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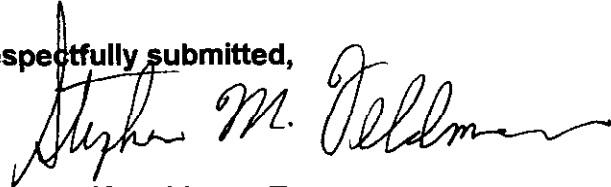
POSTAL RATE AND FEE CHANGES, 2000) Docket No. R2000-1
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COALITION OF RELIGIOUS PRESS ASSOCIATIONS
WITNESS STAPERT RESPONSE TO USPS INTERROGATORIES
(USPS/CRPA-T1-13-21)

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 21, 2000: USPS/CRPA-T1-13-21.

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

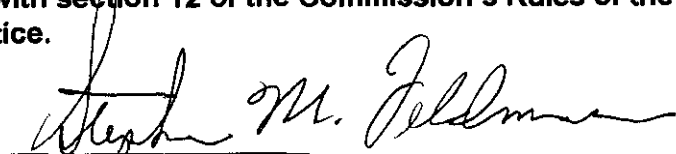
Respectfully submitted,



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CERTIFICATE OF SERVICE

I hereby certify that I have served the foregoing document upon all participants of record on this 5th day of July, 2000, in accordance with section 12 of the Commission's Rules of the rules of practice.



Stephen M. Feldman

1

RESPONSES OF CRPA WITNESS STAPERT
TO USPS INTERROGATORIES
USPS/CRPA-T1-13-21

USPS/CRPA-T1-13

Please refer to your response to USPS/CRPA-T1-1(a).

(a) Please confirm that the time period which is considered in the rate filing is FY 1998-2001 and not FY 1998-2000, as you stated. If you do not confirm please explain.

(b) Please refer again to page 3, lines 16 and 17 of your testimony where you state "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." Since some of the time considered in the rate filing is in the future, please explain how you can describe this period by using past tense, *i.e.*, "a period of time when low inflation, as well as a healthy economy, *characterized* the U.S. economy" (emphasis added) ?

RESPONSE

USPS/CRPA-T1-13 (a)

Not confirmed The period FY 1998-2001 is one period that the Commission is considering among others, see, Commission Order 1294 (May 26, 2000; Presiding Officer Ruling No. R2000-1/71 May 26, 2000).

USPS/CRPA-T1-13(b)

The answer to which you refer perhaps should have read: "characterized the years from the R94-1 decision to the filing of this case, characterizes the present situation, and based on both Congressional and Administration sources, will characterize the U.S. economy during the test year which starts in only six months".

USPS/CRPA-T1-14

Please refer to your response to USPS/CRPA-T1-4(d), where you state 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.” Please explain how all totally “unknown” adverse events are taken into consideration in the volume forecast in this Docket? Please provide citations or other documentation to support this statement.

RESPONSE

Your question incorrectly assumes that I stated that “all totally unknown adverse events are taken into consideration” etc. I never used the word “all” and I never used the word “totally” in the actual response which you cite. Therefore it is impossible to clarify an answer which was never made.

USPS/CRPA-T1-15

Please refer to your response to USPS/CRPA-T1-3(e)(i), where you state: "I did want to contrast witness Tayman's somewhat pessimistic and undocumented fears about the future with what is actually happening."

(a) Do you believe that considering the possibility that adverse events could occur during a future test year and providing for this contingency to be pessimistic? Please explain your answer.

(b) When you say "what is actually happening," are you referring to the present or the future?

RESPONSE

USPS/CRPA-T1-15(a)

It appears that you mean to refer to my prior response to USPS/CRPA-T1-4(e)(i).

I do not believe that the consideration of adverse events during a future test year is pessimistic per se. However when the contingency is as large as it is here, as a percentage of the amount of the increase requested, I would expect a detailed, serious explanation to justify the increase, particularly given the significant portion of the increase due to the contingency request. As I stated in my testimony, and as Witness Buc and others have demonstrated in their written testimonies, no such explanation was given. The adverse events to which USPS-T9, pp. 43-45, refer are either too vague to evaluate or are costs which the revenue requirement ought to include exclusive of the contingency. Alleged significant cost increases in mail processing and transportation for example are projected for periodicals in the test year, but those increases are contained within the revenue requirement without the contingency factor. So it remains unclear what unknown events would trigger the need for a 2.5% contingency factor, given what we know about the present and what would appear likely for a one-year period that begins only six months from now.

USPS/CRPA-T1-15(b).

Please see my response to USPS/CRPA-T1-13(b).

USPS/CRPA-T1-16

Please refer to your response to USPS/CRPA-T1-(7)(b) [sic]. Have you or any of the witnesses you have cited presented evidence that suggests the Postal Service will not incur a loss in FY2001 without an increase in rates? If your answer is yes, please provide citations. If your answer is no, please explain the statement on page 14, line 11 of your testimony that "USPS continues to collect revenues in excess of costs" during the test year.

RESPONSE

USPS/CRPA-T1-16

To my knowledge, no witness has disputed that USPS might suffer a loss in FY2000; what has been disputed is the amount of a loss, the need for a contingency of 2.5% and what USPS might do to reduce its losses. In any event, I do not know whether or not USPS would have filed a request for higher rates if the projected operating loss alone were the object of a rate increase, instead of the operating loss plus prior year losses plus the contingency of 2.5%. As for the excerpt from my testimony which you quote selectively, the entire sentence reads as follows: "Basically, 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." I did not state, as you propound, that "USPS continues to collect revenues in excess of costs" during the test year".

USPS/CRPA-T1-17

Please refer to your response to USPS/CRPA-T-8(c) [sic] and witness Tayman's Exhibit USPS-9L. Please also refer to the box labeled R94-1 Cumulative FY 95-98.

(a) Please confirm that the second number in the box is \$3.337 billion, which is the total of FY 95 net income of \$1.770 billion and FY96 net income of \$1.567 billion. If you do not confirm, please explain.

(b) Please confirm that the third number in the box is \$4.602 billion, which is the total of FY 95 income of \$1.770 billion, FY96 net income of \$1.567 billion, and FY97 net income of \$1.264 billion. If you do not confirm, please explain.

(c) Please confirm that the sum of the four numbers in this box counts the FY95 net income four times, the FY96 net income three times and the FY97 net income twice. If you do not confirm please explain.

(d) Please confirm that the sum the cumulative numbers you have added to arrive at \$15.563 billion overstates the cumulative net income earned or estimated to earned during the period FY95-2000 by approximately \$10 billion. If you do not confirm, please explain why each year's income should be counted more than once to determine the total net income earned during the period FY 1995-2000.

RESPONSE

USPS/CRPA-T1-17(a-d)

Confirmed. Thank you for clarifying the meanings of the numbers in USPS-9L. There were annual surpluses in the wake of R94-1 and R97-1, although less than appeared in my initial reading of Witness Tayman's exhibit. Missing, though, from USPS 9L, is any explanatory note to indicate that in FY97 USPS incurred a non-operating expense of \$258 million in POD workers' compensation, mandated by Congress. Setting that non-operating expense aside, the FY97 operating surplus becomes \$621 million.

USPS/CRPA-T1-18

Please refer to your response to USPS/CRPA-T-9(a) [sic] where you describe a low contingency as one that assumed “the level of risk represented by the contingencies proposed by the Service in R94-1 and R97-1.”

(a) Please confirm that the Postal [sic] proposed contingencies of 2.0% and 1.0% in Docket Nos. R94-1 and R97-1, respectively. If you do not confirm please explain.

(b) Please confirm that the Postal Service took some risk in proposing low contingencies in Docket R94-1 and R97-1. If you do not confirm please reconcile your response to your statement on 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

USPS/CRPA-T1-18(a)

Confirmed.

USPS/CRPA-T1-18(b)

Not confirmed. I cannot say what risks USPS did or did not take in R94-1, which was an unusual case in that uniform, across-the-board increases were proposed for different subclasses. As for R97-1, the Postal Service overstated its revenue requirement in that proceeding. The Commission reduced that requirement in light of contemporary data that demonstrated that USPS had understated its revenues in its rate filing.

A fair reading of the portion of my testimony, which you cite, would be that I was and am skeptical about the degree of risk claimed by USPS whenever it asks for a contingency requirement.

USPS/CRPA-T1-19

Please refer to your response to USPS/CRPA-T-11(b) [sic], where you suggest that there is a discrepancy between the Postal Service's "volume and revenue performance" and its "prognostication" performance". Please give numerical citations that document and explain your meaning of "volume and revenue performance" and "prognostication performance".

RESPONSE

"The Postal Service reported net income of \$1.264 billion for FY 1997, although it forecast net of only \$636 million in its rate case filing in July of 1997". Postal Rate Commission, Opinion and Recommended Decision, Docket R97-1, V. I, p. 24.

"The Postal Service posted a net income, far exceeding expectations, of \$363 million on revenues of nearly \$63 billion during its 1999 fiscal year, the Postal Service Board of Governors was advised today at its regular monthly meeting." USPS Press Release #99096, "USPS Posts Fifth Straight Year of Net Income".

USPS/CRPA-T1-20

Please refer to your response to USPS/CRPA-T-11(e) [sic], where you state: "The difference between this surplus and the budget for FY 2000, is, in the terminology of the Financial and Operating Statements for A/P8, "NM", i.e., not meaningful."

(a) Please confirm that the "NM" to which you refer is reflected in the % variance column. If you do not confirm, please explain.

(b) In you [sic] opinion is the Y-T-D A/P 8 adverse variance from the net income plan of \$333.1 million meaningful? If your answer is other than yes, please explain what amount of variance would be meaningful.

(c) You also state in your response that "if the plan is not deficient, then there should be more revenue collected than spent." Does this mean your definition of a "deficient" plan is one that reflects a net (loss)? Is this true for each accounting period or only the annual plan? Please explain your answer.

RESPONSE

USPS/CRPA-T1-20

(a) Confirmed.

(b) Within the kind of religious and nonprofit organizations for which I have worked for many years, not only would \$333.1 million of revenues be meaningful, it would be considered miraculous. USPS however is an organization where this sum, vast to small businesses, to practically all nonprofit organizations, and to the great majority of the American people, is only .5% of its annual budget. Apparently, the Finance office of USPS, or whoever prepares the report for USPS, does not consider the amount meaningful. So I take the report at its word.

(c) An annual plan could have a planned or unplanned deficit. However depending on capital investment plans, which could enhance productivity and cut costs in the future, I could envision stretching out the planning and spending process for a massive organization like USPS, over a longer period than one year. For example, USPS designs a five-year "Strategic Plan". So there could be a USPS deficit in one year, pursuant to a satisfactory plan, with net income in following years because (1) rates were not raised the first year, thus retaining customers and (2) wise investment produced net income greater than costs which would have been higher had the investment not been made.

One example of a deficient plan is the current USPS flats automation program based on past planning, which seems to have raised, not lowered flats processing costs.

USPS/CRPA-T1-21

Please refer to your response to USPS/CRPA-T-12(b) [sic], where you ascribe the following statement to witness Tayman: "According to witness Tayman, it seems likely that the contingency would be used for paying salaries or any other operations expense."

(a) Please confirm that these are your words and not witness Tayman's and that the word "likely" was not used by witness Tayman in this context. If you do not confirm please provide the specific cite to support your statement.

(b) Please confirm that if proposed new rates were not designed to generate revenue sufficient to cover total test year expenses including the contingency, there would be no contingency. If you do not confirm please explain.

RESPONSE

USPS/CRPA-T1-21

(a) Confirmed that I paraphrased witness Tayman's response to an interrogatory.

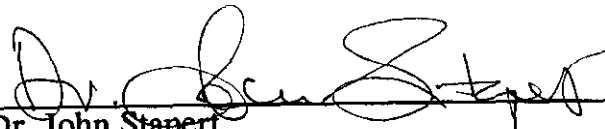
(b) It is impossible for me to confirm or not confirm the question as worded. What I would say, based on my effort to understand your question, is that if USPS did not propose rates designed to generate revenue sufficient to cover total test year expenses, whether or not a contingency is included, then USPS would incur, for the year in question, a net operating loss.

USPS could spend allocated funds on planned programs in an inefficient manner, and thus run over budget, contingency or no contingency. I do not understand the contingency to exist because of poor planning or execution of operating programs.

In reality, whether the Postal Service operates efficiently or not, or whether or not unforeseen events occur which cause costs to exceed planned revenue, USPS appears to be ready to spend the contingency under the plan presented in this case. Witness Tayman's response to an ANM interrogatory assumes that the contingency is spent just like revenue from any other source. (I am not aware of any segregated fund or reserve into which the funds allocated for a contingency are deposited.) In the words of witness Tayman, as quoted at p.15 of my testimony: "In both the before and after rate scenarios, it is assumed that the amount included for the contingency is spent... As reflected in the Postal Service's cash flow forecast (LR I-127, p.232) *the contingency is reflected as a test year expense and cash requirement.*"

DECLARATION

I declare under penalty of perjury that the foregoing is true and correct. Executed this
5th day of July, 2000.


Dr. John Stapert