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

Postal Rate and Fee Changes, 2006	)	Docket No. R2006-1

RESPONSES OF DIRECT MARKETING ASSOCIATION
WITNESS LAWRENCE G. BUC
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE
(USPS-DMA-T1-34-39)

(October 23, 2006)

Direct Marketing Association hereby provides the responses of Witness Buc (DMA-T-1) to the above-referenced interrogatories, filed on October 11, 2006.

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

Respectfully submitted,

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USPS/DMA-T1-34. Please refer to your response to USPS/DMA-T1-8(b), where you state that 1999 was a better choice as a base year than 1996 or 1997 because since 1999 “workhours have shown a distinctly negative trend.” Is it your testimony that cost reduction savings could not have occurred during years prior to 1999? If your answer is other than no, please explain fully.

Response

No.

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USPS/DMA-T1-35. Please refer to your response to USPS/DMA-T1-8(d). Please confirm that by "supports my position," you mean supports your argument that supervisor cost reduction savings should be proportional to craft cost reduction savings. If you do not confirm, please explain to what position you are referring. Please explain how a decline in total hours of 9.7 percent and a decline in supervisor hours of only 5.2 percent since 1997 supports your argument that supervisor cost reduction savings are proportional to craft cost reduction savings.

Response

Confirmed. As I explain in my response to USPS/DMA-T1-30 c and in my testimony, the aggressive cost reduction programs that the Postal Service has undertaken provide a natural experiment as to whether reductions in craft costs induce reductions in the costs of their supervisors. The results of the natural experiment seem to indicate that they do and provide additional corroboration of this fact. I do not divide the change in supervisors hours by the change in craft hours to calculate a proportionality factor.

USPS/DMA-T1-36. Please refer to your response to USPS/DMA-T1-18. In Docket R84-1, in which the Commission applied a 3.5 percent contingency provision, it observed that equity of $451 million or 1.6 percent of the revenue requirement, "does not militate in favor of reducing the contingency." In the current filing you argue that the contingency should be reduced to zero because the Postal Service has an estimated test year after rates equity of $2.266 billion, which is 2.9 percent of the revenue requirement. Assume hypothetically that the estimated test after rates equity in this filing were $1.240 billion or 1.6 percent of the revenue requirement. What amount of contingency would be indicated in this scenario?

Response

The hypothetical posed does not provide enough information to allow me to frame a response.

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USPS/DMA-T1-37. Please refer to your response to USPS/DMA-T1-21. Please confirm that the Postal Service does not have guaranteed orders which are assumed in your hypothetical scenario.

Response

Confirmed.

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USPS/DMA-T1-38. Please refer to your response to USPS/DMA-T1-23. Is it your testimony that test year breakeven does not have to be achieved in settled cases? Please explain fully and indicate how much variance from breakeven you believe is appropriate in settled cases.

Response

I am not testifying about the standards applicable to settled cases in general, nor to such standards as they might have applied to the record in R2005-1.

However, I would point out several facts concerning the settlement of R2005-1. First, the Stipulation and Agreement (the "Settlement Agreement") in that case contains numerous provisions making clear that the parties' agreements apply to the specific circumstances of that case, and that case only. The USPS proposal in that case was unusual in two interrelated respects. First, it proposed an across-the-board rate increase; second, it was intended to provide enough revenue to meet the so-called "escrow requirement." Thus, the Commission, if it was going to accept the settlement proposal, faced unusual constraints on its ability to fine-tune the relationship between "total estimated income" and "total estimated costs" as compared with the steps that the Commission typically employs in order to comply with the so-called "breakeven requirement" of 39 U.S.C. §3621.

Second, under section 12 of the Settlement Agreement, all parties (including the Postal Service) ". . . agree that, in any future proceeding, adherence to this agreement is not intended to constitute or represent agreement with, . . . the application of any rule or interpretation of law, that may underlie, or be thought to underlie, this Stipulation and Agreement." I have been advised by legal counsel that, accordingly, the Postal Service should not be arguing in the current proceeding that the relationship between "total estimated income" and "total estimated costs" reflected in the Commission's Recommended Decision in R2005-1 has any relevance whatsoever to a proper application of the provisions of Section 3621 in this or any other case.

For all of these reasons, it is my view that the extent of "breakeven" in R2005-1 is irrelevant to this case.

USPS/DMA-T1-39. Please refer to your response to USPS/DMA-T1-26. Please reconcile your recommendation in the current Docket that the contingency be reduced to zero, when equity is estimated to be 2.9 percent of the revenue requirement, with the Commission's recommended 4.0 contingency in Docket R76-1, when test year equity was estimated to be $363 million or 2.6 percent of the revenue requirement. Please note and consider in your reconciliation that the equity to revenue requirement relationship proposed by the Postal Service in this Docket is a very similar to the equity to revenue requirement relationship recommended by the Commission in the cited docket.

Response

I see nothing to reconcile. Equity is only one factor the Commission considers in determining the proper size of the contingency, and in your question you have not provided a comparison of the evidence in the R76-1 and R2006-1 records relevant to this issue. For example, what was the level of the Commission's confidence in the USPS forecasts in R76-1 as compared with the level of its confidence in the USPS forecasts in this proceeding?