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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Docket No. R2000-1

Postal Rate and Fee Changes, 2000

THIRD INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS TO USPS WITNESS TAYMAN (ANM/USPS-T9-29-44)

The Alliance of Nonprofit Mailers ("ANM") respectfully submits the attached interrogatories and document requests to USPS witness William P. Tayman (USPS-T-9). ANM incorporates by reference the instructions in OCA interrogatories OCA/USPS-1-14 (filed Jan. 24, 2000).

Respectfully submitted,

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QUESTIONS

ANM/USPS-T9-29. Please refer to your response to ANM/USPS-T9-1, where you state that "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." Since Exhibit USPS-9F indicates that depreciation and amortization in FY 2001 will amount to only $2.154 billion, while purchase of property and equipment will be $3.746 billion, is it reasonable to infer that monies derived from the provision for contingency will be used to fund the $1.592 billion difference? Please explain any answer that is not an unqualified affirmative.

ANM/USPS-T9-30. In reference to your response to ANM/USPS-T9-2, please provide the following information:

a. What is the highest level of total debt that the Postal Service has ever incurred? That is, what is the closest the Postal Service has ever come to its $15 billion debt ceiling? In what year did that occur?

b. At the end of FY 1999, what was the Postal Service's current debt level in relation to its debt ceiling?

c. Have the Postal Service's capital expenditures for modernization and automation ever been restrained by the $2 billion limitation on the annual net increase in debt for capital expenditures? If so, in what year(s)? If the Postal Service has never been so constrained, then what have been the three years with the highest annual increase in debt for capital expenditures, and how much did the debt increase in those three years?

ANM/USPS-T9-31. Please refer to your response to ANM/USPS-T9-4.

(a) Are the "two financing plans" referred to in that response identical to the attachment to ANM/USPS-T9-8? If not, please produce the missing documents.

(b) Are the "two financing plans" referred to in your response to ANM/USPS-T9-4 the only documents in the Postal Service's possession, custody or control that are responsive to the question?

ANM/USPS-T9-32. Please refer to your response to ANM/USPS-T9-5.

(a) Are the documents referred to in that response identical to the attachment to ANM/USPS-T9-8? If not, please produce the missing documents.

(b) Are the documents referred to in your response to ANM/USPS-T9-5 the only documents in the Postal Service's possession, custody or control that are responsive to the question?

ANM/USPS-T9-33. This is a follow-up to ANM/USPS-T9-7(e). In your response, you state that the asset lives assumed by the Postal Service for personal property range from "3 to 10 years depending on the type of equipment and risk of technological obsolescence," and the asset lives assumed for motor vehicles range from "6 to 12 years depending on the type of vehicle."

(a) Please specify each kind of personal property that corresponds with each life within the range of 3 to 10 years.

(b) Please specify each kinds of motor vehicles that corresponds with each life within the range of 6 to 12 years.

ANM/USPS-T9-34. This is a follow-up to ANM/USPS-T9-7(f). The question asked for "all documents containing" the justification for the asset lives assumed by the Postal Service. In response, you assert that the asset lives are based on six factors, but you have produced no documents.

(a) Please produce the documents requested by the original question.

(b) Please produce studies, analyses, and similar documents sufficient to enable a third party to verify whether the criteria identified in response to ANM/USPS-T9-7(f) justify lives as short as the specific lives referred in question ANM/USPS-T9-7(e).

ANM/USPS-T9-35. In the last sentence of your answer to ANM/USPS-T9-7(f), you state that the Postal Service's "[d]epreciation 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."

(a) Does the Postal Service contend that depreciation lives that satisfy GAAP match the full period during which the depreciated assets are expected to provide service (the regulatory "matching principle")? If so, please produce all documentation on which you rely in support of your position.

(b) Have the Postal Service's "external auditors" – or anyone else – analyzed whether the depreciation lives assumed by the Postal Service in its cost of service studies comply with the matching principle? If so, please produce all documentation.

ANM/USPS-T9-36. This is a follow-up to question ANM/USPS-T9-9. The question was, *inter alia*, a request for production of documents. Please produce the requested documents, or verify that no responsive documents exist.

ANM/USPS-T9-37. Your testimony at page 10, lines 16-17, states that "Planning to operate at a loss, to defer equity restoration, and to borrow for operations would be to plan for financial failure."

a. Would you agree that the Postal Service should distinguish between (i) borrowing for operations and (ii) borrowing for capital investment with anticipated future payoff in the form of, say, cost reductions? If you do not agree, please explain fully any reservations which you may have.

b. Since the Postal Service cannot fund its capital investment program by raising equity in the capital markets, would you agree that failure to borrow for necessary capital investment and infrastructure can be equivalent to planning for financial failure? If you do not agree, please explain fully.

ANM/USPS-T9-38. Exhibit USPS-9A estimates FY 2000 revenues at $64,761.8 million, with total accrued costs of $64,761.8 million and net income of $65.6 million. If we assume that the target for recovery of prior years' losses ("RPYL") in FY 2000 is equal to the amount established in Docket No. R97-1, $446.9 million, [Op. & Rec. Decision, ¶ 2032], would you concur that FY 2000 has an estimated deficiency of $381.3 ($65.6 - $446.9) million? Please explain any answer that is not an unqualified affirmative.

ANM/USPS-T9-39. Exhibit USPS-9A estimates FY 2001 revenues at $66,328.4 million before rates, with total accrued costs of $68,046.6 million and net operating loss of $1,718.2 million. If we use the $446.9 million target for recovery of prior years' losses ("RPYL") established in Docket No. R97-1, would it be fair to say that the Before Rates revenue deficiency for "break even" in FY 2001 amounts to an estimated $2,165.1 ($1,718.2 + 446.9) million? Please explain any answer that is not an unqualified affirmative.

ANM/USPS-T9-40. At page 16 of your testimony, lines 1-5, you state that the Other Programs expense for Test Year is $1.1 billion, and "is substantially less than the $3.7 billion in Other Programs expense growth estimated for FY 1997 and the Test Year in Docket No. R97-1."

a. Of the $3.7 billion for Other Programs expense that was estimated for FY 1997 and Test Year in Docket No. R97-1, how much was actually spent by the end of FY 1997?

b. How much of the $3.7 billion was spent in years after FY 1997?

c. How much of the $3.7 billion remains unspent, and how much has been canceled or dropped from the current and future budgets?

ANM/USPS-T9-41. Please provide a copy of the Fiscal Year 1999 Performance Plan and the Fiscal Year 2000 Performance Plan.

ANM/USPS-T9-42. The Postal Service has announced various rounds of spending cuts, including but not necessarily limited to the seven capital programs identified in your response to DMA/USPS-T9-10 and those announced by John Ward at the February 2 MTAC meeting.

(a) For all announced spending reductions, please identify by program (i) the change in cash expenditures in fiscal years 1999, 2000, and 2001, (ii) for those programs subject to being capitalized and amortized, the change in accrued expenses in fiscal years 1999, 2000, and 2001, and (iii) the effect that each program reduction is expected to have on your Test Year projected savings that were included in the roll-forward model. Produce

(b) Produce all studies, analyses and similar documents underlying your answer to part (a).

ANM/USPS-T9-43. In response to DMA/USPS-T9-10, you stated that "Corporate wide personnel cost growth is primarily driven by factors such as inflation, actuarial changes and labor contracts that are not subject to management control." Please confirm the following statements. Explain any failure to confirm fully.

a. The amount of overtime labor is subject to management control.

b. Within contractual limits, the number of casual and transitional employees is subject to management control.

c. The number of supervisors of any activity is subject to management control.

d. The number, responsibility, and job descriptions of headquarters and field management and support personnel are subject to management control.

e. The number and scheduling of equipment, building and vehicle maintenance employees are subject to management control.

f. The decision to purchase and install labor-saving equipment such as automated letter sorting machines, flat sorting machines, robots, tray management systems, etc., is subject to management control.

g. The decision to contract entire facilities, such as PMPCs, is subject to management control.

h. The decision to hire contract carriers for rural routes is subject to management control.

i. The decision to install new management systems designed to improve efficiency and reduce costs, such as the Corporate Call Management Program, is subject to management control.

ANM/USPS-T9-44. This question concerns plant managers, and all supervisory personnel under the level of plant manager.

(a) Please identify indicate all incentives, including but not necessarily limited to salary and bonus, which these personnel have to reduce the number of employees under their immediate supervision.

(b) Please identify all incentives, including but not necessarily limited to salary and bonus, which these personnel have to maintain or increase the number of employees under their immediate supervision.

(c) Please state whether, and to what extent, which plant managers and subordinate supervisory personnel are penalized for backlogs in mail processing (or given positive incentives for avoiding such backlogs).

(d) Please produce all studies, analyses, and similar documents generated by or for the Postal Service since July 1, 1998, concerning the effectiveness of efforts by Postal Service management to limit the size of its mail processing work force to the actual mail processing workload.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document on all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

David M Levy

February 18, 2000