

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

RECEIVED

SEP 17 4 49 PM '97

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MACDONALD
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T10-1(C)-(E), (G), 5-7)
AND TO INTERROGATORY OF THE DIRECT MARKETING ASSOCIATION
REDIRECTED FROM WITNESS TAYMAN (DMA-T9-27(C))

The United States Postal Service hereby provides responses of witness Macdonald to the following interrogatories: OCA/USPS-T10-1(c)-(e), (g), 5-7, filed on August 27, 1997, and DMA/USPS-T9-27(c), filed on September 3, and redirected from witness Tayman. A motion for extension of time to file the responses to the OCA interrogatories was filed on September 10, 1997.

Each interrogatory is stated verbatim and is followed by the response. A declaration applicable to the responses filed both today and on September 10 is attached.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



Scott L. Reiter

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2999; Fax -5402
September 17, 1997

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MACDONALD
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T10-2. Please refer to Library Reference H-115, Calculation sheet (not numbered).

- c. Please confirm that the source of the "Estimated Cash Outlays" for 1998 of \$563,678,814 should be the total of the two amounts calculated in the respective Estimating Runs for ANM and ANC, pages 21. If you do not confirm, please explain.
- d. If you do confirm part c, above, please explain why the sum of \$197,809,060 for medical and \$365,902,748 for compensation do not total the amount on the Calculation page of \$563,678,814?
- e. Please provide "Estimating Runs" for FY 1997 Base Liability like the "Estimating Runs" included in LR-H-115 for FY 1998 ANC and ANM.
- g. Please provide the actual DOL Administration Charge which is estimated at \$20,000,000 on the Calculation sheet.

RESPONSE:

- c. Confirmed.
- d. The sum of \$197,809,060 and \$365,902,748 is \$563,711,808. The difference of \$32,994 appears to be the result of a transposition. The amount involved is not significant and does not affect my FY 1998 expense estimate of \$733.1 million.
- e. These model runs are being filed as Library Reference H-265.
- g. The recent Department of Labor billing for the FY 1998 "fair share costs of administration" was in the amount of \$19,101,308.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MACDONALD
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T10-5. Please explain which of the exhibits are used and how they are applied to derive the 3 percent discount rate for the compensation portion of the workers' compensation liability.

RESPONSE:

As noted in lines 3 and 4 of page 7 of my testimony, we conduct an ongoing review of our net discount factors to validate their appropriateness. Exhibits D, E and G are the most recent individual analyses supporting the appropriateness of the discount factor for compensation claims. Exhibit A summarizes the results of all analyses for both medical and compensation claims conducted in recent years. The discount factor for compensation claims is not derived from the discount rate analyses; it is judgmentally selected by postal management. The analyses serve to validate the reasonableness of the discount factors by providing the bounds of the possible range of the discount factors. The discount factors are changed infrequently. Attempting to track current derived rates through more frequent adjustments to the discount factors would add needless volatility to an estimation process already subject to a good deal of unavoidable volatility.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MACDONALD
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T10-6. Please explain which of the exhibits are used and how they are applied to derive the .1 percent discount rate for the medical portion of the workers' compensation liability.

RESPONSE:

As noted in lines 3 and 4 of page 7 of my testimony, we conduct an ongoing review of our net discount factors to validate their appropriateness. Exhibits B, C and F are the most recent individual analyses supporting the appropriateness of the discount factor for medical claims. Exhibit A summarizes the results of all analyses for both medical and compensation claims conducted in recent years. The discount factor for medical claims is not derived from the discount rate analyses; it is judgmentally selected by postal management. The analyses serve to validate the reasonableness of the discount factors by providing the bounds of the possible range of the discount factors. The discount factors are changed infrequently. Attempting to track current derived rates through more frequent adjustments to the discount factors would add needless volatility to an estimation process already subject to a good deal of unavoidable volatility.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MACDONALD
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T10-7. Please explain why you do not rely only on future projected rates to determine the discount rate of future workers' compensation liability.

RESPONSE:

By "future projected rates," I assume you mean the results of the prospective, as opposed to the historic, analyses detailed in Exhibit A. Sole reliance on prospective analyses would not be a conservative approach as it ignores past experience. At any rate, as can be seen from Exhibit A, sole reliance on the results of prospective analyses would support the rates currently used.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MACDONALD
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION
REDIRECTED FROM WITNESS TAYMAN

DMA/USPS-T9-27

- c. Based on the fact that costs related to workers' compensation are lower than originally projected for FY 97, do you believe that estimates for such costs similarly will be smaller than projected for FY 98? If "yes," please provide revised estimates for workers' compensation expenses for FY 98.

RESPONSE:

- c. No. The favorable workers' compensation results for FY 1997, relative to earlier projections, relate to injuries incurred in prior fiscal years and are largely one-time in nature. It does not follow that these results will be repeated in FY 1998.

DECLARATION

I, R. Timothy Macdonald, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Timothy Macdonald

Dated: September 17, 1997

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.



Scott L. Reiter

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
September 17, 1997