UNITED STATES OF AMERICA
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, 2001)

Docket No. R2001-1

OFFICE OF THE CONSUMER ADVOCATE INTERROGATORIES TO WILLIAM P. TAYMAN, JR. (OCA/USPS-T6-22-32)

October 19, 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-T6-22. Please turn to your testimony at page 46, lines 23-24, wherein you state that the annual capital need for network growth associated with the provision of additional service to approximately 1.7 million new delivery points per year is approximately $400 million.

(a) Please provide the additions to annual revenues based on current and proposed rates from the additional provision of mail service to the approximately 1.7 million new delivery points each year, assuming that the capital investment of approximately $400 million is invested (which was apparently not the case in FY 2001 due to the budget freeze).

(b) Please provide the addition to annual operating costs for FY 2001 through FY 2003 that would be associated with the $400 million of capital investment needed to serve the approximately 1.7 million new delivery points every year.

(c) For the additional annual costs referenced in (b), please provide a breakout between annual costs resulting from the investment of capital (e.g., typically amortization, depreciation, and possibly other costs flowing through to the income statement) and direct costs (e.g., typically wages, supplies, etc., again flowing through to the income statement).

OCA/USPS-T6-23. Please turn to your testimony at page 46, lines 24-25, wherein you state that the investment projects associated with the addition of the 1.7 million new delivery points have not been funded due to the capital freeze.

(a) How has the Postal Service been able to deliver mail (assuming that such is the case) to the additional 1.7 million new delivery points, assuming that the investment projects were in fact needed but not made?

(b) Assuming that the mail to the 1.7 million new delivery points was delivered in FY 2001 without incurring the $400 million of needed investment, how much additional annual cost was incurred to make those deliveries that would not have been incurred had the additional investment been made?

(c) Please explain how the annual cost incurred in providing the additional service to the 1.7 million new delivery points (but absent the addition of the desired capital investment) is different from what would have been incurred had the capital projects been implemented. Please provide quantification in your answer in addition to explanations.

(d) Assuming that mail to the 1.7 million new delivery points is being delivered without the addition of capital projects, can it be assumed that this is the result of increased efficiency by the Postal Service? In the management literature this is sometimes referenced as "Doing more with less."

(e) If you agree that the Postal Service delivery of mail to 1.7 new delivery points without the addition of needed capital investment is the result of increased Postal Service efficiency, is such increased Postal Service efficiency probably likely to occur in future years?

OCA/USPS-T6-24. You have delineated $400 million of capital projects associated with the addition of 1.7 million new delivery points.

(a) Are there any other additional capital costs that would be associated with the addition of the new delivery points exclusive of the already mentioned $400 million? Such costs might, for example, be associated with the need for additional mail processing equipment. If you agree, please quantify the additional capital costs. If you disagree, please explain.

(b) If there are any additional costs, please break out the additional annual direct costs similar to the request in OCA/USPS-T6-22(c).

(c) How many of the 1.7 million new delivery points, if any, represent a transfer of existing mail service to a new location concurrent with the elimination of the old location?

(d) How much are annual capital investment and direct costs, as delineated in OCA/USPS-T6-22(c), decreased when the delivery point of mail is transferred to a new delivery point and the previous delivery point eliminated? The number may be aggregated in terms of a specific quantity of sites rather than site specific.

OCA/USPS-T6-25. Please turn to your testimony at 49, lines 21-26, wherein you state that the Postal Service's overall revenue and expense projections must be at least 99.5 percent accurate in order for the three percent contingency not to be fully consumed by adverse variances. Please provide the underlying mathematical reasoning and computations including references to specific exhibit pages and lines, if appropriate, that lead to this conclusion.

OCA/USPS-T6-26. Please turn to your testimony at page 51, lines 13-19, wherein you state that the break-even requirement allows no margin of safety other than through the contingency provision. Based on information in the financial press, it is common knowledge that companies frequently announce major and substantial budget cuts in order to achieve lower costs during times of financial difficulty.

(a) Is it your testimony that such an approach is inapplicable to the Postal Service?

(b) If your answer is "yes", please explain the unique characteristics that produce such a situation for the Postal Service.

(c) If your answer is "no", please explain how much of the currently projected costs could be cut in the interim years and test year during economic adversities.

OCA/USPS-T6-27. Please turn in your testimony at 53, lines 20-21, wherein you state that inflation can accelerate beyond projections and negatively affect the Postal Service's costs. It is understood that over 76 percent of the Postal Service's costs are labor. It is further understood that these costs are set by contract or by management policy and are not subject to inflation except to the degree that economic conditions such as inflation impact the terms of the contract or management policy.

(a) Assuming that accelerated inflation is an important issue to consider, would the aforementioned 76 percent of costs be subject to inflation once the contracts or management policies had been determined? If your answer is other than no, please explain.

(b) Assuming that accelerated inflation is an important issue to consider, have the interim year and test year revenue and cost projections taken this possibility into account?

(c) Have you quantified the potential levels of accelerated inflation and their potential impacts? Is so, please furnish the studies.

OCA/USPS-T6-28. You state at page 53, lines 27-29, that two alternate DRI-WEFA scenarios have less economic growth through the test year.

(a) Does this mean that you have used a forecast that is optimistic but has only a 55% chance of occurring as a probability?

(b) Does correct budgeting and planning suggest that you should take into account all reasonably prudent possibilities?

(c) Was there any consideration of using more realistic numbers, allowing for downside implications in preparing the revenue and cost projections?

(d) What part of the requested three percent contingency is expected to cover inflation and adverse economic conditions, and what percent is for other contingencies?

OCA/USPS-T6-29. Please turn to your testimony on page 54, lines 1-2, discussing the economic outlook. Is it your testimony that a more pessimistic economic possibility is appropriate, suggesting that the use of the June estimate of the economy was incorrect?

OCA/USPS-T6-30. Please turn to your testimony at page 58, line 1 through page 61, line 15. Are there any potential situations under which costs could be lower than expected?

OCA/USPS-T6-31. Please turn to your testimony at page 61 line 18 through page 62, line 2. You have discussed potential revenue variances of one percent and three percent.

(a) Please indicate the types of changes in each of the variables in the DRI-WEFA forecasts that would result in a one percent revenue variation, upwards or downwards.

(b) Please indicate the types of changes in each of the variables in the DRI-WEFA forecasts that would result in a three percent revenue variation, upwards or downwards.

OCA/USPS-T6-32. Please turn to your testimony on page 62, lines 7-26.

(a) You testify past and expected increases in Postal Service Total Factor Productivity (TFP) of 2.5 percent in FY 2000, 2.0 percent in FY 2001 through accounting period 12, 1.1 percent in FY 2002, and at least 0.5 to 1.0 percent lower than assumed in the test year after rates. Please state the TFP assumption for the test year.

(b) In many cases, programs to lower costs are stated in terms of cutting specific dollars or percentages of costs. Please indicate how a percentage cut in costs relates to the TFP projections you present. For example, assuming that the overall level of cost is cut by one percent, how much does TFP increase? Please state all assumptions.

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.

h'Enri Whitseyjohnson

Washington, D.C. 20268-0001
October 19, 2001