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

POSTAL RATE AND FEE CHANGES, 2000	Docket No. R2000–1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS TAYMAN TO INTERROGATORIES OF
THE ALLIANCE OF NONPROFIT MAILERS
(ANM/USPS–T9–1-6(A), 7(A), (E)-(G), 9-16)

The United States Postal Service hereby provides the responses of witness Tayman to the following interrogatories of the Alliance of Nonprofit Mailers: ANM/USPS–T9-1-6(a), 7(a), (e)-(g), 9-16, filed on January 27, 2000. Objections to interrogatories ANM/USPS–9–6(b) and 7(b)-(d) were filed on February 7, 2000.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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February 10, 2000

RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF ALLIANCE OF NON PROFIT MAILERS

ANM/USPS-T9-1. Please refer to your testimony at p. 6, lines 14-16, where you state that "[t]he proposed rate increase will mitigate the level of debt required to fund capital programs." Please quantify, or explain, the extent to which the proposed rate increase is expected to mitigate the level of debt required to fund capital programs.

a. Aside from the cash flow that the Postal Service derives from depreciation and amortization, will any revenue from the proposed rate increase be used to fund net investment during the Test Year? Unless your answer is an unqualified negative, please state the amount of revenue expected to be used to fund such net investment.

b. Please explain fully the rationale for funding capital programs from revenues provided by rate increases.

RESPONSE:

The Postal Service avoids borrowing and reduces debt when possible to save the net cost of interest (i.e. the cost of long term borrowing for capital less any interest income that could be earned from short term investments on cash balances). The proposed rate increase mitigates the level of debt required to fund capital programs in the hypothetical test year. Exhibit 9F indicates that $3.704 billion in new debt is required to finance capital outlays without a rate increase. Under the proposed rate increase, no borrowing would be necessary.

a. See my response above.

b. As indicated in part a. of your question, the cost of capital investments is reflected in rates by depreciation. Rates are not increased to fund capital investments but rather to ensure that revenues cover costs and the

RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF ALLIANCE OF NON PROFIT MAILERS

ANM/USPS-T9-1. continued

breakeven mandate is realized. When sufficient operating funds are available the Postal Service has opted to utilize them to meet capital outlay requirements instead of borrowing. This reduces interest expense without a loss of liquidity.

RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF ALLIANCE OF NON PROFIT MAILERS

ANM/USPS-T9-2. Please identify every debt ceiling or other legal restriction that the Postal Service contends prevents it from supporting its capital program in the test year entirely through debt financing? For each such restriction:

a. Provide a legal citation.

b. Explain why (and by how much) debt financing of the Postal Service's entire planned capital program in the test year would exceed the constraint.

c. Produce documentation sufficient to replicate your analysis.

RESPONSE:

I have not contended that debt ceilings or legal restrictions preclude the financing of capital investments with borrowing in the test year. However, please note that total Postal Service debt is limited to $15.0 billion and the annual net increase in debt for capital investments is limited to $2.0 billion. These limits can be found in Section 2005 of Title 39.

a. See my response above.

b. I have not made such an assumption, nor do I believe it is appropriate. However, if estimated Test Year capital outlays of $3.746 billion were financed entirely by a net increase in debt in the Test Year, this would exceed the annual increase limit by $1.746 billion.

c. See my response to "b".

RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF ALLIANCE OF NON PROFIT MAILERS

ANM/USPS-T9-3. Please identify every management policy that the Postal Service contends justifies supporting its capital program in the test year wholly or partly through a revenue increase rather than debt financing. For each such policy, please produce every directives, decisions, memorandum or other documents establishing such a policy, and the minutes of any management meeting adopting such a policy.

RESPONSE:

The Postal Service does not contend that its capital program should be financed through rate increases. The only cost included in the test year revenue requirement relating to our capital program is depreciation and interest expense. Accordingly, borrowing to fund the Postal Service capital program would increase interest expense and thus increase the revenue requirement producing the need for higher rates. See my response to ANM/USPS-T9-1b.

RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF ALLIANCE OF NON PROFIT MAILERS

ANM/USPS-T9-4. Please produce every study, analysis or similar document generated by the Postal Service since January 1, 1998, concerning the appropriate level of debt financing for Postal Service capital programs and program initiatives.

RESPONSE:

The appropriate level of debt financing for capital programs is explained in the annual Integrated Financial Plan to the Board Of Governors each fall. Copies of the last two financing plans provided to the Board are attached. Please note that the information reflected in these financing plans was not relied on specifically to support the revenue requirement filed in this case and may have differences due to timing. Also, please note that the Postal Service does not fund operating program expenses with borrowing.

RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF ALLIANCE OF NON PROFIT MAILERS

ANM/USPS-T9-5. Please produce every study, analysis or similar document, regardless of its vintage, relied upon by the Postal Service in the present rate case in support of the Service's proposed level of debt financing for capital programs and program initiatives.

RESPONSE:

See my response to ANM/USPS-T9-4.

RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF ALLIANCE OF NON PROFIT MAILERS

ANM/USPS-T9-6. At p. 9 of your testimony, you state that "additional cost increases . . . include . . . (2) increased costs associated with major program initiatives designed to continue service improvements, improve responsiveness to customers, maintain and improve our infrastructure and reduce costs in the future."

a. Please indicate the amount of each cost increased associated with major program initiatives (as referred to in your above-quoted statement) designed to maintain and improve the infrastructure and reduce costs in the future.

b. Please produce all cost-benefit analyses and other management analyses of each such program initiative.

RESPONSE:

a. Please refer to USPS LR I-126, Exhibits A, B, and C, for a summary of other program cost changes. Please note that some of the cost changes reflected as "other progams", e.g. Corporatewide personnel costs such as Workers' Compensation and Annuitant Costs, are not programs in the sense that they "continue service improvements, improve responsiveness to customers, maintain and improve our infrastructure and reduce costs in the future." As I discuss on page 15 of my testimony all items not appropriate for inclusion in other rollforward change categories are reflected under the other program column.

b. Objection filed.

RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF ALLIANCE OF NON PROFIT MAILERS

ANM/USPS-T9-7. Please produce all documents containing any of the following information for each capital investment project or program initiative for which the Postal Service seeks cost recovery in the test year:

a. A description of the project or initiative.

b. The total amount that the Postal Service expects to expend for the project or initiative over its entire life.

c. All cost-benefit analyses of the project or initiative.

d. All other studies and analyses of the expected costs and benefits of the project or initiative.

e. The asset lives assumed in determining the annual depreciation or amortization charges included in the Postal Service's revenue requirement.

f. The justification for those asset lives.

g. All studies and analyses of the expected period in which the investment will remain in service.

RESPONSE:

Please note that the cost of capital programs is recovered over the useful life of the asset and is reflected in the revenue requirement as depreciation expense.

a. Please refer to USPS LR I-126.

b. Objection filed.

c. Objection filed.

d. Objection filed.

e. Asset lives utilized to determine the test year depreciation and amortization

ANM/USPS-T9-7. continued

expense included in the revenue requirement are as follows:

- USPS owned buildings - 40 years
- trailers anchored to concrete slab and land improvements - 10 years
- capital leases - 40 years or lease term
- personal property - 3 to 10 years depending on the type of equipment and risk of technological obsolescence
- motor vehicles - 6 to 12 years depending the type of vehicle.

f. Asset lives utilized by the Postal Service are based on the following factors:

- manufacturer's recommendation
- industry standards
- USPS records on use of same or similar assets
- gain/loss on sale of property
- maintenance standards
- USPS Accounting personnel judgment.

Depreciation expense and the basis for its calculation is reviewed annually in conjunction with the audit conducted by our external auditors and has been found to be in compliance with Generally Accepted Accounting Principles.

RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF ALLIANCE OF NON PROFIT MAILERS

ANM/USPS-T9-7. continued

Depreciation estimates are based on a based on a continuation of the same service lives used for actual depreciation accruals.

g. See my responses to e. and f.

RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF ALLIANCE OF NON PROFIT MAILERS

ANM/USPS-T9-8. For each capital program and major program initiative with costs that are included in the test year revenue requirement, please provide the following information:

a. The date when the program was approved (or is expected to be approved) by the level of Postal Service management with final approval over the program.

b. The date each vendor contract was executed (or is expected to be executed).

c. The date of any other action or transaction that you contend creates a binding commitment to incur costs for the project, and the amount of costs thereby incurred.

d. Business records sufficient to verify your responses to the previous parts of this question.

RESPONSE:

a-d. Attachment, "FY 2000 Update Capital Investment Plan FY 1998-2002", provides information on approved major capital programs. Attachment I provides a further breakdown of capital programs as of Quarter IV, FY 1999. The following table provides similar information for major programs.

ANM/USPS-T9-8. continued

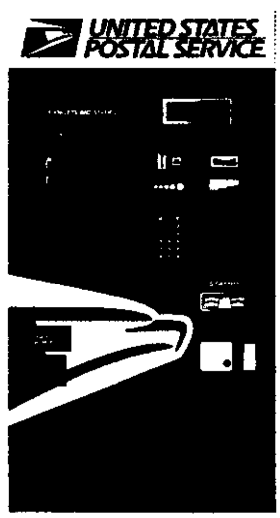
Major Programs		
Program	**Vendor**	**Contract Award Date**
Corporate Call Management	TeleTech Facilities Mgt.	9/16/96
Corporate Call Management	TeleTech Facilities Mgt.	7/27/98
Point of Service	NCR	8/9/96
Point of Service	IBM	8/12/96
Associate Office Infrastructure	MCI Telecommunications	3/24/97
MTESC	DDD Company	9/18/98
MTESC	DynCorp	9/18/98
MTESC	New Breed	12/24/97
MTESC	Resource Consultants, Inc.	9/18/98
MTESC	Alan Ritchey, Inc.	9/18/98
PMPC	Emery Worldwide Airlines, Inc.	4/23/97
Delivery Confirmation	Lockheed Martin	8/27/97

Attachment
ANM/USPS-T9-8

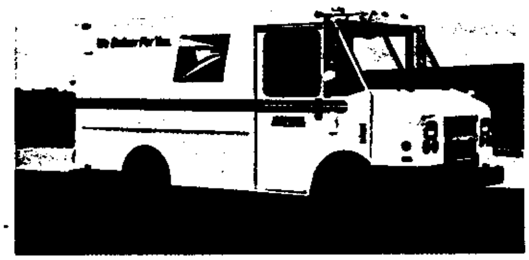
UNITED STATES
POSTAL SERVICE

CAPITAL INVESTMENT PLAN FY 1998–2002

Postal Booklet Stamp Machine

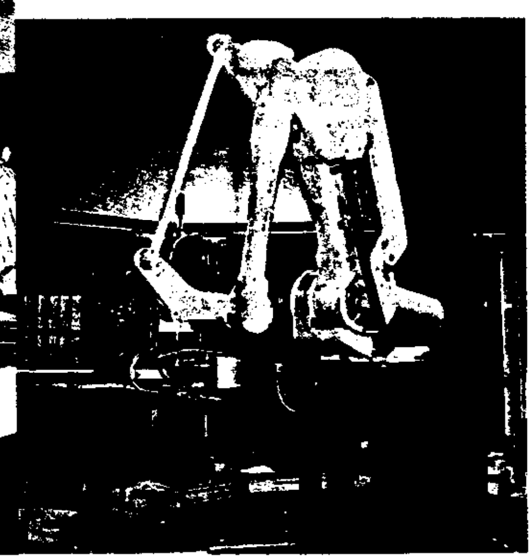


Mixed Delivery and
Collection Vehicles



Point of Service One

Robots



FY 2000 UPDATE

FISCAL YEAR 2000 CAPITAL INVESTMENT PLAN

Overview
The 1998-2002 Capital Investment Plan totaled $17 billion. The Board of Governors originally approved the plan in October 1997.

APPROVED CAPITAL INVESTMENT PLAN FISCAL YEAR 1998-2002 *Planned Commitments by Category* *($ Millions)*	
Facilities	*5,880*
Equipment	*6,367*
Infrastructure	*2,100*
Special	*1,642*
Vehicles	*546*
Retail	*462*
Total	*16,997*

The plan consists of Mail Handling Equipment Projects, improvements to facilities, major engineering efforts and customer service programs. The plan assisted in producing a net income in Fiscal Year 1999 and helps ensure profitability in Fiscal Year 2000, while ensuring corporate accountability, credibility, and competitiveness. This plan continues to incorporate assumptions and strategies reflected in our five-year strategic plan.

THE FISCAL YEAR 2000 portion of the five-year capital plan was approved by the Board of Governors in August 1999. The new financial indicators will be used to analyze the Postal Service's capital structure based on financial performance. The three broad performance categories for our indicators are 1) financial margins: because net income is a key outcome of Postal Service activities, 2) capital structure indicators: which address the issues surrounding a company's capital strength and sources of funding and, 3) efficiency indicators: which are designed to monitor labor and the management of non-core expenses. The organization also needs to be sensitive to the possibility that an omnibus rate case may be filed in the future. To minimize borrowing, projects in the Fiscal Year 2000 Capital Investment Plan will be funded internally to the maximum extent possible. The Postal Service Bylaws require that the capital budget be submitted to the Board of Governors for approval each year. The Board approval signifies general concurrence with the plan. Projects greater than $10 million are individually presented before the Board for approval.

How We Did in Fiscal Year 1999

A total $3.817 billion was committed compared to a plan of $3.999 billion. An underrun of $181.2 million or about 4.5 percent. Capital cash outlays were $3.624 billion versus a plan of $3.563, a $61 million overrun to plan. During fiscal year 1999 18 Board approved projects totaling more than $1 billion were completed. The Board of Governors approved a total of $1.257 billion for 16 new major capital investment projects. The FY ended with 47 active board approved investment projects that represent over $5.435 billion in authorized capital investments. Of these 47 projects, 11 were facility projects, 11 were "other" projects and 25 were equipment projects.

FISCAL YEAR 2000
APPROVED CAPITAL
INVESTMENT PLAN
Planned Commitments by Category
($ Millions)

Category	*FY 2000*
Facilities	1,407
Equipment	
Letters	241
Flats	402
Parcel	304
Material Handling	251
Customer	41
Other Equipment	237
Total Equipment	1,476
Infrastructure	337
Vehicles	349
Retail	281
Research and Development	150
Grand Total	**4,000**

Development of the plan is only the beginning of the capital investment process. Each major project within the plan will be subjected to a vigorous review, validation and approval process, designed to ensure the project is properly justified. Anticipated results are documented and Return on Investment (ROI) methodology analyzed to ensure accurate projections. Studies are performed on each major project following implementation to determine if financial and operating goals were achieved.

Highlights of the
FY 2000 Capital Plan

- ✔ 19 Major Mail Processing Facilities
- ✔ 300+ Customer Service/Delivery Facilities
- ✔ 5000 Mixed Delivery and Collection Vehicles
- ✔ Next Generation Flat Sorter Machines
- ✔ Parcel Sorter Singulator Scan Induction System

FY 2000 Capital Investment Plan Supports Strategic Objective Investments that:

- ➢ Improve Quality Customer Service
- ➢ Allow for Aggressive Cost Management
- ➢ Increase Productivity Gains Through Technology
- ➢ Maintain Infrastructure

Cost Reduction Programs

A total cost reduction of $1,706 million is budgeted for FY 2000 with about 30 percent of the savings derived from specific programs. The remaining portion, $1,176 million, is based on local management initiatives at the field and headquarters level. The vast majority of program specific savings are linked to new or enhanced equipment and software that will enable our workforce to be more efficient. The programs involving Delivery Bar Code Sorters amount to over $200 million by themselves. The new Mail Transport Equipment Service Centers account for $77 million in program savings. Remote Bar Code Systems and improvements to computer recognition of addresses amount to $124 million in savings. Additional Small Parcel and Bundle Sorters together with the addition of feed systems account for $38 million in savings.

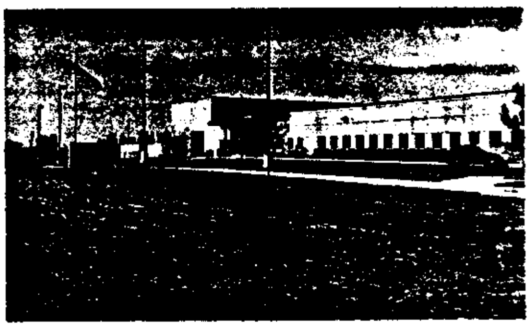
FACILITIES

The Facilities category consists of delivery/retail facilities, processing and distribution facilities and building improvements. Expansions and new construction are necessary to keep up with increasing population, mail volume and changing delivery points. There is an aging facility inventory that requires repair or replacement. The Facilities section totals $1.4 billion or 35 percent of the FY 2000 capital plan.

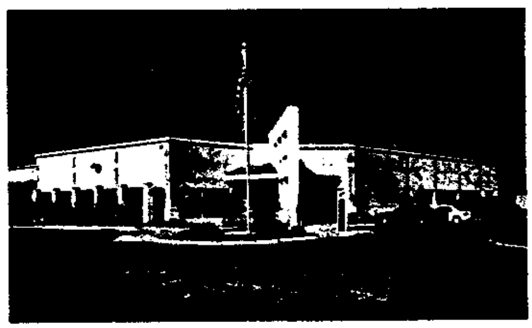
Facility category includes:

Delivery/Retail Facilities. This category includes individual post offices and stations and branches, which serve local customers. Our delivery/retail facilities program is designed to respond to areas of population growth and to replace, supplement or expand obsolete or overcrowded facilities. Since these offices impact the local area, the projects are prioritized at the district initially, then prioritized for implementation into the five-year plan by the area office.

The first Green Post Office was dedicated on January 13, 1999. It is a retail/delivery station built with recycled materials, drought-resistant native landscaping, high-efficiency heating and cooling systems, skylights for natural lighting and trellises for shading. The result is improved environmental responsiveness from an energy-efficient building.



Processing and Distribution Center
Sioux Falls, South Dakota
Completed FY 1999



Eighth Avenue Station
Ft. Worth, Texas

Facilities Fiscal Year 1999 Results

Total facility capital commitments in FY 1999 were $1.7 billion. Of that amount, $223 million was committed in the Major Facilities Program. The major facilities projects listed below are projects that required funding of $10 million or more. Commitments include contracts for the purchase, design, construction, support, and material handling required to complete these projects. The following major facilities were completed in Fiscal Year 1999.

Facility Location	Cost ($ Millions)
Atlanta, GA — AMC	$32
Boise, ID — P&DC	$25
Chicago, IL — Busse Surface Hub	$10

Facilities Fiscal Year 1999 Results *(continued)*

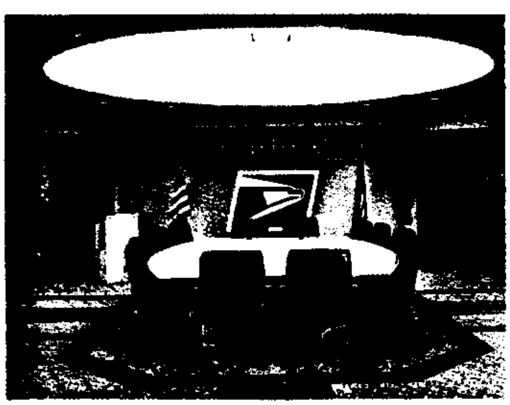
Facility Location	Cost ($ Millions)
Kansas City, MO — P&DC	$94
Phoenix, AZ — North Phoenix and Gilbert	$12
Sioux Falls, SD — P&DF	$13
Spokane, WA — P&DC	$29
Tulsa, OK — P&DC	$32
Jacksonville, FL — BMC	$78

Underground Storage Tank Program (UST)

After 10 years, the nationally managed portion of the UST program came to an end. In 1988, Facilities initiated a national program to ensure that all USTs in the USPS inventory met federal requirements by the regulatory deadline of December 1998. The requirements, established by the U.S. Environmental Protection Agency, included corrosion protection, spill prevention, and leak detection. During the life of the program, the USPS committed more than $250 million to upgrade, remove and/or replace tanks, and remediate spills associated with the fuel storage systems that service our vehicle fleet. Ongoing UST compliance responsibilities now reside with the installation head of each postal facility, with all future funding requirements treated as normal repair and alteration projects by the field.

Developmental Real Estate Program

During FY 1999, Facilities committed a total of $20 million in the Developmental Real Estate Program, primarily for the build-out of 90 Church Street. The sale of surplus real estate and developmental properties continued to generate significant revenues for the Postal Service. In FY 1999 more than $142 million was produced from property sales including the sale of the Rincon Center ground lease, the Ansonia Square Limited Partnership Interest, and ground leases in New Orleans, Newport Beach and Alhambra, CA.



The Board of Governors area and the Benjamin Franklin Room were renovated in the fall of 1998. The renovated area provides multi-use conference space within the Headquarters building for both large and small events. The USPS realizes a cost savings by holding meetings and events in the renovated Benjamin Franklin Room, resulting in a reduction in travel expenses to other conferencing facilities.

Included in Facilities FY 2000 Plan:

- ➢ 300+ projects for expansion and new construction of small post offices
- ➢ 1,500+ repair and alteration projects
- ➢ $608 million for field projects of less than $5 million each
- ➢ $49 million in real property improvements so that additional revenues can be realized at the time of their anticipated sale
- ➢ 19 major mail-processing facilities
- ➢ Bulk Mail Center Facility Expansion Program, allowing the BMC network to increase efficiency and address future growth in palletized volume and large parcels in a more timely manner

Processing and Distribution Facilities. Commitments are projected at $226 million. The major mail processing facilities make up our nationwide processing network. Operational needs dictate that we periodically replace, expand or renovate our major facilities. Age, workload growth, geography and service performances all contribute to the need for new, expanded or supplemental processing and distribution facilities.

Kansas City Processing and Distribution Center

Building Improvements. $514 million in capital funds are planned to extend the lives of our assets, add new useful features, or address legal and safety requirements such as roof or air conditioning replacements and asbestos removal.

Locations of 11 Major Facility Projects Planned in FY 2000:

- Bronx, NY — LaSalle Processing and Distribution Center
- Indianapolis, IN — Processing and Distribution Center (Advance Site)
- Los Angeles, CA — Bulk Mail Center
- Milwaukee, WI — Processing and Distribution Center (Advance Site)
- Oklahoma City, OK — Processing and Distribution Center (Advance Site)
- San Antonio, TX — Processing and Distribution Center
- San Diego, CA — Midway Processing and Distribution Facility
- San Francisco, CA — Airport Mail Center
- Staten Island, NY — Processing and Distribution Center (Advance Site)
- Twin Cities, MN — Airport Mail Center
- Van Nuys, CA — Main Post Office

EQUIPMENT

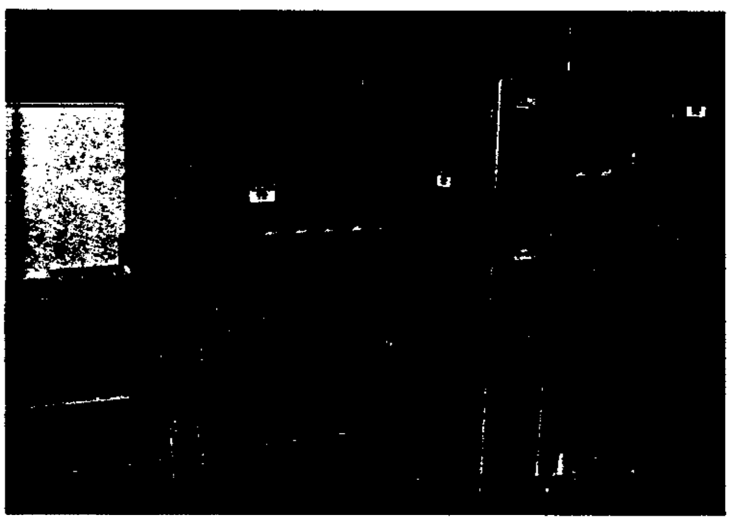
Expanding Automation

In 1980 the USPS started investing in automated equipment with the single line optical character reader. Since that time the USPS has invested $5.6 billion in letter mail automation. This investment in automation has avoided the otherwise necessary increase in compliment and workhours that would have been necessary to process the increasing mail volume. Automation productivity is greater than the manual and mechanized productivity, creating avoidance in workhours and salaries paid.

Our financial analysis begins in 1987, prior to the deployment of multiline optical character readers and the improved bar code sorters. The salary avoidance since that time amounts to about $15 billion. This avoidance in salaries paid has benefited our customers by reducing postage increases.

The automation of the mail flow has not ended. Like the computer industry, improvement in speed and efficiency of existing mail processing equipment is continuous. Newer, faster machines will be purchased to further reduce the current workhours necessary to process mail. Past automation machines have surpassed projected savings/cost avoidances, the continued investment in automation will serve the Postal Service and therefore our customers, well into the next century.

A total of $1.5 billion of equipment projects are planned for FY 2000, which represents 37 percent of the plan. USPS' core strategy for trimming costs and improving performance is to automate an increasing number of functions. The ability to perform tasks using equipment instead of manual labor not only saves workhours and associated indirect costs, but also results in faster, higher quality service. The Equipment category consists of investments in automation and mechanization that serves as the backbone of the initiatives to meet the business goal of strengthening our financial viability by managing costs. In addition, every time a function is automated, it is electronically connected to the in-plant network that will provide data access for greater operational efficiency and future information-based services. For example, Tray Management Systems will be integrated to the Next Generation Sorting Machine that utilizes optical character readers and video encoding to process over 17,000 pieces of mail per hour.



Automatic Tray Sleever

Equipment Fiscal Year 1999 Results

($ Millions)

A total of $1.2 billion, 96% of the total equipment plan, was committed for equipment in Fiscal Year 1999. Listed below are several of the most significant equipment commitments:

- Tray Management System ($276)
- Delivery Barcode Sorter — Optical Character Reader Expansion ($191)
- Handwritten Recognition Improvement — Remote Computer Reader ($175)
- Delivery Barcode Sorter Phase Five ($166)
- Field Material Handling System ($150)
- Robotic Containerization Loader System ($70)
- Automatic Airline Assignment System ($56)
- Small Parcel Bundle Sorter Feed System ($42)
- Flat Mail Multiline Optical Character Reader ($15)
- Corporate Call Management Deployment $11)

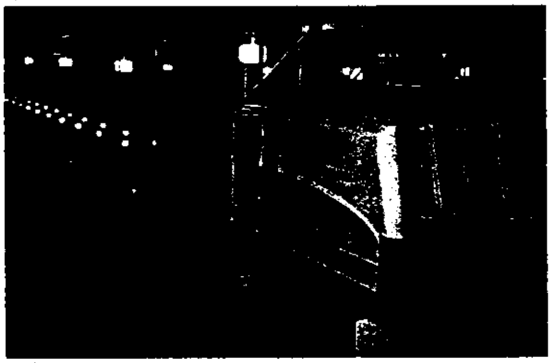
The Following Equipment Projects Were Approved by the Board of Governors in Fiscal Year 1999:

- Delivery Bar Code Sorter Additional Capacity
- Remote Computer Reader 2000 Handwriting Recognition Upgrade
- Automatic Airline Assignments and Scan Where You Band Systems
- Robotic Containerization Systems
- Universal Transport System Prototype
- Mail Cartridge Pre-Production
- Automatic Tray Sleevers
- Additional Small Parcel Bundle Sorter Feed System

Subcategories of Equipment:

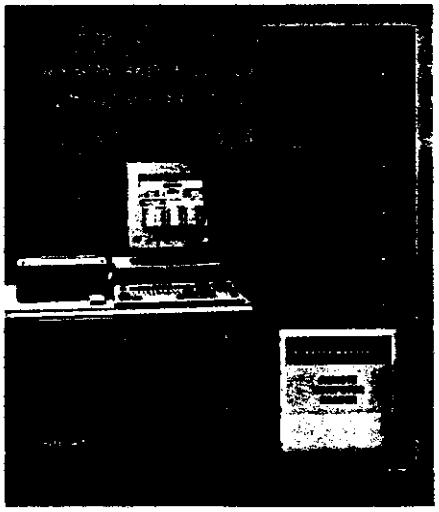
Material Handling ($251 million)

Field material handling systems is a continuing activity of multiple field projects of less than $5 million that support the Bulk Mail, Processing and Distribution, and Air Mail Centers material handling systems. They also are intended to address the safety concerns of the Postal Service and improve efficiency by increasing productivity while providing for more efficient operations and better service.



Tray Management System
Lansing, Michigan
Deployed June 1999

Letters ($241 million)



The Letters category is designed for improving the capacity, speed or accuracy in which letter mail processing equipment reads, processes and sorts mail. Included in this category is the Delivery Barcode Sorter Input/Output Subsystem (DIOSS). The DIOSS, a universal modification kit, will be installed on delivery barcode sorters (DBCSs) to add input subsystem, output subsystem, or optical character reader capabilities to an existing DBCS machine.

Parcels ($304 million)

The Parcel category is designed for improving the capacity, speed or accuracy in which parcel mail processing equipment reads, processes and sorts mail. Included in this category is the Parcel Sorter Singulator Scan Induction System. This system will be installed on all Bulk Mail Center parcel sorters and will singulate (convert the source stream of parcels into a single optimally spaced line of separated parcels), scan for barcodes, and sort parcels. These functions will be completed automatically for all barcoded parcels.

Flats ($402 million)

The Flats category is designed for improving the capacity, speed or accuracy with which flat mail processing equipment reads, processes and sorts mail.

Included in this category is the Next Generation Flat Sorting Machine (formerly known as the Automated Flat Sorting Machine 100). This program covers the purchase of 175 Automated Flat Sorting Machines (FSM) for processing additional FSM 881 mail volumes. The features include optical character readers, video encoding, and three automatic feed stations.

Automated Flat Sorting Machine 100

Other ($237 million)
The Other category includes equipment that supports multiple equipment categories in addition to non-fixed automation and mechanization projects.

Included in this category is the Smart Delivery Unit program. This program will identify new automated delivery equipment and systems concepts, develop operating prototypes and initiate their deployment. Near real-time data reporting along with improved carrier efficiency and optimized collection box operations will enable closer adherence to planned daily carrier schedules.

Customer ($41 million)
The Customer category supports customer service equipment and programs that are designed to enhance our products.

This category includes Corporate Call Management (CCM), which is currently the point of telephone contact for customers in the Western, Pacific, Southwest and Southeast areas. CCM serves customers nationwide for Comprehensive Tracing and Tracking inquiries.

INFRASTRUCTURE

Future improvement in mail processing automation will depend on networked data; therefore, increased information access is critical for Engineering projects. To develop future customer services, data management must be moved to a new level: the ability to identify and track individual mailpieces, alone and in unit loads. This information will also simplify the improvement and planning process in an increasingly complex environment.

The infrastructure category consists of projects that facilitate technological advances like this well into the 21st century.

The infrastructure category is $337 million which is 8 percent of the FY2000 capital plan. The three largest programs included in this category are:

Mailing Operation, Readability, and Lookup Instrument (MERLIN) will improve the consistency of mail acceptance. Robots will be designed to read address and indicia, verify meter amounts and weigh and measure the thickness of mail.

Automated Data Processing Field Infrastructure funds day-to-day computer operations and support to the area offices.

Performance Cluster Infrastructure will parallel the existing associate office infrastructure at our plants.

Infrastructure 1999 Results
($ Millions)

Total infrastructure commitments in FY 1999 were $407 million. Listed below are the most significant equipment commitments:

- Associate Office Infrastructure, Phase 1 ($69)
- Delivery Confirmation Infrastructure ($41)
- Telephone Equipment Installation ($31)

VEHICLES

Vehicles 1999 Results
($ Millions)

$249 million was committed on vehicle projects, primarily for Carrier Route Vehicles at $247 million. In FY 1999 the following vehicle projects were approved by the Board of Governors:

- Tractor-Trailer additional funding
- Flex Fuel, Alaskan, and Electric Carrier Route Vehicles

Vehicle commitments of $349 million are planned for FY 2000, which is 9 percent of the capital plan. Included in the plan are 5,000 mixed delivery and collection vehicles, 2000 trailers, 175 tractors, and additional cargo and carrier route vans. Our award winning alternate fuel program requires continual funding to comply with federal, state and local transportation regulations.

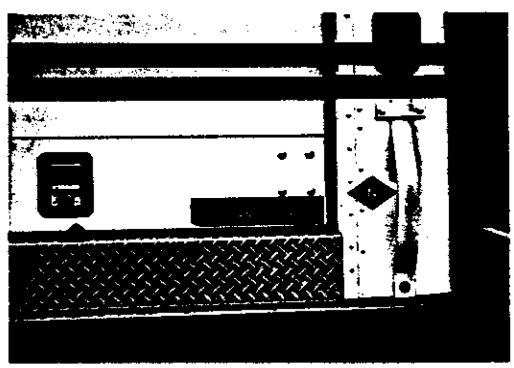
Trailers

Alternative Fuel Vehicles:
At present, the Postal Service's 207,681 vehicles represent the nation's largest civilian fleet. Its existing inventory of 8,272 Alternate Fuel Vehicles (AFV) operate from compressed natural gas (CNG), ethanol, propane and electricity. The AFV fleet is expected to grow to more than 30,000 by 2001.

The Board of Governors just approved the purchase of 500 electric vehicles to mark the largest acquisition ever of zero emissions vehicles.

Electric Powered Delivery Vehicle

Compressed Natural Gas (CNG) vehicles continue to be a key component in our diversified AFV program. The U.S. Postal Service has the largest CNG vehicle fleet in the country. The CNG vehicles are assigned to postal facilities in 28 states. All eleven postal areas have some CNG vehicles, and the greatest number is the Southwest Area with almost 1,600. These CNG vehicles demonstrate the Postal Service's continuing commitment to using vehicles that will help clean our nation's air and reduce our dependence on imported oil.



CNG Powered Delivery Vehicle

RETAIL

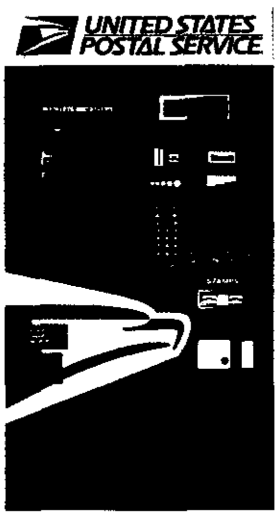
Retail 1999 Results
($ Millions)

Total commitments in the Retail category were $197 million, which included:

- Point-of-Service ($179)
- Self-Service Vending Equipment ($15)

Retail commitments of $281 million are planned for FY 2000, which represents 7 percent of the capital plan. The Postal Service will improve service by providing better operating performance and more effective management of customer contact operations. The investments in this category are for lobby, window and self-service retail designed to enhance the availability and convenience of our products and services. The following programs are included in this category.

Self-Service Vending Equipment provides for the purchase of 5,000 new stamp vending machines with debit and credit payment capability.



Postal Booklet Stamp Machine

Point of Service (POS) ONE (all stages) — This new postal retail system will play a major role in reaching USPS goals for improving customer service. The deployment of POS ONE will strengthen the existing nationwide network of retail facilities by providing technology that will enhance product and service offerings and improve communication. It will also provide data for strategic marketing analysis.

Point-of-Service One

RESEARCH AND DEVELOPMENT

Research and Development 1999 Results
($ Millions)

Total commitments in the Research and Development category were $153 million, which included:

- Identification Code Sort ($94)
- Universal Tray System ($27)
- Integrated Operations Management R&D Pilot ($14)

In FY 1999 the Board of Governors approved $34 million for the Universal Tray System Prototype.

Research and development commitments of $149 million are planned in FY 2000, which represents 4 percent of the capital plan. The following projects are included:

Bulk Mail Center Redesign will evaluate our Bulk Mail Center both operationally and environmentally.

Mail Cartridge System aimed at improving automation of letter mail processing by developing robots that sweep letter cartridges.

Research and Development funds are used to develop new products or processes, to improve present products or processes, or to discover new knowledge that may be valuable at some future date.

SUMMARY

The proposed FY 2000 capital plan supports investing to improve quality customer service and allows aggressive cost management. The criteria and the recommendations made by the Business Operations Planning Committee will contribute to the development of the Capital Plan, ensuring it is aligned with the Postal Service's strategic goals while developing future requirements. Alternatives to capital funding for achieving corporate goals and implementing business strategies will continue to be explored.

Priority Mail Stamp

FOR MORE INFORMATION

Contact Chuck Hartsock, Manager, Capital and Program Evaluation, (202-268-3392).

Attachment I
ANM/USPS-T9-8

Capital Commitments & Capital Cash Outlays, by year: EQUIPMENT PROJECTS

Project Name	Status	Board Of Governors Approvals		
		Date	Capital Investment	Expense Investment
Advanced Facer Canceler Systems (AFCS), 173 units	Behind	Dec-97	$85.9	$1.2
Deployment	61%			
Automatic Airline Assgmnt & Semi-Automatic Scan Where U Band	On-Time	Jan-99	$108.9	$3.4
Design	0%			
Automatic Tray Sleever	On-Time	Aug-99	$25.8	$0.8
Design	0%			
Carrier Route Vehicles (a) - 5,949 units	Late	May-96	$115.0	$0.1
Completed	100%			
Carrier Route Vehicles (b) - 10,000 units	Behind	Sep-98	$213.1	$0.0
Pre-Production	0%			
Carrier Route Vehicles (c) - 11,275 units	On-Time	Aug-99	$247.5	$0.0
Pre-Production	0%			
Delivery Bar Code Sorter (DBCS) Additional Capacity	Ahead	Mar-99	$228.8	$1.4
Deployment	32%			
Delivery Bar Code Sorter (DBCS) Output Subsystem (OSS) Kits, 54	On-Time	Jun-98	$54.9	$0.3
Deployment	63%			
Delivery Bar Code Sorter (DBCS) Stacker Modules	Early	Feb-98	$21.4	$0.6
Completed	100%			
Delivery Bar Code Sorter (DBCS), Phase V, 614 units	On-Time	Sep-98	$210.5	$0.3
Deployment	74%			
Flat Forwarding Terminal, 1450 units/221 sites	Late	Jun-96	$27.5	$2.0
Completed	100%			
Flat Mail Optical Character Reader (FMOCR)	Behind	May-97	$147.0	$2.3
Deployment	98%			

Capital Commitments & Capital Cash Outlays, by year: EQUIPMENT PROJECTS

Project Name	Status	Board Of Governors Approvals		
		Date	Capital Investment	Expense Investment
Flat Sorting Machine, Automated (FSMA) 100 - Next Generation / Production	Behind 0%	Jun-98	$434.5	$11.5
Flat Sorting Machine, FSM-1000, 102 units / Completed	Late 100%	Apr-94	$41.7	$1.4
Flat Sorting Machine, FSM-1000, 240 units / Completed	On-Time 100%	Dec-96	$109.1	$2.2
Flat Sorting Machines (FSM) 1000 WABCR, 346 units / Completed	On-Time 100%	Dec-97	$32.1	$2.0
Forwarding Control Systems / Deployment	Behind 58%	Aug-98	$33.0	$0.8
Identification Code Sort / Design	On-Time 0%	Sep-98	$114.3	$8.3
Integrated Buffer System, R&D Phase III / Res. & Devel.	Behind 99%	May-97	$0.0	$17.1
Integrated Mail Handling System / Deployment	Behind 90%	Jul-93	$194.5	$167.4
LMLM Linerless Labels / Completed	Early 100%	Feb-98	$11.3	$4.4
Mail Cartridge System / Res. & Devel.	On-Time 0%	Jul-99	$27.5	$7.0
Remote Bar Code System (RBCS) - Phase I / Terminated	On-Hold 100%	Apr-90	$383.7	$183.4
Remote Bar Code System (RBCS) - Phase II / Completed	Late 100%	Oct-94	$645.1	$19.3

Capital Commitments & Capital Cash Outlays, by year: EQUIPMENT PROJECTS

Project Name	Status	Board Of Governors Approvals Date	Capital Investment	Expense Investment
Remote Bar Code System (RBCS) - Phase III	Late	Oct-95	$311.1	$7.0
Completed	100%			
Remote Computer Reader (RCR) 2000 Handwriting Recognition	Behind	May-99	$192.6	$2.0
Deployment	23%			
Remote Computer Reader, Handwriting Improvement	Behind	May-98	$183.9	$3.6
Completed	100%			
Robotic Container Unloader - 100 units	On-Time	Aug-99	$80.0	$1.4
Design	0%			
Robotic Tray Handling System Phase I	Behind	Aug-96	$37.0	$0.7
Deployment	67%			
Small Parcel & Bundle Sorter (SPBS-1) Feed System, 230 units	Behind	Feb-96	$117.6	$6.9
Deployment	94%			
Small Parcel & Bundle Sorter (SPBS-2) Feed System, 37 units	On-Time	Feb-99	$20.7	$0.0
Production	0%			
Small Parcel & Bundle Sorter (SPBS-a) 47 units	Late	Feb-96	$46.1	$0.8
Completed	100%			
Small Parcel & Bundle Sorter (SPBS-b) 46 units	Ahead	Aug-97	$46.4	$0.1
Completed	100%			
Small Parcel & Bundle Sorter (SPBS-c) 54 units	Ahead	Aug-98	$60.6	$0.1
Deployment	96%			
Trailers - 2,000 units	Late	Jul-97	$40.4	$0.1
Completed	100%			
Tray Management System, Phase II, Prototype	Behind	Feb-96	$47.1	$13.8
Deployment	100%			

Capital Commitments & Capital Cash Outlays, by year: EQUIPMENT PROJECTS

Project Name	Status	Board Of Governors Approvals		
		Date	Capital Investment	Expense Investment
Tray Management System, Phase III, Deploy 42	Behind	Jun-96	$396.4	$100.9
Deployment	30%			
Truck Tractors & Spotters	Late	Dec-95	$91.3	$0.3
Completed	100%			
Truck Tractors, 416 units	Behind	Aug-98	$31.0	$0.0
Deployment	0%			

Capital Commitments & Capital Cash Outlays, by year: FACILITY PROJECTS

Project Name	Status	Board Of Governors Approvals		
		Date	Capital Investment	Expense Investment
Arlington, VA. Headquarters Administrative Space	On-Hold	Sep-98	$9.2	$31.3
Design	0%			
Atlanta GA AMC	Late	Sep-96	$36.4	$0.0
Completed	100%			
Boise ID P&DC	Early	Dec-97	$33.3	$0.0
Completed	100%			
Bronx, NY, P&DC, Exterior Renovation	Ahead	Aug-99	$12.9	$0.0
Construction	0%			
Brooklyn, NY, GPO, sale to GSA and lease-back	On-Time	Aug-99	$15.4	$0.0
Construction	0%			
Chciago, IL, P&DC	Late	Jun-95	$316.9	$0.0
Completed	100%			
Chicago Priority Mail Surface Annex, Busse, IL	On-Time	Aug-98	$10.9	$16.3
Completed	100%			
Chicago Sugar House Expansion	Late	Feb-96	$16.0	$0.0
Completed	100%			
Church Street Station, Phase II	Ahead	Dec-97	$91.0	$0.0
Construction	46%			
Cincinnatti, OH, AMC	On-Time	Jun-99	$9.6	$0.0
Design	0%			
Columbus, OH, P&DC	Behind	Aug-99	$140.6	$0.0
Design	0%			
Gilbert/Phoenix, AZ, Delivery Distribution Centers (DDC)	Ahead	May-98	$16.7	$0.0
Completed	100%			

Capital Commitments & Capital Cash Outlays, by year: FACILITY PROJECTS

Project Name	Status	Board Of Governors Approvals Date	Capital Investment	Expense Investment
Golden, CO, DDC	Early	Jan-97	$10.9	$0.0
Completed	100%			
Greensboro, NC, P&DC	On-Time	Aug-99	$69.6	$0.0
Design	0%			
Jacksonville, FL - BMC Expansion	Late	Feb-96	$81.6	$0.0
Completed	100%			
Kansas City, MO, P&DC	Ahead	Nov-96	$99.5	$0.0
Completed	100%			
Minneapolis, MN, ISC/AOC	On-Time	Nov-96	$64.8	$0.0
Completed	100%			
Minneapolis, MN, Metro Hub	Behind	May-98	$6.9	$26.3
Construction	90%			
Northeast Metro, MI, P&DC	On-Hold	Feb-98	$87.1	$0.0
Design	30%			
Northwest Center - P&DF, Waltham, MA	Late	Nov-90	$88.5	$0.0
Completed	100%			
Philadelphia PA, advanced site acquisition	Behind	Mar-99	$30.2	$0.0
Pending Award	95%			
Seattle, WA P&DC	Re-Open	Nov-95	$85.4	$0.0
Re-open	100%			
Sioux Falls SD P&DC	Ahead	Dec-97	$18.2	$0.0
Completed	100%			
Spokane, WA, Processing & Distribution Center (P&DC)	Ahead	Apr-98	$40.9	$0.0
Completed	100%			

Capital Commitments & Capital Cash Outlays, by year: FACILITY PROJECTS

Project Name	Status	Board Of Governors Approvals		
		Date	Capital Investment	Expense Investment
Stamford, CT, Springdale Station	Behind	Nov-99	$12.7	$0.0
Construction	20%			
Tulsa, OK, Processing & Distribution Center (P&DC)	On-Time	Jan-98	$40.4	$0.0
Completed	100%			

Capital Commitments & Capital Cash Outlays, by year: OTHER PROJECTS

Project Name	Status	Board Of Governors Approvals		
		Date	Capital Investment	Expense Investment
Associate Office Infrastructure (a) R&D	Early	Feb-96	$2.2	$11.1
Completed	100%			
Associate Office Infrastructure (b) Ph I, Deployment	Late	Jun-96	$236.9	$2.9
Completed	100%			
Associate Office Infrastructure (c) Ph II, Deployment	Behind	Nov-97	$201.2	$6.2
Deployment	85%			
CODES Equipment Replacement Project:	Behind	Dec-96	$12.7	$0.0
Deployment	80%			
Corporate Call Management Ph I, R&D	Late	Dec-95	$4.0	$25.9
Completed	100%			
Corporate Call Management Ph II, Prototype	Behind	Jun-96	$28.7	$0.0
Completed	100%			
Corporate Call Management Ph III, Deployment	On-Time	Jun-98	$226.8	$29.0
Deployment	35%			
Delivery Confirmation Infrastructure Acquisition	Behind	May-97	$628.1	$76.2
Post Depolyment	100%			
Delivery Operations Information Systems (DOIS)	On-Time	Jun-98	$34.2	$5.8
Development	17%			
International/Military Service Centers	Behind	Aug-97	$146.9	$129.7
Deployment	17%			
Mail Transport Equipment Service Centers	Behind	Jul-97	$1.3	$0.0
Deployment	100%			
Point of Service (POS ONE) Deployment	Behind	Jun-96	$495.2	$0.0
Deployment	99%			

Capital Commitments & Capital Cash Outlays, by year: OTHER PROJECTS

Project Name	Status	Board Of Governors Approvals		
		Date	Capital Investment	Expense Investment
Priority Mail Processing Centers	Late	Apr-97	$1.4	$17.6
Completed	100%			
Radio Frequency Infrastructure Development & Testing	Behind	Dec-97	$0.0	$12.4
Res. & Devel.	0%			
Self-Service Vending Machine Acquisition	Behind	Aug-98	$26.3	$3.6
Development	50%			
Stamp Fulfillment Services Center [SFSC], Kansas City, MO	Behind	Aug-96	$33.5	$2.2
Deployment	92%			

RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF ALLIANCE OF NON PROFIT MAILERS

ANM/USPS-T9-9. Please identify every change in standards, policies, resources or personnel adopted by the Postal Service since July 1, 1998, to increase the accuracy and reliability of its test year revenue requirement projections, and produce all internal standards, guidelines, directives, orders, meeting minutes, studies, analyses, and similar documents concerning each such change.

RESPONSE:

To assist in enhancing the accuracy and reliability of and to support revenue requirement projections and Postal Service financial forecasts, the Postal Service created a new forecasting organization within its Finance function in Fiscal Year 1999. The forecasting unit adds new people and focuses existing personnel complement on the forecasting process. Forecasting has a 16 person authorized complement, including three executive positions, Manager of Forecasting, Manager of Income and Expense Forecasting, and Manager of Demand Forecasting and Economic Analysis.

RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF ALLIANCE OF NON PROFIT MAILERS

ANM/USPS-T9-10. Please supply footnote 10 to your testimony at p. 12, line 6.

RESPONSE:

See Errata filed on January 28, 2000.

RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF ALLIANCE OF NON PROFIT MAILERS

ANM/USPS-T9-11. Please refer to your testimony at p. 16, line 7 and confirm that the reference to "Table 8" should be to "Table 10." If you do not confirm, please explain fully how Table 8 supports your statement.

RESPONSE:

Confirmed. See Errata filed on January 28, 2000.

RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF ALLIANCE OF NON PROFIT MAILERS

ANM/USPS-T9-12. Please refer to your testimony at page 47, line 5, where you state that "this will improve equity to a negative $389 billion by the end of FY 2000."

a. Please confirm that the reference to "billion" should be changed to "million."

c. Please reconcile the $389 [m]illion figure with the $380,389(000) ending equity shown in table 59 at p. 53.

RESPONSE:

a. Confirmed. See Errata filed of January 28, 2000.

b. See errata filed on January 28, 2000.

RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF ALLIANCE OF NON PROFIT MAILERS

ANM/USPS-T9-13. Please refer to Exhibit USPS-9F and confirm that for fiscal years 1998-2001, net investment by the Postal Service was as shown in the following table (in millions of dollars). If you do not confirm, please supply the correct data for computing annual net investment.

	1998	1999	2000	2001
Purchase of property and equipment	3055	3917	3564	3746
Less: Depreciation and amortization	1579	1795	1864	2154
Net investment	1476	2122	1700	1592

RESPONSE:

I confirm that the table you provided reflects numbers contained in Exhibit 9F for "purchase of property and equipment" and "depreciation and amortization". The row titled "net investment" in your table reflects the difference between these two amounts.

RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF ALLIANCE OF NON PROFIT MAILERS

ANS/USPS-T9-14. Please refer to USPS 9J, p. 3. Under the columns indicated R94-1 you show Total Revenues After Rates Estimated and Actual, respectively, of $54,569.4 and $54,509.4 million.

a. Confirm that estimated total revenue of $54,569.4 was not 1.2 percent more than actual revenue of $54,509.4.

b. Please supply the correct percentage, or revise the underlying data, as appropriate.

RESPONSE:

a. Confirmed. See Errata filed on January 28, 2000.

b. See errata filed on January 28, 2000.

RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF ALLIANCE OF NON PROFIT MAILERS

ANM/USPS-T9-15. Please refer to USPS-9J, p. 3. Under the columns indicated R94-1 you show Total Accrued Costs for After Rates Estimated and Actual, respectively, of $52,582.3 and $52,738.9 million.

a. Confirm that estimated total accrued costs of $52,582.3 were not –2.1 percent of actual accrued costs of $52,738.9.

b. Please supply the correct percentage, or revise the underlying total accrued cost data, as appropriate.

RESPONSE:

a. Confirmed. See Errata filed on January 28, 2000.

b. See errata filed on January 28, 2000.

RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF ALLIANCE OF NON PROFIT MAILERS

ANM/USPS-T9-16. Please refer to USPS-9J, p 3, and for each cost segment under the columns indicated R94-1 confirm all the over/under percentages. If you do not confirm, please supply the correct figures.

Response:

Not confirmed. See errata filed on January 28,2000.

DECLARATION

I, William P. Tayman, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

William P. Tayman

Dated: 2-10-2000

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.

Scott L. Reiter

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February 10, 2000