

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

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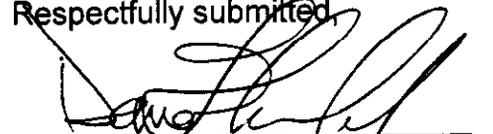
POSTAL RATE AND FEE CHANGES, 2001

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. 35-64. If the designated witness is unable to respond to any interrogatory, we request a response by some other qualified witness.

Respectfully submitted,

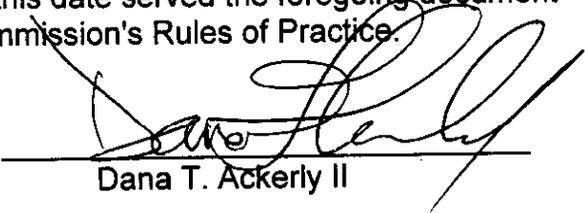


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CERTIFICATE OF SERVICE

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 24, 2001

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

DMA/USPS-T6-35. (a) Please confirm that the USPS-proposed provision for contingencies in this case was initially determined by USPS management and subsequently submitted to and approved by the Board of Governors. If you cannot confirm, please explain in detail.

(b) In preparing its proposals for this case, did USPS management submit to, or discuss with, the Board of Governors a proposed provision for contingencies different from 3%? If so, please explain in detail the size of the proposed provisions for contingencies that were submitted or discussed, and summarize the discussions that took place between the members of the Board of Governors and USPS management on this subject.

(c) Please identify the member or members of USPS management who made the decision (or contributed to the making of the decision) to propose a provision for contingencies of 3%.

(d) Did you personally have a role in management's determination to propose a 3% contingency in this case? If so, please describe this role in as much detail as possible.

(e) At the time that the proposed contingency was submitted by management to the Board of Governors, was it your personal opinion that a contingency of 3% was "reasonable," as required by the Postal Reorganization Act of 1970? If so, what, in your opinion at that time, were the most important factors that caused you to believe that a contingency of 3% was "reasonable"?

DMA/USPS-T6-36. Please describe in as much detail, and with as much specificity, as possible the reasons why the Postal Service believes that a 3.0% provision for contingencies is reasonable in this case, when it was of the opinion that a 2.5% provision for contingencies was reasonable in Docket No. R2000-1?

DMA/USPS-T6-37. Please refer to your testimony at page 52, lines 18 - 20, where you state, "There has been a sharp, unexpected slowdown in economic growth that placed the economy on the verge of a recession."

(a) Is the current level of economic activity reflected in the USPS cost and revenue projections for the Test Year? If your answer is other than an unqualified "yes," please explain in detail.

(b) Is it your opinion that this “sharp, unexpected slowdown in economic growth” supports a larger provision for contingencies than in Docket No. R2000-1? If so, please explain your opinion in detail.

DMA/USPS-T6-38. Please refer to your testimony at page 48, lines 1-2, where you state, “. . . adversities may crop up in the context of non-volume workload.”

(a) Please define “non-volume workload” as you have used the term.

(b) Please describe in as much detail as possible the types of adversities that may crop up in this context.

(c) To what extent are the financial consequences of these adversities to the Postal Service unknowable? Please respond in as much detail as possible.

DMA/USPS-T6-39. Please refer to your testimony at page 49, lines 18-19, where you state, “The size of a given rate increase has no bearing on the magnitude of possible adversities. The only possible relationship is that a smaller increase may represent a greater risk,”

(a) In light of this statement, would you agree that the fact that the Postal Service is requesting greater rate increases in this case as compared to Docket No. R2000-1 does not support a provision for contingencies in this case greater than the provision for contingencies in Docket No. R2000-1? If your answer is other than an unqualified “yes,” please explain in detail.

(b) In light of this statement, would you agree that the fact that the Postal Service is requesting greater rate increases in this case as compared to Docket No. R2000-1 may support a provision for contingencies in this case lesser than the provision for contingencies in Docket No. R2000-1? If your answer is other than an unqualified “yes,” please explain in detail.

DMA/USPS-T6-40. Please refer to your testimony at page 50, line 1 through page 52, line 3, where you discuss the subject, “Institutional Factors Demonstrate the Need for the Postal Service’s Contingency Provision.”

(a) Please confirm that the “institutional factors” that you discuss are: (1) universal service, (2) the USPS deferred retirement cost liability, and (3) the “zero net profit margins that result from the Postal Service’s breakeven objective.” If you cannot confirm, please explain in as much detail as possible.

(b) Please describe in as much detail as possible the ways in which “universal service” increases the risk of unknown adversities in the Test Year.

(c) Please describe in as much detail as possible the ways in which "the USPS deferred retirement cost liability" increases the risk of unknown adversities in the Test Year.

(d) Please describe in as much detail as possible the ways in which "the breakeven objective" increases the risk of unknown adversities in the Test Year.

DMA/USPS-T6-41. Please refer to your testimony at page 53, lines 29 - 30, where you state, "This means the macroeconomic risks are badly skewed against the Postal Service."

(a) Has the Postal Service made any study or estimates of the extent to which the DRI-WEFA economic forecasts used in the USPS volume and revenue projections would need to be wrong in order to create an adverse impact on the USPS net revenue as large as \$2,200,000,000, the approximate size of a 3% provision for contingencies? If so, please provide any such study or estimates and describe them in detail.

(a) Has the Postal Service made any study or estimates of the extent of the impact on USPS net revenues if the "Pessimistic" DRI-WEFA economic scenario occurs? If so, please provide any such study or estimates and describe them in detail.

(b) Has the Postal Service made any study or estimates of the extent of the impact on USPS costs if the "Pessimistic" DRI-WEFA economic scenario occurs? If so, please provide any such study or estimates and describe them in detail.

(c) Has the Postal Service made any study or estimates of the extent of the impact on USPS net revenues if the "Late Recession" DRI-WEFA economic scenario occurs? If so, please provide any such study or estimates and describe them in detail.

(d) Has the Postal Service made any study or estimates of the extent of the impact on USPS costs if the "Late Recession" DRI-WEFA economic scenario occurs? If so, please provide any such study or estimates and describe them in detail.

DMA/USPS-T6-42. Please refer to Table 51 in your testimony on page 57.

(a) Please provide the complete calculations underlying each of the 10 line items that, when applied against a "Net Income Potential" of \$2.0 billion, produce a "FY 2001 net loss."

(b) Please provide references to all information used in making such calculations.

DMA/USPS-T6-43. Please refer to your testimony at page 58, lines 8 - 12, where you state, "The dominant considerations in selecting a contingency provision remain management judgment and policy with respect to the degree of risk that the Postal Service is willing and able to absorb. This judgment should be upset if and only if it can be shown that the proposed contingency provision, as I have described it, is unreasonable."

(a) Has the Postal Service modified, in any respect whatsoever, the legal positions it asserted during the course of Docket No. R2000-1 concerning its authority over the size of a "reasonable provision for contingencies" and the authority of the Postal Rate Commission over this issue? If so, please describe any such modification in as much detail as possible.

(b) Is it a reasonable summary of the Postal Service's position in this respect to say that, while the Commission has the authority to recommend rates based on a provision for contingencies different from that underlying the USPS request, the Commission has the burden of demonstrating that the USPS-proposed provision for contingencies is "unreasonable"?

(c) Given your assertion that the "dominant considerations" in choosing a provision for contingencies "remain management judgment and policy," does the Postal Service have a position on the type and extent of the evidence or other information that would be legally necessary or sufficient to support a Commission determination on this subject different from that of management? If so, please describe such evidence or other information in as much detail as possible.

(d) Given your assertion that the "dominant considerations" in choosing a provision for contingencies "remain management judgment and policy," does the Postal Service have a position on whether the Postal Service has a legal obligation to support its "judgment and policy" with objective evidence of any kind? If so, please describe such obligation in as much detail as possible.

DMA/USPS-T6-44. Please consider a hypothetical situation where the Postal Service had projected Test Year After Rates volumes in this case one percent smaller on a class by class, subclass by subclass, rate cell by rate cell basis.

(a) Please confirm that the revenues associated with this forecast would be less than those associated with the Postal Service's actual forecast.

(b) Please confirm that the Test Year After Rates costs would be less than those associated with the Postal Service's actual forecast.

DMA/USPS-T6-45. Page 46 of your testimony refers to the freeze and deferral of capital programs and projects.

(a) If the freeze and deferral had not been in effect, how much more cash would the Postal Service have expended in FY 2000?

(b) In FY 2001?

(c) If the freeze and deferral had not been in effect, how much bigger would the revenue requirement have been?

DMA/USPS-T6-46. Page 46 of your testimony says "The resulting annual capital need for network growth is approximately \$400 million." How much depreciation is associated with the capital expenditure of \$400 million?

DMA/USPS-T6-47. On page 53 of your testimony you say, "Second, the economy can slow down or contract and reduce the Postal Service's revenue stream." Please confirm that in the US, slowing or contracting economies have typically not been accompanied by high rates of inflation. If you can not confirm, please explain why you believe this generalization to be untrue and provide as much data or other information as possible to support your view.

DMA/USPS-T6-48. On page 53 of your testimony you say, "First, inflation can accelerate beyond projections and negatively affect the Postal Service's costs."

(a) Please confirm that in the US high rates of inflation have been accompanied by high rates of income growth. If you can not confirm, please explain why you believe this to be untrue and provide data to support your view.

(b) Please also confirm that high rates of income growth have been accompanied by high levels of growth in Postal volumes. If you can not confirm, please explain why you believe this to be untrue and refer to witness Tolley's model for volume forecasting.

DMA/USPS-T6-49. Please refer to your Library Reference J-49. On Page 5 you state, "Average annual savings budgeted for each AFSM 100 are approximately 34,480 workhours per machine. The AFSM 100 is expected to run an average of 16 hours per day, and a two-month time lag in savings is assumed."

(a) How many days per week are the machines expected to run?

(b) Please explain in as much detail as possible why a two month lag in savings is assumed.

(c) Please explain the derivation of the 34,480 workhour savings per machine, including all assumptions and calculations.

DMA/USPS-T6-50. Please refer to your Library Reference J-49, Spreadsheet Prg_01_s_27094, Exhibit E, Summary of FY 2001 Cost Reduction Program Changes From Prior Year.

(a) Please confirm that you list 24 programs for either clerks or mailhandlers that yield cost reductions.

(b) Please confirm that you list 5 programs for carriers that yield cost reductions.

(c) Please confirm that cost reduction programs for clerks save 6,561.9 work years for clerks, 917.4 workyears for mailhandlers and 2,270 workyears for carriers. If you cannot confirm, please provide the correct workyear savings.

(d) Please confirm that the cost reduction programs for clerks and mailhandlers total 7,479.3 workyears. If you cannot confirm, please provide the correct workyear savings.

DMA/USPS-T6-51. Please refer to Exhibit E, Summary of FY 2001 Cost Reduction Program Changes From Prior Year.

(a) Please confirm that of the 24 programs with cost reductions for clerks or mailhandlers, only two have associated supervisor cost reductions. If you cannot confirm, please provide the correct number.

(b) Please confirm that the cost reductions for these two programs aggregate 6.9 workyears. If you cannot confirm, please provide the correct number.

(c) Please explain in as much detail as possible why it requires almost the same amount of supervisor workyears to supervise 7,479.3 fewer clerk and mailhandler workyears. Please include in your explanation references to "mailflows, networks and operations" which you cite on page 16 of your testimony as being factors in supervisory staffing requirements.

DMA/USPS-T6-52 Please refer to Exhibit E, Summary of FY 2001 Cost Reduction Program Changes From Prior Year.

(a) Please confirm that of the 5 programs with cost reductions for carriers, none has associated supervisor cost reductions. If you cannot confirm, please provide the correct number.

(b) Please explain in as much detail as possible why it requires the same number of supervisors to supervise 2,270 fewer carrier workyears. Please include in your explanation references to "mailflows, networks and operations" which you cite on page 16 of your testimony as being factors in supervisory staffing requirements.

DMA/USPS-T6-53. Please refer to Exhibit E, Summary of FY 2001 Cost Reduction Program Changes From Prior Year.

(a) Please confirm that there are only five programs with cost reduction programs for supervisors. If you cannot confirm, please provide the correct number.

(b) Of these five, please confirm that only two have associated clerk and mailhandler cost reductions. If you cannot confirm, please provide the number.

(c) Of these five, please confirm that none has associated carrier cost reductions. If you cannot confirm, please provide the correct number.

DMA/USPS-T6-54. Please refer to Exhibit E, Summary of FY 2002 Cost Reduction Program Changes From Prior Year.

(a) Please confirm that you list 21 programs for either clerks or mailhandlers that yield cost reductions.

(b) Please confirm that you list 3 programs for carriers that yield cost reductions.

(c) Please confirm that cost reduction programs for clerks save 8,887.6 workyears for clerks, 902.5 workyears for mailhandlers and 78 workyears for carriers. If you cannot confirm, please provide the correct workyear savings.

(d) Please confirm that the cost reduction programs for clerks and mailhandlers total 9,790.1 workyears. If you cannot confirm, please provide the correct workyear savings.

DMA/USPS-T6-55. Please refer to Exhibit E, Summary of FY 2002 Cost Reduction Program Changes From Prior Year.

(a) Please confirm that of the 21 programs with cost reductions for clerks or mailhandlers, only three have associated supervisor cost reductions. If you cannot confirm, please provide the correct number.

(b) Please confirm that the supervisor cost reductions for these three programs aggregate 48.3 workyears. If you cannot confirm, please provide the correct number.

(c) Please explain in as much detail as possible why it requires almost the same number of supervisors to supervise almost 10,000 fewer clerk and mailhandler workyears. Please include in your explanation references to "mailflows, networks and operations" which you cite on page 16 of your testimony as being factors in supervisory staffing requirements.

DMA/USPS-T6-56. Please refer to Exhibit E, Summary of FY 2002 Cost Reduction Program Changes From Prior Year. Please confirm that of the 3 programs with cost reductions for carriers, none has associated supervisor cost reductions. If you cannot confirm, please provide the correct number.

DMA/USPS-T6-57. Please refer to Exhibit E, Summary of Test Year Cost Reduction Program Changes From Prior Year.

(a) Please confirm that you list 20 programs for either clerks or mailhandlers that yield cost reductions.

(b) Please confirm that cost reduction programs for clerks save 7,063 workyears for clerks and 161.1 workyears for mailhandlers. If you cannot confirm, please provide the correct work year savings.

(c) Please confirm that the cost reduction programs for clerks and mailhandlers total 7,224.1 workyears. If you cannot confirm, please provide the correct workyear savings.

DMA/USPS-T6-58. Please refer to Exhibit E, Summary of Test Year Cost Reduction Program Changes From Prior Year.

(a) Please confirm that of the 20 programs with cost reductions for clerks or mailhandlers, none has associated supervisor cost reductions. If you cannot confirm, please provide the correct number.

(b) Please explain in as much detail as possible why it requires the same number of supervisors to supervise 7,224.1 fewer clerk and mailhandler workyears. Please include in your explanation references to "mailflows, networks

and operations” which you cite on page 16 of your testimony as being factors in supervisory staffing requirements.

DMA/USPS-T6-59. You briefly discuss Final Adjustments on pages 20 and 21 of your testimony. On page 20 you state, “FY 2000 costs reflect the mail volume mix that existed prior to the Docket No. R2000-1 rate changes that went into effect on January 7, 2001 and July 1, 2001. In order to reflect the cost changes due to those rate changes and certain other volume trends at a finer level of aggregation than represented in the Cost and Revenue Analysis (CRA) report, adjustments were made.”

(a) Please confirm that if the mail becomes more presorted (and everything else stays the same) between base year and test year, the final adjustment will reduce costs. If you cannot confirm, please explain why this is not so.

(b) Please confirm that if the mail becomes more barcoded (and everything else stays the same) between base year and test year, the final adjustment will reduce costs. If you cannot confirm, please explain why this is not so.

(c) Please confirm that if the mail becomes more dropshipped (and everything else stays the same) between base year and test year, the final adjustment will reduce costs. If you cannot confirm, please explain why this is not so.

(d) Please confirm that the final adjustments reduce clerk and mailhandler costs. If you cannot confirm, please explain why this is not so.

(e) Please confirm that clerk and mailhandlers costs decrease because the work content of the mail decreases. If you cannot confirm, please explain why this is not so.

(f) Please confirm that cost changes due to changes in mail mix reflect changes in work content, not changes in USPS productivity. If you cannot confirm, please explain fully.

DMA/USPS-T6-60. Please refer to Exhibit E, Summary of FY 2001 Cost Reduction Program Changes From Prior Years. The 17th program listed is “Automated Feeders and OCRs”.

(a) Please confirm that this is the program you describe on page 9 of Library Reference J-49.

(b) Please confirm that witness Kingsley describes this program on page 15 of her testimony.

(c) Please reconcile your statement on page 9 of LR J-49, " This program will install automated flats feeders and optical character readers (OCRs) on all 359 FSM 1000s" with her statement on page 15 of her testimony, "There are 351 machines deployed...Presently there are no plans to purchase additional FSM 1000s."

DMA/USPS-T6-61. The 18 series you show in your exhibit USPS 6T encompass data from 1985 to 2003. Please provide an Excel spreadsheet containing these data for each of the 18 series from 1940 through 1984.

DMA/USPS-T6-62. Exhibit USPS 6T provides a forecast for the 1-Year Treasury Bill.

(a) Please confirm that the exhibit shows a forecast for the 1-Year bill in 2001 of 3.9 percent.

(b) What is the current yield on 2 Year notes?

(c) Please confirm that the yield curve is not currently inverted.

DMA/USPS-T6-63. Please refer to your Library Reference J-49, Spreadsheet Prg_01-\$_27094, Exhibit A, Summary of FY 2001 Other Program Changes From Prior Years.

(a) Please confirm that there are no "Other Program" breakthrough productivity savings for supervisors even though there are \$172.5 million of savings for clerks and \$77.5 million of savings for city carriers in 2001.

(b) Please describe the process by which you decided there would be no "Other Program" savings for supervisors in FY 2001.

(c) Please describe the process by which you decided there would be "Other Program" savings for supervisors in FY 2002 and in the Test Year.

DMA/USPS-T6-64. Please refer to your spreadsheet Sptdoc_01s, tab Non-Pers Other Programs, cell F18.

(a) Please confirm that the value entered in this cell is \$22,000.

(b) Please confirm that the heading on this page of the spreadsheets indicates that entries are in thousands of dollars.

(c) Please confirm that row 18 is labeled "Rate Case/Legal Services" and that column 18 is labeled "Incremental FT 2002".

(d) What is the distribution key for this cost?