

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

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POSTAL RATE AND FEE CHANGES, 1997

POSTAL RATE COMMISSION
OF THE SECRETARY
Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS TAYMAN TO INTERROGATORIES OF
THE ALLIANCE OF NONPROFIT MAILERS
(ANM/USPS-T9-1(A)-(F), (H) & (I) & 2)

The United States Postal Service hereby provides responses of witness Tayman to the following interrogatories of the Alliance of Nonprofit Mailers: ANM/USPS-T9-1(a)-(f), (h) & (i), and 2, filed on August 4, 1997. An objection to interrogatory ANM/USPS-1(g) was filed on August 14, 1997.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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August 18, 1997

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
THE ALLIANCE OF NONPROFIT MAILERS**

ANM/USPS-T9-1. In your testimony, filed on July 10, 1997 in this docket, you state at page 40 that the Postal Service estimates its net income at the end of Fiscal Year 1997 at \$636 million. At the end of Accounting Period 9 (ended 5/23/97) the Postal Service reported a cumulative net income of \$1,338.9 million.

- a. For each of the remaining accounting periods (10-14) in FY 1997, please state the projected net income or loss.
- b. State whether the projected deficits reduce the \$1,338.9 million cumulative income at the end of Accounting Period 9 to \$636 million at the end of the fiscal year.
- c. State the considerations or factors that led the Postal Service to project such large deficits in Accounting Periods 10-13.
- d. Explain why, in recent years, the Postal Service has tended to estimate the projected deficits in Accounting Periods 10-14.
- e. State whether the Postal Service has changed its projection of net income for Fiscal Year 1997 since your testimony was filed.
- f. If the Postal Service has changed its projection of net income for Fiscal Year 1997, or if it does so before the close of this docket please provide the revised projection(s) of net income for each remaining Accounting Period and the Fiscal Year 1997.
- g. For Fiscal Year 1996, please show(i) the budgeted income ("the plan") at the outset of the Fiscal Year, by Accounting Period, and (ii) the actual income for each Accounting Period and explain major deviations from plan versus actual.
- h. If Fiscal Year 1997 actual net income were \$1.0 billion higher than the projected amount of \$636 million, show the effect that such a change would have on the Before Rates projected deficit for Fiscal Year 1998.
- i. Identify all studies, analyses, compilations and other data on which you rely in answering each previous part of this question, and produce any such data that the Postal Service has not yet produced in this case.

RESPONSE:

- a. Year to date net income through accounting period 11 PFY 1997 is \$1,292.4 million. The planned net losses for accounting periods 12,13 &14 are \$202.4 million, \$254.2 million, and \$62.0 million respectively.
- b. Assuming actual results are exactly equal to plan for accounting periods 12, 13, and 14, the total net income for Fiscal Year 1997 would be \$773.8 million.
- c. Postal Service mail volume is seasonal. Mail volume (and consequently revenue) tend to be relatively higher during the fall and winter and lower during the summer. This produces financial results that are relatively less favorable during PQ IV. Also, financial results in general tend to become less favorable as the time since the last rate increase passes, since the cost of resources continues to increase due to inflation, but postage rates remain constant.
- d. See my response to part c.
- e. The Postal Service's latest estimate for FY 1997 is a net income of between \$900 million and \$1.0 billion. This estimate does not reflect any impact from the current UPS strike, which will be non-recurring and therefore not of major relevance to the test year revenue requirement. The attached schedule lists the major expected causes of the difference between the FY 97 net income of \$636 million estimated in my testimony and the latest estimate.

While the Postal Service recognizes that FY 97 net income will be higher than estimated in the Docket R97-1 filing, it has not revised its revenue

requirement estimates nor the supporting material contained in the Docket R97-1 filing. Variances from the individual estimates provided in this docket will undoubtedly occur, just as one would expect in any forecast of this complexity. It is worth noting that we began developing rate case estimates last February, and the Recommended Decision will not be available until almost 15 months later. Despite any variances that may have occurred, the Postal Service considers the total revenue requirement presented in my testimony to be the appropriate amount upon which to base test year rates..

f. Revised accounting period estimates have not been developed. It should be noted that actual results for the remaining accounting periods and Fiscal Year 1997 will be available prior to the close of the record in this docket. Also see my response to e.

g. An objection to this interrogatory has been filed.

h. Without knowing the specific cause(s) of the additional hypothetical net income you have postulated, it is not possible to determine the hypothetical impact of such a variance on Fiscal Year 1998.

i. Please refer to my responses to a-h.

	FY 97 Net Income (Loss) \$ (millions)	
	Scenario One	Scenario Two
R 97-1 Filing	636	636
<u>Major changes</u>		
Workers' compensation	270	270
POD Workers' Compensation	(240)	(240)
Non-personnel costs	250	350
Revised net income (loss)	916	1,016

Notes:

Scenario one assumes that other programs underrun plan by \$250 million.

Scenario two assumes that other programs underrun plan by \$350 million.

Preliminary FY 97 actual data suggests that efforts to return employees on workers' compensation to work have been more successful than anticipated and will result in a significant reduction to prior year costs.

The Postal Service will assume the liability for Post Office Department workers' compensation costs as required by recently enacted budget reconciliation legislation (P.L. 105-33).

Non personnel costs mainly related to programs less than planned.

Does not reflect impact of UPS strike.

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
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ANM/USPS-T9-2. Your testimony at p. 40 states that the Postal Service realized a net income of \$1.8 billion in FY 1995 and a net income of \$1.6 billion in Fiscal Year 1996. This resulted in a year-to-year decline in net income from FY 1995 to FY 1996 of \$200 million. Your testimony further states that the Postal Service expects net income of \$636 million in Fiscal Year 1997. This means it expects a year to year decline from FY 1996 to FY 1997 of between \$900-\$1,000 million. Finally, you state on p. 41 that "[a] Fiscal Year 1998 before rates test year with a projected net loss of \$1.4 billion indicates the need for additional net revenue." Going from a net income of \$636 million to a net loss of \$1.4 billion indicates a year-to-year decline of approximately \$2.0 billion.

- a. Please identify the major factors causing the acceleration in the year-to-year erosion of the Postal Service's net income position, from \$200 million to \$900-\$1,000 million to \$2.0 billion.
- b. Explain whether the factors which you cite in response to part a of this interrogatory are most likely (i) non-recurring, one time events, or (ii) recurring events.
- c. If the factors which you cite in response to part b. of this interrogatory are, in your view, most likely recurring, to what extent do they indicate that the Postal Service's financial condition is starting to spin out of control?
- d. Were the test year projections of revenues and expenses contained in your testimony prepared in the normal course of the Postal Service's business, i.e., as part of the Postal Service's ongoing budgeting and financial planning, or were they prepared especially for use in this rate case?
- e. If the test year projections referred to in the preceding part of this interrogatory were prepared especially for this rate case, please explain why this was necessary and how these projections were developed.

RESPONSE:

- a. FY 1996 net income was little changed from FY 1995 for several reasons. First, FY 1996 reflected a full year at higher rate levels while FY 1995 was

impacted by old postage rates and fees for part of the year. Another significant factor impacting this year-to-year relationship relates to the nuances of the labor contract which resulted in small increases or declines in the cost of labor in FY 1996. For example, the provisions of the labor contract caused the average personnel cost per workhour for clerks and mail handlers to decrease from \$23.85 in FY 1995 to \$23.78 in FY 1996. (See LR H-12 page 295 and LR SSR-11 page 112). This was due mainly to the fact that there was 1) no lump sum payment in FY 1996 after a \$950 lump sum payment in FY 1995, 2) relatively small COLA increases in FY 1996, and 3) a decline in health benefit premiums in January 1996. (See LR H-12 page 273 and LR SSR-11 page 56.) Finally, workers' compensation costs declined by \$141 million, workers' compensation health benefits were favorably impacted by a prior year adjustment of approximately \$100 million, and the cost of interest on debt declined by almost \$200 million. (See LR H-12 page 86 and LR SSR-11 page 11.)

FY 1997 net income will decline from FY 1996 more significantly than the decline that occurred between FY 1995 and FY 1996 due to the increased cost of resources due to inflation and factors opposite those which resulted in the small decline in net income that occurred between FY 1995 and FY 1996. There was no rate increase impact in FY 1997 and the labor contract provides for a \$400 lump payment in FY 1997 after none was paid in FY 1996. Health benefits increased slightly in 1997 and the impact of COLA will be greater in FY 1997 due to the time period covered and the effective dates. (See LR H-12 page 273.)

The difference between the projected FY 98 before rates net loss and the projected FY 97 net income is larger than the increase in net income projected to occur between FY 96 and FY 97, because of the increased cost of resources due to inflation and the cost of other programs. As reflected on my Exhibit 9M, other programs are estimated to increase by \$2.5 billion in FY 98 compared to \$1.1 billion in FY 1996. As discussed on page 9, line 4 of my testimony, most of these programs are "designed to continue service improvements, improve responsiveness to customers, maintain and improve our infrastructure, and reduce costs in the future". The most significant other program cost changes for each cost segment are discussed in Chapter III.C.1 of my testimony. Other program cost changes and the basis for the resource requirements are described in greater detail in LR H-10.

b. The impact of the January 1995 rate increase is recurring and its impact is fully reflected in Fiscal Year 96 actual results and FY 97 and test year estimates. Lump sum payments are one time events that impact only the year in which they are expensed. The impact of COLA and health benefit changes are recurring. The prior year adjustment to workers' compensation health benefits was a one time event which will not recur. The changes in the other cost categories discussed above are a mixture of recurring and non-recurring expense. Their year to year impact on costs is determined by comparing each year's zero based estimate to the previous year's actual results or zero based estimate.

c. The FY 1995-1998 cost and revenue patterns explained above indicate that the Postal Service's financial condition continues to improve and is under control. A cumulative net income of \$2.9 billion for the four year period FY 95-98 (\$1.8 billion + \$1.6 billion + \$.9 billion - \$1.4 billion) without any increase in rates is a remarkable achievement. Recent financial results, service and customer satisfaction improvements, the revenue and cost patterns discussed above, and this filing which reflects the smallest overall percentage increase in rates ever requested at only about half the rate of inflation are indicative of an organization whose finances and performance are improving and likely to continue in this direction.

d. The test year projections of revenues and expenses contained in my testimony were prepared specifically for use in this proceeding in order to meet the unique format, information, and timing requirements of the rate process. Some of the assumptions and estimates are, however, the same as those that were used to develop in Postal Service budgets. Rate case projections are a key part of the Postal Service's financial planning process and will have a major influence on the formulation of subsequent Postal Service budgets just as Postal Service budgets may influence subsequent rate case estimates.

e. For a detailed explanation of how the revenue requirement projections contained in my testimony were developed please see my testimony and LR H-12. The development of these projections was necessitated by the reasons specified in my response to part d., which includes the requirements of the Commission's rules governing rate filings.

DECLARATION

I, William P. Tayman, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

William P. Tayman

Dated: 2-18-97

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.



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