

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

RECEIVED

JAN 28 5 00 PM '00  
POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

NOTICE OF UNITED STATES POSTAL SERVICE  
OF ERRATA TO MATERIAL RELATED TO  
TESTIMONY OF WITNESS TAYMAN

The United States Postal Service hereby gives notice that it is filing the attached errata to the testimony of witness Tayman, USPS-T-9 and to Library Reference I-126. The changes are listed on a separate page.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking



\_\_\_\_\_  
Scott L. Reiter

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-2999 Fax -5402  
January 28, 2000

1 summarize each of the sources of change for FY 1999, FY 2000 and the Test Year that  
2 result from the factors developed by me and other Postal Service witnesses. The total  
3 Test Year revenue requirement is determined by adding final adjustments,<sup>9</sup> the  
4 contingency, and the amount included to recover prior years' losses, to the amount  
5 reflected on the after rates rollforward model test year change report which has been  
6 adjusted for the workyear mix.<sup>10</sup>

7 a. Cost level

8 Estimating the increase in the cost of current year resources  
9 produces cost level changes for the subsequent year. Year-to-year price changes  
10 primarily consist of increases in the unit cost of personnel compensation and benefits  
11 and the cost of the previous year's level of non-personnel resources. As detailed in my  
12 Exhibit 9Q, cost level changes in salaries are estimated to average 3.1% in FY 1999,  
13 3.0% in FY 2000 and 4.0% in the test year. Cost level changes in benefits are  
14 estimated to average 4.8% in FY 1999, 6.5% in FY 2000 and 6.4% in the test year.  
15 The derivation of cost level factors is explained in detail in Chapters VIII and IX of  
16 Library Reference I-127.

17 b. Mail volume effect

18 Mail volume effect is cost changes due to increases or decreases  
19 in mail volume and special services volume. Cost variability due to the mail volume  
20 effect is detailed in the testimony and workpapers of witness Kashani (USPS-T14).

21 c. Non-volume workload effect

22 These are cost changes that result from variation in measurable  
23 workload characteristics other than mail volume. For example, city carrier street costs  
24 vary with the number of possible deliveries. The most significant of these in terms of  
25 financial impact are the number of possible city deliveries, the number of rural boxes  
26 and route miles, and the amount of facilities square footage. Non-volume workload  
27 factors are summarized in Table 8. The computation of non-volume workload factors is

---

<sup>9</sup> Final adjustments are calculated by other witnesses and summarized and sourced in witness Kashani's Exhibit USPS-14I.

<sup>10</sup> Exhibit 9B, page 9.

1 explained in Chapter IVd of Library Reference I-127. The application of these factors to  
2 Postal Service costs is explained in the testimony and workpapers of witness Kashani  
3 (USPS-T14).

4  
5 **Table 8**  
6 Non-Volume Workload Factors  
7 % Change from Previous Year

	FY 1999	FY 2000	Test Year
No. of Post Offices <sup>11</sup>	0.3%	(0.0)%	(0.0)%
Possible City Deliveries	0.6%	0.6%	0.6%
Rural Route Miles	2.2%	2.2%	2.2%
Rural Boxes & Route Miles <sup>12</sup>	3.0%	3.0%	3.0%
Contract Stations	(2.8)%	3.5%	3.3%
Cag L Post Offices	(10.8)%	(2.8)%	(2.9)%
Facilities Sq. Footage (Leased)	2.1%	2.1%	2.1%
Facilities Square Footage (Interior)	3.1%	3.8%	1.8%

8  
9 d. Additional workday effect

10 Some costs vary according to the number and composition of days  
11 in each Government Fiscal Year. For example, costs are higher on weekdays (except  
12 holidays) than Saturdays, and lowest on Sundays and holidays. The derivation of the  
13 additional workday factor is detailed in Chapter VII of Library Reference I-127 and the  
14 application of these factors to Postal Service costs is explained in the testimony and  
15 workpapers of witness Kashani. The number of days in each of the relevant years is  
16 shown in Table 9.

17  
18 **Table 9**  
19 Analysis of Work Days by Fiscal Year

	FY 1998	FY 1999	FY 2000	Test Year
Weekdays	251	251	251	250
Saturdays	52	52	53	52
Sundays	52	52	52	53
Holidays	10	10	10	10
Workday Equivalents	293.27	293.27	293.94	292.40
Total Days	365	365	366	365

20  
<sup>11</sup> Weighted by Postmaster salaries by class.

<sup>12</sup> Weighted average.

1                   The Other Programs expense growth for FY 2000 and the Test  
2 Year are \$0.4 billion and \$1.1 billion respectively, or a total of \$1.5 billion. This is  
3 substantially less than the \$3.7 billion in Other Programs expense growth estimated for  
4 FY 1997 and the Test Year in Docket No. R97-1. The growth for FY 2000 and the Test  
5 Year is concentrated in corporatewide personnel costs, depreciation and interest. The  
6 remaining expense growth for these two years is more than offset by cost reductions  
7 reflected in Table 10. Reduced program expense reflects management's commitment  
8 to control costs. There is long term risk, however, in this strategy, as it requires deferral  
9 and cancellation of programs that would otherwise be planned to improve the quality of  
10 service, increase responsiveness to customers, and build and maintain our  
11 infrastructure.

12                   g.     Base Year Unit Cost Adjustment

13                             This adjustment applies to Fiscal Year 1999 only and is  
14 documented in the testimony and workpapers of witness Kashani.

15                   h.     Workyear Mix Adjustments

16                             The workyear mix adjustments represent the dollar impact of  
17 changes in the composition of workyears expected to occur during Fiscal Years 1999-  
18 2001. The methodology used in the Docket R97-1 filing, which reflected the lower cost  
19 of new hires as part of the workyear mix adjustment, has been changed. The cost  
20 savings related to new hires is now calculated as an offset to step increases which are  
21 reflected as part of cost level changes. This approach improves the estimate by  
22 including the new hire impact of rural carriers and other bargaining employees that  
23 previously were not estimated. The new method is also more accurate because it  
24 calculates the savings as the difference between employees' retiring at the top step and  
25 their replacements' being hired at the bottom step. The old method calculated the net  
26 savings as the difference between the average cost of an extended step employee and  
27 the overall average personnel cost.

28                             Changes in the workyear mix are estimated to result in greater  
29 personnel costs for Fiscal Years 1999 through 2001 before rates, and a slight decrease  
30 in costs for the Test Year after rates. These amounts are relative to the personnel

**Table 39**  
Contractual Transportation of Mail  
(\$ 000)

	Amount	% Change
FY 1998	4,242,170	
FY 1999	4,279,550	0.9
FY 2000	4,559,054	6.5
Test Year before rates	4,755,068	4.3
Test Year after rates	4,619,553	1.3

This segment includes the cost of non-Postal Service contractual resources used to transport domestic mail between Postal Service facilities within the United States of America. Also included are the costs of transporting international mail between the United States and foreign countries, and the impact of fluctuations in international currency conversion exchange rates. As reflected in Table 40, Contractual Transportation costs are mainly impacted by cost level changes, mail volume workload, cost reductions, and other programs. Cost level changes result from the level of inflation forecasted by DRI. Cost reductions relate to Priority Mail Processing Centers, new efficiencies in Air System Contracts, Mail Transport Equipment Centers, Prior Year International Adjustments, parcel dropship savings and a challenge to absorb inflation. Other programs relate mainly to initiatives that improve the quality of service by adding new or upgraded transportation links. In Fiscal Years 1999 through the Test Year, final adjustments reflects mail mix adjustments as calculated by witnesses Robinson and Daniel.

**Table 40**  
Significant Changes in Cost  
Contractual Transportation of Mail  
(\$ 000)

	FY 1999	FY 2000	Test Year After Rates
Cost Level Changes	93,325	86,349	44,297
Mail Volume Effect	59,900	165,954	31,093
Additional Workday Effect	-	1,290	-2,981
Cost Reductions	-130,985	-79,225	-25,526
Other Programs	46,392	56,100	18,829
Final Adjustments	18,345	49,036	-5,213
Base Year Unit Cost Adjustment	-49,597	-	-

1 the past two rate cycles. Our interim year projections also show that equity restoration  
2 will continue up to the Test Year. As shown in my Exhibit 9L, which depicts historical  
3 net incomes, losses, and equity, a fifth straight net income was realized in FY 1999,  
4 and a net income of \$65.6 million is estimated for Fiscal Year 2000. This will improve  
5 equity to a negative \$380.4 million by the end of FY 2000.

6                   Notwithstanding this progress, rising cost levels and weak revenue  
7 growth will tend to undermine the Postal Service's equity position in Fiscal Year 2001.  
8 In this regard, the Board of Governors of the Postal Service has affirmed the Postal  
9 Service's commitment to restoring and maintaining equity over time. In Resolution No.  
10 95-9, adopted on July 10, 1995, the Board issued a policy statement outlining a goal of  
11 restoring equity between general rate increases cumulatively in relation to the amount  
12 included for recovery of prior years' losses in the most recent rate case.<sup>19</sup> In connection  
13 with that goal, the resolution further stipulates that, whenever it is projected that  
14 restoration of equity as specified might not be met, the Board and the Postal Service  
15 will take action to reduce costs and/or increase revenues. A report on equity  
16 restoration prepared by Price Waterhouse LLP for the Board of Governors provides  
17 significant advice as background to the Board's policy Resolution.<sup>20</sup> The Report  
18 recommended that "the Board of Governors adopt a Policy Statement affirming a  
19 commitment to the goals of breaking even over time and taking actions to improve the  
20 Postal Service's equity position."<sup>21</sup>

21                   A Fiscal Year 2001 before rates Test Year with a projected net loss  
22 of \$1.7 billion indicates the need for additional net revenue. As reflected in my Exhibit  
23 9N, the Postal Service projects it will fall short of the Board of Governor's equity  
24 restoration goal if rates are not increased during Fiscal Year 2001.

25                   Although in the past two rate cycles significant equity was restored,  
26 the Postal Service's current equity position is still negative. If there had been no  
27 provision for recovery of prior years' losses, however, the erosion of equity would have

---

<sup>19/</sup> Docket No. MC96-3, Library Reference SSR-112.

<sup>20/</sup> Id.

<sup>21/</sup> Id.

**R97-1 BEFORE RATES**  
**HISTORICAL WEIGHTED AVERAGE PERCENTAGE REVENUE AND COST VARIANCES FOR TEST YEARS**

(\$ Millions)

Cost Segment	R87-1 1/			R90-1 1/			R94-1 1/			R97-1 2/			Four Year Totals		
	After Rates Estimated	Actual	% Over (Under)	After Rates Estimated	Actual	% Over (Under)	After Rates Estimated	Actual	% Over (Under)	Before Rates Estimated	Actual	% Over (Under)	Estimated	Actual	% Over (Under)
Total Revenue	38,826.5	38,919.6	0.2	48,101.8	47,106.0	(2.1)	64,569.4	64,509.4	(0.1)	59,427.6	60,116.8	1.2	200,925.4	200,650.8	(0.1)
1	1,298.7	1,240.4	(4.5)	1,456.4	1,431.2	(1.7)	1,544.8	1,632.4	5.7	1,714.8	1,710.4	(0.2)	6,013.5	6,014.4	0.0
2	2,958.2	2,787.5	(2.5)	3,272.3	3,238.7	(1.0)	2,758.9	3,170.6	14.9	3,514.7	3,512.4	(0.1)	12,404.2	12,709.2	2.5
3	11,899.7	12,614.7	6.0	14,071.3	14,148.0	0.5	15,775.7	16,063.6	1.8	17,707.5	17,646.1	(0.3)	59,454.2	60,462.5	1.7
4	30.4	19.6	(35.4)	22.6	10.3	(54.7)	10.2	10.6	3.9	10.1	8.4	(16.8)	73.3	48.9	(33.3)
6 & 7	8,483.8	8,506.1	0.5	10,098.9	9,994.8	(1.0)	11,272.5	11,482.5	1.7	11,987.7	12,076.2	0.7	41,820.7	42,038.6	0.5
8	283.8	273.2	(3.7)	326.1	324.7	(0.4)	372.1	400.4	7.6	452.8	457.3	1.0	1,434.8	1,455.6	1.4
9	107.7	104.0	(3.4)	119.3	106.7	(11.4)	110.9	110.0	(0.8)	116.1	71.1	(38.8)	453.9	390.8	(13.9)
10	1,938.5	2,083.5	7.5	2,390.3	2,614.3	9.4	3,141.8	3,218.8	2.4	3,730.6	3,678.2	(1.4)	11,201.2	11,592.8	3.5
11	1,528.9	1,393.7	(8.8)	1,844.9	1,734.6	(6.0)	2,116.4	2,068.1	(2.8)	2,310.6	2,304.3	(0.3)	7,900.7	7,490.7	(4.0)
12	484.7	455.9	(5.9)	513.7	469.6	(8.6)	486.6	548.9	10.7	648.6	673.1	3.8	2,143.6	2,146.4	0.2
13	145.1	205.6	41.7	232.0	214.4	(7.6)	221.9	262.6	18.3	291.7	303.7	4.1	890.7	986.3	10.7
14	2,403.4	2,471.3	2.8	2,878.5	2,896.2	4.1	3,504.4	3,509.8	0.2	4,364.7	4,242.2	(2.8)	13,152.0	13,219.5	0.5
15	847.1	893.4	5.5	1,058.0	1,051.2	(0.5)	1,284.2	1,162.8	(9.5)	1,540.7	1,438.4	(6.6)	4,729.0	4,546.8	(3.8)
17	19.2	63.6	231.3	98.5	152.5	54.8	66.9	51.9	(22.4)	57.2	77.1	34.8	241.8	345.1	42.7
18	16.8	17.9	6.5	20.3	21.9	8.2	14.5	30.9	113.1	39.0	36.1	(7.4)	90.5	106.8	17.9
18 3/	806.2	931.6	15.3	1,277.4	1,196.5	(6.4)	1,787.9	2,043.2	NM	3,529.6	3,221.6	(8.7)	7,403.2	7,392.0	NM
18 3/	3,663.9	4,014.2	9.6	5,380.4	6,724.0	25.4	6,593.7	3,729.6	NM	4,595.7	4,575.7	(0.4)	20,213.7	18,043.5	NM
20 3/	548.5	783.6	42.9	1,233.1	1,214.0	(1.5)	1,506.8	3,283.2	NM	4,155.5	3,533.2	(15.0)	7,445.9	8,814.0	NM
Subtotal 3/	5,020.7	5,728.5	14.1	7,870.9	9,133.5	16.0	9,890.5	9,066.0	(8.4)	12,280.8	11,330.5	(7.7)	35,062.9	35,249.5	0.5
Final Adjustments				(64.2)	0.0	N/A	0.0	0.0	N/M	53.2	0.0	0.0	(11.0)	0.0	NM
Total Accrued Costs	37,346.5	38,858.9	4.0	46,205.8	47,641.4	3.1	52,582.3	52,738.9	0.3	60,819.5	59,566.5	(2.1)	198,954.1	198,805.7	0.9

1/ From Exhibit USPS-SJ, Direct Testimony of William P. Teyman, Docket No. R97-1.  
 2/ Estimated and Actual from Exhibit USPS-SJ, page 1 of 8. Actual not impacted by rate changes effective on January 10, 1999 (after the test year).  
 3/ Account reclassifications made in FY 95 had a material effect on segments 18, 19, and 20. Individual FY 95 percentage variances for these segments may not be meaningful. The FY 95 and four year weighted average percentage variances are calculated in total for these three segments only.

R97-1 AFTER RATES  
HISTORICAL WEIGHTED AVERAGE PERCENTAGE REVENUE AND COST VARIANCES FOR TEST YEARS

(In Millions)

	R97-1 1/			R90-1 1/			R94-1 1/			R97-1 2/			Four Year Totals		
	After Rates Estimated	Actual	% Over (Under)	After Rates Estimated	Actual	% Over (Under)	After Rates Estimated	Actual	% Over (Under)	After Rates Estimated	Actual	% Over (Under)	Estimated	Actual	% Over (Under)
Total Revenue	38,826.5	38,919.6	0.2	48,101.9	47,106.0	(2.1)	54,569.4	54,509.4	(0.1)	61,651.8	60,116.8	(2.5)	203,149.6	200,650.8	(1.2)
Cost Segment															
1	1,298.7	1,240.4	(4.5)	1,455.4	1,431.2	(1.7)	1,544.8	1,632.4	6.7	1,712.6	1,710.4	(0.1)	6,011.6	6,014.4	0.0
2	2,858.2	2,787.5	(2.5)	3,272.3	3,239.7	(1.0)	2,758.9	3,170.6	14.9	3,517.9	3,512.4	(0.2)	12,407.4	12,709.2	2.4
3	11,899.7	12,614.7	6.0	14,071.3	14,148.0	0.5	15,775.7	16,053.6	1.8	17,759.8	17,848.1	(0.5)	59,506.3	60,462.5	1.6
4	30.4	19.6	(36.4)	22.6	10.3	(54.7)	10.2	10.6	3.9	10.1	8.4	(16.8)	73.3	48.9	(33.3)
6 & 7	8,483.6	8,505.1	0.5	10,096.9	9,994.8	(1.0)	11,272.5	11,462.5	1.7	11,960.5	12,076.2	1.0	41,783.5	42,038.8	0.6
8	283.8	273.2	(3.7)	326.1	324.7	(0.4)	372.1	400.4	7.6	449.0	457.3	1.8	1,431.0	1,455.6	1.7
9	107.7	104.0	(3.4)	119.3	106.7	(11.4)	110.9	110.0	(0.8)	114.1	71.1	(37.7)	451.9	380.8	(13.5)
10	1,838.5	2,083.5	7.5	2,390.3	2,614.3	9.4	3,141.8	3,216.8	2.4	3,721.8	3,878.2	(1.2)	11,192.2	11,592.8	3.6
11	1,528.9	1,383.7	(8.8)	1,844.9	1,734.6	(6.0)	2,116.4	2,058.1	(2.8)	2,315.7	2,304.3	(0.5)	7,606.8	7,490.7	(4.0)
12	484.7	455.9	(5.9)	513.7	469.6	(8.8)	496.6	549.9	10.7	648.0	673.1	3.9	2,143.0	2,148.4	0.3
13	145.1	205.6	41.7	232.0	214.4	(7.6)	221.9	262.6	18.3	291.8	303.7	4.1	890.6	988.3	10.7
14	2,403.4	2,471.3	2.9	2,879.5	2,896.2	4.1	3,504.4	3,509.8	0.2	4,326.5	4,242.2	(1.9)	13,113.8	13,219.5	0.8
15	847.1	893.4	5.5	1,058.0	1,051.2	(0.5)	1,284.2	1,162.8	(9.5)	1,540.7	1,439.4	(6.6)	4,728.0	4,546.8	(3.8)
17	19.2	63.6	231.3	98.5	152.5	54.8	66.9	51.9	(22.4)	57.2	77.1	34.8	241.8	345.1	42.7
19	16.8	17.9	6.5	20.3	21.9	8.2	14.5	30.9	113.1	38.0	36.1	(7.4)	90.5	106.8	17.9
16 3/	806.2	831.6	15.3	1,277.4	1,195.5	(6.4)	1,787.9	2,043.2	NM	3,531.4	3,221.6	(8.8)	7,405.0	7,392.0	NM
18 3/	3,863.9	4,014.2	9.6	5,360.4	6,724.0	25.4	6,593.7	3,729.6	NM	4,596.7	4,575.7	(0.4)	20,213.7	19,043.5	NM
20 3/	548.5	783.6	42.9	1,233.1	1,214.0	(1.5)	1,508.8	3,283.2	NM	4,098.9	3,533.2	(13.8)	7,389.3	8,814.0	NM
Subtotal 3/	5,020.7	5,729.5	14.1	7,870.9	9,133.5	18.0	9,890.5	9,066.0	(8.4)	12,226.0	11,330.5	(7.3)	35,006.1	35,249.5	0.7
Final Adjustments				(64.2)	0.0	N/A	0.0	0.0	N/A	(128.5)	0.0	0.0	(180.7)	0.0	NM
Total Accounted Costs	37,346.5	38,858.9	4.0	48,205.8	47,641.4	3.1	52,582.3	52,738.9	0.3	60,563.8	59,566.5	(1.6)	196,696.2	198,805.7	1.1

1/ From Exhibit USPS-9J, Direct Testimony of William P. Teyman, Docket No. R97-1.

2/ Estimated and Actual from Exhibit USPS-9J, page 2 of 8. Actual not impacted by rate changes effective on January 10, 1999 (after the test year).

3/ Account reclassifications made in FY 95 had a material effect on segments 16, 18, and 20. Individual FY 95 percentage variances for these segments are not meaningful. The FY 95 and four year weighted average percentage variances are calculated in total for these three segments only.



**DELIVERY CONFIRMATION** — This portion of the program is to reflect the costs for the supplies and services. The delivery confirmation infrastructure program purchased 310,000 scanners for delivery employees (carriers, box section clerks, and retail clerks). These scanners are used to scan the delivery confirmation barcode at the time of delivery and enhance special service options for expedited and package products. The costs of this program were estimated by the program manager for the costs for supplies and services, information systems maintenance and upgrades, equipment supplies and support, and printing. Costs for FY 1999 were estimated by the program manager to increase by \$1.633 million and FY 2000 were estimated to increase by \$11.275 million. Savings for FY 2001 were estimated to be \$7.398 million.

**TIME AND ATTENDANCE COLLECTION SYSTEM (TACS)** — This project will standardize all time and attendance applications nationally. There will no longer be five time and attendance systems (Postal Source Data System, Electronic Time Clock, Electronic Time Clock Local Area Network, Personal Computer City Time and Attendance Processing System, and City Time and Attendance Processing System). It will provide managers with local information at the performance cluster level through the use of a database. There will be 85 data base servers, one for each of the districts and connected to the LAN network. It will allow remote dial-in capability for locations not connected to the LAN. The project will reduce workload as well as provide managers with information to assist them in managing their operations more effectively. The costs and savings were developed based on the difference between the costs of the mainframe application and the resources necessary to support that application and the costs of the placement of a server in a local office and the resources necessary to support it. Savings for FY 1999 were estimated to decrease \$10,000. The non-personnel costs for FY 2000 were estimated by the program manager to increase by \$10,000 in various supplies and services accounts.

**OFFICE OF WORKERS' COMPENSATION PROGRAM (OWCP) COST REDUCTIONS** — The workers' compensation cost reduction is an effort to reduce long term workers' compensation liability. This program supports long-term return-to-work strategies, e.g. the workers' compensation task force and early medical case management efforts. This program also aggressively controls

**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", written over a horizontal line.

Scott L. Reiter

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
January 28, 2000