

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. 14,  
ITEMS 1 AND 2

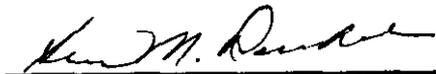
The United States Postal Service hereby provides responses to Items 1 and 2 of Presiding Officer's Information Request No. 14. Each item is stated verbatim and is followed by the response. A declaration from the witness is also included.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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July 12, 2000

Response of United States Postal Service Witness Patelunas  
To  
Presiding Officer's Information Request No. 14

POIR 14.

1. In the general response to OCA/USPS-99 the Postal Service referred to the proposed cost reductions as the "affordability challenge" addressed by the PMG in his speech. The Service also noted that the study, referred to as a 'Transactions Survey', is a work in progress and that the full survey "...including development of an implementation plan will not be completed until the December 2000/January 2001 time frame." Additionally, the response to part b of OCA/USPS-99 says, "...the specific overhead savings have not yet been identified. Accordingly, they are not incorporated in the interim years or the test year."

However, the Service noted that there are various cost reductions in FY 2000, such as "local management initiatives" and "absorb inflation", which would be part of the PMG's "affordability challenge". The cost reductions identified as "Local Management Initiatives (LMIs) and "absorb inflation" are detailed in USPS LR-I-126. The library reference describes LMIs as "...the amount of expenses the organization needs to cut to achieve its targeted net income goals." The LMI cost reductions affect cost segment 2, supervisors, cost segment 3, clerks & mailhandlers, CAG A-J, cost segments 6 & 7, city delivery carriers, and cost segment 11, custodial maintenance. LR-I-126, Exhibit E. The absorb inflation costs reductions are described as "...management initiative to reduce costs in various supplies and services areas. These cost reductions affect cost segment 12, motor vehicle service, cost segment 16, supplies and services, and cost segment 18, administrative and regional operations. LR-I-126, Exhibit B. There are additional cost reductions for cost segment 14, transportation. LR-I-126, Exhibit E.

Please provide a definite response concerning whether or not the specific LMI and "absorb inflation" cost reductions above are included in the cost reductions referred to in the PMG's speech. If they are, please provide a table showing what portion of the "overhead reductions," "more efficient paperwork and purchasing," and "transportation costs" reductions are accounted for by the items specified above?

**Response**

1. When addressing the affordability challenge in his speech, the PMG referred to cost reductions prior to FY 2001, as well as cost reductions beginning in FY 2001. Thus, as stated in the response to OCA/USPS-99(b), the LMI and "absorb inflation"

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**Response continued**

cost reductions are included in the cost reductions referred to in the PMG's speech. As identified in USPS-LR-I-126, the LMI and "absorb inflation" cost reductions are included in estimates for FY 2000. As indicated in the PMG's speech, only the cost reductions beginning in FY 2001 and after are categorized as "overhead reductions," "more efficient paperwork and purchasing," and "transportation costs" reductions. As such, the "overhead reductions," "more efficient paperwork and purchasing," and "transportation costs" reductions are not accounted for in the FY 2000 LMI and "absorb inflation" cost reductions.

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2. In response to POIR 13, Postal Service witness Tayman refers to the Postal Service response to OCA/USPS-99 and reiterates that the FY 2000 cost reductions noted above would be part of the "affordability challenge". He also said, "...some of the cost reductions reflected in the test year (FY 2001) are early estimates of "the affordability challenge" or breakthrough productivity savings." He goes on to say "...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 the test year cost reductions that are considered breakthrough productivity."

The Postmaster General in his speech says "...some \$700 million a year –will come from dramatic, breakthrough productivity in our processing system. He defines breakthrough productivity to be "...reducing costs through everything from machine utilization, to standardized processes, to staffing and scheduling, and to resource management. ...Tracking mail throughout the system...benchmarking, measuring performance, and understanding the costs of every activity. ...Managing our capital investments in line with changes in our volume patterns, our need to create new products and channels, and investing in the next generation of automation for flats and parcels to offset the cost of labor."

- a. Please provide the type of savings the \$550 million, referred to by witness Tayman, represents, the cost segments affected, and where in LR-I-126 the savings are reflected. If the savings are not reflected in LR-I-126 or the revenue requirement workpapers, LR-I-127, please specify where the savings can be found.
- b. Is witness Tayman's identification of breakthrough productivity savings of \$550 million an indication that the Postmaster General overestimated cost reductions in mail processing by \$150 million? If not, please reconcile the \$700 million in breakthrough productivity cost reductions referred to in the PMG's speech with the \$550 million referred to in witness Tayman's answer to POIR 13, item 1.
- c. Witness Tayman refers to cost reductions in the test year revenue requirement amounting to \$181 million that are considered to be breakthrough productivity savings. Please specify which cost reductions in the test year he is referring to.

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- d. Witness Tayman has reduced the breakthrough productivity savings from \$700 million mentioned in the PMG's speech to \$550 million in the test year in his answer to POIR 13. He also says in that answer that there are \$181 million of breakthrough productivity savings in the test year revenue requirement. Does this mean that there are \$369 million (\$550 million less \$181 million) or \$519 million (\$700 million less \$181 million) in test year cost reductions that are not now reflected in the test year revenue requirement? If so, what cost segments will the additional cost reductions affect? Please provide as specific a description as possible of the types of cost reductions that are likely to make up the additional savings in a format similar to LR-I-126.
- e. Can the Commission conclude that test year processing costs will be reduced by either \$369 or \$519 million?

**Response**

2.

- a. Attachment I that accompanies this response provides the type of savings and the cost segments affected by the Breakthrough Productivity Initiative. The Attachment displays the amounts referred to in the PMG's speech, the amounts described in the response to POIR No. 13, and the amounts reflected in the update filed in response to Order No. 1294, on July 7, 2000. The total amount of savings included in the Postal Service's request was \$188 million and can be found in USPS-LR-I-126, Exhibit E. I believe the \$188 million is a better estimate than the \$ 181 million referenced in the response to POIR No. 13, Item 1.
- b. Please refer to Attachment I. The amounts from the PMG's speech represented an aggressive challenge to the organization rather than a blueprint for specific cost savings. In his speech, the PMG instructed his

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**Response continued:**

team to "launch additional initiatives" to reduce future expenses. During the FY 2001 budget development process, cost savings programs were identified, negotiated and accepted. As a result, the cost savings amounts in the proposed FY 2001 budget are reflected in the update filed July 7, 2000 and are also shown in Attachment I.

- c. See the response to Part 1(a) of this question and Attachment I.
- d. Please see Attachment I for a crosswalk between the Breakthrough Productivity Initiatives in the PMG's speech, the response to POIR No. 13 and the July 7, 2000 update. Please see Attachment II to this response for a description of the various cost reductions in a format similar to USPS-LR-I-126.
- e. No, please see Attachment I.

Response to POIR 14.  
Attachment I

| Segment               | Component | Program   | PMG<br>Speech<br>(\$ millions) | POIR. 13<br>(\$ millions) | Order<br>No. 1294<br>(\$ millions) |
|-----------------------|-----------|---|--------------------------------|---------------------------|------------------------------------|
| <b>Transportation</b> |           |   |                                |                           |                                    |
| 14                    | 143       | Highway Transportaion Initiative                          |                                |                           | 72                                 |
| 14                    | 143       | Trailer Leasing Mgt Program                               |                                |                           | 3                                  |
| 12                    | 99        | Fuel Mgt Program  |                                |                           | 25                                 |
|                       |           | Grand Total Transportation                                | 100                            | 100                       | 100                                |
| <b>Purchasing</b>     |           |   |                                |                           |                                    |
| 16                    | 168       | Telecommunications Sourcing                               |                                |                           | 42                                 |
| 16                    | 174       | ADP Sourcing  |                                |                           | 37                                 |
| 16                    | 184       | Mail Transport Equipment                                  |                                |                           | 6                                  |
| 18                    | 210       | Travel Sourcing   |                                |                           | 15                                 |
|                       |           | Grand Total Purchasing                                    | 100                            | 100                       | 100                                |
| <b>Overhead</b>       |           |   |                                |                           |                                    |
| 16                    | 192       | HQ Personnel workyears                                    |                                |                           | 37                                 |
| 16                    | 177       | Nonpersonnel related to reductions                        |                                |                           | 13                                 |
| 3                     | 253       | Administrative Clerk workyears                            |                                |                           | 28                                 |
|                       |           | Grand Total Overhead                                      | 100                            | 100                       | 78                                 |
| <b>Operations</b>     |           |   |                                |                           |                                    |
| 3                     | 35        | Accelerate FSM Buy to 2001 (included in the Request)      |                                | 37                        | 37                                 |
| 3                     | 35        | Additional AFSM to Upper Bound (included in the Request)  |                                | 53                        | 53                                 |
| 3                     | 35        | Improve Function 4 Productivity (included in the Request) |                                | 31                        | 31                                 |
| 3                     | 35        | Improve FSM (included in the Request)                     |                                | 37                        | 37                                 |
| 7                     | 257       | Improve SEI (included in the Request)                     |                                | 30                        | 30                                 |
| 3                     | 253       | Clerks and Mailhandlers                                   |                                |                           | 23                                 |
| 3                     | 40        | Function 4 Window Improvement                             |                                |                           | 51                                 |
| 3                     | 35        | Improve Automated Letter Productivity                     |                                |                           | 102                                |
| 3                     | 35        | Improve Manual Letter Productivity                        |                                |                           | 9                                  |
| 3                     | 35        | Reduce CFS No Record Volume                               |                                |                           |                                    |
| 6                     | 256       | City Carrier In-Office (Workhour Reduction/LOT & MOU)     |                                |                           | 93                                 |
|                       |           | Other to be Determined 1/                                 |                                | 262                       |                                    |
|                       |           | Grand Total Operations                                    | 700                            | 450                       | 466                                |
|                       |           | Field Reserve 2/  |                                | (200)                     | (200)                              |
|                       |           | Grand Total All Programs                                  | 1,000                          | 550                       | 544                                |

1/ The budget process identified \$278 million as indicated in the Order No. 1294 column  
2/ The Field Reserve recognizes the difficulty in achieving the aggressive cost reductions in FY 2001, the first year of the Breakthrough Productivity Initiative

**USPS-LR-I-126 type Information provided in response to POIR 14.**

**HIGHWAY TRANSPORTATION INITIATIVE** – The Highway Transportation Initiative is a review by the Field of existing transportation to investigate the possibility of consolidating or eliminating specific routes when appropriate. The savings will be calculated against a baseline of highway contract routes as of February 2000 and savings after that date will be included in the Breakthrough Productivity Initiative.

**TRAILER LEASING MANAGEMENT PROGRAM** – The Trailer Leasing Management Program is designed to consolidate and improve the Postal Service's opportunities for trailer leasing purchases. This program will include a reduction in the daily rate, obtained through a free market approach (reverse auction) in awarding trailer leasing contracts.

**FUEL MANAGEMENT PROGRAM** – The Fuel Management Program is designed to purchase fuel at wholesale prices instead of retail prices. Additional savings will be obtained by expanding participation to facilities not that are not currently included. For example, participation will be expanded for obtaining fuel by dispensing fuel through VMF's, HDR contractor terminals and fueling postal vehicles on-site.

**TELECOMMUNICATION SOURCING** -- The Telecommunications Sourcing Initiative team is investigating targets of opportunity for numerous categories of telecommunications spending. For example, data network and services, outbound/inbound voice, local telephone service, and cellular, paging and calling cards are being targeted for savings.

**ADP SOURCING** -- This sourcing initiative is investigating targets of opportunity on the cost of ADP related services. Expenses related to ADP hardware are under examination. For instance, asset recovery/management, reducing configurations, and preload software options are being considered. Software and services are also being examined. For example, initiatives are being considered to integrate with hardware contracts and to revise incentives.

**MAIL TRANSPORT EQUIPMENT** -- Several categories of mail transportation equipment spending have been identified to achieve expense reductions. These include: increasing the supply of rolling stock to decrease the use of corrugated boxes, centralizing the purchasing of corrugated boxes, reducing emergency buys and consolidating suppliers.

**TRAVEL SOURCING** – The Travel Sourcing Initiative team is investigating targets of opportunity on a national level related to any travel expenses. Various categories of travel have been identified to achieve expense reductions. For instance, the Postal Service will negotiate site-specific volume-based discounts for hotels, airlines and auto rentals. Internally, the Postal Service will utilize its systems in conjunction with corporate credit cards to automate expense reporting.

**OVERHEAD (ADMINISTRATIVE)** – The savings in Headquarters, Headquarters-related field units and Administrative Clerk workyears, as well as the nonpersonnel supplies and services associated with those positions, will be achieved by eliminating work, working more efficiently, eliminating duplication, consolidating functions and implementing web-based and/or paperless transactions. The goal is that workload, not just positions, be reduced to achieve savings.

**FUNCTION 4 WINDOW IMPROVEMENT** – The Function 4 Window Improvement program relies on the field to utilize the Function 4 review process to identify potential retail savings. Through the proper use of the review process, workhour usage will be identified and scheduling/staffing adjustments will be made to reduce window hours.

**IMPROVE AUTOMATED LETTER PRODUCTIVITY** – The Automated Letter Productivity program will target opportunities for DBCS, MLOCR and MPBCS improvements in automated letter operations. For instance, the following areas are under review: reducing idle and downtime, scheduling of preventive maintenance, performance management and communication, upgrade equipment and reducing sort plans.

**IMPROVE MANUAL LETTER PRODUCTIVITY** – The Improve Manual Letter Productivity program is examining cost savings by: improved labeling, consolidating operations and reducing the number of cases.

**REDUCE CFS NO RECORD VOLUME** – The Reduce CFS No Record Volume program seeks to decrease the volume of “No Record” mail. “No Record” mail is keyed by CFS, but due to the lack of a valid forwarding order on file, or erroneous address information that prevents a match to a forwarding order, it cannot be processed and must be returned to the delivery unit. The savings will be realized by local review and prioritization of CFS No Record statistics, by delivery unit and route, and emphasizing the use of available training and review materials.

**CITY CARRIER IN-OFFICE (WORKHOUR REDUCTION/LOT & MOU)** – Workhour savings are targeted for opportunities to reduce City Carrier overtime.

These include certain information that became available during Docket No. R2000-1 as part of the Periodicals initiatives, and that falls within the area of reducing cost per delivery by improving workhour management. Line of Travel was discussed in USPS-LR-I-307 and the Memo Of Understanding was discussed in the Postal Service's response to DMA/USPS-1.

DECLARATION

I, Richard Patelunas, declare under penalty of perjury that the foregoing answers to interrogatories are true and correct to the best of my knowledge, information, and belief.

Richard Patelunas

Dated: 7-12-00

**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.

  
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