

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

RECEIVED
SEP 9 10 50 AM '97
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Postal Rate and Fee Changes, 1997)

Docket No. R97-1

OFFICE OF THE CONSUMER ADVOCATE
INTERROGATORIES TO UNITED STATES POSTAL SERVICE
WITNESS MICHAEL K. PLUNKETT
(OCA/USPS-T40-1-31)
September 9, 1997

Pursuant to sections 25 and 26 of the Rules of Practice of the Postal Rate Commission, the Office of the Consumer Advocate hereby submits interrogatories and requests for production of documents. Instructions included with OCA interrogatories 1-7 to the United States Postal Service dated July 16, 1997, are hereby incorporated by reference, except that as to the term "documents" we exclude, for this set of interrogatories, all non-identical copies of documents (e.g., copies of instructional guides sent to local postal facilities) and correspondence to and from insurance claimants.

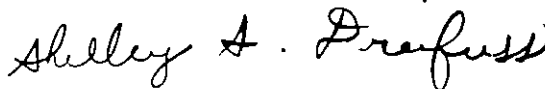
Respectfully submitted,



GAIL WILLETTE

Director

Office of the Consumer Advocate



SHELLEY S. DREIFUSS

Attorney

OCA/USPS-T40-1. This set of interrogatories concerns the insurance portion of your direct testimony (excluding express mail insurance, and, except as to OCA/USPS-T40-31, bulk mail insurance). To the extent you do not have personal knowledge or the qualifications necessary to respond to a question, please refer the question to an appropriate witness or to the Postal Service for an institutional response. Please confirm that pursuant to DMM S913.1.1, insured mail provides up to \$5,000 indemnity coverage for a lost, rifled, or damaged article, subject to the standards for the service and payment of the applicable fee. If not confirmed, please explain.

OCA/USPS-T40-2. Confirm that pursuant to DMM S913.1.3. among the types of mail ineligible for insurance are: nonmailable matter, articles so fragile they cannot be carried safely in the mail regardless of packaging, and articles not adequately prepared to withstand normal handling in the mail (with the proviso that "[a]s a rule, any mailable package should be insurable."). If not confirmed, please explain.

OCA/USPS-T40-3. Confirm that DMMS010.2.11(a) provides, *inter alia*, that insurance for loss or damage to insured mail is payable for actual value of lost articles at the time and place of mailing, and cost of repairing a damaged article or replacing a totally damaged article not exceeding the actual value of the article at the time of mailing. If not confirmed, please explain.

OCA/USPS-T40-4. Confirm that DMM S010.2.13 provides: "The USPS does not make payment for more than the actual value of the article or for more than the maximum amount covered by the fee paid." If not confirmed, please explain.

OCA/USPS-T40-5. Confirm that the Postal Service denies insurance claims, under DMM S010.2.14, according to the following standards, *inter alia*: (1) a requested replacement value exceeding actual value at the time and place of mailing, (2) damage by abrasion, scarring, or scraping to articles not properly wrapped for protection, (3) fragile nature of the article prevented its safe carriage in the mail, regardless of packaging, and (4) nonmailable items, prohibited items, or restricted items not prepared and mailed according to postal standards, or any item packaged in such a manner that it could not have reached its destination undamaged in the normal course of the mail. If not confirmed, please explain.

OCA/USPS-T40-6. Confirm that under DMM S010.2.15, the Postal Service "depreciates a used article either lost or damaged based on the life expectancy of the article." If not confirmed, please explain.

OCA/USPS-T40-7. Please provide all documents containing interpretations of the Postal Service's DMM insurance regulations. There is no need to send identical copies of documents pursuant to this document request.

- a. Confirm that pursuant to DMM S010.4.0 the St. Louis Accounting Service Center adjudicates and pays or disallows all domestic claims except the initial

adjudication of domestic unnumbered insurance claims and those appealed to the Postal Service's consumer advocate. If not confirmed, please explain.

- b. Separately list all documents containing interpretations of the Postal Service's DMM insurance regulations used by the St. Louis Accounting Center, and submit all such documents (except to the extent they are identical to others already submitted).

OCA/USPS-T40-8. Do you agree that, pursuant to the above regulations, the Postal Service compensates insureds for the depreciated value of an article, and not its replacement value? Please comment.

OCA/USPS-T40-9. Please describe all circumstances, if any, where the Postal Service will compensate an insured for the replacement value of an article. Please specifically address in your response how the Postal Service treats insurance claims for articles that the insured purchased new on or near the day the article was placed in the mail, i.e., does the Postal Service provide replacement value coverage? Please explain.

OCA/USPS-T40-10. Please supply all documents relating to depreciation standards, depreciation guidelines, or other depreciation decisional rules used to handle insurance claims.

OCA/USPS-T40-11. Does the Postal Service provide notice to purchasers of insurance as to the extent of coverage provided by the insurance, e.g., that they are buying

depreciation value insurance and not replacement value insurance? If so, please explain, and supply non-identical copies of any insurance brochures provided to customers.

- a. If such insurance brochures exist, how many were distributed during the last fiscal year to retail postal offices?
- b. If such brochures do not exist, why not?

OCA/USPS-T40-12. How many complaints about, objections to, and appeals from insurance denials were filed with the Postal Service by insureds during the last fiscal year?

- a. As to the above, how many related to circumstances where the insured thought or maintained that replacement value and not depreciated value should be the compensation standard?
- a. Of the complaints, objections and appeals referred to above, how many were granted in whole or in part. Include settlements of claims in your answer, and specify the number settled.

OCA/USPS-T40-13. Submit all reports, surveys, studies, and internal memoranda relating to the Postal Service's issuance of depreciation insurance, including, but not limited to: (1) analyses of complaints from consumers, (2) analyses of customer relations regarding the issuance of insurance, (3) customer perceptions about what type of insurance they are buying, and (4) adequacy or inadequacy of insurance coverage.

OCA/USPS-T40-14. Is the insurance business of the Postal Service regulated by state insurance commissions? Please explain, including any legal citations necessary to support the Postal Service explanation. Also include any contrary legal citations if they exist.

OCA/USPS-T40-15. Is the advertising or marketing of insurance by the Postal Service regulated by any federal agency, such as the Federal Trade Commission (under its unfair or deceptive acts or practices authority). Please explain.

OCA/USPS-T40-16. Explain what action a postal retail clerk will take if a customer asks what insurance purchased from the Postal Service covers and excludes. Supply all documents relating to this question.

OCA/USPS-T40-17. In response to OCA/USPS-T2-10 In Docket No. MC97-5, redirected from witness Brehm, you stated that "postal indemnity provisions do not provide payment in the event an article is 'not properly wrapped for protection,' see DMM S010.2.14(l)" Please also refer to DMM S010.2.14(m), which directs that a nonpayable claim includes: "Fragile nature of article prevented its safe carriage in the mail, regardless of packaging."

- a. In the last fiscal year for which records are complete, how many claims were denied because of the quoted language herein?

- b. When a customer asks to insure an article, does the postal clerk inform the customer of the above provisions? Please explain. If not, why not?

OCA/USPS-T40-18. Does the Postal Service ever compensate uninsured mailers for items damaged by the Postal Service, for items lost in the mails, or for items rifled or stolen while the item is in the mailstream? Please explain.

OCA/USPS-T40-19. As to insured and uninsured mailers, does the Postal Service have the status of a common carrier? For example, at common law, a common carrier was regarded as an insurer against the loss of, or damage to, property received by it for transportation (subject to certain exceptions). See, generally, 14 Am Jur 2d §508. Please explain. If there are contrary views about this (e.g., from reported court decisions, or from allegations in lawsuits) please provide the contrary views.

OCA/USPS-T40-20. As to insured and uninsured mailers, does the Postal Service have the status of a bailee (a person who receives the possession or custody of property)? Please explain. If there are contrary views about this (e.g., from reported court decisions, or from allegations in lawsuits) please provide the contrary views.

OCA/USPS-T40-21. Has a mailer ever filed a lawsuit against the Postal Service because, though uninsured, the mailer alleged that the Postal Service had a legal responsibility to compensate it for items damaged by the Postal Service, for items lost

in the mails, or for items stolen while the item is in the mailstream? Please explain, and please provide citations to all reported court decisions related to this topic.

OCA/USPS-T40-22. What standards does the Postal Service use to determine when the fragile nature of an item prevents its safe carriage in the mail, regardless of packaging? If the standards exist in a document, please supply it.

OCA/USPS-T3-23. What standards does the Postal Service use to determine when an article is "not properly wrapped for protection" pursuant to DMM S010.2.14(I)? If the standards exist in a document, please supply it.

- a. Suppose a customer insures a parcel that upon external inspection looks properly packed; internally, however, the packaging is inadequate (i.e., "not properly wrapped for protection"). Under the standards of DMM S010.2.14(I) will the insured's claim be denied?
- b. In such cases does the Postal Service refund the insurance fee? If not, why not?

OCA/USPS-T40-24. Please confirm that under DMM S010.3.2, if "the insured article is lost or the entire contents totally damaged, the payment includes an additional amount for the postage (not fee) paid by the sender." If not confirmed, please explain.

- a. Please explain whether or not the Postal Service refunds the amount of postage spent by the insured mailer if the article has been rifled or stolen while within the postal system. If postage is not refunded, why not?

- b. Please explain whether or not the Postal Service refunds the amount of postage spent by the insured mailer if the article has been partially damaged while within the postal system. If postage is not refunded, why not?

OCA/USPS-T40-25. Confirm that pursuant to DMM S010.2.14(p), the Postal Service will not pay an insurance claim where the damage is caused by shock, transportation environment, or x-ray, without evidence of damage to the mailing container. If not confirmed, please explain.

- a. Please define what is meant by "shock."
- b. Please define what is meant by "transportation environment."
- c. Does the Postal Service x-ray mail? Please explain.
- d. If your answer to the initial question herein is confirmed, why should it matter whether or not the mailing container is undamaged if the injury to the article was caused by, e.g., the "shock?"

OCA/USPS-T40-26. Please refer to Table 1 in your direct testimony.

- a. The table lists the number of claims transactions for lost and damaged articles. However, there is no separate listing of indemnity transactions for articles subject to rifling or theft. Is there claims data on articles subject to rifling or theft? If there is, please supply it. If not, why not?
- b. Confirm that Table 1 shows that in 1996 insureds received in-pocket \$6,297,137 to compensate the insureds for lost articles, and insureds received in-pocket \$5,304,728 to compensate insureds for damaged articles. If not confirmed,

please explain. And, if not confirmed, please provide the actual amounts insureds received in-pocket as to both categories.

- c. Please provide data on the average replacement value, and the average depreciated value, of the paid claims listed in Table 1, by amount insured (i.e., value up to 50, value up to 100, etc.). If the data cannot be gathered in this manner, please provide all other available data that would show the average replacement value and the average depreciated value of the articles for which claims were approved. If no such data is available, please explain why it is not.

OCA/USPS-T40-27. What instructions are given to customers concerning the appropriate value to declare once the customer has declared a wish to buy insurance? Provide all documents relating to this question.

OCA/USPS-T40-28. Please refer to your direct testimony beginning on page 3 where you discuss the Postal Service's insurance proposals in this case. At page 6 you state: "At the same time, the primary surface alternative provides a limited amount of insurance as part of the basic price." Please clarify this sentence. What or who is the primary surface alternative? Please also describe what you know about the limited amount of insurance provided by the primary surface alternative.

OCA/USPS-T40-29. Please confirm that DMM S010.2.14(g) provides that the Postal Service will not pay a claim based on consequential damages. If not confirmed, please explain.

OCA/USPS-T40-30. Please describe fully how the Postal Service interprets the phrase “consequential damages” set forth in the DMM regulation.

- a. Supply all documents relating to the interpretation of the phrase “consequential damages” set forth in the DMM regulation.
- b. In the last fiscal year, how many claims by insureds included consequential damages claims? Of those claims, how many were denied?
- c. Do postal clerks inform customers wishing to buy insurance that the insurance does not cover consequential damages? If not, why not?

OCA/USPS-T40-31. Please refer to page 8 of your direct testimony where you state as to bulk insurance: “The proposed bulk insurance service would provide indemnity for the lesser of the actual value of the article at the time of mailing or the wholesale cost of the contents to the sender. This is a reasonable approach because *the lost value to the shipper is the replacement cost of the article*, which may be different from the retail price.” [emphasis added.]


- a. Confirm that the Postal Service proposes a wholesale cost type of insurance for bulk mailers that will compensate these mailers for the replacement value of the item. If not confirmed, please explain.
- b. It would appear that for certain classes of bulk mailers (e.g., manufacturers, companies that sell items through catalogs) the compensation standard will normally be replacement cost, since the items they will mail will be new. Please comment.

- c. Please explain how "wholesale cost" will be determined and defined.
- d. Provide any proposed or finalized DMM provisions relating to this type of insurance.
- e. Suppose a manufacturer mails items whose cost of manufacturer is \$100 apiece. It sells the items for \$150 apiece to a distributor. The distributor in turn sells them to a retailer for \$200 apiece. The retailer sells them to the public for \$250 apiece. Under the terms of the proposal, what is the "wholesale cost" at which price the manufacturer will be compensated?
- f. Why is the Postal Service not offering replacement value insurance to all customers, including household mailers who typically will not be able to take advantage of the bulk insurance proposal? Further, please explain why this disparate treatment is not discriminatory as to mailers who cannot take advantage of the bulk insurance requirements.
- g. At page 8 you also state that "indemnity costs for bulk insurance are expected to be lower than for basic insurance. Current insurance coverage provides indemnity for the actual value of the article at the time of mailing." Please now refer to the hypothetical in (e) herein. Suppose that the ultimate purchaser of the item, e.g., a household consumer, keeps the item after purchase from the retailer and uses it for a year, but then mails it insured to a relative. Is it not likely or possible that the depreciated value of the item after a year will be lower than the wholesale cost value? Please explain.
- h. We cannot discern either from your direct testimony or from the proposed changes to the DMCS (see Request of the United State Postal Service for a

Recommended Decision on Changes in Rates of Postage and Fees for Postal Services, Attachment A, p. 81) what the bulk mail insurance qualifications and conditions will be. Please describe any such proposed qualifications and conditions, including applicable DMM language. Include in your explanation any volume requirements to be attached to the proposal.

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
Attorney

Washington, D.C. 20268-0001
September 9, 1997