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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–T6–38–42)

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–T6–38–42, filed on November 13, 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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November 28, 2001

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
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OCA/USPS-T6-38. Please turn to your response to interrogatory OCA/USPS-T6-22(a). Information was requested on the additions to annual revenues based on the additional provision of mail service to approximately 1.7 million new delivery points per year. Some of the questions in that interrogatory are being restated for additional clarity, given that the answers to the interrogatory do not appear to be consistent with the information we had expected to obtain. One would expect that the 1.7 additional new delivery points would generate some deliveries. For example, if each new delivery point received one piece of mail on 300 days of the year, one could project that there would be over 500 million additional pieces of mail per year. In fact, the additional mail from the additional delivery points may be much larger.

(a) What is the projected amount of mail that will be delivered to the additional 1.7 million new delivery points per year?

(b) Please state the projected revenue for the Postal Service resulting from the mail delivered to the approximately 1.7 million new delivery points.

(c) Associated with the expenditure of $400 million of capital costs for the additional 1.7 million new delivery points, there would be additions to costs related to the cost of the capital, *e.g.* depreciation, etc. Is it correct that the Postal Service does not know how much the expenditure of the additional $400 million will impact costs, as apparently inferred from your answers to OCA/USPS-T6-22(b) and (c)? If your answer is other than affirmative, please provide the numbers.

(d) Associated with the expenditure of $400 million of capital costs for the additional 1.7 million new delivery points, there would be additions to operating costs related to the cost of labor and supplies, *e.g.*, payments to letter carriers, fuel for delivery trucks, etc. Is it correct that the Postal Service does not know how much the addition of 1.7 million additional delivery points will impact operating costs related to the delivery of the mail, as one might conclude from your answers to OCA/USPS-T6(b) and (c). If your answer is other than affirmative, please provide the numbers.

RESPONSE:

Your question assumes that the volume received at new delivery points is new volume. This premise is faulty. For instance, if my son has been living with me at home and moves out to a location that is a new postal delivery point, the mail he has been receiving at my address is now delivered to his new address. Moreover, it would be erroneous to assume that the new delivery point would result in additional mail such as utility bills, since he might opt to receive and pay his bills online. There is no way for the Postal Service to know whether he receives more or less mail at his new location than he received at my address. Moreover, to the extent new delivery points are related to population growth, I am informed that that factor is already included in our volume projections.

For additional clarity, please re-reference page 46 of my testimony, which you cited in your original question, where I state that "the Postal Service is obligated to serve new delivery points *whether or not* volume grows commensurately and generates revenue to fund network growth." (Emphasis added.) In the past, growing mail volume has helped support expansion of the universal delivery network. The concern I intended to express in my testimony—that the Postal Service must support new delivery points *even if* volumes decline—has unfortunately come to pass, since it now appears that volumes actually declined in Fiscal Year 2001, and year-to-date volumes are down sharply in Fiscal Year 2002. At the same time, not only does the delivery network continue to grow, but the Postal Service also continues to serve pre-existing delivery points. The additional revenues generated by volume growth, whether at old or new delivery points, may no longer be relied on to cover the costs of additional delivery points. This situation affects the ability of the Postal Service to break even and to finance capital spending, including capital spending for network growth. My observations concerning the ability of the Postal Service to break even and to fund network growth are valid regardless of how mail volume is distributed among old and new delivery points.

(a)-(b) As explained above, the Postal Service does not project the volume of or revenues from mail that will be delivered to the additional 1.7 million delivery points.

(c) It is not correct that the Postal Service does not know how the expenditure of $400 million on new capital would impact costs. There would be a depreciation expense directly associated with a $400 million investment in facilities. Based on the 40 year depreciation period used for facilities, and assuming that 25 percent of the investment cost were for land and the remainder for improvements, the annual depreciation expense would be $7.5 million per year for 40 years, starting the year after the facilities are placed into service. There would also be depreciation expense associated with new vehicles. Based on an annual capital requirement for vehicles of $34 million (see USPS-T-6, page 46, footnote 25), and assuming a 10 percent salvage value and 8 year depreciation period, the annual depreciation expense for the first eight years would approximate $3.8 million.

Outstanding loan balances and interest expenses would also be higher because of these investments. Assuming a 5 percent interest rate, the interest expense in the first year of a $434 million investment would be $21.75 million.

(d) It is not correct that the Postal Service does not know how much the addition of 1.7 million additional delivery points will impact operating costs. The bulk of the increased annual operating expense would be the direct expenses for City and Rural Carriers resulting from increased city deliveries, and increased rural boxes and route miles traveled. These direct expenses are shown in the revenue requirement and rollforward processes as non-volume workload effects and are summarized in Exhibit 6B, by year, as follows.

Fiscal Year	City Carrier Costs	Rural Carrier Costs
2001	45,577	63,156
2002	49,314	70,181
2003	52,244	74,707
Subtotal	147,135	208,044
Piggyback	* 1.367[1]	* 1.245[2]
Grand Total	201,134	259,015

[1] USPS-LR-J52, R2001-1, Page 134.
[2] USPS-LR-J52, R2001-1, Page 193.

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It is my understanding that, in addition to the City and Rural Carrier costs shown above, the following costs receive a nonvolume workload piggyback effect in the rollforward: supervisor access and route costs, city carrier other access and route costs, vehicle maintenance personnel, vehicle supplies and materials, vehicle maintenance vehicle hire, carfare and driveout, and time and attendance costs for supervisors and clerks. These amounts are included in the Cost Segment totals shown in my Exhibit 6B, and the detail amounts by cost component can be found in the following workpapers of witness Patelunas, USPS-T-12:

FY 2001	WP-A	Table A	Table 4
FY 2002	WP-C	Table A	Table 4
FY 2003	WP-E	Table A	Table 4

The use of the piggybacks identified in footnotes 1 and 2 reflects the inclusion of PESSA costs in the rollforward. To the extent the aforementioned City and Rural Carrier costs and their consequent nonvolume workload piggybacked costs are adjusted in the PESSA redistribution in the rollforward model, the total costs ultimately appearing in the D Report have been properly adjusted to incorporate the increased delivery network in the rollforward.

Based on my responses to parts (c) and (d) a reasonable estimate for the expense impact of delivery network growth between the base year and test year is $493,199, calculated as follows (all amounts in thousands of dollars):

Equipment Depreciation	7,500
Vehicle Depreciaiton	3,800
Interest Expense	21,750
City Carriers	201,134
Rural Carriers	259,015
Grand Total	493,199

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OCA/USPS-T6-39. Please turn to your reply to interrogatory OCA/USPS-T6-23(c), wherein you state in reference to the Postal Service freeze on capital spending for projects associated with the addition of 1.7 new delivery points, that "Annual operating costs are higher without facility investment but the short-term cash outflow is less."

(a) Without facility investment, by what dollar amount are annual operating costs higher and what is the percentage increase in annual operating costs?

(b) Without facility investment, by what dollar amount is short-term cash outflow less and what is the percentage reduction in short-term cash outflow?

(c) Why is short-term cash outflow less?

RESPONSE:

(a) The increase in operating costs due to the freeze on facility investment cannot be isolated. For instance, the lack of a facility may cause carriers additional driving time to the beginning of the routes, which could result in increased costs for fuel, maintenance, and accidents. It would not be possible to determine how much of such costs are due to the lack of a facility and how much are caused by other factors.

(b) Similarly to the response to 39(a), it is not possible to determine the specific dollar amounts requested. Among other items, it would depend on where the specific facility needs are and what the local costs of development are.

(c) Short-term cash outlay is less because the up-front cash outflow for a $400 million investment is $400 million. The short-term cash outflow on a leased facility would only represent the cost of annual rent, which is significantly less than the purchase price of a facility.

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OCA/USPS-T6-40 Please refer to USPS-LR-J-50, referenced in your testimony. A calculated attrition rate, equal to the retirement rate, is presented on page 394. There may be reasons for separation from the Postal Service other than retirement; for example, an individual may seek alternative employment. Please provide similar information, *e.g.*, number of separations and separation rate for reasons other than retirement, for the total bargaining employees of 693,878 by employee group, as delineated.

RESPONSE:

The information requested is reflected on the attached worksheet. In the process of updating the original worksheet for the additional information requested, data entry errors were discovered which change the retirement attrition rate for mail handlers from 2.62% to 1.97%. The impact of this change on the revenue requirement is negligible. Please also note that the date was changed from 12/5/00 (the date the report was run) to 9/8/00 (the ending date of the period covered by the data).

Attachment to response
to OCA/USPS-T6-40

Calculation of Adjusted Attrition Rate FY2000
Source: HRIS Separation Report 9/8/00

APWU/OTHER	Complement	Retirements	Ret. Rate	Resgn/Sep	R/S Rate
Bldg Maint	39,544	1,101	2.78%	708	1.79%
Clerks	292,088	6,167	2.11%	7,512	2.57%
Data Centers	1,124	20	1.78%	31	2.76%
Other	2,909	87	2.99%	45	1.55%
Nurses	188	8	4.26%	10	5.32%
Postal Police	1,270	44	3.46%	52	4.09%
Veh Maint	5,571	121	2.17%	80	1.44%
Veh Oper	9,255	206	2.23%	252	2.72%
Total	351,949	7,754	**2.20%**	8,690	**2.47%**
City Carriers	242,033	4,816	**1.99%**	5,253	**2.17%**
Mailhandlers	62,171	1,224	**1.97%**	1,673	**2.69%**
Rural Carriers	54,512	1,844	**3.38%**	683	**1.25%**
Total Barg	710,665	15,638	**2.20%**	16,299	**2.29%**
Postmasters	27,354	1,388	5.07%	197	0.72%
IG & Insp Svc	2,414	134	5.55%	43	1.78%
All Other Non Barg.	56,540	1,865	3.30%	900	1.59%
Total Non-Barg	86,308	3,387	**3.92%**	1,140	**1.32%**
Total Career	796,973	19,025	**2.39%**	17,439	**2.19%**
Rural Car., RCA, Aux, Temp Rlf.	57,148			12,433	21.76%
Clerks	24,353			22,850	93.83%
City Carriers	5,468			4,567	83.52%
Mail Handlers	5,910			5,369	90.85%
Postmasters	13,119			2,732	20.82%
All Other Non-Career	518			435	83.98%
Total Non-Career	106,516			48,386	**45.43%**
Total Postal Service	903,489			65,825	**7.29%**

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OCA/USPS-T6-41 Please refer to USPS-LR-J-50, referenced in your testimony, again at page 394. The total of 693,878 employees as shown on that page is not the total Postal Service employment. There are other classifications of employees. Please provide similar data for the other classifications of employees. To minimize the burden of responding to this interrogatory, the data may be provided in any appropriate and meaningful classification. To be specific, please provide the following:

(a) An attrition rate related to retirements by type of employee similar to that provided in USPS-LR-J-50 at 394.

(b) A separation rate for employees leaving for purposes other than retirement, similar to that requested in OCA/USPS-T6-40.

RESPONSE:

The information requested is reflected on the attachment to OCA/USPS-T6-40.

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OCA/USPS-T6-42. Please verify that, if necessary, career conditional, temporary, and casual workers could be temporarily furloughed or permanently terminated due to financial exigencies. If you do not confirm for each case, please explain.

RESPONSE:

I am informed that casuals can be separated for any reason, and that transitional employees can be separated for lack of work. I am also informed that non-career rural carrier employees (temporary relief carriers, rural carrier reliefs, rural carrier associates, and substitutes) can be separated as a result of route consolidations or route eliminations. Career rural carriers are protected by a full no layoff clause. Career APWU, NALC, and Mail Handler employees have full layoff protection after six years continuous service having worked at least 20 pay periods during each of the six years. The 1998 APWU and NPMHU National Agreements also protected all career employees who were on the rolls as of November 20, 1998 from layoff. The specific criteria for separations and layoffs can be found in each labor agreement. Copies of the major labor agreements currently in effect were provided as LR J-47.

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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