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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

ORDER NO. 1294

UNITED STATES OF AMERICA
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Edward J. Gleiman, Chairman;
George A. Omas, Vice Chairman;
Dana B. Covington; Ruth Y. Goldway;
and W.H. "Trey" LeBlanc III

Postal Rate and Fee Changes

Docket No. R2000-1

ORDER ON THE USE OF FY 1999 DATA

(Issued May 26, 2000)

Background. At a very early stage in this proceeding the Commission issued Notice of Inquiry No. 1 Concerning Base Year Data (NOI-1), February 2, 2000. NOI-1 asked participants to comment on the extent to which efforts should be made to incorporate actual FY 1999 cost data into the Commission's analysis of the Postal Service request for rate and fee changes. The Postal Service request, filed January 12, 2000 uses FY 1998 costs as the basis for projecting its revenue requirements in the test period FY 2001.

This issue was discussed at the initial prehearing conference held February 16, 2000 and seven participants took the opportunity to file additional written comments. The consensus of opinion was that use of more recent data is generally preferable, however, it would be necessary to evaluate the specifics of the actual situation in this

docket after the audited Cost and Revenue Analysis (CRA) Report for 1999 became available.

The Postal Service filed its FY 1999 CRA on April 4, 2000. After allowing time for participants to review these data, on April 21, 2000 the Commission issued Notice of Inquiry No. 2 Concerning Base Year Data (NOI-2) asking participants to comment on the appropriate use of this information. Specifically, the Commission suggested that: (1) FY 1999 might be substituted as the base year for all analyses in the case; (2) the estimates for FY 1999 costs initially submitted by the Postal Service might be used to the exclusion of actual 1999 costs; or (3) participants might suggest some other result that would produce more reliable results while protecting the due process rights of participants.

Six participants filed initial responses to NOI-2¹ and two participants submitted reply comments.² The Coalition of Religious Press Associations and United Parcel Service contend that the need for the most accurate forecast of costs for each subclass and service requires that the Commission adopt option (1), and substitute FY 1999 as the base for forecasts in this case. No participant favors option (2), the retention of initial estimates to the exclusion of any actual FY 1999 cost data. The majority support option (3), some use of FY 1999 actual cost data, allowing each participant to recommend the incorporation of such information as they determine to be appropriate.

Commission Analysis. The Commission has two primary responsibilities in reviewing a Postal Service request for changes in rates and fees. It must identify and

¹ Association for Postal Commerce Response to NOI No. 2, May 8, 2000; Response of the Coalition of Religious Press Associations to Notice of Inquiry No. 2 Concerning Base Year Data, May 4, 2000; Comments of the Newspaper Association of America On Notice of Inquiry No. 2 Concerning Base Year Costs, May 8, 2000; Office of the Consumer Advocate Comments in Response to Notice of Inquiry No. 2 Concerning Base Year Data, May 8, 2000; Comments of United Parcel Service Concerning Base Year Data In Response to Notice of Inquiry No. 2, May 8, 2000; Initial Comments of the United States Postal Service in Response to Notice of Inquiry No. 2 (Postal Service Comments), May 8, 2000.

² Reply Comments of United Parcel Service Concerning Base Year Data Pursuant to Notice of Inquiry No. 2, May 15, 2000; Reply Comments of the United States Postal Service in Response to Notice of Inquiry No. 2, May 15, 2000.

analyze the most reliable evidence so that it can accurately estimate the Postal Service's revenue needs and develop the most fair rates to generate those revenues. Equally important, it must also accord all interested persons an opportunity to fully and fairly participate in the ratemaking process. All of the participants' comments recognize these joint obligations, and the comments reflect individual attempts to strike an appropriate balance between the two.

The Commission carries out its responsibilities within the system established by the Postal Reorganization Act. Current law requires the Commission to provide the Postal Service with an opinion and recommended decision within ten months of receiving a request for changes in rates and fees. The Commission's ability to develop the most complete evidentiary record for decision and to accord participants procedural due process is affected by the requirement that it meet this statutory schedule. All of the comments provided in response to NOI-2 recognize that actual costs are a more accurate representation of FY 1999 experience than estimates developed by rolling forward FY 1998 costs. The participants' advice is strongly influenced by how difficult it may be to incorporate FY 1999 costs data into test year projections, while still providing all participants with full procedural protection within the statutory time limit.

The Commission agrees that its decision will be improved to the extent it can incorporate actual FY 1999 CRA costs into its test year forecasts. Actual data are obviously more accurate than estimates, and forecasts beginning with actual data are preferable to forecasts beginning with estimates. The Commission also agrees with the majority of respondents that it may not be feasible to completely revise the Postal Service request to incorporate FY 1999 as the base year for all estimates. Thus the question becomes "to what extent can FY 1999 CRA data be incorporated without impinging on the due process rights of participants?"

The Postal Service filed its request almost three and one half months after the end of fiscal 1999. Therefore, its estimate of total FY 1999 costs was quite accurate.

However, as shown in the NOI-2 attachments, the actual unit costs by subclass and service varied from estimates by meaningful amounts. Therefore, the Commission considers it quite important to incorporate actual unit costs by subclass and service into its opinion and recommended decision.

The current procedural schedule does not readily allow for the incorporation of revised costs into parties' presentations. However, it appears possible to modify the schedule to allow all participants to adjust their presentations to reflect the use of actual FY 1999 CRA costs. As of this date, all participants have submitted their direct cases.³ Those participants, especially the Postal Service, that offer specific rate recommendations will need the opportunity to review their presentations in light of test year forecasts that incorporate actual FY 1999 CRA cost data, and determine whether those presentations should be modified in whole or in part. Similarly, participants that offer specific test year revenue requirement forecasts also will need to determine how to adjust those forecasts to incorporate actual FY 1999 CRA cost data.

This order will describe the types of adjustments that are to be made to the procedural schedule to allow for the incorporation of actual FY 1999 CRA cost data. The Presiding Officer will then develop and publish a revised procedural schedule.

Given the importance of using the latest available information, the Commission finds that actual FY 1999 CRA cost data, which provide unit costs by subclass and service, should be incorporated into the cost projection process. The most basic way for this to be accomplished is by substituting the actual FY 1999 cost data for the estimates for that year presented by Postal Service witnesses Kashani and Tayman. The Postal Service will be directed to perform this basic update, and make the results available as promptly as possible. Revised FY 2000 and FY 2001 cost estimates would be developed by rolling forward the actual FY 1999 data and maintaining the original assumptions reflected in the 1999 to 2000 and 2000 to 2001 cost change factors (e.g.,

³ Evidence from a few intervenors concerning carrier costs is still outstanding.

Cost Level, Cost Reductions Programs, and Other Programs). The Postal Service should also include revised final adjustments for each period's presentation.

The Postal Service Response, at 4-5, discusses the time necessary to update by incorporating FY 1999 results. After describing the minimum changes that would have to be considered to perform an update the Service concludes that even if the roll-forward were not updated for the most recent inflation forecast, developing new test year estimates would take somewhere between six and ten weeks. The Service will be allowed six weeks to perform the basic update described above.

The Service's responses to NOI-2 discuss the necessity of reexamining all cost change factors for 2000 and 2001. This is appropriate if it is achievable in the reasonable time frame established by this order. It is generally preferable to use the latest available information. Reexamination of cost change factors can take place while the basic update is being performed. Moreover, it is important to note the timing of the Service's filing. The filing occurred almost three and a half months after the close of fiscal year 1999 and it presumably reflects significant events occurring within that year in the cost change factors utilized in the cost projections.

To the extent feasible, the Presiding Officer is to develop a schedule that allows the Postal Service time to develop additional improvements to its test year forecast after the basic update has been provided. However, the Commission encourages the Service to incorporate proposed revisions to the original cost change factors with the basic update to the extent that this can be accomplished within the six weeks provided by this order.

The Postal Service also states that it may require a month after new test year forecasts become available to adjust other aspects of its case. It is reasonable that at a minimum, evidence on appropriate cost coverages and rate design may have to be reevaluated, and perhaps updated. The procedural schedule should allow for this.

The current procedural schedule allows approximately two months for the preparation of an opinion and recommended decision. In order to accommodate the use of actual FY 1999 CRA cost data it may be necessary to reduce this period. The revised procedural schedule should allow at least six weeks between oral argument and the conclusion of the ten month statutory period for issuing a Commission decision.

It is ordered:

1. The Postal Service is to prepare the basic update to test year forecasts described in the body of this order by July 7, 2000.
2. The Postal Service is to present this information as exhibits to testimony of one or more witnesses that explain the information provided and can attest to its accuracy in our hearings.
3. The Postal Service may incorporate with this information such other updates as it believes will more accurately forecast test year results.

By the Commission.

(SEAL)



Margaret P. Crenshaw
Secretary

* Goldway, Commissioner, not participating