

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

RECEIVED

SEP 2 4 44 PM '97

POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS TAYMAN TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T9-20, 22-27)

The United States Postal Service hereby provides responses of witness Tayman to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T9-20, 22-27, filed on August 18, 1997. Interrogatory OCA/USPS-T9-21 was redirected to witness Patelunas.


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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Rate-making



Scott L. Reiter

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2999; Fax -5402
September 2, 1997

RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T9-20. Please refer to your exhibit, USPS 9F.

- a. Please confirm that the page 1 footnote reference on the line titled "Debt Repayment" should be corrected from 5/ to 4/. If you do not confirm, please explain.
- b. Please provide a corrected page 3 that locates the footnotes listed at the bottom of the page.

RESPONSE:

- a. Confirmed.
- b. Corrected pages 1 and 3 are attached.

U. S. POSTAL SERVICE

Cash Flow Forecast

Fiscal Year 1997

(millions of dollars)

	10/1/96 - 12/06/96	12/07/96 - 2/28/97	3/01/97 - 5/23/97	5/24/97 - 09/30/97	Total Year
BEGINNING BALANCE					
Cash 1/	(550)	(159)	(278)	(351)	(550)
Investments 1/	860	866	1,213	2,239	860
Total	310	707	935	1,888	310
CASH RECEIPTS					
Postal Revenues 2/	11,046	13,540	13,556	19,870	58,012
Gov't Appropriations 3/	57	21	27	21	126
Borrowing 4/	1,404	250	0	3,710	5,364
Total Receipts	12,507	13,811	13,583	23,601	63,502
CASH DISBURSEMENTS					
Operations 2/	9,169	12,426	11,691	22,536	55,822
Capital Investments 5/	604	669	839	1,671	3,783
Debt Repayment 4/	2,904	250	0	508	3,662
POD Liability 3/	36	0	0	0	36
Total Disbursements	12,713	13,345	12,530	24,715	63,303
Net Change in Money Orders	603	(238)	(100)	(265)	0
ENDING BALANCE					
Cash	(159)	(278)	(351)	(351)	(351)
Investments	866	1,213	2,239	860	860
Total	707	935	1,888	509	509

SOURCES:

- 1/ Audited FY 1996 financial statements.
- 2/ Accrual revenues/expenses adjusted to cash basis.
- 3/ Chapter XI-b of L.R. H-12 plus POD liability of \$35.5 millions.
- 4/ Chapter VI-b of L.R. H-12.
- 5/ Chapter VI-e of L.R. H-12.

U. S. POSTAL SERVICE

Cash Flow Forecast

Test Year - After Rates

(millions of dollars)

	10/01/97 - 12/05/97	12/06/97 - 2/27/98	2/28/98 - 5/22/98	5/23/98 - 9/30/98	Total Year
<u>BEGINNING BALANCE</u>					
Cash	(351)	0	0	0	(351)
Investments	860	312	182	389	860
Total	509	312	182	389	509
<u>CASH RECEIPTS</u>					
Postal Revenues 1/	12,267	14,523	14,361	20,692	61,843
Gov't Appropriations 2/	56	22	22	21	121
Borrowing 3/	0	0	0	5,244	5,244
Total Receipts	12,323	14,545	14,383	25,957	67,208
<u>CASH DISBURSEMENTS</u>					
Operations 1/	9,730	12,801	12,744	23,724	58,999
Capital Investments 4/	955	886	943	1,449	4,233
Debt Repayment 3/	1,810	1,000	500	681	3,991
POD Liability 2/	35	0	0	0	35
Total Disbursements	12,530	14,687	14,187	25,854	67,258
<u>Net Change in Money Orders</u>	10	12	11	17	50
<u>ENDING BALANCE</u>					
Cash	0	0	0	(351)	(351)
Investments	312	182	389	860	860
Total	312	182	389	509	509

SOURCES:

- 1/ Accrual revenues/expenses adjusted to cash basis.
- 2/ Chapter XI-b of L.R. H-12 plus POD liability of \$34.9 millions.
- 3/ Chapter VI-b of L.R. H-12.
- 4/ Chapter VI-e of L.R. H-12.

RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T9-21. Please refer to Library Reference H-12, Chapter IIIa, Roll Forward Model Factors and Chapter XII, Rollforward Model Change Reports.

- a. Two different line headings, "Interest on Debt, cost component 217," for three periods (FY97, FY98, and FY98 After Rates) in Chapter IIIa and "Imputed Interest Land/Building and Equip., cost component 587," in Chapter XII, Sections a,d, and f are used to refer to identical dollar amounts. Please indicate which designation is correct, where any conforming adjustments are required, and provide revised schedules as appropriate.
- b. Please explain why the "Interest on Debt, cost component 217," of \$82,152,000 in the "Roll Forward Model Factors for FY 1998," referenced in a, above, differs from those in a similar table sponsored by witness Patelunas (Exhibit 15A, FY 1998, page 4), which cites to LR H-12 and lists \$113,192,000 as "Interest on Debt, cost component 217." Please indicate which amount is correct, where any adjustments are required, and provide revised schedules as appropriate.

RESPONSE.

- a. Redirected to witness Patelunas (USPS-T15).
- b. Redirected to witness Patelunas (USPS-T15).

RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T-9-22. Please refer to your exhibit USPS 9G, Investment Income. Please show what effect the Postal Service earnings estimated by Mr. Riley, USPS Chief Financial Officer, at the August 5, 1997 meeting of the USPS Board of Governors to be about \$1 billion for FY 1997(meeting transcript page 44), or approximately \$465 million more than estimated in your exhibit 9A for FY 1997, would have upon the "Average Investment Balances" and, concurrently, upon the "Estimated Investment Income" on your exhibit USPS 9G.

RESPONSE:

Please refer to my response to ANM/USPS-T9-1e. The impact of the changes to FY 1997 net income identified in this response would have a minimal impact on average investment balances and investment income. Changes to net income may or may not immediately impact cash balances, debt outstanding, and investment income. *In this case the changes to workers' compensation and POD workers' compensation will have little if any impact on FY 1997 cash balances.* In any event, the Postal Service remains satisfied with its Docket R97-1 revenue requirement and believes that no adjustments are necessary.

RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T9-23. Please show what impact the additional \$465 million of earnings referred to in OCA/USPS-T9-22 would have upon the balance of debt and interest expenses for FY97 and FY98, before and after rates, projected in Library Reference H-12, Chapter VIb.

RESPONSE:

Please see my response to OCA /USPS-T9-22.

RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T9-24. Please refer to Library Reference H-12, Chapter VIb, page 136, table entitled OBRA 1993. Please explain the title and reference to 1993, identify corrections that may be necessary on other schedules, and provide corrected schedules as appropriate.

RESPONSE:

The title describes the imputed interest expense that results from the Omnibus Budget Reconciliation Act of 1993. The reference to 1993 reflects the year in which the Omnibus Budget Reconciliation Act was enacted. The discounted present value of this legislation was recognized by the Postal Service as an expense and a liability in 1993. However, payments related to this liability are not required until 1996-1998, and this has resulted in imputed interest. For further details please see page 40 of the 1993 Comprehensive Statement on Postal Operations and page 61 of the 1996 Annual Report of the United States Postal Service.

RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T9-25. Please refer to Library Reference H-12, Chapter VIb.

- a. Please indicate in which subcomponent the note interest expenses, imputed interest expenses and capital interest projections in Chapter VIb are reflected in the "Interest Expense" component of cost segment 20 in Chapter XII of LR H-12 for the appropriate years.
- b. Please show any adjustments and the source of those adjustments to the amounts in Chapter VIb made in order to reach the total for the interest expense components of cost segment 20 in Chapter XII.

RESPONSE:

a.&b. Note interest and capitalized interest are included in component 587, and imputed interest on retroactive annuitant costs is included in component 899 on the cost segment 20 rollforward change reports in Chapter XII of LR H-12. Please refer to Chapter IV, Section H, pages 86 and 87, of Library Reference H-12 for a breakout of interest expense.

RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T9-26. Please refer to Library Reference H-12, Chapter VIb.

- a. Please confirm that the table of FFB Note Interest Expense for GFY 1998 (page 132) lists 13 notes from FFB 06 through FFB 45 with a 9/30/97 balance of \$2,906,305 bearing interest rates between 9.074 percent and 7.367 percent, with most above 8.5 percent. If you do not confirm, please explain.
- b. Please confirm that the new financing on 9/30/97 during FY 1997 (page 130) is estimated at 6.017 percent for thirty years. If you do not confirm, please explain. Please explain why it is shown as thirty years financing on this page and adjusted to a shorter period on the FY 1998 After Rates table (page 132).
- c. Are there any legal restrictions preventing the USPS from refinancing the notes referred to in part a, above, prior to their maturity date?
- d. Are there any financial reasons that would prevent the USPS from refinancing the notes referred to in part a, above, prior to their maturity date?
- e. Does the Postal Service have any plans to refinance current debt which is maturing after FY 1998?
- f. Please confirm that the table below, drawn from the table referred to in part a, above, correctly calculates the weighted interest to be 7.538 percent for all of the notes which are expected to be outstanding at the end of FY 1998. If you do not confirm, please explain.

Note #	Balance 9/30/97	Balance 9/30/98	Interest Rate (%)	Weighted Interest (%)
FFB 06	96,000	64,000	8.075	0.190
FFB 08	60,000	45,000	7.800	0.129
FFB 18	36,000	36,000	8.762	0.116
FFB 19	36,000	36,000	8.761	0.116
FFB 20	36,000	36,000	8.760	0.116
FFB 44	1,500,000	1,500,000	7.367	4.067
FFB 45	1,000,000	1,000,000	7.615	2.804
Total	2,764,000	2,717,000		
Wtd. Int.				7.538

- g. Please confirm that if these notes referred to in part f, above, were refinanced as of 9/30/97 at the rate of 6.0 percent, the FY 1998 savings on the amounts still outstanding on 9/30/98 would be the difference between the current weighted interest rate of 7.538 percent on the refinanced notes and 6.0 percent multiplied by \$2,717,000,000. If you do not confirm, please explain.
- h. Please confirm that for every 1.5 percent reduction in interest by refinancing the notes listed in f, above, the savings would be \$40.76 million annually. If you do not confirm, please explain.
- i. Please confirm that by refinancing the notes listed in f, above, at the beginning of the year there would be additional interest savings on the \$497 million of payments scheduled during FY 1998. If you do not confirm, please explain. Please provide the additional amount of interest savings on those amounts assuming a 1.5 percent reduction in the interest rate due to refinancing.

RESPONSE:

- a. The table of Note Interest Expense for GFY 1998 (page 132) lists a total of 20 Notes from FFB 06 through New 98D with a projected 9/30/1997 balance of \$7,607,905,000. The question appears to be confined to a portion of the total schedule related to only FFB Notes #06 through #45. There are a total of 13 Notes contained in this sequence with a range of interest rates from a low of 7.367% to a high of 9.074% and a projected 9/30/1997 balance of \$3,397,905,000. I do not confirm a balance of \$2,906,305,000 as stated in the question. Of the 13 Notes in this sequence, there are 8 with an interest rate that exceeds 8.5%, accounting for 10.91% of the total dollars in this sequence of Notes.
- b. I do not confirm that the new financing on 9/30/1997 during FY 1997 (page 30) is estimated to be 6.017% for thirty years. "New 97,(54)" is an assumed modification to existing FFB Note #54 as footnoted by the asterisk after the Note in the 9/30/1997

balance column. FFB Note #54 is a variable rate note that can have a final advance that matures up to thirty years after the first issue date. However, the interest rate is recalculated on each interest payment date based on the most recently auctioned 13-week United States Treasury Bill in addition to (1/8 of 1%) per annum for each advance. The interest payment dates are February 15, May 15, August 15, and November 15 until final maturity of any outstanding advance. The Postal Service may elect to take an advance for all or any part of the amount outstanding on each interest payment date. In other words, the USPS can elect to "roll over" a portion of the advance outstanding, all of the advance outstanding, or none of the advance outstanding on each interest payment date. The USPS does have the option to roll over each advance, on each interest payment date, until the final maturity date, assumed to be thirty years. The repayment of outstanding balances on any interest payment date can be accomplished without any penalty payment.

The financing labeled "New 97,(54)*", which is listed on page 130, shows the final possible maturity date of an amended Note. The financing labeled "New 97,(54)*", which is on page 132, shows each successive interest payment date as the maturity for the portion of each remaining advance. For the purposes of interest expense calculation, the maturity used as the basis for the calculation is the next interest payment date. The final maturity date is not relevant for determining the rate nor for calculating interest on this Note.

c. There are no legal restrictions preventing the Postal Service from refinancing the notes referred to in part a, above, prior to their maturity date.

d. Yes, there are financial reasons why it may not be advantageous for the Postal Service refinance the Notes referred to in part a, above, prior to their maturity date. The question needs to be answered differently for FFB Notes #44 and #45 than for FFB Notes #06 through FFB Note #37. FFB Notes #45 and #46 have a call feature that enables the USPS to repay the outstanding principal amount at par value at any time on or after 11/30/1997.

(1) FFB Notes #06 through #37: These Notes contain a repurchase provision that can result in either a discount or a penalty depending on prevailing market interest rates at the time of the repurchase. Unlike a mortgage that can usually be refinanced at the option of the borrower without penalty, our debt outstanding has financial restrictions on repayment prior to maturity. For instance, the language for FFB Note #37 contains the following : "In the event that USPS elects to repurchase the entire unpaid principal balance of any advance, USPS shall pay to the FFB a price for such advance (and all accrued interest thereon) which would, if such advance were purchased and held to maturity, produce a yield to the purchaser, for the period from the date of the purchase to the maturity of such advance , substantially equal to the interest rate which would be set on a loan from the Secretary of the Treasury to the FFB to purchase an obligation having a payment schedule identical to that of such advance. Such repurchase price shall be calculated by the Secretary of the Treasury as of the close of business 2 business days prior to the date on which USPS wishes to repurchase respective Advance or Portion or to repurchase the Note, as the case may be, using standard United States Department of the Treasury calculation methods."

The market level of interest rates prevailing at the time of redemption will determine the amount of premium (penalty) or discount to be considered in the redemption price. If the calculation resulted in a premium or penalty the USPS may not consider it *advantageous to retire the debt.*

(2) - FFB Notes #44 and #45: These Notes contain similar effective language for repayment prior to the Call Date of either Note. Therefore, repaying either note prior to the Call Date is not an attractive financial transaction for the USPS unless market condition change substantially. The Call Date for both of these Notes is 11/30/1997. After the Call Date the USPS may elect to redeem the unpaid principal balance of either Note or a portion of the balance at a redemption price equal to the principal to be redeemed plus all accrued interest through the date of redemption. What action the Postal Service will take regarding the Call feature for these Notes will be determined at a later date taking into consideration the prevailing market interest rates and USPS financing and cash needs at that time.

e. Although no decision has yet been made, the Postal Service is giving consideration to utilizing the Call feature of FFB Notes #44 and #45 and redeeming part or all of the outstanding balance on or after the Call Date. There are no plans at this time to refinance FFB Notes #06 through #37 referenced in part a, above.

f. I can not confirm that the table provided in part f correctly calculates the weighted interest for all Notes which are expected to be outstanding at the end of FY 1998. The table is incomplete and does not account for the following FFB Notes: #50, #55, #56, #New 97,(54), New 98C, and New 98D. Additionally, the weighted interest calculation does not take into consideration the fact that the Notes have varying

maturity dates and different debt structures. Treating all of the Notes as if they were the same does not produce a result that is statistically valid.

g. I can not confirm the calculated savings methodology stated in question g for the following reasons: (1) The calculation does not consider the effects of a repayment penalty under the conditions provided (see my response to d). (2) The refinancing rate of 6% is provided without regard to maturity date. Maturity dates influence the economics of any refinancing. (3) The refinancing rate of 6% is provided without regard to debt structure. Different debt structures can produce different cash flows for the payment of principal and interest. (4) It is not clear from the question whether or not the refinancing rate of 6% is inclusive of the financing fee of (1/8 of 1%) per annum on borrowings through the FFB. (5) It is not clear from the question whether or not the refinancing rate of 6% is inclusive of the financing costs associated with any Call Options. (6) The projected principal amount of debt outstanding at 9/30/98 as listed in the table is incomplete.

h. I can not confirm the annual savings claimed. See my responses to parts d, f, &

i. I can not confirm the additional savings claimed. See my responses to parts d, f, g, & h.

RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T9-27. Please refer to Library Reference H-12, ChapVIb. Please show the impact upon the "FFB Note Interest Expense" schedules if interest rate quotations are updated to the current Telerate quotations for the source of the yield curve.

RESPONSE:

Telerate periodically updates its projected rates and makes this information available to their subscribers. Dow Jones Telerate can be contacted at 800-334-3813. As I explained in my response to OCA/USPS-T9-12, updating causes numerous problems and is not a good idea. I also note that interest rates are constantly changing and inextricably linked to many of the other assumptions, indices, and factors upon which the Docket R97-1 revenue requirement was premised.

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: Sept. 2, 1997

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.

A handwritten signature in cursive script, appearing to read "Scott L. Reiter", is written above a horizontal line.

Scott L. Reiter

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
September 2, 1997