

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 UNITED STATES POSTAL SERVICE
WITNESS TAYMAN TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T9-42-46)

The United States Postal Service hereby provides the responses of witness Tayman to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T9-42-46, filed on March 15, 2000.

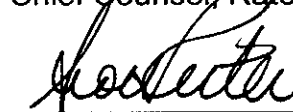
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Rate-making



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March 31, 2000

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T9-42. Please refer to your testimony, Exhibit USPS 9J, pages 3 and 4. Page 3 has a first line title of "R97-1 BEFORE RATES." Page 4 has a first line title of "R97-1 AFTER RATES." Both pages have the same total revenues, segment and total costs for Docket Nos. R87-1, R90-1, and R94-1. Excluding the three columns associated with the four-year estimated and actual totals, please confirm that the only difference between pages 3 and 4 of USPS 9J is the "R97-1 Before Rates Estimate" column on page 3 and the "R97-1 After Rates Estimate" column on page 4. If you are unable to confirm, please explain.

RESPONSE:

Confirmed.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
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OCA/USPS-T9-43. On page 43 of your testimony, you state, "This mid-range contingency balances the Postal Service's desire to keep rate increases as low as possible with management's assessment of the degree of financial risk that currently faces the Postal Service."

- (a) With whom in management did you discuss the amount of the contingency provision to be incorporated into the USPS filing in Docket No. R2000-1?
- (b) Please provide copies of all documents, notes and analysis performed in determining the level of the contingency for the present docket.
- (c) As noted in your testimony at page 43, the Docket No. R2000-1 contingency is higher than the one-percent contingency included in Docket No. R97-1. Please specifically identify and explain each new or increased concern, risk, issue or other criteria management considered when deciding that the contingency should be increased in this docket from the level requested in Docket No. R97-1.
- (d) For each new or increased concern, risk, issue, or other criteria identified in response to part (c) above, specify the amount or portion of the increase in the contingency request caused by or related to each item.
- (e) Does the Postal Service believe that its revenues are more at risk in Docket No. R2000-1 than in Docket No. R97-1? If so, please identify the amount of increased risk as well as the specific issues, criteria, or other factors the USPS management believes have changed since the last omnibus case.
- (f) Does the Postal Service believe that its operating budget is more at risk in Docket No. R2000-1 than in Docket No. R97-1? If so, please identify the specific issues, criteria, risks or other factors the USPS believes have changed such that the risk factor is higher.
- (g) Is the Postal Service more concerned in this docket than in Docket No. R97-1 that USPS managers are less able to plan and follow through on their operating budgets? If so, please provide the criteria used to arrive at this assessment.

RESPONSE:

- (a) I discussed the amount of the contingency provision to be incorporated into the USPS filing in Docket No. R2000-1 with the Controller, the CFO, the Chief Counsel Ratemaking, my attorney, and other staff involved with the rate case.
- (b) Objection filed.
- (c) The determination was largely subjective. See my responses to DMA/USPS-T9-15 and DMA/USPS-T9-47.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
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OCA/USPS-T9-43 RESPONSE continued.

- (d) No such assignments were made. See my response to (c).
- (e) Yes. Revenue was less than plan in FY 1999 and this trend is continuing in FY 2000. Please refer to pages 43 and 44 of my testimony for a discussion of financial trends relative to the contingency.
- (f) See my response to g.
- (g) The Postal Service remains concerned about its ability to meet the challenging financial goals it will face over the next rate cycle. The Postal Service had similar concerns during the previous rate cycle. The issues I discuss on pages 43 and 44 of my testimony lead to the conclusion that the Postal Service's financial challenges over the R2000-1 rate cycle will be formidable.

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OCA/USPS-T9-44. The following refers to your response to OCA/USPS-T9-15. You indicate that "carriers will be required to deliver a mail piece to every address in high rise buildings." You then state, "Normally a small percentage of addresses do not require delivery on any given day." In your response, do you mean that a city carrier will put a copy of the sample letter, provided as an attachment to your response to OCA/USPS-T9-15 (b)(2), into each addressee's mailbox? If not, please explain what you meant when you said that a carrier will be required to deliver a mail piece to every address in a high rise building.

RESPONSE:

Yes.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
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OCA/USPS-T9-45. The following refers to your responses to OCA/USPS-T9-18 and DMA/USPS-T9-13.

- (a) In your response to DMS/USPS-T9-13 you indicated that the Y2K costs for FY98 were approximately \$88.6 million and \$267 million in FY99 for non-personnel only, other than depreciation. In OCA/USPS-T9-18, you indicated that through accounting period 6, \$51 million of Y2K expenses have been incurred. How much of the \$51 million represents expenses for non-personnel only, other than depreciation?
- (b) You indicated in your response to DMA/USPS-T9-13 that \$42.6 million of Y2K expenses were included in the filing for FY00. Please indicate how much of the \$42.6 million was for expenses for non-personnel only, other than depreciation?
- (c) Please provide the most current operating estimate of the total Y2K non-personnel, other than depreciation, expenses the USPS anticipates it will incur in FY00.
- (d) Please explain where the Y2K non-personnel expenses other than depreciation and totaling a minimum of \$355.6 million (\$88.6 + \$267) have been "taken out" of the USPS roll forward costs for FY00 and FY01. Include in your response a detailed analysis showing the amount removed for each segment and component impacted. Provide in your response, specific page, line and cell cites for all workpapers, library references, electronic files and other sources impacted.
- (e) In your response to OCA/USPS-T9-18, you use the phrase "non-personnel only, other than depreciation." Are the categories of "non-personnel other than depreciation" expenses you refer to similar to those expenses referred to in USPS-LR-I-127 at 189? If not, please explain what you mean when you refer to "non-personnel other than depreciation" expenses.
- (f) If Y2K non-personnel other than depreciation expenses were not removed from the USPS roll forward, please explain why they were not and provide an analysis showing the cost impact of rolling those costs forward.

RESPONSE:

- (a) Through accounting period six, Y2K expenses for non-personnel excluding depreciation are \$45 million.
- (b) All of the \$42.6 million of Y2K expenses included in the filing for FY00 was for non-personnel expenses other than depreciation.
- (c) The current best estimate for FY 00 Y2K non-personnel expenses excluding depreciation is \$48 million.

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OCA/USPS-T9-45 RESPONSE continued.

- (d) Y2K non-personnel expenses other than depreciation were reduced from \$267 million in FY 99 to \$43 million in FY 00 (a reduction of \$224 million) and reduced further to zero in FY 01 (a reduction of \$43 million). These reductions are part of the differences reflected on page 227 of LR-I-127 (electronic file hqpro_00.xls). As explained on page 228 of LR I-127, the FY 2000 expenses on page 227 reflect the expected level of HQ Programs and Corporatewide Activities (CWA) expense allocated to account number based on FY 98 actual HQ Program and CWA expenses by account number. These costs are then allocated to cost component based on the account number totals. This methodology was used because the FY 99 actual HQ Program and CWA expenses by account number and the FY 2000 budget for most HQ Programs and Corporatewide Activities were not available in time to be used in the development of the revenue requirement. The cost components mainly impacted by Y2K expenses are 174 and 177.
- (e) Y2K non-personnel expenses and those shown on page 189 of LR-I-127 are different expenses but are similar in that neither includes depreciation expense.
- (f) See my response to (d).

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OCA/USPS-T9-46. Please refer to USPS-LR-I-127, filename SPTDC.xls. Local Management Initiatives (LMI) for FY00 include work hour reductions of 3,801,000 for clerks; 4,468,000 for city carriers; 1,351,000 for supervisors and 35,000 for maintenance. Please explain what types of local initiatives are expected to result in total FY00 work hour reductions of 9,655,000.

RESPONSE:

LMIs are intended as guides to attain the net income goal, although the field may use other methods to reach the same goal. The following strategies were proposed to the field as ways to achieve the savings necessary to meet the net income target.

- 1) Absorb a portion of the forecasted workload volume growth (approximately 22 percent). (-4,852,870 hours)
- 2) Improve distribution productivity by moving 4 percent of manual letter handlings to automated operations. (-2,052,020 hours)
- 3) Improve flat distribution productivity by increasing utilization of mechanized flat sorting equipment. (-831,278 hours)
- 4) Improve BMC productivity by implementing improved processing methods and planning guidelines. (-31,616 hours)
- 5) Improve carrier productivity on the street by examining the number and location of park and relay points, locations of breaks, amount of mail carried, delivery patterns, and unnecessary deadheading. (-1,000,000 hours)
- 6) Improve PVS utilization through examination and refinement of schedules to requirements. (-35,540 hours)

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
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OCA/USPS-T9-46 RESPONSE continued:

7) An additional unstructured LIM was assigned to close the net income gap.

(-852,506 hours)

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: 3-31-2000

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.

A handwritten signature in black ink, appearing to read "Scott L. Reiter", written over a horizontal line.

Scott L. Reiter

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