

# DOCKET SECTION

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

RECEIVED  
FEB 24 3 25 PM '98

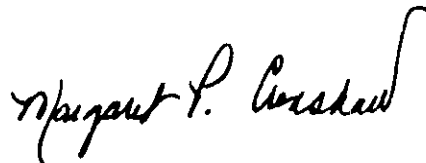
Postal Rate and Fee Changes

Docket No. R97-1

## NOTICE TO PARTICIPANTS

(February 24, 1998)

Notice is hereby provided to all participants of record in this docket that the attached letter has been sent today to each individual member of the United States Postal Service Board of Governors.



Margaret P. Crenshaw  
Secretary

Attachment

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

February 24, 1998

The Honorable Sam Winters  
Chairman  
Board of Governors  
United States Postal Service  
475 L'Enfant Plaza SW  
Washington, DC 20260-1000

Dear Chairman Winters:

On July 10, 1997, the Postal Service filed a request for rate changes. It projected that the Service would fall approximately \$2.4 billion short of "break even" in fiscal year 1998 if rates were not adjusted. The Postal Rate Commission established Docket No. R97-1 to consider the Postal Service request.

The Commission, the Postal Service, and some 80 formal intervenors have been striving to develop a complete and accurate hearing record, and the Commission plans to transmit a recommended decision within the 10-month period prescribed by 39 U.S.C. § 3624.

The Commission is fully aware that the responsibility for choosing when to initiate new rate cases and when to implement new rates rests solely with the Board of Governors. However, a unique confluence of events surrounding the R97-1 docket leads the Commission to communicate the following serious concern to the Board, and to suggest that our agencies take unprecedented action to maintain public confidence in the system for setting postal rates.

As the Board is aware, for the Commission to recommend rates that accurately reflect the costs caused by each of the classes of mail and fairly apportion the institutional costs of the Service among mailers in accordance with the policies of the Act, it needs reliable, up-to-date information. Postal Service data systems are not expected to generate final audited FY 1997 information soon enough for use by the Commission in this case under the current schedule. For the following reason, the Commission is concerned that this may result in an outcome that does not sufficiently reflect actual events, thereby causing many mailers to pay inappropriate rates.

Given the current record, the rates that the Commission recommends will depend on projections from results experienced in 1996. There are reasons to question whether 1996 results are representative of what the Postal Service's costs, volumes and revenues are likely to be. The current rates and classification structure, and many operations associated with reclassification, were not implemented until the last quarter of 1996. Consequently, projections are extrapolations from a 1996 mail stream whose cost and revenue characteristics have since undergone significant change. Clearly, rates based on post-reclassification (FY 1997) data would better represent Postal Service costs, volumes, and revenues in 1998 and beyond.

Another advantage of having FY 1997 data on which to base rates is that it would allow the Commission to incorporate recent unexpected surpluses attributable to the Postal Service's successful cost reduction programs and favorable trends in the volumes and mix of mail. As a result of successful management and a strong national economy, the Postal Service's operating results for FY 1997 were significantly better than projected in the R97-1 filing. The 1997 Annual Report of the Postal Service reported a net operating surplus of \$1.26 billion, some \$.63 billion higher than forecast. This better-than-expected performance appears to be continuing. The Postal Service enjoyed a net operating surplus in the first quarter of FY 1998 of \$.98 billion, \$.43 billion more than it enjoyed in the first quarter of 1997.

We suggest that our agencies fashion a cooperative procedure that would enable the Commission to recommend rates in this case that reflect the results of operations during the periods immediately prior to the implementation of those rates, while preserving the financial prerogatives of the Board.

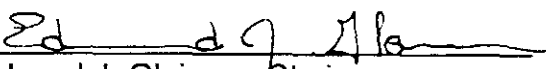
The Board could direct that actual FY 1997 data be compiled and provided to the Commission in the near future. The Commission would require approximately three months to incorporate this data into a recommended decision. The financial risk to the Postal Service of extending R97-1 in this manner should be minimal, given the Postal Service's strong financial position.

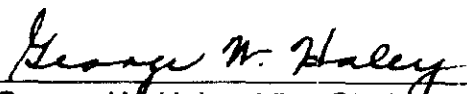
The alternative, delaying implementation of recommended rates developed under the current schedule until such time as financial conditions require, would result in rates flawed by the fact that they reflect pre-reclassification operating results rather than more representative, recent, fiscal and operating realities.

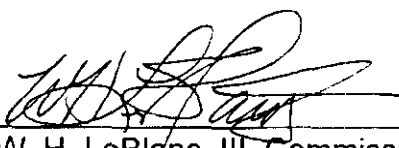
The Commission urges the Board to consider the benefits to the entire mailing community of the cooperative procedure suggested. It would help assure that rate changes, when implemented, reflect Postal Service operating realities. Please note that to maintain confidence in the open and public nature of the ratemaking process, a

copy of this letter has been provided to all participants in the current omnibus rate case and will be published on the Commission's website. With optimism that any unidentified procedural hurdles can be overcome, we remain

Sincerely,

  
Edward J. Gleiman, Chairman

  
George W. Haley, Vice Chairman

  
W. H. LeBlanc, III, Commissioner

  
George A. Omas, Commissioner

cc: Tom Koerber