

UNITED STATES OF AMERICA
Before The
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Postal Rate and Fee Changes, 2001)

Docket No. R2001-1

OFFICE OF THE CONSUMER ADVOCATE
INTERROGATORIES TO WILLIAM P. TAYMAN, JR. (OCA/USPS-T6-1-21)
October 3, 2001

Pursuant to Rules 25 through 28 of the Rules of Practice of the Postal Rate Commission, the Office of the Consumer Advocate hereby submits interrogatories and requests for production of documents. Instructions included with OCA interrogatories OCA/USPS-1-21 dated September 28, 2001, are hereby incorporated by reference.

Respectfully submitted,

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OCA/USPS-T6-1. The following refer to the USPS FY 2001 and FY 2002 Operating Plans.

- (a) Please provide the FY 2001 Operating Plan and the most current USPS FY 2002 Operating Plan by accounting periods for Postal Service operating revenues, appropriations, investment income, expenses and volumes.
- (b) For each of the thirteen accounting periods presented in part “a” of this interrogatory, please provide the most current USPS FY 2002 Operating Plan with operating revenues broken out by mail class and subclass cost categories.

OCA/USPS-T6-2. Please provide the USPS FY 2001 and FY 2002 budgets broken down by accounting period as used in the following schedules and pages of the Financial and Operating Statements filed each accounting period with the Commission.

- (a) Highlights on page 1.
- (b) Statement of Income & Expense on page 2.
- (c) Revenue by Category on page 5A.
- (d) Expense Analysis on page 6.
- (e) Analysis of Operating Expenses on page 7.
- (f) Analysis of Non-Personnel Expenses on page 8.
- (g) Work Hours & Overtime/Sick Leave Ratios

OCA/USPS-T6-3. Please provide the Postal Service’s FY 2001 and FY 2002 annual Capital Investment Plan similar to the Capital Investment Plans for FY 1999 and FY

2000 included in the record of Docket No. R2000-1 at Tr. 2/409-15. Also, please provide any updates to the FY 2001 and FY 2001 annual Capital Investment plans.

OCA/USPS-T6-4. Please provide the Postal Services current five year capital plan and any updates for FY 2001 and FY 2002, if any, to the Postal Service's current five year capital plan similar to the FY 1999 update to the FY 1998-2002 Capital Investment Plan included in the record of Docket No. R2000-1 at Tr. 2/416-427.

OCA/USPS-T6-5. For each capital program and major program initiative with costs that are included in the FY 2002 interim year and the FY 2003 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.

OCA/USPS-T6-6. The following questions refer to the FY 2001 investment plan.

- (a) How much of the FY 2001 capital investment plan was actually committed to in FY 2001?

- (b) Were all of the FY 2001 capital investment plan committed funds actually spent in FY 2001? If not, please provide the amount actually spent in FY 2001.
- (c) Were any capital investments incurred in FY 2001 that were not included in the FY 2001 capital investment plan? If so, please list them and indicate the amount spent.
- (d) Have any of the FY 2001 capital investment planned expenditures been pushed forward to FY 2002? If so, how much of the FY 2002 plan includes funds originally included in the FY 2001 plan? If not, please explain what happened to the FY 2001 capital investment planned expenditures that were not actually committed to in FY 2001.

OCA/USPS-T6-7. Please produce every study, analysis or plan for FY 2001 and FY 2002 relating to the appropriate level of debt financing for Postal Service capital programs and program initiatives, including the annual Integrated Financial Plan to the Board of Governors for FY 2001 and FY 2002 similar to the FY 1999 and FY 2000 plans in the record in Docket No. R2000-1 at Tr. 2/115-116.

OCA/USPS-T6-8. Please refer to your testimony at page 15, lines 8-24. The testimony discusses cost reduction programs, many of which appear to be associated with significant investments and projected to attain savings over the next two years. Please provide planned and actual capital investments and commitments for the years 1990-2004 as available for land, buildings, vehicles, customer service equipment, postal

support equipment, mechanized processing equipment, and automated processing equipment in current year and constant year dollars.

- (a) How much of each year's investment is for improvements in quality of service?
- (b) How much of each year's investment is for new product additions?
- (c) How much of each year's investment is for cost reduction?
- (d) How much of each year's investment is for new capacity?

OCA/USPS-T6-9. Please refer to your testimony at page 3, line 6; page 16, line 29; page 18, line 15; page 46, line 7; and page 50, line 6. The cited testimony mentions service, generally in reference to investment needs.

- (a) Please explain by type of investment project how the implementation of capital investment projects has impacted services and service standards. Please distinguish between improvements in quality of service, increases in types of service, and extensions of service to additional customers.
- (b) Please define how the Postal Service measures service quality. Assuming that the answer to this question includes information on the number of days for delivery, please also indicate what other measures of service are used.
- (c) If service has improved, please explain how investment projects have resulted in service improvements; please give specific examples.
- (d) If service has declined, please explain how investment projects have resulted in service decline; please give specific examples.

OCA/USPS-T6-10. Please refer to your testimony at page 46, lines 4-13. Please define the hurdle rate used by the Postal Service in determining whether to implement a capital investment project.

- (a) Assuming that the hurdle rate is the internal rate of return that an investment must yield in order to qualify for implementation, please explain how the rate is computed, including examples of the measurement of benefits, measurement of costs, and derivation of a cost of capital.
- (b) Please provide three examples of the computation of a hurdle rate, based on actual investments.
- (c) If the hurdle rate is not the internal rate of return that an investment must yield in order to qualify for implementation, please explain the computation of the appropriate rate, including examples of the measurement of benefits, the measurement of costs, and the derivation of a cost of capital.
- (d) Please provide three examples of the computation of a hurdle rate, based on actual investments.

OCA/USPS-T6-11. Please refer to your testimony at page 46, lines 4-13.

- (a) What has been the average projected and realized internal rate of return (or the expected hurdle rate) over each of the last five years for initiated capital projects on a total basis in each of the following areas: land, buildings, vehicles, customer service equipment, postal support equipment, mechanized processing equipment, and automated processing equipment. Please provide both

projected and realized rates. Please provide information on a total basis for each of the types of investment.

- (b) How does the Postal Service determine whether a project is successful--i.e. is there internal monitoring of actual savings or, alternatively, a different type of measure? Please explain in detail.
- (c) Please provide the documentation that delineates the USPS standards for determining the success or failure of investment projects.

OCA/USPS-T6-12. Please refer to your testimony at page 46, lines 4-13. What are the projected internal rates of return over each of the next five years for the planned capital projects on an overall basis and in the following areas: land, buildings, vehicles, customer service equipment, postal support equipment, mechanized processing equipment, and automated processing equipment.

- (a) What is the projected dollar level of investment for each of the above cost classifications?
- (b) How will each of these investments impact service quality and service standards?

OCA/USPS-T6-13. Please refer to your testimony at page 11, lines 18-24. This discusses the problem of paring down further an already limited capital program. The Postal Service earlier this year made major cuts in its investment budget.

- (a) For each year since and including FY 1999 for which the investment budget has been cut, please explain why the planned level of investment was cut.

- (b) For each year since and including FY 1999 for which the investment budget has been raised, please explain why the planned level of investment was raised.
- (c) Please explain how these changes in the level of investment have impacted or will impact customer service, the quality of service, and service standards for the postal years 2000-2005; please provide projected information on a yearly basis.
- (d) Please explain how these changes in the level of investment have impacted or will impact the need for a contingency.
- (e) Please explain how these changes in the level of investment have impacted operating costs in the past or will impact operating costs over the next five years; please provide information on a yearly basis.
- (f) Please provide USPS documentation justifying the elimination and/or deferment of capital projects since and including FY 1999.
- (g) Please provide information on the projected internal rates of return for the investment projects terminated or delayed by the following asset classes: land, buildings, vehicles, customer service equipment, postal support equipment, mechanized processing equipment, and automated processing equipment.

OCA/USPS-T6-14. The Postal Service has presented information in speeches by its senior management on the need for investment to control costs, improve service, etc. Please also refer to your testimony at page 46, lines 4-13. In particular please focus on the sentence in line 7, "This is a stopgap measure."

- (a) What is the overall level of additional needed investment?

- (b) Is there a plan for achieving this needed level of investment?
- (c) What will be the effect on the quality of service if this level of investment is not achieved?

OCA/USPS-T6-15. Please refer to your testimony at page 46, lines 4-13. On the assumption that there is an unmet need for additional capital investment, please provide information in current year and constant year dollars for end of year real capital stock by the following asset types for the years 1990-present: land, buildings, vehicles, customer service equipment, postal support equipment, mechanized processing equipment, automated processing equipment.

- (a) Does this level equal the optimal level of capital stock needed for customer service?
- (b) If the answer to question (a) is negative, what is the impact on customer service?
- (c) If the answer to question (a) is negative, what is the impact on operating costs?
- (d) Do you have any studies related to the overall need for additional investments?

OCA/USPS-T6-16. Please refer to your testimony at page 44, line 18 to page 45, line 15, discussing depreciation.

- (a) Please provide the rates of depreciation, by asset class, that the Postal Service applies to its capital stock.
- (a) Does the Postal Service have any studies that indicate that the performance of the equipment degrades proportionally with the depreciation? If so, please provide them.

- (b) Does the Postal Service have any studies that show how maintenance costs for equipment are related to the age of the equipment? If so, please provide them.

OCA/USPS-T6-17. Please refer to your testimony at page 20, Table 14 that presents workyear mix.

- (a) Why does the clerk overtime ratio remain constant during and after FY 2001?
- (b) Why does the casual percentage remain constant for clerks, city carriers, and mail handlers throughout the table?
- (c) Why does the transitional usage increase for clerks and decrease for city carriers in Table 14?

OCA/USPS-T6-18. Please refer to your testimony at page 42, line 33, which references Standard & Poor's DRI publications. Please provide the following information.

- (a) Please identify the publication from which information is used by name, date, page number, etc. If you used more than one edition of the publication, please identify which edition(s) apply to the various portions of your testimony.
- (b) Please provide copies of the relevant Standard & Poor's DRI publication tables, graphs, text, and briefing/summary charts that underlie the numbers used in your testimony regarding the budget and the contingency amount.

OCA/USPS-T6-19. Please refer to your testimony at page 45 line, 29 and page 47, line 3. The word "reasonable" is used in referring to the proposed contingency. You also

note that the Postal Service has a strong productivity performance, has aggressive cost savings programs, and continues to limit capital spending, at page 47, lines 11-13.

- (a) On what basis is it concluded that the Postal Service's productivity performance is strong--e.g. how is performance measured, and what is the standard of benchmarking the performance against that of comparable organizations. Please provide the measurements.
- (b) On what basis is it concluded that the Postal Service's cost savings programs are aggressive--e.g. how are the cost savings programs measured to determine that they are aggressive, and what is the standard of benchmarking the cost savings programs against that of comparable organizations.
- (c) In view of these Postal Service efforts, what is the justification for the Postal Service request for a contingency of three percent that is higher than in previous cases?

OCA/USPS-T6-20. Please refer to your testimony at page 48, lines 14-15 where you state that the Postal Service does not control its rates and fees.

- (a) Please confirm that the current case does, in fact, have an impact on rates and fees, and that the Board of Governors will receive a decision from the Postal Rate Commission.
- (b) Please confirm that the Postal Service has an opportunity to update filings reflecting experience following the filing of a case and adjustments for known or knowable cost changes.

- (c) Please confirm that the 76.7 percent of total expenses related to labor, that you delineate on page 49, line 4 of your testimony are known in terms of current wage rates, and as estimates of future wage rates (subject, however, to arbitration).
- (d) Please confirm that the 76.7 percent of total expenses related to labor can be affected by the amount of labor used and is possibly open to change from the implementation of innovative techniques, such as changes in materials requirements planning, robotics, electronic data interchange, improved scheduling, enterprise resource planning, and computerization.
- (e) Does the Postal Service have information on how the implementation of such techniques referred to in part (d), above, has affected productivity in other industries? If so, please provide the information.

OCA/USPS-T6-21. Please refer to your testimony at page 54, line 27. You state that the dollar may weaken, a conclusion apparently tied to the sad tragedy of September 11. Further information on the impact on postal costs is needed.

- (a) A “weak” dollar” (explicitly, the exchange rate moving so as to require more dollars to buy a peso, pound sterling or other currency) *ceteris paribus* means that U.S. exports are less expensive, providing economic stimulation. Would this not result in a favorable impact on the economy, thereby stimulating the demand for Postal Services?
- (b) On page 54 lines 22-26 of your testimony, you cite the recent terrorist attack on the World Trade Center. Dealing only with the economic relationships as noted by experience with no implied value judgement, economic textbooks indicate that

military expenditures have stimulated the economy. Accordingly, what economic logic leads to the prediction of increased economic slowdown?

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with Rule 12 of the rules of practice.

Stephanie S. Wallace

Washington, D.C. 20268-0001
October 3, 2001