

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

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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO INTERROGATORIES OF THE ASSOCIATION FOR POSTAL COMMERCE  
(PostCom/USPS-1-4)

The United States Postal Service hereby provides its responses to the following interrogatories of the Association for Postal Commerce: PostCom/USPS-1-4, filed on March 1, 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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March 16, 2000

## RESPONSE OF US POSTAL SERVICE TO INTERROGATORIES OF POSTCOM

**Postcom/USPS-1.** Please refer to the Semi-Annual Report of the Postal Service Office of Inspector General ("OIG") dated October 31, 1999 (for the period April 1, 1999 - September 30, 1999). Under the Inspector General's message section the following statement appears:

"In the last six months, with the support of the Postal Service Governors and the assistance of management and employees, we issued over 100 reports representing over \$1.1 billion in savings and potential cost avoidance during the current and future years."

(a) Does the Postal Service agree with the savings and potential cost avoidance estimates asserted by the OIG? Please explain in detail any disagreement with respect to the OIG's assertion of \$1.1 billion in savings and potential cost avoidance and set forth the amount of savings that the Postal Service itself estimates will result from such reports.

(b) To what extent, if at all, are the savings resulting from the OIG's reports explicitly reflected in the estimated revenues and costs that the Postal Service has used in this docket for FY1999? Please provide any studies or workpapers showing how the recommendations of the OIG were incorporated in the development of such estimates.

(c) To what extent, if at all, has the potential cost avoidance estimated by the OIG been explicitly incorporated into the Postal Service's revenue and cost forecasts for FY2000 and the Test Year? Provide any studies or workpapers showing how the OIG recommendations were incorporated in the development of such forecasts.

### RESPONSE:

(a) The \$1.1 billion in savings and potential cost avoidance identified in the OIG report pertain to four OIG reports. The Postal Service generally agrees with these findings and their specific position on each report finding is contained on pages 44 through 46 of the OIG Semi-Annual Report.

(b) As mentioned in response to (a) above, the \$1.1 billion relates to four reports.

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### Postcom/USPS-1. continued

They are:

Report	Savings & Cost Avoidance
Corporate Call Management	\$ 962 M
Emergency & Extra Trips	\$ 137 M
Rail Detention Costs	\$ 55 M
Natural Gas Vehicles	\$ 13 M

The report on Corporate Call Management indicates that \$962 million in cost avoidance through FY 2007 can be realized. As stated on page 46 of the report, management has slowed implementation of this program and the costs for this program included in this rate filing are consistent with the findings of the OIG. The \$137 million for Emergency and Extra Trips and the \$50 million for Rail Detention Costs covers a five year period. These savings are included in the transportation cost reductions reflected in this rate filing (see LR-127, Ch. IV, Section f). Likewise, savings pertaining to incentives and expanded use of natural gas vehicles are incorporated in the transportation reductions included in the rate filing.

## **RESPONSE OF US POSTAL SERVICE TO INTERROGATORIES OF POSTCOM**

**Postcom/USPS-2.** How are costs and expenses of the Postal Inspection Service and the OIG reflected in (a) total accrued costs for the Base Year, (b) estimated costs for FY1999, (c) estimated costs for FY2000, and (d) estimated costs for the Test Year?

### **RESPONSE:**

In the base year, the personnel costs of the OIG and the Inspection Service are reflected as part of cost components 191 and 195 respectively. Both of these components are in cost segment 18. Most non-personnel costs for the OIG and the Inspection Service are reflected in the cost segment and component to which they apply. For example, OIG and Inspection Service printing costs would be included in component 179 and supplies and services costs would be included in components 177 and 210. Base year costs are rolled forward into the test year by applying the source of change factors described and explained in USPS-T-9, USPS-T-14, and LR-I-127.

## **RESPONSE OF US POSTAL SERVICE TO INTERROGATORIES OF POSTCOM**

**Postcom/USPS-3.** Please refer to the Postal Service's response to PSA/USPS-3 in which it is stated that "estimated changes in accrued costs . . . are greater than the estimated changes" in the CPI for each of FY2000 and the Test Year.

(a) Please confirm that in its decision in Docket R97-1, the Commission recommended a reduction of the Postal Service's revenue request by approximately \$745 million of which approximately \$511 million were the result of known and certain changes to the estimates the Postal Service originally presented. If not confirmed, please explain why.

(b) To what extent, if at all, are the estimated changes in accrued costs for FY2000 and the Test Year greater than the estimated changes in the rate of inflation for each of those years intended as an offset to either (or both) of the overall reduction in the revenue requirement in Docket R97-1 or the approximately \$511 million adjustment made by the Commission to reflect forecast errors in that case?

(c) To what extent, if at all, are the estimated changes in accrued costs for FY2000 and FY2001 greater than the estimated changes in the rate of inflation intended as an offset to the decision to defer until January, 1999 implementation of the rates recommended by the Commission in Docket R97-1?

### **RESPONSE:**

(a) As reflected in Appendix C of the Docket R97-1 Appendices to Opinion and Recommended Decision, Volume 2, the PRC made revisions to the Postal Service filing which improved test year net income by \$745 million. \$511 million of these adjustments were described by the PRC as "known and certain".

(b) The Postal Service's Docket R2000-1 estimates of accrued costs for FY 2000 and the test year represent our best estimates at the time the estimates were developed. They were not inflated to offset the adjustments made by the PRC to

## RESPONSE OF US POSTAL SERVICE TO INTERROGATORIES OF POSTCOM

### Postcom/USPS-3. Continued

the Docket R97-1 filing. Please note that the \$511 million of adjustments described by the PRC as "known and certain" were not errors, but largely updates for later information. Also note that the Postal Service acknowledged these adjustments and other partially offsetting adjustments which the PRC chose not to reflect.

- (c) The Postal Service's estimated changes in accrued costs for FY2000 and the Test Year were not inflated to offset the impact of the decision to defer implementation of the rates recommended by the Commission in Docket R97-1 until January, 1999.

## RESPONSE OF US POSTAL SERVICE TO INTERROGATORIES OF POSTCOM

**Postcom/USPS-4.** Please refer to the last sentence of the Postal Service's response to PSA/USPS-3 in which the Postal Service partially restates Witness Tayman's response to DMA/USPS-T-9-16 in these words: "The cumulative rate increase over the last two rate cycles is 5% below inflation."

(a) Is it the Postal Service's position that, because the average rate increase in the historic period (January, 1995 - January, 1999) proved to be lower than the cumulative rate of inflation for such period, this justifies projecting increases in accrued costs at greater than the rate of inflation for future years (FY2000 and the Test Year)? Please explain in detail any affirmative answer.

(b) Is it the Postal Service's position that, if the average rate increase in the historic period (January, 1995 - January, 1999) had exceeded the cumulative rate of inflation for that period, this would require the use of estimates of accrued costs for a future years (FY2000 and the Test Year) that are lower than the estimated changes in inflation for that period? Please explain in detail any affirmative answer.

(c) Please confirm that the last sentence of the Postal Service's response to PSA/USPS-3 is based on a comparison of rates of inflation to "average rate increase" as shown in Witness Tayman's response to DMA/USPS-T-9-16 and not to the rate increases experienced by individual subclasses of mail.

(d) If, in connection with the preparation of its filing in this docket, the Postal Service has performed any studies comparable to the comparison set forth in response to DMA/USPS-T-9-16 for any or all subclasses of mail, please provide a copy of such studies.

### RESPONSE:

(a) This is not offered as justification, but is simply a statement of the facts. The average rate increase in the historic period (January, 1995 - January, 1999) was lower than the cumulative rate of inflation for that period. And while the average rate increase requested in this filing is greater than the projected rate of inflation for the period since the previous rate increase, the cumulative rate of inflation

## RESPONSE OF US POSTAL SERVICE TO INTERROGATORIES OF POSTCOM

### Postcom/USPS-4. continued

over both periods taken together is less than the cumulative average rate increase over the same period.

(b) See the response to (a).

(c) Confirmed.

(d) In connection with the preparation of its filing in this docket, the Postal Service has not developed any studies comparable to the comparison set forth in the response to DMA/USPS-T9-16 for any or all individual subclasses of mail. The Docket R2000-1 Exhibit USPS-32D, and Schedule 1 from Appendix G in the Docket R97-1 Appendices To Opinion and Recommended Decision Volume 2, reflect percentage increases in revenue per piece for individual classes of mail. These could be compared to the inflation rates calculated in the response to DMA/USPS-T-9-16.



**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.

  
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March 16, 2000