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Before the

UNITED STATES POSTAL RATE COMMISSION

In the Matter of: **POSTAL RATE AND FEE CHANGE**

Docket No. **R2000-1**

VOLUME 2

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(202) 842-0834

BEFORE THE
POSTAL RATE COMMISSION

-----X
In the Matter of: :
POSTAL RATE AND FEE CHANGE : Docket No. R2000-1
-----X

Third Floor Hearing Room
Postal Rate Commission
1333 H Street, N.W.
Washington, D.C. 20268

Volume II
Tuesday, April 11, 2000

The above-entitled matter came on for hearing
conference, pursuant to notice, at 9:31 a.m.

BEFORE:

HON. EDWARD J. GEILMAN, CHAIRMAN
HON. GEORGE A. OMAS, VICE CHAIRMAN
HON. W.H. "TREY" LeBLANC, COMMISSIONER
HON. DANA B. "DANNY" COVINGTON, COMMISSIONER
HON. RUTH GOLDWAY, COMMISSIONER

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P R O C E E D I N G S

[9:31 a.m.]

CHAIRMAN GLEIMAN: Good morning. If those of you in the back of the room have difficulty hearing me, if you would just let me know by raising your hand. I have a tendency, I'm told, to tail off or speak softly. I've never been accused of that publicly, but usually people say I say too much, and too loudly. In the event that you can't hear me, just let me know.

Today we begin our hearings to receive testimony of the Postal Service witnesses in support of Docket Number R-20001, a request for rate and fee changes. I have a few brief procedural matters to discuss before we begin our testimony today.

I want to briefly go over the rules for designating written cross examination: Designations should be filed three working days in advance. The designations for each witness should be separate, and should include a notice identifying the discovery responses included in the designation.

The notice is a formal document, and parties are expected to submit an appropriate number for the Commission, and make service in accordance with Commission rules.

The notice should be accompanied by two copies of each designated discovery response.

1 A few words about the copies of designated
2 discovery responses: Please only include responses that
3 have been designated. Each response should be separate;
4 that is, one response to a page.

5 Because materials are going to be added to the
6 transcript, they should be printed on one side only.

7 Finally, if a designated discovery question or
8 answer refers to an attachment, the attachment should be
9 included with the designated question and answer.

10 Are there any questions about these procedures?

11 [No response.]

12 CHAIRMAN GLEIMAN: There are several changes in
13 the hearing room. The Commission would like to accommodate
14 counsel's use of laptop computers. As you can see, the
15 Commissioners are using computers to facilitate reference to
16 documents discussed during these hearings.

17 And if you would like to use a computer during the
18 hearing, please contact our administrative office. They
19 will make arrangements to accommodate you all on a
20 first-come, first-served basis.

21 The Commission has been receiving very positive
22 feedback on our website. And your comments in that regard
23 are gratifying.

24 Starting with today's hearing, we will be
25 attempting to provide information on the status of the

1 hearing; that is, what witnesses are scheduled and what
2 witnesses have completed their appearance with a scrolling
3 banner on our home page. So, for those of you who don't
4 like to sit in the hearing room all day, every day, you can
5 check on our website periodically and it will bring you up
6 to date on where we are in the day's proceedings.

7 Four witnesses are scheduled to appear today.
8 They are Witnesses Tayman, Kashani, Pafford, and Hunter.
9 Last night, United Parcel Service submitted a document
10 entitled Objection of United Parcel Service to Admission
11 into Evidence of Portions of the Testimony of the United
12 States Postal Service Witnesses Hunter and Pafford
13 pertaining to Parcel Post.

14 United Parcel Service is challenging the testimony
15 of two of the four witnesses scheduled to appear today. It
16 claims that its due process rights to examine the
17 information underlying testimony have been unreasonably
18 frustrated.

19 I also have pending before me, a motion from the
20 National Newspaper Association that suggests that Witness
21 Hunter's appearance should be delayed to provide additional
22 time to test data sponsored by that witness.

23 I'm not going to rule on the UPS objection this
24 morning. First, the objection raises serious issues, and my
25 concern is that all parties may not have had an adequate

1 opportunity to consider these issues.

2 I know that counsel for United Parcel Service and
3 the Postal Service have been communicating on these issues,
4 and I assume that United Parcel Service provided the Postal
5 Service with prompt notice of this objection.

6 Nonetheless, I'm not certain that counsel for the
7 Postal Service has had sufficient time to prepare a complete
8 response.

9 Additionally, a number of parties are struggling
10 with similar issues arising from the testimony of other
11 Postal Service witnesses. I hope to issue later today, a
12 ruling concerning discovery on Witness Raymond.
13 Some of the same issues may be involved there.

14 Finally, I 'm not satisfied that United Parcel
15 Service has had an adequate opportunity to focus its
16 objection. The objection submitted yesterday is general.
17 It opposes receipt into evidence of the testimony of Witness
18 Hunter pertaining to Parcel Post, without identifying page
19 and line in that testimony.

20 It also objects to portions of tables by Witness
21 Pafford, without specifying what relief is sought; that is,
22 whether entire tables should be excluded or columns or
23 lines.

24 If line items related to Parcel Post are not
25 received into evidence, but the totals are received, then

1 one can easily derive missing Parcel Post numbers. And I
2 can't determine from the scope of the relief that UPS seeks,
3 at least at this point, what the situation is with respect
4 to how much they wish to have struck.

5 Therefore, I'm not prepared to rule at this time.
6 We will go forward with cross examination today. United
7 Parcel Service's objection will be preserved; United Parcel
8 Service will have until the end of this week, April 14th, to
9 supplement its objection with references to specific
10 material it objects to, and an explanation of why all of
11 that material should be excluded from the record.

12 The Postal Service and other interested parties
13 will have until April 21st to file responses. I foresee
14 having to recall Witness Hunter to respond to questions on
15 outstanding responses to discovery. It appears that both
16 United Parcel Service and the National Newspaper Association
17 have outstanding discovery requests concerning matters that
18 may require further clarification.

19 I will direct the parties to undertake as much
20 cross examination today as is possible, and will allow
21 motions to recall Witness Hunter, although I hope that such
22 a motion will not be necessary.

23 I have reviewed the statement of availability of
24 witnesses filed by the Postal Service, and Witness Hunter
25 should make himself available to return to the witness stand

1 on May 4th, if that becomes necessary.

2 Are there any other questions or procedural
3 matters this morning that anyone wishes to raise?

4 Mr. Ackerly?

5 MR. ACKERLY: Thank you, Mr. Chairman. I believe
6 that I understand the correct procedure under the
7 circumstances I'm about to relate, but I would like just to
8 have clarification from the Chair, if I may.

9 We received answers to a number of the DMA
10 interrogatories yesterday. One, in particular, asks what we
11 thought was a simple question, which is to confirm a
12 particular figure. The interrogatory in question is DMA
13 Number 58.

14 The witness responded that he was unable to
15 confirm, but then he did not respond to the second part of
16 the question which asked him if he did not confirm, to
17 please provide the correct value.

18 Under the circumstances, I believe the appropriate
19 procedure is for us to file a motion to compel. Assuming
20 that the motion is granted and that the answer is
21 subsequently provided, that we would have an opportunity to
22 enter that information into the record at some subsequent
23 point, and, if necessary, to have the witness recalled to
24 cross examine him orally about that information. Am I
25 correct on that?

1 CHAIRMAN GLEIMAN: You are correct that your
2 rights are going to be preserved in both regards.

3 MR. ACKERLY: Thank you, sir.

4 CHAIRMAN GLEIMAN: Are there any other questions?

5 Mr. McKeever. Could I please remind counsel to
6 identify themselves and who they represent for the first
7 time that they speak each day for purposes of the Court
8 Reporter.

9 MR. MCKEEVER: Thank you, Mr. Chairman. John
10 McKeever for United Parcel Service.

11 Mr. Chairman, I just wanted to explain that the
12 objection we filed really was filed as a protective matter.
13 Our concern was that today the witness would take the stand,
14 there would be a motion to admit his testimony or that
15 testimony into evidence. We do have an outstanding
16 discovery dispute. We will be filing a motion to compel and
17 our preferred course would have been to file a motion to
18 strike if the material that we are still seeking in
19 discovery were not provided to us.

20 However, we wanted to make sure that there was no
21 waiver of any right to move to strike after the witness's
22 testimony were admitted into evidence, and that is why we
23 filed the objection, in order to give the Postal Service,
24 and we did send a copy to counsel for the Postal Service and
25 the Commission notice of the issue and make sure that our

1 rights weren't prejudiced by having the testimony admitted
2 today.

3 CHAIRMAN GLEIMAN: I appreciate your explanation
4 and as I indicated to Mr. Ackerly with respect to his
5 comments, your rights are preserved and we are on the
6 wavelength with regard to admission of the testimony into
7 evidence today and subsequent actions that may take place.

8 MR. McKEEVER: Thank you, Mr. Chairman.

9 CHAIRMAN GLEIMAN: Yes, ma'am?

10 MS. NOBLE: Good morning, Mr. Chairman. Ann Noble
11 here from Magazine Publishers of America.

12 I had a brief e-mail exchange yesterday with
13 counsel for the Postal Service and also spoke with the
14 Commission. We apologize we are filing designations for
15 Witness Kashani this morning which are late. The Postal
16 Service has no objection to this. There are only six of
17 them but we do have them with us pursuant to the directions
18 of the Commission staff.

19 CHAIRMAN GLEIMAN: There will be an opportunity
20 when we call Witness Kashani to offer up additional
21 designated written cross examination at that point, but I
22 appreciate your bringing it to our attention now and also
23 having the requisite number of copies available. Thank you.

24 MS. NOBLE: You're welcome.

25 CHAIRMAN GLEIMAN: What I am going to do is ask

1 you -- I won't ask you to do it right now unless you want to
2 leave the hearing room -- some of us would like to -- but if
3 you would just touch base with Mr. Pittack in our
4 administrative office and he can work with you to ensure
5 that that material gets incorporated.

6 MS. NOBLE: Thank you very much.

7 CHAIRMAN GLEIMAN: I thought I saw another hand
8 somewhere in the back of the room, but I am not absolutely
9 sure. No? That being the case then, we will proceed.

10 Mr. Reiter, will you call your first witness.

11 MR. REITER: Yes, Mr. Chairman. Our first witness
12 is William P. Tayman.

13 CHAIRMAN GLEIMAN: Mr. Tayman, before you sit down
14 and before I swear you in, I don't know which way you would
15 be more comfortable. We do have a clip-on mike which might
16 be more convenient for you to use.

17 We are going to find out whether it is working.

18 MR. REITER: Testing.

19 CHAIRMAN GLEIMAN: I think you are working.

20 Whereupon,

21 WILLIAM P. TAYMAN,
22 a witness was called for examination by counsel for the U.S.
23 Postal Service and, having been first duly sworn, was
24 examined and testified as follows:

25 CHAIRMAN GLEIMAN: Please be seated then.

1 Counsel, if you would please identify your witness
2 and his testimony.

3 DIRECT EXAMINATION

4 BY MR. REITER:

5 Q Mr. Tayman, I have handed you two copies of a
6 document entitled Direct Testimony of William P. Tayman on
7 behalf of the United States Postal Service, designated
8 USPS-T-9.

9 Was this testimony prepared by you or under your
10 supervision?

11 A Yes, it was.

12 Q And if you were to testify here orally today,
13 would your testimony be the same?

14 A Yes.

15 MR. REITER: Mr. Chairman, I will hand those
16 copies to the Reporter and ask that the testimony be entered
17 into the record of this proceeding.

18 CHAIRMAN GLEIMAN: Is there any objection?
19 Hearing none, I will direct counsel to provide copies, two
20 copies, to the Reporter of the corrected Direct Testimony of
21 William P. Tayman. That testimony is received into
22 evidence. As is our practice, we are not going to
23 transcribing Postal Service witness testimony into the
24 record. We do transcribe the testimony of other witnesses
25 however.

1 [Direct Testimony of William P.
2 Tayman, USPS-T-9, was received into
3 evidence.]

4 CHAIRMAN GLEIMAN: Mr. Tayman, have you had an
5 opportunity to examine the packet of designated written
6 cross examination that was made available in the hearing
7 room this morning?

8 THE WITNESS: Yes, I have.

9 CHAIRMAN GLEIMAN: If these questions were posed
10 to you orally today, would your answers be the same as those
11 you previously provided in writing?

12 THE WITNESS: Yes.

13 CHAIRMAN GLEIMAN: Last chance to change. Sure
14 you don't want to change any of them?

15 THE WITNESS: We can comment on that DMA-58 if you
16 want.

17 COMMISSIONER LeBLANC: Could you ask the witness
18 to speak up? Either it's not being picked up or --

19 THE WITNESS: Is this better?

20 COMMISSIONER LeBLANC: Yes.

21 CHAIRMAN GLEIMAN: And we are going to work on the
22 lapel mike and see if we can't get it tuned up there a
23 little bit.

24 COMMISSIONER LeBLANC: Thank you.

25 CHAIRMAN GLEIMAN: I think we will wait until Mr.

1 Ackerly has an opportunity later on to let you comment on
2 Number 58.

3 THE WITNESS: Mr. Chairman, I will note that Mr.
4 Tayman's answer to ANM-22 that was in the packet was not the
5 revised version that was later filed and so we have
6 substituted the revised version for that interrogatory.

7 CHAIRMAN GLEIMAN: Are there any other corrections
8 or additions?

9 THE WITNESS: No.

10 CHAIRMAN GLEIMAN: Okay -- so your comment with
11 regard to Number 58 is not going to be in addition to this
12 package.

13 MR. REITER: Number 58 was not in the packet at
14 this point so there is not much --

15 CHAIRMAN GLEIMAN: That being the case, counsel,
16 would you please provide two copies of the corrected
17 designated written cross examination of Witness Tayman to
18 the Reporter and that material is received into evidence and
19 will be transcribed into the record.

20 [Designation of Written
21 Cross-Examination of William P.
22 Tayman was received into evidence
23 and transcribed into the record.]

24
25

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

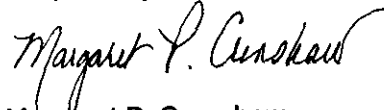
Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS WILLIAM P. TAYMAN
(USPS-T-9)

<u>Party</u>	<u>Interrogatories</u>
Alliance of Nonprofit Mailers	ANM/USPS-T9-1-5, 6a, 7a, e-g, 8-17, 18a-i, 19a-f, 20-21, 22a-b, d-g, 23-74 DMA/USPS-T9-38-39 MPA/USPS-T9-1-3, 5, 7-8 PostCom/USPS-T9-1-2
Association for Postal Commerce	ANM/USPS-T9-8, 17-22, 28 DMA/USPS-T10-44 redirected to T9 DMA/USPS-T9-27, 31, 48-50 MPA/USPS-T9-1-3 OCA/USPS-T9-3 PostCom/USPS-T9-1-3
Association of Priority Mail Users, Inc.	APMU/USPS-T9-1-23, 26-27, 28a-b
Direct Marketing Association, Inc.	DMA/USPS-T10-44 redirected to T9 DMA/USPS-T9-3, 5-18, 22-23, 25, 27, 29, 31, 34-35, 37, 40-50
Newspaper Association of America	DMA/USPS-T9-4, 7, 9 UPS/USPS-T9-1
Office of the Consumer Advocate	DMA/USPS-T9-13, 15, 47 OCA/USPS-T9-1-19, 20b-d, 21b-e, g, 22a-d, 23b-c, 24c-d, f-i, 25-26, 28-29, 42-46

Respectfully submitted,

A handwritten signature in cursive script, reading "Margaret P. Crenshaw". The signature is fluid and elegant, with a long, sweeping underline that extends to the right.

Margaret P. Crenshaw
Secretary

ANM/USPS-T9-19c	ANM
ANM/USPS-T9-19d	ANM
ANM/USPS-T9-19e	ANM
ANM/USPS-T9-19f	ANM
ANM/USPS-T9-20	ANM, PostCom
ANM/USPS-T9-21	ANM, PostCom
ANM/USPS-T9-22	PostCom
ANM/USPS-T9-22a	ANM
ANM/USPS-T9-22b	ANM
ANM/USPS-T9-22d	ANM
ANM/USPS-T9-22e	ANM
ANM/USPS-T9-22f	ANM
ANM/USPS-T9-22g	ANM
ANM/USPS-T9-23	ANM
ANM/USPS-T9-24	ANM
ANM/USPS-T9-25	ANM
ANM/USPS-T9-26	ANM
ANM/USPS-T9-27	ANM
ANM/USPS-T9-28	ANM, PostCom
ANM/USPS-T9-29	ANM
ANM/USPS-T9-30	ANM
ANM/USPS-T9-31	ANM
ANM/USPS-T9-32	ANM
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DMA/USPS-T9-49	DMA, PostCom
DMA/USPS-T9-50	DMA, PostCom
DMA/USPS-T10-44 redirected to T9	DMA, PostCom
MPA/USPS-T9-1	ANM, PostCom
MPA/USPS-T9-2	ANM, PostCom
MPA/USPS-T9-3	ANM, PostCom
MPA/USPS-T9-5	ANM
MPA/USPS-T9-7	ANM
MPA/USPS-T9-8	ANM
OCA/USPS-T9-1	OCA
OCA/USPS-T9-2	OCA
OCA/USPS-T9-3	OCA, PostCom
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OCA/USPS-T9-24c	OCA
OCA/USPS-T9-24d	OCA
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OCA/USPS-T9-24g	OCA
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OCA/USPS-T9-25	OCA
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OCA/USPS-T9-28	OCA
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OCA/USPS-T9-45	OCA
OCA/USPS-T9-46	OCA
PostCom/USPS-T9-1	ANM, PostCom
PostCom/USPS-T9-2	ANM, PostCom
PostCom/USPS-T9-3	PostCom
UPS/USPS-T9-1	NAA

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-1. Please refer to your testimony at p. 6, lines 14-16, where you state that "[t]he proposed rate increase will mitigate the level of debt required to fund capital programs." Please quantify, or explain, the extent to which the proposed rate increase is expected to mitigate the level of debt required to fund capital programs.

- a. Aside from the cash flow that the Postal Service derives from depreciation and amortization, will any revenue from the proposed rate increase be used to fund net investment during the Test Year? Unless your answer is an unqualified negative, please state the amount of revenue expected to be used to fund such net investment.
- b. Please explain fully the rationale for funding capital programs from revenues provided by rate increases.

RESPONSE:

The Postal Service avoids borrowing and reduces debt when possible to save the net cost of interest (i.e. the cost of long term borrowing for capital less any interest income that could be earned from short term investments on cash balances). The proposed rate increase mitigates the level of debt required to fund capital programs in the hypothetical test year. Exhibit 9F indicates that \$3.704 billion in new debt is required to finance capital outlays without a rate increase. Under the proposed rate increase, no borrowing would be necessary.

- a. See my response above.
- b. As indicated in part a. of your question, the cost of capital investments is reflected in rates by depreciation. Rates are not increased to fund capital investments but rather to ensure that revenues cover costs and the

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-1. continued

breakeven mandate is realized. When sufficient operating funds are available the Postal Service has opted to utilize them to meet capital outlay requirements instead of borrowing. This reduces interest expense without a loss of liquidity.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-2. Please identify every debt ceiling or other legal restriction that the Postal Service contends prevents it from supporting its capital program in the test year entirely through debt financing? For each such restriction:

- a. Provide a legal citation.
- b. Explain why (and by how much) debt financing of the Postal Service's entire planned capital program in the test year would exceed the constraint.
- c. Produce documentation sufficient to replicate your analysis.

RESPONSE:

I have not contended that debt ceilings or legal restrictions preclude the financing of capital investments with borrowing in the test year. However, please note that total Postal Service debt is limited to \$15.0 billion and the annual net increase in debt for capital investments is limited to \$2.0 billion. These limits can be found in Section 2005 of Title 39.

- a. See my response above.
- b. I have not made such an assumption, nor do I believe it is appropriate. However, if estimated Test Year capital outlays of \$3.746 billion were financed entirely by a net increase in debt in the Test Year, this would exceed the annual increase limit by \$1.746 billion.
- c. See my response to "b".

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-3. Please identify every management policy that the Postal Service contends justifies supporting its capital program in the test year wholly or partly through a revenue increase rather than debt financing. For each such policy, please produce every directives, decisions, memorandum or other documents establishing such a policy, and the minutes of any management meeting adopting such a policy.

RESPONSE:

The Postal Service does not contend that its capital program should be financed through rate increases. The only cost included in the test year revenue requirement relating to our capital program is depreciation and interest expense. Accordingly, borrowing to fund the Postal Service capital program would increase interest expense and thus increase the revenue requirement producing the need for higher rates. See my response to ANM/USPS-T9-1b.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

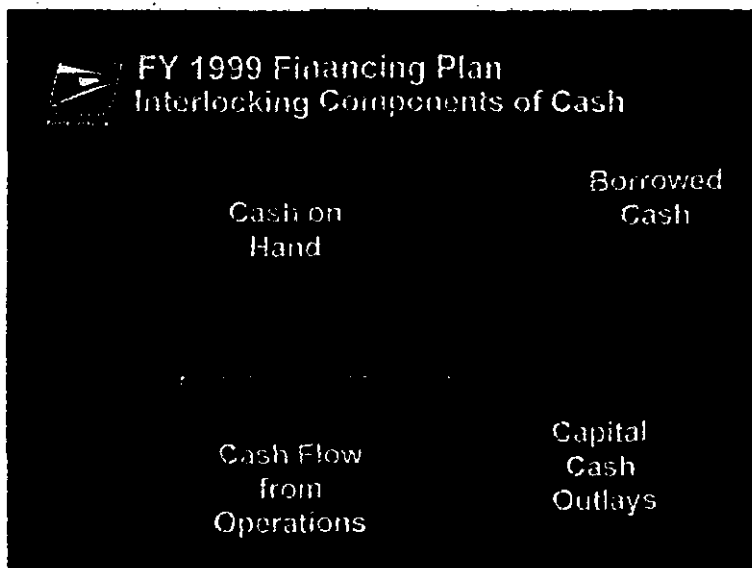
ANM/USPS-T9-4. Please produce every study, analysis or similar document generated by the Postal Service since January 1, 1998, concerning the appropriate level of debt financing for Postal Service capital programs and program initiatives.

RESPONSE:

The appropriate level of debt financing for capital programs is explained in the annual Integrated Financial Plan to the Board Of Governors each fall. Copies of the last two financing plans provided to the Board are attached. Please note that the information reflected in these financing plans was not relied on specifically to support the revenue requirement filed in this case and may have differences due to timing. Also, please note that the Postal Service does not fund operating program expenses with borrowing.

FINANCING PLAN

As reflected in the Financial Outlook, it is estimated that \$500 million in new net borrowing will be required in FY 1999 to finance our capital investments. The Postal Service's financing picture, as shown below, contains four interlocking pieces: cash on hand, cash flow from operations, capital cash



outlays, and borrowing (or financing). A change in any one piece requires an offsetting change in one or more of the other pieces. Our annual change in debt is determined by the interaction of cash flow from operations, capital cash outlays, and changes in our cash balance. Each of the pieces reflects cash, rather than accruals.

In recent years, the year ending cash balance has changed very little, and we expect little change in FY 1998. Therefore, our annual change in debt has been determined by the difference between cash flow from operations and capital cash

outlays. Since capital cash outlays in this fiscal year will exceed cash flow from operations by approximately \$500 million, we expect to borrow that amount, which will increase our fiscal year end debt balance to \$6.4 billion.

Looking ahead to FY 1999, we again expect little change in our year end cash balance. Our net increase in debt, therefore, will be determined by the difference between cash flow from operations and capital cash outlays. Currently, we project a net increase in borrowing of \$500 million, based on \$2.9 billion cash flow from operations and \$3.4 billion in capital cash outlays. Beyond FY 1999, we have debt increasing by \$2.2 billion in FY 2000 and by \$0.2 billion in FY 2001. We currently project a decline in debt of \$1.3 billion in FY 2002, to \$8.0 billion.

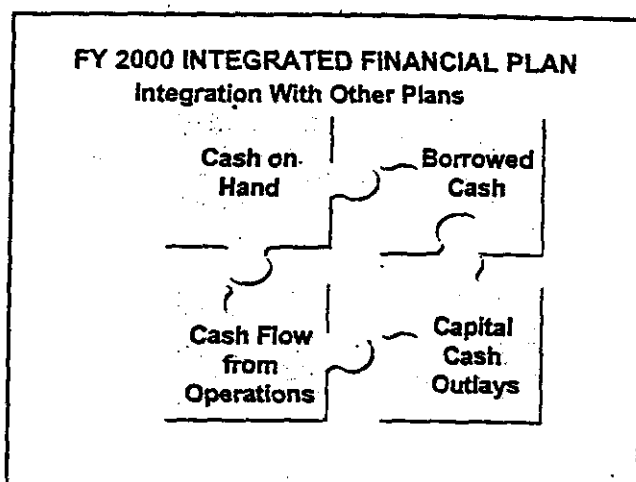
FINANCING BORROWING PLAN (\$Billions)					
	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Debt at Beginning of Year	5.9	6.4	6.9	9.1	9.3
Net New Borrowing	<u>0.5</u>	<u>0.5</u>	<u>2.2</u>	<u>0.2</u>	<u>(1.3)</u>
Debt at End of Year	6.4	6.9	9.1	9.3	8.0

In FY 1998, in spite of an estimated \$500 million net increase in debt by year end, interest expense has declined by an estimated \$118 million, to \$210 million, due to debt minimization and a \$2.5 billion bond call on December 1. Our

debt minimization strategy is expected to produce interest expense of \$185 million in FY 1999.

FINANCING PLAN

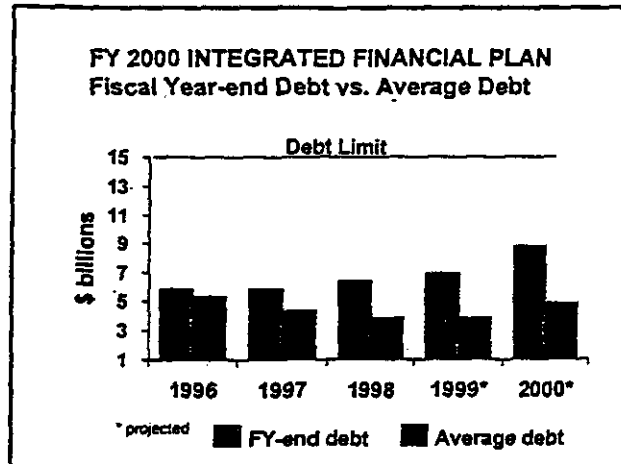
As reflected in the financial outlook on page 16, it is estimated that \$1.9 billion in new net borrowing will be required in FY 2000. The Postal Service's financing picture, as shown on the next page, contains four interlocking pieces: cash on hand, cash flow from operations, capital cash outlays, and borrowing (or financing).



A change in any one piece requires an offsetting change in one or more of the other pieces. Our annual change in debt is determined by the interaction of cash flow from operations, capital cash outlays, and changes in our cash balance. In addition, capital cash outlays often differ substantially from capital commitments that do not immediately affect cash.

In recent years, our year-end cash balance has changed very little and we expect little change in FYs 1999 and 2000. Therefore, our net increase in debt will be determined primarily by the difference between cash flow from

operations and capital cash outlays. In FY 1999, cash flow from operations and capital cash outlays will combine to produce a projected net increase in debt of \$500 million, for a total of \$6.9 billion. In FY 2000, since cash flow from operations will be reduced by \$1 billion due to payday falling on the last day of the fiscal year, cash flow from operations will decline to \$1.7 billion. FY 2000 capital cash outlays are projected to total \$3.6 billion and our net increase in debt is expected to total \$1.9 billion (\$900 million related to capital and \$1 billion attributable to a payday falling on the last day of the fiscal year). Fiscal year-end debt will increase from \$6.9 billion this year to \$8.8 billion on September 30, 2000. Due to active use of our credit lines, the daily average of our debt outstanding will increase by far less than the year-end amount. The average will rise from \$3.9 billion in FY 1999 to \$4.9 billion in FY 2000. The graph above compares year-end debt and average debt over a six-year time period. Annual interest expense is determined by decisions regarding debt transactions, the behavior of our average debt balance, and the course of interest rates. In FY 1999, we expect interest expense on debt to total \$215 million. In FY 2000, interest expense should total \$240 million.



Our target net income of \$100 million produces cash flow from operations of \$1.7 billion, in part because payday is on the last business day of FY 2000. Our cash flow from operations and capital cash outlays produce a net increase in debt of \$1.9 billion—\$1.1 billion below our annual debt limit of \$3 billion. Risks to the net income plan translate into risks to cash flow from operations that could adversely affect our borrowing and liquidity.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-5. Please produce every study, analysis or similar document, regardless of its vintage, relied upon by the Postal Service in the present rate case in support of the Service's proposed level of debt financing for capital programs and program initiatives.

RESPONSE:

See my response to ANM/USPS-T9-4.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-6. At p. 9 of your testimony, you state that "additional cost increases . . . include . . . (2) increased costs associated with major program initiatives designed to continue service improvements, improve responsiveness to customers, maintain and improve our infrastructure and reduce costs in the future."

- a. Please indicate the amount of each cost increased associated with major program initiatives (as referred to in your above-quoted statement) designed to maintain and improve the infrastructure and reduce costs in the future.
- b. Please produce all cost-benefit analyses and other management analyses of each such program initiative.

RESPONSE:

- a. Please refer to USPS LR I-126, Exhibits A, B, and C, for a summary of other program cost changes. Please note that some of the cost changes reflected as "other programs", e.g. Corporatewide personnel costs such as Workers' Compensation and Annuitant Costs, are not programs in the sense that they "continue service improvements, improve responsiveness to customers, maintain and improve our infrastructure and reduce costs in the future." As I discuss on page 15 of my testimony all items not appropriate for inclusion in other rollforward change categories are reflected under the other program column.
- b. Objection filed.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-7. Please produce all documents containing any of the following information for each capital investment project or program initiative for which the Postal Service seeks cost recovery in the test year:

- a. A description of the project or initiative.
- b. The total amount that the Postal Service expects to expend for the project or initiative over its entire life.
- c. All cost-benefit analyses of the project or initiative.
- d. All other studies and analyses of the expected costs and benefits of the project or initiative.
- e. The asset lives assumed in determining the annual depreciation or amortization charges included in the Postal Service's revenue requirement.
- f. The justification for those asset lives.
- g. All studies and analyses of the expected period in which the investment will remain in service.

RESPONSE:

Please note that the cost of capital programs is recovered over the useful life of the asset and is reflected in the revenue requirement as depreciation expense.

- a. Please refer to USPS LR I-126.
- b. Objection filed.
- c. Objection filed.
- d. Objection filed.
- e. Asset lives utilized to determine the test year depreciation and amortization

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-7. continued

expense included in the revenue requirement are as follows:

- USPS owned buildings - 40 years
- trailers anchored to concrete slab and land improvements - 10 years
- capital leases - 40 years or lease term
- personal property - 3 to 10 years depending on the type of equipment and risk of technological obsolescence
- motor vehicles - 6 to 12 years depending the type of vehicle.

f. Asset lives utilized by the Postal Service are based on the following factors:

- manufacturer's recommendation
- industry standards
- USPS records on use of same or similar assets
- gain/loss on sale of property
- maintenance standards
- USPS Accounting personnel judgment.

Depreciation expense and the basis for its calculation is reviewed annually in conjunction with the audit conducted by our external auditors and has been found to be in compliance with Generally Accepted Accounting Principles.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-7. continued

Depreciation estimates are based on a based on a continuation of the same
service lives used for actual depreciation accruals.

g. See my responses to e. and f.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-8. For each capital program and major program initiative with costs that are included in the test year revenue requirement, please provide the following information:

- a. The date when the program was approved (or is expected to be approved) by the level of Postal Service management with final approval over the program.
- b. The date each vendor contract was executed (or is expected to be executed).
- c. The date of any other action or transaction that you contend creates a binding commitment to incur costs for the project, and the amount of costs thereby incurred.
- d. Business records sufficient to verify your responses to the previous parts of this question.

RESPONSE:

- a-d. Attachment, "FY 2000 Update Capital Investment Plan FY 1998-2002", provides information on approved major capital programs. Attachment I provides a further breakdown of capital programs as of Quarter IV, FY 1999. The following table provides similar information for major programs.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

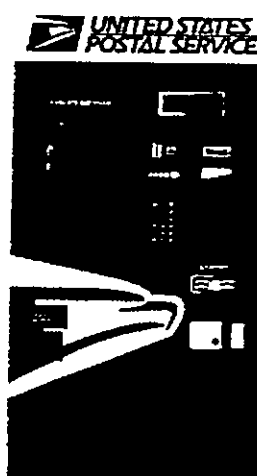
ANM/USPS-T9-8. continued

Major Programs		
Program	Vendor	Contract Award Date
Corporate Call Management	TeleTech Facilities Mgt.	9/16/96
Corporate Call Management	TeleTech Facilities Mgt.	7/27/98
Point of Service	NCR	8/9/96
Point of Service	IBM	8/12/96
Associate Office Infrastructure	MCI Telecommunications	3/24/97
MTEsc	DDD Company	9/18/98
MTEsc	DynCorp	9/18/98
MTEsc	New Breed	12/24/97
MTEsc	Resource Consultants, Inc.	9/18/98
MTEsc	Alan Ritchey, Inc.	9/18/98
PMPC	Emery Worldwide Airlines, Inc.	4/23/97
Delivery Confirmation	Lockheed Martin	8/27/97



CAPITAL INVESTMENT PLAN FY 1998-2002

Postal Booklet Stamp Machine

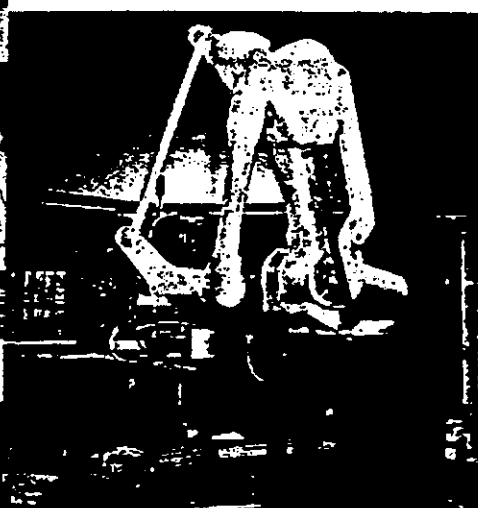


Mixed Delivery and
Collection Vehicles

Point of Service One



Robots



FY 2000 UPDATE

FISCAL YEAR 2000 CAPITAL INVESTMENT PLAN

Overview

The 1998-2002 Capital Investment Plan totaled \$17 billion. The Board of Governors originally approved the plan in October 1997.

APPROVED CAPITAL INVESTMENT PLAN FISCAL YEAR 1998-2002 Planned Commitments by Category (\$ Millions)	
Facilities	5,880
Equipment	6,367
Infrastructure	2,100
Special	1,642
Vehicles	546
Retail	462
Total	16,997

The plan consists of Mail Handling Equipment Projects, improvements to facilities, major engineering efforts and customer service programs. The plan assisted in producing a net income in Fiscal Year 1999 and helps ensure profitability in Fiscal Year 2000, while ensuring corporate accountability, credibility, and competitiveness. This plan continues to incorporate assumptions and strategies reflected in our five-year strategic plan.



THE FISCAL YEAR 2000 portion of the five-year capital plan was approved by the Board of Governors in

August 1999. The new financial indicators will be used to analyze the Postal Service's capital structure based on financial performance. The three broad performance categories for our indicators are 1) financial margins: because net income is a key outcome of Postal Service activities, 2) capital structure indicators: which address the issues surrounding a company's capital strength and sources of funding and, 3) efficiency indicators: which are designed to monitor labor and the management of non-core expenses. The organization also needs to be sensitive to the possibility that an omnibus rate case may be filed in the future. To minimize borrowing, projects in the Fiscal Year 2000 Capital Investment Plan will be funded internally to the maximum extent possible. The Postal Service Bylaws require that the capital budget be submitted to the Board of Governors for approval each year. The Board approval signifies general concurrence with the plan. Projects greater than \$10 million are individually presented before the Board for approval.

How We Did in Fiscal Year 1999

A total \$3.817 billion was committed compared to a plan of \$3.999 billion. An underrun of \$181.2 million or about 4.5 percent. Capital cash outlays were \$3.624 billion versus a plan of \$3.563, a \$61 million overrun to plan. During fiscal year 1999 18 Board approved projects totaling more than \$1 billion were completed. The Board of Governors approved a total of \$1.257 billion for 16 new major capital investment projects. The FY ended with 47 active board approved investment projects that represent over \$5.435 billion in authorized capital investments. Of these 47 projects, 11 were facility projects, 11 were "other" projects and 25 were equipment projects.

UNITED STATES POSTAL SERVICE

FISCAL YEAR 2000 APPROVED CAPITAL INVESTMENT PLAN <i>Planned Commitments by Category (\$ Millions)</i>	
Category	FY 2000
Facilities	1,407
Equipment	
Letters	241
Flats	402
Parcel	304
Material Handling	251
Customer	41
Other Equipment	237
Total Equipment	1,476
Infrastructure	337
Vehicles	349
Retail	281
Research and Development	150
Grand Total	4,000

Development of the plan is only the beginning of the capital investment process. Each major project within the plan will be subjected to a vigorous review, validation and approval process, designed to ensure the project is properly justified. Anticipated

Highlights of the FY 2000 Capital Plan

- ✓ 19 Major Mail Processing Facilities
- ✓ 300+ Customer Service/Delivery Facilities
- ✓ 5000 Mixed Delivery and Collection Vehicles
- ✓ Next Generation Flat Sorter Machines
- ✓ Parcel Sorter Singulator Scan Induction System

results are documented and Return on Investment (ROI) methodology analyzed to ensure accurate projections. Studies are performed on each major project following implementation to determine if financial and operating goals were achieved.

FY 2000 Capital Investment Plan Supports Strategic Objective Investments that:

- Improve Quality Customer Service
- Allow for Aggressive Cost Management
- Increase Productivity Gains Through Technology
- Maintain Infrastructure

Cost Reduction Programs

A total cost reduction of \$1,706 million is budgeted for FY 2000 with about 30 percent of the savings derived from specific programs. The remaining portion, \$1,176 million, is based on local management initiatives at the field and headquarters level. The vast majority of program specific savings are linked to new or enhanced equipment and software that will enable our workforce to be more efficient. The programs involving Delivery Bar Code Sorters amount to over \$200 million by themselves. The new Mail Transport Equipment Service Centers account for \$77 million in program savings. Remote Bar Code Systems and improvements to computer recognition of addresses amount to \$124 million in savings. Additional Small Parcel and Bundle Sorters together with the addition of feed systems account for \$38 million in savings.

FACILITIES

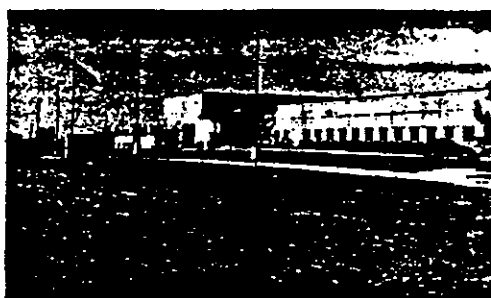
The Facilities category consists of delivery/retail facilities, processing and distribution facilities and building improvements. Expansions and new construction are necessary to keep up with increasing population, mail volume and changing delivery points. There is an aging facility inventory that requires repair or replacement. The Facilities section totals \$1.4 billion or 35 percent of the FY 2000 capital plan.

Facility category includes:

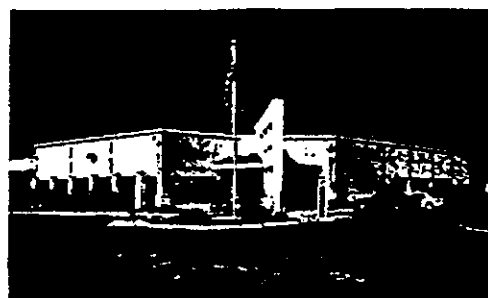
Delivery/Retail Facilities. This category includes individual post offices and stations and branches, which serve local customers.

Our delivery/retail facilities program is designed to respond to areas of population growth and to replace, supplement or expand obsolete or overcrowded facilities. Since these offices impact the local area, the projects are prioritized at the district initially, then prioritized for implementation into the five-year plan by the area office.

The first Green Post Office was dedicated on January 13, 1999. It is a retail/delivery station built with recycled materials, drought-resistant native landscaping, high-efficiency heating and cooling systems, skylights for natural lighting and trellises for shading. The result is improved environmental responsiveness from an energy-efficient building.



*Processing and Distribution Center
Sioux Falls, South Dakota
Completed FY 1999*



*Eighth Avenue Station
Ft. Worth, Texas*

Facilities Fiscal Year 1999 Results

Total facility capital commitments in FY 1999 were \$1.7 billion. Of that amount, \$223 million was committed in the Major Facilities Program. The major facilities projects listed below are projects that required funding of \$10 million or more. Commitments include contracts for the purchase, design, construction, support, and material handling required to complete these projects. The following major facilities were completed in Fiscal Year 1999.

Facility Location	Cost (\$ Millions)
Atlanta, GA — AMC	\$32
Boise, ID — P&DC	\$25
Chicago, IL — Busse Surface Hub	\$10

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Facilities Fiscal Year 1999 Results (continued)

Facility Location	Cost (\$ Millions)
Kansas City, MO — P&DC	\$94
Phoenix, AZ — North Phoenix and Gilbert	\$12
Sioux Falls, SD — P&DF	\$13
Spokane, WA — P&DC	\$29
Tulsa, OK — P&DC	\$32
Jacksonville, FL — BMC	\$78

Underground Storage Tank Program (UST)

After 10 years, the nationally managed portion of the UST program came to an end. In 1988, Facilities initiated a national program to ensure that all USTs in the USPS inventory met federal requirements by the regulatory deadline of December 1998. The requirements, established by the U.S. Environmental Protection Agency, included corrosion protection, spill prevention, and leak detection. During the life of the program, the USPS committed more than \$250 million to upgrade, remove and/or replace tanks, and remediate spills associated with the fuel storage systems that service our vehicle fleet. Ongoing UST compliance responsibilities now reside with the installation head of each postal facility, with all future funding requirements treated as normal repair and alteration projects by the field.

Developmental Real Estate Program

During FY 1999, Facilities committed a total of \$20 million in the Developmental Real Estate Program, primarily for the build-out of 90 Church Street. The sale of surplus real estate and developmental properties continued to generate significant revenues for the Postal Service. In FY 1999 more than \$142 million was produced from property sales including the sale of the Rincon Center ground lease, the Ansonia Square Limited Partnership Interest, and ground leases in New Orleans, Newport Beach and Alhambra, CA.

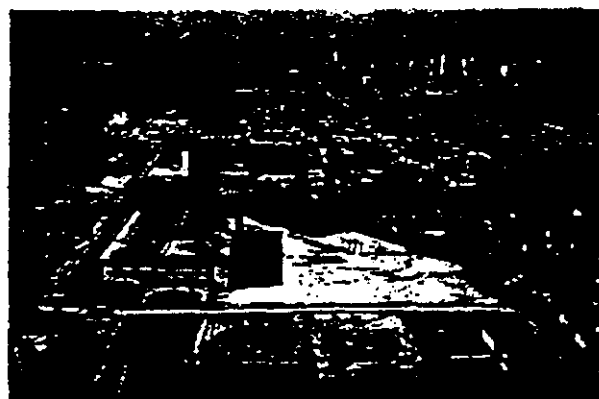


The Board of Governors area and the Benjamin Franklin Room were renovated in the fall of 1998. The renovated area provides multi-use conference space within the Headquarters building for both large and small events. The USPS realizes a cost savings by holding meetings and events in the renovated Benjamin Franklin Room, resulting in a reduction in travel expenses to other conferencing facilities.

Included in Facilities FY 2000 Plan:

- > 300+ projects for expansion and new construction of small post offices
- > 1,500+ repair and alteration projects
- > \$608 million for field projects of less than \$5 million each
- > \$49 million in real property improvements so that additional revenues can be realized at the time of their anticipated sale
- > 19 major mail-processing facilities
- > Bulk Mail Center Facility Expansion Program, allowing the BMC network to increase efficiency and address future growth in palletized volume and large parcels in a more timely manner

Processing and Distribution Facilities. Commitments are projected at \$226 million. The major mail processing facilities make up our nationwide processing network. Operational needs dictate that we periodically replace, expand or renovate our major facilities. Age, workload growth, geography and service performances all contribute to the need for new, expanded or supplemental processing and distribution facilities.



Kansas City Processing and Distribution Center

Building Improvements. \$514 million in capital funds are planned to extend the lives of our assets, add new useful features, or address legal and safety requirements

such as roof or air conditioning replacements and asbestos removal.

Locations of 11 Major Facility Projects Planned in FY 2000:

- Bronx, NY — LaSalle Processing and Distribution Center
- Indianapolis, IN — Processing and Distribution Center (Advance Site)
- Los Angeles, CA — Bulk Mail Center
- Milwaukee, WI — Processing and Distribution Center (Advance Site)
- Oklahoma City, OK — Processing and Distribution Center (Advance Site)
- San Antonio, TX — Processing and Distribution Center
- San Diego, CA — Midway Processing and Distribution Facility
- San Francisco, CA — Airport Mail Center
- Staten Island, NY — Processing and Distribution Center (Advance Site)
- Twin Cities, MN — Airport Mail Center
- Van Nuys, CA — Main Post Office

UNITED STATES POSTAL SERVICE

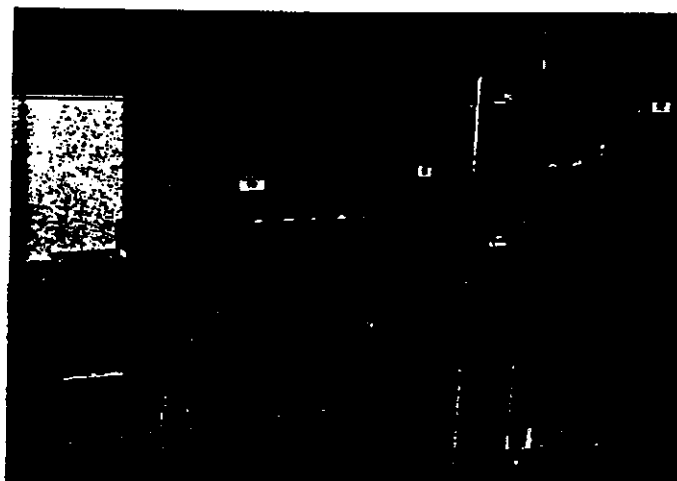
EQUIPMENT**Expanding Automation**

In 1980 the USPS started investing in automated equipment with the single line optical character reader. Since that time the USPS has invested \$5.6 billion in letter mail automation. This investment in automation has avoided the otherwise necessary increase in compliment and workhours that would have been necessary to process the increasing mail volume. Automation productivity is greater than the manual and mechanized productivity, creating avoidance in workhours and salaries paid.

Our financial analysis begins in 1987, prior to the deployment of multiline optical character readers and the improved bar code sorters. The salary avoidance since that time amounts to about \$15 billion. This avoidance in salaries paid has benefited our customers by reducing postage increases.

The automation of the mail flow has not ended. Like the computer industry, improvement in speed and efficiency of existing mail processing equipment is continuous. Newer, faster machines will be purchased to further reduce the current workhours necessary to process mail. Past automation machines have surpassed projected savings/cost avoidances, the continued investment in automation will serve the Postal Service and therefore our customers, well into the next century.

A total of \$1.5 billion of equipment projects are planned for FY 2000, which represents 37 percent of the plan. USPS' core strategy for trimming costs and improving performance is to automate an increasing number of functions. The ability to perform tasks using equipment instead of manual labor not only saves workhours and associated indirect costs, but also results in faster, higher quality service. The Equipment category consists of investments in automation and mechanization that serves as the backbone of the initiatives to meet the business goal of strengthening our financial viability by managing costs. In addition, every time a function is automated, it is electronically connected to the in-plant network that will provide data access for greater operational efficiency and future information-based services. For example, Tray Management Systems will be integrated to the Next Generation Sorting Machine that utilizes optical character readers and video encoding to process over 17,000 pieces of mail per hour.



Automatic Tray Sleeve

Equipment Fiscal Year 1999 Results (\$ Millions)

A total of \$1.2 billion, 96% of the total equipment plan, was committed for equipment in Fiscal Year 1999. Listed below are several of the most significant equipment commitments:

- Tray Management System (\$276)
- Delivery Barcode Sorter — Optical Character Reader Expansion (\$191)
- Handwritten Recognition Improvement — Remote Computer Reader (\$175)
- Delivery Barcode Sorter Phase Five (\$166)
- Field Material Handling System (\$150)
- Robotic Containerization Loader System (\$70)
- Automatic Airline Assignment System (\$56)
- Small Parcel Bundle Sorter Feed System (\$42)
- Flat Mail Multiline Optical Character Reader (\$15)
- Corporate Call Management Deployment (\$11)

The Following Equipment Projects Were Approved by the Board of Governors in Fiscal Year 1999:

- ◆ Delivery Bar Code Sorter Additional Capacity
- ◆ Remote Computer Reader 2000 Handwriting Recognition Upgrade
- ◆ Automatic Airline Assignments and Scan Where You Band Systems
- ◆ Robotic Containerization Systems
- ◆ Universal Transport System Prototype
- ◆ Mail Cartridge Pre-Production
- ◆ Automatic Tray Slevvers
- ◆ Additional Small Parcel Bundle Sorter Feed System

Subcategories of Equipment:

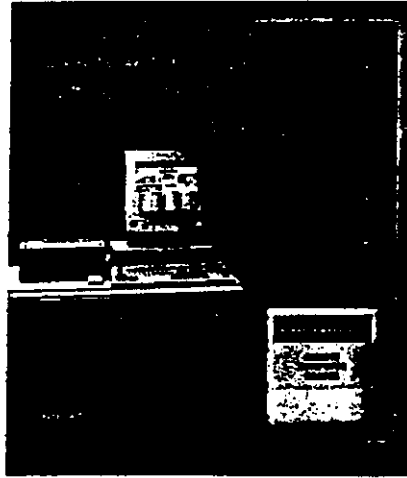
Material Handling (\$251 million)

Field material handling systems is a continuing activity of multiple field projects of less than \$5 million that support the Bulk Mail, Processing and Distribution, and Air Mail Centers material handling systems. They also are intended to address the safety concerns of the Postal Service and improve efficiency by increasing productivity while providing for more efficient operations and better service.



*Tray Management System
Lansing, Michigan
Deployed June 1999*

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Letters (\$241 million)

The Letters category is designed for improving the capacity, speed or accuracy in which letter mail processing equipment reads, processes and sorts mail. Included in this category is the Delivery Barcode Sorter Input/Output Subsystem (DIOSS). The DIOSS, a universal modification kit, will be installed on delivery barcode sorters (DBCSs) to add input subsystem, output subsystem, or optical character reader capabilities to an existing DBCS machine.

Parcels (\$304 million)

The Parcel category is designed for improving the capacity, speed or accuracy in which parcel mail processing equipment reads, processes and sorts mail. Included in this category is the Parcel Sorter Singulator Scan Induction System. This system will be installed on all Bulk Mail Center parcel sorters and will singulate (convert the source stream of parcels into a single optimally spaced line of separated parcels), scan for barcodes, and sort parcels. These functions will be completed automatically for all barcoded parcels.

Flats (\$402 million)

The Flats category is designed for improving the capacity, speed or accuracy with which flat mail processing equipment reads, processes and sorts mail.

Included in this category is the Next Generation Flat Sorting Machine (formerly known as the Automated Flat Sorting Machine 100). This program covers the purchase of 175 Automated Flat Sorting Machines (FSM) for processing additional FSM 881 mail volumes. The features include optical character readers, video encoding, and three automatic feed stations.



Automated Flat Sorting Machine 100

Other (\$237 million)

The Other category includes equipment that supports multiple equipment categories in addition to non-fixed automation and mechanization projects.

Included in this category is the Smart Delivery Unit program. This program will identify new automated delivery equipment and systems concepts, develop operating prototypes and initiate their deployment. Near real-time data reporting along with improved carrier efficiency and optimized collection box operations will enable closer adherence to planned daily carrier schedules.

Customer (\$41 million)

The Customer category supports customer service equipment and programs that are designed to enhance our products.

This category includes Corporate Call Management (CCM), which is currently the point of telephone contact for customers in the Western, Pacific, Southwest and Southeast areas. CCM serves customers nationwide for Comprehensive Tracing and Tracking inquiries.

INFRASTRUCTURE

Future improvement in mail processing automation will depend on networked data; therefore, increased information access is critical for Engineering projects. To develop future customer services, data management must be moved to a new level: the ability to identify and track individual mailpieces, alone and in unit loads. This information will also simplify the improvement and planning process in an increasingly complex environment.

The infrastructure category consists of projects that facilitate technological advances like this well into the 21st century.

The infrastructure category is \$337 million which is 8 percent of the FY2000 capital plan. The three largest programs included in this category are:

Mailing Operation, Readability, and Lookup Instrument (MERLIN) will improve the consistency of mail acceptance. Robots will be designed to read address and indicia, verify meter amounts and weigh and measure the thickness of mail.

Automated Data Processing Field Infrastructure funds day-to-day computer operations and support to the area offices.

Performance Cluster Infrastructure will parallel the existing associate office infrastructure at our plants.

Infrastructure 1999 Results
(\$ Millions)

Total infrastructure commitments in FY 1999 were \$407 million. Listed below are the most significant equipment commitments:

- Associate Office Infrastructure, Phase 1 (\$69)
- Delivery Confirmation Infrastructure (\$41)
- Telephone Equipment Installation (\$31)

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VEHICLES

Vehicles 1999 Results (\$ Millions)

\$249 million was committed on vehicle projects, primarily for Carrier Route Vehicles at \$247 million. In FY 1999 the following vehicle projects were approved by the Board of Governors:

- Tractor-Trailer additional funding
- Flex Fuel, Alaskan, and Electric Carrier Route Vehicles

Vehicle commitments of \$349 million are planned for FY 2000, which is 9 percent of the capital plan. Included in the plan are 5,000 mixed delivery and collection vehicles, 2000 trailers, 175 tractors, and additional cargo and carrier route vans. Our award winning alternate fuel program requires continual funding to comply with federal, state and local transportation regulations.



Trailers

Alternative Fuel Vehicles:

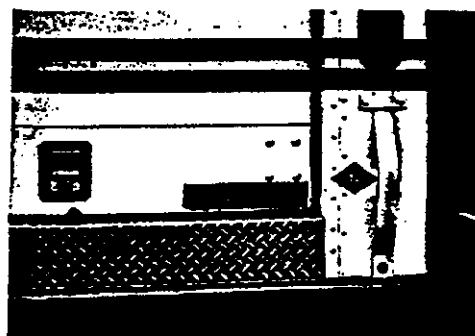
At present, the Postal Service's 207,681 vehicles represent the nation's largest civilian fleet. Its existing inventory of 8,272 Alternate Fuel Vehicles (AFV) operate from compressed natural gas (CNG), ethanol, propane and electricity. The AFV fleet is expected to grow to more than 30,000 by 2001.

The Board of Governors just approved the purchase of 500 electric vehicles to mark the largest acquisition ever of zero emissions vehicles.



Electric Powered Delivery Vehicle

Compressed Natural Gas (CNG) vehicles continue to be a key component in our diversified AFV program. The U.S. Postal Service has the largest CNG vehicle fleet in the country. The CNG vehicles are assigned to postal facilities in 28 states. All eleven postal areas have some CNG vehicles, and the greatest number is the Southwest Area with almost 1,600. These CNG vehicles demonstrate the Postal Service's continuing commitment to using vehicles that will help clean our nation's air and reduce our dependence on imported oil.



CNG Powered Delivery Vehicle

UNITED STATES POSTAL SERVICE

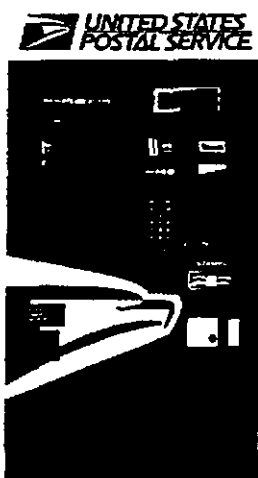
RETAIL**Retail 1999 Results
(\$ Millions)**

Total commitments in the Retail category were \$197 million, which included:

- Point-of-Service (\$179)
- Self-Service Vending Equipment (\$15)

Retail commitments of \$281 million are planned for FY 2000, which represents 7 percent of the capital plan. The Postal Service will improve service by providing better operating performance and more effective management of customer contact operations. The investments in this category are for lobby, window and self-service retail designed to enhance the availability and convenience of our products and services. The following programs are included in this category.

Self-Service Vending Equipment provides for the purchase of 5,000 new stamp vending machines with debit and credit payment capability.



Postal Booklet Stamp Machine

Point of Service (POS) ONE (all stages) —

This new postal retail system will play a major role in reaching USPS goals for improving customer service. The deployment of POS ONE will strengthen the existing nationwide network of retail facilities by providing technology that will enhance product and service offerings and improve communication. It will also provide data for strategic marketing analysis.



Point-of-Service One

**RESEARCH AND
DEVELOPMENT****Research and Development
1999 Results
(\$ Millions)**

Total commitments in the Research and Development category were \$153 million, which included:

- Identification Code Sort (\$94)
- Universal Tray System (\$27)
- Integrated Operations Management R&D Pilot (\$14)

In FY 1999 the Board of Governors approved \$34 million for the Universal Tray System Prototype.

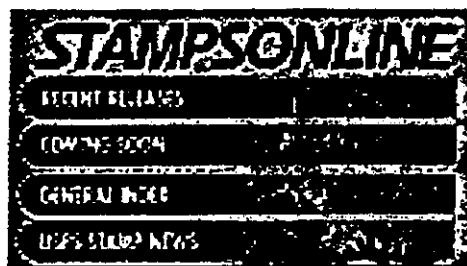
UNITED STATES POSTAL SERVICE

Research and development commitments of \$149 million are planned in FY 2000, which represents 4 percent of the capital plan. The following projects are included:

Bulk Mail Center Redesign will evaluate our Bulk Mail Center both operationally and environmentally.

Mail Cartridge System aimed at improving automation of letter mail processing by developing robots that sweep letter cartridges.

Research and Development funds are used to develop new products or processes, to improve present products or processes, or to discover new knowledge that may be valuable at some future date.



SUMMARY

The proposed FY 2000 capital plan supports investing to improve quality customer service and allows aggressive cost management. The criteria and the recommendations made by the Business Operations Planning Committee will contribute to the development of the Capital Plan, ensuring it is aligned with the Postal Service's strategic goals while developing future requirements. Alternatives to capital funding for achieving corporate goals and implementing business strategies will continue to be explored.



Priority Mail Stamp

FOR MORE INFORMATION

Contact Chuck Hartsock, Manager, Capital and Program Evaluation, (202-268-3392).

Capital Commitments & Capital Cash Outlays, by year: EQUIPMENT PROJECTS

Attachment I
ANM/USPS-T9-8

Project Name	Status	Board Of Governors Approvals		
		Date	Capital Investment	Expense Investment
Advanced Facer Canceler Systems (AFCS), 173 units	Behind	Dec-97	\$85.9	\$1.2
Deployment	61%			
Automatic Airline Assgmt & Semi-Automatic Scan Where U Band	On-Time	Jan-99	\$108.9	\$3.4
Design	0%			
Automatic Tray Sleeper	On-Time	Aug-99	\$25.8	\$0.8
Design	0%			
Carrier Route Vehicles (a) - 5,949 units	Late	May-96	\$115.0	\$0.1
Completed	100%			
Carrier Route Vehicles (b) - 10,000 units	Behind	Sep-98	\$213.1	\$0.0
Pre-Production	0%			
Carrier Route Vehicles (c) - 11,275 units	On-Time	Aug-99	\$247.5	\$0.0
Pre-Production	0%			
Delivery Bar Code Sorter (DBCS) Additional Capacity	Ahead	Mar-99	\$228.8	\$1.4
Deployment	32%			
Delivery Bar Code Sorter (DBCS) Output Subsystem (OSS) Kits, 54	On-Time	Jun-98	\$54.9	\$0.3
Deployment	63%			
Delivery Bar Code Sorter (DBCS) Stacker Modules	Early	Feb-98	\$21.4	\$0.6
Completed	100%			
Delivery Bar Code Sorter (DBCS), Phase V, 614 units	On-Time	Sep-98	\$210.5	\$0.3
Deployment	74%			
Flat Forwarding Terminal, 1450 units/221 sites	Late	Jun-96	\$27.5	\$2.0
Completed	100%			
Flat Mail Optical Character Reader (FMOCR)	Behind	May-97	\$147.0	\$2.3
Deployment	98%			

Capital Commitments & Capital Cash Outlays, by year: EQUIPMENT PROJECTS

Attachment I
ANM/USPS-T9-8

Project Name	Status	Board Of Governors Approvals		
		Date	Capital Investment	Expense Investment
Flat Sorting Machine, Automated (FSMA) 100 - Next Generation	Behind	Jun-98	\$434.5	\$11.5
Production	0%			
Flat Sorting Machine, FSM-1000, 102 units	Late	Apr-94	\$41.7	\$1.4
Completed	100%			
Flat Sorting Machine, FSM-1000, 240 units	On-Time	Dec-96	\$109.1	\$2.2
Completed	100%			
Flat Sorting Machines (FSM) 1000 WABCR, 346 units	On-Time	Dec-97	\$32.1	\$2.0
Completed	100%			
Forwarding Control Systems	Behind	Aug-98	\$33.0	\$0.8
Deployment	58%			
Identification Code Sort	On-Time	Sep-98	\$114.3	\$8.3
Design	0%			
Integrated Buffer System, R&D Phase III	Behind	May-97	\$0.0	\$17.1
Res. & Devel.	99%			
Integrated Mail Handling System	Behind	Jul-93	\$194.5	\$167.4
Deployment	90%			
LMLM Linerless Labels	Early	Feb-98	\$11.3	\$4.4
Completed	100%			
Mail Cartridge System	On-Time	Jul-99	\$27.5	\$7.0
Res. & Devel.	0%			
Remote Bar Code System (RBCS) - Phase I	On-Hold	Apr-90	\$383.7	\$183.4
Terminated	100%			
Remote Bar Code System (RBCS) - Phase II	Late	Oct-94	\$643.1	\$19.3
Completed	100%			

Capital Commitments & Capital Cash Outlays, by year: EQUIPMENT PROJECTS

Attachment I
ANM/USPS-T9-8

Project Name	Status	Board Of Governors Approvals		
		Date	Capital Investment	Expense Investment
Remote Bar Code System (RBCS) - Phase III	Late	Oct-95	\$311.1	\$7.0
Completed	100%			
Remote Computer Reader (RCR) 2000 Handwriting Recognition	Behind	May-99	\$192.6	\$2.0
Deployment	23%			
Remote Computer Reader, Handwriting Improvement	Behind	May-98	\$183.9	\$3.6
Completed	100%			
Robotic Container Unloader - 100 units	On-Time	Aug-99	\$80.0	\$1.4
Design	0%			
Robotic Tray Handling System Phase I	Behind	Aug-96	\$37.0	\$0.7
Deployment	67%			
Small Parcel & Bundle Sorter (SPBS-1) Feed System, 230 units	Behind	Feb-96	\$117.6	\$6.9
Deployment	94%			
Small Parcel & Bundle Sorter (SPBS-2) Feed System, 37 units	On-Time	Feb-99	\$20.7	\$0.0
Production	0%			
Small Parcel & Bundle Sorter (SPBS-a) 47 units	Late	Feb-96	\$46.1	\$0.8
Completed	100%			
Small Parcel & Bundle Sorter (SPBS-b) 46 units	Ahead	Aug-97	\$46.4	\$0.1
Completed	100%			
Small Parcel & Bundle Sorter (SPBS-c) 54 units	Ahead	Aug-98	\$60.6	\$0.1
Deployment	96%			
Trailers - 2,000 units	Late	Jul-97	\$40.4	\$0.1
Completed	100%			
Tray Management System, Phase II, Prototype	Behind	Feb-96	\$47.1	\$13.8
Deployment	100%			

Capital Commitments & Capital Cash Outlays, by year: EQUIPMENT PROJECTS

Attachment I
ANM/USPS-T9-8

Project Name	Status	Board Of Governors Approvals		
		Date	Capital Investment	Expense Investment
Tray Management System, Phase III, Deploy 42	Behind	Jun-96	\$396.4	\$100.9
Deployment	30%			
Truck Tractors & Spotters	Late	Dec-95	\$91.3	\$0.3
Completed	100%			
Truck Tractors, 416 units	Behind	Aug-98	\$31.0	\$0.0
Deployment	0%			

Capital Commitments & Capital Cash Outlays, by year: FACILITY PROJECTS

Attachment I
ANM/USPS-T9-8

Project Name	Status	Board Of Governors Approvals		
		Date	Capital Investment	Expense Investment
Arlington, VA, Headquarters Administrative Space	On-Hold	Sep-98	\$9.2	\$31.3
Design	0%			
Atlanta GA AMC	Late	Sep-96	\$36.4	\$0.0
Completed	100%			
Boise ID P&DC	Early	Dec-97	\$33.3	\$0.0
Completed	100%			
Bronx, NY, P&DC, Exterior Renovation	Ahead	Aug-99	\$12.9	\$0.0
Construction	0%			
Brooklyn, NY, GPO, sale to GSA and lease-back	On-Time	Aug-99	\$15.4	\$0.0
Construction	0%			
Chicago, IL, P&DC	Late	Jun-95	\$316.9	\$0.0
Completed	100%			
Chicago Priority Mail Surface Annex, Busse, IL	On-Time	Aug-98	\$10.9	\$16.3
Completed	100%			
Chicago Sugar House Expansion	Late	Feb-96	\$16.0	\$0.0
Completed	100%			
Church Street Station, Phase II	Ahead	Dec-97	\$91.0	\$0.0
Construction	46%			
Cincinnati, OH, AMC	On-Time	Jun-99	\$9.6	\$0.0
Design	0%			
Columbus, OH, P&DC	Behind	Aug-99	\$140.6	\$0.0
Design	0%			
Gilbert/Phoenix, AZ, Delivery Distribution Centers (DDC)	Ahead	May-98	\$16.7	\$0.0
Completed	100%			

Capital Commitments & Capital Cash Outlays, by year: FACILITY PROJECTS

Project Name	Status	Board Of Governors Approvals		
		Date	Capital Investment	Expense Investment
Golden, CO, DDC	Early	Jan-97	\$10.9	\$0.0
Completed	100%			
Greensboro, NC, P&DC	On-Time	Aug-99	\$69.6	\$0.0
Design	0%			
Jacksonville, FL - BMC Expansion	Late	Feb-96	\$81.6	\$0.0
Completed	100%			
Kansas City, MO, P&DC	Ahead	Nov-96	\$99.5	\$0.0
Completed	100%			
Minneapolis, MN, ISC/AOC	On-Time	Nov-96	\$64.8	\$0.0
Completed	100%			
Minneapolis, MN, Metro Hub	Behind	May-98	\$6.9	\$26.3
Construction	90%			
Northeast Metro, MI, P&DC	On-Hold	Feb-98	\$87.1	\$0.0
Design	30%			
Northwest Center - P&DF, Waltham, MA	Late	Nov-90	\$88.5	\$0.0
Completed	100%			
Philadelphia PA, advanced site acquisition	Behind	Mar-99	\$30.2	\$0.0
Pending Award	95%			
Seattle, WA P&DC	Re-Open	Nov-95	\$85.4	\$0.0
Re-open	100%			
Sioux Falls SD P&DC	Ahead	Dec-97	\$18.2	\$0.0
Completed	100%			
Spokane, WA, Processing & Distribution Center (P&DC)	Ahead	Apr-98	\$40.9	\$0.0
Completed	100%			

Capital Commitments & Capital Cash Outlays, by year: FACILITY PROJECTS

Attachment I
ANM/USPS-T9-8

Project Name	Status	Board Of Governors Approvals		
		Date	Capital Investment	Expense Investment
Stamford, CT, Springdale Station	Behind	Nov-99	\$12.7	\$0.0
Construction	20%			
Tulsa, OK, Processing & Distribution Center (P&DC)	On-Time	Jan-98	\$40.4	\$0.0
Completed	100%			

Capital Commitments & Capital Cash Outlays, by year: OTHER PROJECTS

Attachment I
ANM/USPS-T9-8

Project Name	Status	Board Of Governors Approvals		
		Date	Capital Investment	Expense Investment
Associate Office Infrastructure (a) R&D	Early	Feb-96	\$2.2	\$11.1
Completed	100%			
Associate Office Infrastructure (b) Ph I, Deployment	Late	Jun-96	\$236.9	\$2.9
Completed	100%			
Associate Office Infrastructure (c) Ph II, Deployment	Behind	Nov-97	\$201.2	\$6.2
Deployment	85%			
ODES Equipment Replacement Project:	Behind	Dec-96	\$12.7	\$0.0
Deployment	80%			
Corporate Call Management Ph I, R&D	Late	Dec-95	\$4.0	\$25.9
Completed	100%			
Corporate Call Management Ph II, Prototype	Behind	Jun-96	\$28.7	\$0.0
Completed	100%			
Corporate Call Management Ph III, Deployment	On-Time	Jun-98	\$226.8	\$29.0
Deployment	35%			
Delivery Confirmation Infrastructure Acquisition	Behind	May-97	\$628.1	\$76.2
Post Deployment	100%			
Delivery Operations Information Systems (DOIS)	On-Time	Jun-98	\$34.2	\$5.8
Development	17%			
International/Military Service Centers	Behind	Aug-97	\$146.9	\$129.7
Deployment	17%			
Mail Transport Equipment Service Centers	Behind	Jul-97	\$1.3	\$0.0
Deployment	100%			
Point of Service (POS ONE) Deployment	Behind	Jun-96	\$495.2	\$0.0
Deployment	99%			

Capital Commitments & Capital Cash Outlays, by year: OTHER PROJECTS

Attachment I
ANM/USPS-T9-8

Project Name	Status	Board Of Governors Approvals		
		Date	Capital Investment	Expense Investment
Priority Mail Processing Centers	Late	Apr-97	\$1.4	\$17.6
Completed	100%			
Radio Frequency Infrastructure Development & Testing	Behind	Dec-97	\$0.0	\$12.4
Res. & Devel.	0%			
Self-Service Vending Machine Acquisition	Behind	Aug-98	\$26.3	\$3.6
Development	50%			
Stamp Fulfillment Services Center (SFSC), Kansas City, MO	Behind	Aug-96	\$33.5	\$2.2
Deployment	92%			

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-9. Please identify every change in standards, policies, resources or personnel adopted by the Postal Service since July 1, 1998, to increase the accuracy and reliability of its test year revenue requirement projections, and produce all internal standards, guidelines, directives, orders, meeting minutes, studies, analyses, and similar documents concerning each such change.

RESPONSE:

To assist in enhancing the accuracy and reliability of and to support revenue requirement projections and Postal Service financial forecasts, the Postal Service created a new forecasting organization within its Finance function in Fiscal Year 1999. The forecasting unit adds new people and focuses existing personnel complement on the forecasting process. Forecasting has a 16 person authorized complement, including three executive positions, Manager of Forecasting, Manager of Income and Expense Forecasting, and Manager of Demand Forecasting and Economic Analysis.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-10. Please supply footnote 10 to your testimony at p. 12, line 6.

RESPONSE:

See Errata filed on January 28, 2000.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-11. Please refer to your testimony at p. 16, line 7 and confirm that the reference to "Table 8" should be to "Table 10." If you do not confirm, please explain fully how Table 8 supports your statement.

RESPONSE:

Confirmed. See Errata filed on January 28, 2000.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-12. Please refer to your testimony at page 47, line 5, where you state that "this will improve equity to a negative \$389 billion by the end of FY 2000."

- a. Please confirm that the reference to "billion" should be changed to "million."
- c. Please reconcile the \$389 [m]illion figure with the \$380,389(000) ending equity shown in table 59 at p. 53.

RESPONSE:

- a. Confirmed. See Errata filed of January 28, 2000.
- b. See errata filed on January 28, 2000.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-13. Please refer to Exhibit USPS-9F and confirm that for fiscal years 1998-2001, net investment by the Postal Service was as shown in the following table (in millions of dollars). If you do not confirm, please supply the correct data for computing annual net investment.

	1998	1999	2000	2001
Purchase of property and equipment	3055	3917	3564	3746
Less: Depreciation and amortization	1579	1795	1864	2154
Net investment	1476	2122	1700	1592

RESPONSE:

I confirm that the table you provided reflects numbers contained in Exhibit 9F for "purchase of property and equipment" and "depreciation and amortization". The row titled "net investment" in your table reflects the difference between these two amounts.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANS/USPS-T9-14. Please refer to USPS 9J, p. 3. Under the columns indicated R94-1 you show Total Revenues After Rates Estimated and Actual, respectively, of \$54,569.4 and \$54,509.4 million.

- a. Confirm that estimated total revenue of \$54,569.4 was not 1.2 percent more than actual revenue of \$54,509.4.
- b. Please supply the correct percentage, or revise the underlying data, as appropriate.

RESPONSE:

- a. Confirmed. See Errata filed on January 28, 2000.
- b. See errata filed on January 28, 2000.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-15. Please refer to USPS-9J, p. 3. Under the columns indicated R94-1 you show Total Accrued Costs for After Rates Estimated and Actual, respectively, of \$52,582.3 and \$52,738.9 million.

- a. Confirm that estimated total accrued costs of \$52,582.3 were not -2.1 percent of actual accrued costs of \$52,738.9.
- b. Please supply the correct percentage, or revise the underlying total accrued cost data, as appropriate.

RESPONSE:

- a. Confirmed. See Errata filed on January 28, 2000.
- b. See errata filed on January 28, 2000.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-16. Please refer to USPS-9J, p 3, and for each cost segment under the columns indicated R94-1 confirm all the over/under percentages. If you do not confirm, please supply the correct figures.

Response:

Not confirmed. See errata filed on January 28,2000.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-17. Exhibit USPS-9P, pages 1-2, attached to your testimony, under FY 1999, indicates that Prior Year Workyears for FY 1998 amounted to 909,578.

- a. Please provide the average employment reported for FY 1998 for (i) regular (ii) casual and (iii) transitional employees.
- b. Please reconcile the 909,578 workyears for FY 1998 with actual employment reported to FY 1998.
- c. The FY 2001 After Rates section in Exhibit USPS-9P shows a decline in workyears of 13,597 from FY 2000. If this projected decline in workyears were to be realized, how many fewer employees would be on the payroll in FY 2001?

RESPONSE:

- a. The number of career, transitional and casual employees on rolls at the end of FY 97 and 98 is reflected in the following table. This information can be found on page 76 of the 1998 Annual Report of the Postmaster General.

Employee Type	FY 97 EOY	FY 98 EOY	FY 98 Avg
Career	765,174	792,041	778,608
Transitional	26,789	17,222	22,006
Casual	32,615	25,711	29,163

- b. The number of employees is not the same as the number of workyears and can only be reconciled intuitively. The number of employees represents a physical count at a point in time. The number of workyears represents the number of

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-17. continued

hours divided by a standard measure (2080 hours for most types of employee). Part time employees count as one employee but only count as part of a workyear depending on the number of hours that accrue to each employee. On the other hand, some employees may result in more than one workyear, due to overtime and holiday work. Another difference results from that fact that some employees may be on the rolls during the period the count of employees is made and are therefore counted in the number of employees, but may not work for some part of the year thereby resulting in less than one workyear. This would also apply to an employee hired near the end of the year. Such an employee would be counted as 1 employee at the end of the year but would generate less than one workyear.

- c. Due to the timing and other issues I have discussed in the response to part b., I am unable to say.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-18. Please refer to LR-I-126, page 6, paragraph on "Flat Sorter Machine (FSM) 1000 (Phase II)".

- a. Before issuing a purchase order for the 240 FSM 1000s, Phase II, was a Decision Analysis report ("DAR") prepared for Postal Service management or the Governors?
- b. If your answer to preceding part (a) is negative, please explain why a DAR was not prepared.
- c. If your answer to preceding part (a) is affirmative, provide the estimated workhour savings projected for clerks in the DAR .
- d. If the projected workhour savings for clerks in the DAR differs from the projected workhour savings shown in LR-I-126, please explain why they differ.
- e. If your answer to preceding part (a) is affirmative, provide the estimated increase in workhours projected for maintenance in the DAR.
- f. If the projected increase in maintenance workhours in the DAR differs from the projected increase shown in LR-I-126, please explain the difference.
- g. Confirm that for FY 1999 the net savings per FSM 1000 is estimated to be 3,787.5 hours (4,150 hours for clerks less 362.5 hours for maintenance). If you do not confirm, please explain fully.
- h. Do the estimated workhour savings for clerks and the workhour increases for maintenance represent (i) direct workhours only, or (ii) direct workhours plus indirect supervisory and administrative time which are normally piggybacked on direct workhours? If piggybacks are excluded, please explain why it is not appropriate to include them in the savings estimates which you provide for the roll-forward model.
- i. In FY 1999, what was the effective average hourly wage rate for (i) clerks and (ii) maintenance personnel?
- j. Please produce any DAR identified in response to part (a) of this question.
- k. Please produce documentation sufficient to verify your responses to parts (b) through (i) of this question.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-18. continued

RESPONSE:

- a. Yes, a DAR was prepared.
- b. See response to (a) above.
- c. The DAR included estimated workhour savings for clerks of 1.17 million.
- d. Workhour savings shown in LR-I-126 reflect incremental savings whereas workhour savings reflected in DARs represent total savings of the program.
- e. The DAR included an increase in workhours for maintenance of 147,000.
- f. See response to part d) of this question.
- g. Confirmed.
- h. Estimated workhour savings are reflected for direct workhours only. It was not anticipated that supervisory and administrative time would be impacted. However, a benefit of the FSM 1000 would be better management control through more visible staffing requirements, real-time display of operational data, and the automated generation of management reports.
- i. See Chapter VIII, Section E of LR-I-127.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-18. continued

j. Objection filed February 22, 2000.

k. Objection filed February 22, 2000.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-19. Please refer to LR-I-126, page 6, paragraph on Advance Flat Sorter Machine (AFSM) 100.

- a. Before issuing a purchase order for the AFSM 100s, was a Decision Analysis report ("DAR") prepared for management or the Governors?
- b. If your answer to preceding part (a) is negative, please explain why a DAR was not prepared.
- c. If your answer to preceding part (a) is affirmative, provide the estimated workhour savings projected for clerks in the DAR.
- d. If the projected workhour savings for clerks in the DAR differ from the projected workhour savings shown in LR-I-126, please reconcile the difference.
- e. If your answer to preceding part (a) is affirmative, provide the estimated increase in workhours projected for maintenance in the DAR.
- f. If the projected increase in maintenance workhours in the DAR differs from the projected increase shown in LR-I-126, please reconcile the difference.
- g. Please produce any DAR identified in response to part (a) of this question.
- h. Please produce documentation sufficient to verify your responses to parts (b) through (f) of this question.

RESPONSE:

- a. Yes, a DAR was prepared..
- b. See response to (a) above.
- c. The DAR included estimated workhour savings for clerks of 3.7 million for the first full year of operation.
- d. Workhour savings shown in LR-I-126 reflect incremental savings whereas workhour savings reflected in DARs are based on the first full year of

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-19. continued

operation.

- e. The DAR included an increase of 491,000 workhours for maintenance for the first full year of operation.
- f. See response to part d) of this question.
- g. Objection filed February 22, 2000.
- h. Objection filed February 22, 2000.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-20. Please refer to LR-I-126, page 6.

- a. For the AFSM 100, please confirm that the estimated workhour savings (+)/cost(+) per machine are as follows:

	FY 2000	FY 2001	Total
Clerk hours	-118.8	-2,500.0	-2,618.8
Maintenance hours	+50.0	+377.5	+427.5
Net	-68.8	-2,122.5	-2,191.3

If you do not confirm, please explain and provide the correct data.

- b. Please confirm that the estimated workhour changes in FY 2000 and FY 2001 span a full year of savings and costs. If you do not confirm, please explain and provide the appropriate data for a full year.
- c. Please provide the source of the 1,086 FSM 100s used in your computations, and reconcile this number with purchase and deployment of 575 AFSM 100s (175+400) discussed by witness Kingsley, USPS-T-10, at p. 11.

RESPONSE:

- a. Savings per the AFSM 100 was revised in errata filed on February 18, 2000 to page 6 of LR-I-126.

	FY 2000	FY 2001	Total
Clerk hours	-745.7	-15,693.6	-16,439.3
Maintenance hours	+294.8	+2,369.9	+2,664.7
Net	-450.9	-13,323.7	-13,774.6

- b. The estimated workhour changes in FY 2000 do not span a full year whereas estimated workhour changes in FY 2001 do span a full year. Savings in FY 2000 are impacted by the machine deployment schedule, accordingly, FY 2001

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-20. continued

savings are representative of a full year impact.

c. Please see errata filed on February 18, 2000 to page 6 of LR-I-126.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-21. Please refer to ANM/USPS-T9-18 (g) and ANM/USPS-T9-19(b). Please explain why the FSM 1000, which has a throughput of 5,000 pieces per hour (see USPS-T-10, p. 11), has an estimated net reduction of 3,787.5 hours per machine, while the AFSM 100, which has a throughput of about 17,000 pieces per hour (see USPS-T-10, p. 11) has an estimated net reduction of only 2,191.3 hours per machine.

RESPONSE:

Please note that the savings per the AFSM 100 was revised in errata filed on February 18, 2000 to page 6 of LR-I-126; the savings per machine is 13,324 hours. Additionally, net equipment savings are impacted by the equipment deployment schedule. Deployment of the AFSM 100 is scheduled to begin in FY 2000 and continue until November 2000. On the other hand, the FSM 1000 program was fully deployed in Quarter II of FY 99.

Revised
4/5/00

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS**

ANM/USPS-T9-22. Please refer to LR-I-126, page 18.

- a. Please explain why the section "Accelerate FSM Into 2001" shows a projected savings of 29,727.3 hours per machine, while the initial buy discussed on page 6 shows a projected savings of only 2,618.8 clerk hours per machine (see ANM/USPS-T9-20a).
 - a. Have the additional 44 machines discussed in preceding part (a) been approved for purchase by the Governors?
 - b. Are any of the projected savings discussed in preceding part (a) contained in a Decision Analysis report ("DAR") that has been submitted to management or the Governors? If so, please produce the DAR, along with any correspondence, memoranda or other documents relating to the DAR.
 - c. Please explain why the section "Additional Advanced Flat Sorter Machine (AFSM) to Upper Bound" projects savings of 43,181.8 hours per machine, while the initial buy discussed on page 6 shows a projected savings of only 2,618.8 clerk hours per machine.
 - d. Have the additional 44 machines discussed in preceding part (d) been approved for purchase by the Governors?
 - e. Are any of the projected savings discussed in preceding part (d) contained in a Decision Analysis report ("DAR") that has been submitted to management or the Governors? If so, please produce the DAR, along with any correspondence, memoranda or other documents relating to the DAR.
 - f. Explain why a second buy of an additional 44 machines should save 45 percent more work hours (43,181.8/29,727.3) than the immediately preceding buy.

RESPONSE:

- a. Please note that the savings per the AFSM 100 for clerks was revised in errata filed on February 18 to page 6 of LR-I-126; clerk savings per machine is 15,694 hours. Savings differences still exist since the Phase I purchase is to supplement current FSM capacity (thereby reducing manual flat volumes) and the Phase II purchase will be to replace existing FSM 881s.

Revised
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**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS**

For comparison purposes, the total savings for Phase I should be compared to the total savings for Phase II. For this comparison, please refer to Table I that accompanies the response to DMA/USPS-T9-49. Total Phase I savings through FY 2001 are $16,439 + 10,000 = 26,439$.

- b. No.
- c. Information pertaining to Phase I was filed in USPS-LR-I-261, "DAR Materials Produced Under Protective Conditions Pursuant to Presiding Officer's Ruling No. R2000-1/22 (March 29, 2000). A DAR has not been prepared for Phase II.
- d. The referenced savings of 2,618.8 clerk hours per machine is not contained on page 6 of LR-I-126. This amount was apparently calculated by summing the clerk savings in FY 2000 and FY 2001. As explained in my response to part a) of this question, errata filed to page 6 on February 18 modified the per machine savings. The initial savings were based on an established ROI and competitive testing. Given the additional experience with the pre-production AFSM and an additional challenge to the field to increase productivity, we have increased the test year savings on the 44 additional AFSM purchases to the equipment's maximum throughput specifications.

Furthermore, errata filed to page 18 on April 5, 2000 explains how the savings were derived from both Phase I and Phase II for "Additional Savings Potential for Automated Flat Sorter Machine (AFSM) 100." As can be seen on Table I that

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**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF ALLIANCE OF NONPROFIT MAILERS**

accompanies the response to DMA/USPS-T9-49, the additional Phase II savings in FY 2001 are 3,864 average hours per machine for the equivalent of 44 machines.

The additional savings in FY 2000 and 2001 are 10,000 average hours per machine for all of the 173 Phase I machines deployed.

- e. No.
- f. A DAR has not been prepared for Phase II.
- g. Please refer to the errata filed April 5, 2000 for the revision to page 18 of USPS-LR-I-126. The paragraph titled "Additional Savings Potential for Automated Flat Sorter Machine (AFSM) 100" describes the calculation of the 1,900,000 clerk hours of savings. There is no longer a comparison of 43,181.8 to 29,727.3.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-23. Please refer to LR-I-126, page 6, paragraph on "Carrier Sort Bar Code Sorter (CSBCS)-3,144."

- a. Before issuing a purchase order for the 3,144 CSBCSs, was a Decision Analysis report ("DAR") prepared and submitted to management and to the Governors for their review? If so, please produce the DAR, along with any correspondence, memoranda or other documents relating to the DAR.
- b. If your answer to preceding part (a) is negative, please explain why a DAR was not prepared.
- c. If your answer to preceding part (a) is affirmative, provide the estimated workhour savings projected for clerks in the DAR.
- d. If the projected workhour savings for clerks in the DAR differ from the projected workhour savings shown in LR-I-126, please reconcile the difference.
- e. If your answer to preceding part (a) is affirmative, provide the estimated increase in workhours projected for maintenance in the DAR.
- f. If the projected increase in maintenance workhours in the DAR differs from the projected increase shown in LR-I-126, please reconcile the difference.

RESPONSE:

- a. Yes, a DAR was prepared. Objection filed February 20, 2000.
- b. See response to (a) above.
- c. There are no workhour savings for clerks included in the DAR. The narrative on page 7 inadvertently identified "carrier" savings in FY 1999 as "clerks" savings. Exhibit E properly reflects the savings as "carriers."
- d. See response to part c) above. Please note that costs contained in LR-I-126 are incremental.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-23. continued

- e. The estimated increase in workhours for maintenance included in the DAR based on the first full year of operation was 711,000. DARs are prepared as of a given point in time and are used to evaluate investment opportunities. The fact that there are no incremental workhours for maintenance for this program included in LR-I-126, implies that in FY 1999, this equipment was in full operation.
- f. See response to (e) above. Please note that costs contained in LR-I-126 are incremental.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-24. Please refer to LR-I-126, page 7, DBCS Additional Capacity (Part A).

- a. Please confirm that savings/costs per machine are estimated to be as follows:

	FY 2000	FY 2001	Total
Clerks	-416.3	-861.0	-1,277.3
Carriers	-553.0	-383.2	-936.2
Maintenance	+120.5	+118.0	+238.5
Net	-848.8	-1,126.2	-1,975.0

If you do not confirm, please explain and provide the correct data.

- b. Explain why in FY 2000 clerk time is reduced by 0.75 hours per one hour reduction in carrier time, (416.3/553) whereas in FY 2001, clerk time is reduced by 2.25 hours per one hour reduction in carrier time (861/383.2).

RESPONSE:

- a. The savings and costs per machine are consistent with LR-I-126, page 7, DBCS Additional Capacity (Part A).
- b. Savings reflected in LR-I-126 represent incremental savings. Accordingly, as equipment is deployed in the first year, there is a learning curve. The savings potential often varies by craft within and between years as demonstrated in this program.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-25. Please refer to LR-I-126, pages 16-17, Delivery Confirmation.

- a. Confirm that the data you provide show workhour savings(-)/costs(+) as follows:

	FY 1999	FY 2000	FY 2001
Clerks	+152,000	+256,000	+336,000
		-118,000	
Carriers	+361,000	+498,000	+670,000

If you do not confirm, provide the correct data and explain all differences.

- b. Explain why there are both costs and savings of clerk hours in FY 2000.
- c. Do the figures given here for carriers represent annual total amounts, or annual net incremental amounts? That is, are estimated carrier hours spent on delivery confirmation in FY 2001 equal to 670,000, or 1,529,000 (670,000+498,000+361,000)?

RESPONSE:

- a. The table shown in part a) of your question reflects the information on workhour savings/costs contained on page 17 of LR-I-126. However, the following table reflects the savings/costs for this program that are contained in Exhibits A – C and E of LR-I-126. The narrative on page 17 inadvertently identified "carrier" savings in FY 2000 as "clerks" savings. Exhibit C properly reflects the savings as "carriers." The corrected data is shown below:

	FY 1999	FY 2000	FY 2001
Clerks	+152,000	+256,000	+336,000
Carriers	+361,000	+498,000	+670,000
		-118,000	

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-25. continued

- b. As stated in response to part a) above, the savings and costs in FY 2000 relate to "carriers." The original 498,000 hours were allocated for workload based on the assumption that carriers would scan pieces at the pick-up point. This scan was subsequently eliminated. Workhours were reduced by 118,000 in FY 2000 to reflect this change.
- c. The figures provided for carriers are incremental.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-26. Accounting Period reports for A/P 1, for the FY 1995-2000 indicate the following number of career employees shown in Column 1 below. Please provide annual data for columns 2 and 3 (where "separations" in column 2 include retirements, quits, and separations for any other reason).

Fiscal Year	(1) Career Employees	(2) Less: Separations	(3) Plus: New Hires
1995	730,707		
1996	753,932		
1997	760,750		
1998	765,472		
1999	794,064		
2000	796,961		

RESPONSE:

The data are provided in the following table. Please note that the number of "Separations" and "New Hires" in FY 2000 reflect numbers through the first five Accounting Periods.

Fiscal Year	(1) Career Employees	(2) Less: Separations	(3) Plus: New Hires
1995	730,707	28,295	55,481
1996	753,932	28,145	37,527
1997	760,750	32,428	38,746
1998	765,472	41,139	69,434
1999	794,064	43,565	52,171
2000	796,961	16,355	12,716

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ANM/USPS-T9-27. Please refer to Table 5 at page 7 of your testimony.

- a. Of the total liabilities shown in Table 5, how much reflects (i) current portion of long-term debt, and (ii) other short-term debt used to finance capital improvements?
- b. Provide the statutory restrictions imposed on Postal Service borrowing, (i) for the years shown in Table 5, explain whether and how those restrictions have restrained the Postal Service's capital investment program and (ii) for FY 1999-2001, explain what effect these statutory restrictions are expected to have on the Postal Service's capital spending.

RESPONSE:

- a. The current portion of long term debt for the period in question can be obtained from the balance sheets contained in the FY 89-98 Annual Reports of the United States Postal Service. These reports are available in the U.S. Postal Service Library at 475 L'Enfant Plaza SW, Washington D.C.
- b. Please see my response to ANM/USPS-T9-2 for the current borrowing limits. In addition to the limits specified in that response, the Postal Service is also currently limited to an annual net increase in debt of \$1.0 billion for operating purposes. The current limits were effective beginning with FY 92. For FY 91, the Postal Service was limited to \$12.5 billion total debt, and annual net increases of \$1.5 billion for capital and \$1.0 billion for operations. For FY 90 and prior, the Postal Service was limited to \$10.0 billion in total, and annual net increase of \$1.0 billion for capital and \$500 million for operations. I am informed

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ANM/USPS-T9-27. continued

that capital investments have not been curtailed during the period FY 89 through FY 99 due to borrowing limits. Based on the estimates and assumptions reflected in this filing, I do not believe the current borrowing limits will adversely impact the Postal Service's capital investment program in FY's 2000 and 2001.

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ANM/USPS-T9-28. Please refer to LR-I-126, pages 5-6.

- a. On page 6, under "Flat Sorter Machine (FSM) 1000 Phase II (240)" you state that "the [240] machines come fully integrated with the barcode reader in the production configuration." Do the savings/costs estimates in this section reflect machines that are so equipped? Please explain.
- b. Starting on page 5, under "Flat Sorter Machine (FSM) 1000 Barcode Reader" you compute savings/costs estimates for 339 machines.
 - (i) Please reconcile the 339 FSM 1000 machines with the 338 FSM 1000 machines shown in LR-I-83, page I-12, column 4.
 - (ii) Does the estimated savings/cost for 339 Barcode Readers double count the 240 barcode readers on the fully integrated machines discussed in preceding part (a)? Please explain.

RESPONSE:

- a. The savings and cost estimates do not reflect machines equipped for full integration with the barcode reader in the production configuration. In the future, bar code reader retrofitting and optical character readers are being examined for the FSM 1000, which will allow for more efficient automated processing. If a barcode reader becomes available, sufficient prebarcoded volumes would be required to initiate this mode of operation.
- b.
 - (i) The 338 FSM 1000 machines shown in LR-I-83, page I-12, column 4 is the correct number of machines. The 339 FSM 1000 machines reflected in LR-I-126 should have been shown as 338. The total hour savings/costs reflected in LR-I-126 are correct.
 - (ii) No. These are two separate machine buys.

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ANM/USPS-T9-29. Please refer to your response to ANM/USPS-T9-1, where you state that "Exhibit 9F indicates that \$3.704 billion in new debt is required to finance capital outlays without a rate increase. Under the proposed rate increase, no borrowing would be necessary." Since Exhibit USPS-9F indicates that depreciation and amortization in FY 2001 will amount to only \$2.154 billion, while purchase of property and equipment will be \$3.746 billion, is it reasonable to infer that monies derived from the provision for contingency will be used to fund the \$1.592 billion difference? Please explain any answer that is not an unqualified affirmative.

RESPONSE:

Your inference is incorrect. As discussed on page 43 of my testimony, the contingency is to protect against unforeseen events. In both the before and after rate scenarios, it is assumed that the amount included for the contingency provision is spent. Accordingly, there are no contingency funds available to finance capital outlays. As reflected in the Postal Service's cash flow forecast (LR I-127 p. 232), the contingency is reflected as a test year expense and cash requirement. In the after rates scenario, enough cash is generated from operations to fully finance the purchase of property and equipment.

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ANM/USPS-T9-30. In reference to your response to ANM/USPS-T9-2, please provide the following information:

- a. What is the highest level of total debt that the Postal Service has ever incurred? That is, what is the closest the Postal Service has ever come to its \$15 billion debt ceiling? In what year did that occur?
- b. At the end of FY 1999, what was the Postal Service's current debt level in relation to its debt ceiling?
- c. Have the Postal Service's capital expenditures for modernization and automation ever been restrained by the \$2 billion limitation on the annual net increase in debt for capital expenditures? If so, in what year(s)? If the Postal Service has never been so constrained, then what have been the three years with the highest annual increase in debt for capital expenditures, and how much did the debt increase in those three years?

RESPONSE:

- a. Postal Service debt reached its highest level of total debt in FY 93 (\$9.7 billion).
- b. At the end of FY 1999, the debt level was 46% (\$6.9 billion/\$15.0 billion) of the debt ceiling. This information is reflected on page 739 of LR I-127 and in my response to ANM/USPS-T9-2.
- c. As explained in the response to ANM/USPS-T9-27, I am informed that the annual \$2.0 billion capital investment borrowing limit (which was effective beginning with FY 92) has not constrained the capital investment program. For the period covered by the annual debt increase limitation of \$2.0 billion, the level of debt increased in FY's 92, 98, and 99. The amounts of increase, which

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all resulted from capital borrowing, were \$1.483 billion, \$552 million, and \$504 million, respectively. Debt declined in FY's 93-97.

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ANM/USPS-T9-31. Please refer to your response to ANM/USPS-T9-4.

(a) Are the "two financing plans" referred to in that response identical to the attachment to ANM/USPS-T9-8? If not, please produce the missing documents.

(b) Are the "two financing plans" referred to in your response to ANM/USPS-T9-4 the only documents in the Postal Service's possession, custody or control that are responsive to the question?

RESPONSE:

(a) ANM/USPS-T9-4 requested information on debt financing and ANM/USPS-T9-8 requested information on the capital program and major program initiative. Accordingly, my response to ANM/USPS-T9-4 provided a copy of the financing plan and my response to ANM/USPS-T9-8 provided a copy of the capital plan.

(b) Yes.

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ANM/USPS-T9-32. Please refer to your response to ANM/USPS-T9-5.

(a) Are the documents referred to in that response identical to the attachment to ANM/USPS-T9-8? If not, please produce the missing documents.

(b) Are the documents referred to in your response to ANM/USPS-T9-5 the only documents in the Postal Service's possession, custody or control that are responsive to the question?

RESPONSE:

(a) See my response to ANM/USPS-T9-31(a).

(b) See my response to ANM/USPS-T9-31(b).

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ANM/USPS-T9-33. This is a follow-up to ANM/USPS-T9-7(e). In your response, you state that the asset lives assumed by the Postal Service for personal property range from "3 to 10 years depending on the type of equipment and risk of technological obsolescence," and the asset lives assumed for motor vehicles range from "6 to 12 years depending on the type of vehicle."

(a) Please specify each kind of personal property that corresponds with each life within the range of 3 to 10 years.

(b) Please specify each kinds of motor vehicles that corresponds with each life within the range of 6 to 12 years.

RESPONSE:

(a & b) Please see LR-I-224, Personal Property and Motor Vehicle Asset Life Listing.

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ANM/USPS-T9-34. This is a follow-up to ANM/USPS-T9-7(f). The question asked for "all documents containing" the justification for the asset lives assumed by the Postal Service. In response, you assert that the asset lives are based on six factors, but you have produced no documents.

(a) Please produce the documents requested by the original question.

(b) Please produce studies, analyses, and similar documents sufficient to enable a third party to verify whether the criteria identified in response to ANM/USPS-T9-7(f) justify lives as short as the specific lives referred in question ANM/USPS-T9-7(e).

RESPONSE:

(a) – (b) It is my understanding that service life estimates are developed at the time of the initial equipment buy in conjunction with the criteria defined in my response to ANM/USPS-T9-7(f). A review of the response to ANM/USPS-T9-33 which provides a listing of certain assets and their service lives and salvage values should be sufficient for a third party to assess the reasonableness of established asset lives.

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ANM/USPS-T9-35. In the last sentence of your answer to ANM/USPS-T9-7(f), you state that the Postal Service's "[d]epreciation expense and the basis for its calculation is reviewed annually in conjunction with the audit conducted by our external auditors and has been found to be in compliance with Generally Accepted Accounting Principles."

(a) Does the Postal Service contend that depreciation lives that satisfy GAAP match the full period during which the depreciated assets are expected to provide service (the regulatory "matching principle")? If so, please produce all documentation on which you rely in support of your position.

(b) Have the Postal Service's "external auditors" – or anyone else – analyzed whether the depreciation lives assumed by the Postal Service in its cost of service studies comply with the matching principle? If so, please produce all documentation.

RESPONSE:

(a) Yes. GAAP requires the matching of revenue and expense. In Accounting

Research Bulletin 43, the American Institute of Certified Public Accountants has defined depreciation accounting as "a system of accounting that aims to distribute the cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. It is a process of allocation, not of valuation."

(b) As part of the audit of the Postal Service financial statements, the auditors review the reasonableness of service life estimates for assets. The Postal Service has never received a qualified audit opinion based on service life estimates and to my knowledge has never received a management letter finding from the auditors relative to service life estimates. Accordingly, it would appear that the depreciation

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ANM/USPS-T9-35. continued

lives assumed by the Postal Service comply with the matching principle.

Documentation on the auditors review would be contained in their workpapers.

These records are not the property of the Postal Service and therefore, the postal Service does not have access to them.

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ANM/USPS-T9-36. This is a follow-up to question ANM/USPS-T9-9. The question was, inter alia, a request for production of documents. Please produce the requested documents, or verify that no responsive documents exist.

RESPONSE:

I am unaware that any such documents exist.

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ANM/USPS-T9-37. Your testimony at page 10, lines 16-17, states that "Planning to operate at a loss, to defer equity restoration, and to borrow for operations would be to plan for financial failure."

- a. Would you agree that the Postal Service should distinguish between (i) borrowing for operations and (ii) borrowing for capital investment with anticipated future payoff in the form of, say, cost reductions? If you do not agree, please explain fully any reservations which you may have.
- b. Since the Postal Service cannot fund its capital investment program by raising equity in the capital markets, would you agree that failure to borrow for necessary capital investment and infrastructure can be equivalent to planning for financial failure? If you do not agree, please explain fully.

RESPONSE:

- a. As covered in my response to ANM/USPS-T9-2 and ANM/USPS-T9-27(b), Title 39 provides separate borrowing restrictions for defraying operating expense and capital improvements. The Postal Service has not borrowed for operations since 1976. Please note that some capital investments are made mainly for reasons other than measurable cost savings such as service, safety, or infrastructure. Other capital investment programs, such as many of the ones detailed on pages 93, 95, and 97 of LR I-127, do generate savings, and budgets are adjusted downward to reflect and capture the expected savings. See note
pg 19-29.
- b. I disagree. Although the Postal Service cannot raise capital in the equity markets, as demonstrated in my response to ANM/USPS-T9-29, investments can be funded through operating income as well as debt.

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ANM/USPS-T9-38. Exhibit USPS-9A estimates FY 2000 revenues at \$64,761.8 million, with total accrued costs of \$64,761.8 million and net income of \$65.6 million. If we assume that the target for recovery of prior years' losses ("RPYL") in FY 2000 is equal to the amount established in Docket No. R97-1, \$446.9 million, [Op. & Rec. Decision, ¶ 2032], would you concur that FY 2000 has an estimated deficiency of \$381.3 (\$65.6 - \$446.9) million? Please explain any answer that is not an unqualified affirmative.

RESPONSE:

No. The \$446.9 million amount you have used was the amount reflected in the Postal Service's original filing. The amount reflected in the Recommended Decision was \$377.1 million (see Appendix C of Appendices to Opinion and Recommended Decision). Please refer to Exhibit USPS-9N for an analysis of Recovery of Prior Years' Losses relative to the Board of Governors policy on equity restoration. As reflected on that Exhibit, a net income of \$66 million in FY 2000 would result in the Postal Service being \$311 million behind, based on the calculations you have made.

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ANM/USPS-T9-39. Exhibit USPS-9A estimates FY 2001 revenues at \$66,328.4 million before rates, with total accrued costs of \$68,046.6 million and net operating loss of \$1,718.2 million. If we use the \$446.9 million target for recovery of prior years' losses ("RPYL") established in Docket No. R97-1, would it be fair to say that the Before Rates revenue deficiency for "break even" in FY 2001 amounts to an estimated \$2,165.1 (\$1,718.2 + 446.9) million? Please explain any answer that is not an unqualified affirmative.

RESPONSE:

No. As specified on Exhibit USPS 9A, the before rates deficiency is \$3.688 billion. As is also shown in Exhibit A, this amount is calculated by adding the contingency (\$1.702 billion) and the prior years' loss recovery (\$268.3), to the before rates test year net loss (\$1.718 billion). Please note that the recovery of prior year's losses is recalculated each time an omnibus rate case is prepared to account for actual financial performance since the previous rate case. Please refer to Table 53, on page 48 of my testimony for the calculation of prior years' loss recovery.

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ANM/USPS-T9-40. At page 16 of your testimony, lines 1-5, you state that the Other Programs expense for Test Year is \$1.1 billion, and "is substantially less than the \$3.7 billion in Other Programs expense growth estimated for FY 1997 and the Test Year in Docket No. R97-1."

- a. Of the \$3.7 billion for Other Programs expense that was estimated for FY 1997 and Test Year in Docket No. R97-1, how much was actually spent by the end of FY 1997?
- b. How much of the \$3.7 billion was spent in years after FY 1997?
- c. How much of the \$3.7 billion remains unspent, and how much has been canceled or dropped from the current and future budgets?

RESPONSE:

- a. Please note that most of the \$3.7 billion estimated growth for Other Programs expense was estimated to be spent in the test year, FY 1998. In FY 1997, approximately \$700 million of the estimated increase was spent.
- b. In FY 1998, approximately \$2.0 billion of the increase was spent.
- c. It is not possible to determine how much of this amount is unspent beyond FY 1998. Estimates beyond FY 1998 were not part of the R97-1 rate filing, however, if we examine these same categories for FY 1999, we finished the year approximately \$114 million under our plan for the year. This under-run was used to partially offset the shortfall to our revenue plan of approximately \$620 million in FY 1999. Through AP 6 of FY 2000, these expense categories are essentially on plan, however, revenue through AP 6 FY 2000 is \$345 million below plan.

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ANM/USPS-T9-41. Please provide a copy of the Fiscal Year 1999 Performance Plan and the Fiscal Year 2000 Performance Plan.

RESPONSE:

<i>(\$ in millions)</i>	FY 1999	FY 2000
Revenue	\$ 63,395	\$ 65,424
Expense	<u>63,195</u>	<u>65,324</u>
Net Income	\$ 200	\$ 100

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ANM/USPS-T9-42. The Postal Service has announced various rounds of spending cuts, including but not necessarily limited to the seven capital programs identified in your response to DMA/USPS-T9-10 and those announced by John Ward at the February 2 MTAC meeting.

(a) For all announced spending reductions, please identify by program (i) the change in cash expenditures in fiscal years 1999, 2000, and 2001, (ii) for those programs subject to being capitalized and amortized, the change in accrued expenses in fiscal years 1999, 2000, and 2001, and (iii) the effect that each program reduction is expected to have on your Test Year projected savings that were included in the roll-forward model.

(b) Produce all studies, analyses and similar documents underlying your answer to part (a).

RESPONSE:

- (a) In FY 1999 as well as in the current year, spending reductions were and are being made to offset actual and forecasted revenue shortfalls. In the rate case filing, the FY 1999 estimated total expenses were approximately equal to actual FY 1999 results. (See my response to DMA/USPS-T9-7). For FY 2000, the revenue estimate included in the rate filing is approximately \$600 million less than the revenue included in the FY 2000 operating budget. Accordingly, the expense reductions that are in the process of being made to the operating budget are to offset the forecasted revenue shortfall to the revenue plan. This is necessary to preserve the FY 2000 net income plan that approximates the FY 2000 net income estimated in the rate case filing.

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as such, these changes do not impact the estimates in the rate case filing for
either FY 2000 or FY 2001.

(b) None.

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ANM/USPS-T9-43. In response to DMA/USPS-T9-10, you stated that "Corporate wide personnel cost growth is primarily driven by factors such as inflation, actuarial changes and labor contracts that are not subject to management control." Please confirm the following statements. Explain any failure to confirm fully.

- a. The amount of overtime labor is subject to management control.
- b. Within contractual limits, the number of casual and transitional employees is subject to management control.
- c. The number of supervisors of any activity is subject to management control.
- d. The number, responsibility, and job descriptions of headquarters and field management and support personnel are subject to management control.
- e. The number and scheduling of equipment, building and vehicle maintenance employees are subject to management control.
- f. The decision to purchase and install labor-saving equipment such as automated letter sorting machines, flat sorting machines, robots, tray management systems, etc., is subject to management control.
- g. The decision to contract entire facilities, such as PMPCs, is subject to management control.
- h. The decision to hire contract carriers for rural routes is subject to management control.
- i. The decision to install new management systems designed to improve efficiency and reduce costs, such as the Corporate Call Management Program, is subject to management control.

RESPONSE:

a – i. According to Websters New World Dictionary, the definition of control includes "to exercise authority over; direct; command." From this context, management

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ANM/USPS-T9-43. continued

has control over the various items you have listed, but mostly in terms of authority over. For example, management authorizes the use of overtime. However, overtime usage can be driven, caused by or in fact controlled by weather, mail volumes or transportation arrival times. For hiring casual employees, local labor markets can dictate the availability of potential employees. 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. Obviously management has various degrees of control or approval authority, but, just as you have referenced in your question, management's control may be limited by the provisions of labor contracts as well as approval in some of the examples cited in this question by the Board of Governors.

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ANM/USPS-T9-44. This question concerns plant managers, and all supervisory personnel under the level of plant manager.

(a) Please identify all incentives, including but not necessarily limited to salary and bonus, which these personnel have to reduce the number of employees under their immediate supervision.

(b) Please identify all incentives, including but not necessarily limited to salary and bonus, which these personnel have to maintain or increase the number of employees under their immediate supervision.

(c) Please state whether, and to what extent, which plant managers and subordinate supervisory personnel are penalized for backlogs in mail processing (or given positive incentives for avoiding such backlogs).

(d) Please produce all studies, analyses, and similar documents generated by or for the Postal Service since July 1, 1998, concerning the effectiveness of efforts by Postal Service management to limit the size of its mail processing work force to the actual mail processing workload.

RESPONSE:

Plant managers and supervisors are covered under the EVA variable pay program. Under this program, incentives are earned in the form of lump sum payments for achieving both financial and service performance goals. Financial performance is measured between achieving productivity improvements and performing within operating budgets. Service is measured through EXFC overnight, EXFC two and three day and Priority Mail. To promote continuous improvement only 1/3 of a given years' incentive is paid out. The balance is paid out in subsequent years' based on continuing to achieve out year financial, service and employee goals.

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ANM/USPS-T9-44. continued

- (b) See response to part (a).
- (c) See response to part (a) above. In addition, a daily mail condition report is issued that track backlogs in mail processing. This report is provided to various organizational levels, including the Chief Operating Officer. Action is taken to resolve backlog situations. Backlogs could lead to failure to achieve service goals, which in turn would lead to reductions in or loss of EVA incentives.
- (d) I am unaware of any studies or analyses related to limiting the size of the mail processing work force.

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ANM/USPS-T9-45. The Postal Service's Financial & Operating Statements, which are published for each account period, compare various actual outcomes to "Plan." For example, the bar charts on page 4 show Actual, Plan and SPly.

- a. For all of FY 2000, what was the net Operating Revenue in the Plan at the beginning of the fiscal year? What is it today, how many times has it been revised since the beginning of the fiscal year, and when was the last revision made?
- b. For FY 2000, what was the Total Operating Expense in the Plan at the beginning of the fiscal year? What is it today, how many times has it been revised since the beginning of the fiscal year, and when was the last revision made?
- c. For FY 2000, what is the Total Mail Volume in the Plan?
- d. Are the current figures for Net Operating Revenue and Total Operating Expense for FY 2000 the same as those in the roll-forward model for interim year 2000? If they differ, please state by what amount, and explain the differences.

Response:

- a. Total Revenue plan for Fiscal Year 2000 is \$65.4 billion. The Total Revenue plan has not changed since the beginning of the year and it will remain constant throughout the year.
- b. The Total Expense plan for Fiscal Year 2000 is \$65.3 billion. The Total Expense plan has not changed since the beginning of the year and it will remain constant throughout the year.
- c. The Total Mail Volume plan for Fiscal Year 2000 is \$209.8 billion.
- d. Please see my response to ANM/USPS-T9-42.

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ANM/USPS-T9-46. One page of the Postal Service's Financial & Operating Statements reports both Commitments and Expenditures for Capital Investments, showing Actual, Plan and SPLY. For Commitments and Expenditures, under the respective columns for "Plan," are the data based on a "Plan" for the Postal Fiscal Year or for the Government Fiscal Year?

Response:

In the Financial & Operating Statements, the capital plan data are based on the Government Fiscal Year.

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ANM/USPS-T9-47. Please refer to the attached table, which is incorporated as part of this question. The data in Part A, columns 2 and 3, which are for Total Capital Commitments, are taken from the Postal Service's Financial & Operating Statements for A/P 13 for each of the years shown in column 1.

- (a) Please confirm that the data in columns 2 and 3 are correct. If you fail to confirm, please provide the correct data.
- (b) If the Postal Service has different data for the Government Fiscal Year, please provide.
- (c) Please confirm that in the decade of the 1990s the Postal Service's actual capital commitments have fallen short of planned capital commitments by \$11.5 billion. If you fail to confirm, please explain.
- (d) Did the Postal Service's statutory limitation on borrowing constrain capital commitments in any of the years 1988 through 1999?

Response:

- (a) Confirmed.
- (b) There is no difference.
- (c) Confirmed.
- (d) No.

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ANM/USPS-T9-48. Please refer to the attachment for ANM/USPS-T9-47, which is incorporated as part of this question. The data in Part B, columns 2 and 3, which are for Capital Commitments for Mail Processing Equipment, likewise are taken from the Postal Service's Financial & Operating Statements for A/P 13 for each of the years shown in column 1.

- (a) Please confirm that the data in columns 2 and 3 are correct. If you fail to confirm, please provide the correct data.
- (b) If the Postal Service has different data for the Government Fiscal Year, please provide.
- (c) Please confirm that in the decade of the 1990s the Postal Service's actual capital commitments for mail processing equipment have fallen short of planned capital commitments by \$5.6 billion. If you fail to confirm, please explain.

Response:

- (a) Confirmed.
- (b) There is no difference.
- (c) Confirmed.

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ANM/USPS-T9-49 Please refer to the attachment to ANM/USPS-T9-47, Part B, which incorporated as part of this question.

- (a) In 1992 the Postal Service's \$201.1 million in commitments for mail processing equipment amounted to only 15 percent of Plan. What factor(s) prevented the Postal Service from achieving its planned commitments for mail processing equipment in 1992?
- (b) The subsequent commitments for mail processing equipment in 1993 and 1994, \$634.5 and \$326.9 million, respectively, or \$961.4 million, still did not equal the \$1,154.3 billion shortfall in 1992. Please describe all actions taken by top management and the Governors in 1992-93 to correct the failure to achieve planned commitments for mail processing equipment.
- (c) In 1994 the Postal Service's \$326.9 million in commitments for mail processing equipment amounted to only 26 percent of Plan. What factor(s) prevented the Postal Service from achieving its planned commitments for mail processing equipment in 1994? Please describe all actions taken by top management and the Governors in 1994-95 to correct the failure to achieve planned commitments for mail processing equipment?
- (d) In 1997 the Postal Service's \$808.2 million in commitments for mail processing equipment amounted to 33 percent of Plan. What factor(s) prevented the Postal Service from achieving its planned commitments for mail processing equipment in 1997? Please describe all actions taken by top management and the Governors in 1997-98 to correct the failure to achieve planned commitments for mail processing equipment?

Response:

- (a) In FY 1992, the Postal Service had aggressive mail processing equipment capital plans. As a result of the organizational restructuring in FY 1992, the Postal Service decided to reevaluate all of its automation plans, including mail processing equipment. The reevaluation of the capital decisions was delayed until the new management team and the new organizational structure was in place.

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ANM/USPS-T9-49 continued

- (b) During the time period from FY 1993 through 1994, the organizational changes and new management team discussed in part (a) continued to impact the Postal Service's capital program.
- (c) As a result of reevaluating the aggressive FY 1994 automation plan, several projects were delayed and carried over to FY 1995; thus, lowering commitments in FY 1994.
- (d) The under-run in automation was directly attributable to delays in the aggressive, accelerated equipment program mentioned above. For example, the Mail Cartridge System and the Tray Management System experienced implementation problems at the prototype sites, which delayed additional commitments. Consequently, senior management increased the overall plan, as well as the commitments, to continue growth in the automation plan.

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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.

RESPONSE:

(a&b) As explained in my response to ANM/USPS-T9-1, "the Postal Service avoids borrowing and reduces debt when possible to save the net cost of interest". This is explained further in the Financing Plans attached to the response to ANM/USPS-T9-4. The Postal Service has no other internal restrictions or guidelines on borrowing.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
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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.

RESPONSE:

- (a) This report was published in January, 2000.
- (b) No. The report summarizes information and is used primarily as an informational document for postal managers, suppliers and customers.

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ANM/USPS-T9-51. continued

- (c) The report is not submitted to the Governors for review or approval.
- (d) I have been informed that this amount is correct.
- (e) No.
- (f) I have been informed that this amount is correct.
- (g) No. This is the savings/avoided labor costs since 1987 less funds spent on the remote bar coding system. The salary savings/avoidance were calculated on the basis of work hour reductions obtained from specific mail processing operations. The underlying assumption for the calculation was that those reductions resulted from implementation of the letter automation program. Since some non-quantifiable portion of the work hour reductions may have resulted from other managerial actions, it cannot be stated categorically that labor costs were avoided "solely" on account of the investment in the letter automation program. It is firmly believed, however, that the investment in letter mail automation equipment provided the platform for which all the savings / cost avoidance were captured.

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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.

RESPONSE:

The capital commitment plan for Fiscal Year 1999 was reduced from \$4.4 billion to \$4.0 billion and the Fiscal Year 2000 plan was reduced from \$4.0 billion to \$3.5 billion. The impact of the FY 99 capital commitment reductions on depreciation is already reflected in the filing. For FY 2000 the capital commitment reductions targeted mostly facility projects. The impact of these reductions on test year depreciation is relatively minor in view of the fact that depreciation on new facilities does not start until one year after the in service date.

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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?).

RESPONSE:

The legislation to which I referred was the Omnibus Reconciliation Act of 1987, which limited capital commitments by the Postal Service to \$625 million in FY 1988 and \$1,995 million in FY 89. As a result of this legislation, the original FY 88 capital commitment plan was reduced from \$2,361 million to \$625 million. For additional details please refer to the 1988 Comprehensive Statement on Postal Operations, a copy of which is available in the US Postal Service Library, 475 L'Enfant Plaza SW, Washington DC 20260-6444.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
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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.

RESPONSE:

A breakdown of the \$1.465 billion TY 2001 AR adjustments to reconcile net income to cash provided by operating activities can be found in Chapter VI, Section b., page 232, of LR-I-127.

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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.

RESPONSE:

- (a) Attachments I was issued on August 17, 1998, Attachment II was issued on July 26, 1999 and Attachment III was published in October, 1998.
- (b) It is my understanding that the concerns of the Board related to the level of outstanding debt and interest expense, increased depreciation expense and returns on capital investments. These concerns were expressed by the Board in oral comments as the Capital Investment Plan was being formulated.
- (c) No. The Fiscal Year 2001 capital commitment plan has been reduced to \$2.3 billion.

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ANM/USPS-T9-55. continued

(d) Attachment I reflects the Fiscal Year 1999 update of the 1998 – 2002 five year capital commitment plan. Attachment II relates only to the Fiscal Year 2000 capital commitment plan. The change from Attachment I (\$3.5 billion) to Attachment II (\$4.0 billion) in the Fiscal Year 2000 capital commitment plan does not represent a failure to spend all that was budgeted for. In fact, in Fiscal Year 1999, the Postal Service committed \$3.8 billion against the \$4.0 billion plan. As explained in my response to ANM-T9-53, the Fiscal Year 2000 capital commitment plan has since been reduced to \$3.5 billion. The changes in plan are made in response to our ongoing business assessment and analysis and re-prioritizing of capital projects.

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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.

RESPONSE:

(a) I confirm that the difference between \$2.7 billion, which you have characterized as "investment", and \$2.154 billion of depreciation expense, is \$546 million.

(b) In my opinion, the adequacy of US Postal Service capital investments should be judged over a period of time greater than one year. I believe the recent level of capital investments made by the Postal Service has been sufficient to improve its infrastructure. I have reached this conclusion subjectively.

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ANM/USPS-T9-57. Please refer to Attachment III to ANM/USPS-TIO-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.

RESPONSE:

- (a) There is an informal guideline to finance capital investments through operating funds to minimize outstanding debt and reduce interest expense.
- (b) The critical element pertains to the return on capital investments. Merely spending capital funds to the annual borrowing limits or to maximize the outstanding debt does not guarantee a positive return on investment or one that even covers the financing costs. Accordingly, the capital investment plan is developed and closely monitored to insure maximum contribution to operating efficiencies.

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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.

RESPONSE:

Conceptually, anything is possible. However, there are practical limitations on what can be accomplished with given resources, i.e. staffing, time, deployment, learning curve, timing and ability to capture savings.

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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.

RESPONSE:

- (a) Please refer to page 65 of the 1998 Annual Report of the Postmaster General.
- (b) The cost of capital used by the Postal Service is based on an estimated long-term borrowing rate from the Federal Financing Bank based on the behavior of rates in recent years.
- (c) The 20 percent hurdle rate is explained in my response to ANM/USPS-T10-19.
The average interest rate is exactly that, an average based on borrowings over time, and the cost of capital is based on an estimated borrowing.
- (d) No. There is more to the equation than the hurdle rate, i.e. level of outstanding debt, net income plan, etc. Therefore, lowering this threshold would not change the level of capital spending. Also, please see my response to ANM-T9-58.

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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 of 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?

RESPONSE:

- (a) A workyear is a standard measure of labor resources, sometimes referred to as a full time equivalent. For most categories of employee, one workyear equates to 2080 hours. This is the number of hours for which a full-time employee is compensated in one year (i.e. 40 hours per week for 52 weeks). The exception is part time flexible employees for which a workyear equates to 2000 hours. 2000 hours is used because part time flexible employees are not paid for holidays (i.e., 10 holidays @ 8 hours).
- (b) As reflected in the PFY 1998 Accounting Period 13 National Payroll Hours Summary Report, the total number of overtime hours worked in PFY 1998 was 144.189 million. This includes 4.324 million hours of non-bargaining overtime hours paid at straight time rates. 1998 overtime workyears, which are reported

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ANM/USPS-T9-60. continued

on a GFY basis, were 67,455. Overtime hours paid at straight time rates are not included in overtime workyears. PFY hours are adjusted to account for differences between PFY and GFY prior to the calculation of GFY workyears.

- (c) One major difference relates to the fact that FY 98 average employment for all employees is higher than the number you have referenced which includes only career, casual and transitional employees. To arrive at total employees, Postmaster Leave Replacements, Rural Associates and Reliefs, and Non-bargaining Temporaries must also be included. When these employees are included, average FY 98 employment was 898,755. As explained in my response to ANM/USPS-17 there are also other factors which can result in workyears being different than average employment, one of which is overtime.

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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?

RESPONSE:

- (a) Confirmed.

(b-c) There are numerous variables that impact TFP. These include capacity utilization, level of infra-structure investments, investments to improve service, etc.

Accordingly, it is difficult to provide a comprehensive response to this question.

However, some of the major factors for which I am aware are as follows. The

decade 1971 – 1980 saw considerable mechanization of process that were previously manual and thus provided significant opportunity for productivity growth.

The decade of the 1980's saw the introduction of work sharing discounts that, while improving the productivity of the economy as a whole, transferred some of the

Postal Service's prime productivity improvement opportunities to the mailers. Work sharing discounts continue into the 1990's. As higher and higher levels of

productivity are achieved, incremental

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ANM/USPS-T9-61. continued

improvements become more and more challenging. It is important to note that TFP growth for the three decades in question is 12.2 percent. Multi-Factor Productivity as reported by the Bureau of Labor Statistics grew 13.9 percent during the period 1971 – 1997 – the most recent year for which such data is available. Postal Service TFP grew 11.4 percent during the same period.

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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?

RESPONSE:

The number of motor vehicles owned by the Postal Service at the end of Fiscal Year 1997 and 1998 as reported in the Comprehensive Statement is 205,493 and 202,833.

These values do not include the number of storage vehicles at the end of each year.

For the end of Fiscal Year 1998, there were 2,148 storage vehicles.

- (a) For the beginning of Fiscal Year 1998, 33,563 vehicles, including storage vehicles, were fully depreciated.
- (b) At the end of Fiscal Year 1998, 26,307 vehicles were fully depreciated.

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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.

RESPONSE:

- (a) There have been no studies since the FSM 1000s were installed.
- (b) See my response to (a).
- (c) See my response to (a).
- (d) See my response to (a). I am not aware that the Governors have been provided with information or follow-up information on the FSM 1000s.

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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 ANMIUSPS-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.

RESPONSE:

- (a) There have been no studies since the CSBCSs were installed.
- (b) See my response to (a).
- (c) See my response to (a) assuming this question refers to CSBCSs.
- (d) See my response to (a), assuming this question refers to CSBCSs. I am not aware that the Governors have been provided with information or follow-up information on the CSBCSs.

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ANM/USPS-T9-65. Since the FSM 775/881s 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.

RESPONSE:

A preliminary review of savings has been undertaken for the three FSM-related investments. They are:

- the purchase of 267 FSM 881s;
- the retrofitting of the existing complement of 545 FSM 775s to the "2+2" configuration; and
- the addition of bar code reader systems (FMBCRs) to all 812 FSMs.

Preliminary findings indicated various actions required to improve the performance of this equipment and to capture the savings originally projected for the FSM investments.

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ANM/USPS-T9-65. continued

- (a) The preliminary findings of the three investments indicated a combined ROI of -1.3 percent if corrective actions were not taken, whereas the DARs projected a combined ROI of 93.4 percent.
- (b) No final report has been issued.
- (c) No reports have been submitted to the Board of Governors and I am unaware of any oral briefings.

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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?

RESPONSE:

The current postal agreements contain provisions dealing with layoff protection as described below:

- (a) The agreements with the American Postal Workers Union (APWU), the National Association of Letter Carriers (NALC), and the National Postal Mail Handlers Union all contain identical contract provisions concerning layoffs. Each of these 3 agreements provides for layoff protection for career employees once six years of continuous service have been reached. Once a career employee has reached six years of continuous service, he/she is protected against involuntary layoff. The agreement with the National Rural Letter Carriers' Association provides that no employee in the regular workforce will be laid off on an involuntary basis during the agreement.
- (b) See (a) above.
- (c) I am informed that as of pay period 7, FY 00, a total of 420,845 employees have been afforded layoff protection.

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ANM/USPS-T9-67. The attachment ANM/USPS-T9-8, at page 2, contains a box titled "Fiscal Year 2000 Approved Capital Investment Plan," and it shows a grand total of \$4.0 billion. The attachment to ANM/USPS-T10-17, page 10, contains a box titled "Capital Investment Plan" and it shows a total revised plan of \$3.5 billion for FY 2000, and \$2.7 billion for FY 2001. Exhibit USPS-9F shows purchase of property and equipment of \$3.564 billion in FY 2000, and \$3.746 billion in FY 2001.

(a) Please reconcile:

- (i) the \$4.0 billion, \$3.5 billion and \$3.564 billion figures for FY 2000,
- (ii) indicate the amount budgeted for capital investment spending as of today,
- (iii) (iii) state when the approved Capital Investment Plan or Budget was last revised, and (iv) provide the budgeted or approved figure for capital investment before that revision.

(b) Please reconcile:

- (i) the \$2.7 billion and \$3.746 billion figures for FY 2001,
- (ii) (ii) indicate the amount budgeted for capital investment spending as of today,
- (iii) (iii) state when the approved Capital Investment Plan or Budget was last revised, and
- (iv) (iv) provide the budgeted or approved figure for capital investment before that revision.

RESPONSE:

- (a) (i) The attachment to ANM/T9-8 is the FY 2000 capital plan and the attachment to ANM/USPS-T10-17 is the FY 1999 capital plan. Exhibit USPS-9F reflects capital cash outlays.

Accordingly, the difference between the \$4.0 billion and \$3.5 billion is related to different plans. The \$3.564 billion does not relate to the capital plan, but to cash outlays.
- (ii) As of March 24, 2000, the FY 2000 capital commitment plan is \$3.5 billion.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-67. continued

- (iii) The capital budget was last revised on February 3, 2000.
 - (iv) Prior to the February revision, the approved capital budget was \$4.0 billion.
- (b)
 - (i) The \$2.7 billion represents the capital plan and the \$3.746 billion represents capital cash outlays.
 - (ii) As of March 24, 2000, the FY 2001 capital commitment plan is \$2.3 billion.
 - (iii) The capital budget was last revised on February 2000.
 - (iv) Prior to the February revision, the approved capital budget was \$2.7 billion.

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ANM/USPS-T9-68. Please refer to your response to ANM/USPS-T9-44, in which you discuss the EVA variable pay program.

- (a) Does the acronym EVA stand for "Economic Value Added"?
- (b) Does the EVA variable pay program have any limit on the aggregate amount of the liability that the Postal Service can incur in (i) any one quarter, and (ii) any fiscal year? If so, please specify the maximum possible aggregate amount, and explain the conditions which would give rise to the maximum liability on the part of the Postal Service.
- (c) For each quarter of FY 1998 and 1999, please state the maximum aggregate amount of bonus or incentive payments that the Postal Service could have incurred under the EVA variable pay program, had all conditions for such maximum payment been met.
- (d) For each quarter of FY 1998 and 1999, please state the amount actually incurred under the EVA variable pay program, and indicate what percentage of the maximum those amounts represented.
- (e) What is the highest level of management in the Postal Service that is eligible to receive bonus payments under the EVA variable pay program?
- (f) What is the lowest level of management in the Postal Service that is eligible to receive bonus payments under the EVA variable pay program?
- (g) Can clerks and mailhandlers receive bonus payments under the EVA variable pay program?

RESPONSE:

- (a) EVA stands for "Economic Value Added".
- (b) Under the EVA variable pay program there is no limit on the aggregate amount of the liability that the Postal Service could incur in any fiscal year. The program is an annual program, and the size of any potential incentive is determined by the level of EVA at the end of each fiscal year.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-68. continued

- (c) As stated in (b), the program is an annual program. At the end of FY 1998 and 1999, the maximum aggregate potential amount of incentive payments that the Postal Service could have paid under the EVA variable pay program, had all conditions for such maximum payment been met was \$219.7 million and \$214.9 million, respectively.
- (d) As stated in (b), the program is an annual program. The amount actually incurred under the EVA variable pay program for FY 1998 and 1999 was \$178.8 million and \$170.8 million, respectively. This represents 81.4% of the maximum for FY 1998 and 79.5% of the maximum in FY 1999.
- (e) All non-bargaining employees excluding the Inspection Service and the Inspector General, approximately 84,000 in FY 1999, are covered under the EVA variable pay program. Accordingly, all officers of the Postal Service, including the Postmaster General, is covered by this program.
- (f) See my response to (e). All EAS grades are included in the program, including part-time postmasters.
- (g) Clerks and mailhandlers are not covered under the EVA variable pay program.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-69. Flat sorting productivity has deteriorated at a steep and accelerating rate (see USPS-LR-I-193, Publication 128, page 4). Total Factor Productivity ("TFP") has declined in four out of the last five years. In this docket, the Postal Service is requesting a revenue increase of 6.4 percent even though inflation since the last omnibus rate case has averaged only 4.8 percent (see DMA/USPS-T9-16 and NAA/USPS-T32-24). And many mailers (including all nonprofit mailers) are facing rate increases much bigger than 6.4 percent.

- (a) In these circumstances, how does the Postal Service justify to mailers, who must ultimately pay for all costs, any payments under its EVA variable pay program?
- (b) Why don't the factors used to determine bonus payments in the EVA variable pay program coincide with, and produce, aggregate results that are meaningful to mailers, such as (i) increased flat sorting productivity, (ii) increased TFP, (iii) revenue increases that are less than the rate of inflation, and (iv) rate increases that are correspondingly less than the rate of inflation?

RESPONSE:

- (a) The EVA variable pay program is one component of a pay system for non-bargaining employees. These employees do not receive automatic general pay increases and do not receive COLA increases. Prior to the adoption of this program, both annual general pay increases and COLA increases were granted to these employees. Accordingly, the EVA variable pay program is a "at risk" component of their annual compensation that is tied to operational and financial performance.
- (b) Operational factors are used to determine variable pay incentive payments. Actual EVA incentive credits are contingent upon achieving certain operational and financial goals under three

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NON PROFIT MAILERS**

ANM/USPS-T9-69. continued

dimensions called "Voices" in our *CustomerPerfect!* program.

Operating units must achieve certain targets relating to customer service (Voice of the Customer), the work environment (Voice of the Employee), and financial performance (Voice of the Business) goals. Management believes that over time achievement of these increasingly challenging targets will drive improvements in aggregate, increasing productivity measures such as TFP and keep rates below the rate of inflation.

It should be noted that implementation of rates approved from Docket No. R97-1 was delayed, reducing the inflationary impact to mailers of rate increases. As reflected in my response to DMA/USPS-T9-16, when combining the R97-1 and R2000-1 rate cycle, cumulative inflation is estimated at 14.6% and the average rate increase is 9.5%. One of the features of the EVA variable pay program is that the effect of rate increases is indexed out of the Postal Service's EVA calculation, thereby eliminating credit for rate increases.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NONPROFIT MAILERS**

ANM/USPS-T9-70. Please refer to your answer to ANM/USPS-T9-9. Your answer alludes to the creation of a "new forecasting organization within [the Postal Service's] Finance function in Fiscal Year 1999," but fails to identify any "standards" or "policies" responsive to the question. Please identify every change in standards or policies adopted by the Postal Service since July 1, 1998, to increase the accuracy and reliability of its test.

RESPONSE: The standards and policies referred to in my previous response are "enhancing the accuracy and reliability of the forecasting process."

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NONPROFIT MAILERS**

ANM/USPS-T9-71. Please refer to ANMIUSPS-TS-7(f) and its follow-up, ANM/USPS-T9-34. These questions sought, among other things, any studies, analyses, and other documents that support the asset lives assumed in the Postal Service's cost studies. In response to ANMIUSPS-T9-39, you state:

It is my understanding that service life estimates are developed at the time of the initial equipment buy in conjunction with the criteria defined in my response to ANMIUSPS-T9-7(f). A review of the response to ANMIUSPS-T9-33 which provides a listing of certain assets and their services lives and salvage values should be sufficient for a third party to assess the reasonableness of established asset lives.

- (a) When "service life estimates are developed at the time of the initial equipment buy," are any documents generated that reveal the analysis or assumptions underlying those estimates? If so, please produce them.
- (b) Please confirm that the only information produced in "response to ANM/USPS-T9-33" is Library Reference LR-I-224, Personal Property and Motor Vehicle Asset Life Listing.
- (c) Please confirm that LR-I-224 does not reveal the lives, survivor curves or retirement history actually experienced by the Postal Service for any asset or group of assets.
- (d) Please provide the survivor curve actually experienced by the Postal Service for each line entry in LR-I-224.

RESPONSE:

- (a) I am unaware of any information beyond that which has already been provided.
- (b) Confirmed.
- (c) Confirmed.
- (d) The Postal Service does not utilize a "survivor curve" in the determination of asset lives and depreciation expense.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NONPROFIT MAILERS**

ANM/USPS-T9-72. Please refer to ANM/USPS-T9-36, which asked you to produce the documents requested to ANM/USPS-T9-9, or verify that no responsive documents exist. In response to ANM/USPS-T9-36, you state that "I am unaware that any such documents exist." Please confirm that a search was made for such documents among the personnel and departments most likely to possess them if they exist.

RESPONSE:

Confirmed.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NONPROFIT MAILERS**

ANM/USPS-T9-73. Please refer to ANMIUSPS-T9-44(d). Your answer is "I am unaware of any studies or analyses related to limiting the size of the mail processing work force." Please confirm that a search was made for such documents among the personnel and departments most likely to possess them if they exist.

RESPONSE:

Confirmed.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NONPROFIT MAILERS**

ANM/USPS-T9-74. Please refer to ANM/USPS-T10-28. Your answer is "I am unaware of any studies." Please confirm that a search was made for such studies among the personnel and departments most likely to possess them if they exist.

RESPONSE:

Confirmed.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL USERS, INC.**

APMU/USPS-T-9-1. With regard to the Postal Service's Civil Service Retirement System ("CSRS") deferred liability,

- a. Please explain how the Postal Service's annual principal and interest payments are determined.
- b. Is any change in the CSRS unfunded retirement liability between the base and the test year incorporated in the roll forward model as a cost level change, mail volume effect change, non-volume workload change, additional workday change, cost reduction change, other program change, or in some other way? Please explain your answer.

RESPONSE:

- a. The CSRS Unfunded Liability principal and interest calculations are explained in Chapter VI, Section c., of LR I-127.
- b. As explained on page 15 of my testimony and page 22 of LR I-127, the total year to year change is reflected in the other program column. This is due to the fact that the changes in CSRS Unfunded Liability expense are not easily categorized under any other source of change category.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL USERS, INC.**

APMU/USPS-T-9-2. Please confirm the following statements regarding the Postal Service's expense for amortized CSRS expenses in the base year. If you do not confirm, please explain in full your reason(s).

- a. The base year amortized CSRS expense of \$1,141 million is the sum of the principal payments for liabilities accrued in the years 1972 through 1998 as indicated in USPS-LR-I-127, sheet CSRS_00.xls
- b. The base year amortized CSRS interest expense of \$1,306 million is the sum of the interest payments for liabilities accrued in the years of 1972 through 1998 as indicated in USPS-LR-I-127, sheet CSRS_00.xls.
- c. In each of the years 1972 through 1998, the sum of the interest and principal payments for the year within which the liability was accrued has been the same since the liability was incurred. For example, the expense payment of \$62.991 million for the 1972 liability has remained constant since 1972, and the expense payment of \$41.994 million for the 1973 liability has remained constant since 1973.

RESPONSE:

- a. Confirmed. The FY 98 CSRS unfunded liability expense represents the sum of the annual payments on liabilities accrued in the years FY 72-98. This amount is divided into principal and interest. The principal portion of the base year expense is \$1.141 billion, which is the sum of the principal portions of the annual payments for the years FY 72-98.
- b. Confirmed. The FY 98 interest expense of \$1.306 billion is the sum of the interest portions of the annual payments for the years FY 72-98.
- c. Generally this is true. However, there have been some retroactive adjustments to prior year layers.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL USERS, INC.**

APMU/USPS-T9-3.

- a. Is the Federal Employment Retirement System ("FERS") considered a defined benefit, a defined contribution retirement plan, or something else? Please explain.
- b. How are the FERS payments for the base and test years calculated?

RESPONSE:

- a. FERS is a three-part pension program. It utilizes Social Security as a base, it provides a basic benefit component which is a defined benefit plan and a voluntary thrift savings plan that is a defined contribution plan.
- b. FERS expenses for the base year represent actual FERS retirement expenses. Test year FERS expenses are estimated as part of personnel costs which have two components of change. First, the average personnel cost is calculated which includes the impact any changes in the FERS retirement rate and the change in FERS retirement costs that result from wage changes. Changes in wages are "rolled up to include the impact of FERS retirement costs and other pay related premium pay and benefits. Changes to average personnel cost (with the exception of the workyear mix adjustment) are reflected in the cost level column of the rollforward. This process is described in Chapter VIII of LR I-127. The second way FERS cost changes are reflected is through changes in the number of workyears. Additional personnel resources (workyears) are estimated due to changes in

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL USERS, INC.**

APMU/USPS-T9-3. continued

mail volume, non-volume workload, and all other source of changes categories. Personnel costs are reflected in the rollforward, at the average, for estimated changes in resource requirements. FERS costs are included as part of the average cost of each workyear.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL USERS, INC.**

APMU/USPS-T9-4. Please explain the relationship between the \$849 million CSRS payment for fiscal year 1998 noted on page 67 of the United States Postal Service 1998 Annual Report, and the Postal Service's fiscal year 1998 payroll expenses.

RESPONSE:

The \$849 million reflected on page 67 of the FY 98 Annual Report represents 7% of the basic pay for employees covered by the Civil Service Retirement Fund and is a component of the Postal Service's fiscal year 1998 compensation and benefit expenses.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL USERS, INC.**

APMU/USPS-T-9-5. Please explain the relationship between the \$1,241 million dollar fiscal year 1998 Social Security expense noted on page 67 of the United States Postal Service 1998 Annual Report, and the Postal Service's fiscal year 1998 payroll expenses.

RESPONSE:

The \$1.241 billion reflected on page 67 of the FY 98 Annual Report represents 6.2% of total pay for employees covered by Social Security (up to the limit per employee set by regulation) and is a component of the Postal Service's fiscal year 1998 compensation and benefit expenses.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL USERS, INC.**

APMU/USPS-T-9-6.

For fiscal year 1998, please provide,

- a. The total number of Postal Service annuitants;
- b. The number of new annuitants in fiscal year 1998;
- c. The total number of Postal Service annuitants categorized by year of separation from the Postal Service (i.e., the number who left in 1998, 1997, 1996 and so forth); and
- d. The average number of years of service for current annuitants.

RESPONSE:

- a. As reflected on page 288 of LR I-127, the number of Postal Service CSRS annuitants at the end of FY 98 was 486,535. There are also FERS annuitants for which the Postal Service incurs no additional retirement cost beyond the basic employer contributions made while the employees were working.
- b. As reflected on page 288 of LR I-127, the number of new Postal Service CSRS annuitants in FY 98 was 12,646.
- c. Objection filed.
- d. The base year (FY 98) average years of service for retired annuitants and survivor annuitants is 28.4 and 26.3 respectively. This can be calculated from the total years of service and the number of claimants on page 290 of LR I-127.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL USERS, INC.**

APMU/USPS-T-9-7. How was the \$849 million CSRS payment for fiscal year 1998, noted on page 67 of the United States Postal Service 1998 Annual Report, calculated?

RESPONSE:

The \$849 million shown on page 67 of the United States Postal Service 1998 Annual Report represents the Postal Service share of Civil Service Retirement contributions which represents 7% of the basic pay for employees covered by the Civil Service Retirement Fund . This amount represents the total expense reflected in general ledger account 51212 for GFY 1998.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL USERS, INC.**

APMU/USPS-T-9-8. Please provide the number of current CSRS-covered employees who were employed by the Postal Service in each of the years 1972 through 1998.

RESPONSE:

Objection filed.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL USERS, INC.**

APMU/USPS-T-9-9.

- a. In 1998, the Office of Personnel Management ("OPM") determined that the Postal Service's 1998 liability for deferred CSRS payments was \$835.936 million dollars. (Tayman, USPS-LR- I-127, worksheet CSRS-00.xls) Please confirm that this is the Postal Service's deferred liability for 1998.
- b. Please confirm that OPM provided similar estimates for all previous years, and provide those estimates.
- c. Please provide a copy of the document provided by OPM to the Postal Service in which the Postal Service's liability is estimated for each year from 1992 to the present.
- d. Please describe how OPM calculates the Postal Service's deferred liability.
- e. Please describe how OPM estimates the Postal Service's deferred CSRS liability that was estimated for each year since 1972.

RESPONSE:

- a. Not confirmed. \$836 million is the liability related to pay increases that occurred in FY 98 only. The total liability at the end of FY 1998 was \$26.1 billion.
- b. Confirmed. Comparable numbers for FY 94-97 can be found on pages 273 and 274 of LR I-127. For FY's 72-93 the additional unfunded liability layers added by Fiscal Year are reflected in the table below.

FY	\$ millions	FY	\$ millions	FY	\$ millions	FY	\$ millions
72	1,017	78	809	84	363	90	662
73	678	79	2,637	85	5,625	91	1,883
74	1,117	80	633	86	946	92	1,901
75	537	81	523	87	803	93	731
76	2,880	82	1,825	88	2,654		
77	1,039	83	1,208	89	811		

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL USERS, INC.**

APMU/USPS-T-9-9. continued

- c. The Postal Service calculates the CSRS unfunded liability created by increases in basic pay based on the methodology mutually agreed upon by OPM and the Postal Service. The calculations are submitted to OPM, OPM reviews the calculations, and then bills the Postal Service. A copy of the CSRS unfunded liability calculations provided to OPM for FY 98 are included in Chapter 9 of LR I-270. Calculations for FY's 92-97 used the same basic methodology.
- d. See my response to part c.
- e. See my response to c. The basic methodology has been the same since the mid 1970's.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL USERS, INC.**

APMU/USPS-T-9-10.

Please confirm that each of the following base year expenses constitute benefit expenses for individuals who were not working at the Postal Service in Fiscal year 1998. If you do not confirm, please explain and provide a breakdown of these costs between benefits for employees working at the Postal Service in FY 1998 and non-employees in FY 1998:

- a. Cost Segment 18.3.6, retiree health benefits.
- b. Cost Segment 18.3.7, annuitant life insurance.
- c. Cost Segment 18.3.8, annuitant COLA/principal.
- d. Cost Segment 18.3.9, annuitant protection program.

RESPONSE:

a.-d. Confirmed.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL. USERS, INC.**

APMU/USPS-T-9-11.

Please provide as a library reference the following documents referenced on the spreadsheet "input" that is part of the workbook ACOLA-OO.xls in USPS-LR-I-127.

- a. Office of Personnel Management ("OPM") letter dated September 30, 1998 providing the base year total billing from OPM and the base year COLA layer.
- b. OPM letter dated July 14, 1999 and attachments providing the 15 year amortization factor.
- c. OPM facsimile dated June 14, 1999 providing present value of base year annuitant COLA benefits.
- d. The complete CPI-W data in the DRI/McGraw Hill USSIM Trend 25 year dated November 1999 including a forecast for CPI-W through 2008.
- e. OPM facsimile dated June 14, 1999 that was used to estimate future distribution of base year population.
- f. Document provided by the Postal Service's Employee Relations identifying the the [sic] Postal Service employee retirement rate factor.
- g. Document prepared by the Postal Service's Employee Relations providing the average age of employees retiring in FY 1998.
- h. OPM facsimile dated June 14, 1999 that provided the death rates.
- i. OPM facsimile dated June 14, 1999 that provided the survivor benefit election rate.
- j. The data included in the base year annuitant profile tape provided by OPM at the end of the calendar [sic] year.
- k. OPM bill for Annuitant [sic] Health Benefits presented to the Postal Service in September 1998.
- l. OPM response to memorandum dated May 14, 1999 regarding estimates of premium changes.
- m. Postal Service letter or memorandum that prompted the OPM response noted in Part (1).
- n. OPM facsimile dated June 14, 1999 listing the number of annuitants eligible to participate in FEHB.

RESPONSE:

- a. See Chapter 1 of LR I - 270.
- b. See Chapter 2 of LR I - 270.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL USERS, INC.**

APMU/USPS-T-9-11. continued

- c. See Chapter 3 of LR I - 270.
- d. The complete CPI-W forecast by month for the period January 97 - December 01 is available on page 457-460 of LR I-127. An objection was filed to providing forecasted DRI for the period beyond the test year.
- e. See Chapter 4 of LR I - 270.
- f. The retirement rate factor is calculated by the model. See Chapter 5 of LR I - 270 for the number of retirements in the base year.
- g. See Chapter 5 of LR I - 270.
- h. See Chapter 3 of LR I - 270.
- i. See Chapter 3 of LR I - 270.
- j. See Chapter 6 of LR I - 270.
- k. See Chapter 7 of LR I - 270.
- l. See Chapter 8 of LR I - 270. The Postal Service judgmentally adjusted the OPM forecast for annuitant health benefit premiums from 8.3% to 9.4% for FY 2000, and from 8.2% to 9.7% for FY 2001. The actual average change in annuitant health benefit premiums for FY 2000 was 9.4%.
- m. See Chapter 8 of LR I - 270.
- n. See Chapter 3 of LR I - 270.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL. USERS, INC.**

APMU/USPS-T-9-12.

Worksheet Liability - COLA in workbook Acola-00.XLS in Postal Service Library Reference LR-I-127 lists the annual experience payment for annuitant CSRS COLAS for the years 1980 through 2001. Please provide documentation identical to that contained in workbook ACOLA_00.xls in USPS-LR-I-127 that describes how the annuitant COLA liability expense for the years 1984 through 1997 are calculated.

RESPONSE:

Detailed calculations of COLA liabilities and expenses in the same format as that produced by the model do not exist. The model is used to develop estimates. The historical calculation of actual liabilities and payments was done by OPM. OPM does not provide the Postal Service with the detailed calculations. The Postal Service is provided with the liability and payment required in the form of a bill.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL. USERS, INC.**

APMU/USPS-T-9-13.

Please provide a narrative description of the methodology used to calculate item 5 **"USPS SHARE of FEHB PREMIUMS in FUTURE YEARS APPORTIONED FOR USPS SERVICE AT ESTIMATE YEAR RATE"** contained in worksheet, Calculations-Health Ben., workbook ACOLA_00.xls in USPS-LR-I-127.

RESPONSE:

As explained on pages 285 and 286 of LR I-127, USPS Annuitant Health Benefits are apportioned so that costs related to military service and service that occurred prior to July 1, 1971 is excluded. Average health benefit premiums for FY 1999, 2000 and 2001 were first estimated at the rate of apportionment that was applied in the base year. These amounts were then adjusted upward, to account for the fact that the portion of Postal annuitant health benefit premiums that will apply to the Postal Service in the estimate years will increase.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL. USERS, INC.**

APMU/USPS-T-9-14.

Please provide a narrative description of the methodology used to calculate item 6
"CALCULATION OF ANNUITANT HEALTH BENEFIT APPORTIONMENT FACTOR"
contained in worksheet, Calculations-Health Ben., workbook ACOLA_00.xls in USPS-LR-
I-127.

RESPONSE:

This section calculates the estimated apportionment factor for FY's 1999, 2000,
and, 2001, and the percentage change over the base year apportionment factor
for each estimated apportionment factor

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL. USERS, INC.**

APMU/USPS-T-9-15.

Please see note "a" in the section "II. Notes on Updating the Model for Base Years Other than 1994" in worksheet "Documentation" in the workbook ACOLA_00.xls in USPS-LR-I-127 and confirm that the initial base year for which the model was used was 1994. If you do not confirm, please explain.

RESPONSE:

Confirmed. However, please note that the FY 94-97 liability tables reflected on pages 299-301 of LR I-127 are simply historical data and the detailed data are not required to estimate FYs 99-01.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL. USERS, INC.**

APMU/USPS-T-9-16.

Please explain the methodology and provide the calculation used to estimate the 1998 Civil Service Retirement System ("CSRS") retirement rate of 4 percent that is included in section 5, employee retirement rate factor of worksheet "Input" in the workbook ACOLA_00.xls in USPS-LR-I-127.

RESPONSE:

As explained in the notes on page 288 of LR I-127, the retirement rate is calculated by dividing the number of CSRS employees who retired during the base year (12,646) by the population of employees covered by the CSRS at the beginning of the base year (327,968), rounded up to the nearest full percent.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL. USERS, INC.**

APMU/USPS-T-9-17.

Please describe the methodology and provide the calculation used to estimate the employee retirement rate factor of 1.14 percent that is included in section 5, employee retirement rate factor of worksheet "Input" in the workbook ACOLA_00.xls in USPS-LR- I-127.

RESPONSE:

The methodology used to calculate the retirement rate factor of 1.14% is described in Section 5 on page 288 of LR I-127. The calculation along with additional methodology notes are shown in Section II a. on page 308 of LR I-127.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL. USERS, INC.**

APMU/USPS-T-9-18.

- a. Please indicate the whether the calculations contained in the workbook ACOLA_00.xls in USPS-LR-I-127 are audited by the Postal Service's external auditor, the inspector general, OPM, and/or other government agencies.
- b. If a government agency other than OPM audits the calculation contained in ACOLA_00.xls in LR I-127, please identify the agency.
- c. Please provide any audit reports, documents or memorandum relating to audits of the calcuations [sic] of the information contained in ACOLA_00.xls in USPSD[sic]-LR-I-127.

RESPONSE:

a.-c. The estimates generated by the subject model pertain to future years and have not been audited.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL. USERS, INC.**

APMU/USPS-T-9-19.

Please provide a copy of the following documents referenced on the spreadsheet "input" that is part of the workbook CSRS-QO.xls in USPS-LR-I-127:

- a. Report - Civil Service Deferred Retirement Liability, September 30, 1998;
- b. Calculation attachment to FY 98 OPM letter (Report AAN 150PS);
- c. Documents identified as NPHSR Ref. Nos. 1620 and 1630, ORPES: A/P13 FY 1998;
- d. OPM facsimile dated June 14, 1999 that provided the Unfunded liability factors;
- e. Document provided by OPM providing the amortization factors identified in item 6; and
- f. Document prepared by OPM providing [sic] the interest rates identified in item 7.

RESPONSE:

- a. See chapter 9 of LR I - 270. Please note that the CSRS unfunded liability and annual payment were revised subsequent to the receipt of the OPM bill on 9/30/98. Based on OPM's instructions, the additional FY 98 amount was paid along with the FY 99 bill.
- b. See chapter 9 and 12 of LR I - 270.
- c. See chapter 10 of LR I - 270.
- d. See chapter 3 of LR I - 270.
- e. See chapter 11 of LR I - 270.
- f. See chapter 11 of LR I - 270.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL USERS, INC.**

APMU/USPS-T-9-20.

In the worksheet "calculations," within section 2, Total Increase in Basic Pay in the workbook CSRS_00.xls in USPS-LR-I-127, there is an increase to Basic Pay No. 1 and Basic Pay No. 2 for only City Carriers and an increase in Basic Pay No. 3 for Mail Handlers, Rural Carriers, City Carriers and Clerks. Please explain why only City Carriers have an increase in all three types of Basic Pay.

RESPONSE:

The city carrier labor contract covers FY 2001 and provides for COLAs on 3/10/01 and 9/8/01 which are reflected as Increases to Basic Pay Nos. 1 and 2 in FY 2001. At the time the estimates were developed, labor contract provisions for all other crafts did not impact FY 2001 due to the expiration dates of these contracts. Consequently the pay assumption used was based on the estimated change in the Employment Cost Index (ECI) less one percent. The FY 2001 ECI related estimates for all crafts except city carriers were reflected under Increase to Basic pay No. 3. For additional details on basic pay assumptions, see page 363 of LR I-127.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL. USERS, INC.**

APMU/USPS-T-9-21.

In the worksheet "calculations," within section 2, Total Increase in Basic Pay in the workbook CSRS_00.xls in USPS-LR-I-127, there is no increase in any type of Basic Pay category for all other bargaining and non-bargaining categories.

RESPONSE:

All other bargaining employees are included with clerks. Please refer to Section 1b. on page 263 of LR I-127. Non-bargaining employees are not scheduled or assumed to receive any increases in the types of basic pay which result in the creation of an unfunded liability (i.e. general pay increases and COLA). Non-bargaining wage changes are limited to merit increases and variable pay lump sums, neither of which results in a CSRS unfunded liability.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL. USERS, INC.**

APMU/USPS-T-9-22.

Please confirm that the annual increase in the CSRS unfunded retirement liability that is calculated in CSRS_00.xls in USPS-LR-I-127, only accounts for increases in pay of city carriers, rural carriers, clerks, and mailhandlers. If you do not confirm, please explain. Please explain why no Basic Pay increase estimates are associated with these labor categories in this worksheet.

RESPONSE:

Please see my response to APMU/USPS-T-9-21.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL. USERS, INC.**

APMU/USPS-T-9-23.

- a. Please confirm that the 1998 payment in the CSRS unfunded retirement liability that is calculated in CSRS-00.xls in USPS-LR-I-127, worksheet Calculations in section 6, Annual Payment/Expense is \$56,029,000 rounded to the thousand dollar amount. If you do not confirm, please explain.
- b. Please confirm that 1998 expense for the CSRS unfunded retirement liability that is presented in Meehan workpaper A-2 pp. 123-124 is \$64.179 million. If you do not confirm, please explain.
- c. Please explain the difference in the two figures.

RESPONSE:

- a. Not confirmed. The estimated amount of \$56,029,000 reflected in section 6 is for FY 99, not FY 98. The amount reflected in this model for FY 98 current year costs is \$51,789,000.
- b. Confirmed.
- c. The total FY 98 principal cost of \$1,141,085,000 is correct. The correct amount for the current year portion is \$51,789,000. The difference should be reflected as a prior year cost.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL. USERS, INC.**

APMU/USPS T-9-26.

Workbook ACOLA_00.xls in USPS-LR-I-127, worksheet Calculations - COLA, contains (i) Table 6., Calculation of Weighted Average Decay Rates for New Annuitants, and (ii) Table 7, Calculation of Annuitant Survivor Addition Rates. Please provide data to complete these tables for a 30 year period, rather than the 10 years set out in the worksheet.

RESPONSE:

See Chapter 3 of LR I -270.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL USERS, INC.**

APMU/USPS T-9-27.

Workbook ACOLA_00.xls in USPS-LR-I-127, worksheet Input, contains Table 7, Decay Rates for New Annuitant Layers. Please provide data to complete this table for a 30 year period, rather than the 10 years set out in the worksheet.

RESPONSE:

See Chapter 3 of LR I -270.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL. USERS, INC.**

APMU/USPS T-9-28. Section 10 of worksheet Input of workbook ACOLA_00.xls of LR-I-127 lists the number of annuitants and the total number of years of Post 1971 Civilian Service (USPS) for both "retired annuitants" and "survivor annuitants."

- a. Please confirm that the average number of Post 1971 civilian service (USPS) years for retired annuitants is 13.94 years. (Post 1971 civilian service (USPS) total years divided by No. of Claimants.) If you do not confirm, please explain and provide the correct figure.
- b. Please confirm that the average number of Post 1971 civilian service (USPS) years for retired annuitants is 8.85 years. (Post 1971 civilian service (USPS) total years divided by No. of Claimants.) If you do not confirm, please explain and provide the correct figure.
- c. Please provide an estimate of the average number of years of service for all retired annuitants and an estimate of the average number of years of service for all survivor annuitants for the cohort of retired and survivor annuitants in the years 1971 through 1997.
- d. Please provide an estimate of the average number of years of service for all retired annuitants and an estimate of the average number of years of service for all survivor annuitants for the new retired and survivor annuitants in the years 1971 through 1997.

RESPONSE:

- a. Confirmed.
- b. Not confirmed. The average years of Post 1971 civilian service related to survivor annuitants is 8.85.
- c. Objection filed.
- d. Objection filed.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-3. For each year in Table 1, please provide the book value of the real estate that the Postal Service owns. Please also provide an estimate of the market value of the real estate.

RESPONSE:

Please refer to the attached workpaper for the book value of Postal Service buildings. I have no basis to estimate the market value of USPS land and buildings.

Book Value of USPS Real Property
Dollars in Millions

Attachment to Response
to DMA/USPS-T9-3.

Fiscal Year	Real Property		Accumulated Depreciation	Book Value	Source
	Buildings	Land			
FY 89	6,955	1,210	1,830	6,335	Docket R90-1, USPS Exhibit 15B
FY 90	7,434	1,302	2,017	6,719	USPS Financial Records
FY 91	8,401	1,492	2,230	7,663	Docket R94-1, USPS Exhibit 8B
FY 92	9,481	1,649	2,466	8,665	Docket R94-1, USPS Exhibit 8B
FY 93	9,951	1,715	2,742	8,924	Docket R94-1, USPS Exhibit 8B
FY 94	11,280	1,901	3,026	10,155	Docket R97-1, USPS LR H-12 Ch. 13
FY 95	11,917	1,997	3,359	10,555	Docket R97-1, USPS LR H-12 Ch. 13
FY 96	12,923	2,107	3,717	11,314	Docket R97-1, USPS LR H-12 Ch. 13
FY 97	13,911	2,178	4,161	11,928	Docket R2000-1, USPS LR I-127 Ch. 13
FY 98	15,123	2,286	4,559	12,850	Docket R2000-1, USPS LR I-127 Ch. 13
FY 99	16,513	2,407	5,023	13,897	Docket R2000-1, USPS LR I-127 Ch. 13

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-4. Speaking of the period 1989-1998 on page 3 of your testimony, you say "Despite the fact that this ten year period includes this unprecedented four-year string of net incomes and the three highest net incomes ever earned by the Postal Service, a cumulative \$346 million net loss was incurred. This means the Postal Service failed to make ground against its prior years' losses recovery objective during the last decade." Please assume that net income for FY 2000 is the 66 million that the Postal Service has estimated. On this assumption, please provide the net loss or gain for the ten-year period 1991 – 2000. Did equity increase in this period?

RESPONSE:

Assuming a net income of \$65.603 million for FY 2000, the ten year period FY 91-2000 would have a net income of \$897.480 million. I would also note that equity would still remain negative through FY 2000 under this assumption and most importantly, cumulative losses are still \$2.414 billion (see Table 53 on page 48 of my testimony).

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-5. Table 5 on page 6 of your testimony compares total assets and liabilities of the Postal Service. Are all assets of the Postal Service valued at book value? For real estate, does market value exceed book value?

RESPONSE:

Yes. All assets are valued at book value. As indicated in my response to T9-3, I have no basis to estimate market value.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-6. On page 7 of your testimony you say, "As reflected in Table 6, key national indicators of service performance from the Residential Customer Satisfaction Measurement System have all shown improvement since Quarter II of Fiscal Year 1994. In general, the attributes of customer satisfaction which make up the Residential Customer Satisfaction Measurement System have consistently improved at the same time unprecedented financial results have been achieved." What are "the attributes of customer satisfaction" which make up the Residential Customer Satisfaction system? What percentage of the revenues of the USPS do residential customers pay? By business mailers? Please provide any information or data you having bearing on the satisfaction of business mailers. Do you think business mailers are pleased that the USPS has proposed rate increase that are larger than the inflation rate?

RESPONSE:

The attributes of the customer satisfaction measurement system focus on the customer's experience with our services, products, and personnel. The measurement includes specific questions on timely delivery, reliability, value of products and services, and overall satisfaction. The information requested pertaining to the satisfaction of business mailers can be found on page 48 of the "1998 Comprehensive Statement on Postal Operations". Similar data for FY 97 can be found on page 46 of the "1997 Comprehensive Statement on Postal Operations".

I am not aware of any source for the percentage of revenues that residential and business customers pay. Regarding the last part of this question, I would assume that all mailers would prefer rate increases below the rate of inflation.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-7. On page nine of your testimony you say, "Estimated expenses of \$62.400 billion used in this filing were within 0.06 percent of the actual FY 1999 expenses of \$62.363 billion." Does this mean that costs for 1999 were \$36 million less than estimated by the roll forward program?

RESPONSE:

No. The \$62.363 billion reflected on page 11 of my testimony as actual FY 99 expenses should be \$62.392 billion. This is a difference of only \$8 million or .01 % from the amount estimated by the rollforward process. See errata filed on January 28, 2000.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-8. Table 10 on page 13 of your testimony shows cost reductions saving of \$475,374 for Clerks and Mailhandlers in the Test Year. How many labor hours does this represent?

RESPONSE:

Please note that Table 10 is on page 14 of my testimony. As reflected in USPS LR I-127, Chapter Va., page 197, estimated clerk/mailhandler workhour savings for the test year are 16.975 million.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-9. Table 10 on page 13 of your testimony shows cost reductions saving of \$151,374 for Carriers in the Test Year. How many labor hours does this represent?

RESPONSE:

Please note that Table 10 is on page 14 of my testimony. As reflected in USPS LR I-127, Chapter Va., page 197, estimated city carrier workhour savings for the test year are 5.123 million.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-10. On page 15 of your testimony you say, "Reduced program expense reflects management's commitment to control costs. There is long term risk, however, in this strategy, as it requires deferral and cancellation of programs that would otherwise be planned to improve the quality of service, increase responsiveness to customers, and build and maintain our infrastructure." Please describe all deferrals and cancellations caused by cost control. Are there also risks in failing to control costs? If so, please describe them.

RESPONSE:

Please note that the quoted statement appears on page 16 of my testimony. My testimony and the Postal Service's filing in this case directly recognize that there are risks in failing to control costs and address those risks by severely curtailing cost growth. As I noted at page 16 of USPS-T-9, the "Other Programs" expense growth in the last rate case was \$3.7 billion over the two years forecast in the last rate case, compared to the \$1.5 billion expense growth projected in this case over Fiscal Years 2000 and 2001. I further noted that the "Other Programs" expense growth in the current case is concentrated in corporatewide personnel costs, depreciation and interest expense. Corporatewide personnel cost growth is primarily driven by factors such as inflation, actuarial changes and labor contracts that are not subject to management control. Depreciation and interest expense are primarily driven by the Postal Service's capital program, which funds productivity improvements and maintenance and expansion of infrastructure. By limiting "Other Programs" cost growth to expenditures that are driven by exogenous factors, and expenditures

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-10. continued

are needed to maintain ongoing operations or to achieve cost savings, the Postal Service has reduced its exposure to the risks of not controlling costs.

Specific operating and capital programs that were deferred or cancelled include the following:

1. Associate Office Infrastructure – 524 Phase I sites were deferred to Phase II, completion of Phase II was deferred, and the Phase II target was reduced from 8,376 to 7,635.
2. Corporate Call Management – The implementation schedule has been extended to nearly two years. Full national coverage will now be achieved in FY 2004 instead of FY 2002.
3. International Service Centers – Eliminating future funding cancelled plans to activate the Dulles International Service Center.
4. Point of Service – Deployment schedule deferred 18 months.
5. Remitco – Permanently closed.
6. Miscellaneous Headquarters Programs – expenditures reduced by \$130 million in FY 2000.
7. Priority Mail Processing Centers – No facility deployments beyond existing geographic coverage.

The principal risks associated with failing to control costs relate to not serving customers well, weakened financial performance and reduced competitiveness.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-11. On page 15 of your testimony you say "Clerk overtime is assumed to continue at the FY 1998 level through the Test Year." How much overtime was there in 1998? What is the cost of clerk overtime in the Test Year? In 2000? Given the increased productivity of systems described by witness Kingsley, why is overtime not declining.

RESPONSE:

The statement to which you have referred can be found on page 17. The statement means that the level of overtime workyears as a percentage of total workyear and work related workyears, is assumed to remain at the FY 1998 level through the test year. While the productivity improvements discussed by witness Kingsley impact the total number of workyears, they do not affect the mix of workyears. A variety of factors, including operational and scheduling constraints and the flexibility needed to effectively manage fluctuations in workload, requires a certain amount of overtime. I believe that the assumptions regarding overtime levels are reasonable and appropriate.

The table below shows the amount of clerk overtime workyears for FY 1998 through the Test Year. The absolute number of total, work related, and overtime clerk workyears increases slightly in FY 99, and then declines through the test year. The proportion of overtime workyears to the other totals remains constant. To see the impact of cost reductions and other sources of change on total workyears please refer to Exhibit USPS-9P.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-11. continued

	FY 1998	FY 1999	FY 2000	FY 2001 BR	FY 2001 AR
Total Workyears	324,745	326,762	326,421	322,450	317,519
Work Related Workyears	282,354	283,891	283,660	280,494	276,151
Overtime Workyears	25,615	25,959	25,932	25,624	25,252
Overtime as a % of Work Related Workyears	9.1%	9.1%	9.1%	9.1%	9.1%

Source: USPS LR I-127, Chapter 10e.

Note: FY 98 excludes Special Delivery

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-12. When were the inflation estimates in Table 14 prepared?
Has DRI provided you with more recent estimates? If so, please provide them.

RESPONSE:

Please refer to page 21, line 8 of USPS T-9. The reference of "1199"
translates to "November 1999". DRI updates its forecasts periodically and makes
this information available to its subscribers. DRI can be contacted at:

Standard & Poor's DRI
1200 G St. NW
Washington, DC 20005

Phone: 202- 663-7600

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-13. On page 42 of your testimony you say, "To achieve our net income plan for the year required significant cost cutting. This was in addition to funding greater than expected costs associated with the year 2000 computer transition." Is "year 2000 computer transition " synonymous with Y2K? If not, please explain how it is different. How much did the Postal Service spend on year 2000 computer transition in FY 98? In FY 99? What is the estimated cost for year 2000 computer transition in FY 00? In TYAR?

RESPONSE:

Yes, "year 2000 computer transition" is synonymous with Y2K. The Postal Service incurred costs of approximately \$88.6 million in FY 98 and \$267.0 million in FY 99 for Y2K. The FY 00 estimate for Y2K costs included in this filing is \$42.6 million. There are no costs estimated for Y2K in TYAR in this filing.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-14. Please refer to the first paragraph of page 27 of LR-I-126:

a. Please confirm that this paragraph implies that from FY 1999 to FY 2000 the rate of growth in the costs for the "Year 2000 Software" program will outstrip inflation by \$1.558 million.

b. Please confirm that there is no "Year 2000 Software" cost reduction or other program adjustment for FY 2001.

Please confirm that costs for "Year 2000 Software" are in cost Segment 16. If they are not, please provide the cost segment and component where they are.

RESPONSE:

a. Not confirmed. The paragraph was in error and has been deleted.

See errata filed on January 28, 1999.

b. Not confirmed. See my response to part a.

Virtually all the costs related to the "Year 2000 software" program are in cost segment 16.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-15. In discussing the size of the contingency you selected, on page 42 you state, " The outlook for the future is even more challenging. Volume growth is below historical norms and projections of Fiscal Year 2000 require workyears be held at the Fiscal Year 1999 level while mail volume and the delivery network continue to grow. In the Test Year after rates, a 1.5 percent workyear reduction is projected. It will be a challenge to achieve this reduction. Many other uncertainties exist and there also appear to be significant new pressures on salary and benefit cost levels. " Please confirm that volume growths below historic norms have been accounted for in your projection of both Test Year costs and revenues. Please confirm that mail volume and delivery network growth have been accounted for in your projection of both Test Year costs and revenues. Please describe the "other uncertainties" you cite. Please confirm that you projection of Test Year costs takes into account higher levels of employee benefits than the USPS currently experiences.

RESPONSE:

Please note that the quoted statement appears on page 43 of my testimony. I confirm that estimated volume and delivery network changes and changes in the level of costs in employee benefits have been accounted for in the estimation of test year revenues and expenses. A number of significant uncertainties are discussed specifically on pages 43 and 44 of my testimony. There is also the uncertainty surrounding totally unknown adverse events against which the Postal Service must be protected.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-16. In discussing the size of the contingency you state, "It also keeps the cumulative rate increases over the last two rate cycles below the cumulative rate of general inflation." Please provide calculations supporting your assertion that cumulative rate increases are below the rate of general inflation.

RESPONSE:

As reflected in the Table below, prices as measured by CPI-U (All Urban Consumers) rose 9.3% from January 1995 through January 1999 and are projected to rise an additional 4.8% from January 1999 through January 2001. This produces a cumulative 14.6% for the combined periods. The rates filed in this case request an average price increase of 6.4% and the rates from R97-1 averaged 2.9%. The cumulative rate increase would then be 9.5%, which is a full five percentage points below inflation. [9.5% is the geometric product of 2.9% and 6.4%, i.e., $.094 = (1.029)(1.064) - 1$.]

Rate Cycle	Time Period	Cumulative Inflation	Average Rate Increase	CPI-U
R94-1 to R97-1	Jan 95 – Jan 99	9.3%	2.9%	450.30
R97-1 to R2000-1	Jan 99 – Jan 01	4.8%	6.4%	492.30
R97-1 to R2000-1	Jan 95 – Jan 01	14.6%	9.5%	516.13

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-17. Please describe all segments for your market in which foreign postal operations are competing. Please provide an estimate of how much of your revenues they have captured. Please provide an estimate of how much of your market they will have captured in the Test Year.

RESPONSE:

A number of foreign postal administrations have been competing aggressively against the USPS in the printed matter and letter mail segments in the United States. They also compete in the small packet market. In the parcel market, the postal competition has been minimal to date but we expect this to grow.

Following are the major postal competitors:

- **Royal Mail (UK)**
Royal Mail is incorporated in the US and is headquartered in New York, NY. It operates 13 sales offices around the country through which it markets worldwide distribution services.
- **Deutsche Post AG (Germany)**
The US headquarters of Deutsche Post is located in Fairfax, VA. Deutsche Post purchased two of the leading international mailing companies in the US, Global Mail of Sterling, VA and Yellowstone International of Elk Grove Village, IL. In addition, it purchased one of the country's largest freight forwarding companies, Air Express International. Deutsche Post provides worldwide distribution services.
- **TPG (Netherlands)**
TPG is a unit of PTT Post and is the result of the consolidation of TNT and Interpost. Although its organizational structure has evolved over the years, the Dutch postal administration has been active in the US market longer than any other competitor, providing a variety of worldwide distribution and value-added services.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-17. continued

- **Scandinavian Publication Distribution Service - SPDS (Denmark)**
This company, headquartered near Newark, NJ, has traditionally marketed its worldwide distribution services through wholesalers.
- **Canada Post Corporation**
Canada Post offers its Canadian distribution services directly to US customers through sales representatives that cover assigned geographic territories around the country.

Other foreign postal administrations known to have sales representation in the US include Swiss Post (Switzerland), La Poste (France) and Nordic.

I am unable to calculate how much Postal Service revenue has been or will be diverted as a result of foreign postal administration initiatives.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-18. Please explain how "the increasingly competitive environment in which the Postal Service operates" requires a higher contingency. Might a business in an increasingly competitive environment find ways to reduce their costs so they can remain competitive?

RESPONSE:

I did not say that an "increasingly competitive environment " requires a higher contingency. I did say that "the increasingly competitive environment in which the Postal Service operates" "further supports" the judgment that a contingency closer to the historical norm is warranted.

The purpose of the contingency provision is to provide a cushion for adverse events. The rapidly changing and increasingly competitive environment since the last rate case filing makes the Postal Service's financial performance more uncertain. At the same time, the Postal Service, like other businesses, is finding ways to control costs so that it may maintain its competitiveness. As an example of this, please refer to USPS-T-9 at page 16 where I describe the drop in the growth of "Other Programs" expense and indicate that this cost growth has been more than offset by cost reduction programs. So yes, I agree that businesses in increasingly competitive environments might find ways to decrease costs in order to stay competitive and I also believe the Postal Service is doing that.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION**

DMA/USPS-T9-22. Please refer to your spreadsheet DepcalOO. Column 0 of that spreadsheet is labeled "Column N Retired Depreciation."

- a. Please provide the source for the entries in that column.
- b. Please explain what is meant by "Retired Depreciation."

RESPONSE:

a. The sources of retired depreciation data are the Vehicle Management Accounting System; the Personal Property Accounting System; and the Real Property Accounting System.

b. Retired depreciation is the expense that occurs in the year in which an asset becomes fully depreciated. These amounts are reduced from the ongoing base because a fully depreciated asset no longer generates depreciation expense.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION**

DMA/USPS-T9-23. In response to DMA/USPS-T9-7, f, in R97-1 which asked "What is the useful life of the equipment in a. through e. above", you said, 'The depreciation periods used by the Postal Service are based on the estimated useful life of the equipment.'

- a. Is your response from that case also valid for R 2000-I?
- b. Please confirm that this means that the Postal Service uses depreciation periods that are equal to the estimated useful life of the equipment. If you do not confirm, please explain the relationship between the depreciation period and the useful life of the equipment.

RESPONSE:

- a. The response to the question referenced is valid for this case.
- b. Please see the response to ANM/USPS-T9.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION**

DMA/USPS-T9-25. Please provide the account number and the account code where Y2k expenses were booked in 1998.

RESPONSE:

Y2K expenses were booked to the following account numbers in FY 1998. The account code for each account number can be found in Chapter 2 of LR-I-127.

51101181	51219183	51401130	51413130	52331998	52454000
51101183	51221181	51401144	51413182	52332000	54101000
51103181	51221183	51401147	51413183	52334000	54146000
51202181	51222181	51401148	52101000	52339000	54165000
51202183	51222183	51401172	52104000	52342000	54165998
51211181	51226181	51401181	52105000	52359000	54231998
51211183	51226183	51401182	52105998	52361000	54233000
51212181	51227181	51401183	52111000	52363000	54242000
51212183	51227183	51403101	52171000	52367000	54330000
51214181	51239183	51403103	52171998	52411000	54406000
51214183	51243183	51403130	52172000	52418000	54406998
51215181	51247183	51403172	52178000	52419000	54411000
51215183	51401101	51403182	52179000	52419998	54411998
51216181	51401103	51403183	52270000	52431000	54620000
51217181	51401104	51404182	52321000	52435000	56315000
51217183	51401112	51404183	52322000	52436000	56605000
51218181	51401123	51411183	52325000	52438000	56605998
51218183	51401125	51413103	52325998	52439000	56617000
51219181	51401127	51413127	52331000	52453000	56621000

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION**

DMA/USPS-T9-27. Please confirm that account 54610 shows that the Postal Service realized a gain of \$14,541,188 on sales or trades of land and buildings in 1998. Please provide a spreadsheet showing the price received in each sale or trade of land and buildings and the book value at the time of trade or sale.

RESPONSE:

Account 54610 reflects a gain on sales of land and buildings in FY 1998 of \$14,541,188 prior to a \$4,000,000 audit adjustment that reduced the gain. This audit adjustment was recorded to remove a portion of cash advances received on pending sales. Accordingly, the realized gain on sales of land and buildings in FY 1998 was \$10,541,188. The price received and net book value on each sale is provided in the attachment.

Attachment to Response
to DMA/USPS-T9-27

FY 98 - PROPERTY SALES			
P.O. NAME	Cash From Sale	NBV	
Florahome, FL	\$26,483.00	\$26,380.00	
Mansfield, TX	185,000.00	244,579.00	
Spanish Fork, UT	230,000.00	5,000.00	
Crystal City, MO	43,500.00	285,366.00	
Dallas, TX	9,000.00	89,255.00	
Hamburg, IL	5,051.00	12,666.00	
Edgewater, NJ	4,000,000.00	1,033,479.00	
Baxley, GA	60,000.00	5,000.00	
Ballwin, MO	540,000.00	480,096.00	
Belen, NM	110,000.00	128,503.00	
Spencer, IA	72,500.00	315,947.00	
Brownsburg, IN	178,250.00	72,499.00	
Greenville, IN	38,600.00	14,830.00	
Cedar City, UT	300,000.00	27,137.00	
El Paso, TX	1,950,000.00	1,653,052.00	
Harrison, AR	388,000.00	29,017.00	
Danville, IN	135,000.00	8,000.00	
Georgetown, KY	150,000.00	186,324.00	
Canton, GA	350,000.00	379,336.00	
Birmingham, AL	412,000.00	335,180.00	
Philadelphia, PA	115,000.00	30,000.00	
San Bernardino, CA	564,650.00	1,490,888.00	
San Diego, CA	500,000.00	223,368.00	
Sylvester, GA	123,600.00	8,000.00	
Batesville, MS	65,000.00	8,000.00	
Cleveland, OH	651,500.00	120,167.00	
Monicello, AR	105,730.00	4,000.00	
Birmingham, AL	325,000.00	724,808.00	
Minneapolis, MN	1,450,000.00	2,100,647.00	
Vian, OK	25,000.00	35,732.00	
Spearfish, SD	191,000.00	7,000.00	
Centerville, UT	260,000.00	220,209.00	
Marion, VA	80,000.00	11,000.00	
Spokane, WA	3,885,000.00	2,067,602.00	
Mallory, NY	5,000.00	31,005.00	
Nanek, AK	20,000.00	3,013.00	
Western Region, CA	12,072,562.50	8,189,680.00	
Pontotoc, MS	78,000.00	11,000.00	
Sylvania, OH	170,000.00	8,000.00	
SUB TOTALS	\$ 29,850,426.50	\$20,562,765.00	\$ 9,287,661.50
CASH ADVANCES			4,832,560.17
TOTAL			\$ 14,120,241.67
PARTIAL LAND SALES			
P.O. NAME	Cash From Sale	NBV	
Atlanta, GA	50,000.00	\$70,735.00	
Kansas City, MO	20,069.59	\$34,492.00	
Windsor Locks, CT	400.00	\$573.00	
Omaha, NE	38,785.00	\$37,205.00	
Milton, FL	10,450.00	\$5,784.00	
New Jersey, NJ	550,000.00	\$99,968.00	
SUB TOTALS	\$ 669,704.59	\$ 248,758.00	\$ 420,946.59
GRAND TOTALS	\$ 30,520,131.09	\$ 20,811,523.00	\$ 14,541,188.26

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION**

DMA/USPS-T9-29. Please provide a spreadsheet showing the book valuation for all buildings that the Postal Service owns. For each building, please also indicate the address of the building, its square footage, and the year the Postal Service acquired it.

RESPONSE:

See LR-I-205, NBV of Postal Owned Buildings.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION**

DMA/USPS-T9-31. Please provide both the USPS Total Factor Productivity Index for all fiscal years from 1971 to the present and the Labor Productivity Index.

RESPONSE:

Please see the attachment.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION**

DMA/USPS-T9-34. Please refer to LR-I-127, worksheet "DepcalOO.xls", which references the FY 1998-2003 Capital Investment Plan. Please provide the FY 1998-2003 Capital Investment Plan.

RESPONSE:

A copy of the FY 1998 – 2002 Capital Investment Plan was provided in response to ANM/USPS-T9-8.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-35. Please confirm that there are no cost reduction programs affecting C/S 16 in FY 2000 or TYAR. If you do not confirm, please provide details.

RESPONSE:

There are no cost reduction programs affecting C/S 16 in FY 2000 or TYAR reflected under the cost reduction column. However, there are \$35 million of cost segment 16 cost reductions reflected under the other program column for FY 2000. These cost reduction programs, which are labeled "absorb additional inflation", can be found on page 200 of LR I-127.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-37. Please refer to your response to ANM/USPS-T9-7. Please explain how the six factors you list provide the basis for determining asset lives.

RESPONSE:

It is my understanding that the six factors are general guidelines that are judgmentally employed in determining asset lives. In general, USPS records of the same or similar type of assets and postal expert opinion are used to determine equipment lives; industry standards are used to determine facility lives; and, manufacturer's recommendation, gain/loss on sale, and maintenance standards are used to support motor vehicle life estimates. This activity is subject to annual audit and review by internal auditors and our independent CPA firm.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-38. Please provide all information you have on manufacturer's recommendations concerning asset lives.

RESPONSE:

Please see my response to ANM/USPS-T9-34.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-39. Please provide all information you have on industry standards pertaining to asset lives.

RESPONSE:

I am informed that the last study conducted on asset lives in relation to industry standards was completed with our auditors in the late 1980's. We were unable to locate a copy of this study. It is further my understanding that our auditors review our service life estimates as part of their audit process and that they would inform us of any inconsistencies with industry standards.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-40. Please provide all USPS records, which support your selection of asset lives.

RESPONSE:

Please see my response to ANM/USPS-T9-34 and DMA/USPS-T9-37 and 39.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-41. Please provide all maintenance standards pertaining to asset lives.

RESPONSE:

Please see my response to DMA/USPS-T9-37. Maintenance standards are used to support asset life estimates. The Postal Service has various handbooks and manuals that describe required maintenance procedures for vehicles and equipment.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-42. Please refer to your response to DMA/USPS-T9-12. Is the Postal Service a subscriber to DRI. If so, how often does DRI update the forecasts they supply to you? May we infer from your response that you have not received a more recent forecast?

RESPONSE:

The Postal Service is a subscriber to DRI. On a monthly basis, DRI forecasts are updated using the latest Bureau of Labor Statistics (BLS) release of economic indicators.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-43. Are there sources of change other the ones you describe on page 11, lines 21-24 of your testimony? If so, please describe them and provide documentation and citations for each.

RESPONSE:

No.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-44. Does the Postal Service consider salvage value in estimating depreciation for a newly purchased asset? If so, please explain where this is reflected in the spreadsheets used to estimate depreciation.

RESPONSE:

The Postal Service only considers salvage value in estimating depreciation for motor vehicles. Each vehicle make/model is assigned a salvage value percentage. This percentage is multiplied by the total cost of the vehicle and then subtracted from total cost. This net cost is used to calculate depreciation. Accordingly, it is reflected in the depreciation amounts in our spreadsheets.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-45. Please confirm that there are no "Other Programs" for Y2K in FY 2000 and in TYAR. If you do not confirm, please provide references to where they are described in LR-I-126 and where they appear in PRG ANAL-revised.XLS.

RESPONSE:

Not confirmed. For the amounts related to Y2K reflected in the revenue requirement, please see my response to DMA/USPS-T9-13. The amounts for Y2K are included under Miscellaneous HQ Programs and CWA's. Miscellaneous HQ Programs and CWA's is described on page 31 of LR I-126.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-46. Please refer to your response to DMA/USPS-T9-9. Please define the term "Work Related Work Years."

RESPONSE:

Work related workyears represent that portion of workyears related to hours worked. Total workyears also reflect leave hours. Please refer to page 510 of LR I-127 for additional information.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-47. On page 45 of your testimony you say "The Postal Service's financial performance is under much greater pressure and is subject to substantially greater risks than it was at the time of the last two omnibus rate cases." Did you perform any studies which quantified "greater pressure" or "greater risks"? Please list all factors with respect to which the Postal Service is under "greater pressure" or "subject to substantially greater risks."

RESPONSE:

The statement is subjective and intuitive. I did not perform any studies relative to greater risk in this rate case than the last two rate cases. Some of the factors which I believe lead to greater risk and financial pressure are discussed on pages 43 and 44 of my testimony.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-48. Please refer to your response to the interrogatory of the Direct Marketing Association (DMA/USPS-T9-27) which discusses the purchases and sales of land and buildings.

- (a) Please provide an electronic spreadsheet showing the price the Postal Service received in each sale of land and buildings for each of the last ten years. For each sale, please also provide the year of purchase, the year of sale, the purchase price, and the book value at the time of sale.

RESPONSE:

- (a) The attached spreadsheets provide the sales price, purchase price and book value for each land and building sale that occurred in Fiscal Years 1992 – 1999. Records are not available for years prior to 1992. The file containing this information does not include the year of purchase. Please see LR-I-269 for an electronic version of the attached spreadsheets.

FY 92 - SOLD FACILITIES - AP PROCESS SEQUENCE						
P.O. NAME	AP	LAND COST	BLDG COST	ACCUM DEPREC	CASH FROM SALE	NET BOOK VALUE
JAMESTOWN, ND	01	8,000	211,072	211,072	40,000	8,000
EATONTON, GA	02	3,000	83,730	83,730	64,000	3,000
MT STERLING, KY	03	11,000	161,644	139,250	75,000	33,394
WATSONVILLE, CA	04	23,000	308,901	308,901	425,000	23,000
CANON CITY, CO	04	14,000	122,619	79,677	72,000	56,942
EASLEY, SC	04	70,585	515,098	173,871	305,000	411,812
CLEVELAND, OH	05	13,000	126,990	126,990	180,000	13,000
FREEHOLD, NJ	05	39,000	615,712	540,214	415,000	114,498
AUBURN, AL	06	7,000	327,206	327,206	375,000	7,000
AMHERST, OH	06	12,150	138,556	138,556	88,500	12,150
WINNEMUCCA, NV	07	5,000	224,979	224,979	262,500	5,000
HERBER SPG, AR	08	1,000	213,556	213,556	50,000	1,000
MANSFIELD, MA	08	13,000	152,484	145,226	90,000	20,258
TIPP CITY, OH	08	5,000	139,048	84,787	125,102	59,261
ST GEORGE, UT	08	6,000	248,224	229,272	155,000	24,952
LOS ANGELES, CA	09	2,239,264	45,538	-	690,000	2,284,802
DEFOE, KY	09	15,620	-	-	5,551	15,620
GILMER, TX	10	5,000	288,241	288,241	30,000	5,000
YUMA, AZ	11	10,000	323,360	323,360	120,000	10,000
LIBERTYVILLE, IL	11	9,000	415,820	415,820	330,000	9,000
GAFFNEY, SC	11	35,849	206,570	206,570	175,000	35,849
JANESVILLE, WI	11	39,000	400,556	400,556	126,000	39,000
LOCKPORT, NY	12	8,000	420,134	392,167	135,000	35,967
BURNS, OR	12	6,000	414,123	329,013	104,000	91,110
HIGHT POINT, NC	13	43,233	30,756	4,420	70,000	69,569
		2,641,701	6,134,917	5,387,434	4,507,653	3,389,184
FY 92 - PARTIAL LAND SALES - AP PROCESS SEQUENCE						
P.O. NAME	AP	LAND Value Sq Ft			CASH FROM SALE	NET BOOK VALUE
SANFORD, NC	02	3,583			\$ 4,450	3,583
EASTON, PA	03	63,753			20,000	63,753
AUSTIN, TX	05	709,011			704,770	709,011
PITTSBURGH, PA	08	352,039			31,000	352,039
ORLANDO, FL	10	91,599			185,800	91,599
BOSTON, MA	13	47,473			990,000	47,473
		1,267,458			1,936,020	1,267,458
		3,909,159	6,134,917	5,387,434	6,443,673	4,656,642

FY 93 USPS SALES - AP SEQUENCE						
P.O. NAME	AP	LAND COST	BLDG COST	ACCUM DEPREC	CASH FROM SALE	NET BOOK VALUE
FRANKLIN, TN	02	145,203	650,695	650,695	\$ 175,955	145,203
WOODSTOCK, IL	02	15,000	314,264	314,264	\$ 190,000	15,000
HAZARD, KY	03	14,000	562,348	562,348	\$ 100,000	14,000
PERRYSBURG, OH	03	7,000	207,138	207,138	\$ 130,000	7,000
UPPER MARLBORO, MD	04	30,308	74,444	28,523	\$ 350,000	76,229
ANDOVER, MA	04	20,000	315,312	315,312	\$ 427,500	20,000
LINWOOD, NC	04	883	1	1	\$ 10,000	883
LIBERTY, TX	05	6,000	118,559	118,559	\$ 17,000	6,000
BOYERTOWN, PA	06	12,000	77,349	77,349	\$ 160,000	12,000
CENTURY, FL	08	17,573	-	-	\$ 13,900	17,573
LILBURN, GA	08	98,667	389,137	147,590	\$ 321,500	340,214
HARLINGEN, TX	08	83,365	679,976	679,976	\$ 300,000	83,365
SITKA, AK	11	0	965,795	965,795	\$ 250,000	0
MANCHESTER, CT	11	22,000	302,056	297,058	\$ 225,000	26,998
MORGANTON, NC	11	25,445	277,439	277,439	\$ 125,000	25,445
LINCOLN PARK, MI	12	15,000	166,634	166,634	93,000	15,000
PITTSFORD, NY	13	55,700	66,551	1,778	315,000	120,473
		568,144	5,167,698	4,810,459	3,203,855	925,383
FY 93 PARTIAL LAND SALES - AP SEQUENCE						
P.O. NAME	AP	LAND COST	BLDG COST	ACCUM DEPREC	CASH FROM SALE	NET BOOK VALUE
BARBOURSVILLE, WV	03	3,051			\$ 2,959.00	3,051
LEXINGTON, KY	05	4,189			\$ 6,000.00	4,189
SPANAWAY, WA	05	1,194			\$ 1,850.00	1,194
SAN DIEGO, CA	05	17,137			\$ 23,108.00	17,137
CANTON, OH	05	2,558			\$ 9,600.00	2,558
CLINTON, MD	06	23,717			\$ 10,025.00	23,717
DAYTON, TX	07	43,082			\$ 75,200.00	43,082
N MIAMI BR, FL	08	34,364			\$ 34,200.00	34,364
DAYTON, TX	08	49,768			\$ 79,550.00	49,768
		\$ 51,846	-	-	\$ 53,542.00	51,846
		619,990	5,167,698	4,810,459	\$ 3,257,397.00	977,229

FY 94						
USPS S O L D FACILITIES - AP PROCESS SEQUENCE						
P.O. NAME	AP	LAND COST	BLDG COST	ACCUM DEPREC	CASH FROM SALE	NET BOOK VALUE
STOCKBRIDGE, GA	02	45,515	558,511	138,344	\$ 213,235	465,682
BRIDGEPORT, CT	03	301,364	19,885	38	\$ 75,000	321,211
LAS VEGAS, NV	03	2,067,507	-	0	\$ 6,007,381	2,067,507
FORDYCE, AR	05	5,000	150,627	150,627	\$ 49,500	5,000
CYNTHIANA, KY	05	10,000	203,409	203,409	\$ 54,000	10,000
ASHLAND, VA	05	6,000	94,096	94,096	\$ 100,000	6,000
CUPERTINO, CA	06	65,864			\$ 3,185	65,864
EDEN, NC	09	10,000	255,100	255,100	\$ 47,500	10,000
ANGOLA, IN	12	4,000	103,406	103,406	\$ 83,001	4,000
WILBRAHAM, MA	12	44,343	134,322	49,236	\$ 275,000	129,429
GEORGETOWN, DE	13	16,000	334,136	334,136		16,000
		2,575,593	1,853,492	1,328,392	6,907,802	3,100,693
PARTIAL LAND SALES - AP PROCESS SEQUENCE						
P.O. NAME	AP	LAND COST	BLDG COST	ACCUM DEPREC	CASH FROM SALE	NET BOOK VALUE
VAIL, CO	02	\$ 1,944			\$ 7,500	1,944
OLNEY, MD	04	\$ 12,780			\$ 145,000	12,780
ARLINGTON Hght, IL	05	\$ 12,100			\$ 20	12,100
LOUISVILLE, KY	07	\$ 10,702			\$ 91,000	10,702
DEADWOOD, SD	07	\$ 2,342			\$ 53,600	2,342
		\$ 39,868			297,120	39,868
		\$ 2,615,461	\$ 1,853,492	\$ 1,328,392	\$ 7,204,922	3,140,561

SALES 95

FY 95 - SOLD FACILITIES - AP PROCESS SEQUENCE						
P.O. NAME	AP	LAND COST	BLDG COST	ACCUM DEPREC	CASH FROM SALE	NET BOOK VALUE
CRYSTAL LAKE	2	29,616	160,113	27,953	346,160	161,776
CHAMPAIGN, IL	5	45,000	119,500	4,769	164,500	159,731
O'FALLON, IL	5	7,000	221,270	221,270	62,500	7,000
MANDEVILLE, LA	5	76,787	455,828	163,380	250,000	369,235
BANCROFT, NE	5	19,891			20,000	19,891
ATTLEBORO, MA	7	20,000	329,332	329,332	175,000	20,000
MOUNT KISCO, NY	7	9,000	249,593	221,793	675,000	36,800
HOPKINS, SC	8	77,668	0		10,000	77,668
MOUNT OLIVE, NC	9	5,000	91,155		46,125	96,155
CRAIG, AK	10	\$ 5,680	\$ 123,970	\$ 53,508	\$ 61,000	76,142
DUPUYER, MT	12	6,769	2,595	658	10,657	8,706
		\$ 302,411	\$ 1,753,356	\$ 1,022,663	\$ 1,820,942	1,033,104
FY 95 - PARTIAL LAND SALES - AP PROCESS SEQUENCE						
P.O. NAME	AP	LAND COST	BLDG COST	ACCUM DEPREC	CASH FROM SALE	NET BOOK VALUE
ROCHESTER, NH	2	115,828			15,120	115,828
SAN ANTONIO, TX	2	505			52,430	505
PETERSBURG, AK	3	\$ 43,580			\$ 26,028	43,580
DAVIS, CA	3	7,193			49,100	7,193
ALTAMONTE SPF, FL	5	28,710			35,000	28,710
APOPKA, FL	5	121,950			15,100	121,950
BATON ROUGE, LA	6	445,582			32,000	445,582
MONROE, CT	7	52,568			75,000	52,568
NEWBURGH, IN	9	7,235			100,000	7,235
GULFPORT, MS	10	83,495			13,970	83,495
VICKSBURG, MS	13	94,482			3,300	94,482
CLEVELAND, OH	13	3,810			205,000	3,810
		\$ 1,004,938			\$ 622,048	1,004,938
		\$ 1,307,349	\$ 1,753,356	\$ 1,022,663	\$ 2,442,990	2,038,042

SALES 96

FY 96 - SOLD FACILITIES - AP PROCESS SEQUENCE						
				ACCUM	CASH	NET BOOK
P.O. NAME	AP	LAND COST	BLDG COST	DEPREC	FROM SALE	VALUE
MANHATTAN BEACH, CA	02	1,829,743	-	-	1,500,000	1,829,743
WAPPINGERS FALLS, NY	05	13,000	303,956	125,511	300,000	191,445
QUAKERTOWN, PA	05	13,000	207,794	207,794	206,000	13,000
JACKSON, GA	08	12,950	106,130	76,879	95,000	42,201
WINSTON SALEM, NC	08	242,000	989,998	987,569	400,000	244,429
ONEONTA, AL	11	5,000	245,079	245,079	162,000	5,000
TUSKEGEE, AL	11	4,000	175,645	175,645	60,000	4,000
PUEBLO, CO	13	26,000	1,028,126	1,028,126	600,100	26,000
COMMERCE, GA	13	5,000	79,136	79,136	90,000	5,000
DES MOINES, IA	13	124,427	349,476	101,780	67,129	372,123
EAST HAMPTON, NY	13	436,276	-	-	325,000	436,276
		2,711,396	3,485,340	3,027,519	3,805,229	3,169,217
96 - PARTIAL LAND SALES - AP PROCESS SEQUENCE						
EMMETT, ID	01	64,325	-	-	\$ 52,500	64,325
KAYSVILLE, UT	08	67,370	-	-	81,000	67,370
		131,695			133,500	131,695
		2,843,091	3,485,340	3,027,519	3,938,729	3,300,912

Y 97 - SOLD FACILITIES - AP PROCESS SEQUENCE						
P.O. NAME	AP	Land Cost	Bldg Cost	ACCUM DEPREC	CASH FROM SALE	NET BOOK VALUE
Pittsburgh, PA	05	73,000	276,000	202,480	274,560	146,520
Littlefield, TX	06	13,331	121,732	121,732	10,000	13,331
Center, TX	06	10,000	118,823	118,823	72,000	10,000
Ware, MA	06	13,000	240,597	240,597	160,000	13,000
Lexington, TN	07	3,000	122,313	122,313	87,000	3,000
Prattville, AL	07	5,000	474,277	265,229	164,700	214,048
Atlanta, GA	07	2,788,418	-	-	1,927,000	2,788,418
Mountain View, AR	09	5,000	109,885	109,885	67,500	5,000
Opp, AL	09	9,000	217,905	217,905	95,000	9,000
Pineville, LA	09	42,632	-	-	110,000	42,632
Kennebunk, ME	09	6,000	246,018	246,018	106,000	6,000
Oneco, FL	10	9,094	296,064	155,560	1,153,370	149,598
Roanoke, AL	12	8,000	171,240	171,240	42,000	8,000
Eureka, UT	13	5,000	132,262	132,262	25,000	5,000
Hearne, TX	13	9,000	130,262	130,262	42,000	9,000
		2,999,475	2,657,378	2,234,306	4,336,130	3,422,547
97 PARTIAL LAND SALES -AP PROCESS SEQUENCE						
P.O. NAME	AP	Cost of Land Sold	Bldg Cost	ACCUM DEPREC	CASH RECEIVED FROM SALE	NET BOOK VALUE
Gulfport, MS	01	30,466			21,090	30,466
Seattle, WA	02	2,033,921			2,228,505	2,033,921
Boston, MA	04	408,508			1,318,363	408,508
Jupiter, FL	05	68,681			94,100	68,681
Shelton, CT	05	79			310	79
Manchester, TN	06	3,389			3,500	3,389
Memphis, TN	06	672,812			274,900	672,812
Pensacola, FL	07	156,245			100,000	156,245
Bellwood, IL	07	43,148			28,000	43,148
W. Palm Bch, FL	09	63,497			62,981	63,497
Arlington, TX	09	35,540			28,504	35,540
Castle Rock, CO	09	20,545			43,614	20,545
Pt. Richey, FL	11	6,225			25,000	6,225
Pineville, LA	12	19,825			19,616	19,825
Ft. Lauderdale, FL	13	3,920			38,900	3,920
		3,566,801	-	-	4,287,383	3,566,801
		6,566,276	2,657,378	2,234,306	8,623,512	6,989,348

AP 01 - 12 / 99

FY 99 - PROPERTY SALES - AP PROCESS SEQUENCE

P.O. NAME	FY 99	Land Cost	Build Cost	ACCUM DEPR	CASH From SALE	NET BOOK VALUE
Chino Valley, AZ	01	55,000	180,200	9,707	90,000.00	234,913
Philadelphia, PA	01	-	2,000,130	2,000,204	2,000,000.00	2,230,132
Tomb, WI	01	8,000	180,000	180,000	90,000.00	4,000
Rogers, Ar	02	23,007	123,001	1,195	200,000.00	148,702
Batesburg, SC	02	7,000	101,100	101,100	90,000.00	7,000
Eastonville, Mo	02	30,000	300,000	300,000	207,000.00	30,000
Elizabethtown, NY	02	-	223,001	223,001	210,000.00	-
Lakeland, FL	02	30,007	700,210	247,000	710,000.00	200,210
Hartford, WI	02	7,000	172,700	172,700	110,000.00	7,000
Alvin, TX	02	7,000	100,007	100,007	100,000.00	7,000
Shenando, NY	02	-	5,000,004	1,012,001	-	3,100,003
Wilmington, OH	02	20,000	200,070	174,001	200,000.00	20,000
Wichita, AL	02	5,000	210,000	124,700	100,000.00	50,100
Cadiz, IL	02	5,000	100,000	100,000	50,000.00	5,000
Enfield, NY	04	120,274	-	-	50,000.00	120,274
Corpus Christi, TX	04	10,000	-	-	2,100,000.00	110,000
Rockford, PA	05	2,000	102,010	102,010	100,000.00	2,000
Lakewood, OH	05	11,000	97,000	97,000	220,000.00	11,000
Hinesville, GA	05	171,017	700,000	273,001	800,000.00	440,200
Cathartsville, NY	05	9,000	211,714	211,714	181,000.00	9,000
Conway, SC	05	102,002	731,000	204,000	412,000.00	200,002
Enfield, CT	06	20,007	402,002	402,000	70,000.00	20,007
Talkeeta, AK	06	7,000	141,200	141,200	20,000.00	7,000
Petersburg, AK	06	71,420	-	-	200,000.00	71,420
Boonville, AR	06	7,127	12,070	12,070	7,000.00	7,127
Alhambra, CA	06	1,020,200	4,200,200	1,000,700	4,000,700.00	4,200,200
Beaumont, FL	06	801,177	-	-	800,000.00	801,177
Belvidere, IL	06	12,000	200,000	200,000	171,000.00	12,000
Monticello, NY	06	5,123	37,100	5,100	80,000.00	30,773
New Orleans, LA	06	6,200,000	10,410	10,410	12,000,000.00	8,200,000
North Oak Street, MD	06	12,000	320,171	320,171	100,000.00	12,000
Fairfax, MA	06	9,000	211,200	211,200	200,000.00	9,000
Glendale Park, NJ	06	15,000	100,000	100,000	500,000.00	15,000
Craig, AK	07	80,000	-	-	60,000.00	80,000
Golden, CO	07	200,000	710,000	200,000	300,000.00	600,000
Woodruff, SC	07	8,000	100,007	100,001	70,000.00	10,000
Nashville, TN	07	600,000	2,370,104	1,002,041	4,000,000.00	1,217,063
Chaffee, MO	08	21,700	-	-	15,000.00	21,700
Little Falls, NJ	08	10,000	273,002	273,002	220,000.00	10,000
Lakeland Valley, PA	08	60,701	-	-	800,000.00	60,701
Beverly Hills, CA	08	25,001	702,010	777,002	2,200,000.00	20,000
Powder Springs, GA	08	29,000	400,070	220,000	200,000.00	29,000
Cedar Park, TX	08	10,000	70,100	5,100	210,000.00	10,000
Erwin, TN	08	4,000	120,001	120,001	80,000.00	4,000
Waterbury, CT	10	250,001	200,700	122,110	120,000.00	400,100
Biloxi, MS	10	23,700	102,000	7,002	270,000.00	110,001
Pahonung, NY	10	73,000	84,001	8,000	101,000.00	100,000
Greenwater, TN	10	10,000	87,700	87,700	70,000.00	10,000
Huntingdon, TN	10	2,000	170,170	170,170	90,000.00	2,000
Lodi, UT	10	-	207,000	23,000	200,000.00	230,000
Lander, WY	10	0,000	520,000	520,000	300,000.00	0,000
Bronxville, NY	10	-	2,701,104	014,000	-	1,000,000
Hollister, CA	11	10,000	100,700	100,700	270,000.00	10,000
Laguna Beach, CA	11	272,041	-	-	200,000.00	272,041
Parley, CO	11	11,001	701,010	200,700	600,000.00	440,101
Abbeville, LA	11	5,001	802,007	802,007	100,000.00	5,001
Watertown, NY	11	10,000	1,102,000	1,102,000	100,000.00	10,000
Maumee, OH	11	0,000	270,002	270,002	220,000.00	0,000
Ocean Shores, WA	11	30,100	80,307	5,101	107,000.00	114,300
Stretford, WA	11	0,070	-	-	0,070.00	0,070
Barry Creek, CA	12	20,070	-	-	12,000.00	20,070
Prattville, AL	12	2,000	217,000	217,000	170,000.00	2,000
Scranton, AR	12	5,002	12,000	5,000	15,000.00	14,100
Camden, MO	12	14,000	142,000	142,000	60,000.00	14,000
Mountain Home, AR	12	21,000	243,000	200,100	177,000.00	100,001
Saginaw, TX	12	20,700	243,001	213,000	210,000.00	27,000
Lawrence, KS	12	110,000	40,100	5,000	901,000.00	100,000
Albany, MS	12	7,000	90,000	50,000	60,000.00	7,000
St. Louis, MO	12	20,002	-	-	110,000.00	20,002
S. Edinburg, NY	12	0,070	-	-	300.00	0,070
Campbell, OH	12	0,000	220,007	220,007	7,000.00	0,000
Gr TH Complete Sales		10,011,010.00	24,070,400.00	20,202,442.00	44,001,007.00	20,004,000

P.O. NAME	FY 99	Land Sold Value	CASH		NET BOOK VALUE
			From SALE		
Cedar Rapids, IA	02	\$ 9,007	\$	13,210.00	9,007
W. Memphis, AR	02	0,004		20,000.00	0,004
Noble, OK	02	0,007		10,200.00	0,007
Ellenton, FL	02	82,000		113,007.00	80,000
Houston, TX	02	200,000		200,000.00	200,000
Odessa, GA	04	3,070		4,000.00	3,070
Waco, TX	04	2,004		1,000.00	2,004
St. Paul, MN	05	202,000		400,010.00	200,000
San Luis Obispo	05	0,001		300,000.00	0,001
Alpharetta, GA	05	3,007		4,000.00	3,007
Newport Beach, CA	06	100,100		2,000,000.00	100,100
Yonkers, NY	06	10,100		0,000.00	10,100
Grandville, AZ	07	100,070		200,000.00	100,070
Superior, NE	07	3,070		5,000.00	3,070
San Francisco, CA	08	200,007		20,000,000.00	200,007
Oakwood, IL	08	10,070		0,000.00	10,070
Memphis Lakes, CA	10	207,000		0,000.00	207,000
New Jersey, NJ	10	0,000		27,000.00	0,000
North West, GA	11	2,700		0,000.00	2,700
Baytown, TX	11	20,002		0,000.00	20,002
Kaplan, GA	12	23,000		23,700.00	23,000
San Bruno, CA	12	20,010		0,000.00	20,010
Waco, TX	12	21,227		10,000.00	21,227
Revere, MA	12	20,003		100,000.00	20,003
Miami, FL	12	15,001		15,000.00	15,001
Lima, IL	12	700		0,000.00	700
Gr TH Partial Sales		\$ 2,010,000.00	\$	81,274,000.00	2,010,000
		12,022,000.00	26,070,400.00	20,202,442.00	27,010,000

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-49. Please refer to your response to ANM/USPS-T9-22. There you say, "Savings differences still exist since the Phase I purchase is to supplement current FSM capacity (thereby reducing manual flat volumes) and the Phase II purchase will be to replace existing FSM 881s.

- (a) Please confirm that Phase I savings are 15,694 hours per machine.
- (b) Please confirm that Phase II savings are 29,727.3 hours per machine. If you can not confirm, please provide the correct number for savings per machine.
- (c) Please explain why replacing manual sorting (Phase I) does not confer greater savings per machine than replacing mechanized or automated savings.

RESPONSE:

- (a) Not confirmed. Please see Table I that accompanies the response to MPA/USPS-T9-1. The savings for Phase I are 26,439 hours per machine; the sum of the savings for "Automated Flat Sorting Machine (AFSM)" and "Additional Automated Flat Sorter Machine (AFSM) To Upper Bound."
 - (b) Confirmed.
 - (c) It is my understanding that flat sorting productivities are shown in USPS LR-I-90. USPS-LR-I-90 shows high manual productivities in the delivery units and Phase I replaces those productivities. Phase II on the other hand, eliminates the rehandling of 881 BCR and OCR rejects with their associated lower productivities. Thus, greater savings are confirmed on Phase II than on Phase I.
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**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-50. Please refer to your response to ANM/USPS-T9-22. Please explain why the Postal Service would implement a less productive program before it implements a more productive program.

RESPONSE:

Please refer to the revised response to ANM/USPS-T9-22. Also, when comparing the savings from Phase I versus Phase II, it is important to keep in mind the fact that the two Phases did not exist simultaneously; the Postal Service did not choose Phase I over Phase II. Additionally, as Phase II comes into existence, there may be enhancements and modifications that were not possible during Phase I.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.
(Redirected From Witness Kingsley USPS-T10-44)**

DMA/USPS-T10-44. Please provide Total Factor Productivity for the USPS for each of the last ten years. In light of your description of automation advances on pages 2 through 22 can you please explain why Total Factor Productivity for the USPS has declined over the last five years.

RESPONSE:

Year	Total Factor Productivity
1990	3.0
1991	(1.7)
1992	0.4
1993	3.8
1994	(0.1)
1995	(1.8)
1996	(1.2)
1997	1.3
1998	(1.2)
1999	(0.3)

In recent years, the Postal Service has invested substantial sums in improving customer service and satisfaction, and on infrastructure improvements. In 1998 and 1999 alone, the Postal Service committed almost \$7.8 billion in capital spending, and many other service and customer satisfaction improvement efforts were charged against expenses.

Many of these efforts have had a short-term negative impact on productivity; however, the Postal Service has deemed the service and customer satisfaction benefits to outweigh the costs. These efforts have resulted in

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.
(Redirected From Witness Kingsley USPS-T10-44)**

DMA/USPS-T10-44. Continued

improved on-time delivery of overnight First-Class Mail from 83 percent in FY 1994 to 94 percent in the second half of FY 1999. Productivity-enhancing investments such as automation often reduce TFP in the near-term, as the capital investment occurs up front, while the savings are realized over time.

While the "value" of service quality improvement is not captured in the TFP measure, it is essential to the long-term future of the organization. Even though some service improvements may adversely impact productivity, management believes that the benefits of improving service outweigh the negative impact to TFP

Postal Service worksharing discounts to mailers also impact potential TFP gains. These incentives shift a greater proportion of the workload associated with automation compatible mail to business mailers. Worksharing discounts provide cost savings for the Postal Service and our customers. It is important to note, however, worksharing transfers some of the Postal Service's prime productivity improvement opportunities to our partners, the mailers.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.
(Redirected From Witness Kingsley USPS-T10-44)**

DMA/USPS-T10-44. Continued

It must be noted that the Postal Service faces operational constraints not faced in the private sector. It must continually invest to maintain and improve an infrastructure of over 38,000 facilities and serve a continually growing network of deliveries, each of which must be visited by a letter carrier six days a week.

These public service obligations constrain the Postal Service's ability to generate productivity improvements.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
MAGAZINE PUBLISHERS OF AMERICA**

MPA/USPS-T9-1. According to LR-I-126, section 1 (Original LR), clerk workhours for Advanced Flat Sorting Machine (AFSM) for FY 2000 will decrease by 129,000 hours (1,086 machines x 118.8 hours per machine) and maintenance hours for FY 2000 will increase by 51,000 hours (1,086 machines x 50 hours per machine). Clerk workhours for FY 2001 will decrease by 2,715,000 hours (1,086 machines x 2,500 hours per machine) and maintenance hours will increase by 410,000 hours (1,086 machines x 377.5 hours per machine). On February 18, you filed errata (Errata) to the Original LR.

(a) Please confirm that the Errata did not change the FY 2000 cost or workhour savings or the FY 2001 cost or workhour savings estimated from deployment of AFSM 100s.

(b) Please confirm that the Original LR estimates the use of 1086 AFSM 100s in FY 2000 and 1086 AFSM 100s in FY 2001.

(c) Please confirm that the Errata estimates the use of only 173 AFSM 100s in FY 2000 and 173 AFSM 100s in FY 2001.

(d) Please confirm that the Errata estimates workhours savings resulting from use of the AFSM 100s that are greater by a factor of 6.2775 than those estimated by the Original LR.

(e) Please confirm that 1086 divided by 173 is 6.2775.

(f) Please explain how you found the errors in the number of machines and the hours savings per machine and provide all work papers showing original and revised calculations.

(g) Please explain the process the USPS followed in estimating cost reductions for the AFSM 100.

RESPONSE:

Before I respond to the questions, I will attempt to dispel some of the confusion that has resulted from the presentation and revisions to USPS-LR-I-126. Table I that accompanies this response shows the summary of impacts resulting from the Automated Flat Sorting Machine program. The table presents the page and description in USPS-LR-I-126 and presents the information by Phase I and Phase II. It is important to note that the "Average Hours per Machine" represents a national average at a point in time following completion of deployment. As such, dividing the total number of

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
MAGAZINE PUBLISHERS OF AMERICA**

MPA/USPS-T9-1 Response continued:

machines into savings calculated at other points in time, may lead to meaningless results; this point is explained further in part (g) below.

(a) Confirmed.

(b) Confirmed.

(c) Confirmed for the total number of Phase I machines.

(d) Confirmed.

(e) Confirmed.

(f) The errors were discovered while reviewing the narrative portion of Library Reference I-126. The amounts shown in the exhibits accompanying USPS-LR-I-126 are correct, but some of the description was not correct. For instance, the Postal Service's AFSM calculations were based on the deployment of 173 machines, not 1,086 machines. Upon investigation, it became apparent that the 1,086 machines originally shown on page 6 for Advanced Flat Sorting Machine (AFSM) was a typographical error that used the 1,086 machines listed for Advanced Facer Canceler (AFC) OCR, which appears in the very next section of page 6.

(g) The USPS estimated the AFSM 100 cost reductions by utilizing assumptions about the anticipated operating environment. For instance, the assumptions were based on average FSM 881 and AFSM 100 runtimes, average throughputs, average

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
MAGAZINE PUBLISHERS OF AMERICA**

MPA/USPS-T9-1 Response continued:

staffing, etc. expected during the deployment period. The deployment period for any mechanization or automation project evolves in a dynamic environment that requires changes as the needs change. Thus, the hours per machine used in USPS-LR-I-126 are representative averages of the anticipated national environment during the period FY 1999 through Test Year 2001.

TABLE I

Response:
MPA/USPS-T9-1

LR-I-128 Rev. 4/5/00		Description		Phase I	Equivalent Number of Machines	Average Hours per Machine	Workhour Savings
Page 6		Automated Flat Sorting Machine (AFSM)		FY 2000 Clerks	173	(746)	(129,006)
Page 6		Automated Flat Sorting Machine (AFSM)		FY 2001 Clerks	173	(15,694)	(2,714,993)
Page 18		Additional Automated Flat Sorter Machine (AFSM) To Upper Bound		Clerks	173	(10,000)	(1,730,000)
				FYs 00&01 Total	173	(26,439)	(4,573,999)
				Phase II			
Page 18		Accelerate FSM Buy into 2001		FY 2001 Clerks	44	(29,727)	(1,307,988)
Page 18		Additional Savings Potential for Automated Flat Sorting Machine (AFSM) 100		Clerks	44	(3,884)	(170,016)
				FY 01 Total	44	(33,591)	(1,478,004)

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
MAGAZINE PUBLISHERS OF AMERICA**

MPA/USPS-T9-2. Please reconcile the difference in FY 2001 workhour savings for "Accelerate FSM Buy Into 2001" of 29,727.3 hours per machine (Original LR) with the FY 2001 workhour savings per machine of 15,693.6 hours cited in the Errata.

RESPONSE:

Please refer to Table I that accompanies the response to MPA/USPS-T9-1. The 29,727.3 for "Accelerate FSM Buy Into 2001" is the Phase II workhour savings per machine for FY 2001. The comparable Phase I workhour savings per machine for F Y 2001 is 26,439; the sum of "Automated Flat Sorting Machine (AFSM)" and "Additional Savings Potential for Automated Flat Sorter Machine (AFSM) 100 savings.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
MAGAZINE PUBLISHERS OF AMERICA**

MPA/USPS-T9-3. Please reconcile the difference in FY 2001 workhour savings for "Additional Advanced Flat Sorter Machine (AFSM) To Upper Bound" of 43,181.8 hours per machine (Original LR) with the FY 2001 workhour savings per machine of 15693.6 hours cited in the in the Errata.

RESPONSE:

Please see Table I that accompanies the response to MPA/USPS-T9-1, the response to MPA/USPS-T9-2 and the Erratum filed for page 18, "Additional Savings Potential for Automated Flat Sorter Machine (AFSM) 100." These additional savings include further savings resulting from the challenge to the field to realize the savings calculated from the "Upper Bound" of the DAR calculations, as opposed to the "Lower Bound" of the used in the earlier calculations. Including the Upper Bound challenge increases the average savings per machine 10,000 hours for Phase I and 3,864 hours for Phase II.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
MAGAZINE PUBLISHERS OF AMERICA. INC.**

MPA/USPS-T9-5. Please identify any authority (whether relied upon by you or not) of which the United States Postal Service is aware that supports the concept that the contingency should be the same for all classes and subclasses of mail.

RESPONSE: It is my understanding that the Postal Rate Commission has endorsed applying the contingency equally to all attributable and institutional costs in each omnibus rate case -- Docket Nos. R71-1, R74-1, R76-1, R77-1, R80-1, R84-1, R87-1, R90-1, R94-1 and R97-1. This treatment is reflected in the Opinion and Recommended Decisions in these dockets.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
MAGAZINE PUBLISHERS OF AMERICA, INC.**

MPA/USPS-T9-7. Please refer to the article entitled *Postal Service to Cut Work Force*, which appeared in the March 21, 2000 edition of the *Washington Post*, and which is attached hereto as Exhibit A. Please refer in particular to the fourth paragraph of the article, which states:

On an annual basis for the next four years, Henderson said, the Postal Service would save \$100 million on overhead, \$100 million from more efficient paperwork and purchasing procedures, \$100 million in transportation and \$700 million in "break-through productivity" changes aimed at reducing costs in a variety of areas, including automation, staffing, scheduling and business procedures.

- (a) Please state whether these savings, publicly identified by the Postmaster General, are reflected in cost reduction and other programs.
- (b) If the answer to (a) is affirmative, please state where these savings are reflected, and provide references.
- (c) If the answer to (a) is negative, please explain why.

RESPONSE:

See the response to OCA/USPS-99.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
MAGAZINE PUBLISHERS OF AMERICA, INC.**

MPA/USPS-T9-8. Please provide any analysis or studies supporting the application of contingency equally across product lines.

RESPONSE: I am unaware of any such studies or analysis.

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

OCA/USPS-T9-1. The following refers to USPS-LR-I-127, filename SPTDC_00.xls.

- (a) Worksheet "HQ Pers Other Prog," cells F5 through F22 show "FY 99 Operating Budget Pd Years" values. Please update cells F9 through F22 with FY99 actuals.
- (b) Worksheet "HQ Pers Other Prog," cells D58 through D68 show the FY99 budget workhours by area. Please update the cells to reflect FY99 actuals.
- (c) For the worksheet titled "HQ Pers Other Prog," have the FY00 operating "Budget Pd Years" in cells J9 through J22 been updated? If so, please provide the updates for each cell. If not, please provide an update that reflects FY00 year-to-date actuals plus the remaining FY00 budgeted numbers.
- (d) Worksheet "Non Pers Cost Reductions" cells E12, F12 and G12 show incremental costs for prior year adjustments of international mail.
 - 1. Please explain what the \$90,300,000 reduction for FY99 represents. Is the \$90,300,000 an actual amount? If not, please provide the FY99 actual.
 - 2. Please explain what the \$38,200,000 increase for FY00 represents.
 - 3. Please explain what the \$20,000,000 increase for FY01 represents.
- (e) For the "Non Pers Cost Reduction" worksheet, FY00 at cells F14 and F15 contain amounts for absorbing additional inflation. Please provide the assumptions underlying the additional inflation amounts of \$35,000,000 and \$9,000,000. Please explain why no additional inflation amounts were necessary for FY01.

RESPONSE:

Your question requests that certain cells be updated in filename SPTDC_00.xls of USPS-LR-I-127. This file contains Excel spreadsheets that are linked to files in the Comprehensive Rollforward Factor Development Model that produces rollforward cost factors reflected in LR-I-127. These files should not be updated selectively. The model currently produces an estimate of total FY 99

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

OCA/USPS-T9-1. continued

expense that is within \$8 million of actual FY 99 expense. Updating this file (or any of the other files contained in the Model) to reflect the impact of FY 99 actual without updating all other related files would result in inconsistent FY 99 estimates that could be significantly different than FY 99 actual.

The updating of all rollforward factor files to reflect FY 99 as the base year would also require programming and formatting changes to the model and the verification of internal links and model outputs.

With this caution, the following information is provided as requested:

(a) Actual FY 99 paid years:

HQ & Field Service Units	6,647
Security Force	1,451
Inspectors	2,463
Inspection Service Admin.	792
Facility Service Centers	435
Material Dist. Centers	265
Label Printing	57
Procurement Service Centers	257
MES	158
MTESC	57
Area Administration	2,309
Total	14,892

(b) The Area Administration workhour plan, "HQ Pers Other Prog" cells D58 through D68, was used to estimate FY 99 workyears. Actual Area Administration workhours are not relevant since actual FY 99 paid years for Area Administration are provided in the above response.

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

OCA/USPS-T9-1. continued

(c) FY 2000 operating budget paid years:

HQ & Field Service Units	6,740
Security Force	1,451
Inspectors	2,435
Inspection Service Admin.	792
Facility Service Centers	414
Materiel Dist. Centers	247
Label Printing	57
Procurement Service Centers	234
MES	169
MTESC	51
Area Administration	2,223
Total	14,813

As noted on page 210 and explained on page 211 of LR I-127, the paid years taken from the HQ/FSU budgets consist of base workyears only and are used to determine the change in workyears, not the absolute number of workyears calculated by the model.

(d) 1. The FY 99 reduction to expense of \$90.3 million reflects the impact of prior year adjustments recorded in FY 99 (\$58.2 million relates to FY 97 and \$32.1 million relates to FY 98). The actual prior year adjustments booked in FY 99 were \$189.5 million.

(d) 2. The FY 2000 increase of \$38.2 million is composed of two pieces. The first is an increase of \$58.2 million to correct the base year costs for the portion of the adjustment made in FY 99 related to FY 97. Since the base

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

OCA/USPS-T9-1. continued

year being rolled forward is FY 98, inclusion of the FY 97 adjustments in FY 99 and beyond would understate those costs. The second piece of the FY 2000 amount is a reduction of \$20 million for additional estimated prior year accrual adjustments for Years FY 97 and prior.

(d) 3. The \$20 million increase reflected in FY 2001 corrects the ongoing level of expenses for the prior year adjustment expected to be made in FY 2000 for years FY 97 and prior.

(e) Inflation absorption was one of several extraordinary measures utilized to foster the achievement of a net income for FY 00. The amounts to be absorbed were arrived at judgmentally by management. In my opinion, additional inflation absorption for FY 01 is not feasible.

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

OCA/USPS-T9-2. Please refer to USPS-LR-I-127, page 316, and filename "REPAL_00.xls," the worksheet titled "Input."

- (a) For FY99, the "annual rate of change" for merit pay for EAS Non-Bargaining RSC E (see cell G127) and PCES Non-Bargaining RSC S (see cell G128) is \$726.24 each. In FY00, the merit pay is \$1,561.33. Please explain the basis for a change in merit pay of 115 percent $((\$1,561.33 - \$726.24) / \$726.24)$.
- (b) In FY01, the "annual rate of change" for merit pay for the EAS Non-Bargaining RSC E (see cell G136) and PCES Non-Bargaining RSC S (see cell G137) is \$1,658.55 each. Please explain the basis for a change in merit pay of 6 percent $((\$1,658.55 - \$1,561.33) / \$1,561.33)$.
- (c) For FY99, the City Carriers RSC Q "annual rate of change" in pay is \$82.72 (see cell D124). In FY00, the "annual rate of change" in pay is \$1,485.99 (see cell D133). In FY01, the "annual rate of change" in pay is \$1,478.47 (see cell D142). Please explain the basis for the large "annual rate of change" in pay from FY99 to FY00 (FY99-\$82.72 to FY00-\$1,485.99). Then, explain the basis for the "annual rate of change" in pay of \$1,478.47 for FY01.
- (d) For FY99, the City Carriers RSC Q "annual rate of change" in COLA is \$45.64 (see cell E124). In FY00, the "annual rate of change" in COLA is \$666.66 (see cell E133). In FY01, the "annual rate of change" in COLA is \$541.00 (see cell E142). Please explain the basis for the large increase in the COLA for FY00 (FY99-\$45.64 to FY00-\$666.66). Then, explain the basis for a FY01 COLA of \$541.00.

RESPONSE:

(a) The non-bargaining pay process is driven by consultations with the supervisor and postmaster associations. Under the previous consultation process, the non-bargaining salary schedules were not increased for FY 99. As a result, employees at the top of the salary schedule did not receive a merit pay increase in base pay and those near the top only received a portion of the

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increase in base pay. This effectively lowered the average merit increase for FY 99. FY 2000 and 2001 are covered by the most recent pay consultations under which the salary schedules were increased for FY 2000 and will be increased again for FY 2001. Accordingly, the merit increase in these years reflects these increases.

(b) See response to (a) above.

(c) As reflected on USPS Exhibit 9O, the annual rate of the 11/21/98 (FY 99) pay increase is actually \$715.85. \$82.72 represents that portion of the \$715.85 applicable to retiree eligible only. This increase was effective for retiree eligible only on 11/21/98 and is not effective until 11/20/99 (FY 2000) for non-retiree eligible. The inclusion of the non-retiree eligible portion of this pay increase, and the non-retiree eligible portion of the 3/13/99 and 9/11/99 (FY99) COLAs in the 11/20/99 (FY 2000) increase, results in effective amounts which total \$1,485.99. The basis for the FY 2001 annual pay increase of \$1,478.47 is the impact of an upgrade to level 6 in addition to the scheduled increase in pay. Please refer to pages 19 and 20 of USPS-T-9 for a discussion of the labor contracts.

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(d) The COLA pattern for FY's 1999 and 2000 is also explained by the fact that FY 99 COLAs are effective for retiree eligibles only. FY 99 COLAs for non-retiree eligibles are not effective until FY 2000 (11/20/99) and are included in the 11/20/99 effective pay increase amounts. The FY 2001 annual rate for the 3/10/01 and 9/8/01 COLAs of \$208 and \$333 is \$541. Please refer to pages 19 and 20 of USPS-T-9 and USPS Exhibit 90 for details.

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OCA/USPS-T9-3. Please refer to USPS-LR-I-127, page 312, worksheet "Depcal00.xls." "[The] [c]ash flow projection model representing expenditure of funds for capital commitments and resources on order is based on the approved FY 1998-2003 Capital Investment Plan" (see cell A45).

- (a) For each asset type listed, provide the FY99 actuals for columns B, C, D, G, and K.
- (b) For each asset type, please provide the most recently approved Capital Investment Plan amounts (see column B) for FY00 and FY01.
- (c) In column K, undepreciated write-offs for mail processing are \$33,470,721 (see cell L17). Please specifically identify those items that were actually written off to arrive at FY99 depreciation.
- (d) In column K, undepreciated write-offs for mail processing are \$20,000,000 (see cell L22). Please identify those items the USPS anticipates writing off to arrive at the FY00 depreciation. If you are unable to specify the items being written off, please provide the basis for the \$20,000,000. If the \$20,000,000 is a calculated value, please provide its derivation and cite all source documents.
- (e) In column K, undepreciated write-offs for mail processing are \$8,501,470 (see cell L34); write-offs for customer service are \$189,107 (see cell L35); and, write-offs for postal support are \$3,574,251 (see cell L36). Please identify those items that the USPS anticipates writing off to arrive at the FY01 depreciation. If you are unable to specify the items that will be written off, please provide the basis for the undepreciated write-off totaling \$12,264,828. Please provide the derivation of each amount and cite all source documents.

RESPONSE:

(a) The FY 99 cash flow (Column B) reflects actual data. The actual land cost (Column C) is \$135,362,468 and the actual write-offs (Column K) is \$31,494,104. Column D reflects estimation factors, which do not require updating. Column G contains no data for FY 99.

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(b) Although the Capital Investment Plan does not appear on page 312 of LR-I-127, a copy of the most recently approved Capital Investment Plan for FY 2000 is provided as part of my response to ANM/USPS-T10-17. The FY 2001 Capital Investment Plan has not been finalized. The cash flow reflected in Column B, consistent with the FY 2000 approved Capital Investment Plan, has not changed.

(c) The undepreciated write-off amounts reflected in Column K for mail processing is \$29,896,470. The items written off were for DBCS Phase I equipment.

(d) The anticipated \$20 million write-off in FY 2000 reflected in Column K relates to mail processing bar code sorters. Through Accounting Period 6 of FY 2000, \$16.4 million in write-offs for this equipment have been recorded.

(e) As reflected in Column K, the \$8,501,470 write-off for mail processing equipment relates to Multi-Line OCR's. The \$189,107 write-off of customer service equipment relates to IRT's and the \$3,574,251 write-off of postal support equipment is for ADP equipment relating to upgrading the Delivery Confirmation System.

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OCA/USPS-T9-4. Please refer to USPS-LR-I-127, pages 287 through 291. Please update the "CSRS Annuitant COLA and Annuitant Health Benefit Expense Estimation Model Input Section" to reflect OPM's bill for FY99.

RESPONSE:

For similar reasons to those discussed in the response to OCA/USPS-T-9-1 the CSRS Annuitant COLA and Annuitant Health Benefit Expense Estimation Model should not be updated to reflect OPM's bill for FY 99 without updating all other models which are part of and/or drive the Comprehensive Rollforward Factor Development Model. Also refer to the model updating notes page 308 of LR I-127 which explains the manual adjustments required when changing the base year. For the reasons discussed above and in the response to OCA/USPS-1 updating the base year and the rollforward cost factors is more than a mechanical process.

The FY 99 OPM billing for annuitant cola is \$902,735,000 and the FY 99 cola layer is \$49,295,000. This compares to estimates in the R2000-1 filing of \$901,278,000 and \$47,838,000, respectively. These differences are minor.

The number of retired and survivor annuitants participating in the FEHBP as reported on the September 1999 bill from OPM is 422,408. The September 1999 bill from OPM for the USPS share of annuitant health benefits is \$56.653 million. The number of annuitants compares to an estimate of 421,749. The model does not estimate monthly billings so a direct comparison of the September 1999 bill to the model cannot be made.

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OCA/USPS-T9-5. Please refer to USPS-LR-I-127, filename "SPTDC_00.xls." In the worksheet titled "HQ Pers Other Prog," cells A29 through A43 there are several alpha-numeric identifiers. For each of the fifteen alpha-numeric identifiers listed, please provide a descriptive title.

RESPONSE:

The alpha-numeric identifiers in question represent budget/accounting system reporting codes for the field areas. Since the individual area amounts were not used in the calculation of area administration personnel costs (i.e. the workhour amounts of the field areas were summed outside the model) this information is not relevant.

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OCA/USPS-T9-6. Please refer to USPS-LR-I-127, pages 218 through 221. Please provide a description for each of the following headers:

- (a) BA 7G,
- (b) BA 7Y,
- (c) BA 7X, and
- (d) BA's.

RESPONSE:

a-d. BA's are Budget Authorization codes which represent the sum of a subset of finance numbers. As explained on pages 218 and 228 of LR I-127, BA's 7G and 7Y are used for Headquarters Programs and BA 7X is used for Corporatewide Activities.

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OCA/USPS-T9-7. Please refer to USPS-LR-I-127, pages 172 and 173.

- (a) On page 172, part 2, the section titled, "Calculation of Weighted Heating Fuel Factor," provides Base Year actual amounts by account for "oil/other" and "gas." Please update each amount to reflect FY99 actuals.
- (b) On page 173, part 2, the section titled, "Calculation of Weighted International Transportation Factor," provides Base Year actuals by account for "Int. Air," "Int. Water" and "Term. Dues." Please update each amount to reflect FY99 actuals.

RESPONSE:

a-b. Please see the response to OCA/USPS-T-9-1 regarding the risks and complications involved with selective updating and the need to revise and validate computer models when updating. The FY 99 actual expenses by account used to calculate the weighted factors in question are reflected in the attachment.

Attachment to
Response to
OCA/USPS-T-9-7

FY 99 ACTUAL USED TO CALCULATE WEIGHTED HEATING FUEL FACTOR

Account	FY 99 Actual		
	Oil/Other	Gas	Total
54142	1,593,479		1,593,479
54142.561	1,614,471		1,614,471
54142.565	5,338		5,338
54143		30,301,788	30,301,788
54143.566		8,122,142	8,122,142
54143.570		149,977	149,977
54144	4,359,218		4,359,218
54144.576	134,231		134,231
54144.580	9,667		9,667
Total	7,716,404	38,573,907	46,290,311
% Of Total	16.7%	83.3%	100.0%

FY 99 ACTUAL USED TO CALCULATE WEIGHTED INTERNATIONAL TRANSPORTATION FACTOR

Account	FY 99 Actual			
	Int. Air 1/	Int. Water	Term. Dues 1/	Total
53201, 53206, 53208, 53212, 53225, 53226, 53264	228,929,126			228,929,126
53281, 53282, 53283, 53284		9,111,101		9,111,101
53261, 53262, 53263, 53268, 53269			417,096,451	417,096,451
Total	228,929,126	9,111,101	417,096,451	655,136,678
% of Total	34.9%	1.4%	63.7%	100.0%

1/ Excludes prior yr adjustments (see response to OCA/USPS-T-9-1d).

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OCA/USPS-T9-8. Please refer to USPS-LR-I-127, filename "SPTDC_00.xls," worksheet titled "Non Pers Cost Reductions."

- (a) Please explain what the FY00 incremental amount for "Air Sys Contracts – loose pack term hand" of \$70,163,000 (\$21,000,000 + \$49,163,000) in account 53511, segment 14, component 142, cell F8, represents. Then, explain why none were listed for FY99 and FY01.
- (b) Cell 13G indicates a "Parcel Dropship Volume Shift" of \$44,206,000 for FY01, in segment 14, component 143. Please explain what is precipitating this shift, and provide the rationale used by the logistics program managers to arrive at the estimate.

RESPONSE:

a. Cost reductions in the amount of \$70.163 million for domestic commercial air costs include two (2) components (\$21.0 million and \$49.163 million). The \$21.0 million contract negotiation savings for dedicated air segments such as Eagle (\$6.6 million), W-Net (\$5.1 million) and other segments (\$9.3 million). The \$49.163 million is a management initiative to reduce expenses for FY 2000. This saving was based on reviews of existing rail, highway, and air transportation capacities and schedules to identify opportunities to divert mail from the commercial air network without adversely impacting service.

Savings were fully annualized in FY 2000 and no additional savings are anticipated for FY 2001. These initiatives were not undertaken until FY 2000 and accordingly had no impact on FY 99.

b. For an explanation of the Parcel Dropship Volume Shift please refer to USPS-T-26, Exhibit X.

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OCA/USPS-T9-9. Please refer to USPS-LR-I-127, filename "SPTDC_00.xls", worksheet titled "Cost Red & Other Prog." The source of the information is program managers (see cell A216). In cell A218, the following statement appears "Amounts estimated by Program managers may be adjusted as a result of the budget catchball process."

- (a) Please explain what the budget catchball process is and how it operates.
- (b) If any of the amounts listed in the worksheet were adjusted due to the "budget catchball process," please provide the adjusted amounts. If the adjusted amounts were calculated, please provide the derivation and cite all source documents referenced.

RESPONSE:

- a. The budget catchball process is a component under the "Deploy" phase of our *CustomerPerfect!* management cycle of planning, implementation and review. Under "Deploy", the catchball process is used to negotiate resource requirements to achieve goals, subgoals, indicators, and targets.
- b. None of the amounts in question were changed as a result of the catchball process.

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OCA/USPS-T9-10. Please refer to USPS-LR-I-127, filename STPDC_00.xls.

- (a) The following refers to the worksheet titled "Non Pers Other Programs," cells A58 and A64 through A67. For FY00, segment 18, component 210, "absorb[s] additional inflation (HQ S&S)" of -\$7,000,000. For FY00, several components in segment 18 "absorb additional inflation" totaling -\$40,000,000. Please explain the basis for determining a cost reduction of -\$47,000,000 for inflation absorption in FY00. Then, provide a list by segment and component identifying the specific dollar amounts included in the Postal Service costs for positive inflation absorption.
- (b) The following refers to cells A58 and A64 through A67, in the worksheet titled "Non Pers Cost Reductions." For FY01, please identify by segment and component the specific amounts that have been included for inflation absorption. If none are incorporated, please explain why it was only necessary to reduce inflation absorption in FY00.

RESPONSE:

(a-b) Please see the response to OCA/USPS-T9-1(e) for a discussion of why inflation absorption reductions were reflected in FY 2000 but not in FY2001. Reductions of \$47 million to supplies and services were reflected as negative other programs and \$44 million of transportation reductions were reflected as cost reductions. The cost components impacted can be found on page 200 and 213 of LR I-127.

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OCA/USPS-T9-11. At the February 9, 2000, Miami meeting, the Board of Governors approved a \$10.1 million investment in phase one of PostalOne. Was the \$10.1 million investment in information platform technology included in the FY00 revenue requirement? If so, please identify the segment and component affected. In your response, please indicate where the cost can be identified in USPS-LR-I-127. If not, please indicate the impact the \$10.1 million investment will have on FY00 and FY01 expenditures.

RESPONSE:

Phase one of PostalOne is included in the FY 2000 Capital Investment Plan.

The \$10.1 million investment approved by the Board of Governors was for capital costs and would be incorporated in the revenue requirement as depreciation expense in segment 20.

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OCA/USPS-T9-12. The following refers to USPS-LR-I-127, filename WHRCNV00.xls, worksheet WKHRCONV. Please update the worksheet to reflect the "PFY 1999 ACTUAL WORKHOUR CONVERSION FACTORS."

RESPONSE:

For similar reasons to those discussed in my response to OCA/USPS-T-9-1, the workhour conversion factors for PFY 99 should not be updated without updating all other models which are part of and/or drive the Comprehensive Rollforward Factor Development Model. The attached workpaper reflects actual PFY 99 workhour conversion factors.

PFY 1999 ACTUAL WORKHOUR CONVERSION FACTORS

Attachment to Response
to OCA/USPS-T-9-12

Cells requiring manual entries are shown as

123

	Total NPHSR Ref No	PT NPHSR Ref No	Total Workhours	Total Accrued Hrs	Wkhrs as % of Accr. Hrs	Wkhrs per Wkyr	PT Accrued Hours	PT Accrued Hrs per Wkyr	All Other Accrued Hrs	All Other Accr. Hrs per Wkyr	Wld Avg Accr Hrs per Wkyr
Clerks A-J	0440,50	0420,30	573,751,232	665,050,957	86.27%	1,780	140,396,456	2,000	524,654,501	2,080	2,063
Mail Handlers	0660	0630,40	128,985,972	149,533,719	86.26%	1,788	13,837,809	2,000	135,695,910	2,080	2,073
Subtotal			702,737,204	814,584,676	86.27%	1,781	154,234,265	2,000	660,350,411	2,080	2,065
City Carriers	0760	0720,30	161,750,385	180,038,652	89.84%	1,869	18,038,652	2,000	143,719,703	2,080	2,071
Rural Carriers	1090		31,488,598	37,421,188	84.14%	1,748	1,488,712	2,000	35,935,471	2,080	2,077
Building Service	1170	1120,30	32,185,488	37,771,825	85.16%	1,771	26,504	2,000	37,745,121	2,080	2,080
Operating Equipment Maint.	1270	1220,30	12,245,803	14,700,755	83.30%	1,732	162,024	2,000	14,538,731	2,080	2,079
Bldg/Plant Equipment Maint	1370	1320,30	10,780,057	12,880,247	83.67%	1,739	177,884	2,000	12,682,263	2,080	2,079
Vehicle Maintenance	1570	1520,30	88,274,215	97,829,013	88.19%	1,834			97,829,013	2,080	2,080
Supervisors	0210		17,613,027	20,495,186	85.94%	1,775	3,884,118	2,000	16,811,068	2,080	2,066
Vehicle Drivers	0860	0820,30									
Total US Postal Service	2940	1620,30	1,833,719,893	1,891,220,636	86.38%	1,787	263,560,351	2,000	1,637,660,285	2,080	2,069
City Carriers & Rural Carriers			630,663,931	727,091,625	86.74%	1,796	81,902,175	2,000	645,189,450	2,080	2,071
Transitionals - City Carriers	0735		2,835,958	2,759,451	95.53%	1,987			2,759,451	2,080	2,080
Transitionals - Clerks	0435		14,500,267	15,187,068	95.48%	1,986			15,187,068	2,080	2,080
Headquarters - Consolidated	2770		5,838,812	6,870,383	84.96%	1,767	1,432,222	2,000	6,870,383	2,080	2,080
Clerks A-J & SD Msgrs			573,751,232	665,050,957	86.27%	1,780	140,396,456	2,000	524,654,501	2,080	2,063
Clerks A-J, MH & SD Msgrs			702,737,204	814,584,676	86.27%	1,781	154,234,265	2,000	660,350,411	2,080	2,065

Source: A/P 13 PFY 1999 YTD National Payroll Hours Summary Report

Workhours are from Line 10.

Accrued Hours are from Line 30.

Part Time hours include both Part Time Regular and Part Time Flexible employees.

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OCA/USPS-T9-13. The following refers to USPS-LR-I-127, filename SPTDC_00.xls. For each worksheet in the file, please update all manual inputs to reflect FY99 actuals and the FY00 Operating Budgeted amounts for the most recently completed accounting period.

RESPONSE:

For similar reasons to those discussed in my response to OCA/USPS-T-9-1, the actual FY 99 and FY 00 budgeted data in SPTDC_00 should not be updated without updating all other models which are part of and/or drive the Comprehensive Rollforward Factor Development Model.

The information requested for each of the separate worksheets in the SPTDC_00 workbook is addressed below.

Cost reductions and other programs (Cost Red & Other Prog) – FY 99
cost reduction and other program workhour savings and costs are not identified separately, but reflected in FY 99 actual expense. If using FY 99 actual as the base, their breakout would not be required. The cost reduction and other program workhours currently included in the FY 2000 budget are reflected on Attachment A to this response.

Non Personnel Other Programs (Non Pers Other Programs) – Field and Unallocated
FY 99 non-personnel other program costs are reflected in FY 99 actual expenses and do not need to be incorporated into the model separately when using FY 99 as the base. The most recent FY 2000 Field and Unallocated

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budget non-personnel programs are reflected on Attachment B to this response. Please note that this worksheet is used in conjunction with worksheets contained in LR-I-127 Chapter 6-a, Headquarters Programs & Corporatewide Activities Non-personnel Cost. For the programs listed in Chapter 5-b, the FY 2000 budget would be reflected in an update of Chapter 6-a. There was no change between the estimated incremental amounts for transportation programs for the FY 2000 budget.

Servicewide personnel other programs (Svcwide Pers Other Programs) -Servicewide personnel other programs are reflected in FY 99 actual expenses and do not need to be incorporated into the model separately when using FY 99 as the base. There was no change between the estimated incremental amounts for servicewide personnel other programs for the FY 2000 budget.

Equipment Maintenance Allowance (EMA) – The rural EMA factor worksheetwhich calculates the EMA cents per mile already reflects actual FY 99 CPI-U PRIVATE TRANSPORTATION INDEX.

Depreciation (Depreciation) – This worksheet is linked to other workbooks and data is not input directly. Several disposition of property accounts are input manually. Updated FY 99 actual for these accounts is

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provided in the table below. It is worth noting that the actual amounts are very close to the estimate of -38,871,432.

Account	Component	FY 99 Actual
52160	245	-21,136,309
52412	245	79,159
52810	245	-53
54260	245	1,218,277
54270	245	4,130,567
54640	245	-23,243,765
56860	245	-147,631
56930	245	2,065,310
Total		-37,034,445

Also refer to the response to OCA-T-9-3 which provided information regarding FY 99 actual and current FY 2000 estimates relative to depreciation expense. Depreciation expenses is estimated by the Depcal workbook which is linked to the depreciation worksheet in the SPTDC workbook.

Headquarters Personnel Other Programs (HQ Pers Other Prog) – See my response to OCA/USPS-T9-1.

Non Personnel Cost Reductions (Non Pers Cost Reductions) – FY 99 actual non-personnel cost reductions are reflected in FY 99 actual expenses and do not need to be incorporated into the model separately when using FY 99 as the base. With the exception of prior year adjustments for international transportation, there was no change between the estimated incremental amounts for Non-Personnel Cost Reductions for the FY 2000 budget. The

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OCA/USPS-T9-13. continued

revised amount for international transportation is a incremental increase of
\$169,500,000 in FY 2000. See OCA/USPS-T9-1d.

Cost Reductions and Other Programs - FY 2000 Budget																
Operational Programs	2000 Workhours (000)															
	Clerks - CAG A-J			City Carriers			Mailhandlers			Supervisors			Maintenance			Grand
	Savings	Costs	Net	Savings	Costs	Net	Savings	Costs	Net	Savings	Costs	Net	Savings	Costs	Net	Total
RBCS			-	(2,492)		(2,492)			-			-		1	1	(2,492)
ID Code Sort	(185)		(185)	(63)		(63)			-			-		79	79	(168)
DBCSs-Slacker, Adtl Cap, Phase 4&5, & OSS	(1,749)	122	(1,627)	(6,723)		(6,723)			-			-		202	202	(8,148)
Flat Mail OCR (EC -06)	(1,467)		(1,467)			-			-			-		137	137	(1,330)
AFCSS adtl 42 Buy	(132)		(132)			-			-			-		59	59	(73)
Small Parcel & Bundle Sorter - 46 & 54	(866)		(866)			-	122		122			-		48	48	(606)
Flat Sorting Machine 1000 Phase 1&2	(85)		(85)			-			-			-		4	4	(81)
Improve RCR, Hand Writing Recog(HRP)&2000	(3,015)		(3,015)			-			-			-		4	4	(3,011)
Automatic Airline Assignment SWYB			-			-	(146)		(146)			-		22	22	(124)
LMLM Linerless Label	(0)		(0)			-			-			-				(0)
REC Consolidation Phase 1 & 2			-			-			-	(111)		(111)	(54)		(54)	(165)
Tray Sleever			-			-	(34)		(34)			-		9	9	(25)
Robotics Phase 1			-			-	(149)		(149)			-		13	13	(136)
Tray Management System (TMS)-Phase 3	(128)		(128)			-	(471)		(471)	(10)	54	44		109	109	(446)
Mail Processing (MP) Tag Readers	(7)		(7)			-			-			-				(7)
Dual Pass Rough Cull 56 Buy			-			-	(56)		(56)			-		9	9	(47)
Universal Transport System		5	5			-			-	5		5		2	2	12
CFS Flats Forwarding Terminal & Control System	(30)		(30)			-			-			-				(30)
SPBS Feed System- (228&37)	(673)		(673)			-			-			-		38	38	(635)
Delivery Confirmation Scanning		172	172		244	244			-			-				416
Corporate Call Management			-			-			-	(51)		(51)				(51)
Mail Transport Equip Service Centers			-			-	(2,486)		(2,486)			-	(384)		(384)	(2,870)
Rehabilitation hours		1,795	1,795			-			-			-				1,795
Local Management Initiative (LMI)	(3,801)		(3,801)	(4,468)		(4,468)			-	(1,351)		(1,351)	(36)		(36)	(9,656)
Total Operational Programs	(12,138)	2,094	(10,044)	(13,746)	244	(13,502)	(3,342)	122	(3,220)	(1,523)	59	(1,464)	(474)	736	262	(27,969)

Cost Reductions and Other Programs - FY 2000 Budget																
Non-Operational Programs	Clerks - CAG A-J			City Carriers			Mailhandlers			Supervisors			Maintenance			Grand Total
	Savings	Costs	Net	Savings	Costs	Net	Savings	Costs	Net	Savings	Costs	Net	Savings	Costs	Net	
			-			-			-			-			-	-
			-			-			-			-			-	-
Customer Address Awareness			-		(0)	(0)			-			-			-	(0)
Ease of Use Drivers	(10)	-	(10)			-			-			-			-	(10)
Route Inspections			-			-			-		(333)	(333)			-	(333)
			-			-			-			-			-	-
Cost Study Support			-			-			-		(11)	(11)			-	(11)
International Data Collection		(38)	(38)			-			-			-			-	(38)
			-			-			-			-			-	-
International Service Centers		-	-		-	-		-	-		86	86		131	131	217
Revenue and Volume Modification		1	1			-			-			-			-	1
			-			-			-			-			-	-
Data Collection Diagnostic		(62)	(62)			-			-			-			-	(62)
DPS Multi Unit Buildings			-	(365)		(365)			-			-			-	(365)
			-			-			-			-			-	-
Drivers Trainers		12	12			-			-			-			-	12
			-			-			-			-			-	-
BMEU Proficiency Training		6	6			-			-			-			-	6
			-			-			-			-			-	-
			-			-			-			-			-	-
			-			-			-			-			-	-
			-			-			-			-			-	-
Total Non Operational Program Chgs	(10)	(82)	(91)	(365)	(0)	(365)	-	-	-		(258)	(258)	-	131	131	(584)
			-			-			-			-			-	-
			-			-			-			-			-	-
			-			-			-			-			-	-
			-			-			-			-			-	-

Field Non Personnel Programs & Unallocated
(\$ 000)

Unallocated	Account	Seg.	Comp.	Incremental FY 00
Point of Service	52359	16	177	-
Point of Service	52331	16	174	-
Point of Service	56605	18	211	-
Point of Service	54165	15	168	-
Point of Service		16	169	-
Corporate Call Management	52331	16	174	-
Corporate Call Management	54101	15	165	-
Corporate Call Management	54151	15	167	-
Corporate Call Management	Var.	18	211	-
Corporate Call Management	54165	15	168	-
Associate Office Infrastructure	Var.	16	177	-
Associate Office Infrastructure	52331	16	174	-
Associate Office Infrastructure	54151	15	167	-
Associate Office Infrastructure	52321	18	210	-
Associate Office Infrastructure	54165	15	168	-
Corporate Call Management	52359	16	177	-
Corporate Call Management	54165	15	168	-
Corporate Call Management	54101	15	165	-
MEI Postal One	52359	16	177	-
HQ Overhead Reduction	52359	16	177	-
Stamp Manufacturing		16	180	-
Mail Trans Equip Support Center	Var.	16	177	-
Mail Trans Equip Support Center	54521	16	175	-
Mail Trans Equip Support Center	54101	15	165	-
Base adjustment		15	169	-
Base adjustment		16	175	-
Base adjustment				-
Inventory Adj's		16	182	-
Delivery Confirmation		16	196	-
Priority Redesign		16	187	-
Base Adjustment		16	177	-
Base Adjustment		18	210	-
Base adjustment		16	184	-
Core Process Management		16	174	-
Absorb additional inflation (HQ S&S)		18	210	(7,000,000)
TACS		16	174	9,500
OWCP Cost Reductions		16	174	(6,668,000)
BMEU Proficiency		16	174	13,540
Ease of Use Measures		16	174	(90,927)
BMEU Curriculum		16	174	680,000
Absorb additional inflation (operating equip.)		16	184	(8,000,000)
Absorb additional inflation (misc S&S)		16	177	(20,000,000)
Absorb additional inflation (ADP S&S)		16	174	(7,000,000)
Absorb additional inflation (Veh S&S)		12	99	(5,000,000)
Subtotal Servicewide				(52,855,887)
Field	Account	Seg.	Comp.	Incremental FY 00
Environmental Programs	54232	15	169	(35,790,084)
OSHA Reform	52417	15	169	(15,000,000)
Upgrade Class Printing Equipment	52418	16	177	-
Nurses Coordinators Program	52359	16	177	-
Periodical Focus Groups	52323	18	210	200,000
Subtotal FY 96 Field Programs				(50,590,084)

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

OCA/USPS-T9-14. The following refers to USPS-LR-I-126, page 19, "Rehabilitation Program Hours." Please explain the basis for the program manager's additional 1,795,000 hour estimate for clerks in FY00. Please provide the actual increase in hours by labor category for FY98, FY99 and the FY00 Operating Budgeted hours for the most recent accounting period.

RESPONSE:

Employees brought back to work under the Rehabilitation Program perform various assignments based on their current abilities as restricted by their injury.

Rehab hours are not budgeted by labor category. The actual increase in rehab hours was 1.9 million and 2.0 million in FY 98 and FY 99 respectively. The current budgeted growth for FY 00 is 2.4 million hours.

Revised 3/1/2000

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

OCA/USPS-T9-15. The following refers to USPS-LR-I-126, page 19 to 20, "Customer Address Awareness." The library reference indicates that city carrier hours increased 41,000 hours as a result of the customer address awareness.

- (a) Please explain why city carriers hours increased as a result of a campaign to improve customer use of apartment/suite numbers designed to increase the speed of mail delivery.
- (b) Are city carriers being used to educate the public on address hygiene?
 - (1) If your response to part "b" of this interrogatory is affirmative, please provide all data indicating the success/failure rate city carriers had in going "door to door."
 - (2) Please provide all documents, scripts or other educational tools used by the city carriers during the "customer awareness campaign."
 - (3) Did the Postal Service perform a cost/benefit analysis evaluating the costs of using various forms of advertising versus using city carriers? If so, please provide a copy of the analysis and cite all source documents used. If not, please explain why one was not performed.
- (c) If your response to part "b" of this interrogatory is negative, please explain what caused the estimated increase in city carrier hours for FY99.
- (d) What is the cost impact of including the estimated 41,000 hours of increased city carrier costs on the individual mail class and subclass cost categories for FY00 and FY01 as opposed to increasing USPS advertising costs?

RESPONSE:

- (a) City carrier hours increased because carriers will be required to deliver a mail piece to every address in high rise buildings to notify them of their complete, correct address and the importance of using their correct address including the apartment or suite number. Normally a small percentage of addresses do not require delivery on any given day. In addition, the carriers are required to verify the delivery address prior to delivery.
- (b) See my response to (a).

Revised 3/1/2000

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

OCA/USPS-T9-15. continued

(1) I do not have precise numbers. However, indications are that improvements in addressing have resulted when customers are notified of their correct address and the importance of using it.

(2) See the attachment to this response.

(3) No. The cost of using city carriers was considered the most efficient since they would be delivering mail to most of the addresses anyway.

(c) See my response to (b).

(d) It is my understanding that the distribution of the costs of the 41,000 workhours in the rollforward can be seen on pages 245-246, 257-258 and 269-270 of Volume 1 of 2 of WP-B. This distribution utilizes all the City Carrier components: 43, 44, 45, 46, 48, 49, 50, 52 and 54. Alternatively, to distribute the costs on Advertising (component 246), please see WP-B, Volume 2 of 2, pages 605-606. In words, the costs associated with Customer Address Awareness would be distributed on the Advertising distribution key rather than a distribution key comprised of all the City Carrier components. As this is for FY99, the impact on FY00 and FY01 would be to rollforward the City Carrier components and the Advertising component after the alternative distribution was incorporated.



101 S SANTA FE AVE
FOUNTAIN CO 80817-9998

Dear Postal Customer:

The correct and complete address for this location, according to official postal records, appears below. This may be different from or contain more details than the address you are accustomed to using. For example, you may not be using a suite or apartment number, or you may omit a directional like "SE" or a suffix such as ST, AVE, PLACE or the ZIP+4 Code.



POSTAL CUSTOMER
5180 FONTAINE BLVD
FOUNTAIN CO 80817-1049

The United States Postal Service handles and delivers 198 billion pieces of mail a year - over 600 million per day. To provide accurate and timely postal service, high-speed electronic scanning equipment has become a necessity. This makes using your correct and complete address extremely important. Each item provides information. Most importantly, the final four digits of the ZIP+4 Code indicate which block, building or floor you are on. Including all address elements is vital to accurate processing and delivery,

To ensure accurate and timely delivery, it is very important to make sure all the mail sent to you displays the EXACT address as it appears here. Make sure you are using this address now, so all your mail can reflect your complete address.

Be sure to use the ZIP+4 Code and include all other elements of the above address every time you place your return address on an envelope.

If you have any questions concerning your address as shown above, please contact DANNY CRUZ at (719) 382-4625.

Thank you for your cooperation.

Your Postmaster

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

OCA/USPS-T9-16. Please refer to USPS-LR-I-126, page 26, "Stamp Manufacturing." The costs for various supplies and services were estimated to increase by \$40 million for FY01. Please provide a detailed breakout of the \$40 million increase. Identify in your breakout, the cost of producing the "designed non-denominated" and "makeup stamp," as well as an estimate of the volume of First-Class makeup stamps to be printed. If a stamp usage factor other than 100 percent was assumed, please provide the estimated usage factor. For purposes of answering this interrogatory, assume that the Postal Service is granted the one-cent increase in the First-Class letter rate.

RESPONSE:

The \$40 million increase to support the anticipated rate change in FY01 was based on the actual costs of producing rate change stamps in support of the rate increase of 1999. In 1997 and 1998, the Postal Service produced over 15 billion stamps at a cost of \$39.76 million to prepare for the January 1999 rate increase. This volume represents approximately a four-month supply of stamps to allow the Postal Service enough time to produce and distribute a large enough volume of denominated stamps to replace the non-denominated rate change stamps. The volume and cost for the 1999 rate change included:

- a) 12.29 billion prime rate (33-cents) stamps at a cost of \$33,391,290
- b) 2.5 billion make-up rate (1-cent) stamps at a cost of \$4,978,635
- c) 500 million post card rate (21-cents) stamps at a cost of \$1,395,000.

The post card rate stamps were not issued due to the rate not being increased.

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

OCA/USPS-T9-17. For the First-Class letter "makeup stamp" that was most recently printed, please provide the following: (1) the production costs, (2) the volume of makeup stamps printed, (3) the quantity sold in the calendar year immediately following its release, and (4) the actual quantity used.

RESPONSE:

- (1) The cost of the make-up rate (1-cent) stamps was \$4,978,635.
- (2) 2.5 billion make-up stamps were printed
- (3) Sales of individual stamps are not currently tracked. The Postal Service distributed all 2.5 billion of the make-up stamps for use, and estimates that approximately 80% were sold
- (4) Use of individual stamps is not currently tracked.

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

OCA/USPS-T9-18. In witness Porras' testimony in Docket No. R97-1, he stated, "...[T]he Postal Service's systems are upgraded to deal with year 2000 issues. This increases test year costs by \$298.00 million ..." (Tr. 34/18585). In Docket No. R97-1, exhibit USPS-RT-11E indicates that cost segment 16, component 174's costs for the FY98 Test Year increased by \$298 million for the Year 2000 Software Program (Tr. 34/18598).

- (a) The following refers to your response to DMA/USPS-T9-13, filed February 11, 2000. Is there a difference between the term "Y2K" or "year 2000 computer transition" and the Year 2000 Software Program? If so, please explain and provide the segment(s), component(s) and account numbers charged with the Y2K expenses for FY98, FY99 and FY00.
- (b) If not, please reconcile your response indicating FY98 expenses of \$88.6 million and FY99 expenses of \$267.0 million with witness Porras' rebuttal testimony, in Docket No. R97-1, stating that the FY98 expenses would increase by an additional \$298 million for Year 2000 software (Tr.35/18598).
- (c) For the FY98 Test Year in Docket No. R97-1, was the Year 2000 Software Program considered one of the "Headquarters Administered Programs or Corporate-wide Activities"?
- (d) For FY98 actuals, please indicate the account number(s), segment(s), component(s) and the amounts charged with the Year 2000 software program expenses.
- (e) What was the Postal Service's FY98 total budgeted amount for the Year 2000 software program?
- (f) For FY99 actuals, please indicate the account number(s), segment(s), component(s) and the amounts charged with the Year 2000 software program expenses.
- (g) What was the Postal Service's FY99 total budgeted amount for the Year 2000 software program?
- (h) What was the Postal Service's FY99 budgeted amount for the Year 2000 software program for segment 16, component 174?
- (i) Are Year 2000 software program expenses continuing to be incurred in FY00? If so, please provide: (1) the amount spent year-to-date for FY00, (2) the segments and components charged with the expenses, (3) when the Year 2000 software program expenses will cease to be incurred, and (4) explain why costs are continuing to be incurred for this program.
- (j) If program expenses are continuing to be incurred in FY00 for the Year 2000 software program, please provide the FY00 total amount budgeted for this program.

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

OCA/USPS-T9-18. *continued*

RESPONSE:

- (a) There is no difference between the term "Y2K" or "year 2000 computer transition" and the Year 2000 Software Program.
- (b) The \$298 million referred to was the estimate provided to Mr. Porras by the program manager for Y2K at that time. As evident from my response to DMA/USPS-T9-13 most of this expense occurred in FY99. Please note that the amounts specified in DMA/USPS-T9-13 represent non-personnel expense only, other than depreciation.
- (c) Year 2000 Software Program is considered a Headquarters Administered Program.
- (d) Please see attachment OCA/USPS-T9-18 (d) to this response. The account code for each account number can be found in Chapter 2 of LR-I-127.

Please note that the attachment includes salaries and benefit costs as well as depreciation charged as Y2K expense. The values provided in my response to DMA/USPS-T9-13 were for non-personnel only, other than depreciation.
- (e) The FY98 budgeted amount for Y2K was \$150 million.
- (f) Please see attachment OCA/USPS-T9-18 (f) (I) to this response. The account code for each account number can be found in Chapter 2 of LR-I-127. Please note that the attachment includes salaries and benefit costs as well as depreciation charged as Y2K expense. The values provided in my

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

OCA/USPS-T9-18. continued

response to DMA/USPS-T9-13 were for non-personnel only, other than depreciation.

(g) The FY99 budgeted amount for the Y2K was \$291 million.

(h) The Postal Service budget is not developed by segment and component.

(i) Y2k expenses are being incurred in FY00.

(1) Through accounting period 6 \$51 million has been expensed.

(2) Please see attachment OCA/USPS-T9-18 (f) (l) to this response.

The account code for each account number can be found in Chapter 2 of LR-I-127.

(3) Y2K expenses should be completed in FY2000.

(4) Costs are being incurred to finalize all required programming changes.

(j) The FY00 budgeted amount for the Y2K is \$50 million.

Attachment to Response
to OCA/USPS-T9-18 (d)YEAR 2000 INITIATIVE
Expense Summary FY 1998

Account	FY 1998
51101181	311,619
51101183	127,739
51103181	3,090
51202181	21,680
51202183	7,321
51211181	8,317
51211183	3,108
51212181	15,539
51212183	6,835
51214181	220
51214183	56
51215181	555
51215183	104
51216181	12
51217181	4,547
51217183	2,183
51218181	196
51218183	45
51219181	321
51219183	58
51221181	5,076
51221183	1,703
51222181	2,084
51222183	866
51226181	3,520
51226183	1,283
51227181	210
51227183	50
51239183	10,000
51243183	8,032
51247183	7,013
51401101	4,897
51401103	22,444
51401104	1,949
51401112	103
51401123	13,923
51401125	865
51401127	2,908
51401130	10,204
51401144	1,531
51401147	356
51401148	3,043
51401172	8,629
51401181	1,652
51401182	183,078
51401183	24,270
51403101	577
51403103	1,999
51403130	754
51403172	28,111
51403182	40,116
51403183	19,702
51404182	1,608
51404183	4,475
51411183	13,200
51413103	2,064
51413127	2,877
51413130	2,303
51413182	6,096
51413183	3,422
52101000	9,366
52104000	1,742
52105000	35,018
52105998	12,959
52111000	394,411
52171000	11,296,558
52171998	17,583
52172000	2,812
52178000	599
52179000	653,420
52270000	14,950
52321000	851,622
52322000	252,736
52325000	50,473
52325998	2,209
52331000	5,001,976
52331998	20,996
52332000	1,156,789
52334000	609,282
52339000	181,532
52342000	2,394,120
52359000	42,123,994
52361000	9,314
52363000	48,690

Attachment to Response
to OCA/USPS-T9-18 (d)

52367000	4,000
52411000	23,750,921
52418000	509
52419000	7,165
52419998	19,349
52431000	728
52435000	442
52436000	5,407
52438000	255
52439000	13,770
52453000	240
52454000	19
54101000	137,332
54146000	125
54165000	5,820
54165998	12,118
54231998	138
54233000	3,195
54242000	86,924
54330000	1,286,423
54406000	1,300
54406998	17,519
54411000	30,391
54411998	17,750
54620000	2,675,424
56315000	896
56605000	42,765
56605998	19,397
56617000	21,247
56621000	69
Grand Total	94,265,329

Attachment to Response
to OCA/USPS-T9-18 (f) (i)YEAR 2000 INITIATIVE
Expense Summary through AP 6, FY 2000

<u>Account</u>	<u>FY 1999</u>	<u>FY 2000</u>
51101181	3,660,121	1,261,657
51101183	905,587	275,993
51103181	4,330	3,195
51103183	1,744	
51111183	2,353	
51112183	2,631	
51141183	74,037	
51142183	28,868	
51143183	7,704	
51145183	9,254	
51202181	258,429	90,656
51202183	66,131	15,086
51211181	96,024	35,077
51211183	15,703	5,963
51212181	181,890	60,255
51212183	46,452	13,230
51214181	1,433	404
51214183	5,797	
51215181	12,880	6,285
51215183	12,239	3,634
51216181	1	
51217101	41	69
51217103	277	203
51217104	15	15
51217113	7	
51217123	15	31
51217125	46	15
51217127	89	49
51217130	5,402	2,875
51217172	5	
51217181	53,134	18,424
51217182	992	
51217183	16,228	5,382
51218104	31	31
51218130	282	159
51218181	1,336	361
51218183	4,483	62
51219101		115
51219130	547	313
51219181	7,353	3,352
51219183	7,639	1,995
51221101	60	
51221103	172	287
51221104		31
51221113	31	
51221123	66	131
51221125		62
51221130	4,412	2,463
51221172	20	
51221181	56,284	20,921
51221183	9,434	3,740
51222181	23,891	7,941
51222183	6,509	1,780
51224183	185	
51226181	40,225	14,936
51226183	6,962	2,757
51227181	5,674	2,780
51227183	5,558	1,720
51239182	10,273	
51241182	1,892	
51242182	714	
51242183	751	
51243182	28,491	
51244182	10,534	
51244183	10,877	
51247182	19,815	
51247183	10,089	
51248182	21,709	
51248183	13,773	
51313104	1,000	1,000
51313113	500	
51313183	2,650	25,500
51317181		109
51317183	4,106	2,066
51321101		54
51321103		572
51321125		1,000
51321127		54
51321130	300	2,235
51321181	1,000	1,072
51321183	12,868	32,908
51322101	1,376	4,600
51322103	13,561	13,284
51322123	1,057	2,114

Attachment to Response
to OCA/USPS-T9-18 (f) (i)

51322125	2,234	
51322127	4,739	3,180
51322130	315,707	195,549
51322172	321	
51322181	31,067	18,809
51322183	48,189	35,790
51323000	3,423	
51325000	1,910	
51325103	3,662	
51325130	22,453	
51325181	4,502	
51327101	973	
51327125	958	
51327127	1,388	
51327130	33,414	
51327181	1,411	
51327183	1,576	
51401101	14,743	12,706
51401103	26,986	11,798
51401104	40,297	5,042
51401107	2,619	
51401112	312	
51401113	24,234	4,697
51401121	408	
51401123	4,191	802
51401125	2,417	921
51401127	10,907	3,131
51401130	418,544	126,029
51401141	61,285	297
51401144	10,327	1,363
51401148	6,673	
51401156		28,774
51401157	9,374	20,504
51401171	1,322	
51401172	64,917	17,044
51401181	142,429	39,076
51401182	91,072	9,630
51401183	205,638	107,973
51403101	4,284	6,525
51403103	15,388	1,507
51403104	1,203	
51403130	44,152	3,575
51403141	7,263	
51403172	29,129	4,896
51403182	29,296	
51403183	3,943	3,839
51411103	125	
51411130	3,755	1,591
51411141	6,243	
51411144	600	
51411182	335	
51411183	5,052	
51413101	1,972	100
51413103	144	9,487
51413104	6,484	684
51413113	749	1,248
51413123	482	
51413127	1,007	
51413130	58,853	20,646
51413141	32,505	315
51413148	1,999	
51413172	18	
51413181	1,460	3,296
51413182	1,068	
51413183	(1,999)	548
52101000	381,182	8,038
52102546	741	
52103000		6,650
52105000	306,850	
52105998	11,288	1,806
52109000	67,425	1,501
52111000	392,833	43,014
52120000	5,603	
52150000	90	753
52151000	19	
52155000	5,896	
52170000	2,448	1,659
52171000	3,308,328	528,728
52171998	61,112	1,965
52172000	78,119	3,882
52173000	168,023	1,950
52174000	-	
52174998	2,639	
52179000	545,457	23,718
52230000	1,272	
52270000	0	(0)
52313000	30,695	82,284
52321000	-	6,587,591
52322000	500	

Attachment to Response
to OCA/USPS-T9-18 (f) (i)

52323000	52,400	
52325000	91,158	
52325998	6,915	
52326000	114,786	
52327000	210,326	
52331000	111,761,201	3,842,908
52331998	21,439	
52332000	13,973,555	7,810,537
52333000	276,517	4,507,726
52334000	877,679	736,256
52336000	589,567	290,018
52338000	890,219	154,292
52339000	245,638	101,230
52342000	4,044,391	467,581
52359000	95,877,165	6,555,116
52359998	315	3,335
52362000		1,181
52363000	10,009	2,064
52363998	2,585	2,429
52367000	21	
52411000	40,121,918	11,021,235
52418000	1,577	14,093
52419000	85,229	70,871
52419998	37,902	7,741
52431000	3,330	166
52432000	638,206	37,702
52435000		3,629
52436000	62,042	39,068
52438000	35,004	95
52439000	15,552	
52453000	15,447	6,196
52453538	1,321	1,420
52454000	1,316	898
52455000	25	
52801000	24,000	
52801998	2,562	
52810000		
54101000	1,715,995	597,290
54103000	302,528	107,354
54135000	27,718	1,353
54146000	15,950	
54151000	56,566	32,899
54165000	440,708	75,175
54165998	7,503	564
54166000	3,000	
54169000	93	
54231000	9,999	
54231998	318	3,503
54232000	19,273	7,528
54233000	24,200	586,430
54234000	3,383	
54242000	400,650	1,167
54330000	520,193	3,562,690
54401000	494	
54406000	25,525	
54406998	395	
54411000	723,649	166,963
54411998	7,440	
54511000	36,722	79,301
54512000	26,923	4,921
54518000	40,014	37,481
54521998	8,861	8,037
54523000		27,258
56315000	763	
56603000	2,300	1,588
56605000	21,021	6,148
56605998	24,879	14,544
56617000	78,126	14,159
56621000	234	
56621998	3,776	4,254
56701000		177
56930000		(8,107)
Grand Total	287,702,057	50,960,374

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

OCA/USPS-T9-19. The following interrogatory refers to USPS-LR-I-127, pages 218 through 227.

- (a) Please confirm that the following quote appears on page 218. "This Workbook calculates the amounts by component of changes in Headquarters Administered Programs and Corporate-wide Activities for any intermediate estimate years and for the Test Year."
- (b) Please confirm that on page 227, of the RF Summary, the FY99 budget for segment 16, component 174, ADP S&S is \$531,529,740. If you are unable to confirm, please explain.
- (c) Please provide the FY00 budgeted amount, for segment 16, component 174, ADP S&S, for the Year 2000 software program.
- (d) Please confirm that on page 227, of USPS-LR-I-127, segment 16, component 174, ADP S&S indicates that FY99 budgeted costs increase over FY98 actual costs by \$61,593,245. If you are unable to confirm, please explain.
- (e) Please confirm that on page 227, of USPS-LR-I-127, segment 16, component 174, ADP S&S indicates the FY00 budgeted costs are expected to decrease from the FY99 budgeted amount, by \$40,805,050. If you are unable to confirm, please explain.
- (f) Please explain what comprises the \$40,805,050 cost decrease in segment 16, component 174.
- (g) Please confirm that on page 227, of USPS-LR-I-127, the FY01 costs for ADP S&S for segment 16, component 174 are expected to increase by \$27,203,367.
- (h) Please explain what comprises the cost increase of \$27,203,367 in segment 16, component 174.
- (i) Please confirm that the net decline from FY98 expenses shown in the RF Summary on page 227, of USPS-LR-I-127, for ADP S&S in FY00 and FY01 for segment 16, component 174 is \$13,601,683 (-\$40,805,050 + \$27,203,367).

RESPONSE:

- (a) Confirmed.
- (b) Confirmed.
- (c) The Postal Service budget is not developed by segment and component.

Please note that as described on page 228 of LR-I-127, budgeted amounts

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

OCA/USPS-T9-19. continued

by line number for the estimated years are allocated by account number based on FY98 actual and cross walked to cost component. It should also be pointed out that the term "Budget" for FY 2000 and FY 2001 represents an estimate since budgets had not been developed when these estimates were made.

(d) Confirmed.

(e) Confirmed.

(f) The \$40,805,050 cost decrease in segment 16, component 174 represents the estimated prorated share of the net decline in Headquarters Programs and Corporatewide Activities expenses for lines 31 and 34 (supplies and services) in FY 2000.

(g) Confirmed.

(h) The \$27,203,367 cost increase in segment 16, component 174 represents the estimated net increase in these expenses in FY 2001.

(i) Confirmed.

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

OCA/USPS-T9-20. Please refer to USPS-LR-I-126, chapter II, FY98 Actual Expenses by Segment/Component, cost segment 20, primary account number 56617, titled "Interest – late payments to contractors," the expenses totaling \$2,939,782.21 (\$2,936,467.91 + \$3,314.30).

- (a) Please explain why the USPS makes late payments to its contractors.
- (b) Please provide the cost of capital saved by delaying payments to its contractors.
- (c) Please provide the amounts budgeted for this account for FY00 and FY01.
- (d) Please provide the actual primary account balance for 56617 for FY99 and year-to-date FY00.
- (e) Do late payments facilitate the USPS's ability to optimize its cash management objectives? If so, please explain.

RESPONSE:

- (a) Objection filed.
- (b) Payments to contractors are not delayed to offset the cost of capital.
- (c) Postal Service budgets are not developed by account.
- (d) The FY 99 actual expense for account 56617 is \$3,525,308. The FY 2000 expense through accounting period 5 is \$838,758.
- (e) Objection filed.

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

OCA/USPS-T9-21. Please refer to USPS-LR-I-126, chapter II, FY98 Actual Expenses by Segment/Component, cost segment 20, primary account number 58115, titled "Interest – untimely payments to Thrift Savings Plan," the expenses of \$499,596.52."

- (a) Please explain why the USPS made untimely payments to the employees' Thrift Savings Plan?
- (b) What is the USPS cost of capital saved by making untimely payments to the employees' Thrift Savings Plan?
- (c) For FY00 and FY01, please provide the amounts budgeted for untimely payments?
- (d) Please provide FY99 actual expenses for primary account 58115.
- (e) Please provide FY00 year-to-date actual expenses for primary account 58115.
- (f) Did the late payment(s) facilitate the USPS's ability to optimize its cash management objectives? If so, please explain.
- (g) Please identify each year the Postal Service has made untimely payments to the employees' Thrift Savings Plan. For each year an untimely payment was made, please include the total amount expensed to primary account 58115.

RESPONSE:

- (a) Objection filed.
- (b) Late payments are not made to offset the cost of capital.
- (c) Postal Service budgets are not developed by account.
- (d) Actual FY 99 expense for account 58115 was \$757,168.
- (e) The FY 2000 expense for account 58115 through AP 5 is \$479,868.
- (f) Objection filed.
- (g) The actual amounts relevant for the test period in this case (FY's 98-2000) are detailed above.

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

OCA/USPS-T9-22. The following refers to USPS-LR-I-126, chapter II, FY98 Actual Expenses by Segment/Component, segment 20, primary account numbers 52472, 56203, 56213 56214, 56215, 56661 and 56665, for bad debts and losses which totaled \$49,199,130.63.

- (a) Please provide the amounts budgeted for each of the accounts listed in this interrogatory for FY00 and FY01.
- (b) For FY 99, please provide the actual amounts for each of the accounts listed in this interrogatory.
- (c) For FY 00, please provide the FY00 actual year-to-date expenses for each of the accounts listed in this interrogatory.
- (d) Please explain what resulted in the "adjusted losses – claim for cash losses" of \$22,686,535.43.
- (e) What collection measures does the USPS take to recover its bad debts?
- (f) How long does the USPS attempt to recover a bad debt before it is written off?

RESPONSE:

(a) Postal Service budgets are not developed by account.

(b) & (c) The actual amounts requested are shown in the table below .

Account	FY 99 (\$000)	FY 00 A/P 5 Y-T-D
52472	0	0
56203	4	1
56213	28,605	9,900
56214	3,589	1,776
56215	286	173
56661	22,357	7,863
56665	76	16

- (d) The "adjusted losses – claim for losses" is an account used to record payments or credits to postmasters, other officials, and employees for the amount of funds lost through burglary, fire, or other unavoidable casualty, when such loss resulted through no fault or negligence.

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

OCA/USPS-T9-22. continued

(e) Objection filed.

(f) Objection filed.

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

OCA/USPS-23. The following refers to USPS-LR-I-126, chapter II, FY98 Actual Expenses by Segment/Component, segment 20, primary account numbers 52361, 52363, 52365, 52367 for training by contract support in the amount of \$31,413,009.12.

- (a) Please identify the types of training conducted by these contractors.
- (b) For each account listed in this interrogatory, please provide the FY99 and year-to-date FY00 actuals.
- (c) Please provide, by account number(s), the amounts budgeted for contract instructors for FY00 and FY01.
- (d) Has the USPS taken any steps to reduce the amount spent on contract instructors? If so, please identify all measures taken. If not, please explain why the USPS does not plan on reducing the amount spent on contract instructors.

RESPONSE:

(a) Objection filed.

(b) The amounts requested are reflected in the table below.

Account	FY 99 (\$000)	FY 00 A/P 5 Y-T-D
52361	5,411	241
52363	23,352	5,113
52365	847	83
52367	1,813	306

(c) The Postal Service does not budget by account.

(d) Objection filed.

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

OCA/USPS-T9-24. The following refers to USPS-LR-I-126, chapter II, FY98 Actual Expenses by Segment/Component, segment 15, primary account number 54146, "Telephone Service – Private Residence of USPS Employees," the amount totaling \$416,765.12.

- (a) Are business-use-only phones installed in the USPS employees' private residences?
- (b) If your response to part "a" of this interrogatory is negative, please explain how the USPS controls the usage of a private residential phone.
- (c) Please indicate the amount of long distance charges billed to account 54146 for FY98, actual FY99, and year-to-date FY00.
- (d) If your response to part "c" of this interrogatory is other than 100 percent of the costs were long distance charges, please identify (1) the amount paid for private residential business-use-only phones, (2) the amount paid for private residence business-use-only long distance calls, and (3) other. For the amount identified as other, please explain what types of private residence telephone expenses the Postal Service includes in the category identified as "other."
- (e) Please identify and explain the criteria the USPS uses in determining whether the Postal Service will provide an employee with private residence telephone service. Provide copies of documents that relate to the criteria.
- (f) Of the long distance charges billed to account 54146, what amount was expensed to 54146 for non-business related long distance calls?
- (g) Please provide the total FY99 actual expenses for account 54146.
- (h) Please provide the year-to-date FY00 actual expenses for account 54146.
- (i) Please provide the FY00 and FY01 budget for account 54146.

RESPONSE:

- (a) Objection filed.
- (b) Objection filed.
- (c) This information is not available.
- (d) This information is not available.
- (e) Objection filed.
- (f) This information is not available.

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

OCA/USPS-T9-24. continued

- (g) The Actual FY 99 expense for account 54146 was \$460,203.
- (h) The FY 2000 expense for account 54146 through accounting period 5 is
\$130,002.
- (i) The Postal Service does not budget by account.

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

OCA/USPS-T9-25. The following refers to USPS-LR-I-126, chapter II, FY98 Actual Expenses by Segment/Component, segment 15, primary account 54156, "Energy Savings Shared with Contractors," the amount totaling \$2,151,470.43.

- (a) Please explain the amounts and types of energy savings that are included in primary account 54156 for FY98.
- (b) Please provide the FY99 actuals for account number 54156.
- (c) Please provide the year-to-date FY00 actuals for account number 54156.
- (d) Please provide the amounts budgeted for account 54156 for FY00 and FY01.
- (e) Are the FY98 shared energy savings a one-time event? If so, please explain how one-time-event(s) are handled in the USPS Docket No. R2000-1 roll-forward. If not, please explain what the "energy saving" programs are and why the USPS shares savings with contractors for more than a one-year time period.

RESPONSE:

- (a) It is my understanding that Energy Savings Shared with Contractors is an alternative financing agreement to allow the Postal Service to move forward with energy projects. These types of contracts are considered long-term commitments. Under this program, the successful contractor is to identify, design, install, and may finance energy conservation opportunities in all or part of the energy consuming systems of a Postal Service facility. The Postal Service may direct an energy service company to conduct an energy survey and identify energy conservation opportunities relating to the system or systems identified. The contractor completes the energy survey and submits a technical and financial proposal. If the Postal Service agrees with the contractors survey results it will instruct the contractor to implement the energy conservation opportunities (ECO). These ECO's consist of surveys,

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

OCA/USPS-T9-25. continued

lighting retrofits, system controls, HVAC improvements, chiller repairs and/or replacement. When the work is completed and accepted by the Postal Service the contract enters the "Payment Phase" whereby the contractor is then reimbursed to cover their costs of the equipment they have installed including labor and finance charges by receiving a percentage of the savings generated by the installed energy saving equipment. Payments usually cover 3 to 5 years.

- (b) The Actual FY 99 expense for account 54156 was \$1,411,038.
- (c) The FY 2000 expense for account 54156 through accounting period 5 is \$475,449.
- (d) The Postal Service does not budget by account.
- (e) See response to part (a) of this question.

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

OCA/USPS-T9-26. Please refer to your response to ANM/USPS-T9-8 and USPS-LR-I-127. Page two, of the "Capital Investment Plan FY 1998-2002" indicates that "[a] total cost reduction of \$1,706 million is budgeted for FY 2000...." Page 588, of USPS-LR-I-127, indicates that total cost reductions for FY00 are \$980,577 thousand. Please reconcile the difference of \$725,423 thousand (\$1,706 million less \$980,577 thousand) in FY00 cost reduction programs. Please cite all source documents used.

RESPONSE:

The difference relates mainly to how cost reductions are characterized in the rate case versus the ones mentioned in the Capital Plan, and the baseline against which the reductions are being measured. The cost reduction amount referred to in the FY 1998-2002 Capital Investment Plan includes reductions to Headquarters expenses of approximately \$711 million. Changes to Headquarters expenses are not reflected as cost reductions in the rate case but as changes to other programs. Adjusting the total cost reduction number in the Capital Plan for the \$711 million reflected as Headquarters, leaves \$995 million which is very close to the \$981 million shown as cost reductions in the cost reduction column of the rollforward model for FY 2000. Also complicating the comparison is the fact that the \$711 million reduction in Headquarters expenses was measured against a preliminary FY 2000 Headquarters Budget estimate, which included the addition of inflation and some program growth to the FY 99 Operating Budget. In the rate case filing, the change in Headquarters expenses, which includes Headquarters Programs and Corporatewide Activities, was measured against a lower number, i.e., planned expenses as of accounting period 9.

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

OCA/USPS-T9-28. Please refer to your response to ANM/USPS-T10-17, Attachment I.

- (a) For FY98, FY99, FY00 and FY01, please provide the actual and planned amounts included in the "Facilities Special Fund" used by the Vice President, Facilities "to take advantage of unforeseen investment opportunities."
- (b) Please indicate how the Postal Service determines the amount of funds to budget for the "Facilities Special Fund."
- (c) Does the Postal Service include in its plan, budget or other forecasted data amounts for other "Special Funds" that allow the Vice President, Facilities or other group Vice Presidents to take advantage of "unforeseen opportunities?" If so, for each year amounts are included, please indicate the amount, the category of "unforeseen opportunities," and the title of the person for whom the funds are budgeted.
- (d) For FY99, FY00 and FY01, please provide the amount of funds included to "modernize the 25-year-old L'Enfant Plaza Headquarters facility." Include in your response the actual funds spent to modernize the L'Enfant Plaza Headquarters for FY99 and year-to-date FY00.
- (e) For FY00, please indicate the total funds that have been committed to for the modernization of the L'Enfant Plaza Headquarters.

RESPONSE:

- (a) The following table provides the requested information:

Fiscal Year	Actual	Plan
1998	\$ 4.2 M	\$ 16.7 M
1999	\$ 9.3 M	\$ 15.0 M
2000	\$ 3.4 M	\$ 6.8 M

The FY01 plan has not been developed.

- (b) The amount of funds budgeted for this category is based on an estimates provided by our facilities organization.
- (c) No.
- (d) – (e) This project was cancelled in FY99.

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

OCA/USPS-T9-29. Please refer to your response to ANM/USPS-T10-17, Attachment III.

- (a) How much of the FY99 \$4.4 billion capital investment plan was actually committed to in FY99?
- (b) Were all of the FY99 capital investment plan committed funds actually spent in FY99? If not, please provide the amount actually spent in FY99.
- (c) Were any capital investments incurred in FY99 that were not included in the FY99 \$4.4 billion capital investment plan? If so, please list them and indicate the amount spent.
- (d) Have any of the FY99 capital investment planned expenditures been pushed forward to FY00? If so, how much of the FY00 \$3.5 billion plan includes funds originally included in the FY99 plan? If not, please explain what happened to the FY99 capital investment planned expenditures that were not actually committed to in FY99.
- (e) Per attachment III, the Board of Governors approved a FY00 plan of \$3.5 billion. To date, what specific projects has the Board of Governors approved for FY00 and for what amounts?
- (f) Of the \$3.5 billion capital investment plan for FY00, how much has been committed to? In your response, please include details on what investments have been committed to as well as the specific timing for the commitment of any remaining FY00 capital investment funds.

RESPONSE:

- (a) During FY99, \$3.8 billion of the capital investment plan was committed. It should be noted that during the year, the original plan was reduced to \$4.0 billion.
- (b) No. Capital commitments are recorded in the year that specific project authorization is made. Actual spending is normally made in future years as projects are completed.
- (c) No.
- (d) Yes. Approximately \$180 million in planned FY99 commitments were pushed forward to FY00.

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

OCA/USPS-T9-29. continued

- (e) Through the March Board of Governors meeting, the following projects have been approved by the Board:

PROJECT	AMOUNT
Mailing Online	\$ 18.6 M
Singulate Scan Induction Units	\$ 102.3 M
St. Paul MN Twin Cities AMC	\$ 63.7 M
R&DF – Postalone! BCSS	\$ 10.1 M
Ansonia Modification	\$ 11.9 M
New York Midtown Station	\$ 27.6 M

- (f) Through Accounting Period 6, \$543 million in capital commitments have been recorded. The details requested are currently being compiled and will be provided shortly.

**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
OFFICE OF THE CONSUMER ADVOCATE**

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
OFFICE OF THE CONSUMER ADVOCATE**

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.

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

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
OFFICE OF THE CONSUMER ADVOCATE**

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.

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

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).

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

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
OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T9-46 RESPONSE continued:

- 7) An additional unstructured LIM was assigned to close the net income gap.
(-852,506 hours)

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION FOR POSTAL COMMERCE**

PostCom/USPS-T-9-1. Are labor costs associated with the installation of FSM/AFSM equipment characterized (i) in whole or (ii) in part as "maintenance" as that term is used in LR-I-126?

(a) If your answer is affirmative, has there been, or do you project there to be, a decrease in installation-related maintenance costs in any of FY 99, 00, 01?

(b) If your answer to sub-part (a) is affirmative, how do you account for that decrease in a year in which it occurs and any subsequent year? Please provide an example.

(c) If your affirmative answer is "in part" explain how and why such costs are so characterized and how and why that part which is not so characterized is characterized.

(d) If your answer is "no", where are such costs reflected?

RESPONSE:

No. The term maintenance as used in conjunction with the equipment related cost reduction programs described in LR-I-126, represents the labor cost for Postal employees who maintain the equipment after it has been installed. Accordingly, data referred to in LR-I-126 pertains to operating variances only.

(a) – (c) See my response to above.

(d) If a contractor provides such costs, they are capitalized and reflected in the cost of the equipment. If postal labor is incurred for such costs, they are expensed.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION FOR POSTAL COMMERCE**

PostCom/USPS-T9-2. PostCom/USPS-T-9-2. Please refer to witness Kingley's response to NAA/USPS-T-10-1, b. There she says, "I am told that the DPS work hour savings budgeted for carrier in-office time from FY 99 to FY 01 are:

FY 99: 4.6 million workhours
FY 00: 9.6 million workhours
FY 01: 4.2 million workhours"

- (a) Please provide a derivation of these saving from those you show in LR-I-126, citing the programs comprising these savings.
- (b) If you cannot provide a reconciliation, please explain why and provide the correct saving for each Fiscal Year.

PostCom/USPS-T9-2 Response.

(a - b) The DPS workhour savings shown in Exhibit E of USPS-LR-I-126 are:

(Workhours in thousands)

	<u>FY1999</u>	<u>FY2000</u>	<u>TY2001</u>
RBCS	1,304	2,492	0
ID Sort Code	0	117	452
DBCS	3,077	6,808	3,658
CSBCS	74	0	0
MLOCR	140	0	0
DPS High Rise	0	365	0

PostCom/USPS-T9-3 not available at time of filing

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
UNITED PARCEL SERVICE**

UPS/USPS-T9-1. Identify all instances in which you have relied on or used in your testimony in any way FY 1999 cost, revenue, volume, or other data, and state in each such instance why you used FY 1999 data instead of data for BY 1998.

RESPONSE:

I utilized the latest data available to the extent that it made a material difference to the estimates and could be incorporated without compromising the filing date.

In particular, I used actual FY 99 volume and revenue, the November 1999 DRI forecast (which resulted in actual FY 99 inflation factors and COLA unit costs calculations), and actual FY 99 health benefit premium changes. This approach yielded an FY 99 estimate of expenses which was only \$8 million different than actual expenses.

I was unable to incorporate actual FY 99 expense data because it was not available in time to update the required models, testimony, and Library References.

1 CHAIRMAN GLEIMAN: Is there any additional written
2 cross examination for Witness Tayman? Mr. Ackerly? We're
3 going to put buzzers in the room for people to press to see
4 who presses the buzzer fastest.

5 CROSS EXAMINATION

6 MR. ACKERLY: Thank you, Mr. Chairman. Todd
7 Ackerly, representing the Direct Marketing Association.

8 I have answers to the following interrogatories
9 that were not in the packet -- UPS Number 1, DMA-51 through
10 55 and 57 through 58.

11 I am handing a copy of this packet to the witness.

12 BY MR. ACKERLY:

13 Q I would ask you, Mr. Tayman, if those questions
14 were asked to you today, would your answers be the same?

15 A Yes, they would.

16 CHAIRMAN GLEIMAN: That being the case, counsel,
17 if you would please provide two copies of the additional
18 designated written cross examination to the Court Reporter,
19 I will direct that the material be received into evidence
20 and transcribed into the record.

21 MR. ACKERLY: Thank you, Mr. Chairman.

22 [Additional Designation of
23 Cross-Examination of William P.
24 Tayman by the United Parcel Service
25 was received into evidence and

transcribed into the record.]

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**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
UNITED PARCEL SERVICE**

UPS/USPS-T9-1. Identify all instances in which you have relied on or used in your testimony in any way FY 1999 cost, revenue, volume, or other data, and state in each such instance why you used FY 1999 data instead of data for BY 1998.

RESPONSE:

I utilized the latest data available to the extent that it made a material difference to the estimates and could be incorporated without compromising the filing date.

In particular, I used actual FY 99 volume and revenue, the November 1999 DRI forecast (which resulted in actual FY 99 inflation factors and COLA unit costs calculations), and actual FY 99 health benefit premium changes. This approach yielded an FY 99 estimate of expenses which was only \$8 million different than actual expenses.

I was unable to incorporate actual FY 99 expense data because it was not available in time to update the required models, testimony, and Library References.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-51. Please refer to the "Cost Reductions" (Exhibit E) worksheet in LR-I-126 PRG_ANAL-revised.xls, at column F, line 81, which shows a summary of test year after rates cost reduction program changes from workhours (measured in thousands of hours) for the Flat Mail OCR (EC -06) Program for Segment 3, Clerks hours.

- a. Please confirm that the value of 2,715 thousand hours is derived from a revised page 6 from the "Notice of United States Postal Service of Errata to Library References I-126 and I-127", filed on February 18, 2000, where it states in the paragraph entitled, **ADVANCED FLAT SORTING MACHINE (AFSM)**: "Savings for FY 2001 were estimated to decrease 2,715,000 hours for clerks (173 machines x 15,693.6 hours per machine)...."
- b. If not confirmed, please provide the source for the value in LR-I-126 PRG_ANAL-revised.xls, at column F, line 81.
- c. For this AFSM purchase, please provide the original number of clerk workhours that were required to process the same amount of mail in a year that a single machine will process. Please also provide the number of workhours that will be required to process this amount of mail once the machine is installed. The savings you cite should be the difference between these numbers.
- d. Please provide the information in c, above for the other two AFSM purchases.

RESPONSE:

- a. Confirmed. See response to MPA/USPS-T9-1.
- b. See response to a.
- c. See response to ANM/USPS-T9-19 and ANM/USPS-T9-22, revised April 4, 2000.

As explained in those responses, the savings are calculated on an aggregate basis using assumptions, such as, average through-puts.
- d. See response to c.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-52. Please refer to the "Cost Reductions" (Exhibit E) worksheet in LR-I-126 PRG_ANAL-revised.xls, at column F, line 43, which shows a summary of FY 2000 cost reduction program changes from prior year workhours (measured in thousands of hours) for the Flat Mail OCR (EC -06) Program for Segment 3, Clerks hours. Please provide the source for the value of 1,467 thousand hours in LR-I-126 PRG_ANAL-revised.xls, at column F, line 43.

RESPONSE:

The source of the Segment 3 FY 2000 savings for the Flat Mail OCR Program is the program manager responsible for this program.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-53. Please refer to the "Cost Reductions" (Exhibit E) worksheet in LR-I-126 PRG_ANAL-revised.xls, at column G, line 81, which contains the following formula-"=F81 / 'C:\ My Documents\ Excel\ R2000-1\ Program LR\[Iri126_e.xls]Data'!\$E\$10*1000".

- a. Please confirm that this formula references a file found locally on a computer to which interveners [sic] do not have access.
- b. If confirmed, please provide this file.
- c. If not confirmed, please provide a citation to the file that the formula references.
- d. Please also confirm that the value contained within C:\My Documents\Excel\R2000-1\Program LR\[Iri126_e.xls]Data'!\$E\$10 is approximately equal to 1,789.

RESPONSE:

- a. Confirmed. The file in question was copied from the C: drive where it was originally developed to a network drive where it now resides. During this process not all of the links were changed. The workhour conversion factors and average personnel costs are the same in both files. The links can be changed to the Data sheet in the electronic version of the workbook that was filed, however this has no impact on the results of the calculations.
- b. See the response to a.
- c. See the response to a.
- d. Confirmed. Please refer to the Data sheet in the workbook that was filed which contains the clerk workhour conversion factor of 1789.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-54. Please refer to the "Cost Reductions" (Exhibit E) worksheet in LR-I-126 PRG_ANAL-revised.xls, at column H, line 81, which contains the following formula: "=G81 * 'C:\My Documents\Excel\R2000-1\Program LR\Iri126-e.xls\Data'!\$D\$5/1000".

- a. Please confirm that this formula references a file found locally on a computer to which interveners [sic] do not have access.
- b. If confirmed, please provide this file.
- c. If not confirmed, please provide a citation to the file that the formula references.
- d. Please also confirm that the value contained within C:\My Documents\Excel\R2000-1\Program LR\Iri126-e.xls\Data'!\$D\$5 is approximately equal to 50,125.

RESPONSE:

- a.-c. See the response to DMA/USPS-T9-53.
- d. Confirmed. Please refer to the Data sheet in the workbook that was filed which contains the FY 2001 clerk/mail handler average personnel cost of \$50,125.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-55. Please refer to Docket No. R2000-1 USPS Library Reference I-126 "Explanation of Cost Reductions and Other Programs", page 6, the paragraph entitled, **ADVANCED FLAT SORTING MACHINE (AFSM)**. Please refer to the following statement contained within the aforementioned paragraph: "Savings for FY 2000 were estimated to decrease 129,000 hours for clerks (1,086 machines x 118.8 hours per machine) and cost was estimated to increase by 51,000 hours for maintenance (1,086 machines x 50 hours)." Since $1,086 \times 50 = 54,300$, please reconcile the difference between 51,000 and 54,300.

RESPONSE:

Please see Errata to USPS-LR-I-126 filed April 5, 2000.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-57. Page 23 of LR-I-126 states that air taxi costs for FY 2000 will increase by \$12,600 million in supplies and service accounts. Exhibit B of your spreadsheet shows \$12.6 million for this increase. Please reconcile these two estimates.

RESPONSE:

The discrepancy relates to a typographical error. The correct amount is \$12.6 million. Also note that this amount relates to transportation expense, not supplies and services.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.**

DMA/USPS-T9-58. Please confirm that 475 L'Enfant Plaza, SW has a current assessed value of \$76,779,000. If you do not confirm, please supply the correct value.

RESPONSE:

I am unable to confirm the figure you have quoted.

1 CHAIRMAN GLEIMAN: Mr. Levy.

2 MR. LEVY: Good morning and thank you, Mr.
3 Chairman. David Levy for the Alliance of Nonprofit Mailers
4 and the American Library Association.

5 CROSS EXAMINATION

6 BY MR. LEVY:

7 Q Mr. Tayman, I have in my hand the following
8 responses by you that were originally addressed to Witness
9 Kingsley and were redirected to you, ANM Questions T10-17,
10 T10-19, T10-28 and T10-31.

11 I am going to hand them to you and ask if they are
12 in fact your interrogatory answers.

13 A Yes, they are.

14 Q They were prepared by you or under your
15 supervision?

16 A Yes.

17 Q And if you were asked the same questions today,
18 your answers would be the same?

19 A Yes.

20 MR. LEVY: Mr. Chairman, with that I ask that the
21 questions and answers be transcribed and admitted and I will
22 hand them to the Reporter.

23 CHAIRMAN GLEIMAN: So ordered.

24 [Additional Designation of
25 Cross-Examination of William P.

1 Tayman by the Alliance of Nonprofit
2 Mailers and the American Library
3 Association was received into
4 evidence and transcribed into the
5 record.]
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**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NONPROFIT MAILERS
(Redirected From Witness Kinglsey USPS-T10-17)**

ANM/USPS-T10-17. Please produce all written communications to or from the Board of Governors or its members since January 1, 1998, concerning the funds available for capital investment for automated processing of flat-shaped mail.

RESPONSE:

Capital investment information is provided to the Board of Governors in the annual capital investment plan and the five-year capital plan. Attachment I and II provide a copy of the FY 1999 and FY 2000 Capital Investment Plan. A copy of the FY 1999 Update to the FY 1998 – 2002 Capital Investment Plan is provided as Attachment III. Please see my response to ANM/USPS-T9-8 for a copy of the FY 2000 Update to the FY 1998 – 2002 Capital Investment Plan.

CAPITAL INVESTMENT PLAN

In October 1997, the Board approved the FY 1998-2002 capital budget of \$17 billion. Normally, at this time we would request a new 5 Year Plan through FY 2003. This year, however, we recommend keeping the current \$17 billion plan, maintaining the \$4.4 billion plan for FY 1999, adjusting out year allocations through 2002 and not asking for a new 5 Year Plan.

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.

CAPITAL INVESTMENT PLAN (\$Billions)						
Fiscal Year	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Total</u>
Approved	5.6	4.4	3.0	2.4	1.6	17.0
Revised	3.7	4.4	3.5	2.7	2.7	17.0

We will use our Capital Strategic Planning Committee process to complete this review. Currently, Operations and Marketing are reviewing all capital requirements beyond FY 1999. Upon completion of this first step we will look at ways to achieve our goals through means other than capital investments. The FY 99 portion of the plan has been validated through the Deploy Process.

CAPITAL PLAN HIGHLIGHTS: As shown in the Long Term Financial Outlook on page 3, this Capital Plan is affordable. Our Capital Plan strategies include investments that make it easier for our customers to conduct business with the Postal Service. The plan also includes programs that will improve the quality of our customer services and provide opportunities for revenue enhancements. Infrastructure investments are necessary to support workload growth, to repair or replace aging assets, and to provide the necessary information and communications technology networks. We will be apply technology to be more aggressive in our cost management to gain efficiencies and improve productivity by using automated and mechanization projects affecting distribution, processing and delivery areas.

FY 1999 \$4.4 BILLION CAPITAL INVESTMENT PLAN: The FY 1999 Capital Investment Plan provides for: New distribution equipment for letters, flats and parcels; investments to reduce material handling

FY 1999 CAPITAL INVESTMENT PLAN

- New Distribution Equipment - Letters, Flats, Parcels
- Investments to Reduce Material Handling Costs
- Funding to Start or Complete 25 Major Processing Facilities
- Funds for 317 Customer Service/Delivery Facilities
- Mixed Delivery & Collection Vehicles
- Continues Funding For:
 - Point of Service
 - Associate Office Infrastructure
 - Delivery Confirmation
 - International Service Centers


costs; requested funding to start or complete 25 Mail Processing Facilities; funding for 317 Customer Service/Delivery Facilities and the purchase of 4,500 Mixed Delivery and Collection Vehicles; and continued funding for Point of Service, Associate Office Infrastructure, Delivery Confirmation and International Service Centers.

The FY 1999 Capital Plan requested can be grouped in six basic categories of programs as


follows:

Facilities: The facilities portion of the plan totals \$1.6 billion. For field projects less than \$5 million, we have planned \$1,092 million. This includes funding for 347 projects for expansion and new construction of small facilities and funding for 1,668 repair and alteration projects. There is \$417 million projected in commitments for 25 major processing facilities. Funds have been included to modernize the 25-year-old L'Enfant Plaza Headquarters facility. We will continue our BMC Expansion program that allows the BMC


network to address future growth in palletized volume and large merchandising parcels in an efficient and more timely manner. The Facilities Special Fund is established for the Vice President, Facilities to take advantage of unforeseen investment opportunities.

 FY 99 CAPITAL INVESTMENT PLAN	
Investment Categories	
Facilities	\$1,626
Vehicles	286
Equipment	1,421
Retail	70
Infrastructure	526
Special Projects	514
Total	\$4,442
(\$Millions)	

Vehicles: The Vehicles category is projected to require \$285 million in capital commitments in FY 1999. In accordance with our five year vehicle plan, \$231 million in commitments is projected for 4,500 Mixed Delivery and Collection Vehicles and 375 Cargo Vans. Our Alternate Fuel program requires continual funding as federal requirements increase. \$19 million is provided for this program, and \$7 million is provided for Alaska Jeeps to meet the special requirements of that region. Finally, \$5 million is included for Carrier Route Vans, which continues a replacement program scheduled for approval in September.

 FY 99 CAPITAL INVESTMENT PLAN	
Equipment Categories	
Letters	\$307
Flats	53
Parcels	65
Material Handling	893
Other	103
(\$Millions)	

Equipment: The Equipment category totals \$1.4 billion. These programs are aimed at generating reductions in operating costs. The Equipment category can be sub-divided into specific types, as shown on the left. The letter, flat, and parcel categories are designed for improving the capacity, speed or accuracy with which letter, flat, and parcel mail processing equipment reads, processes and sorts mail. Material handling cost reduction projects make up more than half of the equipment category. This is consistent with our strategy in the cost management area to address allied labor functions. In FY 1999, an additional \$103 million is targeted for Other equipment projects such as the Smart Delivery Unit and Equipment Performance Improvement initiatives.

 FY 99 CAPITAL INVESTMENT PLAN	
Major Equipment Projects	
Tray Management System - Ph III&IV	\$510
Automated Airline Assign System	160
Robotics - Next Phase	146
Delivery Barcode OCR Expansion	100
Additional Automation Capacity	90
(\$Millions)	

Five projects account for a major portion of equipment funds. The Tray Management System request includes \$430 million for Phase III and \$80 million for Phase IV. The Board approved up to 42 sites for Phase III and has been informed that additional funding will be needed to complete this phase. To date, \$194 million has been

committed for 20 sites. No new commitments will be made until the Board's approval of a DAR modification.

The Automated Airline Assignment System will eliminate the storage and manual identification of Air Contract Transportation (ACT) Tags. This will replace the manual or semi-manual operations currently performing these functions. Under Robotics, funds are included for the acquisition of more than 500 robots to automatically load or unload letter mail trays and flat tubs into or out of mail containers. The Delivery Barcode Optical Character Reader (OCR) Expansion adds Input Sub-system (ISS), Output Sub-system (OSS) or OCR capabilities to existing Delivery Bar Code Sorter machines. Additional Automated Capacity provides small multi-level high-speed barcode sorters for the field offices.

Retail: The Retail category includes \$70 million in investments for FY 1999. Of this, the Self-Service Vending Equipment Program provides \$12 million for the purchase of 3,000 new vending machines with debit and credit payment capability. Also included is the Business Customer Support System which directly supports the building of an Electronic Business Partnership with our customers to streamline the mail verification and acceptance process. The Contract Retail Operations program is designed to upgrade the Postal Services Contract Retail Unit and will include counters, signage, new equipment and debit and credit payment options. Finally, the Stamp Service Centers will centralize stamp distribution activities from 118 stamp distribution offices to 50 Stamp Service Centers.

Infrastructure: Total infrastructure investments are planned at \$526 million. Included in the Infrastructure category are: Associate Office Infrastructure provides the backbone for computer applications such as Delivery Confirmation and Point Of Service. The Board approved \$201 million for Phase II of AOI. This \$101 million represents the FY 1999 projected commitments. The Performance Cluster Infrastructure will be the Associate Office Infrastructure equivalent at the plants. The objective of the Telephone Equipment Program is to provide centralized telecommunications equipment and service. The ADP Field Infrastructure program funds the day-to-day computer operations and support to the Area offices. Lastly, the Environmental Compliance Program is a legal requirement mandated by the Environmental Protection Agency.

Special: The last category, Major Special Projects, accounts for \$514 million of the \$4.4 billion capital investment plan for Fiscal Year 1999. Included here are five major projects. Point of Service One is designed to replace outdated Integrated Retail Terminals and cash registers. The International Service Centers are projected to result in improved service to our international and military customers by improving the processing, distribution and routing of international and military mail. The \$54 million for the



FY 99 CAPITAL INVESTMENT PLAN **Major Special Projects**

Point of Service One (Stage I & II)	\$335
International Service Centers	89
Delivery Confirmation Infrastructure	54
Corporate Call Mgmt. Deployment	27
Post Office Online	8

(\$Millions)

Delivery Confirmation Infrastructure is the FY 99 portion of the original project that will expand the current delivery confirmation capabilities. The \$27 million for Corporate Call Management System is the FY 99 commitment plan. The Post Office Online initiative uses the Internet to help small businesses and small offices move merchandise, money and messages conveniently and securely, and \$8 million represents our capital investment in this area.

CAPITAL INVESTMENT PLAN

The fiscal year 2000 capital plan totals \$4.0 billion. Capital investments consist of improvements to facilities, major engineering efforts and customer service programs. The plan contributes to profitability in FY 2000, while ensuring corporate accountability, credibility, and competitiveness.

A one-year capital plan provides the organization with the flexibility needed to evaluate capital projects in a dynamic business environment and to adapt. This flexibility will be valuable to us as we finalize our alignment of direction and reassess its capital implications. We will then be poised to make better use of our new financial indicators to analyze our capital structure. A new five-year capital plan will not be presented to the Board.

FY 2000 CAPITAL INVESTMENT PLAN Supports Strategic Objectives

Investments that:

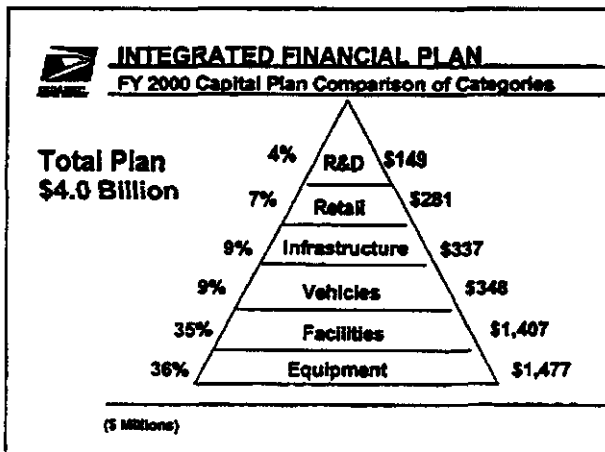
- Improve Quality Customer Service
- Allow for Aggressive Cost Management
- Increase Productivity Gains through Technology
- Maintain Infrastructure

CAPITAL PLAN HIGHLIGHTS:

The financial outlook (Page 16) demonstrates this capital plan is affordable. Our capital requirements will support our strategic objectives, shown on this table. Investments will be made in programs to ease our customers' business conduct with the Postal Service. The plan includes programs that will improve the quality of our customer services and increase our opportunities for revenue enhancements. Infrastructure investments will be necessary to support workload growth, to repair or replace aging assets, and to provide necessary information and communications technology networks. We will be applying technology to achieve more aggressive cost management, to gain efficiencies, and to improve productivity. Automation and mechanization projects will be applied to distribution, processing, and delivery systems.

Specific plan commitments of funds illustrate these strategies. Funds for new distribution equipment will reduce material handling costs, important to our cost management strategy. Funds are allocated for commitments for 19 major mail processing and distribution facilities and for over 300 small facility projects identified by the area vice presidents for commitment in FY 2000. In accordance with our long-term vehicle plan, the plan includes funds for 5,000 mixed delivery and collection vehicles. The plan funds Point-of-Service, next generation flat sorting machines and robotics.


FY 2000 \$4.0 BILLION CAPITAL INVESTMENT PLAN:



The FY 2000 capital plan totals \$4.0 billion. The plan contributes to profitability in FY 2000, while ensuring corporate accountability, credibility, and competitiveness. Capital investments will consist of improvements to facilities, major engineering efforts and customer service programs.


Major programs and projects in each of these categories are described on the following pages.

Equipment: The equipment category of the capital plan totals \$1.4 billion—37 percent of the plan—for programs to generate reductions in operating costs. This is consistent with USPS cost management strategy to concentrate efforts to reduce allied labor functions.

 INTEGRATED FINANCIAL PLAN FY 2000 Major Capital Equipment Projects	
<u>Project Title</u>	<u>2000</u>
Next Generation Flat Sorter	
*First 175 Machines	\$150
Subsequent Machines	\$250
Parcel Sorter Singulator	157
Scan Induction System	
Delivery Barcode OCR Expansion	118
Field Material Handling System (175)	100
Robotics II Pedestal/Gant	85
\$ Millions	
* Board Approved	


The equipment category can be further subdivided into specific types. As shown, funds allocated to the letter, flats, and parcel categories are for improving capacity, speed or accuracy in which letter, flats, and parcel mail processing equipment reads, processes and sorts mail. Material handling cost reduction projects comprise more than half of the equipment category. In FY 2000, an additional \$237 million will target other equipment projects such as the Smart Delivery Unit that will identify new automated delivery equipment and system concepts. The customer category supports customer service equipment and programs designed to enhance our products consistent with customers' requirements.

Facilities: The capital plan allocates \$1.4 billion for facilities. We have planned \$608 million for field projects of less than \$5 million. This includes funding for over 300 projects for expansion and new construction of small facilities and funding for more than 1,500 repair and alteration projects. Commitments for major processing facilities are projected at \$226 million. We are investing \$49 million in postal real property improvements so that additional revenues also can be realized at the time of their anticipated sale. The plan supports the continuing BMC expansion program, allowing the BMC network to increase efficiency and address future growth in palletized volume and merchandising large parcels in a more timely manner.

 INTEGRATED FINANCIAL PLAN Capital Projects - Facilities	
<u>Project Title</u>	<u>2000</u>
Field Customer Service Projects (321)	\$608
Field Repair & Alterations (1,511)	374
Major Mail Processing Facilities (19)	226
Developmental Real Estate	49
BMC Expansions	21
\$ Millions	
* Board Approved	

Vehicles: In accordance with our long-term vehicle plan, the plan allocates funds in FY 2000 for 5,000 mixed delivery and collection vehicles, 2,000 trailers, 175 tractors, and additional cargo and carrier route vans.

Our award winning alternate fuel program requires continual funding to comply with federal, state and local transportation regulations.

 INTEGRATED FINANCIAL PLAN Major Vehicles Projects	
<u>Project Title</u>	<u>2000</u>
Mixed Delivery and Collection Vehicles	\$271
Alternate Fuel Vehicles	37
Cargo Vans	22
Carrier Route Vans	8
\$ Millions	
* Board Approved	

Infrastructure: Total infrastructure investments are planned at \$337 million. The Mailing Evaluation, Readability, and Lookup Instrument program (MERLIN) will improve the consistency of mail acceptance. Robots will be designed to read address and indicia, verify meter amounts and weigh and measure the thickness of mail. The telephone equipment program will provide centralized telecommunications equipment and service. The ADP field infrastructure program funds day-to-day computer operations and support to the area offices. The environmental compliance program, required by law, is administered by the Environmental Protection Agency. The performance cluster infrastructure will parallel the existing associate office infrastructure at our plants.

**INTEGRATED FINANCIAL PLAN****Major Infrastructure Projects**

<u>Project Title</u>	<u>2000</u>
Mailing Evaluation Readability and Lookup Instrument	\$45
Telephone Equipment Installation	33
ADP Field Infrastructure	28
Environmental Compliance	22
Performance Cluster Infrastructure	22
\$ Millions	

* Board Approved

**INTEGRATED FINANCIAL PLAN****Major Retail Projects**

<u>Project Title</u>	<u>2000</u>
*Point Of Service One Stage 2A	\$219
*Self Service Vending Equipment	22
Business Customer Support System	11
Stamp Service Center	5
\$ Millions	

* Board Approved

Retail: Major retail programs account for \$257 million or 7 percent of the capital plan. The POS ONE system will replace the aging Integrated Retail Terminals (IRTs) and cash registers and is a key component of our strategy to improve customer service. The self-service vending equipment program provides for the purchase of 5,000 new vending machines with debit and credit payment capability. The business customer support system directly supports the building of an electronic business partnership with our customers to streamline the mail acceptance and verification process. Finally, 50 stamp service centers will

replace the current 118 stamp distribution offices, making stamp distribution activities more efficient.

Research and Development:

Research and development accounts for \$150 million of the \$4.0 billion—or 4 percent—of the capital investment plan for FY 2000. The final use of these funds will be determined by affordability.

The Bulk Mail Center redesign will evaluate redesigning our BMC network, both operationally and environmentally. The mail cartridge system is aimed at improving automation of letter mail processing by developing robots to sweep letter cartridges.

**INTEGRATED FINANCIAL PLAN****Major Research and Development Projects**

<u>Project Title</u>	<u>2000</u>
BMC Redesign	\$50
Mail Cartridge System	23
Automation Support	16
*Commitment Integration Operating Mgt	11
Facilities Application Replacement	10
\$ Millions	

* Board Approved

The automation support program provides funding for software engineering and systems support for the national directory support system.

The Commitment Integration Operating Management program provides funding for development and pilot testing of a new Management Information System, focusing on both mail processing and marketing.

The facilities application replacement program will design, develop and deploy replacement applications in place of those currently used to manage over 35,000 facilities nationwide.

FISCAL YEAR 1998-2002 CAPITAL INVESTMENT PLAN**OVERVIEW**

The 1998-2002 Capital Investment Plan totaled \$17 billion. This plan was originally approved by the Board of Governors in October 1997. The plan consists of improvements to facilities, major engineering efforts and customer service programs. The plan assisted in producing a net income in Fiscal Year 1998 and helps ensure profitability in Fiscal Year 1999, while ensuring corporate accountability, credibility, and competitiveness.

This plan incorporates assumptions and strategies reflected in our five-year Strategic Plan. It builds value through service investments that improve customer satisfaction while maintaining affordable rates. It also provides for new technologies that improve our infrastructure and allows us to meet the needs of our customers into the 21st century. Integral to the plan are the efficiency gains that increase productivity and reduce labor costs.

The approved Fiscal Year 1998-2002 Plan is shown below.

APPROVED CAPITAL INVESTMENT PLAN FISCAL YEAR 1998 - 2002 Planned Commitments by Category (\$ Millions)	
CATEGORY	1998-2002
Facilities	5,880
Equipment	6,367
Infrastructure	2,100
Special	1,842
Vehicles	546
Retail	462
Total Capital Commitments	16,997

In support of the organization's five-year Strategic Plan, Fiscal Year 1998 saw the continued implementation of the Delivery Confirmation System, and Point of Service One – Stage 1, and the purchase of 10,000 Carrier Route Vehicles, to name a few of our major investments.

HOW WE DID IN FISCAL YEAR 1998

Fiscal Year 1998 Capital commitments were \$3.948 billion compared to a plan of \$5.592 billion. The Fiscal Year 1998 commitment of \$3.9 billion establishes a record high level of capital commitments for the Postal Service. The previous high of \$3.3 billion was committed in Fiscal Year 1996.

During 1998, the Board of Governors approved a total of \$2.3 billion for 27 major investments, consisting of 11 facility, 14 equipment/infrastructure, and two vehicle projects. Commitments were made for the majority of these projects. We expect continued success with committing capital dollars in the years to come.

FISCAL YEAR 1999 CAPITAL INVESTMENT PLAN

In September 1998, the Board of Governors approved a \$4.4 billion plan for Fiscal Year 1999 and confirmed our \$17 billion plan through 2002.

The Capital Investment Plan is a five-year investment cycle. The first year represents the budget year with the remaining four years targeted for planning purposes. The Postal Service has listened to its internal and external customers, such as the Mailers Technical Advisory and Blue Ribbon Committees,

and only requested approval for the FY 1999 portion of the five-year plan. This provides the opportunity for the senior Executives and the Capital Strategic Planning Committee to review future investments requirements in conjunction with recommendations from these groups.

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

Fiscal Year 1999 also includes carryover and ongoing projects from Fiscal Year 1998 such as Delivery Confirmation, Point of Service One, Tray Management System, Robotics and Associate Office Infrastructure. These are in response to workload growth, aging infrastructure, and changing technology.

The Postal Service bylaws require that the capital budget be submitted to the Board of Governors for approval each year. The board approval signifies general concurrence with the plan. Projects greater than \$10 million are individually presented before the Board for approval.

ADDITIONAL FISCAL YEAR 1999 HIGHLIGHTS

Additional highlights comprising the Fiscal Year 1999 Capital Plan:

- Funding to begin or complete 25 Major Mail Processing Facilities.
- Funding for over 300 Customer Service/Delivery Facilities.
- Funding for the purchase of 4,500 Mixed Delivery & Collection Vehicles.
- Funding for the Automatic Airline Assignment System and related systems.

Development of the plan is only the beginning of our capital investment process. Each project within the plan will be subjected to a vigorous review, validation and approval process, designed to ensure the project is properly justified. Anticipated results are documented and return on investment methodology analyzed to ensure accurate projections. Studies are performed on each major project following implementation to determine if financial and operating goals were achieved. Below is a summary of the Fiscal Year 1999 Capital Investment Plan.

FISCAL YEAR 1999 APPROVED CAPITAL INVESTMENT PLAN	
Planned Commitments by Category	
(\$ Millions)	
CATEGORY	1999
Facilities	1,626
Equipment	
Letters	307
Flats	53
Parcel	65
Material Handling	899
Other Equipment	103
Total Equipment	1,427
Infrastructure	518
Special	509
Vehicles	292
Retail	70
Grand Total	4,442

This \$4.4 billion plan is equal to the Fiscal Year 1999 portion of the Fiscal Year 1998-2002 five-year plan.

The following pages provide details of the Fiscal Year 1999 Plan categories.

FACILITIES

Facilities category consists of delivery/retail facilities, processing and distribution facilities and building improvements. Expansions and new construction of facilities are necessary to keep up with increasing population, mail volume and changing delivery points. There is an aging facility inventory that requires repair or replacement. Properly maintaining our existing assets extends their useful lives, enhances working conditions for our employees, and provides a business-friendly environment for our customers.

Delivery/Retail Facilities

This category includes individual post offices, stations and branches which serve local customers. Our delivery/retail facilities are designed to respond to areas of population growth and to replace, supplement or expand obsolete or overcrowded facilities. Since these offices impact the local area, the projects are prioritized at the district, initially, then prioritized for implementation into the five-year plan by the area office.

Processing and Distribution Facilities

The major mail processing facilities make up our nationwide processing network. Operational needs dictate that we periodically replace, expand or renovate our major facilities. Requests for funds consistently exceed available capital. Funding is provided in accordance with the Five-Year Major Facilities Capital Plan. To help determine how we will allocate limited funds among these competing needs, we have developed and refined a process we refer to as "Major Facilities Prioritization". It is designed to identify and rank processing and distribution facility projects according to their operational needs. Prioritization teams conduct evaluations of all pending projects and produce a ranking according to need. Based upon their recommendations, the national five-year priority list for award and funding is revised.

These projects are critical to service performance nationwide. Facilities exchange mail with one another across the country as mail moves from origin to destination. Age, workload growth, geography and service performances all contribute to the need for new, expanded or supplemental processing and distribution facilities.

Building Improvements

Building improvements extend the lives of our assets, add new useful features, or address legal and safety requirements such as roof, heating ventilation air conditioning replacements, and asbestos removal.

FACILITIES FISCAL YEAR 1998 RESULTS

Total facility capital commitments in Fiscal Year 1998 was \$1.8 billion. Of that amount, \$230 million was committed in the Major Facilities Program. The major facilities projects listed below are projects that requested funding of \$10 million and over. Commitments can include contracts for the purchase, design, construction, support, and material handling required for construction of these projects. The most significant commitments were made for the following projects during the year.

Processing and Distribution Centers located in:

- Boise, Idaho,
- Royal Oak, Michigan,
- Sioux Falls, South Dakota,
- Spokane, Washington, and
- Tulsa, Oklahoma.

Building Purchase and Renovation in Kansas City, Missouri.

New Construction Owned in Saint Paul, Minnesota Accounting Service Center.

The Postal Service continued its Underground Storage Tank Program to ensure system compliance with the Environmental Protection Agency's December 1998 regulatory deadline for corrosion protection, spill prevention, and leak detection. The program committed \$4.9 million in 1998. Since 1988, the Postal Service has committed over \$235 million in capital and expense funds to upgrade, remove and remediate any spills associated with the fuel storage systems that service our vehicle fleet.

During Fiscal Year 1998, Facilities committed a total of \$42 million in the Developmental Real Estate Program. Although significant commitments were incurred, this program continues to make even more significant revenues for the Postal Service. In Fiscal Year 1998, over \$125 million was generated through sales and financing. These projects included finance proceeds from the Postal Square developmental project, the sale of the site of the former Western Regional office building in San Bruno, California, the sale of the former El Paso General Mail Facility, and the sale of our leasehold interests in the former Philadelphia Airport Mail Center.

FACILITY FISCAL YEAR 1999 PLAN

The Facilities section of the plan totals \$1.6 billion, including the following:

- Funding for over 300 projects for expansion and new construction of small post offices.
- Funding for more than 1,500 repair and alteration projects.
- Funding for 25 major mail processing facilities.
- Funding for the Bulk Mail Center Facility Expansion Program.

Processing and Distribution Centers located in:

- Richmond, Virginia
- Greensboro, North Carolina
- Bronx, New York
- Hackensack, New Jersey
- Los Angeles, California
- Cincinnati, Ohio
- Columbus, Ohio
- Portland, Maine
- Albuquerque, New Mexico
- Philadelphia, Pennsylvania
- Milwaukee, Wisconsin

Air Mail Centers located in:

- San Francisco, California
- Minneapolis, Minnesota

Below is a summary of Fiscal Year 1999 Capital Investment Plan for Facilities.

FISCAL YEAR 1999 CAPITAL INVESTMENT PLAN	
FACILITIES	
(\$ Millions)	
Delivery/Retail	648
Processing & Distribution	518
Building Improvements	460
Total	1,626

EQUIPMENT

The Equipment category consists of investments in automation and mechanization. Automation and mechanization equipment provide for the efficient and accurate processing and distribution of mail. This equipment serves as the backbone of the initiatives to meet the business goal of strengthening our financial viability by managing costs. A core management approach to control costs is reducing the labor intensity of distribution and delivery operations, while making it easier for our employees to do their jobs. This entails using technology to improve labor productivity. The Postal Service is streamlining the processes by which mail is moved through the processing and distribution centers by replacing manpower with automation. The return on investment for the majority of these programs is substantial enough to cover the cost of implementation.

Below are descriptions of the five subcategories included in Equipment.

Material Handling

These projects are intended to generate reductions in the operating costs. Material handling cost reduction projects make up more than half of the equipment category.

Letters, Flats, and Parcels

The Letter, Flat, and Parcel categories are designed for improving the capacity, speed or accuracy in which letter, flat, and parcel mail processing equipment reads, processes and sorts mail.

Other

The Other category includes equipment that supports multiple equipment categories in addition to non-fixed automation and mechanization projects.

FISCAL YEAR 1998 RESULTS

A total \$1.2 billion was committed for equipment projects in Fiscal Year 1998. Equipment projects represent 21 percent of the total plan. Listed below are several equipment projects approved by the Board of Governors.

- Advanced Facer Cancellor Systems - 173 units
- Delivery Bar Code Sorter Stacker Modules - 1,369 units
- Flat Sorting Machines (FSM) 1000 Bar Code Readers - 346 units
- Linerless Label Applicators for the Letter Mail Labeling Machines - 360 units

During Fiscal Year 1998, the Postal Service deployed over 3,500 units of non-fixed automation and mechanization for mail processing operations and 703 additional remote bar code system work stations to provide required additional sorting capacity. Fiscal Year 1998 capital funds supported the deployment and funded awards for 3,533 units of non-fixed automation and mechanization projects. At the end of Fiscal Year 1998, there were 4,231 units of mechanization and automation to be deployed in Fiscal Year 1999 and subsequent years.

EQUIPMENT FISCAL YEAR 1999 PLAN

A total of \$1.4 billion in high return on investment equipment projects are planned for Fiscal Year 1999 and they represent 32 percent of the plan. This is consistent with the USPS strategy in the cost management area to tackle allied labor functions.

Material Handling

Tray Management System - The program objective is to reduce allied labor expense and improve operational efficiency while providing real time work-in-process information. This is an engineering solution to replace labor with capital and consequently improve productivity and efficiency. It will improve workplace safety through automating the transportation and staging of mail trays and tubs in Postal Service operations.

Letters

Delivery Bar Code Sorter Input/Output Subsystem (DIOSS) - The DIOSS, a universal modification kit, will be installed to delivery bar code sorters to add Input Subsystem, Output Subsystem, or Optical Character Reader capabilities to an existing delivery bar code sorter machine.

Other

Smart Delivery Unit - The Smart Delivery Unit will identify new automated delivery equipment and systems concepts, develop operating prototypes and initiate their deployment. Near real-time data reporting along with improved carrier efficiency and optimized collection box operations will enable closer adherence to planned daily carrier schedules.

Parcels

Small Parcel Bundle Sorter (SPBS) Feed System - The objective is to automate the mail loading of SPBSs. There will be 230 systems deployed under this contract. This program will improve productivity, eliminate the repetitive lifting, and reduce workers' compensation claims.

Flats

Flat Sorting Machine 1000 Optical Character Reader (OCR) - Installation of an OCR on the 340 existing Flat Sorting Machines 1000 series. In accordance with corporate flat mail automation objectives, the OCR modification will permit automatic reading and sorting of flat mail to the carrier route. Replacing the manual keying flats sorting operations with the automatic address recognition and sorting system significantly increases overall flat mail productivity and results in improving delivery time.

Below is a summary of the Fiscal Year 1999 Capital Investment Plan for Equipment.

FISCAL YEAR 1999 CAPITAL INVESTMENT PLAN EQUIPMENT (\$ Millions)	
Category	1999
Material Handling	899
Letters	307
Other	103
Parcels	65
Flats	53
Total Equipment	1,427

INFRASTRUCTURE

The Infrastructure category consists of projects that facilitate technological advances well into the 21st century. The Associate Office Infrastructure will provide a common information technology network, server, telecommunications service, and support service within post offices. It can be used by multiple business applications, thus making it less costly and more timely for new programs to be deployed to post offices.

FISCAL YEAR 1998 RESULTS

Infrastructure programs committed \$457 million of their \$857 million plan in Fiscal Year 1998.

- Associate Office Infrastructure was implemented in 2,900 sites.
- Performance Cluster Infrastructure was delayed.
- Air Reservation System's detailed design was completed and implementation has begun.
- Environmental Compliance Program committed \$22 million for the replacement or conversion of 45 Chiller projects.

INFRASTRUCTURE FISCAL YEAR 1999 PLAN

Infrastructure commitments of \$518 million are planned in Fiscal Year 1999. The five largest programs included in this category are:

- Associate Office Infrastructure Phase 2 provides the backbone for computer applications like Delivery Confirmation and Point of Service One.
- Performance Cluster Infrastructure is the equivalent to Associate Office Infrastructure at our plants.
- Telephone Equipment Program provides centralized telecommunications equipment and service.
- Automatic Data Processing Field Infrastructure Program funds the day to day computer operations and support to the area offices.
- Environmental Compliance Program fulfills legal requirements mandated by the Environmental Protection Agency.

Below is a summary of the Fiscal Year 1999 Capital Investment Plan for Infrastructure.

FISCAL YEAR 1999 CAPITAL INVESTMENT PLAN INFRASTRUCTURE (\$ Millions)	
Infrastructure	518
Total Infrastructure	518

SPECIAL

This category includes equipment programs that do not fit in any of the equipment categories and several major projects that require specific mention. Some noteworthy special projects are Point of Service (POS) One, International Service Centers, Delivery Confirmation and Corporate Call Management.

FISCAL YEAR 1998 RESULTS

Special programs committed \$163 million of a \$788 million plan in Fiscal Year 1998. This was due in part to delayed deployment of POS One and favorable procurement of Delivery Confirmation equipment.

- **POS One** is a point-of-sale system that is replacing the integrated retail terminals and cash registers. It is a three stage program that will result in a total deployment of 73,406 retail terminals and associate software components in 19,709 retail facilities. The deployment of POS One is a complex process of new retail operating procedures, training, network issues, conversion of data and layout/counter configurations. Deployment for Stage 1 started in January 1998, with 20,081 retail terminals at 4,287 retail facilities plus an additional 2,091 retail terminals for testing and training.
- **Postoffice Online** permits customers to initiate multiple piece mailings and shipments of expedited packages from their personal computers. Postoffice Online went live during March 1998 to test its operational capabilities in Tampa, Florida. It was quickly expanded to Hartford, Connecticut in May 1998. Over 100 customers participated in the limited test in these two cities.
- **Corporate Call Management (CCM)** is currently the point of telephone contact for customers in the Western, Pacific, Southwest and Southeast areas, and serves customers nationwide for comprehensive tracing and tracking inquiries. The areas served will expand as additional National Service Centers (NSCs) open. During Fiscal Year 1998, CCM handled 28.3 million calls, with approximately 2,200 post offices rolled into the system by the end of Fiscal Year 1998. Also in Fiscal Year 1998, we awarded a contract to operate the second of six planned NSCs.
- **International Service Center** is improving service to our international and military customers. During Fiscal Year 1998, sites were identified for all of the ISCs and satellites and construction commenced in Miami, Florida and Los Angeles, California. Additionally, the capital funds for design and construction were committed for Miami as well as for the major automation/mechanization mail processing equipment for the entire network.

SPECIAL FISCAL YEAR 1999 PLAN

Special commitments of \$509 million are planned in Fiscal Year 1999. The five largest programs included in this category are:

- **POS One Stage 2** deployment of 22,600 POS ONE retail terminals and associated software components in 6,995 retail facilities.
- **International Service Centers** for continuing to improve service to our international and military customers by improving the process, distribution and routing of international and/or military mail.

- **Delivery Confirmation Infrastructure** for expanding the current delivery confirmation capabilities.
- **CCM** for improving customer service, operating efficiency, and increasing revenue through an effective call handling infrastructure. The CCM network includes six, fully integrated NSCs that offer postal customers easy access to services and products anytime, anywhere via a single, 1-800, toll-free number. In Fiscal Year 1999, CCM will provide the call handling infrastructure for the new Product Tracking System.
- **Postoffice Online** for continued use of the Internet, testing the updated version to a larger test market and helping small businesses conduct transactions conveniently and securely.

Below is a summary of the Fiscal Year 1999 Capital Investment Plan for Special.

FISCAL YEAR 1999 CAPITAL INVESTMENT PLAN SPECIAL (\$ Millions)	
Special	509
Total Special	509

VEHICLES

Vehicle acquisitions are designed to improve the efficiency of our postal fleet, by obtaining more reliable, more fuel-efficient vehicles to transfer mail between postal facilities and our customers. These acquisitions are used primarily to replace the fleet as it ages. There are three types of vehicle investments:

- **Vehicle Purchase** - includes basic delivery and other vehicles that transport mail across the city and the country, as well as administrative and special purpose vehicles, such as tow trucks.
- **Vehicle Auxiliary Equipment** - includes modifications to vehicle equipment such as snow plows and lift gates used to modify vehicles for special needs.
- **Freight** - capitalized costs to deliver new vehicles to postal installations.

FISCAL YEAR 1998 RESULTS

Total vehicle commitments in Fiscal Year 1998 were \$294 million. The Board of Governors approved funding for 416 truck tractors and 10,000 carrier route vehicles. These were also purchased as replacement vehicles and are of the right hand drive configuration, essential for curbside mail delivery operations. All 10,000 are termed "flex fuel" capable, meaning they can operate on ethanol or gasoline if ethanol is not available. The Postal Service is working with the fuel groups identifying suitable deployment locations as part of our attempts to maximize ethanol usage. This is the largest ethanol capable fuel fleet in the world, and continues the Postal Service's role as an environmental leader.

VEHICLES FISCAL YEAR 1999 PLAN

Vehicle commitments of \$292 million are planned for Fiscal Year 1999, 7 percent of the capital plan, including the purchase of 375 Cargo Vans and 4,500 Mixed Delivery and Collections vehicles.

Below is a summary of the Fiscal Year 1999 Capital Investment Plan for Vehicles.

FISCAL YEAR 1999 CAPITAL INVESTMENT PLAN VEHICLES (\$ Millions)	
Vehicle Purchase	280
Vehicle Auxiliary Equipment	6
Freight	6
Total Vehicles	292

The Retail equipment will improve service by providing better operating performance and management of Postal owned and contract operations. The goal is to develop a customer value philosophy that targets growth to meet the expanding requirements and specialization demanded by customers today. The investments in this category are for lobby, window and self-service retail equipment. By making commitments to this type of investment, customer service will be enhanced through the availability and convenience of our products.

The investment in the Stamp Fulfillment Services (SFS) operation is for reengineering the way the SFS fills stamps, envelopes, and other merchandise orders for all customers. This included expanding SFS's fulfillment capacity through the purchase of an Automated Fulfillment Equipment System (AFES), software integration and expanding the existing fulfillment facility. The facility expansion was completed and the AFES machine was installed successfully. The software integration has not been completed and is being reviewed, resulting in underruns in Fiscal Year 1998. However, the AFES machine is operating through enhancements to the current legacy system.

- **Self Service Vending Equipment** - providing for the purchase of 3,000 new vending machines, all of which will have debit and credit payment capabilities.
- **Business Customer Support System** - supporting the building of an Electronic Business Partnership with our customers which streamlines the acceptance and verification process.
- **Contract Retail Operations Program** - upgrading the Postal Service's Contract Retail Unit to include counters, new equipment, and debit and credit payment options.
- **Stamp Service Centers** - will centralize stamp distribution activities from 118 stamp distribution offices to 50 Stamp Service Centers.

FISCAL YEAR 1999 CAPITAL INVESTMENT PLAN	
RETAIL	
(\$ Millions)	
Retail	70
Total Retail	70

SUMMARY

The Fiscal Year 1999 capital plan of \$4.4 billion maintains our current \$17 billion plan through Fiscal Year 2002.

The capital plan provides the opportunities that will make it easier for our customers to conduct business with the Postal Service. It includes programs that will improve the quality of our customer services and provide modernized opportunities for revenue enhancements. Additionally, the utilization of technology will be used to be more aggressive in our cost management using automated and mechanization projects affecting distribution, processing, and delivery areas.

Concurrently, the Capital Strategic Planning Committee will contribute to the development of the Capital Plan by ensuring it is aligned with our strategic goals. Input from customer groups and the criteria and the recommendations made by Capital Strategic Planning Committee will assist in developing future requirements, while still attempting to extend the rate cycle and maintain rates below inflation. We will continue to explore alternatives to capital investments to meet our goals and achieve our strategies.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NONPROFIT MAILERS
(Redirected From Witness Kinglsey USPS-T10-19)**

ANM/USPS-T10-19. Please specify the hurdle rate(s) used by the Postal Service to evaluate potential capital investments relating to automated processing of flats in each fiscal year since 1998, and in future year for which the Postal Service has set a hurdle rate. Produce all studies, analyses and other documents relied on by the Postal Service for adopting each hurdle rate.

RESPONSE:

The hurdle rate used for this type of equipment is 20 percent. This rate was established in 1995 by Postmaster General Marvin Runyon based on an assessment of cost-of-capital and risk.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NONPROFIT MAILERS
(Redirected From Witness Kinglsey USPS-T10-28)**

ANM/USPS-T10-28. Please produce all studies, analyses or similar documents produced by or for the Postal Service since January 1, 1998, evaluating the Service's level of capital spending in comparison with the level of capital spending by (a) the Service's counterparts in other advanced industrial nations, or (b) competitors such as FedEx or UPS.

RESPONSE:

I am unaware of any such studies.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ALLIANCE OF NONPROFIT MAILERS
(Redirected From Witness Kinglsey USPS-T10-31)**

ANM/USPS-T10-31. Please provide the following information about the Postal Service's depreciation of its FSM 881s:

- (a) the economic life assumed;
- (b) the assumed residual value (if any) at the end of the economic life;
- (c) the method of depreciation used;
- (d) the survivor curves used; and
- (e) all studies, analyses, and similar documents that support the reasonableness of the values stated in response to the previous parts of this question.

RESPONSE:

Information requested on the depreciation of FSM 881s is as follows:

- (a) the economic life assumed – 10 years
- (b) the assumed residual value – none
- (c) the method of depreciation used – straight line
- (d) the survivor curves used – not applicable
- (e) Please see my response to ANM/USPS-T9-7(f).

1 CHAIRMAN GLEIMAN: Anyone else? Mr. Wiggins.

2 MR. WIGGINS: Thank you, Mr. Chairman. Frank
3 Wiggins for the Association of Postal Commerce.

4 I received this morning Mr. Tayman's answer to
5 PostComm/USPS T9-3 and would like to include that in the
6 designated materials.

7 CROSS EXAMINATION

8 BY MR. WIGGINS:

9 Q Mr. Tayman, if I posed to you today the question
10 that you responded to in writing there, would your answer be
11 the same?

12 A Yes, it would.

13 MR. WIGGINS: Mr. Chairman, I would like to give
14 two copies of that to the Reporter and have it entered into
15 the record.

16 CHAIRMAN GLEIMAN: So ordered, to be transcribed
17 into the record and into evidence.

18 [Additional Designation of
19 Cross-Examination of William P.
20 Tayman by the Association of Postal
21 Commerce/U.S. Postal Service was
22 received into evidence and
23 transcribed into the record.]
24
25

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

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORY OF THE ASSOCIATION FOR POSTAL COMMERCE
(PostCom/USPS-T9-3)

The United States Postal Service hereby provides the response of witness
Tayman to the following interrogatory of the Association for Postal Commerce:
PostCom/USPS-T9-3, as revised on March 27, 2000.

The 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, Ratemaking



Scott L. Reiter

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April 11, 2000

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION FOR POSTAL COMMERCE**

PostCom/USPS-T-9-3. Please refer to your response to PostCom/USPS-T-9-1.

(a) Please provide installation-related costs for FSM/AFSM equipment in FY 99, 00, and 01.

(b) For each year, what percentage of this cost will be expended on postal labor?

RESPONSE:

(a - b) The requested information is not available. The installation costs for FSM/AFSM equipment is included in the purchase price of the equipment and it is not possible to isolate the "installation" portion of the cost.

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.

A handwritten signature in black ink, appearing to read "William P. Tayman", is written over a horizontal line.

Dated: 4-11-2000

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", is written over a horizontal line.

Scott L. Reiter

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
April 11, 2000

1 CHAIRMAN GLEIMAN: Mr. Olson.

2 MR. OLSON: Thank you, Mr. Chairman. William
3 Olson representing the Association of Priority Mail Users.
4 We, too, received a response of Witness Tayman to
5 interrogatories of the Association of Priority Mail Users
6 redirected from Witness Meehan, USPS-T11-1A this morning and
7 I would like to get this into the record.

8 CROSS EXAMINATION

9 BY MR. OLSON:

10 Q Mr. Tayman, I am handing you two copies of your
11 response and ask you if that is your response to that
12 interrogatory.

13 A Yes, it is.

14 MR. OLSON: Mr. Chairman, we would move the
15 admission of that response into the record.

16 CHAIRMAN GLEIMAN: Please provide two copies to
17 the Reporter. I will direct that the material be received
18 into evidence and transcribed into the record.

19 [Additional Designation of
20 Cross-Examination of William P.
21 Tayman by the Association of
22 Priority Mail Users was received
23 into evidence and transcribed into
24 the record.]

25

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL USERS, INC.
(REDIRECTED FROM WITNESS MEEHAN, USPS-T11-1a.)**

APMU/USPS-T-11-1. With respect to the retroactive assessment for employee benefits of \$347 million noted on page 64 of the United States Postal Service 1989 Annual Report:

- a. Please confirm that this cost is included in your estimate of base year costs. If you do not confirm, please explain.

RESPONSE:

- a. The \$347 million in question is the cash payment made in FY 98 related to the Postal Service's liability from the OBRA of 1993. The cost associated with this retroactive assessment was accrued in FY 93. The only cost related to this retroactive assessment accrued in FY 98 was imputed interest of \$16.2 million. See Docket R97-1, LR H-12, p.136, for a schedule showing the payments and expenses related to the OBRA of 1993.

1 CHAIRMAN GLEIMAN: Any other takers? No? If
2 there is no other additional designated written cross
3 examination, that brings us to oral cross. Four parties
4 have requested oral cross examination: The Alliance of
5 Nonprofit Mailers; the Association of Priority Mail Users;
6 The Direct Marketing Association, and Office of the Consumer
7 Advocate.

8 Is there any other party which wishes to cross
9 examine Witness Tayman today?

10 MR. WIGGINS: Mr. Chairman, the Association for
11 Postal Commerce did file a designation and request for the
12 ability or the privilege of cross examining Mr. Tayman, and
13 I would like to ask that we be permitted to do that.

14 CHAIRMAN GLEIMAN: Certainly and I apologize for
15 us not picking that up. Now I have to -- now that there has
16 been a name change that I have to get used to, I have to
17 figure out where to stick you in the pecking order here.

18 I think I have got the alphabetized version now.
19 Anyone else?

20 MR. McBRIDE: Good morning, Mr. Chairman, members
21 of the Commission. Michael McBride for Dow Jones.

22 We have no prepared direct. We are anticipating
23 Mr. Levy will ask all the questions we might have, but I
24 would like to reserve the right to follow-up.

25 CHAIRMAN GLEIMAN: It is reserved, as always.

1 There is always an opportunity for follow-up. There is
2 actually no need to reserve that right, even if any party
3 has chosen not to cross examine at the outset.

4 Mr. Levy, the pressure is on.

5 [Laughter.]

6 MR. REITER: Mr. Chairman, I'm sorry, before we
7 begin, in your Ruling Number 13 Mr. Tayman was included in
8 the list that you provided of some of the library reference.

9 CHAIRMAN GLEIMAN: Can you speak up a little bit?

10 MR. REITER: Yes. In your Ruling Number 13 Mr.
11 Tayman was one of the witnesses on the list attached
12 concerning Category 2 library references and we are
13 wondering how you wanted to handle that, if you wanted to do
14 anything about that at this point.

15 CHAIRMAN GLEIMAN: We can move those library
16 references if you want to move them now.

17 MR. REITER: I'm sorry. Now I can't hear you.

18 CHAIRMAN GLEIMAN: Oh, we can deal with that right
19 now if you would like to before we start cross examination,
20 so if there are library references you want to offer up --

21 MR. REITER: Sure, if that is appropriate.

22 You just want a general motion for the ones on
23 your listing related to Mr. Tayman?

24 CHAIRMAN GLEIMAN: Sure.

25 MR. REITER: All right. The Postal Service moves

1 that those be accepted into the record.

2 CHAIRMAN GLEIMAN: Do you want to read your -- I
3 don't have my ruling, you have your list there.

4 MR. REITER: Yes. 126, 127, 128 and part of
5 Library Reference 9, the Statement of Revenue and Expenses.

6 CHAIRMAN GLEIMAN: Okay. Are there any objections
7 to us moving those into evidence?

8 [No response.]

9 CHAIRMAN GLEIMAN: Hearing none, those Library
10 References are moved into evidence and not transcribed.

11 [Part of Postal Service Library
12 Reference 9, and Postal Service
13 Library References 126, 127 and 128
14 were received into evidence.]

15 CHAIRMAN GLEIMAN: Thank you, Mr. Reiter. I
16 appreciate your reminding me.

17 Mr. Levy, whenever you are ready.

18 MR. LEVY: Thank you, Mr. Chairman.

19 CROSS EXAMINATION

20 BY MR. LEVY:

21 Q Good morning again, Mr. Tayman.

22 A Good morning.

23 Q Mr. Tayman, I want to begin by asking some
24 questions about the investment in equipment for sorting
25 flats. ~~Automation~~ ^{Automated} equipment for processing mail can avoid

1 labor costs, can't it?

2 A That's correct.

3 Q In fact, that is one of the main motivations for
4 buying such equipment, isn't it?

5 A Yes.

6 CHAIRMAN GLEIMAN: Mr. Levy, could you move the
7 mike closer, please?

8 MR. LEVY: Yes. Is the mike on. I am just not
9 close enough.

10 CHAIRMAN GLEIMAN: It is just that you are
11 soft-spoken.

12 MR. LEVY: That is the first time I have been
13 accused of that.

14 BY MR. LEVY:

15 Q Mr. Tayman, will you go to your answer to T9-56?
16 That is an ANM interrogatory.

17 A I have it, yes.

18 Q Thanks. In subpart (b) the question we asked was
19 whether a certain net investment, net of depreciation, was
20 sufficient to maintain and improve the base and
21 infrastructure of the Postal Service. That is a paraphrase.
22 And your answer was, "In my opinion, the adequacy of the
23 U.S. Postal Service capital investments should be judged
24 over a period of time greater than one year. I believe the
25 recent level of capital investments made by the Postal

1 Service has been sufficient to improve its infrastructure.
2 I have reached this conclusion subjectively."

3 I want to ask you a slightly different question.
4 Is it possible that a larger amount of investment in
5 infrastructure would have improved the Postal Service's
6 infrastructure further?

7 A I think the answer to that is that it depends. Do
8 you want --

9 Q Is it possible that a larger investment in capital
10 of this kind would have been -- would have had incremental
11 benefits that exceeded the incremental costs?

12 A It is possible, yes.

13 Q And to determine whether it is possible or actual,
14 one would need to perform a cost benefit analysis?

15 A That's correct.

16 Q Has such an analysis been performed?

17 A For additional equipment of this type?

18 Q Yes.

19 A I am not aware if any has.

20 Q If such an analysis had been performed, would you
21 have been likely to be aware of it?

22 A Not necessarily. I mean that would be performed
23 in our capital investment shop. If I could make a comment
24 on that, the return on equipment obviously is impacted by
25 what level of saturation we have of that equipment in

1 current facilities, and just to buy more equipment doesn't
2 necessarily mean that the facilities that don't have that
3 equipment have the mail volume to generate the return on it.
4 So that is why earlier I said it depends, as far as if it
5 would improve the infrastructure.

6 Q It depends on whether you used up, to speak
7 colloquially, all of the good opportunities for that kind of
8 equipment, right?

9 A That's correct.

10 Q And that is a question of fact, right?

11 A Yes.

12 Q And you don't know whether such a study has been
13 performed?

14 A I am not aware of any, no.

15 Q Is there another witness that the Postal Service
16 has tendered that I should ask these two questions to?

17 A I am going to ^{defer}~~refer~~ to my counsel there.

18 MR. REITER: I am not clear on exactly what your
19 question is, Mr. Levy.

20 MR. LEVY: The last couple of questions that the
21 witness said he didn't really know the answer to, or wasn't
22 aware that a study had been performed.

23 MR. REITER: I guess I am not clear on what study
24 you are talking about.

25 MR. LEVY: Studies of whether further investment

1 in infrastructure would have incremental benefits that
2 outweigh the incremental costs. Studies of whether there
3 has been saturation of opportunities for buying equipment
4 and installing equipment of this kind.

5 MR. REITER: I mean if you are focused on
6 operations, we have an operations witness. That would be my
7 suggestion.

8 MR. LEVY: I think I will proceed, Mr. Chairman.

9 CHAIRMAN GLEIMAN: Perhaps Postal Service counsel
10 can think about the question that you posed and let us know
11 whether indeed the operational witness would be the
12 appropriate witness and who that operational witness would
13 be. And, if not, whether the Postal Service would enter an
14 institutional question if there is no specific witness.

15 MR. REITER: We can let you know that later on.

16 CHAIRMAN GLEIMAN: Could you let us know that
17 perhaps by this afternoon?

18 MR. REITER: Yes.

19 CHAIRMAN GLEIMAN: Thank you.

20 BY MR. LEVY:

21 Q Now, Mr. Tayman, would you go to Question 49 in
22 the same series? That is ANM/USPS-T9-49.

23 A Yes, I have it.

24 Q Now, if you would turn to subpart (d), the
25 question read in part, "What factors prevented the Postal

1 Service from achieving its planned commitments for mail
2 processing equipment in 1997?" And then it continues. And
3 your answer was, to part (d), "The underrun in automation
4 was directly attributable to delays in the aggressive
5 accelerated equipment program mentioned above. For example,
6 the mail cartridge system and the tray management system
7 experienced implementation problems at the prototype sites
8 which delayed additional commitments. Consequently, senior
9 management increased the overall plan, as well as the
10 commitments to continue growth in the automation plan." Do
11 you see that?

12 A Yes, I do.

13 Q The two examples you give, the mail cartridge
14 system and the tray management system, the implementation
15 problems for those two programs ^{caused} ~~cause~~ what share of the
16 shortfall between planned commitments and actual commitments
17 in 1997?

18 A I don't have that detail, we could get that for
19 you.

20 Q Do you have any order of magnitude sense?

21 A I am not sure, no.

22 Q Do you have any idea at all?

23 A No.

24 Q Do you know ^{what} other reasons existed, if any, for the
25 shortfall between planned commitments and actual commitments

1 in 1997?

2 A Well, I think, as we indicated, the plan was very
3 aggressive, and a lot of that was being directed by our
4 Postmaster General at that time.

5 And it was ambitious, and as we started rolling
6 out the examples we provided, some of these programs did not
7 generate the return or were not working exactly as
8 originally intended, so, you know, the decision was made to
9 slow these down, get them into place where we could generate
10 the returns that were anticipated.

11 So, I mean, we don't want to throw good money
12 after bad, if you're not getting the results that we planned
13 for.

14 Q Other than the Mail Cartridge System and the Tray
15 Management System, which programs were not -- investment
16 programs were not performing as intended, and, therefore,
17 were cut back?

18 A I'm not prepared with the specific details on all
19 the different levels of equipment that were cut back. If
20 you'd like us to do some more research in that, we can do
21 that.

22 MR. LEVY: Mr. Chairman, I would request that if
23 there are any documents shedding light on any of the other
24 programs that experienced rollout problems that caused them
25 to be scaled back in that year, 1997, I would request

1 production of those documents.

2 MR. REITER: Mr. Chairman, this interrogatory
3 answer that Mr. Levy is asking about was filed on March
4 14th. I think he had plenty of time to follow up on it with
5 the kind of specifics that he's trying to get out of the
6 witness in oral cross examination now.

7 MR. LEVY: Well, Mr. Chairman, there have been
8 plenty of times to follow up with lots of questions, and
9 there have been plenty of followup questions. And now that
10 the rubber meets the road and we have a chance to flesh out
11 responsive answers --

12 CHAIRMAN GLEIMAN: Well, in point of fact, while
13 Mr. Levy perhaps could have submitted a followup
14 interrogatory, the purpose of oral cross examination, as I
15 understand it, is to follow up on written cross examination.

16 And it seems to me that that's what Mr. Levy is
17 doing, and I would respectfully request that to the extent
18 that there is additional information along the lines that
19 Mr. Levy has been asking about, that that information be
20 provided.

21 Do we understand one another about what it is that
22 we're interested in having provided?

23 MR. REITER: Yes, yes.

24 CHAIRMAN GLEIMAN: Okay. Mr. Levy, you may
25 proceed.

1 MR. LEVY: Thank you.

2 BY MR. LEVY:

3 Q Now, if you would go, Mr. Tayman, to the answer to
4 ANM/USPS-T-9-55(b) .

5 [Pause.]

6 And this question related, did it not, to concerns
7 of the Board of Governors about the appropriate pace of
8 investment in automation; is that correct?

9 A That's correct.

10 Q And your answer to (b) was, quote, "It is my
11 understanding that the concerns of the Board related to the
12 level of outstanding debt and interest expense, increased
13 depreciation expense, and return on capital investments.

14 These concerns were expressed by the Board in oral
15 comments as the capital investment plan was being
16 formulated."

17 Do you see that?

18 A Yes, I do.

19 Q Now, let's focus on these one at a time, first of
20 all, a concern about outstanding debt and interest expense.

21 If an investment in automation works as planned,
22 or works better than planned, then presumably the savings in
23 labor and other costs will outweigh the incremental costs of
24 buying and installing the equipment; isn't that correct?

25 A At a point in time, yes.

1 Q Well, over the life of the investment, one makes
2 and investment if one expects that the increased savings
3 over the life of the investment will outweigh the increased
4 costs; is that correct?

5 A That's correct.

6 Q And those costs that one would assume would be
7 covered before making the investment would include debt and
8 interest expense, correct?

9 A Over the life of the investment, that's correct.

10 Q And depreciation expense?

11 A Over the life of the investment.

12 Q And the return on capital investment would be an
13 anticipated return above and beyond the coverage of the
14 expenses; correct?

15 A Again, over the life of the investment. Keep in
16 mind, your question related to the FY 2001 plan for one
17 fiscal year.

18 Q Now, you have said -- you've added the phrase,
19 over the life of the investment, several times in your last
20 few answers.

21 Did the Commission have a policy -- I'm sorry, did
22 the Governors have a policy of not making investments that
23 were projected to be good investments over their expected
24 life, on the ground that in certain limited subsets of
25 years, the costs would exceed the savings?

1 A I think the Board has been very conscientious
2 about balancing the financial results from Postal
3 operations, and the return on a particular investment is
4 something -- you know, there's implementation time.

5 You don't necessarily get the return in the year
6 that the investment occurs. It's spread out over several
7 years.

8 And so being conscientious about the recovery of
9 prior year losses, the Board has been very consistent about
10 approving annual operating plans and capital plans that
11 generate positive net incomes.

12 And, sure, they could have approved a much higher
13 capital plan, but it may have had a detrimental impact on
14 the operating plan, and so it's a balancing act between, you
15 know, their judgments on the operating performance, as well
16 as what level of capital that they can -- that we can incur,
17 and, you know, generate the financial results desired as
18 well.

19 Q Now, I assume, sir, that you are familiar with the
20 concept of present value?

21 A Yes.

22 Q And present value refers to determining the
23 present value of a future expenditure or in flow of funds by
24 discounting it to reflect the time value of money; is that
25 correct?

1 A That's correct.

2 Q And by computing present value of future streams
3 of money coming in or money going out, you can convert them
4 all to a common net present value, correct?

5 A That's correct.

6 Q And so you can weigh and compare expenses and
7 inflow and cash inflows that are expected to come in in
8 different periods; can't you?

9 A I think you're making my point about over the life
10 of the investment.

11 Q Yes, over the life of the investment.

12 If an investment is expected to be profitable in
13 the sense of its expected discounted benefits exceeding its
14 expected discounted cash outflows, then one should be able
15 to profitably be able to borrow the money needed to finance
16 it, correct?

17 A That could be correct, but unfortunately,
18 Generally Accepted Accounting Principles don't let you book
19 your expenses that way.

20 Q Did I ask you about Generally Accepted Accounting
21 Principles?

22 A No.

23 Q ~~But~~^{Do} Generally Accepted Accounting Principles
24 prevent the Board from borrowing money to make investments
25 that are expected to be profitable over their lifetime?

1 So there is a lot of factors that go into
2 consideration, not just one particular policy.

3 Q The flat sorting machine with the series number
4 1000, how many years did the Postal Service spend purchasing
5 that piece of equipment? What was the production run of it?

6 A I'm not sure of the exact years. Again, we could
7 get that information.

8 Q It was more than one year?

9 A Yes, I believe so.

10 Q And prior to the first installation, there was a
11 planning period?

12 A We have a process on -- you know, for approving
13 capital investments that we go through; that's correct.

14 Q And that process presumably took a number of
15 months or even a couple of years?

16 A Yes.

17 Q So, and that same is true of each of your other
18 major pieces of investment in sorting equipment. These were
19 projects that took place over a span of a number of years,
20 correct?

21 A I believe so.

22 Q But these were not sudden, overnight projects;
23 were they?

24 A No.

25 Q And what bottlenecks, if any, did the Postal

1 Service have that it couldn't have planned and anticipated
2 over a period of those number of years?

3 A I think my response to the question again is, you
4 know, it's not any one item; there's a whole series of
5 things that are taken into consideration. It's just not the
6 return on this, you know, one project. And because it can
7 generate a certain ROI with one level of deployment doesn't
8 necessarily mean if you double the purchase of that
9 equipment, you're going to get the same level of ROI through
10 the next stages of deployment.

11 I mean, there's lots of factors that are taken
12 into consideration.

13 Q But it's possible that if you double the
14 investment, you might get an ROI that's above your hurdle
15 rate?

16 A It's possible you might get one that doesn't make
17 your hurdle rate because you've saturated the level of
18 ~~employment~~ -- deployment with the mail volumes ^{that} exist to
19 generate the returns on that type of equipment.

20 Q And again to know whether that, in fact, is the
21 case, one has to do a study?

22 A That's correct.

23 Q Would you turn to Question 57, that is
24 ANM/USPS-T-9-57?

25 A Yes.

1 Q And I would like to direct your attention, Mr.
2 Tayman, to the last sentence of your answer to Part B, which
3 reads, "Accordingly, the capital investment plan is
4 developed and closely monitored to ensure maximum
5 contribution to operating efficiencies."

6 Do you see that?

7 A Yes, I do.

8 Q Is that what the Postal Service is maximizing in
9 its investment decisions here, contribution to operating
10 efficiencies?

11 A Again, it's -- you know, we make investments in
12 infrastructure that are required with expansion of
13 population. We have to put up new delivery units. So those
14 are capital investments that don't necessarily maximize
15 operating efficiencies. But for mail processing equipment,
16 certainly that is the case.

17 Q And referring to that same sentence, what is the
18 measure of operating efficiencies that the Postal Service
19 seeks to maximize?

20 A Well, I mean, financial results as generated
21 through the net income and the profit and loss statement.

22 Q So in other words, profit maximization in the
23 economic sense?

24 A You know, profit maximization, productivity gains.

25 Q In order to maximize profits in that sense, you

1 make -- one needs to make an investment up to the point
2 where the incremental costs equal the incremental expected
3 returns over the life of the investment; isn't that correct?

4 A Yes.

5 Q But as far as you know, the Postal Service has
6 never made -- never performed a study of that kind; is that
7 correct?

8 A As far as what level of capital investment could
9 take place in any given year? Is that --

10 Q Or any project over its lifetime.

11 A I mean, I'm not sure of the specifics in relation
12 to that. I mean, when they do an evaluation or a study for
13 equipment, it's based on, you know, what level of
14 deployment, the mail volumes, the facilities where it can be
15 utilized to maximize returns. But I'm not -- I'm not sure
16 that there is a, you know, study in such that relates to
17 every single Postal processing operation or facility.

18 Q I'm going to ask you, Mr. Tayman, a few questions
19 about DARs, D-A-R-s, and I'm not going to ask you any
20 questions that are calculated to call for any confidential
21 information.

22 A Okay.

23 Q And if you think I'm about to ask -- you think
24 that you need to provide confidential information to answer
25 the question fairly, would you tell me?

1 A I'll count on my attorney to help.

2 CHAIRMAN GLEIMAN: Mr. Levy, I'm going to ask you
3 to try and speak up a little bit.

4 MR. LEVY: I'm sorry, Mr. Chairman.

5 CHAIRMAN GLEIMAN: All right.

6 BY MR. LEVY:

7 Q For the record, what does DAR stand for?

8 A Decision analysis report.

9 Q If the Postal Service performs an analysis of
10 whether a proposed investment project -- where the profit
11 maximizing level of investment is for a particular capital
12 investment project, is that analysis most likely to appear
13 in the DAR for the project?

14 A I would assume so.

15 Q Have you ever seen the DARs that were produced in
16 Library Reference 261 in this case? Those were the ones
17 that were produced in response to our discovery request for
18 these letters -- for these flat sorting projects.

19 A I have not reviewed that Library Reference.

20 Q Is there another Postal Service witness who
21 reviewed the material in Library Reference 261? And I
22 direct that question to either the witness or, if I may, to
23 counsel.

24 CHAIRMAN GLEIMAN: Mr. Tayman, you get first crack
25 at it.

1 MR. REITER: Could Mr. Levy tell us what's in that
2 Library Reference?

3 MR. LEVY: Yes. It is a series of several DARs
4 for recent capital investment projects relating to flat
5 sorting equipment. It was the one that was produced after
6 we filed a motion to compel. Ms. Duchek was probably most
7 intimately involved in that.

8 MR. REITER: What project was it for?

9 MR. LEVY: Flat sorting equipment investment.
10 Several projects.

11 MR. REITER: I can check on that, Mr. Chairman,
12 and let everyone know.

13 CHAIRMAN GLEIMAN: If you could let us know the
14 answer to that one after the lunch break, unless you now
15 have the answer.

16 MR. REITER: I may. Or Ms. Duchek may.

17 MS. DUCHEK: Thank you, Mr. Chairman.

18 I believe the decision analysis reports produced
19 in that Library Reference concern the Tray Management
20 System, the FSM-1000, the AFSM-100 and the Carrier Barcode
21 Sorter.

22 CHAIRMAN GLEIMAN: And who might -- which witness
23 might be familiar with them, if any?

24 Why don't we --

25 THE WITNESS: What question were they responding

1 --

2 MR. REITER: Was your question -- I think where we
3 started was Mr. Levy asked Mr. Tayman if he had reviewed any
4 of them. Now that Mr. Tayman has heard what they are, maybe
5 he can give a more specific answer to that and we can
6 proceed with that.

7 CHAIRMAN GLEIMAN: All right.

8 MR. REITER: Is that not helpful, Mr. Chairman?

9 CHAIRMAN GLEIMAN: If Mr. Tayman now feels that he
10 is familiar with the material and we can get some
11 substantive responses to questions that Mr. Levy might pose,
12 that would be just great. If not, get us the name of a
13 witness who can.

14 THE WITNESS: What question were they responding
15 to?

16 MR. LEVY: The series of questions began with, Mr.
17 Tayman --

18 THE WITNESS: No, I'm sorry, in the
19 interrogatories, which interrogatory number was that Library
20 Reference introduced at?

21 MR. LEVY: Mr. Chairman, I don't recall, and I'm
22 not sure that it matters. It was in response to Presiding
23 Officer's Ruling Number 22 on March 29th.

24 CHAIRMAN GLEIMAN: I'm having a real hard time
25 hearing you.

1 MR. LEVY: I don't recall the specific question.
2 It was the subject of Presiding Officer's Ruling Number 22
3 on March 29th. And this line of questioning -- I'm reminded
4 by counsel for PostComm that one of the questions to which
5 the DARS were produced was ANM/USPS-T-9-19 and T-9 -- there
6 were a couple more -- T-9-22, and I think there were a
7 couple more in that same range of questions.

8 CHAIRMAN GLEIMAN: I'm sorry, did you say it was
9 Ruling Number 22?

10 MR. LEVY: Yes, Mr. Chairman.

11 THE WITNESS: I can give it a try. I don't have a
12 copy of that Library Reference with me, and --

13 MR. LEVY: May I approach the witness?

14 CHAIRMAN GLEIMAN: Certainly.

15 BY MR. LEVY:

16 Q Again, I'm not going to ask for confidential
17 information, and I have only a question, one question which
18 I would like to have answered, if the witness can, which is,
19 if the Postal Service prepared an analysis of the
20 anticipated return -- of the anticipated profit-maximizing
21 level of investment in the equipment covered by the DARS in
22 that Library Reference 261, is such an analysis most likely
23 to have appeared in the DARS themselves?

24 A Okay. Not having read each one of these DARS, let
25 me just comment that based on the nature and the content of

1 what's included in a DAR, it would be my assumption that
2 that type of information, in fact, would be contained in
3 them.

4 Q Are you aware of any other kind of Postal Service
5 management document which, in the ordinary course of
6 business, would set forth an analysis of the
7 profit-maximizing level of investment for proposed major
8 investment projects of the kind shown in Library Reference
9 261?

10 A I'm not aware of any, no.

11 Q Let me change to a somewhat different subject, not
12 the projected returns, but the actual returns.

13 The Postal Service finished buying and installing
14 FSM-1000 machines a number of years ago, didn't it?

15 A That's my understanding.

16 Q Has the Postal Service ever done an analysis of
17 the actual return on investment of that project?

18 A I believe in one of our responses, we indicated a
19 partial study had been performed. I'm not sure if that was
20 on the FSM-1000. It was -- it's in response, I believe, to
21 one of your questions.

22 You don't recall that --

23 Q If it's in there, the record will show that.

24 A Right.

25 Q We designated all of the answers.

1 What about, Mr. Tayman, the FSM-775 or 881? Do
2 you know if the Postal Service ever did an analysis to see
3 how profitable the investment actually was?

4 A I'm not aware of any such, no.

5 Q And the same answer for the Carrier Sequence
6 Barcode Sorter, CSBCS? The same answer for that?

7 A That's correct. It was -- T-9-65 was one where we
8 did reference a partial study.

9 Q Let me ask you about that, T9-65. The preliminary
10 review indicated that certain corrective actions needed to
11 be taken.

12 A That is my understanding, yes.

13 Q Were the corrective actions taken?

14 A I assume they were taken or are being taken.

15 Q What is your assumption based on, sir?

16 A Well, hopefully, we wouldn't allow the condition
17 to exist that -- where we hadn't generated the return on the
18 equipment.

19 Q But you don't know for a fact whether the
20 corrective actions have been effective, do you?

21 A No.

22 Q And do you know whether the Postal Service has
23 studied what the return on investment of this project is
24 after the corrective actions were supposed to be taken?

25 A I am not aware of that, no.

1 Q Would you go to T9-59 of the ANM interrogatories,
2 please? Question C talked about the 20 percent hurdle rate.
3 Do you see that?

4 A Yes.

5 Q And in your response, you refer to your answer to
6 ANM/USPS-T10-19, is that correct?

7 A Yes.

8 Q Let's go to that. Now, a hurdle rate is a -- I'm
9 sorry, are you there yet, sir?

10 A Yes, I am.

11 Q The hurdle rate is the expected return on an
12 investment that a business demands of itself before it will
13 approve the investment, isn't that right?

14 A For this type of equipment, yes.

15 Q And the hurdle rate in this case was 20 percent
16 for this kind of equipment?

17 A That's correct.

18 Q And in your response to T10-19, you state that the
19 hurdle rate of equipment was 20 percent based on an
20 assessment before Postmaster General Runyon, is that
21 correct?

22 A That's correct.

23 Q Of that 20 percent value, how much was the cost of
24 capital and how much was the risk premium?

25 A In 1995, our cost of capital was 7.3 percent.

1 Q And so the assumed risk premium was 12.7 percent?

2 A That is correct.

3 Q Now, the last sentence of Question T10-19 asked
4 you to produce all studies, analyses and other documents
5 relied on by the Postal Service for adopting each hurdle
6 rate. Do you see that?

7 A Yes, I do.

8 Q And no documents were produced in response to this
9 question, is that correct?

10 A It doesn't appear to be that they were.

11 Q And I take it that no documents were found after a
12 reasonable search?

13 A The only document we came up with was just the
14 memo establishing 20 percent as the level. It gave no basis
15 of how it was developed or derived at.

16 Q Do you know where Postmaster General Runyon came
17 up with a 12.7 percentage point value for the risk premium?

18 A No, I don't.

19 Q Do you know whether there was any separate
20 analysis of the risk premium at all, as opposed to coming up
21 with a 20 percent number and then backing out the risk
22 premium from the cost of capital?

23 A Again, at that point in time, no.

24 Q Let me go to a different subject, Mr. Tayman. One
25 of the costs of investment of equipment for sorting flats is

1 depreciation, correct?

2 A That's correct.

3 Q In fact, that is a cost of any asset that a
4 business has, isn't it?

5 A That's correct.

6 Q Unless it is an asset with a perpetual life?

7 A Perpetual life?

8 Q Like -- if there is such a thing.

9 A Yeah, I am not aware of any, but go ahead.

10 Q Now, one of the factors that affects the amount of
11 the annual depreciation charge is the asset life that is
12 assumed, isn't it?

13 A That's correct.

14 Q And the asset life is the period in which an asset
15 is expected to remain in service, is that correct?

16 A That's correct.

17 Q And all things being equal, the longer the asset
18 life you assume, the lower the annual depreciation charge,
19 is that correct?

20 A That would be correct.

21 Q And the opposite is true as well, shorter
22 depreciation life, --

23 A Based on our straight line depreciation policy,
24 yes.

25 Q Now, would you go to your answer to ANM question

1 to you, T9-7? And I want to focus your attention on subpart
2 (e), "e" as in elephant. Now, in part (e), you state that
3 in computing -- this is a paraphrase, let me restart. Your
4 answer to part (e) provided the asset lives that were
5 assumed in computing depreciation charges for purposes of
6 the revenue requirement in this case, is that correct?

7 A That is correct.

8 Q And for personal property, the asset lives assumed
9 range from three to 10 years, depending on the type of
10 equipment and the risk of technological obsolescence, is
11 that correct?

12 A That is correct.

13 Q And for motor vehicles, the range was six to 12
14 years?

15 A Yes.

16 Q Now, in part (f) of the same question, we asked
17 the Postal Service to produce all documents containing the
18 justification for those asset lives, didn't we?

19 A Yes, you did.

20 Q And the response contained no documents, did it?

21 A That's correct.

22 Q Instead, you had a narrative summary, in this
23 case, in your answer to part (f), correct?

24 A That's correct.

25 Q And your narrative summary listed a bunch -- well,

1 to be precise, six factors that were considered in
2 estimating the asset lives?

3 A That's correct.

4 Q Now, would you go to Question Number 34 in the
5 same series, ANM/USPS-T9-34?

6 COMMISSIONER GOLDWAY: Excuse me. What number?

7 MR. LEVY: It is 34, ma'am, T9-34.

8 THE WITNESS: I have it.

9 BY MR. LEVY:

10 Q Now, that was a follow-up to Question T9-7, wasn't
11 it?

12 A Yes, it is.

13 Q And it again, in part (a), asked you to produce
14 the documents requested by the original question, didn't it?

15 A Yes, it did.

16 Q And your response was to refer us to your response
17 to Question T9-33, wasn't it, right?

18 A Right.

19 Q And if you go to Question T9-33, the answer
20 consists of a reference to Library Reference 224, right?

21 A Yes.

22 Q And 224 is a listing of assumed asset lives for
23 specific types of equipment, isn't it?

24 A That's correct.

25 Q The Library Reference has no data showing whether

1 those assumed lives were justified or not, does it?

2 A It just indicates what the life is of each asset.

3 Q Would you turn back to Question 34, please?

4 A Yes.

5 Q And the last sentence of your answer to 34 says,
6 "A review of the response to Question 33 ... should be
7 sufficient for a third party to assess the reasonableness of
8 established asset lives." That is part of your answer?

9 A Yes, it is.

10 Q But, in fact, to determine the reasonableness of
11 the asset lives, one needs to know how long these assets
12 actually last in service, doesn't one?

13 A It would be helpful.

14 Q I mean that is sort of a reality check on the
15 assumed asset lives, isn't it?

16 A Yes.

17 Q Does the Postal Service maintain any records
18 showing the actual service lives of the equipment for which
19 is claiming projected lives of three to 10 years?

20 A I'm sorry, can you repeat that?

21 Q Yes. Does the Postal Service have any data on the
22 actual service lives of the personal property for which you
23 have assumed asset lives of three to 10 years?

24 A Yes.

25 Q And what records are those?

1 A It would be our fixed asset records which would
2 indicate the data of purchase, the cost, annual
3 depreciation, accumulated depreciation, et cetera.

4 Q Would those data show retirements?

5 A The active records, you would have to -- I am not
6 that familiar with those files. I would assume that when
7 equipment is retired, they would be removed from that
8 database. So you could see retirements in a given year, I
9 would assume.

10 Q Would the data permit one to determine the actual
11 service life of any vintage of equipment by type?

12 A I mean the information would be, again, part of
13 our fixed asset accounting system. It would tell you that
14 we have a piece of equipment still on our books that is not
15 -- you know, what the current status, as far it is fully
16 depreciated or being depreciated.

17 Q Let's assume, hypothetically, that you bought
18 1,000 widgets in 1975. Does the Postal Service maintain any
19 records, including the ones you are just mentioning, which
20 would allow a third party to tell the lives at which cohort
21 of widgets was retired from service?

22 A Again, if they were purchased in 1975, with a 10
23 year service life on those widgets, again, if they were
24 still in our records, we would show them as being fully
25 depreciated, how many were still on the books that were

1 fully depreciated. If they had been retired, that
2 information wouldn't be on current records today.

3 Q If they were retired before their projected life
4 expired, would there be any records which would show how old
5 they were actually when they were retired?

6 A The year they were retired, yes.

7 Q If they were in service longer than their
8 projected asset life -- I'm sorry, let me drop that
9 question.

10 And what records would those be?

11 A Again, our fixed asset records.

12 Q If a particular asset was in service for longer
13 than its projected asset life, is there any record that a
14 third party could refer to tell how old the asset was, how
15 much it outlived expectations?

16 A Well, I -- it would -- the records would show
17 they're still on our records. Does that necessarily
18 indicate they're in full utilization?

19 You know, I would personally want to do a little
20 more research than just assume from our fixed asset records
21 that it's a fully-utilized piece of equipment.

22 Q Does the Postal Service keep equipment on its
23 books as still in service that is not used and useful?

24 A For instance, in the motor vehicle category, I
25 think we have a category of vehicles that we call them

1 storage vehicles that may be placed in and out of service
2 during the year.

3 Q Is there any record which would show what
4 percentage of the existing motor vehicle fleet is in that
5 category?

6 A Yes, there is. I think we provided that in one of
7 the answers to an interrogatory.

8 Q How voluminous are the fixed asset records?

9 A Pretty voluminous.

10 MR. LEVY: Mr. Chairman, I am not going to ask now
11 to ask that we be permitted to review those records. I will
12 note that I think those records are responsive to several
13 questions and followups that we asked, and I would ask leave
14 to consult with Postal Service counsel to see if there is
15 any manageable way we could get them and look at them.

16 And if we don't reach a voluntary agreement, I
17 would like to come back to the Commission for further
18 relief.

19 CHAIRMAN GLEIMAN: We certainly encourage
20 voluntary agreements.

21 BY MR. LEVY:

22 Q Mr. Tayman, would you look at your response to
23 Question Number 35, ANM/USPS T9-35?

24 A Yes.

25 Q And there you give one reason for accepting the

1 Postal Service's asset lives, is that they have been
2 reviewed by the Postal Service's auditor, outside auditor,
3 and the auditor did not file an exception; do you see that?

4 A That's correct.

5 Q Now, who is the auditor?

6 A Ernst and Young.

7 Q And the Postal Service doesn't have the auditor's
8 workpapers?

9 A No, they're the property of the auditors.

10 Q Did you ask Ernst and Young whether they would
11 help you respond to this question by producing them?

12 A No. What I did is, I referred to the Generally
13 Accepted Auditing Standards and what that review criteria
14 required.

15 I did place a phone call to them, but they didn't
16 get back -- we didn't connect in time to ask for or get a
17 copy of their workpapers.

18 MR. LEVY: Mr. Chairman, I would ask that the
19 Postal Service be directed to request the workpapers from
20 the auditor. If the auditor says that they're covered by
21 privilege, we'll deal with that when we get to it.

22 But I think that, at a minimum, we ought to have
23 at least an effort to find out if they can get it.

24 CHAIRMAN GLEIMAN: Just so I understand what
25 transpired, Mr. Tayman, you said you put in a phone call and

1 they didn't get back to you in time? Does that mean they
2 got back to you after time, or they didn't get back to you
3 at all?

4 THE WITNESS: I did talk to one of the partners,
5 and it was after we had already filed the response. And he
6 generally confirmed that, yes, that's -- you know, the
7 nature of my response was adequate.

8 CHAIRMAN GLEIMAN: They didn't indicate any
9 reluctance in giving you the workpapers, or you didn't
10 broach the subject directly?

11 THE WITNESS: I didn't specifically ask them for
12 the workpapers, no.

13 CHAIRMAN GLEIMAN: Mr. Reiter, can we get the
14 Postal Service to ask the auditor for the workpapers, and
15 if, indeed, there's some concern about confidentiality, we
16 can deal with that when we get there?

17 MR. REITER: We will do that.

18 CHAIRMAN GLEIMAN: Okay. With respect to this
19 request and also the earlier request for studies, if we
20 could have a standing rule of seven days to get back to us
21 with the materials?

22 MR. REITER: Yes.

23 BY MR. LEVY:

24 Q Now, Mr. Tayman, the choice of depreciation lives
25 can involve judgment calls, can't it?

1 A I would assume.

2 Q And there can be sometimes a difference of opinion
3 over the judgement call?

4 A I guess I would refer back to the six criteria you
5 reviewed earlier, and, you know, however a judgment would
6 pertain in that fashion.

7 I think one of the items was referring to Postal
8 experts or experts on the equipment, so, obviously, that
9 would involve judgment.

10 Q And the review by the outside auditor, Ernst and
11 Young, would also involve judgment?

12 A I would assume so, yes.

13 Q As an expert in finance, do you think the Postal
14 Service should assume, without checking -- I'm sorry -- that
15 the Commission should assume, without checking, that its
16 judgment on the appropriate depreciation lives is the same
17 as Ernst and Young's?

18 A From the aspect that our depreciation lives and
19 our depreciation policies have been consistent throughout
20 our numerous rate filings, I would assume that no one has
21 had cause to question the adequacy of those.

22 Q And so you -- what if, in fact, the depreciation
23 lives have not been inspected by or tested before the
24 Commission in a previous rate case; as an expert in finance,
25 do you think that the Commission should simply accept the

1 judgment of outside auditor?

2 A Well, I mean, the outside auditors are bound by
3 generally accepted accounting principles and generally
4 accepted auditing standards, so, I mean, those standards are
5 well documented and the SEC relies on them, a lot of -- we
6 all rely on them.

7 Q Well, but the determination of depreciation lives
8 requires more than just looking up GAP standards; it
9 requires looking at data and applying the standards of the
10 data, doesn't it?

11 A That's correct.

12 Q And sometimes even auditors can make mistakes,
13 can't they?

14 A I assume -- you know, we all make mistakes, sure.

15 Q I mean, you've heard of the company Micro
16 Strategy. It was in the papers recently.

17 A Yes.

18 Q They recently had to restate their income
19 statements for two previous years. Do you recall that?

20 A That's what the Post said, yes.

21 Q And their stock price fell by more than half in
22 one day.

23 A Based on the article I read, yes.

24 Q And the original income -- financial statements,
25 those were approved by the company's outside auditors,

1 weren't they?

2 A I think the article indicated when senior partners
3 got involved, they restated their revenue recognition
4 policies.

5 Q And how senior were the Ernst & Young partners
6 that reviewed the Postal Service's depreciation lives in
7 this case?

8 A I'd have to ask. I don't know.

9 CHAIRMAN GLEIMAN: Mr. Tayman, has the Postal
10 Service ever changed outside auditors because they got a
11 qualified statement from an auditor?

12 THE WITNESS: We changed outside auditors in the
13 early '80s, I believe.

14 CHAIRMAN GLEIMAN: Was that after the auditor gave
15 you a qualified statement?

16 THE WITNESS: It coincided with the year after we
17 received a qualified statement.

18 BY MR. LEVY:

19 Q What was the previous auditor?

20 A At that time, it was Ernst & Whinney.

21 Q And what was the subsequent auditor?

22 A Arthur Young & Company.

23 MR. LEVY: Mergers reduce choices.

24 [Laughter.]

25 BY MR. LEVY:

1 Q Does Ernst & Young do any non-audit work for the
2 Postal Service?

3 A I would assume they probably do. I'm not aware of
4 any specifics that they do at this time, no.

5 Q Do you know whether Ernst & Young people have ever
6 testified in rate cases?

7 A I can imagine they probably have. Again, I --

8 Q And presumably Ernst & Young gets paid for its
9 non-audit work if it does any for the Postal Service?

10 A I'm not aware of any contractors that work for
11 free for us.

12 MR. LEVY: Mr. Chairman, I would like to hand the
13 witness an exhibit, and I've forgotten the convention. Is
14 it ANM/USPS Cross --

15 CHAIRMAN GLEIMAN: It's whatever you want it to
16 be. This is the first one, so we can set the standard.
17 It's ANM/USPS Ex. 1.

18 MR. LEVY: Oh, Tayman Ex. 1? Tayman Ex. 1?

19 CHAIRMAN GLEIMAN: I think you can just make it
20 Ex. 1, but if you want to put Mr. Tayman's name in there,
21 that's okay, too.

22 MR. LEVY: No, that's more work.

23 For the record, let me describe it. This is the
24 institutional response of the Postal Service to Pitney
25 Bowe's interrogatory T11-9.

1 CHAIRMAN GLEIMAN: Well, not having T11-9 in front
2 of me, can I ask you a quick question?

3 MR. LEVY: Yes.

4 CHAIRMAN GLEIMAN: Are we moving on to a different
5 subject matter at this point?

6 MR. LEVY: No, not really, but this is the last of
7 my line of questioning if that makes a difference.

8 CHAIRMAN GLEIMAN: Well, I was going to take our
9 mid-morning break. If you can give me a sense of how much
10 longer you might be going since this is your last line of
11 questions --

12 MR. LEVY: Maybe it would make sense if I pass out
13 the exhibit, and then we take the break, and then I can
14 follow up with the questions.

15 CHAIRMAN GLEIMAN: Sounds good to me.

16 After the exhibit is distributed, we will take a
17 ten-minute break.

18 [Recess.]

19 CHAIRMAN GLEIMAN: Well, in my first major mistake
20 of the proceedings I gave you bum information. It is
21 ANM/USPS XE-1, for cross examination as opposed to exhibit,
22 which is what I was making it before so we have that
23 corrected now and you will know how to mark the second one.
24 Please proceed.

25 [ANM/USPS-XE-1 was marked for

1 identification.]

2 MR. LEVY: Thank you.

3 BY MR. LEVY:

4 Q Before the break, Mr. Tayman, I had handed out the
5 Postal Service's institutional response to Pittney Bowes
6 Interrogatory T11-9, which has been marked ANM/USPS-XE-1.
7 Do you have that?

8 A Yes, I do.

9 Q Have you had a chance to look at it over the
10 break?

11 A Yes, I did.

12 Q Do you, turning to the second page, do you
13 recognize -- I'm sorry, do you understand what the numbers
14 purport to be on that page?

15 A Yes.

16 Q And the items shown on the second page of the
17 exhibit are an inventory of stamp vending machines that were
18 in operation in fiscal year 1998, is that correct?

19 A That is what it indicated, yes.

20 Q And going to the first line of the exhibit, there
21 is a model SI-5, do you see that?

22 A Yes, I do.

23 Q And that was purchased according to the exhibit in
24 1961?

25 A Yes.

1 Q And one item still remains in service, according
2 to the exhibit?

3 A That is what it says.

4 Q And it indicates that no depreciation is being
5 taken for that machine in the current, in the fiscal year
6 1998, is that correct?

7 A That is what it indicates, yes.

8 Q And that would be logical because a machine that
9 was purchased in 1961 would be past its anticipated
10 depreciation life, correct?

11 A That's correct.

12 Q And so for each line in which there was no dollar
13 amount in the 10 percent depreciation column that means that
14 the machine is beyond its -- according to the exhibit --
15 beyond the end of its expected depreciation life?

16 A Yes.

17 Q And eyeballing it, you can see that some of the
18 lines where there is no depreciation taken involve a
19 relatively high portion of the original investment. For
20 example, the PS-53(C), do you see that?

21 A Yes, I do.

22 I should point out that we changed our
23 capitalization policy and I think we increased it to, and I
24 would have to check, to \$3,000 as the capitalization limit
25 and when we make a change in capitalization limit like that

1 we would write off the balance of any asset on our records
2 that is less than that amount, so in this case it shows that
3 the purchase price of that equipment was \$1,007 so that
4 would have been written off at that point in time.

5 I am not sure of the exact date when that change
6 was made but that could be one reason why some of these
7 items are --

8 Q You don't know for a fact whether in effect that
9 change in accounting policy is the reason why the items in
10 this table that lack depreciation amounts in fact lack it?

11 A It could be in some of these, yes.

12 Q But you don't know for certain?

13 A I would have to check the date when that change
14 was made and then we could determine that for certain.

15 Q Does the Postal Service currently have any flat
16 sorting machines that are in continued service that are
17 beyond their projected depreciation lives?

18 A I don't know the answer to that question.

19 MR. LEVY: Mr. Chairman, I am going to change an
20 earlier request I made after consulting with our colleagues.

21 I had indicated that I would like to consult with
22 the Postal Service about the possibility of getting a
23 simplified or summary form of the underlying records for the
24 actual retirements for the equipment.

25 Instead, I would just to request now that we have

1 the records, and we'll worry about digesting them.

2 CHAIRMAN GLEIMAN: Since there is not going to be
3 any further discussion before we deal with this matter
4 between you, your colleagues and the Postal Service, let's
5 make clear what it is we are asking the Postal Service to
6 present -- let's make clear what we are asking the Postal
7 Service to provide.

8 MR. LEVY: Yes. If I may have a second.

9 [Pause.]

10 MR. LEVY: The Postal Service's accounting records
11 showing when particular assets were retired before and after
12 their projected depreciation lives, and if I may ask a
13 question of the witness for clarification.

14 BY MR. LEVY:

15 Q Mr. Tayman, you gave a name to those records?

16 A I think I referred to them as their fixed asset
17 records. I am not sure that is the specific file name or
18 not.

19 MR. LEVY: In essence, the fixed asset records for
20 personal property and motor vehicles.

21 CHAIRMAN GLEIMAN: All personal property and motor
22 vehicles or -- you said particular assets.

23 MR. LEVY: I meant particular -- yes, all. I
24 meant particular in the sense of broken down by asset.

25 CHAIRMAN GLEIMAN: For what period of years?

1 MR. LEVY: For any asset that is expected to be in
2 service in the test year, or if that is unavailable the most
3 recent year for which the records are available.

4 CHAIRMAN GLEIMAN: Mr. Tayman, I am not familiar
5 with how voluminous the records in question might be. Is
6 there a particular set of documents for a particular year
7 for the test year that --

8 THE WITNESS: As I understand the question, you
9 would like a detailed personal property listing of every
10 asset in service that was included in the revenue
11 requirement and costs relating to depreciation?

12 MR. LEVY: Personal property and motor vehicles.

13 THE WITNESS: In motor vehicles.

14 MR. LEVY: Such that we can determine from them,
15 if they exist, when the assets were retired so we can
16 compare the actual retirement history with the assumed
17 service life.

18 CHAIRMAN GLEIMAN: I just want to make sure that
19 we are not going to wind up having to rent another building
20 if and when the documents are presented.

21 Personal property would include not only the types
22 of equipment that you have been asking questions about that
23 is used to process mail and vehicles to deliver that mail or
24 to transport it, it would include personal computers, for
25 example. Do you want that information also?

1 I am sympathetic to your request but I would like
2 to, if possible, narrow it to something that I think would
3 be useful to you and to others and I don't know whether you
4 really want all personal property, and that is the sum and
5 substance of my reason for interjecting myself, other than
6 saying provide it within seven days, Postal Service.

7 MR. LEVY: I am dealing with two conflicting -- I
8 guess I am conflicted and let me explain why.

9 I have no more desire to get a boxcar than you
10 have to see it or the Postal Service has to produce it. On
11 the other hand, I am afraid if we draw it narrowly we may
12 end up getting something that is under-inclusive.

13 What I would suggest as an efficient way of
14 dealing with this is that the order for production be
15 unrestricted by type of asset. If the Postal Service
16 believes that that is overly burdensome, pick up the phone
17 and call me and we can talk about the actual pages or cubic
18 feet.

19 At this point I don't know whether we are talking
20 about a boxcar, a warehouse, or a simple notebook or a
21 computer file.

22 MR. REITER: Mr. Chairman, could I make a
23 suggestion that since there is some time left for
24 participants to make institutional discovery requests that
25 that might be an appropriate way for Mr. Levy to proceed and

1 he might then be able to focus his request when he puts it
2 down in writing and then we can respond with any problems by
3 letting him know.

4 MR. LEVY: I would be happy to put a request in
5 writing but I would note that this follows one question with
6 a follow-up to that, and we still are, at this point, further
7 requesting data that were fairly called for by the very
8 first question in the series.

9 MR. REITER: I don't know that that actually is
10 clear, based on the witness's oral answers today, but I
11 think we can try to clarify that further.

12 CHAIRMAN GLEIMAN: Let's try one more time in
13 writing, if you would present, as Mr. Reiter suggests, an
14 institutional interrogatory as narrow or as broad as you
15 want it, you and your colleagues want it to be, and then the
16 Postal Service can argue the burdensome nature if they
17 choose to do so, and I don't wish to precipitate an argument
18 from the Postal Service but it occurred to me that personal
19 property is an extraordinarily broad term.

20 I suspect there are people at the Postal Service
21 who have cell phones, palm pilots, you know, God only knows
22 what -- pocket calculators and I just don't know whether
23 that is really -- I have no idea what you really want.

24 I am just suggesting that perhaps between now and
25 the time you reduce your question to writing you give it

1 some thought so that we can avoid a lot of motion practice
2 about an overly-broad and burdensome request.

3 MR. LEVY: I appreciate that.

4 CHAIRMAN GLEIMAN: Okay.

5 MR. LEVY: And with that, that is all that I have,
6 Mr. Chairman, and I thank you, Mr. Tayman.

7 THE WITNESS: Thank you.

8 MR. LEVY: I'm sorry -- I would like to move the
9 cross examination exhibit into evidence since it is an
10 institutional interrogatory answer.

11 CHAIRMAN GLEIMAN: Is there any objection? If
12 not, then let's move the cross examination exhibit into
13 evidence and transcribe it into the record.

14 Thank you, Mr. Levy.

15 [ANM/USPS-XE-1 was received into
16 evidence and transcribed into the
17 record.]

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ANM/USPS-TE

Response of United States Postal Service
to
Interrogatories of Pitney Bowes, Inc.

PB/USPS-T11-9 In FY 1998, how many stamp vending machines were operated by the Postal Service?

- a. What was the cost of those vending machines when purchased?
- b. Are stamp vending machines expensed when acquired, or are they depreciated over time? If they are depreciated like other capital investments, (i) over how many years, and (ii) how much of the cost was charged to depreciation expense in FY 1998?
- c. What portion (if any) of the depreciation expense for stamp vending machines was treated as volume-variable?

Response:

In FY 1998, there were 36,016 vending machines in service.

a. Cost varied by machine model. There were 27 different models of machines in service during FY 1998. Cost information available for each machine model is attached.

b. Machines are depreciated over a ten-year period. Cost charged to depreciation expense in FY 1998 was \$6,091,966.00.

ATTACHMENT
PB/USPS-T11-9

FY 1998, AP 13

Models in Service	Year of Purchase	Qty in Svc	Cost Each	Total Cost of Qty of Machines in Service	10% Depreciation Each (Depreciate over 10 yrs)	Total amount of depreciation charged
SI-5	1961	1	NA		\$ -	
SI-15	1963	1	NA		\$ -	
SI-115	NA	1	NA		\$ -	
PS-86	1979	106	NA		\$ -	
PS-53	1978	113	NA		\$ -	
PS-53B	1980	71	NA		\$ -	
PS-53C	1986	7186	\$ 1,007.00	\$ 7,236,302.00	\$ -	
PS-53D	1988	4117	\$ 1,600.00	\$ 6,587,200.00	\$ -	
PS-53CMOD	1988	971	\$ 1,400.00	\$ 1,359,400.00	\$ -	
PS-22	1995	586	\$ 3,560.00	\$ 2,086,160.00	\$ 356.00	\$ 208,616.00
PBM-1&1a	1980	37	NA		\$ -	
SBVM-3	1983	2	NA		\$ -	
PBM-4	1983	138	NA		\$ -	
PBM-5	1986	39	NA		\$ -	
PBM-2	1986	3201	\$ 780.00	\$ 2,496,780.00	\$ -	
PBM-6	1987	5208	\$ 1,114.00	\$ 5,801,712.00	\$ -	
PBM-7	1995	410	\$ 3,680.00	\$ 1,508,800.00	\$ 368.00	\$ 150,880.00
PCM-21	1980	223	NA		\$ -	
21CE-64	1964	15	NA		\$ -	
21CE-72	1972	350	NA		\$ -	
GSM-76	1976	4	NA		\$ -	
PCM-1625A	1989	792	\$ 5,200.00	\$ 4,118,400.00	\$ 520.00	\$ 411,840.00
PCM-1625B	1993	4200	\$ 4,500.00	\$ 18,900,000.00	\$ 450.00	\$ 1,890,000.00
PCM-1625B	1995	429	\$ 5,400.00		\$ 540.00	\$ 231,660.00
SCC-1	1984	1	NA		\$ -	
SCC-3	1986	3244	\$ 1,150.00	\$ 3,730,600.00	\$ -	
PBSM-624	1994	4570	\$ 7,000.00	\$ 31,990,000.00	\$ 700.00	\$ 3,199,000.00
27 models		36016	\$ 36,391.00	\$ 85,815,354.00	\$ 2,934.00	\$ 6,091,996.00

1 CHAIRMAN GLEIMAN: Next we will hear from, and I
2 hope my alphabetization skills are good, the Association for
3 Postal Commerce.

4 MR. WIGGINS: That is the right name and I think
5 it is alphabetically correct.

6 CROSS EXAMINATION

7 BY MR. WIGGINS:

8 Q Mr. Tayman, I am Frank Wiggins for the Association
9 for Postal Commerce.

10 Our interrogatories for you travelled under the
11 name PostComm/USPS and if you would look at the first one of
12 those, T9-1.

13 A Okay.

14 Q We asked you a question about labor costs
15 associated with installation of flat sorting equipment and
16 your answer to the first part of that was no. We then in
17 Subpart (d) asked you if your answer is no, where are such
18 costs reflected?

19 You tell me down in your answer to Subpart (d)
20 that if a contractor provides the costs, they are
21 capitalized. If postal labor is incurred, they are expense.

22 Then we did a follow-up in Number 3 to you, if you
23 could get that in front of you.

24 Do you have that in front of you?

25 A Yes.

1 Q You say the installation costs for flat sorting
2 equipment is included in the purchase price of the equipment
3 and it is not possible to isolate the installation portion
4 of the cost.

5 Now, if I put those two answers together, would it
6 be fair to conclude that all of that installation cost is
7 consequently depreciated rather than expensed?

8 A That's correct.

9 Q Okay.

10 Take a look at our number 2, PostComm/USPS-T9-2.

11 A Okay.

12 Q And you're showing us in your response, if I
13 understand this right, work hours savings for a number of
14 different pieces of equipment?

15 A That's correct.

16 Q And the numbers sort of bounce around. Are you
17 the right person to explain to me what causes those
18 differences from year to year?

19 A The information I have on these was provided by
20 the program manager, and in our Library Reference 126 would
21 be the indication of the basis of those numbers. If that
22 explanation didn't suffice -- do you have one in particular?

23 Q I have them all in particular.

24 A Okay. Well, that narrows it down.

25 Q I mean, if there are any of them as to which you

1 can proffer an explanation, I would really like to have it.
2 If you're not the right person and you don't know anything
3 more than 126 knows, I'll understand.

4 A Yes. I would refer back to 126.

5 Q Take a look at your answer to ANM/USPS/T9-19.

6 A Okay.

7 Q In subparts C and E of your answer, you refer to
8 work hour savings that are reflected in the DAR, a term that
9 you defined in response to Mr. Levy's question, the DAR
10 concerning the AFSM-100.

11 A Yes.

12 Q Can you give me a citation within that DAR to
13 where you got these numbers? I couldn't find it.

14 A I'd have to look at the DAR. Was that one that
15 was provided in this Library Reference?

16 Q It was. I'm happy to receive that outside the
17 hearing room.

18 A Okay. Why don't we do that.

19 MR. WIGGINS: Mr. Chairman, could I ask that that
20 be -- that the witness be directed to do that?

21 CHAIRMAN GLEIMAN: Certainly. Mr. Reiter, we'll
22 expect a response within seven days on that one, also.

23 BY MR. WIGGINS:

24 Q Look at the next in line for ANM, ANM/USPS-T9-20.

25 A Okay.

1 Q And in your response to subpart A there, you give
2 some revised numbers for savings of clerk hours, maintenance
3 hours in 2000 and 2001.

4 A That's correct.

5 Q Where did you get those numbers?

6 A We filed errata on the Library Reference 126 and
7 these essentially came from those revisions there, and there
8 were some errors in that initial Library Reference for these
9 programs, so they were corrected.

10 Q I understand the sort of tortured history of 126,
11 and these numbers have now stabilized, correct?

12 A That's correct.

13 Q I mean, we're comfortable that these are the real
14 numbers?

15 A Yes.

16 Q What I was really getting after, Mr. Tayman, was
17 the source, whether empirical or analytic, of those numbers.
18 Do you know?

19 A I mean, the source -- again, it's explained in
20 126. There are several phases of these programs where they
21 talk about different levels of operational savings, and so
22 the source of these -- again, it came from the program
23 managers and would be consistent with what's in our
24 operational plans.

25 Q And your answer would be the same, I take it, if I

1 directed you to the table that is associated with your
2 response to MPA/USPS-T9-1? That is, you don't have any
3 direct number -- any direct knowledge of the derivation of
4 the average hours of saving per machine?

5 A Again, that's -- okay. It's based on the -- from
6 the program manager information. It's also based on
7 deployment schedules. Obviously, you know, there's just not
8 one standard average, there's certain returns at certain,
9 you know, offices. And so what's reflected here is the
10 average of all those together.

11 Q And you answer in response to one of the ANM
12 interrogatories to which I just referred you to that in FY
13 2000, the AFSM-100 is not fully deployed for the entire
14 year, correct?

15 A I believe that's correct, yes.

16 Q I can get you back to it, --

17 A Yes.

18 Q -- if that would help. It's your answer to
19 ANM/USPS-T9-20B as in boy.

20 A 20B. That's correct, yes.

21 Q What was your assumption for FY 2000 as to the
22 deployment of those machines? How many did you have in
23 service at what point?

24 A Let me get to the Library Reference --

25 Q Sure.

1 A -- on that. Okay. On the -- okay. The AFSM-100
2 is based on 173 machines deployed, and in 2000 -- let's see.
3 In 2001, they are considered fully deployed. The specifics
4 on which level of deployment in 2000 is not broken out here.

5 Q I know that.

6 A Yes.

7 Q That's why I asked.

8 A I would have to go back to the program manager.

9 Q Is that a colossal undertaking?

10 A No.

11 MR. WIGGINS: Mr. Chairman, I would ask that the
12 witness be directed to provide that information, please.

13 CHAIRMAN GLEIMAN: The witness is so directed.

14 BY MR. WIGGINS:

15 Q In your testimony, Mr. Tayman, at page 14, you
16 have in conjunction with Table 10 shown there a discussion
17 of cost savings for supervisory costs. I must concede, the
18 first time through, I thought I understood it, but on more
19 mature examination, I don't think I do.

20 Can you just carry us through your logic?

21 A You're referring to lines 23 through 27?

22 Q Those are the words and the table above reflects
23 the numbers.

24 A Okay. And this was an issue that came up in the
25 last rate filing, R97-1, pertaining to the level of

1 supervisor impacts, and what we have attempted to do here
2 was clarify where in 2000 there, in fact, were reductions
3 that could be captured in relation to some of these
4 programs, and that's -- and so that's -- that would be an
5 adjustment, a reduction in 2000, which that same level would
6 carry over into the test year.

7 Q And the savings that are reflected in 2000, are
8 those an effort to comply with the treatment that the
9 Commission mandated for piggybacking supervisory costs?

10 A I think it's a combination of that as well as the
11 fact that we think these are cases where we can, in fact,
12 capture these reductions.

13 Q And the test year reductions, are these, as some
14 of the other numbers -- or the 2000 and test year, these are
15 incremental savings; is that correct?

16 A That's correct.

17 Q So that if one wanted to know total supervisory
18 cost reductions, you would focus only on 2000; is that
19 right?

20 A That's correct.

21 Q And can you explain why there are no further
22 savings in the test year? I mean, isn't the same logic that
23 we went through on the phased deployment for some
24 cost-reducing investments -- shouldn't there be more cost --

25 A Well, again, I think it's a question of timing on

1 when these impacts -- and as they're being deployed, you
2 know, once -- once that level comes out, it stays out, and
3 if you look at the assumptions, the overall assumptions in
4 2001, there's a -- I think work hours are declining in
5 total. And so that, it goes back to the specific details of
6 each particular program and where it was anticipated that
7 savings could be captured.

8 Q Well, is it -- you are saving employee work hours
9 in both 2000 and 2001 as a consequence of the deployment of
10 the AFSM 100, correct?

11 A That's correct.

12 Q And yet you're saving supervisory hours only in
13 2000. I just don't quite understand that.

14 A Did you examine the exhibits to Library Reference
15 126?

16 Q I have spent a lot of quality time with 126.

17 A Okay. Good.

18 Q Which I must say I find a little hard to
19 penetrate.

20 [Pause.]

21 A I'm not finding what I was looking for. Again, it
22 goes back to the program-specific nature and the timing of
23 the deployment when, in fact, those savings are taken out.
24 I think in 2001, the deployment -- the deployment is
25 completed for that particular machine, and then for the

1 advanced FSMs, they -- it's beginning in that year. So
2 there is additional -- as equipment is deployed, there is
3 additional supervisory time that is required during that
4 stage, so it's not always just, you know, a one-for-one
5 relationship between the clerks or the mailhandlers and the
6 supervisory time.

7 Q Were you beginning to contend to me that there is
8 something in the exhibits to 126 that shows me how that
9 happens?

10 A Well, that's what I was looking for, but I didn't
11 quite see that, either, so --

12 Q It is right, if you look back at your answer to
13 ANM/USPS-T9-20 --

14 A That's correct.

15 Q -- you show me in the response to subpart A a
16 substantial decline in clerk hours in FY 2001. You got a
17 little bit in F Year 2000, and this is for the AFSM 100, a
18 little bit in 2000 and you tell me that's because the
19 deployment is phased across 2000. I understand that. And
20 then you show me a pretty big number in 2001 because the
21 full deployment is in place for that entire fiscal year,
22 correct?

23 A That's correct.

24 Q And yet you show me on page 14 that you recognize
25 supervisory cost savings in 2000 but not 2001, and I'm

1 missing some part of the logic here.

2 A Okay. I mean, my understanding is that we've
3 taken them out of the base in 2000 and there is additional
4 levels of savings with that equipment.

5 I mean, I don't have any additional explanation
6 than what I've provided on that, and I'm not telling you
7 anything new, so --

8 Q Okay. Thank you, Mr. Tayman.

9 MR. WIGGINS: Mr. Chairman, I have nothing
10 further.

11 CHAIRMAN GLEIMAN: Mr. Ackerly? DMA?

12 MR. ACKERLY: Mr. Levy asked -- I believe that all
13 of my questions have been asked.

14 CHAIRMAN GLEIMAN: He asked all of your questions?

15 Mr. McBride? No, I'm not calling you up yet; I
16 was just going to go through the list of everybody and find
17 out whose questions Mr. Levy asked -- got answers to.

18 Well, if DMA is not going to cross, then we're up
19 the Office of the Consumer Advocate.

20 CROSS EXAMINATION

21 BY MS. DREIFUSS:

22 Q Good morning, Mr. Tayman.

23 A Good morning.

24 Q I'm Shelly Dreifuss for the Office of the Consumer
25 Advocate.

1 I would first like to follow up on --

2 CHAIRMAN GLEIMAN: I apologize. In scribbling in
3 the name of another cross-examiner today, I messed up my
4 little crib sheet here and just passed right over the
5 Association of Priority Mail Users, and I was getting these
6 funny looks from Mr. Olson and I wasn't quite sure what they
7 were about until I looked down and realized that my scribbly
8 notes are difficult for me to read.

9 MR. OLSON: I'd be glad to wait for OCA now that
10 they have begun or do --

11 CHAIRMAN GLEIMAN: I'll let the two of you decide
12 which way you want to do it, and I do apologize.

13 BY MS. DREIFUSS:

14 Q We might as well continue, Mr. Tayman.

15 The first question I have for you follows up on
16 your discussion with Mr. Levy just a little while ago when
17 you were talking about Postal Service decisionmaking and
18 whether to purchase -- make a substantial investment in new
19 equipment.

20 I wanted to ask you first if you would agree that
21 in making this decision whether to invest in new equipment,
22 the Postal Service would like to expand the minimum cost and
23 achieve the optimal operating solution. Does that sound
24 correct to you?

25 A I think any business would follow that philosophy.

1 Q In trying to achieve those goals, does the Postal
2 Service ever do any benchmarking? And by that, I mean does
3 the Postal Service ever look at the best practices of
4 companies that perform similar services and activities to
5 the Postal Service in order to determine whether the Postal
6 Service needs to modify its operations and invest in new and
7 different types of equipment so as to achieve optimal
8 operating solutions?

9 A I believe we're in the process now of doing some
10 benchmarking studies. As far as pertaining to operating
11 efficiencies specifically, I'm not totally aware of that.

12 Q Has the Postal Service ever performed benchmarking
13 comparisons in the past before investing in new equipment?

14 A Again, specifically I'm not familiar with that
15 area. If -- I'm not sure that a benchmarking study is what
16 generates a capital investment or the desire to purchase a
17 piece of equipment.

18 Q Are you able to say that you do know of such
19 benchmarking studies that have been used in the past?

20 A No.

21 Q You do know of some that are currently underway,
22 however?

23 A I know we're looking at some benchmarking in
24 relation to our total operational budget. I believe Mr.
25 Henderson referred to that in some of his recent speeches.

1 Q What are the comparisons that are going to be made
2 in these new benchmarking studies?

3 A My understanding is they're just being initiated
4 right now, so I think they're, you know, looking at levels
5 of resource utilization from, you know, administrative types
6 of activities at least.

7 Q And to your knowledge, equipment currently in
8 place does not reflect such benchmarking studies; is that
9 correct?

10 A I'm not aware if they do or if they don't.

11 Q Is there another witness who would be aware
12 whether earlier investments and equipment have been based
13 upon benchmarking studies?

14 A I am not sure if one of our operating witnesses
15 would.

16 MS. DREIFUSS: Mr. Chairman, can I ask the Postal
17 Service perhaps to give us an institutional response since
18 Mr. Tayman doesn't seem to be aware personally of whether
19 equipment currently in place has been the result of
20 benchmarking studies. I was wondering if the Postal Service
21 could give us an institutional answer on that.

22 CHAIRMAN GLEIMAN: Mr. Reiter.

23 MR. REITER: I guess I would make the same
24 suggestion that I made to Mr. Levy, that it is still
25 appropriate to file such discovery.

1 CHAIRMAN GLEIMAN: Let's reduce the question to
2 writing and the Postal Service will provide a response.

3 MS. DREIFUSS: Very good.

4 BY MS. DREIFUSS:

5 Q Would you turn to your response to OCA
6 interrogatory OCA/USPS-T9-43, please?

7 A Okay.

8 Q In part (a) of that interrogatory we ask you with
9 whom in management did you discuss the amount of the
10 contingency provision to be incorporated into the R2000
11 filing. In your response, you state that you discussed the
12 amount of the contingency provision with the controller, the
13 CFO, the chief counsel, ratemaking, your attorney and other
14 staff, is that correct?

15 A That is correct.

16 Q Does the 2-1/2 percent contingency that you
17 propose to any degree reflect the input you received from
18 any of the individuals that you name in part (a)?

19 A We held various discussions over the level of the
20 contingency, and if the nature of the question is, did one
21 particular individual direct that level of contingency, no,
22 it was based on assessments by the entire group, and that
23 was the conclusion that we came up with.

24 Q So it is fair to say that you didn't make a
25 unilateral decision to propose a 2-1/2 percent contingency

1 in this case, is that true?

2 A I am not sure I understand how you mean a
3 unilateral decision.

4 Q Did you make that decision all by yourself, is it
5 solely your decision?

6 A No. I made in conjunction with the group I have
7 indicated there.

8 Q In part (b) of this question, we asked you to
9 provide copies of documents, notes and analysis performed in
10 determining the level of the contingency. The Postal
11 Service objected to that interrogatory, that part of the
12 interrogatory. They asserted a deliberative process
13 privilege, which you may -- you don't need to be familiar
14 with, it is legalese, and also a pre-decisional privilege.
15 Before asking you any specific questions about that, let me
16 ask you first whether there are any documents that you
17 consulted in formulating your decision to propose a 2-1/2
18 percent contingency?

19 A I mean we looked at -- I looked at historical
20 information. I prepared some presentations with
21 recommendations on different levels.

22 Q On different levels, you mean different levels of
23 contingency?

24 A Yes.

25 Q What was the nature of these presentations? What

1 kind of information did you provide to your audience?

2 A Historical data, in addition to some of the
3 factors that are indicated in my testimony on substantiating
4 the basis for the level of the contingency.

5 MS. DREIFUSS: Would the Postal Service counsel
6 have an objection to my asking more detailed questions about
7 these presentations?

8 MR. REITER: I guess it would depend on the type
9 of questions.

10 MS. DREIFUSS: Well, then I will go ahead. Let's
11 give it a try.

12 BY MS. DREIFUSS:

13 Q Well, first, I would like to get an idea of what
14 this looked like.

15 A They were PowerPoint presentations, if that helps.

16 Q PowerPoint. Okay, PowerPoint presentations. And
17 what group were you addressing when you made them?

18 A The group of individuals or the --

19 Q Yes. What group of individuals?

20 A The ones in Response (a) there.

21 Q Can you describe -- how many such presentations
22 were made?

23 A I am not sure of the exact number. We met more
24 than once on this issue.

25 Q Did the level of contingency always remain at

1 2-1/2 percent or was there some play in whether it would be
2 a higher number or a lower number?

3 A I mean we reviewed the level of the contingency in
4 connection with other aspects of the revenue requirement and
5 other aspects of this rate filing, the volume forecasts, the
6 inflationary forecasts, et cetera.

7 Q Would you describe it as an evolutionary process
8 then, until you finally reached the decision to propose a
9 2-1/2 percent contingency?

10 A I am not sure I would describe it that way, no. I
11 mean, again, I think pages 43 through 45 of the testimony
12 pretty much delineate all the factors that we considered in
13 coming up with our decision.

14 Q Did the presentations you made to management look
15 exactly as I see them on pages 43 and 44 -- I'm sorry, 43
16 through 46, do the presentations look exactly this way?

17 A Again, we provided information on historical
18 levels of contingency, and I don't think -- we didn't go
19 back here to the first rate filing and identify the level,
20 you know, in here. In the presentations, yes, I did go back
21 and show the levels of the contingency for every rate
22 filing. So it is, again, consistent with the type of
23 information ^{that is} explained here.

24 Q What other differences were there in the
25 presentation, aside from the historical levels of

1 contingency?

2 A Not having each presentation in ~~front~~^{front} of me, I
3 would want to refer back to those.

4 MS. DREIFUSS: Mr. Chairman, I would ask that the
5 Postal Service provide hard copy of these PowerPoint
6 presentations for OCA's examination, because it appears that
7 they may have had a role to play in eventually proposing a
8 2-1/2 percent contingency.

9 MR. REITER: Mr. Chairman, in responding, I need
10 to ask if Ms. Dreifuss would clarify one of her previous
11 questions. I mean I could say it, too, but I think it is
12 helpful if the witness explains it. I think you may have
13 asked -- I am not clear on what you asked, because the
14 witness' question was he referred to the audience as the
15 group that he named, but I am not sure -- I think your
16 question meant to ask him, to whom was the presentation
17 presented? Am I right about that? Because I don't think I
18 ever heard that answer.

19 MS. DREIFUSS: I asked who the audience was, and I
20 thought he said his presentations. I thought in response to
21 my question, he answered that the audience was that group of
22 individuals he lists in part (a). Maybe I misunderstood.

23 BY MS. DREIFUSS:

24 Q Did I misunderstand, Mr. Tayman?

25 A I thought the nature of the question was, in

1 developing the level of contingency, who participated in
2 that process? And that is the response I gave.

3 MR. REITER: Right. But I think Ms. Dreifuss'
4 question was, that group that prepared it, whom did they
5 prepare this presentation for?

6 MS. DREIFUSS: Well, it sounds like Mr. Reiter may
7 be trying to narrow my request. I wouldn't like that to
8 happen. So what I will ask then is if Mr. Tayman could
9 provide hard copy of any presentations, whether made to this
10 group of individuals listed in part (a) or any other
11 audience?

12 MR. REITER: I don't mean to make this difficult,
13 Mr. Chairman. I was trying to make it easier and it didn't
14 succeed. The problem is the presentation was made to the
15 Board of Governors at the closed meeting, and that is the
16 basis of our objection to providing it.

17 CHAIRMAN GLEIMAN: It would seem to me that, and I
18 am not an expert on the Government in the Sunshine Act, but,
19 as I understand it, after a closed meeting is over, you have
20 an obligation, or the Governors, the Board of Governors has
21 an obligation to go back and review what transpired at the
22 closed meeting, and to the extent that there activities that
23 no longer are covered by one of the reasons initially stated
24 for closing the meeting, that the materials and decisions
25 associated with those aspects of the meeting that no longer

1 need to be kept from the public because they are
2 pre-decisional or because, you know, their disclosure would
3 affect the banking community and the markets and everything
4 else, are to made available to the public.

5 You started out, Ms. Dreifuss, by asking for
6 PowerPoint presentations. Now, you have asked for all
7 presentations. What I would like you to do is I would like
8 you to reduce your request your writing, submit it to the
9 Postal Service. And I caution the Postal Service not to
10 stretch simply because it was in a closed Governors meeting.
11 Again, I am not an expert on the Government in the Sunshine
12 Act. I haven't dealt with it, other than in the context of
13 our own deliberations, in 20 years. But I think you need to
14 review what is available and what is not available after a
15 meeting is over.

16 So, we will have a written request and we will
17 have a written response of some sort or another.

18 COMMISSIONER GOLDWAY: Mr. Chairman, may I throw
19 in --

20 CHAIRMAN GLEIMAN: Certainly.

21 COMMISSIONER GOLDWAY: I am a bit confused by the
22 information that has surfaced so far, because I thought, in
23 the questioning that OCA was developing, that there was a
24 presentation made to the financial officer, the CFO and the
25 chief rate case attorney, and others on staff, that involved

1 a PowerPoint presentation which I thought, if I were doing
2 it, would have included lots of different options. What if
3 we had done a 1 percent contingency? What if we had done 2
4 percent? What if volume had been this? What if volume do
5 we need? Real numbers and options to look at so that we
6 would know whether 2 percent was a number that you pulled
7 out of the air or not. And that might be different from
8 some presentation to the Board of Governors.

9 And there seem to be two presentations we are now
10 talking about here. And that it is not clear to me in this
11 discussion where we have gone. And I appreciate the OCA at
12 least being clear about defining which presentations we are
13 talking about and then deciding which one they are
14 requesting.

15 MS. DREIFUSS: I appreciate that, so why don't I
16 question Mr. Tayman a little bit further about the types of
17 presentations that were made, so as to have an understanding
18 when we do file our written request to the Postal Service,
19 what it is that we would like.

20 BY MS. DREIFUSS:

21 Q Did you make any presentations -- I'll stick to
22 the PowerPoint for a moment. Did you make any PowerPoint
23 presentations to the Controller at any time?

24 A Yes, we presented slides to the Controller.

25 Q On more than one occasion, do you recall?

1 A Sure.

2 Q Was the CFO present for those presentations?

3 A For some of them, yes.

4 Q Okay. How about the Chief Counsel of Ratemaking;
5 was the Chief Counsel present for those presentations?

6 A I believe in some of them, yes.

7 Q How about your attorney; was your attorney present
8 for some of those presentations?

9 A He was involved, yes.

10 Q Could you tell me the other staff members, who, if
11 you can recall, who attended these presentations?

12 A Do you want --

13 Q You can just give me their positions and not
14 necessarily their names.

15 A We would have had our Manager of Forecasting,
16 Pricing Manager, and other staff people working for those
17 individuals.

18 Q Did you receive any written feedback following any
19 of these presentations?

20 A No.

21 Q Did you provide any written feedback, based upon
22 questions that were asked you at these presentations?

23 A No.

24 Q Were there any presentations made that were not
25 PowerPoint presentations?

1 A PowerPoint is pretty much our standard that we
2 utilize, so I don't recall.

3 Q Did you convey any written information to any of
4 these individuals in the form of a memorandum or report or
5 something like that?

6 A I don't believe so.

7 Q Is it fair to say that the only communications,
8 then, you had with the Controller, the CFO, Chief Counsel,
9 your attorney and other staff members, the only
10 communication from you to them was in the form of PowerPoint
11 presentations; am I right in saying that?

12 A I mean, we had meetings ^{where} ~~where~~ we discussed, you
13 know, what levels of the contingency, the same kind of
14 things that were indicated as far as different levels of
15 volume assumptions and whatnot, sure.

16 Q Is there any -- are there any written notes from
17 these meetings?

18 A None that I have. I don't know -- we don't take
19 minutes of these meetings, no.

20 Q Did anyone -- do you recall whether anyone was
21 appointed informally to take notes at these meetings?

22 A No.

23 Q You don't recall?

24 A No, we didn't take notes. We, you know -- no.

25 Q If I were to ask you to give me a written summary

1 of each of these meetings, do you think you'd be able to
2 give me a written summary to the best of your recollection?

3 A To the best of my recollection, sure, but it's,
4 you know -- I don't think I could tell you the exact dates
5 of when the meetings were, so it's not going to be a real
6 good recollection.

7 Q Right. Well, it would be the best of your
8 recollection.

9 A All right.

10 Q And if you consulted some of the others who
11 attended the meetings, it's possible that your recollection
12 would be improved; wouldn't it?

13 A I guess it's possible.

14 Q We also asked you about notes. Have you retained
15 -- did you make any notes in -- as your testimony was being
16 prepared and you were trying to decide what level of
17 contingency to propose; do you recall making any notes?

18 A I mean, as a common practice, when I attend
19 meetings, I take notes. I then, you know, follow up on
20 those notes, and I probably don't retain them all.

21 If it's -- if the notes pertain to a revision for
22 the next presentation or whatever, that's what we would have
23 done, so it would have been reflected in subsequent
24 materials.

25 Q It is possible that you have retained some notes

1 in your files related to the contingency; isn't that
2 correct?

3 MR. REITER: Mr. Chairman, at this point, I'm
4 really losing the focus here of what we're trying to do.
5 Mr. Tayman's testimony on all of these matters, including
6 the contingencies, is reflected in his testimony. That's
7 the Postal Service's position.

8 Now, Ms. Dreifuss has asked all kinds of questions
9 about development of a presentation to the Board of
10 Governors. That's what Mr. Tayman is talking about here.

11 Sure, everybody who was involved looked at the
12 various drafts and made comments and a final presentation
13 was given to the Board of Governors.

14 Intermediate notes, I mean, we have an objection
15 to providing that, as you heard earlier, and that would
16 encompass any of this material that she's getting at. And I
17 think even if we didn't object to the final presentation, I
18 don't see the point of all this kind of material that she's
19 asking for here.

20 MS. DREIFUSS: Mr. Presiding Officer, the reason I
21 have to go through this at such length with Mr. Tayman is
22 that the Postal Service, when it filed its objection, told
23 us absolutely nothing about the types of documents, notes,
24 and analyses that he may have consulted. We have nothing to
25 go on in writing our motion to compel.

1 I am now taking the opportunity to try to find out
2 what there is, to which they have objected.

3 CHAIRMAN GLEIMAN: Before you started this line of
4 questions, Ms. Dreifuss, before she started, Mr. Reiter, I
5 indicated that I was asking her to reduce the requests to
6 writing, and then the Postal Service would have an
7 opportunity to respond to it in whatever manner they choose
8 to respond.

9 I'm going to let Ms. Dreifuss to continue to ask
10 the questions of the nature that she's been asking, however,
11 I did not envision a response from the witness that, sure,
12 he could reconstruct from memory, what transpired in a
13 meeting to be an indication that he was making a commitment
14 to provide that material.

15 If Ms. Dreifuss wants him to reconstruct those
16 notes from -- reconstruct from his memory, the notes of
17 meetings, then she will include that in her written request
18 to the Postal Service.

19 Do we understand what we're doing here now? So
20 you can continue to ask questions, you can continue to
21 object, if you wish, but you will have an opportunity to
22 object, once you see whatever if is that she's going to
23 request in writing.

24 MR. REITER: I understand that, thank you.

25 CHAIRMAN GLEIMAN: Okay?

1 MS. DREIFUSS: Thank you, Mr. Chairman.

2 BY MS. DREIFUSS:

3 Q Do you know specifically whether you have retained
4 any notes that you made as you were preparing your testimony
5 with regard to the contingency?

6 A I'll check my notepads. I don't know
7 specifically.

8 Q All right, and I would ask you if you did make any
9 such notes, please to do your best to preserve them just in
10 case the Presiding Officer might rule in the future that we
11 would be able to obtain them.

12 A Okay.

13 Q Do you recall whether there were any written
14 analyses performed in order to determine the level of the
15 contingency that you proposed?

16 A Again, all the analysis would have been included
17 in the presentations.

18 Q And so the presentations were to sometimes a
19 complete group of individuals named in Part A, sometimes a
20 subset. In addition, there was a presentation made to the
21 Board of Governors, is that correct?

22 A That is correct.

23 Q Was there only one presentation made to the Board
24 of Governors?

25 A I think they were briefed on the status of the

1 rate filing on several meetings so that item would have come
2 up in those sessions.

3 Q Did those also take the form of PowerPoint
4 presentations?

5 A Yes, they did.

6 Q Again in OCA Interrogatory 43, Part G, we asked
7 you whether the Postal Service is more concerned in this
8 docket than in Docket Number R97-1 that USPS managers are
9 less able to plan and follow through on their operating
10 budgets. You answered in the second sentence of Part G that
11 if the Postal Service had similar concerns during the
12 previous rate cycle. Is that correct?

13 A That is correct.

14 Q To the extent that you had similar concerns, one
15 would expect that the proposed contingency would be at the
16 same level that you have proposed in R97, is that correct?

17 A Can you repeat that question?

18 Q To the extent that your concerns are similar to
19 those that you had in R97, would you agree that that should
20 result as a matter of logic in a contingency more or less at
21 the level that was proposed in R97?

22 A No --

23 MR. REITER: Mr. Chairman, I think that counsel
24 has misstated the witness's answer here.

25 He used the word "similar" in the second sentence

1 following up his own statement in the first sentence of his
2 answer. She is asserting that he agreed with her question,
3 when his use of the word "similar" is not the same as hers,
4 so I would appreciate if that were clarified.

5 BY MS. DREIFUSS:

6 Q Well, in sentence one you answered, "The Postal
7 Service remains concerned about its ability to meet the
8 challenging financial goals it will face over the next rate
9 cycle." Is that correct? Did you say that?

10 A That is correct.

11 Q And then just following that you say, "The Postal
12 Service had similar concerns during the previous rate
13 cycle." Did you say that?

14 A Yes, I did.

15 Q Frankly, I don't see any other way of interpreting
16 that response other than to say that the concerns named in
17 the first sentence were similar between the two rate cycles.

18 Do I understand correctly that that is what you
19 said in Part G?

20 A The statement states that we are concerned about
21 the challenging financial goals over this rate cycle and we
22 had the same concerns in the last rate cycle.

23 Q Right. In the first rate cycle you had concerns
24 about the ability to meet challenging financial goals, is
25 that true?

1 A That is true.

2 Q That was true for R97, wasn't it?

3 A Yes.

4 Q In R2000, similarly you were concerned about the
5 Postal Service's ability to meet challenging financial
6 goals. Is that true?

7 A Yes, and if I could, I mean part of that is the
8 fact that if we look at Fiscal Year '99 we had a revenue
9 plan that we fell short of by some \$600 million, more than
10 that, and year-to-date right now we are behind our revenue
11 projections by \$350 million --

12 Q I am going to have to interrupt you for moment,
13 Mr. Tayman, because I am trying to focus on the similar
14 concerns, not the differences between R97 and R2000, but the
15 similarities.

16 A Okay, and what I was trying to suggest, that part
17 of those similar concerns pertains to our volume forecast,
18 the potential for electronic diversion, and other such
19 competitive pressures.

20 Q Did you also have such concerns in R97?

21 A Yes.

22 Q What was the proposed contingency in R97?

23 A Well, the contingency in R97, and probably the
24 best thing to do would be to refer back to the testimony for
25 that filing, and it was one percent but as I recall we

1 stated, I stated that the one percent was based on several
2 factors that supported using such a challenging contingency
3 level, and at that time also I think I have it in the
4 testimony here, we said, if I can read this, it says, "When
5 the Postal Service proposed a one percent contingency in the
6 last rate case, I indicated that this did not represent a
7 permanent change in management's judgment concerning the
8 level of coverage generally necessary to protect against
9 unforeseen events and forecasting errors."

10 So we took some risks last time. That was the
11 lowest level of contingency ever included in a rate filing.

12 Q The Postal Service has fared pretty well with that
13 one percent contingency, hasn't it, since the last rate
14 case?

15 A How would you define fared fairly well?

16 Q If I understand it, in FY '99 you are still
17 generating a surplus, aren't you?

18 A Yes, we did.

19 Q What was the test year in R97?

20 A The test year was '98.

21 Q Right, so you broke even in '98 and '99, didn't
22 you, on the one percent contingency?

23 A We had a recovery of prior year loss goal that you
24 might want to look at that as to how well we fared against
25 that in that time period.

1 Q Are you not ahead of schedule in recovering prior
2 year losses?

3 A I am not -- how do define ahead of schedule? You
4 mean from the last rate filing the recovery of prior year
5 loss was I believe, what? -- \$377 million, and we made, in
6 '99 we had a net income of I believe it was ~~\$336~~^{\$363} and we have
7 a plan this year for \$100 million and we are well below
8 that, behind that plan.

9 Q Right, but I am focusing right now on FY '98 and
10 FY '99.

11 Didn't you recover in FY '98 and FY '99 all of the
12 prior year losses that you projected it would be necessary
13 to recover for each of those fiscal years?

14 A In '98? -- I think where you go into semantics
15 here as far as how do you determine the prior year loss
16 recovery. In FY '98 -- I mean I'm sorry, the rates did not
17 go into effect until January of '99 and the Board resolution
18 that we attempt to adhere to on the recovery of prior year
19 loss says we will recover the amount from the most recent
20 rate filing, so in 1998, having not implemented rates that
21 would have been \$936 million, I believe.

22 Q I'm sorry, you lost me. What is the \$936 million?

23 A That was the recovery of prior year loss provision
24 amount that from our basis and adherence with the Board of
25 Governors' resolution on recovery of prior year loss would

1 have been in the amount we would have been required to
2 recover in that year.

3 Q You would have recovered -- you would have been
4 forced to recover \$936 million in FY '98?

5 A Yes.

6 Q And the FY '98 amount was set by which rate case,
7 R94 or R97?

8 A R94.

9 Q I think we are getting far afield here and I
10 don't --

11 CHAIRMAN GLEIMAN: You have got me terribly
12 confused here. The test year for R97 was?

13 THE WITNESS: '98.

14 CHAIRMAN GLEIMAN: Right, so then the prior year,
15 recovery of prior year losses could not have been set by the
16 R94 case. It was set by the R97 case and my recollection is
17 that the amount in the R97 case was \$426 million or
18 thereabouts.

19 THE WITNESS: That was in our filing. Our filing
20 was \$447. The decision was \$377, I believe.

21 CHAIRMAN GLEIMAN: Okay. Whichever amount was in
22 the decision and was in your filing, it is different than
23 the \$936 that you spoke to a moment ago, is that not
24 correct?

25 THE WITNESS: When I referred to the \$936, I was

1 referring to it in reference to our Board policy. I think
2 it is Resolution 95-9.

3 CHAIRMAN GLEIMAN: I understand but we don't deal
4 with Board policy. We deal with rate cases.

5 THE WITNESS: I understand, but the question
6 pertained to how well are you doing financially and one of
7 our measures is is adhering to the Board resolution.

8 CHAIRMAN GLEIMAN: So that if extra rate case the
9 Governors decide to do something else, then it affects how
10 well you are doing financially as opposed to the rate case
11 and other factors? I mean I understand what the Governors
12 did, but I am trying to deal with the evidence that we
13 have -- we had in that case and the evidence that we have in
14 this case and --

15 MR. REITER: Mr. Chairman, if I could suggest that
16 anyone who wants to, including yourself, could look at the
17 witness's Exhibit 9-N, "N" as in "Nancy" -- it lays out the
18 numbers that he is talking about and it might clarify it for
19 everybody.

20 CHAIRMAN GLEIMAN: I actually looked at that
21 exhibit when it came in. I am just trying to make the
22 point, and then I am going to say it one more time and then
23 I am going to be quiet and let Ms. Dreifuss go on.

24 We deal with rate cases here. We don't deal with
25 decisions that Governors make either before or after a rate

1 case decision that affect the Postal Service's bottom line
2 in a test year.

3 We deal with what the Board of Governors,
4 including the nine Presidentially appointed Governors, send
5 us and that is what is on the record here in terms of how
6 well you did relative to what the Commission recommended and
7 the Governors ultimately accepted.

8 BY MS. DREIFUSS:

9 Q I am going to take advantage of the Chairman's
10 clarification, because the \$936 million is not familiar to
11 me.

12 In terms of the prior year loss recover that the
13 Commission recommended to the Board of Governors in R97-1,
14 isn't it correct that in FY '97 and FY '98 the Postal
15 Service recovered the amount that the Commission
16 recommended?

17 A Okay, this gets a little complicated. The
18 Commission's decision recommended \$377 million for R97,
19 okay?

20 The actual rate increase associated with R97 did
21 not get implemented till January of 1999. So, from the
22 aspect that the financial performance in Fiscal Year 1998
23 and the Fiscal Year 1999 was greater than the \$377, I mean,
24 that's just pure mathematics.

25 But as far as that being associated with the R97

1 rate filing, I mean, again, those rates were implemented
2 after the test year was over.

3 COMMISSIONER GOLDWAY: How much did you actually
4 contribute to restoring prior year losses in '97 and '98,
5 according to your figures?

6 THE WITNESS: Okay, in 1998, the net income was
7 \$550 million, in 1999, it was \$363.

8 COMMISSIONER GOLDWAY: And in 1997?

9 THE WITNESS: Okay, 1997 was a \$1.264 billion.

10 BY MS. DREIFUSS:

11 Q The Postal Service in FY98 far exceeded the prior
12 year loss recovery that the Commission recommended in R97;
13 is that correct?

14 A If you're comparing the \$377 million recovery of
15 prior year loss amount from the Commission's decision to the
16 \$550 net income --

17 Q Yes.

18 A Clearly, \$550 is greater than \$377.

19 Q And in FY99, the Postal Service came pretty close
20 to recovering the prior year losses that the Commission
21 recommended in R97; isn't that correct?

22 A We had a net income of \$363 million.

23 Q And that net was -- it fell just a little bit
24 short of the \$377 million, even in FY99, that the Commission
25 had recommended; is that correct?

1 A That's correct.

2 Q And those results were achieved based on a
3 proposed one-percent contingency in R97; is that correct?

4 A R97, yes, it included a one-percent contingency;
5 that's correct.

6 Q I have just one more matter that appears to
7 require maybe some clarification. There was more than one
8 presentation to the Board of Governors on the contingency;
9 is that correct?

10 A We had several briefings to the Board on the rate
11 case filing; that's correct.

12 Q Do you have a rough idea about how many such
13 presentations were made?

14 A I don't know, a half dozen.

15 Q And over what time period, roughly, did they take
16 place?

17 A Probably from last summer up through the time of
18 the filing.

19 Q What about the presentations to those individuals
20 named in Part A of our Interrogatory 43; what would have
21 been the timeframe for those presentations?

22 A It would be in the same time reference.

23 MS. DREIFUSS: I have no further questions.

24 CHAIRMAN GLEIMAN: We expect that you will reduce
25 something to writing that you'll present to the Postal

1 Service that relates to the line that you've just completed.

2 MS. DREIFUSS: I most certainly will.

3 CHAIRMAN GLEIMAN: Okay. Mr. Olson, would you
4 like to proceed now, or would you like to have lunch?

5 MR. OLSON: Mr. Chairman, I predict I can be done
6 in three to five minutes.

7 CHAIRMAN GLEIMAN: Good. Well, we're not going to
8 put the stopwatch on. And you were smart enough not to say
9 just one more question. Let's see how far we can get.

10 MR. OLSON: And that includes three preliminary
11 matters. If I can race through these, first of all I'd like
12 to note for the record that the Postal Service objected to
13 APMU/USPS T9-6(c), 8, 24, 25, 28(c) and 29(d) on April 3rd,
14 and we have a motion to compel that, if granted, would
15 require Mr. Tayman to make further responses.

16 Based on the other responses we've gotten which
17 have been very complete from Mr. Tayman, I can't imagine
18 that even if we're granted the opportunity to have those in
19 writing, that we'd ever need Mr. Tayman again on the stand,
20 but the possibility always exists.

21 That's my first matter.

22 CHAIRMAN GLEIMAN: I hear you.

23 MR. OLSON: Okay. The second matter is -- and I
24 am reluctant to raise it here, but I think I will, because I
25 have raised it with Mr. Foucheaux and the paralegal at the

1 office of the Postal Service and other Postal Service
2 counsel from time to time.

3 I don't know if I'm the only person who has had
4 these problems, but we've had some serious service problems
5 from the Postal Service. For example, all of their filings
6 on the 3rd of April never got to us.

7 We identified that some days later when we -- we
8 don't track everyone's interrogatory responses, but we do
9 track our own. And when we don't see our own come in on
10 schedule, we look for those, and then ask the Postal Service
11 to provide us those filings, and they said they would get
12 back to us, but there was a company in Virginia who handled
13 it.

14 And we offered to send a messenger and never heard
15 back with respect to those. We've had to download all of
16 those.

17 And on other days such as the 4th, we've had
18 pleadings missing from the package in response to our
19 interrogatories.

20 So I would just ask if anyone else is having a
21 problem, perhaps they might address it to the Postal
22 Service, too, because it's becoming very difficult to track
23 the filings and to do things in a timely manner with respect
24 to followup interrogatories and motions practice.

25 CHAIRMAN GLEIMAN: Not to defend the Postal

1 Service, but there has been -- there have been a lot of
2 trees cut down in the last couple of weeks in relation to
3 this rate case.

4 And there was a great deal of material flying
5 around. I think that you should be concerned and the Postal
6 Service should also, to the extent that you're not getting
7 the service you need.

8 I hope that you and others will avail themselves
9 of our website, which, except for an occasional glitch like
10 our power going off for a few minutes here and there,
11 usually has every document, actually by late the night that
12 they're filed, but certainly by 9:00 the next morning. At
13 least that's what we've been able to do so far.

14 But if there is some systemic problem, then we
15 need to look at it and deal with it. They're on notice.

16 MR. OLSON: Okay, thank you. Mr. Chairman, also,
17 a matter has come up with respect to library references,
18 which I don't know has been addressed since the new rules,
19 Rule 31, Evidence, has been adopted by the Commission.

20 I hate to raise the issue of library references,
21 but I just want to ask -- state my understanding of the way
22 that the Commission is proceeding, and if I'm wrong, subject
23 to being corrected, and perhaps, if necessary, we could put
24 this into written form.

25 But if you don't mind, if I could state my

1 understanding: For example, Witness Tayman has filed
2 Library Reference I270, which contains many documents in
3 response to our discovery request.

4 And it is exceedingly well prepared. It has
5 chapter divisions. It is perhaps the finest,
6 easiest-to-follow Postal Service filing that I've gotten,
7 and I thank him for it.

8 The only question I have is, when Mr. Tayman
9 refers to the Library Reference in his answers to
10 interrogatories, and the responses to interrogatories go
11 into the record, it is my understanding that there is no
12 obligation of counsel then to move the admission of the
13 library reference into evidence.

14 In other words, the mere reference of the
15 documents in the responses which have been admitted into the
16 record, is, in essence, the incorporation by reference of
17 those letters and other documents into the record.

18 And if that's the case --

19 CHAIRMAN GLEIMAN: I agree with you.

20 MR. OLSON: Excellent. I will never raise the
21 question again, unless we have to.

22 [Laughter.]

23 MR. OLSON: The third preliminary matter -- no,
24 that's all the preliminary matters.

25 CHAIRMAN GLEIMAN: I thought that that was three,

1 by the way.

2 MR. OLSON: Okay, here's my one question.

3 CHAIRMAN GLEIMAN: Is this for me?

4 MR. OLSON: No, Mr. Tayman.

5 CROSS EXAMINATION

6 BY MR. OLSON:

7 Q Mr. Tayman, I know that you filed some errata to
8 Library Reference 126 in January, and then I note on the --
9 there was a notice that we received yesterday that you have
10 made a complete replacement to the Library Reference.

11 And Mr. Reiter's notice says it is to avoid any
12 further confusion over unintended pagination changes.

13 My question to you is, is the only change in the
14 Library Reference 126 that was put in last Thursday, page
15 number changes?

16 A There were a few minor corrections made in that
17 document.

18 MR. REITER: Mr. Chairman, if I could jump in,
19 since I may be the source of the confusion?

20 My statement that Mr. Olson quoted was only to
21 explain why we were completely replacing it, as opposed to
22 just giving revised pages. But I believe I included a list
23 of what pages and sections had been changed.

24 I don't mean to stop you from asking the witness
25 about those; I just wanted to clarify that.

1 MR. OLSON: No. I appreciate that you did, but
2 you talked about unintended pagination changes, and then
3 said changes have been made in the sections shown on the
4 attached list.

5 I didn't know if you meant pagination changes or
6 other substantive changes.

7 BY MR. OLSON:

8 Q And if they were substantive, since it was only
9 filed last Thursday, and I only found out about it yesterday
10 and you're on the stand today, I thought you might walk us
11 through those very quickly.

12 A On page 6, if you want to do that -- and, Scott,
13 if you can help me, in case I miss one. On page 6 --

14 CHAIRMAN GLEIMAN: If Mr. Reiter helps you, we're
15 going to have to swear him in.

16 THE WITNESS: Okay. On Advanced Flat Cancellor,
17 right at the top of the page, we had 339 machines in the
18 original revision on 218 and we corrected that to 338 to be
19 consistent with Witness Kingsley's information and that the
20 difference between those two was a machine that was a
21 training machine.

22 Do you see that at the top of the page?

23 MR. OLSON: Yes.

24 THE WITNESS: Okay, and on page 7 under Carrier
25 Sort Barcode Sorters, on the last sentence there, where it

1 says "decreased 74,000 hours for carriers. In the previous
2 version that had said clerks so we made the correction to
3 "carriers."

4 On page 10, the fourth line from the bottom, we
5 made a correction where we had costs for '99, FY '99. We
6 changed that to savings for FY '99. It was stated
7 incorrectly there.

8 On page 17 -- okay -- on the fifth line down we
9 have 118,000 hours for clerks. That "clerks" was changed to
10 "carriers."

11 On page 18, the program in the middle of the page,
12 originally it was called "additional advanced flat sorter
13 machine," AFSM, to upper bound, and we changed that title to
14 "additional savings potential for automated flat sorter
15 machine" -- AFSM-100. ^{The write up} ~~Right up~~ in that paragraph ~~it~~ was
16 modified to provide some additional information as well.

17 BY MR. OLSON:

18 Q Did you say the narrative was changed, the
19 paragraph above --

20 A Yes, the narrative on that one was broken out.
21 That particular item pertained to two separate equipment
22 buys so we broke out the details of that to show. It was
23 confusing on the original.

24 I think there's -- on page 31, under "absorb
25 additional inflation" in the last line of that paragraph, we

1 had \$5 million for highway contracts that was corrected to
2 \$9 million for highway contracts, and on that same page
3 under other supplies and services the \$4.655 million for FY
4 2000 was corrected. It should be \$4.675.

5 The last change was on page 34 and again that was
6 the correction under Special Drawing Rights. We had the
7 amount in FY '99 of \$4.697 and that should be 18.697.

8 MR. OLSON: Mr. Chairman, I have no other
9 questions and I note that I took three to five minutes and
10 the witness took the rest of the time.

11 CHAIRMAN GLEIMAN: A man of his word, as always.

12 I think at this point we are going to break for
13 lunch. We will come back at 1:30. If Mr. Ackerly
14 reappears, he can cross-examine. If not, and Mr. McBride is
15 ready for follow-up, we will move on to follow-up.

16 [Whereupon, at 12:30 p.m., the hearing was
17 recessed, to reconvene at 1:30 p.m., this same day.]

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AFTERNOON SESSION

[1:33 p.m.]

CHAIRMAN GLEIMAN: Last call for anybody who wants to cross-examine this witness. If not, then we will move on to follow-up.

Mr. McBride.

MR. McBRIDE: Thank you, Mr. Chairman.
Whereupon,

WILLIAM P. TAYMAN,
the witness on the stand at the time of the recess, having been previously duly sworn, was further examined and testified as follows:

CROSS-EXAMINATION

BY MR. McBRIDE:

Q Good afternoon, Mr. Tayman. My name is Michael McBride, I represent Dow Jones and Company.

First, would you turn to pages 32 and 33 of your prepared testimony.

A Okay.

Q Do you see the section entitled Contractual Transportation of Mail?

A Yes.

Q I take it from your background that you're an accountant and have some education in management; is that correct?

1 A That's correct.

2 Q Do you have experience in transportation
3 operations?

4 A Not direct, no.

5 Q Are you familiar with the transportation contracts
6 that underlie the costs that you are portraying here on
7 pages 32 and 33 of your testimony?

8 A The specific contracts, the type of contracting
9 provisions, not specifically for all those, no.

10 Q The reason that I'm asking you this is because
11 Magazine Publishers of America got some institutional
12 responses from the Postal Service to some questions about
13 transportation costs, and I just want to make sure that
14 you're not the right witness to ask about those because I'm
15 then going to ask counsel for the Postal Service who is.

16 Are you familiar with the basic structure of those
17 contracts?

18 A No.

19 Q Do you know, for example, whether there are rate
20 reductions if there are volume increases under those
21 contracts?

22 A No, I don't.

23 MR. MCBRIDE: Mr. Chairman, I wonder, then -- and
24 I can dispense with further questioning of this witness on
25 that -- whether the Postal Service might at the appropriate

1 time identify for us who the appropriate witness would for
2 any of those who are presenting prepared testimony to answer
3 questions about transportation contracts.

4 CHAIRMAN GLEIMAN: Mr. Reiter? Who's the best bet
5 on transportation?

6 MR. REITER: I would assume that the fact that we
7 filed those as institutional responses means that we don't
8 have a --

9 CHAIRMAN GLEIMAN: You have to speak up or turn
10 the microphone on.

11 MR. REITER: No, it's on. It doesn't seem to be
12 --

13 CHAIRMAN GLEIMAN: That's better.

14 MR. REITER: All right. I wasn't close enough.

15 I would assume the fact that we filed those as
16 institutional responses means that that's because they're
17 not within the area of a particular witness, and I suppose
18 that if Mr. McBride wanted to follow up on those in writing,
19 it's still appropriate to do that.

20 MR. McBRIDE: Well, what we're trying to avoid,
21 Mr. Chairman, is taking down any more trees, because we were
22 asked -- we asked for information about the contracts and
23 they objected to providing those, and we thought we might be
24 able to dispense with a motion to compel, which we thought
25 you would appreciate, if we could simply ask these sorts of

1 questions of a live witness.

2 CHAIRMAN GLEIMAN: Did the Postal Service -- you
3 sent some interrogatories in?

4 MR. McBRIDE: MPA did.

5 CHAIRMAN GLEIMAN: MPA did.

6 MR. McBRIDE: Yes.

7 CHAIRMAN GLEIMAN: Institutional --

8 MR. McBRIDE: They were, I believe, to this
9 witness, and we got back institutional responses, and they
10 would not provide to us certain particulars about the
11 contracts.

12 What we're trying to establish is whether the
13 response we got which claimed there are no rate reductions
14 when there are volume increases is correct for every single
15 transportation contract of the Postal Service, and we have
16 been stymied because we didn't get the contracts, and I
17 don't know who to ask the questions of.

18 MS. DUCHEK: Mr. Chairman, having drafted those
19 objections, I am somewhat familiar with them. I think I'm a
20 little stymied here because I don't have the actual
21 questions or the objections in front of me; however, Postal
22 Service did object to certain of the interrogatories, and I
23 believe those interrogatories were very specific in terms of
24 referencing specific types of contracts.

25 So I think if Mr. McBride has a more general

1 question about whether there are any of these sorts of
2 reductions that he is referring to in reference to other
3 transportation contracts, the appropriate thing for him to
4 do would be to follow up in writing.

5 CHAIRMAN GLEIMAN: I have a better idea. Since I
6 don't know which witness is going to be the one that's going
7 to have to respond to these, why don't you let us know who
8 would respond to more general questions on transportation
9 contracts of the many witnesses -- 44 or however many it is
10 -- that we have. You could contact Mr. McBride at some
11 point within the next 24 hours, and hopefully it's not one
12 of the witnesses that's going to appear during the
13 intervening period, and if it is, then we'll just recall the
14 witness.

15 Is that acceptable?

16 MR. McBRIDE: That's fine as far as I'm concerned.

17 CHAIRMAN GLEIMAN: Mr. Reiter?

18 MR. REITER: I think we can discuss that with Mr.
19 McBride and try to figure out what -- we can advise him in
20 terms of directing those.

21 CHAIRMAN GLEIMAN: I think that's great.

22 MR. REITER: It would help to know more the
23 specifics that he's looking for, but we'll do that.

24 CHAIRMAN GLEIMAN: Well, you know, he can tell you
25 what he wants to tell you about the questions he wants to

1 ask a witness, and just keep in mind that it's the name of
2 someone to whom he can address those questions that's
3 important right now. That you might not be comfortable with
4 the questions he's going to ask and might lodge an objection
5 at the point in time when he asks them is not relevant to
6 identifying a party to whom he can address those questions.
7 You'll have your opportunities, your rights are reserved to
8 object when you hear the questions if you find them
9 objectionable later on. We just want to move things along
10 without having any more unnecessary paper.

11 MR. REITER: That's understood.

12 CHAIRMAN GLEIMAN: Okay. Good enough.

13 MR. REITER: Thank you.

14 CHAIRMAN GLEIMAN: Mr. McBride, you have
15 questions?

16 MR. McBRIDE: Yes, thanks. One more line.

17 BY MR. McBRIDE:

18 Q Back to an area you were examined about this
19 morning, Mr. Tayman, but I would just like to nail down
20 something on Library Reference 126 which was referred to,
21 among other places, in your response to ANM/USPS-T9-21. Do
22 you have that in front of you, sir?

23 A Yes.

24 Q All right. I want to start with the computation
25 that was first presented before the erratum so that I can

1 understand what happened and where the information came
2 from.

3 Do you remember that originally, it was presented
4 that the Service would buy 1,086 FSM-1000 sortation machines
5 for a -- and a savings associated with each of 2,500 hours,
6 for a total savings of \$2,715,000?

7 A That was in the original Library Reference and we
8 did modify that, and I think we explained that in a
9 response.

10 Q You did, but I just want to stick with where you
11 started from.

12 Now, as I understand it, what you did is multiply
13 A times B to get C, multiplied the number of machines --
14 1,086 -- times the savings per machine to get the total
15 savings for all the machines. Is that right?

16 A Actually not.

17 Q All right. Did you -- what piece of data were you
18 solving for? Was it the dollars or the savings per machine
19 or the number of machines?

20 A Okay. The number of machines, 1,086, I think was
21 explained as a typographical error. If you look at the
22 program listed right under this one, that was the number of
23 machines related to that item.

24 The way the process worked was that the program
25 managers provided the total savings, because, again, the

1 savings is based on deployment schedules for the particular
2 offices, and so the savings amount is what we get from the
3 program managers along with the number of pieces of
4 equipment, and the factor of the savings per machine is
5 essentially just dividing the number of machines into the
6 total savings from the program.

7 Q All right. So that the record is clear, if I
8 understand what you just said, someone was provided with the
9 total dollar savings of \$76,070,000. That was the number
10 that was originally presented, and then you divided by the
11 number of machines to get the savings per machine?

12 A It was the hours is what --

13 Q Yes.

14 A You said dollars.

15 Q Well, no, you said that the total savings was
16 provided. I'm simply trying to find out, in the formula A
17 times B equals C, where A is the number of machines, B is
18 the savings per machine, and C is the total dollar savings,
19 which two variables or which two items were known and which
20 was the third that was unknown that you were solving for
21 --the dollars or the savings in hours per machine or the
22 number of machines when you first did that computation?

23 A It was the savings per machine.

24 Q Fine. So somebody came up with the dollars, then
25 -- C in my simple equation, A times B equals C -- somebody

1 came up with 76,070,000 when that computation was done,
2 correct?

3 A Based on the correct number of machines, not
4 1,086.

5 Q Okay. But where did the number 76,070,000 come
6 from?

7 A From the program -- the savings comes from the
8 program manager, and that --

9 Q Where does the program manager get the savings
10 from?

11 A It's based on the deployment schedule for that
12 equipment for that particular year.

13 Q But you don't know the total savings for all these
14 machines out of the air; you have to work out how many hours
15 are going to be saved per machine and multiply it by the
16 number of machines to get the dollars, don't you?

17 A Again, some of these savings are site-specific.
18 You don't get the same level of savings per se -- I think we
19 explained that previously -- out of each particular machine.
20 It's based on the specific sites. So these are -- they have
21 site-specific data that's used to derive the total level of
22 savings for the particular deployment.

23 Q All right. Okay, let's lay out what happened then
24 in the errata. When the question was the raised about this,
25 and new information was provided, the number of machines was

1 reduced from 1086 to 173, correct?

2 A That's correct.

3 Q The dollar savings, in total, \$76 million and
4 \$70,000, stayed the same, correct?

5 A That's correct.

6 Q And then the savings per machine --

7 A Changed.

8 Q -- suddenly went up by the same amount that the
9 number of machines went down; that is, up to 15,693.6 hours
10 per machine, correct?

11 A Correct.

12 Q So in both cases, the number \$76,070,000, remains
13 constant?

14 A Yes.

15 Q Correct?

16 A Yes.

17 Q Where did that number come from, and have you
18 provided any documentation to show how it was calculated?

19 A As I stated, the numbers provided from the Program
20 Managers, based on their deployment schedules to those
21 specific sites for that 173 machines.

22 Q But it isn't chiseled in granite over on L'Enfant
23 Plaza, so somebody must have had to have added up some
24 numbers to get to \$76,070,000. I'm simply asking if you
25 know where that number was totaled?

1 A I don't have the specifics, the site-specific
2 deployment data, for those 173 machines.

3 Q Okay.

4 MR. McBRIDE: Thank you, Mr. Chairman.

5 CHAIRMAN GLEIMAN: You're welcome. Glad I could
6 be of assistance.

7 Is there any further followup?

8 [No response.]

9 CHAIRMAN GLEIMAN: If there is no further
10 followup, that brings us to questions from the Bench.
11 Commissioner LeBlanc?

12 COMMISSIONER LeBLANC: Mr. Tayman, let me just
13 make sure -- I don't want to beat a dying horse to death,
14 but I guess I might give it a try.

15 The errata to LRI 126 changed the amount of work
16 hours saved for the AFSM-1000s.

17 Now, the change affects the cost reduction
18 progress for clerk and mail handlers and the other program
19 costs for Segment 11, at least that's my understanding; is
20 that correct?

21 THE WITNESS: That's right.

22 COMMISSIONER LeBLANC: All right now, have you
23 filed revisions to your testimony, exhibits, et cetera,
24 anywhere, or Library Reference I-127 to reflect the errata
25 changes that occurred in LRI-126? I just want to make sure

1 it's somewhere.

2 THE WITNESS: Okay, the exhibits that accompany
3 Library Reference 126 had all the correct values in them.
4 Okay, so the exhibits were correct.

5 All the errata that was filed was making
6 corrections in the descriptive part of that Library
7 Reference.

8 COMMISSIONER LeBLANC: The work hours?

9 THE WITNESS: The work hours or the number of
10 machines, where we had clerks instead of carriers.

11 COMMISSIONER LeBLANC: That has been changed and
12 is reflected in at least I-27 or somewhere?

13 THE WITNESS: It had -- there is no impact on the
14 changes in the errata that flowed through to I-127.

15 COMMISSIONER LeBLANC: Well, then, where are the
16 cost reduction -- the change effects the cost reduction
17 programs. So where can I find that?

18 THE WITNESS: It's in the Exhibits to Library
19 Reference 126 and has all the correct values in those.
20 There were no errors or corrections that were made to that
21 portion of the document.

22 COMMISSIONER LeBLANC: Okay.

23 THE WITNESS: It just says, in the case we just --

24 COMMISSIONER LeBLANC: So, what's down there then
25 is correct?

1 THE WITNESS: That's correct.

2 COMMISSIONER LeBLANC: That has the new work hour
3 savings and everything in it.

4 THE WITNESS: That has the correct work hour
5 savings in it, yes.

6 COMMISSIONER LeBLANC: Okay, good, thank you very
7 much. Thank you, Mr. Chairman, that's all I have.

8 CHAIRMAN GLEIMAN: Commissioner Omas?

9 COMMISSIONER OMAS: Mr. Tayman, in Library
10 Reference R-127, Chapter 4-1, you show cost Segment 16,
11 Advertising Expenses, as going down by \$120 million in
12 FY2000. In the same reference, you show Segment 16,
13 Advertising Expenses, increasing by the same amount of \$120
14 million in the test year.

15 What is the reason for this apparent shift in
16 advertising expenses, and is it planned expenses for one
17 year to achieve a positive net income and then reinstitute
18 it in the test year?

19 THE WITNESS: Okay, I think as we indicated or is
20 indicated in my testimony, Fiscal Year 2000 -- I apologize
21 that this may be a response to some of the interrogatories
22 -- Fiscal Year 2000 has been pretty challenging for us.

23 The revenue requirement, the volume revenue
24 forecasts that we have for 2000, is less than what's in our
25 current operating plan.

1 And just as right now we're going through efforts
2 to reduce our operating budget to still achieve a \$100
3 million net income in Fiscal Year 2000, we had to make
4 reductions in expenses to tie into the financial performance
5 that we're pushing to make in 2000.

6 So one of the items we did is, we reduced the
7 advertising level by \$120 million, and the restoration to
8 the level in 2001 is just bringing it back up to the
9 previous levels that we've had for advertising.

10 COMMISSIONER OMAS: Thank you.

11 CHAIRMAN GLEIMAN: Commissioner Goldway?

12 COMMISSIONER GOLDWAY: Thanks. I have a series of
13 questions here. I hope they make some sense.

14 Recently, Executive Vice President, Richard
15 Porras, made a presentation to the Board of Governors in
16 April where he reviewed just what you were mentioning, the
17 challenges of Fiscal Year 2000.

18 But he cited certain costs that made me question
19 the kind of planning that goes on. I wondered if you could
20 explain this to me.

21 He mentioned the fact that five million additional
22 delivery points have been added since 1977. But wouldn't
23 that have been something that you would have planned for in
24 your costs over the last several years?

25 That wouldn't be an unforeseen expense; would it?

1 THE WITNESS: No, that's correct; we planned for
2 that. I'm not sure because I wasn't there for his
3 presentation, but I believe his reference was in relation to
4 the fact that our infrastructure costs have to continue to
5 grow to take on and serve the additions to delivery points.
6 But that would be in our plans.

7 COMMISSIONER GOLDWAY: That would be something
8 that's in your plans, but then he mentioned -- and that's
9 why I'm confused -- he mentioned in the same -- or at least
10 your press release mentions in the same item, \$300 million
11 in costs, additional costs for Postal Service vehicles.

12 Now, would that be something that had been planned
13 for?

14 THE WITNESS: That would be something that would
15 be planned for; that's correct.

16 Again, I think he's just emphasizing the fact that
17 infrastructure has to grow with an expanding population, and
18 our mail volume growth hasn't been as high as we'd like.

19 COMMISSIONER GOLDWAY: So it didn't relate to
20 unanticipated expenses? Those were anticipated expenses?

21 THE WITNESS: I believe so, yes.

22 COMMISSIONER GOLDWAY: On the other hand, he did
23 mention that work hour actual savings, just in this last
24 year, are 1.3 percent lower than the previous year.

25 THE WITNESS: I believe that's correct.

1 COMMISSIONER GOLDWAY: Whereas you, in your
2 expectations for the test year, say that management is
3 planning for a 1.5 percent reduction, and you think that
4 will be a challenge.

5 THE WITNESS: That's in --

6 COMMISSIONER GOLDWAY: Is that in addition to this
7 1.3 or is this 1.3 part of the 1.5 that you're expecting to
8 achieve overall?

9 THE WITNESS: The 1.5 would be in addition.

10 COMMISSIONER GOLDWAY: In addition to the 1.3?

11 THE WITNESS: Yes.

12 COMMISSIONER GOLDWAY: Okay. Then I had a
13 question about PMG Henderson's recent speech on March 20th,
14 where he announced cost savings as well. Now, your
15 presentations and testimony were developed in November or
16 December and submitted to us in January. This is a speech
17 that was prepared and delivered on March 30th.

18 And on March 30th, the PMG is saying that we will
19 have initiatives to save an additional \$4 billion through
20 2004, and some of the savings will come from overhead
21 reductions, about a million a year, and we have completed a
22 comprehensive study on activities and transactions.

23 Was that study completed at the time that you were
24 developing your cost savings plans?

25 THE WITNESS: No, and I think in response to, I

1 think it was OCA 98 or 99, I think we provided some
2 information on that study.

3 COMMISSIONER GOLDWAY: You say that the study has
4 yet to be developed, in your response to OCA. I have it
5 here, OCA/UPS-USPS-98.

6 But the PMG says we have completed a comprehensive
7 study.

8 THE WITNESS: I think what we indicated in 99 was
9 that the study had been completed for the headquarters
10 organization, but that it was also being expanded to or the
11 total study will include the area offices, our district and
12 process and distribution offices as well, so, the field.

13 COMMISSIONER GOLDWAY: Was that \$100 million in
14 savings for the administration's activities included in your
15 cost savings plans for the test year?

16 THE WITNESS: That particular \$100 million, no.

17 COMMISSIONER GOLDWAY: No.

18 THE WITNESS: I mean, it's --

19 COMMISSIONER GOLDWAY: When you were considering
20 the contingency for your presentation, were you aware that
21 the PMG was going to ask you for cost savings programs
22 totalling \$4 billion through 2004?

23 THE WITNESS: No. And I'm not sure how much of
24 that actually would, you know, pertain to the test year of
25 2001.

1 COMMISSIONER GOLDWAY: Right. Or 2002?

2 THE WITNESS: Well --

3 COMMISSIONER GOLDWAY: And with regard to PMG's
4 comment about breakthrough productivity, where he wants to
5 save money, was he referring to the cost savings in the cost
6 reduction plans that you have referenced as Exhibit E in
7 Library Reference 126?

8 THE WITNESS: No. The Exhibit E -- let me see
9 here. I'm sorry.

10 COMMISSIONER GOLDWAY: Or any of the other
11 exhibits dealing with cost reductions and work hours?

12 THE WITNESS: There is not breakthrough -- item
13 for breakthrough productivity in reference to that and
14 Library Reference 126.

15 I mean, we do have -- there are some local
16 management initiative items that are incorporated in 126
17 that would be of the same type nature of the expense
18 reductions, both in -- there's a transportation goal, the
19 breakthrough productivity, and the administrative
20 activities.

21 It would be the same types of items, so I guess we
22 could say there is some portion of them; there is not a \$100
23 million.

24 COMMISSIONER GOLDWAY: But in addition, there are
25 plans -- the PMG is talking about additional cost savings,

1 additional productivity.

2 THE WITNESS: Yes, he is.

3 COMMISSIONER GOLDWAY: He also mentioned in his
4 speech that total factor productivity rose dramatically in
5 the last quarter of 1999, and that it's continued to grow
6 and, in fact, was 2.6 percent in the second quarter of this
7 year.

8 When you were developing your contingency plans,
9 what total factor productivity were you anticipating?

10 THE WITNESS: I believe it was around 2.5 percent
11 for the test year or I'm sorry for 2000, yes. I believe
12 that is the number.

13 COMMISSIONER GOLDWAY: Then in your -- let's see,
14 I've got it right here -- your responses to ANM/USPS-T9-8,
15 you submitted as an attachment a capital investment plan?

16 THE WITNESS: Yes.

17 COMMISSIONER GOLDWAY: And my questions go to
18 somewhat of the questions that were raised this morning by
19 Mr. Levy.

20 This plan says that there will be new financial
21 indicators used to analyze the Postal Service's capital
22 structure based on financial performance and that there will
23 be anticipated results are documented and a return on
24 investment methodology analyzed to ensure accurate
25 projections, so are there in fact documents that do

1 demonstrate a return on investment for capital projects?

2 THE WITNESS: Yes.

3 COMMISSIONER GOLDWAY: And are they available?

4 THE WITNESS: Those would be included in the DARS
5 for each specific project, yes.

6 COMMISSIONER GOLDWAY: They will be in the DARS.
7 Okay.

8 I guess my other question is that part of the
9 capital plan involves internal financing of capital projects
10 because you believe that that would be less expensive for
11 the Postal Service.

12 THE WITNESS: Yes.

13 COMMISSIONER GOLDWAY: So one has to assume that
14 in these financial indicator analyses that you are also
15 talking about the cost of your own capital?

16 THE WITNESS: That is correct.

17 COMMISSIONER GOLDWAY: And if in fact you were to
18 seek outside capital for these capital projects, wouldn't an
19 outside investor then look at the cost-benefit relationships
20 of these investments to determine whether there was a return
21 on investment other than your own internal evaluations?

22 THE WITNESS: I would assume so, yes.

23 COMMISSIONER GOLDWAY: And might that not be a
24 more objective analysis?

25 THE WITNESS: I am not sure if that would be more

1 objective per se, but again I would comment as I did this
2 morning that there's lots of factors that go into play here,
3 balancing between depreciation expense, interest expense and
4 the impact on the operating plan, and when in fact the
5 returns on the investments are captured.

6 COMMISSIONER GOLDWAY: I know that the questions
7 this morning were focused more on the return on investment
8 having to do with the equipment that is purchased for
9 automation and efficiency.

10 Having worked more in the area of land use
11 planning, I understand the real estate issue more clearly
12 than I do the machine issue in terms of return on investment
13 and the profitability of real estate.

14 You did make some passing reference to those kinds
15 of investments that don't ever depreciate fully, and while
16 you have depreciated your real estate on the books at 40
17 years --

18 THE WITNESS: You're right. We don't depreciate
19 land, so I guess that is the perpetual asset.

20 COMMISSIONER GOLDWAY: Right, and I am wondering
21 whether in developing your capital plans you are making the
22 most beneficial use of the properties that the Postal
23 Service has.

24 Some of my friends and colleagues who are still
25 mayors may question your use of them in terms of how you use

1 or don't use local post offices, but I would also be
2 concerned about the return on investment and the income that
3 is possible to be generated.

4 Are these new financial indicators that you are
5 developing being used now for real estate as well?

6 THE WITNESS: I am going to answer in the positive
7 that they are.

8 The Board has adopted a CAPX ratio to use in
9 evaluating the capital plan. It is still I think in the
10 formulation process and so that is the financial indicators
11 that I believe this capital plan is referring to.

12 COMMISSIONER GOLDWAY: Could you describe that
13 more, that plan, the indicators, what they are?

14 THE WITNESS: It's a CAPX calculation. I am not
15 sure if they have set a goal or what level. I do know there
16 is a preference to finance capital investments through
17 internal resources, as you indicated. They are concerned
18 about the level of debt financing that we have outstanding,
19 and again they are just in the -- I think this was all in
20 the evolutionary phase right now, development, and again I
21 am not aware of the specific goals that have been
22 established.

23 COMMISSIONER GOLDWAY: You are aware that the post
24 office sold a property in downtown San Francisco for \$80
25 million?

1 THE WITNESS: Yes, I am.

2 COMMISSIONER GOLDWAY: And that they are just
3 completing the sale of one-third of a property that they own
4 in Los Angeles for \$40 million?

5 THE WITNESS: I am aware of that, yes.

6 COMMISSIONER GOLDWAY: That is only for one-third
7 of the property.

8 THE WITNESS: Okay.

9 COMMISSIONER GOLDWAY: And that in Denver there
10 are developers drooling over property that is only partially
11 used by the post office now?

12 THE WITNESS: I am not aware of that one.

13 COMMISSIONER GOLDWAY: I ask these questions
14 because in considering a contingency for the Postal Service
15 I don't believe that there is any adequate information about
16 the capital value available to the Postal Service to deal
17 with contingencies in planning and I think if you have any
18 information about how you are going to be dealing with real
19 estate in the future it would be useful for us to have that
20 information.

21 THE WITNESS: Okay.

22 COMMISSIONER OMAS: Excuse me, Ruth. Could you
23 speak a little bit louder? I can't --

24 COMMISSIONER GOLDWAY: Oh, I'm sorry. I think I
25 have completed the questions I have for you for now. Thank

1 you.

2 THE WITNESS: Okay.

3 CHAIRMAN GLEIMAN: Commissioner Covington.

4 COMMISSIONER COVINGTON: Good afternoon, Mr.

5 Tayman. I did have a couple of questions I wanted to pose
6 to you.

7 In looking at your overall financial analyses that
8 were contained in your testimony I had one question as it
9 related to equity and I think you used the term "difference
10 of equity restoration" and I think also in there you arrive
11 at the decision that if rates are not raised that the Postal
12 Service would not be able to meet the Board of Governors'
13 policy on equity restoration.

14 THE WITNESS: That is correct.

15 COMMISSIONER COVINGTON: Okay. Now for a new
16 Commissioner, explain to me what I should consider the ins
17 and outs of equity restoration and what a deference of it,
18 how that would play into the overall financial picture.

19 THE WITNESS: Okay. The Board resolution, which
20 is 95-9, which pertains to equity restoration and recovery
21 of prior year losses is very specific in that endeavor.

22 What it says is that the Postal Service should
23 generate a net income equivalent to the recovery of prior
24 year loss provision amount included in the most recent rate
25 filing and rates that are in place.

1 If that is not being met, it directs the Postal
2 Service to look for ways to generate additional revenues or
3 look at the ways to reduce expenses, and if, once those
4 items are exhausted, then to resort to filing for increased
5 rates, so -- if that helps.

6 COMMISSIONER COVINGTON: Yes, that helps.

7 Also in that same paragraph I noticed, maybe you
8 can clarify this for me, we are aware of the fact that you
9 are saying that you need in the neighborhood of \$3.7 billion
10 during the fiscal year 2001 to meet your obligations, which
11 we know includes the 2.5 percent contingency, and in looking
12 back to that \$268 million that you say figure in that from
13 your prior year losses, in one sentence you state that a
14 moderate increase in the rates could achieve this, and then
15 in the next paragraph you say, let me see, to put it to you
16 exactly, I think you say, "Planning to operate at a loss to
17 defer equity restorations and to borrow for operation would
18 be a plan for financial failure in light of the increasing
19 additional costs which I discuss below in my financial
20 projections for Test Year, I conclude that the most
21 responsible course of action is to increase Postal Service
22 revenues through a general increase in the rates."

23 So what is the difference between a moderate
24 increase and a general increase?

25 THE WITNESS: A general increase is, I think,

1 referring to an omnibus rate filing, in that sense and as
2 far as the reference to a moderate increase, I am referring
3 there to the average rate increase for this filing is 6.4
4 percent and I guess also in relation, I think I referenced
5 the prior rate filing the average increase 2.9 percent, and
6 then if one evaluates those two rate changes in relation to
7 the level in inflation that those two periods cover that the
8 rate increase in the combined period is less than the rate
9 of inflation.

10 COMMISSIONER COVINGTON: All right, and in looking
11 at your cost reduction program, I think you have specified
12 that most of your cost reduction program was, I guess was
13 automation-related, right?

14 THE WITNESS: Yes, I believe so.

15 COMMISSIONER COVINGTON: And when we looked at the
16 testimony we noticed where you have got your local
17 management initiatives and so forth going. Who has the
18 final determination as to regard with how local management
19 initiatives figure off into the scheme of things?

20 THE WITNESS: Those are allocated out and ^{are} up to
21 the responsibility of the managers in ~~the~~ operations. I
22 mean they would be allocated to each of our area operations,
23 each of our area vice presidents and they would receive a
24 portion of that. They would be provided guidelines as far
25 as where we believe there is opportunities to in fact

1 capture some of those elements, the savings. It is up to
2 their management discretion to determine how to achieve the
3 goal that has been issued.

4 COMMISSIONER COVINGTON: So what you are saying
5 is -- well, Mr. Tayman, is area synonymous with region?

6 THE WITNESS: Well, we used to have five regions.
7 We now have 10 areas. That's correct.

8 COMMISSIONER COVINGTON: I mean like Great Lakes
9 and Northeast and so forth.

10 THE WITNESS: Exactly.

11 COMMISSIONER COVINGTON: Okay, thank you. That's
12 all I have, Mr. Chairman.

13 CHAIRMAN GLEIMAN: Mr. Tayman, help me out with
14 some math. I just want to make sure I understand the
15 situation correctly.

16 In round numbers, you have asked for an additional
17 amount of revenue in this case, \$3.7 billion?

18 THE WITNESS: That's correct.

19 CHAIRMAN GLEIMAN: Approximately \$2 billion of
20 that is made up of the contingency, which is roughly \$1.7,
21 and recovery of prior year losses, which is about a quarter
22 of the till.

23 THE WITNESS: Correct.

24 CHAIRMAN GLEIMAN: That means that you are
25 actually looking at \$1.7 billion in additional revenues to

1 break even assuming that rates were in effect for the entire
2 test year.

3 THE WITNESS: That is correct.

4 CHAIRMAN GLEIMAN: Okay. But you are not planning
5 to put new rates into effect at the beginning of the test
6 year. As I understand statements that the Postmaster
7 General has made, the plan is to put them in effect
8 somewhere along the lines of January the 1st, 2001.

9 THE WITNESS: That's correct.

10 CHAIRMAN GLEIMAN: That means that one-third of
11 the test year will have passed before you put the new rates
12 in?

13 THE WITNESS: Yes.

14 CHAIRMAN GLEIMAN: Now according to Mr. Porras in
15 the R97 case, I now know that postal revenues are not
16 cyclical, that they are straight-line throughout the year,
17 that you make the same amount of money and every month
18 during the summer as you do during what I used to think was
19 high season, right before Christmas, and that is part of the
20 record in R97 and we can dig it out and read it back to you,
21 but if you will accept that for the sake of discussion, that
22 that is what Mr. Porras told me, then we can proceed.

23 If the rates are in effect only for two-thirds of
24 the year, then that means you are only going to make
25 two-thirds of that \$1.7 billion or somewhere in the vicinity

1 of \$1.1 and a fraction.

2 THE WITNESS: It would be three-quarters of the
3 year, right.

4 CHAIRMAN GLEIMAN: I think is September, October,
5 November -- well, three-quarters of the year? Okay. We'll
6 do it with three-quarters of the year then.

7 THE WITNESS: Okay.

8 CHAIRMAN GLEIMAN: That would -- I can do my
9 calculator if we want but I think I can look to the same
10 place so --

11 THE WITNESS: All right.

12 CHAIRMAN GLEIMAN: That means that you are going
13 to miss out on one-quarter's worth of that revenue, which is
14 \$425 million, so that is \$1.275 billion in revenue that you
15 will get if my math is correct.

16 THE WITNESS: Okay.

17 CHAIRMAN GLEIMAN: Now that means that you are
18 going to have a shortfall in breaking even for the test year
19 as a consequence of not putting the rates into effect at the
20 very beginning of the test year.

21 The shortfall is going to be \$425 million but you
22 have got this other \$2 billion in additional revenue that
23 you are going to be collecting that is part of the
24 contingency and also for prior year losses.

25 It is your intention to use part of the

1 contingency right off the bat for purposes of breaking even?

2 THE WITNESS: I think on page 44 of my testimony I
3 do make reference to that fact, that with -- I think it is
4 on line 25 -- that the earliest rates would be implemented
5 would be the second quarter and that is in the contingency,
6 so I imply that, yes, a portion would be consumed by that.

7 CHAIRMAN GLEIMAN: That is not an unforeseen event
8 at this point in time, is it?

9 THE WITNESS: Probably not.

10 CHAIRMAN GLEIMAN: Okay.

11 THE WITNESS: Unless --

12 CHAIRMAN GLEIMAN: That is just as an aside. I
13 just want to make sure I understand --

14 THE WITNESS: Unless the decision --

15 CHAIRMAN GLEIMAN: When all is said and done,
16 ceteris paribus, as all these economists say around here,
17 the Postal Service at the end of the test year should have,
18 having used one-quarter of the contingency, should have
19 somewhere in the vicinity of a billion and a half dollars
20 surplus.

21 THE WITNESS: That would be assuming none of the
22 contingency is spent.

23 CHAIRMAN GLEIMAN: That is correct. Ceteris
24 paribus -- all things being equal.

25 THE WITNESS: Okay, assume yes.

1 CHAIRMAN GLEIMAN: And of which you would then
2 take \$270 million or some odd dollars to pay off some prior
3 year losses?

4 THE WITNESS: That's -- yes, the math works out.

5 CHAIRMAN GLEIMAN: So when all is said and done,
6 at the end of the test year the good people at the Postal
7 Service are going to have \$1.2 billion in hand?

8 THE WITNESS: Assuming all the assumptions made in
9 the rate filing come out exactly as, you know, they have
10 been assumed to be.

11 CHAIRMAN GLEIMAN: Well, let us move over to some
12 of the assumptions that are made in the filing then.

13 Last week the Postal Service announced a new
14 product called e-billpay and you probably are aware that
15 Commission Order 1291 directed Postal Service witnesses to
16 be prepared to answer some questions.

17 THE WITNESS: Yes.

18 CHAIRMAN GLEIMAN: Are you prepared?

19 THE WITNESS: I am ready.

20 CHAIRMAN GLEIMAN: Okay. Are projections of test
21 year costs of e-billpay included in your testimony and
22 exhibits?

23 THE WITNESS: There is no specific costs
24 associated with this program included in the revenue
25 requirement.

1 CHAIRMAN GLEIMAN: So then the answer would be
2 yes, because there is no cost to include? I asked you
3 whether projections of test year costs were included in your
4 testimony and exhibits, and basically you said there are no
5 costs, therefore there is nothing to include in your
6 testimony.

7 THE WITNESS: There is -- okay. The way I
8 responded was there is no specific cost identified with
9 e-billpay in my testimony or in the revenue requirement.

10 Any costs associated with this program would be
11 consumed within other programs or other costs that have been
12 filed with us. This is not -- there's not going to be
13 additional costs put on top of what is in the revenue
14 requirement for this program.

15 CHAIRMAN GLEIMAN: There aren't additional costs
16 that are going to be on top of the revenue requirement. If
17 there are any costs, whatever those costs are they are just
18 smathered around?

19 THE WITNESS: For instance, if there is some
20 advertising costs that are associated with e-billpay they
21 would come out of the provision for advertising costs that
22 are in the filing is what I mean by that.

23 CHAIRMAN GLEIMAN: Okay, fair enough. What is the
24 volume projection for e-billpay traffic during the test
25 year? It will have been up and running for six months or

1 thereabouts by the time the test year has --

2 THE WITNESS: I don't have the specific volume
3 forecasts or items. I am not sure that that is information
4 that under our agreement with our strategic alliance parties
5 that can be disclosed.

6 CHAIRMAN GLEIMAN: Well, just let me tell you that
7 I think -- whether I think that the Postal Service should be
8 doing this or not doing it aside, I think as I step back as
9 a private citizen looking at this I would say not a half-bad
10 move for the Postal Service. Instead of losing mail that is
11 diverted to other people, they have decided to cannibalize
12 their own First Class mailstream and, you know, if you are a
13 cannibal you do get some nourishment out of what you are
14 eating, even if it perhaps a questionable thing to be doing.

15 But we won't get into whether it's a questionable
16 thing to be doing. What you are going to get out of it is
17 at least in 2004, according to PMG Henderson, \$400 million
18 in profit.

19 Do you know what that term, profit, means in that
20 context?

21 THE WITNESS: That applies if the revenues exceed
22 the cost by \$400 million.

23 CHAIRMAN GLEIMAN: Okay. That means that you're
24 going to get some revenue for each piece of ebillpaying?

25 THE WITNESS: That's correct.

1 CHAIRMAN GLEIMAN: Okay. But as I said, basically
2 you're cannibalizing your First Class mail stream.

3 THE WITNESS: I'm not sure I would agree with
4 that. In our volume forecast, there is already assumptions
5 in there pertaining to electronic diversion, so I guess one
6 could make the argument, is this volumes that we generate
7 from this program, volumes that we would have lost anyhow,
8 or is this, you know -- or the question is, as you posed it,
9 is it cannibalized?

10 CHAIRMAN GLEIMAN: As I say, cannibalization is
11 not all bad in this context from a financial standpoint. I
12 understand that, but what is that volume projection for the
13 test year, electronic diversion?

14 THE WITNESS: Again, I don't -- I think that based
15 on the nature of our agreements with our partners, I'm not
16 sure that information can be disclosed.

17 CHAIRMAN GLEIMAN: You do agree that -- or perhaps
18 you don't agree, so I shouldn't ask the question that way.

19 There is someone out there who currently does what
20 I did this very morning, which is to write out a check. In
21 the case this morning, it was to the Congressional Federal
22 Credit Union Visa card account. And I stuck it in an
23 envelope and I put a stamp on it.

24 And hopefully I won't forget to drop it in the
25 mail before I head out of the building this afternoon.

1 And, you know, I might switch over, and instead of
2 putting a 33-cent stamp on there and pay my six bucks a
3 month or maybe for the next six months get some free
4 service, and switch my billpaying over.

5 So, that's -- this is the only bill I pay each
6 month. I don't have any other bills.

7 THE WITNESS: You might want to consider the
8 other, \$2 per month option.

9 [Laughter.]

10 CHAIRMAN GLEIMAN: I didn't say my wife didn't
11 have any bills.

12 THE WITNESS: Okay.

13 [Laughter.]

14 CHAIRMAN GLEIMAN: But that's 33 cents when I
15 switch over that the Postal Service is not going to get from
16 me. I'm going to buy one less stamp than I used to buy.

17 Or if I have 20 bills, I'm going to spend \$6.60
18 less up at the Post Office on 14th Street.

19 And I'm going to pay -- well, for the next six
20 months, I'm not going pay anything, but after that, I'm
21 going to pay six bucks to somebody.

22 The Postal Service is not going to get all six
23 dollars for those.

24 THE WITNESS: That's correct.

25 CHAIRMAN GLEIMAN: They're only going to get a

1 piece of it.

2 THE WITNESS: Yes.

3 CHAIRMAN GLEIMAN: What's the delta? I mean, the
4 bottom line is that you're going to get less money from me,
5 a current Postal Service customer, when I pay my bills
6 electronically, than you now get when I pay my bills in hard
7 copy. And this is going to be in the test year.

8 THE WITNESS: In the example you've cited, yes.

9 CHAIRMAN GLEIMAN: You know, you ask for a bunch
10 of money from us, you ask us to approve a bunch of money and
11 rates to go with it.

12 And you premised it on a First Class volume
13 stream, among others, other streams of volume and costs.

14 You tell me that, well, there is probably
15 something in the filing that reflects electronic diversion,
16 but you can't tell me how much.

17 Now, this case was filed, let me point out, before
18 ebillpaying. So, any electronic diversion number that is
19 built in to your volume projections, and, therefore, your
20 cost projections and revenue projections, has nothing to do
21 -- should have nothing to do with ebillpaying.

22 Is there a number that you can point to that tells
23 me about electronic diversion that you assumed when you
24 filed the case?

25 THE WITNESS: I don't have the specifics on that.

1 I know that in one of the interrogatories on the electronic
2 diversion, information from the GAO report and testimony
3 that was on the Hill, that -- I think that information has
4 been provided. Again, it's not information I provided.

5 CHAIRMAN GLEIMAN: Library Reference 179 talks
6 about electronic diversion, beginning in Year 2003. And
7 those are Postal Service numbers, not GAO numbers.

8 I'm talking about this rate case. I'm not, you
9 know -- if somebody can -- if you can point out to me in
10 Library 179, where it says what the electronic diversion
11 number is for the test year, I'd be obliged to have that
12 information.

13 THE WITNESS: Okay. I'm not familiar with that.

14 CHAIRMAN GLEIMAN: You don't have to give it to me
15 here.

16 THE WITNESS: Okay.

17 CHAIRMAN GLEIMAN: Okay, but I would be obliged to
18 have that information. And if it's not in Library Reference
19 179, which is what you were referring to when you talked
20 about Hill testimony and the like, that has surfaced here as
21 Library Reference 179, then I'd like to have somebody point
22 out to me, you or the Postal Service as an institution, what
23 the number is that's in the rate case that's filed.

24 THE WITNESS: Okay.

25 CHAIRMAN GLEIMAN: I also would like to know what

1 the expectation is for the test year that's different from
2 when the case was filed. Because if you're not going to get
3 33 cents from me and all the other folks who switch over
4 during the test year to electronic billpaying, you're going
5 to get less revenue than you anticipated.

6 I'm not asking you to tell me how much you're
7 going to get, necessarily, you know, in the way of a payment
8 from your partners, your strategic partners in this effort,
9 but you're going to get less revenue.

10 You're also going to have less costs, because the
11 last time I checked, the letter carrier did not have to
12 drive up my street and stop at my mailbox, my curbside
13 mailbox to put an electronic bill in or to pick up an
14 electronic payment, and nobody had to pick it up out of the
15 collection box downstairs, and nobody had to put it through
16 a letter sorting machine or anything else.

17 So there are going to be costs that are going to
18 be avoided. And this program is a new program that's
19 started last week. And I think it's relevant to the test
20 year because it is going to be up and running during the
21 test year.

22 And I think we need to have information from the
23 Postal Service on what the volumes, costs, and revenues are.

24 THE WITNESS: Okay.

25 CHAIRMAN GLEIMAN: So if you could please provide

1 that, it would be very helpful to us in determining what the
2 new revenue requirement might be, if there is going to be a
3 new revenue requirement.

4 THE WITNESS: Okay. If I can -- I can provide
5 some generic information. First off, pertaining to the
6 forecasts, again, it's my understanding that in the way the
7 forecast is developed, any levels of electronic ~~conversion~~ ^{diversion}
8 that have been, you know, occurring in prior years, that's
9 assumed and would be carried out in future years, I believe
10 the 2003 reference pertains to declining absolute volumes
11 and relating to electronic diversion, not that that's when
12 electronic diversion begins.

13 CHAIRMAN GLEIMAN: I understand.

14 THE WITNESS: Okay. As far as general levels of
15 magnitude -- and this is based on just the limited amount of
16 information I have and maybe some back-of-the-envelope
17 calculations -- for the test year, with this program, loss
18 of First Class revenue, we're probably talking \$20-25
19 million range. It's very insignificant in 2001.

20 CHAIRMAN GLEIMAN: Well, I think I can figure out
21 at 33 cents a stamp, how many pieces of mail that is. I
22 have to stop and figure out whether to multiply or divide.
23 I don't want to do it on the spot and make a mistake.

24 COMMISSIONER GOLDWAY: The \$25 million is for this
25 particular program?

1 THE WITNESS: For ebillpay, it's just a rough
2 estimate. It's not --

3 COMMISSIONER GOLDWAY: That's not for electronic
4 diversion?

5 THE WITNESS: No, it's for ebillpaying.

6 CHAIRMAN GLEIMAN: Yes, I understood that.

7 COMMISSIONER GOLDWAY: I just wasn't clear on
8 that.

9 CHAIRMAN GLEIMAN: Well, that helps. Commissioner
10 LeBlanc?

11 COMMISSIONER LeBLANC: Mr. Tayman, just so I'm
12 clear here, on page 45 of your testimony, you talk about --
13 you go through here and give us, no matter what results
14 historical variance analysis produces, it is not appropriate
15 to use the historical data, and so forth and so on.

16 You've been going through this, and you have
17 touched on it in your answer, I believe, to Commissioner
18 Goldway, and to some degree to the Chairman.

19 It seems to me that what we've got is a
20 contingency for the future, not for the past.

21 THE WITNESS: It's for unforeseen events, yes.

22 COMMISSIONER LeBLANC: So you're using this --
23 then you have to clarify for me, because you've got two
24 cases right now, in effect. You've got post-DCS. We've got
25 MOL. You've got the -- that's out here right now, and all

1 of these are dealing with what's out there in the future.

2 The loss of this derivation -- the diversion of
3 the -- into the electronic stream and so forth, and it seems
4 to me that what we're talking about is a contingency down
5 the road, in this particular case, in the future, for what
6 you may be trying to do to recapture this, and it has
7 nothing to do with historical past.

8 Is that a fair -- just to clarify for my mind
9 here.

10 THE WITNESS: I think that's a legitimate comment.

11 COMMISSIONER LeBLANC: I'm sorry?

12 THE WITNESS: I said I think that's a legitimate
13 comment, yes.

14 COMMISSIONER LeBLANC: So when you met with Porras
15 and all of the people that you met with in developing this
16 contingency, the past really didn't have that big a play,
17 unless I'm misreading something here.

18 I'm not trying to put words in your mouth, but
19 correct me if I'm wrong.

20 THE WITNESS: I mean, we're focusing more on
21 events, potential events, ⁽¹⁾~~than~~ the test year.

22 COMMISSIONER LeBLANC: Okay, that's just to
23 clarify the record. Thank you very much.

24 CHAIRMAN GLEIMAN: Are you going to sign up for
25 electronic billpaying?

1 THE WITNESS: I haven't signed up yet. I did
2 visit the website, though.

3 CHAIRMAN GLEIMAN: Did you read the Privacy Act
4 statement?

5 THE WITNESS: No, I didn't.

6 CHAIRMAN GLEIMAN: You ought to go down there.
7 Did you return your Census form?

8 THE WITNESS: Yes, I did.

9 CHAIRMAN GLEIMAN: I did, too. Some people say
10 they have problems with the confidentiality of Census data.

11 THE WITNESS: I had the short form.

12 CHAIRMAN GLEIMAN: I had the short form, too, that
13 was easy to return.

14 THE WITNESS: Right.

15 CHAIRMAN GLEIMAN: I just thought I'd mention to
16 you that the data that the Postal Service collects from you
17 for purposes of signing up for electronic billpaying may be
18 disclosed to an appropriate government agency, domestic or
19 foreign, for law enforcement purposes, where pertinent, in a
20 legal proceeding in which the Postal Service is a party, to
21 a government agency to obtain information relevant to Postal
22 Service decisions concerning employment, security
23 clearances, contracts, licenses, grants, permits, and other
24 benefits, to other government agencies for the same
25 purposes; to an expert consultant or other person under

1 contract to the Postal Service to fulfill an agency
2 function.

3 They also have a few thrown in here where they can
4 disclose it to a contractor for purposes of electronic
5 billing services, and then the last one is to a credit
6 bureau for purposes of obtaining credit ratings.

7 I'm not sure that those people who didn't trust
8 the Census Bureau are going to be excited about signing up
9 when they find out all the things the Postal Service plans
10 to do with the data that they're going to collect from you
11 for electronic billpaying. It's going to be interesting to
12 see.

13 THE WITNESS: We won't be selling that data to
14 anyone, though.

15 CHAIRMAN GLEIMAN: You won't be selling it, you
16 won't be selling it or renting it because it's in a Privacy
17 Act record system, and it probably would be construed as
18 being a mailing list, and you can't do that.

19 On the other hand, you didn't publish a notice in
20 the Federal Register 30 days before you started the program
21 up, which may be a violation of the Privacy Act. But you
22 can afford a \$5,000 penalty. We'll add it to the revenue
23 requirement.

24 THE WITNESS: There you go.

25 CHAIRMAN GLEIMAN: I'm sorry, I just thought that

1 that was an interesting notice on the website.

2 If there are no further questions from the Bench

3 --

4 COMMISSIONER GOLDWAY: Mr. Chairman, can I just
5 clarify something?

6 CHAIRMAN GLEIMAN: Sure.

7 COMMISSIONER GOLDWAY: With regard to all of the
8 studies that PMG Henderson seems to be calling for for all
9 of these savings, what I forgot to ask was, when do you
10 expect those to be completed, and when can we see them?

11 THE WITNESS: The one we referenced, the
12 transaction analysis -- and I think we explained it in OCA
13 99.

14 COMMISSIONER GOLDWAY: That one is available, but
15 when will the other be available, that you didn't explain.

16 THE WITNESS: My understanding is that the teams
17 are just being formed now to start developing, you know,
18 forming the teams who will actually go out and make the
19 determinations of where these opportunities exist, and where
20 they can be captured.

21 So I don't have a time line.

22 COMMISSIONER GOLDWAY: Would somebody in the
23 organization have a time line?

24 THE WITNESS: I would suggest that they are
25 probably in the process of being developed. Again, the

1 teams are just being placed together to make these things
2 happen, and there are some pretty high level goals that are
3 being pursued.

4 COMMISSIONER GOLDWAY: I think that it would be
5 very helpful for us to have whatever information we can
6 about the time lines for decisionmaking on such large cost
7 savings that are anticipated over the next two years in
8 deciding this rate case.

9 So I guess what I would appreciate is some report
10 in writing about when you expect to have some information
11 for us on the process, if that is all that is now being
12 developed.

13 THE WITNESS: Okay.

14 COMMISSIONER GOLDWAY: Thank you. Sorry -- I just
15 didn't make that clear in my questions.

16 CHAIRMAN GLEIMAN: Follow-up questions from the
17 bench?

18 [No response.]

19 CHAIRMAN GLEIMAN: Yes, sir -- sirs?

20 MR. LEVY: Thank you, Mr. Chairman.

21 FURTHER CROSS EXAMINATION

22 BY MR. LEVY:

23 Q Mr. Tayman, I have a few questions about ebillpay,
24 follow-up.

25 CHAIRMAN GLEIMAN: We can hear you now.

1 MR. LEVY: I wish I had known. You told me.

2 BY MR. LEVY:

3 Q If the Postal Service were to pull the plug today
4 on e-bay -- I am not recommending it --

5 A E-bay?

6 Q -- would the Postal Service avoid any costs
7 between now and the end of the test year?

8 A Your question said if we pulled the plug on
9 ^{eBay?}
~~"e-pay"~~?

10 Q Ebillpay.

11 A Ebillpay, okay. I was confusing that with the
12 auction site, I'm sorry.

13 Q I'm sorry. I bought a bed last night on e-bay. I
14 was confused.

15 A Okay. What I implied was that any costs
16 associated with this program as I referenced potentially
17 advertising, it would be diverted from existing costs in the
18 revenue requirement, so the impact of pulling the plug on
19 this tomorrow from a cost aspect would be minimal, I
20 believe.

21 Q If the Postal Service had never given the green
22 light to ebillpay, would the Postal Service have avoided any
23 advertising or other costs that it now expects to incur
24 during the test year?

25 A I am suggesting that existing advertising dollars,

1 if they are go be used for ebillpay would be diverted from
2 the dollars that are in the current filing. It wouldn't
3 be -- in other words, if we advertised this program in the
4 test year, 2001, we would not be increasing advertising
5 expense over and above the level that is included in the
6 filing.

7 Q So it is your understanding that the ebillpay
8 program has added not a single net penny to the Postal
9 Service's advertising costs?

10 A That's what I am indicating. I mean --

11 Q The entire -- and that is true of any of the other
12 costs to the Postal Service of ebillpay, that they all came
13 from money that the Postal Service would have otherwise
14 spent on other programs?

15 A I guess what I am suggesting is -- and we do this
16 all the time -- if we are presented with an opportunity that
17 has a greater return than some other program that may be in
18 the development process, we don't change our operating
19 budget once it is set at the beginning of the year.

20 However, we might -- may reprioritize how funds
21 are spent and for what they are spent on during the year, so
22 my suggestion is that in this case for ebillpay, it pertains
23 to a prioritization of funds that are already included in
24 the FY 2000 operating budget as well as what we intended in
25 the revenue requirement for 2001.

1 COMMISSIONER OMAS: Excuse me, can I interrupt
2 here? But just a minute ago you have removed \$120 million
3 from the budget, 2000 budget.

4 THE WITNESS: Yes.

5 COMMISSIONER OMAS: That is going to be replaced
6 in the test year, so --

7 THE WITNESS: I was just using the advertising as
8 an example, because I just thought it was something easy to
9 relate to.

10 COMMISSIONER OMAS: Well, but you keep saying that
11 the advertising is going to come out from that already
12 budgeted. You have already removed \$120 million from 2000.

13 THE WITNESS: That's correct -- so which would
14 mean if there is advertising to be spent in Fiscal Year 2000
15 for ebillpay, it would be a portion of the current
16 advertising budget or if it is, our advertising plan is
17 approved by the Board.

18 If there was additional funds to be spent over and
19 above the level in the current budget it would require us
20 going back to the Board for approval and it would require us
21 to reduce some other expenses to make up for that, if that
22 were to happen, but that would be the process we would
23 follow if that were to happen.

24 COMMISSIONER OMAS: I apologize, Mr. Levy.

25 MR. LEVY: No, that's helpful.

1 BY MR. LEVY:

2 Q The expenditures that will be cannibalized or
3 cancelled to pay for the ebillpay expenditures, until
4 ebillpay came along, the Postal Service thought that those
5 other expenditures were worth making?

6 A That's -- through the nature of our process, yes.

7 Q And to reach that conclusion, the Postal Service
8 must have made some determination, whether formal or
9 seat-of-the-pants, that the benefits from those other
10 expenditures would have exceeded their costs, right?

11 A That's correct.

12 Q So, in the post-ebillpay era, why wouldn't the
13 Postal Service make both sets of expenditures, if both sets
14 of expenditures are expected to produce greater benefits
15 than costs?

16 A As I indicated, our operating plan for the year is
17 fixed, it is approved by the Board at the beginning -- prior
18 to the beginning of each year, and it would be a
19 reprioritization within those funds. We don't have to spend
20 greater than what has been approved in total. It would
21 require us to go back for an amended operating plan.

22 Q Well, if they are both profitable opportunities,
23 wouldn't a rational business want to go back for an amended
24 operating plan and get approval for both sets of
25 expenditures?

1 A Well, I mean this all goes back to your present
2 value analysis and the time, you know, when benefits are
3 received. I mean these are all management judgments that
4 are made. The judgments have been made pertaining to
5 ebillpay that this was a venture that the timing was
6 appropriate to pursue.

7 Q Why, as a matter of business judgment, if both
8 sets of expenditures were deemed profitable, why wouldn't
9 both of them be made by means of asking for a supplemental
10 authorization from the Board?

11 A Well, the situation we find ourselves in right now
12 is that we are not meeting our current operating plan, and
13 we are taking all efforts necessary to attempt to perform at
14 the level that our bottom line plan called for at the
15 beginning of the year. So, ~~it~~^{it's} is not like it just an
16 unlimited supply of funds to be turned on and utilized at
17 will.

18 Q If an investment opportunity appears to be
19 profitable, you can borrow money to fund it, can't you?

20 A Yes.

21 Q I mean the Postal Service is not up near its
22 borrowing ceiling, is it?

23 A No.

24 Q In any event, a certain portion amount of the pool
25 of dollars that the Postal Service is asking the Commission

1 to allow the Postal Service to collect from mailers is going
2 to go for expenditures on ebillpay, is that correct?

3 A That would be correct.

4 Q And have you, in either the Postal Service's
5 original or amended filings, made any proposal -- effort to
6 credit to the expected contribution from ebillpay to the
7 revenue requirement?

8 A Well, again, there is also revenues that will be
9 generated from this program as well. And as I indicated a
10 little while ago, the level of magnitude we are talking
11 about in the test year here is pretty insignificant.

12 Q Is the level of the expenditures in the test year
13 on ebillpay so insignificant that it vanishes into rounding?

14 A We round to the hundred-millions in some areas,
15 and it certainly would in that case.

16 MR. LEVY: No further questions.

17 CHAIRMAN GLEIMAN: Mr. Feldman, did I see you
18 indicate you had some follow-up?

19 MR. FELDMAN: Thank you, Mr. Chairman. My name is
20 Steven Feldman, I am counsel for the Coalition of Religious
21 Press Associations.

22 CROSS-EXAMINATION

23 BY MR. FELDMAN:

24 Q Just to follow-up Commissioner Goldway's questions
25 about the Postmaster General's efforts to save approximately

1 \$4 billion in the next several years, how much of that
2 amount would be in the test year?

3 A I don't know what that breakdown is. I don't
4 think it has been determined.

5 Q Would you kindly supply that information when it
6 is available?

7 A When it is determined, sure. I don't know when
8 that is going to be, but, like I said, they are in the
9 process of just formulating the teams now to work on that.

10 MR. FELDMAN: Mr. Chairman, I would suggest
11 respectfully that that amount be supplied, and I don't
12 recall the date, on or prior to the date that discovery to
13 the Postal Service is due in this case, which I think is
14 sometime in July, but I could be wrong.

15 CHAIRMAN GLEIMAN: I will take your request under
16 advisement.

17 MR. FELDMAN: Thank you, Mr. Chairman.

18 CHAIRMAN GLEIMAN: Is there any other follow-up?

19 MS. DREIFUSS: The OCA has several brief follow-up
20 questions, Mr. Chairman.

21 CHAIRMAN GLEIMAN: Ms. Dreifuss.

22 MS. DREIFUSS: Thank you.

23 CROSS-EXAMINATION

24 BY MS. DREIFUSS:

25 Q In your exchange with Chairman Gleiman, you

1 mentioned the Strategic Alliance of Partners. Could you
2 tell me what that is?

3 A For ebillpay?

4 Q Yes.

5 A It is with Check Free and OTS. And I think if you
6 go to our web site, there is a pretty good definition that
7 explains the program, and their respective roles.

8 Q Okay. Is it correct that ebillpay is not 100
9 percent electronic in that at times it will be necessary to
10 mail a check to make a payment on behalf of a customer?

11 A That's correct.

12 Q Who mails the check?

13 A It would be mailed by Check Free.

14 MS. DREIFUSS: Chairman Gleiman, it seems to me
15 that between you and Mr. Levy, you laid the foundation for
16 somebody to ask for the expected costs and revenues of
17 ebillpay in the test year, and I would like to ask for that.

18 CHAIRMAN GLEIMAN: Well, I sort of kind of asked
19 those questions, inartfully probably, when I was questioning
20 Mr. Tayman before. He did come up with one number, the
21 revenue delta, and I have it in mind actually to go back and
22 look at all those questions I asked when the transcript
23 comes in tomorrow and perhaps put a POIR together asking
24 some questions, including maybe some follow-up to the
25 question that you just asked, like, what rate does Check

1 Free pay when they put a check in the mail? And are they
2 going to put the postage on or it is going to go in a Postal
3 Service envelope with a Postal Service permit on it or
4 something?

5 THE WITNESS: No, it is --

6 CHAIRMAN GLEIMAN: I have bunches of questions to
7 ask.

8 THE WITNESS: It is postage-paid by Check Free.

9 CHAIRMAN GLEIMAN: Well, I was confused because
10 whoever Mark Saunders is, said that the Postal Service will
11 simply issue a check in response to some question that he
12 was asked by the press, and he made a statement to AP on
13 April 5th, if someone wants to make a payment to a company
14 that does not have an electronic connection to the Service,
15 the Postal Service will simply issue a check, Postal
16 spokesman Mark Saunders said.

17 THE WITNESS: I think he was just implying to the
18 Service in general, the check would actually be issued by
19 Check Free and put in the mail by them, and they would pay
20 the postage.

21 CHAIRMAN GLEIMAN: Okay.

22 BY MS. DREIFUSS:

23 Q Let me ask you, concerning these mailed checks,
24 the Postal Service has not come to the Postal Rate
25 Commission with a request to implement this new service. As

1 far as you know, that is true, isn't it?

2 A Yes. Yes.

3 Q Was that based upon -- do you know if it is based
4 upon a legal conclusion on the part of your attorneys, or
5 was it -- do you know if it is a policy decision of some
6 kind, a financially driven decision? What is the nature of
7 the decision not to come to the Postal Rate Commission with
8 a request?

9 A Having not been involved with that, I would assume
10 it was some legal decision.

11 Q So you don't have any personal knowledge about
12 that?

13 A No, I don't.

14 Q In your discussion with Commission LeBlanc, you
15 spoke about the purpose of the contingency. It basically
16 doesn't look backward at historical trends, but looks
17 forward to uncertainties, is that correct?

18 A That is correct. I think he was referring to the
19 variance analysis that is provided.

20 Q Right. Now, on page 44 of your testimony, it is
21 the second line down, line 2, you say many other
22 uncertainties exist. Have you enumerated all of these
23 uncertainties in your testimony, to your knowledge?

24 A I mean I think on page 43 and 44, we identify what
25 a lot of those are, yes.

1 Q So is that the extent of what you meant by other
2 uncertainties, or were there others that you have in mind?

3 A I think it is a generic statement, per se, but,
4 clearly, there are uncertainties, and, you know, what level
5 of inflation actually occurs. I don't think at the time of
6 this writing we talked about the current escalation of fuel
7 costs that we are all sharing in right now. So there is
8 lots of things.

9 Q So that phrase encompassed the uncertainties you
10 enumerated in your testimony and additional uncertainties?

11 A I think that is ^{fair}~~fair~~ to say.

12 Q In many cases where uncertainty was anticipated,
13 it is already reflected in the filing that the Postal
14 Service has made in this proceeding, isn't that true?

15 A Well, from the aspect that the contingency
16 provision is included to cover that, yes.

17 Q I think in response, I don't have it at my
18 fingertips, but in response to the interrogatory by Direct
19 Marketing Association I believe you said that there are some
20 uncertainties specifically mentioned in your testimony that
21 actually are reflected in some of the estimates of other
22 witnesses in these proceedings. Does that ring a bell?

23 A I had a lot of interrogatories. I am not sure
24 specifically which one.

25 Q If you could give me just a moment I'll pull that

1 out.

2 A Sure.

3 Q Could you look at your response to DMA
4 Interrogatory Number 15 to you, please.

5 A Okay.

6 Q In that interrogatory you seem to indicate that
7 volume growths below historic norms and delivery network
8 changes and changes in the level of costs in employee
9 benefits have been accounted for in the estimation of test
10 year revenues and expenses, is that correct?

11 A What -- it says "I confirm that estimated volume
12 and delivery network changes and changes in the level of
13 costs in employee benefits have been accounted for in the
14 estimation of test year revenues and expenses and those are
15 all delineated in the work papers."

16 Q Right, and they asked you to confirm that volume
17 growths below historic norms have been accounted for in your
18 projection of both test year costs and revenues and would
19 you say that your response is that you confirmed that
20 statement?

21 A Yes, I think -- and one of the other responses I
22 mention that for instance the test year revenue is \$600 plus
23 million less than what our current operating revenue level
24 is.

25 Q But anyway, you feel that you have confirmed their

1 statement that volume growths below historic norms have been
2 accounted for in the projection of test year costs and
3 revenues? Have you confirmed that?

4 A That's what it says, yes.

5 Q On page 44 of your testimony you mention that
6 health benefit costs are rising. Do you know if that is
7 reflected in the Postal Service's filing in R2000-1?

8 A Our assumption for health benefit increases is in
9 Library Reference 127 and it is an increase over prior year
10 levels, yes.

11 Q At line 6 you say health benefit cost increases
12 have now returned to near double-digit rates. Do you know
13 whether those are the rates that are included in the Library
14 Reference that you just mentioned?

15 A It is going to be off the top of my head. It is
16 either 9.1 or 10.1 percent. We would have to check but it
17 is in there.

18 Q So there was an effort made to make an assumption
19 about health benefit cost increases that reflects your
20 present knowledge and expectation about that?

21 A That is correct and again the contingency, it says
22 it is for unforeseen events, so our assumptions in the
23 revenue requirement relate to the current trends that are
24 happening right now.

25 I mean in the last R97 health benefit costs were

1 declining and in this case they are climbing back -- you
2 know, they are rising again. How far are they going to go?
3 I don't know, you know.

4 Q So what would be unforeseen would be an increase
5 in health benefit costs that are not in the double-digit
6 range?

7 A Or above what we estimated in the filing, yes.

8 Q In fact in several exchanges with Commissioner
9 Omas you referred to the Postal Service's operating plan for
10 FY 2000. That is projected to generate a net income of \$100
11 million, is that correct?

12 A That is correct.

13 Q And that net figure would come from a subtraction
14 of costs from, operating costs from operating revenues, is
15 that correct?

16 A Total revenues less total expenses, that's
17 correct.

18 Q Do you know if the revenue figure that you just
19 described would reflect the one percent contingency that the
20 Postal Service proposed in R97, since we are talking about
21 FY 2000?

22 A The contingency is a calculation off of the total
23 expenses so I am not sure if I understand your question.
24 You said was the revenue, does the revenue plan include a
25 one percent contingency for 2000?

1 Q Well, I guess I was -- my thinking was that the
2 rates that generate those revenues reflect a one percent
3 contingency from R97. Maybe that is not the right way to
4 look at it. Anyway, does this operating plan reflect the
5 one percent contingency from R97?

6 A The operating plan reflects the rates that were
7 put in place from the R97 decision, yes.

8 Q So in that sense it would reflect a one percent
9 contingency?

10 A From that sense, yes.

11 Q Right, and one thing we can be clear on is it
12 would not reflect a 2.5 percent contingency that you are
13 proposing in this case for test year 2001?

14 A Oh -- the -- okay. The revenue plan would be base
15 on the rates approved out of R97 applied to our current
16 volume forecast.

17 Q So it is safe to say that the current 2.5 percent
18 contingency proposal has nothing to do with that FY 2000
19 operating plan, is that true?

20 A That's correct.

21 Q Okay. You discussed return on investment with
22 Commissioner Goldway and that triggered a question about the
23 20 percent hurdle rate that the Postal Service applies
24 before making an investment.

25 I believe that 20 percent hurdle rate was given in

1 a response to an ANM interrogatory. I think it was Number
2 59.

3 Does the 20 percent hurdle rate apply to all
4 capital investments?

5 A We classify investments into two categories and
6 the 20 percent rate would apply to all generative type
7 investments. The other type of investments would be
8 infrastructure related for facilities, expansion of delivery
9 point, you know, so that the hurdle rate would not be
10 applied to those types of investments.

11 Q The first time of investment, you called it a
12 generative investment?

13 A They are investments that generate a return on
14 investment.

15 Q And within, besides those two distinctions, there
16 are no other distinctions made within the generative
17 investment category then?

18 A That is correct.

19 Q The 20 percent hurdle rate is applied to all of
20 it?

21 A That is the hurdle rate, right.

22 Q Now the second type of investment you were talking
23 about was what again?

24 A Yes -- I am trying to think of the exact category
25 name, but it would be -- vehicle replacement, you have to

1 replace delivery vehicles, I mean there is not going to be a
2 ROI on that necessarily unless we get some new
3 fuel-efficient vehicles or whatever, so they are -- I am not
4 sure if it is sustaining or I don't know the category but it
5 would be facilities and vehicles and things that maintain
6 the level of infrastructure.

7 They don't generate a positive ROI.

8 Q And you generally don't use a hurdle rate for that
9 purpose?

10 A No.

11 Q You simply replace as needed?

12 A Absolutely.

13 Q Is the 20 percent hurdle rate then a standard
14 applied over a long period of time?

15 A I think our response indicated it was established
16 in 1995 by Marvin Runyon.

17 Q Was there something like it used before 1995? Do
18 you know of some other type of hurdle rate?

19 A I don't know if we had a specific hurdle rate that
20 we used then. I am not sure.

21 Q But at any rate, it was established in 1995 and
22 continues through today?

23 A That's correct.

24 Q If the Postal Service is considering an
25 investment, and the 20-percent hurdle rate is met, is it

1 always the case that the Postal Service goes forward with
2 that investment?

3 A Again, I would assume it's going to be based on
4 allocation of limited resources. So just because it
5 generates a 20-percent return, I'm not certain that that
6 means that it's automatic.

7 Q Can you think of specific instances where the
8 20-percent hurdle rate was met, but the investment wasn't
9 made?

10 A No, I'm not familiar with that, no.

11 Q Can you think of specific instances where the
12 20-percent hurdle rate was met, and the investment was made?

13 A I think, yes, a lot of those are included in our
14 process. We have a Capital Investment Committee, and that's
15 where those decisions are made. And I'm not a member of
16 that, so, again, I couldn't tell you the specifics.

17 MS. DREIFUSS: Mr. Chairman, I have no further
18 questions. I do have one comment. It relates to our, the
19 OCM's, motion to compel, which I guess is still somewhat
20 incomplete at this point.

21 The Postal Service hasn't yet responded, and
22 earlier today, in my discussion with Mr. Tayman, we
23 discussed various types of documents that perhaps are
24 contemplated by our original interrogatory.

25 In our motion to compel, we suggested that we

1 might ask to have Mr. Tayman recalled, if, indeed, the
2 Commission ruled -- if the Presiding Officer ruled favorably
3 on the motion.

4 So we'd just ask that when you dismiss Mr. Tayman
5 today, if you could simply make that subject to being
6 recalled, if event work out favorably for us.

7 CHAIRMAN GLEIMAN: Thank you.

8 MS. DREIFUSS: Thank you.

9 CHAIRMAN GLEIMAN: Is there any further followup
10 questions from the Bench?

11 [No response.]

12 CHAIRMAN GLEIMAN: If not, that brings us to
13 redirect. Mr. Reiter, would you like some time with your
14 witness?

15 MR. REITER: Yes, I would.

16 CHAIRMAN GLEIMAN: I think this would be a good
17 time to take a ten-minute break also, so we'll come back at
18 quarter after, and we'll pick up with redirect.

19 [Recess.]

20 CHAIRMAN GLEIMAN: You have no redirect, Mr.
21 Reiter?

22 MR. REITER: You are right, Mr. Chairman, we have
23 no redirect for this witness. You could read it on my face,
24 right?

25 CHAIRMAN GLEIMAN: If that is, indeed, the case,

1 Mr. Tayman, that completes your testimony here today. You
2 may be recalled at some point. We hope not. We hope all
3 those written responses, all those questions that are
4 outstanding and yet to come, will be -- will be enough to
5 satisfy our appetites, and you won't have to reappear.

6 But we appreciate your testimony today, and your
7 contribution to the record. And we want to thank you.

8 THE WITNESS: Thank you.

9 CHAIRMAN GLEIMAN: And for today at least, you are
10 excused.

11 [Witness Tayman excused.]

12 CHAIRMAN GLEIMAN: Ms. Duchek, when you're ready,
13 you can introduce your witness.

14 MS. DUCHEK: Thank you, Mr. Chairman. The Postal
15 Service calls Cameron Kashani.

16 CHAIRMAN GLEIMAN: Counsel, proceed when you're
17 ready.

18 Whereupon,

19 CAMERON KASHANI,
20 a witness, having been called for examination, and, having
21 been first duly sworn, was examined and testified as
22 follows:

23 DIRECT EXAMINATION

24 BY MS. DUCHEK:

25 Q Mr. Kashani, I'm going to hand you two copies of a

1 document entitled Direct Testimony of Cameron Kashani on
2 behalf of United States Postal Service that's designated as
3 USPS T-14.

4 [Pause.]

5 Are you familiar with that document?

6 A Yes, I am.

7 Q Was it prepared by you or under your supervision?

8 A Yes.

9 Q Does it contain your errata of February 18th,
10 2000?

11 A Yes, it does.

12 Q And if you were to testify orally today, would
13 this still be your testimony?

14 A Yes.

15 MS. DUCHEK: Mr. Chairman, I'm going to hand two
16 copies of the direct testimony of Cameron Kashani on behalf
17 of United States Postal Service, designated as USPS T-14 to
18 the Reporter, and I ask that they be entered into evidence.

19 CHAIRMAN GLEIMAN: Is there any objection?

20 [No response.]

21 CHAIRMAN GLEIMAN: Hearing none, I'll direct that
22 counsel provide the Reporter with two copies of the
23 corrected testimony of Witness Kashani. That testimony is
24 received into evidence and will not be transcribed into the
25 record, as is our practice.

1 [Direct Testimony of Cameron
2 Kashani, USPS T-14 was received
3 into evidence.]

4 CHAIRMAN GLEIMAN: Mr. Kashani, have you had an
5 opportunity to examine the packet of designated written
6 cross examination that was made available to you earlier
7 today?

8 THE WITNESS: Yes, I have.

9 CHAIRMAN GLEIMAN: If these questions were posed
10 orally today, would your answers be the same as those you
11 previously provided in writing?

12 THE WITNESS: Yes, they would.

13 CHAIRMAN GLEIMAN: There are no corrections or
14 additions that you wish to make at this point in time?

15 THE WITNESS: No.

16 CHAIRMAN GLEIMAN: Okay, counsel, if you would
17 please provide two copies of the designated written cross
18 examination of Witness Kashani to the Reporter, I'll direct
19 that the material be received into evidence and transcribed
20 into the record at this point.

21 [Designated Written Cross
22 Examination of Cameron Kashani was
23 received into evidence and
24 transcribed into the record.]
25

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

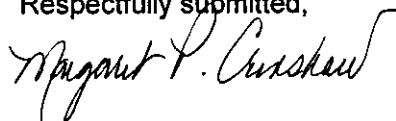
Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS CAMERON KASHANI
(USPS-T-14)

<u>Party</u>	<u>Interrogatories</u>
Alliance of Nonprofit Mailers	ANM/USPS-T14-1-5
Association of American Publishers	AAP/USPS-T14-1-3
Association of Priority Mail Users, Inc.	APMU/USPS-T14-1-2
Direct Marketing Association, Inc.	DMA/USPS-T9-20-21, 32-33 redirected to T14
Newspaper Association of America	MPA/USPS-T14-1 UPS/USPS-T14-1
Office of the Consumer Advocate	OCA/USPS-T14-1-6

Respectfully submitted,



Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
UNITED STATES POSTAL SERVICE
WITNESS CAMERON KASHANI (T-14)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:

AAP/USPS-T14-1
AAP/USPS-T14-2
AAP/USPS-T14-3
ANM/USPS-T14-1
ANM/USPS-T14-2
ANM/USPS-T14-3
ANM/USPS-T14-4
ANM/USPS-T14-5
APMU/USPS-T14-1
APMU/USPS-T14-2
DMA/USPS-T9-20 redirected to T14
DMA/USPS-T9-21 redirected to T14
DMA/USPS-T9-32 redirected to T14
DMA/USPS-T9-33 redirected to T14
MPA/USPS-T14-1
OCA/USPS-T14-1
OCA/USPS-T14-2
OCA/USPS-T14-3
OCA/USPS-T14-4
OCA/USPS-T14-5
OCA/USPS-T14-6
UPS/USPS-T14-1

Designating Parties:

AAP
AAP
AAP
ANM
ANM
ANM
ANM
ANM
ANM
APMU
APMU
DMA
DMA
DMA
DMA
NAA
OCA
OCA
OCA
OCA
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OCA
NAA

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KASHANI
TO INTERROGATORIES OF
ASSOCIATION OF AMERICAN PUBLISHERS**

AAP/USPS-T14-1 On page 3 (lines 3-10) of your testimony, you discuss the process used to project Base Year 1998 costs to FY 1999 and to project costs in later years up through the test year at both current (TYBR) and proposed (TYAR) rates. With respect to this process:

(a) Please state whether this process is sufficiently automated so that the cost effect on a subclass of a change in the assumed volume variability of a cost pool in C/S 03 in Base Year 1998 would be captured automatically in TYBR and TYAR costs for that subclass without any manual adjustments.

(b) If your answer is no, please provide a specific example and a step-by-step explanation as to how such a change would be inputted or reflected in the Postal Service's electronic files pertaining to TYBR and TYAR costs for a subclass.

(c) If your answer is yes, please describe each manual adjustment that would be required to derive TYBR and TYAR costs at the subclass level from BY 1998 cost pool data.

RESPONSE

a, b, & c) Your questions are confusing, therefore, I am providing my response in the context of two possible scenarios.

1. If you are referring to changing the assumed volume variability of a cost pool in a C/S 03 cost component, a new Base Year 1998 would be required. Then to measure its impact on the Test Year, the rollforward model could be run automatically without manual adjustments.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KASHANI
TO INTERROGATORIES OF
ASSOCIATION OF AMERICAN PUBLISHERS

AAP/USPS-T14-1 (CONTINUED)

2. If you are referring to rolling forward all individual cost pools in C/S 03, complicated manual adjustments would be required. The proper method of capturing the effect of cost pool changes on the Postal Service's electronic files pertaining to TYAR and TYBR costs is to explicitly incorporate them into the CRA/rollforward model. However, there are tremendous hurdles that would need to be overcome. There are 54 cost pools which make up component 35, Mail Processing, of the CRA/rollforward model. Under present procedures, component 35 is adjusted by a vector of rollforward change factors for Cost Level, Mail Volume, Non-workload, Additional Workdays, Cost Reductions, and Other Programs for FY 1999, FY 2000, TY 2001 Before Rates, and TY 2001 After Rates. There are also additional procedures applied to a particular year, such as the workyear mix adjustment. Another area that would be affected is the lagged or PESSA costs in the "B Reports."

The example you suggested can be reviewed as follows. Component 35 is replaced by 54 cost pool components and each is treated individually in the CRA/rollforward, that is Cost Levels through Other Programs are applied to each cost pool component. There are additional adjustments such as the workyear mix adjustment, which is applied to the 54 cost pools. The lagged or PESSA costs would also need to be calculated in the "B Report." One way of doing this would be to apply every component 35 piggy back to the 54 cost

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KASHANI
TO INTERROGATORIES OF
ASSOCIATION OF AMERICAN PUBLISHERS**

AAP/USPS-T14-1 (CONTINUED)

pool components. For instance, supervisors of mail processing costs could be charged to 54 cost pools. The existing Rollforward matrix is comprised of 200 columns and 1600 rows, which would have to be expanded to incorporate additional components relating to implementation of 54 cost pools. An expansion of the rollforward requires rewriting the underlying COBOL program under which the program changes, testing, and mainframe resource allocation would be a costly and complicated undertaking.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KASHANI
TO INTERROGATORIES OF
ASSOCIATION OF AMERICAN PUBLISHERS**

AAP/USPS-T14-2 Has the Postal Service compared or evaluated in any way the cost levels predicted in R97-1 with actual cost levels that ensued taking into account such factors as variances in volume and cost level? If your answer is yes, please provide any such "back-cast" or related analyses of the accuracy of the Postal Service's roll-forward procedures as applied in R97-1.

RESPONSE

a) No.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KASHANI
TO INTERROGATORIES OF
ASSOCIATION OF AMERICAN PUBLISHERS**

AAP/USPS-T14-3 On page 4 (line 4) of your testimony, you state that test year estimates of volume variable costs are developed by adjusting base year volume variable costs for "changes in cost level." In footnote 1 of your testimony, you also explain that cost level changes refer to the price levels of inputs to the Postal Service. With respect to these statements:

- (a) Please provide a list of all expected changes in cost levels that you relied upon in developing test year volume variable costs.
- (b) Please explain how the Postal Service verifies or validates specific changes in cost levels for volume variable costs that are expected to occur by the test year. Please provide any reports or data references from sources other than the Postal Service used to verify or validate expected "changes in cost level."
- (c) Please describe the manner in which the Postal Service accounts for changes in postal productivity between TYBR costs and TYAR costs and provide any definition of productivity relied upon to develop the roll forward models.

RESPONSE

- a) Please see my Exhibit 14A, pages 1 through 8 for a list of the rollforward change factors including cost level changes.
- b) The Postal Service does not verify or validate that the cost level changes estimated in the Test Year actually occurred.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KASHANI
TO INTERROGATORIES OF
ASSOCIATION OF AMERICAN PUBLISHERS**

AAP/USPS-T14-3 (CONTINUED)

- c) The effect of Postal Service productivity changes is captured through cost reductions, such as labor cost savings due to automation. There is no precise definition of productivity used to develop the rollforward model.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KASHANI
TO INTERROGATORIES OF
ALLIANCE OF NONPROFIT MAILERS**

ANM/USPS-T14-1 Please refer to your Appendix A, Pages 8, 16, and 24. At line 34 under the last column labeled "Savings," each table shows the identical figure of 407,770. For each table does this figure represent the sum of the data which appear in the column above it? Unless your answer is an *unqualified affirmative*, please explain fully what this number represents in each of the tables.

RESPONSE

The identical figure of 407,770 on pages 16-17 and 24-25 represents the savings for Clerks and Mailhandlers in Fiscal Year 1999 and it should be changed to 441,793 on pages 16 and 17 and 475,373 on pages 24 and 25. Please note that the figure of 407,770 on pages 16-17 and 24-25 was not used to develop savings for Clerks and Mailhandlers in Fiscal Year 2000 and Test Year 2001. Therefore, it does not affect the savings calculations reflected on Pages 16 and 24 of my Appendix A. See Errata USPS-T-14, 2/18/2000 for revised pages.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KASHANI
TO INTERROGATORIES OF
ALLIANCE OF NONPROFIT MAILERS**

ANM/USPS-T14-2 Please refer to your Appendix A, Pages 8. Confirm that (i) for FY 1999 the net savings for clerks/mailhandlers combined amounts to 15,126,000 work hours and \$407,770,000, and (ii) the per work hour savings amount to \$26.76 ($407,770/15,126$). If you do not confirm, please provide the correct data and interpretation of the data shown at page 8.

RESPONSE

- (i) Not confirmed. The net savings for clerks/mailhandlers combines the dollars and work hours for both savings and costs. The negative figures of (\$407,770,000) and (15,768,000) work hours reflect savings for clerks/mailhandlers; whereas, the positive amounts of \$23,918,000 and 925,000 work hours are additional costs associated with clerk/mailhandlers. Therefore, the combined net savings are -14,843,000 work hours and -\$383,852,000. Total work hours used to distribute savings, costs, and net savings are displayed on line 64, columns 9, 10, and 11 of page 9 of Appendix A of my testimony. The additional costs are net of (\$209,083,000¹-\$185,165,000²) or \$23,918,000.
- (ii) Not Confirmed. The per work hour savings are calculated as ($407,770/15,768$) or \$25.86. Please note that the per work hour savings of \$25.86 represents cost reductions and it is not "net savings," which combines both savings (cost reductions) and costs.

¹ See USPS Exhibit 14A, page 1, Cost Segment 3, Other Programs

² See USPS-LR-J-127, page 204

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KASHANI
TO INTERROGATORIES OF
ALLIANCE OF NONPROFIT MAILERS**

ANM/USPS-T14-3 Please refer to your Appendix A, Page 16. Confirm that (a) for FY 2000 the net savings for clerks/mailhandlers combined amounts to 14,138,000 work hours and \$441,793,000, and (b) the per work hour savings amount to \$31.25 ($441,793/14,138$). If you do not confirm, please provide the correct data and interpretation of the data shown at page 8.

RESPONSE

Assuming that the last sentence in your question is referring to page 16.

- (a) Not Confirmed. The net savings for clerks/mailhandlers combines the dollars and work hours for savings and costs. The negative figures of (\$441,793,000) and (16,408,000) work hours reflect savings for clerks/mailhandlers; whereas, the positive amounts of \$59,839,000¹ and 2,222,000 work hours are additional costs associated with clerk/mailhandlers. Therefore, the combined net savings are -14,187,000 work hours and -\$381,954,000. Total work hours used to distribute savings, costs, and net savings are displayed on line labeled "Total," columns 9, 10, and 11 of page 17 of Appendix A of my testimony.
- (b) Not Confirmed. The per work hour savings should be calculated as ($441,793/16,408$) or \$26.93. Please note that the per work hour savings of \$26.93 represents cost reductions and it is not "net savings," which combines both savings (cost reductions) and costs.

¹ See USPS Exhibit 14A, page 3, Cost Segment 3, Other Programs

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KASHANI
TO INTERROGATORIES OF
ALLIANCE OF NONPROFIT MAILERS**

ANM/USPS-T14-4 Please refer to your Appendix A, Page 24. Confirm that (i) for FY 2001, the net savings for clerks/mailhandlers combined amounts to 16,625,000 work hours and \$475,373,000, and (ii) the per work hour savings amount to \$28.59 (475,373/16,625). If you do not confirm, please provide the correct data and interpretation of the data shown at page 8.

RESPONSE

Assuming that the last sentence in your question is referring to page 24.

- (i) The net savings for clerks/mailhandlers combines the dollars and work hours for savings and costs. The negative figures of (\$475,373,000) and (16,975,000) work hours reflect savings for clerks/mailhandlers; whereas, the positive amounts of \$9,808,000¹ and 350,000 work hours are additional costs associated with clerk/mailhandlers. Therefore, the combined net savings are -16,625,000 work hours and -\$465,565,000. Total work hours used to distribute savings, costs, and net savings are displayed on line 64, columns 9, 10, and 11 of page 25 of Appendix A of my testimony.
- (ii) The per work hour savings should be calculated as (475,373/16,975) or \$28.00. Please note that the per work hour savings of \$28.00 represents cost reductions and it is not "net savings," which combines both savings (cost reductions) and costs.

¹ See USPS Exhibit 14A, page 5, Cost Segment 3, Other Programs

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KASHANI
TO INTERROGATORIES OF
ALLIANCE OF NONPROFIT MAILERS**

ANM/USPS-T14-5 If you confirm the per work hour savings in preceding interrogatories ANM/USPS-2, -3, and -4, please explain why the per work hour savings of \$31.25 in FY 2000 is 9.3 percent higher than the per work hour savings of \$28.59 in FY 2001. Produce documents sufficient to verify your answer.

RESPONSE

Not applicable; none of the preceding responses were confirmed.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KASHANI
TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL USERS, INC.**

APMU/USPS-T14-1.

On page 4 (l. 22) of your testimony, you identify the additional workday adjustment as the fourth step in estimating future year costs. Please explain how an additional workday affects the level of costs in the test year for cost components: 18.3.1, repriced annual leave; 18.3.1, holiday leave; 18.3.2, civil service retirement; 18.3.4, workers compensation; 18.3.5, unemployment compensation; 18.3.6, retiree health benefits; 18.3.7, annuitant life insurance; and 18.3.8, annuitant COLA/principal. For each of the cost components, please identify references in workpapers, library reference and testimony supporting your answers.

RESPONSE

The additional workday effect does not apply to the components listed in your question. These components are developed outside of the rollforward model and their development can be found in USPS-LR-I-127. The amounts developed in USPS-LR-I-127 can be found in Exhibit 14A in the "Other Programs" column.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KASHANI
TO INTERROGATORIES OF
ASSOCIATION OF PRIORITY MAIL USERS, INC.**

APMU/USPS-T14-2.

On page 4 (l. 21) of your testimony, you identify the volume level adjustment as the second step in estimating future year costs. Please explain how mail volume level affect costs in the test year for cost components: 18.3.1, repriced annual leave; 18.3.1, holiday leave; 18.3.2, civil service retirement; 18.3.4, workers compensation; 18.3.5, unemployment compensation; 18.3.6, retiree health benefits; 18.3.7, annuitant life insurance; and 18.3.8, annuitant COLA/principal. For each of the cost components, please identify references in workpapers, library reference and testimony supporting your answers.

RESPONSE

The mail volume level adjustment does not apply to the components listed in your question. These components are developed outside of the rollforward model and their development can be found in USPS-LR-I-127. The amounts developed in USPS-LR-I-127 can be found in Exhibit 14A in the "Other Programs" column.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KASHANI
TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.
(Redirected from Witness Tayman, USPS-T-9)**

DMA/USPS-T9-20 Please provide a spreadsheet showing the distribution of cost reduction programs to class and subclass for FY 2000 and TYAR.

RESPONSE

The following charts 1 and 2 provide references to pages in my Workpapers where the distribution of cost reductions by class and subclass for FY 2000 and TYAR are displayed, respectively. Electronic version of my Workpapers WP-E and WP-I are available on CD-ROM in USPS-LR-I-6.

Chart 1. Page References to FY 2000 Cost Reductions by Class and Subclass

SEG	DESCRIPTION	FY 2000 COST REDUCTIONS 1/	SOURCE	TOTAL COST REDUCTION DISTRIBUTION BY CLASS AND SUBCLASS	COST REDUCTION DISTRIBUTION BY COMPONENT BY CLASS AND SUBCLASS
2	Supervisors & Technical Personnel	(45,906)	WORKPAPER WP-E, VOLUME 1 OF 2	PP. 87-88	PP. 101-102,117-118,131-132,151-162,175-176,187-188,203-204
3	Clerks & Mailhandlers, CAG A-J, SD Mess Personnel	(441,793)	WORKPAPER WP-E, VOLUME 1 OF 2	PP. 219-220	PP. 233-234,257-258,271-272,287-288
6&7	City Delivery Carriers Personnel	(400,355)	WORKPAPER WP-E, VOLUME 1 OF 2	PP. 311-312 AND 341-342	PP. 311-312,325-326,341-342
11	Operating Equip. Maintenance Personnel	(13,299)	WORKPAPER WP-E, VOLUME 1 OF 2	PP. 379-380	PP. 405-406
14	Domestic Air	(105,163)	WORKPAPER WP-E, VOLUME 1 OF 2	PP. 607-608	PP. 607-608
	Domestic Highway	(9,489)	WORKPAPER WP-E, VOLUME 1 OF 2	PP. 607-608	PP. 607-608
	Domestic Rail	(2,773)	WORKPAPER WP-E, VOLUME 1 OF 2	PP. 607-608	PP. 607-608
	International	38,200	WORKPAPER WP-E, VOLUME 1 OF 2	PP. 622-623	PP. 622-623
Totals		(980,578)			

1/ Exhibit USPS14A, PP. 3-4

DMA/USPS-T9-20 (Continued)

Chart 2. Page References to TY 2001AR Cost Reductions by Class and Subclass

SEG	DESCRIPTION	FY 2001AR COST REDUCTIONS ^{2/}	SOURCE	TOTAL COST REDUCTION DISTRIBUTION BY CLASS AND SUBCLASS	COST REDUCTION DISTRIBUTION BY COMPONENT BY CLASS AND SUBCLASS
3	Clerks & Mailhandlers, CAG A-J, SD Mess Personnel	(475,373)	WORKPAPER WP-I, VOLUME 1 OF 2	PP. 188-189	PP. 201-202, 225-226
6&7	City Delivery Carriers Personnel	(151,373)	WORKPAPER WP-I, VOLUME 1 OF 2	PP. 271-272 AND 301-302	PP. 271-272, 285-286, 301-302
11	Operating Equip. Maintenance Personnel	(1,673)	WORKPAPER WP-I, VOLUME 1 OF 2	PP. 339-340	PP. 365-366
14	Domestic Highway	(44,404)	WORKPAPER WP-I, VOLUME 1 OF 2	PP. 559-560	PP. 559-560
	Domestic Rail	(1,122)	WORKPAPER WP-I, VOLUME 1 OF 2	PP. 559-560	PP. 559-560
	International	20,000	WORKPAPER WP-I, VOLUME 1 OF 2	PP. 571-572	PP. 571-572
	Totals	(653,945)			

^{2/} Exhibit USPS14A, PP. 7-8.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KASHANI
TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.
(Redirected from Witness Tayman, USPS-T-9)**

DMA/USPS-T9-21 Please provide a spreadsheet showing the distribution of other programs to class and subclass for FY 2000 and TYAR.

RESPONSE

The following charts provide references to pages in my Workpapers where the distribution of other programs by class and subclass for FY 2000 and TYAR are displayed, respectively. Electronic version of my Workpapers WP-E and WP-I are available on CD-ROM in USPS-LR-I-6.

DMA/USPS-T9-21 (Continued)

Page References to FY 2000 Other Programs by Class and Subclass

SEG	DESCRIPTION	FY 2000 OTHER PROGRAMS 1/	SOURCE	TOTAL COST REDUCTION DISTRIBUTION BY CLASS AND SUBCLASS	COST REDUCTION DISTRIBUTION BY COMPONENT BY CLASS AND SUBCLASS
2	Supervisors & Technical Personnel	(8,493)	WORKPAPER WP-E, VOLUME 1 OF 2	PP. 89-90	PP. 103-104,133-134,177-178,189-190,205-206
3	Clerks & Mailhandlers, CAG A-J, SD Mess Personnel	59,839	WORKPAPER WP-E, VOLUME 1 OF 2	PP. 221-222	PP. 235-236,259-260,273-274,289-290
6&7	City Delivery Carriers Personnel	13,876	WORKPAPER WP-E, VOLUME 1 OF 2	PP. 343-344	PP. 327-328
11	Operating Equip. Maintenance Personnel	32,003	WORKPAPER WP-E, VOLUME 1 OF 2	PP. 381-382	PP. 407-408
	Contract Cleaners	(9)	WORKPAPER WP-E, VOLUME 1 OF 2	PP. 381-382	PP. 419-420
12	Vehicle Supplies & Materials	(5,000)	WORKPAPER WP-E, VOLUME 1 OF 2	PP. 433-434	PP. 471-472,485-486
13	Freight - Supplies & Materials	(1,426)	WORKPAPER WP-E, VOLUME 1 OF 2	PP. 523-524	PP. 549-550
	Banking Fees	(48)	WORKPAPER WP-E, VOLUME 1 OF 2	PP. 523-524	PP. 557-558
	Carfare	(11)	WORKPAPER WP-E, VOLUME 1 OF 2	PP. 523-524	PP. 583-584
14	Domestic Air	56,100	WORKPAPER WP-E, VOLUME 1 OF 2	PP. 609-610	PP. 609-610
15	Rent	(1,875)	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 645-646	PP. 645-646
	Product Specific Imputed Rent	5,226	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 645-646	PP. 645-646
	Heating Fuel	(35)	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 657-658	PP. 657-658
	Utilities	(643)	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 657-658	PP. 657-658
	Communications	4,547	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 657-658	PP. 657-658
	Building Projects Expensed	(25,290)	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 657-658	PP. 657-658
	Moving Expense	(14)	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 669-670	PP. 669-670
16	ADP Supplies & Services	(71,726)	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 689-690	PP. 689-690
	Equipment Repair & Maintenance Excluding ADP	139,338	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 689-690	PP. 689-690
	Custodial Supplies & Services	(65)	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 689-690	PP. 689-690
	Miscellaneous Supplies & Services	(59,078)	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 711-712	PP. 711-712
	Printing & Reproduction	(3,499)	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 699-700	PP. 699-700
	Stamps & Accountable Paper	(11,082)	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 699-700	PP. 699-700

DMA/USPS-T9-21 (Continued)

Page References to FY 2000 Other Programs by Class and Subclass

SEG	DESCRIPTION	FY 2000 OTHER PROGRAMS 11	SOURCE	TOTAL COST REDUCTION DISTRIBUTION BY CLASS AND SUBCLASS	COST REDUCTION DISTRIBUTION BY COMPONENT BY CLASS AND SUBCLASS
16	Money Orders	(287)	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 699-700	PP. 699-700
	Operating Equipment & Supplies	(28,097)	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 711-712	PP. 711-712
	Expedited Mail Supplies	(46,383)	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 711-712	PP. 711-712
	Other Postal Supplies and Services	4,675	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 711-712	PP. 711-712
	Tracking & Tracing/Delivery Confirmation	11,275	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 711-712	PP. 711-712
	Advertising & Sales Promotion	(120,200)	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 681-682	PP. 681-682
	Stamped Envelopes	(593)	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 699-700	PP. 699-700
17	Research & Development Contracts	(18,238)	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 729-730	PP. 729-730
18	Unemployment Compensation	9,600	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 787-788	PP. 787-788
	Holiday Leave	1,592	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 763-764	PP. 763-764
	Workers' Compensation Health Benefits	1,200	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 787-788	PP. 787-788
	Annuitant Life Insurance	400	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 775-776	PP. 775-776
	Repricing of Annual Leave	35,294	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 763-764	PP. 763-764
	CSRS Annuitant Cola	79,593	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 775-776	PP. 775-776
	CSRS Retirement Liabilities Current	39,992	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 763-764	PP. 763-764
	CSRS Retirement Liabilities Prior	71,432	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 763-764	PP. 763-764
	Workers' Compensation Current	29,970	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 775-776	PP. 775-776
	Workers' Compensation Prior	72,546	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 787-788	PP. 787-788
	Annuity Protection Program	(200)	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 795-796	PP. 795-796
	Annuitant Health Benefits	145,458	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 775-776	PP. 775-776
	Supplies & Services	(10,417)	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 795-796	PP. 795-796
	Miscellaneous Support Cost	(93,599)	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 795-796	PP. 795-796
	Inspection Service Expenses	(27)	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 795-796	PP. 795-796
	POD Workers' Comp	(1,195)	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 787-788	PP. 787-788

DMA/USPS-T8-21 (Continued)

Page References to FY 2000 Other Programs by Class and Subclass

SEG	DESCRIPTION	FY 2000 OTHER PRGRAMS 11	SOURCE	TOTAL COST REDUCTION DISTRIBUTION BY CLASS AND SUBCLASS	COST REDUCTION DISTRIBUTION BY COMPONENT BY CLASS AND SUBCLASS
19	Contract Training Support	(1,083)	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 811-812	PP. 811-812
20	Vehicle Depreciation	(19,635)	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 821-822	PP. 841-842
	Equipment Depreciation	5,423	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 821-822	PP. 847-848
	Building Depreciation & Amortization	82,502	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 821-822	PP. 853-854
	Disposition of Property	(13,472)	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 831-832	PP. 831-832
	Interest on Debt	28,375	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 859-860	PP. 859-860
	Interest on Retirement Liabilities	(19,358)	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 859-860	PP. 859-860
	Other Interest	(85)	WORKPAPER WP-E, VOLUME 2 OF 2	PP. 865-866	PP. 865-866
	Totals	370,993			

DMA/USPS-T8-21 (Continued)

Page References to TY 2001AR Other Programs by Class and Subclass

SEG	DESCRIPTION	FY 2001AR OTHER PROGRAMS 1/	SOURCE	TOTAL COST REDUCTION BY CLASS AND SUBCLASS	COST REDUCTION DISTRIBUTION BY COMPONENT BY CLASS AND SUBCLASS
3	Clerks & Mailhandlers, CAG A-J, SD Mess Personnel	9,808	WORKPAPER WP-I, VOLUME 1 OF 2	PP. 189-190	PP. 203-204
6&7	City Delivery Carriers Personnel	19,797	WORKPAPER WP-I, VOLUME 1 OF 2	PP. 303-304	PP. 287-288
11	Operating Equip. Maintenance Personnel	29,352	WORKPAPER WP-I, VOLUME 1 OF 2	PP. 341-342	PP. 367-368
	Contract Cleaners	6	WORKPAPER WP-I, VOLUME 1 OF 2	PP. 341-343	PP. 379-380
13	Freight - Supplies & Materials	951	WORKPAPER WP-I, VOLUME 1 OF 2	PP. 477-478	PP. 503-504
	Banking Fees	32	WORKPAPER WP-I, VOLUME 1 OF 2	PP. 477-478	PP. 511-512
	Carfare	7	WORKPAPER WP-I, VOLUME 1 OF 2	PP. 477-478	PP. 537-538
14	International	18,829	WORKPAPER WP-I, VOLUME 1 OF 2	PP. 573-574	PP. 573-574
15	Rent	1,376	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 595-596	PP. 595-596
	Product Specific Imputed Rent	1,711	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 595-596	PP. 595-596
	Heating Fuel	23	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 607-608	PP. 607-608
	Utilities	823	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 607-608	PP. 607-608
	Communications	3,249	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 607-608	PP. 607-608
	Building Projects Expensed	(76)	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 607-608	PP. 607-608
	Moving Expense	10	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 619-620	PP. 619-620
16	ADP Supplies & Services	19,210	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 639-640	PP. 639-640
	Equipment Repair & Maintenance Excluding ADP	4,980	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 639-640	PP. 639-640
	Custodial Supplies & Services	44	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 639-640	PP. 639-640
	Miscellaneous Supplies & Services	(9,370)	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 661-662	PP. 661-662
	Printing & Reproduction	2,333	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 649-650	PP. 649-650
	Stamps & Accountable Paper	47,388	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 649-650	PP. 649-650
	Money Orders	191	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 649-650	PP. 649-650
	Operating Equipment & Supplies	12,064	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 661-662	PP. 661-662
	Expedited Mail Supplies	35,657	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 661-662	PP. 661-662

DMA/USPS-T8-21 (Continued)

Page References to TY 2001AR Other Programs by Class and Subclass

SEG	DESCRIPTION	FY 2001AR OTHER PROGRAMS 1/	SOURCE	TOTAL COST REDUCTION DISTRIBUTION BY CLASS AND SUBCLASS	COST REDUCTION DISTRIBUTION BY COMPONENT BY CLASS AND SUBCLASS
16	Other Postal Supplies and Services	9,443	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 661-662	PP. 661-662
	Tracking & Tracing/Delivery Confirmation	(7,398)	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 661-662	PP. 661-662
	Advertising & Sales Promotion	120,200	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 631-632	PP. 673-674
	Stamped Envelopes	462	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 649-650	PP. 649-650
17	Research & Development Contracts	135	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 679-680	PP. 679-680
18	Unemployment Compensation	2,600	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 737-738	PP. 737-738
	Holiday Leave	(388)	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 713-714	PP. 713-714
	Workers' Compensation Health Benefits	600	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 737-738	PP. 737-738
	Annuitant Life Insurance	900	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 725-726	PP. 725-726
	Repricing of Annual Leave	(5,522)	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 713-714	PP. 713-714
	CSRS Annuitant Cola	74,910	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 725-726	PP. 725-726
	CSRS Retirement Liabilities Current	(24,526)	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 713-714	PP. 713-714
	CSRS Retirement Liabilities Prior	84,685	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 713-714	PP. 713-714
	Workers' Compensation Current	41,079	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 725-726	PP. 725-726
	Workers' Compensation Prior	(12,689)	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 737-738	PP. 737-738
	Annuity Protection Program	(200)	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 745-746	PP. 745-746
	Annuitant Health Benefits	108,826	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 725-726	PP. 725-726
	Supplies & Services	6,411	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 745-746	PP. 745-746
	Miscellaneous Support Cost	39,177	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 745-746	PP. 745-746
	Inspection Service Expenses	18	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 745-746	PP. 745-746
	POD Workers' Comp	(1,265)	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 737-738	PP. 737-738
19	Contract Training Support	722	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 761-762	PP. 761-762
20	Vehicle Depreciation	69	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 791-792	PP. 791-792
	Equipment Depreciation	232,074	WORKPAPER WP-I, VOLUME 2 OF 2	PP. 797-798	PP. 797-798

DMA/USPS-T9-21 (Continued)

Page References to TY 2001AR Other Programs by Class and Subclass

SEG	DESCRIPTION	FY 2001AR OTHER PROGRAMS 1/	SOURCE	TOTAL COST REDUCTION DISTRIBUTION BY CLASS AND SUBCLASS	COST REDUCTION DISTRIBUTION BY COMPONENT BY CLASS AND SUBCLASS
20	Building Depreciation & Amortization	57,990	WORKPAPER WP-J, VOLUME 2 OF 2	PP. 803-804	PP. 803-804
	Disposition of Property	(7,734)	WORKPAPER WP-J, VOLUME 2 OF 2	PP. 781-782	PP. 781-782
	Interest on Debt	53,100	WORKPAPER WP-J, VOLUME 2 OF 2	PP. 809-810	PP. 809-810
	Interest on Retirement Liabilities	29,096	WORKPAPER WP-J, VOLUME 2 OF 2	PP. 809-810	PP. 809-810
	Other Interest	56	WORKPAPER WP-J, VOLUME 2 OF 2	PP. 815-816	PP. 815-816
Totals		1,001,426			

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KASHANI
TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.
(Redirected from Witness Tayman, USPS-T-9)**

DMA/USPS-T9-32 Please refer to page 14 of your testimony (USPS-T-9), which discusses cost reductions for FY1999, FY2000, and the Test Year. Exhibit E of LR-I-127 provides details of these cost reductions by program and by cost segment. For each program in cost segments 2 and 3, please provide its component within the segment.

RESPONSE

Assuming that the second sentence in your question refers to LR-I-126, Exhibit E.

For Cost Segment 2:

- The only cost reduction program pertaining to Cost Segment 2 is FY 2000 Local Management Initiative which is distributed to components 4, 7, 9, 13, 14, 16, 17, 18, 25, 26, 29, 30, 31, 32, 33, 600, 601, 674, 675, 676, 677, and 678.

For Cost Segment 3:

- All cost reduction programs for cost segment 3, as listed in LR-I-127, Chapter V, Section a, are distributed to component 35.

Except:

- FY 1999 Base Year Adjustment and the Local Management Initiative in FY 2000 are distributed to components 35, 40, 66, 421, 422, 423, 467, 468, 469, 470, 471, 41 227, and 228, and
- Corporate Call Management program in the Test Year is distributed to component 66.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KASHANI
TO INTERROGATORIES OF
DIRECT MARKETING ASSOCIATION, INC.
(Redirected from Witness Tayman, USPS-T-9)**

DMA/USPS-T9-33 Please refer to page 54 of your testimony (USPS-T-9), which discusses changes in costs for other programs for FY1999, FY2000, and the Test Year. Exhibit E of LR-I-127 provides details of these changes in costs for other programs by program and by cost segment. For each program in cost segments 2 and 3, please provide its component within the segment.

RESPONSE

Assuming that the second sentence in your question refers to LR-I-126, Exhibits A, B, and C.

For Cost Segment 2:

- Route Inspection is distributed to components 13, 14, 16, 17, and 18.
- Cost Study Support and Environmental Program are distributed to components 29, 30, 31, 32, 33, 600, 601, 674, 675, 676, 677, and 678.
- International Service Centers in FY 2000 is distributed to component 4.

For Cost Segment 3:

- All programs are distributed to component 35, as shown in LR-I-127, Chapter V, Section a.

Except:

- FY 99 Data Collection Diagnostic, Ease of Use Measures, BMEU Proficiency Training, Revenue and Volume Modification, Driver Trainers, and TACS, are distributed to components 35, 40, 66, 421, 422, 423, 467, 468, 469, 470, 471, 41 227, and 228.
-

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MPA/USPS-T14-1 Please refer to Exhibit E of LR-I-126. This exhibit provides savings due to cost reduction programs for FY1999, FY2000, and the Test Year.

(a) For each dollar value in the matrix, please disaggregate these amounts into class and subclass. Please provide these results in an electronic spreadsheet.

(b) Please explain the basis for each distribution key.

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MPA/USPS-T14-1, RESPONSE – CONTINUED

RESPONSE

a) Please see my response to DMA/USPS-T9-20-1 for FY 2000 and the Test Year. The following chart provides references to pages in my Workpapers where the distribution of cost reductions by class and subclass for FY 1999 is displayed. Electronic version of my Workpapers WP-B , WP-E and WP-I are available on CD-ROM in USPS-LR-I-6.

Page References to FY 1999 Cost Reductions by Class and Subclass

SEG	DESCRIPTION	FY 1999 COST REDUCTIONS 1/	SOURCE	TOTAL COST REDUCTION DISTRIBUTION BY CLASS AND SUBCLASS	COST REDUCTION DISTRIBUTION BY COMPONENT BY CLASS AND SUBCLASS
3	Clerks & Mailhandlers, CAG A-J, SD Mess Personnel	(407,770)	WORKPAPER WP-B, VOLUME 1 OF 2	PP. 171-172	PP. 183-184
6&7	City Delivery Carriers Personnel	(123,366)	WORKPAPER WP-B, VOLUME 1 OF 2	PP. 243-244	PP. 243-244
11	Operating Equip. Maintenance Personnel	(8,084)	WORKPAPER WP-B, VOLUME 1 OF 2	PP. 301-302	PP. 323-324
14	Domestic Air	(26,870)	WORKPAPER WP-B, VOLUME 1 OF 2	PP. 503-504	PP. 503-504
	Domestic Highway	(2,487)	WORKPAPER WP-B, VOLUME 1 OF 2	PP. 503-504	PP. 503-504
	Domestic Rail	(11,328)	WORKPAPER WP-B, VOLUME 1 OF 2	PP. 503-504	PP. 503-504
	International	(90,300)	WORKPAPER WP-B, VOLUME 1 OF 2	PP. 515-516	PP. 515-516
Totals		(670,207)			

1/ Exhibit USPS14A, PP. 1-2

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MPA/USPS-T14-1, RESPONSE – CONTINUED

b) Several types of distribution keys are used to distribute cost savings. For some programs, Base Year components within the range from 1300 to 1399 are used as the basis for the distribution keys. These components include "other costs" because total costs, not only "volume variable" costs, are affected. These keys reflect the distribution of labor cost by class and subclass for various operations. The Base Year components from 1300 to 1399 are copied to the rollforward components ranging from 1400 to 1499. A list of Base Year components (1300 –1399) and their rollforward equivalent components (1400-1499) is shown on page 5 of Appendix A of my testimony. Also, some of the rollforward components 1400 through 1499, are given a "Mail Volume Effect" to reflect the changes in the mix of mail from year-to-year. Some costs, as shown in LR-I-126, Exhibit E, are combined before being distributed to class and subclass of mail because some programs use the same distribution key. These results are shown in my workpapers WP-B, WP-E, and WP-I. For a detailed description of each program, please refer to LR-I-126

The following provides an explanation of each cost reduction program, as shown in LR-I-126, Exhibit E, and the rollforward distribution keys used to distribute cost reductions to classes and subclasses of mail.

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MPA/USPS-T14-1, RESPONSE – CONTINUED

RBCS: Improve RCR & Handwriting Recg (HIP): LMLM Linerless Label

Cost Reductions Impact: Clerks/Mailhandlers, City Carriers, Maintenance

Rollforward Distribution Key: Component 1446

The cost savings for the above program are combined because they share a common distribution key. These savings are for RBCS and related improvements for letter mail that requires the application of a barcode.

Therefore, the mail volume adjusted, base year IOCS-based distribution key (component 1324) is appropriate because it reflects mail classes and subclasses for RBCS processing.

ID Code Sort

Cost Reductions Impact: Clerks/Mailhandlers, City Carriers

Rollforward Distribution Key: Component 1508 = (1440+1441+1452)

The Identification Code Sort program enhances the capabilities of the Postal Service's letter automation system. I have created a distribution key by combining the base year IOCS-based distribution keys for components 1314, Mail processing Barcode Sorters, 1315, Delivery Barcode Sorters, and 1371, Carrier Sequence Barcode Sorters for this program because these barcode sorters are impacted by the ID Code Sort.

DBCSs – Stacker, Phase 4 & 5, & OSS

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MPA/USPS-T14-1, RESPONSE – CONTINUED

Cost Reductions Impact: Clerks/Mailhandlers, City Carriers

Rollforward Distribution Key: Component 1441

The savings associated with Delivery Barcode Sorters are from improved operations. This program affects letter mail operations for the classes and subclasses currently processed on the DBCS; therefore, a mail volume adjusted base year IOCS-based distribution key (component 1315) for Delivery Barcode Sorters operation is used to develop the key to distribute DBCS savings.

CSBCSs Phase I

Cost Reductions Impact: City Carriers

Rollforward Distribution Key: Component 1452

The Carrier Sort Barcode Sorter (CSBCS) savings represent improved productivity by eliminating the need for carriers to case the mail. These amounts are distributed using a mail volume adjusted base year IOCS-based distribution key (component 1371) for CSBCS operations developed, because it provides the best proxy for capturing savings for CSBCS operations.

**Flat Mail OCR (EC – 06): Flat Sorting Machine 1000 Phase 1 & 2: Accelerate
FSM Buy into 2001: Additional AFSM to upper bound: Increase Manual Flat
Productivity**

Cost Reductions Impact: Clerks/Mailhandlers

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MPA/USPS-T14-1, RESPONSE – CONTINUED

Rollforward Distribution Key: Component 1448

The above programs are combined because they use the same distribution key. These programs increase efficiency of flat sorting machines and increase the number of FSMs; thereby, reducing manual sorting activities. Therefore, the savings are distributed using a mail volume base year IOCS-based distribution key (component 1331) for Sorting to Flat Cases, which captures the manual sorting activity by class and subclass of mail.

Mat. Handling BMC Asystems

Cost Reductions Impact: Clerks/Mailhandlers

Rollforward Distribution Key: Component 1450

This program provides a one-to-one replacement of the number four sack sorter at the New Jersey International and Bulk Mail Center. The reduced capacity constraints and improved efficiency of operation for Bulk Mail Centers will reduce Mailhandlers manual sorting hours. Therefore, I have distributed the savings using a mail volume base year IOCS-based distribution key (component 1366) for General and Logistic, BMC which is total BMC mail processing labor.

Improve SEI

Cost Reductions Impact: City Carriers

Rollforward Distribution Key: All components in Cost Segment 7

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MPA/USPS-T14-1, RESPONSE – CONTINUED

The Improve Street Efficiency Indicator (SEI) program is aimed at improving the efficiency of a carrier on the street. The savings are, therefore, distributed to all components within Cost Segment 7, City Delivery Carriers-Street.

Improve Function 4 Productivity

Cost Reductions Impact: Clerks/Mailhandlers

Rollforward Distribution Key: Component 1442

This program is a local management initiative to improve customer service processing. I used a Function 4 distribution key (component 1442), provided by witness Smith, USPS-T-21 (Attachment 9, page 1), to spread the predicted saving.

Parcel Dropship Volume Shift

Cost Reductions Impact: Clerks/Mailhandlers and Transportation

Rollforward Distribution Key: Component 1418

The parcel dropship shift reflects the change in the mix of parcel post resulting from the growth of the dropship portion of the volume, which is not captured by the rollforward model. Because the additional labor savings directly impact Parcel Zone Rate, they are distributed to components 35 and 143 using the rollforward component 1418 as a distribution key, which allocated 100% of the

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MPA/USPS-T14-1, RESPONSE – CONTINUED

savings to Standard (B) Parcel Zone Rate. The savings for the parcel dropship are calculated by witness Eggleston, USPS-T-26.

AFCS Additional 42 Buy: AFCS (OCR)

Cost Reductions Impact: Clerks/Mailhandlers

Rollforward Distribution Key: Component 1443

Additional purchases of Advanced Facer Canceler will increase efficiency of letter facing and canceling. The Advanced Facer Canceler OCR reduces labor cost associated with additional mail handling by integrating technology from the AFCS/ISS with technology from the MLOCR. The savings will be obtained by letter mail, which is faced and cancelled; therefore, I have distributed these savings using a mail volume base year IOCS-based distribution key (component (1319) for Letter Facer/Canceler Operation.

Small Parcel and Bundle Sorter – 46 & 54 AND SPBS Feed System

Cost Reductions Impact: Clerks/Mailhandlers

Rollforward Distribution Key: Component 1445

The additional units of Small Parcel and Bundle Sorters and SPBS Feed System would improve plant efficiency and increase labor productivity associated with the subclasses being processed on SPBS. Consequently, the cost savings

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MPA/USPS-T14-1, RESPONSE – CONTINUED

are distributed using a mail volume base year IOCS-based distribution key
(component 1323) for Small Parcel and Bundle Sorters.

BMC PSM Singulators

Cost Reductions Impact: Clerks/Mailhandlers

Rollforward Distribution Key: Component 1453

This program impacts the Secondary Parcel Sorting Machines in the Bulk Mail Centers for non-machinable parcels. Because the savings impact PSM sorting, the savings are distributed using a mail volume base year IOCS-based distribution key (component 1318) for Parcel Sorting Machine/Non-Machinable Outside Machine which captures labor costs for operating parcel sorting equipment.

Corporate Management Call

Cost Reductions Impact: Clerks/Mailhandlers

Rollforward Distribution Key: Component 1420

This program improves the information customers obtain when they contact the Postal Service by telephone. Because of broad range of questions, the savings are allocated to institutional portion of component 66, Claims and Inquiry, using component 1420 as a distribution key. Component 1420 allocates 100% of the savings to institutional cost.

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MPAUSPS-T14-1, RESPONSE – CONTINUED

Delivery Confirmation Scanning

Cost Reductions Impact: City Carriers

Rollforward Distribution Key: Component 1509

The additional scanners for Delivery Confirmation are used to scan delivery confirmation barcodes at the time of delivery. The distribution key for Delivery Confirmation is component 1509 which is based on the relevant Delivery Confirmation mail categories of the Street Elemental Load (component 46), as shown in USPS-T-14, Appendix A, page 6. The savings are distributed to component 46 using component 1509 as a distribution key.

Local Management Initiative

Cost Reductions Impact: Supervisors, Clerks, City Carriers, Maintenance

Rollforward Distribution Key: All components of Cost Segments 2, 3, 6, and 7 and component 75 of Cost Segment 11

The Local Management Initiative program is designed to broadly reduce expenses by managers of operations, so that the Postal Service can achieve its targeted net income goal. Hence, the savings are spread among all components of Cost Segments 2, 3, 6, and 7, and component 75.

DPS Multi Unit Buildings

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MPA/USPS-T14-1, RESPONSE – CONTINUED

Cost Reductions Impact: City Carriers

Rollforward Distribution Key: Component 609

Implementation of the delivery point sequence multi-unit buildings program will reduce City Carriers hours. I have distributed the savings from this program to City Carriers Direct Labor (component 43) using component 609 as a distribution key; which is populated with data furnished by witness Daniel, USPS-T-28.

Automatic Airline Assignment SWYB AND Mail Transport Equipment

Service Centers

Cost Reductions Impact: Clerks/Mailhandlers, Maintenance

Rollforward Distribution Key: Components 35 and 75

The Automatic Airline Assignment SWYB program enhances the abilities to apply D&R labels more efficiently; whereas, the Mail Transport Equipment Service Centers increase efficiency by implementing a network approach to the logistical management of the preparation, repair, distribution, and warehousing of Mail Transport Equipment. Because both programs impact mail Processing and maintenance of additional equipment, mail processing and maintenance costs are used to distribute the additional savings to their respective class and subclass.

Low Cost OCR and MLOCR Co-Processor

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MPA/USPS-T14-1, RESPONSE – CONTINUED

Cost Reductions Impact: Clerks/Mailhandlers, City Carriers

Rollforward Distribution Key: Component 1449

The Low Cost Optical Character Reader and Multiline Optical Character Reader Co-Processor are designed to improve the efficiency of the existing machines and add to the number of OCRs. Therefore, the additional savings are distributed using a mail volume base year IOCS-based distribution key (component 1363) for Optical Character Readers, because this distribution key captures the operation of OCR by class and subclass of mail.

Robotics Phase 1 and Tray Management System – Phase 3

Cost Reductions Impact: Clerks/Mailhandlers

Rollforward Distribution Key: Component 1451

The above programs are targeting dispatch areas in the Processing and Distribution Centers and the in-bound distribution operation at Air Mail Centers, in order to increase mailhandler workhours productivity by replacing manual operation with robotic tray handling. To distribute these savings, I have using a mail volume base year IOCS-based distribution key (component 1367) for All Non-BMC Mail Processing Labor.

Dual Pass Rough Cull 56 Buy

Cost Reductions Impact: Clerks/Mailhandlers

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MPA/USPS-T14-1, RESPONSE - CONTINUED

Rollforward Distribution Key: Component 1444

The Dual Pass Rough Cull System is at the front end of the collection mail processing operation which automates processing of non-machinable mail pieces from large quantities of raw collection mail. The savings are realized by reducing the need for manual culling. Therefore, I have distributed the savings using a mail volume base year IOCS-based distribution key (component 1321) for Culling operation.

CFCS Flats Forwarding Terminal and Control System

Cost Reductions Impact: Clerks/Mailhandlers

Rollforward Distribution Key: Component 1439

The CFCS is a replacement system for the Computerized Forwarding System, where its enhancements result in labor savings in CFS operations. Therefore, the savings are distributed using a mail volume base year IOCS-based distribution key (component 1307) for CFS

Priority Mail Processing Centers

Cost Reductions Impact: Clerks/Mailhandlers

Rollforward Distribution Key: Component 904

This program involves contracting out of Priority Mail to improve service. Because this program target Priority Mail, I have distributed the additional

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MPA/USPS-T14-1, RESPONSE – CONTINUED

savings using the Base Year component 904, which allocates 100% of the savings to Priority Mail.

PMPC DAR AND Air System Contracts-Loose Pack Terminal Handling

Cost Reductions Impact: Transportation (component 142)

Rollforward Distribution Key: Component 142

According to LR-I-126, the savings from this program would impact Domestic Air, component 142; therefore, I have distributed them to component 142.

MTEC DAR – Rail AND Absorb Additional Inflation In 2000

Cost Reductions Impact: Transportation (component 144)

Rollforward Distribution Key: Component 144

According to LR-I-126, the savings from this program would impact Rail, component 144; therefore, I have distributed them to component 144.

MTEC DAR – Highway AND Absorb Additional Inflation In 2000

Cost Reductions Impact: Transportation (component 143)

Rollforward Distribution Key: Component 143

According to LR-I-126, the savings from this program would impact Highway, component 143, therefore, I have distributed them to component 143.

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MPA/USPS-T14-1, RESPONSE – CONTINUED

Prior Yr Adjustments - International

Cost Reductions Impact: Transportation (component 146)

Rollforward Distribution Key: Component 146

According to LR-I-126, the savings from this program would impact International, component 146; therefore, I have distributed them to component 146.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KASHANI
TO INTERROGATORY OF
OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T14-1 The following refers to Exhibit 14A, pages 1 through 10, of your testimony.

- (a) Please update each of the roll forward model factors in Exhibit 14A, pages 1 and 2, to reflect a FY 1999 Base Year.
- (b) Please provide updates to the roll forward model factors in Exhibit 14A, pages 3 through 10.
- (c) For the updates, provide copies of all the source documents not previously filed in this docket and, for each of the roll forward factors, cite the source document. If a number is calculated, please show its derivation.

RESPONSE

(a) and (b): To update each of the rollforward factors in Exhibit 14A, pages 1 through 10, each of the sources used on the cover page for Exhibit 14A (except for the volume forecast from USPS-T-6 which I understand already incorporates an FY 1999 base period) would need to be updated:

USPS LR-I-127, Chapter III, Section a and Chapter X, Section e

USPS-T-26, Attachment X

USPS-T-34, Attachment K

USPS-T-28, Table 8

USPS-LR-I-108, Section D

It is my understanding that these sources have not been updated.

(c): Not applicable

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OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T14-2 Please refer to Exhibit 14K, page 2, C/S-2, Supervisors and Technicians where total costs are \$3,810,452. However, Exhibit 14M, page 9, shows total costs for Supervisors and Technicians as \$3,806,311. Please explain the \$4,141 difference.

RESPONSE

The difference of \$4,141 results from a control string error that mistakenly included component (603) in the total for Cost Segment 2 in Exhibit 14M, page 9. As shown on page 764 of Library Reference I-4, component 618 is used to calculate the total costs for C/S-2, Supervisors and Technicians, that appear on page 9 of Exhibit 14M. Also on page 764, component 603 is added to component 618 and component 601 should have been used instead of 603. The correct amount is reflected in Exhibit 14K. See Errata USPS-T-14, 2/18/2000 for revised pages.

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OCA/USPS-T14-3 Please refer to Exhibit 14K, page 2, C/S-3, Clerks and Mailhandlers where total costs are \$19,375,248. However, Exhibit 14M, page 9, shows total costs for Clerks and Mailhandlers as \$19,292,305. Please explain the \$82,943 difference.

RESPONSE

The difference of \$82,943 is due to the exclusion of the Special Delivery Messengers in my Exhibit 14M, page 9 for Clerks and Mailhandlers. The correct amounts are depicted on page 2 of my Exhibit 14K. When I transferred Special Delivery Messengers from Cost Segment 9 to Cost Segment 3, I did not make this adjustment in my Exhibit 14M, "Summary of Accrued Cost by Segment and Component Detailing Attributable Cost" as shown on pages 9 through 12. A simple formatting adjustment in USPS-LR-I-4, pages 713-714 corrects the total for C/S-3, Clerks and Mailhandlers in my Exhibit 14M. See Errata USPS-T-14, 2/18/2000 for revised pages.

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OCA/USPS-T14-4. The following refers to Exhibit 14A, pages 9 through 10, of your testimony.

- (a) Exhibit 14A does not provide the GFY98, GFY99, GFY00 and GFY01 volumes used for the following categories of special services: (1) stamped envelopes, and (2) P.O. Boxes. Please provide the volumes used to generate the "MV Change" in the RAT2FACT files for FY98, FY99, FY00, and FY01.
- (b) Please confirm that there are no volumes for the GFY98, GFY99, GFY00, and GFY01 for stamped cards and special handling. If you are unable to confirm, please provide the volumes and update each of the applicable RAT2FACT files.

RESPONSE

- a) The mail volumes for stamped Envelopes and P.O. Boxes for GFY98, GFY99, GFY00, and GFY01 are listed below:

Fiscal Year	Mail Volume	
	Stamped Envelopes 1/	P.O. Boxes 2/
FY 1998	460,168,809	16,781,279
FY 1999	400,000,000	17,285,252
FY 2000	400,000,000	17,609,240
FY 2001Before Rates	400,000,000	17,995,845
FY 2001After Rates	400,000,000	17,674,467

1/ Source: USPS-T-39, WP-28

2/ Source: USPS-T-40, Workpapers 11, 14, 16, 18, 31

- b) Confirmed.

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OCA/USPS-T14-5. Please refer to the response of witness Tolley to POIR No. 1, question 1, and the response of witness Hunter, to question 2. Please confirm that the 2001 TYBR volumes he indicates in the "First Forecast", are the volumes you should have used. If you confirm, please show the impact using the correct volumes would have on your roll-forward data. If you are unable to confirm, please explain.

RESPONSE

Confirmed. The attached spreadsheet (Attachment I) shows an analysis of the effect of using both versions of Periodicals mail volumes. An electronic version of Attachment I is provided in USPS-LR-I-199.

Attachment I

	TY 2001 BR With Correct FY 1999 RPW Volume			TY 2001 BR with Preliminary FY 1999 RPW Volume			Change from TY 2001 with Correct FY 1999 RPW Volume		
	Volume Variable Cost 1/	Volume	Unit Cost	Volume Variable Cost 1/	Volume 3/	Unit Cost	Volume Variable Cost	Volume	Unit Cost
Periodicals:									
In-County	80,212	872,194	0.0920	80,212	872,194	0.0920	0	0	0.0000
Regular	1,946,901	7,410,104	0.2627	1,981,712	7,545,945	0.2626	34,811	135,841	-0.0001
Nonprofit	386,604	2,095,809	0.1845	361,241	1,954,453	0.1848	-25,363	-141,356	0.0004
Classroom	13,988	56,415	0.2479	13,938	56,153	0.2482	-50	-262	0.0003
Total Reg+Nonprft	2,333,505	9,505,913	0.2455	2,342,953	9,500,398	0.2466	9,448	-5,515	0.0011
	FY 2000 With Correct FY 1999 RPW Volume			FY 2000 with Preliminary FY 1999 RPW Volume			Change from FY 2000 with Correct FY 1999 RPW Volume		
	Volume Variable Cost 1/	Volume	Unit Cost	Volume Variable Cost 1/	Volume 3/	Unit Cost	Volume Variable Cost	Volume	Unit Cost
Periodicals:									
In-County	79,398	892,821	0.0889	79,400	892,821	0.0889	2	0	0.0000
Regular	1,882,570	7,327,818	0.2569	1,915,023	7,457,452	0.2568	32,453	129,634	-0.0001
Nonprofit	380,213	2,118,588	0.1795	357,522	1,988,739	0.1798	-22,691	-129,849	0.0003
Classroom	14,216	58,452	0.2432	14,158	58,182	0.2433	-58	-270	0.0001
Total Reg+Nonprft	2,262,783	9,446,406	0.2395	2,272,545	9,446,191	0.2406	9,762	-215	0.0010
	FY 1999 With Correct FY 1999 RPW Volume			FY 1999 with Preliminary FY 1999 RPW Volume			Change from FY 1999 with Correct FY 1999 RPW Volume		
	Volume Variable Cost 1/	Volume	Unit Cost	Volume Variable Cost 1/	Volume 2/	Unit Cost	Volume Variable Cost	Volume	Unit Cost
Periodicals:									
In-County	76,975	893,454	0.0862	76,976	893,454	0.0862	1	0	0.0000
Regular	1,805,675	7,200,355	0.2508	1,840,982	7,345,117	0.2506	35,307	144,762	-0.0001
Nonprofit	370,926	2,120,463	0.1749	346,329	1,975,997	0.1753	-24,597	-144,466	0.0003
Classroom	14,139	59,555	0.2374	14,074	59,259	0.2375	-65	-296	0.0001
Total Reg+Nonprft	2,176,601	9,320,818	0.2335	2,187,311	9,321,114	0.2347	10,710	296	0.0011

Note:

1/ Source: Rollforward

2/ FY 1999 volumes come from a preliminary version of RPW report. Please see response of witness Hunter to item 2 of POIR 1.

3/ FY 2000 and Test Year Before Rates volumes are based on the unrevised TYBY forecast. Please refer to response of witness Tolley to item 1 of POIR 1.

ATTACHMENT 1
OCA/USPS-714-5

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KASHANI
TO INTERROGATORY OF
OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T14-6. The following refers to USPS-LR-I-6. USPS-LR-I-6 consists of electronic files that are divided into eleven subdirectories.

(a) The following two subdirectories exist for the Base Year: FY98BY and FY98RBY.

(1) Please confirm that the acronym FY98BY stands for Fiscal Year 98 Base Year. If you are unable to confirm, please explain what the acronym represents.

(2) Please confirm that the acronym FY98RBY stands for Fiscal Year 98 roll forward of the Base Year. If you are unable to confirm, please explain what the acronym represents.

(b) Please explain what each of the following eight subdirectory acronyms represents:

(1) FY99RCC, (2) FY99RCM, (3) FY99RCR, (4) FY00RCM, (5) FY00RCR, (6) FY01RCA, (7) FY01RCAM, (8) FY01RCB, and (9) FY01RCBM.

RESPONSE

(a)

(1) CONFIRMED.

(2) CONFIRMED.

(a)

(1) FY99RCC:

➤ ADJUSTED FISCAL YEAR 1999 BEFORE
WORKYEAR MIX ADJUSTMENT
(INTERNATIONAL MAIL VOLUME REPORTING
CHANGE AND STANDARD (A) SINGLE PIECE
ADJUSTMENTS)

(2) FY99RCM:

➤ FISCAL YEAR 1999 WORKYEAR MIX
ADJUSTED

(3) FY99RCR:

➤ FISCAL YEAR 1999 BEFORE WORKYEAR MIX
ADJUSTMENT

(4) FY00RCM:

➤ FISCL YEAR 2000 WORK YEAR MIX ADJUSTED

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KASHANI
TO INTERROGATORY OF
OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T14-6. (CONTINUED)

- (5) FY00RCR:
 - FISCL YEAR 2000 BEFORE WORKYEAR MIX ADJUSTMENT
- (6) FY01RCA:
 - TEST YEAR 2001 BEFORE WORKYEAR MIX ADJUSTMENT (AFTER RATES)
- (7) FY01RCAM:
 - TEST YEAR 2001 WORKYEAR MIX ADJUSTED (AFTER RATES)
- (8) FY01RCB:
 - TEST YEAR 2001 BEFORE WORKYEAR MIX ADJUSTMENT (BEFORE RATES)
- (9) FY01RCBM:
 - TEST YEAR 2001 WORKYEAR MIX ADJUSTED (BEFORE RATES)

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KASHANI
TO INTERROGATORY OF
UNITED PARCEL SERVICE**

UPS/USPS-T14-1 Identify all instances in which you have relied on or used in your testimony in any way any FY 1999 cost, revenue, volume, or other data, and state in each such instance why you used FY 1999 data instead of data for BY 1998.

RESPONSE

I have only used revenue and volume for FY 1999. Both FY 1999 revenue and volume are used in the development of Cost and Revenue Analysis Report and Statistics by Class of Mail in Exhibits 14D, 14G, 14J, and 14M. The FY 1999 volume is also used to develop the rollforward change factor for mail volume, as shown in Exhibit 14A, page 9.

1 CHAIRMAN GLEIMAN: Is there any additional written
2 cross examination for Witness Kashani? Ms. Noble?

3 [No response.]

4 CHAIRMAN GLEIMAN: He beat you to the punch. Mr.
5 Olson?

6 MR. OLSON: Mr. Chairman, can I just confirm that
7 the one that I'm going to designate is not already in there?

8 CHAIRMAN GLEIMAN: You can certainly do that if
9 you confer with the package that was just handed to the
10 Reporter.

11 [Pause.]

12 MR. OLSON: Thank you, Mr. Chairman. I would like
13 to designate as additional cross examination, the response
14 of Postal Service Witness Kashani to interrogatories of
15 Magazine Publishers of America, MPA/USPS T-14-2, and hand
16 this to Mr. Kashani.

17 CROSS EXAMINATION

18 BY MR. OLSON:

19 Q I ask if that is that is an accurate response to
20 that interrogatory?

21 A Yes, it is.

22 MR. OLSON: With that, we'd like to move the
23 admission of this additional written cross, Mr. Chairman.

24 CHAIRMAN GLEIMAN: Would you please provide two
25 copies to the Reporter, and I will direct that the material

1 be received into evidence and transcribed into the record.

2 [Additional Written Cross
3 Examination of Cameron Kashani,
4 MPA/USPS T-14-2 was received into
5 evidence and transcribed into the
6 record.]

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**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KASHANI
TO INTERROGATORIES OF
MAGAZINE PUBLISHERS OF AMERICA**

MPA/USPS-T14-2 Please refer to Exhibit E of LR-I-126. This exhibit provides other programs changes in costs for FY1999, FY2000, and the Test Year.

- (a) For each dollar value in the matrix, please disaggregate these amounts into class and subclass. Please provide these results in an electronic spreadsheet.
- (b) Please explain the basis for each distribution key.

RESPONSE

- a) Please see my response to DMA/USPS-T9-21 for FY 2000 and the Test Year. The following chart provides references to pages in my Workpapers where the distribution of other programs by class and subclass for FY 1999 is displayed. Electronic version of my Workpapers WP-B , WP-E and WP-I are available on CD-ROM in USPS-LR-I-6.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KASHANI
TO INTERROGATORIES OF
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MPA/USPS-T14-2, RESPONSE - CONTINUED

Page References to FY 1999 Other Programs by Class and Subclass

SEG	DESCRIPTION	FY 1999 OTHER PRGRAMS 11	SOURCE	TOTAL COST REDUCTION DISTRIBUTION BY CLASS AND SUBCLASS	COST REDUCTION DISTRIBUTION BY COMPONENT BY CLASS AND SUBCLASS
2	Supervisors & Technical Personnel	13,917	WORKPAPER WP-B, VOLUME 1 OF 2	PP. 75-76	PP. 105-106,137- 138,147-148,159- 160
3	Clerks & Mailhandlers, CAG A-J, SD Mess Personnel	209,083	WORKPAPER WP-B, VOLUME 1 OF 2	PP. 173-174	PP. 185-186,203- 204,213-214,225- 226
6&7	City Delivery Carriers Personnel	153,922	WORKPAPER WP-B, VOLUME 1 OF 2	PP. 245-246 AND 257-258, 269-270	PP. 245-246 AND 257-258, 269-270
10	Rural Carriers Personnel	20,625	WORKPAPER WP-B, VOLUME 1 OF 2	PP. 289-290	PP. 289-290
	Equip. Maint. Allowance	6	WORKPAPER WP-B, VOLUME 1 OF 2	PP. 289-291	PP. 289-290
11	Operating Equip. Maintenance Personnel	22,861	WORKPAPER WP-B, VOLUME 1 OF 2	PP. 303-304	PP. 325-326
	Contract Cleaners	8	WORKPAPER WP-B, VOLUME 1 OF 2	PP. 303-304	PP. 335-336
12	Vehicle Supplies & Materials	(54)	WORKPAPER WP-B, VOLUME 1 OF 2	PP. 347-348	PP. 379-380, 391- 392
	Rental of Motor Vehicles	(82)	WORKPAPER WP-B, VOLUME 1 OF 2	PP. 347-348	PP. 403-404,415- 416
13	Mail Equip. Shop Personnel	(229)	WORKPAPER WP-B, VOLUME 1 OF 2	PP. 427-428	PP. 437-438
	Facilities & Pur. Field Unit Personnel	(350)	WORKPAPER WP-B, VOLUME 1 OF 2	PP. 427-428	PP. 437-438
	Contract Station Service	(92)	WORKPAPER WP-B, VOLUME 1 OF 2	PP. 427-428	PP. 437-438
	Tolls & Ferriage	1	WORKPAPER WP-B, VOLUME 1 OF 2	PP. 427-428	PP. 447-448
	Freight - Supplies & Materials	(2,993)	WORKPAPER WP-B, VOLUME 1 OF 2	PP. 427-428	PP. 455-456
	Banking Fees	220	WORKPAPER WP-B, VOLUME 1 OF 2	PP. 427-428	PP. 463-464
	Carfare	49	WORKPAPER WP-B, VOLUME 1 OF 2	PP. 427-428	PP. 485-486
14	Domestic Air -	18,500	WORKPAPER WP-B, VOLUME 1 OF 2	PP. 505-506	PP. 505-506
	Domestic Highway	35,371	WORKPAPER WP-B, VOLUME 1 OF 2	PP. 505-506	PP. 505-506
	Domestic Rail	11,218	WORKPAPER WP-B, VOLUME 1 OF 2	PP. 505-506	PP. 505-506
	International	(18,697)	WORKPAPER WP-B, VOLUME 1 OF 2	PP. 517-518	PP. 517-518

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MPA/USPS-T14-2, RESPONSE - CONTINUED

Page References to FY 1999 Other Programs by Class and Subclass

SEG	DESCRIPTION	FY 1999 OTHER PRGRAMS 11	SOURCE	TOTAL COST REDUCTION DISTRIBUTION BY CLASS AND SUBCLASS	COST REDUCTION DISTRIBUTION BY COMPONENT BY CLASS AND SUBCLASS
15	Rent	23,803	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 527-528	PP. 537-538
	Product Specific Imputed Rent	2,426	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 527-528	PP. 537-538
	Heating Fuel	174	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 527-528	PP. 547-548
	Utilities	2,766	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 527-528	PP. 547-548
	Communications	13,765	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 527-528	PP. 547-548
	Building Projects Expensed	(11,527)	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 527-528	PP. 547-548
	Moving Expense	(25)	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 527-528	PP. 557-558
16	Mat. Dist. & Label Printing Personnel	(3,778)	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 567-568	PP. 575-576
	ADP Supplies & Services	85,550	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 567-568	PP. 575-576
	Equipment Repair & Maintenance Excluding ADP	98,995	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 567-568	PP. 575-576
	Custodial Supplies & Services	133	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 567-568	PP. 575-576
	Miscellaneous Supplies & Services	23,874	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 567-568	PP. 595-596
	Printing & Reproduction	2,847	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 567-568	PP. 585-586
	Stamps & Accountable Paper	(1,100)	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 567-568	PP. 585-586
	Money Orders	(28)	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 567-568	PP. 585-586
	Operating Equipment & Supplies	20,021	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 567-568	PP. 595-596
	Inventory Adjustments	(48,884)	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 567-568	PP. 585-586
	Expedited Mail Supplies	216,612	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 567-568	PP. 595-596
	Other Postal Supplies and Services	73,633	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 567-568	PP. 595-596
	Remote Encoding S&S	1	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 567-568	PP. 595-596
	Tracking & Tracing/Delivery Confirmation	1,633	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 567-568	PP. 595-596
	Advertising & Sales Promotion	(30,600)	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 567-568	PP. 605-606

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MPA/USPS-T14-2, RESPONSE - CONTINUED

Page References to FY 1999 Other Programs by Class and Subclass

SEG	DESCRIPTION	FY 1999 OTHER PRGRAMS 11	SOURCE	TOTAL COST REDUCTION DISTRIBUTION BY CLASS AND SUBCLASS	COST REDUCTION DISTRIBUTION BY COMPONENT BY CLASS AND SUBCLASS
	Reimbursements	333	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 567-568	PP. 605-606
	Stamped Envelopes	(69)	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 567-568	PP. 585-586
17	Research & Development Contracts	(13,692)	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 611-612	PP. 611-612
18	HQ & Field Service Unit Personnel Cost	87,626	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 623-624	PP. 631-632
	Area Admin Personnel Cost	12,708	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 623-624	PP. 631-632
	Security Force Personnel Cost	(935)	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 623-624	PP. 631-632
	Inspection Service Personnel Cost	(3,670)	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 623-624	PP. 631-632
	Unemployment Compensation	(17,561)	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 623-624	PP. 661-662
	Holiday Leave	(1,571)	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 623-624	PP. 641-642
	Workers' Compensation Health Benefits	(1,000)	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 623-624	PP. 661-662
	Annuitant Life Insurance	100	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 623-624	PP. 651-652
	Repricing of Annual Leave	(13,508)	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 623-624	PP. 641-642
	CSRS Annuitant Cola	31,122	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 623-624	PP. 651-652
	CSRS Retirement Liabilities Current	(8,150)	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 623-624	PP. 641-642
	CSRS Retirement Liabilities Prior	79,436	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 623-624	PP. 641-642
	Workers' Compensation Current	(66,333)	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 623-624	PP. 651-652
	Workers' Compensation Prior	(60,178)	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 623-624	PP. 661-662
	Annuity Protection Program	(5,707)	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 623-624	PP. 669-670
	Annuitant Health Benefits	22,631	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 623-624	PP. 651-652
	Supplies & Services	116,030	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 623-624	PP. 669-670
	Miscellaneous Support Cost	234,357	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 623-624	PP. 669-670

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MPA/USPS-T14-2, RESPONSE – CONTINUED

Page References to FY 1999 Other Programs by Class and Subclass

SEG	DESCRIPTION	FY 1999 OTHER PROGRAMS 1\	SOURCE	TOTAL COST REDUCTION DISTRIBUTION BY CLASS AND SUBCLASS	COST REDUCTION DISTRIBUTION BY COMPONENT BY CLASS AND SUBCLASS
	Inspection Service Expenses	(47)	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 623-624	PP. 669-670
	POD Workers' Comp	4,035	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 623-624	PP. 661-662
19	Misc. Tech Suuport Personnel	792	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 687-686	PP. 687-686
	Contract Training Support	9,096	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 687-686	PP. 687-686
20	Vehicle Depreciation	7,774	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 695-696	PP. 715-716
	Equipment Depreciation	142,652	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 695-696	PP. 721-722
	Building Depreciation & Amortization	39,820	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 695-696	PP. 727-728
	Disposition of Property	22,870	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 705-706	PP. 753-754
	Interest on Debt	(11,633)	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 695-696	PP. 733-734
	Implied Interest on Retro Annuity Cost	(16,164)	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 695-696	PP. 733-734
	Interest on Retirement Liabilities	(4,242)	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 695-696	PP. 733-734
	Other Interest	(146)	WORKPAPER WP-B, VOLUME 2 OF 2	PP. 695-696	PP. 739-740
Totals		1,520,351			

1\ Exhibit USPS 14A, pp. 1-2

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MPA/USPS-T14-2, RESPONSE – CONTINUED

b) Several types of distribution keys are used to distribute other programs. For some programs, Base Year components within the range from 1300 to 1399 are used as the basis for the distribution keys. These components include "other costs" because total costs, not only "volume variable" costs, are affected. These keys reflect the distribution of labor cost by class and subclass for various operations. The Base Year components from 1300 to 1399 are copied to the rollforward components ranging from 1400 to 1499. A list of Base Year components (1300 –1399) and their rollforward equivalent components (1400-1499) is shown on page 5 of Appendix A of my testimony. Also, some of the rollforward components 1400 through 1499 are given a "Mail Volume Effect" to reflect the changes in the mix of mail from year-to-year. Some costs, as shown in LR-I-126, Exhibits A, B, and C, are combined before being distributed to class and subclass of mail because some programs use the same distribution key. These results are shown in my workpapers WP-B, WP-E, and WP-I. For a detailed description of each program, please refer to LR-I-126.

The following provides an explanation of other programs costs, as shown in LR-I-126, Exhibit A, Exhibit B, and Exhibit C, and the rollforward distribution

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keys used to distribute these costs to their respective classes and subclasses of mail.

RBCS: Improve RCR & Handwriting Recg (HIP); AND LMLM Linerless Label

Other Programs Impact: Maintenance

Rollforward Distribution Key: Component 1446

The costs for the above program are combined because they share a common distribution key. These costs are for RBCS and related improvements for letter mail that requires the application of a barcode. Therefore, the mail volume adjusted, base year IOCS-based distribution key (component 1324) is appropriate, because it reflects mail classes and subclasses for RBCS processing.

ID Code Sort

Other Programs Impact: Maintenance

Rollforward Distribution Key: Component 1508 (1440+1441+1452)

The Identification Code Sort program enhances the capabilities of the Postal Service's letter automation system. I have created a distribution key by combining the base year IOCS-based keys for components 1314, Mail processing Barcode Sorters; 1315, Delivery Barcode Sorters; and 1371, Carrier

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Sequence Barcode Sorters for this program because these barcode sorters are impacted by the ID Code Sort.

DBCSs – Stacker, Phase 4 & 5, & OSS

Other Programs Impact: Clerks (component 35), Maintenance (component 75)

Rollforward Distribution Key: Component 1441

The costs associated with Delivery Barcode Sorters are from improved operations. This program affects letter mail operations and maintenance; therefore, the other programs costs are distributed to components 35 and 75 using a mail volume adjusted base year IOCS-based distribution key (component 1315) for Delivery Barcode Sorters operation.

Rehabilitation

Other Programs Impact: Clerks (component 35)

Rollforward Distribution Key: Component 904

The costs associated with Rehabilitation program will affect Clerks in Cost Segment 3. Upon further examination of the distribution key used to distribute costs for Rehabilitation program, I discovered that these costs were erroneously distributed to Priority Mail in mail processing in FY 2000. This miscalculation overstates Priority Mail costs by approximately \$46 million in that year and

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understates costs across all other mail categories in FY 2000 as reflected in Attachment 1.

Attachment I to this response shows the dollar impact of proper distribution of the Rehabilitation program on FY 2000, and the Test Year costs. Column 1 of the attachment I is comprised of total FY 1999 mail processing costs adjusted for FY 2000 Cost Level Effect, FY 2000 Mail Volume Effect, FY 2000 Additional Workday Effect, and FY 2000 Cost Reductions. Column 2 shows the existing distribution of Other Programs for mail processing component by classes and subclasses of mail. Column 3 displays the removal of dollars erroneously allocated to Priority Mail. Column 4 shows the proper distribution of Rehabilitation program using column 1 as a distribution key. Column 5 is the summation of columns 1 through 4. Column 6 shows corrected mail processing costs for FY 2000. Column 7 presents FY 2000 costs, with the Mix Adjustment but without final adjustments, for all components. Column 8 shows the dollar impact of properly distributing rehabilitation program on Other Programs. Column 9 presents the percentage impact of the corrected dollars to total FY 2000 costs. The Test Year costs are approximated by applying the percent impact on total FY 2000 costs (column 9) to total Test Year Before and After Rates costs in columns 10 and 11, respectively. The results are shown in columns 12 and 13.

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MPA/USPS-T14-2, RESPONSE – CONTINUED

An electronic version of attachment I is supplied in LR-I-198. Assuming the percentage impact of correcting distribution of Rehabilitation dollars in FY 2000 would provide the best proxy for its impact on the Test Year, Priority Mail is overstated by approximately \$48 million in Test Year After Rates. However, as illustrated in column 9 of Attachment I, the impact on other subclasses and on total costs is minimal.

Flat Mail OCR (EC – 06); Flat Sorting Machine 1000 Phase 1 & 2

Other Programs Impact: Mailhandlers (component 35), Maintenance (component 75)

Rollforward Distribution Key: Component 1448

The above programs are combined because they use the same distribution key. These programs increase efficiency of flat sorting machines and increase the number of FSMs; thereby, reducing manual sorting activities. Therefore, the additional maintenance costs are distributed to components 35 and 75 using a mail volume adjusted base year IOCS-based distribution key (component 1331) for Sorting to Flat Cases, which captures the manual sorting activity by class and subclass of mail.

Mat. Handling BMC Asystems

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MPA/USPS-T14-2, RESPONSE – CONTINUED

Other Programs Impact: Maintenance (component 75)

Rollforward Distribution Key: Component 1450

This program provides a one-to-one replacement of the number four sack sorter at the New Jersey International and Bulk Mail Center. The reduced capacity constraints and improved efficiency of operation for Bulk Mail Centers will reduce Mailhandlers manual sorting hours. Therefore, I have distributed the costs associated with maintaining this system to component 75 using a mail volume adjusted base year IOCS-based distribution key (component 1366) for General and Logistic, BMC which is total BMC mail processing labor.

AFCS Additional 42 Buy: AFCS (OCR)

Other Programs Impact: Maintenance (component 75)

Rollforward Distribution Key: Component 1443

Additional purchases of Advanced Facer Canceler will increase efficiency of letter facing and canceling. The Advanced Facer Canceler OCR reduces labor costs associated with additional mail handling by integrating technology from the AFCS/ISS with technology from the MLOCR. Therefore, the maintenance costs of additional AFCS are distributed using a mail volume adjusted base year IOCS-based distribution key (component 1319) for Letter Facer/Canceler Operation.

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MPA/USPS-T14-2, RESPONSE – CONTINUED

Small Parcel and Bundle Sorter – 46 & 54 AND SPBS Feed System

Other Programs Impact: Mailhandlers (component 35), Maintenance (component 75)

Rollforward Distribution Key: Component 1445

The additional units of Small Parcel and Bundle Sorters and SPBS Feed System would improve plant efficiency and increase labor productivity associated with the subclasses being processed on SPBS. Consequently, these costs are distributed to components 35 and 75 using a mail volume adjusted based year IOCS-based distribution key (component 1323) for Small Parcel and Bundle Sorters.

Point of Service

Other Programs Impact: Building (component 169), Supplies (components 174,177), and Administration (component 211)

Rollforward Distribution Key: Components 169, 174, 177, 211

According to LR-I-126, the costs from this program will impact Building (component 169), Supplies (components 174, 177), and Administration (component 211); therefore, I have distributed these costs to their respective components 169, 174, 177, and 211.

Corporate Call management

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MPA/USPS-T14-2, RESPONSE – CONTINUED

Other Programs Impact: Building (components 165, 167, 168), Supplies (components 174, 177), Administration (component 211)

Rollforward Distribution Key: Components 165, 167, 168, 174, 177, 211

According to LR-I-126, the costs from this program will impact Building (components 165, 167, 168), Supplies (components 174, 177), and Administration (component 211); therefore, I have distributed these costs to their respective components 165, 167, 168, 174, 177, and 211.

Associate Office Infrastructure

Other Programs Impact: Building (component 167), Supplies (components 174, 177), and Administration (component 210)

Rollforward Distribution Key: Components 167, 174, 177, 210

According to LR-I-126, the costs from this program will impact Building (component 167), Supplies (components 174, 177), and Administration (component 210); therefore, I have distributed these costs to their respective components 167, 174, 177, and 210.

Delivery Confirmation Scanning

Other Programs Impact: Clerks (component 35), City Carriers (component 46)

Rollforward Distribution Key: Component 690

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The additional scanners for Delivery Confirmation are used to scan delivery confirmation barcodes at the time of delivery. To distribute the costs associated with maintenance and the carriers scanning activity, I developed a distribution key to calculate the ratio between Priority Mail and other Special Services. This distribution key (component 690) is shown in Appendix A, page 7. Therefore, the costs associated with scanning are distributed to components 35 and 46 using component 690 as a distribution key.

Customer Address Awareness

Other Program Impact: City Carriers (all components)

Rollforward Distribution Key: City Carriers (components 43, 44, 45, 46, 48, 49, 50, 52, 53, 54)

This program is designed to increase customer awareness with respect to the use of apartment/suite number with multi-unit addresses to increase the speed of delivery. Therefore, these costs are distributed to all components of Cost Segments 6 and 7, City Carriers.

Core Process Management: BMEU Curriculum

Other Programs Impact: Supplies (component 174)

Rollforward Distribution Key: Component 174

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MPA/USPS-T14-2, RESPONSE – CONTINUED

According to LR-I-126, the costs from the above programs will impact Supplies (component 174); therefore I have distributed them to component 174.

Absorb Inflation

Other Programs Impact: Motor Vehicle (component 99), Supplies (components 174, 177, 184), Administration (210)

Rollforward Distribution Key: Components 99, 174, 177, 184, 210

According to LR-I-126, the costs from this program will impact Motor Vehicle (component 99), Supplies (components 174, 177, 184), and Administration (component 210); therefore, I have distributed these costs to their respective components 99, 174, 177, 184, and 210.

Upgrade Class Printing Equipment; Nurses Coordinator Program; MEI

Postal One

Other Programs Impact: Supplies (component 177)

Rollforward Distribution Key: Component 177

According to LR-I-126, the costs from the above programs will impact Supplies (component 177); therefore, I have distributed them to component 177.

Stamp Manufacturing

Other Programs Impact: Supplies (component 180)

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MPA/USPS-T14-2, RESPONSE – CONTINUED

Rollforward Distribution Key: Component 180

According to LR-I-126, the costs from the above program will impact Supplies (component 180); therefore, I have distributed them to component 180.

Periodical Focus Groups

Other Programs Impact: Administration (component 210)

Rollforward Distribution Key: Component 210

According to LR-I-126, the costs from this program will impact Administration (component 210); therefore, I have distributed them to component 210.

International Service Centers

Other Programs Impact: Supervisors (component 4), Maintenance (component 75)

Rollforward Distribution Key: Component 1419

According to LR-I-126, the costs from this program will impact Supervisors (component 4) and Maintenance (component 75); therefore, I have distributed 100% of these costs to components 4 and 75 using the rollforward distribution key 1419 which allocates 100% of the costs to International Mail.

Base Adjustment

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MPA/USPS-T14-2, RESPONSE – CONTINUED

Other Programs Impact: Clerks/Mailhandlers, City Carriers, Rural Carriers, Building, Supplies, and Administration

Rollforward Distribution Key: All components of Cost Segments 2, 6, and 7, and components 72, 169, 175, 177, 184, and 210

According to LR-I-126, these adjustments affect Clerks (components 35, 40, 66, 421, 422, 423, 467, 468, 469, 470, 471, 41, 227, 228), City Carriers (components 43, 44, 45, 46, 48, 49, 50, 52, 53, 54), Rural Carriers (component 72), Building (component 169), Supplies (components 175, 177, 184), and Administration (component 210). Therefore, I have distributed these additional costs to their corresponding components.

Misc. HQ Programs and CWA's

Other Programs Impact: Rural Carriers (component 73), Maintenance (component 81), Motor Vehicle (components 99, 108), Misc. (components 111, 113, 117, 125, 135), Building (components 165, 166, 167, 168, 169, 170), Supplies (components 174, 175, 176, 177, 179, 180, 181, 182, 184, 189, 248, 1426), Administration (components 210, 211, 212, 213), Training (component 220), and Depreciation/Interest (components 242, 245, 1437)

Rollforward Distribution Key: Components 73, 81, 99, 108, 111, 113, 117, 125, 135, 165, 166, 167, 168, 169, 170, 174, 175, 176, 177, 179, 180, 181, 182, 184, 189, 248, 1426, 210, 211, 212, 213, 220, 242, 245, 1437

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MPA/USPS-T14-2, RESPONSE – CONTINUED

According to LR-I-126, the costs from this program will impact Rural Carriers (component 73), Maintenance (component 81), Motor Vehicle (components 99,108), Misc. (components 111, 113, 117, 125, 135), Building (components 165, 166, 167, 168, 169, 170), Supplies (components 174, 175, 176, 177, 179, 180, 181, 182, 184, 189, 248, 1426), Administration (components 210, 211, 212, 213), Training (component 220), and Depreciation/Interest (components 242, 245, 1437); therefore I have distributed these costs to their respective components.

HQ and Field Service Units

Other Programs Impact: Misc. (components 110, 114), Supplies (component 173), Administration (components 191, 194, 195), Training (component 219)

Rollforward Distribution Key: Components 110, 114, 173, 191, 194, 195, 219

According to LR-I-126, the costs from this program will impact Misc. (components 110, 114), Supplies (component 173), Administration (components 191, 194, 195), Training (component 219); therefore I have distributed them to their respective components.

Contingent Liabilities

Other Programs Impact: Administration (component 211)

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MPA/USPS-T14-2, RESPONSE – CONTINUED

Rollforward Distribution Key: Component 211

According to LR-I-126, the costs from this program will impact Supplies, component 211; therefore I have distributed them to component 211.

Inventory Adjustments

Other Programs Impact: Supplies (component 182)

Rollforward Distribution Key: Component 182

According to LR-I-126, the costs from this program will impact Supplies, component 182; therefore I have distributed them to component 182.

Route Inspections

Other Programs Impact: Supervisors (components 13, 14, 16, 17, 18)

Rollforward Distribution Key: Components 13, 14, 16, 17, 18

According to LR-I-126, Route Inspections program affects Supervisors workload in connection with city carrier routes; therefore, I have distributed the costs from this program to Supervisors, Supervision of City Carriers, components 13, 14, 16, 17, and 18.

OWCP Cost Reductions

Other Programs Impact: Supplies (component 174)

Rollforward Distribution Key: Component 174

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MPA/USPS-T14-2, RESPONSE – CONTINUED

According to LR-I-126, this program impacts Supplies (component 174); therefore, I have distributed the additional costs from this program to component 174.

Cost Study Support

Other Programs Impact: Supervisors, Other Supervisors and Technicians (components 29, 30, 31, 32, 600, 601, 674, 675, 676, 677, 678, 33)

Rollforward Distribution Key: Components 29, 30, 31, 32, 600, 601, 674, 675, 676, 677, 678, 33

According to LR-I-126, Cost Study Support program is designed to provide data collection support and requires a supervisor or designee to record information. Therefore, I have distributed the costs from this program to Supervisors, Other Supervisors and Technicians, components 29, 30, 31, 32, 600, 601, 674, 675, 676, 677, 678, and 33.

Environmental Program

Other Programs Impact: Supervisors, Other Supervisors and Technicians (components 29, 30, 31, 32, 600, 601, 674, 675, 676, 677, 678, 33), Building (component 169)

Rollforward Distribution Key: Components 29, 30, 31, 32, 600, 601, 674, 675, 676, 677, 678, 33, 169

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MPA/USPS-T14-2, RESPONSE – CONTINUED

According to LR-I-126, the above program impacts Supervisors, Other Supervisors and Technicians (components 29, 30, 31, 32, 600, 601, 674, 675, 676, 677, 678, 33) and Building (component 169). Therefore, I have distributed their costs to respective components in Supervisors and Building Cost Segments.

International Data Collection

Other Programs Impact: Clerks (component 35)

Rollforward Distribution Key: Component 1419

According to LR-I-126, this program impacts Clerks workhours for processing International Mail; therefore, I have distributed 100% of these costs to mail processing (component 35) using the rollforward distribution key 1419 which allocates 100% of the costs to International Mail.

OSHA Reform

Other Programs Impact: Building (component 169)

Rollforward Distribution Key: Component 169

According to LR-I-126, the above program impact Building Occupancy, component 169; therefore, I have distributed its costs to component 169.

Expedited Mail S&S

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MPA/USPS-T14-2, RESPONSE – CONTINUED

Other Programs Impact: Supplies (component 187)

Rollforward Distribution Key: Component 187

According to LR-I-126, this program impacts Expedited Mail, component 187; therefore, I have distributed its costs to component 187.

Product Specific Rent

Other Programs Impact: Building (component 234)

Rollforward Distribution Key: Component 234

According to LR-I-126, this program impacts Building, Product Specific Rent, component 234; therefore, I have distributed its costs to component 234.

Ease of Use Measures: BMEU Profeciency Training: TACS

Other Programs Impact: Clerks (components 35, 40, 66, 421, 422, 423, 467, 468, 469, 470, 41, 227, 228) , Supplies (component 174)

Rollforward Distribution Key: Components 35, 40, 66, 421, 422, 423, 467, 468, 469, 470, 41, 227, 228, 174

According to LR-I-126, all of the above programs impact Clerks (components 35, 40, 66, 421, 422, 423, 467, 468, 469, 470, 41, 227, 228, 174) and Supplies (component 174); therefore, I have distributed their costs to Clerks (components 35, 40, 66, 421, 422, 423, 467, 468, 469, 470, 41, 227, 228) and Supplies (component 174).

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MPA/USPS-T14-2, RESPONSE – CONTINUED

Data Collection Diagnostic: Driver Training

Other Programs Impact: Clerks (components 35, 40, 66, 421, 422, 423, 467, 468, 469, 470, 41, 227, 228)

Rollforward Distribution Key: Components 35, 40, 66, 421, 422, 423, 467, 468, 469, 470, 41, 227, 228

According to LR-I-126, all of the above programs impact Clerks (components 35, 40, 66, 421, 422, 423, 467, 468, 469, 470, 41, 227, 228); therefore, I have distributed their costs to all components within Cost Segment 3.

Other Postal S&S

Other Programs Impact: Supplies (component 197)

Rollforward Distribution Key: Component 197

According to LR-I-126, this program impacts Supplies (component 197); therefore, I have distributed its costs to component 197.

Delivery Confirmation

Other Programs Impact: Supplies (component 196)

Rollforward Distribution Key: Component 196

According to LR-I-126, this program impacts Supplies (component 196); therefore, I have distributed its costs to component 196.

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MPA/USPS-T14-2, RESPONSE – CONTINUED

Area Administration

Other Programs Impact: Administration (component 193)

Rollforward Distribution Key: Component 196

According to LR-I-126, this program impacts Administration (component 193); therefore, I have distributed its costs to component 193.

Service Improvement – Christmas: Air Taxi: Eagle: W Net: Air Contracts:

Air Contracts- Term Handling: EDI

Other Programs Impact: Transportation (component 142)

Rollforward Distribution Key: Component 142

According to LR-I-126, the above programs impact Transportation (component 142); therefore, I have distributed its costs to component 142.

Depreciation

Other Programs Impact: Depreciation (components 231, 232, 238)

Rollforward Distribution Key: Components 231, 232, 238

According to LR-I-126, this program impacts Depreciation (components 231, 232, 238); therefore, I have distributed its costs to components 231, 232, and 238.

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MPA/USPS-T14-2, RESPONSE – CONTINUED

Disposition of Property

Other Programs Impact: Depreciation (component 245)

Rollforward Distribution Key: Component 245

According to LR-I-126, this program impacts Depreciation (component 245);
therefore, I have distributed its costs to component 245.

Advertising

Other Programs Impact: Supplies (component 246)

Rollforward Distribution Key: Component 246

According to LR-I-126, this program impacts Supplies (component 246);
therefore, I have distributed its costs to component 246.

Research

Other Programs Impact: Research (component 267)

Rollforward Distribution Key: Component 267

According to LR-I-26, this program impacts Research (component 267);
therefore, I have distributed its costs to component 267.

Special Drawing Rights

Other Programs Impact: Transportation (component 1438)

Rollforward Distribution Key: Component 1438

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According to LR-I-126, this program impacts Transportation, Foreign Settlement Transactions (component 1438); therefore, I have distributed its costs to component 1438.

Unemployment Compensation

Other Programs Impact: Administration (component 241)

Rollforward Distribution Key: Component 241

According to LR-I-126, this program impacts Administration (component 241); therefore, I have distributed its costs to component 241.

Holiday Leave

Other Programs Impact: Administration (component 200)

Rollforward Distribution Key: Component 200

According to LR-I-126, this program impacts Administration (component 200); therefore, I have distributed its costs to component 200.

Worker's Comp. Health Benefits

Other Programs Impact: Administration (component 895)

Rollforward Distribution Key: Component 895

According to LR-I-126, this program impacts Administration (component 895); therefore, I have distributed its costs to component 895.

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MPA/USPS-T14-2, RESPONSE – CONTINUED

Annuitant Life Insurance

Other Programs Impact: Administration (component 71)

Rollforward Distribution Key: Component 71

According to LR-I-126, this program impacts Administration (component 71);
therefore, I have distributed its costs to component 71.

Repricing of Annual Leave

Other Programs Impact: Administration (component 199)

Rollforward Distribution Key: Component 199

According to LR-I-126, this program impacts Administration (component 199);
therefore, I have distributed its costs to component 199.

CSRS Annuitant COLA - Principal

Other Programs Impact: Administration (component 1435)

Rollforward Distribution Key: Component 1435

According to LR-I-126, this program impacts Administration (component 1435);
therefore, I have distributed its costs to component 1435.

CSRS Unfunded Liability Principle

Other Programs Impact: Administration (components 201,202)

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Rollforward Distribution Key: Components 201, 202

According to LR-I-126, this program impacts Administration (components 201, 202); therefore, I have distributed its costs to components 201 and 202.

Worker's Compensation

Other Programs Impact: Administration (components 204,205)

Rollforward Distribution Key: Components 204,205

According to LR-I-126, this program impacts Administration (components 204,205); therefore, I have distributed its costs to components 204 and 205.

Annuity Protection

Other Programs Impact: Administration (component 207)

Rollforward Distribution Key: Component 207

According to LR-I-126, this program impacts Administration (component 207); therefore, I have distributed its costs to component 207.

Interest on Retirement Liabilities

Other Programs Impact: Depreciation (components 1436, 899)

Rollforward Distribution Key: Components 1436, 899

According to LR-I-126, this program impacts Depreciation (components 1436, 899); therefore, I have distributed its costs to components 1436 and 899.

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POD Workers' Compensation

Other Programs Impact: Administration (component 541)

Rollforward Distribution Key: Component 541

According to LR-I-126, this program impacts Administration (component 541);
therefore, I have distributed its costs to component 541.

Interest on Debt

Other Programs Impact: Depreciation (component 587)

Rollforward Distribution Key: Component 587

According to LR-I-126, this program impacts Depreciation (component 587);
therefore, I have distributed its costs to component 587.

Annuitant Health Benefits

Other Programs Impact: Administration (component 208)

Rollforward Distribution Key: Component 208

According to LR-I-126, this program impacts Administration (component 208);
therefore, I have distributed its costs to component 208.

Terminal Dues

Other Programs Impact: Transportation (component 146)

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Rollforward Distribution Key: Component 146

According to LR-I-126, this program impacts Transportation (component 146); therefore, I have distributed its costs to component 146.

**Automatic Airline Assignment SWYB AND Mail Transport Equipment
Service Centers**

**Other Programs Impact: Maintenance (component 75) and Supplies
(components 175,177)**

Rollforward Distribution Key: Components 75,175,177

The Automatic Airline Assignment SWYB program enhances the abilities to apply D&R labels more efficiently; whereas, the Mail Transport Equipment Service Centers increase efficiency by implementing a network approach to the logistical management of the preparation, repair, distribution, and warehousing of Mail Transport Equipment. The costs associated with maintenance and supplies are distributed to their respective components 75, 175, and 177.

Low Cost OCR and MLOCR Co-Processor

Other Programs Impact: Maintenance (component 75)

Rollforward Distribution Key: Component 1449

The Low Cost Optical Character Reader and Multiline Optical Character Reader Co-Processor are designed to improve the efficiency of the existing machines

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and add to the number of OCRs. Therefore, their maintenance costs are distributed to component 75 using a mail volume adjusted base year IOCS-based distribution key (component 1363) for Optical Character Readers, because this distribution key captures the operation of OCR by class and subclass of mail.

Robotics Phase 1 and Tray Management System – Phase 3

Other Programs Impact: Maintenance (component 75)

Rollforward Distribution Key: Component 1451

The above programs are targeting dispatch areas in the Processing and Distribution Centers and the in-bound distribution operation at Air Mail Centers, in order to increase mailhandler workhours productivity by replacing manual operation with robotic tray handling. To distribute the costs for maintenance, I have used a mail volume adjusted base year IOCS-based distribution key (component 1367) for All Non-BMC Mail Processing Labor.

Dual Pass Rough Cull 56 Buy

Other Programs Impact: Maintenance (component 75)

Rollforward Distribution Key: Component 1444

The Dual Pass Rough Cull System is at the front end of the collection mail processing operation which automates processing of non-machinable mail

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pieces from large quantities of raw collection mail. The additional costs result from automation, which reduces the need for manual culling. Therefore, I have distributed maintenance costs by using a mail volume adjusted base year IOCS-based distribution key (component 1321) for Culling operation.

CFCS Flats Forwarding Terminal and Control System

Cost Reductions Impact: Maintenance (component 75)

Rollforward Distribution Key: Component 1439

The CFCS is a replacement system for the Computerized Forwarding System, where its enhancements result in labor savings in CFS operations. The costs for maintenance are distributed a mail volume adjusted base year IOCS-based distribution key (component 1307) for CFS.

MTEC DAR – Rail

Other Programs Impact: Transportation, component 144

Rollforward Distribution Key: Component 144

According to LR-I-126, this program impacts Transportation (component 144); therefore, I have distributed its costs to component 144.

MTEC DAR – Highway, Vehicle Enhancement, AND VOC Catchball

Process

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MPA/USPS-T14-2, RESPONSE – CONTINUED

Cost Reductions Impact: Transportation, component 143

Rollforward Distribution Key: Component 143

According to LR-I-126, the above programs impact Transportation (component 143); therefore, I have distributed their costs to component 143.

Attachment I
Mail Processing Adjustment for Redistribution of Rehabilitation Program

	FY 2000 1/	FY 2000 2/		FY 2000 4/	FY 2000	FY 2000	FY 2000 5/	FY 2000	FY 2000	FY 2001BR 6/	FY 2001AR 7/	FY 2001BR	FY 2001AR
	Mail Processing Distribution Key	Mail Processing Other Programs	Priority Mail Correction 3/	Corrected Rehabilitation Distribution	Corrected Mail Processing Other Programs	Corrected Mail Processing Costs	Total Volume Variable and Other Costs (with Mix & without Final Adjustments)	Dollar Impact of Correcting Distribution for Rehabilitation Program	Percent Impact on Total FY 2000 Costs	Total Volume Variable and Other Costs (with Mix & without Final Adjustments)	Total Volume Variable and Other Costs (with Mix & without Final Adjustments)	Dollar Impact of Correcting Distribution for Rehabilitation Program	Dollar Impact of Correcting Distribution for Rehabilitation Program
	(1)	(2)	(3)	(4)	(5)=(2)+(3)+(4)	(6)=(1)+(5)	(7)	(8)=(5)-(2)	(9)=(8)/(7)	(10)	(11)	(12)=(10)*(9)	(13)=(11)*(9)
First-Class Mail:													
Single-Piece Letters	5,188,183	522		16,421	16,943	5,185,126	12,743,257	16,421	0.13%	13,003,251	12,925,891	16,758	16,656
Presort Letters	1,442,727	10		4,584	4,594	1,447,321	4,770,058	4,584	0.10%	5,104,399	5,096,247	4,905	4,899
Single Piece Cards	188,212	-8		598	590	188,802	522,489	598	0.11%	541,262	526,750	620	603
Presort Pmt P Cs	41,511	-2		132	130	41,641	158,409	132	0.08%	172,503	168,719	144	140
Total First	6,840,633	522	0	21,735	22,257	6,862,890	18,194,213	21,735	0.12%	18,821,415	18,719,407	22,425	22,299
Priority Mail	672,481	52,709	-48,350	2,137	6,496	678,977	2,754,964	-46,213	-1.68%	3,074,568	2,887,653	-51,575	-48,439
Express Mail	105,819	-5		336	331	106,150	438,213	336	0.08%	465,006	469,253	357	360
Mailgrams	163			1	1	164	1,074	1	0.05%	967	976	0	0
Periodicals:													
In-County	13,179	-1		42	41	13,220	79,426	42	0.05%	80,221	79,412	42	42
Outside County:													
Regular	620,802	329		1,973	2,302	623,104	1,918,190	1,973	0.10%	1,961,672	1,933,256	2,040	1,990
Nonprofit	93,245	34		296	330	93,575	357,701	296	0.08%	361,249	379,093	299	314
Classroom	5,180	4		16	20	5,180	14,164	16	0.12%	13,936	13,692	16	16
Total Second	732,386	366	0	2,327	2,693	735,079	2,367,481	2,327	0.10%	2,437,078	2,405,453	2,396	2,362
Standard Mail (A):													
Single Piece Rate	0	0		0	0	0	0	0		0	0	0	0
Commercial Standard													
Enhanced Carr Rte	291,036	270		925	1,195	292,231	2,288,357	925	0.04%	2,452,607	2,396,626	991	969
Regular	2,517,854	1,596		8,000	9,596	2,527,452	6,865,290	8,000	0.12%	7,264,610	6,971,212	8,441	8,100
Total Commercial	2,808,890	1,866	0	8,925	10,793	2,819,683	9,173,647	8,925	0.10%	9,717,217	9,369,838	9,432	9,069
Aggregate Nonprofit:													
Nonprofit Enh Carr Rte	51,306	19		163	182	51,488	197,605	163	0.08%	200,522	196,943	165	162
Nonprofit	458,329	195		1,450	1,645	457,974	1,257,931	1,450	0.12%	1,322,005	1,312,948	1,524	1,513
Total Aggreg Nonprofit	509,635	214	0	1,613	1,827	509,462	1,455,536	1,613	0.11%	1,522,527	1,509,891	1,689	1,676
Total Standard (A)	3,318,525	2,082	0	10,538	12,620	3,329,145	10,629,183	10,538	0.10%	11,239,744	10,879,729	11,121	10,745
Standard Mail (B)													
Parcels Zone Rate	284,557	69		904	973	285,530	1,009,839	904	0.09%	1,076,506	1,067,100	966	955
Bound Pmt Matter	139,160	75		442	517	139,677	438,510	442	0.10%	481,389	487,516	485	471
Special Standard	93,558	31		297	328	93,886	285,212	297	0.10%	297,411	293,849	310	306
Library Rate	12,604	7		40	47	12,651	44,979	40	0.09%	47,117	46,287	42	41

Attachment I
Mail Processing Adjustment for Redistribution of Rehabilitation Program

	FY 2000 1/	FY 2000 2/		FY 2000 4/	FY 2000	FY 2000	FY 2000 5/	FY 2000	FY 2000	FY 2001BR 6/	FY 2001AR 7/	FY 2001BR	FY 2001AR
	Mail Processing Distribution Key	Mail Processing Other Programs	Priority Mail Correction 3/	Corrected Rehabilitation Distribution	Corrected Mail Processing Other Programs	Corrected Mail Processing Costs	Total Volume Variable and Other Costs (with Mix & without Final Adjustments)	Dollar Impact of Correcting Distribution for Rehabilitation Program	Percent Impact on Total FY 2000 Costs	Total Volume Variable and Other Costs (with Mix & without Final Adjustments)	Total Volume Variable and Other Costs (with Mix & without Final Adjustments)	Dollar Impact of Correcting Distribution for Rehabilitation Program	Dollar Impact of Correcting Distribution for Rehabilitation Program
	(1)	(2)	(3)	(4)	(5)=(2)+(3)+(4)	(6)=(1)+(5)	(7)	(8)=(5)-(2)	(9)=(8)/(7)	(10)	(11)	(12)=(10)*(9)	(13)=(11)*(8)
Total Standard (B)	529,879	182	0	1,684	1,686	531,745	1,778,540	1,684	0.09%	1,904,503	1,874,752	1,603	1,774
U S Postal Service	131,535	28		418	444	131,979	265,151	418	0.16%	266,332	266,649	420	420
Free Mail--Blind & Hndc & Servicemen	16,170	25		51	76	16,246	36,743	51	0.14%	39,519	39,364	55	55
International Mail	279,162	-347		887	540	279,702	1,353,526	887	0.07%	1,438,047	1,395,040	942	914
Special Services:													
Registry	32,940			105	105	33,045	91,160	105	0.11%	87,252	83,275	100	96
Certified	34,826	-2		111	109	34,935	435,975	111	0.03%	479,219	447,087	122	113
Insurance	2,174			7	7	2,181	75,477	7	0.01%	76,613	75,121	7	7
COD	568			2	2	590	15,042	2	0.01%	14,765	14,674	2	2
Special Delivery	0			0	0	0	1	0	0.00%	1	1	0	0
Money Orders	4,173			13	13	4,186	145,992	13	0.01%	155,712	150,239	14	14
Stamped Cards	0			0	0	0	3,146	0	0.00%	3,360	3,360	0	0
Stamped Envelopes	110			0	0	110	11,548	0	0.00%	12,236	12,236	0	0
Special Handling	482			2	2	484	2,373	2	0.06%	2,423	2,421	2	2
Post Office Box	3,119			10	10	3,129	542,786	10	0.00%	562,879	574,855	11	10
Other	45,687	2,816		145	2,961	48,648	125,306	145	0.12%	135,877	135,967	157	156
Total Spc Svcs	124,099	2,814	0	394	3,208	127,307	1,448,616	394	0.03%	1,550,357	1,499,238	415	401
Volume Variable	12,748,852	56,374	-48,350	40,508	50,532	12,799,384	39,267,904	-7,642	-0.02%	41,237,356	40,437,514	-11,639	-9,107
Other	2,466,147	1,621		7,842	9,463	2,477,610	25,662,021	7,642	0.03%	27,043,883	27,029,645	8,285	8,260
Total Costs	15,218,999	59,995	-48,350	48,350	59,995	15,278,994	64,929,925	0	0.00%	68,281,239	67,467,159	-3,375	-847

1/ USPS-T-14, Workpaper E, Part I, pp. 225-234

2/ USPS-T-14, Workpaper E, Part I, pp. 235-236

3/ USPS-LR-1-4, Section 8, Page 652, Line 255

4/ The amount of \$48,350 for Rehabilitation Program is distributed using Mail Processing Distribution key in column (1).

5/ USPS-Exhibit 14F, pp. 1-2.

6/ USPS-Exhibit 14I, pp. 1-2.

7/ USPS-Exhibit 14L, pp. 1-2.

1 CHAIRMAN GLEIMAN: Ms. Noble?

2 MS. NOBLE: Ann Noble from Magazine Publishers of
3 America. We have winnowed this down, thanks to other
4 submissions, and we have just one. It is AAP/USPS T-14-4.

5 CHAIRMAN GLEIMAN: If you would please let the
6 witness take a look at that?

7 Mr. Kashani, if this interrogatory question were
8 posed to you today, would your answer be the same as that
9 you just reviewed?

10 THE WITNESS: Yes, it would.

11 CHAIRMAN GLEIMAN: Ms. Noble, if you would please
12 provide the two copies to the Reporter, I will direct that
13 they be introduced into evidence and transcribed into the
14 record.

15 [Additional Designated Written
16 Response of Cameron Kashani,
17 AAP/USPS T-14-4 was received into
18 evidence and transcribed into the
19 record.]

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**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KASHANI
TO INTERROGATORIES OF
ASSOCIATION OF AMERICAN PUBLISHERS**

AAP/USPS-T14-4 On pages 10-13 of your testimony, you describe the five types of volume variable costs that receive different treatment relative to the determination of the effect of mail-volume changes. With respect to these five types of volume variable costs:

(a) Please indicate, by individual cost segment and cost components, the respective volume variable costs that fall into each of the five types of volume variable costs.

(b) Please provide mathematical examples of "costs that vary directly with volume" and of a "cost distribution that varies directly by volume." Please explain the extent to which "costs that vary directly with volume" differs from a "cost distribution that varies directly by volume" and whether the two types of costs are independent of each other or related.

RESPONSE

a) The following chart displays individual cost components and their respective types of volume variable cost:

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KASHANI TO INTERROGATORIES OF
ASSOCIATION OF AMERICAN PUBLISHERS**

AAP/USPS-T14-4 (CONTINUED)

Cost Segments	Cost Components	Cost Categories				
		1	2	3	4	5
1.	1 Postmasters EAS 23 & Below	x				
2.	Supervisors and Technicians					
	4 Direct labor & Overhead			x		
	7 Window Service			x		
	9 Time Attendance Supervision				x	
	13 City Delivery Carrier - Office			x		
	14 City Delivery Carrier - Street Elemental			x		
	16 City Delivery Carrier - Street Access			x		
	17 City Delivery Carrier - Street Other				x	
	18 City Delivery Carrier - Street Route			x		
	25 Special Delivery Messengers - Office			x		
	26 Special Delivery Messengers - Street			x		
	30 Higher Level Superv.				x	
	31 Gen Sup - Mail Proc.			x		
	601 Sup Training - Other			x		
	674 Supv. Rural Delivery				x	
	675 Supv. Veh. Service			x		
	676 Supv. QC/Rev. Protec.			x		
	677 Supv. CMU			x		
	678 Joint Supv Clks/Cars.				x	
3.	Clerks and Mailhandlers CAG A - J Offices:					
	35 Mail Process. -Direct	x				
	40 Window Service	x				
	Administrative Clerks:					
	66 Claims & Inquiry	x				
	421 Data Coll. & Proc	x				
	422 Gen'l Office & Cler.	x				
	423 Quality Control	x				
	467 Training Schemes	x				
	468 Training Mail Proc Non Parcel	x				
	469 Training Mail Proc Parcel	x				
	470 Training Other	x				
	228 Time & Attendance				x	
	Special Delivery Messengers:					
	58 Salaries - Office	x				
	59 Salaries - Street	x				
	62 Equip. Maintenance	x				
	63 Fees	x				
4.	42 Clerks, CAG K Offices:	x				
6&7.	City Delivery Carrier- Office					
	43 Office Direct Labor	x			x	
	44 In-Office Support				x	

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KASHANI TO INTERROGATORIES OF
ASSOCIATION OF AMERICAN PUBLISHERS

AAP/USPS-T14-4 (CONTINUED)

Cost Segments	Cost Components	Cost Categories				
		1	2	3	4	5
	45 CAG K			x		
	City Delivery Carriers - Street					
	46 Street Elemental Load	x		x		
	48 Street Access		x	x		
	49 Other Office			x		
	50 Other Elemental Load			x		
	52 Other Access			x		
	53 Other Route			x		
	54 Route	x		x		
8.	57 Vehicle Service Drivers	x				
9.	Not Used					
10.	Rural Carriers					
	69 Evaluated Routes	x				
	70 Other Routes	x				
11.	Custodial & Manintenance:					
	75 Mail Processing Equipment	x				
12.	Motor Vehicle Service					
	Personnel:					
	82 City Delivery Office			x		
	83 City Delivery Street Elemental Load			x		
	85 City Delivery Street Access			x		
	86 City Delivery Street Route			x		
	88 Cleks Special Delivery Messengers				x	
	Supplies & Materials:					
	91 City Delivery Office			x		
	92 City Delivery Street Elemental Load			x		
	94 City Delivery Street Access			x		
	95 City Delivery Street Route			x		
	97 Special Delivery				x	
	Vehicle Hire:					
	100 City Delivery Office			x		
	101 City Delivery Street Elemental Load			x		
	103 City Delivery Street Access			x		
	104 City Delivery Street Route			x		
	106 Special Delivery				x	
13.	Miscellaneous Operating					
	Expenses:					
	Salaries					
	Carfare					
	127 City Delivery Office			x		
	128 City Delivery Street Elemental Load			x		

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KASHANI TO INTERROGATORIES OF
ASSOCIATION OF AMERICAN PUBLISHERS**

AAP/USPS-T14-4 (CONTINUED)

Cost Segments	Cost Components	Cost Categories				
		1	2	3	4	5
	130 City Delivery Street Access			x		
	131 City Delivery Street Route			x		
	133 Special Delivery				x	
	Driveout - City Delivery					
	136 City Delivery Office			x		
	137 City Delivery Street Elemental Load			x		
	139 City Delivery Street Access			x		
	140 City Delivery Street Route			x		
14.	Purchased Transportation:					
	142 Domestic Air Service	x				
	681 Domestic Alaska Air	x				
	144 Railroad Service	x				
	145 Domestic Water	x				
	143 Highway Contract	x				
	146 International	x				
15.	Building Occupancy:					
16.	Supplies & Services					
	180 Stamps & Acct Paper	x				
	181 Money Orders	x				
	248 Stamped Envelopes	x				
	184 Operating Equipment			x		
17.	190 Research & Development					
18.	Admin and Regional Operations					
	199 Repriced Annual Leave					x
	200 Holiday Leave					x
	201 CS Ret Fund Deficit Curret					x
	204 Workers Comp Current					x
19.	Gen. Management Systems					
20.	Other Accrued Expenses:					
	City Delivery Vehicle Depreciation					
	239 Domestic Indemnities	x				
	240 International Indemnities	x				

Category 1: costs that vary directly with volume

Category 2: cost distributions that vary directly with volume

Category 3: costs that vary indirectly with volume

Category 4: costs that vary with both direct and indirect volume

Category 5: cost distributions that vary indirectly with volume

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KASHANI
TO INTERROGATORIES OF
ASSOCIATION OF AMERICAN PUBLISHERS

AAP/USPS-T14-4 (CONTINUED)

- b) As I have explained in my testimony, costs that vary directly with volume are developed by applying a ratio of the volume change to price-level adjusted costs. For example, FY 1999 Volume Adjusted Costs = Base Year 1998 Costs * (1+ FY 1999 Cost Level Change)*(1+FY 1999 Mail Volume Change). The effect of the volume adjustment is such that the unit variable costs remain unchanged relative to the volume increase. In contrast, cost distributions that vary directly with volume reflect a redistribution of the costs among classes, and subclasses, in that, the price-level adjusted costs (FY 1999 Price Level Adjusted Costs = BY 1998 Costs * (1+ FY 1999 Cost Level Change) are redistributed in proportion to the mail volume change. That means the total volume variable cost does not change. A hypothetical example of cost distribution for mail processing component is listed below:

LINE #	MAIL CATEGORY	BY 98 COSTS (A)	FY 99 COST FACTOR FOR MAIL PROCESSING (B)	FY 99 COST LEVEL CHANGE (C) = (A)X(B)	TOTAL FY 99 COST LEVEL ADJUSTED (D) = (A)X(C)	FY 99 MAIL VOLUME CHANGE FACTOR (E)	FY 99 MAIL VOLUME LEVEL CHANGE (F) = (D)X(E)	TOTAL FY 99 MAIL VOLUME ADJUSTED (G) = (D)X(F)	REDISTRIBUTION FACTOR (H) = (C5)/(G(5))	TOTAL FY 99 VOLUME ADJUSTED (I) = ((H)X(G)
1	CLASS A	100	0.05	5.00	105.00	0.10	10.50	115.50	0.95	110.15
2	CLASS B	50	0.05	2.50	52.50	0.02	1.05	53.55	0.95	51.07
3	CLASS C	200	0.05	10.00	210.00	0.03	6.30	216.30	0.95	206.28
4										
5	TOTAL VOLUME VARIABLE COST	350		17.50	367.50		17.85	365.35		367.50
6										
7	TOTAL COST	50	0.05	2.50	52.50			52.50		52.50
8										
9		400			420.00			437.85		420.00

1 MS. NOBLE: Thank you, Mr. Chairman.

2 CHAIRMAN GLEIMAN: Anyone else?

3 [No response.]

4 CHAIRMAN GLEIMAN: I have three answers to
5 questions from POIR No. 6 that were answered by Witness
6 Kashani that I'll enter into evidence. They are answers to
7 questions 1, 2, and 3 of that Presiding Officer's
8 Information Request. I had two copies of the questions and
9 answers examined by Witness Kashani before he took the
10 stand, and you did review these, and your answers would be
11 the same if these questions were posed today?

12 THE WITNESS: Yes.

13 CHAIRMAN GLEIMAN: I'm handing the material to the
14 Reporter, and direct that it be entered into evidence and
15 transcribed into the record.

16 [Responses to Presiding Officer's
17 Information Request Number 6 by
18 Cameron Kashani were received into
19 evidence and transcribed into the
20 record.]

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**Response of United States Postal Service Witness Kashani
To
Presiding Officer's Information Request No. 6**

POIR 6-1

1. In Appendix B of witness Kashani's testimony, he identifies two adjustments to FY 1999 costs, the migration of Standard A Single Piece to First-Class and Priority Mail and a reporting change in International mail volume. Appendix B describes how the adjustments are made within the roll-forward process and Library Reference I-6 contains the roll-forward files that are used to implement the adjustment. However, no mention is made in the narrative of Appendix B as to whether any adjustment is made to the Space and Space-Related distribution keys, or any other of the distribution keys used in the development of the PESSA costs or the roll-forward process. Additionally, there is nothing in the Library Reference I-6, (VBL1.DAT file in the directory */cntlfile/fy99rcc/stat*) which indicates any adjustments made to the Space and Space-Related distribution keys, Equipment related distribution keys, or the Capital distribution keys for the migration of Standard A Single Piece to First-Class and Priority Mail. An examination of the electronic spreadsheets supporting witness Kashani's Appendix A do show an adjustment of the cost reduction and other programs distribution keys for the Standard A migration adjustment. This adjustment, shown in file *apa99.xls*, page *adjustedfy99dks*, appears to mirror the adjustment for the cost components detailed in Appendix B.

Should adjustments be made to the Space and Space-Related distribution key or any of the other distribution keys used in the roll-forward process to reflect the two FY 1999 adjustments described in Appendix B of witness Kashani's testimony? If yes, please include a detailed list of the distribution key components affected and a detailed description of how the adjustments would be made in the Postal Service's CRA/Roll-Forward model and provide any and all corrections and/or additions to Workpapers and Library Reference I-6, if any.

Response of United States Postal Service Witness Kashani
To
Presiding Officer's Information Request No. 6

POIR 6-1

Response

The mechanics of Standard A Single Piece adjustment are shown in VBL's 1 and 2 – see USPS-LR-I-4, Section 4, Part B, pages 607 through 622. VBL1 implements what is shown in figure 1 of Appendix B and the rollforward BEN2FACT file by reallocating Standard A Single Piece costs (component 1512) to First-Class (component 1511) and Priority Mail (component 1513). VBL2 applies a Mail Volume Effect to both Standard A Single Piece and International Mail using adjustments shown in RAT2FACT file.

The Space and Space related distribution keys (Base Year 1998 keys shown on pages 107-124 of witness Meehan's Workpaper WP-A) and the Rollforward related distribution keys (Base Year 1998 keys shown on pages 135-144 of witness Meehan's Workpaper WP-A) receive a mail volume effect in VBL2; see pages 616-622 of USPS-LR-I-4. As such, these keys are properly adjusted for use in developing the Space, Equipment, and Capital distribution keys in the "B Report."

**Response of United States Postal Service Witness Kashani
To
Presiding Officer's Information Request No. 6**

POIR 6-2

2. The file VBL2.dat of USPS Library Reference I-6, at lines 00028613 through 00034700, lists the direct and indirect cost components used to develop the mail volume cost effect for components 9 (Supervision of Time & Attendance), 30 (Higher Level Supervisors), and 228 (Time and Attendance Clerks).

Cost component 30, Higher Level Supervisors, is listed as receiving a mail volume effect (Line 34501) and is also part of the list of direct and indirect cost components used to develop the mail volume cost effect for Higher Level Supervisors (Line 00030200).

An examination of the other VBL data files; VBL3.dat (Non-Volume Workload) and VBL4.dat (Additional Workday) show that component 29 (Supervision of E&LR) receives the indirect cost effect, not component 30.

Please explain the apparent discrepancy in the indirect cost treatment of component 30, Higher Level Supervisors, between the mail volume effect, the Non-Volume Workload effect, and the Additional Workday effect.

If there is no discrepancy, please explain why component 30 is included in the sum of direct and indirect costs used to determine the mail volume cost effect for component 30.

Response

With respect to treatment of component 30, Higher Level Supervisors, the proper treatment is to remove component 30 from the independent components, or in other words, component 30 should not be included in those components used to develop the mail volume cost effect for components 9, 30, and 228. Additionally,

**Response of United States Postal Service Witness Kashani
To
Presiding Officer's Information Request No. 6**

POIR 6-2 (continued)

component 29 should be added to the list of dependent components; thus, the dependent components would be 9, 29, 30, and 228. The same treatment also applies to VBLs 3 and 4.

**Response of United States Postal Service Witness Kashani
To
Presiding Officer's Information Request No. 6**

POIR 6-3

3. In the Additional Workday cost effect for FY 2000 and the Test Year (both before rates and after rates) it appears that component 192, Money Order Division Personnel, receives two different additional workday cost effects. First, in file VBL4.dat at Line 00050000, it receives a cost effect with the control string '01' and then at Line 005400006 it receives a cost effect with the control string '16'.

Please explain whether this treatment is correct. If not correct, which control string, '01' or '16' is the correct method to apply the Additional Workday cost effect to component 192.

Response

The correct method of applying the Additional Workday cost effect to component 192, Money Order Division Personnel, is to use control string 16; therefore, control string 1 should be deleted.

DECLARATION

I, Cameron Kashani, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Cameron Kashani

Dated: 4/10/2000

1 CHAIRMAN GLEIMAN: If there is no other additional
2 written cross examination for this witness, that brings us
3 to oral cross.

4 MS. DUCHEK: Mr. Chairman, excuse me. Should I do
5 Library references?

6 CHAIRMAN GLEIMAN: Yes. I'm sorry, thank you.

7 MS. DUCHEK: Witness Kashani had listed a number
8 of Library references that were associated with his
9 testimony. And I would like to ask that Library Reference
10 Numbers 8, 10, and 78, in their entirety, be moved into
11 evidence, and designated portions of Library References 4,
12 5, 6, and 7, those portions are as stated in the notice of
13 the United States Postal Service regarding sponsorship of
14 Category 2 Library References in response to Presiding
15 Officer's Ruling Number R2000-1-13.

16 I can read what they are, or is that sufficient?

17 CHAIRMAN GLEIMAN: Unless there is someone in the
18 room that would like you to read the specifics on them -- is
19 there anyone that feels they need more information? If not,
20 we'll move them into evidence.

21 [Library References of Cameron
22 Kashani 8, 10, and 78, and portions
23 of 4, 5, 6, and 7 were received
24 into evidence.]

25 MS. DUCHEK: Thank you.

1 CHAIRMAN GLEIMAN: They will not be transcribed
2 into the record. That brings us to oral cross examination.

3 The two parties who requested oral cross
4 examination are the Association of Priority Mail Users and
5 the Direct Marketing Association. Is there anyone else that
6 wishes to cross examine this witness?

7 [No response.]

8 CHAIRMAN GLEIMAN: If not, Mr. Olson, e can
9 proceed when you're ready.

10 MR. OLSON: Mr. Chairman, we have no oral cross
11 exam, I'm glad to say.

12 CHAIRMAN GLEIMAN: Well, you must, because you
13 indicated you were going to. We're going to require it.

14 [Laughter.]

15 MR. OLSON: All right, we have a few questions.

16 [Laughter.]

17 CHAIRMAN GLEIMAN: If there is no oral cross
18 examination from Intervenors, there can't be any followup.
19 That brings us to questions from the Bench, and there are no
20 questions from the Bench.

21 I don't know whether everybody got worn down with
22 Witness Tayman or whether this will hold up for the next two
23 witnesses, but we're about to find out.

24 If there are no questions from the Bench, and
25 there has been no cross examination, there can't be any

1 redirect. We may get revised testimony again at some point,
2 but no redirect.

3 And if that is the case, Mr. Kashani, I want to
4 thank you for sitting through the proceedings to this point
5 today. We appreciate your appearance and your contributions
6 to the record in the way of your testimony and your
7 responses, and thank you; you are excused.

8 THE WITNESS: Thank you.

9 [Witness Kashani Excused.]

10 CHAIRMAN GLEIMAN: Magic touch. I understand that
11 a number of the other witnesses are going to ask to have
12 their counsel changed to see if they can escape the slings
13 and arrows of oral cross examination.

14 MS. DUCHEK: I will be appearing for every witness
15 through the remainder of the case.

16 CHAIRMAN GLEIMAN: Actually, if we could be sure
17 that you could pull this off again, some of the
18 Commissioners would be very supportive of that. To whom
19 shall we write the letter?

20 Mr. Hollies, when you are ready, if you would
21 introduce the next Postal Service witness.

22 MR. HOLLIES: The Postal Service calls Mr. Bradley
23 V. Pafford.
24 Whereupon,

25 BRADLEY V. PAFFORD,

1 a witness, having been called for examination and, having
2 been first duly sworn, was examined and testified as
3 follows:

4 CHAIRMAN GLEIMAN: Mr. Hollies, whenever you are
5 ready.

6 DIRECT EXAMINATION

7 BY MR. HOLLIES:

8 Q Mr. Pafford, I have handed to you previously a
9 document that has been marked as USPS-T-4, Direct Testimony
10 of Bradley V. Pafford on behalf of United States Postal
11 Service. Was that document prepared by you or under your
12 direction?

13 A It was.

14 Q And were you to testify orally today, would your
15 testimony be the same?

16 A It would.

17 MR. HOLLIES: With that, we move for admission as
18 record evidence, USPS-T-4 and its -- no, and not its
19 transcription into the record.

20 CHAIRMAN GLEIMAN: I am going to direct counsel to
21 provide the reporter with two copies of the direct testimony
22 of Witness Pafford. This testimony is received into
23 evidence subject to the objections of UPS, and as is our
24 practice, it will not be transcribed.

25 [Direct Testimony of Bradley V.

1 Pafford, USPS-T-4, was received
2 into evidence.]

3 CHAIRMAN GLEIMAN: Mr. Pafford, have you had an
4 opportunity to examine the package of designated written
5 cross-examination that was made available to you in the
6 hearing room earlier today?

7 THE WITNESS: I have.

8 CHAIRMAN GLEIMAN: And if these questions were
9 asked of you today, would your answers be the same as those
10 you previously provided in writing?

11 THE WITNESS: It would.

12 CHAIRMAN GLEIMAN: There are no corrections or
13 additions at this point?

14 THE WITNESS: No, sir.

15 CHAIRMAN GLEIMAN: That being the case, if counsel
16 would please provide two copies of the designated written
17 cross-examination of Witness Pafford to the reporter. This
18 material is received into evidence and transcribed into the
19 record.

20 [Designation of Written
21 Cross-Examination of Bradley V.
22 Pafford, USPS-T-4, was received
23 into evidence and transcribed into
24 the record.]

25

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS BRADLEY V. PAFFORD
(USPS-T-4)

Party

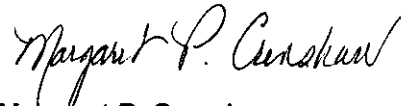
United Parcel Service

Interrogatories

UPS/USPS-T4-1-3, 6-7, 9-11

UPS/USPS-T5-15 redirected to T4

Respectfully submitted,



Margaret P. Crenshaw
Secretary

INTERROGATORY RESPONSES OF
UNITED STATES POSTAL SERVICE
WITNESS BRADLEY V. PAFFORD (T-4)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory:

UPS/USPS-T4-1
UPS/USPS-T4-2
UPS/USPS-T4-3
UPS/USPS-T4-6
UPS/USPS-T4-7
UPS/USPS-T4-9
UPS/USPS-T4-10
UPS/USPS-T4-11
UPS/USPS-T5-15 redirected to T4

Designating Parties:

UPS
UPS
UPS
UPS
UPS
UPS
UPS
UPS
UPS

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PAFFORD TO
INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/USPS-T4-1. Refer to your testimony at page 3, lines 16-17, where you state, "the Postal Service's postage revenue accounting system contains several accounts that are associated with specific classes or subclasses of mail." Identify each such account and the specific classes or subclasses of mail with which each is associated.

RESPONSE:

Each General Revenue Account and its associated mail class or subclass is identified below.

General Revenue Account	Description	Mail Class or Subclass
41310	Periodicals Mail Revenue	Periodicals
41320	Periodicals Mail Centralized Postage Revenue	Periodicals
41411	Standard Mail (A) Bulk Rate Regular Permit Imprint	Standard Mail (A) Regular Rate
41412	Standard Mail (B) Bound Printed Matter Permit Revenue	Standard Mail (B) Bound Printed Matter
41414	Standard Mail (A) Bulk Rate Nonprofit Permit Imprint Revenue	Standard Mail (A) Nonprofit Rate
41416	First Class Presort Permit Imprint Revenue	First Class Presort
41417	Express Mail (Special Permit) Revenue	Express Mail
41418	Standard Mail (B) Special Standard Presort Permit Imprint Revenue	Standard Mail (B) Special Standard
41440	Standard Mail (A) Bulk Rate Regular Centralized Postage Revenue	Standard Mail (A) Regular Rate
41441	Standard Mail (A) Bulk Rate Nonprofit Centralized Postage Revenue	Standard Mail (A) Nonprofit Rate

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PAFFORD TO
INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/USPS-T4-2. Refer to page 3 of your testimony at lines 18-19, where you state, "[M]ost postage revenue accounts are general accounts that do not correspond exactly with specific mail categories." Identify, and describe the differences between or among, all "postage revenue accounts ... that do not correspond exactly with specific mail categories," and in the case of each such account, state all of the mail categories associated with the account.

RESPONSE:

The general accounts that do not correspond exactly with specific mail categories are provided in the following table. These account revenues are aggregated and used in the book revenue adjustment of the mail categories identified with footnotes 1/ and 2/ in Tables 1, 2, and 3 of my testimony.

General Revenue Account	Description
41100, 41110 – 41115, 41117 – 41119, 41122, 41126 – 41129, 41137, 41141 – 41143, 41199, 41415, 41598	Stamps
41121, 41123, 41125	Stamped Paper
41200, 41220, 41230, 41231, 41240, 41596	Metered Postage
41421 – 41423	Official Mail
41511, 41590, 41593 – 41599	Refunds / Postage Due Revenue

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PAFFORD TO
INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/USPS-T4-3. Refer to page 6 of your testimony at lines 15-17, where you state that DRPW and BRPW estimates "are combined with other data in the RPW Adjustment System to produce estimates of revenue, pieces and weight for all categories of mail." Identify and produce all such "other data" in the RPW Adjustment System that is used "to produce estimates of revenue, pieces and weight" for Parcel Post, and provide the source of all such data.

RESPONSE:

The source of "other data" includes official mail and Alaska bypass. Official mail is Congressional Franked and permit imprint Agency Standard Mail (B), while Alaska Bypass is Standard Mail (B) Intra-BMC. The GFY 1998 totals are:

	Standard (B) Parcel Post (data in thousands)		
	Revenue	Pieces	Weight
Alaska Bypass	10,446	1,931	94,959
Official Mail	8,523	1,557	11,177

The sum of revenue, pieces and weight for DRPW, BRPW, Alaska Bypass, and Official mail equals revenue, pieces and weight shown in Tables 1, 2, and 3 of my testimony.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PAFFORD TO
INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/USPS-T4-6. Refer to Tables 1, 2, and 3 of your testimony. Provide, in the same format as and for each of the same categories of mail shown in Tables 1, 2, and 3, that part of the revenue, piece, and weight estimates that are derived solely from the DRPW system.

RESPONSE:

The attached tables provide DRPW estimates and their estimated confidence intervals.

Attachment to UPS/USPS-T4-8 Response

TABLE 1
FISCAL YEAR 1998 DRPW REVENUE ESTIMATES
AND ASSOCIATED CONFIDENCE LIMITS

SERVICE CATEGORY	REVENUE (\$1,000s)	C.V. 1/ OF ESTIMATE PERCENT	LOWER 95% CONFIDENCE LIMIT 2/	UPPER 95% CONFIDENCE LIMIT 2/
FIRST-CLASS MAIL:				
SINGLE-PIECE LETTERS, FLATS, AND IPPS	21,750,550	0.28	21,631,183	21,869,917
NONAUTO PRESORT LETTERS, FLATS, AND IPPS	7,612	12.08	5,810	9,414
AUTO PRESORT LETTERS AND FLATS	37,157	5.78	32,947	41,366
AUTO CARRIER ROUTE PRESORT LETTERS	55	59.42	0	119
SINGLE-PIECE CARDS	612,450	1.52	594,204	630,696
NONAUTO PRESORT MAILING CARDS	1	98.75	0	2
AUTO PRESORT CARDS	7	73.44	0	17
AUTO CARRIER ROUTE PRESORT CARDS	0			
DOMESTIC MAIL FEES	97,488	3.63	90,552	104,425
TOTAL FIRST-CLASS	22,505,320	0.27	22,386,222	22,624,418
PRIORITY MAIL	4,158,549	1.09	4,089,706	4,247,392
DOMESTIC MAIL FEES	941	6.33	824	1,058
TOTAL PRIORITY	4,159,490	1.09	4,070,627	4,248,353
EXPRESS MAIL	0			
MAILGRAMS	0			
PERIODICALS MAIL:				
IN-COUNTY	0			
OUTSIDE COUNTY:				
REGULAR	104	28.82	45	163
SPECIAL NONPROFIT	0			
CLASSROOM	0			
DOMESTIC MAIL FEES	7,936	9.78	6,415	9,457
TOTAL PERIODICALS	8,040	9.67	6,516	9,564
STANDARD MAIL (A):				
SINGLE-PIECE	123,859	5.69	110,045	137,672
REGULAR - NONAUTO PRESORT	469	20.28	283	656
REGULAR - AUTO PRESORT	0			
ENHANCED CARRIER ROUTE	0			
NONPROFIT - NONAUTO PRESORT	0			
NONPROFIT - AUTO PRESORT	0			
NONPROFIT ENHANCED CARRIER ROUTE	0			
DOMESTIC MAILING FEES	14,940	4.90	13,505	16,374
TOTAL STANDARD MAIL (A)	139,267	5.17	125,155	153,380
STANDARD MAIL (B):				
PARCEL POST	309,046	2.15	296,022	322,069
BOUND PRINTED MATTER	47,790	7.26	40,990	54,591
SPECIAL STANDARD	329,448	2.88	310,851	348,044
LIBRARY MAIL	45,684	3.04	42,962	48,406
DOMESTIC MAIL FEES	2,062	9.49	1,678	2,445
TOTAL STANDARD MAIL (B)	734,029	1.96	705,831	762,228

Attachment to UPS/USPS-T4-8 Response

**TABLE 1
(CONTINUED)
FISCAL YEAR 1998 DRPW REVENUE ESTIMATES
AND ASSOCIATED CONFIDENCE LIMITS**

SERVICE CATEGORY	REVENUE (\$1,000s)	C.V. 1/ OF ESTIMATE PERCENT	LOWER 95% CONFIDENCE LIMIT 2/	UPPER 95% CONFIDENCE LIMIT 2/
U.S. POSTAL SERVICE MAIL				
FREE MAIL FOR THE BLIND AND HANDICAPPED				
TOTAL DOMESTIC MAIL	27,546,147	N/C 3/		
TOTAL INTERNATIONAL MAIL	43,862	N/C		
TOTAL ALL MAIL	27,590,008	N/C		
SPECIAL AND OTHER SERVICES:				
REGISTERED	175	28.32	78	272
INSURANCE	69,768	2.86	65,857	73,679
COLLECT ON DELIVERY	2	99.86	0	5
CERTIFIED	385,745	4.05	355,125	416,366
RETURN RECEIPTS	262,058	3.86	242,231	281,884
SPECIAL DELIVERY	1	69.50	0	3
MONEY ORDERS	0			
SUBTOTAL	717,749	3.52	668,230	767,268
OUT. MONEY ORDERS TAKEN INTO REVENUE	0			
STAMPED ENVELOPES	0			
BOX RENTS	0			
TOTAL SPECIAL & OTHER SERVICES	717,749	N/C		
TOTAL MAIL & SPECIAL SERVICES	28,307,757	N/C		
OTHER INCOME	0			
TOTAL INCOME	28,307,757	N/C		

1/ COEFFICIENT OF VARIATION = (100 x EST. STD. ERROR / EST. REVENUE)

2/ LOWER LIMIT = EST. REVENUE - (1.97 x EST. STD. ERROR)

UPPER LIMIT = EST. REVENUE + (1.97 x EST. STD. ERROR)

3/ N/C - NOT COMPUTED

Attachment to UPS/USPS-T4-6 Response

TABLE 2
FISCAL YEAR 1998 DRPW PIECES ESTIMATES
AND ASSOCIATED CONFIDENCE LIMITS

SERVICE CATEGORY	PIECES (1,000s)	C.V. 1/ OF ESTIMATE PERCENT	LOWER 95% CONFIDENCE LIMIT 2/	UPPER 95% CONFIDENCE LIMIT 2/
FIRST-CLASS MAIL:				
SINGLE-PIECE LETTERS, FLATS, AND IPPS	54,131,229	0.47	53,832,572	54,629,886
NONAUTO PRESORT LETTERS, FLATS, AND IPPS	17,937	14.79	12,737	23,136
AUTO PRESORT LETTERS AND FLATS	138,004	6.02	121,720	154,287
AUTO CARRIER ROUTE PRESORT LETTERS	239	59.42	0	516
SINGLE-PIECE CARDS	2,989,380	1.50	2,882,080	3,056,880
NONAUTO PRESORT MAILING CARDS	5	98.78	0	13
AUTO PRESORT CARDS	43	73.43	0	105
AUTO CARRIER ROUTE PRESORT CARDS	0			
DOMESTIC MAIL FEES				
TOTAL FIRST-CLASS	57,256,836	0.45	56,751,830	57,761,841
PRIORITY MAIL	1,166,987	1.06	1,142,742	1,191,233
DOMESTIC MAIL FEES				
TOTAL PRIORITY	1,166,987	1.06	1,142,742	1,191,233
EXPRESS MAIL	0			
MAILGRAMS	0			
PERIODICALS MAIL:				
IN-COUNTY	0			
OUTSIDE COUNTY:				
REGULAR	160	75.56	0	398
SPECIAL NONPROFIT	0			
CLASSROOM	0			
DOMESTIC MAIL FEES				
TOTAL PERIODICALS	160	75.56	0	398
STANDARD MAIL (A):				
SINGLE-PIECE	150,276	8.87	124,150	176,402
REGULAR - NONAUTO PRESORT	0			
REGULAR - AUTO PRESORT	0			
ENHANCED CARRIER ROUTE	0			
NONPROFIT - NONAUTO PRESORT	0			
NONPROFIT - AUTO PRESORT	0			
NONPROFIT ENHANCED CARRIER ROUTE	0			
DOMESTIC MAILING FEES				
TOTAL STANDARD MAIL (A)	150,276	8.87	124,150	176,402
STANDARD MAIL (B):				
PARCEL POST	77,768	2.10	74,567	80,968
BOUND PRINTED MATTER	30,141	7.35	25,799	34,483
SPECIAL STANDARD	190,878	3.74	176,701	204,656
LIBRARY MAIL	27,728	3.39	25,886	29,571
DOMESTIC MAIL FEES				
TOTAL STANDARD MAIL (B)	326,315	4.64	296,638	355,991

Attachment to UPS/USPS-T4-6 Response

**TABLE 2
(CONTINUED)
FISCAL YEAR 1998 DRPW PIECES ESTIMATES
AND ASSOCIATED CONFIDENCE LIMITS**

SERVICE CATEGORY	PIECES (1,000s)	C.V. 1/ OF ESTIMATE PERCENT	LOWER 95% CONFIDENCE LIMIT 2/	UPPER 95% CONFIDENCE LIMIT 2/
U.S. POSTAL SERVICE MAIL	378,136	2.53	359,385	396,887
FREE MAIL FOR THE BLIND AND HANDICAPPED	53,160	4.58	48,396	57,942
TOTAL DOMESTIC MAIL	59,331,879	N/C 3/		
TOTAL INTERNATIONAL MAIL	5,982	N/C		
TOTAL ALL MAIL	59,337,861	N/C		
SPECIAL AND OTHER SERVICES:				
REGISTERED	0			
INSURANCE	39,225	3.08	36,857	41,593
COLLECT ON DELIVERY	1	99.83	0	2
CERTIFIED	278,298	4.12	255,824	300,771
RETURN RECEIPTS	237,256	3.88	219,306	255,206
SPECIAL DELIVERY	1	69.54	0	1
MONEY ORDERS	0			
SUBTOTAL	554,780	3.85	515,091	594,469
USPS SPECIAL SERVICE TRANSACTIONS				
REGISTERED TRANSACTIONS:	0			
CERTIFIED TRANSACTIONS	1,114	15.87	767	1,460
RETURN RECEIPTS	1,133	27.03	533	1,734
SPECIAL DELIVERY TRANSACTIONS	0			
SPECIAL HANDLING TRANSACTIONS	4	30.37	2	7
TOTAL	2,251	15.71	1,558	2,945

1/ COEFFICIENT OF VARIATION = $(100 \times \text{EST. STD. ERROR} / \text{EST. PIECES})$

2/ LOWER LIMIT = $\text{EST. PIECES} - (1.97 \times \text{EST. STD. ERROR})$

UPPER LIMIT = $\text{EST. PIECES} + (1.97 \times \text{EST. STD. ERROR})$

3/ N/C - NOT COMPUTED

Attachment to UPS/USPS-T4-6 Response

TABLE 3
FISCAL YEAR 1998 DRPW WEIGHT ESTIMATES
AND ASSOCIATED CONFIDENCE LIMITS

SERVICE CATEGORY	WEIGHT (1,000s)	C.V. 1/ OF ESTIMATE PERCENT	LOWER 95% CONFIDENCE LIMIT 2/	UPPER 95% CONFIDENCE LIMIT 2/
FIRST-CLASS MAIL:				
SINGLE-PIECE LETTERS, FLATS, AND IPPS	2,583,027	0.41	2,562,270	2,603,784
NONAUTO PRESORT LETTERS, FLATS, AND IPPS	1,186	11.54	917	1,454
AUTO PRESORT LETTERS AND FLATS	4,835	5.48	4,318	5,353
AUTO CARRIER ROUTE PRESORT LETTERS	6	61.48	0	12
SINGLE-PIECE CARDS	18,559	1.50	18,013	19,104
NONAUTO PRESORT MAILING CARDS	0	99.73	0	0
AUTO PRESORT CARDS	0	73.29	0	1
AUTO CARRIER ROUTE PRESORT CARDS				
DOMESTIC MAIL FEES				
TOTAL FIRST-CLASS	2,607,612	0.40	2,587,169	2,628,056
PRIORITY MAIL	1,963,492	1.22	1,916,541	2,010,443
DOMESTIC MAIL FEES				
TOTAL PRIORITY	1,963,492	1.22	1,916,541	2,010,443
EXPRESS MAIL	0			
MAILGRAMS				
PERIODICALS MAIL:				
IN-COUNTY	0			
OUTSIDE COUNTY:				
REGULAR	0			
SPECIAL NONPROFIT	0			
CLASSROOM	0			
DOMESTIC MAIL FEES				
TOTAL PERIODICALS	0			
STANDARD MAIL (A):				
SINGLE-PIECE	28,032	5.05	25,257	30,807
REGULAR - NONAUTO PRESORT	0			
REGULAR - AUTO PRESORT	0			
ENHANCED CARRIER ROUTE	0			
NONPROFIT - NONAUTO PRESORT	0			
NONPROFIT - AUTO PRESORT	0			
NONPROFIT ENHANCED CARRIER ROUTE	0			
DOMESTIC MAILING FEES				
TOTAL STANDARD MAIL (A)	28,032	5.05	25,257	30,807
STANDARD MAIL (B):				
PARCEL POST	411,253	2.28	392,875	429,631
BOUND PRINTED MATTER	72,988	6.98	63,002	82,973
SPECIAL STANDARD	307,168	2.32	293,200	321,135
LIBRARY MAIL	53,105	3.75	49,202	57,008
DOMESTIC MAIL FEES				
TOTAL STANDARD MAIL (B)	844,514	1.89	813,230	875,798

Attachment to UPS/USPS-T4-6 Response

**TABLE 3
(CONTINUED)
FISCAL YEAR 1998 DRPW WEIGHT ESTIMATES
AND ASSOCIATED CONFIDENCE LIMITS**

SERVICE CATEGORY	WEIGHT (1,000s)	C.V. 1/ OF ESTIMATE PERCENT	LOWER 95% CONFIDENCE LIMIT 2/	UPPER 95% CONFIDENCE LIMIT 2/
U.S. POSTAL SERVICE MAIL	87,482	3.85	81,205	93,719
FREE MAIL FOR THE BLIND AND HANDICAPPED	27,190	4.45	24,819	29,562
TOTAL DOMESTIC MAIL	5,558,303	N/C 3/		
TOTAL INTERNATIONAL MAIL	8,131	N/C		
TOTAL ALL MAIL	5,566,434	N/C		

1/ COEFFICIENT OF VARIATION = $(100 \times \text{EST. STD. ERROR} / \text{EST. WEIGHT})$

2/ LOWER LIMIT = $\text{EST. WEIGHT} - (1.97 \times \text{EST. STD. ERROR})$

UPPER LIMIT = $\text{EST. WEIGHT} + (1.97 \times \text{EST. STD. ERROR})$

3/ N/C - NOT COMPUTED

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PAFFORD TO
INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/USPS-T4-7. Identify all instances in which you have relied on or used in your testimony in any way FY 1999 cost, revenue, volume, or other data, and state in each such instance why you used FY 1999 data instead of data for BY 1998.

RESPONSE:

FY 1999 cost, revenue, volume, or other data are neither relied upon nor used in my testimony in any way.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PAFFORD TO
INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/USPS-T4-9. Library Reference USPS-LR-I-30, Appendix I, states: "THIS PROGRAM CREATES THE GOVERNMENT FISCAL YEAR RPW ESTIMATES. IT ROLLS UP QUARTERS 0,2,3, AND 5 TO PRODUCE RPW RATE CATEGORY AND SUMMARY CATEGORY ESTIMATES."

- (a) Define what months are included in quarters 0, 2, 3, and 5, separately.**
- (b) Are the data in these quarters only 1998 data, or are data from other years included?**
- (c) If data from other years are included, which other years? Why are data from other years included? Explain in detail.**
- (d) If data from other years are included, please provide revenue, weight, and piece proportion information for 1998 by mail category and subclass. That is, how much of the revenue, weight, and piece information in each mail category is 1998 data?**

RESPONSE:

- (a) Government Fiscal Year 1998 is October 1, 1997-September 30, 1998.**

The following months are included in Quarters 0, 2, 3, and 5:

Quarter 0	October 1, 1997 – December 5, 1997
Quarter 2	December 6, 1997 – February 27, 1998
Quarter 3	February 28, 1998 – May 22, 1998
Quarter 5	May 23, 1998 – September 30, 1998

- (b-d) Only Government Fiscal Year 1998 RPW data are included in Quarters 0, 2, 3, and 5.**

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PAFFORD TO
INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/USPS-T4-10. Refer to Library Reference USPS-LR-I-30, Appendix J.

- (a) Provide this file in electronic spreadsheet format with formulas intact and maintained as originally developed.**
- (b) Explain in detail the purpose of this file, the sources of data that are used in this file, and where the results of this file are used in RPW reporting.**
- (c) Are data other than 1998 data used in this file? If yes, please explain in detail why.**

RESPONSE:

- (a) The file is being made available as USPS-LR-I-227, Material Provided in Response to UPS/USPS-T4-10 (Pafford).**
- (b) The purpose of this file, its use in RPW reporting, and sources are described in Library Reference USPS-LR-I-30 in the system module section under module 3a (page 5) and in the system inputs and outputs section under module 3a (page 7).**
- (c) No.**

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PAFFORD TO
INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/USPS-T4-11. Refer to Library Reference USPS-LR-I-30.

- (a) Provide Appendices C, D, E, and J of USPS-LR-I-30 in electronic SPREADSHEET format, with each spreadsheet provided in its fully developed form (formulas intact).
- (b) Appendices A, B, F, G, H, and I of USPS-LR-I-30 are SAS programs that appear to have been masked with respect to certain data. Provide
 - (i) electronic copies of these programs in their fully developed form, and
 - (ii) in electronic format, all data input files for these programs so that the output results of each program can be replicated.

RESPONSE:

(a) Spreadsheets shown in Appendices C and D are being made available as USPS-LR-I-249, Material Provided in Response to UPS/USPS-T4-11 (Pafford). The computer algorithm shown in Appendix E is a SAS computer program, not a spreadsheet. The spreadsheet shown in Appendix J was previously provided as USPS-LR-I-227, in response to interrogatory request UPS/USPS-T4-10.

(b) The subparts are:

(i) Electronic versions of the SAS programs shown in Appendices A, B, F, G, H, have already been provided as part of USPS-LR-I-30.

(ii) Input data sets are being made available as USPS-LR-I-249, Material Provided in Response to UPS/USPS-T4-11 (Pafford). The following is the crosswalk of the PC file names in USPS-LR-I-249 to the input file names shown in USPS-LR-I-30:

<u>USPS-LR-I-249</u> <u>Filenames</u>	<u>USPS-LR-I-30 Reference</u>
D2SUM.TXT	HSISMN.RPW.D2SUM.FY98QT2
UCODE23.TXT	H22493.FY982.UCODE23.DATA
PS060D03.TXT	HSI.HQN.PS060D03.FY98QT2
CATEGORY.TXT	H22493.RPW.FY98.CATEGORY.EOY.DIR
CODREG.TXT	H22493.FY982.CODREG.DATA
DRPW.TXT	H22493.FY982.DRPW.DATA
MISC.TXT	H22493.FY982.MISC.DATA
SIRVO.TXT	H22493.SIRVO.RPWSUM.PQ9802.ADJII.DATA
IRPW.TXT	H22493.FY982.IRPW.DATA
AUANYN1.BIN 1/	AUANYN.BV910T01.NATL.AP0498
AUANYN2.BIN 1/	AUANYN.BV910T01.NATL.AP0598
AUANYN3.BIN 1/	AUANYN.BV910T01.NATL.AP0698

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PAFFORD TO
INTERROGATORIES OF UNITED PARCEL SERVICE

USPS-LR-I-249

Filenames

USPS-LR-I-30 Reference

TBRPT.TXT	H22493.RPW.FY98.CNTL(TBRPT)
TRIALBAL.TXT	H22493.FY982.TRIALBAL.DATA
BRPW.TXT	H22493.FY982.BRPW.DATA
SUMLABEL.TXT	H22493.RPW.FY98.CNTL(SUMLABEL)
DETAIL1.TXT	H22493.FY980.RPW.DETAIL.FY.DATA
DETAIL2.TXT	H22493.FY982.RPW.DETAIL.FY.DATA
DETAIL3.TXT	H22493.FY983.RPW.DETAIL.FY.DATA
DETAIL4.TXT	H22493.FY985.RPW.DETAIL.FY.DATA

1/ These files contain data stored as packed decimal, and therefore are created in binary format.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PAFFORD TO
INTERROGATORIES OF UNITED PARCEL SERVICE REDIRECTED FROM
WITNESS HUNTER**

UPS/USPS-T5-15. Refer to USPS-LR-I-2, page 5, which states, "[d]uring 1998, the Postal Service revised certain sampling procedures, which have decreased the difference between actual and extrapolated revenue." Explain how the extrapolated sample revenue compares to the actual Postal Service revenue and provide detailed figures supporting this explanation.

RESPONSE:

The quotation refers to the comparison of general postage account revenue (actual) to estimated total revenue (extrapolated) used in the construction of DRPW estimates. In DRPW, this relationship is expressed in the form of a ratio between these two quantities. Application of this ratio to the estimate for a given rate category results in the final estimates shown in tables 1, 2, and 3 of my response to UPS/USPS-T4-6. The estimation procedure is broadly documented in my testimony on page 6, lines 4-6, while it is technically specified in USPS-LR-I-27, page 9, equation 1. The ratios for PFY 1998 were 0.994 for PQ 1, 0.921 for PQ 2, 0.906 for PQ 3, and 0.929 for PQ 4.

1 CHAIRMAN GLEIMAN: Is there any additional written
2 cross-examination for Witness Pafford?

3 MR. McKEEVER: Yes, Mr. Chairman.

4 CHAIRMAN GLEIMAN: Mr. McKeever.

5 CROSS-EXAMINATION

6 BY MR. McKEEVER:

7 Q Mr. Pafford, I am about to hand you a copy of your
8 answers to interrogatories, UPS/USPS-T-5-66-A through E, and
9 67-C and F. I would like to ask you to review those
10 answers, and when you are done reviewing them, indicate
11 whether, if those questions were asked of you today, your
12 answers would be the same?

13 A They would.

14 MR. McKEEVER: Mr. Chairman, I move that Mr.
15 Pafford's answers to interrogatories UPS/USPS-T-5-66-A
16 through E and 67-C and F be admitted into evidence as
17 additional written cross-examination of Mr. Pafford, and I
18 am prepared to give two copies to the court reporter.

19 CHAIRMAN GLEIMAN: If you would proceed to do
20 that, I will direct that the additional designated written
21 cross-examination be entered into evidence and transcribed
22 into the record.

23 [Designation of Written
24 Cross-Examination of Bradley V.
25 Pafford, UPS/USPS-T-5-66-A through

1 E and 67-C and F, was received into
2 evidence and transcribed into the
3 record.]

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**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PAFFORD TO
INTERROGATORIES OF UNITED PARCEL SERVICE REDIRECTED FROM
WITNESS HUNTER**

UPS/USPS-T5-66. Refer to USPS-LR-I-194, Appendix A, which provides PFY to GFY factors for conversion purposes.

- (a) Explain in detail how these factors were developed.
- (b) Explain in detail why some would be less than one and others greater than 1.
- (c) Explain in detail why factors are only applied to quarters 1 and 4.
- (f) Provide copies of all analyses and supporting documents in hard copy and electronic format used to develop these factors in their fully developed form (formulas intact).
- (g) Confirm that these factors do not reflect records where the transaction occurred in one quarter and were later corrected and applied to another quarter in the BRPW process. If you cannot confirm, explain in detail why.

RESPONSE:

- (a) Two methods were used to develop the factors. The first method applied when Accounting revenue for the component could be specifically broken out.

The following formulas were applied to the Accounting revenue:

$$PQ\ 0\ FY\ 98 = PQ\ 1\ FY\ 98 - (PQ\ 5\ FY\ 97 - PQ\ 4\ FY\ 97)$$

$$PQ\ 5\ FY\ 98 = PQ\ 7\ FY\ 98 - (PQ\ 0\ FY\ 98 + PQ\ 2\ FY\ 98 + PQ\ 3\ FY\ 98)$$

The factor(s) was then calculated as the percentage of PQ 0 (PQ 5) revenue to PQ1 (PQ 4) revenue.

Note: PQ 0 is the first quarter of the Government Fiscal Year.

PQ 1 is the first quarter of the Postal Fiscal Year.

PQ 4 is the last quarter of the Postal Fiscal Year.

PQ 5 is the last quarter of the Government Fiscal Year.

PQ 7 is the Government Fiscal Year revenue total.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PAFFORD TO
INTERROGATORIES OF UNITED PARCEL SERVICE REDIRECTED FROM
WITNESS HUNTER**

The second method applied for those components where Accounting revenue could not be specifically itemized. The following formulas were used to develop the factors:

PQ 0 FY 98 delivery days / PQ 1 FY 98 delivery days

PQ 5 FY 98 delivery days / PQ 4 FY 98 delivery days

Note: Delivery days are Monday through Saturday excluding holidays.

- (b) See my response to UPS/USPS-T4-9 for the PQ 0, PQ 2, PQ 3, PQ 5, and GFY 98 calendar dates. In addition, the following are the calendar dates for PQ 4 FY 97, PQ 5 FY 97, PQ 1 FY 98, PQ 4 FY 98, and PFY 98:

PQ 4 FY 97 - May 24, 1997 - September 12, 1997

PQ 5 FY 97 - May 24, 1997 - September 30, 1997

PQ 1 FY 98 - September 13, 1997 - December 5, 1997

PQ 4 FY 98 - May 23, 1998 - September 11, 1998

PFY 98 - September 13, 1997 - September 11, 1998

By construction, it is easy to see that, using the number of days of Accounting revenue or delivery days, the factor for PQ 0 would be less than one, and greater than one for PQ 5. For example, when looking at the PQ 5 factor for the second method, there were more delivery days in PQ 5 (109 delivery days) than PQ 4 (93 delivery days), and therefore the ratio of these two must be greater than one.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PAFFORD TO
INTERROGATORIES OF UNITED PARCEL SERVICE REDIRECTED FROM
WITNESS HUNTER**

- (c) Postal Quarters 1 and 2 dates either overlap or are most 'adjacent' to the
GFY, and therefore are adjusted.
- (d) See USPS-LR-I-284.
- (e) Confirmed

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PAFFORD TO
INTERROGATORIES OF UNITED PARCEL SERVICE REDIRECTED FROM
WITNESS HUNTER**

UPS/USPS-T5-67. Refer to USPS-LR-I-194 and USPS-LR-I-25. For Parcel Post, it appears that in the final estimates of R, P, and W (Output from Job 3), the program excludes records that do not have RPW Codes. Is that correct? If so, why are those records excluded? If not, why do these records not appear in Job 3, and what happens to them? Explain in detail.

(c) Explain in detail how these codes were developed.

(f) Provide copies of all analyses and supporting documents in electronic and hard copy format used to develop RPW Codes and the requirements for assigning them to a particular record.

RESPONSE:

(c) RPW codes are unique numerical identifiers of mail categories, and are assigned based on available numerical digits. As such, RPW codes do not require development.

(f) See the response to part (c).

1 CHAIRMAN GLEIMAN: Anyone else?

2 [No response.]

3 CHAIRMAN GLEIMAN: That brings us to oral
4 cross-examination. United Parcel Service is the only party
5 who has indicated that they wish to cross-examine this
6 witness.

7 Is there any other party that wishes to
8 cross-examine the witness?

9 [No response.]

10 CHAIRMAN GLEIMAN: If not, Mr. McKeever, you can
11 proceed when you are ready.

12 MR. MCKEEVER: Thank you, Mr. Chairman.

13 CROSS-EXAMINATION

14 BY MR. MCKEEVER:

15 Q Mr. Pafford, am I correct that prior to fiscal
16 year 1998, the domestic RPW system, about which you testify,
17 and that system alone, was used to develop estimates of
18 Parcel Post revenue, pieces and weight as part of the
19 overall RPW system?

20 A That was one of the inputs into the Parcel Post
21 number.

22 Q What were the other inputs?

23 A They would be miscellaneous inputs such as OMAS
24 data and Alaska bypass mail.

25 Q Okay. The bulk RPW system, though, was not used

1 prior to fiscal year 1998 at all with respect to Parcel Post
2 estimates of revenue, pieces and weight in the RPW system?

3 A I don't believe so. That was introduced for FY
4 '98.

5 Q And even for fiscal year 1998, the Postal Service
6 first developed estimates of Parcel Post revenue, pieces and
7 weight based solely on the domestic RPW system and the other
8 sources your mentioned, but not including the bulk RPW
9 system, is that correct?

10 A I believe that is right.

11 Q In fact, the domestic RPW system was the only
12 system used to arrive at the Postal Service's official
13 estimates of revenue, pieces and weight for Parcel Post for
14 many years prior to fiscal year 1998, isn't that correct?

15 A For the Parcel Post information, I believe that is
16 right.

17 Q Do you know for how many years the domestic RPW
18 system was the only system used to estimate Parcel Post
19 revenues, pieces and weight?

20 A I do not, no.

21 Q A long time?

22 A Yes.

23 Q But at some point in fiscal year 1999, the Postal
24 Service decided to use data taken from the permit system to
25 derive revenue, piece and weight information for part of the

1 Parcel Post mailstream, is that correct?

2 A The changeover was made, the FY '98 numbers were
3 revised using the bulk BRPW system numbers, that is correct.

4 Q And that revision was made in fiscal year 1999?

5 A I am not sure of the exact date, but it was
6 reflected in the FY '99 numbers. We revised the '98
7 numbers, so we would have a comparison, apples to apples,
8 for comparisons against supply.

9 MR. McKEEVER: Mr. Chairman, with your permission,
10 I would like to show Mr. Pafford a copy of the revised
11 response of the United States Postal Service to PSA
12 Interrogatory T32-8, redirected from Witness Mays and dated
13 March 29, 2000.

14 CHAIRMAN GLEIMAN: Please proceed.

15 MR. McKEEVER: Mr. Chairman, I have copies for the
16 bench as well if the bench would like them, and I do have
17 additional copies for other parties, Mr. Chairman, if they
18 would so wish.

19 BY MR. McKEEVER:

20 Q Mr. Pafford, could you take a look at that
21 question and answer, please, and let me know when you finish
22 reading it.

23 A Okay.

24 Q Now do you see where in the first sentence of the
25 answer the indication is that the phrase "improved data

1 collection" refers to the change made in FY '99 to use
2 mailing statement data for RPW Parcel Post revenues and
3 volumes instead of the previously-used sampling data, do you
4 see that?

5 A Yes, sir.

6 Q That reference to use mailing statement data for
7 RPW Parcel Post revenues and volumes, is that a reference to
8 the use of the bulk RPW system?

9 A I believe it is.

10 Q So the change was made in FY 1999?

11 A I didn't write this response but this was what it
12 says, yes.

13 Q Okay. Do you know when in Fiscal Year 1999 that
14 decision was made? Do you know?

15 A No, I do not.

16 Q Did you participate in making that decision?

17 A I participated in implementing that decision.

18 Q But not in making it?

19 A No.

20 Q Do you know how many Parcel Post pieces were
21 actually sampled in FY 1998 in the Domestic RPW system?

22 A Would that be the number of pieces that were
23 recorded by our data collectors or would that be the
24 estimated numbers, national numbers?

25 Q No, the numbers that were recorded by your data

1 collectors?

2 A I do not have that information in front of me.

3 Q Is that information that you do have available to
4 you though?

5 A This is for FY '98?

6 Q Yes.

7 A And that is the number of mail pieces recorded?

8 Q Parcel Post.

9 A Parcel Post, recorded, in DRPW?

10 Q Yes, whether used or not to arrive at the Postal
11 Service's estimates for Parcel Post revenue pieces and
12 weight in this proceeding.

13 A That information would be in our data files, yes.

14 MR. McKEEVER: Mr. Chairman, I would like to ask
15 that the Postal Service supply that information and that is
16 the number of Parcel Post pieces that were sampled and
17 counted by the Domestic RPW data collectors in FY 1998
18 whether or not all of those pieces were used to derive the
19 Parcel Post revenue piece and weight estimates that the
20 Postal Service has presented in this proceeding.

21 CHAIRMAN GLEIMAN: Mr. Hollies? Mr. Pafford?
22 Anybody have any problems with that? Otherwise --

23 MR. HOLLIES: I don't think Mr. Pafford will have
24 a problem with that. No, the Postal Service can provide
25 that information. I am not sure if it is all Mr. Pafford's

1 responsibility. That was said in jest but we can provide
2 that.

3 CHAIRMAN GLEIMAN: By week's end?

4 MR. HOLLIES: I think that is a little quick. I
5 thought you were giving us --

6 CHAIRMAN GLEIMAN: Seven days.

7 MR. HOLLIES: -- seven days.

8 CHAIRMAN GLEIMAN: I was pushing it.

9 MR. HOLLIES: There's a lot going on.

10 CHAIRMAN GLEIMAN: It's late in the day. I was
11 just trying to move things along.

12 MR. McKEEVER: To be clear, Mr. Chairman, let me
13 make sure that the request is understood. I would like to
14 know the number of Parcel Post pieces that were sampled and
15 that were used to arrive at the estimate of Parcel Post
16 revenue pieces and weight in what I will call the original
17 CRA that was presented before the Postal Service revised its
18 Parcel Post revenue pieces and weight estimates based on the
19 use of the bulk RPW system.

20 I think the request is clear but I thought that
21 might help clarify it.

22 CHAIRMAN GLEIMAN: I think everybody understands.

23 MR. McKEEVER: Mr. Chairman, with your permission
24 I would like to approach the witness to show him a copy of
25 the cost and revenue analysis for Fiscal Year 1998, PRC

1 version, revised June 11, 1999, which was filed with this
2 Commission.

3 [Pause.]

4 BY MR. McKEEVER:

5 Q Could you turn to page 2 of that document,
6 please -- not the second page, but the page that bears the
7 number "2" --

8 A I have it.

9 Q For zone rate parcels, that presents a revenue
10 estimate of \$823.6 million, is that correct?

11 A That's correct.

12 Q And zone rate parcels are Parcel Post?

13 A It's zone-rated Parcel Post, that's correct.

14 Q Could you turn to the page numbered 20 in that
15 document, please.

16 Now on that page, that presents an estimate for
17 zone rate parcels of 266.5 million pieces, is that
18 correct -- 266,479,000?

19 A I see that number, yes.

20 Q Well, is that the estimate for zone rate parcels
21 presented in that document? Pieces?

22 A This is the number that is in this report, that's
23 correct, and that represents 6,000.

24 Q Pardon me?

25 A \$266 million.

1 Q And that represents an estimate of Parcel Post
2 pieces for fiscal year 1998, is that correct?

3 A Without studying this, I am not sure what that is
4 estimating right now. This is not a document that was
5 prepared by me.

6 Q You are not sure it is estimating pieces?

7 A It is estimating pieces.

8 Q For zone rate parcels?

9 A That is what it says.

10 Q And it is for fiscal year 1998?

11 A That is what this document says.

12 Q Do you know if that is the estimate of Parcel Post
13 pieces that was generated when the Postal Service used the
14 domestic RPW system only to estimate Parcel Post pieces?

15 A I don't have those numbers in front of me.

16 Q Do you have them available to you back at the
17 Postal Service?

18 A What I would have available would be the original,
19 I guess for a better phrase of the word, the original RPW
20 report that was published prior to the revision. I would
21 have that back at the Postal Service. I did not bring that
22 with me.

23 MR. HOLLIES: Excuse me, Mr. Chairman, the Postal
24 Service would be prepared to stipulate that the number is as
25 Mr. McKeever's question suggests. He is correct.

1 CHAIRMAN GLEIMAN: Is that satisfactory?

2 MR. McKEEVER: That's fine, Mr. Chairman. I would
3 like to move into evidence at this time the document to
4 which we are referring, which is on file with the
5 Commission. It is the Cost and Revenue Analysis Report, FY
6 1999, PRC Version, Revised June 11, 1999. I would like to
7 offer that into evidence pursuant to Commission Rule 31(d)
8 on public documents.

9 CHAIRMAN GLEIMAN: It is so ordered.

10 [Exhibit UPS-XE-Pafford-2 was
11 received into evidence.]

12 MR. McKEEVER: Mr. Chairman -- I'm sorry.

13 CHAIRMAN GLEIMAN: We will not transcribe it into
14 the record.

15 MR. McKEEVER: Mr. Chairman, also, I would like to
16 move into evidence the revised response of United States
17 Postal Service to PSA Interrogatory PSA/USPS-T32-8,
18 redirected from Witness Mays, dated March 29, 2000, to which
19 I previously directed Mr. Pafford's attention.

20 CHAIRMAN GLEIMAN: It is so ordered.

21 [Exhibit UPS-XE-Pafford-1 was
22 received into evidence and
23 transcribed into the record.]

24

25

REVISED RESPONSE OF UNITED STATES POSTAL SERVICE
TO PSA INTERROGATORY REDIRECTED FROM WITNESS MAYES
(3/29/00)

UPS-XE-
PAFFORD-1

PSA/USPS-T32-8.

In PSA/USPS-T32-1(d)(i), you are asked to describe the corrections made to FY 1997 and 1998 because of the "improved data collection" in your reference. As a response to that question you refer to the Postal Service's response to UPS/USPS-T5-13 redirected from witness Hunter. That answer is not responsive to the question. That question asked you to explain why there was not a large increase in the total revenue from 1997 to 1998 for Parcel Post that corresponded with the large increase in volume. PSA/USPS-T32-1 (d) (i) asked you to describe the corrections that you made to FY 1997 and 1998 because of the improved data collection. The Postal Service response redirected from witness Hunter does not in any way describe the corrections in revenues and volumes that were made to FY 1997 and 1998. Please supply that corrected data for the record.

Response:

The phrase improved "data collection" refers to the change made in FY 99 to use mailing statement data for RPW Parcel Post revenues and volumes, instead of the previously used sampling data. The former data represent a census of mailings at automated Bulk Mail Entry Units and, as such, represent an improvement over the previous method. This revision in data sources was applied to official FY 1998 data, but was not applied to official FY 1997 data. The revised GFY 1998 RPW data are presented in Tables 1 through 3, attached to the testimony of witness Hunter, USPS-T-5. For GFY 1997, although no "revised" data are available, the Postal Service did conduct a simulation exercise to estimate RPW results that would have been produced under the new procedures. For GFY 1997, the results of that simulation exercise yielded estimates for Parcel Post of 290,478,000 pieces and \$899,567,000 in revenue.

1 CHAIRMAN GLEIMAN: Do you want to place cross
2 exhibit numbers on those for purposes of identification?

3 MR. MCKEEVER: Yes, Mr. Chairman, I would propose
4 that with respect to the interrogatory response, since it is
5 the first document we used, we mark it UPS-XE-Pafford-1.

6 CHAIRMAN GLEIMAN: That's fine.

7 MR. MCKEEVER: And I can hand two copies to the
8 reporter for transcription into the record.

9 CHAIRMAN GLEIMAN: I appreciate that.

10 Mr. Mays.

11 MR. MAYS: Just a clarification. There are a
12 number of institutional responses to questions by the Postal
13 Service, this being one. Is this the manner in which we are
14 going to handle those and get them into the record, by
15 having various parties designate them as cross-examination
16 exhibits?

17 CHAIRMAN GLEIMAN: That is not the way we
18 ordinarily handle institutional responses. We generally
19 include them at the end as designated written
20 cross-examination in a package. But in this case, and in
21 other instances where they are used as a cross-examination
22 exhibit, this is not an unreasonable way to have them
23 entered into the record. They are going to get there one
24 way or another.

25 MR. MAYS: Thank you.

1 MR. HOLLIES: Mr. Chairman, just to clarify
2 briefly, the Postal Service's understanding here is that
3 Cross-Examination Exhibit Number 2 is admitted into the
4 record for purposes of authenticating the numbers about
5 which Mr. McKeever inquired and not for the methodology
6 underlying those numbers, for which no supporting testimony
7 has been offered.

8 MR. MCKEEVER: Mr. Chairman, it has been admitted
9 into evidence for whatever purpose the parties can use it
10 for. Counsel can address arguments about the weight to give
11 to that evidence in his brief or through other witnesses or
12 whatever. But my request was to have it admitted into
13 evidence, and I believe it has been admitted.

14 CHAIRMAN GLEIMAN: It is in evidence and I think
15 everyone participates in rate cases is well aware that there
16 is a difference of opinion over methodology, and we respect
17 the Postal Service's right to be wrong. Just joking. We do
18 respect the Postal Service. Whether it is right or wrong is
19 yet to be determined in this case.

20 MR. MCKEEVER: Mr. Chairman, I take it you would
21 like me to mark the Cost and Revenue Analysis Report as
22 UPS-XE-Pafford-2 and present two copies to the reporter,
23 although it will not be transcribed into the record.

24 CHAIRMAN GLEIMAN: That is correct.

25 MR. MCKEEVER: I have done that.

1 BY MR. MCKEEVER:

2 Q Mr. Pafford, can you tell me when the Postal
3 Service made its estimate of Parcel Post revenue, pieces and
4 weight for fiscal year 1998, based solely on the domestic
5 RPW system, did it also develop estimates, whether based on
6 domestic RPW data or any other source, to your knowledge,
7 which breaks down those estimates by inter-BMC Parcel Post,
8 intra-BMC Parcel Post and DBMC Parcel Post?

9 A I am not familiar with whether that would be
10 available or not.

11 Q Okay. Mr. Pafford, in fiscal year 1998, were
12 permit imprint Parcel Post pieces sampled as part of the
13 domestic RPW sampling system?

14 A Yes, they were.

15 Q There aren't any permit imprint Parcel Post data
16 in the domestic RPW data file in Library Reference I-30, are
17 there?

18 A I have the Library Reference. Would you repeat
19 that, please?

20 Q Sure. The statement I have asked you to confirm,
21 or correct me if I am wrong, is, there aren't permit imprint
22 Parcel Post data in the domestic RPW data file in Library
23 Reference I-30, are there?

24 A I am not sure, hold on a minute.

25 Q Sure, take your time.

1 A The component for the permit imprint portion of
2 the estimate for Parcel Post in I-30 would have come from
3 the BRPW system.

4 Q Well, I am not sure that answers my question.

5 A Okay.

6 Q Are there any, is there any permit imprint Parcel
7 Post data in the Domestic RPW data file in Library Reference
8 I-30?

9 A I would have to go back and check that. I am not
10 sure about that.

11 Q It is not something --

12 A It is not something that would have been used to
13 construct the estimate.

14 Q And it is not something that you can determine
15 here today?

16 A No, I do not have that Library Reference with me.

17 Q If I were to give you the Library Reference, could
18 you determine it?

19 A Probably not. It's a thick Library Reference with
20 a lot of computer program code and so forth. I would not
21 probably be able to do that in a timely fashion.

22 MR. McKEEVER: Okay, then Mr. Chairman, I would
23 ask that that information be provided later, within the
24 seven day framework.

25 CHAIRMAN GLEIMAN: Mr. Hollies, you got that one?

1 Mr. Pafford?

2 THE WITNESS: Yes.

3 CHAIRMAN GLEIMAN: Okay.

4 BY MR. McKEEVER:

5 Q Do you know whether data on permit imprint Parcel
6 Post from the Domestic RPW data file was eliminated from
7 Library Reference I-30? That may be the same question, but
8 I am just trying to arrive at it in a different way, if you
9 know.

10 A I don't know if it would have been eliminated. As
11 we have explained in several interrogatories how the system
12 works, it is -- the two systems communicate with each other
13 through a series of what we call mail category codes and
14 that in the processing that the system distinguishes these
15 no category codes and would eliminate, for example,
16 information from DRPW that would be provided by BRPW.

17 Q Can you tell me where in the process the
18 information on Domestic RPW for permit imprint Parcel Post
19 was removed?

20 A It would have been removed in the programs that
21 are referenced in I-30 basically.

22 Q So if we were to look at those programs we would
23 see something that removes from the data Domestic RPW
24 information on permit imprint Parcel Post pieces?

25 A You should be able to determine that from the

1 code, yes, sir.

2 Q Can you tell me generally how they were removed?

3 A The program looks at the numeric codes that come
4 from DRPW and the numeric codes that come from BRPW and
5 through a series of matching process it's my understanding
6 that the BRPW system would basically overlay, so to speak,
7 would overlay the DRPW numbers and the ~~BRPW~~^{BRPW} numbers would be
8 used in that instance.

9 Q But you are not sure whether the excluded data
10 appears in Library Reference I-30? That is what you are
11 going to check and get back to me on, is that correct?

12 A That's correct --

13 Q Okay.

14 A That's correct.

15 Q Thank you. Mr. Pafford, I assume that the Postal
16 Service has continued to sample Parcel Post in the Domestic
17 RPW system including permit imprint Parcel Post during
18 Fiscal Year 1999, is that correct?

19 A That's correct.

20 Q And it has done so in the same way as it has in
21 the past, is that correct?

22 A I believe that is correct.

23 Q Is the Postal Service continuing today to sample
24 in the Domestic RPW system all types of Parcel Post
25 including permit imprint Parcel Post just as it has in the

1 past?

2 A I believe it is basically the same. Yes, sir.

3 Q Thank you. Mr. Pafford, when the Postal Service
4 used the Domestic RPW system alone to estimate Parcel Post
5 revenue pieces and weight, was there a book revenue
6 adjustment made to the resulting estimates of Parcel Post
7 revenue and pieces at any point in the process?

8 A First of all, I want to clarify that the Domestic
9 RPW was not exclusively used. We had other miscellaneous
10 inputs.

11 Q And that's the ones you described earlier today?

12 A That's correct.

13 Q Okay.

14 A I want to clarify that. If you are speaking of
15 the component, the DRPW component of the official RPW
16 reported revenue volume and weight information, the DRPW
17 numbers would have been book revenue adjusted.

18 Q They were book revenue adjusted?

19 A Yes, the sample data is book -- would have been
20 book revenue adjusted. Yes.

21 Q Mr. Pafford, could you refer to your answer to UPS
22 Interrogatory T4-1, please? Excuse me, Mr. Pafford, I think
23 I have the wrong interrogatory. Give me a second. I
24 apologize. I was missing a digit, it is T4-11.

25 A I have that.

1 Q Now, in part b of the interrogatory, UPS notes
2 that some of the SAS programs found in the appendices
3 provided in Library Reference I-30 appear to have been
4 masked. I am referring to the question now. Do you see
5 that, Mr. Pafford?

6 A I see that, yes.

7 Q Now, part b of the interrogatory goes on to ask
8 you to provide electronic copies of those programs in their
9 fully developed form and in electronic format, all data
10 input files for these programs, so that the output results
11 of each program can be replicated. Do you see that?

12 A I do.

13 Q Now, can you take a look at your response, please?
14 Your answer to b(i) was electronic versions of the SAS
15 programs shown in Appendices A, B, F, G, H have already been
16 provided as part of USPS Library Reference I-30. Do you see
17 that?

18 A Yes, I do.

19 Q Do you have -- you don't have Library Reference
20 I-30 with you?

21 A No, I don't.

22 MR. McKEEVER: Mr. Chairman, with your permission,
23 I would like to supply a copy of that to the witness. It is
24 a thick Library Reference. Unfortunately, I do not have any
25 copies. I anticipated that the witness might have them with

1 him.

2 BY MR. MCKEEVER:

3 Q Mr. Pafford, could you locate Appendix F, please,
4 in that document?

5 A I have it.

6 Q Could you take a look at page 2 of Appendix F?

7 A I have that.

8 Q Now, at the top of the page, you will see some
9 symbols, including a diagonal and an asterisk, and then
10 three rows, one beginning "Revenue," the second beginning
11 "Pieces," the third beginning "Weight," and then that
12 followed by an asterisk and a diagonal, do you see that?

13 A Yes, I do.

14 Q Now, don't the diagonals and the asterisk symbols
15 on that page indicate that the entire section of the code
16 between those symbols is commented out?

17 A Yes, it does.

18 Q And that tells the computer when it is executing
19 the code to skip over those characters?

20 A Yes, it does.

21 Q And do the Xs indicate that some of that
22 information is masked?

23 A No, it does not.

24 Q What do the Xs indicate?

25 A It means that this particular part of the code was

1 not used in this program.

2 Q Okay. Can you tell me why this section of the
3 code was commented out and not used?

4 A I want to point out that we are currently
5 developing an interrogatory response for this same question.

6 Q If you prefer, --

7 A At this point, I will go ahead and answer it
8 because I believe it will be consistent with what I will
9 answer in the written interrogatory request.

10 Q I appreciate that. Thank you.

11 A Okay. And that would be that this particular
12 portion of the code is not used for the data set or for the,
13 I guess, for lack of better words for the code that we
14 provided for you, which was Postal Quarter 2, this is a code
15 provided for you for Postal Quarter 2, FY '98. This
16 particular portion of the code was not used for Postal
17 Quarter 2.

18 Q Was it used for other Postal quarters?

19 A Yes, it was.

20 Q Can you tell me what other quarters?

21 A I believe Postal Quarters 0 and 5.

22 Q Was this part of making the government fiscal year
23 conversion?

24 A At this point I would say, yes, I believe that is
25 correct.

1 Q So I take it at some point, when you used the
2 program to develop your results for this case, it was not
3 commented out, is that correct?

4 A If I am not mistaken, at this point, and I am
5 still doing an investigation of this, the code that was used
6 to develop the PQ0, PQ5 estimates, there would have been the
7 factors which you see as X, that you pointed out as having
8 Xs, would be in there for that adjustment to the PQ0 and PQ5
9 time periods.

10 Q And that information would have been needed to
11 replicate your results, is that correct?

12 A For PQ0 and PQ5, yes.

13 Q Thank you. Could you turn to page 3 of Appendix
14 G, to Library Reference I-30, please? That is Appendix G
15 now.

16 A I have Appendix G.

17 Q Okay. Now, again, on page 3, do you have page 3?

18 A I do.

19 Q Do you see the section of the code that is
20 commented out there?

21 A I do.

22 Q Can you tell me why this section of the code was
23 commented out when Library Reference I-30 was supplied?

24 A Not at this point, I can't. I haven't studied
25 this.

1 Q Okay. I appreciate that. Can you supply that
2 information to us, please?

3 A Yes, we will.

4 Q Thank you. So, you don't know whether it was used
5 in developing the estimates that you have presented in this
6 case at this point, is that correct?

7 A My best information at this point was that this is
8 the production code that was provided to you for Postal
9 Quarter 2 of fiscal year 1998. And in order to generate
10 Postal Quarter 2 results, this would have been the exact
11 code you would have needed to do that. In other words, this
12 part of the code that you see commented out would not have
13 been needed to produce the PQ2 FY '98 numbers.

14 Q But it would be needed to produce your total
15 numbers? At some point in the process, it would be needed,
16 is that correct?

17 A Without a study of this, my best information at
18 this time would be that if we were trying to develop another
19 Postal Quarter, probably Postal Quarter 0 or 5, this
20 information would have been relevant for that time period.

21 MR. McKEEVER: Mr. Chairman, my understanding is
22 that the witness and the Postal Service will get back to us
23 with an answer to that question, is that correct?

24 MR. HOLLIES: Yes.

25 BY MR. McKEEVER:

1 Q And if that is true, if your understanding is
2 true, then, again, that would have been needed in order to
3 replicate your results, is that correct?

4 A If in fact that was true, yes, it would.

5 Q Could you turn to page 2 of Appendix E of Library
6 Reference I-30, please?

7 A I have it.

8 Q Page 2?

9 A Yes.

10 Q Do you see the section that is commented out
11 there?

12 A Yes, I do.

13 Q Can you tell me why that section was commented
14 out?

15 A Not at this time. I would provide the same
16 information, the same general framework for my response on
17 this as I just did prior to this.

18 MR. McKEEVER: That is acceptable, Mr. Chairman.

19 Thank you, Mr. Pafford.

20 BY MR. McKEEVER:

21 Q Could you return to your response to UPS-T4-11
22 again, please?

23 A Okay.

24 Q You there listed what you refer to as input file
25 names for the SAS programs provided in Library Reference

1 I-30, do you see that?

2 A Is that my response? Part 2(ii)?

3 Q I believe so, yes. Is that correct?

4 A I believe that is correct, yes.

5 Q All right. To make sure the record is clear, let
6 me ask you once again. In your answer to b(ii), you there
7 listed what you refer to as input file names for the SAS
8 programs provided in Library Reference I-30, is that
9 correct?

10 A I believe that is correct.

11 Q Okay. Are these input files used in the SAS
12 programs that are provided in Library Reference I-30?

13 A I believe that is correct because they have the
14 Postal Quarter 2 qualifiers on those data sets.

15 Q Could you look at page 1 of Appendix E to Library
16 Reference I-30?

17 A Appendix E?

18 Q Appendix E, page 1, yes. Do you see where the
19 input and output files are defined in this SAS program?

20 A I see that, yes.

21 Q Do you see the second IN-1 statement?

22 A I do.

23 Q Is that an input file?

24 A It should be.

25 Q Is it used in this case for any purpose?

1 A That input should be the BRPW information.

2 Q So it is used in this case, is that correct?

3 A I believe it would be, yes.

4 Q Do you see that input file listed anywhere in your
5 answer to UPS Interrogatory T4-11?

6 A No, I don't.

7 Q Why didn't you include that file as part of
8 Library Reference I-249, which you filed in response to that
9 interrogatory?

10 A I am not sure why it is not listed if it was an
11 input that we asked -- that you asked us to provide and we
12 didn't provide. I am not sure why that is not there.

13 Q Are the input files that you provided in Library
14 Reference I-249 quarterly files?

15 A They should be, except in some instances the trial
16 balance are AP data sets.

17 Q Okay, and I believe you indicated they are input
18 files for Fiscal Year 1998, quarter two?

19 A They should be.

20 Q Now of course you did not run only Quarter 2 of
21 Fiscal Year 1998 in your SAS programs, you ran all the other
22 quarters too, is that correct, in developing your estimates?

23 A That would be correct.

24 Q Why didn't you provide the input files for the
25 other three quarters when you submitted Library Reference

1 I-249?

2 A I believe the interrogatory request asked to
3 provide the inputs relevant to Library Reference I-30 and
4 these were the inputs relevant to that library reference.

5 Q Was it indicated that it was only Postal Quarter 2
6 information?

7 A It was not indicated that.

8 Q Thank you, but in any event, it is not possible
9 for UPS to replicate all of the results you obtained from
10 these programs by having just the Quarter 2 input files, is
11 it?

12 A It would not. However, if UPS would have
13 requested that, we would have provided it.

14 MR. McKEEVER: Well, Mr. Chairman, we thought when
15 we were requesting the Library Reference I-30 files that
16 they were the files for the entire year, not just one postal
17 quarter. We would like to request all of the input files
18 that were run on the SAS programs, on the programs that are
19 shown in Library Reference I-30 as having been run in
20 Quarter 2. We would like those input files for all quarters
21 for Fiscal Year 1998.

22 CHAIRMAN GLEIMAN: Mr. Pafford, can we --

23 THE WITNESS: We will provide that, yes, sir.

24 MR. HOLLIES: It seems like a reasonable request.

25 BY MR. McKEEVER:

1 Q Mr. Pafford, are RPW codes the same across the
2 Domestic RPW system, the Bulk RPW system and what I will
3 refer to as the RPW adjustment system? Are those RPW codes
4 the same on all three of those systems?

5 A I am not familiar with -- I cannot say right now
6 whether they are or they are not. The Domestic -- I am
7 familiar with the Domestic RPW system codes and the codes
8 used in the adjustment model or the RPW adjustment system.
9 I would have to research what the codes are coming from
10 BRPW.

11 Q Well, let's see if we can advance the ball
12 somewhat. Are the RPW codes the same in both the Domestic
13 RPW system and in the RPW adjustment system?

14 A They should be. I should note that there are a
15 lot of codes. There's mail category codes and there's
16 summary level codes, so we would want to clarify
17 specifically what we were talking about here when we are
18 talking about these codes, I think.

19 Q Let me ask you about Code 4100. That is a Parcel
20 Post code, is that correct?

21 A I believe it is.

22 Q And in particular that identifies Standard B Zone
23 Rate Inter-BMC Machinable Parcel Post Pieces, is that
24 correct?

25 A Code 4100 would be Standard B Zone Rated Inter-BMC

1 Machinable Nonpermit Parcel Post.

2 Q Okay, and 4105 is Standard B Zone Rate Inter-BMC
3 Machinable Nonpermit -- excuse me. I said "inter" -- I
4 meant "intra BMC" Machinable Nonpermit Parcel Post, is that
5 correct?

6 A Yes, that is.

7 Q Are those two the same in both the Domestic RPW
8 and the RPW adjustment system? Do those same codes signify
9 the same things in those two systems?

10 A I could not say without studying the numbers that
11 come in from the BRPW system and how they are treated in the
12 adjustment model, as I will call it, which is the Library
13 Reference I-30 that we are referring to here, how they are
14 treated. I would have to go back and answer that at a later
15 point.

16 Q Well, let me make sure -- okay -- my question was
17 clear, because I was attempting to ask you only about the
18 two systems that I thought you said you were familiar with,
19 the Domestic RPW and the RPW adjustment system.

20 A Okay.

21 Q Now having that in mind, does the RPW Code 4100
22 symbolize the same thing in both of those systems -- that
23 is, Standard B Zone Rate Inter-BMC Machinable Nonpermit
24 Parcel Post?

25 A Between the DRPW and the RPW adjustment system --

1 Q Yes.

2 A Yes, they should be. Yes. However, the outputs
3 that come out of the adjustment system model are a whole
4 different set of codes. They are not the 4100 which you
5 see.

6 So we have 4100, which is a base input code. The
7 data is aggregated and when the output comes out of the
8 adjustment system model it is another aggregated, higher
9 level basically, at the level of the two-page report. That
10 is a whole separate code. It's a three digit code, and so
11 to be clear I just want to make sure that we get that
12 distinction there and why I am a little hesitant as to what
13 code is what here in our discussion.

14 Q Okay, well, I think you have answered my question.
15 I only have two more, maybe some follow-ups.

16 A Okay.

17 Q Is RPW Code 4105 the same in the Domestic RPW
18 system and the RPW adjustment system, and that is Standard B
19 Zone Rate Intra-BMC Machinable Nonpermit Parcel Post?

20 A Again I will answer that question in a similar
21 fashion.

22 The input, the DRPW input into the adjustment
23 model system has this code for that rate category or that
24 category and in the process it is aggregated to a higher
25 level and on the output records that basically results in

1 the two page report, which is part of my testimony, is
2 basically aggregated to a three digit level code.

3 So what number transpires within the detailed SAS
4 program that we are speaking of in I-30 I am not exactly
5 sure what numbers there are within that. I would have to go
6 back and research that, so I hate to be noncommittal at this
7 point but I would want to go back and study the SAS code to
8 see exactly in your reference to 4105 as being an adjustment
9 system model number the same as an input DRPW number, I
10 would have to go back and research that.

11 Q Just one more. In the Domestic RPW system, does
12 the RPW Code 4160 identify Standard B Zone Rate DBMC
13 Machinable Nonpermit Parcel Post?

14 A In the Domestic RPW system, yes, it does -- 4160,
15 Standard B Zone Rated DBMC Nonpermit Parcel Post.

16 Q Machinable?

17 A I do not have that. I have BMC Nonpermit Parcel
18 Post.

19 Q Well, a DBMC piece has to be machinable?

20 A Which is machinable.

21 Q Yes, okay, and you are not sure if that same code
22 represents Standard B Zone Rate DBMC Machinable Nonpermit
23 Parcel Post in the RPW adjustment system? Is that your
24 testimony?

25 A My testimony is that when the RPW system gets all

1 these inputs there is a series of merges that go on between
2 DRPW, BRPW, trial balance and so forth and so on, and during
3 that process what spits out is an aggregated number.

4 The aggregated number is what shows in my
5 testimony and in terms of a code there is a three digit code
6 at that point.

7 MR. MCKEEVER: That's all I have, Mr. Chairman.

8 CHAIRMAN GLEIMAN: Okay, followup?

9 [No response.]

10 CHAIRMAN GLEIMAN: No followup. Questions from
11 the Bench?

12 [No response.]

13 CHAIRMAN GLEIMAN: Nobody wants to ask any
14 questions about computer code from the Bench?

15 [Laughter.]

16 MR. MCKEEVER: I apologize, Mr. Chairman, for the
17 need to have to do it. We thought we had covered it in
18 discovery, but apparently we hadn't.

19 CHAIRMAN GLEIMAN: There's no need; I'm just doing
20 a reality check with my colleagues.

21 Mr. Hollies, would you like some time with your
22 witness for redirect?

23 MR. HOLLIES: Yes, I would.

24 CHAIRMAN GLEIMAN: Let's take ten, and we'll come
25 back at half past the hour.

1 [Recess.]

2 CHAIRMAN GLEIMAN: Mr. Hollies?

3 MR. HOLLIES: I was just wondering which way the
4 bets were going and by whom, before I answer.

5 [Laughter.]

6 CHAIRMAN GLEIMAN: I've learned not to.

7 COMMISSIONER LeBLANC: We don't give that secret
8 away.

9 MR. HOLLIES: I do have a couple of questions.

10 REDIRECT EXAMINATION

11 BY MR. HOLLIES:

12 Q Mr. Pafford, you were asked a number of questions
13 about your provision of files and materials identified in
14 Library Reference I-30, and the responses you provided
15 confirmed that basically the materials you provided related
16 only to Quarter Two. Why was that?

17 A The Library Reference that was filed was filed
18 just for Quarter Two, and the interrogatory question asked
19 specifically for all input data files for these programs so
20 referenced, so I interpreted that literally.

21 Q Why does the Library Reference refer only to
22 Quarter Two?

23 A In prior rate cases, the history is that this is
24 just one quarter, one example of the detailed computer code
25 and spreadsheets that have been provided, which has

1 typically been one quarter, and so that's why Postal Quarter
2 Two was just provided.

3 Q And do you have an understanding of whether that
4 was sufficient in previous proceedings?

5 A As far as I know, it was.

6 Q Okay, you basically undertook, in response to a
7 number of Mr. McKeever's questions, shall we say, a number
8 of homework assignments.

9 Do you foresee any difficulty in responding
10 affirmatively and completely to all of those in the
11 timeframe referenced earlier by the Presiding Officer, that
12 is, one week?

13 A No, I do not.

14 Q Thank you.

15 MR. HOLLIES: I have no more questions.

16 CHAIRMAN GLEIMAN: I must say the last answer to
17 that question fooled me. I thought for sure you wouldn't
18 ask the question unless the answer was going to be yes.

19 Yes, sir, Mr. McKeever?

20 RECROSS EXAMINATION

21 BY MR. McKEEVER:

22 Q Mr. Pafford, I think you did indicate that one
23 cannot replicate the total result for Fiscal Year 1998,
24 having only Postal Quarter Two data; is that correct?

25 A That would be correct.

1 Q And were you aware, at least as of the technical
2 conference that was held on March 20, that UPS was
3 interested in replicating all of Fiscal Year 1998, and not
4 just Postal Quarter Two?

5 A I don't want to sound -- you know, present a
6 negative tone here, but there was not a question asked to me
7 in the technical conference.

8 Q No, most of them were asked of Mr. Hunter; is that
9 correct?

10 A That's correct.

11 Q But you aware that UPS was interested in
12 replicating all of Fiscal Year 1998 and had directed a
13 number of questions informally to the Postal Service in its
14 effort to do that?

15 A For witness Hunter. I would have been perfectly
16 responsive to that request to duplicate it for domestic RPW.

17 Q We asked the wrong guy; is that what you're
18 saying?

19 A No, sir.

20 MR. McKEEVER: Mr. Chairman, I'll let it rest
21 there.

22 CHAIRMAN GLEIMAN: Thank you. Is there anything
23 further?

24 [No response.]

25 CHAIRMAN GLEIMAN: If there is nothing further,

1 Mr. Pafford, that completes your testimony here today. We
2 appreciate your appearance and your contributions to this
3 record. We thank you, and you are excused.

4 THE WITNESS: Thank you.

5 [Witness Pafford excused.]

6 CHAIRMAN GLEIMAN: Whenever you're ready, Mr.
7 Hollies, with the next witness.

8 MR. HOLLIES: Well, I guess the Postal Service
9 should call at this time, Mr. Herbert B. Hunter, III.
10 Whereupon,

11 HERBERT B. HUNTER, III,
12 a witness, having been called for examination and, having
13 been first duly sworn, was examined and testified as
14 follows:

15 DIRECT EXAMINATION

16 BY MR. HOLLIES:

17 Q Mr. Hunter, I believe you have before you two
18 copies of what is marked as USPS-T-5, Direct Testimony of
19 Herbert B. Hunter, III on behalf of United States Postal
20 Service. Do you have two such copies?

21 A Yes, I do.

22 Q And is that your direct testimony?

23 A That's correct.

24 Q Were you to testify orally today, would your
25 testimony be the same?

1 A Yes, it would.

2 Q And that document was prepared by you or under
3 your direction, is that correct?

4 A I am sorry, what?

5 Q Did you prepare that document?

6 A Yes, I did.

7 MR. HOLLIES: The Postal Service moves that
8 USPS-T-5 be accepted as record evidence in this case and not
9 transcribed.

10 CHAIRMAN GLEIMAN: Is there any objection other
11 than the United Parcel Service objection that was discussed
12 earlier on in the hearing?

13 [No response.]

14 CHAIRMAN GLEIMAN: If not, if we could provide
15 copies to the court reporter of Mr. Hunter's testimony, I
16 will direct that it be received into evidence, subject to
17 the previously noted objections, and, as is our practice, it
18 will not be transcribed into the record.

19 [Direct Testimony of Herbert B.
20 Hunter, III, USPS-T-5, was received
21 into evidence.]

22 CHAIRMAN GLEIMAN: Mr. Hunter, have you had an
23 opportunity to examine the packet of designated written
24 cross-examination that was made available to you in the
25 hearing room earlier today?

1 THE WITNESS: Yes, I have.

2 CHAIRMAN GLEIMAN: And if these questions were put
3 to you today, would your answers be the same as those you
4 previously provided?

5 THE WITNESS: Yes.

6 CHAIRMAN GLEIMAN: Are there any corrections or
7 additions that you would like to make at this point in time?

8 THE WITNESS: I have none.

9 CHAIRMAN GLEIMAN: That being the case, counsel,
10 if I could ask your assistance, if you would please provide
11 two copies of the designated written cross-examination of
12 Witness Hunter to the reporter. The material will be
13 received into evidence and transcribed into the record.

14 [Designation of Written
15 Cross-Examination of Herbert B.
16 Hunter, III, USPS-T-5, was received
17 into evidence and transcribed into
18 the record.]

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS HERBERT B. HUNTER
(USPS-T-5)

Party

National Newspaper Association

Interrogatories

NNA/USPS-T5-1, 3-5, 7, 9, 11-12, 14-17, 22, 25,
29-38
UPS/USPS-T5-23, 34

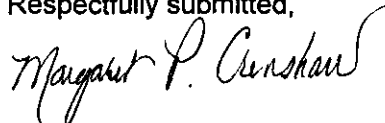
United Parcel Service

NNA/USPS-T5-5-7, 14, 16, 19, 26
UPS/USPS-T4-8 redirected to T5
UPS/USPS-T5-1-6, 6a, 7, 7b, 8-9, 9a, 10-12, 16-
21, 24, 26-27, 29
VP-CW/USPS-T5-1-7

Val-Pak Direct Marketing, Val-Pak
Dealers, & Carol Wright

VP-CW/USPS-T5-1-7

Respectfully submitted,



Margaret P. Crenshaw
Secretary

Designating Parties:

NNA

NNA

NNA

NNA, UPS

UPS

NNA, UPS

NNA

NNA

NNA

NNA, UPS

NNA

NNA, UPS

NNA

UPS

NNA

NNA

UPS

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UPS

UPS/USPS-T5-6a	UPS
UPS/USPS-T5-7	UPS
UPS/USPS-T5-7b	UPS
UPS/USPS-T5-8	UPS
UPS/USPS-T5-9	UPS
UPS/USPS-T5-9a	UPS
UPS/USPS-T5-10	UPS
UPS/USPS-T5-11	UPS
UPS/USPS-T5-12	UPS
UPS/USPS-T5-16	UPS
UPS/USPS-T5-17	UPS
UPS/USPS-T5-18	UPS
UPS/USPS-T5-19	UPS
UPS/USPS-T5-20	UPS
UPS/USPS-T5-21	UPS
UPS/USPS-T5-23	NNA
UPS/USPS-T5-24	UPS
UPS/USPS-T5-26	UPS
UPS/USPS-T5-27	UPS
UPS/USPS-T5-29	UPS
UPS/USPS-T5-34	NNA
UPS/USPS-T4-8 redirected to T5	UPS
VP-CW/USPS-T5-1	UPS, VP-CW
VP-CW/USPS-T5-2	UPS, VP-CW
VP-CW/USPS-T5-3	UPS, VP-CW
VP-CW/USPS-T5-4	UPS, VP-CW
VP-CW/USPS-T5-5	UPS, VP-CW
VP-CW/USPS-T5-6	UPS, VP-CW
VP-CW/USPS-T5-7	UPS, VP-CW

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION**

NNA/USPS-T5-1. Please confirm that the total annual volumes for [I]n-[C]ounty mail are derived in part from a panel of post offices using the PERMIT system and in part from a supplemental stratified sample of non-automated post offices.

RESPONSE. Confirmed.

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TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION**

NNA/USPS-T5-3. Please provide the same data requested in Interrogatory 2 for the test year used in this docket.

RESPONSE. My understanding is that the Postal Service does not forecast volumes in a manner that would allow this type of disaggregation.

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NNA/USPS-T5-4. Please provide annual total volumes for [In-C]ounty mail by fiscal year for a period from 1986 to 1998.

RESPONSE. The Base Year 1998 estimate of total In-County volume is provided in Table 2 of my testimony. The volume estimates for the FY 1986 through FY 1997 period are found in the Cost and Revenue Analysis report made available to the public each year. These volumes are repeated below.

Year	In-County Volume (000)
1986	1,737,956
1987	1,479,531
1988	1,488,271
1989	1,458,827
1990	1,382,914
1991	1,179,504
1992	1,192,671
1993	1,057,671
1994	1,006,421
1995	907,187
1996	877,829
1997	947,047

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION**

NNA/USPS-T5-5. Please explain in detail any changes in sampling, sampling design, billing determinant measurement, computerization of post offices or measurement methodology instituted by the Postal Service that would have changed the ways these volumes were determined during this time period.

RESPONSE. The referenced time period is not clear, however, my response assumes the extensive twelve-year period referenced in NNA/USPS-T5-4 for which I do not have complete information. My understanding is that the underlying methodology used to construct the estimates of In-County volume, wherein postage statement data are obtained from a probability based sample of post offices to supplement the data obtained from a certainty segment, is essentially unchanged over the twelve-year period, though substantial efforts are made to improve the precision and accuracy of the estimates and incorporate new computer technology throughout this period. In PQ2, FY 1993, the panel inflation factors were adjusted to align the automated office data stream with the existing non-automated office panel. While this adjustment affected the absolute measures, it had a much smaller effect on the revenue per piece measure. Up to and throughout the FY 1995 period, the major improvements consisted of panel updates which included replacing the outdated manual data collection and reporting process with the more reliable and accessible revenue and volume data obtained from the PERMIT System and its predecessor BRAVIS. Several improvements were implemented during the FY 1996 period which included updating the non-automated office panel, converting the outdated COBOL code

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to SAS, and eliminating several costly administrative and operational procedures upon the transfer of the system to postal headquarters. By FY 1998, the automated office volume coverage for the Periodicals mail class increased to approximately 93 percent. I am not aware of any change to the billing determinant process that might affect the In-County subclass.

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NNA/USPS-T5-6. Please confirm that the sampling design for volumes calculated from non[-]automated offices has not changed since 1986. If your answer is negative, please explain your response in detail.

RESPONSE. See the response to NNA/USPS-T5-5.

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NNA/USPS-T5-7. Please state the frequency with which the panel of sampled offices in [sic] non-automated offices is refreshed.

RESPONSE. See the response to NNA/USPS-T5-5. In addition, given the logistical issues associated with a partial or complete replacement of the panel, and in the absence of identified non-mitigating factors which might measurably influence the estimates or obviate the eventual discontinuation of the supplemental panel of non-automated offices, a two to three year timeframe is targeted.

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NNA/USPS-T5-9. Please refer to page 40 in the testimony by USPS Witness Thress, lines 4 through 7. Do you agree with his statement that a smaller volume series for this subclass is also inherently more volatile?

RESPONSE. The context of witness Thress' demand forecast is quite distinct from my BRPW estimates of FY 1998 volumes. While I cannot comment on witness Thress' results, I have no reason to disagree with them.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION**

- NNA/USPS-T5-11.** Please answer the following questions with respect to a non[-]automated office submitting data for the volume and revenue samples:
- a. Are the data recorded in the PERMIT system by any individual outside that non[-]automated office?
 - b. If your response is no, please explain how the data are recorded.
 - c. Does the office submit hard-copy mailing statements for recording?
 - d. Does the office submit a year's worth of statements? If your answer is no, please state the span of time involved.
 - e. Besides volume and revenue data, what other information is recorded from these statements?

RESPONSE.

- a-d. No panel data are recorded in the PERMIT System from offices that are not automated under the PERMIT System. See System Methodology section in USPS-LR-I-25/R2000-1.
- e. The post office finance number, processing period, VIP Code crosswalk, and copy and weight information are recorded.

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NNA/USPS-T5-12. Please confirm that BRPW captures PERMIT-based office data by use of a sample of PERMIT-based post offices, rather than a total census of mailing statements from PERMIT offices. If your answer is negative, please explain the statements on p. 3 of your testimony, lines 4-5.

RESPONSE. Not confirmed. My testimony discusses a panel that includes in part the offices under the PERMIT System. All PERMIT System postage statements for the mail categories of interest are captured with certainty. See also USPS-LR-I-25/R2000-1, page 1.

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NNA/USPS-T5-14. Please answer the question with respect to volumes entered through additional entry offices.

- a. Are volumes recorded in PERMIT through the original entry office or the additional entry office, or neither or both?
- b. Is it possible for a mailing to escape PERMIT entry completely, either because of noncompliance with guidance given to post offices in use of PERMIT or through other human error?
- c. If your answer to b is no, please explain what mechanism or procedure in PERMIT avoids such error.

RESPONSE. This response is based on discussions with other postal officials since the premise for the question is not pertinent to my testimony.

- a. The volume is recorded through the additional entry office.
- b-c. The additional entry status of a mailing is irrelevant to the PERMIT System which does not and need not record that information in order to report volumes for the BRPW. Of importance to BRPW is where the postage is credited since this information determines where the volume information can be found. While at some theoretical level it must be possible for a mailing to escape being recorded, I understand there is no recognition that this occurs with any regularity (and it is possible it may not happen at all). The systemic, legal, and economic checks and incentives all work in the direction of assuring the proper entry of bulk mailings. The mailer (or agent) and the Postal Service must both account for and agree as to the applicable postage category, volume counts, and the tender/acceptance of funds via trust funds and postmaster accounts.

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Noncompliance by a mailer risks loss of entry privileges, and civil or even criminal charges. A postal employee risks loss of livelihood, and civil or criminal penalties.

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NNA/USPS-T5-15. Please answer the question with respect to volumes entered for authorized exceptional dispatch.

- a. Are volumes recorded in PERMIT through the original entry office or the exceptional dispatch office, or neither or both?
- b. Is it possible for an exceptional dispatch mailing to escape PERMIT entry completely, either because of noncompliance with guidance given to post offices in use of PERMIT or through other human error?
- c. If your answer to b is no, please explain what mechanism or procedure in PERMIT avoids such error.

RESPONSE. See the response to NNA/USPS-T5-14.

- a. The volume is recorded through the original entry office.
- b-c. The response to NNA/USPS-T5-14(b-c) pertaining to additional entry also applies to exceptional dispatch.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION**

NNA/USPS-T5-16. Please answer the question with respect to non[-]automated offices whose volume and revenue data are gathered through a sampling system where additional entry is involved.

- a. Are volumes collected on mailing statements through the inclusion of the original entry office or the additional entry office, or neither or both?
- b. Is it possible for a mailing to escape sampling completely, either because of noncompliance with guidance given to post offices or through other human error?
- c. If your answer to b is no, please explain what mechanism or procedure in the sampling system avoids such error.

RESPONSE. See the response to NNA/USPS-T5-14.

- a. The volume is recorded through the office where it is entered into the mailstream.
- b-c. A clarification is necessary to respond to this interrogatory, since no sampling of mailings at the BRPW panel offices occurs; all mailings are recorded (see USPS-LR-I-26, page 1). The response to NNA/USPS-T5-14(b-c) pertaining to the PERMIT System's recordation of volume entered through additional entry offices also applies to non-automated offices.

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TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION

NNA/USPS-T5-17. Please answer the question with respect to non[-]automated offices whose volume and revenue data are gathered through a sampling system where exceptional dispatch is involved.

- a. Are volumes collected on mailing statements through the inclusion of the original entry office or the exceptional dispatch office, or neither or both?
- b. Is it possible for a mailing to escape sampling completely, either because of noncompliance with guidance given to post offices or through other human error?
- c. If your answer to b is no, please explain what mechanism or procedure in the sampling system avoids such error.

RESPONSE. See the response to NNA/USPS-T5-14.

- a. The volume is recorded at the original entry office.
- b-c. The response to NNA/USPS-T5-15(b-c) pertaining to the PERMIT System's recordation of volume entered through exceptional dispatch offices also applies to non-automated offices. In addition, see the response to NNA/USPS-T5-16(b-c) pertaining to the clarification required to answer this interrogatory.

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TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION**

NNA/USPS-T5-19. If a post office that formerly appeared in the non[-]automated sample migrates to the PERMIT system, is it replaced in the non[-]automated sample by another post office?

RESPONSE. No. A non-automated office may become automated upon its selection to the panel in order to ease the BRPW processing workload, or it may migrate naturally. In either case, the office is retained in the BRPW panel. This is discussed on page 3 of USPS-LR-1-25.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION

NNA/USPS-T5-22. Please confirm that exceptional dispatch set up permits Postal Service to track how many copies the mailer intends to enter. If your answer is yes, please provide an estimate of the volumes of [I]n-[C]ounty mail entered for delivery through exceptional dispatch? [sic] If you cannot, please explain in detail why the data are not available.

RESPONSE. It is my understanding that this statement is true. See the response to NNA/USPS-T5-14. I am unable to provide an estimate of this intended or actual volume because this extraneous information is unnecessary to the construction of the BRPW volume estimates and is not routinely collected. See also the responses to NNA/USPS-T5-14 and NNA/USPS-T5-18.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION**

NNA/USPS-T5-25. Please confirm that sections 1.2 and 1.3 in LR I-44 direct the entry post office to set up screens listing additional entry offices as well as exceptional dispatch offices as appropriate for the periodical's intended distribution. If the steps required for additional entry differ from exceptional dispatch in any manner other than the setting up of a postage account and the collection of an entry fee, please explain them.

RESPONSE. Not confirmed. It is my understanding that these PERMIT System sections and their associated workscreens are appropriate only for the original entry office for the purposes of tracking other offices where the mail may be entered, and storage of data pertinent to the authorization. Neither workscreen will set up a postage account for other offices where the mail will be entered; this process is reserved for the Application/Additional Entry/Exceptional Dispatch workscreen shown in Section 1.1 of USPS-LR-I-44, and it must be performed at the office where the mail is to be entered.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION**

NNA/USPS-T5-26. Please answer the following questions with respect to verification referred to in LR 1-44. If you cannot respond, please refer the question to another witness who is able to respond.

- a. Please explain what verification is required.
- b. Confirm that [P]eriodicals mail is verified by weighing, post office audit or audit bureau audit.
- c. Confirm that PERMIT records the fact that verification was conducted, if it was.
- d. Confirm that if no verification occurred, PERMIT would indicate its absence. If your answer is no, please explain.

RESPONSE. This response is based on my understanding of discussions with other postal officials.

- a-b. The reference is to a presort verification, which is not related to circulation or other audits.
- c. Confirmed.
- d. A record of bypassed presort verifications is kept at the local level.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION**

NNA/USPS-T5-29. Does the PERMIT [S]ystem contain data that would enable the Postal Service to analyze the frequency of publication of users of [I]n-[C]ounty mail entered in PERMIT-based offices? If your answer is yes, please provide a breakdown of publication frequency for the base year in this case. If your answer is no, please explain in detail why the data are not available.

RESPONSE. See the response to NNA/USPS-T5-26. The frequency of publication is not readily determined since this type of information is not centrally recorded or stored and is outside the design specifications of the BRPW and PERMIT System. This information is also irrelevant to the PERMIT System and non-automated office data streams which do not and need not record it in order to report volumes for the BRPW. The construction of the BRPW estimates from the VIP Code level aggregates reported by panel offices is discussed in my testimony, and in USPS-LR-I-25 and USPS-LR-I-26.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION**

NNA/USPS-T5-30. Does the non-automated [office] sampling system for [i]n-[C]ounty mail contain data that would enable the Postal Service to analyze the frequency of publication of users of [i]n-[C]ounty mail entered in non[-]automated offices? If your answer is yes, please provide a breakdown of publication frequency for the base year in this case. If your answer is no, please explain in detail why the data are not available.

RESPONSE. I understand that data which would allow Postal Service headquarters to conduct such an analysis are not available. It might be possible for respective Districts to do this if they invest appropriate time and programming resources. See also the response to NNA/USPS-T5-29.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION**

NNA/USPS-T5-31. Please refer to the response to NNA/USPS-5, which provides a table giving the number of PERMIT offices by Cost Ascertainment Group. Please further refer to the response to NNA/USPS-6, which provides a table giving the number of non-automated offices by Cost Ascertainment Group. Finally, please refer to USPS-LR-I-230, Appendix A, at page 3, which provides a table with the subtitle of "PQI-FY95 2C CENSUS REVENUES BY STRATUM."

- a. Please confirm that there were 2,025 PERMIT offices in FY98. If not confirmed, please provide the total number of PERMIT offices in FY98 and please explain the discrepancy with the response to NNA/USPS-5.
- b. Please confirm that there were 26,184 non-automated offices in FY98. If not confirmed, please provide the total number of non-automated offices in FY98 and please explain the discrepancy with the response to NNA/USPS-6.
- c. Please confirm that the table on page 3 of Appendix A of USPS-LR-I-230 provides information on the panel of non-automated offices for the Periodicals category of mail. If not confirmed, please provide an exact reference to the table in USPS-LR-I-230 with this information.
- d. Please provide the meaning of the following column headings used in the table on page 3 of Appendix A of USPS-LR-I-230: RI, RC, RN, RR, RF, RU, and R.
- e. Please confirm that the table on page 3 of Appendix A of USPS-LR-I-230 lists 3 strata for PERMIT offices (strata 1 .1, 1.8, and 1.9) and 6 strata for non-automated offices (strata 2.1, 2.2, 2.3, 2.4, 2.5, and 3.0). If not confirmed, please provide a list of the PERMIT and non-automated strata listed on this table.
- f. Please provide the definitions of the 9 strata referenced in (e). These definitions should include precise values for the defining revenue ranges.
- g. Please confirm that the 3 PERMIT strata included on the table on page 3 of Appendix A of USPS-LR-I-230 represent observations for a population of 1,663 offices. If not confirmed, please explain.
- h. Please explain the discrepancy between the number of PERMIT offices listed in (a) and the number of PERMIT offices listed in (g).
- i. Please confirm that the 6 non-automated strata included on the table on page 3 of Appendix A of USPS-LR-I-230 represent observations for a population of 6,103 offices. If not confirmed, please explain.
- j. Please explain the discrepancy between the number of non-automated offices listed in (b) and the number of non-automated offices listed in (i).
- k. Please confirm that the 6 non-automated strata included on the table on page 3 of Appendix A of USPS-LR-I-230 are represented by a combined sample of 25 non-automated offices. If not confirmed, please explain.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION**

RESPONSE.

- a-b. I understand these counts to be correct.
- c. Confirmed.
- d. These column headings are the survey revenue variables associated with the In-County, Classroom, Nonprofit, Regular, Foreign, unassigned and total categories, respectively.
- e. Confirmed.
- f. The Strata 1.1, 1.8 and 1.9 categories identified PERMIT System offices, planned PERMIT System office additions, and offices not yet fully on-line at the time of the survey, respectively. The latter two categories served to update the survey with information that had since become available. The Strata 2.1 through 2.5 were constructed based on the following ranges of In-County revenue, in reverse (descending) order respectively: 1-599, 600-1399, 1400-2999, 3000-7299, and 7300 and greater. Stratum 3.0 represented any remaining offices.
- g. Confirmed.
- h. There is no discrepancy. The counts represent two points in time.
- i. Confirmed.
- j. See my response to part (h).
- k. Not confirmed. Some sampled offices are automated as explained on page 2 of USPS-LR-I-26/R2000-1. In addition, the panel for the

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
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**Periodicals mail category for the FY 1998 period is of size 2,050 offices
and represents both segments of the population.**

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION**

NNA/USPS-T5-32. Please state the number of offices within the samples of non-automated offices referred to in USPS-LR-1-230 that failed to supply data or were non-responsive to requests for data for any time relevant to the RPW reports used in this docket. If the number is 1 or greater, please explain any proxies or changes in blow-up factors that you may have used to compensate for a response [sic].

RESPONSE. Each panel office used in the BRPW for the Periodicals mail category reports their data each AP, or 13 times a year. Unless the system administrator determines that an extenuating circumstance exists, non-response is not allowed and no exceptions are made. For the FY 1998 period, only one panel office was unable to meet the reporting deadline for the full postal quarter and missed one AP period. Accordingly, the data received from this office for the other two AP's of the affected postal quarter were expanded by a factor of 1.5 as constructed from the reciprocal of the ratio 2/3.

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TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION**

NNA/USPS-T5-33. Please respond to the following with respect to the process by which you construct the strata for non-automated offices.

- a. Please confirm that the strata developed for Within County data from non-automated offices are constructed by use of total revenue figures for Periodicals mail.
- b. Is the account identifier code only AIC 135 or is another account also involved?
- c. Does the Postal Service have an account identifier code for within county revenues? If so, please supply it.
- d. If your response to (c) above is yes, please explain why you do not construct strata for within county revenue piece and weight data solely through use of this code.
- e. If your response to (c) above is no, please explain how the revenue figures reported in RPW are calculated.

RESPONSE.

- a. Not confirmed.
- b. The AIC 135 revenue account is the only account used for Periodicals mail for the FY 1998 period.
- c-e. No explicit AIC revenue account existed for the In-County mail category for the FY 1998 period. Historically, the In-County revenue information has been obtained by means of a survey. This survey information is used as explained in USPS-LR-I-230/R2000-1 to construct the sampling strata for the current panel used for the FY 1998 period. See also my response to NNA/USPS-T5-31(f). Effective mid year FY 1999, a revenue account labeled AIC 224 was defined; it is not yet fully established.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
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NNA/USPS-T5-34. Please refer to USPS-LR-I-230, Appendix A, at page 3, which provides a table with the subtitle of "PQI-FY95 2C CENSUS REVENUES BY STRATUM." Please further refer to tables 1, 2, and 3 of your testimony, which provide estimates of revenue, pieces, and weight, respectively.

- a. Please provide separate estimates of revenue, pieces, and weight for each of the 6 non-automated strata listed in NNA/USPS-T5-32(e) for Periodicals subclasses in County, Regular, Nonprofit, and Classroom for both FY98 and FY99. Please further provide the associated coefficients of variation for each of these estimates.
- b. For each of the separate stratum estimates of revenue, pieces, and weight in a), please provide four separate quarterly estimates for each of the two years requested. Please further provide the associated coefficients of variation for each of these estimates.

RESPONSE. The requested information is not needed or required to develop the estimates of revenue and volume totals provided in my testimony.

Additionally, the data are not available and are not readily determined without additional resources. A response to this interrogatory, however, will be provided when resources become available.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION**

NNA/USPS-T5-35. Please refer to your response to UPS/USPS-T5-11. Please provide for the base year in Docket R97-1 and separately for Base Year FY 98 in this case the proportion of usable records from PERMIT and non-automated offices for within-county mail.

RESPONSE. The requested information is not needed or required to develop the estimates of revenue and volume totals provided in my testimony. Additionally, the data are not available and are not readily determined without additional resources. A response to this interrogatory, however, will be provided when resources become available.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION**

NNA/USPS-T5-36. Please refer to USPS-LR-I-26 at page 2, which describes the sampling procedure used to define the strata for the BRPW panel. In particular, please refer to the sentence that states: "For each mail category, the panel is selected by first grouping non-zero targeted or auxiliary revenue variable reporting offices among four to six strata using the CUM [square-root] f rule (cumulative frequency distribution) and revenue level (size) information obtained from a revenue account or survey." In the following subparts of this interrogatory, please interpret the terms "offices" and "revenue" as they are used in this sentence.

- a. For each year from FY86 to FY99, please provide the total number of offices.
- b. For each year from FY86 to FY99, please provide total Periodicals revenue.
- c. For each year from FY86 to FY99, please provide the total number of offices that have zero Periodicals revenue for that year.
- d. For each year from FY87 to FY99, please provide the total number of offices that have zero Periodicals revenue for both that year and the previous year.
- e. For each year from FY87 to FY99, please provide the total number of offices that have both zero Periodicals revenue for that year and non-zero Periodicals revenue for the previous year.
- f. For each year from FY87 to FY99, for the offices identified in (e) with zero Periodicals revenue for that year and non-zero Periodicals revenue for the previous year, please provide total Periodicals revenue for the previous year.
- g. For each year from FY87 to FY99, please provide the total number of offices from (a) that have both non-zero Periodicals revenue for that year and zero Periodicals revenue for the previous year.
- h. For each year from FY87 to FY99, for the offices identified in (g) with non-zero Periodicals revenue for that year and zero Periodicals revenue for the previous year, please provide total Periodicals revenue for that year.
- i. For each year from FY87 to FY99, please provide the total number of offices from (a) that have positive Periodicals revenue for both that year and the previous year.
- j. For each year from FY87 to FY99, for the offices identified in (i) with positive Periodicals revenue for both that year and the previous year, please provide total Periodicals revenue for both that year and the previous year.
- k. Please explain how the sampling procedure described on page 2 of USPS-LR-I-26 accounts for Periodicals mail from the offices identified in (g) with non-zero Periodicals revenue for that year and zero Periodicals revenue for the previous year.

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RESPONSE. An objection to this interrogatory was filed but responsive information to part (k) is being made available today and additional information will be forthcoming.

- k. The estimator used in the BRPW for mail categories associated with a known AIC revenue total is discussed in the statistical system documentation provided in USPS-LR-I-26/R2000-1. The estimator accounts for changes in Periodicals activity in either direction within the life of the supplemental panel. For added protection, the panel is updated periodically.

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NNA/USPS-T5-37. Please refer to USPS-LR-I-230, Appendix A, at page 3, which provides a table with the subtitle of "PQI-FY95 2C CENSUS REVENUES - BY STRATUM." Please confirm that this table applies to FY98 and not to FY95, as is suggested by the subtitle.

RESPONSE. Not confirmed. The title above the subtitle references the FY 1996 period.

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TO INTERROGATORIES OF NATIONAL NEWSPAPER ASSOCIATION**

NNA/USPS-T5-38. Please refer to USPS-LR-I-230, Appendix A, at page 3, which provides a table with the subtitle of "PQI-FY95 2C CENSUS REVENUES - BY STRATUM." For each of the 9 strata in the table, please provide the total number of sampled offices that reported non-zero in-county volume in FY98.

RESPONSE. The information required to partition the current automated office segment into three strata is no longer available. However, there were 1,643 PERMIT System offices in this segment that reported non-zero In-County revenue for the FY 1998 period. The non-automated office strata match the counts shown in the NHSAMP column, except for stratum 2.5 which had one office with no In-County revenue for the FY 1998 period.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/USPS-T5-1. Refer to page 2 of your testimony at lines 13-14, where you state, "The BRPW provides estimates of revenue and volume totals where bulk mail categories correspond to the Postal Service's revenue accounting system." Confirm that this sentence refers to a situation where revenue accounts are associated with specific classes or subclasses of mail. If you do not confirm, explain why you cannot confirm that statement, and indicate what you mean when you refer to situations "where bulk mail categories correspond to the Postal Service's revenue accounting system."

RESPONSE. Not confirmed. The paraphrased sentence omits the permit imprint indicia and Periodicals permit component associated with mail class and subclass revenue accounts used in the BRPW as listed at lines 19-22 on page 2 and at line 1 on page 3 of my testimony.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/USPS-T5-2. Refer to Tables 1, 2, and 3 of your testimony. Provide, in the same format as and for each of the same categories of mail shown in Tables 1, 2, and 3 of your testimony, that part of the revenue, piece, and weight estimates that are derived solely from the BRPW system.

RESPONSE. The attached tables provide BRPW estimates of revenue, volume and weight totals and their estimated confidence intervals.

ATTACHMENT TO UPS/USPS-T5-2 RESPONSE

TABLE 1
FISCAL YEAR 1998 BRPW REVENUE ESTIMATES
AND ASSOCIATED CONFIDENCE LIMITS

SERVICE CATEGORY	REVENUE (\$1,000s)	C.V. 1/ OF ESTIMATE PERCENT	LOWER 95% CONFIDENCE LIMIT 3/	UPPER 95% CONFIDENCE LIMIT 3/
FIRST-CLASS MAIL:				
SINGLE-PIECE LETTERS, FLATS, AND IPPS	0			
NONAUTO PRESORT LETTERS, FLATS, AND IPPS	1,509,471	2.31	1,441,128	1,577,814
AUTO PRESORT LETTERS AND FLATS	8,834,141	0.15	8,808,189	8,860,113
AUTO CARRIER ROUTE PRESORT LETTERS	296,418	0.81	291,712	301,124
SINGLE-PIECE CARDS	0			
NONAUTO PRESORT MAILING CARDS	99,551	4.96	89,873	109,229
AUTO PRESORT CARDS	286,253	1.23	279,352	293,154
AUTO CARRIER ROUTE PRESORT CARDS	20,810	0.97	20,415	21,206
DOMESTIC MAIL FEES	0			
TOTAL FIRST-CLASS	11,046,644	0.32	10,977,360	11,115,929
PRIORITY MAIL	13,873	0		
DOMESTIC MAIL FEES	0			
TOTAL PRIORITY	13,873	0		
EXPRESS MAIL	0	N/C 2/		
MAILGRAMS	0	N/C		
PERIODICALS MAIL:				
IN-COUNTY	79,302	2.56	75,323	83,281
OUTSIDE COUNTY:				
REGULAR	1,640,960	0.16	1,635,814	1,646,106
SPECIAL NONPROFIT	317,027	0.65	312,988	321,065
CLASSROOM	12,229	0		
DOMESTIC MAIL FEES	0			
TOTAL PERIODICALS	2,049,518	0.01	2,049,116	2,049,920
STANDARD MAIL (A):				
SINGLE-PIECE	0			
REGULAR - NONAUTO PRESORT	1,914,749	0.72	1,887,728	1,941,769
REGULAR - AUTO PRESORT	5,245,761	0.32	5,212,859	5,278,662
ENHANCED CARRIER ROUTE	4,910,882	0.45	4,867,568	4,954,196
NONPROFIT - NONAUTO PRESORT	486,447	1	478,913	495,981
NONPROFIT - AUTO PRESORT	665,081	0.52	658,302	671,859
NONPROFIT ENHANCED CARRIER ROUTE	211,744	1.44	205,768	217,720
DOMESTIC MAILING FEES	0			
TOTAL STANDARD MAIL (A)	13,434,663	0.03	13,426,763	13,442,563
STANDARD MAIL (B):				
PARCEL POST	619,931	0.92		
BOUND PRINTED MATTER	379,975	0		
SPECIAL STANDARD	0			
LIBRARY MAIL	0			
DOMESTIC MAIL FEES	0			
TOTAL STANDARD MAIL (B)	999,907	0.57		

ATTACHMENT TO UPS/USPS-T5-2 RESPONSE

TABLE 1
(CONTINUED)
FISCAL YEAR 1998 BRPW REVENUE ESTIMATES
AND ASSOCIATED CONFIDENCE LIMITS

SERVICE CATEGORY	REVENUE (\$1,000s)	C.V. 1/ OF ESTIMATE PERCENT	LOWER 95% CONFIDENCE LIMIT 3/	UPPER 95% CONFIDENCE LIMIT 3/
U.S. POSTAL SERVICE MAIL				
FREE MAIL FOR THE BLIND AND HANDICAPPED				
TOTAL DOMESTIC MAIL	27,544,805	N/C		
TOTAL INTERNATIONAL MAIL	0	N/C		
TOTAL ALL MAIL	27,544,805	N/C		
SPECIAL AND OTHER SERVICES:				
REGISTERED	0			
INSURANCE	0			
COLLECT ON DELIVERY	0			
CERTIFIED	0			
RETURN RECEIPTS	0			
SPECIAL DELIVERY	0			
MONEY ORDERS	0	N/C		
SUBTOTAL	0			
OUT. MONEY ORDERS TAKEN INTO REVENUE	0	N/C		
STAMPED ENVELOPES	0	N/C		
BOX RENTS	0	N/C		
TOTAL MAIL & SPECIAL SERVICES	27,544,805	N/C		
OTHER INCOME	0	N/C		
TOTAL INCOME	27,544,805	N/C		

1/ COEFFICIENT OF VARIATION = 100 x (EST. STD. ERROR / EST. REVENUE)

2/ NOT COMPUTED

3/ LOWER LIMIT = EST. REVENUE - (1.97 x EST. STD. ERROR)

UPPER LIMIT = EST. REVENUE + (1.97 x EST. STD. ERROR)

ATTACHMENT TO UPS/USPS-T5-2 RESPONSE

TABLE 2
FISCAL YEAR 1998 BRPW PIECES ESTIMATES
AND ASSOCIATED CONFIDENCE LIMITS

SERVICE CATEGORY	PIECES (1,000s)	C.V. 1/ OF ESTIMATE PERCENT	LOWER 95% CONFIDENCE LIMIT 3/	UPPER 95% CONFIDENCE LIMIT 3/
FIRST-CLASS MAIL:				
SINGLE-PIECE LETTERS, FLATS, AND IPPS	0			
NONAUTO PRESORT LETTERS, FLATS, AND IPPS	4,561,366	2.57	4,331,601	4,791,131
AUTO PRESORT LETTERS AND FLATS	33,934,990	0.16	33,828,570	34,041,410
AUTO CARRIER ROUTE PRESORT LETTERS	1,237,768	0.82	1,217,875	1,257,661
SINGLE-PIECE CARDS	0			
NONAUTO PRESORT MAILING CARDS	553,062	4.96	499,296	606,829
AUTO PRESORT CARDS	1,846,658	1.17	1,804,310	1,889,005
AUTO CARRIER ROUTE PRESORT CARDS	148,645	0.97	145,819	151,471
DOMESTIC MAIL FEES				
TOTAL FIRST-CLASS	42,282,489	0.3	42,033,868	42,531,110
PRIORITY MAIL	4,659	0	4,659	4,659
DOMESTIC MAIL FEES				
TOTAL PRIORITY	4,659	0	4,659	4,659
EXPRESS MAIL	0			
MAILGRAMS	0	N/C 2/		
PERIODICALS MAIL:				
IN-COUNTY	923,865	2.2	884,028	963,702
OUTSIDE COUNTY:				
REGULAR	7,185,219	0.19	7,158,461	7,211,977
SPECIAL NONPROFIT	2,136,927	0.76	2,105,096	2,168,759
CLASSROOM	60,793	0		
DOMESTIC MAIL FEES				
TOTAL PERIODICALS	10,306,804	0.17	10,272,462	10,341,147
STANDARD MAIL (A):				
SINGLE-PIECE	0			
REGULAR - NONAUTO PRESORT	6,903,376	0.67	6,812,721	6,994,031
REGULAR - AUTO PRESORT	28,034,406	0.32	27,858,634	28,210,299
ENHANCED CARRIER ROUTE	33,802,715	0.48	33,484,699	34,120,731
NONPROFIT - NONAUTO PRESORT	3,719,254	1.26	3,627,403	3,811,104
NONPROFIT - AUTO PRESORT	6,845,382	0.5	6,778,297	6,912,467
NONPROFIT ENHANCED CARRIER ROUTE	2,647,088	1.59	2,564,594	2,729,582
DOMESTIC MAILING FEES				
TOTAL STANDARD MAIL (A)	81,952,281	0.12	81,759,529	82,145,033
STANDARD MAIL (B):				
PARCEL POST	234,892	0.96		
BOUND PRINTED MATTER	458,238	0.04	457,878	458,597
SPECIAL STANDARD	0			
LIBRARY MAIL	0			
DOMESTIC MAIL FEES				
TOTAL STANDARD MAIL (B)	693,130	0.33	688,646	697,613

ATTACHMENT TO UPS/USPS-T5-2 RESPONSE

**TABLE 2
(CONTINUED)
FISCAL YEAR 1998 BRPW PIECES ESTIMATES
AND ASSOCIATED CONFIDENCE LIMITS**

SERVICE CATEGORY	PIECES (1,000s)	C.V. 1/ OF ESTIMATE PERCENT	LOWER 95% CONFIDENCE LIMIT 3/	UPPER 95% CONFIDENCE LIMIT 3/
U.S. POSTAL SERVICE MAIL	0			
FREE MAIL FOR THE BLIND AND HANDICAPPED	0			
TOTAL DOMESTIC MAIL	135,239,364	N/C		
TOTAL INTERNATIONAL MAIL	64,283	N/C		
TOTAL ALL MAIL	135,303,646	N/C		
SPECIAL AND OTHER SERVICES:				
REGISTERED	0			
INSURANCE	0			
COLLECT ON DELIVERY	0			
CERTIFIED	0			
RETURN RECEIPTS	0			
SPECIAL DELIVERY	0			
MONEY ORDERS	0	N/C		
SUBTOTAL	0			
USPS SPECIAL SERVICE TRANSACTIONS				
REGISTERED TRANSACTIONS:	0			
CERTIFIED TRANSACTIONS	0			
RETURN RECEIPTS	0			
SPECIAL DELIVERY TRANSACTIONS	0			
SPECIAL HANDLING TRANSACTIONS	0			
TOTAL	0			

1/ COEFFICIENT OF VARIATION = $100 \times (\text{EST. STD. ERROR} / \text{EST. PIECES})$

2/ NOT COMPUTED

3/ LOWER LIMIT = $\text{EST. PIECES} - (1.97 \times \text{EST. STD. ERROR})$

UPPER LIMIT = $\text{EST. PIECES} + (1.97 \times \text{EST. STD. ERROR})$

ATTACHMENT TO UPS/USPS-T5-2 RESPONSE

TABLE 3
FISCAL YEAR 1998 BRPW WEIGHT ESTIMATES
AND ASSOCIATED CONFIDENCE LIMITS

SERVICE CATEGORY	WEIGHT (1,000s)	C.V. 1/ OF ESTIMATE PERCENT	LOWER 95% CONFIDENCE LIMIT 3/	UPPER 95% CONFIDENCE LIMIT 3/
FIRST-CLASS MAIL:				
SINGLE-PIECE LETTERS, FLATS, AND IPPS	0			
NONAUTO PRESORT LETTERS, FLATS, AND IPPS	183,827	1.81	177,305	190,348
AUTO PRESORT LETTERS AND FLATS	1,262,751	0.24	1,256,811	1,268,691
AUTO CARRIER ROUTE PRESORT LETTERS	45,473	0.97	44,608	46,337
SINGLE-PIECE CARDS	0			
NONAUTO PRESORT MAILING CARDS	4,084	6.24	3,585	4,584
AUTO PRESORT CARDS	16,243	1.84	15,657	16,828
AUTO CARRIER ROUTE PRESORT CARDS	1,222	0.9	1,201	1,244
DOMESTIC MAIL FEES				
TOTAL FIRST-CLASS	1,513,600	0.26	1,505,887	1,521,313
PRIORITY MAIL	4,910	0		
DOMESTIC MAIL FEES				
TOTAL PRIORITY	4,910	0		
EXPRESS MAIL	0	N/C 2/		
MAILGRAMS				
PERIODICALS MAIL:				
IN-COUNTY	253,938	3.67	235,672	272,204
OUTSIDE COUNTY:				
REGULAR	3,568,117	0.29	3,547,836	3,588,399
SPECIAL NONPROFIT	585,102	0.45	579,941	590,262
CLASSROOM	31,884	0		
DOMESTIC MAIL FEES				
TOTAL PERIODICALS	4,438,841	0.31	4,411,871	4,465,811
STANDARD MAIL (A):				
SINGLE-PIECE	0			
REGULAR - NONAUTO PRESORT	1,176,218	1	1,153,165	1,199,272
REGULAR - AUTO PRESORT	3,391,095	0.36	3,367,168	3,415,023
ENHANCED CARRIER ROUTE	4,849,076	0.88	4,765,439	4,932,712
NONPROFIT - NONAUTO PRESORT	239,983	0.66	236,879	243,067
NONPROFIT - AUTO PRESORT	458,590	0.55	453,646	463,533
NONPROFIT ENHANCED CARRIER ROUTE	195,751	1.2	191,147	200,355
DOMESTIC MAILING FEES				
TOTAL STANDARD MAIL (A)	10,310,713	0.27	10,256,149	10,365,277
STANDARD MAIL (B):				
PARCEL POST	1,330,219	0.97	1,304,929	1,355,509
BOUND PRINTED MATTER	1,125,204	0.07	1,123,660	1,126,748
SPECIAL STANDARD	0			
LIBRARY MAIL	0			
DOMESTIC MAIL FEES				
TOTAL STANDARD MAIL (B)	2,455,423	0.52	2,430,397	2,480,449

ATTACHMENT TO UPS/USPS-T5-2 RESPONSE

**TABLE 3
(CONTINUED)
FISCAL YEAR 1998 BRPW WEIGHT ESTIMATES
AND ASSOCIATED CONFIDENCE LIMITS**

SERVICE CATEGORY	WEIGHT (1,000s)	C.V. 1/ OF ESTIMATE PERCENT	LOWER 95% CONFIDENCE LIMIT 3/	UPPER 95% CONFIDENCE LIMIT 3/
U.S. POSTAL SERVICE MAIL	0			
FREE MAIL FOR THE BLIND AND HANDICAPPED	0			
TOTAL DOMESTIC MAIL	27,544,605	N/C		
TOTAL INTERNATIONAL MAIL	67,604	N/C		
TOTAL ALL MAIL	27,612,209	N/C		

1/ COEFFICIENT OF VARIATION = $100 \times (\text{EST. STD. ERROR} / \text{EST. WEIGHT})$

2/ NOT COMPUTED

3/ LOWER LIMIT = $\text{EST. WEIGHT} - (1.97 \times \text{EST. STD. ERROR})$

UPPER LIMIT = $\text{EST. WEIGHT} + (1.97 \times \text{EST. STD. ERROR})$

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UPS/USPS-T5-3 [as modified by agreement among counsel]. Refer to page 3 of your testimony at lines 1-6. Please provide the number of PERMIT, non-PERMIT and sampled non-PERMIT offices and the proportions of volume by First-Class Mail, permit imprint Priority Mail, Periodicals, Standard Mail (A), permit imprint Parcel Post and Bound Printed Matter in each of those categories of offices.

RESPONSE. The table below provides the estimated proportion of total volume for the 2,138 automated offices used in the BRPW by First-Class Mail, permit imprint Priority Mail, Periodicals, Standard Mail (A), and permit imprint Parcel Post and Bound Printed Matter mail category.

FY 1998 BRPW AUTOMATED OFFICE SEGMENT

Mail Category	Est. Volume (%)
First-Class Mail	96.6
Permit Imprint Priority Mail	100
Periodicals	92.6
Standard Mail (A)	95.6
Permit Imprint Parcel Post	99.1
Permit Imprint BPM	98.7

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UPS/USPS-T5-4 [as modified by agreement among counsel]. Refer to page 3 of your testimony at lines 1-6, where you refer to "a supplemental stratified random sample of non-automated post offices." Please provide the number of PERMIT, non-PERMIT and sampled non-PERMIT offices and the proportions of volume by First-Class Mail, permit imprint Priority Mail, Periodicals, Standard Mail (A), permit imprint Parcel Post and Bound Printed Matter in each of those categories of offices.

RESPONSE. The table below provides the number of non-automated bulk mail acceptance and sampled offices used in the BRPW and the estimated proportion of total volume by First-Class Mail, permit imprint Priority Mail, Periodicals, Standard Mail (A), and permit imprint Parcel Post and Bound Printed Matter mail category.

FY 1998 BRPW NON-AUTOMATED OFFICE SEGMENT

Mail Category	Non-Automated Sites		Sampled Non-Automated Sites	Est. Volume (%)
	Permit Imprint	Postage Affixed		
First-Class Mail	8,715	20,234	46	3.4
Permit Imprint Priority Mail	8,715		18	0.0
Periodicals	6,103		25	7.4
Standard Mail (A)	18,528	20,234	49	4.4
Permit Imprint Parcel Post	42		0	0.9
Permit Imprint BPM	2,269		21	1.3

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UPS/USPS-T5-5. Refer to page 3 of your testimony at lines 7-11. Why is the same form (PS Form 3605) used to report revenue and volume data both for Standard Mail (B) and for Priority Mail?

RESPONSE. Under the July 1996 edition of Form 3605, Section B is used by Parcel Post mailers to compute parcel post postage, whereas Section D is used by Priority Mail mailers to compute Priority Mail postage.

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UPS/USPS-T5-6. Refer to your testimony on page 4, lines 1-2, where you state, "Each Postal Quarter (PQ), the BRPW panel postage statement data and the revenue account information are combined to produce the estimates of total revenue and volume." Describe how the postage statement data and the revenue account information are combined to produce estimates of total revenue and volume. As part of your description, provide a detailed description of each step in the process of combining postage statement data with revenue account information.

- (a) Provide all supporting documents and records used in the process, indicating the source from which they were obtained.
- (b) Explain and describe each step used to produce total revenue and volume for Parcel Post from the postage statement data and revenue account information.

RESPONSE. The process of combining postage statement and revenue account data is described in USPS-LR-I-25/R2000-1, pages 1-4, and in USPS-LR-I-26/R2000-1, Sections 4-5. The program code used for this process is shown in the Job 3 code found in Appendix A of USPS-LR-I-25/R2000-1. Base Year FY 1998 based estimates are constructed from the BRPW produced PFY 1998 estimates by multiplying the PQ1 and PQ4 period estimates by the GFY factors that will be found in the table in Appendix A of USPS-LR-I-194/R2000-1, which will be filed when protective conditions are approved.

- a. A partial objection to this interrogatory has been filed to the extent that the electronic data records are subsequently provided in USPS-LR-I-194/R2000-1 in response to UPS/USPS-T5-16, the response to this interrogatory is subsumed in the information provided therein. The AIC revenue account totals are found in the revenue accounts file USPS67 that will be provided in Appendix A of USPS-LR-I-194/R2000-1. The

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postage statement data obtained from the PERMIT System and the sample of non-automated offices are found in the files labeled BRPW1-13 and BRPW27-39 that will be provided in Appendix A of USPS-LR-I-194/R2000-1. The GFY conversion factors will be found in the table in Appendix A of USPS-LR-I-194/R2000-1.

- b. See the main response to UPS/USPS-T5-6. In addition, for FY 1998, because there is no AIC revenue account for the permit imprint Parcel Post mail category, the related estimates of revenue and volume totals are developed from the automated office segment's distribution by product with a residual office blowup factor of 1.00920754. The source of this factor is provided in response to UPS/USPS-T5-7(a). The GFY conversion factors used for permit imprint Parcel Post are identified as AIC 999 values and will be shown in the table in Appendix A of USPS-LR-I-194/R2000-1.

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UPS/USPS-T5-7. Refer to Library Reference USPS-LR-I-25, page 2. Confirm that the RPW totals are obtained by combining the VIP coded records with office and stratum level blow-up factors, and then adjusting the combined strata estimate to postage revenue account totals. If you do not confirm, explain why and describe this part of the process.

- (a) Describe in detail how the stratum level blow-up factors are determined, and how they are then used in this process.
- (b) Identify all source information that is blown-up.
- (c) Explain the purpose of the blow-up factor step.
- (d) Describe in detail how the combined strata estimates are adjusted to postage revenue account totals.
- (e) Explain in detail for each step how the Parcel Post data is integrated into the combined strata estimates.

RESPONSE. Not confirmed. See the response to UPS/USPS-T5-6(b).

- a. The strata blowups are applied to the non-automated office subpopulation. A stratum blowup is the reciprocal of the sampling fraction used to obtain the sample for the stratum, and is formulated as N/n' , where N is the number of post offices and n' is the effective sample size for the stratum. For the permit imprint Parcel Post subclass for which there is no non-automated office sample, the blowup provided in response to UPS/USPS-T5-6(b) is calculated as the ratio of total to automated office permit imprint Parcel Post revenue as determined by a recently conducted survey of post offices.
- b. A partial objection to this interrogatory has been filed but responsive information is being made available in the response to UPS/USPS-T5-18. Inflated source data are identified in and available from the files labeled RPW48-51 by comparing the RP, RW, P and W source data variable

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values to the RPHAT, RWHAT, PHAT and WHAT inflated variable values,
respectively.

c. See the response to part (a).

d-e. See the responses to UPS/USPS-T5-6 and UPS/USPS-T5-6(b).

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UPS/USPS-T5-8. Refer to Library Reference USPS-LR-I-25, page 2, which states that "[u]pon input of the VIP Code revenue, volume, and weight data to the BRPW, the records are matched on VIP Code to a master rate file by rate date to obtain the appropriate piece rate, pound rate, and weight per piece type limits required for data verification."

(a) Provide a detailed explanation of this process.

(b) Provide detailed, step by step instructions on how the verification process is performed with respect to the Parcel Post records.

RESPONSE.

- a. The process of matching records to a master rate file by rate date is performed in Job 2 and is explained on page 4 of USPS-LR-I-25. Rate tables contain rate and weight boundary information by VIP Code corresponding to the level of detail required on postage statements to compute mailer postage. Where possible, the RDATE variable values correspond to the *Ratefold* issuance dates found in the Domestic Mail Manual.
- b. See the response to part (a). In addition, the revenue and volume data in the permit imprint Parcel Post records are combined to construct revenue per piece and weight per piece ratios for comparison to the expected zone based rates and 1-70 pound weight range established for the Parcel Post subclass.

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UPS/USPS-T5-9. Refer to Library Reference USPS-LR-I-25, page 2, which states that "[t]he second job performs data verification checks on the raw data source[s]."

- (a) Provide in electronic format and in hard copy form the raw data used in this step, labelling each record by mail class and subclass.
- (b) Explain in greater detail what the data verification checks are and how each verification check is performed.
- (c) Provide a detailed explanation of how the Parcel Post data [are] used in the data verification check.
- (d) Does the second job contain postage statement data from the automated permit system? If so, why does data from the Permit System need to be blown up?

RESPONSE.

- a. A partial objection to this interrogatory has been filed but responsive information is being made available in the response to UPS/USPS-T5-16.

The raw data records are available from the Job 1 input files labeled BRPW1-13 and BRPW27-39. The mail class or subclass is determined by matching the records in these files to the records in the Job 2 input files labeled BRPW57-64 by VIP Code.
- b. The data verification checks are described in detail in USPS-LR-I-25/R2000-1, pages 3-5, under the *JOB-2* subtitle.
- c. See the responses to part (b) and UPS/USPS-T5-8(b).
- d. Yes. See the response to UPS/USPS-T5-10(b).

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USPS/USPS-T5-10, Refer to Library Reference USPS-LR-I-25, page 2, which states that "[t]he third job inflates the second jobs output data using office and stratum based blowup and national trial balance factors."

- (a) Provide all of the blow-up factors used (the identity of individual offices may be coded).**
- (b) Describe in detail how each blow-up factor is used.**
- (c) Explain in detail the purpose of this step.**
- (d) Are the blow-up factors used on all sources of data? If not, for which ones are they used, and for which are they not used?**
- (e) Explain how the Parcel Post data is used in this step.**
- (f) What are the national trial balance factors?**
- (g) Explain how the national trial balance factors are used.**
- (h) For what source data are the national trial balance factors needed?**
- (i) Are all records affected by the national trial balance factors? If not, which ones are, and which are not?**
- (j) Explain in detail how the national trial balance factor is used with respect to Parcel Post records.**
- (k) Provide a detailed explanation for each step in which the national trial balance factors are used.**

RESPONSE.

- a. The office level multipliers are: 1.0, 1.3333, 1.5, 2.0, 3.0 and 4.0. The non-automated office strata blowups are provided below.

Mail Category	Strata Blowups
Permit Imprint FCM & Priority	8, 113, 487.75, 1566
Permit Imprint STD Mail (A)	1.1, 17.8, 137.75, 376.5, 934.25, 3165.5
Postage Affixed FCM & STD (A)	22.57, 251.4, 747.17, 2381.33, 12
Periodicals	18.1, 100.75, 244.75, 446, 660.5, 50.25
Permit Imprint	1.009

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Parcel Post	
Permit Imprint BPM	2.2, 9.5, 69.5, 242.75

- b-d. See the response to UPS/USPS-T5-7(a).**
- e. See the response to UPS/USPS-T5-6(b).**
- f. These are the revenue account totals identified in response to
UPS/USPS-T5-14(b).**
- g. See the response to UPS/USPS-T5-6.**
- h-i. The national trial balance factors are applied to the PERMIT System and
non-automated office data streams for the five mail categories shown in
response to UPS/USPS-T5-3 and 4.**
- j-k. See the responses to UPS/USPS-T5-6.**

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UPS/USPS-T5-11. Refer to your testimony on page 3, lines 3-6, which states, "the BRPW also utilizes mailpiece information obtained from postage statements gathered from an ongoing panel of post offices comprised of automated bulk mail entry offices under the PERMIT SYSTEM and a supplemental stratified random sample of non-automated post offices."

- (a) What proportion of the records are from the PERMIT SYSTEM, and what proportion are from non-automated post offices?
- (b) For each class and subclass of mail, provide (i) for the base year in Docket No. R97-1 (1996) and, separately, for (ii) BY 1998, the proportion of records from the PERMIT SYSTEM, and the proportion from non-automated offices.
- (c) Provide for BY 1998 the number of Parcel Post records which came from the PERMIT SYSTEM, and the number which came from non-automated offices.
- (d) Provide the total number of non-automated records used for BY 1998, and the total number of records used from the PERMIT SYSTEM.

RESPONSE.

a,b(ii),c-d. A partial objection to this interrogatory has been filed but responsive information is being made available in the response to UPS/USPS-T5-16. The record counts are available from the Job 1 input files labeled BRPW1-13 and BRPW27-39. The mail categories are determined by matching the records in these files to the records in the Job 2 input files labeled BRPW57-64 by VIP Code.

b(i). The proportions of useable records for the mail categories estimated under the BRPW during this time period are provided below.

Mail Category	PERMIT	Non-Auto.
Permit Imprint Standard (A)	0.999	0.001
Periodicals	0.994	0.006
Permit Imprint BPM	0.9971	0.0029

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UPS/USPS-T5-12. Library Reference USPS-LR-I-25, page 4, refers to EFLAGS. Provide the output report in electronic and in hard copy format showing the EFLAG variable and number assigned to each record in jobs containing Parcel Post for BY 1998.

(a) For BY 1998, how many Parcel Post records were flagged?

(b) For BY 1998, what proportion of the total Parcel Post records were flagged?

(c) For BY 1998, what is the proportion of the total for all other mail classes that were flagged?

(d) For BY 1998, provide by class and subclass the proportion of records that were flagged.

(e) For BY 1998, for each subclass, provide for each EFLAG number the number of times it came up.

RESPONSE.

a-e. A partial objection to this Interrogatory has been filed but responsive

information is being made available in the response to UPS/USPS-T5-16.

The counts are available from the EFLAG and RPWCODE variables

found in the Job 2 output files labeled BRPW44-47.

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UPS/USPS-T5-16. Refer to Library Reference USPS-LR-I-25, page 7, "JOB 1-3 input and output" files. Provide in electronic format and in hard copy form the information contained on the disks for JOB 1-3 input and output files. The identity of individual facilities and the volume associated with each may be coded, redacted, or otherwise masked.

RESPONSE. A partial objection to this interrogatory has been filed. The BRPW Job 1-3 input and output files are written to CD-ROM. All facility identifying information is coded. The Job 1-3 throughputs on CD-ROM will be made available under protective conditions in USPS-LR-I-194/R2000-1. A crosswalk between the ASCII file and data definition names on the CD-ROM and in the Job 1-3 JCL, respectively, will be provided in USPS-LR-I-194/R2000-1.

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UPS/USPS-T5-17. Identify all instances in which you have relied on or used in your testimony in any way any FY 1999 cost, revenue, volume, or other data, and state in each such instance why you used FY 1999 data instead of data for BY 1998.

RESPONSE. No FY 1999 cost, revenue, volume or other data are used or relied upon in my testimony.

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UPS/USPS-T5-18. Library reference USPS-LR-I-25, file LR-I-25.DOC at 1. General, the second paragraph, states that BRPW estimates of RPW totals are constructed from financial revenue accounts information and mailer-provided postage statement data.

- (a) Are all mailer-provided postage statements hand-typed into the PERMIT System? If not, what proportion is hand-entered?
- (b) What proportion of Parcel Post statements are hand-entered?
- (c) Identify what data on the mailer-provided postage statements are entered into the PERMIT System and ultimately used in the BRPW system (i) for Parcel Post, and (ii) separately, for all other mail categories.
- (d) Identify what data on the mailer-provided postage statements are not entered into the PERMIT System and therefore not used in the BRPW system (i) for Parcel Post, and (ii) separately, for all other categories, and indicate why such data is not entered into the PERMIT System.
- (e) Are postage, revenue, and weight information for each mail piece entered into the PERMIT System for every piece that is covered by a mailer-provided postage statement? If not, why not?
- (f) Are postage, revenue, and weight information for each Parcel Post piece all entered into the PERMIT System for every piece that is covered by a mailer-provided postage statement? If not, why not?

RESPONSE.

- a-b. No. The number of hand-typed postage statements is unknown and is irrelevant to the BRPW which does not and need not record this information in order to construct estimates of revenue and volume totals.
- c. The data from postage statements used in the BRPW are identified in the CBCIS input data fields found in the Job 1 programming code provided in USPS-LR-I-25, Appendix A.
- d. This response is based on my understanding of discussions with other postal officials.

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(i). The "Statement Sequence No." and "Receipt No." information from the postage statements are not keyed since this information is irrelevant to the trust fund accounting and data reporting functions performed by the system. The preparation option in the field labeled "If Sacked or Bundled, Based On" is not keyed since this information is relevant only to the acceptance of the mailing but not to the trust fund accounting and data reporting functions. The "Signature of Permit Holder or Agent" is not keyed since it would be prohibitively costly to purchase system components to scan, digitize, and store a signature when there is no compelling business reason to do so. The "Telephone" number of the individual signing the postage statement is not keyed since this information is personal.

(ii). The "Statement Sequence No.", "Receipt No.", "Signature of Permit Holder or Agent", "Telephone", "Mailer's Printed Name and Signature", "Publisher's Printed Name and Telephone Number", and "If Sacked or Bundled, Based On" information is not keyed from the postage statements for the reasons listed in the response to subpart (i). The PERMIT System does not distinguish among the types of trays under the label "Number of Containers", but captures instead the total number of trays since this information is sufficient for mail acceptance purposes. The preparation option under "Prepared Under DMM" is not keyed since this information is

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relevant only to the acceptance of the mailing and not to the trust fund accounting and data reporting functions. The PERMIT System does not distinguish between flats and automation flats under "Processing Category", but captures the total number of flats instead since the determination of automation compatibility is not relevant to the trust fund accounting and data reporting processes. The system does not capture "Rate at Which Postage Affixed" information from the Form 3600-P since this information is relevant only to the acceptance of the mail. In addition, the certification statement information found above the signature blocks on Forms 3602 and 3541 is not captured since it would be meaningless if stored in the absence of a signature.

- e-f. This response is based on my understanding of discussions with other postal officials. At post offices where the PERMIT System has been installed, all bulk mail transactions are entered into the system. All pieces in a mailing must be reported, by regulation, on the postage statement. All piece information for each transaction is then entered into the PERMIT System. Individual pieces are not listed on a postage statement; rather the pieces are aggregated by the rate category line item detail found on the postage statement. This information is then entered into the PERMIT System.

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UPS/USPS-T5-19.

- (a) What verification checks are performed to be sure that postage statement information is correctly entered into the PERMIT System and, ultimately, into the BRPW system?
- (b) What verification checks are performed to be sure that postage statement information for Parcel Post mailings are correctly entered into the PERMIT System and, ultimately, into the BRPW system?
- (c) If the verification processes described in the responses to (a) or (b), above, are done through sampling, explain in detail how the process is performed, including a description of how the sample is selected. Explain the process separately for Parcel Post and for all other mail categories, to the extent there are any differences.
- (d) If input errors are discovered in the verification process, are they corrected? How? Explain in detail. If they are not corrected, explain why.
- (e) If input errors are discovered in the verification process in the case of Parcel Post, are they corrected? How? Explain in detail. If they are not corrected, explain why.

RESPONSE. This response is based on my understanding of discussions with other postal officials.

- a-b. The edit checks written into the PERMIT System code appear in the data entry workscreens to help ensure the integrity of the data entered. All revenue, volume and weight fields are checked against the appropriate minimum and maximum values. The data format for the revenue and volume fields is restricted to numeric positive whole or mixed numbers as appropriate. Empty piece or weight entries are not accepted. The rate category piece counts are totaled and then compared to the total number of pieces entered for the mailing. Before a transaction is finalized, the data entry operator makes a final visual comparison of the PERMIT workscreen(s) and postage statement information. The data entry

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process itself is performed by employees who have been fully trained in the use of the system and in all matters related to the entry of business mail. As part of their mandatory training, and before they can assume their bulk mail acceptance responsibilities, these employees must also pass both a written test and an on-the-job evaluation. Once in the position, the employee is subject to regular Employee Skills Assessments.

- c. The verification of postage statements is not done through sampling.
- d-e. If an error is made during the input or verification process, an error message is displayed and the error must be corrected before the operator can continue data entry. Should the operator detect an incorrect entry during the visual confirmation process, the system allows the operator to backtrack and make any necessary changes. Should an error be detected after the transaction is filed, the system provides for the reversal of the transaction, allowing it to be re-entered correctly.

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UPS/USPS-T5-20.

- (a) Explain in detail the process by which the Postal Service verifies that the mail actually received from a mailer matches the information about it indicated on the postage statement provided by the mailer. Is each piece counted and examined in the verification process? If not, why not?
- (b) Is each Parcel Post piece counted and examined in the verification process in the case of a Parcel Post mailing? If not, why not?
- (c) If the verification processes referred to in the responses to (a) or (b), above, are done on a sampling basis, explain in detail how the process is performed, including a description of how the sample is selected.
- (d) If a sampling process is used for verification, what percent of mail is checked? What percent of Parcel Post mail is checked?
- (e) If a sampling process is used for verification, provide detailed information by mail class and subclass on the proportion of errors discovered, as well as on the actual number of errors discovered.
- (f) Explain how errors discovered through sampling or through any other means of verification are corrected. If they are not corrected, why not?
- (g) Explain how errors in the case of Parcel Post discovered through sampling or any other means of verification are corrected. If they are not corrected, why not?

RESPONSE. This response is based on my understanding of discussions with other postal officials.

a-d. The presort and piece count verification process is detailed in the Business Mail Acceptance Handbook, DM-109, pages 4.1 through 4.15 and 7.1 through 7.22. A copy of these pages is provided in USPS-LR-I-229/R2000-1, Material Provided in Response to UPS/USPS-T5-20 (Hunter).

e. This information is not available.

f-g. See the response to parts (a-d).

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
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UPS/USPS-T5-21. Explain in detail the process by which the results generated from the BRPW system are verified for accuracy against actual postage mailing statements and the PERMIT system data. If such a verification is not done, provide a detailed explanation of why it is not done.

RESPONSE. The BRPW data verification process, wherein, the input data are passed through an extensive series of mainframe checks for completeness and accuracy, is discussed in USPS-LR-I-25/R2000-1 and USPS-LR-I-26/R2000-1. Substantial efforts are made in concert with the data entry contractor during BRPW processing to resolve all flagged non-automated office records. Due to the geographical dispersion of the numerous automated offices and to their voluminous records which number in the millions, it is not administratively possible or operationally feasible to research individual flagged records in the short timeframe available for data processing. However, efforts are made to clear up flagged records that might measurably affect the estimates at the subclass or class level. The remaining records are grouped by type and resolved by imputation where possible. Reports containing office level detail are produced for ongoing review. In addition, data validation studies are periodically undertaken to verify alignment of the data fields and source documents.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
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UPS/USPS-T5-23. Library reference USPS-LR-I-25, file LR-I-25.DOC, at 2System Methodology, the second paragraph, states, "[t]he estimates of RPW totals are then obtained by combining these data records with office and stratum level blow-up factors, and then adjusting the combined strata estimate to postage revenue account totals."

- (a) Provide all files and documents used to develop the Office and Stratum level blow-up factors.**
- (b) Provide all files and documents used to develop the adjustments that are made to adjust the combined strata estimate to postage revenue account totals.**
- (c) Provide all analyses and supporting spreadsheets available in electronic format and in their fully developed form (formulas intact).**

RESPONSE.

- a. The BRPW statistical system is discussed in USPS-LR-I-26/R2000-1. The population frames from which the non-automated office panels are selected for the targeted mail categories contain inherently sensitive office specific information in two variables: finance number and postage. In place of this information, the summary level reports developed during the selection process involving these frames provide the requested design information required to develop the office blow-ups. These reports and their explanation are being provided in USPS-LR-I-230/R2000-1. The office level AP and stratum level non-response adjustments are constructed in the program code provided in USPS-LR-I-25/R2000-1, Appendix A.**

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
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b-c. There are no files or documents additional to the programming code provided in USPS-LR-I-25/R2000-1, Appendix A, and the files provided in USPS-LR-I-194/R2000-1 in response to UPS/USPS-T5-16. No analyses or spreadsheets are used. See also the response to UPS/USPS-T5-25.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
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UPS/USPS-T5-24. Library reference USPS-LR-I-25, file LR-I-25.DOC at 2. System Methodology, the first paragraph, states, "[t]he VIP Code scheme maps the revenue, volume and weight data for each reporting office to the individual rate categories as defined by the line items on postage statements for the applicable rate period...."

(a) Provide all files and documents used to develop the Volume Information Profiles (VIP).

(b) Provide all analyses and supporting spreadsheets available in electronic format and in their fully developed form (formulas intact).

RESPONSE.

a-b. No files, analyses or spreadsheets are required to develop the VIP Codes.

These codes correspond to the rate category detail found on the postage statements. Copies of the postage statements are provided in USPS-LR-I-26/R2000-1, Appendix A.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/USPS-T5-26.

- (a) Provide the number of automated PERMIT offices, the number of non-automated PERMIT offices, and the proportions of volume by First Class Mail, permit imprint Priority Mail, Periodicals, Standard (A), permit imprint Parcel Post, permit imprint Bound Printed Matter, non-permit imprint Priority Mail, non-permit imprint Parcel Post, and non-permit Bound Printed Matter for each of those categories of offices.
- (b) Provide separately for (i) automated PERMIT offices, (ii) non-automated PERMIT offices, (iii) sampled non-PERMIT offices, and (iv) unsampled non-PERMIT offices, the proportions of volume for non-permit imprint Priority Mail, non-permit imprint Parcel Post, and non-permit imprint Bound Printed Matter in each of those categories of offices.

RESPONSE. The counts and known or estimated proportions of volume for the non-permit imprint Priority Mail, Parcel Post and Bound Printed Matter mail categories are irrelevant to the BRPW which does not and need not use this information in order to construct estimates of revenue and volume totals.

- a. See the response to UPS/USPS-T5-4. The unused PERMIT System data are found in the files labeled BRPW40-43.TXT provided in response to UPS/USPS-T5-16. The records with STRATUM variable value '1' having a non-zero value in the first field of the VIP Code variable are selected for the mail categories of interest found in the files labeled BRPW57-58.TXT and BRPW63-64.
- b.
 - (i). See the response to part (a).
 - (ii). I am not aware of any such offices.
 - (iii). This information is not collected in the BRPW.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

b-c. There are no files or documents additional to the programming code provided in USPS-LR-I-25/R2000-1, Appendix A, and the files provided in USPS-LR-I-194/R2000-1 in response to UPS/USPS-T5-16. No analyses or spreadsheets are used. See also the response to UPS/USPS-T5-25.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/USPS-T5-27. Refer to Library Reference USPS-LR-I-44. For FY 1998 provide a copy of a report generated from the Permit System showing the total volume for Parcel Post, separately for (i) Inter-BMC, (ii) Intra-BMC, and (iii) DBMC.

RESPONSE. I understand that the PERMIT System reports do not aggregate this information beyond the finance number level. Exemplars of a Location Volume Report and a Mailer Volume Report appear in USPS-LR-I-44/R2000-1, Sections 2.4.13 and 2.4.14; they display volumes by class and subclass. A copy of a screen image showing a Location Volume Report with the local office name and finance number information redacted also appears on the next page.

ATTACHMENT TO UPS/USPS-15-27

DATE 03/20/00
PAGE 4

POSTAL SERVICE PERMIT SYSTEM
AS REQUESTED REPORT PROCESSING MODULE

LOCATION VOLUME REPORT

** CLOSING 09/13/97 THROUGH 09/11/98 **

MAY INCLUDE CARS ACCOUNT DATA

(NOT A FINANCIAL REPORT, POSTAGE ROUNDED TO WHOLE DOLLARS)

GRAND TOTALS STATEMENTS PIECES WEIGHT POSTAGE

FIRST CLASS				
CARRIER ROUTE	2,479,107	76,356	543,593	6,319,515
5-DIGIT AUTOMATION	23,117,588	1,789,617	6,319,515	2,684,130
3-DIGIT AUTOMATION	10,318,110	549,081	2,684,130	364,256
3/5-DIGIT AUTOMATION	712,297	67,793	707,836	1,325,278
BASIC AUTOMATION	2,614,886	127,919	1,802,346	13,746,957
PRESORTED	3,985,118	206,034	1,802,346	1,802,346
SINGLE-PIECE	4,743,714	268,520	1,802,346	1,802,346
* FIRST CLASS TOTALS *				
PRIORITY	4,990	3,085,323	13,746,957	13,746,957
PRIORITY PRESORTED	0	0	0	0
PRIORITY SINGLE PIECE	39,282	61,564	135,218	135,218
* PRIORITY CLASS TOTALS *				
STANDARD (A)	358	61,564	135,218	135,218
SINGLE PIECE	53,272	2,384	20,582	21,291,714
5-DIGIT	1,928,397	59,393	1,427,468	1,684,095
3-DIGIT	10,962,772	463,494	8,271,927	1,684,095
AUTOMATION 3/5-DIGIT	43,936,220	7,456,152	1,684,095	1,684,095
NONAUTO 3/5-DIGIT	8,913,156	971,646	1,684,095	1,684,095
AUTOMATION BASIC	9,559,960	628,563	1,684,095	1,684,095
NONAUTOMATION BASIC	7,163,670	1,353,618	1,684,095	1,684,095
ECR SATURATION	7,885,180	1,800,462	1,684,095	1,684,095
ECR HIGH DENSITY	3,223,500	1,036,821	1,684,095	1,684,095
ECR BASIC	26,522,308	3,320,710	1,684,095	1,684,095
ECR AUTOMATION BASIC	1,831,872	68,851	1,684,095	1,684,095
* STANDARD (A) TOTALS *				
THIRD CLASS (PRE-REPORT)	13,618	121,978,307	21,339,766	21,339,766
SATURATION W/S	0	0	0	0
125 PIECE W/S	0	0	0	0
CARRIER ROUTE	0	0	0	0
AUTOMATION 5D BARCODE	0	0	0	0
AUTOMATION 3D BARCODE	0	0	0	0
AUTOMATION 3/5-DIGIT	0	0	0	0
AUTOMATION 3/5 ZIP+4	0	0	0	0

ATTACHMENT TO UPS/USPS-T5-27

NONAUTOMATION 3/5	0	0	0
AUTOMATION BASIC BC	0	0	0
AUTOMATION BASIC 2+4	0	0	0
NONAUTOMATION BASIC	0	0	0
SINGLE PIECE	0	0	0
* THIRD CLASS (PRE-REFORM) TOTALS *	0	0	0
STANDARD (B)			
BPM CARRIER ROUTE	12,368	15,336	6,281
BPM BASIC BULK	520,871	889,380	449,909
BPM SINGLE-PIECE	32,042	50,903	51,511
PARCEL POST INTER-BMC	1,077	14,638	5,499
PARCEL POST INTRA-BMC	13,549	56,002	35,373
PARCEL POST DEST BMC	0	0	0
STD MAIL(B) SPEC 5D	0	0	0
SPECIAL BMC	0	0	0
SINGLE PIECE	4,956	6,380	7,978
LIBRARY RATE SINGL PC	12,285	18,497	20,789
* STANDARD (B) TOTALS *	472	597,148	577,343
** TOTALS	19,438	170,585,557	21,360,125
LOCATION	= ALL		

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/USPS-T5-29. Refer to Tables 1-3 of your testimony covering FY 1998. Provide detailed tables for FY 1998 in similar format, by subclass for each mail class, including Inter-BMC, Intra-BMC, and DBMC revenue, piece, and weight estimates.

RESPONSE. The estimates of totals at the subclass and rate category level are found in the files labeled BRPW48-51.TXT provided in USPS-LR-I-194/R2000-1. For each file, the RPHAT, RWHAT, PHAT and WHAT variables are summed for each AIC and RPWCODE combination. The sums are then mapped by RPWCODE to the subclasses and rate categories in the file labeled BRPW65.TXT. These sums are then multiplied by the PFY to GFY conversion factors provided in APPENDIX A of USPS-LR-I-194 before they are combined to produce GFY period estimates. The total revenue for each RPWCODE value is determined by combining the RPHAT and RWHAT variables. See also the response to UPS/USPS-T5-16.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/USPS-T5-34. Refer to your response to NNA/USPS-T5-7. When was the last time that the panel of sampled offices was "refreshed"?

RESPONSE. The last update to the BRPW office panel was for the PQ1, FY 1998 reporting period.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER TO
INTERROGATORIES OF UNITED PARCEL SERVICE REDIRECTED FROM
WITNESS PAFFORD**

UPS/USPS-T4-8. Library Reference USPS-LR-I-30, Appendix E, shows revenue, pieces, and weight estimates multiplied by 1.00920754219 for non-automated office data, mail type "PI-SB-PARCELP."

- (a)** Explain why this factor is used on the parcel mail type, but not any other types.
- (b)** Explain in detail how this factor was developed and provide copies of all analyses and supporting documents used in the development process. Provide the information in electronic format, in originally developed form with formulas intact.

RESPONSE.

- a.** This factor is developed from a census of permit imprint Parcel Post mail and is applied to the automated office distribution of revenue and volume for the FY 1998 period to account for residual permit imprint Parcel Post activity.
- b.** The development of this factor is explained in USPS-LR-I-230/R2000-1. See also the response to UPS/USPS-T5-23(b-c).

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT**

VP-CW/USPS-T5-1. This interrogatory pertains to a Standard A detached address label ("DAL") mailing where the dimensions of the accompanying mailpiece are nonletter-shaped.

- a. If an IOCS tally is taken when a clerk is casing the DALs, does the tally indicate that the clerk is handling a letter or a nonletter? That is, are the in-office mail processing costs associated with this tally charged to letters or nonletters?
- b. When the revenues, volumes and weights of the mailing are recorded from Form 3601, are the revenues, volumes and weights recorded under the letters or nonletters category?
- c. What effort does the Postal Service make to assure that the costs of processing DAL mailings are recorded or measured in a manner that is consistent with the way revenues, volumes and weights are recorded? Please provide citations to all documents or instructions that support your answer.

RESPONSE. This response is based on my understanding of discussions with other postal officials.

- a. A nonletter-shaped DAL mailpiece is recorded in the IOCS under the appropriate nonletter category for the parent mailpiece.
- b. My response to this part assumes that PS Form 3602 is of interest and not Form 3601 with which I am unfamiliar; the nonletter data are recorded under the appropriate nonletter category for the parent mailpiece.
- c. No reporting category is established for DAL mailpieces under either the IOCS or the RPW System; however, both systems are consistent in that the information from the parent mailpiece is recorded. Under the RPW System, the parent mailpiece information is captured directly from the rate category detail found on the source PS Form 3602 postage statements. These forms are shown in Appendix A of USPS-LR-I-26/R2000-1. The

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT**

**IOCS recording rule for the parent mailpiece is found on page 12-8 of the
F-45 Handbook provided in Library reference USPS-LR-I-14/R2000-1.**

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT**

VP-CW/USPS-T5-2. Does the Postal Service have any data or information that shows the revenue, pieces and weight of Standard A Mail that was entered with DALs in FY 1998? If so, please provide the revenue, pieces and weight of DAL mailings by subclass, by rate category and, if available, by shape.

RESPONSE. The RPW System does not capture and report DAL mailpiece information separately from other Standard Mail (A) information. I also understand from discussions with other postal officials that this information is not collected elsewhere.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT**

VP-CW/USPS-T5-3. For those Standard A letter-shaped pieces that weigh in excess of the breakpoint and pay the nonletter rate:

- a. Are the revenues, volumes and weight of such pieces recorded in the RPW system as letters or nonletters?
- b. When an IOCS tally is taken of a clerk who is handling one or more overweight Standard A letter-shaped pieces that was entered at the rate for nonletters, does the tally indicate that the clerk is handling a letter or a nonletter? That is, are the mail processing costs for such pieces recorded and measured in a manner that is consistent with the way revenues, pieces and weight are recorded?
- c. What effort does the Postal Service make to assure that the costs of handling overweight Standard A letter-shaped pieces are recorded in a manner that is consistent with the way revenues, pieces and weight are recorded? Please provide citations to all documents or instructions that support your answer.

RESPONSE.

- a. A Standard Mail (A) letter-shaped mailpiece over the breakpoint is recorded as a nonletter in the RPW System.
- b. I understand that in IOCS, the letter shape is defined in terms of the mailpiece's dimensions. See USPS-LR-I-14/R2000-1, page 12-8. Thus, if a Standard Mail (A) mailpiece over the breakpoint exceeds 0.25 inches in thickness, it would not be recorded as a letter in IOCS.
- c. This response is based in part on my understanding of discussions with other postal officials. Under the RPW System, revenue and volume data for mailpieces over the breakpoint are captured directly from the rate category detail found on the PS Form 3602 postage statements. Additionally, mail processing category information is captured from the postage statements for this shape-based mail category. Library reference

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT**

**USPS-LR-I-81/R2000-1 explains how the shape-based volumes are
combined with IOCS data to develop related unit costs.**

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT**

VP-CW/USPS-T5-4. For Standard A Mail, are there any differences between the way revenue, volume and pieces data in the RPW system were recorded in FY 1998 and the 1998 Billing Determinants? If so, please discuss and explain fully.

RESPONSE. *It is my understanding that the RPW System estimates of totals are passed directly to the billing determinants for the FY 1998 period, and as such, there are no differences in the reported measures.*

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT**

VP-CW/USPS-T5-5. For Standard A Mail, are there any differences between the way revenue, volume and pieces data are recorded in (i) the RPW system and/or the Billing Determinants, and (ii) the PERMIT system? If so, please state all differences and explain why each item is tracked differently.

RESPONSE. The PERMIT System captures some additional processing category information for the Standard Mail (A) category for shape-based volume determination as explained in my response to VP-CW/USPS-T5-3(c). This information, however, is not used to compute postage or report revenue and volume information at the subclass and rate category level as required under the RPW System. See also the response to VP-CW/USPS-T5-4.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT**

VP-CW/USPS-T5-6. For your response to this question, please refer to **ADVO/USPS-T28-1.** Please cite all instances in the testimony, workpapers and library references submitted with the Postal Service's filing in this Docket where FY 1998 volume data for Standard A Mail differ from those reported in the RPW system and the 1998 Billing Determinants, and explain fully why different volume data are used.

RESPONSE. Other than as described in the response to **ADVO/USPS-T28-1,** I am not aware of any estimates of Standard Mail (A) volume for the Base Year 1998 period additional to those provided in Table 2 of my testimony.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF VAL-PAK AND CAROL WRIGHT**

VP-CW/USPS-T5-7. Interrogatories VP-CW/USPS-T5-1 and 3 above asked you to discuss possible differences in (i) the way revenue pieces and weight of Standard A Mail are recorded in the RPW system and (ii) the way costs of such mail are recorded in the IOCS. Aside from the two specific instances referred to in those interrogatories, please list all other instances of which you are aware where data recorded for revenue, pieces and weight may diverge or have some different classification from data recorded for IOCS tallies (and costs developed from those tallies).

RESPONSE. It is my understanding that the two systems report Standard Mail (A) data consistently at the mail class and rate category level. I am not aware of any differences between the two systems.

1 CHAIRMAN GLEIMAN: Is there any additional written
2 cross-examination for the witness?

3 MR. McKEEVER: Yes, Mr. Chairman.

4 CHAIRMAN GLEIMAN: Mr. McKeeever.

5 MR. McKEEVER: Mr. Chairman, we do have additional
6 written cross. Some of the interrogatories are subject to
7 the protective order. I think we can handle this very
8 easily. I would propose that I show them to Mr. Hunter,
9 identify all of them and specify those which are subject to
10 the protective order, which I have in envelopes here marked
11 as the contents being subject to the protected order. And I
12 would then hand the court reporter four packs, two copies of
13 the unprotected ones, and two copies of the protected ones
14 in the envelope.

15 So I don't think there is any need to do anything
16 about the participants in the room at this point in time,
17 because I only be reading off interrogatory numbers and
18 answers.

19 CHAIRMAN GLEIMAN: Mr. Hollies, are you okay on
20 that?

21 MR. HOLLIES: Yes, I am, with the understanding
22 that the copies of material subject to the protective
23 conditions will not be transcribed.

24 MR. McKEEVER: Or, Mr. Chairman, will they be
25 transcribed, but in a sealed, separate volume of the

1 transcript, to make it easier, if necessary, to refer to
2 them on brief, et cetera? That is, I think, the common
3 practice in the civil courts, but, of course, this
4 Commission may have its own practices, and we will
5 accommodate to whatever your wish is.

6 CHAIRMAN GLEIMAN: You are not suggesting that we
7 are not civil, of course?

8 MR. McKEEVER: I didn't mean that type of emphasis
9 on the word.

10 CHAIRMAN GLEIMAN: I think that is the acceptable
11 practice and that is the practice that we will follow, but
12 it will be, as will any other similarly situated
13 interrogatories in the future, be published in a separate
14 volume that will not be made available very widely, or
15 widely at all, as the case may be.

16 BY MR. McKEEVER:

17 Q Mr. Hunter, I am going to hand you a copy of your
18 answers to interrogatories UPS/USPS-T5-31 through 33, 35
19 through 37, 39 through 42, 44 through 53, 55 through 57, and
20 in a separate envelope, 59 through 65. Interrogatories 59
21 through 65 are those that are subject to protective
22 conditions. I would ask that you review your answers to all
23 of those interrogatories, and after you have done so,
24 indicate whether, if those questions were asked of you
25 today, your answers would be the same?

1 A I'm sorry, I am supposed to go through each of
2 these?

3 Q Yes, sir.

4 A I have already done that, haven't I? These are
5 different? Okay.

6 Q They are copies of what you previously served, Mr.
7 Hunter. And the question is, if those questions were asked
8 of you today, would your answers be the same as when you
9 originally answered them?

10 CHAIRMAN GLEIMAN: Mr. Hollies, I wouldn't find it
11 objectionable, and I don't think Mr. McKeever would either,
12 if you wish to assist your witness.

13 MR. HOLLIES: Yes, I will come over and help, Mr.
14 Hunter. Also, these are ones that were basically filed by
15 you after the others were designated, so that is why they
16 are coming as a separate package.

17 THE WITNESS: Oh, I see. Okay.

18 [Pause.]

19 BY MR. McKEEVER:

20 Q Mr. Hunter, if those questions were asked of you
21 today, would your answers be the same?

22 A That's correct.

23 MR. McKEEVER: Mr. Chairman, I move that Mr.
24 Hunter's answer to interrogatories UPS/USPS-T5-31 through
25 33, 35 through 37, 39 through 42, 44 through 53, 55 through

1 57 and 59 through 65 be admitted into evidence as additional
2 written cross-examination of Postal Service Witness Hunter,
3 and I have two copies, as I indicated, to give to the
4 reporter, including the answers to 59 through 65 being in
5 sealed envelopes as being marked subject to the protective
6 conditions.

7 CHAIRMAN GLEIMAN: If you would please provide the
8 copies to the court reporter, the material will be received
9 into evidence and the material which was filed under seal
10 will not be transcribed into the record. Mr. McKeever
11 identified the numbers of the interrogatories that were
12 filed under seal. The other interrogatories will be
13 transcribed into the record and we will make arrangements
14 with the court reporter regarding the volume of the sealed
15 material at a future date when we determine whether there is
16 other material that has been similarly treated that will
17 have to go into that volume.

18 [Additional Designation of Written
19 Cross-Examination of Herbert B.
20 Hunter, III, UPS/USPS-T5-31 through
21 33, 35 through 37, 39 through 42,
22 44 through 53, 55 through 57, were
23 received into evidence and
24 transcribed into the record.]
25

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/USPS-T5-31. What document or documents are the source of the information included in the BRPW system? If there are different documents depending on the nature of the post office where a bulk shipment is accepted (e.g., one source for automated offices, a different source for non-automated offices, etc.) or on the basis of whether the shipment is plant-verified or not, or on any other basis, identify for each situation the source of the information used in the BRPW system.

RESPONSE. The source documents underlying the revenue and volume information input to the BRPW are the postage statement form series already identified on page 3 of my testimony at lines 9-12. A copy of each type of postage statement is provided in Appendix A of USPS-LR-I-26/R2000-1.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/USPS-T5-32. In the case of a plant-verified drop[]shipment, is the information for the BRPW system taken from (a) the postage or mailing statement, (b) Form 8125 (or any variation thereof), or (c) from some other source? If the answer is (c), identify the source.

RESPONSE. See the response to UPS/USPS-T5-31.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/USPS-T5-33. Refer to your response to interrogatory NNA/USPS-T5-14(b)-(c).

- (a) Provide the number of instances during the period from FY1995 through FY1999 that a mailer lost entry privileges as a result of noncompliance with PERMIT entry requirements.
- (b) Provide the number of instances during the period from FY1995 through FY1999 that the Postal Service instituted civil proceedings, whether administrative or in the courts, against mailers as a result of noncompliance with PERMIT entry requirements. Do not include any instances already included in the response to paragraph (a), above.
- (c) Provide the number of instances during the period from FY1995 through FY1999 that the Postal Service has sought criminal penalties against a mailer for failure to comply with PERMIT entry requirements.

RESPONSE.

A partial objection to this interrogatory has been filed.

a-c. Zero.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/USPS-T5-35. Confirm that each record in the BRPW system data base you used represents all shipments for a given rate category for an entire AP at the same office. If you do not confirm, define what a record represents.

RESPONSE. Not confirmed. Each input record provides combined rate category and rate date period applicable revenue, volume and weight totals from all mailings entered at an office during an AP.

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UPS/USPS-T5-36. For a plant-verified Parcel Post drop[]shipment, is the information captured in the BRPW system that which appears on PS Form 8125, or that which appears on the postage statement (PS Form 3605)?

RESPONSE. See my response to UPS/USPS-T5-31.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS HUNTER
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UPS/USPS-T5-37. Refer to USPS-LR-I-230, page I, which states, "For the FY 1998 period, a sixth panel comprised of automated offices, adjusted for residual non-automated office activity, is used for the permit imprint Parcel Post mail category."

- (a) Why was a sixth panel used for the permit imprint Parcel Post mail category in FY 1998?
- (b) Was a sixth panel for the permit imprint Parcel Post mail category used in FY 1999? Explain why, or why not.
- (c) Define and describe the "residual non-automated office activity" which is referred to there.

RESPONSE.

- a. Under the BRPW statistical design methodology, as described on page 2 of LR-USPS-I-26/R2000-1 and again on page 1 of the referenced LR-USPS-I-230/R2000-1, a separate panel is used for each targeted indicia and mail class combination. The referenced permit imprint Parcel Post panel of automated offices is therefore used to develop the related estimates of revenue and volume totals provided in Tables 1-3 of my testimony for this mail category.
- b. Yes. See my response to part (a).
- c. Not all permit imprint Parcel Post revenue and volume is obtained from the large automated office segment of the population. The residual non-automated office activity is the contribution of the non-automated office segment to the total permit imprint Parcel Post revenue and volume.

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UPS/USPS-TS-39. Refer to the entries for Parcel Post in Tables 1 and 2 of the Attachment to UPS/USPS-T5-2 Response. Why are there no entries under the "Lower 95% Confidence Limit" and the "Upper 95% Confidence Limit" columns?

RESPONSE.

The estimated confidence interval limits for the point estimates of total Parcel Post revenue and volume are provided in Tables 1 and 2, respectively, of my testimony and the DRPW witness' USPS-T-4 testimony. The respective estimates of the CV's are under one percent. In the response to UPS/USPS-T5-2, two of the three estimated limits for the estimates of revenue, volume and weight totals are inadvertently omitted from the spreadsheet computation; however, the estimated CV's are provided for all three variables. Using the point estimate and the CV estimate shown in the table, one might easily arrive at estimated 95% confidence intervals of {608,752, 631,110} and {230,472, 239,312} for the revenue and volume estimates (000), respectively.

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UPS/USPS-T5-40. Refer to your response to UPS/USPS-T5-7(a).

- (a) Why was there "no non-automated office sample" for permit imprint Parcel Post?**
- (b) Was there a non-automated office sample for Parcel Post other than permit imprint Parcel Post? If so, provide the results of that sample.**
- (c) Provide the "recently conducted survey of post offices" to which you refer.**

RESPONSE.

- a. The findings from a census of permit imprint Parcel Post activity conducted in the PQ2, FY 1997, period immediately prior to the Base Year 1998 period, indicated that due to the extremely high automated office coverage of approximately 99 percent for this mail category, a supplemental panel would be not be an inefficient use of resources in place of the ratio of total revenue to automated office revenue that was used for the FY 1998 period. Moreover, parallel plans were initiated to implement a national trial balance control account to obviate the need for periodic survey updates.**
- b. No.**
- c. A partial objection to this interrogatory has been filed. The findings from this survey are provided on page 5 in Appendix A of USPS-LR-I-230/R2000-1.**

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UPS/USPS-T5-41. Refer to your answer to UPS/USPS-T5-8 and to PS Form 3605-R as in use in FY 1998 (see Library Reference USPS-LR-I-26, Appendix A).

- (a)** Confirm that PS Form 3605 as used in FY 1998 did not request the mailer to enter weight information by zone in Section B (Parcel Post) and in Section C (Destination BMC).
- (b)** Did the Postal Service obtain weight by zone in FY 1998 some other way in the case of a Parcel Post shipment reported on PS Form 3605, whether for BMC Parcel Post, Inter-BMC Parcel Post, or Intra-BMC Parcel Post? If so, indicate how that information was obtained. If not, why not?
- (c)** How is the "weight per piece" ratio referred to in your answer to UPS/USPS-T5-8(b) obtained?
- (d)** How are "the expected zone based rates" referred to in your answer determined?

RESPONSE.

- a.** My understanding is that weight information is not recorded by zone nor is this information required. Zone weight is determined by the product of the zone volume and the single-piece weight found on the front side of the postage statement.
- b.** See my response to part (a).
- c.** The weight per piece ratio is obtained by dividing the reported weight by the reported volume.
- d.** The zone-based rates are found in the *Ratefold* provided in the Domestic Mail Manual for the October 6, 1996, and October 5, 1997, periods.

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UPS/USPS-T5-42. Refer to your answer to UPS/USPS-T5-19(a)-(b), which states that "All revenue, volume and weight fields are checked against the appropriate minimum and maximum values."

- (a) Provide the "minimum and maximum values" to which you refer for every parameter that is checked for "appropriate minimum and maximum values" in the case of Parcel Post.
- (b) How were each of these "appropriate minimum and maximum values" determined for Parcel Post?

RESPONSE.

- a. This information is provided USPS-LR-I-194/R2000-1 in the files labeled BRPW63-64.TXT. The minimum and maximum revenue per piece and weight per piece values are found in the RATEHI, RATELO, WPPMIN and WPPMAX variables shown in the RATESSB input file format statement provided in the Job-2 code of Appendix A of USPS-LR-I-25/R2000-1.
- b. The limits are determined from the general mail class restrictions on weight found in the DMM and from the range of rates for each zone and rate category as determined from the *Ratefold* provided in the Domestic Mail Manual for the October 6, 1996, and October 5, 1997, periods.

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UPS/USPS-T5-44. Confirm that each record in the BRPW system data base you used represents an individual shipment made by one mailer at one post office on one day. If you do not confirm, explain why.

RESPONSE. Not confirmed. See my response to UPS/USPS-T5-35.

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UPS/USPS-T5-45. Is there some way of identifying whether a raw record was verified for accuracy against the postage statements pertaining to that record other than the verification checks that are performed in Jobs I-3?

(a) If so, explain in detail which variable(s) are used to identify such a record and identify the values that the record would have if it was verified.

(b) If not, explain in detail why not.

RESPONSE.

(a-b) See the response to UPS/USPS-T5-21. I am not aware of how any such raw records might be identified; however, a data validation study of the PERMIT System such as that provided in USPS-LR-I-279/R2000-1 was undertaken to assess the accuracy of the system's reported information against the postage statement source information.

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UPS/USPS-T5-46. The output for Parcel Post showed 17 observations that had negative values for P and RP.

- (a) Explain why these records have negative values.**
- (b) Are these the only Parcel Post records that have negative values?**
- (c) If not, identify other Parcel Post records that have negative values and state why they were not included in Job 3 output.**

RESPONSE.

- a. The PERMIT System is an accounting system additional to a data reporting system, and as such, it requires that data entry errors related to postage and trust fund account activity be corrected. It is my understanding that the negative value records represent reversals of mailing transactions made during the year. The postage and volume totals for these records are \$66,322 and 16,441 pieces.**
- b-c. Yes.**

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UPS/USPS-T5-47. Confirm whether only eflagged observations are removed from the final estimates of R, P, and W. This question pertains to how the raw data entered in Job 1 is pared down in Jobs 1, 2, and 3 to provide final estimates of R, P, and W as final outputs of Job 3. If you do not confirm, explain in detail why you do not confirm and provide a complete list of other ways in which observations are removed from the final estimate.

RESPONSE. Confirmed.

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UPS/USPS-T5-48. What are the F1 and F2 variables used for?

- (a) Provide definitions for each variable and provide a list of all possible values these variables could have for Parcel Post records.
- (b) If each variable could have more than one value, provide an explanation for why the value would change.

RESPONSE. The F1 variable is an office level multiplier that is used to adjust an office's reported data for one or more missing AP's. The value of this factor is normally unity and is calculated as m/m' , where m is the number of AP's in the postal quarter period, and m' is the number of actual AP's reported by the office for the period. The possible variable values are provided in my response to UPS/USPS-T5(a). The F2 variable is a stratum level non-response correction used for the non-automated office segment, and as such does not deviate from unity for the permit imprint Parcel Post mail category.

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UPS/USPS-T5-49. Define the following variable labels and provide a list of all possible values these variables could have for Parcel Post records. If each variable could have more than one value, provide a detailed explanation for why the value would change.

- (a) Class
- (b) SYS
- (c) APK
- (d) Rdatek
- (e) Eflagk
- (g) Discount
- (g) AP
- (h) PQ
- (i) FY
- (j) Rdate
- (k) FINNO
- (l) VIP
- (m) VIP1
- (n) VIP2
- (o) VIP3
- (p) RPWCode
- (q) RP
- (r) RW
- (s) P
- (t) C
- (u) W
- (v) NRESP
- (w) Migrate
- (x) Eflag
- (y) Stratum
- (z) Blowup
- (aa) AIC
- (bb) Pdisc

RESPONSE.

- a. The CLASS variable distinguishes the mail class. The value is 4C for Parcel Post records.

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- b. The SYS variable distinguishes the indicia and mail class panel type. The value is PI-SB for Parcel Post records.
- c. The APK variable counts the number of AP's in the PQ. The values are 1-4 for Parcel Post records.
- d-e. These variables are unknown and are not needed or used in the BRPW.
- f. The DISCOUNT variable indicates if a postage discount applies to a rate category. The value is N for Parcel Post records indicating no discount.
- g-h. The AP and PQ variables designate the accounting period and postal quarter, respectively. These values are provided on page 1 of Appendix A of USPS-LR-I-194/R2000-1.
- i. The FY variable is the fiscal year. The value is 98 for Parcel Post records.
- j. The RDATE variable designates the rate period (see my response to UPS/USPS-T5-41(d)). The values are 100696 and 100597 for Parcel Post records.
- k. The FINNO variable is the finance number of the reporting office. The coded values are integers in the range 590001-599999 for Parcel Post records.
- l-o. The VIP variable identifies the VIP Code used to track a rate category. The values for Parcel Post records are provided in USPS-LR-I-194/R2000-1 in fields 8-12 of the files labeled BRPW63-64.TXT. The

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VIP1, VIP2 and VIP3 variables correspond to the first, second and third positions of this variable, respectively.

- p. The RPWCODE variable identifies the rate category used in the RPW System model. The values for Parcel Post records are provided in USPS-LR-I-194/R2000-1 in the files labeled BRPW63-64.TXT in fields 14-18.
- q-r. The RP and RW variables are the uninflated piece-rate and pound-rate revenues, respectively. The RP values are any dollar amount to the nearest cent and the RW value is zero for Parcel Post records.
- s-u. The P, C and W variables contain the uninflated pieces, copies (Periodicals), and weight values for a record. The C and P variable values are integers and the W variable value is provided to two decimal places for Parcel Post records.
- v. The NRESP variable indicates a non-respondent office for a processing run period. The value is 0 for Parcel Post records.
- w. The MIGRATE variable indicates whether a non-automated office becomes automated under the PERMIT System. The value is 0 for Parcel Post records.
- x. The EFLAG variable provides the edit status for a record. The values are provided on page 4 of USPS-LR-I-25/R2000-1 for Parcel Post records.
- y. The STRATUM variable identifies the sampling stratum for an office. The value is 1 for Parcel Post records.

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- z. See page 1 of USPS-LR-I-230/R2000-1. The value is 1 for Parcel Post records in the BRPW jobstream.**
- aa. See page 2 of USPS-T-5 at lines 19-22. The value of 999 is used for Parcel Post records for the FY 1998 period.**
- bb. The PDISC variable is used for Periodicals records to track discounted volume. The value is 0 for Parcel Post records.**

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UPS/USPS-TB-50. What happens to the non-numeric VIP records in Jobs 1-3?

- (a) Explain in detail what these records represent and how they are different from the non-numeric records.**
- (b) Are they eliminated from the final estimates of R, P, and W? If not, explain in detail. If so, explain in detail why they are eliminated.**
- (c) Are any Parcel Post records assigned non-numeric VIPs?**
- (d) If so, are they included in the final estimates of R, P, and W? Explain why, or why not.**

RESPONSE. Non-numeric VIP Code records are identified and dropped from the BRPW jobstream in Job 1.

- a. The non-numeric VIP Code records by definition do not differ from themselves.**
- b. See my response to the body of this interrogatory. These VIP Codes are not used in the BRPW. It is my understanding that they represent business reply mail.**
- c-d. No. See my response to part (b).**

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UPS/USPS-T5-51. Page 19 of Job 2 refers to single and multiple VIPs.

- (a)** Explain in detail what this section of the code is used for in the program, and explain how Parcel Post observations are affected by it.
- (b)** Explain why a record would have multiple VIP codes.
- (c)** Can any Parcel Post records have Multiple VIPs? If so, do any have multiple VIPs?
- (d)** When a record has multiple VIPs, which VIP is ultimately used to assign a record to the correct class? Explain in detail the logic for choosing one over the other.

RESPONSE.

a-d. To answer this response it is necessary to assume that the Job 2 page 19 reference pertains to the code shown on page A9 in Appendix A of USPS-LR-I-25/R2000-1. The multiple VIP term is used to denote VIP Code pairs, wherein one VIP Code contains the piece-rate postage and volume information and the other contains the pound-rate postage and weight information for the rate category. These VIP Codes correspond to rate categories having both a piece rate and a pound rate component. The referenced section of the code maps both VIP Codes to a temporary variable called MVIP that contains the VIP Code ending in the value 6, 7 or 9. These paired VIP Codes do not apply to Parcel Post records.

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UPS/USPS-T5-52. Page 27 of Job 2 refers to collecting 0 volume VIPs.

- (a) Explain in detail what this section of the code is used for in the program, and explain how Parcel Post observations are affected by it.
- (b) Why would a record have zero volume?
- (c) What is the source of a zero volume VIP record?
- (d) Can any of the Parcel Post records be designated as zero volume VIPs? If so, are any so designated?
- (e) Are zero volume VIP records eliminated from the final estimate of R, P, and W output from Job 3?
- (f) Are zero volume VIP records part of the raw record inputs into Job 1, or is the volume zeroed out somewhere in Jobs 1-3? Explain in detail.
- (g) If these records are zeroed out in Jobs 1, 2, or 3, explain in detail why they are zeroed out.
- (h) If Parcel Post records are zeroed out in Jobs 1, 2, or 3, explain why these records are zeroed out.
- (i) If Parcel Post records are zeroed out in Jobs 1, 2, or 3, and they are done so for different reasons than in the case of other mail classes, explain in detail why they are zeroed out for Parcel Post for reasons different than in the case of other mail classes.

RESPONSE. To answer this response it is necessary to assume that the Job 2 page 27 reference pertains to the code shown on page A27 in Appendix A of USPS-LR-1-25/R2000-1.

a-c. This section collects all unused VIP Code categories found on the rate files identified earlier in the Job 2 program code, and for each unused category a placeholder VIP Code with zero revenue and volume is created. An unused VIP Code category is one where no matching panel activity is reported during the processing period. A Parcel Post observation by definition has non-zero revenue and volume entries. As such, a Parcel Post record is not a zero volume VIP and is unaffected by this code.

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- d. Yes. This can be determined from the files labeled BRPW48-51.TXT, provided in USPS-LR-I-194/R2000-1, upon selecting records with SYS variable value PI-SB that also have the value zero for each of the RP, RW, P and W variables.
- e. No.
- f-i. See my response to parts (a-c) of this interrogatory.

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UPS/USPS-T5-53. Page 5 of Job 3 has a statement that says the following:

"Remove following after old rates obsolete." Explain this statement in detail.

(a) What is this code used for in Job 3?

(b) Why is it used?

(c) How are Parcel Post records affected by this section of the code? Explain in detail.

RESPONSE. The Job 3 programming code provided in Appendix A of USPS-LR-I-25/R2000-1 is shown on pages numbered A29 to A36. The referenced line of code which is found on page A31 applies to the RDATE value 010195 which precedes the RDATE values used for the Base Year 1998 period. The code is no longer used and no records are affected by it.

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UPS/USPS-T5-55. Confirm that Eflag=2100 is used in the BRPW system to identify unexpected R, P, or W values in each record. If you cannot confirm, explain in detail why you cannot confirm.

- (a) Define what "unexpected" means in the context that it is used in Jobs 1, 2, and 3.
- (b) Provide all documents and analyses used to develop the criteria for Eflag=2100 used in Jobs 1,2, or 3.
- (c) Does Eflag=2100 process Parcel Post records any differently than any other mail class? If so, explain in detail.

RESPONSE. Not confirmed. The EFLAG variable value of 2100 applies only to the Periodicals mail category or to paired VIP Code categories.

- a. An unexpected value is a non-zero weight value for a piece-rate only record or a non-zero piece value for a pound-rate only record.
- b. No documents or analyses are used. An EFLAG value of 2100 is determined internally within the Job 2 code by default for Periodicals records and multiple VIP Code record pairs.
- c. This question is unclear. The EFLAG variable does not process Parcel Post records. Records with the ELAG variable value of 2100 are all processed similarly.

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UPS/USPS-T5-56. If a record does not meet the tolerance level for revenue per piece or weight per piece, is it removed from the final estimate? If not, explain all possible changes that are made to the record, so that it passes the tolerance level eflag test.

- (a) Provide copies of all analyses and supporting documentation used in developing these tolerance levels in hard copy and electronic format with original formulas intact.
- (b) Explain how the tolerance levels were derived.
- (c) What happens to Parcel Post records that are eflagged for tolerance violations?
- (d) Are they part of the population of final R, P, and W estimates output in Job 3? If not, explain in detail why not. If some records are and others are not, explain in detail how the two types are handled in the BRPW process.
- (e) If some records are and others are not, explain in detail what criteria is used for keeping one in the BRPW system versus not keeping another.
- (f) If some sort of formal, documented analysis is performed on each record to determine whether it stays in the process or not, provide copies of all such analyses, along with supporting documentation for how each analysis was developed, in hard copy and in electronic format with original formulas intact.
- (g) If no formal, documented analysis is performed on each record, explain why it is not performed.
- (h) If subjective judgement is used instead of some formal, documented analysis, explain why a subjective method was chosen over a formal method.
- (i) If subjective judgement is used, explain in detail how this process works to arrive at a decision for what tolerance level to use.

RESPONSE. Yes.

a-i. The computed revenue per piece and weight per piece measures are not necessary to the computation of the absolute postage and weight values required in the BRPW. The relative measures are instead developed internally within the Job 2 code and are integral along with the numerous other data verifications, including job aborts, used in the BRPW in protecting the estimates from unexpected or extreme out of bound values which might result from error due to an incorrect VIP Code category

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revenue, volume or weight boundary check, or to inadvertent error in an input data record itself which otherwise might have passed a less restrictive absolute measure verification check upstream in the program. A record that fails either of the two checks is bypassed from downstream processing and is not output from the Job 3 program. No analyses or documents are available pertaining to the tolerance level of five percent used for the FY 1998 period. The tolerance level is a global value and is applied to all mail categories. The level is derived in part out of practical considerations; in general, too small a threshold will flag records unnecessarily, while one that is too large risks passing large errors and introducing a potential bias into the estimates. In the BRPW, the absolute value of the relative difference of the actual and expected values is compared to the tolerance level. As a result, and because each record is subject to the same tolerance check, the accuracy of the estimates is not likely affected by the choice of a threshold in the neighborhood of that selected since flagged differences would theoretically cancel on average.

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UPS/USPS-T5-57. Can you confirm that all records labeled with SYS=PI-SB and Class=SB are strictly Parcel Post records? If not, explain why you cannot confirm and explain in detail what other variables are required to determine Parcel Post records.

- (a)** Do these transactions only represent transactions provided with PS Form 3605? If not, what other PS Forms are represented by these records, and how can records be identified as having come from sources other than PS Form 3605?
- (b)** Priority Mail is also reported on 3605. How does the program keep Priority Mail separated from Parcel Post? If some variable other than VIP is used, provide a list of which ones and explain in detail what values are associated with each variable to identify each Parcel Post record.

RESPONSE. The SYS PI-SB value alone identifies the permit imprint indicia Parcel Post records.

- a.** See my response to UPS/USPS-T5-31.
- b.** The Priority Mail and Parcel Post records are identified by unique VIP codes. The Input data records are mapped in Job 1 by these VIP Codes to the appropriate SYS and CLASS variable values which distinguish the subclasses.

[Additional Designation of Written
Cross-Examination of Herbert B.
Hunter, III, UPS/USPS-T5-59 through
65, were received into evidence
under protective order.]

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Official Transcript of Proceedings

Before the

UNITED STATES POSTAL RATE COMMISSION

In the Matter of: POSTAL RATE AND FEE CHANGE

Docket No. R2000-1

VOLUME 2

THE FOLLOWING DOCUMENTS ARE UNDER
PROTECTIVE SEAL

DATE: Tuesday, April 11, 2000

PLACE: Washington, D.C.

PAGES: 885-891

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THE EXHIBITS ARE UNDER PROTECTIVE SEAL
AND MUST BE OBTAINED THROUGH THE COMMISSION
(PAGES 885-891)

1 CHAIRMAN GLEIMAN: Does anyone else have any
2 additional written cross-examination for Witness Hunter?

3 [No response.]

4 CHAIRMAN GLEIMAN: If not, that brings us to oral
5 cross-examination. We had several parties requesting oral
6 cross-examination, including United Parcel Service and
7 Val-Pak, Carol Wright. Additionally, the National Newspaper
8 Association indicated in a motion to compel responses to
9 interrogatories filed on April 6 that its preference would
10 be to have Witness Hunter appear to stand cross-examination
11 at a later date after all the compelled discovery has been
12 answered. I consider this as preserving NNA's opportunity
13 to conduct oral cross-examination today, as well as at a
14 later date if it is determined that that is necessary.

15 Are we in agreement in that regard?

16 MS. RUSH: Yes. Thank you, Mr. Chairman. My name
17 is Tanda Rush, I am representing National Newspaper
18 Association here. Let me just say that NNA's requests to
19 conduct oral cross-examination were filed as part of a
20 general filing by the Periodicals Coalition, and so our
21 request for Mr. Hunter to appear here for oral cross today
22 was mine, and I will be representing the Coalition also in
23 that.

24 CHAIRMAN GLEIMAN: Okay.

25 MS. RUSH: If you don't mind, Mr. Chairman, let me

1 just address our outstanding motion for a moment, maybe we
2 can clarify our status a little bit.

3 CHAIRMAN GLEIMAN: Certainly.

4 MS. RUSH: We are in conversation with counsel for
5 the Postal Service about the responses to two of the
6 outstanding interrogatories. Our questions address some
7 historical data from the Bulk Revenue Piece and Weight
8 system. We filed our motion because the march of time was
9 making us feel that we needed to preserve our status.

10 We are conscious of the fact that we are asking
11 the witness to retrieve some information that probably is
12 not immediately available. The Postal Service has not yet
13 been able to tell us whether the documents we are looking
14 for exist, and if they do exist, what timeframes are
15 available. So we are unable to withdraw the motion at this,
16 however, we are in conversation with the Postal Service, and
17 I anticipate that as soon as Mr. Hunter can tell us the
18 timeframe of availability, we may get to some of that today.
19 We may be able to resolve this without a ruling from the
20 Presiding Officer.

21 CHAIRMAN GLEIMAN: We always appreciate parties
22 and the Postal Service cooperating to resolve these
23 difficult issues and important issues.

24 Is there any other party that wants to
25 cross-examine today other than United Parcel, Val-Pak, Carol

1 and Ms. Rush on behalf of the Coalition?

2 [No response.]

3 CHAIRMAN GLEIMAN: If not, then we will proceed,
4 and I am stumped now because I am trying to decide whether
5 the Coalition goes before United Parcel and Val-Pak and I
6 just flipped a coin in my head and decided that it did. So,
7 Ms. Rush, if you would like to proceed.

8 MS. RUSH: I shall proceed. Thank you, Mr.
9 Chairman.

10 CHAIRMAN GLEIMAN: I can't remember who is listed
11 first in the Coalition.

12 MS. RUSH: Nor can I.

13 CROSS-EXAMINATION

14 BY MS. RUSH:

15 Q Mr. Hunter, as I said, my name is Tanda rush, and
16 I am asking you questions primarily about periodicals mail,
17 or within-county mail, or as it sometimes known, in-county
18 mail. I will try to be as explicit about which one I am
19 talking about as I can, but if I confuse you, please stop me
20 so that we are clear on what we are talking about.

21 Also, I am focusing primarily upon volume data
22 here and not upon revenue or weight data that may be
23 produced by your systems. I understand you are the witness
24 here for the BRPW system. How long have you worked with
25 that system?

1 A The BRPW system, it is a renaming of the old
2 systems that used to be called the noncountable. Everything
3 was domestic RPW and then all the other systems were called
4 noncountable systems. BRPW is nothing more than a renaming
5 of that. I have associated with these systems on and off
6 since going back to '84.

7 Q Eighty-four.

8 A On and off.

9 Q Are you the supervisor of the portion of the RPW
10 that is the BRPW system?

11 A I am not a supervisor.

12 Q Okay. What is your role with the BRPW?

13 A Primarily as a -- it is one of my projects, it is
14 not my only project. I could describe my role as a half
15 maybe systems analyst, on occasion, project leader maybe.
16 But it is by no means am I the only person involved in that
17 system.

18 Q How many people are involved with that system?

19 A I'm not sure of the size of my office.

20 Q How many report to you?

21 A No one works for me. I'm not a supervisor. I
22 already answered that.

23 Q Okay. Do you produce the reports for the RPW?

24 A If I'm the operator of the system, I produce the
25 reports.

1 Q And how often are you the operator?

2 A Most of the time, yes, but not always.

3 Q Would you generally be the operator for one
4 complete fiscal year or will it trade off during the year?

5 A I would try to be, yes, I would try to be the
6 person.

7 Q Most generally. And were you during base year
8 1998?

9 A I'm not sure, but I believe that for the most
10 part, I believe I was.

11 Q If you were not the supervisor or it or the
12 operator of it, as you said, who would be?

13 A That's for my manager to determine.

14 Q It would be someone else in your office?

15 A That's correct; it's not my decision.

16 Q If you are in a circumstance where someone else
17 has taken over for you and perhaps you come back into the
18 system, do you receive the documents that went before you,
19 to pick up the trail on what's been done in the past?

20 A I think I would collect them and keep them in one
21 spot together for our office, yes.

22 Q Okay. In your response to UPS/USPS T-5-2, you
23 gave us the total number of pieces for total periodicals and
24 for within-county mail that are produced by the BRPW, and I
25 believe that the totals you said were produced by BRPW are

1 923, 865 million for within-county, and approximately 10
2 billion-three for regular periodicals; is that correct?

3 I'm looking on Table 2, for Pieces.

4 A That's correct.

5 Q Okay. Those total represent the entire subclass
6 of within-county and the entire class of periodicals; is
7 that correct?

8 A It's my understanding that's true.

9 Q That they do. So, in other words, BRPW provides
10 the totality of data for volume, for pieces, for periodicals
11 and for within-county?

12 A I would say that's my understanding.

13 Q Okay. Is it correct that within BRPW, the volume
14 data for the base year '98 came from two principle sources,
15 one being the panel of Post Offices under the permit system,
16 and the other, a stratified sample of non-automated Post
17 Offices that are not under permit?

18 A No, that's not exactly correct.

19 Q What else -- do those two segments provide volume
20 data in base year 1998?

21 A We have one data stream comprised of permit system
22 mail activity. The second data stream is a non-automated
23 office panel data.

24 Q Okay, I believe I mentioned that, the stratified
25 sample of non-automated offices; is that what you're talking

1 about in your last answer?

2 A That's fair, yes.

3 Q Yes, okay. Tell me again what your first
4 reference was to, just now?

5 A The automated office stream.

6 Q The automated office stream.

7 A Yes.

8 Q The non-automated offices, and then you said there
9 was a third?

10 A Yes, there is the finance.

11 Q The finance?

12 A Yes.

13 Q Okay.

14 A Finance accounting information.

15 Q But finance does not provide you piece data; does
16 it?

17 A Well, no.

18 Q Volume data?

19 A No, there's no finance -- there is no piece data
20 from finance.

21 Q So, as far as volume data go then, there really
22 are two principle sources, the permit offices and the
23 non-automated offices?

24 A Well, that's only for input, yes.

25 Q For input, I understand.

1 Do you have a policy in your office governing
2 document retention?

3 A Generally I understand that official estimates are
4 kept for, I believe, five years. That's just a general
5 rule.

6 I'm not exactly sure what applies to that and what
7 doesn't apply on a day-to-day basis.

8 Q Is that a Postal Service policy or one of your own
9 office; do you know?

10 A I think it's -- I'm not really sure; I can't
11 answer that.

12 Q Is it one that you follow?

13 A I try to retain documents, okay? I can't -- we
14 have space limitations and I don't save everything.

15 Q Would the documents that you would retain for five
16 years be only the reports, or would there be more than that?

17 A I can't say for sure.

18 Q Do you save the reports for five years?

19 A No, not all reports. We'll save what we can, and
20 so as an example, trying to locate a particular year or
21 quarter. I don't know what I would find until I actually go
22 to look for that.

23 Q So you don't have a set policy that you follow
24 that goes across all types of reports or all types of data
25 that you would be using?

1 A A set policy in what terms? I'm sorry.

2 Q In terms of years. You don't necessarily keep
3 things for five years. You may keep some things shorter
4 terms? You might possibly keep some things for longer
5 terms; is that what you're telling me?

6 A That sounds fair, yes.

7 Q Okay. What about the source data? In the case of
8 the permit offices, the permit totals, perhaps, how long
9 would you save those?

10 A Generally inputs are used for the BRPW. We try to
11 save those for five years.

12 Q Would that also be true for the non-automated
13 offices, five years would be your rule?

14 A Any inputs for the BRPW.

15 Q Okay. But there could be some circumstances where
16 you've kept those data longer?

17 A I'm not really certain about that because there
18 are -- I think you're talking in this case about a data
19 file, electronic data file.

20 And in the case of electronic data file, I'm not
21 sure how San Mateo. Our files reside on mainframe out in
22 San Mateo, California.

23 Q And is that where you would be looking if you were
24 trying to retrieve data?

25 A Generally, that's where I look, and retention

1 periods are created at the point in time the file is
2 created. And I'm not certain what the retention dates are
3 specified.

4 Q But in any event, when you do a search, would you
5 be looking within your own office, as well as in San Mateo?

6 A I would probably start somewhere with hard copies.
7 I would probably have to locate hard copies first.

8 Q In your possession?

9 A No, in our office's possession. I keep very
10 little in my own personal possession.

11 Q Mr. Hunter, I'd like to focus just for a moment on
12 the segment of BRPW that comes from the permit offices. I
13 know you're not a permit witness, but since you do use the
14 data, will you explain to the best of your knowledge, what
15 information you retrieve from permit for periodicals
16 purposes?

17 A I think I have explained this in my testimony.
18 Basically, the information we collect from the permit system
19 is -- we collect revenue, piece, and weight data, which are
20 input into the RPW system.

21 Q Focusing just on the piece aspect of that, in what
22 segments do you retrieve the piece data? Do you retrieve
23 only the total mailing volume, or do you retrieve it in
24 finer sorts than that?

25 A I'm not sure what you mean by total.

1 Q If it a mailer, for example, brings in a
2 thousand-piece mailing, a periodicals mailing, do you record
3 only the one thousand or do you look within the rate cells
4 to find piece counts from permit on that mailer's statement?

5 A I can't tell you any particular mailer or number
6 of mailer, counter ^{of} mailers, or postage statements or
7 anything that a particular record is comprised of. All I
8 can say is that we collect the permit data. It's given to
9 us and it's an input to my model.

10 Q So when it arrives to you, it's already in
11 whatever form it was collected originally from the permit
12 system?

13 A It's in the form that we requested it to be in.

14 Q And what form do you request it to be in?

15 A Generally, by VIP code, a ^{designator} nd which loosely conforms
16 to rate category subclass, rate category level, and rate
17 date, which generally corresponds to a period of rates. The
18 most recent rates, I believe, are January 10th, 1999.

19 Q Would you turn to NNA/USPS T5-12?

20 A T5-12 UPS, right?

21 Q No, NNA/USPS.

22 A Sorry. I've got that.

23 Q Thank you. I believe you were trying to correct
24 our misimpression here. You say in your response, am I
25 correct, that all permit system postage statements are

1 captured with certainty? That's true?

2 A Your question here is you are asking me if we
3 capture a sample, if we --

4 Q Let me ask, let me rephrase the question, Mr.
5 Hunter, maybe I can make this a little bit more clear.

6 I was asking you initially whether there is NBRPW,
7 a sample of mail or if the data you retrieve from Permit is
8 a census of all mailing statements?

9 A We do not sample census -- I'm sorry. We do not
10 sample the Permit system information.

11 Q Okay, so this is -- when you say that the
12 statements are captured with certainty, you mean you are
13 capturing all of them?

14 A That is my understanding.

15 Q To the best of your knowledge, okay, and is there,
16 there is no circumstance then, just to get you to repeat
17 what you just said, where an actual sampling of mail pieces
18 would occur under BRPW?

19 A An actual sample of pieces from the Permit system?

20 Q That's right.

21 A Not to my knowledge.

22 MS. RUSH: Mr. Chairman, I would like to hand the
23 witness a cross examination exhibit marked NNA and I believe
24 we have now marked it correctly, Cross Examination Exhibit
25 1. This exhibit was provided yesterday to the Postal

1 Service to give the witness an opportunity to identify it,
2 and I believe it is from a document called BRPW Blowup
3 Factors.

4 CHAIRMAN GLEIMAN: Please proceed.

5 MS. RUSH: Mr. Hollies, do you have it?

6 MR. HOLLIES: I certainly have what you provided.
7 I wonder if you have clean copies without annotation on them
8 or if that annotation was in the original -- the
9 handwriting. The Library Reference was annotated in its
10 original form?

11 MS. RUSH: Mr. Chairman, I am going to ask to move
12 this into evidence in a moment, but let me ask the witness a
13 couple of foundation questions first.

14 BY MS. RUSH:

15 Q Mr. Hunter, do you recognize this table?

16 A Yes, I do.

17 Q Was it prepared by you or by BRPW systems in
18 general?

19 A This table is prepared by our BRPW system.

20 Q Not personally by you?

21 A I can't recall.

22 Q Or under your supervision?

23 A Definitely under my supervision, yes.

24 Q Have you referred to it in responses to
25 interrogatories from parties in this case?

1 A I'm sorry, what is the question?

2 Q Have you referred to this Library Reference in
3 response to interrogatories in this case?

4 A I have referred to Library Reference in its
5 entirety in a response at least one time in this case.

6 Q Would this be from Library Reference I-230?

7 A I have referred to Library Reference I-230, yes,
8 that is correct.

9 MS. RUSH: Mr. Chairman, we have asked the Postal
10 Service if the witness would sponsor this as part of his
11 testimony since he is relying upon it.

12 Is it appropriate to request that at this point?

13 CHAIRMAN GLEIMAN: You can certainly request it.

14 MR. HOLLIES: My understanding was that the
15 witness was able to authenticate these materials. Now
16 whether that also means sponsorship is a question I would
17 just as soon not venture in the direction of.

18 He is able to identify these materials as being
19 what they purport to be and I am not prepared to object to
20 their admission into the record.

21 I think that Ms. Rush has proceeded properly in
22 telling us in advance what she wants to do with these and we
23 have no objection.

24 CHAIRMAN GLEIMAN: I think that you can probably
25 achieve your objective by continuing to question, if you

1 have questions, regarding this and also then offering it up
2 as evidence.

3 MS. RUSH: Mr. Chairman, I had prepared to hand
4 two copies to the Reporter. I would like to note that there
5 are some handwritten squiggles on the bottom of this which
6 unfortunately are not ours but were on the Library Reference
7 themselves from which we copied.

8 Perhaps the Reporter can squiggle through the
9 squiggles but they are not part of the evidence in any
10 event.

11 CHAIRMAN GLEIMAN: If there's no objection then
12 the cross examination exhibit will be entered into evidence.

13 [NNA-XE-1 was marked for
14 identification, received into
15 evidence and transcribed into the
16 record.]

17
18
19
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23
24
25

PQ1-FY95 2C CENSUS REVENUES - BY STRATUM

OBS	STRATUM	NH	NHSAMP	BLOWUP	RI	RC	RN	RR	RF	RU	R
1	1.1	1223	1223	1.00	10288036.24	2507763.62	66790416.08	309370621.18	16818370.27	180981.75	405868189.14
2	1.8	338	338	1.00	672807.88	52366.05	781172.16	3964258.11	174944.10	1537314.35	7182862.65
3	1.9	102	102	1.00	87486.82	35121.31	125822.06	418021.94	11822.22	429599.98	1108774.33
4	2.1	94	5	18.80	1161261.87	0.00	26996.78	847468.76	7016.73	0.00	2042744.14
5	2.2	403	4	100.75	1726741.11	0.00	131285.79	2132101.51	19461.85	0.00	4009580.36
6	2.3	979	4	244.75	1863868.78	0.00	207248.14	3297186.38	43001.88	0.00	5411305.11
7	2.4	1784	4	446.00	1444586.64	0.00	167854.88	3370841.82	40619.88	0.00	5043903.22
8	2.5	2642	4	660.50	536160.20	0.00	285730.01	3444195.35	90814.22	338624.16	4695523.94
9	3.0	201	4	50.25	384104.75	162402.39	777019.13	1004625.16	68073.06	0.00	2396284.49
		=====	=====	=====	=====	=====	=====	=====	=====	=====	=====
		7766	1688	1524.05	18165054.30	2757653.37	69313605.03	327850270.13	17274124.31	2496520.24	437857177.38

1600

P

2000

National Newspaper Association (NNA)

X-EX Exhibit (1) One

USPS Library Reference I-230, Appendix A, page 3 of 6

Exhibit Page 1 of 1

Cross Examination of USPS Witness Herbert Hunter

USPS T5

4/11/2000

1 THE WITNESS: Excuse me, sir. I do have one
2 question about this particular page here. There are some
3 comments on the right-hand side here of course from NNA, but
4 up in the title, part of the title is missing -- the first
5 line up here is missing and it should say up there, the
6 title should say correctly "New 2-C Panel" --

7 CHAIRMAN GLEIMAN: I'm sorry, it should say -- and
8 we can --

9 THE WITNESS: Yes, New 2-C -- back in the old days
10 it was called Second Class -- 2-C --

11 CHAIRMAN GLEIMAN: Okay.

12 THE WITNESS: 2-C Panel -- P-a-n-e-l -- and then
13 to the right of that it should say PQ1-96. That's very
14 important.

15 CHAIRMAN GLEIMAN: Thank you. We appreciate your
16 help on that one.

17 MS. RUSH: Thank you, Mr. Hunter. I was about to
18 ask you those very questions.

19 BY MS. RUSH:

20 Q So this table does refer then to 1996 data, is
21 that -- that's correct? -- and not the base year in this
22 case?

23 A We are referring to, this panel was used effective
24 PQ1 of 1996.

25 Q Effective, okay.

1 A So this was two years before, just about two years
2 before 1998, PQ1 of '98.

3 Q Was this panel also used in base year 1998?

4 A That's correct.

5 Q Mr. Hunter, would you explain to us the meanings
6 of the headings of the columns here beginning with what I
7 believe is OBS? Am I reading that correctly, OBS and then
8 there are line numbers and the next word is STRATUM?

9 A The OBS stands for Observation. That is a
10 standard output of SAS, the programming language; STRATUM,
11 that is just a numerical designation, sort of arbitrary for
12 the actual numbers themselves.

13 Q Could you just go across so we know what these
14 designations are?

15 A I think you have asked me about the RI variables
16 in an interrogatory and I will be happy to, if I can look
17 that up, I'll tell you. The other one, the NH is the
18 population size, population defined by a post office. NH
19 Sample is the actual number of samples, sample offices. The
20 BLOWUP is the reciprocal of the sampling rates.

21 Q That's right, thank you, and these are the other
22 periodical subclasses, to the right of RI, which is Within
23 County, is that correct?

24 A That is correct.

25 Q So it would be classroom, nonprofit regular rate?

1 A Yes.

2 Q What is RF?

3 A That is the small -- RF stands for -- one second,
4 please.

5 [Pause.]

6 THE WITNESS: I believe the RF stands for Foreign.
7 At that point in time there was a subclass called
8 International Publishers Periodicals, which is not actually
9 part of Domestic, but is outside the scope of this case.

10 BY MS. RUSH:

11 Q And RU?

12 A RU is an Update of the PQ1 census data for
13 tail-end of the year stuff. It is undefined to a certain
14 extent.

15 Q And R?

16 A R is just the Grand Total.

17 Q The total, thank you. That would be the Grand
18 Total moving horizontally across the page?

19 A Left to right.

20 Q Okay, thank you. On this chart, Mr. Hunter, the
21 first three STRATA, am I correct, STRATUM 1.1, 1.8, 1.9,
22 those are all permit offices?

23 A That's correct.

24 Q And you use a blowup factor of one with those
25 because that is where you are capturing the sample with

1 certainty?

2 Is that correct? Okay.

3 A That's right.

4 Q Column NH, then, would represent the number of
5 offices, post offices?

6 A I think I just answered that. I'll be happy to
7 repeat it.

8 Q The population size, you said.

9 A Yes, that's correct.

10 Q The population in this case is the post office, is
11 it not, or --

12 A The population of post offices, yes.

13 Q Population of post offices. Okay.

14 A In this case, these are non-zero periodicals
15 reporting offices. Obviously we have more than 7700 post
16 offices in the nation.

17 Q Thank you. Let me return to that point in just a
18 moment, if you don't mind.

19 I believe that we asked you in base year 1998 how
20 many offices were on permit, and I believe you told us 2,205
21 in that base year; is that correct?

22 A That sounds approximately correct.

23 Q I believe, actually, if you want to refer, it's
24 NNA/USPS-T5 Number 31, and it would be subparts A and B.

25 A My answer is still the same.

1 Q Thank you.

2 If I count the number of permit offices that I see
3 on this chart here for 1996, I believe I come up with about
4 1600 offices, if I remember correctly. My question was,
5 what accounts for the difference between 1996 and 1998?
6 Would these be offices that have been added to permit since
7 this panel was constructed?

8 A What difference are we referring to here?

9 Q If there are 2,205 offices at this point in time,
10 or at least in base year 1998, which you confirmed in T5-31,
11 what accounts for the discrepancy between 2,205 and your
12 total here in 1996 of 1,223, 338, 102 offices? Does that
13 mean that there are new offices that have been added to
14 permit in those two years?

15 A Before I answer your question, I don't recognize
16 the number 2,205. My response to T5-31 part A, I'm
17 confirming that there are 2,025 offices. The difference
18 between that and what's shown here from the total of the
19 three strata are new permit system offices.

20 Q I'm sorry.

21 A I'm sorry. That difference is new permit system
22 --

23 Q I'm sorry. I stand corrected. 2,025. Yes.
24 Thank you. Okay.

25 So there are 2,025 offices in base year 1998 that

1 were on permit?

2 A I think I have answered that.

3 Q I was wrong. Excuse me.

4 A Yes. Okay. Thank you.

5 Q Okay. I think we're together now, then.

6 Referring to the Library Reference chart here,
7 it's true, then, isn't it, Mr. Hunter, that the majority of
8 offices in this panel overall are not on permit; is that
9 correct? As a matter of fact, it would be an overwhelming
10 majority. If you have 700 --

11 A I would -- go ahead.

12 Q I'm sorry. You have 7,766 offices on the total
13 panel. That's correct? Most of the offices in this panel
14 overall are not on permit, then.

15 A Again, let me clarify. The 7,766 is the
16 population count of non-zero periodicals. That's not a
17 panel. The panel sizes would be to the right of that, and
18 that would total -- in this particular case, the total panel
19 size is 1,688 at that point in time.

20 Q Okay. Let me refer to the population, then.

21 A Okay.

22 Q Most of the population, then, is not on permit; is
23 that correct?

24 A We're talking about a population of post offices
25 here.

1 Q That's right.

2 A I would say that's fair to say that, yes.

3 Q Okay. To your knowledge, does it tend to be the
4 largest post offices that are on permit?

5 A I'm not qualified to answer that.

6 Q Do most of the volume numbers that you retrieve
7 for BRPW come from permit offices?

8 A We're talking about periodicals here?

9 Q Periodicals.

10 A Yes, I would say that the majority of the volume
11 is determined from the certainty stratum, yes.

12 Q I believe you responded to one question that for
13 periodicals, 93 percent of the volume was retrieved from
14 permit data; is that correct?

15 A Yes. We know that we have a very high coverage
16 there.

17 Q Do you know what it would be within county volume?

18 A We could estimate that by looking at the --
19 actually, I'm not certain of that. I could only speculate
20 on that.

21 Q Could you give us an estimate?

22 A Again, it's a speculation. I would say that it's
23 roughly somewhere between -- the split is roughly 50/50,
24 maybe a little bit heavier on the permit side, maybe 55/45.
25 I'm not exactly where it is today.

1 Q Meaning that about 50 percent of the volume comes
2 from permit and the rest comes from the non-automated
3 offices?

4 A If my estimate is correct.

5 Q Is that correct? Would you provide us that number
6 for within county?

7 A And the exact number is that you want again,
8 please?

9 Q The percentage of pieces that you track from
10 permit offices.

11 A Of my total estimate, you would like to have the
12 percentage or the proportion of volume going to --

13 Q That's right.

14 A -- from the certainty --

15 Q That's right.

16 A Yes, I will.

17 Q Thank you.

18 Are all the volume figures collected from the
19 Office of Mail Entry? That's where the mailing statements
20 come from?

21 A I'm sorry, would you repeat the question?

22 Q Take your time. Are the volume figures all
23 collected from the Office of Mail Entry as far as you know?
24 That's where the mailing statements come from?

25 A I don't think I'm qualified to answer that.

1 Q Within the classes and the subclasses that are
2 covered by BRPW, do you know of any other that has as high
3 or a higher percentage of volume data that come from the
4 non-automated offices?

5 A I have not studied that.

6 Q Within the periodicals class, looking at the four
7 at least domestic breakouts in your panel chart here, it
8 appears that classroom, at least, volume comes largely from
9 the permit offices, which would be the top three lines, is
10 that correct?

11 A Yes, that's correct.

12 Q And would that also be true for non-profit?

13 A Well, there's a sizeable portion that comes from
14 the non-automated offices as well here for non-profit. I
15 wouldn't ignore it if I were a statistician.

16 Q I realize that we're looking at revenue totals
17 here and not piece totals, but if we look at the column for
18 non-profit, we're looking at 66 million from the first
19 stratum, are we not?

20 A That's \$66.7 million, yes.

21 Q And the total for the subclass is 69.3 million; is
22 that correct?

23 A That's correct.

24 Q So would you agree that stratum 1, which is a
25 permit stratum, provides most of the information that you

1 retrieve for periodicals non-profit?

2 A I would say that it covers a sizeable -- whatever
3 that ratio works out to be, divide 66.8 by 69 -- I don't
4 have a calculator.

5 Q It's almost all of it, isn't it?

6 A No, there's -- by my recollection here, there's
7 three million -- almost three million pieces. There's a
8 three-million-piece difference here.

9 Q I would like to talk for a moment about the
10 non-automated panel, if you will, also from this exhibit.
11 Adding to the strata, 2.1 through 3.0, would it be correct,
12 then, that the number in that population is 6103? Would you
13 agree with that?

14 A Subject to check, that sounds about right.

15 Q That sounds right to you?

16 A Uh-huh.

17 Q Thank you.

18 In your response to NNA/USPS-T5-31, which you had
19 up just a moment ago, I believe you confirmed for us that in
20 1998, there were 26,184 non-automated offices; is that
21 correct?

22 A My answer is the same, that's correct.

23 Q Would it be correct to say that the
24 20,000-and-some offices that do not appear on this chart are
25 non-revenue offices; in other words, there's zero

1 periodicals revenue in those offices when this panel was
2 constructed?

3 A I can't say. I have not studied that.

4 Q Is there any other possible explanation for where
5 those other 20,000 offices would be within your strata here?

6 A First of all, we're talking two different points
7 in time here. We're talking this Appendix A here, page 3,
8 referring to PQ1 of the '96 time period. Over here in the
9 response, you asked me about '98. Okay. My response is
10 about '98. We're just two different points in time. I'm
11 not sure, I have not studied -- certainly have not studied
12 any -- these counts for --

13 Q But didn't you tell us, if I'm correct, that the
14 panel that you provided for us here in this chart is the one
15 that was actually used for 1998?

16 A This panel is the same panel that's used for --

17 Q The same panel.

18 A Except with one key difference, that we have
19 several more permit system offices now reflecting -- I can't
20 tell you exactly how much more volume they reflect. And --

21 Q I'm sorry. Go ahead.

22 When you say there were more permit offices, would
23 those be ones that migrated from the non-automated panel to
24 permit, or would those be new offices, or both?

25 A I can't say how many new offices are created. I

1 can't say how many have migrated, actually have migrated
2 from the existing population in 1996. I would assume
3 probably most of those have, indeed -- were around in 1996.
4 In 1998, they have become automated by that point in time.

5 Q Notwithstanding the different points in time, and
6 I understand what you're saying to us about that, but would
7 you agree that the difference between 26,184 non-automated
8 offices and the 6,103 non-automated offices appears to leave
9 us with 20,000 non-automated offices that we can't find on
10 this chart?

11 A Well, again, your question here, I think you asked
12 me how many -- your question 31 here, I was asked how many
13 non-permit offices -- non-automated, which is non-permit
14 system offices here, and this answer is good. How many of
15 those are -- have periodicals volume, that's not what you
16 asked.

17 The chart here, that you're referring to here, is
18 strictly solely -- a study was made to determine exactly the
19 count of not only non-automated offices, but those that are
20 reporting non-zero periodicals volume, okay?

21 Q I understand. And so is it a possible explanation
22 that I have 6,103 offices here in PQ1 '96 because the other
23 20,000 had zero periodicals revenue?

24 A However, I'm not sure exactly what the count was
25 in '96. I cannot tell you. But I would assume that the

1 balance of the offices at that point in time had zero
2 periodicals revenues, if that answers your question.

3 Q But it's not likely that the Postal Service built
4 20,000 new offices that were not automated between 1996 and
5 1998, would you agree?

6 A I don't know how many sprung up. I can't answer
7 that.

8 Q Would it be true, then, that for PQ1 1996 when
9 this panel was constructed, if those 20,000 offices had zero
10 periodicals revenue, you wouldn't have had any need of them
11 for this panel; is that correct?

12 A Would you repeat the question, please?

13 Q For PQ1 1996 when this panel was created, if those
14 20,000 offices had zero periodicals revenue, you would have
15 had no need for them in this panel; is that correct?

16 A Well, first of all, I had to make the
17 determination -- someone has to make the determination that
18 there are, indeed, no other offices that have periodicals
19 volume. Beyond that point, yes, they're not needed once
20 that determination has been made, but that, to me, is a key
21 determination.

22 Q Would that determination have been made at the
23 time this panel was constructed, then?

24 A It would have been made in the time period that
25 this panel was constructed and implemented.

1 Q Would it have been made independently in base year
2 1998?

3 A What is the question, please?

4 Q Would it have been made independently in base year
5 1998?

6 A What does "it" refer to, please?

7 Q To the determination that there were no other
8 offices with periodicals revenue.

9 A If you're asking did I make that determination in
10 1998, --

11 Q That's right.

12 A -- did I make that actual count, no, I did not
13 make that count.

14 Q Okay.

15 A I have no idea exactly from this 28,000 -- I'm
16 sorry -- from this 26,184, as I've said before, exactly how
17 many of those are non-zero periodicals reporting offices.

18 Q Okay. In 1998.

19 A In 1998.

20 Q Okay, thank you. Were the blowup factors used in
21 1998, the same as the ones that appear here for PQ-1, 1996?

22 A I believe so; that's correct.

23 Q Thank you. I believe you have told us that the
24 strata themselves are constructed through the use of revenue
25 numbers from the Post Offices; is that correct?

1 A We use revenue from the Post Offices, yes, to --

2 Q Do you use other criteria as well?

3 A I'm sorry, what's the question?

4 Q Do you use other criteria as well to construct the
5 strata?

6 A Well, there's all sorts of information that's
7 probably used to construct strata. Are we referring to this
8 particular panel?

9 Q Yes, only this panel.

10 A Back in time?

11 Q Only this panel as you constructed it in PQ-1-96.

12 A Well, there is information that the statistician
13 would need to select a panel. You'd have to know something
14 about the sampling design. You'd want to have some
15 information about a targeted CV precision level that we're
16 after.

17 We'd want to know something about administrative
18 concerns. It's not feasible to have a panel that's too
19 large.

20 We'd want to know something about how often are we
21 going to rotate this panel. We try to rotate panels
22 frequently, before they become too stale or stale at all.

23 There are maybe several other reasons. I'm not
24 saying that this is certainly the only reason, not the only
25 information I need to know or a statistician would need to

1 know.

2 In this particular case, a lot of factors were
3 considered, yes.

4 Q Okay, thank you. I'd like to focus just for a
5 moment, not upon the sample or the means by which you draw
6 them, but the division that you use to construct the strata,
7 so how you decide which offices go, for example, into one --
8 into 2.1, 2.2, 2.3.

9 Are there other criteria besides revenue that you
10 would use for that purpose?

11 A Well, first of all, a determination has to be made
12 as to the number of sampling strata, how you want to
13 construct them.

14 That's pretty much -- there's no one way to do
15 that. It's pretty much a statistician who is familiar with
16 the data. You generally familiarize yourself with the data.

17 There's a little bit of art involved in this.
18 Given the prominence, the attention that the in-county,
19 which is a fairly small subclass. I believe, if I'm not
20 mistaken, it's five percent of total periodicals volume, and
21 it's less than half of one percent of total volume that the
22 United States Postal Service handles.

23 It does get a considerable amount of attention,
24 and we devote extra resources to that. And consequently we
25 have five strata that are developed solely for that

1 particular small category.

2 And that would help us determine exactly how we
3 want to partition the population for sampling convenience,
4 sampling efficiency, administrative concerns.

5 Again, there's a whole host of factors that we
6 actually use to select a sample from a target population.

7 Q I'm sorry, let me go back and ask you that again,
8 because I think you're talking about something other than
9 what I'm asking.

10 A All right.

11 Q The only question I'm asking at this point is, in
12 actuality, for the construction of the panel in PQ-1-96, as
13 you devised the criteria for making the divisions between
14 2.1, 2.2, 2.3, and so forth, did you use any other criteria
15 besides revenue?

16 A Yes, we sure did.

17 Q What criteria would you have used?

18 A First of all, we know that non-zero periodicals
19 reporting offices, and from that, from the survey, we also
20 know those that -- exactly those that have not only non-zero
21 periodicals revenue, but also have non-zero in-county
22 revenue.

23 The five strata that you see here are numbered 2.1
24 through 2.5. Those are all based on in-county revenue.
25 They're stratified on in-county revenue.

1 So every office, the ones that you see in 3.0, had
2 no in-county revenue, and all the remaining offices that we
3 identified in our survey were segmented between the five
4 strata, 2.1 through 2.5.

5 We then used what's called the cumulative
6 distribution rule to once we determine the number of strata
7 we would use to actually select the strata boundaries,
8 that's all the information I used.

9 Q Okay, thank you. Well, you responded -- if you
10 wouldn't mind just for a moment turning to NNA/USPS T-5-31
11 again, and your response to Subpart F?

12 A I've got that.

13 Q I believe that you provided us then the revenue
14 totals that led to the construction of the in-county revenue
15 strata; is that correct?

16 And it goes in the range of one to 599, and so
17 forth; is that correct?

18 A The revenue ranges here shown, and they correspond
19 to strata numbers 2.1 through 2.5 here, yes.

20 Q Yes, thank you.

21 And I don't see, and if I'm wrong, please correct
22 me. But I don't see here, a reference in this response to
23 any other element that you have used in constructing the
24 strata divisions besides the revenue.

25 A I'm sorry, the question you asked me was what

1 precise information I used to develop -- that were used to
2 develop the strata.

3 And I've given that, I've given the ranges here.

4 Q I understand, but you responded, if I'm reading
5 this correctly, strata 2.1 through 2.5 were constructed
6 based on the following ranges of in-county revenue, in
7 reverse descending order, respectively, and then you've
8 proceeded to break out the divisions for us.

9 A Yes.

10 Q Those are only revenue numbers; are they not?

11 And there is no other element besides revenue in
12 those divisions?

13 A These are in-county revenue numbers that are used
14 to determine where the non-automated office land. And
15 that's --

16 Q Within the strata, and that's what I'm asking you.

17 A Right.

18 Q That's what I'm asking you. In determining where
19 the offices land within the strata, there is then no other
20 element besides revenue that you use in that point of the
21 determination, or is this not a complete answer?

22 A The way I understand this question here, you're
23 asking me what determines -- you're asking me about the
24 definitions of the nine strata. I've given that.

25 And I've given you the precise values for the

1 defining revenue ranges.

2 Q Okay.

3 A Is there another question on that one?

4 Q No, I believe you've answered me.

5 A Okay.

6 Q When I'm examining the chart then for PQ-1-96, am
7 I looking at strata that are constructed only for use of
8 in-county and not for the use of classroom, nonprofit,
9 regular rate and the other subclasses that are in this
10 chart?

11 A No, that's not correct.

12 Q Are the strata identical then across the
13 subclasses?

14 A The strata are the same across the subclasses,
15 that's correct.

16 Q Okay. So if I looked at revenue, the divisions in
17 the strata for -- and let's just pick regular rate for a
18 moment -- would I find a progression in ascending or
19 descending order as you've given it to us for in-county for
20 the values within those strata as well?

21 A No, that's not necessarily the case. I can't
22 really say for sure. We're talking about a time here back
23 in PQ-1 of '96.

24 This particular panel here, this is a complete
25 census. It was not just for in-county; it was for all major

1 categories, subcategories, classroom, nonprofit, regular
2 rate, foreign.

3 We wanted to determine exactly what our coverage
4 was, and how much -- where we needed to devote our resources
5 to make sure that we had good precision in our estimates,
6 and that's what this information represents. That's how it
7 was used.

8 And from this information, this is a survey
9 complete census, a sample is taken to -- if it's not
10 feasible to go out and measure all 7700 offices, we have to
11 sample. So that's what this represents.

12 Q But you don't re-stratify each of these offices
13 when you are drawing samples for the other subclasses
14 besides with in-county; is that correct?

15 A No, the stratification is done one time here.

16 Q It's done one time.

17 A All the offices, as you can see, fall into one of
18 these nine strata.

19 Q So if it were true, if I understand your response
20 to our question to you about the in-county divisions, the
21 stratum with revenue 7300 and greater would be stratum 2.5;
22 is that correct, or would it be 2.1?

23 A As I have indicated in my response here, Part F to
24 this Interrogatory Number 31, these ranges are shown in
25 reverse, in parentheses, descending order, respectively.

1 And the "respectively" refers back to 2.1 through 2.5, so
2 the answer to your question is the last one here, 7300 and
3 greater, which I think you asked me about.

4 Q That's right.

5 A Then it goes back to the first one, which is
6 stratum 2.1.

7 Q 2.1, okay. What does stratum 3 represent?

8 A I think I have already answered that. Stratum 3,
9 again, is all other periodicals activity with no in-county
10 that was left over after strata 1-5 were determined.

11 Q For purposes of constructing the strata, any
12 non-zero periodicals revenue will make an office eligible to
13 be in the panel; is that correct?

14 A Any non-zero periodicals revenue, yes, that's
15 correct.

16 Q So if it had only within-county revenue, it would
17 be in this panel somewhere?

18 A If it had in-county revenue, it would have been
19 identified in the population and subject to sampling.

20 Q And that would be a non-zero office, then, would
21 it not, no-zero periodical?

22 A Non-zero periodicals, yes.

23 Q And if it had only classroom revenue, then it
24 would also be a non-zero periodicals?

25 A That's correct. It would have been picked up in

1 the survey and we would have put it in one of these
2 categories here, that's correct.

3 Q And that would be true for if it were only
4 nonprofit revenue, it would be picked up?

5 A Yes, that's right.

6 Q Okay, and also if it were only regular rate?

7 A That's correct.

8 Q Okay. And if it had revenues of zero, is there no
9 stratum on this list within which that office would fall?

10 A What revenue are we talking about here?

11 Q Zero, periodicals revenue.

12 A Again, I've said that this is non-zero periodicals
13 revenue, these offices here, and so if they're not shown on
14 here, it means we've determined at that point in time prior
15 to selection of the panel, that we've got all the offices
16 identified that have non-zero periodicals revenue.

17 We've selected our sample from those, and any
18 other offices we've determined do not have periodicals
19 revenue are not used beyond that point.

20 Q These strata were constructed in 1996, I believe
21 you said?

22 A They were implemented in PQ-1 of 1996 from
23 information obtained from a survey in PQ-1 of '95, and then
24 updated with en-of-year '95 data, to make it fresh for the
25 '96 period.

1 Q Okay. And also then these same strata were used
2 for 1998, you said?

3 A I think I've answered that, yes.

4 Q If an office acquired periodicals revenue in 1997,
5 would it not be in this panel?

6 A The panels of offices are, by definition, outside
7 of the certainty stratum. The panel of offices that we're
8 using here are, by definition, non-zero periodicals revenue.

9 So if -- they have to have had periodicals revenue
10 at some point in time to be in the panel, period.

11 Q It's the point in time that I'm interested in,
12 though. In 1996, as you constructed these, all of these
13 offices had some periodicals revenue, and you've confirmed
14 that for us.

15 What I'm interested in is what happens to an
16 office in 1997 that gets its first periodicals mailer to
17 enter mail through that office, and it is in a non-automated
18 office; would that office appear in the panel, only at the
19 time that you reconstruct the strata then to pick up your
20 non-zero periodicals revenue?

21 A First of all, this panel was selected in PQ1. It
22 was implemented in PQ1 of '96 for the time period it was
23 used for, beginning in 1998. The panel is still relatively
24 fresh. We generally don't as a rule go out and update the
25 panel every year. It is just not practical from a

1 statistical practitioner's point of view.

2 I think that is generally recognized.

3 Nevertheless we look at the panel from time to time.

4 There's two other factors going on here. One is that the
5 panel does get refreshed periodically to pick up offices
6 that were not in the -- I believe your terminology may be a
7 little bit different from mine.

8 When I refer to the panel I am talking about the
9 1688 offices here in the '96 period. The population we are
10 talking about, the 7700 offices, the distinction between the
11 population and the panel, I believe your question, what you
12 really are after is if an office joins the population with
13 periodicals registered for the first time in 1997 or 1998.
14 I think that is what you are referring to.

15 Of course it can't be in the panel because the
16 panel was selected in '96 so it is impossible for it to be
17 in the panel. However, the -- any offices that join the
18 population prior to the next update of the panel, their
19 revenue would be reflected in the trial balance control, AIC
20 135, which we use in my estimators as I have shown in
21 Library Reference I believe it is 26 statistical systems
22 documentation and we use a particular estimator there to
23 account for changes in total revenue to tide us over between
24 panel updates.

25 Q I understand.

1 A Okay.

2 Q So between panel updates any changes that would go
3 on that might be material to your results, in your view you
4 are picking them up by truing up with the revenues data that
5 you are getting out of AIC?

6 A We are using that as one factor. Also panel
7 updates were also -- would also be another factor. There
8 may be others.

9 Q And in 1998 the AIC revenue code that you used
10 would have been for Total Periodicals Revenue, correct, and
11 not broken down by subclass?

12 A For 1998 period we used Total Revenue. It was
13 different from the '96 revenue, that's correct.

14 Q Would you turn to NNA/USPS-T5-5, please.

15 A T5-5 UPS, right?

16 Q Yes.

17 A I've got it.

18 Q No, I'm sorry, NNA.

19 A I'm sorry?

20 Q NNA/USPS-T5-5.

21 A I have got that too.

22 Q Thank you. We are asking you here to explain
23 changes that have happened in the sampling, sampling design,
24 billing determinant measurement and so forth that would have
25 occurred in a recent time period, and you have begun

1 actually detailing changes that were made in 1993.

2 I am looking midway down the page. I believe you
3 have said to us in PQ2 FY 1993 the panel inflation factors
4 were adjusted to align the automated office data stream with
5 the existing non-automated office panel.

6 Would you explain what you mean by that?

7 A This is going pretty far back in time. I don't
8 have any complete information on this. It's my
9 understanding that in the PQ2 of '93 time period we went and
10 upon review of our systems, data systems, we adjusted, made
11 a correction to sampling weights, and that is about all I
12 can tell you on that.

13 Q Are the sampling weights the same as your blowup
14 factors for these purposes?

15 A Yes. More precisely it would be the inflation
16 factors.

17 Q Okay. Does that mean that you went through the
18 nonautomated panel and basically removed the offices that
19 had migrated to permit? Is that a layman's term for what
20 you are saying there?

21 A I can't -- I can't say on that. I really don't
22 know what this involved.

23 Q What might it mean? I mean this is your answer --
24 aligning the automated office data stream with the existing
25 nonautomated office panel. What did that mean to you when

1 you wrote it?

2 A I believe this was an attempt to compensate for
3 the fact that long about this point in time there was a
4 system called BRAVIS, I believe, and I know the system was
5 coming online and we were beginning to pick up automated
6 office data way back in this time period. We have been
7 using it since.

8 It was a matter of meshing the panel and the
9 automated office data together. That is about all I can say
10 on that. I am pretty sure that is what this refers to.

11 Q Were you involved with the program then?

12 A I can't say for sure. In this time period --

13 Q Likely?

14 A -- I have been in and out of RPW and in and out of
15 different programs over this -- my duration, my career in
16 this office.

17 Q Further down in that response, you tell us that up
18 to and throughout the FY 1995 period other improvements
19 occurred and you have listed replacing outdated manual data
20 collection and changing the reporting process.

21 Up until the point in time you had in mind in that
22 sentence that ends with BRAVIS, are you talking about
23 realigning the STRATA at any point there or changing the
24 blowup factors in any way?

25 A I can't really say for sure if the STRATA blowups

1 have changed through this time period.

2 I believe what I am referring to here is that
3 there was an increase in permit system offices that were
4 incorporated into the panel. They continued pretty heavily
5 through this period.

6 Secondly, the Postal Service has been fairly
7 proactive and for this particular mail category and going
8 through and looking behind and looking over what we have
9 done, keeping it fairly fresh, I think this is an extension
10 of that process.

11 Q So there may have been some offices added to or
12 subtracted from various strata during that period of time?

13 A I can't say for sure what the strata were in that
14 time period. I can probably say that the strata are very
15 different in beginning in PQ2. Every time you go for a new
16 draw, the strata changed. The definitions may change, it is
17 whatever. It is determined more by the needs at the time,
18 the amount of precision, targeted precision levels, some of
19 the other things I mentioned earlier.

20 I can't say how the definitions of the strata
21 relate or correlate, I am sorry, to those that are currently
22 used.

23 Q Are you able to tell us, if you conduct research,
24 how many strata there were in 1995?

25 A I believe this refers to the interrogatory that I

1 am supposed to provide data going back as far as I can
2 locate. I have no information at this point in time. I
3 have not had an opportunity yet to even actually look into
4 that. I think that has been made clear. I don't know what
5 I will find at this point. I can't -- I really don't want
6 to speculate. I don't know what I am going to find.

7 Q Okay. So you are not able to tell us for sure one
8 way or the other if those documents exist at this point?

9 A The documents for?

10 Q To tell us how many strata there would have been
11 in 1995.

12 A At this point in time that is correct.

13 Q You cannot. Okay. Would you look at the last
14 sentence on that page, please? You are making reference to
15 improvements implemented during the FY 1996 period, which
16 include an update in the automated office panel. Are those
17 the improvements that led to the construction of the panel
18 that is in the exhibit here in PQ1 '96?

19 A Well, the improvements described here, the panel
20 is just one of the improvements that I have mentioned here,
21 I have talked about. There has been no change in
22 methodology basically. We have used the same methodology.
23 What we do is we update the panels based on census
24 information. Technological changes, we try to incorporate
25 that into our model, and that involved the recoding of the

1 programs from archaic, I believe Cobol at the time to more
2 modern SAS, which more of us statisticians can understand.
3 There might be other changes, other updates.

4 Q Is it --

5 A I'm sorry. Yes?

6 Q Is it correct to say that there may have been a
7 number of changes, but one of them would have been the
8 production of this panel?

9 A One of them would have been the implementation of
10 the panel in the '96 period, yes.

11 Q Okay. Thank you. Turning back then for a moment
12 to that exhibit, is it correct that for stratum 2.1 then
13 there were 94 offices in the population and five samples
14 taken out of that stratum?

15 A The stratum here, there were five offices sampled
16 from the population of size 94 there, subpopulation size of
17 94, yes.

18 Q Okay. And four for 403 and correspondingly on
19 down through that chart, is that correct?

20 A That is what the N sample, NH sample that you
21 asked me about earlier means. It means the actual sample
22 size. And the column to the left again, the NH is the
23 population size, yes.

24 Q I believe you said, in response to one of the
25 interrogatories, that the minimum sample size is four, is

1 that correct?

2 A I don't believe I said that. I said the minimum
3 sample size within a stratum would be four.

4 Q I'm sorry, I stand corrected. I think you did say
5 within the stratum is four. The minimum sample size within
6 the stratum is four, correct?

7 A That is one of our targets.

8 Q What is an ideal size within a stratum?

9 A An ideal size? Well, there is a lot -- there are
10 several considerations, one being cost. It would not be
11 practical. Ideal, you know, if it cost nothing, we would
12 all nonautomated offices, all 7,700 offices with certainty.
13 Of course that is not practical.

14 What we do is we balance, again, the precision,
15 the need for precision, the administrative difficulties, the
16 operational difficulties associated with trying to collect
17 postage statement information from nearly 6,000 offices,
18 which would be very difficult.

19 Keep in mind, we report official estimates by the
20 Postal Quarter here, four times a year. However, we are
21 obligated to report finer for our own internal management,
22 13 times, AP times a year, which means that these data come
23 to us 13 times a year. We are expected to turn them around
24 in a two or three day period. It would not be practical to
25 receive, in this case here, 6,000 offices, postage statement

1 data, the data from 6,000 postage -- I'm sorry, it would not
2 be practical to receive data from 6,000 offices all at once
3 in a two day period.

4 Q I understand.

5 A That is just one of the concerns. Again,
6 precision is the other one which I mentioned. We have
7 targeted CV levels that we try to attain. I think we have
8 done fairly nicely from a statistical point of view.

9 Q Why have you elected to take a sample size of five
10 out of stratum 2.1?

11 A I can't really answer that at this point in time.
12 This was done several years ago. I would say that the -- we
13 had a minimum, we have a constraint on the program probably
14 and the constraint was at no fewer than four offices. We
15 had a maximum target here of 25. So you are trying to
16 allocate 25 offices according to, in this case here, six
17 strata, including 3.0 which has no periodicals activity,
18 though it is a very small population, subpopulation. We are
19 trying to allocate a target level of 25. The subpanel size
20 in this case is size 25, among the six strata, and factors
21 used to do this include the variance that is found by the
22 statistician within each sampling strata. That is certainly
23 an important consideration.

24 So I would say that, in general, the fact that 94,
25 the population with 94 members, that is a larger population.

1 Generally, a larger population requires generally larger
2 samples if it is less homogeneous with respect to the
3 characteristic that you are measuring, which in this case is
4 in-county revenue, and so that might explain why five and
5 not four there in that particular stratum, but no other
6 reason than that.

7 Q You are collecting data every AP from 25 offices
8 then, is that correct?

9 A That is correct. Four times -- three times a
10 quarter, which is 75 offices, basically, -- or, actually,
11 three times 25 or for Postal Quarter 4 it is four times.

12 Q How have you drawn the offices in the sample?

13 A Pardon me?

14 Q How have you drawn the offices in the sample?

15 A Well, once we set up the population here, the
16 subpopulation here, we line them up, we take a random sample
17 of whatever size we have determined that we need here. In
18 this case, five, four, all the subpopulation, all the strata
19 here are size five or four. Selected randomly, yes.

20 Q Does each office supply you with the same
21 categories of data?

22 A Every office reports all of its periodicals
23 activity to us. That is all they are required to do.

24 Q How does that reporting come to you?

25 A I think I have answered this in an interrogatory.

1 Q Can you cite it for me?

2 A It may take me a while to find it.

3 Q Mr. Hunter, I would be happy with the generic
4 answer if you want to save yourself the time of rifling
5 through --

6 A Okay. I'm sorry. The question again, you asked
7 me how do data come to me? Okay.

8 Q What format the data -- how does the data come to
9 you, in what format?

10 A I see. Okay. I believe I have discussed this in
11 a Library Reference for sure, probably Library Reference 25.
12 But at this point in time the data come to me, come to our
13 office in terms of postage statements that are keyed. They
14 are received by a contractor, the contractor keys them into
15 a little database. And I receive VIP code level roll-ups by
16 office, that is all I ask for.

17 Q You say VIP code, you are saying "V" as in Victor,
18 not "Z" as in zip?

19 A Yeah, VIP is volume information profile codes.
20 These are essentially, as I mentioned earlier, rate category
21 or a subclass level designator, that is all it is.

22 Q So, do each of these offices send you copies of
23 all of their mailing statements, each of these 25?

24 A We ask that they send us copies. Sometimes we get
25 the originals, but, yes, they send us the copies.

1 Q Do they actually do it?

2 A Yes, they sure do.

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EVENING SESSION

[6:00 p.m.]

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Q They do send them. I believe you mentioned, in response to one interrogatory, that there are circumstances where you ask the offices to actually convert to PERMIT to make the job of keeping the data easier. Is that -- do I remember that correctly?

A Yes. Generally, the rule is that there is -- we don't have just the in-county panel here, we have panels for Standard Mail A, First Class, meter pre-canceled, stamp, bound printed matter. We have several nonautomated panels. we have I think a total nonautomated office size of 113. So, this, actually, what we have focused here on today is a subpanel of nonautomated offices, but -- I am sorry, could you repeat that question again?

Q I just distracted myself with something you said, but let me --

A The last half of the question, please. Yes.

Q Let me ask that again. What I am asking you is whether there are circumstances where you ask these offices to actually convert to PERMIT for ease of tracking the data? I believe I remembered you responded to someone affirmatively, is that correct?

A I believe that is mentioned in Library Reference 25 or 26. Library Reference 25, incidentally, is the BRPW

1 system itself. Library Reference 26 is the statistical
2 documentation. And in one of those two references, I
3 discuss how, and I believe it is Library Reference 25, and
4 it is explicitly in there, I discuss, for administrative
5 convenience, that we automate some of the larger offices
6 that have many volume -- have a large volume of postage
7 statements.

8 Keep in mind that we have a panel, total panel
9 size is 113 here, and upwards of, at one point in time, 600
10 to 800 postage statements coming in over a two day period,
11 for a two day period, to be keyed by a contractor. So, what
12 we try to do is, once we select an office, with some of the
13 larger volume offices, we will go and automate them. We
14 will ask if they would like to be automated, and some
15 offices don't want to, but the ones that do, most of them
16 do, and then we get our data for free, so to speak.

17 Q When you are talking about 113 offices, you mean
18 all the offices on the nonautomated panel, throughout your
19 system, correct?

20 A That's correct. Right. They all come together at
21 the same point in time.

22 Q And, so, when they are doing this conversion, what
23 you mean is that PERMIT is actually installed at that
24 office, it is not that your contractor enters the data into
25 PERMIT, is that correct?

1 A It is my understanding, and I am not an expert on
2 the PERMIT system, but it is my understanding that a
3 terminal is put into an office. Some arrangement is made, I
4 don't know exactly how that is done, but, yes, they use it
5 for their accounting information. PERMIT system is --
6 though we use it for volumes reporting, primarily, it is a
7 -- not only is a volumes reporting information system, it is
8 a financial transaction system that is kind of used for
9 postmasters to report their statement of account activity,
10 and to keep things pretty much honest in the office, yes.

11 Q But in any event, when that conversion happens,
12 the data entry now becomes the function of that office and
13 not of your contractor, is that correct?

14 A The data we get from the PERMIT system is a census
15 of all activity for the particular mail classes that I am
16 using.

17 Q I understand that.

18 A Yes.

19 Q What I am trying to find out from you, though, are
20 there circumstances where your contractor receives the
21 mailing statements and puts the information into PERMIT
22 either at Postal headquarters or wherever your contractor is
23 located?

24 A No. No. No, we do not have a PERMIT system, that
25 is a field -- something that is used solely in the field for

1 field purposes of reporting financial and mailer activity,
2 trust fund account activity with the Postal Service, between
3 the Postal Service and its customers. We do not use -- have
4 any customers at the Postal Service headquarters directly,
5 as far as I know, at least in my office, so we don't have
6 any need to have a PERMIT system in my office.

7 Again, the data that is received, or entered into
8 the PERMIT system, would not be also be sent to us.

9 Q Okay.

10 A Okay.

11 Q Focusing just for a moment on the mailing
12 statements, though, that come to you from these 25 offices
13 and the periodicals panel, your contractor enters them into
14 what program?

15 A Again, I don't know what program they have
16 developed. That is their -- we pay them for their work for
17 the Postal Service. We don't tell them how to do their
18 business. We tell them -- we oversee them, we review their
19 work, of course, but we don't tell them how to do their
20 business.

21 Q But it is definitely not PERMIT?

22 A Definitely not PERMIT, yes.

23 Q Have you ever had a circumstance where you
24 randomly selected an office for the sample and then after
25 you selected it you rejected it?

1 A I have rejected an office? I know of no
2 circumstance where I would reject any office that has been
3 selected randomly.

4 Q When you construct the strata and you are looking
5 at all non-zero periodicals offices, are you looking at only
6 offices owned and operated by the Postal Service or are you
7 also looking at offices operated by contractors for the
8 Postal Service?

9 A What we do here is the Postal Service system
10 accounts is based on, my understanding and I am not an
11 expert in this field -- I will give you my understanding, is
12 that finance numbers are used and these identify post
13 offices, one-to-one mapping to post offices, so if you know
14 a finance number you can map it back to the post office.

15 East Postmaster -- generally there is a Postmaster
16 associated with the finance number and all mailers who are
17 authorized to mail through that Postmaster in most cases I
18 guess generally would, their revenues would be credited to
19 his finance number.

20 Now I don't know anything about contract offices
21 and I don't -- can't imagine that a contract office would
22 have a finance number, but this is not my area.

23 MS. RUSH: Mr. Chairman, if you will just bear
24 with me, I have got just a couple more questions and then I
25 will wrap up here.

1 CHAIRMAN GLEIMAN: Okay.

2 BY MS. RUSH:

3 Q In the NNA-T-34 --

4 A This is NNA-34, correct?

5 Q Yes, T-34. Yes.

6 A I have that.

7 Q In our Question (b) we have asked you to provide
8 the quarterly estimates from your report for the two years
9 requested, which in this case were I believe the '96 and
10 '98, and I believe your response is that you are not able to
11 produce those data quarterly. Am I misunderstanding you?
12 I'm sorry, let me correct myself.

13 We were asking it for FY '98 and '99. Have you
14 answered us here, that you are not able to produce the
15 revenue or the volume totals by quarter or am I
16 misunderstanding your response?

17 A Again the information I have -- my response here
18 says that this particular information you have asked for is
19 not required to develop my base year volumes. In other
20 words, I do not have to break out anything by quarters in
21 terms of the information I report here in my testimony.

22 My testimony is for the base year period, which is
23 FY '98. Of course it is a sum of periods.

24 You have also asked about '99 period and the
25 information you have asked, I don't have it at my

1 fingertips. I don't have it. It is not readily available.
2 I would have to obtain it for you. I think that is what I
3 have indicated here in this response.

4 Q You don't have quarterly reports for '99?

5 A What you have asked for here, I do not have the
6 CVs for '99. You have asked for information here I don't
7 have yet and I can certainly provide that. I have provided
8 coefficients ^{of} ~~and~~ variations for '98 and generally I don't
9 run CVs unless I am requested to run it, because it takes a
10 special program and --

11 Q Are you telling me here that you can produce some
12 of the data but you can't provide the CVs by quarter? Is
13 that what I am understanding you to say?

14 A I think I can provide all this information for
15 you, if that is what you are asking -- everything here can
16 be provided. It is going to take a little bit of time.

17 Q Okay, so --

18 A I believe when I received this interrogatory this
19 was Number 34, I kind of got sandbagged a little bit. I had
20 a whole bunch of interrogatories hit me at one period, so
21 the ones that take a little bit more time, I will get to
22 them, and it won't be very long.

23 Q You do have it then, and you will provide it for
24 us? Or you will have it?

25 A FY '99 data were not used in my testimony but I

1 can provide FY '99 data, yes. I can provide everything
2 here.

3 Q Thank you.

4 A Even though it is not required in my testimony.
5 Yes, I can. I'll do that for you.

6 MS. RUSH: Thank you, Mr. Hunter. Mr. Chairman, I
7 have no further questions.

8 CHAIRMAN GLEIMAN: Thank you, Ms. Rush.

9 I think I would like to take a 10-minute break
10 right now. Does anyone have a car in the garage? Let's
11 take a 15-minute break so that the people who have cars in
12 the garage can check with the garage attendant to make sure
13 that they can get their cars out of there.

14 You may have to collect your keys at this point --
15 my concern is that there may not be a garage attendant down
16 there beyond a certain hour. I know they close the garage
17 door at 10 o'clock and you actually can get out after 10
18 o'clock but I just want to make sure that people who left
19 their cars in the garage have their keys so that they can
20 get their cars out on their own later on without relying on
21 a garage attendant. That would be my suggestion to those of
22 you who have a car downstairs. It is up to you. Most
23 people around here don't pay any attention to my
24 suggestions --

25 [Laughter.]

1 CHAIRMAN GLEIMAN: But we will take fifteen, so we
2 will come back at 25 after.

3 [Recess.]

4 CHAIRMAN GLEIMAN: It is my understanding that Mr.
5 Olson is going to cross examine. He changed the name of his
6 client to Carole-Wright ValPak, so that he could go first.

7 MR. OLSON: We're very flexible. Thank you.

8 CHAIRMAN GLEIMAN: I think it should be the
9 Association for Carole Wright, actually.

10 MR. OLSON: I want to thank Mr. McKeever.

11 CROSS EXAMINATION

12 BY MR. OLSON:

13 Q Mr. Hunter, let me begin with asking you to take a
14 look at ValPak, Carole Wright/USPS T-5-7.

15 [Pause.]

16 A ValPak T-5-7, right?

17 Q Yes.

18 A I have it.

19 Q Thank you. You will recall that we asked you a
20 number of questions, trying to get to the issue as to
21 whether there were differences in the way that revenue and
22 pieces and weight are handled in the RPW system and handled
23 in the IOCS, correct?

24 A Yes, you have a couple of interrogatories on that,
25 yes, you do.

1 Q Okay, and I think the conclusion that you draw in
2 your response to ValPak-7 is, you say that it is my
3 understanding that the two systems -- and those two systems
4 meaning RPW and IOCS, correct?

5 A That's correct.

6 Q Okay. That the two systems report Standard Mail
7 A-data consistently at the mail class and rate category
8 level, correct?

9 A That's correct.

10 Q And that's your testimony today?

11 A I have no changes to that.

12 Q Okay. First of all, when you say mail class and
13 rate category level, are you indicating that there is some
14 other level or are you meaning to make that a blanket
15 statement that the RPW and IOCS report Standard Mail A-data
16 consistently?

17 A This statement here, mail class and rate category
18 level, is the finest level that I produce estimates at, so
19 that's the level I'm familiar with, yes.

20 Q Okay, so the sentence could end after the word,
21 consistently, and that would still be your testimony,
22 correct?

23 A Well, that's my understanding, yes.

24 Q Okay, and when we're talking about different
25 Standard Mail A pieces, we're dealing mostly here with

1 letters and non-letters, correct?

2 A I'm not aware of any differences between the IOCS
3 and the RPW. I'm not an expert in the IOCS system.

4 My area here in my testimony is, of course, the
5 RPW and that segment which falls under the BRPW. I have
6 limited knowledge of IOCS.

7 Q But in other words, it's still your understanding
8 as of right now that a -- the same piece of mail would be
9 considered a letter for RPW and IOCS, and that that
10 designation would be consistent over both systems, correct?

11 A Maybe we better go back a little here on the --
12 where you paraphrased my response here.

13 It's probably not correct to say that systems are
14 consistent at other than the mail rate class category level
15 because the BRPW only reports at rate category level.

16 It's not necessarily shape-dependent information.
17 If it's shape-dependent information for a particular rate
18 category that determines a difference between any two rates,
19 then there would be a rate category and we would be
20 consistent.

21 But there can be different shapes here which the
22 BRPW system does, and in general is not -- that's not
23 something that I report. I don't report anything at the
24 shape level.

25 Q Okay, so are you saying now that at the shape

1 level that it's possible or that RPW and IOCS can treat the
2 distinction between a letter and a non-letter
3 inconsistently?

4 A You've asked me about this in response to the DAL
5 mailing. Also in response to --

6 Q Interrogatory 3, I think, is the proper reference.

7 A And also in reference, I'm sorry, to -- yes,
8 Standard A heavy -- these are heavy, beyond the 3.3 ounce
9 breakpoint pieces.

10 Q Okay.

11 A And my response is the same. I have no changes.

12 Q In other words, IOCS and RPW would be consistent?

13 A Yes.

14 Q Okay, well, let's get into that. We asked you in
15 Interrogatory 3, about Standard-A letter-shaped pieces which
16 were over the breakpoint, in other words, they were over --
17 whether it's 3.3 or 3.5 or whatever, they're over the weight
18 breakpoint. They're heavyweight letters, correct?

19 We asked you about letter-shaped pieces that were
20 over the weight break, correct?

21 A You're asking about letter-shaped pieces that are
22 heavy, over the 3.3 ounce break, yes.

23 Q Okay, and in Section A, you said that for the RPW
24 system, that would be recorded as a non-letter, correct?

25 A My response is the same. I don't have any other

1 information at this point to go back and double check on
2 that, but I have no information other than what I have given
3 you here.

4 Q Okay, so when you said in response to 3(a) a
5 Standard Mail A letter-shaped mail piece over the break
6 point is recorded as a nonletter in the RPW system, that is
7 your testimony today?

8 A Without further information I can't elaborate
9 further on that.

10 Q No, I think this isn't the trick part of the
11 question. That is coming in a minute, but this -- I think
12 you are right that if they pay, if it is over the weight
13 break they have to pay the nonletter rate and therefore RPW
14 is going to pick it up as a non-letter. Wouldn't that make
15 sense?

16 A My system is BRPW, but you are asking about the
17 RPW system here. I am not an expert in the RPW system,
18 which is generally referred to as the model that combines my
19 input to BRPW and the DRPW together.

20 I know that I send these off as non-letters, okay,
21 because I might be able to confirm this, but I believe
22 there's, on the postage statement there is a non-letter rate
23 and if it says non-letter rate then I record that as a
24 non-letter regardless of shape because it is --

25 Q It is unpaid by the mailer, correct?

1 A ~~Right.~~ Right - it is paid by the mailer.

2 Q Okay. Now let's get to (b). There we asked you
3 about an IOCS tally taken of a clerk handling a
4 letter-shaped piece of mail which was over weight, and we
5 are trying to get at how IOCS handles it.

6 Now I know you are not an IOCS person necessarily
7 but you did give us an answer. You said I understand that
8 in IOCS the letter shape is defined in terms of mail piece
9 dimensions and then you referenced another Library Reference
10 and you said, "Thus if a Standard A mail piece over the
11 break point exceeds 0.25 inches in thickness, it would not
12 be recorded as a letter in IOCS."

13 That is correct, isn't it?

14 A That is my understanding, yes.

15 Q Okay. Now let's take the other. What if it did
16 not exceed 0.25 inches in thickness?

17 A Well, there's other dimensions and I am not really
18 familiar with IOCS, and I have given a Library Reference
19 here where that might be answered but I don't have that
20 before me.

21 Again I am not an expert in IOCS. I have very
22 limited information about that system. My understanding is
23 that most heavy pieces are generally fat too or liable to
24 trip that one-quarter inch dimension but again there is
25 other dimensions that are checked for the letter-shape

1 category from IOCS and I can't elaborate further on that.

2 Q No, I know, but I am talking about a piece that is
3 in length and heighth a letter-shaped piece and in thickness
4 it does not exceed a quarter of an inch so it is no in terms
5 of its size thrown over into the non-letter category, but it
6 is also a heavy weight piece. It is over the break point.

7 I am trying to get at where that is classified in
8 the IOCS.

9 A I am not an IOCS expert, sir.

10 MR. HOLLIES: Mr. Chairman, I would like to object
11 to this.

12 The witness went out of his way to provide a
13 responsive answer to this interrogatory. He stated a number
14 of times including as I jumped in here that he is not an
15 IOCS expert.

16 The next witness up, Mr. Ramage, is the IOCS
17 witness and I am sure he would be capable of responding to
18 these questions. If we made an error by being too helpful
19 in the response I regret that, but I don't think that should
20 be the basis for propounding further IOCS questions to the
21 BRPW witness.

22 MR. OLSON: Mr. Chairman, this witness testified
23 under oath before the Commission and reaffirmed it today
24 that it is his understanding that RPW and IOCS report
25 Standard Mail A data consistently at the mail class and rate

1 category level. He was not aware of any differences. He
2 said he spoke in part with other postal officials and I
3 would like to have the opportunity to demonstrate that he is
4 wrong and that that testimony is wrong.

5 THE WITNESS: I'm sorry, your question back here
6 refers to other than the --

7 MR. OLSON: Excuse me.

8 CHAIRMAN GLEIMAN: I don't see a reason why we
9 shouldn't allow Mr. Olson to go ahead with this line of
10 questions at this point. There is an interrogatory response
11 that has got a statement in it regarding IOCS and he has
12 very kindly and it is unusual that counsel is willing to lay
13 out the cards on the table and tell us what it is that he or
14 she is attempting to establish, so I think we are going to
15 let him go ahead at this point.

16 MR. OLSON: Thank you.

17 BY MR. OLSON:

18 Q Mr. Hunter, just to cut to the chase to tell you
19 what it is that my understanding is and ask you if you can
20 comment on this, if you know enough to comment on it. My
21 understanding is that if you have a letter shaped piece that
22 fits the dimensions of height and length and thickness -- in
23 other words, it is not more than a quarter of an inch thick,
24 but that the piece is an over weight piece, over the break
25 point, and therefore pays at the non-letter rate, RPW picks

1 it up as a non-letter but the IOCS system considers that to
2 be a letter and we have a mismatch and we have absolutely no
3 consistency between the systems as you have testified.

4 Do you have any comment about that theory of mine?

5 A Yes, I sure do. First of all, your question here
6 in T5-7, the premise here is that other cases other than
7 those shown in (1) and (3). You have had me over here on
8 Question Number (3) here, which is we are talking about
9 heavy pieces here, so going back here, my understanding --
10 going back here, first of all this makes clear that my
11 understanding to your Question Number (7) here, I am not
12 aware of any differences between the two systems.

13 Now we are talking about other than the two cases
14 up here, (1) and (3) -- please read the question up here.
15 That is how I read it and that is how I have responded, so I
16 don't think I have answered this incorrectly.

17 Going back to your other question here about this
18 particular hypothetical here, I can't answer anything about
19 IOCS. I am not an expert. There may be something else
20 unknown to me.

21 My understanding is, what I have said here is that
22 a piece that is over that thickness is definitely a
23 non-letter. I have not said anything about a piece that is
24 underneath that break point, that quarter inch --

25 Q Okay --

1 A -- so I can't comment on that.

2 Q Okay, so can we read your testimony as saying that
3 you have no opinion as to how IOCS would treat a
4 letter-shaped piece which was an over weight, over the break
5 point, piece?

6 A I don't want to speculate, please.

7 Q In other words, you just don't know?

8 A I don't know and I don't want to speculate on
9 that.

10 Q Okay, and at least with respect to those pieces
11 that are over weight letters, you don't, it would not be
12 your testimony that they are consistently handled between
13 RPW and IOCS, correct, because you don't know?

14 A I'm sorry, repeat the question, please.

15 Q Sure. For the over weight letters it would not be
16 your testimony today that you believe they are treated
17 consistently between RPW and IOCS?

18 A I never said that to begin with. I never said
19 that they were treated consistently or inconsistently.

20 My response in here to Question Number (3), this
21 is in reference to a heavy piece, and I have talked about
22 what happens, the case where they are both over a quarter of
23 an inch -- well, in the case of the BRPW it is always a
24 non-letter. In the case of the RPW it is overrecorded.
25 That's what I talked about. I can't comment on what happens

1 to a piece that is underrecorded so that may be another
2 consideration there, criteria --

3 Q Okay --

4 A -- criterion that I am not aware of, and again,
5 back to Number (7) here. I have -- again this is exclusive
6 of the case that you are talking about here, back in
7 Question Number (3), which is referring to pieces over the
8 3.3 ounce break point.

9 Q Okay, so with the exception of pieces that are
10 letter-shaped and over weight, you believe there is a
11 consistency between RPW and IOCS, is that correct?

12 A I certainly do. I believe there is consistency
13 at, again at the mail class and rate category level that I
14 report at. Yes, I do.

15 Q And the IOCS system?

16 A Between the BRPW and the IOCS at the subclass --
17 I'm sorry, at the mail class and rate category level, as far
18 as I know these two systems are consistent.

19 BY MR. OLSON:

20 Q Okay. I've got a couple of tools which I would
21 like to provide because I have a particular mail piece which
22 I would like to ask you if you could take a look at and give
23 us your thoughts as to whether this is consistent with the
24 theory that you just articulated.

25 This is a piece that is not an overweight piece.

1 In other words, this piece weighs approximately 2.8 ounces.
2 I've got my Pitney Bowes scale, my ruler, and my letter-size
3 mail dimensional standards template issued by the Postal
4 Service. You're familiar with this template?

5 A No, I'm not.

6 Q Okay.

7 A I'm not familiar with that.

8 Q Well, what I also have is a particular piece of
9 mail which is a folded piece of mail with inserts in it. By
10 my measurement, and you can confirm this, it's ten and a
11 half inches long and about five and three quarter inches
12 high, and if you -- I guess I would like you to confirm that
13 and then see if you can make a judgment as to whether this
14 is consistent with the rule you just articulated.

15 MR. OLSON: Mr. Chairman, may I provide this to
16 the witness?

17 CHAIRMAN GLEIMAN: Please proceed.

18 MR. OLSON: That's the mail piece and the tools.

19 BY MR. OLSON:

20 Q First, if you could just measure the dimensions of
21 the piece, please, in terms of height and weight and
22 thickness, if you can.

23 Does it appear that it is less than a quarter
24 inches thick, or would you accept that?

25 A I can't tell if this is less than a quarter of an

1 inch. I'm not an expert. I'm not required to make this
2 kind of determination in my job.

3 Q Okay.

4 A I'll take your word for it. If you say it's over
5 ten inches and whatever, I'll take your word for it.

6 Q I guess I'm asking you to accept, subject to
7 check, that it is a letter-shaped piece.

8 A I can't confirm that. I can only tell you that
9 relative to the BRPW, relative to the BRPW system which I'm
10 responsible for here, my testimony in base year '98, that
11 the determination here is made by how the piece is paid on
12 the back of the postage statement. If it comes through as a
13 non-letter, for my purposes, it's called a non-letter, okay?

14 Q Exactly. And I think you're absolutely right
15 about that and I have no question about that. It was when
16 you ventured into the comparisons and the comments about how
17 I read your response to seven. I accept your limitations on
18 seven. But what I'm asking you to look at right now is this
19 one piece which is not an over, okay, because after we
20 discussed the overs, I said, is it your understanding that
21 other than the overs, there is a consistency between IOCS
22 and RPW, and you said yes. So I would like to take that
23 piece and suggest that that's a detached address label piece
24 and ask you if you know how IOCS would record that.

25 A Of course not. I have no idea how IOCS would

1 record this. I have no idea.

2 Q How does RPW record that if it's a detached
3 address label piece?

4 A I think you've asked me this. Let me refer back
5 to my response here, please, if I may.

6 Again, is this a non-letter shaped piece?

7 Q No, it's a letter-shaped piece.

8 A It's a letter-shaped piece. I can't answer that
9 because you have not asked me that question, so I have no
10 idea.

11 Q No, that's what I'm asking you now. I'm
12 suggesting that it is a letter-shaped piece, but it's a DAL
13 mailing and asking you how RPW handles that.

14 A So this is a piece that's under the break point;
15 is that correct?

16 Q It's approximately 2.7 ounces.

17 A Okay.

18 Q Which is way under the break point.

19 [Pause.]

20 Q Mr. Hunter, I didn't really mean to try to stump
21 you with it. Let me tell you my understanding and perhaps
22 this can help your thinking.

23 We received a response from Witness Kingsley to a
24 ValPak interrogatory which was VPCW/USPS-T10-7, and we asked
25 about ECR saturation detached address label mailings where

1 the mail piece is folded and loose, i.e. untabbed, has
2 dimensions of 5.75 inches by 10.5 inches and weighs three
3 ounces, and we asked if such mail pay the letter rate or the
4 flat rate, and the response was letters cannot be mailed
5 with DALs, so pieces must qualify as and pay the flat rate
6 to be eligible. In other words, the mailer must pay at the
7 non-letter rate according to Witness Kingsley.

8 Is that consistent with your understanding of how
9 RPW handles these --

10 A Again, I'm not an expert in DAL. I don't need
11 that information to develop my volumes. I use aggregated
12 volumes that are rolled up to rate category level. My rate
13 categories, incidentally, correspond -- correlate exactly to
14 the reverse side of the -- in this case, a 3602 postage
15 statement series here.

16 If you look on the reverse side of the postage
17 statement -- and I have provided these for this rate case in
18 Library Reference 26 as an attachment. Page 16 is an
19 example here, 3602R, there's -- you said this was an
20 Enhanced Carrier Route example?

21 Q Yes.

22 A There's a section C on the back of this postage
23 statement that refers to Enhanced Carrier Route. This is
24 the only level of data that I report official estimates at.

25 Q So you don't report that as being either letter or

1 flat?

2 A It doesn't make a difference if it's DAL or --
3 it's letter or non-letter as -- every rate here in this
4 section here that you have just asked about, it says is it a
5 letter or a non-letter, every one here all the way through,
6 and there's roughly one, two, three, four, five, six, seven
7 -- there's 28 categories here, and every one of them says
8 they must be a letter or a non-letter and you pay the
9 appropriate rate. That's the information I collect.

10 Q So in other words, you work from what the form
11 says; you don't necessarily -- you're not the expert here to
12 tell us as to what is a letter or flat, but you can tell us
13 that if it says flat, you record it as flat, if it says
14 letter, you record it as letter?

15 A We have different rates here and the information
16 that I report and collect is at the rate category, again,
17 level, rate category and subclass level, and beyond that,
18 I'm not familiar with anything that would have to be known
19 by bulk mail acceptance or anything in the Postal Service.
20 That's not my area. It's outside of my area.

21 Q Right, but you do record them as letters or
22 non-letter, correct?

23 A These pieces are letters or non-letter in this
24 particular category here for Enhanced Carrier Route Part C.
25 I believe that answers your question.

1 Q Okay.

2 In your Table 2 of your testimony, you use RPW
3 system data to develop the number of pieces, correct? In
4 other words, you're not using PERMIT system data, correct?

5 A All my estimates are developed from automated and
6 non-automated offices. PERMIT system or automated offices
7 -- I certainly use their data that I obtain from the PERMIT
8 system. That's used to develop estimates that are included
9 in this table 2 here in my testimony.

10 Q Okay. All right.

11 With respect to the detached address label pieces,
12 I don't recall if we asked you this or someone else, we were
13 asking about -- I think we asked you -- as to whether the
14 Postal Service had volumes. Yes, I think it's interrogatory
15 T5-2. And you said the RPW system does not capture and
16 report DAL mail piece information separately from other
17 standard mail information, correct?

18 A Yes, that's my understanding. Sure.

19 Q And you also said, I also understand from
20 discussions from other Postal officials that this
21 information is not collected elsewhere.

22 So is it your testimony that you know of no Postal
23 Service source of data on the number of DAL mail pieces that
24 are in the system?

25 A Yes. My response does not change. I know of

1 nothing on this, and I was not able to find out anything and
2 it may not exist, as far as I know, it probably does not
3 exist. I can't -- my understanding, as I said here, is that
4 it does not exist. DAL is not necessary to the rate
5 categories on the back side of the postage statement.
6 There's nothing back there that says it is a DAL mail piece
7 or not.

8 MR. OLSON: Mr. Chairman, that's all we have.
9 Thank you.

10 CHAIRMAN GLEIMAN: Thank you.

11 Mr. McKeeever.

12 MR. McKEEVER: Thank you, Mr. Chairman.

13 CROSS EXAMINATION

14 BY MR. McKEEVER:

15 Q Mr. Hunter, the revenue piece and weight numbers
16 developed in the bulk RPW system -- and I'm going to try to
17 use that term so that we can keep BRPW separate from DRPW.
18 But the revenue piece and weight numbers developed in the
19 bulk RPW system ultimately come from information on mailing
20 statements, that's clear, is that correct?

21 A That is correct.

22 Q And those mailing statements are sometimes
23 referred to as postage statements.

24 A I think the correct term is -- it has changed
25 recently, I believe, with the implementation of the rates in

1 January of '99. I believe the -- or maybe sooner. But the
2 term -- the old term was mailing statement and the new term
3 is postage statement, okay? But they're one and the same
4 thing, yes.

5 Q Okay. And that mailing statement -- some
6 information from a mailing statement is put into the PERMIT
7 system database; is that correct?

8 A I'm sorry. Some information?

9 Q Yes.

10 A Yes.

11 Q In other words, not everything on the mailing
12 statement, but some information is.

13 A Right, that's correct.

14 Q And the information you used to develop your bulk
15 RPW numbers comes from the PERMIT system database in large
16 part; is that right?

17 A In large part.

18 MR. McKEEVER: Mr. Chairman, with your permission,
19 I would like to give Mr. Hunter a copy of the cross
20 examination exhibit that was introduced into evidence on Mr.
21 Pafford's testimony today, and that's UPS-XE Pafford 1.
22 That is the revised response of the Postal Service to
23 PSA/USPS-T32-8, redirected from Witness Mays and dated March
24 29, 2000.

25 CHAIRMAN GLEIMAN: Please proceed.

1 BY MR. MCKEEVER:

2 Q Now, as we discussed with Mr. Pafford, the change
3 to use the bulk RPW system or mailing statement data for
4 parcel post took place in Fiscal Year 1999; is that your
5 understanding, the decision to make that change?

6 A I'm not sure when the decision was made. I am not
7 involved in the decisionmaking process.

8 Q Okay. Well, you just answered a couple of my
9 questions. Thank you.

10 A Okay.

11 Q CAN you take a look at the third sentence of that
12 answer, please? It says there, this revision in data
13 sources was applied to official FY 1998 data but was not
14 applied to official FY 1997 data. Do you see that?

15 A Yes, I do.

16 Q Now, can you tell me, the information that you
17 used from the bulk RPW system which you present as part of
18 the total estimates for Fiscal Year 1998 parcel post revenue
19 pieces and weight, are they based on mailing statements that
20 relate to shipments made in Fiscal Year 1998?

21 A The postage statements -- my understanding is that
22 all the postage statements are for the Fiscal Year 1998
23 period.

24 Q Okay. You say that's your understanding. Do you
25 have any doubt about that?

1 A Well, I'm not an expert in the PERMIT system, but
2 we're talking about a GFY year versus a PFY year. I know
3 that for the time period that I report my data, which is
4 Postal fiscal year basis, these data reflect postage
5 statements received by customers -- from customers for those
6 dates for the whole year, every day in that period, yes.

7 Q So the mailing statement information you use is
8 derived from mailing statements that relate to shipments
9 made in Postal Fiscal Year 1998?

10 A Well, I don't know when the shipments are actually
11 made, okay? I think the key here is that I'm not an expert
12 in the PERMIT system, but I believe that there may be a
13 distinction to be made between when the postage statement is
14 entered and when the actual mailing goes out due to local
15 arrangement or something or -- you know, because of -- I'm
16 not privy to that information. I wouldn't know that.

17 Q Well, let me ask it to you this way, then. Is it
18 your understanding that the mailing statement information
19 that you use to derive your bulk RPW numbers comes from
20 mailing statements that were given to the Postal Service in
21 Postal Fiscal Year 1998?

22 A Postage statements, yes, for the 1998 period.
23 That's my understanding, yes.

24 Q Okay. Again, you said that's your understanding.
25 Is there a qualifier in there when you say that? Do you

1 know that or are you assuming it?

2 A That's my understanding. That's -- my
3 understanding is -- I'm not an expert again in the PERMIT
4 system here. It's a system that's outside basically the --I
5 receive the inputs to my -- the RPW system from the PERMIT
6 system, so I'm not really an expert -- not able to really
7 comment on certain aspects of the PERMIT system.

8 In this particular case, I'm reasonably certain
9 that postage statements for the fiscal '98 period are
10 reflected in my base year estimates, and that's --

11 Q Okay.

12 A -- the normal process, and I have no reason to
13 suspect otherwise, if that answers your question.

14 Q Okay.

15 Was mailing statement information for parcel post
16 shipments already being entered into the PERMIT system
17 database prior to Fiscal Year 1998, do you know?

18 A You're asking me if the PERMIT system was
19 recording parcel post -- permit imprint parcel post here
20 prior to the 1998 period? Is that your question?

21 Q My question is, was information from mailing
22 statements for permit imprint parcel post being entered into
23 the PERMIT system database prior to Fiscal Year 1998?

24 A Yes, it was, as far as I know. Yes.

25 Q Can you tell me when the information from postage

1 statements for permit imprint parcel post was first entered
2 into the PERMIT system database?

3 A I have no idea.

4 Q No idea at all? No -- you can't tell me a year?

5 A I'm not going to speculate. I just -- again, the
6 PERMIT system is not my area of expertise.

7 Q Okay.

8 MR. McKEEVER: Mr. Chairman, with your permission,
9 I would like to mark as cross examination Exhibit
10 UPS/XE-Hunter-1, page 67 from the data quality study done by
11 Links, a Division of A. T. Carney, for the Postal Service,
12 and show a copy of that to the witness.

13 CHAIRMAN GLEIMAN: Please proceed.

14 [Exhibit Number UPS/XE-Hunter-1 was
15 marked for identification.]

16 BY MR. McKEEVER:

17 Q Now, Mr. Hunter, I'd like to direct your attention
18 to the third paragraph of that page, beginning just above
19 the middle of the page, which states in the first sentence,
20 quote, "The Postal Service is currently developing a
21 replacement for the PERMIT System," end quote; do you see
22 that?

23 A Yes, I have that.

24 Q Were you aware of that, Mr. Hunter?

25 A I'm not aware of any plans, specific plans to

1 develop a replacement for the ~~permanent~~ ^{permit} system. This is
2 outside my area.

3 I don't become involved in ~~permanent~~ ^{permit} system
4 decisions, in terms of how they implement or how they
5 collect their postage statement and financial information.
6 It's not -- it's outside my area.

7 Q So you don't have any information one way or the
8 other on that subject?

9 A Just on the first sentence there, the Postal
10 Service is currently developing a replacement for the
11 ~~permanent~~ ^{permit} system?

12 Q Yes.

13 A I've heard talk about some long-term plan, but
14 it's only -- I know nothing about it, and if it's on hold,
15 or if there is any plan or if it's been killed or anything.
16 I know nothing about any plans at this point to do what's
17 said here in this sentence. I can't help you.

18 Q All right, thank you.

19 MR. McKEEVER: Mr. Chairman, I would like to
20 request that this be appended to the transcript as a cross
21 examination exhibit.

22 CHAIRMAN GLEIMAN: I'm not sure I understood your
23 request. Are you asking that it be --

24 MR. McKEEVER: That it be included in the
25 transcript as a cross examination exhibit.

1 CHAIRMAN GLEIMAN: Okay, you want it transcribed?

2 MR. McKEEVER: Yes, Mr. Chairman.

3 CHAIRMAN GLEIMAN: Okay, certainly.

4 [Exhibit Number UPS/XE-Hunter-1 was
5 received into evidence and
6 transcribed into the record.]

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7.3 Recommendations

24. *Improvement to RPW: The Postal Service should consider capturing statement of mailing information electronically (transmitted to the Postal Service electronically by the mailer) and verify/adjust this data to reflect the actual mail presented on-line in real time as mail is inducted into the Postal Service's system.*

This information is provided by mailers but, the detailed information is not entered into the PERMIT system due to cost considerations. Thus, useful information on weight/cost is lost. This detailed statement of mailing information can provide significant data elements that will assist in improving the weight/cost analysis for within sub-class mail characteristics cost differences.

The Postal Service is currently developing a replacement for the PERMIT system. Rate making staff should be involved in this systems development to ensure that it is designed to capture, store and report all the transaction detail necessary for rate making purposes. Such information should include information on the number of pieces associated with different weight and other rate determination characteristics within individual mailings. In addition, this system should be designed to collect information on the location(s) where mail will enter the mail stream (drop-ship location) – information important to operations and revenue protection.

On-line, real time induction verification and/or adjustment of this data can also improve the completeness and accuracy of such data since the mail can be verified against the electronic statement of mailing information. This does not provide more accurate or precise information about the actual mail deposited by the mailer. Revenue protection efforts are necessary to ensure the mail deposited matches the information filed on the Statements of Mailing. Also making this detailed data available for analysis on-line can reduce the overall costs of collecting, accumulating and analyzing it. The database containing the detailed information should be maintained by the Postal Service and be easily accessible by Postal Service personnel when and if necessary.

25. *Alternative Sampling Approach: Consider adjusting the current RPW sampling to only sample sub-classes not found on statements of mailing and sample these sub-classes at origination points such as opening units rather than destination or mail exit points.*

1 MR. McKEEVER: I will hand two copies to the
2 Reporter.

3 BY MR. McKEEVER:

4 Q Mr. Hunter, the PERMIT System database is not
5 intended to account for all permit imprint volume; is it?

6 A I don't have a clear understanding of what the
7 PERMIT System database counts outside the categories that I
8 use. Again, I have permit imprint, First Class, permit
9 imprint, Standard Mail-A periodicals, which is really not
10 permit imprint.

11 Permit imprint bound printed matter, permit
12 imprint Parcel Post. Did I say permit imprint First Class
13 Mail?

14 Those are the categories that I work with, that
15 I'm familiar with. I don't know, outside those bounds, what
16 other permit imprint categories there are and what the
17 PERMIT System does with those.

18 But I would assume that they basically -- it's
19 probably picked up in the PERMIT System.

20 Q Well, let me confine my question to the categories
21 that you do know about then.

22 A Fine.

23 Q The ones that you just identified. Is the PERMIT
24 System database intended to account for all permit imprint
25 revenue, pieces, and weight, at all offices?

1 A At all automated offices, yes.

2 Q At all automated offices?

3 A Well, of course, in automated offices only. It's
4 only for automated offices.

5 Q Okay, so it's not intended to account for all
6 permit imprint volume for the classes for which you are
7 responsible at all offices, only automated offices?

8 A Now, again, the term, office, here, is kind of a
9 term that may need to be defined a little bit closely.

10 We're talking about really a finance summary here,
11 so a finance number loosely translates or, for the most
12 part, translates to a Post Office, to a Postmaster.

13 There are occasions where there is an officer in
14 charge and there's no Postmaster, and there are satellite
15 offices, and all data goes reported to one finance number.
16 At least that's my understanding, but I'm not an expert in
17 that field, either.

18 But basically I work with detail at the finance
19 number level, and if you want to make the one-to-one
20 correspondence to Post Offices, you may do so, but I
21 generally refer to my -- I use the term that it's respective
22 to finance number.

23 Q Okay.

24 A All right?

25 Q That's fine. And let's agree then that the term,

1 offices, as we use it, is equivalent to finance number
2 offices.

3 A That's fine.

4 Q Okay, now, as I understand it, from the standpoint
5 of the PERMIT System, and the bulk RPW estimates you
6 developed, there are two types of offices. You've already
7 referred to them: Automated offices and non-automated
8 offices; is that right?

9 A If there's a population, again, of this where
10 offices has been defined, we split the universe into two
11 segments, yes.

12 Q And the term, PERMIT System office, is that
13 synonymous with the term, automated office?

14 A Yes.

15 Q Okay. So, in 1998, all PERMIT System offices were
16 automated offices; is that correct?

17 A All PERMIT System offices were automated offices?
18 As far as I can tell, I would think that would be a fair
19 statement, yes.

20 Q And all automated offices were also PERMIT System
21 offices; they're synonymous terms; is that right?

22 A There might be -- when an office becomes
23 automated, I'm not sure exactly when it officially becomes
24 an officially automated office, but outside of that
25 category, yes, I would say that would be -- there has to be

1 a startup and a little lag here.

2 Q Some offices migrate from non-automated, is that
3 what you're saying?

4 A No, I was actually referring to the fact that an
5 office becomes a permanent office for the first time; it
6 just doesn't happen magically overnight. There has to be a
7 little time allowed there before that office officially
8 becomes, as we have just discussed here, a quote/unquote,
9 PERMIT office.

10 Q Okay.

11 A Okay, up to that point, though, before it reaches
12 that point, it's still an un-automated office, yes.

13 Q But generally speaking, those terms, PERMIT System
14 office, and automated office are synonymous; they're
15 synonyms; they mean the same thing?

16 A I'd say that's a fair statement.

17 Q Okay. Now, mailing statement information for
18 non-automated offices is not entered into the PERMIT System
19 database; is that correct?

20 A As we've defined these non-automated offices,
21 relative to automated offices, yes, that's true; there would
22 be no need to enter any non-automated office ~~policy~~ *postage*
23 statement information into the PERMIT System.

24 MR. HOLLIES: Excuse me, Mr. Presiding Officer.
25 I'm struggling, personally, with understanding some of these

1 questions, and it has to do with the fact that it's one
2 thing to read these terms, and it's quite another to hear
3 them spoken orally.

4 Because PERMIT System, when P-E-R-M-I-T is all in
5 caps, and the S in System is caps, is different from or can
6 be different from use of the term, Permit system when Permit
7 is just initial caps or lower case altogether.

8 CHAIRMAN GLEIMAN: Mr. McKeever, when you're using
9 the term, PERMIT, and it's all in caps, would you indicate
10 that it's a word that's all in caps, and that the word,
11 System, has a capital S at the front of it.

12 And in the absence of you indicating that, we'll
13 assume that the letters are all lower case letters, unless
14 it's at the beginning of a sentence, in which case we'll
15 assume that the first letter is a cap.

16 MR. MCKEEVER: Well, Mr. Chairman, I would prefer
17 the presumption to be the opposite. I think Mr. Hunter and
18 I are understanding each other, and I intend to use the
19 official term, which is, I think, all in caps, PERMIT, all
20 in caps, and initial S on System.

21 CHAIRMAN GLEIMAN: If you and Mr. Hunter agree,
22 and Mr. Hollies understands what you agree to, that you
23 prefer to use it where the lower case would be the
24 exception, and you'll so indicate, then we'll proceed on
25 those grounds.

1 MR. HOLLIES: That sounds fine, Mr. Presiding
2 Officer. It might be worth everybody taking a close look at
3 the transcript when we're all done to see if it comes out
4 that way, as I dare say it won't.

5 CHAIRMAN GLEIMAN: I'm sure it will be perfect.
6 Our Court Reporter is quite good.

7 MR. McKEEVER: Well, Mr. Chairman, I have to
8 confess, I'm not aware of any difference. I aware of permit
9 imprint office, and that's different, but PERMIT System
10 Office.

11 BY MR. McKEEVER:

12 Q But in any event, Mr. Hunter, when I use the term,
13 I mean it to mean the official term of PERMIT, all in caps,
14 and initial-cap-S on System, okay? Is that how you were
15 understanding my questions?

16 A I think up to a certain point, yes. I don't think
17 we need to go back on everything, but I do appreciate the
18 distinction here.

19 There are three indicia that are picked up in the
20 BRPW, and one is permit imprint, the other is metered, and
21 the third is precanceled stamp. And permit imprint is just
22 nothing more than an indicia, and it's not to be confused
23 with the PERMIT System.

24 And we grab most of the permit imprint indicia of
25 the postage statements nationwide, except for the few

1 categories I'm not sure about, that we don't use in the
2 BRPW.

3 And so there is that little -- but I'll try to be
4 careful as well. Thank you.

5 Q Okay, again, as I will use the term, PERMIT System
6 Office, I'm talking about all caps, PERMIT, initial caps,
7 System.

8 A That's fine.

9 Q Now, suppose metered mail is entered at a PERMIT
10 System office; is that captured in the PERMIT database?

11 A Yes, it is.

12 Q Okay, and precanceled stamps, if mail is entered
13 with precanceled stamps, is that captured in the PERMIT
14 System database?

15 A All bulk mailings are captured, whether it's
16 precanceled stamp, metered, permit imprint, or periodicals
17 mail; it's all captured.

18 Q How about regular stamps?

19 A I don't know anything about regular stamps. In
20 term of -- the bottom line is, if it's a postage statement,
21 it's a bulk mailing, a postage statement had to be tendered
22 from the customer to the Postal Service with its financial
23 transaction information on there, revenues and everything,
24 and the debiting process that the PERMIT System goes through
25 to pull -- to credit, to pull money out of the mailer's

1 trust fund account, and credit it to an AIC account.

2 We're talking about bulk mailings here. Anything
3 about stamps, if it's not a bulk mailing, it's not captured.

4 Q Okay, the key is whether the mail represents a
5 mailing statement or postage statement; is that correct?

6 A Yes.

7 Q Okay.

8 [Pause.]

9 Can permit imprint parcel post pieces be entered
10 at non-PERMIT System offices?

11 A Certainly. There are not many of them.

12 Q Now, am I correct that there were in Fiscal Year
13 1998, 2,138 automated offices? And I'm referring there,
14 really, to your response to Interrogatory UPS T-5-3,
15 UPS/USPS T-5-3, so you may want to turn to that.

16 [Pause.]

17 A That's my understanding of the count, 2138. Is
18 that what you said?

19 Q Yes, yes 2138 automated PERMIT System offices in
20 Fiscal Year 1998; is that correct?

21 A Actually, I think the number was a little lower.
22 I think this is -- you did not specify a time period up
23 here.

24 Q Well, you did in your answer, though. You
25 indicated Fiscal Year 1998. Actually, this was an

1 interrogatory that we served in a different form.

2 A I'm sorry, where did I --

3 Q If you look in your answer, above the table.

4 A No, this table, the year referred to in the table
5 is for a different set of information you've asked me about.
6 The 2138, I believe might be the current year count, and you
7 did not specify a time period.

8 And I believe this might be the '99 or the latest,
9 and it may even be the latest time period. But basically
10 that's fairly close, but it's -- the exact count also
11 depends on what quarter you pick. If you pick Postal
12 Quarter One, Postal Quarter Four.

13 So off the top of my head right now, I can't tell
14 you exactly what time period this 2138 is for, but I believe
15 it's for the '98 -- I'm sorry, for the '99 time period, not
16 '98.

17 Q So you gave us '99 information in the paragraph
18 and '98 information in the table; is that what you're
19 saying?

20 A I'm not certain of that at this point.
21 Definitely, 1998 information in the table, for sure, and I
22 believe that the count is for the '99 period, since you did
23 not specify.

24 And since I had at my fingertips, FY98 for the
25 proportions, I gave you that, but I think I clearly labeled

1 the table as being 1998. The 2138, I'm not exactly sure.
2 I'd have to go back -- I don't have the information here
3 with me on how I arrived at that number. That was something
4 I had to look up, and it's not something I have at my
5 fingertips.

6 Q Well, that's all right.

7 A Okay.

8 Q Let me ask you to refer to your answer to UPS/USPS
9 T-5-4. There you identify the number of non-automated sites
10 in FY1998; is that correct?

11 A This is relative to the '98 period; that's
12 correct.

13 Q Okay. And the numbers there are the number of
14 non-automated sites for the different types of mail dealt
15 with in the bulk RPW system; is that correct?

16 A The best information that I had, that I could
17 determine, yes, these are should be correct, to the best of
18 --

19 Q Now, I notice that there are some pretty
20 significant differences between the number of non-automated
21 sites for the different types of mail. Can you explain to
22 me why that's the case?

23 A You asked me for a count of offices here by mail
24 category. I think the information I have is that I
25 developed these counts by working backwards from my blowups

1 for the permit imprint category, and for the postage affixed
2 category.

3 So, using my strata level blowups, I could go back
4 and calculate these population counts. That's where.

5 Q Do you know why there are so many more
6 non-automated sites for Standard Mail-A, for example, as
7 opposed to permit imprint parcel post?

8 A I can't answer why more mailers choose -- end up
9 at the non-PERMIT sites for Standard Mail-A, and vice versa
10 for the parcel post, why there are fewer mailers, permit
11 imprint mailers, and, therefore, fewer sites outside of the
12 PERMIT System.

13 This is not my area of expertise, and I have not
14 studied that.

15 Q Okay, now, in the case of all of the types of mail
16 that you deal in the bulk RPW system, other than parcel
17 post, there is an automated -- there is information from the
18 automated offices and then there is a sample done of the
19 non-automated offices, a stratified sample; is that correct?

20 A Outside of the Parcel Post category?

21 Q Yes.

22 A Generally, that is how we do the design
23 methodology, yes.

24 Q Yes. And in FY 1998, in the case of Parcel Post,
25 instead of there being a stratified sample, there was a

1 survey of offices, is that correct?

2 A No, the information we had was from a survey that
3 we conducted of Parcel Post activity for permit imprint
4 category. And the purpose of the survey, again, was to
5 determine whether or not we should have a panel,
6 supplemental, nonautomated office panel, or if it would be a
7 waste of resources, or should we try an alternative, which
8 we have gone into for the planned procedure here to replace
9 a panel, is to use the trial balance account here for future
10 year estimates here.

11 But for the interim period we used, to develop our
12 blowups and our estimates for the FY '98 period, we used the
13 survey information, corrected for the difference, the ratio
14 of total revenue from PERMIT and non-PERMIT offices to
15 PERMIT only offices. I believe the coverage factor here for
16 permit imprint Parcel Post, the coverage factor, I mean the
17 PERMIT system coverage factor is 99 percent, so 99 percent
18 of the activity for permit imprint Parcel Post is picked up
19 under the PERMIT system. That left roughly about 1 percent
20 that we know that is out there in nonautomated offices from
21 our survey.

22 Q Now, that survey was done in Postal Quarter 2 of
23 fiscal year 1997?

24 A That's correct.

25 Q That includes the Christmas season, Postal Quarter

1 2?

2 A I am not sure how the Christmas season is affected
3 by Postal Quarter 2, or the other way around.

4 Q Okay. Well, we can determine that otherwise.
5 Thank you. Now, at automated offices, Mr. Hunter, the
6 postage statement information for Parcel Post, were they
7 entered into the PERMIT system at the time that the postage
8 statement is presented with the mailing?

9 A That is my understanding of how the PERMIT system
10 and the mailer transaction works. The mailer tenders the
11 postage statement to the bulk mail acceptance clerk. My
12 understanding is it is entered, at that point time a trust
13 fund is debited for the mailer, the proper ^{AIC} ~~ASF~~ is credited.
14 The screens pop up for the PERMIT system that are
15 appropriate for that mailer, only for that mailer, because
16 he is authorized for only certain rates. Much beyond that,
17 I can't tell you.

18 Q Can you tell me how physically the data gets from
19 the mailing statement into the PERMIT system database? Does
20 a Postal Service employee sit at a keyboard and enter it?

21 A Well, I would imagine that it is keyed from a
22 terminal somehow into the database.

23 Q Some individual takes -- looks at the mailing
24 statement and picks off certain information and keys it in,
25 is that your understanding?

1 A Yeah, that is my understanding, sure.

2 Q Okay. Now, is that postage statement level data,
3 data at that postage statement level, is that stored on
4 computers at each entry facility, or is it instead stored on
5 some mainframe type computer somewhere else?

6 A I am not familiar with that part of the PERMIT
7 system. I don't know where -- I have no idea where the data
8 are actually stored at any point in time. It is not my area
9 of expertise. Again, the PERMIT system is an input to the
10 BRPW, and I also ask -- require that I have roll-ups,
11 aggregates at the rate category and subclass level as
12 appropriate to the reverse side of the postage statements.
13 That is all I require from those sites that are automated
14 that they have all data, and that I have that detail. I
15 don't require anything that is disaggregated.

16 Q Okay. Now, if --

17 A That is what I need to develop my estimates. Yes?
18 I'm sorry.

19 Q If you did want to go down to postage statement
20 level, do you know how many -- and you wanted to get all the
21 postage statement level data for a given year, do you know
22 how many facilities you would have to go to to get that
23 information, or don't you know that?

24 A Well, I would -- roughly, right now, there is
25 better than 2,000 PERMIT system offices, and we are talking

1 about the PERMIT system offices here, again, I don't know if
2 it would be everything in one office for each of those over
3 2,000 finance centers, or if there would be 10 off-site
4 storage facilities where you would have to go that would
5 bring it up to -- I wouldn't -- I don't know need that.

6 Q I am talking about the electronic information now.

7 A The electronic information.

8 Q The electronic, the data that is entered. Is
9 there a centralized location where the information that is
10 entered into the computer, I am not talking about the hard
11 copy, the postage statements now, I am talking about the
12 information that is entered into the computer, is that all
13 kept at one centralized location?

14 A As far as I know, the PERMIT system doesn't do
15 that, it is disaggregated across a field somehow. I believe
16 85 -- I am not really certain about this, but my
17 understanding is that there are VAX terminals out there in
18 the field and that the offices are tied in through each of
19 these, and how that all works and how the data is stored, I
20 can't go beyond that.

21 Q Do you know, and I won't press you too much on
22 this, I am just trying to get as much information as I can
23 while you are here, do you know if all those facilities are
24 linked together electronically via a system called DEC NET?

25 A I know nothing about that system.

1 Q Okay. Do you know if all the facilities are
2 linked together electronically?

3 A My understanding is that they are not, but that is
4 my understanding and --

5 Q You don't really know?

6 A I don't really know. That's true. Right.

7 Q Okay.

8 A I believe they are not, though.

9 Q Do you know if, the day after each accounting
10 period ends, each of the facilities where the postage
11 statement level data is kept transmits data to San Mateo, to
12 the mainframe computer there?

13 A I don't know how that schedule works. If there is
14 -- how a transmission to San Mateo would work. Again, that
15 is outside of my area of expertise. Also, I want to make a
16 point about the 85 facilities, or the 2,000-plus PERMIT
17 systems, these are all individual finance, local databases,
18 if you will. There is no call to unite them electronically.
19 So I poll to collect this data much as I would for a sample
20 of offices, I collect data at an aggregated level. But
21 there is no aggregation beyond my needs here. I happen to
22 need some summary level RPW information.

23 Q Do you, on occasion, ever go to get postage
24 statement level data in your work?

25 A No, I have never gone to get any postage statement

1 information for an automated office.

2 Q You have never done that?

3 A I have never gone to an office to get postage
4 statement information.

5 Q I don't mean physically go, but I mean call them
6 up or try to get level -- try to get information that
7 relates to a particular postage statement, have you ever had
8 occasion to do that in checking your database, for example?

9 A We have had, over the -- more so earlier in the
10 development of the PERMIT system as it sprung from the old
11 BRAVIS system, which is -- I don't know how long ago this
12 occurred, there were things that we would look into in terms
13 of anomalies, and we would call back just to assure
14 ourselves that everything was okay, or there was a problem.

15 I am sorry, could you repeat that question one
16 more time, please?

17 Q Yes, have you ever had occasion to make a contact
18 by phone or otherwise --

19 A Okay.

20 Q -- to get information at the postage statement
21 level in order to resolve some sort of data issue?

22 A In addition -- okay. As I just said, in addition
23 to that, the Postal Service conducted a survey or a study,
24 had a study commissioned --

25 Q Mr. Hunter, I'm not sure you're listening to my

1 question.

2 A Yes.

3 Q I apologize, but I really -- it's pretty simple.
4 I just want to know if you have ever had occasion to seek
5 out postage statement level data for a postage statement in
6 connection with your work in developing numbers for the bulk
7 RPW system.

8 A I have never asked an office to send me postage
9 statement information. I have called offices or I have
10 called somebody at one of the districts to help me resolve
11 an anomaly.

12 In addition to the study that we had, I was
13 involved a little bit with looking at postage statements
14 that were done for us that I provided as a Library Reference
15 where we actually went back and we had a contractor check --

16 Q Okay. Now, how did --

17 A -- the data records against the actual postage
18 statement information. That's entered in a Library
19 Reference here, yes.

20 Q Now, how did you determine where to call when you
21 wanted to do that, get that postage statement level
22 information to resolve an anomaly?

23 A Well, generally, I have a finance number and I
24 have a post office name, and I call a district -- I'm in
25 finance, so I call my district representative in finance out

1 in the field and they in turn would put me in touch with a
2 Postmaster.

3 Q Okay. Now, could you turn to your response to UPS
4 interrogatory 35, please.

5 A Okay.

6 Q Now, there you indicate in your answer that each
7 input record provides combined rate category and rate date
8 period applicable revenue, volume and weight totals from all
9 mailings entered at an office during an accounting period;
10 is that correct?

11 A The information here that you're asking for,
12 you've asked five other times also. This is --

13 Q Well, we were trying to make sure we got it right.

14 A You've asked me this same question essentially six
15 times. I have references here to the others.

16 Again, my -- I don't have any changes -- any
17 change to this --

18 Q Well, then, let me see if I can suggest something
19 to you. Take a look at your answer to T5-35. Would it be
20 more accurate to say that each input record provides
21 combined rate category and rate date period applicable
22 revenue, volume and weight totals by zone from all mailings
23 entered at an office during an accounting period?

24 A No.

25 Q No?

1 A No, because by my definition of rate category
2 here, it corresponds to the -- I have what's called a master
3 rate category file here, and it's VIP code level, and
4 there's different rate categories for zone 1 versus zone 2,
5 zone 8.

6 Q Okay.

7 A That's my understanding.

8 Q All right. So --

9 A And so I have a unique code here that correctly
10 makes that distinction.

11 In the case of parcel post where it is zoned, I'll
12 have eight distinctions within a more aggregated level for
13 the eight zones if eight zones are applicable, yes.

14 Q So are you telling me that when you use the word
15 rate category, you mean not only DBMC parcel post, for
16 example, but also DBMC zone 2 parcel post?

17 A I make a distinction between all rate categories
18 as being those that are found on the reverse side of the
19 postage statement 3605. If you look at the reverse side,
20 which I provide in a Library Reference as an appendix, every
21 rate category on there -- that's what I define to be a rate
22 category. You'll see DBMC, intra, inter BMC, parcel post,
23 by zone. Each of those --

24 Q By zone? By zone?

25 A Well, has zone information, yes. Yes. The rates

1 are different, right. You pay more for or less for a zone,
2 yes.

3 Q So in other words, your definition of rate
4 category includes what zone the piece goes to; is that
5 correct?

6 A My definition of rate category actually
7 corresponds exactly to the reverse side of the postage
8 statements, and if that has zone detail that requires the
9 mailer has to pay or provide postage based on zone, then
10 that's the rate level that I -- that's the rate category
11 level.

12 Q Do you know in the case of parcel post whether the
13 mailing statement breaks it out by zone, the postage that
14 the mailer pays? Do you know that? You have to look at the
15 form to determine that?

16 A I'd like to be sure. Can I do that?

17 Q Sure. Sure.

18 A Thank you.

19 Your question was about parcel post, does it break
20 it out into zone?

21 Q Correct.

22 A Yes, it does. The postage statement shows that
23 clearly, yes.

24 Q So that with respect to parcel post, your
25 definition of rate category is not only DBMC parcel post,

1 but DBMC parcel post going to a particular zone; is that
2 correct?

3 A Well, DBMC is one example of going to -- there's
4 five -- there are four zone possibilities here for DBMC.
5 Again, it might be more precise to use the term VIP code
6 level, which is what we call volume information profile.
7 But again, I usually interpret that to mean rate category
8 and that may be -- there's some looseness here in terms of
9 class and subclass. I have asked for definitions on
10 standardizing these terms.

11 My understanding is that rate category class and
12 subclass generally mean the same thing to most everybody,
13 but I may -- I'm not an expert in mail classification, so I
14 would -- the rate category, though, again, in the sense that
15 I'm using it regarding to this question you asked me about,
16 refers to -- would include a distinction for zone, yes.

17 Q Okay. Now, I think you said you asked for a
18 definition to standardize these terms in your answer. You
19 mean you asked the Postal Service to standardize these
20 terms?

21 A No. No. I'm just saying that some of the
22 interrogatories here -- what do they mean by class,
23 subclass? I don't know what -- you know, in the BRPW, I
24 have six major categories that I developed estimates for,
25 and those are actually combinations of indicia and mail

1 class. Again, I have mentioned those earlier, and there are
2 six categories. Permit imprint parcel post is one of them,
3 okay?

4 Q Well, let's talk about VIP code so we make sure we
5 have it straight, Mr. Hunter.

6 There was a VIP code of 4402; is that correct?

7 A 04402, yes.

8 Q Okay. And that VIP code, as I understand it, you
9 would consider to be a rate category? I think that's what
10 you said earlier.

11 A In the sense I'm using it here. It's a VIP code
12 level that defines, to me, a -- I don't often look to see if
13 there's a zone distinction here; I just know that there is a
14 -- there's a difference between a 4402 and a 4403 between
15 the rates that we can expect, and so there is a distinction
16 there, and one refers to zone 2, one refers to zone 3, and
17 the VIP code has the zone information in there. But --

18 Q Well, am I correct that 4402 is the VIP code for
19 parcel post DBMC to zone 2, the first four indicating parcel
20 post -- in other words, fourth class -- the second four
21 indicating DBMC, and the 02 indicating the zone; is that
22 correct?

23 A This is for permit imprint. Yes. It begins with
24 a zero. This is -- the zero is for permit imprint, yes,
25 that's correct.

1 Q Okay. Now that's the level at which you work with
2 the data; is that right?

3 A That's a fair statement, yes. That's a fair
4 statement, yes.

5 Q Okay. Good.

6 So that in the bulk RPW database that you work
7 with, one record represents revenue pieces and weight for a
8 particular accounting period at a particular facility for a
9 rate category as we have defined it including the zone; is
10 that right?

11 A That's not exactly right. Again, my response here
12 says -- rate date is another determination here, another
13 criterion.

14 Q Okay.

15 A And zone is not necessary to determine what a rate
16 category is here.

17 Q I thought we just agreed that zone is part of the
18 rate category definition, that the -- it's part of the VIP
19 code, and that's what you work with, VIP codes.

20 A No, there's nothing there that says that I have to
21 have a zone designator there to determine a rate category.
22 It's --

23 Q Well, isn't 4402 a rate category in your parlance,
24 that VIP code?

25 A I don't see where the point of confusion is on

1 this, with your response -- I think it was 30 -- did we
2 start off on T5-35 here?

3 Q Mr. Hunter, forget about the interrogatory answer,
4 okay? I just want to get it straight.

5 A I thought I would have to explain this, yes.

6 Q Is a VIP code to you the same as a rate category?

7 A Loosely, yes. Yes, it is. Yes.

8 Q Well, what term do you prefer? How do you prefer
9 to use it? You said loosely. I want to use the term that
10 you are familiar with.

11 A I prefer to use the term VIP code.

12 Q VIP code?

13 A Yes.

14 Q Okay, now your records that you work with in the
15 Bulk RPW system are aggregated by VIP code, is that correct?

16 A That's definitely correct, yes.

17 Q Okay, and we used an example of a VIP Code 4402
18 and that VIP code is Parcel Post DBMC to Zone 2, is that
19 correct?

20 A That's right.

21 Q So that one of your records represents an
22 aggregation of all the information on all the postage
23 statements sent at a particular facility for a particular
24 accounting period by VIP code, is that right?

25 A One record is a -- let me just go over this and

1 make sure. One record is a particular facility for a
2 particular rate date. By VIP code that is another way of
3 interpreting that, sure. That will work.

4 Q Okay. You say rate date, and rate date is meant
5 to distinguish between two different periods where there are
6 two different rate schedules, is that correct, in effect?

7 A It's my understanding that the rate date
8 corresponds to rate schedules that are implemented --
9 sometimes a mailer may be allowed to use a -- there is a
10 little overlap period where a mailer can actually use an
11 older rate date for a particular period of time. It does
12 not exactly overlap the current, the year period, but
13 basically a rate date is for a rate period, and Postmasters
14 make a determination about which mailers are allowed to use
15 which rates and for how long, what kind of grace period they
16 are given after rates change, because I understand there is
17 a lot of rigmarole they must go through to update their
18 software and everything, to begin to use the new rates in
19 certain cases but in some cases it's not --

20 Q Can you tell me if Parcel Post rates changed at
21 any time during Fiscal Year 1998?

22 A Well, I am not a classification expert but my best
23 guess is I don't believe they have changed in '98 unless
24 there is a step, some kind of step, but I don't think these
25 are step rates so this is outside of my area and I don't

1 need this information to develop my volumes and revenues.

2 Q All right, well, let's assume that they did not
3 change in Fiscal Year 1998, so there would only be one rate
4 date for 1998 if that assumption is correct. Is that right?

5 A Not necessarily.

6 Q Well, how could there be another rate date for
7 Parcel Post if there was only one set of rates in effect
8 that year?

9 A Again the rate date corresponds to the
10 implementation date of the rate schedule. I think for
11 Fiscal Year '98 here we are talking about two rate schedules
12 that are actually being used, and one is for I believe it is
13 October 5th, '97 and there was some holdover there for
14 October 6th, '96 as well.

15 Q Does that apply to Parcel Post or just those
16 classes where the rates are phased?

17 A The rate schedules apply to any mail category. It
18 depends on the -- I don't think it has anything to do
19 with -- I can't answer any question about phasing. That is
20 outside of my area.

21 Q Okay --

22 A As far as I know, Parcel Post had records and I
23 have looked at it for both these rate dates here, yes.

24 Q Is it your testimony that during Fiscal Year 1998
25 there were two different rate schedules in effect depending

1 on what time of the year you were talking about?

2 Is that your testimony?

3 A Well, there were certain -- there were definitely
4 two, at some level there were two rate periods in effect,
5 two rate schedules in effect at some level for the Fiscal
6 '98 period. I am not exactly sure of the dates of the '98
7 period but I believe it is October -- October '96, '97
8 through basically September '98 -- two rate schedules
9 between these time periods, yes.

10 Q Mr. Hunter, let me ask you to turn to your answer
11 to UPS Interrogatory 27, please.

12 A I have it.

13 Q Now there we asked you for a copy of any report,
14 of a report generated from the PERMIT system showing the
15 total volume for Parcel Post separately for inter-BMC --
16 intra-BMC and DBMC. Do you see that?

17 A I think I tried to provide a report here and I
18 think I provided one here attached. Yes, I did -- to your
19 interrogatory. Yes.

20 Q You indicated that you understand that the PERMIT
21 system reports do not aggregate this information beyond the
22 finance number level, is that correct?

23 A That's my understanding, yes.

24 Q Okay. Did you check with anybody to see if that
25 was the case?

1 A I certainly did.

2 Q You did?

3 A I checked with postal officials that are more
4 familiar with that system than I am.

5 Q Okay. Did you ask them whether or not those
6 reports are generated, whether it is possible for the system
7 to generate that information beyond the finance number
8 level?

9 A I don't recall if I asked that question.

10 Q Okay.

11 A I don't believe you asked me that, but I don't
12 think I would have asked that question.

13 Let me -- as far as I know I didn't answer that.
14 I'm sorry, as far as I know I didn't ask that question.

15 MR. MCKEEVER: Okay, Mr. Chairman, I will be
16 moving into a line of questions that will be using
17 information that is subject to the protective order at this
18 point in time.

19 MR. HOLLIES: Mr. Chairman, I believe that means
20 we need to clear the room to some extent. But this might be
21 a good time to take a break.

22 CHAIRMAN GLEIMAN: I was going to suggest that,
23 and if you two gentlemen could please approach, we can
24 discuss how we are going to handle this.

25 We are going to take a break for about 10 minutes.

1 We are going to have a little off the record discussion up
2 here about data that has been filed under protective
3 conditions that may be the subject matter of
4 cross-examination and would require us to ask the parties to
5 leave the hearing room, which they may appreciate.

6 [Recess.]

7 CHAIRMAN GLEIMAN: All right. We are back on the
8 record now. As indicated before the break, Mr. McKeever
9 would like to cross-examine the witness on material that has
10 been filed under seal.

11 In order to make this as uncomplicated as
12 possible, what we are going to do at this point is close
13 out, if you will, the portion of this witness' testimony,
14 this witness' cross-examination that relates to the material
15 that was provided on the record, on the open record.

16 So, unless Mr. McKeever has any further
17 cross-examination for this witness on material that is not
18 under seal, what we will do is find out if there are any
19 follow-up questions.

20 MR. MCKEEVER: Mr. Chairman, I do have some
21 additional cross-examination with respect to material not
22 under seal. Maybe you want me to go ahead with that now. I
23 guess maybe that is the sensible thing to do.

24 CHAIRMAN GLEIMAN: I think the thing to do is to
25 complete the cross-examination. I recognize that, you know,

1 taking this stuff out of order may create a problem for you
2 in terms of continuity, but the best thing to do in terms of
3 the mechanics of handling this is to close out the portion
4 of the proceeding that deals with material that is not under
5 seal.

6 After you finish, we will find out if there are
7 any follow-up questions from anyone, questions from the
8 bench, and we will also, at that point in time, do redirect
9 on that portion. And at that point in time, we will move to
10 a closed session. Anyone in the room who has not signed a
11 certification that is required to in order to see the
12 material in question, is going to have to leave the room,
13 and we will proceed with the cross-examination on the
14 material that is under seal.

15 It will be in a separate volume that will be under
16 seal, as is the predicate material, and then we will wrap
17 things up in accordance with our usual procedures for
18 follow-up questions and redirect, so that it will be
19 separate and distinct. Basically, testimony from this
20 witness, cross-examination of this witness on the open
21 material, separate and apart from the closed material.

22 If anyone has any questions, suggestions or barbs
23 at this point, let them fly. If not, Mr. McKeever, you
24 proceed with your cross-examination as soon as your are
25 ready.

1 MR. McKEEVER: Mr. Chairman, I do have a fair
2 amount of cross-examination that does not involve the
3 protected material, so I will move ahead with that at this
4 point in time. Might I also suggest that when the
5 transcript is produced of the protected material, there may
6 -- there will inevitably be some unprotected material in
7 there, so that the questioning makes sense and links back to
8 the system that is used by the witness.

9 And I suggest that maybe counsel for the Postal
10 Service and we get together afterwards to see if there are
11 portions of that that can be unsealed. Again, that would be
12 a common method to use to review the transcript within so
13 many days after it is produced, to agree on material that
14 can be unsealed.

15 But I will move ahead now with what I can best
16 tell is unprotected material.

17 CHAIRMAN GLEIMAN: And, of course, I think we all
18 understand that at some point, material that is currently
19 under seal, and that is going to be the subject matter of
20 this cross-examination, and I don't know what the ruling is
21 going to be, and I don't mean to imply I am prejudging, but
22 it is conceivable that some of that material, the protective
23 conditions on some of that material may be lifted pursuant
24 to an order as we resolve all this downstream. But, again,
25 I don't mean to imply that I am prejudging anything.

1 So, Mr. McKeever, if you want to proceed.

2 BY MR. McKEEVER:

3 Q Mr. Hunter, could you turn --

4 CHAIRMAN GLEIMAN: I want you to notice that they
5 turned off our cone of silence at the wrong time.

6 MR. McKEEVER: I don't know if there is anyone
7 with a glass on the other side of the wall, but --

8 BY MR. McKEEVER:

9 Q Mr. Hunter, could you turn to your response to
10 interrogatory UPS/USPS-T5-21, please? Now, before I ask you
11 a question specifically on that interrogatory, I would like
12 to establish, so that the questions make sense, that you did
13 review the bulk RPW information that you received and, as I
14 understand it, the computer flags certain records, is that
15 correct? That may be errors, is that correct?

16 A The Job 2 of the job stream, the BRPW, has
17 numerous edits, data verification checks, job aborts for
18 various conditions, not for any one type of failure, but for
19 revenue per piece, weigh per piece boundaries, duplicate
20 records, zero cells, things of that nature. Duplicate
21 records is an example the ^{job stream}~~job stream~~ would abort immediately,
22 and that could be caused by an operator error such as the
23 person who is running the system, if it were me, maybe I
24 entered a data system, entered twice or something like that,
25 and this is what that is intended to do, a lot of these job

1 aborts in there. And there is probably upwards of -- well,
2 there is tens of them, there are probably in the
3 neighborhood of 30-40 job abortions between the three jobs in
4 the job stream. Yes?

5 Q Okay. We are going to talk about four or five of
6 them during the course of my examination. But I did want to
7 just establish that there are records that are flagged, is
8 that correct?

9 A Yes, BRPW flags records, sure.

10 Q Okay. Now, you addressed that in part in your
11 response to interrogatory T5-21, and you indicate in the
12 second sentence that efforts are made to resolve all flagged
13 nonautomated office records. Do you see that?

14 MR. HOLLIES: I believe that is the third
15 sentence.

16 THE WITNESS: Yes, I see the second sentence
17 there. It starts with "Substantial efforts are made."

18 BY MR. McKEEVER:

19 Q Yes. Yes, I think it is the second sentence.
20 Yes.

21 A I have that.

22 Q Okay. And then you go on and say, and I am
23 quoting here, "Due to the geographical dispersion of the
24 numerous automated offices, and to their voluminous records
25 which number in the millions, it is not administratively

1 possible or operationally feasible to research individual
2 flagged records in the short timeframe available for data
3 processing." Do you see that?

4 A Yes, I have that.

5 Q Okay. So, in other words, you were not able to
6 research all these flagged records, is that correct?

7 A For the automated population here in this
8 particularly sentence, the sentence before was relative to
9 the nonautomated population.

10 Q Right.

11 A But, in which case they are resolved. This one,
12 there is 4 million records during the course of year. We
13 process each quarter in a short two or three day time period
14 here. It is administratively impossible to check everything
15 out, yes.

16 Q Now, again, I think we established that each
17 record consists of one or more postage statements, is that
18 correct?

19 A One or more, yes.

20 Q Okay. So there could be some records that include
21 information from a number of postage statements, 20, 30,
22 however many mailers entered mail at a particular facility
23 in a particular accounting period, is that correct, for a
24 particular rate category?

25 A Very good. These category here is for a

1 particular line item detail on the back side of a postage
2 statement, that is what the VIP code data are, yes. They
3 are for -- not necessarily for everything that is on the
4 postage statement, it is for the particular line item that
5 was used by the mailer, and sometimes a mailer will present,
6 he will have several line items filled out on a postage
7 statement.

8 So, in that sense, I want to be very careful about
9 saying it is for a mailing statement versus a line item
10 found on the back side of the postage statements. Okay.

11 Q Okay. Okay. I understand. Well, suppose,
12 though, there were an error, something that didn't make
13 sense in a particular line item on a postage statement.
14 Since your record often contains a number of line items from
15 different postage statements, the same line, but from
16 different postage statements, your e-flags would not pick up
17 anything in an individual postage statement that doesn't
18 make sense, would it? You are only testing at the
19 aggregated level, is that right?

20 A The answer to the second part of your question is
21 we check. We do error flag checks at the VIP category
22 level.

23 Q That is the aggregated level?

24 A Yes, and I didn't follow exactly what you said
25 prior to that but if that answers your question --

1 Q Well, I think so, but let me make sure that it is
2 clear. Since you do your error check at the aggregated
3 level, you wouldn't necessarily have picked up an error in
4 the disaggregated data, is that correct?

5 A I could or I could not. It depends on how severe
6 the disaggregated is, that particular error for that
7 particular record. I can't say. I can't say.

8 Q It depends -- go ahead, I'm sorry.

9 A That's it.

10 Q It depends to some extent on the level of
11 aggregation as well, doesn't it? I mean it is one thing if
12 it is two postage. If it is line item, the same line item
13 from two postage statements as opposed to the same line item
14 from 20 postage statements. It is a lot tougher in that
15 latter case where you have 20 separate bits of information
16 or types of information lumped together to discover an error
17 in any one of them from an aggregated record, is that
18 correct?

19 A Not necessarily. It depends on the level of the
20 other 19 records, the other 19 line entries for the other 19
21 postage statements in the one case.

22 Again we have a tolerance that is built in for a
23 particular weight per piece or revenue per piece and the
24 tolerance is basically designed -- one reason is with that
25 in mind that there can be a little bit of -- at some level

1 since we do get aggregated we only work with the aggregated
2 level. We need to allow for the possibility that the rates
3 are not going to be exactly right onto the penny and if that
4 is due to rounding or whatever reason or error for one
5 postage statement out of 2000 I don't have that information.
6 I would not know anything about that.

7 Q Okay. Maybe we have to make this a little bit
8 more concrete. One of the e-flags in the computer is -- and
9 I don't know what term you use for it -- it is E3100 is the
10 e-flag I have in mind.

11 A That's fine.

12 Q And that is what I will call a low weight/high
13 weight -- weight, w-e-i-g-h-t, test, is that correct?

14 A Well, actually more correctly it tests the upper
15 and lower weight boundaries for that particular -- again, I
16 want to use the term rate category or line item detail if
17 you prefer on the reverse side of the postage statement or
18 VIP code, either of those three, but it checks, it tests the
19 high, the boundaries, the minimum and the maximum.

20 Q Okay, and --

21 A I'm sorry, I'm finished.

22 Q Let's just talk about Parcel Post, so in other
23 words, if you had a record where the weight for the pieces
24 in that record came up over 70 pounds, that being the
25 maximum weight of a Parcel Post piece, plus 5 percent

1 because that is your tolerance, isn't it, five percent?

2 A I think for the Fiscal '98 year period for Parcel
3 Post mail category used for weight, we used a 5 percent
4 tolerance, yes.

5 Q Which for a 70 pound limit would translate to a
6 five percent on the high end would mean 73.5 pounds, if I
7 did my math correctly. Does that sound about right?

8 A For weight per piece?

9 Q Yes.

10 A Yes.

11 Q Okay, so if you had a record, and again a record
12 could be taken from different postage statements, but if you
13 had a record that showed a weight per piece of more than
14 73.5 pounds, that would be flagged, is that correct?

15 A BRPW would flag that, yes.

16 Q But if it showed a weight per piece of 72 pounds,
17 it would not be flagged, is that correct?

18 A In this particular case, for Fiscal '98 period,
19 this was the first year we used Parcel Post permit imprint.
20 That record would have passed, yes.

21 Q Now have you changed that test since?

22 A We look at that. That is an ongoing evaluation
23 where we look at the, as you have referred to it, as the
24 cushion or the tolerance level.

25 We feel it is unfair to say, okay, it has got to

1 be exactly 70 or it has got to be exactly 35 cents or
2 whatever so we feel it is fair to include a tolerance level
3 and we have not changed that as of today for Parcel Post.

4 Q Okay, so you are still using the same 5 percent
5 tolerance level for Parcel Post?

6 A Yes, we are.

7 Q Now let's be clear. Do you know that the maximum
8 weight for a Parcel Post piece is 70 pounds?

9 A Well, I may be entirely wrong on this, but my
10 understanding is this information is obtained, these maximum
11 weight per piece and minimums weight per piece and also
12 revenue per piece information, which you have not talked
13 about --

14 Q We will get to that.

15 A But these are all obtained from the rate folds
16 which are provided in the Domestic Mail Manual as an insert
17 and it is the information that the mailer and the Postal
18 Service used to determine what rate this particular mailing
19 should use, what rates, what set of rates they should use.

20 This is where basically most of my information
21 comes from, from that rate fold. If I can't find it on
22 there, I will look deeper into the DMM but the rate fold is
23 part of the DMM. That is where I get my information and I
24 believe that the upper limit is 70 pounds for Parcel Post.

25 Q Okay. Do you know that the lower limit is one

1 pound?

2 A I believe that is correct. I think that is the
3 level that I am checking at one pound. I believe so, yes.

4 Q Okay. Now since you have a 5 percent tolerance
5 level, that means that a record would be flagged only if the
6 average weight of the pieces was less than .95 -- that is
7 the 5 percent tolerance check -- .95 pounds or about 13.6
8 ounces, is that correct?

9 A If it was less than that value, we allow a little
10 bit of a -- yes, basically that is the way the program is
11 designed to work for Parcel Post, but for all mail
12 categories, yes.

13 Q And again we are talking about a situation where
14 this is the average weight per piece for all of the pieces
15 in that VIP code, is that correct?

16 A This is the average weight per piece for all the
17 information for that particular VIP code -- well, the only
18 information I use there is weight and volume so dividing one
19 by the other, that's all that is required, yes, for that
20 particular check.

21 Q Okay. Now one of the other e flags is E3000, is
22 that right?

23 A That's correct.

24 Q And I don't know what term you use and I will be
25 happy to use your term but I call it the low rate, r-a-t-e/

1 high rate e flag. That is the one I think you were talking
2 about when you said revenue per piece, is that right?

3 A I think if you want to confine this to Parcel
4 Post --

5 Q Yes.

6 A Would you like to?

7 Q Yes.

8 A Okay, if you would give me an opportunity to look
9 at something here, please.

10 Q Sure.

11 A I think it can help me with the answer.

12 Q Sure.

13 [Pause.]

14 A Yes, in the example of Parcel Post, we check a
15 high rate and a low rate. We have a range there, of --
16 again, according to the zones there, this is not true for
17 other mail classes, but this is true, certainly, for Parcel
18 Post, yes.

19 Q Okay. And again let's use a concrete example so I
20 think it will have more meaning. Let's take a Zone 2
21 shipment.

22 Do you happen to have the FY 1998 Parcel Post
23 rates, either as part of your Master Rate Table or
24 otherwise?

25 A For '98, did you say?

1 Q Yes, FY 1998. We're talking about the data in
2 your --

3 A The only rates I'm aware of for 1998 are those
4 that -- I believe that the rates did not change until
5 October -- I'm sorry, January 10th, 1999.

6 Prior to that, there had been no rate changes up
7 to or back to October 5th, '97. So I'm not exactly sure
8 what you're talking about in terms of the rates for '98.

9 Q Do you have your Master Rate Table for 1998 with
10 you?

11 A Yes, I do.

12 Q And doesn't that show the rates for Parcel Post
13 for 1998; isn't that what the Master Rate Table is supposed
14 to do?

15 A No, a Master Rate Table, again, corresponds to a
16 -- I'm sorry, corresponds to a rate date period. Keep in
17 mind that a rate date corresponds to a particular set of
18 rates that are issued, maybe not for all mailers, but for
19 certain mailers.

20 Q All right, then, let me ask you what your rate
21 table shows for a two-pound Parcel Post piece going to Zone
22 1/2. What rate does that show?

23 A Well, I have -- did you say DBMC? I'm sorry.

24 Q Yes, yes.

25 A DBMC, Zone 2, and it's a two-pound piece, for the

1 '97 rate schedule here that was used for the '98 period --

2 Q Go ahead.

3 A If that's okay?

4 Q Yes.

5 A I show a low rate of \$2.10, and a high rate of
6 \$5.24, so anything -- obviously the heavier pieces are up
7 toward the other end, but I'm not sure exactly what the
8 two-pound -- it's somewhere in that range there.

9 I don't really need to know that exactly for my
10 purposes, for BRPW. I don't need to know if it's two-pound
11 or three-pound. I just need to know it's in that range for
12 that zone.

13 And I have the upper and lower limits.

14 Q Okay, and your upper and lower limits are \$2.10 as
15 the lower one, and \$5.50 as the upper one, but there's a
16 five-percent tolerance, right?

17 A Not \$5.50 for the upper one.

18 Q I'm sorry, I'm sorry, \$5.24.

19 A \$5.24.

20 Q I added the five percent already.

21 A Yes.

22 Q You do have a five-percent tolerance on either end
23 of that; is that right?

24 A We have to, yes.

25 Q Okay, so in other words, a record would not be

1 flagged -- now, I took \$5.24 and added five percent, and I
2 came up with \$5.50. So in other words, a record would not be
3 flagged unless the revenue per piece exceeded \$5.50 or was
4 less than \$1.99 or \$2.00, a \$1.995; is that correct?

5 That's five percent below \$2.10 and five percent
6 above \$5.24.

7 A Well, if your math is correct, basically we don't
8 have a lot of activity at the upper, 70-pound limit, so I
9 wouldn't have expected you to have found too many records,
10 too much up in that, anywhere near there.

11 But, yes, you're correct, if your math is correct.
12 It would not be flagged anywhere between those two extremes,
13 which is a little bit less than \$2.10, and a little bit more
14 than \$5.24.

15 Q Okay, why is there a five-percent tolerance check
16 when you know that the lowest rate a mailer can pay for that
17 shipment is \$2.10 apiece, and the highest rate he could pay
18 for a DBMC Zone 2 shipment is \$5.24?

19 Why would you add a five-percent tolerance when
20 you know that that's the max that they could pay?

21 A The PERMIT System and the bulk mail acceptance is
22 not a cut and dried system like my system here is, or like
23 most estimating systems are, in that there could be reasons
24 why a particular mailing reversal might have to be made, as
25 an example.

1 Maybe something was entered incorrectly, and it
2 was reversed, which would tend to make the rate, the average
3 rate go slightly lower or higher, and if you happen to be
4 already near these extremes, then it could throw you outside
5 that range.

6 So that's one reason why we would need a
7 five-percent cushion there.

8 Q Can we stop there for a second so I can understand
9 that?

10 A Sure.

11 Q How would a reversal make a rate go above the
12 maximum rate a mailer could pay for that shipment?

13 When you say a reversal, what do you mean; do you
14 mean a data entry was made and so somebody went back and
15 changed the data, or what?

16 A Well, in this hypothetical here -- and I maybe
17 will make it clear that this is a hypothetical here -- that
18 if it were possible that a reversal was being made to wipe
19 out piece information for part of something that was entered
20 incorrectly, and -- or the revenue was too low and you had
21 to go back and add more revenue for some reason, then that
22 would tend to make the rate be a little bit higher, if you
23 were over near the extreme.

24 I can't offer any reason beyond that, other than I
25 don't have a real, real good understanding of the bulk mail

1 process, and how rates differ, or exceptions that are made.

2 I'm just primarily interested in making sure I've
3 got the volume categorized in the proper category here,
4 which I call VIP Code level.

5 And that's my concern, and because it's not a
6 perfect world, there could be rounding errors and things
7 like that. We feel it's fair to add a cushion. We probably
8 don't need the cushion here for Parcel Post. I think you've
9 looked through this data and you probably know we don't need
10 a five-percent cushion here.

11 But I don't think many records were caught for
12 Parcel Post anyway, so --

13 Q Well, I don't want to push it too far in this if
14 you're not comfortable, but I do want to learn what you are
15 comfortable with telling me.

16 If a mistake was made, and somebody had to go back
17 and add revenue -- I think that was the example you gave --
18 they would add revenue only up to the maximum rate that the
19 mailer could possibly pay, right?

20 They wouldn't add revenue beyond what the mailer
21 could pay for a higher piece, would they, for that piece?

22 A Well, if they were just purely adding -- in this
23 hypothetical -- again, this is not -- I'm not saying this
24 happens, but if this were the case here and revenue by
25 itself was being entered, there would be no volume.

1 So, certainly that would make the average move up.

2 Q I understand, but I still don't understand how the
3 average could go, you know, above the highest rate that a
4 mailer could possibly pay.

5 A Well --

6 Q That's what I'm having difficulty with.

7 A If you had one piece, in this example here that
8 went at \$2.10 for this office for this one record, and for
9 some reason or another in this hypothetical, that \$5.00
10 needed to be added, with no pieces, that would make one
11 piece with a rate of \$7.10, and I would flag that, you see?

12 Q Well, your data, though, now, is aggregated data,
13 right? It doesn't represent -- I mean, I guess there could
14 be a record with just one piece, although we're talking
15 about bulk shipments.

16 A Well, I'm just telling you. You asked me how, and
17 I think I have given you an example here of how in a
18 hypothetical world such as this, that might occur.

19 I'm probably uncomfortable in this area because
20 this is not my area of expertise.

21 Q Okay, okay, let me just try it a little bit more.
22 Again, as I said, I don't want to push it beyond where
23 you're comfortable, but unfortunately, you're the only
24 witness I can ask these questions of.

25 How can you get a record which is an aggregated

1 record, representing a particular line item for all postage
2 statements entered at a facility during an accounting period
3 which is typically four weeks -- is that right, an
4 accounting period?

5 A Accounting period is generally four weeks, yes.

6 Q Okay. How can you get a record that shows an
7 average weight for a Parcel Post piece of as much as 73
8 pounds?

9 A I don't have an answer, and I don't know that, for
10 whatever reason if that happened, I'd flag it. Okay, so
11 it's --

12 Q No, excuse me, but your system wouldn't flag it,
13 right?

14 A You said over 73.

15 Q I said 73 pounds, and with your five-percent
16 tolerance check, 73.5 pounds is the upper limit.

17 A Well, you said over 73. This is 73.5?

18 Q Well, let me correct myself.

19 A Okay.

20 Q Let's assume the average weight on this aggregated
21 record representing all the postage statements at that
22 facility during a four-week accounting period, shows an
23 average weight of 73 pounds, right on the button.

24 A Okay.

25 Q And your tolerance check takes you up to 73.5

1 pounds, that record would not be flagged; is that right?

2 A That record would pass; that's correct.

3 Q Okay, and again, that's an aggregate record which
4 could represent a number of different postage statements
5 added together; is that correct?

6 A It could be one or more.

7 Q Yes, okay. Now, you did have some records where
8 data was missing; is that correct? Either you were missing
9 revenue, pieces, or weight in the record; is that correct?

10 A I'm not sure exactly what data you're referring to
11 here, but there is a check in my system for missing data.

12 Q That's what I'm referring to.

13 A If I'm looking for revenue, pieces and weight, all
14 three of those, I expect to find those. And if for some
15 reason, it's not there, I need to flag that record, yes.

16 Q Okay. Now, that's what I'm getting at. What do
17 you do when a record is flagged for missing revenue pieces
18 or rate?

19 A In the case of Parcel Post here, the record is
20 dropped; it's just simply dropped.

21 Q Always, invariably?

22 A It is unless we see something here that tells us
23 that, oops, I've got a mistake in my rate file, in my master
24 rate file. Maybe it's not supposed to have -- maybe I've
25 got the wrong upper bound or lower bound here.

1 I think I've double-checked these. If we start
2 seeing something that's very unusual and it happens a lot,
3 we know there's a problem. It's either at the front end or
4 at the back end, and in that case, it's kind of an iterative
5 process over time where we try to improve our data systems
6 by looking over the data.

7 And we're not always able to make changes and
8 corrections in real time. If we find a mistake, like a lot
9 of particular type of records for a particular category are
10 getting flagged and we don't have an excuse, they may get
11 flagged temporarily, but we'll eventually research that and
12 eventually get it fixed.

13 Q All right, now, you do indicate in your response
14 to Interrogatory T-5-21 in the -- I guess it's the fourth
15 sentence, the sentence, the sentence after the one we
16 started with here -- not started with, but we just talked
17 about.

18 Efforts are made to clear up flagged records that
19 might measurably affect the estimates of the subclass or
20 class level; do you see that?

21 A Yes, I do.

22 Q First you say that it might measurably affect the
23 estimates at the subclass level; is that correct?

24 A Subclass, yes, that's kind of my own term there
25 for in this particular case here, I would mean like DBMC,

1 intra or inter collapsing zones.

2 Q In other words, you don't try to go back and clear
3 up a flagged record if it only affects DBMC Zone 2; just if
4 it affects what, DBMC?

5 A Probably more so -- it depends on how familiar I
6 am with the data. Parcel Post is a relatively new category
7 to me. We've only used it for a year or so in the PERMIT
8 System.

9 I tend to know a little bit more about periodicals
10 as an example, only because I spent a lot more time with
11 that.

12 It's a learning process. What we try to do is, we
13 try to -- if I've got something here that's causing a
14 measurable effect -- and by that, I mean something that
15 would take us outside the boundaries, let's say, of our CV
16 or expected target CV, somewhere in that neighborhood, or
17 even could possibly approach that at some point, then I'd
18 want to have a reason, I want to have some information about
19 that.

20 And I may not be able to get it, and again, these
21 data are sent to me each AP. And the RPW system is running
22 ~~JP, EOP~~ ^{each AP.} So we may not get to something immediately, but it
23 may take awhile, but we'll get to it, yes.

24 Q Okay, now, when you do that, when you go and you
25 clear up the flagged record, what do you do? Do you change

1 the data in your database?

2 A We never go back and change data in the database.

3 Q Well, what do you mean when you say you clear up
4 the flagged record, then?

5 A Well, here we're talking about, if there's
6 something immediately, right away, that I can impute, if
7 there's something I can do to immediately clear up my
8 problem, such as impute a weight -- let's say we're missing
9 weight -- usually we find problems where weight gets dropped
10 for some reason, because -- I don't know what the reason is,
11 but if a weight is dropped, I can probably go back and
12 impute weight somehow.

13 Q So you will --

14 A If it's a big record and it's worthwhile.
15 Otherwise, we'll leave it alone.

16 Q Okay. So you will add data into the system,
17 you'll add a weight value where there was a zero; is that
18 right?

19 A If we have to. I think there's some imputation
20 code in the program, but it's for the mail classes, it does
21 not affect parcel post. We did not do this at all for the
22 '98 period, if that's your question.

23 Q Well, did you do any imputation outside the code?

24 A I've done no imputation in the code or outside the
25 code for parcel post for the Fiscal '98 period. I think

1 I've already answered that in one of your interrogatories.
2 Maybe I haven't given it to you yet, but it's -- if you
3 like, I can research that.

4 Q No.

5 A I know you've asked me that question at least
6 once.

7 Q So if you -- let's say you have a record that
8 shows a value that you know just can't be so. Does that
9 happen? You know, the weight is way out of whack and it
10 measurably affects your estimate. What do you do about
11 that?

12 A Well, again -- if it measurably affects the
13 estimate in this case here, in this hypothetical, we have
14 one record that's, in my opinion or the operator's opinion,
15 is measurably -- has a measurable effect on the estimate,
16 then we need to try to resolve it.

17 In this particular case, we'll call the Post
18 Office. If we can, we'll get in touch with the Post Office,
19 we'll find out, hey, what's going on with this record here.
20 Right now, we're dropping it, can you get it corrected so
21 that you can make the correction in the next AP, and
22 generally we find that the correction is made in the next
23 AP.

24 Q Okay.

25 A That has been our process in the past and that has

1 usually worked for us very well.

2 Q So that the correction will actually be made at
3 the office level where the data is entered?

4 A Well, that's what my understanding is, and again,
5 I don't have a great detail of understanding of -- detail or
6 understanding of the PERMIT system, but reversals are made,
7 corrections are made, people make mistakes sometimes at data
8 entry, and when they do and they uncover it and the mailer
9 might say, you know, you overcharged me or something or
10 whatever, the data has to be entered correctly, has to be
11 corrected at some point. If we flag it in headquarters and
12 we call them up, we usually get it resolved, yes.

13 Q But again, I want to make sure I'm clear, it's
14 resolved by having -- by the office entering new data; is
15 that right?

16 A For a point downstream. Again, it's impossible to
17 do in real time. We're producing estimates --

18 Q I understand.

19 A Yes. Okay. Yes, that's true. Yes.

20 Q But do you keep a record of those changes that are
21 made?

22 A It's informal. It's -- I call -- you know, we'll
23 make a phone call to an office. It's very rare that it
24 happens, but when it happens, we'll -- I generally don't
25 keep a record of that. It's something that's -- looking

1 over the data here, that -- I have to kind of make a
2 judgment call. There's a little judgment area.

3 Q So in other words, wherever you have cleared up a
4 flagged record that might measurably affect the estimate, we
5 don't know what was done to clear it up, is that right,
6 because you didn't keep any record of it?

7 A I'm sorry, repeat the question, please.

8 Q If you clear up a record -- if you have cleared up
9 a record, a flagged record, and you did it because it might
10 measurably affect the estimate and you have cleared it up,
11 you don't keep a record of that, so we don't know what you
12 did to correct it; is that right?

13 A I have no written records.

14 Q Okay.

15 A I might be able -- again, I do not make the
16 correction, the office has to make the correction. Now, it
17 may be that there is something legitimate there and that the
18 -- what I'm looking at today before me that I think is bad
19 was actually a reversal for something that occurred before
20 in time, at another point in time. So that's why we have to
21 call the office. We need to get to the bottom of that
22 particular situation. Again, this is rare. This doesn't
23 happen often.

24 Q Well, do you have any idea how many times it
25 happened in 1998?

1 A In 1998, I would say very rarely, maybe -- rarely.
2 Maybe two, three times.

3 Q Really?

4 A Yes.

5 Q You have -- your recollection is that clear, it
6 happened only two or three times in 1998?

7 A Well, I certainly -- if it happened every day, I
8 would certainly remember that, yes, I would.

9 Q Now, do you always know, or you referred to an
10 operator may do it, another may do it? Do you -- the
11 records aren't kept, so if another operator noticed and
12 cleared up the record, you wouldn't know that personally,
13 would you?

14 A Generally, what would happen if somebody else ran
15 the system or something and this has happened, I generally
16 review the data. We have several levels of review of data
17 in our office starting with the operator and then the
18 program administrator at the time and whatever, the manager,
19 and if a record had been -- as far as in the '98 period, no
20 records had been -- had been -- no such records had been
21 identified, no contact to any post offices were made by any
22 person other than myself. As far as I know, that's true,
23 yes.

24 Q What is your test for might measurably affect the
25 estimate?

1 A Again, I think I answered that earlier, but
2 measurably, again, means, to me, it's something -- we have a
3 -- generally we report our estimates, as you know, with CVs
4 associated with them, and then we generally report a
5 reliability level plus or minus two standard errors, 95
6 percent confidence interval, and generally what we look at
7 is we look at how will this affect a -- how will such a
8 gross error -- is it liable to skew our point estimate, or
9 is it something that's completely obscured by the targeted
10 CV level that we already have achieved and it's so small
11 that we let it pass for the short-term period.

12 And again, that's what I mean by measurably
13 affect. For the most part, that means relative to the CV as
14 reported, but also -- and if it's a new system we're
15 bringing on line, we might give it a little closer look,
16 like parcel post was a new system that was brought on line
17 in '98, we gave it a closer look in terms of what --
18 something might be seriously -- or might have an affect on
19 the estimate, only because I'm not too familiar with the
20 three main categories, DBMC, intra and inter, so we probably
21 would have given it a little extra attention up front more
22 so --

23 Q You say you probably would have. Do you know if
24 you did or not?

25 A Well, I think that any time we bring something on

1 line, we have to be pretty careful that it's good stuff, so
2 we feel it's good stuff, we feel this is a good system.

3 Q I understand that, --

4 A Yes.

5 Q -- but did you -- what did you do to give it extra
6 attention? What did you do?

7 A We looked at the code level in detail here, we
8 looked at the records and we say how are they falling within
9 the bounds, the estimates, are they falling in the rates of
10 the upper/lower limits as we understand them, are they
11 falling -- are the records of the weight per piece falling
12 in between our upper and lower bounds? Yes, they are.
13 Looks pretty good. Is there a big difference between DBMC
14 and inter and intra BMC in terms of the -- intra and inter
15 BMC in terms of the rates, and there seems to be -- they
16 seem to be following the DMM rate fold.

17 Q But you haven't kept any records of exactly what
18 you did; is that right? I think you've said that already.

19 A In what sense, now? Exactly what records?

20 Q If you made any changes -- called up and had an
21 office, I should say, make a change -- you didn't keep any
22 records of that one way or the other?

23 A I generally don't.

24 Q Okay.

25 A As a rule, I don't do that.

1 Q All right.

2 Now, your next sentence, you say, the remaining
3 records are grouped by type and resolved by imputation where
4 possible. Can you give me, you know, an explanation of what
5 you mean there? First of all, grouped by type -- what does
6 that mean?

7 A First of all, I would like to go back to the last
8 question.

9 Q I'm sorry. Go ahead.

10 A Generally, the records that I said we don't keep,
11 I may make a note on a report or something or on a page for
12 a particular period, so if I go back in time later and say
13 did I call an office for something for parcel post for this
14 period, I would know like later when I looked at stuff at
15 the end of the year or something to see if there had been
16 something. So generally, I would make a note to myself.

17 Q And do you keep those notes?

18 A They would be available for '98 if I had any for
19 this mail category, and as far as I know, there's none
20 because I don't recall any problems with any rate category
21 for this mail class indicia combination.

22 Q All right. Now, let's go to remaining -- you say
23 the remaining records are grouped by type. Could you
24 explain how they are grouped by type? What does that mean?

25 A Okay. Where are we again here, please?

1 Q In your answer to T5-21, toward the end.

2 A Okay. I think here, we're talking about we're
3 grouping the remaining flagged records. If there are no
4 flagged records to clear up as mentioned in the preceding
5 sentence here, then we've gotten to this point where the
6 remaining records are grouped by type; in other words, the
7 code, the e-flag that you mentioned, 3100, I would have a
8 list of those records, I would have a list of the 3000
9 records that you mentioned.

10 Q Okay.

11 A And that's what we're talking about here, to look
12 them over and just --

13 Q You would group them by e-flag? Is that what you
14 mean by type?

15 A Yes. The reference to imputation here doesn't
16 refer to parcel post for the '98 period; that's for
17 something that -- I believe for meter and precanceled stamp,
18 third or standard mail A. There is no imputation done for
19 parcel post ^{permit}~~permanent~~ imprint.

20 I'm sorry, did you have a question? Did I answer
21 the other part --

22 Q Well, are you telling me that that sentence
23 doesn't apply to parcel post, that sentence, the remaining
24 records are grouped by type and resolved by imputation --

25 A No, that's not what i'm saying. It does apply to

1 parcel post.

2 Q Well, --

3 A But the part about the imputation does not apply
4 for the '98 period. There was no imputation of any weight,
5 and generally that's what we're talking about here when
6 we're talking about missing weight.

7 Q Was there any imputation for revenue per piece?

8 A No.

9 Q Was there any imputation for missing revenue
10 pieces or weight?

11 A Again, there's no imputation at all for parcel
12 post ~~permanent~~^{permit} imprint for the whole year, for any ~~revenue~~^{reason}
13 --

14 Q Now, how do we know that?

15 A -- piece or combination.

16 Q How do we know that?

17 A Well, there's none in the code that you have.
18 That's how you know that.

19 Q Okay. Now, don't you -- you occasionally get data
20 where you're missing an account period, is that correct,
21 from an office?

22 A Yes, that's true.

23 Q Okay. What do you do in the case of those
24 records, a missing accounting period?

25 A Well, if an office is missing an accounting

1 period, there's no records there.

2 Q Yes, but do you do anything to clear that up?

3 A Well, sure. We have, I think in one of your
4 responses here, I believe we have what's called an F-1
5 factor --

6 Q You believe you have an F-1 factor or do you know
7 that?

8 A Well, actually I believe that it's one of my
9 responses here. But we definitely do have an F-1 factor, I
10 call it an F-1 factor. Hold on a second, please.

11 Q Sure.

12 [Pause.]

13 A Okay. You asked me this in question number 48,
14 and again I talked about the F-1 variable here, which is a
15 designator I use to tell how we adjust for missing AP here,
16 and generally, as an example, on start up of an office, a
17 ~~permanent~~ ^{permit} system joins -- an office joins a ~~permanent~~ ^{permit}
18 system, he may join in the middle of -- the office may join
19 in the middle of a postal quarter. As an example, PQ1, they
20 may join in an AP effective AP2, AP3, so we're missing AP1,
21 and this is nothing more than an attempt to compensate for
22 incomplete data.

23 Q Well, what do you do to compensate for it?

24 A Well, the F-1 factor determines -- the F-1 factor
25 here is calculated as -- in this particular case here in

1 this example, it would be ratio of -- I've answered this
2 somewhere, but it's the ratio of total APs in a period
3 divided by those there, actually responding APs. So in this
4 particular case, it would be -- everything gets multiplied
5 four APs, three, two and three by three halves, 1.5, in this
6 example --

7 Q All right. In --

8 A -- for that one office.

9 Q There's typically three APs in a quarter; is that
10 right?

11 A Except for the last quarter, there's four.

12 Q Yes, but typically there's -- except for that last
13 quarter, there's three APs in a quarter; is that right?

14 A Sure.

15 Q Okay. And if you have information on two APs and
16 you're missing information on one, the way I understand your
17 answer, and I want to confirm it, is you take three APs,
18 divide it by two, that comes out, to me, as -- yes, two into
19 three is 1.5, as you said, so you increase the R, P and W
20 measures you have by 1.5? You multiply them by 1.5?

21 A For that one office, for that one --

22 Q Right.

23 A -- quarter only.

24 Q Right.

25 A That's not for the whole year, of course.

1 Q No, I understand.

2 A Right. Yes. That's exactly right. Right.

3 Q Okay.

4 A Incidentally, this was -- this F-1 value for
5 parcel post permanent imprint was unity for the whole year.
6 I believe. I may have to check into that last statement,
7 but as far as I know, it was times one for the whole year.

8 Q I just want to ask you some questions that Mr.
9 Pafford wasn't able to answer because he wasn't working with
10 the bulk RPW.

11 A Okay.

12 Q In the bulk RPW system, do you use an RPW code of
13 4100?

14 A Yes.

15 Q And does that represent Standard B zone rate,
16 inter BMC, machineable, non-permit, parcel post?

17 A Well, my reference here to 4100 is parcel post
18 intra all zones -- all zones 2 through 8.

19 Q 4100 you have as intra?

20 A We're talking about RPW code here?

21 Q Yes, RPW code. RPW code.

22 A I have it as parcel post -- I'm sorry, inter. My
23 eyes are failing me right now. I'm sorry. It's inter, not
24 intra. Inter.

25 Q Okay. So --

1 A Parcel post inter.

2 Q Inter BMC, machinable, non-permit parcel post.

3 A I don't know about the machinable part, but -- I
4 don't make that distinction. I don't need to know that at
5 this point.

6 Q Okay. And you do have data associated with that
7 RPW code 4100 in your parcel post records, right?

8 A Well, I would assume there would be some records
9 for these categories. I have not --

10 Q Okay.

11 A -- looked it over that closely, but I would say
12 so, yes.

13 Q Okay. Now, the RPW code 4105, is that for
14 standard B intra BMC machinable non-permit parcel post?

15 A Again, I have that for intra parcel post. I don't
16 make --

17 Q Right.

18 A -- the machinable/non-machinable distinction.

19 Q Okay. And 4160 is standard B zone rate DBMC?

20 A It's parcel post DBMC, that's correct.

21 Q Okay. Now, do you also have an RPW code of 4104
22 for parcel post?

23 A I don't recognize that code, 4104 for Parcel Post.

24 Q You don't? How about 4109?

25 A Again, I don't recognize that code.

1 Q Would you show that on the list you are referring
2 to if you had some data associated with it?

3 A Well, the list I am referring to here is nothing
4 more than a master file for the rates for the Parcel Post
5 category.

6 Q I guess what I am asking -- go ahead, I'm sorry.

7 A Yes, I think your question is if there were, to
8 supply the permit imprint Parcel Post DBMC intra or inter,
9 if this RPW code was one of mine it should be on here, yes.

10 Q Okay. In other words, if there were data
11 associated with that RPW code it would be on your list?

12 A If it is supposed to be there.

13 I don't recognize these codes. I don't know what
14 these codes are that you are telling -- could you -- you
15 know, I don't know.

16 Q Could you refer to your response to UPS
17 Interrogatory 40(a), please?

18 A I'm sorry, what is that, please?

19 Q 40(a), 4-0 subparagraph (a).

20 A Okay.

21 Q We asked you there why there was no non-automated
22 office sample for permit imprint Parcel Post and that I
23 think may be the answer you were looking for earlier when I
24 asked you if that survey of the 42 offices was done during
25 Postal Quarter 2, Fiscal Year 1997.

1 A Yes, it was. I found that. Thank you.

2 Q And that is what you are referring to there is
3 that survey in that answer that we talked about earlier?

4 A I believe --

5 Q Of the nonautomated office --

6 A From our question earlier, I recall the survey
7 being in the PQ2 of '97. I believe this is correct. Yes.

8 Q Okay. Now you state in the last sentence of
9 paragraph (a) of that answer that parallel plans were
10 initiated to implement a national trial balance control
11 account to obviate the need for periodic survey updates.

12 Do you see that?

13 A Yes, I do.

14 Q Now does that mean that plans have been initiated
15 to implement a national trial balance control account for
16 Parcel Post?

17 A I'm sorry, would you repeat the question?

18 Q Yes. Are you saying there that plans have been
19 initiated to implement a national trial balance control
20 account for Parcel Post?

21 A That is what I have said, yes. I agree with that,
22 yes. Seems true.

23 Q Okay, now in FY 1998 there was no national trial
24 balance account for Parcel Post, is that correct?

25 A There was no unique account for Parcel Post permit

1 imprint only by itself. That is correct.

2 Q Am I correct that for all of the other categories
3 of mail where the bulk RPW was used in FY 1998 there as a
4 national trial balance control account?

5 I think you basically say that in your testimony,
6 don't you, at the bottom of page 2 and the top of page 3?

7 A No. I believe in my testimony up there on page 2
8 or 3 I refer to the metered and precanceled stamped panel
9 which I do not again have an explicit -- even though the
10 revenue is posted in an account somewhere, I don't have an
11 explicit account. It is not posted in there by itself. It
12 has other information, other revenue information, therefore
13 I can't use it, so the metered and precanceled stamped
14 panel, which is for First Class and Standard A mail only
15 doesn't affect the Parcel Post here in the BRPW.

16 That has no trial balance account also for control
17 purposes.

18 Q Which one doesn't, which other one?

19 A Metered and precanceled stamped.

20 Q Well, let's go take a look at your testimony,
21 bottom of page 2, top of page 3.

22 There you identify the categories that you use
23 which have a unique national trial balance control account,
24 is that right?

25 A Yes.

1 Q Now where there was a specific revenue account
2 associated with the mail category -- I guess unique is the
3 word you used -- where there was a unique revenue account,
4 national trial balance account, associated with the mail
5 category, the revenue determined by the Bulk RPW system was
6 adjusted to match the revenue in that associated unique
7 revenue account, is that right, in FY 1998?

8 A Yes, for quarter that's done. That is how the
9 ratio estimator works that is used on -- described in my
10 statistical design documentation, yes.

11 Q And when the revenue was adjusted, was the piece
12 information also adjusted to take into account the revenue
13 adjustment?

14 A Of course.

15 Q And so the weight was adjusted too?

16 A Yes, that's correct.

17 Q Okay, now since you didn't have a national trial
18 balance account unique to Parcel Post, there was no such
19 adjustment for Parcel Post, is that correct?

20 A We were not able to do that --

21 Q Okay.

22 A -- for '98 because there was no account at that
23 point in time, yes. There is an account that we use now.
24 We have been using it for '99.

25 Q There is a national trial balance control account

1 for permit imprint Parcel Post now?

2 A Yes, we created one to get out of this problem
3 here, as I have mentioned at the bottom here. We had plans
4 at the time that were made to -- we had plans at the time to
5 develop the account. We have -- we went ahead and developed
6 that account.

7 We felt it was important enough to --

8 Q Okay --

9 A -- to get out of the temporary procedure that we
10 used to bump up the raw data was only for that interim
11 period until such account was created, and once the account
12 was created we used that.

13 Q Mr. Hunter, when did you generate Tables 1 through
14 3 that are attached to your testimony? When in time.

15 A I don't recall when it was. I can give you --

16 Q Well, let me ask it this way, did you do it before
17 you developed your FY 1999 information, bulk RPW estimates?

18 A Well, FY 1999 data is not used in an way, shape --
19 the information is not in any way, shape or form to develop
20 the '98, which has already passed. These numbers had
21 already been developed.

22 Q I understand that, I was asking you that.

23 A Oh, I am sorry.

24 Q Did you generate your Tables 1 through 3 for
25 fiscal year 1998 that are attached to your testimony prior

1 to developing your bulk RPW estimates for fiscal year 1999?

2 A If you would like me to work out the dates here, I
3 will go through that. I really don't know, that is not a
4 factor that I would have considered to develop these
5 estimates, I mean these tables for my 1999 testimony.
6 Whether or not I had produced any 1999 or 2000, or -- well,
7 that is impossible, but other periods of data, that has no
8 bearing on my tables here. But if you would like me to go
9 through the date process here, I will be happy to do that.

10 Q Well, can you do that, is that something that is
11 easy for you to do here?

12 A This time of night, I will try. I am not exactly
13 sure when the when the FY '99 data would have been produced
14 after --

15 Q Let me try it this way, Mr. Hunter.

16 A Okay.

17 Q It may save some time. Did you change your
18 program in any way after you produced your FY 1998 results
19 in order to make use of it in FY 1999?

20 A We make continual -- we continually make changes
21 to our programs as we -- as any system should be allowed to
22 do, in terms of locating mistakes, things like this. Any
23 corrections that have to be made would be made at any point
24 in time. We wouldn't necessarily wait till '99, we would do
25 it generally as soon we uncover an error or a mistake, or

1 something.

2 There are changes made to rate files, some of
3 these master rate files that I use. If I have to make a
4 change, I will make the change. I don't wait for any
5 particular set of estimates to be produced before it is
6 done. It is basically done as soon we notice it, or as soon
7 as we do a review process, where we go back and we review
8 our data for a prior period of time, in the normal course of
9 duties, just to see how we are doing and see if we have done
10 everything correctly.

11 Q Do you know what data verification checks are done
12 on the PERMIT system database?

13 A The only information I have on those are in the
14 interrogatory responses that you have asked. The PERMIT
15 system is outside of my areas of expertise again.

16 Q So, --

17 A Can I say it? Yeah.

18 Q Okay. So, if I were to ask you some information
19 about the nature of the data checks that you refer to in
20 your interrogatory answer, you wouldn't be able to answer
21 what those data checks are, or you would?

22 A Everything you have asked me, I have had to seek
23 help with. It is just -- it is an area that is not my,
24 again, it is not my expertise. I know nothing about it. I
25 didn't mind answering your questions on it, but it is --

1 Q But you got that information in the interrogatory
2 answer from others?

3 A From other officials that I -- as needed, yes, I
4 did.

5 Q Okay. Mr. Hunter, could you turn to your response
6 to Interrogatory 20, please?

7 A I have it.

8 Q There we ask you about the process by which the
9 Postal Service verifies that the information on a postage
10 statement that is provided by the mailer actually reflects
11 the mail that is given to the Postal Service. Now, you
12 prefixed your answer by stating that it is based on your
13 understanding of discussions with other postal officials,
14 and then you provided, in the Library Reference, the
15 Business Mail Acceptance Handbook, or Handbook DM 109. The
16 handbook that you provided is the January 2000 edition, is
17 that correct?

18 A I can't comment on that, I don't have that
19 particular Library Reference with me, but I was given this
20 information and it seemed like you were after presorted
21 verification type information, and maybe we could -- I could
22 head off a little bit of this by giving you basically what
23 we understand are most of the procedures that are used
24 there.

25 Q Okay. Am I correct that a mailer uses a mailing

1 statement only when he has an identical weight mailing, all
2 the piece are of the same weight?

3 A I don't know that to be true at all.

4 Q You don't know that to be true.

5 MR. MCKEEVER: Mr. Chairman, that is all I have
6 that does not deal with protected information, and I do have
7 some questions that does deal with individual records in Mr.
8 Hunter's database.

9 CHAIRMAN GLEIMAN: Do you have a guess as to how
10 long you are going to go with protected materials?

11 MR. MCKEEVER: Well, I think I can probably
12 shorten it in light of some of the discussions we had about
13 e-flags. I would say about a half an hour.

14 CHAIRMAN GLEIMAN: Okay. How about we take a 10
15 minute break? Stretch, do whatever else, and we will come
16 back in here and see if we can wrap it up.

17 When we come back, I am going to ask that anyone
18 who has not signed -- anyone who is not from the Postal
19 Service and has not signed a certification for the protect
20 materials, materials that were filed under seal, not return
21 to the room. And I am also going to ask the people in the
22 room to identify themselves for the record, lest there be
23 any question that there is someone in here who has not
24 signed a certification.

25 So, with that, we will come back in 10 minutes and

1 finish up.

2 [Recess.]

3 CHAIRMAN GLEIMAN: Let's go back on the record
4 now. We are still in open session, and we are going to move
5 to redirect. There were no follow-up questions and there
6 were no questions from the bench. We are going to move to
7 redirect now on Mr. McKeever's cross-examination of Witness
8 Hunter.

9 Mr. Hollies, whenever you are ready.

10 MR. HOLLIES: Yes, I have one question.

11 REDIRECT EXAMINATION

12 BY MR. HOLLIES:

13 Q Mr. Hunter, you were asked by Ms. Rush earlier
14 about whether any of the offices that had no periodicals
15 revenue in the 96 panel could in any way find their way into
16 the results that you have provided. Is there any way that
17 they could get in?

18 A Yes, there is one way. An office, for the first
19 time would become automated under the PERMIT system. During
20 -- in between, and in this case here we are talking about a
21 two year period between the time the panel was updated and
22 for the base year here, new permit offices that had joined
23 in that interim would indeed be reflected in the panel, and
24 there were several of those. And to the extent that they
25 had periodicals mail, that would be taken into -- included

1 in the panel.

2 Then this is in addition to the AIC control that
3 we use, and the other measure which was -- the third measure
4 was that we update our panels periodically. So there is not
5 just two ways that we protect our data for periodicals
6 in-county, but this is a third way.

7 MR. HOLLIES: Thank you. That is my only
8 question.

9 CHAIRMAN GLEIMAN: That being the case, we are
10 going to move to a closed session for cross examination on
11 material that was filed under seal.

12 Anyone who is in the room now who is not a Postal
13 Service employee, and I am going to assume that Postal
14 Service employees who are in the room are all authorized to
15 be here for discussions of the material that was filed under
16 seal, any other parties in the room who have not signed a
17 certification, I am going to ask them to leave at this
18 point.

19 [Whereupon, at 9:21 p.m., the hearing proceeded in
20 In Camera session.]

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