

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
INTERROGATORIES AND REQUESTS FOR PRODUCTION OF DOCUMENTS TO
OFFICE OF THE CONSUMER ADVOCATE WITNESS BURNS
(USPS/OCA-T2-1-9)


Pursuant to rules 25 and 26 of the Rules of Practice and procedure, the United States Postal Service directs the following interrogatories and requests for production of documents to Office of the Consumer Advocate witness Burns: USPS/OCA-T2-1-9.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



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June 6, 2000

USPS/OCA-T2-1. Please refer to your discussion of the insurance industry at pages 3-4 of your testimony.

- (a)** Are insurance companies and utilities are allowed to earn profits?
- (b)** Do those insurance companies that earn profits have positive equity?
- (c)** Does positive equity provides a cushion against unforeseen events?

USPS/OCA-T2-2. Please refer to page 2, lines 19-20, of your testimony, where you state: "Relying solely on management discretion to pick the contingency reserve will not guarantee its reasonableness." Also refer to the Postal Service responses to OCA Questions 1-3 on the Contingency filed on May 17, 2000.

- (a)** What approach to contingency selection will "guarantee" reasonableness?
- (b)** Is it your testimony that the Postal Service did no analysis and relied solely on management discretion in determining the size of the contingency? If your answer is yes, please explain fully.
- (c)** Do you believe any management discretion is appropriate in determining the size of the contingency? If your answer is no, please explain.

USPS/OCA-T2-3. Please refer to page 3, lines 18-19, of your testimony where you state: "Contingency reserves are used by the insurance industry for the same purpose, that is, to offset the effects of misestimates relating to revenue and costs."

- (a)** What percentage of total costs, including the amount to cover catastrophic hazards such as floods and storm damage, are typically used for contingency reserves in the insurance industry? Please provide the source of your answer.
- (b)** Please confirm the fact that hurricanes and other catastrophes will occur in the future is known. If you do not confirm, please explain why.
- (c)** Please confirm that the number and severity of such catastrophes that will occur in the future is unknown. If you do not confirm, please explain fully.

USPS/OCA-T2-4. How much "profit allowance" is typically included in insurance rates? Please provide your sources.

USPS/OCA-T2-5. Please refer to page 7, lines 10-11, of your testimony where you state: "Postal Service management's subjective perception of risks must be reasonably articulated." Please also refer to pages 43-46 of USPS-T-9.

- (a)** Is it your testimony that Postal Service management's subjective perception of risks related to the contingency is not reasonably articulated in USPS T-9? If your answer is yes, please explain fully.
- (b)** With reference to past contingency amounts proposed by the Postal Service and accepted by the Commission, please explain which ones were reasoned and which ones were not reasoned, and why.
- (c)** For any previous contingency amounts considered by you to be reasoned, please explain how the support provided by the Postal Service for such contingency amounts differs from the support provided for the contingency in this docket which you say is not reasoned.

USPS/OCA-T2-6. Please refer specifically to USPS-T-15, Direct Testimony of Charles Holder in Docket No. R90-1.

- (a)** Please confirm that the Postal Service determined that a contingency of 3.5% was necessary in Docket No. R90-1 and that this amount was recommended by the PRC. If you do not confirm, please explain why.
- (b)** Do you consider that management's subjective perception of risks was reasonably articulated in Docket No. R90-1? If your answer is other than yes please explain why.
- (c)** Please explain how management's subjective perception of risks related to the contingency in Docket No. R90-1 differs from its articulation of such risks in this Docket. If your answer is that one is more reasonably articulated than the other please explain by how much and how you arrived at your conclusion.

USPS/OCA-T2-7. Please refer page 9, lines 3 and 4, of your testimony where you state that "Mr. Tayman devoted less than two pages—and no supporting information, data, or studies—to justify the \$1.68 billion annual revenue that the contingency represents." How many pages did Mr. Holder devote to this subject in Docket No. R90-1?

USPS/OCA-T2-8. Please refer to page 10, line 3, of your testimony, where you state: "Mr. Tayman states that volume growth is below historical norms and that the Postal Service plans a 1.5 percent workyear reduction in the test year. This is not an area outside of the Postal Service's control." Is it your testimony that volume growth is controllable by the Postal Service? If your answer is other than no, please explain how volume growth can be controlled by the Postal Service and provide the source of your information.

USPS/OCA-T2-9. Please refer to page 11, line 1, of your testimony where you state that "witness Tayman next cites health benefit cost increases at 'near double digit rates.' Once again, indices and forecasts exist for such costs, and they are not completely outside of management influence." Please explain how Federal Employees Health Benefit Program premiums are within postal management's influence. Provide the source of your information.

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.

A handwritten signature in black ink, appearing to read "Scott L. Reiter", is written over a solid horizontal line.

Scott L. Reiter

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