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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2000)

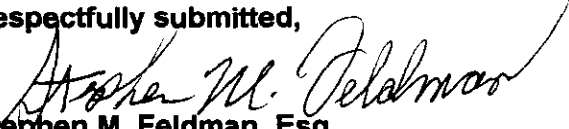
) Docket No. R2000-1

COALITION OF RELIGIOUS PRESS ASSOCIATIONS
WITNESS STAPERT RESPONSE TO USPS INTERROGATORIES
(USPS/CRPA-T1-1-12)

The Coalition of Religious Press Associations (CRPA) hereby provides the responses of CRPA witness John Stapert to the following interrogatories of the United States Postal Service, filed June 1, 2000: USPS/CRPA-T1-1-12.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,


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CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document on all parties of record on this 15th day of June, 2000, in accordance with Rule 12 of the Commission's Rules of Procedure.


Stephen M. Feldman
Stephen M. Feldman

**RESPONSE OF CRPA WITNESS STAPERT
(CRPA-T-1) TO USPS INTERROGATORIES**

USPS/CRPA-T1-1. Please refer to page 3, lines 16 and 17 of your testimony where you state that "postal cost increases exceed normal inflation during a period of time when low inflation, as well as a healthy economy, characterized the U.S. economy."

(a) Please state the time period to which you refer.

(b) Please provide your definition of "low inflation" and a "healthy economy".

(c) Is it possible that the U.S. economy in FY 2001 will not be characterized as a period of low inflation and a healthy economy? If your answer is anything other than yes, please explain fully why this is not possible.

RESPONSE:

(a) The time period which is considered in the USPS rate filing, i.e., 1998-2000.

(b) I believe that Witness Buc, DMA-T-1, describes the low inflation and healthy economic conditions that have characterized recent history and the present. DMA-T-1, at 15, Table 3, and at 16, Table 4. Unfortunately, "low inflation" in the economy as a whole and in subclasses with significant letter volumes has not extended to Periodical Class mail, as PRC Order 1289, at Attachment A, p.4, demonstrates. The answers to this disparity are yet to be found, the testimonies of witnesses Unger and O'Tormey notwithstanding:

In summary, it appears that O'Tormey and Unger were chosen by the Postal Service to respond to Order 1289 without being fully informed of the magnitude of the problem faced by Periodical mailers, whose reported costs have increased at alarming rates for many years, and without knowing any more about the underlying causes than Postal Service witnesses chosen to address the issue in prior dockets.

Direct Testimony of Halstein Stralberg, TW-T-1, at 18.

(c) Anything is possible, but the assumption that anything is possible is, in my opinion, hardly the

basis for a \$3 billion rate hike. The relevant data on which the instant proposal must rest consist of the U.S. economy's recent performance and reliable projections of the short-term future.

USPS/CRPA-T-1-2. Please refer to Table 8 on page 13 of USPS-T-9.

(a) Please confirm that city deliveries and rural boxes and route miles, are projected to increase during the period FY 1999-2001. If you do not confirm, please explain your answer.

(b) Please confirm that increasing deliveries results in additional workload, which results in higher costs. If you do not confirm, please explain fully.

RESPONSE:

(a) Confirmed. It is interesting that USPS projects identical increases in FY 1999, FY2000 and in the Test Year, for each of the three non-volume workload factors referred to in the interrogatory. I assume that this means that studies of how much annual workload in the cited categories actually increases (or decreases) are not available.

(b) I am not in a position to confirm the higher costs that the Postal Service claims from increasing deliveries, except to say that I would expect any such changes, whether increases or decreases, to be nonlinear. I would hope that USPS is looking at ways to increase deliveries at a lower cost per delivery and that the Commission makes appropriate adjustments in how delivery costs, both city and rural, are allocated. See, e.g., Direct Testimony of Rita Cohen, MPA-T-1, at 28-31.

USPS/CRPA-T1-3 Please refer to USPS-9C.

(a) Please confirm that mail volume is projected to increase during the period FY1999-2001 before rates. If you do not confirm, please explain your answer.

(b) Please confirm that increasing mail volume results in additional workload, which results in higher costs. If you do not confirm, please explain fully.

RESPONSE:

(a) While the aggregate of all classes of mail shows a projected increase according to USPS-9C, I have noticed considerable variation among the classes with respect to before-rates projections. For nonprofit mail, like the kind which CRPA members mail to millions of subscribers, decreases in volume, not increases, are projected. We hope that USPS shares CRPA's concern and that of other publishers about the diminution of religious, cultural, literary and social information that proposed periodical rates will cause. See, e.g., Direct Testimony of George Tolley, USPS-T-6, at 97, Table A, (periodicals volumes decline from the base year from 2,136,552 millions pieces to 2,095,805 millions pieces, test year before-rates.) Dr. Tolley projects an additional 2.25% decline in nonprofit periodical volume in the after-rates test year model. USPS-T-6, at 96.

(b) USPS cost increases are not uniformly linear. The degree of linearity is a matter of controversy among the parties and USPS in several large cost segments in this case.

Also, investments like automation are meant to decrease the costs of increased workload.

I agree with ANM witness John Haldi, ANM-T-1, who states, in connection with the efficient deployment of automation equipment, as follows:

Hence, barring any drastic shift in the composition of a mail class, or a significant change in its makeup that would make it more difficult or costly to produce, there is no reason why the real (i.e., inflation-adjusted) cost of processing the mail would increase under efficient management.

ANM-T-1, at 39

USPS/CRPA-T1-4. On p.5, lines 3-4, of your testimony, you state: “[T]here is little if any justification for a 2.5% contingency allowance of nearly \$1.7 billion. USPS financial performance has exceeded expectations in recent years, and despite the Internet expansion that began since the Commission’s last omnibus rate decision, volume in First class and Standard A continues to grow.”

(a) Please confirm that the purpose of the contingency is to protect against the adverse impact of unforeseen events and forecasting variances in the test year. If you do not confirm, please explain fully.

(b) Please explain how you determined that Postal Service financial performance has exceeded expectations in recent years and specifically what time period is covered by your reference to recent years.

(c) Please confirm that favorable financial performance in the past does not preclude the possibility that adverse events and losses may occur in the future. If you do not confirm, please explain why.

(d) Is it your testimony that growth in First-class and Standard A mail volume precludes the need for protection against the unknown in the test year?

(e) Regarding the relationship you have assumed between mail volume growth and the contingency:

(i) How much growth over what period of time relates to what value of contingency?

(ii) How did you determine any purported relationship between mail volume growth and the contingency?

(iii) Is it possible to have mail volume growth and incur financial losses? If your answer is other than yes please explain why.

RESPONSE:

(a) Confirmed, with an emphasis on the word "unforeseen".

(b) First, I would refer you to USPS Press Release #99096, December 7, 1999, entitled "Postal Service Posts Fifth Year of Net Income". The release states in part: "The U.S. Postal Service posted a net income, far exceeding expectations, of \$363 million on revenues of nearly \$63 billion during its 1999 fiscal year". Also, despite formidable cost challenges and increases in addresses for which deliveries would have to be made, former Chief Financial Officer Richard Porras told the Governors, according to the same press release, that "We are committed to posting six consecutive years of net income. We will continue doing what is necessary to meet this goal." Going back to Docket R97-1, the Postal Service may recall that due to better-than-projected financial results, the Commission reduced the Service's proposed revenue requirement.

(c) As I read in almost every promotional presentation of mutual-fund performance, "past performance does not guarantee future performance" or words to that effect. But what is at issue here is the appropriate characterization of the Postal Service's history of financial projections.

(d) I believe that when volume projections are made, the so-called "unknown" is taken into consideration in calculating the volume projections themselves, and substantial additional protection becomes redundant.

In fact, the "unknown" can be better-than-expected performance, particularly if as MPA witness Cohen cogently demonstrates, opportunities for additional costs savings in a variety of segments

are seriously pursued.

(e-i) I do not think that USPS demonstrated any correlation in witness Tayman's testimony between the contingency and mail volume growth. In my testimony, I do not, as this interrogatory claims, assume any particular relationship between volume growth and the contingency. I did want to contrast witness Tayman's somewhat pessimistic and undocumented fears about the future with what actually is happening. USPS has had some successes; it is odd that it would neglect or downplay those successes just because a rate filing has been made.

(e-ii) Like witness Tayman, I do not have any precise model or equation to correlate the appropriate contingency amount with volume growth.

(e-iii) USPS like other organizations which sell products can sell more and lose money, or sell less and make money. One would have to know what the productivity of the organization is, what it will be after capital and technology investments are made, whether or not all product lines will be continued or not, and whether new and perhaps more efficient product lines would be introduced. I do not think that discussion of volume increases alone, without reference to the organization's purpose and its structure, means very much.

USPS/CRPA-T1-5 Please refer to page 9, line 20, of your testimony. You state that "current data in the latest Financial and Operating Statements, A/P 8, PFY 2000, p.8, show transportation costs (total mail volume) as 13.3% year-to-date above the same period last year." Is it your testimony that growth in transportation costs should relate exclusively to mail volume growth? If so, please explain fully and include in your answer an explanation of why inflation including the cost of fuel would not influence transportation costs.

RESPONSE:

No. I am alarmed however that while USPS seeks to improve its control of transportation costs in the future, e.g., TR. 9155, it now has double-digit inflation in those costs.

USPS/CRPA-T1-6 Please refer to page 10, line 2, of your testimony where you state that “amazingly, USPS planned to spend over 13% more this year than for last [year] for transportation, since these costs are 4.6% below plan (so rising fuel costs this year can’t be the reason).” Please confirm that page 6 of the A/P 8 Financial and Operating Statements reflects that year-to-date transportation costs are 4.6% over plan.

RESPONSE:

Confirmed. Both the plan and the recent actual results show transportation costs far in excess of inflation.

USPS/CRPA-T1-7. Please refer to page 14, line 11, of your testimony where you state that "USPS witness Tayman was unable to articulate, why USPS needs nearly \$1.7 billion in a contingency allowance at a time when USPS continues to collect revenues in excess of costs."

(a) Please confirm that the contingency applies to the test year. If you do not confirm, please explain what year or period of time is applicable to the contingency and why.

(b) Please refer to Exhibit USPS-9A and confirm that USPS projects that costs will exceed revenue in the test year and a net loss of \$1.7 billion will be incurred. If you do not confirm, please explain fully.

(c) Please refer to pages 43-45 of USPS-T-9. Is it your testimony that these pages do not articulate why the Postal Service feels it needs a 2.5% contingency for the test year in this case? If your answer is other than no, please explain fully.

RESPONSE:

(a) Confirmed.

(b) I confirm what is printed in Ex USPS 9A, but I would point out that witnesses Cohen, Buc and Stralberg and other witnesses in this case have made strong demonstrations that the proposed revenue requirement does not take into account likely increases in productivity and foreseeable cost reductions which will affect both this year (2000) and the test year (2001).

Moreover, it remains unclear to me at least as to whether the Postmaster General's recent statements about cost reductions mean that cost reductions not included in the R2000-1 filing will in fact be implemented, at least in part, by the test year. See, Response of United States Postal Service to Presiding Officer's Information Request No. 13, Question 1 (June 8, 2000).

(c) Yes. I think that Mr. Tayman presents conclusions about possible challenges USPS may face,

but he provides little, if any, substantiation of his position. DMA witness Buc and ANM witness Haldi, as well as OCA witnesses Burns and Rosenberg, provide mathematic and economic backing for my view.

USPS/CRPA-T1-8 Please refer to your testimony on page 14, line 18, where you state that “a glance at the results of the last two omnibus rate cases is instructive: witness Tayman’s Ex.USPS 9L shows cumulative positive earnings of \$15,653,000,000.”

(a) Please confirm that each dollar amount listed in the box labeled “R94-1 Cumulative FY 95-98” is a cumulative amount, e.g., the \$5.152 billion amount shown for FY 98 reflects the total net income for the period FY95-FY98. If you do not confirm, please explain why.

(b) Please confirm that the total of the net incomes earned or estimated for the period FY95-00 is \$5.581 billion. If you do not confirm, please explain why.

(c) Please confirm that the \$15,563,000,000 figure you have calculated overstates the amount of net income realized during the period FY95-00 by approximately \$10.0 billion. If you do not confirm, please explain why.

RESPONSE:

(a) Confirmed.

(b) I confirm that the addition of the numbers in the “Net Income” column of USPS 9L for the years 1995-2000 yields a sum of \$5.581 billion.

(c) The \$15,563,000,000 figure, as used in my testimony, does not overstate anything. It is an accurate sum of the cumulative surplus accrued by USPS as a consequence of rate increases in R94-1 and R97-1, classification changes that raised many mailers’ rates including nonprofit publishers during that period, and management efforts to control costs. As witness Buc correctly states, in FY 1999, after USPS achieved a net income of \$363 million, “it further improved its equity position so that equity improved for the fifth year in a row, to negative \$447 million, from a low of almost negative \$6 billion at the end of 1994.” See, DMA-T-1, at 12.

USPS/CRPA-T-9 Please refer to page 14, line 20, of your testimony where you state “hopefully USPS will take the same ‘risk’ in this case as it did in those cases insofar as a low contingency is concerned.”

(a) Please define “low” in this context.

(b) Please confirm that the cases to which you referred are Dockets R97-1 and R94-1. If you do not confirm, please provide the cases to which you referred.

RESPONSE:

(a) In this context, “low” refers to the level of risk represented by the contingencies proposed by the Service in R94-1 and R97-1.

(b) Confirmed.

USPS/CRPA-T1-10. On page 14, line 7 of your testimony you state that “CRPA endorses the testimony of William Morrow of Crain Communications, an ABP and MPA member, on behalf of the Periodical Publishers in connection with the proper amount and application of the contingency allowance.”

(a) What is the total proper amount of the contingency recommended by Witness Morrow which you endorse?

(b) Please explain how the total contingency recommended by witness Morrow relates to your statement at page 14, line 20, of your testimony that “hopefully USPS will take the same ‘risk’ in this case as it did in those cases insofar as a low contingency is concerned.”

RESPONSE:

(a) Witness Morrow does not recommend, as you put it, “a total proper amount” of contingency allowance. I endorse Mr. Morrow’s position in that, if the contingency percent is 2.5% of total costs, there should be no contingency allowance added to the costs of Periodicals. Other intervenor witnesses to whom I have referred in my prior responses about the contingency allowance have established why an overall contingency of no more than one percent is justified. As to Mr. Morrow’s effort to reduce an excessive contingency imposed on all mailers, but on periodical publishers in particular, since periodicals represent but 3% of USPS costs, a zero contingency for periodicals would be in his words, “a *de minimus* reduction for the Postal Service but a significant reduction in the rate increase faced by magazine publishers.” I would only add that small-circulation national, nonprofit publications appear so far, based on evidence to date, to face the largest rate increase of all of the sectors of the publishing world.

(b) Mr. Morrow proposes that the proposed contingency not apply to Periodicals, given circumstances unique to that class. As he explains, significant cost reductions for periodicals ought to result if joint USPS-publisher efforts to reduce extraordinary periodical costs and effective automation of periodical flats are implemented, as USPS has agreed to do. He treats these cost reductions as positive contingencies, which would be deducted from that portion of the contingency otherwise allocable to Periodicals. I endorse either his solution, should the contingency remain at 2.5%, or an overall reduction to 1% allocable to all subclasses, as proposed by Witness Buc and the OCA witnesses.

USPS/CRPA-T1-11. Please refer to page 15, lines 1-3, of your testimony where you point out that the Postal Service realized a net income of \$1.0695 billion through A/P 7 PFY 2000 and speculate that the reason net income is below plan is because the plan may be deficient.

(a) Please confirm that this amount is as of A/P 8, not A/P 7.

(b) Please explain the basis for your inference that the plan is deficient, and provide all calculations and other documentation supporting your statement.

(c) Please refer to Tr. 21/9218-19 and confirm that the Postal Service plan for FY 2000 reflects a net income of \$100 million. If you do not confirm, please explain why.

(d) Is it possible the FY2000 plan is not deficient? If your answer is other than yes, please explain why this is not possible.

(e) If the plan is assumed not to be deficient, is it possible the Postal Service could incur a loss in FY 2000? If your answer is other than yes, please explain why this is not possible.

RESPONSE:

(a) Confirmed.

(b) My verb "may be" (CRPA-T-1, p.15 at 4-5) was an attempt to suggest that both the Postal Service's volume-and-revenue performance and its prognostication performance merited review in light of the discrepancy between the two.

(c) Confirmed.

(d) *Anything is possible, including USPS' more effectively using automation and other efficiency methods proposed by mailers to improve productivity, prevent unnecessary operational losses and consequentially higher rates for mailers.*

(e) Perhaps, although eight accounting periods into USPS' FY 2000, the Postal Service has an

excess of \$1.069 billion of revenue over expense. The difference between this surplus and the budget for FY 2000, is, in the terminology of the Financial and Operating Statement for A/P 8, "NM", i.e., not meaningful. I would hope and have confidence in senior management that USPS would focus on keeping itself in the black, and not in the red , as your question seems to imply. Stated another way, if the plan is not deficient, then there should be more revenue collected than spent.

USPS/CRPA-T1-12. Please refer to page 15, lines 11 and 12, of your testimony where you state that “the contingency is a cash account which will be spent regardless of cost or revenue conditions in the test year.”

(a) Please confirm that the basis for your statement is Tr. 2/176, where witness Tayman stated that “the contingency is reflected as a test year expense and cash requirement.” If you do not confirm, please explain the basis for your contention that “the contingency will be spent regardless of cost or revenue conditions in the test year.”

(b) Is it possible the contingency might not be used in the test year even though the Postal Service has assumed that it will be used for purposes of estimating interest expense and rate design? If your answer is other than yes, please explain why it [sic] not possible the contingency may not be used.

RESPONSE:

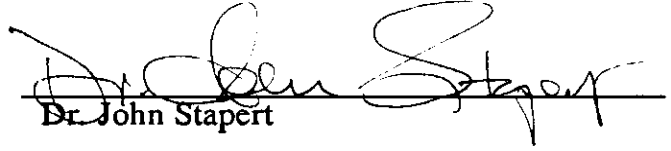
(a) Confirmed.

(b) According to witness Tayman, it seems likely that the contingency would be used for paying salaries or any other operations expense. Prior to the quoted portion of witness Tayman’s response to ANM/USPS-T9-29, which you refer to in part (a) of this question, there is another sentence, also quoted in my testimony at 15, which states: “In both the before and after rate scenarios, *it is assumed* that the amount included for the contingency provision is spent.”

(Emphasis added).

DECLARATION

I declare under penalty of perjury that the foregoing is true and correct. Executed on June 15, 2000.


Dr. John Stapert