

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

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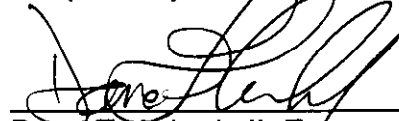
POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001-1

**INTERROGATORIES OF
THE DIRECT MARKETING ASSOCIATION, INC.
TO USPS WITNESS TAYMAN**

Pursuant to Sections 25 and 26 of the Commission's Rules of Practice, the Direct Marketing Association, Inc. hereby submits the attached interrogatories to USPS witness Tayman: DMA/USPS-T6, Nos. 1-34. If the designated witness is unable to respond to any interrogatory, we request a response by some other qualified witness.

Respectfully submitted,



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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: October 19, 2001

**INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION, INC.
TO UNITED STATES POSTAL SERVICE WITNESS TAYMAN**

DMA/USPS-T6-1. Please refer to Table 4 on page 6 of your testimony. In particular, please refer to the row titled "Before Rates FY 2003*."

(a) Please confirm that this table shows that expenses in Before Rates FY 2003 (excluding contingency) are projected to be 4.1 percent higher than FY 2002 expenses. If not confirmed, please explain fully.

(b) Please confirm that expenses in Before Rates FY 2003 (including contingency) are projected to be 7.2 percent higher than FY 2002 expenses. If not confirmed, please explain fully and provide the appropriate expense growth figure for Before Rates FY 2003 (including contingency).

(c) Please confirm that 7.2 percent expense growth is the highest percentage increase in expenses since FY 1991. If not confirmed, please explain fully.

DMA/USPS-T6-2. Please refer to Table 5 on page 7 of your testimony. Please define workyear as used in this table.

DMA/USPS-T6-3. Please refer to Table 6 on page 8 of your testimony. Please confirm that the Total Debt figures in this table are end-of-year figures. If not confirmed, please explain fully.

DMA/USPS-T6-4. Please refer to Table 7 on page 9 of your testimony. Please explain why current assets decreased by more than \$1.3 billion between FY 1995 and FY 1996.

DMA/USPS-T6-5. Please refer to page 18 of your testimony where you state, "A significant amount of growth in FY 2001 results from non-recurring costs related

to the start up of the Fed Ex contract and bringing the Priority Mail network in house."

(a) Please provide a list of all cost reduction and other programs in this case related to bringing the Priority Mail network in house.

(b) For each of the cost reduction and other programs listed in your response to subpart (a), by how much did the program increase or decrease Postal Service costs as a whole.

(c) For each of the cost reduction and other programs listed in your response to subpart (a), by how much did the program increase or decrease Priority Mail costs.

(d) Please provide a list of all cost reduction and other programs in this case related to the Fed Ex contract.

(e) For each of the cost reduction and other programs listed in your response to subpart (d), by how much did the program increase or decrease Postal Service costs as a whole.

(f) For each of the cost reduction and other programs listed in your response to subpart (d), by how much did the program increase or decrease Priority Mail costs.

DMA/USPS-T6-6. Please refer to page 21 of your testimony where you state, "In order to predict costs, known and reasonably certain cost changes are projected. In addition, estimates based on reasonable assumptions (for costs which will certainly change, but for which the rates of change are not precisely known) are made." Please confirm that the uncertainty for "known and reasonably certain

cost changes" is lower than that for cost changes estimated "based on reasonable assumptions." If not confirmed, please explain fully.

DMA/USPS-T6-7. Please refer to page 46, lines 22-23 where you discuss the cost of new delivery facilities.

(a) Please provide the average cost per new facility individually for bulk mail centers (BMCs), new processing and distribution centers (P&DCs), new processing and distribution facilities (P&DFs)? Please describe how you calculated this figure.

(b) How many BMCs does the Postal Service currently operate?

(c) How many delivery facilities does the Postal Service currently operate?

(d) How many P&DCs does the Postal Service currently operate?

(e) How many P&DFs does the Postal Service currently operate?

(f) Does the Postal Service have information on the following subjects for each of its facilities? If not, please describe in detail the portions, if any, of this information that the Postal Service does have for some or all of its facilities.

Please provide any and all such information as a Library Reference and indicate the source of this information.

- (i) Facility type (e.g., P&DC, delivery facility)
- (ii) Date of purchase
- (iii) Initial purchase price
- (iv) USPS cost for upgrades and modifications
- (v) Current market value
- (vi) Current book value

(vii) Address

(g) Please provide the following information in an electronic spreadsheet format for all facilities that the Postal Service has sold in the last ten years. Also, please indicate the source of your data.

- (i) Facility type (e.g., P&DC, delivery facility)
- (ii) Date of purchase
- (iii) Initial purchase price
- (iv) USPS cost for upgrades and modifications
- (v) Date of sale
- (vi) Book value at time of sale
- (vii) Sale price
- (viii) Address

DMA/USPS-T6-8. Please refer to page 53 of your testimony, where you state, "The baseline economic forecast used in the Postal Service's volume and Revenue projections is assigned merely a 55 percent probability by DRI - WEFA. The other DRI-WEFA scenarios - Late Recession (10 percent probability) and Pessimistic (35 percent probability) - have less economic growth through the test year."

(a) Has the Postal Service estimated Test Year Before Rates volumes using the DRI-WEFA Late Recession or Pessimistic forecasts? If so, please provide them in a format similar to Exhibit USPS 6C.

(b) Were the inflation estimates that the Postal Service used in the rollforward based upon the same baseline economic forecast that was used to project volume and revenue? If your answer is anything other than an unqualified yes, please explain fully.

(c) For every price index used in the rollforward, please provide the equivalent value based upon the DRI-WEFA Late Recession scenario.

(d) Please provide the date each of the forecasts was prepared for each of the 18 series you show in your exhibit USPS 6T.

(e) For every price index used in the rollforward, please provide the equivalent value based upon the DRI-WEFA Pessimistic scenario.

DMA/USPS-T6-9. Please refer to your Exhibit USPS-6Q. Please define the following types of personnel cost level changes and describe the method that you used to calculate each type of personnel cost level change:

- (a) Carryover Costs
- (b) New Costs
- (c) Net Lump Sum
- (d) STEP/MERIT
- (e) ROLLUP PREMIUM
- (f) OTHER

DMA/USPS-T6-10. Please refer to Exhibit 6O of your testimony. For pay increases that begin in the middle of one year, please describe the meaning of an effective pay increase amount that occurs in the following year.

DMA/USPS-T6-11. Please refer to Exhibits 6O and 6Q of your testimony. Please explain the relationship between the \$163.95 and \$409.45 figures in the FY 2002 column of Exhibit 6O and the \$131,853 figure in the Carryover COLA cost column on page 2 of Exhibit 6Q.

DMA/USPS-T6-12. Please refer to Footnote 17 on page 17 of your testimony and Footnote 18 on page 18 of your testimony. Please explain the difference

between the \$1.4 billion in breakthrough productivity savings mentioned in Footnote 17 and the approximately \$1.1 billion in breakthrough productivity savings (\$351 million plus \$400 million plus \$350 million) identified in Footnote 18.

DMA/USPS-T6-13. Please refer to Exhibit G of USPS-LR-J-49 where you identify \$350 million in FY 01, \$400 million in FY 02, and \$350 million in FY 03 of Other Program Breakthrough Productivity savings.

(a) Please describe all initiatives that the Postal Service includes in the Breakthrough Productivity Other Program.

(b) Please provide in an electronic spreadsheet format a disaggregation of the Other Program Breakthrough Productivity savings by fiscal year, cost segment, mail class, and mail subclass.

DMA/USPS-T6-14. Please provide the date each of the forecasts was prepared for each of the 18 series you show in your exhibit USPS 6T.

DMA/USPS-T6-15. Page 62 of your test says that "Total Factor Productivity (TFP) measures the growth or decline in the Postal Services productivity from year to year.

(a) Please provide total factor productivity changes for all years that the USPS has been calculating TFP.

(b) Please provide TFP for TYAR

(c) Please also fully describe the methodology for calculating TFP.

DMA/USPS-T6-16. Given the timing of the filing of Docket No. R2001-1, please confirm that the USPS could implement the rates resulting from this case before the start of the test year.

DMA/USPS-T6-17. Please confirm that the mail volume and mail and services revenue forecasts for 2003 in your Exhibit USPS 6T are before rates estimates.

DMA/USPS-T6-18. On page 6 of your testimony, you state, "The 3.2 percent expense growth projected for FY 2002 is the second lowest such growth rate over the 13 years in the table, as well as the second lowest such rate since Postal Reorganization in 1971."

(a) Please provide volume changes on this chart.

(b) Please confirm that when you do so, the volume growth for this year will be the third lowest on the chart.

DMA/USPS-T6-19. On page 6 of your testimony, you state, "The 4.1 percent projected expense growth for FY 2003 before rates is lower than eight of the thirteen years displayed in the table" Please refer to your Exhibit 6C.

(a) Please confirm that the exhibit shows total mail growth of 6.639 billion pieces between FY 2002 and TYBR.

(b) Please confirm that of these 6.639 billion pieces, 5.193 billion are Standard Mail.

(c) Please also confirm that the unit cost for Standard Mail is less than the average unit cost for all mail.

DMA/USPS-T6-20. Table 9 on page 10 of your testimony provides assets from FY 1989 to FY 2000. Please provide assets from 1972-1988 .

DMA/USPS-T6-21. In the last five years, has the Postal Service asked Congress to increase the USPS debt limit. If so, please provide the date of each request and the position that the House and Senate took on raising the Postal Service's debt limit in response to each request.

DMA/USPS-T6-22. On page 11 of your testimony, you state, "In my testimony that follows, I project the expected results for the Test Year. The Test Year deficiency, if the proposed rates are not implemented, will be approximately \$5.3 billion, which includes a reasonable contingency and prior years' losses recovery."

(a) Please confirm that the projected loss in the Test Year is \$2.460.7 billion. If you cannot do so, please provide the correct figure.

(b) Please confirm that the difference between the "Test Year deficiency" and the projected loss is a contingency of \$2.191 billion dollars and recovery of prior years losses of \$632.8 million.

DMA/USPS-T6-23. Please refer to your Exhibit USPS 6-M.

(a) Please confirm that total USPS accrued costs are estimated to increase by \$3.229 billion from FY 2000 to FY 2001, by \$2.162 billion from FY 2001 to FY 2002, and by \$1.841 billion from 2002 to TYAR. If you cannot confirm, please provide the correct amount.

(b) Of these increases, what percentage is due to cost-level increases in each of these years?

(b) Of these increases, what percentage is due to the city carrier non-volume workload effect in each of these years?

(c) Of these increases, what percentage is due to the rural carrier non-volume workload effect in each of these years?

DMA/USPS-T6-24. On page 14 of your testimony you state, "Additional delivery points are an important expense driver for the postal system. Between the base year and the test year the Postal Service will have added approximately 5 million new delivery points to its network. This is equivalent to three cities the size of Chicago. The Postal Service does not charge for existing or new delivery points. This is very different from other services, such as electric, gas, water, and local

telecom, which virtually without exception have some sort of monthly access, hookup, or system charge. Moreover, our pricing structure is not designed to fund network growth. When mail volume growth is less than network growth, as it is currently and is projected to be the case through the test year after rates on a cumulative basis, this limitation of our pricing structure places pressure on rates to rise faster than inflationary pressures otherwise dictate. "

(a) Please confirm that in the rollforward program the non-volume workload effect for city carriers is less than \$46 million in FY 2001, less than \$50 million in FY 2002, and about \$52 million in the Test Year. If you can not do so, please provide the correct figures.

(b) Please confirm that in the rollforward program the non-volume workload effect for rural carriers is \$63 million in FY 2001, \$70 million in FY 2002, and about \$75 million in the Test Year.

If you cannot do so, please provide the correct figures.

DMA/USPS-T6-25. On page 16 of your testimony, you state, "As identified in Section f. below, large Breakthrough Productivity Initiative (BPI) savings or Bold Actions in Cost Segment 2 are identified in Fiscal Year 2002 (\$69.0 million) and Fiscal Year 2003 (\$50.0 million)."

(a) Please define and describe "Bold Actions" in as much detail as possible.

(b) Please provide all material in the possession of USPS explaining the meaning of "Bold Actions."

DMA/USPS-T6-26. Please list all cost reduction programs for FY 2001 that were included in the rollforward in Docket No. R2000-1 that are not part of the rollforward in Docket No. R2001-1. For each of these programs, please provide the cost savings estimated in Docket No. R2000-1 and describe why it is not included in Docket No. R2001-1.

DMA/USPS-T6-27. Please refer to Table 6 on page 8 of your testimony.

(a) Please confirm that the time periods listed in the first column are Government Fiscal years.

(b) Each of the two rows following the row labeled "TQ" is labeled "FY 1977." Please confirm that "TQ" is an abbreviation for "Transition Quarter".

(c) Please confirm that the first of these two rows should be labeled "FY 1976". If you do not confirm, please provide the appropriate label and an explanation thereof.

(d) If the time periods listed in the first column are Government Fiscal years, please explain the need for and meaning of a "TQ".

DMA/USPS-T6-28. On May 7, DMNews had a headline "Kmart runs banners ads on USPS web site".

(a) Please confirm that these ads ran.

(b) Please also confirm that the story said.

"Banner advertising on the USPS Web site is offered as part of the Postal Ad Network, which makes a variety of postal service assets available to advertisers, including delivery vehicles, collection boxes, and Priority Mail and Express Mail packaging."

(c) How long has the Postal Ad Network been in existence?

(d) For each of these years, what were its revenues?

(e) Are projected revenues for the Network included in revenue estimates of FY 2001 through FY 2003? (i) If not, why not? (ii) If so, where are they reflected and what is their magnitude?

DMA/USPS-T6-29. Please provide a copy of the Corporate Flats Strategy, prepared by Operation Planning and Processing, July 2001.

(a) Please confirm that page 2 says, "To ensure that these and other flat-shaped products remain affordable, actions must be immediately taken to mitigate recent cost increases."

(b) Please list all such actions that the Postal Service has taken or intends to take prior to the end of the Test Year.

(c) Are all such actions reflected in cost reduction or other programs?

(d) If your answer to (c) is yes, please provide a reference for each.

(e) If your answer to (c) is no, please explain why.

DMA/USPS-T6-30. The September 17, 2001 issue of Business Mailers Review (attached), at page 6, says, "PMG Potter opened the board meeting last week with a report on his first 100 days as postmaster general. In his comments he noted that the Postal Service plans to announce the consolidation of whole plants or tours in mid-October, to be effective in January."

(a) Please confirm these comments.

(b) Please describe the consolidation in as much detail as possible, including the plants or tours that will be affected.

(c) Is the consolidation reflected in the Postal Service's filing in this case?

(d) If your answer to (c) is yes, where are they reflected?

(e) If your answer to (c) is no, why are they not reflected?

DMA/USPS-T6-31. The September 17, 2001 issue of Business Mailers Review, at page 6, goes on to say "In addition, the USPS continues to work closely with stakeholders and the General Accounting Office to develop a transformation plan. 'An initial draft outlining the many areas of consideration will be forthcoming at the end of the month,' he [PMG Potter] said.'" Please provide the draft.

DMA/USPS-T6-32 The September 17, 2001 issue of Business Mailers Review, at page 4, says "The new organization reduces the number of Headquarters officers by 20% and downsizes the number of headquarters and headquarters-related positions by 800 people. Potter has eliminated two area offices, the Mid-

Atlantic and Midwest areas, folding their territory into other areas. The eight area offices will continue to reduce their staffs to meet their 30% reduction target."

(a) Are the cost savings from these changes reflected in cost reduction program or other programs?

(b) If so, where?

(c) If not, why not?

DMA/USPS-T6-33. Payments are due the Postal Service under the Revenue Foregone Reform Act of 1993.

(a) Please describe the timing of payments due to the Postal Service under the Revenue Foregone Reform Act of 1993.

(b) Has the Postal Service asked Congress to advance payments on the schedule?

(c) If not, does the Postal Service intend to ask Congress to advance payments on the schedule?

(d) Are advanced payments reflected in the projected revenues of the Postal Service?

(e) If Congress were to pay their RFRA liability in advance of the schedule, how would the Postal Service book the revenue?

DMA/USPS-T6-34. Please refer to page 21 of your testimony where you state, "For FY 2002 and the Test Year, an assumption is made that the total change in wages will equal the rate of change in the Employment Cost Index for Wages for Private Industry (ECI) less one percent. The change in wages assumed to be effective on October 1 reflects the percentage change in the ECI over the previous 12 months, less one percent."

(a) Please provide all Postal Service documents related to the Postal Service's "ECI-1%" position on wage increases.

(b) Please describe the origin and history of the Postal Service's "ECI-1%" position on wage increase.

(c) Is it the Postal Service's position that wage increases for postal workers should increase at an annual rate that is no higher than ECI-1%? If your response is anything other than an unqualified yes, please explain your response fully.

BUSINESS MAILERS REVIEW

Monitoring the Postal Service, Private Carriers and Suppliers

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USPS to Seek Overall Increase in Postage Rates of Almost 9%

The Postal Service will propose a 3¢-increase in the price of a stamp and an 8.7% overall increase in postage rates in the next rate case, Board of Governors Chairman Robert Rider announced at the board's open meeting last week.

Details of the rate case will be available later in the month when the Postal Service makes its actual filing with the independent Postal Rate Commission.

Rider, Board Vice Chairman David Fineman and PMG Jack Potter had scheduled a press conference after the board meeting presumably to discuss some aspects of the rate filing. But the board meeting was cut short by the terrorist attack on the Pentagon, which was all too visible from the meeting room at Postal Service headquarters in L'Enfant Plaza. The building was evacuated shortly thereafter and federal employees in the District of Columbia were sent home.

Some information was made available at the meeting, including the average proposed postage increases by class:

- First Class Mail — 8.2%
- Express Mail — 9.7%
- Priority Mail — 13.5%
- Periodicals — 10.0%
- Standard Mail — 7.3%
- Packages — 8.9%

Dear Readers,

It is difficult to muster enthusiasm for the business of mailing — whether it be writing a trade newsletter or preparing a major mailing — after the tragedies of last week. But as we are reminded, we cannot let terrorism defeat us. And that means resuming our normal daily activities.

BMR wants to provide practical information on how to send mail or packages to the ZIP Codes affected by the attacks. We have asked the Postal Service to share any information on what mailers can do to make it easier for the USPS to process or hold mail to the affected areas. We will share the information as we receive it. We encourage any mailers or vendors with suggestions and tips to drop us a note.

Thank you to those subscribers who checked in to inquire about my family's welfare. For those of us who live in the Washington, DC, and New York City areas, it's very likely that we know someone — a friend, a neighbor, a coworker's spouse — who works at the Pentagon or in the World Trade Center towers. Indeed, it's likely that these tragedies directly affected some of our colleagues in the mailing industry. Our thoughts and prayers are with all of the victims and their families.

Kindest Regards,
Kate Muth, Editor

The Priority Mail increase seems especially egregious given that the popular two-pound rate in Priority Mail increased 20% in the R2000-1 case. Most Periodicals mailers were bracing for a double-digit increase and had feared it could be as high as 15%. But they take little solace in a 10% increase, given that Periodicals rates went up about 12% this year.

Despite pleas by the mailing community, including personal pleas from the top executives of major companies, the board of governors has decided to file a rate case in the coming weeks. Saying the USPS was operating from a very difficult position, Rider said the board could not "in good conscience, permit this organization to experience a fourth consecutive year of red ink." The governors voted unanimously to file a rate case immediately, and request an expeditious review by the PRC.

A September filing does not sit well with mailers. They worry the board will implement higher rates next fall, rather than waiting until January 2003.

Finally, Rider said the board considered the suggestion of many customers to implement phased rate increases. The USPS' very serious financial position does not allow phased implementation, Rider said. "However, it is certainly something that will be considered in connection with future filings," he added.

The USPS expects a year-end loss this year of \$1.65 billion and a loss in fiscal year 2002 of \$1.35 billion. See story on page 3.

Mail Delivery and Courier Services Relying on Ground Networks

The Postal Service and the major couriers issued updates on pick-up and delivery information after the terrorist attacks on the World Trade Center and the Pentagon. Customers should check the couriers' websites, as they promised to update them regularly with any operational changes.

• **Postal Service** (www.usps.gov or <http://ribbs.usps.gov/>) — Customers want to know if they can mail to New York City. "Most customers mailing to New York City should continue to do so, with no change to how they do it. Advertising mailers should first check with New York Metro Business Service Network representatives for mail destined for New York City," the Postal Service said last week.

For the most part, the Postal Service maintained normal collection, processing and delivery operations following the tragic events in New York and Washing-

ton. Post offices throughout the country were open and serving customers with regular hours. Until circumstances allow, there will be no mail delivery in most neighborhoods below 14th St. in Manhattan. Arrangements are being made for business and residential customers to obtain their mail from various locations in Manhattan," the USPS said on Sept. 12. No mail was collected from street mailboxes on Sept. 11-12 in New York.

Postal sources said that even though the U.S. air system was reopened on Sept. 13, service was limited. No

mail was moving on commercial planes on that day.

• **FedEx** (www.fedex.com) — The shutdown of air transportation has affected FedEx greatly. "Our goal is to keep customers' shipments moving and have secured additional trucking capacity as part of the all-trucking contingency plans for FedEx Express." Customers can expect delivery delays of 24-48 hours, the company said. FedEx has suspended its FedEx Express Money Back Guarantee until normal operations resume.

FedEx Express air and ground operations within

Short Takes

The Postal Service and all the couriers have contingency operation plans that they employ during times of disaster. Granted, most contingency plans are developed with a natural disaster or a workers' strike in mind. Certainly, delivery companies have never had to handle a hurdle of this magnitude, notably the suspension of air traffic throughout the United States. Inevitably, delivery times on all products will lag their normal service times. Postal sources said the grounding of commercial aircraft would lengthen delivery time on First Class mail, but the USPS' extensive ground transportation network would allow it to keep 1C mail moving. And once FedEx was flying again, USPS officials were confident that Express and Priority mail would improve. The Postal Service has a command center both at headquarters and at its Bolger facility in Potomac, MD. After all federal buildings in Washington, DC, were evacuated on Sept. 11, the Postal Service moved top officers and its command operation to Potomac for a few days. Sources also noted that the National Customer Support Center in Memphis has a long history of rising to the occasion. It has sent specialists to places such as Saudi Arabia during the Gulf War to help with APO mail needs and to Florida after Hurricane Andrew to get mail to residents displaced by the disaster.

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Below we list the changes to the Postal Service's field operations in light of the postmaster general's restructuring of the 10 area offices down to eight. Only areas with organizational changes are listed:

- **Eastern Area** (formerly the Allegheny Area) — It now has responsibility for Akron, Appalachian, Cincinnati, Cleveland, Columbus, Erie, Greater South Carolina, Greensboro, Harrisburg, Kentuckiana, Lancaster, Mid-Carolinas, Philadelphia, Pittsburgh and South Jersey performance clusters.
- **Western Area** — It now assumes responsibility for Central Plains, Dakotas, Hawkeye (Iowa), Mid America (Kansas City, MO) and Northland clusters, in addition to all its current districts.
- **Great Lakes Area** — It now adds Lakeland (WI) and Gateway (St. Louis) performance clusters to its current districts.
- **Capital Metro** — Assumes responsibility for the Richmond performance cluster.

BMR has a Powerpoint copy of the area maps, which we can email to any interested subscriber. Please call 703-237-7962 and provide us an email address.

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The Mailers Council re-released its testimony before the House Government Reform Committee from May after the USPS announced its plans to raise rates by almost 9% in the next rate case. The testimony, prepared by Mailer Council member the American Forest & Paper Assn., attempts to show the elasticity of postage rates. In its evaluation, the association says that large increases in postage rates have done little to boost postal revenues. "That is because the higher rates for the most part have been offset by substantially lower mail volumes in several mail categories." The testimony notes that the R2000-1 postal rate increase for Standard A Mail was almost 9%. Postal revenues for this mail class, however, grew only 2.7% in the second quarter of fiscal 2001. That's because the growth in Standard A weight halted in the previous quarters. "Given the fragility of the economy, additional postage rate hikes in 2002 could undermine the viability of the USPS," the association notes. The complete testimony is available at www.mailers.org.

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Peter Moore of Peter Moore & Associates provided *BMR* with a better understanding of his suggestion that the Postal Service consider two subgroups for flat mail: one cost-based and one rule-based. This idea stems from information coming from Moore's software program, which looks at the results of using different presort parameters in terms of postage, postal handling costs and containers produced. The software analyzes USPS handling cost per piece, per package and per container (*BMR* 9/3). In the rule-based group, he says, there would be a set of preparation requirements that were designed to provide simplified preparation and minimal cost. Mailers who didn't need the greater flexibility of cost-based preparation could elect to prepare their mail in this fashion. Mailers who elected rule-based preparation could use very flexible preparation rules, depending on their needs. Postage would be calculated directly from the costs for that mailing. For example, PostalOne! could determine costs and postage from the mailer's Mail.dat files. Mailers who choose to optimize their mailings for cost could choose preparation options that were most efficient for the USPS to handle, Moore suggests. By contrast, a mailer who had different needs might prepare his mail differently, as long as they paid the appropriate cost-based postage for that preparation. A Periodical mailer with a time-sensitive publication might choose to make up sacks of fewer than six pieces for service reasons, as long as he is willing to cover the higher costs of these smaller containers.

Asia, Europe and parts of Latin America were operating. But transborder operations between the U.S., Canada and Mexico were suspended.

FedEx Express was making pick ups and deliveries where access was available. It did not provide services to and from Manhattan on Wednesday, Sept. 12. "It is too early to predict when service will return to normal," the company said on Sept. 12.

- **United Parcel Service** (www.ups.com) — Service was restored to Washington, DC, on Sept. 12 but deliveries were limited throughout most of Manhattan. UPS expanded its ground network to handle many of the express shipments that would have moved by air. At press time, some air express packages destined for longer distances were being held in anticipation of air restrictions being lifted. CEO Jim Kelly said the majority of air packages received on Sept. 12 were moving via the ground network under the company's contingency plans.

Otherwise, deliveries and pick-ups were occurring normally, UPS was accepting packages and moving them as expeditiously as possible. Some delays were being experienced.

Outside the United States, UPS has been operating

close to normal within various regions of the world. Packages moving to and from Canada were being transported via the ground network. Otherwise, packages were not moving into or out of the U.S. as of late last week.

- **Airborne Express** (www.airborne.com) — It continues operations, including pick ups and deliveries in areas where the crisis has not precluded such activity. Of course, Airborne's fleet of aircraft were grounded during the Federal Aviation Administration shutdown. "We have been relying heavily on our nationwide ground sort hub infrastructure to and expanded line-haul trucking operation to move our customers' shipments and are prepared to fly once the nationwide air traffic system has been restored," the company said.

- **Canada Post** (www.canadapost.ca) — Mail is moving to and from the United States via highway service. But mailers to and from Canada should expect delays in delivery as there are long lines at the border crossings. Outgoing international mail that travels by sea containers continues to move normally. International air mail was not moving late last week as the restrictions on air service remained in place.

USPS Projects 2002 Deficit of More Than \$1 Billion

The Postal Service expects to end fiscal year 2002 with a loss of \$1.35 billion, about \$300 billion less than the projected loss for this fiscal year, Chief Financial Officer Richard Strasser told the Board of Governors last week.

Strasser said the USPS now expects to close fiscal year 2001 with a loss of about \$1.65 billion, give or take \$200 million. Final audited figures will be available later in the calendar year, he said.

The USPS expects to end this year with only a \$1.8 billion growth in revenue, which is about \$3.4 billion short of planned growth, Strasser said. However, the USPS should come in about \$400 million under plan on the expense side. In addition, it expects that its productivity growth will provide the equivalent of \$1.3 billion in savings.

The Postal Service's 2002 budget calls for anemic growth in revenues and in volumes. Projected revenue for 2002 is \$68.8 billion, only a 3.7% growth (\$2.5 billion) over the previous year. Most of that growth is due to a full fiscal year of the higher postage rates that took effect in January and July 2001. Total volume growth in FY 2002 is expected to be only 1%. And if the USPS doesn't achieve this 1% volume growth, Strasser warned, it could result in a \$700 million shortfall in revenue. This could lead to a net loss in 2002 of closer to \$2 billion, he said.

Expenses are projected to increase only 3.2%, a very

low growth rate in expenses. The USPS intends to reduce work years in FY 2002 by another 12,500, Strasser said. This would be the third year of reductions in work years. The USPS took out 6,200 work years and 11,500 work years in fiscal years 2000 and 2001 respectively.

Strasser noted that the 2002 budget is based on a flat economy for the first half of the fiscal year with a slight uptick in the second half.

Breakdown of Projected Total \$2.5 Billion Revenue Growth	
Class	Revenue Growth
First Class	\$600 million
Priority Mail	\$400 million
Standard Mail	\$800 million
All Other	\$700 million
 Fiscal 2002 Budget	
Revenue	\$68.8 billion
Expenses	\$70.17 billion
Net Loss	\$1.35 billion
Volume Growth	1%
 <i>Source: Strasser presentation to Board of Governors</i>	

USPS Calls for Continued Freeze on Facility Spending

The USPS freeze on capital spending for facilities will remain in place through fiscal year 2002, PMG Jack Potter said at the Board of Governors meeting last week.

The Postal Service will concentrate its capital spending on equipment that will lower its costs or net savings in the near term. The USPS has budgeted \$2.4 billion for capital spending in 2002, Chief Financial Officer Richard Strasser announced at the meeting. Initially, the USPS had anticipated spending \$3.7 billion on capital projects in 2002, but reduced that amount as the economy has continued to stall. *See table below.*

About \$520 million in capital is being budgeted for facilities, but that is only to be used for facility upgrades required to meet federal health and safety laws, or for facility construction already in progress, Strasser explained. About half of the capital plan is targeted for equipment purchases, which includes such things as the AFSM 100 flat sorting machines.

About \$472 million of capital spending is planned for infrastructure needs, which include such things as MERLIN, the mail evaluation machines. Sorry mailers: Deployment of MERLIN shouldn't be affected by a

strained capital-spending plan.

This small capital spending budget for 2002 is not good news for the vendor community. Suppliers to the Postal Service are coming off a tough fiscal 2001, in which the USPS cut its original plan to spend \$3.6 billion this year down to \$1.2 billion.

Board members pressed Strasser on when the USPS might lift the freeze on capital spending on facilities. He hesitated to offer any commitments, saying postal officials need to see what the Postal Rate Commission recommends on the Postal Service's coming rate case proposal. That's a good 10 months away, which brings us close to the end of fiscal year 2002.

Capital Plan FY 2001 Compared to FY 2002

Expense	FY 2001	FY 2002
Equipment	\$597 million	\$1.2 billion
Facilities	\$317 million	\$520 million
Infrastructure	\$170 million	\$472 million
Vehicles	\$45 million	\$94 million
Retail	\$65 million	\$80 million

Rearrangement of the Deck Chairs or Major Shakeup?

PMG John "Jack" Potter put his stamp on the Postal Service three months after taking the job, unveiling his new streamlined management organization.

The new organization reduces the number of headquarters' officers by 20% and downsizes the number of headquarters and headquarters-related positions by 800 people. Potter has eliminated two area offices, the Mid-Atlantic and Midwest areas, folding their territory into other areas. The eight area offices will continue to reduce their staffs to meet their 30% reduction target.

The new look at headquarters includes clear Potter markings: a decisive focus on core business and the noticeable absence of an e-commerce office.

Among the key changes of importance to business mailers is the new look of the marketing department, one of the key departments that business mailers deal with. Anita Bizzotto has been promoted to chief marketing officer and senior vice president from her most recent position of pricing and classification vice president. That VP position is now filled by Stephen Kearney, who was the senior vice president of corporate business development, which no longer exists in the Potter restructuring. Kearney was highly regarded as the treasurer before moving to the corporate business development position about a year or so ago. He now moves to the hot seat — heading the department responsible for assembling the rate case just weeks before the case is filed.

Some business mailers aren't sure whether to congratulate Bizzotto or feel bad for her. The chief market-

ing officer slot has not been an easy ride. The overall marketing department often seems to lack a clear mission and direction. Bizzotto is a favorite of the business mailing industry because she is fair and customer-responsive. If Potter is interested in using the product redesign effort to drive the marketing department's direction, Bizzotto seems a wise choice.

Potter said the majority of the Sales Department staff, more than 1,200 people, will move from the headquarters organization to area and district staffs in the field. Michael Jordan, most recently district manager in the Suncoast District, is the acting vice president of sales. He reports to Bizzotto. Potter added that there will be one product vice president with responsibility for all postal products, including packages and e-commerce. He named Nick Barranca, recently an operations VP, to vice president of product development.

Operations had some changes as well. Pat Donahoe was named chief operating officer and John Rapp was named senior vice president of operations. Henry Pankey, vice president of the former Mid-Atlantic Area, is the new vice president of delivery and retail.

Noticeably missing from the reorganization chart are some familiar names: John Ward, vice president of core marketing; Pam Gibert, retail vice president; John Kelly, president of the package department; and Bob Krause, vice president of e-commerce. Postal sources say Potter told affected vice presidents that they could move to a

(Continued on p. 6)

staff position or leave the Postal Service. Insiders say Gibert and Kelly have made clear their plans to retire.

Some in the industry are giving Potter high marks for his organizational changes at headquarters. But others

say it seems like another shuffling of the deck chairs. They note that there are few new names on the flow chart and not a single person from outside the agency was brought in.

BRIEFS

The Board of Governors' decision to announce that it would file a rate case later this month is seen as a preemptive strike by the agency before PMG Jack Potter appears before the Senate subcommittee responsible for oversight of the USPS. The Senate International Security, Proliferation and Federal Services subcommittee has scheduled an oversight hearing on Sept. 20. It's not clear if that date is still valid given the other matters Congress is now considering. Postal observers say the board put the bad news out so members of the subcommittee couldn't press Potter to hold off on a filing when he testifies. (We can't imagine members of Congress grandstanding in their opening statements.) After taking a few shots from senators about the proposed hike in the stamp price, Potter can focus his testimony on other matters.

The Postal Service is asking Congress to pay up on a quicker timetable the money it owes the agency for free and reduced-postage mail from 1991-1998. PMG Potter wrote to the director of the Office of Management and Budget saying the Board of Governors voted to ask Congress to accelerate its payment to the Postal Service of overdue amounts for revenue foregone on free and reduced rates of postage attributable to fiscal years 1991-1998. The USPS is requesting a supplemental appropriation in FY 2002 in the amount of \$957 million to close out the outstanding debt at the beginning of October 2002. Potter noted that while the overall government's financial situation has improved in recent years, it is not the case at the Postal Service.

Trackmymail.com is not going out of business. Dave Lewis assures us that the company has plans under way to meet the USPS requirements for Confirm and it will be ready to go before Oct. 1, when the USPS switches to a production system for Confirm users. Clients took Lewis' comments in the last issue of BMR to heart and worried that trackmymail.com, a third-

party supplier of PLANET codes, might close its doors. That is not the case, Lewis stressed.

PMG Potter opened the board meeting last week with a report on his first 100 days as postmaster general. In his comments he noted that the Postal Service plans to announce the consolidation of whole plants or tours in mid-October, to be effective in January. In addition, the USPS continues to work closely with stakeholders and the General Accounting Office to develop a transformation plan. "An initial draft outlining the many areas of consideration will be forthcoming at the end of this month," he said.

The abrupt end to the Board of Governors meeting last week left one agenda item on the table. The board was set to consider a lease renewal option on the Priority Mail Processing Center network.

And more sad news. Rich Leazott, the mail services director at Boston University and a NACUMS representative to MTAC, died suddenly of a heart attack on Aug. 23. He is survived by his wife and three children. His industry colleagues are shocked and saddened to lose "this big teddy bear of a man."

BMR's editorial office will be upgrading its computer and office equipment next week, so we might have trouble sending emails or faxes in the early part of the week. If you are requesting an item mentioned in this issue on Monday, please understand that it might take a day or two to get it to you.

The National Postal Forum will hold its trade show as planned on Oct. 14-17 in Denver. NPF understands that the tragic events of this last week are fresh in everyone's mind. The forum will focus on the key topics of the pending rate increase and the new management structure. To register, call 703-218-5015 or visit www.npf.org.

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