

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

POSTAL RATE AND FEE CHANGES, 2001

Docket No. R2001-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS TAYMAN TO INTERROGATORIES
OF THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T6-33-37)

The United States Postal Service hereby provides the responses of witness Tayman to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T6-33-37, filed on October 31, 2001.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T6-33. Please turn to your testimony at page 3, lines 14-20. You state that "...the increasingly competitive nature of the markets in which the Postal Service functions make the congressionally-mandated goal of break-even extremely difficult to achieve."

- (a) Please cite which markets you view as increasingly competitive.
- (b) Please state the degree of competition in each of the markets.
- (c) Is it your testimony that firms have a difficult time breaking even in competitive markets?
- (d) In approximately what year did the markets you cite in your response to part (a), above, become increasingly competitive?

RESPONSE:

(a-b) I think that all the markets which the Postal Service serves today are highly competitive in the sense that are either direct or extremely attractive indirect substitutes for postal services.

(c) No. My testimony was specifically with regard to the Postal Service. I think that the inability to adjust prices rapidly and price according to the market interferes with the Postal Service's ability to break even. For example, it is my understanding that the Commission has refused to recommend volume discounts based on markups alone. Such discounts are a standard feature in many of the markets in which the Postal Service competes. In this respect, as well as others noted in my testimony, the Postal Service is different from other firms operating in competitive markets.

(d) I did not have a specific year in mind. In the parcel market, for instance, it is my understanding that the Postal Service's products have been subject to increasing competition over many years. In the correspondence and transactions market, technological innovations have rapidly accelerated the availability of alternatives only in very recent years.

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OCA/USPS-T6-34 Please refer to your testimony at page 23, lines 15-19. You cite two economic scenarios, USSIM/Trendlong 0501, and CISSIM/Control 0601. Is it correct that these are the two economic forecasts which underlie the Postal Service's assumptions about the future state of the economy and on which projections of revenues and costs are based?

RESPONSE:

No. The citations should be USSIM/Control 0601 and CISSIM/Trendlong 0501.

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OCA/USPS-T6-35. Please refer to your testimony, Appendix A, Exhibit USPS 6T. The underlying DRI-WEFA forecasts--USSIM/Control 0601 and CISSIM/Trendlong 0501--appear to be different from those referenced in your testimony at page 23, lines 15-19, USSIM/Trendlong 0501 and CISSIM/Control 0601.

(a) Is this a typographical error?

(b) If your answer is "no" please explain whether all internal projections that ultimately culminate in revenue, cost, and contingency estimates are internally consistent.

RESPONSE:

(a) Yes. Please see my response to OCA/USPS-T6-34.

(b) N/A

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OCA/USPS-T6-36. Please refer to your testimony at page 24, lines 16-17, wherein you discuss 18 cost segments for the Base Year through the Test Year. If different from those in Table 16 at page 23, please delineate for each case the underlying DRI-WEFA forecast elements that drive the information in the tables accompanying the cost segments.

RESPONSE:

The DRI-WEFA index applicable to each non-personnel cost segment and component can be found in Chapter IVc of LR J-50 (electronic file Input_01s.XLS, worksheet Non-pers CL). A further description of the application of each non-personnel cost level factor to individual cost segments and cost components can be found in Chapter I, pages 7 and 8, of LR J-50, (electronic file Appen_01s.XLS worksheet Appendix 2). DRI-WEFA indexes also impact personnel cost components but are not directly applied. For example, the CPI-W and the ECI (wages and salaries private industry) are used to estimate COLA and wage changes. However, COLA and wage changes are only two of several unit cost changes which impact salaries and benefits. For a detailed description of cost change factor development see Chapter I of LR J-50, pages 18-43 (Appendix to Rfdescr_01s.DOC, Description of the Production of Cost Change Factors to Support the Postal Service Roll Forward Model).

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OCA/USPS-T6-37. Please refer to your testimony at page 53, lines 19 through 30, wherein you cite three scenarios--a Baseline Economic Forecast, a Later Recession forecast, and a Pessimistic Forecast.

(a) Please explain the source of each forecast, including, for example, the availability for review and inspection, the publication, and publication date.

(b) Is it correct that the Postal Service revenue and cost projections in this case are based on the Baseline Forecast? Please confirm, and if you are unable to confirm, please explain.

(c) Please state what the revenue and cost projections would be under a Late Recession forecast.

(d) Please state what the revenue and cost projections would be under a Pessimistic forecast.

(e) Are there other available forecasts which are more optimistic and which were available to you at the time of the filing of testimony?

(f) If your answer to "e" is "yes", please state what the revenue and cost projections would be.

(g) Are there other available forecasts which are more pessimistic and which were available to you at the time of the filing of the testimony?

(h) If your answer to "g" is "yes", please state what the revenue and cost projections would be.

RESPONSE:

(a) The forecasts cited on page 53 of my testimony are DRI-WEFA's June 2001 forecast release. These are presented in a document entitled "The U.S. Economy, Knowledge for Smarter Decisions, 20001/6." A copy of this is available for inspection in the U.S. Postal Service's library at 475 L'Enfant Plaza SW. Please note that DRI-WEFA adjusts the versions of the forecast used by the Postal Service to a fiscal year basis. Also note that in addition to the USSIM/Control 0601 (June

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release used for volume related indices, CPI and ECI) the Postal Service used the CISSIM/Trendlong 0501 (May release) to estimate cost level changes for most non-personnel cost components. The CISSIM/Trendlong forecast indices are only updated on a quarterly basis.

(b) Yes. See the response to part a.

(c) "Late Recession" revenue and cost forecasts were not produced. Instead, this scenario was cited in relation to the mistaken notion, relied on by the Commission in the last rate case, that the Postal Service does not operate under any significant risk of financial harm due to the economy. The Postal Service has never benefited financially from an economic slowdown and the risks of such are real and substantial even in the best of times.

(d) "Pessimistic" revenue and cost forecasts were not produced. See my response to part (c) above.

(e) The three scenarios you have noted in your question are the three DRI-WEFA scenarios that were available and considered at the time I prepared my testimony.

(f) Not applicable.

(g) The three scenarios you have noted in your question are the three DRI-WEFA scenarios that were available and considered at the time I prepared my testimony.

(h) Not applicable.

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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