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

NOTICE OF UNITED STATES POSTAL SERVICE OF ERRATA TO INITIAL BRIEF

The United States Postal Service hereby give notice that it is filing errata to its initial brief. The sentence beginning on the bottom of page II-1 to the top of page II-2 and its associated footnote should be replaced with the following:

> As of Accounting Period (A/P) 12, PFY 2000, net income had dwindled from a high of $1,070 million in A/P 8 to only $226 million—$365 million below plan—with the typical A/P 13 loss and A/P 14 to follow.[2]
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> [2] U.S. Postal Service, Financial & Operating Statements, Accounting Period 8, PFY 2000 (March 25-April 21, 2000) and A/P 12, PFY 2000 (July 15-August 11, 2000), on file with the Postal Rate Commission. The July 7 update showed a projected net loss of $325 million for the entire year. Exhibit USPS-ST-44A. It should be remembered that FY 2000 is the first complete fiscal year in which the rates resulting from the last rate case were in effect. It cannot be disputed that this is an unfavorable situation.

Replacement pages are attached.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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September 19, 2000

II. THE POSTAL SERVICE'S REVENUE REQUIREMENT IS SUPPORTED ON THE RECORD, IS REASONABLE, AND SHOULD BE THE BASIS FOR THE COMMISSION'S RATE RECOMMENDATIONS.

The testimony of witness William P. Tayman, USPS-T-9, provides the basis for the Postal Service's revenue requirement of $70.016 billion before rates in the test year, FY 2001. With revenue at current rates estimated for the test year at $66.328 billion, that would leave a revenue deficiency of $3.688 billion. *Id.* at 52. As shown in the testimony, the bulk of that deficiency would be recovered by the proposed rates, *id.*, which would represent an average increase of 6.5 percent over current rates.[1] As witness Tayman testified, that increase and the previous increase resulting from Docket No. R97-1 would result in increases below the rate of inflation for that period. Tr. 7/559.

Witness Tayman's testimony also shows that the Postal Service has experienced a period of unprecedented financial success, with net incomes in each of the last five years. In each of those five years, however, net income declined, from a high of $1.770 billion in FY 1995 to a low of $363 million in FY 1999. USPS-T-9, at 3. This five-year period of net incomes, furthermore, was preceded by a five-year period in which cumulative losses multiplied, with net losses ranging from a low of $536 million (FY 1992) to a high of $1.765 billion (FY 1993). *Id.* Current information shows that the period of consecutive net incomes is coming to an end. As of Accounting Period (A/P) 12, PFY 2000, net income had dwindled from a high of $1,070 million in A/P 8 to only

[1] USPS-T-32, at 36, as revised on April 25, 2000

$226 million—$365 million below plan—with the typical A/P 13 loss and A/P 14 to follow.[2] The Postal Service has accumulated losses exceeding $3.5 billion.[3]

A. Substantial Record Evidence Supports Postal Management's Judgment that a Provision for Contingencies Amounting to 2.5 Percent of Total Estimated Costs Should Be Included in the Revenue Requirement

It has not gone unnoticed that the amount included in the revenue requirement as the provision for contingencies[4] forms a relatively large percentage of the revenue deficiency in this case. Because the Postal Service's estimated operating deficiency in the test year is relatively modest,[5] and the Postal Service's overall budget continues to grow, this is a simple mathematical phenomenon, yet it has led to significant controversy in this case. Coupled with the fact that, in the last omnibus rate case, the Postal Service included a provision of contingencies of only 1.0 percent of total

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[2] U.S. Postal Service, Financial & Operating Statements, Accounting Period 8, PFY 2000 (March 25-April 21, 2000) and A/P 12, PFY 2000 (July 15-August 11, 2000), on file with the Postal Rate Commission. The July 7 update showed a projected net loss of $325 million for the entire year. Exhibit USPS-ST-44A. It should be remembered that FY 2000 is the first complete fiscal year in which the rates resulting from the last rate case were in effect. It cannot be disputed that this is an unfavorable situation.

[3] Supplemental Testimony of Richard Patelunas, Exhibit ST-44A.

[4] A reasonable provision for contingencies is required by the statute to be included with total estimated costs in evaluating whether rates and fees are sufficient to allow the Postal Service to break even. 39 U.S.C. § 3621; *see also* section II.C.3, *infra*.

[5] Since the Board of Governors adopted Resolution No. 95-9, the Postal Service has not allowed deficits to occur before filing for new rates. This tends to reduce the size of the test year operating deficiency, but does nothing to protect the Postal Service from the risks the contingency provision is designed to cover.

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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