

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

MOTION FOR LATE ACCEPTANCE AND OPPOSITION OF THE UNITED STATES
POSTAL SERVICE TO OFFICE OF THE
CONSUMER ADVOCATE MOTION TO COMPEL RESPONSES TO
INTERROGATORIES OCA/USPS-T5-34-36 TO UNITED STATES POSTAL
SERVICE WITNESS ALEXANDROVICH
(October 6, 1997)

The United States Postal Service hereby moves for late acceptance of this Opposition of the United States Postal Service to Office of the Consumer Advocate Motion to Compel Responses to Interrogatories OCA/USPS-T5-34-36 to United States Postal Service Witness Alexandrovich. Counsel for the Postal Service had a medical appointment on Friday, October 3, 1997, the due date, which prevented completion and filing of this Opposition. No one should be prejudiced by this brief delay of one business day.

The United States Postal Service hereby opposes the Office of the Consumer Advocate Motion to Compel Responses to Interrogatories OCA/USPS-T5-34-36 to United States Postal Service witness Alexandrovich ("*OCA Motion*").¹ The OCA's arguments to the contrary notwithstanding, the information requested cannot be relevant to these proceedings, is burdensome to produce, cannot be produced without making

¹ It should be noted that the Postal Service did not object to OCA/USPS-T5-36 in its entirety; it objected to subparts (b) and (c).

indeterminate assumptions, and encroaches upon the Postal Service's discretion to keep its own system of accounts.

The OCA attempts to make short shrift of the Postal Service's argument concerning the relevance of the requested information with the unenlightening statement that it "needs cost component and cost segment information broken out by CAG because it is essential to the direct case that we are now preparing." *OCA Motion at 2*. This bare-bones assertion offers nothing which the Presiding Officer can use to judge the issue of relevance. A relevancy determination requires that there be "an apparent nexus between the information sought and evidence that would be relevant and material to the substantive issues to be decided...." *Presiding Officer's Ruling Denying Motion of United Parcel Service to Compel Responses to Interrogatories UPS/USPS-T11-16, 17 and 18, Presiding Officer's Ruling No. R94-1/40, June 21, 1994 at 5*. Moreover, it offers no information with which the Presiding Officer can balance "the relevance of the requested information against the burden of developing that information." *Presiding Officer's Ruling on Office of the Consumer Advocate Motions to Compel Interrogatory Responses, Presiding Officer's Ruling No. MC96-3/12, September 12, 1996, at 2*. The OCA's Spartan explanation of its need for the information is devoid of any content which would allow a reasoned determination of the issue.

Indeed, OCA's lack of explanation may indicate uncertainty on the OCA's part concerning exactly how it plans to use the requested information. The Postal Service should not be required to produce the requested information under such circumstances. Moreover, this is not an instance where the Postal Service is merely providing data

solely within its control for supposed use in an opponent's direct case. As the further discussion below makes clear, the Postal Service is being asked to perform a full-blown cost analysis, involving computer sorting of data, adoption of assumptions for classifying certain costs and further potential spreadsheet analysis. The Postal Service should not be required to perform analyses for other parties under any circumstances, much less when it is not at all clear whether and how a party will make use of the information.

No matter whether the OCA really has a specific use for the information in mind, it still is not and cannot be relevant to the issues in this docket. The Postal Service does not accrue or develop total costs by CAG nor does it determine volume variable costs by CAG. Classification of postal facilities by CAG is a discretionary determination that facilities should be grouped in a certain way for purposes of various reporting requirements and sampling needs. While these groupings are valid for those needs, they were not designed as a foundation for building a cost structure.

Also, although CAG is an acronym for "Cost Ascertainment Group", CAG groupings actually are based on revenues, not on accrued costs or workload. Accordingly, presentation of accrued costs by CAG would produce anomalous results. For example, all BMCs, regardless of revenues or costs, are grouped into one CAG. As another instance, Vehicle Maintenance Facilities, which are now independent facilities, nonetheless carry the CAG classification of the office with which they are associated. Also, there are some small offices in terms of number of employees and costs, which are in "larger" CAG groupings (for example, CAG C) because they receive the revenues from a nearby, large mailer whose mail is sent elsewhere for processing due to a plant

load agreement. As yet another example, certain CAGs contain a large number of District Offices. The costs for a District Office may reflect not only its own costs, but also those, such as transportation and supply and service costs, of the offices reporting to it. As a final example, it makes no sense to break out accrued transportation costs by CAG. The Postal Service pays a contractor to transport mail by truck from one facility to another, regardless of which CAG or CAGs those facilities might happen to be in. As this litany of examples should make clear, CAG groupings are not designed to reflect cost accrual or development.

As indicated in its original objection, the Postal Service would be able to sort account numbers by finance numbers by CAG and then sum by CAG. See *Objection of United States Postal Service to Office of the Consumer Advocate Interrogatories (OCA/USPS-T5-30, 31, 32, 34, 35 and 36(b) and (c)), September 22, 1997, at 4*. This exercise does not, however, address the issue of how AP 13 data are to be converted into AP 14 data. All of the Postal Service's finance number data is developed, up through AP 13 according to the Postal Fiscal Year. AP 14 exists as an accounting mechanism to convert Postal Fiscal Year data into Government Fiscal Year data. This conversion is done in total by account, not by finance number. To present Government Fiscal Year accrued CAG costs would require the Postal Service to make assumptions to somehow prorate the costs by CAG and then devise an algorithm to perform this proration. Would the conversion require that AP 13 costs be broken out by facility by CAG and then converted to AP 14? It is not clear to the Postal Service exactly how this could or should be done. It is entirely unfair for the Postal Service to be placed in the

position of having to make assumptions that it would not itself make, thus guessing what the OCA might assume. This would compel the Postal Service to adopt a litigating position against its will.

Also, the OCA never bothers to address another of the fundamental problems concerning any attempted development of accrued costs by CAG, which the Postal Service pointed out in its initial objection. End-of-year audit adjustments and expense reallocations are not available by CAG. *Id. at 4.* To allocate them by CAG requires an assumption or series of assumptions.

Putting aside the fairness argument noted above, there are practical problems as well. What assumptions to reallocate end-of-year adjustments is the Postal Service supposed to make? If it makes assumptions not to the OCA's liking, then will it be required to go through the exercise again, upon request of the OCA? As the Postal Service pointed out in its initial objection, audit adjustments and expense reallocations can be significant. *Id.* For example, Library Reference H-9, Part III, at 168 shows FY 1996 audit adjustments to Cost Segment 20. One such adjustment is \$2,700,000 for equipment depreciation. How is this to be allocated among CAGs? Is the Postal Service to assume equal equipment depreciation among all CAGs? This may not be realistic since all CAGs may not have the same number or types of pieces of equipment. A proportional adjustment might be more realistic, but proportional to what—overall CAG costs, number of employees in the CAG? If the OCA is suggesting that the Postal Service trace every audit adjustment back to pieces of equipment and particular facilities and then allocate the costs to the appropriate CAG, the burden would be immense, even

assuming it could be done. In the end, this burden, which is impossible to estimate, would be entirely out of proportion to the low probative value of what would be an essentially artificial construct. Another example from that same page of the Library Reference is a \$9,280,000 audit adjustment for tort claims concerning leased property. Again, what assumptions is the Postal Service supposed to make to allocate this adjustment among CAGs? Another example of the problems presented is a cost reallocation such as EVA. To accurately distribute these costs by CAG, a review of individual payroll records by finance number/CAG would be required. Such a distribution likely would not match the segment totals in LR-H-9, since the distribution to segments used a ratio methodology, raising more differences to be resolved. Distributing audit adjustments and reallocations by CAG would thus require some further analysis beyond merely sorting account numbers by finance numbers by CAG and then summing by CAG.

Another dilemma presented by the OCA request is how to handle the presentation of costs by CAG by component grouping, as in Table 3 of LR-H-1, at xii. These component groupings do not always correspond to account numbers. Take Cost Segment 2, for example. There are two subaccount numbers for supervisors, each comprised of approximately fifty-two account numbers. Neither of these two subaccount numbers corresponds to any of the five component groupings (2.1 through 2.5). While the account numbers in these two subaccounts can be further disaggregated by CAG by sorting by finance numbers by CAG and then summing by CAG, breaking out the CAG totals by component grouping requires an additional step. This step introduces a

level of ambiguity into the results that makes the resulting information of questionable use. Either an assumption must be made that the same proportion of accrued dollars at the national level in each of the component groupings (2.1 through 2.5) applies at the CAG level, or an analysis of IOCS tallies for each CAG needs to be done. The assumption likely would not reflect reality, and a tally analysis would add another layer of complexity and burden. Similarly, with regard to Cost Segment 3, allocating the accrued costs by component grouping would involve either making assumptions or further disaggregating the cost pools for the MODS office, and analyzing IOCS tallies for the non-MODS offices.²

As the Postal Service initially stated in its objection, sorting account numbers by finance number by CAG and then summing by CAG, in and of itself, likely can be accomplished within a reasonable period of time. It does, however, come at a very busy time.³ The OCA proposes a novel and rather curious solution to this problem. The OCA states:

One way to ease the Postal Service's difficulty is to push back deadlines already on the calendar (say, for a month), so that the cases-in-chief of the participants would be due December 17, instead of November

² There may be other examples where either questionable assumptions or analyses beyond sorting account numbers by finance number by CAG would be required. The Postal Service has not attempted to walk through every cost segment and component grouping and determine how it would respond to the OCA's request.

³ It also should be noted that the OCA assertion that "the number of accounts to be sorted is irrelevant, because no additional computer programmer time is consumed as a result of largeness in the number of accounts that must be sorted" may reflect its understanding of the PC-based computer environment with which it is familiar, but is not accurate on the mainframe-scale on which the work would have to be done. See OCA Motion at 2.

17. In like manner, all other dates in the procedural schedule would be pushed back a month. In fairness to the Commission, its decision would have be (sic) issued a month later than the statutory deadline. Rescheduling in this manner not need issue from rancorous discussion, but could result from an amicable agreement among the Postal Service and other participants.

OCA Motion at 4 (footnote omitted). The Postal Service does not believe that the statutory limitations can be or should be modified by agreement.

Also, the Postal Service may have underestimated the burden involved in responding to the OCA's request. With regard to year-end audit adjustments and reallocations, the Postal Service would either have to decide upon a series of assumptions or undertake further investigation and analysis before it would be able to respond. The same holds true for allocating certain cost component groupings by CAG. A similar problem exists in terms of converting AP 13 data to AP 14. Additional spreadsheet work, beyond the initial computer sort of account numbers, will have to be undertaken in the event of either assumptions or further analyses. Either will impose an additional burden. It is difficult to estimate what that additional burden might be until work on each audit adjustment, reallocation, component grouping, as well as AP 13 to AP 14 conversion is begun. It seems, however, that such an exercise might readily consume several weeks and perhaps longer. In any event, even a minimum burden is uncalled for to produce results of debatable utility.

The OCA argues that production of the information it has requested does not interfere with the Postal Service's authority to manage its own system of accounts, arguing that it is merely asking the Postal Service "to generate a report for use in the presentation of the OCA's direct case." *OCA Motion at 3.* That "report", in essence,

requires the Postal Service to sort and redo its accounts in a manner that has little to do with how it accrues or develops its total costs, and further likely requires it to make a series of assumptions that it does not and would not make, so that questionable results can be used against it in litigation. In the Postal Service's view, this certainly borders on interfering with its authority to maintain and manage its books of account.

The Postal Service should be allowed to defend its own proposals in this case and not to have to devote resources to creating a worthless data analysis for an opponent. For all of the foregoing reasons as well as those expressed in the Postal Service's initial objection, the OCA motion to compel should be denied.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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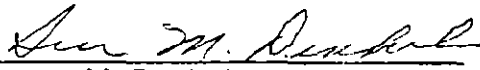


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October 6, 1997

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.


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