

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  
TO INTERROGATORIES OF  
THE OFFICE OF THE CONSUMER ADVOCATE  
REDIRECTED FROM WITNESS TAYMAN  
(OCA/USPS-T9-30-38 and OCA/USPS-T9-39-41)

The United States Postal Service hereby provides its responses to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T9-30-38, filed on March 7, 2000; and OCA/USPS-T9-39-41, filed on March 8, 2000, and redirected from witness Tayman.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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**RESPONSE OF UNITED STATES POSTAL SERVICE TO INTERROGATORIES OF  
OFFICE OF THE CONSUMER ADVOCATE  
(Redirected from Witness Tayman, USPS-T9)**

**OCA/USPS-T9-30.** For purposes of this interrogatory, and interrogatories OCA/USPS-T9-31-38, please consider postal services to be services that the Postal Service has begun offering during the 1988-1998 period after filing a request with the Postal Rate Commission under 39 U.S.C. §3623, and/or that the Postal Service has changed the rate or fee of a service by filing a request with the Commission under 39 U.S.C. § 3622. Please consider nonpostal services to be any other service provided by the Postal Service to the public, including retail services. Please refer to Table 2 of your testimony. In Table 2 you set forth total revenues (column 2) and total expenses (column 4) for fiscal years 1988-1998. For each of the eleven fiscal years set forth in the table, please break out the total revenue figures into revenues generated by postal services and revenues generated by nonpostal services. Also, break out each total expense figure into expenses generated on behalf of postal services and expenses generated by nonpostal services.

**RESPONSE:**

The Postal Service does not account for revenues and expenses using nonpostal and postal categories as defined in your question, although a similar distinction between nonpostal and postal categories is addressed in the Postal Service's Compliance Statement, Attachment G of the Service's request,

RULE:54(h)(1). Attachment G provides an explanation for generic "nonpostal" services that can be identified in the Postal Service's reports and a table is shown that identifies services which could be termed nonpostal and their associated cost elements.

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**OCA/USPS-T9-30 Response continued**

There is additional confusion with the very broad definition of "nonpostal" as "any other service provided by the Postal Service to the public, including retail services."<sup>1</sup>

What types of services should be included in addition to retail services? Should public service offerings be included, for instance, the Carrier Alert Program and the activities for providing U.S. Burial Flags? Although the questions may appear to be quite straightforward at first reading, such examples highlight the difficulties in addressing each and every nonpostal service offering within the wide spectrum of the Postal Service's offerings.

For each of the eleven fiscal years referred to in your question, the Postal Service has available accepted reporting formats that include all revenues and expenses. The Revenue, Pieces, and Weight by Classes of Mail and Special Services Report can be used to assist in providing some breakout between the revenue generated from "postal" and "nonpostal" services as defined in the question. Expenses related to classes of mail and special services are available in the Cost and Revenue

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<sup>1</sup> The Postal Service has assumed that the OCA's series of questions concerning postal services versus nonpostal services do not seek information on individual international mail services because detailed international information is not relevant to proceedings dealing with domestic rates and fees. Also, individual international mail services are not considered to be encompassed by OCA's questions because these questions focus on services offered in the 1988 - 1998 time frame and the Postal Service has been offering any number of international mail services prior to that time period.

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**OCA/USPS-T9-30 Response continued**

Analysis and the Cost Segments and Components Report. While separate revenue accounts exist for many "nonpostal" services and other miscellaneous revenue items, most expense accounts do not relate to class of mail or service. A description of all revenue and expense accounts is available in the General Classification of Accounts, Handbook F-8. A copy of this handbook was provided in USPS-LR-I-183. These reports are available for the years requested in the Postal Service Library, L'Enfant Plaza SW, Washington DC 20260.

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(Redirected from Witness Teyman, USPS-T9)**

**OCA/USPS-T9-31.** For each of the fiscal years set forth in Table 2 (*i.e.*, 1988-1998), state, to the best of your knowledge, whether nonpostal services, in the aggregate, generated a surplus or a loss. For each of these years, please provide an estimate of the amount of the surplus or loss. Also, describe how the estimate is developed.

**RESPONSE:**

See the response to OCA/USPS-T9-30. In the aggregate, it is believed that a surplus is generated. Generally, refer to the Postal Service's Compliance Statement, Attachment G that states "[t]he difference of \$31.1 million reduced the institutional costs borne by other postal services by that amount in FY 1998."

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**OCA/USPS-T9-32.** Does the Postal Service keep a system of accounts for nonpostal services that is separate from its system of accounts for postal services? Please describe the accounting and data systems that are used to track nonpostal services' costs, revenues, and volumes.

**RESPONSE:**

No, see the response to OCA/USPS-T9-30.

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**OCA/USPS-T9-33.** Are any nonpostal services currently being offered at no charge to the users of the service? If so, please list all such services. Also, if your answer is affirmative, please state the source(s) of funds for operating each such service. If postal services are directly or indirectly the source of funds, then please so state.

**RESPONSE:**

Yes, there are several "nonpostal" services provided at no charge to the users of the service. The sources of funds to operate such services is both postal and nonpostal revenues. As discussed in the response to OCA/USPS-T9-30, the following could be termed "public service" offerings and highlight the difficulty in isolating the costs and revenues associated with "nonpostal" services:

- **Address Verification** – The address of a postal customer is verified at the request of a federal, state, or local government agency on written certification that the information is required for the performance of the agency's duties. Verification means advising an agency whether its address for a postal customer is one at which mail for that customer is currently being delivered.
- **Carrier Alert Program** – The carrier alert program is a reassurance and notification service performed by letter carriers on their appointed routes every service day. Under this program, carriers - alerted by an accumulation of mail to possible illness or accident suffered by shut-in, elderly, or handicapped customers - report to local agencies for appropriate follow-up. Carriers also report unusual conditions to the proper authorities.

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**OCA/USPS-T9-33 Response continued:**

- **Community Bulletin Boards** – Postmasters may install bulletin boards in public areas of post offices to display official government notices, notices of public assemblies, judicial sales, official election notices issued by state or local governments, and similar announcements. As an important extension of this service, the Postal Service in cooperation with the National Center for Missing and Exploited Children (NCMEC) posts pictures of missing children in its lobbies. Using advanced technology, pictures of recently abducted missing children are electronically broadcast to major postal installations for dissemination to all offices in a regional area. Other pictures of missing children have been placed in postal lobbies since the 1980's.
- **Movers' Guides** – The Mover's Guide is a free, colorful 24-page booklet that contains the official USPS change of address form and moving notification postal cards. In addition to the change of address form and moving notification postal cards, the guide also includes before and after moving check lists, advertisements with up to \$60 in discounts; and answers to the most commonly asked questions about permanent and temporary forwarding. There is also a Spanish language version, La Mudanza. In collaboration with Target Marketing Solutions, Inc. (TMSI), the Postal Service has created a free "Welcome Kit" to serve as an official



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**OCA/USPS-T9-33 Response continued:**

confirmation to postal customers that their mail is being properly forwarded and delivered. In recognition of this program, Vice President Al Gore presented the USPS and TMSI with the 1000<sup>th</sup> Hammer Award from the National Performance Review for the partnership's creative efforts that have made moving easier.

- **Burial Flags** -- The Postal Service, through its post offices located at county seats, cooperates with the Veterans Administration by acting as the depository for burial flags.

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**OCA/USPS-T9-34.** Are any nonpostal services currently being offered at a rate or fee that does not cover the cost of providing the service? If so, please list all such services. Also, if your answer is affirmative, please state the source(s) of funds that make up any deficits in providing the service. If postal services are directly or indirectly the source of funds, then please so state.

**RESPONSE:**

See the response to OCA/USPS-T9-31.

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(Redirected from Witness Tayman, USPS-T9)**

**OCA/USPS-T9-35.** Is it the policy of the Postal Service to operate nonpostal services, in the aggregate, so that the revenues taken in from all such services exceed the costs of operating the services? If the answer is affirmative, then state all practices employed by the Postal Service to ensure that nonpostal revenues exceed nonpostal costs. If the answer is negative, then is it correct that postal services (directly or indirectly) fund any expenses that exceed revenues taken in for nonpostal services? Please explain in full.

**RESPONSE:**

In the aggregate, yes. For major programs involving "nonpostal services," the program manager is responsible for tracking the costs associated with the program. The Board of Governors receives information on the expenses, revenues and contribution of certain nonpostal services on a quarterly basis. As the programs are tracked, when they are deemed to be unprofitable, they are terminated.

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(Redirected from Witness Tayman, USPS-T9)**

**OCA/USPS-T9-36.** Please list all nonpostal services currently offered by the Postal Service. For each service, describe what services and/or products are offered and whether a fee is charged. Also, if fees are charged, state the amount of the fee.

**RESPONSE:**

The following responses are provided for those instances in which information is available. Please see the response to OCA/USPS-T9-33, redirected to the Postal Service. In addition, some other "nonpostal" services are:

- **Migratory Bird Hunting and Conservation Stamp Program** – The USPS acts as an agent of the U.S. Fish and Wildlife Service (FWS) to conduct sales of Migratory Bird Hunting and Conservation stamps. The Postal Service assists the FWS by providing 10,000 outlets for the sale of hunting stamps. In addition to selling the hunting stamps, window clerks at post offices selected by the FWS distributes a survey card to each duck stamp purchaser. Through this program, the Postal Service enhances the public benefit of its nationwide network of facilities to make nonpostal governmental agency products readily available to the public.
- **Passport Application Acceptance Program** – The Postal Service cooperates with the State Department through an inter-agency agreement to provide locations for applying for passports. These locations provide convenience to customers by providing additional locations for passport application acceptance.

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**OCA/USPS-T9-36 Response continued**

- **Selective Service Registration Program – The Postal Service cooperates with the Selective Service System through an inter-agency agreement to provide locations for military service registration. The Postal Service provides more than 35,000 classified retail units for young men to comply with the Uniform Military Act. The Postal Service's network of facilities provides convenient locations for young men between the ages of 18 and 26 to comply with this law. This network of facilities is a means to provide nonpostal governmental agency products and services to the public.**

Also, please refer to Library Reference I-248, Materials Provided in Response to OCA/USPS-T9-36 (Postal Service), that provides a detailed item listing of various retail and stamp products. As discussed in other similar responses, the very broad definition of "nonpostal" makes it difficult, if not impossible, to insure that the response has included each and every possible item in the "nonpostal" definition.

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**OCA/USPS-T9-37.** Do any nonpostal services incur costs jointly with postal services (e.g., the service is provided at the window of a postal facility by a clerk)? If so, how are the costs allocated between the nonpostal services and the postal services? Please explain in full.

**RESPONSE:**

The question inquires about two different issues. First, are "nonpostal" and "postal" costs incurred jointly? Second, if so, are the "nonpostal" and "postal" services "jointly costed"? In terms of the first issue, in general, costs are not jointly incurred. In instances where costs are jointly incurred though, they are costed separately. For example, letter carrier access costs are jointly incurred, although the costs are attributed only to single product stops and not to multiple product stops.

In terms of the second issue, the example provided by the question can be directly addressed: the costs are treated separately; they are not joint. In this example, the In-Office Cost System records only the activity observed at the time of the reading. For instance, if the window clerk is handing the customer a passport application when observed, Q18F, choice "Y. US Passport Application" is selected (USPS-LR-I-14, the F-45 p. 11-19). This would be recorded even if the customer's next transaction is going to be to mail a package, or if his previous transaction was purchasing stamps.

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**OCA/USPS-T9-38.** For purposes of this interrogatory, please apply the definition of postal services and nonpostal services set forth in interrogatory OCA/USPS-T9-30, but for the period beginning with Postal Reorganization—the present. Please refer to Table 53 of your testimony. On line 5 of this table you set forth the “Total Recovery Required” of \$2,414,313,000. To the best of your knowledge, does any portion of the \$2,414,313,000 of prior years’ losses reflect losses incurred due to a failure of nonpostal services to cover their costs, in aggregate, during any of the fiscal years since Postal Reorganization? If so, for each fiscal year since 1971 for which you have such information, please state the amount of the loss generated in the aggregate by nonpostal services.

**RESPONSE:**

See the response to OCA/USPS-T9-30. Using the Compliance Statement definition referred to the OCA/USPS-T9-30, the Compliance Statement in MC96-3 indicated that the “nonpostal” services for which costs and revenues could be identified for that base year generated a very small net loss of \$2.2 million.

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**OCA/USPS-T9-39.** For purposes of this interrogatory, and interrogatories OCA/USPS-T9-40 and -41, please consider postal services to be services that the Postal Service has begun offering after filing a request with the Postal Rate Commission under 39 U.S.C. §3623, and/or that the Postal Service has changed the rate or fee of a service by filing a request with the Commission under 39 U.S.C. § 3622, or is asking to change the rate or fee of a service in the instant omnibus rate proceeding. Please consider nonpostal services to be any other services provided by the Postal Service to the public, including retail services. Please refer to pages 10-11, in which you discuss test year cost estimating procedures. For each of the following years—Base Year 1998, Interim Year 1999, Interim Year 2000, and Test Year 2001— please state separately:

- (a) the estimated costs of postal services,
- (b) the estimated costs of nonpostal services.
- (c) the estimated revenues of postal services,
- (d) the estimated revenues of nonpostal services.
- (e) Is it correct that some types of costs that make up the revenue requirement are jointly incurred by postal and nonpostal services? If so, explain the procedures you employ to allocate to nonpostal services their proper share of such costs. Include in your explanation, a description of the accounts and data systems used to make an allocation to nonpostal services of their proper share of costs.
- (f) Do you estimate, for each of the years cited above, that nonpostal services, in the aggregate, will generate (i) a surplus (*i.e.*, make a contribution to institutional costs over and above the sum of the volume variable plus the product specific costs of providing nonpostal services), (ii) a deficit (*i.e.*, the revenues of nonpostal services are less than the sum of the volume variable plus the product specific costs of providing nonpostal services), or (iii) be in a position that the sum of the volume variable plus the product specific costs of nonpostal services equal the revenues they generate? Please explain in full.
- (g) For the years cited above, is it anticipated that any nonpostal services have, or will be, offered at no charge to the users of the service? If so, please list all such services. Also, if your answer is affirmative, please state the source(s) of funds for operating each such service. If postal services are directly or indirectly the source of funds, then please so state.
- (h) For the years cited above, is it anticipated that any nonpostal services have, or will be, offered at a rate or fee that does not cover the cost of providing the service? If so, please list all such services. Also, if your answer is affirmative, please state the source(s) of funds that make up any deficits in providing the service. If postal services are directly or indirectly the source of funds, then please so state.



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**RESPONSE:**

(a-d) Please see the response to OCA/USPS-T9-30, redirected to the Postal Service. Following the logic of that response, please refer to following Cost and Revenue reports found in the testimony of witness Kashani: Interim Year 1999 (Exhibit USPS-14D), Interim Year 2000 (Exhibit USPS-14G), Test Year 2001 at current rates (Exhibit USPS-14J) and Test Year 2001 at proposed rates (Exhibit USPS-14M) for costs and revenues for each year. Revenue information may also be found in the testimony of witness Mayes: Interim Year 2000 (Exhibit USPS-32C), Test Year 2001 at current rates (Exhibit USPS-32A) and Test Year 2001 at proposed rates (Exhibit USPS-32B).

(e) Please see the response to OCA/USPS-T9-37, redirected to the Postal Service.

The same reasoning applies to the year 1999 through 2001.

(f) Please see the response to OCA/USPS-T9-31, redirected to the Postal Service.

The same reasoning applies to the year 1999 through 2001.

(g) Please see the response to OCA/USPS-T9-33, redirected to the Postal Service.

The same reasoning applies to the year 1999 through 2001.

(h) Please see the response to OCA/USPS-T9-33, redirected to the Postal Service.

The same reasoning applies to the year 1999 through 2001. Public service offerings would be funded by the revenue provided by both Postal and nonpostal fees.

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**OCA/USPS-T9-40.** Does Postal Service management make presentations to the Board of Governors, the Governors alone, any Governors' committee(s), or any other subset of the Board of Governors on the costs of providing and revenues related to nonpostal services? Please explain the actions taken to make the financial condition of nonpostal services known to the Governors.

**RESPONSE:**

Postal Service management may make presentations to any or all of: the Board of Governors, the Governors alone, any Governors' committee(s), or any other subset of the Board of Governors depending on the "nonpostal" service under consideration. In terms of new "nonpostal" products or services, please see USPS-LR-I-262, "Other Investment-Related Policies and Procedures" Handbook F-66D, June 1999 for a description of how the Board of Governors is informed of decisions regarding the adoption of new products or services. For various established "nonpostal" products and services, the Board is informed quarterly on the financial condition including: expenses, revenues and contribution of certain nonpostal programs.

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(Redirected from Witness Tayman, USPS-T9)**

**OCA/USPS-T9-41.** Do the Board of Governors or the Governors alone approve management decisions:

- (a) to offer nonpostal services,
- (b) on the fees to charge for such services,
- (c) on whether it is necessary for nonpostal services to make a contribution to the institutional costs of the Postal Service, or, conversely, whether they may be offered free or for a noncompensatory fee? Please explain fully. If these decisions are not subject to approval by the Board of Governors or the Governors, please describe how the Postal Service makes such decisions.

**RESPONSE:**

(a-c) The Board of Governors may approve management decisions as described in the question, although this is not always the case. For a description of the process involved with such decisions concerning "nonpostal" service, please see USPS-LR-I-262, "Other Investment-Related Policies and Procedures" Handbook F-66D, June 1999.

**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 cursive script, appearing to read "Susan M. Duchek", is written over a solid horizontal line.

Susan M. Duchek

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