitted to practice in the District of Columbia. I hold a J.D.
12 degree from Georgetown University Law School (1973) and a B.S.F.S. degree from
13 Georgetown University (1969).

1 II. PURPOSE AND SCOPE OF TESTIMONY

2 I provide an overview of the positions taken by the OCA in this proceeding and
3 identify the OCA witnesses testifying on the topics addressed. I discuss certain
4 features of the OCA proposal to change single-piece First-Class rates less frequently. I
5 provide testimony in support of a recommendation to the Postal Service on improving
6 consumer outreach when the price of the First-Class stamp changes. Finally, I suggest
7 to the Postal Service that certain issues would benefit from ongoing dialogue between
8 omnibus rate cases, and that the Postal Service should sponsor a "Rates Working
9 Group" for this purpose.

10 III. OVERVIEW OF OCA DIRECT TESTIMONY

11 The OCA sponsors evidence on several subjects. The positions taken by the
12 OCA, in addition to those expressed in my testimony, are summarized below.

13 A. Contingency Request

14 The OCA is concerned that the Postal Service's contingency request has
15 increased significantly from that requested and approved in Docket No. R97-1. The
16 reasons for which a contingency is granted, and the criteria by which the
17 reasonableness of amount of the contingency should be determined, are discussed in
18 the testimony of Robert E. Burns (OCA-T-2) and Edwin A. Rosenberg (OCA-T-3). The
19 OCA recommends that the contingency be reduced from the 2.5 percent requested by
20 the Postal Service. For the reasons given by witnesses Burns and Rosenberg, the
21 present one percent contingency would be a reasonable amount under all of the
22 circumstances considered.

1 B. Mail Processing Costs

2 The Postal Service has again proposed a major change in the volume variability
3 of mail processing costs. The OCA finds that the study presented by the Postal Service
4 is flawed and recommends that the Commission continue to treat mail processing costs
5 as 100 percent volume variable. The OCA's review of the Postal Service study is
6 discussed in the testimony of Joseph E. Smith (OCA-T-4).

7 C. City Carrier Costs

8 The Postal Service includes a "stops effect" in its analysis of load time. The
9 OCA finds that the justification for a stops effect is inadequate and that the Commission
10 should continue to analyze load time as it did in Docket No. R97-1. The OCA's position
11 is presented in the testimony of Mark Ewen (OCA-T-5).

12 D. First-Class Rates

13 The OCA addresses several issues regarding rates for First-Class Mail. First,
14 the Postal Service proposes to increase the basic first-ounce rate from 33 cents to 34
15 cents. The OCA finds that the cost coverage of First-Class letter mail has increased in
16 recent years although the costs of First-Class Mail have declined. In order to avoid a
17 disproportionate burden on First-Class Mail, the basic rate should remain unchanged.
18 Second, the OCA proposes that the Postal Service adopt a new approach under which
19 rates for single-piece First-Class ("SPFC") letters and cards change in every other rate
20 case. This would provide greater rate stability for consumers while at the same time
21 permitting the Postal Service to accommodate the interest of larger business mailers in
22 having smaller, more frequent and predictable rate adjustments. Third, the OCA also
23 urges that the nonstandard surcharge on square and other "low aspect ratio" letters be

1 eliminated. These issues are addressed in the testimony of James F. Callow (OCA-T-
2 6); I will discuss briefly the purpose for which the OCA is making its SPFC rate stability
3 proposal.

4 E. Courtesy Envelope Mail

5 The OCA again proposes that consumers be permitted to mail qualifying
6 courtesy reply envelopes at a reduced rate, thus sharing in the benefits of the reduced
7 costs of handling automation-compatible mailpieces. In light of the Postal Service's
8 expressed concern over the potential for payment transactions to migrate away from
9 First-Class Mail, this would improve the ability of the Postal Service to retain such mail.
10 This proposal is addressed in the testimony of Gail Willette (OCA-T-7).

11 F. Special Services

12 The OCA opposes the increases sought by the Postal Service in the fees for
13 money orders and insurance for mail. Rather, the fee for domestic money orders
14 should be reduced and the per-increment fee for insurance adjusted. These issues are
15 addressed in the testimony of Sheryda C. Collins (OCA-T-8).

16 G. Cost Derivation

17 The OCA replicates the Postal Service's base year costs and shows changes in
18 those costs resulting from the recommendations the OCA makes elsewhere in its
19 testimony. Time has not permitted a complete roll forward of these changes to the test
20 year, but the changes in the base year illustrate the impact of the OCA's
21 recommendations. Pamela A. Thompson (OCA-T-9) presents the revised costs.

1 IV. SINGLE-PIECE FIRST-CLASS RATE STABILITY PROPOSAL

2 The OCA proposes in this case that the Commission recommend that the Postal
3 Service adopt a bifurcated rate change calendar for SPFC letter and card mail and all
4 other mail, such that the SPFC rate would generally change every other rate case. The
5 full description of this proposal and supporting evidence is found in the testimony of
6 OCA witness James Callow. I will highlight some important features of this proposal.

7 As explained by witness Callow, household mailers and larger business mailers
8 have different interests in the frequency with which rates are adjusted. Households
9 mail relatively few mailpieces and find a change of rates inconvenient. Larger business
10 mailers, however, are troubled by the large increases in postal rates that are more likely
11 when the period between rate cases is long. To the extent rates must increase, these
12 mailers seem to prefer smaller, more frequent and predictable rate adjustments. As
13 these mailers generally use permits or metering to pay for postage, adapting to
14 changes in rates are not as inconvenient as is the case for households and small
15 business mailers dependent on purchasing stamps in the appropriate denomination.

16 As I discuss at pages 16-17 *infra*, and as noted by OCA witness Callow, the
17 Postal Service appears to be accelerating the rate case cycle such that rates will
18 change approximately every two years rather than the historical average of
19 approximately every three years. This would increase the frequency of changes in the
20 stamp rate and the frequency with which consumers would have to adjust to new
21 postage rates.

22 The SPFC rate stability proposal is intended to provide greater convenience to
23 consumers while permitting the Postal Service to satisfy the interests of larger business

1 mailers. It is designed to safeguard the prerogatives of the Postal Service and the
2 rights of all participants in postal rate cases. The Postal Service would continue to
3 decide when to file rate cases and what rates to propose for each rate class and
4 category. All participants would continue to be able to litigate any issue in every case.
5 The Commission would continue to render a recommended decision on all issues
6 presented.

7 Under the OCA proposal, then, the revenue requirement, costs, volumes, pricing,
8 etc., would be examined in every case. The difference would be that the single-piece
9 First-Class rates for letters and cards would be set in one case at a level that would
10 permit the rate to remain unchanged during the second rate case period, such that the
11 single-piece rate category would “break even” over two rate case periods. The Postal
12 Service would track the excess or deficient revenues from single-piece mail over time in
13 a reserve account. There is no intent to cause costs to shift among the different mail
14 classes. Moreover, as proposed by the OCA, there would be a “safety valve” that
15 would permit the SPFC rate to be increased in two consecutive rate cases if a failure to
16 do so would create a severe shortfall in the reserve account, or cause excessive
17 shifting of First-Class Mail between single-piece and workshare categories. It is the
18 OCA’s belief that, implemented properly, the SPFC rate stability proposal would benefit
19 consumers without harming the Postal Service or other mailers.

1 V. THE POSTAL SERVICE SHOULD IMPROVE CONSUMER OUTREACH
2 WHEN THE FIRST-CLASS STAMP RATE CHANGES

3 OCA witness Callow explains why the Commission should recommend that the
4 single-piece First-Class stamp rate remain at 33 cents. If the Commission recommends
5 a one-cent increase to 34 cents as sought by the Postal Service, however, then the
6 public will be confronted with the inconvenience of the changeover to new rates at such
7 time as the Postal Service determines to make the new rates effective—presumably in
8 January 2001.

9 Any change in the First-Class stamp rate places burdens on the mailing public
10 and the Postal Service, as new denomination stamps and make-up stamps (or stamps
11 in the denomination of the difference between the old and new rates) must be available
12 for purchase. Unlike major mailers, who are well aware of the rate change and who use
13 permits and metering for most postage, consumers are often unprepared for changes in
14 the rates for single-piece letter and card mail. Post offices experience long lines and
15 frustrated customers as consumers purchase stamps in the new denomination and
16 make-up stamps to go with their existing supply of stamps. Regardless of the efforts
17 made by the Postal Service, many consumers are inconvenienced.

18 A rate change, however, also offers the Postal Service an opportunity to improve
19 both the process of the transition and the Postal Service's public image. The OCA
20 suggests that, when the Postal Service does change the rate for single-piece First-
21 Class Mail, the Postal Service should take aggressive steps to ease the transition for
22 consumers. In addition to a public information campaign and other standard

1 preparations for a rate change, the Postal Service should do the following before the
2 rate change:

- 3 ♦ Deliver an informational mailpiece to every delivery address and
- 4 ♦ Include with the mailpiece ten make-up stamps at no charge.

5 The novel aspect of this proposal—and what would transform ordinary public
6 education efforts into meaningful outreach to consumers—is the inclusion of ten
7 courtesy make-up stamps.

8 A. Benefit to the Public

9 The average household sends approximately twelve pieces of single-piece First-
10 Class letter mail monthly. Ten make-up stamps, then, would permit households to
11 utilize stamps on hand, on average, for about three weeks. That will significantly
12 spread out the time over which consumers can visit postal facilities to buy new stamps,
13 reducing both consumer aggravation and avoiding some Postal Service retail costs.
14 Done properly, provision of courtesy make-up stamps could avoid or significantly
15 reduce the surge of stamp purchasing just before and after the rate change. This would
16 alleviate the burden on retail facilities and avoid the delays and inconvenience that
17 make a change of rate a hassle for consumers.

18 B. Benefits to the Postal Service

19 Postal Service efforts to build positive public support would be strengthened by
20 making the changeover to new rates more convenient for the public. Even if
21 consumers accept higher stamp rates, they nonetheless are frustrated by the
22 inconvenience of obtaining the proper denomination of stamps when an increase
23 occurs.

1 By delivering a mailpiece and courtesy make-up stamps to all delivery
2 addresses, the Postal Service can accomplish the following:

- 3 (1) inform the public about the costs of operating the Postal Service and why
4 rates are changing;
- 5 (2) provide a handy list of the new rates for services commonly used by the
6 public;
- 7 (3) reduce the additional lobby traffic due to consumers purchasing new
8 denomination stamps;
- 9 (4) reduce the aggravation and waiting time experienced by consumers as they
10 attempt to purchase new stamps;
- 11 (5) reduce Postal Service costs associated with selling new and make-up
12 denomination stamps to the public;
- 13 (6) encourage consumers to obtain new stamps through alternate means;
- 14 (7) engender significant consumer good will towards the Postal Service; and
- 15 (8) minimize disruption to mail processing by reducing the instances of
16 consumers taping coins to envelopes.

17

18 C. There Would Be Little or No Additional Cost to the Postal Service

19 The Postal Service may be concerned that it would experience some additional
20 costs in conducting this outreach to consumers when First-Class stamp rates change.
21 In fact, the costs would be very modest in comparison to the benefits provided to the
22 public and to the Postal Service and, in any event, savings from a reduction in the
23 number of window transactions would tend to offset the costs.

24 It is important to note that some of the costs of the OCA proposal are likely to be
25 incurred by the Postal Service in any event, and that distribution of courtesy make-up
26 stamps will reduce certain costs that the Postal Service would otherwise incur. The
27 following discusses the overall cost impact of the proposal.

28 1. Cost of producing and preparing a mailpiece

29 The design, and therefore the cost, of a mailpiece can vary, depending on the
30 information to be included. The nationwide "kNOw fraud" 11-1/8" x 6-1/8" card cost

1 approximately \$2.5 million to produce and prepare.¹ A tri-fold stamps-by-mail order
2 form (a BRM envelope, order form, and return mailing label) plus a separate insert cost
3 3.77¢ per piece to produce and prepare.² At this unit cost, production for 130,000,000
4 estimated domestic delivery addresses³ would cost approximately \$4.9 million (although
5 the unit cost may decrease with larger-scale production). For purposes of this estimate,
6 \$4.9 million is used.

7 It appears, however, that the Postal Service is already seriously considering a
8 nationwide consumer information postcard mailing for the next change in rates.⁴ Based
9 on the cost of the “kNOw fraud” mailpiece, a postcard mailpiece would cost \$2.5 million
10 to produce and prepare. The cost of a tri-fold mailpiece with an insert is approximately
11 \$4.9 million, so the additional cost of producing and preparing this type of mailpiece—
12 suitable to explaining the rate change, enclosing a pane of courtesy make-up stamps,
13 and perhaps offering a purchase by mail option—should be no more than \$2.4 million.

¹ Response to OCA/USPS-8, revised February 10, 2000. Unless otherwise noted, all references are to filings in Docket No. R2000-1.

² Response to OCA/USPS-60, February 24, 2000; Tr. 21/9102.

³ Response to OCA/USPS-10, February 7, 2000; Tr. 21/8990. The Postal Service also provided a figure of 132,152,777 for the test year in response to OCA/USPS-63, February 24, 2000; Tr. 21/9106. For convenience, the estimate of 130,000,000 is used here.

⁴ Response to OCA/USPS-51, February 16, 2000; Tr. 21/9082. Both teams involved in assessing the success of implementing the Docket No. R97-1 rate increase recommended a nationwide direct mailing by the Postal Service.

1 2. Cost of producing ten courtesy make-up stamps for each mailpiece

2 The cost of producing 130 million panes of ten stamps—1.3 billion stamps—is
3 estimated by the Postal Service to be approximately \$3.9 million.⁵ The Postal Service
4 produced 2.5 billion “H” rate make-up stamps for the change in rates in January 1999 at
5 a cost of \$5.0 million.⁶

6 The Postal Service will incur a cost for printing make-up stamps for the next
7 change of rates. The cost of providing the courtesy make-up stamps suggested by the
8 OCA would consist of additional costs due to (1) the format in which make-up stamps
9 are printed (panes of ten) and (2) the likely need to print a somewhat larger total
10 quantity of make-up stamps than the number that would be printed if the only
11 distribution were through retail sales.

12 The Postal Service data suggests that the unit cost of printing make-up stamps
13 in panes of ten is \$0.003 and that the unit cost of printing the “H” rate make-up stamps
14 was \$0.002. Assuming that make-up stamps can be produced for approximately the
15 same cost as the recent “H” rate make-up stamp, this suggests that there is a \$0.001
16 cent difference in the cost of producing make-up stamps in panes of ten. For the 1.3
17 billion make-up stamps needed for distribution to all delivery addresses, this suggests
18 an additional cost of \$1.3 million (1,300,000,000 x \$0.001). If a total of 300 million extra

⁵ Response to OCA/USPS-61, February 24, 2000; Tr. 21/9103.

⁶ Response to OCA/USPS-47, February 14, 2000; Tr. 21/9068.

1 make-up stamps were printed because of the dual distribution, the additional production
2 cost would be \$0.6 million (300,000,000 x \$0.002). These total \$1.9 million.

3 3. Revenue foregone by distribution of courtesy make-up stamps

4 If one assumes that the requested one-cent increase in the First-Class single
5 piece rate is granted, each courtesy make-up stamp would have a postage value of one
6 cent. The maximum revenue foregone would be \$13 million (1,300,000,000 x \$0.01).
7 As a practical matter, of course, not all of the stamps would be utilized. The Postal
8 Service apparently does not have any information on the portion of G- or H-rate make-
9 up stamps purchased that were actually used in conjunction with previous rate
10 changes.⁷ Assuming that 90% of the courtesy stamps are actually used, the revenue-
11 foregone impact would be \$11.7 million.

12 4. Cost of processing and delivery of mailpiece

13 The Postal Service suggests that the cost of sending a nationwide mailing be
14 based upon an estimate of the test year volume variable cost of Standard Mail (A)
15 saturation ECR.⁸ This is estimated to be \$0.05415 on a unit basis, and therefore would
16 be approximately \$7.0 million for a nationwide mailing.⁹ There should be little or no

⁷ Response to OCA/USPS-48, February 14, 2000; Tr. 21/9069.

⁸ Response to OCA/USPS-10, February 7, 2000; Tr. 21/9005.

⁹ The Postal Service suggested the use of the volume variable cost of delivering Standard Mail (A) saturation ECR, but did not provide an estimate of this cost. The OCA estimate is derived as follows. Exhibit USPS-32B provides a TYAR volume variable cost for all Standard Mail (A) regular ECR of \$2,471,864,000. Exhibit USPS-T-6, Table 1, provides a TYAR volume for all Standard Mail (A) regular ECR of 32,828,211,000. This results in an average unit volume variable cost for all Standard Mail (A) regular ECR of \$0.075297. No calculation was provided by the Postal Service for the volume variable costs of saturation ECR. USPS-LR-I-166, filed January 12, 2000, spreadsheet "wp1_comm.xls," provides (continued on next page)

1 difference in the unit volume variable Standard Mail (A) cost to the Postal Service of a
2 tri-fold mailpiece with an insert versus an informational postcard.¹⁰

3 5. Reduction in costs due to cost avoidance

4 Delivery of courtesy make-up stamps to consumers would reduce the number of
5 additional window purchases of stamps due to a rate change. By spreading out the
6 period of time over which consumers make new denomination stamp purchases, and
7 perhaps by encouraging purchases through mail order fulfillment, the Postal Service
8 can avoid certain operational costs that otherwise would be incurred.

9 The Postal Service evidently does not have data that show the cost to the Postal
10 Service associated with a changeover to new rates,¹¹ or data showing the increase in
11 the number of window transactions associated with a changeover to new rates.¹²
12 Nonetheless, some estimate can be made of potential savings to the Postal Service

at page 3 TYAR volume forecasts for each category of regular ECR (auto, basic, HD, saturation letters; basic, HD, saturation non-letters). At page 10 the same spreadsheet provides total test year mail processing and delivery costs for each category. The average unit test year cost for mail processing and delivery for all categories of regular ECR is \$0.07162; the average unit mail processing and delivery test year cost for the two saturation categories (letters and non-letters) is \$0.05150. Accordingly, saturation unit cost appears to be 71.9151% of overall regular unit ECR cost. In order to estimate volume variable cost of saturation ECR, 71.9151% of \$0.075297 = \$0.05415.

In response to a follow up question, the Postal Service did provide an estimated TY volume variable cost of an average Standard Mail (A) Saturation ECR piece (letter, flat, and parcel combined) at an average level of dropshipping of 5.1 cents. Response to OCA/USPS-73, March 20, 2000; Tr. 21/9118. The Postal Service cautioned, however, that applying the 5.1 cents to a specific situation "could be misleading." Accordingly, the derived estimate of 5.415 cents is used here.

¹⁰ The tri-fold type of mailpiece with an insert recommended for this consumer outreach can be delivered as Standard Mail (A) saturation ECR. Response to OCA/USPS-60, February 24, 2000.

¹¹ Responses to OCA/USPS-71, March 20, 2000; Tr. 21.9116, and OCA/USPS-103, April 10, 2000; Tr. 21/9161.

¹² Response to OCA/USPS-129(a), May 17, 2000.

1 from reducing the number of stamp purchase transactions caused by the need for
2 consumers to acquire stamps in new denominations. First, the Postal Service
3 calculates the cost of one stamp window transaction to be \$0.4596.¹³ As a practical
4 matter, all mailers need to acquire new stamps. Some will do so in the normal course
5 of visiting a post office, but many will either make an additional trip to the post office or
6 add a stamp purchase to another postal transaction. If the provision of courtesy make-
7 up stamps avoids the need for just 30% of the 130,000,000 households and businesses
8 to conduct an additional window transaction, the Postal Service will avoid \$17.9 million
9 in retail transaction costs.

10 6. Summary of cost impact

11 The estimated net cost of the proposed courtesy make-up stamp proposal,
12 based on the assumption that the Postal Service would make a nationwide
13 informational mailing in any event, may be summarized as follows:

¹³ Response to OCA/USPS-76, Attachment 1, April 11, 2000; Tr. 21/9121.

Item	OCA proposal (millions)	Expected USPS Cost (millions)	Additional cost (savings) (millions)
Mailpiece production	\$4.9	\$2.5	\$2.4
Production of panes of ten	1.3	0.0	\$1.3
300 million additional stamps	0.6	0.0	\$0.6
Revenue foregone	\$11.7	\$0.0	\$11.7
Cost of saturation ECR delivery	\$7.0	\$7.0	\$0.0
Savings from reduced number of window transactions	(17.9)	0.0	(\$17.9)
Net additional cost			\$(1.9)

1 Due to the gaps in the information supplied by the Postal Service, these estimates are
2 necessarily preliminary, and the Postal Service could undoubtedly make more accurate
3 estimates of the costs and potential savings (avoided costs) if courtesy make-up
4 stamps were distributed. Nonetheless, I believe that the information provided above
5 indicates that the provision of courtesy make-up stamps would be a cost-effective
6 approach to making a transition to new rates more convenient for the public.

7 7. Other factors

8 If it deems it appropriate, the Postal Service can utilize the nationwide mailing to
9 encourage consumers to purchase needed stamps by mail or through the internet,
10 rather than visiting post offices, as some post offices now do at the holiday season. It is
11 not clear that transactions by mail or through the Internet actually reduce sales costs.¹⁴
12 But if the Postal Service finds value in diverting traffic from post offices to alternate

¹⁴ It appears that the cost of a stamps-by-mail transaction is \$3.74, and that the cost of a Stamps Online transaction is \$4.52, both of which are considerably higher than the \$0.4596 cost of a window stamp transaction. Response to OCA/USPS-76, April 11, 2000; Tr. 21/9121.

1 means of selling new denomination and/or make-up stamps at the time of a rate
2 change, it could use the suggested nationwide mailing for that purpose.

3 Supplying consumers with the means to avoid a rush on post office facilities will
4 avoid long waiting in lines for window clerks and the accompanying frustration and
5 irritation for consumers. Coupled with the opportunity to explain to consumers why
6 postage rates are changing, and how the Postal Service spends the money collected
7 for postage, there is a significant opportunity for positive public relations in the
8 proposed nationwide mailing.

9 VI. THE POSTAL SERVICE SHOULD SPONSOR A "RATES WORKING
10 GROUP" BETWEEN RATE CASES

11 Omnibus postal rate cases are extremely complicated, but must be completed
12 within the statutory ten month deadline, absent extraordinary circumstances. Many
13 times the Postal Service may present a complex proposal or study in support of
14 requested rates. Other parties have a limited ability to respond to complicated
15 proposals, given the time frames of the rate case and the large number of issues that
16 may need to be addressed. Generally, parties must conduct discovery and file their
17 direct cases within four or four and one-half months of the filing of the Postal Service's
18 case. The same problem can be presented in the evidence of intervenors: an
19 intervenor may present a complex new idea in its direct case, and the Postal Service
20 will have approximately two months to ten weeks to conduct discovery and prepare a
21 rebuttal case.

22 Even as postal cases continue to grow in complexity, the calendar upon which
23 such cases will be presented appears to be shortening. As discussed in OCA witness

1 Callow's evidence, the Postal Service appears to be planning on biennial rate changes
2 which will shorten the rate case cycle from the historical average of three years to two
3 years. That will place further burdens on parties as they try to analyze and respond to
4 complex proposals in postal rate cases or anticipate issues for the next rate case. I
5 note that Deputy PMG Nolan has spoken to mailers about starting the process for a
6 rate case with new rates effective in January 2003, suggesting that there be a "change
7 in the traditional rate design paradigm,"¹⁵ with the Postal Service working with industry
8 to fashion rates that will keep the Postal Service competitive on a market-driven basis.
9 This suggests that the time is ripe for the Postal Service to find new ways to facilitate
10 the discussion of some issues with parties before the filing of a new rate case.

11 The rate case process would be aided by ongoing discussions among interested
12 parties between rate cases in the context of a "Rates Working Group" sponsored by the
13 Postal Service. This device would allow the Postal Service and others to examine
14 complex issues, consider various viewpoints, and build consensus where possible. The
15 Commission should urge the Postal Service to sponsor such a working group between
16 postal rate cases.

17 It is important to focus on what a Rates Working Group should be and what it
18 should not be. First and foremost, it should be a good faith effort on the part of the
19 Postal Service and all participating parties to focus on a limited number of important

¹⁵ *Post Com Bulletin 21-00*, Association for Postal Commerce, May 6, 2000, p. 3. See also *Alliance Report 00/14*, Alliance of Nonprofit Mailers, May 10, 2000, p. 2.

1 issues that arise in the course of fashioning rates that comply with the Postal Service's
2 statutory mandate. It should be organized by the Postal Service and run under ground
3 rules agreed upon between the Postal Service and participants. It should focus
4 primarily on technical issues and not on legal matters—indeed, it would have the
5 greatest chance of success if management and consultants, not counsel, are the
6 participants at meetings sponsored by the Rates Working Group. This is not to suggest
7 that counsel do not have a role to play, but to stress that a successful Rates Working
8 Group will not permit the parties to engage in litigation-oriented behavior. A Rates
9 Working Group also must be realistic in what it can accomplish—it must limit the scope
10 of activities to a few significant issues that affect either many mailers or the treatment of
11 significant costs in postal rate cases.

12 It is also important to focus on what a Rates Working Group is not. It should not
13 be a forum for discovery from the Postal Service, and must not be treated as a weapon
14 in a litigation arsenal. It should not address legal issues, and it should not be a
15 substitute for proceedings that belong before the Postal Rate Commission, such as
16 complaints or classification cases.

17 Substantive progress in the work of a Rates Working Group calls for information
18 to be shared with participants. To do so fairly to the Postal Service, participants must
19 be willing to agree to maintain the confidentiality of information and records not normally
20 in the public domain, and to limit the use of such information that is shared to the
21 subjects studied by the Rates Working Group.

22 A well-conceived and properly guided Rates Working Group can help the Postal
23 Service, the parties, and the Commission to achieve their goals. The Postal Service

1 would have the opportunity to discuss novel, complex, or difficult ratemaking issues with
2 key parties in a neutral rather than an adversarial environment, under agreed-upon
3 ground rules that preserve the Postal Service's prerogatives. The input of a Rates
4 Working Group would permit the Postal Service to refine and improve proposals to be
5 presented in future rate cases. Participants in a Rates Working Group would be able to
6 make substantive comments upon, and contributions to, studies, concepts, and works
7 in progress that may assist the Postal Service in refining or improving material that later
8 is presented to the Commission in support of a rate request. The Commission may find
9 that the Rates Working Group process will reduce controversy, simplify issues, focus or
10 reduce the extent of discovery, and/or reduce the time required to litigate issues in rate
11 cases, thus assisting the Commission in issuing its recommended decision within the
12 statutory period.

13 The recent proposals of the Postal Service on mail processing are an example of
14 complex analyses coming up against the realities of completing a postal rate case
15 within the prescribed statutory ten month period. In Docket No. R97-1, the Postal
16 Service presented extensive data analyses through the testimony of Dr. Michael
17 Bradley in support of reducing the volume variability of mail processing costs. The
18 change was not recommended in that case, and the Postal Service has revisited the
19 issue in the Docket No. R2000-1 through the testimony of Dr. Thomas Bozzo. The
20 Bozzo analysis took five person-years to complete, yet the OCA and other parties have
21 had only slightly more than four months to investigate the new material and respond in
22 their direct cases. OCA witness Smith discusses issues and problems that are still

1 found in Dr. Bozzo's work, and suggests that interested parties and the Postal Service
2 could profitably examine the issue in a working group context.

3 Another example of an issue that might have benefited from discussion in a
4 Rates Working Group is the Prepaid Reply Mail ("PRM") proposal made by the Postal
5 Service in Docket No. R97-1. The CRM Coalition opposed PRM, and even certain
6 supporters sought substantial changes in the proposed service. While recommended
7 by the Commission, the Board of Governors rejected the service. Advance discussion
8 of this proposed service in the context of a Rates Working Group might have resulted in
9 modifications or improvements to the proposal that would have reduced opposition and
10 resulted in more favorable consideration by the Board of Governors.

11 VII. CONCLUSION

12 Specific recommendations on the contingency provision, volume variability in
13 mail processing and city carrier street time, First-Class Mail rates, Courtesy Envelope
14 Mail, and special services are made in the testimony of the other OCA witnesses. The
15 OCA has provided substantial evidence in support of each of its recommendations, and
16 has shown the effect of its volume variability changes. The proposals should be
17 adopted in the Commission's recommended decision. In addition, the Commission
18 should recommend to the Postal Service that it provide courtesy make-up stamps at the
19 time that First-Class rates change, and should recommend that the Postal Service
20 sponsor a "Rates Working Group" between rate cases.