

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

UNITED STATES POSTAL SERVICE MOTION FOR RECONSIDERATION
OF ORDER NO. 1294

Commission Order No. 1294 (May 26, 2000) addressed issues raised and comments received in response to two notices of inquiry in this docket. Notice of Inquiry No. 2 (NOI 2)¹ followed up an inquiry begun in Notice of Inquiry No. 1 (NOI 1),²

¹ See Initial Comments of the United States Postal Service in Response to Notice of Inquiry No. 2 (May 8, 2000) (Postal Service Comments NOI 2); Comments of United Parcel Service Concerning Base Year Data in Response to Notice of Inquiry No. 2 (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 the Newspaper Association of America on Notice of Inquiry No. 2 Concerning Base Year Costs (May 8, 2000); 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 8, 2000); Reply Comments of the United States Postal Service in Response to Notice of Inquiry No. 2 (May 15, 2000) (Postal Service Reply Comments NOI 2); Reply Comments of United Parcel Service Concerning Base Year Data Pursuant to Notice of Inquiry No. 2 (May 15, 2000).

² In Notice of Inquiry No. 1 (NOI 1, Feb. 2, 2000), the Commission requested a status report and comments on the availability and use of the FY 1999 Cost and Revenue Analysis (CRA) Report and billing determinant data for FY 1999. The Postal Service and several parties filed comments. See Status Report of the United States Postal Service Regarding FY 1999 Data in Response to Notice of Inquiry No. 1 (Feb. 14, 2000)(USPS Status Report on NOI 1); Initial Comments of the United States Postal Service in Response to Notice of Inquiry No. 1 (Feb. 23, 2000)(USPS Initial Comments on NOI 1); Response of the Alliance of Nonprofit Mailers to Notice of Inquiry No. 1 Concerning Base Year Data (Feb. 23, 2000); Comments of the Newspaper Association of America on Notice of Inquiry No. 1 (Feb. 23, 2000); Association of American Publishers Comments in Response to Notice of Inquiry No. 1 Concerning Base Year Data (Feb. 23, 2000); Association for Postal Commerce Comments on Notice of Inquiry No. 1 (Feb. 23, 2000); Comments on Issues Identified in NOI-1 by the Coalition of

in which the Commission sought input from the parties on the appropriate roles and uses of FY 1999 financial and operating data and information. In Order No. 1294, the Commission resolved questions raised in the two NOIs by directing the Postal Service to perform a partial update of interim and test year estimates using data contained in the FY 1999 Cost and Revenue Analysis (CRA) Report. The Postal Service was instructed in conducting this update to substitute cost data contained in the CRA Report for the FY 1999 cost estimates embodied in its Request. For the following reasons, the Postal Service requests that the Commission reconsider this directive.

The fundamental question posed in NOIs 1 and 2 was whether and to what extent the Commission could replace the Postal Service's reliance on FY 1998, as the basis for its test year estimates, with a base year derived from the FY 1999 CRA. Under conventional forecasting procedures, the new base year would have to be rolled forward to produce test year estimates. While the parties commenting on the NOIs responded in various ways, most of them recognized that executing a roll-forward of an entirely new base year would be a complicated undertaking that would not be easy to perform, particularly in light of the current stage of the proceedings and the technical obstacles. In Order No. 1294, the Commission summarized the situation and the resulting issue as follows:

The Commission also agrees with the majority of respondents that it may not be feasible to completely revise the Postal Service's 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?"

Order No. 1294 at 3.

As the Postal Service has noted many times, its Request is the product of an integrated assessment at a particular point in time of numerous factors affecting future expenses, revenues, and volumes, as well as a constellation of rate policy and rate design choices. In this regard, the Postal Service's comments emphasized that creating new test year estimates from a new historical base could distort the record built to support the rate and revenue objectives embodied in the Postal Service's case, unless a reasonable and realistic opportunity were given to evaluate and adjust the entire roll-forward, beyond mere substitution of FY 1999 actual data in the forecasting model. See Postal Service Comments NOI 2 at 4-5. In other words, incorporation of FY 1999 CRA data as the base year would only be feasible and appropriate under circumstances where the Postal Service could be guaranteed the opportunity to make a comprehensive assessment of changed circumstances in light of all of the most recently available information. Otherwise, the foundation that the Commission would inevitably rely upon to base most of its recommendations might conflict with the Postal Service's fundamental policy choices and judgments in ways that would be difficult to evaluate and critique on the record.

In Order No. 1294, the Commission struggled with these circumstances in an effort to reconcile the conflicting objectives. On one hand, it was motivated by a preference for using the updated FY 1999 information in a meaningful way. On the

other hand, it recognized the practical and legal obstacles impeding full incorporation of the CRA data, in accordance with the roll-forward procedures that produce test year estimates. In this regard, the Commission acknowledged its dual responsibilities to afford due process to all parties, including the Postal Service, and to still meet its primary obligation to the Postal Service to recommend rate changes necessary to meet its revenue needs within the 10-month period prescribed by statute.

Order No. 1294 split the baby into several pieces, creating a three-staged process. In the first step, the Postal Service was directed to provide what it characterized as a "basic update" of test year estimates, based on using subclass costs by segment and component for FY 1999 as a forecast base. It conditioned this process, however, on retaining the same assumptions underlying the cost change factors used in the Postal Service's initial filing to roll forward from FY 1999 to test year FY 2001. The result would be new estimates for the test year of total costs allocated by subclass, but without benefit of a comprehensive update or a reassessment of all of the conditions affecting test year estimates. In the second step, the Commission gave the Postal Service the option of incorporating additional improvements in the roll-forward, above and beyond the basic update. In the third step, the Order invited the parties to comment on the effect of the updated forecasts on proposed rate levels and rate designs.

In light of the Postal Service's principal concerns, the effectiveness of the Commission's approach would depend on whether sufficient time were available, at the

current stage of the proceedings, and in light of the record already created.³ Order No. 1294 left the implementation of its solution to the Presiding Officer to revise the procedural schedule to accommodate the various competing considerations. Presiding Officer's Ruling No. R2000-1/71 (May 26, 2000) makes a good-faith effort to do this but substantially fails. At a time and stage of the proceedings when the Postal Service has already presented and defended its direct case at hearings, and intervenors have formulated and presented their own cases and proposals, based almost exclusively on the Postal Service's proposals and evidence, requiring a fundamental change in the financial foundation of the ultimate recommendations would be impractical. In particular, while the revised schedule ostensibly affords six weeks for the Postal Service to prepare and file the "basic update,"⁴ it is noted that this is only the lower bound of the time indicated by the Postal Service as required to produce a roll-forward without updating for the most recent inflation forecasts. Beyond this, the revised schedule provides only an additional two weeks to complete whatever other updates and refinements to the roll-forward model and inputs might be considered necessary. The

³ The question of whether the Postal Service should base its general rate increase requests on a FY 1999 base year was raised publicly in certain trade press publications prior to filing of the Postal Service's request for a recommended decision. Issues concerning the availability and appropriate uses of the FY 1999 CRA Report were raised early in the proceeding in NOI 1 (Feb. 2, 2000) and at the prehearing conference (Feb. 16, 2000). The Postal Service filed a version of the CRA Report with the Commission on March 15, 2000, in connection with Commission Rule 103. The Postal Service version of the CRA Report was filed on April 4. Order No. 1294 was not issued until approximately four and one-half months after the Postal Service's Request was filed.

⁴ Order No 1294 was delivered late on May 26, 2000, prior to the Memorial Day week-end. While the Postal Service has begun work on the basic update, it effectively did not begin until later then following week, leaving only approximately five weeks to carry out the directive.

actual work to perform these updates, however, would take much longer and could not in significant part parallel the effort to produce the basic update. This work would have to be accomplished, furthermore, at a time when substantially the same analysts and staff required to perform it were fully occupied reviewing and assisting in discovery against the approximately 80 pieces of intervenor testimony. In this regard, it is significant that Order No. 1294 and POR 71 did not change the schedule for discovery and hearings on this testimony, leaving considerable uncertainty about the importance of those exercises, in light of the testimonies' primary orientation toward the Postal Service's original filing and the premature nature of any specific assessment of the effects of the basic update on the original positions and testimony.

The practical effect of the approach outlined in Order No. 1294 is to deny the Postal Service a realistic opportunity to do what it concluded would be a prerequisite to a complete replacement of the base year and a subsequent roll-forward to produce new test year estimates. The practical effect of the order is to essentially nullify much of the Postal Service's original filing, and to fail to provide an effective opportunity to adjust. In its effects on the Postal Service, as the principal proponent of change in the proceeding and the focus of the statutory ratemaking scheme, the prescription embodied in Order No. 1294 fundamentally denies due process.

Of equal concern to the Postal Service, Order No. 1294 seriously limits the Commission's ability to evaluate what has already developed to be a very complex evidentiary record. By the time the various new stages of the proceeding are completed, that assessment will have multiplied several times. At the moment, barely

six weeks are left for the Commission to produce a Recommended Decision. The Postal Service, its Governors, and the intervenors all have a substantial stake in the thoroughness of the Commission's review of the record and soundness of its recommendations. The decision to require the replacement of the financial foundation for the test year estimates seriously detracts from those objectives.

Accordingly, the Postal Service requests that the Commission reconsider its decision to direct a reformulation of the base year data and test year estimates based on a substitution of FY 1999 CRA results. As noted in the Postal Service's and several other parties' comments and reply comments responding to NOI 2, such a replacement is neither necessary nor warranted. As proposed by the Postal Service and other parties, furthermore, FY 1999 actual results can be adequately taken into account through other means.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

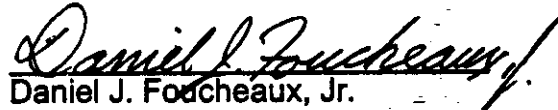
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June 2, 2000

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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