

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

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POSTAL RATE AND FEE CHANGES

POSTAL RATE COMMISSION
OF SECRETARY
Docket No. R2000-1

**Comments Of Major Mailers Association
On The Commission's Notice Of Inquiry No. 3**

On June 30, 2000 the Commission issued Notice Of Inquiry No. 3 (NOI 3) relating to the Postal Service's First-Class revenue adjustment factor ("RAFs") error and the Postal Service's additional ounce method change. NOI 3 requested participants to consider the relative merits of the Postal Service's initial and revised methods of forecasting additional ounces and file comments or testimony thereon. Major Mailers Association ("MMA") hereby submits its comments in response to the matters raised in NOI 3.

There is no issue regarding the Postal Service's RAF error. The Postal Service has admitted that its failure to apply the RAFs was an oversight that required correction. The only remaining issue concerns the Postal Service's changes in the additional ounce calculation. Therefore, MMA's comments concern only this latter issue.

On the surface, NOI 3 appears to deal with highly technical issues involving the determination of First-Class revenues and costs. In fact, the matters addressed in NOI 3 raise very basic questions of due process and fairness.

The Commission has succinctly summarized the facts and MMA will not repeat them here. When all is said and done, it is obvious that, through the artifice of making an offsetting "correction" to its original method for calculating the volume of single-piece additional ounces in the test year, the Postal Service mitigated (*for itself*) what otherwise would have been a Test Year After Rates ("TY AR") *surplus* of over \$210 million¹ resulting from necessary correction of the Postal Service's failure to apply revenue adjustment factors ("RAFs") in its original filing. Attached hereto as

¹ Presiding Officer's Information Request No. 16, issued July 14, 2000 ("POIR 16") notes that the Postal Service originally projected a \$22 million TY AR revenue deficit when it filed its case-in-chief. See, POIR 16 at 1. In fact, after the Postal Service made corrections reflected in the revised testimony and exhibits of USPS witness Mayo, the \$22 million revenue deficit became a revenue surplus of approximately \$38 million. See Exhibit USPS-32B (Revised 4/21/00).

Attachment 1 is a table which calculates the test year after rates revenue surplus without the Postal Service's adjustment for the revenue and cost impact of the change in method for determining single-piece additional ounces.

Under the circumstances, it was, to say the least, fortuitous that the Postal Service "found" the offsetting adjustment of \$172.2 million. Indeed, without some such large magnitude offset, the Postal Service clearly faced the perhaps uncomfortable prospect of having to lower some of its proposed rates since test year net income in excess of \$210 million could not easily be squared with the breakeven requirement.

The matters addressed in NOI 3 raise important, fundamental issues of fairness and due process. The Commission can and should give careful consideration to the broader ratemaking policy issues as it resolves the discrete issue presented here.

Due Process Considerations

First and most basically, the manner in which the Postal Service chose to announce a midcourse change in the method for determining the volume of additional ounces, whether intentionally or by inadvertence, deprived most parties, including MMA, of reasonable notice that the Postal Service was amending its case-in-chief in a manner that materially affected the interests of all mailers generally and First-Class mailers in particular. The fact that this important change was "announced" as part of a lengthy, highly technical 23 page response to the 106th institutional interrogatory submitted by the OCA underscores the inherent unfairness of permitting significant changes to occur without proper notice to affected parties.²

In this case, the lack of adequate notice was exacerbated by the facts that the Postal Service presented the impact of the two changes in a combined fashion and described its methodological change to determination of the volume of additional ounces as "returning to the approach used by the Postal Service and the Commission in past dockets." See Response Of the United States Postal Service to Interrogatory OCA/USPS-106 at 19, 22. Thus, a cursory review of the Service's institutional response to part (d) suggests that the overall impact of these changes is neutral or modestly "beneficial" to First-Class mailers. It is to the Commission's credit that it has

² MMA was generally aware of the Postal Service's institutional response to Interrogatory OCA/USPS-106 and designated it as written cross examination for the volume information contained in parts (a) – (c).

disaggregated the two countervailing changes and shown the magnitude and direction of each change separately. Without the Commission's close scrutiny of what at first blush appears to be a relatively small overall change, MMA and other affected mailers likely would remain in the dark.

Evidentiary Problems

The evidentiary status of the Postal Service's eleventh hour change to its filed methodology for determining the volume of single-piece additional ounces also raises several serious concerns for the Commission and the parties. As MMA understands the situation, the Postal Service affirmatively proposed the method it now purports to abandon as part of its case-in-chief. Details of this proposed methodological change, which were referenced by USPS witness (USPS-T-7 at 3-4), are contained in workpapers submitted by Mr. Thress.³

The change in methodology was made in a circuitous fashion that, MMA believes, should not pass muster under any reasonable evidentiary standard. Again as MMA understands the situation, the financial consequences of this methodological change were incorporated in the errata to his prepared testimony that USPS witness Fronk filed that was filed on April 17, 2000. Yet the sole justification for abandoning the Postal Service's original filed position on the appropriate method to determine the volume of single-piece additional ounces is contained in the ***unsworn, unsponsored institutional*** response to Interrogatory OCA/USPS-106 (d). Strangely, MMA has been unable to locate any filing by USPS witness Thress to revise or withdraw his testimony or workpapers. Stranger still, the Postal Service's institutional response states that the belated methodological about face was "prompted by [USPS witness Fronk's] examination of the GFY 1999 versus GFY 1998 weight distribution data for single piece provided in his April 4 response to OCA/USPS-T33-13 (f)"⁴ yet the errata filed by

3 See Library Reference USPS-LR-I-122. The summary of that Library Reference states, in part, "[t]he files AO_BR.WK4 and AO_AR.WK4 are used to calculate additional ounces for single-piece First-Class letters. This calculation process is described in Workpaper 4 accompanying my testimony (USPS-T-7)."

4 See USPS institutional response to Interrogatory OCA/USPS-106 at 19. This statement gives the impression that it was witness Fronk's examination of data provided earlier that was the "eureka" behind the methodological change. However, examination of his statement in the earlier response provides no logical connection. As witness Fronk said in his April 4 response, "[b]ased on the distributions shown, it is difficult to discern any change in [single piece] volume

witness Fronk do not even confirm this and other statements, much less provide substantial evidence to support the change. Accordingly, there are serious questions regarding whether the Postal Service properly abandoned its prior position and whether there is a sufficient evidentiary basis to support the Service's belated reversion to its prior methodology (assuming it should be allowed to do so at all).

Problems Involved In Permitting The Postal Service To Amend Its Case-In-Chief

There are several problems with allowing the Postal Service to, effectively, amend its original rate filing in this proceeding. Elemental principles of fairness and responsible ratemaking policy require that the Postal Service present its full case-in-chief when it files its request for a recommended decision. As the Commission well knows, these principles and policies take on even greater importance where, as here, the Commission and parties are under extreme time pressure to examine the Service's voluminous, complex filing and develop an adequate record. Permitting the Postal Service to present its case on a piecemeal basis and/or to selectively withdraw portions of its original case whenever doing so will further the interests of the Service is fundamentally at odds with the orderly processing of the case and ultimately is destructive of the very principles and policies that guide the Commission.

To be sure, errors obviously can and do occur. Failure to apply the RAFs is, by the Service's own admission, an example of one such obvious error. MMA applauds the Postal Service's frankness in admitting this oversight and taking steps to remedy it. Indeed, MMA would support correction of an obviously erroneous statement or number even if the resulting correction had an adverse impact on MMA's interests.

However, MMA submits that the methodological change at issue here is an entirely different matter. USPS witness Thress' original proposal to depart from past Postal Service and Commission practice ostensibly was made consciously, after due deliberation on his part and based upon the best information available to him. In that regard, the Postal Service stated "[witness Thress'] approach made intuitive sense and was consistent with data available when his workpaper was being developed."⁵ It was

distribution by weight step between 1998 and 1999." These data clearly do not indicate the end (Attachment 4), much less the reversal (Attachment 5), of a long-term trend.

5 See USPS institutional response to Interrogatory OCA/USPS-106 at 20.

not the product of an unconscious mistake. Indeed, as noted above, it appears that witness Thress has never formally recanted his proposal or modified his testimony or workpapers. Moreover, as discussed by the Commission (NOI 3 at 3-4) and shown in the attachments to the NOI, it appears that the original rationale for witness Thress' proposal – that the average weight of single piece letters increases as lighter than average pieces migrate to the workshare categories—remains valid. Under these circumstances, it makes no sense to treat witness Thress' original affirmative, considered proposal as a mistake.

There Is No Adequate Logical Or Factual Basis For “Correcting” The “Error” Alleged By The Postal Service

The Postal Service's basic rationale for returning to the previous convention of assuming no increase in single-piece additional ounces between the base and test years is that recently available 1999 data have revealed that the additional ounces per piece in the 0-11 ounces weight range remained “almost constant” between 1998 and 1999. See USPS institutional response to Interrogatory OCA/USPS-106 at 21-22. From this essentially “snapshot” observation, the Postal Service apparently leaps to the unexplained conclusion that the long documented trend of increasing average weight of single piece letters has come to an end and, hereafter, the trend will turn downwards.

MMA's review of the graphs attached to NOI 3 indicates that there is no proper foundation for the Postal Service's latest predictions. The data shown on Attachment 3 and the corresponding graphs presented by the Commission, especially Attachments 4 and 5, tell a different story. First, this information confirms the Commission's observation, which the Postal Service apparently does not directly challenge, that over the long term there has been a steady increase in the average weight of single piece letters. Second, the Postal Service's observation that there has been no change between 1998 and 1999, while true, is not remarkable. As the graph on Attachment 4 clearly shows, the growth rate in the additional ounces per piece for First Class single-piece letters has been quite variable over time. Indeed, there was relatively slow or no growth in this measure between 1990 and 1991, 1993 and 1994. In each case, the period of slow growth or no growth was followed by periods of more rapid growth.

For these reasons, there is no support for the Postal Service's apparent

conclusion that the upward trend in single-piece additional ounces has come to an end, much less the Service's forecast that this trend for total First-Class will be reversed in the future.

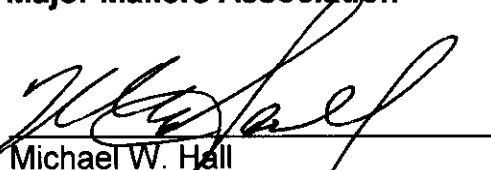
CONCLUSION

For all of the foregoing reasons, MMA respectfully requests that the Commission reject what amounts to the Postal Service's improper attempt to amend its original filing in this case.

Respectfully submitted,

Major Mailers Association

By:

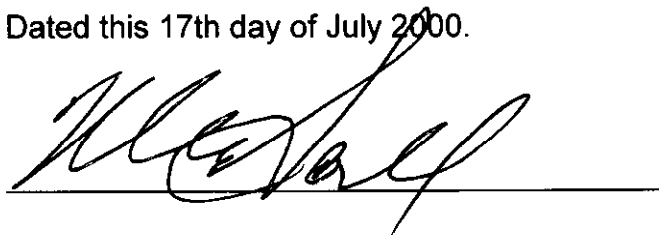

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Dated: Round Hill, VA
July 17, 2000

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants in this proceeding, in compliance with Rule 12 of the Commission's Rules of Practice.

Dated this 17th day of July 2000.



Derivation of TY AR Net Revenue Without Revenue and Cost Impact of Additional Ounces

(000)

[1] Original Net Gain (Loss)	\$	(21,883)	Exhibit USPS-32B
[2] Net Gain from RAF Error	\$	219,400	NOI3
[3] Net Loss from Add'l Ounces	\$	(172,200)	NOI3
[4] Total Net from [2] & [3]	\$	47,200	[2] - [3]
[5] Revised Net Gain	\$	38,222	Exhibit USPS-32 B (Revised 4/21/00)
[6] Total Net Gain From all Changes	\$	60,105	[5] - [1]
[7] Total Gain from other Changes	\$	12,905	[6] - [4] (Reflects other unrelated revisions)
[8] Net Gain without [2]	\$	210,422	[1] + [2] + [7]