

UNITED STATES OF AMERICA
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

ANSWERS OF THE OFFICE OF THE CONSUMER ADVOCATE
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE
WITNESS: EDWIN A. ROSENBERG (USPS/OCA-T3-18-19)
(July 6, 2000)

The Office of the Consumer Advocate hereby submits the answers of Edwin A. Rosenberg to interrogatories USPS/OCA-T3-18-19, dated June 29, 2000. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,



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ANSWERS OF OCA WITNESS EDWIN A. ROSENBERG
TO INTERROGATORIES USPS/OCA-T3-18-19

USPS/OCA-T3-18. Please refer to your response to OCA/USPS-T3-5, where you state "it is possible to develop scenario analyses for adverse events and attempt, however imperfectly, to estimate their impact and have contingency plans in place for dealing with them." Have you done any scenario analysis or estimates of adverse events, other than a subjective interpretation of how the material you have presented relates to the size of the contingency? If your answer is other than no, please provide the specific amounts and detailed calculations of adverse events you made. Please include an explanation of the methodology used and references.

RESPONSE TO USPS/OCA-T3-18:

I have performed no scenario analysis with respect to events that might affect the Postal Service adversely. I disagree with the characterization that I have done a "subjective interpretation." In my testimony, I reviewed both the variance analysis contained in Mr. Tayman's testimony and the experience of the Postal Service in forecasting actual test-year revenue and expenses in the four most recent rate cases. The 2.5 percent contingency requested in this Docket lies outside the range of the results of the variance analysis, and it is larger than the average difference between estimated and actual net income in the four most recent test years. Moreover, the Postal Service failed to meet its breakeven goal in only one of the four most recent test years, and it was allowed a 3.5 percent contingency at that time.

My response to OCA/USPS-T3-5 was intended to suggest that more objective analytical approaches are available that might be used instead of the largely subjective and intuitive approach currently used by Postal Service management.

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USPS/OCA-T3-19. Please refer to your response to OCA/USPS-T3-10 where you state:

The Postal Service experienced net losses in eleven of the seventeen years from 1978 through 1994, when the rates set in Dockets R76-1 through R90-1 were in effect, and it was allowed a contingency provision at or above the 2.5 percent requested in this case. In contrast, the Postal Service has had net profits in each year from 1995 forward when allowed a contingency provision less than the 2.5 percent requested in this case.

- (a) Please confirm that the effective contingency for Dockets R76-1 through R90-1 was never as low as 2.5% as you have stated but actually ranged from 3.0%-4.0%. If you do not confirm, please explain.
- (b) Is it your testimony that contingencies "at or above 2.5%" result in net losses and contingencies less than 2.5% result in net incomes? If your answer is yes, please explain how you reached this conclusion. If your answer is no, please explain the purpose of the above statement.

RESPONSE TO USPS/OCA-T3-19:

- (a) Confirmed. As shown in Table 5 of my testimony, including footnote number 11, the effective contingency during the 1978 through 1994 period was never lower than 3.0 percent, although in R80-1 the Commission recommended a contingency of 2.5 percent.
- (b) It was not and is not my testimony that "contingencies 'at or above 2.5%' result in net losses and contingencies less than 2.5% result in net incomes."

In my response to USPS/OCA-T2-11, I state: "Other things equal, a smaller contingency provision increases the likelihood that there will be a loss in the test year. Conversely, a larger contingency provision reduces the likelihood of a net loss. However, other things are rarely equal, and the size of the contingency provision is only one factor that determines whether or not the Postal Service will operate at a profit or a loss. The state of the economy, including the rate of inflation and the rate of economic

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growth, and Postal Service management's actions to control costs and enhance revenue also determine whether a profit or a loss will be realized. Moreover, although a larger contingency provision will generally reduce the likelihood of the Postal Service's incurring a net loss, there may be some point beyond which raising the contingency provision actually decreases the Postal Service's ability to break even."

DECLARATION

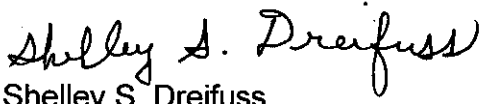
I, Edwin A. Rosenberg, declare under penalty of perjury that the answers to interrogatories USPS/OCA-T3-18-19 of the United States Postal Service are true and correct, to the best of my knowledge, information and belief.

Executed 5 July 2000

Edwin A. Rosenberg

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the rules of practice.


Shelley S. Dreifuss

Washington, DC 20268-0001
July 6, 2000