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BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

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Docket No. R2000-1

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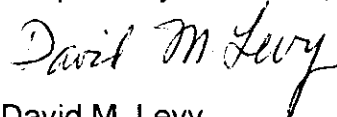
Postal Rate and Fee Changes, 2000

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**FIFTH INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS  
TO USPS WITNESS TAYMAN (ANM/USPS-T9-50-66)**

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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March 14, 2000

## QUESTIONS

**ANM/USPS-T9-50.** Please refer to your response to ANM/USPS-T9-27b. Aside from the statutory debt limit provisions which you discuss there (as well as in your response to ANM/USPS-T9-2), does the Postal Service or the Board of Governors have any internal guidelines or other limitations (of any kind) on borrowing (either annual amounts/or in aggregate) for capital improvement that are more restrictive than the statutory limitations?

- (a) If so, please produce documents containing such guidelines or limitations.
- (b) Explain what effect these more restrictive internal guidelines and limitations have had on Postal Service capital investment and borrowing during the period 1990-1999.

**ANM/USPS-T9-51.** Please refer to the Capital Investment Plan, FY 1998-2002, FY 2000 Update attached to your response to ANM/USPS-T9-8. At page 6 that Report states the following:

In 1980 the USPS started investing in automation equipment with the single line optical character reader. Since that time the USPS has invested \$5.6 billion in letter mail automation...

Our financial analysis begins in 1987, prior to the deployment of multi-line optical character readers and the improved bar code sorters. The salary avoidance since that time amounts to about \$15 billion.

- (a) When was this report published?
- (b) Was the Capital Investment Plan, FY 1998-2002 prepared specifically or

primarily for the Governors? If not, for whom was the report primarily intended?

(c) Was this report submitted to the Governors for their review and/or approval?

(d) Do you agree that the \$5.6 billion of investment in letter mail automation since 1980 is a correct amount? If not, provide what you believe to be the most accurate amount as of the date when this report was published.

(e) Does the \$5.6 billion for letter mail automation include any of the capital investment to date for mechanizing and automating the handling of flats or parcels?

(f) Do you agree that the salary avoidance since 1987 of \$15 billion is a correct amount? If not, provide what you believe to be the most accurate amount as of the date when this report was published.

(g) Is the \$15 billion in salary avoidance the amount of salaries avoided solely on account of the investment in letter mail automation since 1987? Or, does that \$15 billion salary avoidance figure also reflect the result of capital investment in other mail processing equipment? If the \$15 billion in salary avoidance reflects some amount of investment that is either greater than or less than the \$5.6 billion discussed in the first paragraph on page 6, please provide the total amount of the investment that resulted in the \$15 billion of savings, and provide a year-by-year summary showing when that investment occurred and when the savings were realized.

**ANM/USPS-T9-52.** Please refer to ANM/USPS-T9-42. That interrogatory asked you to indicate all reductions in depreciation and amortization that will be realized from reductions in capital investment (i.e., items that are subject to being amortized and

depreciated over periods greater than 1 year). Your answer did not indicate whether any such capital spending cutbacks have been made. Please provide a responsive answer. If no capital spending program has been reduced and all reductions are for current expense items only, please so state.

**ANM/USPS-T9-53.** Please refer to your response to ANM/USPS-T9-43, where you state "To purchase equipment, in the past, Congress has even passed legislation that restricted the amount of capital spending the Postal Service could incur in a given year." Provide citations to all such legislation passed since 1987, indicate the spending limits contained in each statute cited, and discuss the practical effect of each such statute (e.g., did it cause cancellation or deferral of certain projects?).

**ANM/USPS-T9-54.** Please refer to Exhibit USPS-9F. The row "All other differences (net)" indicates a positive cash flow of \$1.465 billion in TY 2001 AR. Please indicate each item included in this catchall category that has a projected cash flow greater than \$90 million, and indicate the amount projected for each such item.

**ANM/USPS-T9-55.** Please refer to Attachments I, II, and III to ANM/USPS-T10-17 (redirected from witness Kingsley).

(a) Please provide the date of each attachment or, if they do not carry a date, the month and year when each was distributed to the Governors.

(b) Attachment I, at page 1, states:

We have listened to the concern of the Board about increased spending, and we will take a step back to look at our future investment requirements in conjunction with our attempt to extend the rate cycle.

Please provide what you believe to be all concerns of the Board to which this statement refers, indicate whether those concerns were transmitted orally, in writing, or by Board resolution, and provide copies of all resolutions or internal guidelines concerning capital spending received in writing from the Board since 1990.

(c) Is the revised Capital Investment Plan shown on page 1 of Attachment I, which calls for capital investment of \$2.7 billion in 2001 and 2002, still in effect? If not, please provide a copy of the current plan for those years.

(d) The Revised Capital Investment Plan shown on page 1 of Attachment I indicates plans of \$3.5 billion for 2000. Attachment II, page 1, states that "The fiscal year 2000 capital plan totals \$4.0 billion." Does the increase in Attachment II versus Attachment I (i.e., \$4.0 vs. \$3.5 billion) represent a failure to spend all that was budgeted for FY 1999 and a subsequent effort to catch-up, or does it represent a net increase of \$0.5 billion in the five year plan? Please explain.

**ANM/USPS-T9-56.** Exhibit USPS-9F indicates that depreciation and amortization in FY 2001 will amount to \$2.154 billion.

(a) Please confirm that if the Postal Service invests \$2.7 billion in 2001, its net investment (i.e., net of depreciation and amortization) that year will amount only to \$546 million. If you do not confirm, please explain fully.

(b) Is a net investment of only \$546 million sufficient to maintain and improve the base and infrastructure of an organization with gross revenues of \$70 billion and almost 800,000 employees? Please explain fully any affirmative answer.

**ANM/USPS-T9-57.** Please refer to Attachment III to ANM/USPS-T10-17. The following statement appears on page 2:

To minimize borrowing, projects in Fiscal Year 1999 Capital Investment Plan will be funded internally to the maximum extent possible.

(a) Is there a formal or informal guideline to limit capital spending to that which can be funded internally?

(b) If the Postal Service can borrow up to \$2 billion annually for capital projects, and up to \$15 billion total, please explain the concern to limit capital spending to amounts that can be funded internally.

**ANM/USPS-T9-58.** Please refer to your response to DMA/USPS-T10-44 (redirected from witness Kingsley). In that response you explain the negative total factor productivity (TFP) in four of the last five years by stating that "In recent years, the Postal Service has invested substantial sums in improving customer service and satisfaction," and you point to improved on-time delivery which is not reflected in TFP. Your answer implies that the Postal Service has had to make hard choices, or tradeoffs, between (i) improvements in customer service and satisfaction, versus (ii) higher TFP. Please explain why, in recent years, the Postal Service could not have had a higher level of capital investment that was designed to increase customer service and satisfaction while simultaneously also increasing TFP.

**ANM/USPS-T9-59.** Please refer to your response to ANM/USPS-T10-19 (redirected from witness Kingsley).

(a) What is the average interest rate which the Postal Service paid during Base

Year 1998 on its outstanding debt used for capital investment?

(b) What does the Postal Service consider its cost of capital to be?

(c) What is the relationship, if any, between (i) the 20 percent hurdle rate used for potential capital investments such as those described in ANM/USPS-T10-19, and (ii) the average interest rate which the Postal Service pays to borrow money, and (iii) the cost of capital?

(d) If the Postal Service were to use a lower hurdle rate (e.g., 10 to 15 percent), would that be likely to increase the amount spent for labor-saving capital equipment? Or, does the Postal Service have other constraints that restrict and limit such investment? Please discuss and explain.

**ANM/USPS-T9-60.** Please refer to your response to ANM/USPS-T9-17.

(a) What is the definition of "workyear" as used in USPS-9P?

(b) What was the total number of overtime hours worked in Base Year 1998, and to how many workyears did those overtime hours correspond?

(c) Your response to part (a) of ANM/USPS-T9-17 indicates that during Base Year 1998 the average employment (including career, transitional and casual employees) amounted to 829,777. Your response to part (b) indicated that a person may count as one employee even though the hours worked by that person are less than one workyear (e.g., a person who works only part-time, or a person who is employed on a full-time basis, but worked only part of the year). This explanation could lead one to expect that the number of workyears would be less than, or at least no greater than, the average

number of employees, especially since 51,169 or the employees were in the transitional and casual category. In 1998, however, average workyears amounted to 909,578, which exceeded average employment by 79,801. Did overtime account for all of the excess, or do other factors explain the difference?

**ANM/USPS-T9-61.** Please refer to your response to DMA/USPS-T9-31.

(a) Confirm that for the years shown in the table provided in your response, the change in Total Factor Productivity (TFP) for the three decades covered has been as follows:

1971-1980	+6.9%
1981-1990	+3.7%
1991- 2000 to date	+1.3%

If you do not confirm, please explain and provide the correct figure for each decade shown above.

(b) Please explain why the increase in TFP was highest in the decade which experienced comparatively little (or no) mechanization and automation of mail processing, and lowest in the current decade, which should have exhibited the greatest benefit from the Postal Service's cumulative investment in mechanization and automation.

(c) Over the decades covered by your table, what has changed to retard the increase in TFP?

**ANM/USPS-T9-62.** What was the number of motor vehicles owned by the Postal



Service (i) at the beginning of, and (ii) at the end of Base Year 1998?

(a) Of the total number provided in response to part (a) (i), how many were fully depreciated before the beginning of Base Year 1998?

(b) Of the total number provided in response to part (a) (ii), how many were fully depreciated at the end of Base Year 1998?

**ANM/USPS-T9-63.** Please refer to your response to ANM/USPS-T9-18.

(a) Since the FSM 1000s were first installed, has the Postal Service at any time performed a study of the savings and rate of return ("ROI") from any of those machines?

(b) If so, please provide the ROI and savings estimated in each such study, and state how they compare with (i) the hurdle rate of 20% provided in your response to ANM/USPS-T10-19 and (ii) the savings and ROI projected in the DAR. If no such follow-up studies have been performed, please indicate explicitly.

(c) Provide copies of all such follow-up studies on the FSM 1000.

(d) Indicate which of these studies have been provided to the Governors for their review. If none of the studies which you cite have been submitted to the Governors, please so state and indicate all information provided to the Governors concerning whether the FSM 1000s have met and are meeting the ROI and savings targets set forth in the DAR. If the Governors have been provided only with oral briefings, or if they have not been given any follow-up information, please so state.

**ANM/USPS-T9-64.** Please refer to your response to ANM/USPS-T9-23.

(a) Since the CSBCSs were first installed, has the Postal Service at any time performed a study of the savings and rate of return ("ROI") from any of those machines?

(b) If so, please provide the ROI and savings estimated from each such study, and state how they compare with (i) the hurdle rate of 20% provided in your response to ANM/USPS-T10-19 and (ii) the savings and ROI projected in the DAR. If no such follow-up studies have been performed, please indicate explicitly.

(c) Provide copies of all such follow-up studies on the FSM 1000.

(d) Indicate which of these studies have been provided to the Governors for their review. If none of the studies which you cite have been submitted to the Governors, please so state and indicate all information provided to the Governors concerning whether the FSM 1000s have met and are meeting the ROI and savings targets set forth in the DAR. If the Governors have been provided only with oral briefings, or if they have not been given any follow-up information, please so state.

**ANM/USPS-T9-65.** Since the FSM 775s/881s were first installed (see response to ANM/USPS-T10-1), has the Postal Service at any time performed a study of the savings and rate of return ("ROI") from any of those machines?

(a) If so, please provide the ROI and savings estimated from each such study, and state how they compare with (i) the hurdle rate of 20% provided in your response to ANM/USPS-T10-19 and (ii) the savings and ROI projected in the DAR. If no such follow-up studies have been performed, please indicate explicitly.

(b) Provide copies of all such follow-up studies on the FSM 1000.

(c) Indicate which of these studies have been provided to the Governors for their review. If none of the studies which you cite have been submitted to the Governors, please so state and indicate all information provided to the Governors concerning whether the FSM 1000s have met and are meeting the ROI and savings targets set forth in the DAR. If the Governors have been provided only with oral briefings, or if they have not been given any follow-up information, please so state.

**ANM/USPS-T9-66.** Do the Postal Service's existing contracts with its labor unions contain "no-layoff" provisions for career employees?

(a) If so, are the provisions the same in all union contracts? If not, please specify what the no-layoff provision provides in the contract with each union.

(b) When new career employees are hired, at what point do their jobs become protected by the no-layoff provisions?

(c) How many career employees are currently protected by such provisions?

**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*  
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March 14, 2000