

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 OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-98-102)

The United States Postal Service hereby provides its responses to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-98-102, filed on March 23, 2000.

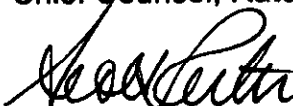
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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April 6, 2000

**RESPONSE OF UNITED STATES POSTAL SERVICE TO INTERROGATORIES OF
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OCA/USPS-98. The following questions relate to the prepared remarks of Postmaster General Henderson at the National Postal Forum in Nashville, Tennessee, March 20, 2000. Mr. Henderson stated, "Looking forward, I have instructed my team to launch additional initiatives that will reduce our expenses by at least \$4 billion by 2004. This is above the billion dollars we cut in 1999, and it is a target for which we will all be accountable."

- (a) Please provide copies of the memoranda, other documents, and back-up materials by which the Postmaster General has instructed his team to launch the additional initiatives referred to in his remarks.
- (b) Do the initiatives contemplate a saving in expenses of \$1 billion in each of the next four years leading up to 2004, *i.e.* 2000 through 2003. If not, please indicate the years in which the savings are expected to be realized and the amounts of the savings expected for each year.

RESPONSE:

(a-b) Mr. Henderson's speech referred to three critical challenges. The first was affordability. In relation to the affordability challenge, he stated "Looking forward, I have instructed my team to launch additional initiatives . . ." These initiatives are a challenge to Postal Management and they have yet to be specifically defined beyond the initial targets established for administrative activities, purchasing, transportation and breakthrough productivity in our processing operations. As such, it is premature to speculate on the years in which the savings are expected to be realized and the amounts of the savings expected for each year.

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OCA/USPS-99. Mr. Henderson states in his remarks, "We have completed a comprehensive study of activities and transactions...." Please provide that study together with all supporting documents.

- (a) Does the study conclude, as Mr. Henderson's remarks suggest, that savings can be realized of approximately \$100 million per year over the next four years from overhead reductions? If not, please explain.
- (b) If any savings from these overhead reductions are included in the Postal Service's projections for the interim years or for the test year, please indicate the cost segment, cost component, and the years where the savings are reflected.
- (c) Does the study conclude, as Mr. Henderson's remarks suggest, that savings can be realized of approximately \$100 million per year over the next four years from more efficient paperwork and purchasing? If not, please explain.
- (d) If any savings from more efficient paperwork and purchasing are included in the Postal Service's projections for the interim years or for the test year, please indicate the cost segment, cost component, and the years where that savings is reflected.
- (e) Does the study conclude, as Mr. Henderson's remarks suggest, that savings can be realized of approximately \$100 million per year over the next four years from reducing transportation costs? If not, please explain.
- (f) If any of these savings from reducing transportation costs are included in the Postal Service's projections for the interim years or for the test year, please indicate the cost segment, cost component, and the years where that savings is reflected.
- (g) Does the domestic air cost reduction indicated in witness Kashani's Exhibit 14A, as revised 2/18/00 at 3, cost segment 15, cost component 142, for FY 2000 reflect any or all of the transportation cost reduction contemplated in Mr. Henderson's remarks?
- (h) How much savings does the study conclude can be realized by the reduction of steps in the distribution and handling of mail? Please identify the years in which those savings expected to be realized and the amounts of the savings expected for each year.
- (i) If any of these savings from reducing the steps in the distribution and handling of mail are included in the Postal Service's projections for the interim years or for the test year, please indicate the cost segment, cost component, and the years where that savings is reflected.
- (j) Does the study conclude, as Mr. Henderson's remarks suggest, that savings can be realized of approximately \$700 million per year over the next four years from increasing productivity in the Postal Service processing system? If not, please explain.
- (k) If any of these savings from increased productivity are included in the Postal Service's projections for the interim years or for the test year, please indicate the cost segment, cost component, and the years where that savings is reflected.

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OCA/USPS-99. continued

RESPONSE:

The study mentioned by the Postmaster General is a Transactions Survey that is a work in process. It will ultimately list transactions/activities performed in administrative/overhead functions in Headquarters, Headquarters Field Service Units, Area offices, and District and Plant administrative functions. Once completed, the transactions/activities will be analyzed to identify which might be candidates for elimination, reduction, automation, consolidation or contracting out. This analysis will incorporate benchmarking activities with "best in class" organizations. As part of this evaluation, process/system changes necessary to effect potential cost reductions will be identified and an implementation plan will be prepared.

The Transactions Survey does not address the purchasing, transportation or field operations/processing/distribution/mail handling functions. The survey of, and recording of data for, Headquarters and Headquarters Field Service units is complete, but the analysis is just beginning. This analysis would be part of the Postmaster General's instruction that his "...team launch additional initiatives to reduce our expenses...". In addition, Area Office and District/Plant surveys have not yet begun. It is expected that the full Transactions Survey including development of an implementation plan will not be completed until the December 2000/January 2001 time frame. A copy of the survey instrument is attached.

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OCA/USPS-99. continued

- (a) As referenced above, the survey is a work-in-process. The \$100 million savings is part of the "affordability" challenge addressed by Mr. Henderson and was made in reference to his statement that "...I have instructed my team to launch additional initiatives that will reduce our expenses...".
- (b) As referenced above, the specific overhead savings have not yet been identified. Accordingly, they are not incorporated in the interim years or the test year. However, as noted in the responses to OCA/USPS-T9-1e and OCA/USPS-T9-46, Fiscal Year 2000 includes various cost reductions in the form of "local management initiatives" and other cost reductions such as "absorb inflation" in categories that would be considered part of the "affordability" challenge.
- (c-d) Please see above reference and responses to (a) and (b). The survey does not address purchasing. However, the principles and process for the challenge on "affordability" relating to overhead also apply to the challenge relating to more efficient paperwork and purchasing.
- (e) The survey does not address transportation.
- (f) As noted in the response to OCA/USPS-T9-10, Fiscal Year 2000 includes cost reductions identified as "absorb inflation" in categories that would be considered part of the "affordability" challenge. Transportation savings would be included as part of absorb inflation.

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OCA/USPS-99. continued

- (g) The cost reductions referred to would be considered in the spirit of the reductions contemplated in Mr. Henderson's remarks.
- (h) The survey does not address distribution and handling of mail.
- (i) Please see response to (b). Local management initiatives could in fact incorporate the type of savings envisioned in savings resulting from distribution and handling of mail.
- (j) As referenced above, the survey does not address productivity in the Postal Service processing system.
- (k) Local management initiatives could in fact incorporate the type of savings envisioned in savings resulting from increased productivity.

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OCA/USPS-100. Are any possible savings indicated by either the initiatives described by Mr. Henderson or the comprehensive study, but not referred to in the above questions, reflected in the Postal Service application in this docket? If so, please indicate the nature of the cost savings and provide the cost segment, cost component, and the years where that savings is reflected.

RESPONSE:

No, see response to OCA/USPS-99.

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OCA/USPS-101. Please explain the connection, if any, between the comprehensive study referred to by Mr. Henderson and the four reports of the Office of the Inspector General that identified \$1.1 billion in savings and potential cost avoidance as discussed in interrogatory Postcom/USPS-1 and the Postal Service response thereto.

RESPONSE:

There is no direct relationship to these items. See response to OCA/USPS-99 and PostCom/USPS-1.

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OCA/USPS-101. Do any of the "other programs" expenses and "cost reductions" described in witness Tayman's testimony reflect results of the initiatives and comprehensive study referred to by Mr. Henderson? If so, please provide the cost segment, cost components, and the years that reflect the initiatives and comprehensive study.

RESPONSE:

See response to OCA/USPS-99.

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OCA/USPS-102. Mr. Henderson stated in this remarks, "Already, 11,000 career vacancies have been absorbed through attrition, and that number will reach at least 20,000 as we move forward."

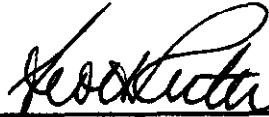
- (a) Please indicate where the reduction in workforce of 11,000 is reflected in the exhibits and workpapers of the application.
- (b) Please indicate the years in which the additional reductions of "at least 20,000" employees are planned to occur. To the extent additional reductions occur during the interim years or the test year, please show where that is taken into account in the exhibits and workpapers of the application.

RESPONSE:

- (a) The 11,000 reduction referred to by Mr. Henderson relates to the number of career employees from the peak in Accounting Period 9 of Fiscal Year 1999 to Accounting Period 6 of Fiscal Year 2000. Based on the fact that the net incomes reflected in this filing for FY's 99 and 2000 closely approximate actual Fiscal Year 1999 results and the FY 2000 Operating Budget, the impact of these reductions has been implicitly accommodated.
- (b) Please see response to OCA/USPS-99 and (a) above

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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April 6, 2000