

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 13,
QUESTIONS 1 AND 2

The United States Postal Service hereby provides responses to questions 1 and 2 of Presiding Officer's Information Request No. 13. Each question is stated verbatim and is followed by the response. A declaration from the witness is also included.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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June 8, 2000

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 13**

1. In his March 20, 2000 speech "Breaking Through to a New Golden Age of Mail" Postmaster General Henderson announced a plan to reduce expenses by at least 4 billion dollars between the year 2000 and the year 2004. He specified that overhead costs will be reduced by about \$100 million a year. An additional \$100 million a year is to come from reducing transportation costs. More efficient paperwork and purchasing will reduce costs by \$100 million a year. Finally, \$700 million a year will come from improved productivity in mail processing. To what extent are the reductions in expenses announced by the Postmaster General already incorporated in rate case projections?

- a. Please identify interim year (FY 2000) reductions in expenses, by segment and component, related to savings in overhead; transportation; more efficient paperwork and purchasing; and mail processing.
- b. To the extent that the reductions in expenses identified by Postmaster General Henderson for 2000 are not included in the rate case forecast, please set out by segment and component the additional reductions in expenses planned for each of these four areas that will allow the Postal Service to achieve the target set by the Postmaster General.
- c. Please identify test year (FY 2001) reductions in expenses, by segment and component, related to savings in overhead; transportation; more efficient paperwork and purchasing; and mail processing.
- d. To the extent that the reductions in expenses identified by Postmaster General Henderson for 2001 are not included in the rate case forecast, please set out by segment and component the additional reductions in expenses planned for each of these four areas that will allow the Postal Service to achieve the target set by the Postmaster General.

RESPONSE:

Please refer to the response to the Postal Service's response to interrogatory OCA/USPS-99. As stated in that response, some of the cost reductions programs reflected in FY 2000, such as local management initiatives, absorb inflation, and transportation cost reductions, would be considered part of the "affordability challenge." Additionally, some of the cost reductions reflected in the test year (FY 2001) are early estimates of "the affordability challenge" or breakthrough productivity savings.

It should be noted that total test year savings for breakthrough productivity is about \$550 million, rather the \$1 billion specified in the question. The Postal Service's revenue requirement includes about \$181 million in test year cost reductions that are

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considered breakthrough productivity. Further cost savings opportunities are currently under consideration for inclusion in the FY 2001 Operating Budget. However, the 2001 Budget has not been finalized.

The Postal Service expects to better define the breakthrough productivity savings during its ongoing budget development. We will incorporate available information relating to these savings as part of the Postal Service's test year update in response to Commission Order No. 1294. Additionally, a schedule pertaining to the availability of the breakthrough productivity information requested Commissioner Goldway during my oral cross-examination will also be provided in the update.

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2. In the response to Presiding Officer's Information Request No. 9, Question 1, it is reported that Postal Service Total Factor Productivity improved in FY 2000, quarters 1 and 2, by 1.7%, and 2.7% respectively. Please identify, by segment and component, the extent to which savings resulting from these productivity gains were included in the interim year (FY 2000) cost projections.

RESPONSE:

The calculation of Total Factor Productivity does not result in cost savings by cost segment and component. However, a reasonable frame of reference can be obtained from the FY 2000 cost reduction estimates. Please refer to the response to ABA&NAPM/USPS-6. As stated in that response, the Total Factor Productivity implicit in the rate filing for FY 2000 is 3.0%. Year-to-date total volume and revenue are tracking well with the rate case forecast for FY 2000. Accordingly, the actual cost reduction savings being realized for FY 2000 are probably somewhat less than the savings reflected in the filing for FY 2000 by cost segment and component.

DECLARATION

I, William P. Tayman, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

William P. Tayman

Dated: 6/8/00

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.



Scott L. Reiter

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