

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
FOLLOW-UP INTERROGATORIES
AND REQUESTS FOR PRODUCTION OF DOCUMENTS TO
OFFICE OF THE CONSUMER ADVOCATE WITNESS BURNS
(USPS/OCA-T2-10-18)

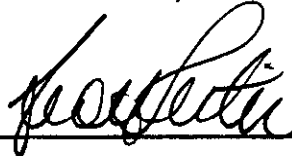
Pursuant to rules 25 and 26 of the Rules of Practice and procedure, the United States Postal Service directs the following interrogatories and requests for production of documents to Office of the Consumer Advocate witness Burns: USPS/OCA-T2-10-18.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



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June 27, 2000

USPS/OCA-T2-10. Please refer to your response to USPS/OCA-T2-1(a), where you state: "It should be noted, however, that the vast majority of utilities in number are municipal utilities, cooperatively-owned utilities, and federal power authorities that are not-for-profit."

- (a)** Please confirm that these utilities typically have positive equity. If you do not confirm, please explain.
- (b)** What mechanisms, which are not available to the Postal Service, do not-for-profit utilities have to ensure their financial stability?

USPS/OCA-T2-11. Please refer to your response to USPS/OCA-T2-3(a), where you state that "in my opinion, the Postal Service has failed to perform the type of probability analysis and quantitative assessment that the insurance industry performs and which I cite at page 4 of my testimony."

- (a)** Please provide a citation for the authority requiring the Postal Service to support its contingency requirement with a probability analysis of the type performed in the insurance industry.
- (b)** Please confirm that the insurance industry probability analyses of the type you describe deal with the prediction of the number and severity of catastrophes in the future. If you do not confirm, please explain.
- (c)** Please confirm that catastrophes have occurred in the past and will certainly occur in the future, the only question being their number and severity. If you do not confirm, please explain.
- (d)** Please confirm that, in determining the required level of contingency, the Postal Service must take into consideration events that are totally unknown, and other events for which there is no history, such as volume erosion due to the Internet. If you do not confirm, please explain why these types of unknowns do not have to be considered.
- (e)** Please confirm that items for which a history exists, such as natural disasters, lend themselves to probability analysis much more readily than items for which no history exists. If you do not confirm, please explain, and include in your answer how the Postal Service should model unknown events and events for which there is no history. Please state whether you have done or have had done any probability analysis similar to the type done by the insurance industry to support your recommended 1% contingency. If you have, please provide copies of any probability analyses you performed to support a 1% contingency.
- (f)** Please confirm that your determination that a 1% contingency is adequate was based on a subjective interpretation of the various information you have provided. If you do not confirm, please provide the specific calculations which resulted in a 1% contingency.

USPS/OCA-T2-12. Please refer to your response to USPS/OCA-T2-3(c) where you state "my point here is this, during the last ten years, forecasting methods have also become available for the Postal Service to use to make an objective analysis of variables that could affect its future costs as well as to allow the Postal Service to bring those costs under control, through risk mitigation and/or prudent and efficient management." Have you utilized the "forecasting methods" to which you referred to

calculate a 1% contingency? If so, please provide the name of the "forecasting method," a description of the methodology it employs, and the specific calculations yielding a 1% contingency.

USPS/OCA-T2-13. Please refer to your response to USPS/OCA-T2-4, where you state that "to find an estimate of the actual profit that is included in insurance rates, it is necessary to net out the net investment yield."

- (a) Please confirm that the question asked you "how much 'profit allowance' is typically included in insurance rates. If you do not confirm, please explain.
- (b) Please confirm that you have attempted to provide a different amount, *i.e.*, "the actual earned profit included in insurance rates." If you do not confirm, please explain.
- (c) Please explain net investment yield and how it is used.

USPS/OCA-T2-14. Please refer to your response to USPS/OCA-T2-5(a), where you state that "the one formerly uncontrollable factor that witness Tayman cited, the Y2K remediation costs, did not prevent the Postal Service from finishing FY 99 in the black. As such, it is evidence that the current contingency is sufficient." Is it your testimony that because the Postal Service was able to fund FY 99 Y2K costs through cost cutting in other areas and a re-programming of priorities that "the current contingency is sufficient"? Please explain fully and include in your explanation a discussion of what limitations there may be on cost cutting and re-programming of funds to offset unplanned adversities in the test year.

USPS/OCA-T2-15. Please refer to your response to USPS/OCA-T2-5(a), where you state that "management has input into salary levels, health care benefits, and labor contracts; and can project them fairly accurately into the future." You also state that "the one subjective perception of increased risk that Tayman articulated being an increasingly competitive environment was mostly taken into account by detailed volume forecasts."

- (a) Please confirm that some previous Postal Service labor contracts have been determined by binding arbitration and that Postal Service health benefit premiums are determined by the Office of Personnel Management. If you do not confirm, please explain.
- (b) Please confirm that the magnitude and timing of the impact of the increasingly competitive environment on mail volume is in a state of flux and while recognized, remains uncertain. If you do not confirm, please explain how a precise quantification of the impact can be known with certainty and how you know this impact was reflected in Postal Service volume forecasts used for this filing.

USPS/OCA-T2-16. Please refer to your response to USPS/OCA-T2-5(b) and (c) where you state:

The Postal Rate Commission has stated its expectation that the Postal Service must study and learn about the risks that it faces over time and develop and use increasingly sophisticated objective means of risk analysis. Therefore, these questions are irrelevant to the current case;

and, worse still, would ask the witness to engage in an anachronistic analysis, using today's tools, which were unavailable in the past, to measure the reasonableness of past decisions. Such an analysis violates logic and has been rejected by courts in other contexts.

- (a) Please provide a specific quotation in and citation to each of the Commission's Opinions in the last three omnibus rate cases (Docket Nos. R90-1, R94-1, and R97-1), stating an expectation regarding the use of "increasingly sophisticated objective means of risk analysis."
- (b) Please explain what "today's tools" are, when "today's tools" became available for use, and how you have used "today's tools" to support a 1% contingency.

USPS/OCA-T2-17. Please refer to your response to USPS/OCA-T2-8, where you state:

[T]he Postal Service can take measures to control volume. The Postal Service can influence volumes by improving service or promoting certain services. It can decrease volumes by withdrawing service or not advertising.

- (a) Please confirm that the variables you mention, *i.e.*, improving or promoting service, withdrawing service, and advertising are only a few of the many variables that influence volume. If you do not confirm, please explain.
- (b) Please confirm that other variables, such as competition and the economy, also affect volume and are, to a large extent, outside the direct control of the Postal Service. If you do not confirm, please explain how the Postal Service can control its competitors and the economy.

USPS/OCA-T2-18. Please refer to your response to USPS/OCA-T2-9, where you state:

The amount the Postal Service pays in health premiums is not entirely outside of the Postal Service's control, because the Postal Service controls the number of employees that it hires. For example, if a large number of additional workhours are required to process volumes, the Postal Service has two options. It can hire new workers or it can increase the overtime hours of its existing workforce. If it chooses the latter, health premium costs will not increase at as fast a rate because health premiums only vary with the number of employees, not the number of hours each employee works.

- (a) Have you done any analysis comparing the cost of additional overtime to the cost of additional health benefits? If your answer is other than no, please provide your analysis.
- (b) Are you recommending that the Postal Service handle any increasing workload by using overtime to avoid additional health benefit costs? If your answer is yes, how much additional overtime should the Postal Service use before hiring additional employees? Please explain how you reached your conclusion.
- (c) Please confirm that the cost of health benefit premiums (*i.e.*, the cost incurred per employee) is managed by the Office of Personnel Management (OPM).

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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