

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

REVISED RESPONSE OF UNITED STATES POSTAL SERVICE TO PRESIDING
OFFICER'S INFORMATION REQUEST NO. 14, ITEM 2(b) and (e) – ERRATA

The United States Postal Service hereby provides a revised response to Item 2(b) and (e) of Presiding Officer's Information Request No. 14. The original response was filed on July 12, 2000. The revision to subpart (b) reflects correction of an error in the Test Year After Rates deficiency included in the July 7, 2000 update filed in response to Order No. 1294. The error was caused by inadvertent omission of the \$200 million Field Reserve from the update. Thus, the \$275.3 million Test Year After Rates deficiency reflected in the update should be approximately \$475.3 million. This oversight was not discovered until responding to requests to identify where the Field Reserve was included; it was discovered that, in calculating the inputs for the rollforward, the wrong column of numbers was used. The revision to subpart (e) merely provides further clarification of the previous response.

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:

Daniel J. Foucheaux, Jr.

Chief Counsel, Ratemaking

A handwritten signature in dark ink, appearing to read "Susan M. Duchek", is written over a horizontal line.

Susan M. Duchek

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August 11, 2000

Response of United States Postal Service Witness Patelunas
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POIR 14.

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 (Revised 8/11/00) 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 (Revised 8/11/00). 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

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instructed his team to "launch additional initiatives" to reduce future expenses. During the FY 2001 budget development process, cost savings programs were identified, negotiated and accepted.

The update filed on July 7, 2000, in response to Order No. 1294, intended to reflect the FY 2001 budget development process. However, the \$200 million Field Reserve, which should have decreased certain of the Operations cost reductions, was inadvertently omitted. Thus, these Operations cost reductions contained the July 7, 2000 update are overstated by the \$200 million. My attachment accordingly has been revised to reflect what is actually contained in the July 7, 2000 update, even though what is contained in the update is incorrect. The Order No. 1294 column of the Attachment thus removes the \$200 million Field Reserve and shows a Grand Total All Programs as \$744 million.

Had the \$200 million Field Reserve been incorporated into the update as it should have been, certain of the Operations cost reductions, as well as the Grand Total All Programs, would decrease. The overall Test Year After Rates impact would be to increase the deficiency shown on Exhibit USPS-ST44A from -\$275.3 million to approximately -\$475.3 million. It is anticipated that because these Operations cost reductions are primarily for mail processing and window service clerks and mailhandlers, the impact on any particular class, subclass or special service would be relatively minor.

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- 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. The processing portion of the cost reductions are shown in the Operations section in the POIR. 13 column of Attachment I. The Test Year processing costs are calculated as:

	<u>\$ millions</u>
Grand Total Operations	450
Field Reserve	-200
Included in the Request	-188
Test Year Processing costs	62

Response to POIR 14.
Attachment I
Revised 8/11/00

Segment	Component	Program	PMG Speech (\$ millions)	POIR. 13 (\$ millions)	Order No. 1294 (\$ millions)
Transportation					
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
Purchasing					
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
Overhead					
18	192	HQ Personnel workyears			37
16	177	Nonpersonnel related to reductions			13
3	253	Administrative Clerk workyears			28
		Grand Total Overhead	100	100	78
Operations					
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			
3	40	Function 4 Window Improvement			23
3	35	Improve Automated Letter Productivity			51
3	35	Improve Manual Letter Productivity			102
3	35	Reduce CFS No Record Volume			9
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)	-
		Grand Total All Programs	1,000	550	744

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

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.

A handwritten signature in black ink, appearing to read "Richard Patelunas", written over a horizontal line.

Dated: 8/11/00

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.

A handwritten signature in black ink, appearing to read "Susan M. Duchek", is written over a horizontal line.

Susan M. Duchek

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August 11, 2000