

DOCKET SECTION

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

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

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE TO NOTICE OF INQUIRY NO. 5 (February 13, 1998)

The Postal Service hereby responds to the Commission's Notice of Inquiry No. 5, issued on January 28, 1998. The NOI presented two questions:

1. Should the Commission recognize actual 1997 Postal Service net income in developing rate recommendations in this case? Why, or why not?
2. Participants that contend that the Commission should recognize actual 1997 Postal Service net income in developing rate recommendations are requested to describe one or more methods that would be appropriate for reflecting that information.

The Postal Service believes that, in order to maintain the ratemaking, financial, and other policy objectives embodied in its Request in this docket, the Commission should refrain from adjusting the revenue requirement to account for actual net income for FY 1997. As witness Tayman testified:

If changes to the revenue requirement were to result in a Recommended Decision that significantly changed the amount of net revenue requested by the Postal Service in this filing, management's current goals and objectives could be undermined, especially if the revisions were to result in significant departure from the Postal Service's proposals. ... [M]anagement's assessment of the overall revenue requirement is the result of balancing a complex array of quantitative and subjective considerations. The entire filing, furthermore, including the specific pricing and classification proposals, embodies management's judgment about how those considerations should be

balanced, and about the appropriate financial policy goals for the Postal Service. ... [I]t would not be unreasonable, nor unprecedented, for the Postal Service to conclude that the effects of particular changes, including actual financial performance, caused a reassessment of the elements of the revenue requirement in a way that permitted the Postal Service to determine that its financial and other policy objectives were still best served by adherence to its original revenue requirement." Tr. 9/4517–18.

The prospect that FY 1997 net income might differ significantly from the estimates incorporated in the Postal Service's filing, in the range reflected in FY 1997 actual operating results, was contemplated early in this case. See Tr. 9/4397-99. Nevertheless, Mr. Tayman repeatedly testified that in his opinion no adjustment to the revenue requirement was warranted or advisable. See, e.g., *id.* at 4398-99, 4477. From the outset, his testimony was based on the Board of Governors' determination that the most appropriate response to future financial and market conditions was the decision to "opt for a moderate increase in rates which is below the rate of general inflation in the economy, and a continuation of equity restoration and strengthening of financial position." Direct Testimony of William P. Tayman, USPS–T–9, at 9. Furthermore, witness Tayman concluded that "[w]ithout the proposed rate increase, the Postal Service cannot meet the Board of Governors' policy on equity restoration, nor can it fund expenditures critical to the future viability of the Postal Service." *Id.* These expenditures were intended to enable programs "designed to continue service improvements, improve responsiveness to customers, maintain and improve our infrastructure, and reduce costs in the future." *Id.*; Tr. 9/4403, 4456; see Tr. 9/4553-54, 4561, 4569. In this regard, it is important to note the acknowledgment in Mr. Tayman's testimony that, beyond the hypothetical test year foundation for the Postal

Service's Request in this docket, the rates proposed and the revenues generated were designed to endure beyond the test year. Tr. 9/4458. Any substantial diminution of the revenue goals embodied in the Postal Service's Request would impair the Postal Service's ability to carry out and sustain programs and policy choices determined by the Board to be in the best interests of the Postal Service and the public.

Furthermore, reducing the revenue requirement would undermine the Board's financial policy, including consideration of sources of funding, the size and frequency of rate increases, and the restoration of equity. The Postal Service believes that the revenue requirement and rates it has requested in this filing best further those objectives. They represent an overall increase that is less than half the rate of general inflation. Moreover, assuming the new rates would be implemented in the fourth quarter of FY 1998, or later, a rate increase will have been deferred for at least a year and a half longer than was anticipated for the last general rate adjustment. In part to achieve this result, the Postal Service included in the revenue requirement a contingency amount of only 1 percent, which is the smallest percentage of accrued costs ever included in a revenue requirement. When looked at comprehensively, the revenue requirement and rates requested by the Postal Service in this case remain reasonable and appropriate, and no adjustments are necessary or warranted.

If, however, the Commission were to decide to incorporate actual FY 1997 net income into its analysis, it should limit its adjustments to the direct effect on the amount included for the recovery of prior years' losses. This change is known,

readily quantifiable, and does not significantly affect test year accrued costs, which at this point remain unknown. The recommended method for reflecting FY 1997 actual results in the calculation of prior years' losses is shown in the attachment to this response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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Chief Counsel, Ratemaking

A handwritten signature in black ink, appearing to read "Scott L. Reiter", written over a horizontal line.

Scott L. Reiter

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February 13, 1998

Recovery of Prior Years' Losses			
	Original Filing 1/	Updates	Revised RPYL
Deficit from Operations FY 72 - FY 96	5,658.0		5,658.0
FY 97 Net Income	635.6	628.8	1,264.4
Less: Funds from PL No. 94-421	1,000.0		1,000.0
Amount of Recovery Required	4,022.4	(628.8)	3,393.6
Annual Increment @ 1/9	446.9	-69.9	377.1

1/ Table 53, USPS-T-9

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.

A handwritten signature in black ink, appearing to read "Scott L. Reiter", is written over a horizontal line.

Scott L. Reiter

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