

# DOCKET SECTION

ORDER NO. 1203

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UNITED STATES OF AMERICA  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

Before Commissioners: Edward J. Gleiman, Chairman;  
George W. Haley, Vice Chairman;  
W. H. "Trey" LeBlanc, III; George A. Omas

Postal Rate and Fee Changes

Docket No. R97-1

## ORDER ACCEPTING CERTIFICATION AND DENYING POSTAL SERVICE MOTION TO PARTIALLY RECONSIDER PRESIDING OFFICER'S RULING NO. R97-1/61

(Issued December 9, 1997)

On October 10, 1997, the Office of the Consumer Advocate (OCA) filed a motion to compel Postal Service responses to, among other interrogatories, OCA/USPS-71-73, 74(a) and (b), 75(a) and (b) and 76-78 and OCA/USPS-T5-42. Presiding Officer's Ruling No. R97-1/61 (Ruling 61) granted the OCA motion with respect to all of the above-listed interrogatories but OCA/USPS-T5-42. The Postal Service filed a motion to reconsider that ruling on November 21, 1997.<sup>1</sup> It noted that Ruling 61 denied the OCA's motion to compel a response to OCA/USPS-T5-42, and argued that it should have denied the OCA's motion to compel responses to OCA/USPS-72 and 73 on the same grounds. It expressed the hope that the responses to OCA/USPS -71 and 74-78 that it expected to file would largely obviate the need to respond to OCA/USPS-72 and 73. Motion to

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<sup>1</sup> The Motion of United States Postal Service for Partial Reconsideration of Presiding Officer's Ruling No. R97-1/61 was filed on November 21, 1997 (Motion to Reconsider).

Reconsider at 4-5. These responses were subsequently filed on Friday, November 28, 1997.

On Monday, December 1, 1997, the OCA filed a motion for leave to delay its response to the Postal Service's motion to reconsider. It stated that it could not determine whether it still needed responses to OCA/USPS-72 and 73 until it had some time to evaluate the extent to which the Postal Service's responses to OCA/USPS -71 and 74-78 satisfied Ruling 61.<sup>2</sup> Presiding Officer's Ruling R97-1/74 allowed the OCA until December 4, 1997, to answer the Postal Service's motion to reconsider. In its answer, the OCA concludes that "a wide gap remains between the directives of the ruling and the information that the Postal Service has provided thus far."<sup>3</sup> The Postal Service filed a supplemental response that argued that technical conferences were a more appropriate means of providing the OCA with the information that it seeks.<sup>4</sup> The Presiding Officer certified the requested reconsideration of Ruling 61 to the full Commission in P.O. Ruling R97-1/78.

Ruling 61 involves the Postal Service's obligation to answer interrogatories that seek information about the impact that changes that it proposes in attribution principles would have on subclass attributable costs and on the cost basis of worksharing categories. A motion to reconsider such a ruling involves important questions of law and policy. Accordingly, we accept certification of this issue under 39 USC § 3001.23(8).

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<sup>2</sup> Office of the Consumer Advocate Motion for leave to Delay Briefly the Filing of a Response to the Postal Service's Motion for Partial Reconsideration of P.O. Ruling R97-1/61, December 1, 1997, at 2-3.

<sup>3</sup> Office of the Consumer Advocate Response to the Postal Service's Motion for Partial Reconsideration of P.O. Ruling R97-1/61, December 4, 1997 (OCA Response) at 3.

<sup>4</sup> Motion of the United States Postal Service for Leave to File Reply Comments to Office of the Consumer Advocate Response to the Postal Service's Motion for Partial Reconsideration of P.O. Ruling R97-1/61 and Replay Comments, December 5, 1997.

OCA/USPS-T5-42 asked the Service to specify each worksheet page, column, and row, etc. in its costing documentation that would have to change if the Postal Service's filing were to incorporate all established cost attribution methods. It also asked the Postal Service to calculate the impact of each individual change in attribution methods that it proposes on each cost component and each subclass. Ruling 61 refused to compel an answer to OCA/USPS-T5-42. Ruling 61 concluded that providing an exhaustive list of every page, column, and row that would be affected by each change in attribution methodology, by itself, would not be particularly helpful to an analyst trying to understand how to recalculate unit processing costs. For this purpose, it concluded, such a list would be only a modest improvement over the annotations already provided by the Postal Service. Ruling 61 concluded that this modest added benefit did not warrant the substantial burden that such an effort would entail, considering the large number of changes in costing methods that the Postal Service has proposed in this docket. This conclusion was supported, in part, by Attachment A to the Postal Service's opposition to the OCA's motion to compel. It demonstrated that it would be a considerable burden to list every line and column of its costing documentation that would have to change if it were to restore the established variability assumption for mail processing labor costs. See Ruling 61 at 4.

Ruling 61 emphasized that whether the need to isolate the impact of a change in a particular attribution method on the unit costs of the various categories of mail depends, in part, on the significance of the particular attribution method for which the request is made. It noted that OCA/USPS-T5-42 asked for such individual impact analysis for every attribution method that the Postal Service proposes to change, and concluded that this would be an enormous burden on the Postal Service, given the large number of attribution changes proposed. Ruling 61 concluded that the OCA had not shown that each of these proposed changes in attribution methods was significant enough to

impose the considerable burden of separately calculating its impact on subclass and rate category costs. Ruling 61 at 4.

In a limited sense, Ruling 61 granted the OCA's motion to compel responses to OCA/USPS-71-76. Unlike OCA/USPS-T5-42, these interrogatories ask for information about a single, discreet change in costing methods proposed by the Postal Service. Ruling 61 viewed these interrogatories as alternative formulations of the same request — to list the steps necessary to compute the test year mail processing unit cost for rate categories and benchmarks when mail processing labor costs are assumed to be 100 percent variable. Each of these interrogatories begins by referring to the Postal Service's response to MMA/USPS-T32-27b, which lists four "primary steps" that would be required to compute rate category benchmark unit costs under the 100 percent variability assumption. These steps are to assume 100 percent variability and then 1) rerun the Postal Service's "base year model," 2) rerun the Postal Service's "roll-forward model," 3) recalculate "piggyback factors," and 4) recalculate unit costs by shape. Each of these interrogatories then asks the Postal Service to provide information that is more specific, in one or more respects, than its answer to MMA/USPS-T32-27b.<sup>5</sup>

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<sup>5</sup> OCA/USPS-71 asks the Postal Service to list the steps necessary to compute the unit costs for "each rate element" under the 100 percent variability assumption. OCA/USPS-72 asks the Postal Service to identify each page and line in its "base year model" that would have to be changed, and each page, row, and column number in USPS-T-5A that would have to be changed, under the 100 percent variability assumption. OCA/USPS-73 asks the Postal Service to identify each page and line in its "rollforward model," and each page, row, and column in USPS-T-15E that would have to be changed, under the 100 percent variability assumption. OCA/USPS-74 asks the Postal Service to identify all changes to LR-H-77 and LR-H-146 that would be required to adapt the piggyback factors to the 100 percent variability assumption. OCA/USPS-75 asks the Postal Service to identify each page and line of LR-H-106, and the specific lines of code in the LR-H-146 SAS programs, that would be required to recalculate costs by shape under the 100 percent variability assumption. OCA/USPS-76 asks the Postal Service to list all of the steps that would be required to implement the 100 percent variability assumption in addition to the "primary steps" identified in its response to MMA/USPS-T32-27b.

Ruling 61 affirmed that the Postal Service has the burden of answering focused interrogatories about the impact that its proposed changes in attribution principles would have. It observed that this burden includes a duty to identify and explain changes in the mechanical procedures that it has used to implement a proposed change in attribution principles. Ruling 61 at 7. It noted that in determining the extent of this duty, it is necessary to consider that it will ordinarily be much less burdensome for the Postal Service to explain in detail or demonstrate how its proposed costing procedures differ from the established procedures than for intervenors to do so. *Id.* at 8.

In granting the OCA's motion to compel responses to OCA/USPS-71-76, Ruling 61 focused on the fundamental significance of the change in attribution principles whose impact the OCA seeks to measure and understand. It noted that mail processing labor is the largest single component of Postal Service costs, and observed that the Postal Service's proposal to discard its own long-held assumption that these costs are 100 percent volume variable would have wide ranging consequences for most subclasses and rate categories of mail. Ruling 61 found that the need to identify and evaluate all of the consequences of that change is compelling.

To fully grasp all of the consequences of that change, Ruling 61 concluded that it is necessary to know all of the procedures for attributing those costs to subclasses, and all of the procedures for determining the cost basis of rate category discounts, that would change if the Postal Service's proposal were adopted. Ruling 61 noted that the Commission, and most participants, share the OCA's need to be able to identify and understand these changes. It concluded that this need justifies imposing a burden upon the Postal Service, even if it is substantial. Ruling 61 at 7. The OCA did not assert, and Ruling 61 did not find, that there was a similarly compelling need to separately calculate, and understand, the impact of the myriad of less significant changes in costing methods proposed by the Postal Service. For this reason, Ruling 61 concluded

that the need for a response to OCA/USPS-71-76 outweighs the associated burden, while the need for a response to OCA/USPS-T5-42, does not. Ruling 61 at 4. See OCA Motion to Compel at 6.

The Postal Service asks for reconsideration of Ruling 61 insofar as it grants the OCA motion to compel responses to OCA/USPS-72 and 73. The Postal Service recognizes that Ruling 61 denied the OCA's motion to compel responses to OCA/USPS-T5-42, but granted the motion with respect to OCA/USPS-71-76, in part, because of differences in the burden of responding. But the Postal Service emphasizes another reason that Ruling 61 denied the OCA's motion to compel a response to OCA/USPS-T5-42. Ruling 61 found that listing each line and column of the Postal Service's costing presentation that has been affected by its proposed changes in attribution methods, by itself, has limited analytical value, as Attachment A to the Postal Service's opposition to the OCA motion to compel demonstrated. The Postal Service notes that OCA/USPS-72-73 ask for precisely the kind of list that Attachment A illustrates, since Attachment A lists only those portions of its cost presentation that would have to be changed to restore the established mail processing labor variability assumption. It argues that the same skepticism of the value of such a list that led to the denial of the OCA's motion to compel a response to OCA/USPS-T5-42 justifies a denial of the motion to compel with respect to OCA/USPS-72-73. Motion to Reconsider at 4.

Ruling 61 was not inconsistent in its disposition of OCA/USPS-T5-42 and OCA/USPS-72-73, as the Postal Service alleges. Ruling 61 did not require the Postal Service to provide an exhaustively detailed list of affected portions of its cost presentation of the kind illustrated in Attachment A in response to OCA/USPS-72-73, precisely because it accepted the Postal Service's argument that the burden of preparing such lists would be excessive. Instead, it required the Postal Service to simply "show the calculations that would be necessary to restore the established variability assumption," in the hope that the numbers

themselves would show what changes would have to be made at least as effectively as a more burdensome, Attachment A-style list. Ruling 61 at 8. Ruling 61 went on to clarify that requirement as follows

it will be sufficient for the Postal Service to provide calculations for the worksharing categories and associated rate benchmarks within the First-Class, Periodicals, Standard A and Standard B subclasses. Using First-Class letters and flats as an example, information should be provided separately for (1) Bull Metered Mail, (2) Presort, (3) Automation Basic, (4) Automation 5-Digit, (6) Carrier Route, (7) PRM/QBRM, (8) Basic Automation Flats, and (9) 3/5 Digit Automation Flats. [Id. at 8-9.]

If, after seeing properly sourced numbers worked through, the OCA needed further explanations in order to understand how to recalculate unit costs under the established variability assumption, the Presiding Officer assumed that its needs could largely be met through technical conferences. Id. at 8.

Ruling 61 requires the Postal Service to calculate and provide unit costs for a specified list of rate categories and benchmarks under the established variability assumption, rather than catalogue the affected portions of its costing presentation in exhaustive detail, as OCA/USPS-71-76 ask. The Postal Service virtually ignores this portion of Ruling 61. Instead, the Postal Service's Motion to Reconsider comments, at 5, that it will respond to OCA/USPS-71, and 74-76 by providing

lists and general descriptions of the steps needed to calculate mail processing unit costs for the various worksharing rate categories for First-Class, Periodicals, Standard A and Standard B mail subclasses under the 100 percent variability assumption. The Postal Service will also provide some hypothetical calculations illustrating the procedures 'necessary to restore the established variability assumption. See Ruling No. R97-1/61 at 8. The Postal Service, of course, cannot provide the *actual* calculations without rerunning a new base year and a new rollforward. The Postal Service does not read either Ruling No. R97-1/61 as mandating, or the OCA interrogatories as requesting, that the Postal Service produce new base year and rollforward runs. [Emphasis original, footnote omitted].

When the Postal Service's responses to OCA/USPS-71, and 74-78 were filed on November 28, 1997, they did not include either calculations or an Attachment A-style list. They consisted of partial descriptions, some more specific than others, of some of the steps necessary to calculate unit costs for rate categories under the established variability assumption.

After reviewing the Postal Service's responses to OCA/USPS-71 and 74-78, the OCA argued that they did not comply with Ruling 61. The OCA noted that they did not provide the calculations of unit costs required at page 8 of that ruling. OCA Response at 2-3. It also argued that the Postal Service's responses did not provide a "walkthrough" of the series of steps described in note 7, page 7, [OCA Response at 2] or any "illustrations," by page, line, and column, of how unit costs for representative mail categories would be calculated under the established variability assumption that it contends Ruling 61 required. OCA Response at 5. The OCA argued that such verbal illustrations were needed because explanations received at informal technical conferences cannot be included in the record, and cannot be conveniently disseminated to other participants. OCA Response at 4. The Postal Service filed a response that argued that technical conferences were a more appropriate means of providing the OCA with the information sought by OCA/USPS-72-73, as well as by OCA/USPS-71, and 74-76.<sup>6</sup>

The Commission affirms the conclusion reached in Ruling 61 that the Postal Service has the burden of demonstrating the impact that a significant proposed change in costing principles would have on the unit costs of subclasses and rate categories, and that this burden includes a duty to identify and explain changes in the mechanical procedures that it proposes to use to implement such a proposed change. See Ruling 61 at 7. It concurs, as well, in the conclusion reached by Ruling 61 that the Postal Service's proposed change



in the principle by which mail processing labor costs are attributed is so fundamental and wide ranging in its cost impacts that the Commission, and many other participants, share the OCA's need to be able to identify and understand these changes, and the mechanics by which they have been implemented. *Id.*

Ruling 61 requires the Postal Service to calculate unit costs for listed rate categories and benchmarks under the established variability assumption rather than to provide a verbal description of those procedures in exhaustive detail. It couples that requirement with an understanding that the OCA is entitled to ask for verbal explanations in informal technical conferences. In doing so, it has fashioned a reasonable compromise that should reduce the burden on the Postal Service without significantly impairing the OCA's discovery rights.

Ruling 61 noted that the changes in costing methods that the Postal Service proposes in this docket are fundamental and wide ranging, and the documentation of these changes is unusually complex and challenging to follow. It noted areas in which the costing documentation provided by the Postal Service is neither obvious nor self-evident. Ruling at 7. Ruling 61, however, does not require any special form of written explanation to accompany these calculations.<sup>7</sup>

The Commission is sympathetic to the OCA's concerns that if the Postal Service demonstrates how unit rate category and benchmark costs would be

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<sup>6</sup> Motion of the United States Postal Service for Leave to File Reply Comments to Office of the Consumer Advocate Response to the Postal Service's Motion for Partial Reconsideration of P.O. Ruling R97-1/61 and Reply Comments, December 5, 1997.

<sup>7</sup> The OCA apparently interprets Ruling 61 as requiring a line-by-line, column-by-column "road map" of all portions of the Postal Service's costing documentation that would be affected by restoring the established variability assumption for mail processing labor costs, at least for a set of representative examples in each class of mail. OCA Response at 5. Ruling 61 only requires that the Postal Service provide the specified unit cost calculations, documented in a manner that complies with the Commission's rules.

calculated under the established variability assumption,<sup>8</sup> without adequate written documentation that can be placed on the record, part of the OCA's discovery objectives will be frustrated. Accordingly, the Postal Service is directed to provide all of the calculations described at pages 8 and 9 of Ruling 61, including underlying base year and rollforward calculations. It is directed to accompany them with documentation that complies with the Commission's documentation rules. These include Rule 54(o), which requires annotating numbers to specific page, line, column, and row, if such detail is necessary to indicate their source.

To minimize the burden on the Postal Service, while maximizing the benefit to the OCA, other participants, and the Commission, these calculations should be provided in the most analytically useful form possible. It will be sufficient for the Postal Service to file its response in electronic form only. The electronic files that it provides should use bolding, shading, or similar techniques, to distinguish modifications of inputs from changes that automatically result from modifications of inputs. For example, in the mail processing cost models, if the Service were to change pieces per hour (i.e., productivity) it should use a highlighting technique to distinguish such changes from intermediate changes, or ultimate changes in cost per piece, that would automatically result from changing pieces per hour.

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<sup>8</sup> Throughout these pleadings, the OCA and the Postal Service use the phrase "100 percent variability assumption" as a shorthand way of referring to the established variability analysis of mail processing labor costs that has been consistently proposed by the Postal Service and adopted by the Commission prior to this docket. The established variability analysis assumes that mail processing labor is 100 percent volume variable for most, but not all cost components. See the treatment of platform and "miscellaneous" work at USPS LR-H-1, pages 3-2 to 3-5. The Postal Service is directed to demonstrate the impact of applying the established variability analysis, not a "100 percent variability assumption" per se, to apply to its rate proposals.

IT IS ORDERED:

1. The Motion of United States Postal Service for Partial Reconsideration of Presiding Officer's Ruling No. R97-1/61, filed November 21, 1997, is denied.

2. The Postal Service is directed to comply with Presiding Officer's Ruling No. R97-1/61 by providing the calculations and documentation described in the body of this Order within two weeks of the date of this Order.

3. The Motion of the United States Postal Service for Leave to File Reply Comments to Office of the Consumer Advocate Response to the Postal Service's Motion for Partial Reconsideration of P.O. Ruling R97-1/61 and Reply Comments, filed December 5, 1997, is granted.

By the Commission.

(S E A L)



Margaret P. Crenshaw  
Secretary