

DOCKET SECTION

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, 1997

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PLUNKETT TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T40-1-19 AND 22-31)

The United States Postal Service hereby provides responses of witness Plunkett to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T40-1-19 and 22-31, filed on September 9, 1997. Objections to interrogatories OCA/USPS-T40-14 (in part), 15 (in part), and 20-21 were filed on September 19, 1997.


Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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RESPONSE OF U.S. POSTAL SERVICE WITNESS PLUNKETT TO
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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-T40-1 Response.

The DMM speaks for itself.

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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-T40-2 Response.

See OCA/USPS-T40-1.

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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-T40-3 Response.

See OCA/USPS-T40-1.

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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-T40-4 Response.

See OCA/USPS-T40-1.

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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-T40-5 Response.

Confirmed if by denying claims you mean refusal to pay replacement value in excess of the actual value at the time of mailing. Claimants in such cases are entitled to recover the actual value of the article.

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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-T40-6 Response.

See OCA/USPS-T40-1.

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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-T40-7 Response.

- a. The DMM speaks for itself.
- b. When adjudicating claims, Accounting Center employees are expected to conform to the guidelines of the DMM. It is my understanding that in doing so, these employees rely on the observations of the employee to whom the damaged article is presented. Employees are expected to evaluate each claim based on the physical characteristics of the article and the materials used to package it; no additional guidelines are published.

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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-T40-8 Response.

Yes.

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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-T40-9 Response.

The Postal Service will compensate an insured for the replacement value of an article in such instances where the replacement value is equal to the actual value, for instance when an article is new and when the insured presents a sales receipt, invoice, or statement of value from a reputable dealer as set forth in DMM § S010.2.6(a).

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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-T40-10 Response.

Employees are advised to depreciate items based on the article's value and it's remaining useful life using a straight line method. For example, a five year old television with a \$500 retail value, and an expected life of ten years would have a depreciated value of \$250. No additional guidelines are published.

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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-T40-11 Response.

PS Form 3813-P (Receipt for Insured Mail (Domestic or International), which customers fill out when purchasing insurance, explains the terms and conditions of coverage, and advises customers that coverage is limited to the value of the contents at the time of mailing in the event of loss or complete damage. In addition, Publication 201 *Consumer's Guide to Postal Services and Products*, and Publication 122 *Customer Guide to Filing Domestic Claims or Registered Mail Inquiries* both explain the terms and conditions applicable to insurance claims. Copies will be filed as library reference H-273.

- a. Form 3813-P: 1,900,484

Publication 122: 92,000

Publication 201: 2,260,000

Shipments of Publication 122 were suspended early in FY 96 pending the outcome of Docket No. MC96-3.

- b. Not applicable.

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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?
- b. 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-T40-12

a-b. In FY 97, 408 appeals were filed. Of these claims 129 were denied, 132 were paid, and 147 remain pending. None of these claims involved disputes as described in subpart (a).

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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-T40-13 Response:

I am unaware of any reports, surveys, studies, or internal memoranda relating to this topic.

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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-T40-14 Response:

I am not aware of any such regulation.

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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-T40-15 Response:

I am not aware of any federal agency actively regulating the advertising or marketing of insurance by the Postal Service.

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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-T40-16 Response:

Clerks trained in the DMM provisions relating to indemnity claims and, if asked such a question, are instructed to inform the customers of the appropriate DMM provisions.

See DMM § S010.2. See also response to OCA/USPS-T40-11.

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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-T40-17 Response.

- a. In FY 96, 10 claims were rejected because the fragile nature of the article prevented its safe carriage, and 28 were rejected because the articles had not been properly wrapped.
- b. According to Postal Operations Manual § 813.1, the USPS employee at the window is required to ask whether the package presented for insurance contains fragile, perishable, or flammable matter. If the package does not contain such matter and to all outward appearances is adequately prepared, no further inquiry about contents is made. If the package contains such matter, detailed inquiry must be made to determine whether contents are admissible in the mail and are adequately packed. Depending on the results of said inquiry, clerks are expected to inform the customer of the relevant DMM provisions.

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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-T40-18 Response.

I am advised that the Postal Service defends against mailers' claims for loss or damage to the contents of mail matter for which postal insurance is not elected.

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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-T40-21 RESPONSE:

I have no particular expertise in legal research, and am not aware of any particular lawsuits. However, I am told that the Postal Service does receive claims of this nature, and defends against them under an exception to the waiver of sovereign immunity in the Tort Claims Act (28 U.S.C. § 2680(b)).

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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-T40-22 Response.

Determination that the fragile nature of an item prevented its safe carriage in the mail is the responsibility of the employee adjudicating the claim, in accordance with the provisions of DMM § S010.2.14. It is my understanding that in doing so, these employees rely on the observations of the employee to whom the damaged article is presented for inspection under DMM § S010.2.8. Employees are expected to evaluate each claim based on the physical characteristics of the article and the materials used to package it; no additional guidelines are published.

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OCA/USPS-T40-23. 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-T40-23 Response:

Determination that an article has not been properly wrapped for protection is the responsibility of the employee adjudicating the claim, in accordance with the provisions of DMM § S010.2.14. It is my understanding that in doing so, these employees rely on the observations of the employee to whom the damaged article is presented.

Employees are expected to evaluate each claim based on the physical characteristics of the article and the materials used to package it; no additional guidelines are published.

- a. Yes, if the claim is for damage to contents and the inadequate packaging contributed to the damage.
- b. No. The customer has still received the benefit of the bargain, *i.e.*, coverage against loss or damage in all other circumstances for which insurance coverage is offered.

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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-T40-24 Response:

Confirmed

- a. If an article is rifled while within the postal system, postage is not refunded. As the theft of an article would constitute total loss of the article, postage would be refunded. Postage is not refunded in the case of rifling because the customer has benefited from the service for which the postage was tendered; transportation of the article from origin to destination.
- b. In the case of partial loss, postage is not refunded. See my response to subpart (a) above.

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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-T40-25 Response:

The DMM speaks for itself.

- a. Shock in this instance refers to impact from an external stimulus.
- b. Transportation environment refers to the environmental factors, i.e. temperature, humidity, etc. to which the package is subject during transportation.
- c. No.
- d. The incidence of any of the factors listed in DMM § S010.2.14(p), if sufficient to cause damage to the article contained therein, would presumably leave evidence of damage on the mailing container. In the absence of damage to the external container there is no way to ascertain whether damage to the article occurred while the article was within the postal system or prior to acceptance.

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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-T40-26 Response:

- a. Claims are classified either as loss or damage. To the extent that rifling results in either of these, the claims are considered to be loss or damage. There is no separate accounting for rifled items. Similarly, loss claims include claims resulting from theft.
- b. Confirmed.
- c. Claims data do not include replacement value. Average indemnity payments for FY 96 are provided in the table below.

Value Up To	Average Indemnity		
	Lost	Damaged	Total
50	\$ 40.20	\$ 35.58	\$ 38.41
100	\$ 85.01	\$ 65.61	\$ 73.67
200	\$ 163.27	\$ 115.84	\$ 136.34
300	\$ 259.08	\$ 173.79	\$ 211.70
400	\$ 349.26	\$ 235.51	\$ 288.29
500	\$ 436.40	\$ 282.45	\$ 350.45
600	\$ 548.68	\$ 354.59	\$ 440.66
Total	\$ 125.85	\$ 104.49	\$ 115.09

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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-T40-27 Response:

If the customer does not ask any additional questions, clerks are required only to inquire as to the nature of the contents (see response to OCA/USPS-T40-17 (b)).

However, if asked by the customer about the appropriate value to declare, clerks are instructed to inform the customers of the appropriate DMM provisions. See DMM § S010.2.11. See also response to OCA/USPS-T40-11.

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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-T40-28 Response:

United Parcel Service (UPS) is the primary surface alternative. Published shipping rates for UPS ground service include insurance up to \$100 in value.

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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-T40-29 Response:

The DMM speaks for itself.

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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-T40-30 Response:

Consequential damages would be damages incurred by the recipient of a lost or damaged article as a consequence of the loss or damage of the insured article.

- a. A definition of consequential loss is provided in Publication 122, Customer Guide to Filing Domestic Claims or Registered Mail Inquiries, p. 25. See response to OCA/USPS-T-40-11.
- b. Records of paid claims do not include amounts for consequential loss. Of all insurance claims disallowed in FY 96, one was disallowed on the basis that it was for consequential losses.
- c. If the customer does not ask any additional questions, clerks are required only to inquire as to the nature of the contents (see response to OCA/USPS-T40-17 (b)). However, if asked by the customer about consequential damages, clerks are instructed to inform the customers that consequential damages are not covered. See DMM § S010.2.11. See also response to OCA/USPS-T40-11.

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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 (sic) 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.

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OCA/USPS-T40-31 Response:

- a. Confirmed
- b. For the examples cited in subpart (b) I would agree. However, the replacement cost for these types of mailers is the wholesale cost, not the retail price.
- c. The method for determination or definition of wholesale cost has not yet been developed.
- d. No such provisions exist at this time.
- e. See subpart c. I would expect the "wholesale cost" to be \$100.
- f. As indicated in subpart (b), the replacement value for household mailers generally is much higher than the replacement value for bulk mailers, so offering replacement value insurance for non-bulk customers would not necessarily treat them the same as bulk mailers. Moreover, for most of the intended users of bulk insurance, insured articles will be new merchandise. Consequently these mailers would be entitled to recover the replacement value of these articles in the event that they are lost or completely damaged. As indicated in my response to OCA/USPS-T40-9 household mailers are also entitled to recover the replacement value of new articles, albeit different replacement values than those available to bulk mailers.
- g. The likelihood that an article would have depreciated in the manner described in this question depends on the expected life of the article. In the hypothetical example presented, more than 60 percent $((250-100) \div 250)$ of the article's value would have to be depreciated before the actual value is less than the wholesale value. Only if the article has an expected life of less than 20 months $(12 \text{ months} \div 0.6)$ would this be the case.

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- h. The specific qualifications and conditions that mailers will have to meet in order to qualify for bulk insurance have not yet been determined, beyond what is included in the proposed DMCS § 943.22.

DECLARATION

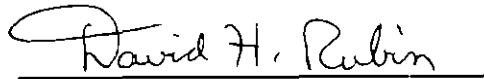
I, Michael K. Plunkett, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.


MICHAEL K. PLUNKETT

Dated: Sept. 23, 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.


David H. Rubin

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
September 23, 1997