

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

RECEIVED

JUN 15 4 35 PM '00

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Docket No. R2000-1

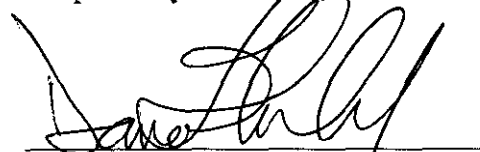
POSTAL RATE AND FEE CHANGES, 2000

**RESPONSES OF THE DIRECT MARKET ASSOCIATION, INC.
WITNESS BUC TO INTERROGATORIES OF THE
UNITED STATES POSTAL SERVICE
(USPS/DMA-T1-1-12)**

The Direct Marketing Association, Inc. hereby provides responses of witness
Buc to the following interrogatories of the United States Postal Service (USPS/DMA-T1-1-
12).

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

Respectfully submitted,

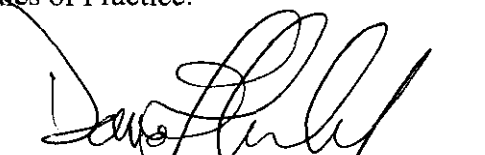


Dana T. Ackerly II, Esq.
COVINGTON & BURLING
1201 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-2401
(202) 662-5296

Counsel for the Direct Marketing
Association, Inc.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in
accordance with Section 12 of the Commission's Rules of Practice.



Dana T. Ackerly II

Dated: June 15, 2000

**RESPONSE OF WITNESS BUC TO INTERROGATORIES OF
OFFICE OF THE UNITED STATES POSTAL SERVICE**

USPS/DMA-T1-1. Please confirm that over the course of almost 30 years of ratemaking under the Postal Reorganization Act, the Postal Rate Commission has accepted the level of all but one of the Postal Service's contingency amounts. If you do not confirm, please explain fully.

Response

Confirmed.

**RESPONSE OF WITNESS BUC TO INTERROGATORIES OF
OFFICE OF THE UNITED STATES POSTAL SERVICE**

USPS/DMA-T1-2. On page 2, line 27, of your testimony, you state that “witness Tayman provides little support for a contingency of 2.5 percent and that this request is neither reasoned nor reasonable given the Commission’s past decisions.”

- (a) With reference to past contingency amounts proposed by the Postal Service and accepted by the Commission, please explain which ones were reasoned and which ones were not reasoned and why.
- (b) For any previous contingency amounts considered by you to be reasoned, please explain how the support provided by the Postal Service for such contingency amounts differs from the support provided for the contingency in this docket which you say is not reasoned.

Response

(a) Please note that I have read only the Commission’s Decisions and the Postal Service’s requests in omnibus rate cases from R76-1 through R97-1. I do not believe the Postal Service has ever employed in its requests for contingencies the framework the Commission has outlined in its decisions. Thus, I do not believe that any of the requests is reasoned.

(b) Not applicable.

**RESPONSE OF WITNESS BUC TO INTERROGATORIES OF
OFFICE OF THE UNITED STATES POSTAL SERVICE**

USPS/DMA-T1-3. Please refer to USPS-T-15, Direct Testimony of Charles Holder in Docket No. R90-1.

- (a) Please confirm that six potential uncertainties are listed on page 11: potential adverse impacts from 3 legislative proposals, a possible change in accounting standards, the outcome of a labor arbitration, and the possibility that inflation could be greater than projected. Please also confirm that these uncertainties are reiterated on pages 47 and 48, along with an additional uncertainty related to interest rates. If you do not confirm, please explain fully.
- (b) Do you consider the support provided for the contingency in USPS-T-15, Direct Testimony of Charles Holder in Docket No. R90-1 to be reasoned? If your answer is other than yes please explain why.

Response

(a) Confirmed that Charles Holder lists six uncertainties on page 11. Not confirmed that Holder lists these same uncertainties on pages 47 and 48. He does not list on these pages (1) an administration proposal to require creation of a new set of subclasses for Government mail or (2) the labor arbitration. Confirmed that he does add interest rate uncertainty on page 48.

(b) Please see my response to USPS/DMA-T1-2 above.

**RESPONSE OF WITNESS BUC TO INTERROGATORIES OF
OFFICE OF THE UNITED STATES POSTAL SERVICE**

USPS/DMA-T1-4. Please refer to Table 3 on page 15 of your testimony. Please confirm that projected FY 2000 equity is negative. If you do not confirm, please explain.

Response

Table 3 of my testimony does not contain an entry showing USPS projected equity for FY 2000.

**RESPONSE OF WITNESS BUC TO INTERROGATORIES OF
OFFICE OF THE UNITED STATES POSTAL SERVICE**

USPS/DMA-T1-5. Please refer to the table below and to Table 3 at page 15 of your testimony:

DOCKET NO.	USPS CONTINGENCY	PRC CONTINGENCY	EQUITY AT END OF YEAR BEFORE FILING (\$000)
R84-1	3.5%	3.5%	112,000
R87-1	3.5%	3.5%	362,000
R90-1	3.5%	3.5%	-402,000

Sources: USPS-T-9; PRC Op., R84-1, R87-1, and R90-1, App. A.

Please confirm that equity was more favorable in all three of the years prior to the filing of Docket Nos. R84-1, R87-1, and R90-1 than equity was in the year prior to filing the current case. If you do not confirm, please provide the correct data and your source.

Response

Confirmed. However, please note that the Postal Service has continued to carry equity at book value rather than market value. As witness Tayman confirmed on April 19, 2000 in response to DMA/USPS-T9-58, the appraised value of Postal Service headquarters is \$76.8 million. It is carried on the books at a very small fraction of that amount. I suspect that if the Postal Service rationally managed its real estate by selling real estate in selected high value areas and relocating some operations, it could not only restore equity to a positive value, but also eliminate the need for prior year losses as a component of the revenue requirement.

**RESPONSE OF WITNESS BUC TO INTERROGATORIES OF
OFFICE OF THE UNITED STATES POSTAL SERVICE**

USPS/DMA-T1-6. Please refer to page 15, lines 24 and 25, of your testimony where you state that “if projected inflation is high, there is a greater need for a contingency since the future is less certain.” Please define high inflation as you have used the term.

Response

I do not mean to imply that there is a bright line between “high inflation” and “low inflation” or that either term has a precise, objective definition. Historically, double-digit annual inflation rates have been considered “high,” while inflation rates of two, three, and four percent have been considered low.

**RESPONSE OF WITNESS BUC TO INTERROGATORIES OF
OFFICE OF THE UNITED STATES POSTAL SERVICE**

USPS/DMA-T1-7. Please refer to Table 4 on page 16 of your testimony. Please confirm that the ECI forecast for Docket No. R2000-1 is higher than the forecast for both the previous two test year forecasts. If you do not confirm please explain.

Response

Confirmed as indicated on page 16 of my testimony where I state, "The CPI-W estimate for the Test Year is lower in this case than it was in the previous two cases although the ECI estimate is higher."

**RESPONSE OF WITNESS BUC TO INTERROGATORIES OF
OFFICE OF THE UNITED STATES POSTAL SERVICE**

USPS/DMA-T1-8. Please refer to page 16 lines 3 through 6 of your testimony where you state that “the CPI-W is an important measure of inflation because changes in it trigger changes in craft cost of living adjustments: the ECI may be important if projections of increases lead to higher wage demands from crafts whose contracts are expiring.” Please also refer to USPS-9Q, page 3 of 3.

- (a) Please confirm that new COLAs effective in the test year are only reflected for city carriers and amount to only \$32 million and that pay costs for other bargaining unit crafts are much greater than \$32 million. If you do not confirm, please provide explain fully and provide the COLA amounts you assume to be effective in the test year for other employee groups and provide your sources.
- (b) Please refer to USPS-T-9, page 19, and confirm that the ECI was used to estimate wage changes in the test year for all bargaining units except city carriers. If you do not confirm, please explain why.
- (c) Please refer to LR-I-127, Chapter 1, pages 8 and 9, and Chapter 12, page 644. Please confirm that the WPI was applied only to cost components 168, 169, and 171. If you do not confirm please provide the components to which the WPI was applied and provide documentation. Please confirm that the test year cost level changes applicable to components 168, 169, and 171 is only \$1.628 million.

(a) Confirmed.

(b) Confirmed.

(c) Confirmed.

**RESPONSE OF WITNESS BUC TO INTERROGATORIES OF
OFFICE OF THE UNITED STATES POSTAL SERVICE**

USPS/DMA-T1-9. Please refer to Table 4 in your testimony.

- (a) Please confirm that the only information you have provided related to the state of the economy is reflected in Table 4 in you testimony. If you do not confirm please provide all other information you have provided to document the state of the economy and provide all sources.
- (b) Is it your testimony that the indices reflected in your Table 4 provide a comprehensive view of the state of the economy? If your answer is other than yes, please explain fully what other factors should be considered in understanding the state of the economy.

Response

(a) Confirmed.

(b) It is not my testimony that Table 4 provides a comprehensive view of the state of the economy. At a high level, economists often characterize the state of the economy as a function of two factors: inflation and unemployment. While the CPI-W, the ECI, and the WPI all provide measures of inflation, they do not provide a measure of unemployment.

Unemployment rates can be found on the web site of the Bureau of Labor Statistics. The series LFS21000000 shows unemployment rates for the civilian labor force, ages 16 and older. I have attached the series to this interrogatory response. In general, the data show that unemployment rates are lower now – around four percent – than they have been since the late 1960s. In particular, they are lower now than when the Postal Service filed its last two requests and far lower than when the Postal Service filed its requests in all the cases from R77-1 to R90-1.

The current state of our economy is very good. In fact, Chapter 1 of this year's Economic Report of the President begins, "The policy strategy of maintaining fiscal discipline, investing in people and technologies, and opening international markets has borne rich fruit, allowing the nation to exploit new opportunities and reap the benefits of major scientific and technical advances. The results have been a 20-million-job increase in payroll employment since January 1993, the lowest unemployment rate since 1969, the lowest core inflation rate since 1965, the lowest poverty rate since 1979, rising productivity, significant gains all across the income distribution, and a Federal budget surplus for 2 years in a row after nearly three decades of deficits. The current economic expansion, already the longest peacetime expansion on record, is on the threshold of becoming the longest ever."

Bureau of Labor Statistics Data

Data extracted on: June 15, 2000 (09:21 AM)

Labor Force Statistics from the Current Population Survey

Series Catalog:

Series ID : LFS21000000

Seasonally Adjusted

Series Title : UNEMP. RATE - Civilian labor force

Age : 16 Years And Older (null)

Class of Worker : N/A

Ethnicity Origin : N/a

Industry : N/A

Occupation : N/a

Race : N/a

Sex : N/a

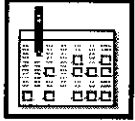
Status : Civilian Labor Force (Null)

Data:

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ann
1948	3.4	3.8	4.0	3.9	3.5	3.6	3.6	3.9	3.8	3.7	3.8	4.0	n/a
1949	4.3	4.7	5.0	5.3	6.1	6.2	6.7	6.8	6.6	7.9	6.4	6.6	n/a
1950	6.5	6.4	6.3	5.8	5.5	5.4	5.0	4.5	4.4	4.2	4.2	4.3	n/a
1951	3.7	3.4	3.4	3.1	3.0	3.2	3.1	3.1	3.3	3.5	3.5	3.1	n/a
1952	3.2	3.1	2.9	2.9	3.0	3.0	3.2	3.4	3.1	3.0	2.8	2.7	n/a
1953	2.9	2.6	2.6	2.7	2.5	2.5	2.6	2.7	2.9	3.1	3.5	4.5	n/a
1954	4.9	5.2	5.7	5.9	5.9	5.6	5.8	6.0	6.1	5.7	5.3	5.0	n/a
1955	4.9	4.7	4.6	4.7	4.3	4.2	4.0	4.2	4.1	4.3	4.2	4.2	n/a
1956	4.0	3.9	4.2	4.0	4.3	4.3	4.4	4.1	3.9	3.9	4.3	4.2	n/a
1957	4.2	3.9	3.7	3.9	4.1	4.3	4.2	4.1	4.4	4.5	5.1	5.2	n/a
1958	5.8	6.4	6.7	7.4	7.4	7.3	7.5	7.4	7.1	6.7	6.2	6.2	n/a
1959	6.0	5.9	5.6	5.2	5.1	5.0	5.1	5.2	5.5	5.7	5.8	5.3	n/a
1960	5.2	4.8	5.4	5.2	5.1	5.4	5.5	5.6	5.5	6.1	6.1	6.6	n/a
1961	6.6	6.9	6.9	7.0	7.1	6.9	7.0	6.6	6.7	6.5	6.1	6.0	n/a
1962	5.8	5.5	5.6	5.6	5.5	5.5	5.4	5.7	5.6	5.4	5.7	5.5	n/a

1963	5.7	5.9	5.7	5.7	5.9	5.6	5.6	5.4	5.5	5.5	5.7	5.5	n/a
1964	5.6	5.4	5.4	5.3	5.1	5.2	4.9	5.0	5.1	5.1	4.8	5.0	n/a
1965	4.9	5.1	4.7	4.8	4.6	4.6	4.4	4.4	4.3	4.2	4.1	4.0	n/a
1966	4.0	3.8	3.8	3.8	3.9	3.8	3.8	3.8	3.7	3.7	3.6	3.8	n/a
1967	3.9	3.8	3.8	3.8	3.8	3.9	3.8	3.8	3.8	4.0	3.9	3.8	n/a
1968	3.7	3.8	3.7	3.5	3.5	3.7	3.7	3.5	3.4	3.4	3.4	3.4	n/a
1969	3.4	3.4	3.4	3.4	3.4	3.5	3.5	3.5	3.7	3.7	3.5	3.5	n/a
1970	3.9	4.2	4.4	4.6	4.8	4.9	5.0	5.1	5.4	5.5	5.9	6.1	n/a
1971	5.9	5.9	6.0	5.9	5.9	5.9	6.0	6.1	6.0	5.8	6.0	6.0	n/a
1972	5.8	5.7	5.8	5.7	5.7	5.7	5.6	5.6	5.5	5.6	5.3	5.2	n/a
1973	4.9	5.0	4.9	5.0	4.9	4.9	4.8	4.8	4.8	4.6	4.8	4.9	n/a
1974	5.1	5.2	5.1	5.1	5.1	5.4	5.5	5.5	5.9	6.0	6.6	7.2	n/a
1975	8.1	8.1	8.6	8.8	9.0	8.8	8.6	8.4	8.4	8.4	8.3	8.2	n/a
1976	7.9	7.7	7.6	7.7	7.4	7.6	7.8	7.8	7.6	7.7	7.8	7.8	n/a
1977	7.5	7.6	7.4	7.2	7.0	7.2	6.9	7.0	6.8	6.8	6.8	6.4	n/a
1978	6.4	6.3	6.3	6.1	6.0	5.9	6.2	5.9	6.0	5.8	5.9	6.0	n/a
1979	5.9	5.9	5.8	5.8	5.6	5.7	5.7	6.0	5.9	6.0	5.9	6.0	n/a
1980	6.3	6.3	6.3	6.9	7.5	7.6	7.8	7.7	7.5	7.5	7.5	7.2	n/a
1981	7.5	7.4	7.4	7.2	7.5	7.5	7.2	7.4	7.6	7.9	8.3	8.5	n/a
1982	8.6	8.9	9.0	9.3	9.4	9.6	9.8	9.8	10.1	10.4	10.8	10.8	n/a
1983	10.4	10.4	10.3	10.2	10.1	10.1	9.4	9.5	9.2	8.8	8.5	8.3	n/a
1984	8.0	7.8	7.8	7.7	7.4	7.2	7.5	7.5	7.3	7.4	7.2	7.3	n/a
1985	7.3	7.2	7.2	7.3	7.2	7.4	7.4	7.1	7.1	7.1	7.0	7.0	n/a
1986	6.7	7.2	7.2	7.1	7.2	7.2	7.0	6.9	7.0	7.0	6.9	6.6	n/a
1987	6.6	6.6	6.6	6.3	6.3	6.2	6.1	6.0	5.9	6.0	5.8	5.7	n/a
1988	5.7	5.7	5.7	5.4	5.6	5.4	5.4	5.6	5.4	5.4	5.3	5.3	n/a
1989	5.4	5.2	5.0	5.2	5.2	5.3	5.2	5.2	5.3	5.3	5.4	5.4	n/a
1990	5.4	5.3	5.2	5.4	5.4	5.2	5.5	5.7	5.9	5.9	6.2	6.3	n/a
1991	6.4	6.6	6.8	6.7	6.9	6.9	6.8	6.9	6.9	7.0	7.0	7.3	n/a
1992	7.3	7.4	7.4	7.4	7.6	7.8	7.7	7.6	7.6	7.3	7.4	7.4	n/a
1993	7.3	7.1	7.0	7.1	7.1	7.0	6.9	6.8	6.7	6.8	6.6	6.5	n/a
1994	6.6	6.6	6.5	6.4	6.1	6.1	6.1	6.0	5.9	5.8	5.6	5.5	n/a
1995	5.6	5.4	5.4	5.8	5.6	5.6	5.7	5.7	5.6	5.5	5.6	5.6	n/a
1996	5.7	5.5	5.5	5.5	5.6	5.3	5.5	5.1	5.2	5.2	5.4	5.4	n/a

1997	5.3	5.3	5.2	5.0	4.9	5.0	4.8	4.8	4.9	4.7	4.6	4.7
1998	4.7	4.6	4.7	4.3	4.4	4.5	4.5	4.5	4.5	4.5	4.4	4.4
1999	4.3	4.4	4.2	4.3	4.2	4.3	4.3	4.2	4.2	4.1	4.1	4.1
2000	4.0	4.1	4.1	3.9	4.1							



[Labor Force Statistics from the Current Population Survey Home Page](#)



[Data Home Page](#)



[BLS Home Page](#)

Bureau of Labor Statistics
cpsinfo@bls.gov

**RESPONSE OF WITNESS BUC TO INTERROGATORIES OF
OFFICE OF THE UNITED STATES POSTAL SERVICE**

USPS/DMA-T1-10. Refer to Exhibit USPS-9J, page 1 of 8. Please confirm that actual FY 98 supervisor personnel costs of \$3.512 billion were within 0.1% of the original Postal Service estimate of \$3.515. If you do not confirm, please explain and provide the correct amount and your source.

Response

Confirmed.

**RESPONSE OF WITNESS BUC TO INTERROGATORIES OF
OFFICE OF THE UNITED STATES POSTAL SERVICE**

USPS/DMA-T1-11. Please refer to Appendix C of the PRC Docket No. R97-1 Opinion and Recommended Decision.

- (a) Please confirm that the amount recommended by the Commission for test year (FY 98) supervisor costs was \$3.420 billion or \$95 million less than estimated by the Postal Service.
- (b) Please confirm that the Commission reduced the Postal Service's test year estimate by \$101 million to correct an alleged flaw in the rollforward model related to the calculation of supervisor costs. If you do not confirm, please explain and provide the correct amount and your source.
- (c) Please confirm that had the Commission not made this adjustment, its recommended amount would have been \$3.521 billion or only \$9 million and 0.3% more than the actual cost.

Response

(a) Confirmed that the amount that the Commission recommended rounds to \$3.420 billion. Not confirmed that this is \$95 million less than the amount requested by the Postal Service.

(b) Confirmed that the Commission reduced the Postal Service's Test Year estimate by \$101.294 million. Opinion and Recommended Decision, Docket No. R97-1, Appendix C, page 2 of 2. I can not say whether the Commission thought it was correcting an alleged flaw or an actual flaw. In its Opinion and Recommended Decision, it did say, "The Service seems to have no explanation for its failure to make a corresponding adjustment to supervisors' work hours when craft employee work hours are reduced." P 62.

(c) Confirmed that if it had not made this adjustment it would have recommended \$101 million more, or \$3.521 billion.

**RESPONSE OF WITNESS BUC TO INTERROGATORIES OF
OFFICE OF THE UNITED STATES POSTAL SERVICE**

USPS/DMA-T1-12. On page 18 of your testimony, you quote the following section from the Summary Description of USPS Development of Costs by Segments and Components, Fiscal Year 1998, USPS LR-I-1, at 2-2. "Mail processing supervisors have a span of control that is essentially constant in a given work organization structure. It is recognized that a change in employees workhours, caused by a change in mail volume, may not be accompanied immediately by a corresponding change in first line supervisory workhours."

- (a) Please confirm that the section quoted specifies two conditions that must exist concurrently in order for supervisor workhours to change in direct relation to supervised craft workhours: the "organization structure" is constant, and the change in employee workhours is caused by a "change in mail volume..." If you do not confirm, please explain.
- (b) Please confirm that your testimony on page 18, in citing the section above in support of your position, implies your belief that changes in workhours due to cost reductions and other programs are due to changes in mail volume. If you do not confirm, please explain.
- (c) Please confirm that your testimony on page 18, in citing the section above in support of your position, implies your belief that cost reductions and other programs, including those have significant changes in processing methodologies and equipment, would not produce changes in the "organizational structure" in the mail processing plant environment. If you do not confirm, please explain.

(a) Not confirmed. I interpret the section I quoted to mean that organizational constancy and mail volume changes is one condition under which supervisory labor will change, but not the only condition.

(b) Not confirmed. I believe that absent a change in organizational structure, changes in mail volume and increased efficiency from cost reduction programs will induce similar changes in supervisors. Anything that results in reductions in craft labor, *ceteris paribus*, will result in reductions in supervisory labor.

(c) Not confirmed. Because the Postal Service did not present testimony that there would be changes in organizational structure in the mail processing environment, I did not consider the ramifications of any such changes.

DECLARATION

I, Lawrence G. Buc, declare under penalty of perjury that the answers to interrogatories USPS/DMA-T1-1-12 of the United States Postal Service are true and correct, to the best of my knowledge, information and belief.

Executed June 15, 2000

Lawrence G Buc