

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, 1997

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS TAYMAN TO INTERROGATORIES OF
THE DIRECT MARKETING ASSOCIATION, INC.
(DMA/USPS-T9-16-25)

The United States Postal Service hereby provides responses of witness Tayman to the following interrogatories of the Direct Marketing Association, Inc.: DMA/USPS-T9-16-25, filed on August 19, 1997.

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, Ratemaking



Scott L. Reiter

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September 2, 1997

RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
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DMA/USPS-T9-16. Please refer to page 244 (Chapter VIIIA) of LR-H-12 and Table 14 on page 19 of your direct testimony (USPS-T-9)

- (a) Please confirm that the CPI-W Trigger for July 1997 on page 244 of LR-H-12 is 472.06 and that this figure is DRI's February, 21 1997 forecast of the CPI-W for July 1997.
- (b) Please confirm that the CPI-W Trigger is a forecast of the Bureau of Labor Statistic's Series CWUR0000AA0 (located on the internet website "stats.bls.gov") and that the actual CPI-W for July 1997 is 469.0. Please also provide the percentage change in the CPI-W fiscal year to date.
- (c) Please confirm that the COLA adjustment based on the July 1997 CPI-W will, in fact, be less than estimated in the Postal Service's roll forward methodology.
- (d) Please confirm that the DRI estimates on page 244 of LR-H-12 indicate that the CPI-W will (i) increase by 1.15 percent between July 1997 and January 1998 and (ii) increase by 1.48 percent between January 1998 and July 1998.
- (e) Please confirm that using DRI estimates of the changes in the CPI-W from sub-part (d), the CPI-W will be 474.39 in January 1998 and 481.44 in July 1998.
- (f) Please provide the BLS Series ID to which your CPI-U figures shown in Table 14 on page 19 of your direct testimony correspond. Please also provide the percentage change in the CPI-U fiscal year to date.
- (g) Please confirm that the producer price index decreased in (i) June 1997 and (ii) July 1997.

RESPONSE:

- a. Confirmed.
- b. Confirmed. The percentage change in the CPI-W index between September 1996 and July 1997 was approximately 1.5%.

- c. Confirmed.
- d. Confirmed.
- e. I am unable to confirm. While I am not an expert on DRI's forecasting methodology, I would not assume that the relationships between the periods will remain constant. Since the data for some of the periods which underlie DRI's February 1997 forecast for January 1998 and July 1998 have changed, one cannot assume, absent information on how these changes impact all the other variables which influence the forecast, that the relationships between the periods will remain constant.
- f. The BLS Series ID for the CPI-U index reflected in Table 14 of my testimony is CWUR0000AA0. The percentage change in the CPI-U index between September 1996 and July 1997 was approximately 1.7%.
- g. I am aware that producer prices declined during June and July.

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DMA/USPS-T9-17. Please refer to LR-H-12.

- (a) Please indicate the section in LR-H-12 in which the February 21, 1997 DRI forecasts for all price indices used in the roll forward calculations are located. Please provide such information if not already provided in LR-H-12.
- (b) Has DRI revised its FY 1997 and FY 1998 price index forecasts since its February 1997 forecast?
- (c) Has DRI revised its January 1998 and July 1998 CPI-W forecasts since its February 1997 forecast?
- (d) If your responses to either sub-parts (b) or (c) are "yes," please provide the most recent forecasts for all price indices used in the roll forward calculations.

RESPONSE:

- a. The February 21, 1997 DRI forecasts used in the preparation of the rollforward factors for R97-1 are found in Chapter IX of LR-H-12.
- b. Yes.
- c. Yes.
- d. DRI/McGraw Hill updates its forecasts periodically and makes this information available to its subscribers. DRI/McGraw Hill can be contacted at:

1200 G St., N.W.

Washington, D.C. 20005

Telephone: (202) 383-3525

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DMA/USPS-T9-18. Please refer to LR-H-12, page 194 and your response to DMA/USPS-T9-7(b) in which you stated that "[t]he Postal Service depreciates real property over 40 years."

- (a) Please confirm that the Depreciation Computation in LR-H-12, page 194, depreciates real property over 32 years.
- (b) Please confirm that the Depreciation Computation in LR-H-12, page 194, shows a FY 1998 real property depreciation expense of \$438.2 million.
- (c) If your response to sub-part (a) is confirmed, please calculate the FY 1998 real property depreciation expense using a 40 year depreciation period for real property. If you calculate this depreciation expense differently than you calculated the FY 1998 depreciation expense in LR-H-12, page 194, please explain how you calculated your response to this question.

RESPONSE:

- a. I confirm that the model used to estimate depreciation expense for FY 1997 and the test year assumes the average service life of Postal Service real property additions is 32 years.
 - b. Confirmed.
 - c. A service life of 40 years only applies to acquired or constructed Postal Service buildings. Building improvements have a shorter service life, usually equal to the remaining service life of the improved property. The inclusion of building improvements results in an average estimated service life for real property additions of 32 years.
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DMA/USPS-T9-19. Please refer to USPS-15H, page 74, and LR-H-12, page 244.

- (a) Please confirm that the FY 1998 depreciation expense from LR-H-12, page 244, is \$1.928 billion.
- (b) Please confirm that the TYAR (before final adjustments) depreciation cost (C/S 20.1 - 20.4) is \$1.925 billion.
- (c) Please explain the reasons that these two figures differ and provide the correct figure if these costs cannot be reconciled.

RESPONSE:

- a. Confirmed, except that the correct page number is 194. The depreciation calculation model on page 194 of LR-H-12 shows an amount of \$1.928 billion in the "FY 1998 Depreciation" column.
- b. Confirmed. The total depreciation amount for components 231, Vehicle Depreciation, 235, Equipment Depreciation, and 238, Building and Leasehold Depreciation, for the Test Year After Rates, before final adjustments, is \$1.925 billion. This figure can be found on page 496 of LR-H-12.
- c. Included in the figure of \$1.928 billion on page 194 of LR-H-12, in the column labeled "Undepreciated Write-Offs", is \$3.294 million of gains/losses on the disposition of assets. As shown on page 108 of the library reference, this amount is properly included in component 245, rather than in the components cited in b. above. Subtracting \$3.294 million in

write-offs from the total depreciation amount of \$1.928 billion shown on page 194 gives the amount of \$1.925 shown for Test Year depreciation shown on page 496 of the library reference.

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DMA/USPS-T9-20. Please refer to Exhibit USPS-9Q

- (a) Do the columns labeled "%INCR." show percentage changes in salaries and benefits for personnel in each of the cost components? If not, please explain what these columns indicate.
- (b) Please provide the "%INCR." for personnel salaries and benefits for the last ten years for all applicable cost segments.

RESPONSE:

- a. No. The columns labeled "% Incr." show the estimated percentage change in cost level for salaries and benefits. Changes in salaries and benefits resulting from workload changes, additional days' impacts, cost reductions, and other programs are not included. For a definition of cost level, please see page 20 of LR-H-12.
- b. Historical cost level data comparable to the data in my Exhibit 9Q is not available. The year to year change in total salaries and benefits by cost segment for the last ten years can be calculated from the data contained in the Summary Description of USPS Development of Costs by Segments and Components for Fiscal Year's 1986-1996 which are available in the libraries of both the Commission and the U.S. Postal Service.

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DMA/USPS-T9-21. Please refer to Exhibit USPS-9B, page 1.

- (a) Please confirm that the total costs under the column "FY96MOD COSTS" for C/S-3, -6, and -7 are for personnel salaries and benefits only.
- (b) If sub-part (a) is not confirmed, please specify the types of other costs included in this category, the amounts of these other costs and the corresponding account number(s).

RESPONSE:

- a. Not confirmed.
- b. In addition to salary and benefit costs, total costs for these segments include travel and relocation costs. The specific account numbers for these costs can be found in Table A-1 of LR-H-1, along with the base year amounts for the relevant accounts. The cost level changes for the estimated years can be found in Chapter VIII, Section E, of LR-H-12.

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DMA/USPS-T9-22. Has the Postal Service projected attrition rates for (i) clerks and mailhandlers and (ii) carriers for FY 1997 and for FY 1998? If "yes," please provide such rates.

RESPONSE:

Attrition factors were estimated for use in adjusting the impact of step increases on the estimated average base salary used to calculate the FY 1998 general increase. These factors were developed for this purpose specifically and may not be appropriate for other uses. These factors and how they were used can be found on pages 238 and 245 of LR H-12.

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DMA/USPS-T9-23. Please refer to Exhibit USPS-9B, page 1.

- (a) Please confirm that the total cost under the column "COST LEVEL" for C/S-3, -6, and -7 are due to projected increases only in salaries and benefits for the respective cost segments.
- (b) If not confirmed, please specify the types of other costs included in this category, the amounts of these other costs and the corresponding account number(s).

RESPONSE:

- a. Not confirmed.
- b. Please see my response to DMA/USPS-T9-21.

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DMA/USPS-T9-24. Please refer to Table 5 on page 7 of your direct testimony (USPS-T-9). Please confirm that the value of the real estate that the Postal Service owns is carried at book value rather than at assessed fair market value in the "Total Assets" column. If not confirmed, please explain fully.

RESPONSE:

Confirmed.

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DMA/USPS-T9-25. Please refer to Table 14 on page 19 of your direct testimony (USPS-T-9). The Table is entitled "Selected DRI Forecast Factors."

- (a) Are the FY 1996 factors forecasts or are they actuals?
- (b) If the FY 1996 factors are forecasts, when were these forecasts prepared?
- (c) If they are actuals, please provide the Bureau of Labor Statistics (BLS) Series ID from which they were calculated and the corresponding calculations.

RESPONSE:

- a. The FY 1996 factors in Table 14 on page 19 of my direct testimony are actual data.
- b. Please see my response to a. above.
- c. Please see my responses to DMA/USPS-T9-16b.&f. for the CPI-W and the CPI-U. The BLS Series ID for the for supplies and materials index is WPSSOP2000.

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 black ink, appearing to read "Scott L. Reiter", is written over a horizontal line.

Scott L. Reiter

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September 2, 1997