

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 ROSENBERG  
(USPS/OCA-T3-1-17)

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 Rosenberg: USPS/OCA-T3-1-17.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking



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June 9, 2000

USPS/OCA-T3-1. Please refer to page 8, line 3, of your testimony where you state:  
At the present time, the United States is operating in a climate of relatively low inflation, and the Federal Reserve Board, under Chairman Alan Greenspan, is committed to hold inflation at moderate levels. Indeed, recent increases in the target federal funds rate are pre-emptive strikes against nascent inflationary pressures.

- (a) Please confirm that increases in the federal funds rate are intended to slow economic growth. If you do not confirm, please explain your answer fully.
- (b) Please confirm that Postal Service mail volume and revenue could be adversely affected as a result of slower economic growth. If you do not confirm, please explain your answer fully.

USPS/OCA-T3-2. Please refer to page 11, line 8, of your testimony, where you state: "Nothing in the recent operating history of the Postal Service suggests that the 2.5 percent request is necessary."

- (a) Do you consider yourself an expert on recent and historical Postal Service operations? If your answer is yes, please explain what experience and/or information has enabled you to become an expert.
- (b) How long have you been studying Postal Service operations?

USPS/OCA-T3-3. Please refer to page 11, line 10, of your testimony, where you state:  
Unlike some situations that the Postal Service has experienced historically, there is no chronic or growing deficit resulting from an over forecast of revenues and/or under forecast of expenses. As shown in Mr. Tayman's Exhibit 9L, the Postal Service has achieved a positive net income in every year since 1995 and is projected to do so during FY 2000.

Please confirm that net income has declined in every year during the period in question from \$1.8 billion in FY 95 to less than \$100 million projected for FY 2000. If you do not confirm, please explain why.

USPS/OCA-T3-4. Please refer to page 11, line 15, of your testimony, where you state:  
In fact, during the 1995 through 2000 period, the Postal Service generated a cumulative net income of \$5.58 billion. The contingency provision was set at two percent in Docket No. R94-1 and at one percent in Docket No. R97-1. In each year since implementation of the rates approved in R94-1, the Postal Service has operated quite successfully with a contingency provision less than the 2.5 percent it has requested in this Docket.

- (a) Please confirm that the period covered by these results was covered by the contingency levels determined by Postal management to be necessary (*i.e.*, the contingency amounts reflected in the rates that were in effect during this period were not adjusted by the Commission). If you do not confirm, please explain and provide your sources.
- (b) Would you say that actual results during this period indicate that Postal management's judgment related to the selection of the contingency in Dockets R94-1 and R97-1 amounts was good? Please explain any negative answer fully.

**USPS/OCA-T3-5.** Please refer to page 6, lines 17-20, of your testimony, where you state:

A disciplined analysis of the optimum size of a contingency provision would consider the following factors:

- 1) The magnitude and types of uncertainties that necessitate the existence of a contingency provision. Of particular concern in this regard is the state of the economy.
- 2) The historical experience of the Postal Service with respect to its contingency provision. How has the Postal Service fared under various contingency provisions?
- 3) The short-run and long run effects of the contingency provision turning out to be either too large or too small.
  - a) On the Postal Service and its managers
  - b) On the customers of the Postal Service

(a) Please confirm that one of the factors which should be considered in determining the size of the contingency, which you have not included on your list, is the adverse impact of future events that are totally unknown. If you do not confirm, please explain fully why you believe the contingency is not intended to protect against totally unknown adverse events.

(b) How does one determine the magnitude of totally unknown events? Please explain your answer.

**USPS/OCA-T3-6.** Please refer to Chapter IV C. in your testimony entitled "The Postal Service's Ability to Forecast is Improving." Please reconcile any negative answer to the above citation.

**USPS/OCA-T3-7.**

(a) Please refer to page 2 of the A/P 8 Financial and Operating Statements (FOS) and confirm that the Postal Service is currently \$333.1 million below its planned net income through A/P 8 PFY 2000. If you do not confirm, please explain fully.

(b) Please also refer to the FOS for A/P 9 (which will be released before the due date for this question) and confirm the Postal Service incurred a loss of \$154 million in A/P 9 and the year-to-date plan shortfall grew to \$420.4.

(c) Please confirm that, even if the Postal Service can reverse this trend of below- plan results and achieve its plan for the remainder of the year, it will suffer a plan shortfall and incur a loss for FY 00, instead of the planned net income of \$100 million reflected in the response to ANM/USPS-T9-41.

**USPS/OCA-T3-8.** Please refer to Board of Governors Resolution No. 95-9 (policy statement on equity restoration) and the report on equity restoration prepared by Price Waterhouse LLP for the BOG. (Docket No. MC96-3, LR SSR-112). In your opinion, is the restoration of equity important to the Postal Service and its customers? Please explain any negative answer.

USPS/OCA-T3-9.

- (a) Based on your training and experience, how much of a variance between actual results and the Postal Service's test year estimates of revenue and expense could occur for the estimate to be considered accurate? Please explain your answer.
- (b) Would you consider a test year estimate that is within 1 percent to be accurate? Why or why not?
- (c) Would you consider an estimate that is within 2 percent to be accurate? Why or why not?

USPS/OCA-T3-10. Please refer to page 15 of your testimony, where you discuss what you refer to as built-in safety nets available to the Postal Service which you say support a contingency lower than 2.5%.

- (a) Please confirm that all of the items you have referred to as safety nets were available to the Postal Service in the prior six Dockets R76-1 through R90-1. If you do not confirm, please explain and provide your sources.
- (b) Please refer to Table 5 in your testimony and confirm that the contingency of 2.5% currently estimated by the Postal Service is lower than the contingency requested in the six Dockets R76-1 through R90-1. If you do not confirm, please explain.

USPS/OCA-T3-11. Please confirm that, if all other things are equal, the smaller the contingency the more likely that a test year loss will be incurred. If you do not confirm, please explain how a smaller contingency would not increase the odds of incurring a loss in the test year.

USPS/OCA-T3-12. Please refer to page 16 of your testimony, where Section F is entitled: "Many Potential Sources of Expense and Revenue Variation are Accounted for In the Estimated Revenues and Expenses."

- (a) Please confirm that you are referring to estimates of changes in revenue and expense based on events that are assumed to occur, such as wage increases and the price of fuel. If you do not confirm, please explain fully.
- (b) Please confirm that estimates similar in nature were reflected in all previous rate filings. If you do not confirm, please explain fully.
- (c) Please confirm that there is uncertainty regarding the actual outcome of these events (e.g., the labor contract may be more costly than estimated and the price of fuel may be higher than estimated) and that this type of uncertainty is not accounted in the Postal Service's estimates of revenues and expenses other than through the contingency. If you do not confirm, please explain fully.

USPS/OCA-T3-13. Please refer to page 18, lines 14 -18, where you state: "This appears to be an attempt for the Postal Service to have their cake and eat it too: recognizing that their *ex ante* forecasts may turn out to be wrong *ex post* - leading to the necessity for the provision for contingencies - but asserting their ability to accurately gauge the amount by which their forecasts are likely to be wrong." Please provide the basis (including sources) of your statement that the Postal Service asserts that it can "accurately gauge the amount by which their forecasts are likely to be wrong."

**USPS/OCA-T3-14.** Please refer to page 20, line 16, of your testimony, where you state that “electric utilities attempt to keep a reasonable amount of reserve capacity available so that consumers are not faced with power brownouts or blackouts during extreme weather – and consumers pay for the maintenance of this reserve capacity.”

- (a)** What percent of reserve capacity is typically kept by electric utilities?
- (b)** What is the maximum amount of reserve capacity kept by a utility of which you are aware and what is the minimum? Please provide the source of your answer.

**USPS/OCA-T3-15.**

- (a)** Have you studied the economic and other adverse consequences to the Postal Service and its customers that would result from the Postal Service incurring a loss in the test year? If so, please provide the results. If not please explain why.
- (b)** Please confirm that a test year loss would have adverse consequences for both the Postal Service and its customers. If you do not confirm, please explain why.

**USPS/OCA-T3-16.** Please refer to page 26, line 19, of your testimony, where you begin to state: “Admittedly, rate cases take time to file and for new rates to become effective. However, even if it prefers not to do so, the Postal Service has the ability to borrow from the Federal Financing Bank. Such borrowing is generally on advantageous terms, since no private borrower can borrow on terms equivalent to the U.S. Treasury’s cost of money plus 1/8 percent.”

- (a)** Are you advocating that the Postal Service borrow money to fund losses instead of raising rates? Please explain your answer.
- (b)** If the Postal Service were to borrow to fund operations, please confirm that ratepayers will ultimately pay for the additional interest cost of borrowing. If you do not confirm, please explain who will bear this cost and explain fully.

**USPS/OCA-T3-17.** Please refer to page 28, lines 7-12, of your testimony, where you state:

the contingency provision should not be used as a substitute mechanism for recovery of prior years’ losses. It would not be proper to use the contingency provision, even implicitly, as a mechanism of equity restoration. If the Postal Service wants to accelerate its rate of equity recovery, it can request a shorter amortization period for recovery of prior years’ losses rather than using a back-door approach.

Is it your testimony that the Postal Service selected a 2.5% contingency in this case in order to restore equity? If your answer is yes, please provide all evidence supporting this allegation.

**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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June 9, 2000