

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, 2000

Docket No. R2000-1

**INTERROGATORIES OF
THE DIRECT MARKETING ASSOCIATION, INC.
TO USPS WITNESS TAYMAN**

Pursuant to Sections 25 and 26 of the Commission's Rules of Practice, the Direct Marketing Association, Inc. hereby submits the attached interrogatories to USPS witness Tayman: DMA/USPS-T9, Nos. 1-21. If the designated witness is unable to respond to any interrogatory, we request a response by some other qualified witness.

Respectfully submitted,

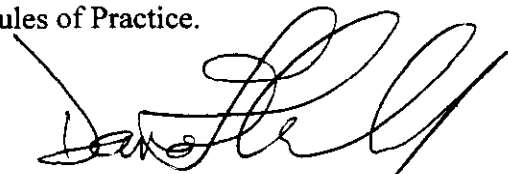


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CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Commission's Rules of Practice.



Dana T. Ackerly II

Dated: January 28, 2000

DMA/USPS-T9-1. On page 2 of your testimony you state, "This absence of additional obligations to the Federal Government, coupled with the benefits of the 1992 restructuring and debt refinancing, moderate increases in the cost of labor and other resources, improved service, and continued growth in mail volume and revenue, have enabled the Postal Service to reverse the historical pattern of rate cycle losses." Please explain how improved service has help enable "the Postal Service to reverse the historical pattern of rate cycle losses."

DMA/USPS-T9-2. Table 1 on pages 2 and 3 of your testimony shows the net income and the equity of the Postal Service from 1989-1998. Please provide a version of this table that starts in 1989 but includes 1999.

DMA/USPS-T9-3. For each year in Table 1, please provide the book value of the real estate that the Postal Service owns. Please also provide an estimate of the market value of the real estate.

DMA/USPS-T9-4. Speaking of the period 1989-1998 on page 3 of your testimony, you say "Despite the fact that this ten year period includes this unprecedented four-year string of net incomes and the three highest net incomes ever earned by the Postal Service, a cumulative \$346 million net loss was incurred. This means the Postal Service failed to make ground against its prior years' losses recovery objective during the last decade." Please assume that net income for FY 2000 is the 66 million that the Postal Service has estimated. On this assumption, please provide the net loss or gain for the ten-year period 1991 – 2000. Did equity increase in this period?

DMA/USPS-T9-5. Table 5 on page 6 of your testimony compares total assets and liabilities of the Postal Service. Are all assets of the Postal Service valued at book value? For real estate, does market value exceed book value?

DMA/USPS-T9-6. On page 7 of your testimony you say, "As reflected in Table 6, key national indicators of service performance from the Residential Customer Satisfaction Measurement System have all shown improvement since Quarter II of Fiscal Year 1994. In general, the attributes of customer satisfaction which make up the Residential Customer Satisfaction Measurement System have consistently improved at the same time unprecedented financial results have been achieved." What are "the attributes of customer satisfaction" which make up the Residential Customer Satisfaction system? What percentage of the revenues of the USPS do residential customers pay? By business mailers? Please provide any information or data you having bearing on the satisfaction of business mailers. Do you think business mailers are pleased that the USPS has proposed rate increase that are larger than the inflation rate?

DMA/USPS-T9-7. On page nine of your testimony you say, "Estimated expenses of \$62.400 billion used in this filing were within 0.06 percent of the actual FY 1999 expenses of \$62.363 billion." Does this mean that costs for 1999 were \$36 million less than estimated by the roll forward program?

DMA/USPS-T9-8. Table 10 on page 13 of your testimony shows cost reductions saving of \$475,374 for Clerks and Mailhandlers in the Test Year. How many labor hours does this represent?

DMA/USPS-T9-9. Table 10 on page 13 of your testimony shows cost reductions saving of \$151,374 for Carriers in the Test Year. How many labor hours does this represent?

DMA/USPS-T9-10. On page 15 of your testimony you say, "Reduced program expense reflects management's commitment to control costs. There is long term risk, however, in this strategy, as it requires deferral and cancellation of programs that would otherwise be planned to improve the quality of service, increase responsiveness to customers, and build and maintain our infrastructure." Please describe all deferrals and cancellations caused by cost control. Are there also risks in failing to control costs? If so, please describe them.

DMA/USPS-T9-11. On page 15 of your testimony you say "Clerk overtime is assumed to continue at the FY 1998 level through the Test Year." How much overtime was there in 1998? What is the cost of clerk overtime in the Test Year? In 2000? Given the increased productivity of systems described by witness Kingsley, why is overtime not declining.

DMA/USPS-T9-12. When were the inflation estimates in Table 14 prepared? Has DRI provided you with more recent estimates? If so, please provide them.

DMA/USPS-T9-13. On page 42 of your testimony you say, "To achieve our net income plan for the year required significant cost cutting. This was in addition to funding greater than expected costs associated with the year 2000 computer transition." Is "year 2000 computer transition" synonymous with Y2K? If not, please explain how it is different. How much did the Postal Service spend on year 2000 computer transition in FY 98? In FY 99? What is the estimated cost for year 2000 computer transition in FY 00? In TYAR?

DMA/USPS-T9-14. Please refer to the first paragraph of page 27 of LR-I-126:

a. Please confirm that this paragraph implies that from FY 1999 to FY 2000 the rate of growth in the costs for the "Year 2000 Software" program will outstrip inflation by \$1.558 million.

b. Please confirm that there is no "Year 2000 Software" cost reduction or other program adjustment for FY 2001.

Please confirm that costs for "Year 2000 Software" are in cost Segment 16. If they are not, please provide the cost segment and component where they are.

DMA/USPS-T9-15. In discussing the size of the contingency you selected, on page 42 you state, "The outlook for the future is even more challenging. Volume growth is below historical norms and projections of Fiscal Year 2000 require workyears be held at the Fiscal Year 1999 level while mail volume and the delivery network continue to grow. In the Test Year after rates, a 1.5 percent workyear reduction is projected. It will be a challenge to achieve this reduction. Many other uncertainties exist and there also appear to be significant new pressures on salary and benefit cost levels." Please confirm that volume growths below historic norms have been accounted for in your projection of both Test Year costs and revenues. Please confirm that mail volume and delivery network growth have been accounted for in your projection of both Test Year costs and revenues. Please describe the "other uncertainties" you cite. Please confirm

that your projection of Test Year costs takes into account higher levels of employee benefits than the USPS currently experiences.

DMA/USPS-T9-16. In discussing the size of the contingency you state, "It also keeps the cumulative rate increases over the last two rate cycles below the cumulative rate of general inflation." Please provide calculations supporting your assertion that cumulative rate increases are below the rate of general inflation.

DMA/USPS-T9-17. Please describe all segments for your market in which foreign postal operations are competing. Please provide an estimate of how much of your revenues they have captured. Please provide an estimate of how much of your market they will have captured in the Test Year.

DMA/USPS-T9-18. Please explain how "the increasingly competitive environment in which the Postal Service operates" requires a higher contingency. Might a business in an increasingly competitive environment find ways to reduce their costs so they can remain competitive?

DMA/USPS-T9-19. Please refer to page 44 of your testimony where you state, "I am convinced that variance analysis cannot be relied upon in a vacuum as the basis for determining an appropriate contingency level. Variance analysis can only show us what happened in the past, and should not be relied upon exclusively to determine the prudent amount of cushion against unforeseen events in the Test Year." Do these two sentences mean that variance analysis does have a role to play in determining the size of the contingency? If not, please reconcile this view with these two sentences.

DMA/USPS-T9-20. Please provide a spreadsheet showing the distribution of cost reduction programs to class and subclass for FY 2000 and TYAR.

DMA/USPS-T9-21. Please provide a spreadsheet showing the distribution of other programs to class and subclass for FY 2000 and TYAR.