

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-T6-43-56)

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-T6-43-56, filed on November 20, 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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OCA/USPS-T6-43. Please refer to your response to OCA/USPS-T6-33(a-b). Please confirm that your response is intended to say that all the markets which the Postal Service serves today are highly competitive as they include competitors who provide products or services that are “either direct or extremely attractive indirect substitutes for postal services.” If you do not confirm, please explain.

RESPONSE:

Confirmed.

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OCA/USPS-T6-44. Please refer to your response to DMA/USPS-T6-21 indicating the Postal Service has not asked Congress to increase the USPS debt limit in the last five years. Also, recall that the Postal Service requested \$5 billion in a November 9, 2001 appearance before the Senate subcommittee on Treasury and General Government Appropriations to address the impact of the September 11 terrorist attacks. Note also the proximity of the current Postal Service debt to the statutory debt ceiling imposed by Congress which you say at page 8 of your testimony (prepared prior to the September 11 terrorist attacks) “will be uncomfortably close to the statutory limit in FY 2002.” [\$12,913 billion or 86.1 percent of the statutory limit.] Further, “On a test year before rates basis, the Postal Service could reach the statutory limit in FY 2003.” [\$16,772.6 billion or 111.8 percent of the statutory limit]. Does the Postal Service management have any plan or intent to request from Congress during FY 2002 or FY 2003 an increase in the Postal Service’s \$15 billion debt ceiling:

- (a) If Congress does not provide the Postal Service any funds to address the adverse financial impact of the September 11 terrorist attacks and the subsequent use of the mail for bio-terrorism.
- (b) If Congress provides the Postal Service a total of approximately \$3 billion to address the impacts of the attacks on facilities, equipment, security, and operations.
- (c) If Congress provides the Postal Service a total of approximately \$5 billion consisting of \$3 billion to address the impacts of the attacks on facilities, equipment, security, and operations and \$2 billion to compensate the Postal Service for business losses due to significant reduction in volumes incurred due to the terrorist attacks.
- (d) If the answer is affirmative to any of the parts (a) through (c), above, please explain when the Postal Service management would expect to request an increase in the debt ceiling and uses of the funds raised by increasing the debt ceiling.
- (e) If the answer is negative to any of the parts (a) through (c), above, please explain why the Postal Service management would not plan or intend to seek an increase in the Postal Service’s debt ceiling.

RESPONSE:

- (a) - (c) At the present time, the Postal Service has no plan to request an increase in the debt ceiling.
- (d) Not applicable.
- (e) Increasing the debt ceiling without other reforms merely puts off addressing the Postal Service’s fundamental financial challenges. Equity is negative, rates are too low to cover costs, and revenues have been inadequate to recover prior years’ losses and to protect the Postal Service against adverse variances in its costs or

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revenues. Increasing the borrowing limit by itself is not the answer to these problems.

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OCA/USPS-T6-45. Please refer to Table 6, page 8 of your testimony, listing the Postal Service's outstanding debt as a percentage of the statutory ceiling from FY 1972 to FY 2003. Please explain whether the total debt shown on Table 6 is year end, the average outstanding balance, or another measure.

RESPONSE:

The total debt shown in Table 6 is year end.

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OCA/USPS-T6-46. Please refer to your testimony at page 18, discussing other program costs. You state, "Reduced program expense reflects management's concern about the Postal Service's financial condition as well as a continuing commitment to control costs. There is long term risk, however, in such an approach, as it requires deferral and cancellation of programs that would otherwise be planned to improve the quality of service, increase responsiveness to customers, and build and maintain our infrastructure."

- (a) Please confirm that your phrase "[r]educed program expense" refers to the fact that your testimony as well as your Table 13, Other Programs, on page 18, shows declining Other Programs expenditures from FY 2001 through the test year.
- (b) This interrogatory is to determine which of the Other Programs listed in LR-J-50, Chapter V, sections b-d, for which the Postal Service is budgeting funds, will provide an improvement in the quality of service and/or increase Postal Service responsiveness to customers. Please provide the full names of the following programs and describe the way in which postal service or responsiveness will be improved for the years shown in LR-J-50, FY 2001 through FY 2003.
 - (i) Field Personnel Related Cost Reductions & Other Programs--transfer of Sales Function from Areas to HQ (Professional Employees).
 - (ii) Field Non Personnel Programs and Unallocated--HQ Activities, HQ Activities-Information Technologies, Ebusiness-Information Technology, FED-Ex Startup, Credit Cards.
 - (iii) Unallocated Personnel Cost Other Programs (Chap. V, sec. d)- Breakthrough Productivity Initiatives, TNS Tulsa, Facilities DARs, PMPC In House, BPI-District Professional Staff, Retail Init.
 - (iv) Please describe the postal service benefits and responsiveness of any other cost reduction operations or other programs listed in Chapter V, sections b-d, of LR-J-50.
- (c) Please indicate any other programs that are not listed in LR-J-50, Chapter V, sections b-d, for which the Postal Service is budgeting funds to provide or will provide an improvement in the quality of service and/or increase Postal Service responsiveness to customers.

RESPONSE:

(a) My reference to reduced program expense goes beyond the declining rate of change reflected in Table 18. It also relates to the fact that net program expense growth in this rate case is substantially negative, reflecting a net reduction in costs of \$1.6 billion through the test year. This savings is even greater when the one time costs reflected in FY 01 are excluded. As I stated about Table 13 at page 18, lines 7-11 of my testimony, "A significant amount of growth in FY 2001 results from non-recurring costs related to the start up of Fed Ex contract and bringing the Priority Mail network in house.

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The remainder of the growth in each year is concentrated in corporatwide personnel costs". See LR J-49, Exhibit G for a breakout of true program changes and non-program changes which are also reflected in the other program column.

I was also referring to the fact that depreciation and interest are lower than they would have been without the substantial cuts to capital programs made in FY's 01 and 02. See the response to OCA/USPS-T6-3.

(b) i. Please see page 17 of LR J-49 for a description of this program. Also see the responses to UPS/USPS-T6-9 and UPS/USPS-T21-6. This program relates to an organizational change intended to improve the effectiveness of the sales function which would improve responsiveness to customers.

ii. These programs are defined on pages 15-17 of LR J-49. While service impacts cannot always be measured in quantitative terms, these programs improve the Postal Service's overall effectiveness, thereby contributing to service improvement and responsiveness.

iii. These programs are defined on pages 12, 15, and 17 of LR J-49. While service impacts cannot always be measured in quantitative terms, these programs improve the Postal Service's overall effectiveness, thereby contributing to service improvement and responsiveness.

iv. These programs are defined in LR J-49. The service impacts of specific program plans are not measured in quantitative terms. However, programs are intended to improve the Postal Service's overall effectiveness, thereby contributing to service improvement and responsiveness. Improvement in service or responsiveness as a result of specific planned programs is largely intuitive.

(c) A comprehensive summary of all cost reduction and other programs reflected in the revenue requirement is contained in LR J-49. The service impacts of specific program plans are not measured in quantitative terms. However, programs are intended to improve the Postal Service's overall effectiveness, thereby contributing to service improvement and responsiveness. Improvement in service or responsiveness as a result of specific planned programs is largely intuitive.

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OCA/USPS-T6-47. Please refer to your testimony at page 18, discussing other program costs. You state, "Reduced program expense reflects management's concern about the Postal Service's financial condition as well as a continuing commitment to control costs. There is long term risk, however, in such an approach, as it requires deferral and cancellation of programs that would otherwise be planned to improve the quality of service, increase responsiveness to customers, and build and maintain our infrastructure." Please also refer to LR-J-49 Exhibits A-C listing Other Program Changes for FY 2001 through FY 2003, respectively.

- (a) Please indicate which of the Other Programs as listed in LR-J-49, Exhibits A-C, and for which the Postal Service is budgeting funds, provide or will provide an improvement in the quality of service and/or increase Postal Service responsiveness to customers.
- (b) For those programs in part (a), above, which you indicated do provide or will provide an improvement in the quality of service and/or increase Postal Service responsiveness to customers, please explain specifically what improvement in service quality or Postal Service responsiveness will be provided and which classes of service will be affected.

RESPONSE:

(a-b) LR J-49 contains narrative descriptions and additional information regarding the same programs contained in LR J-50. Regarding the service impact of program changes, please see my response to OCA/USPS-46. The cost impact of cost reduction and other program changes by class of mail can be found in the workpapers of witness Patelunas, USPS-T-12, WP-A, WP-C, WP-E, and WP-G. The service impact of individual planned programs has not been determined.

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OCA/USPS-T6-48. Please refer to your testimony at page 18 that discusses other program costs. You state, "Reduced program expense reflects management's concern about the Postal Service's financial condition as well as a continuing commitment to control costs. There is long term risk, however, in such an approach, as it requires deferral and cancellation of programs that would otherwise be planned to improve the quality of service, increase responsiveness to customers, and build and maintain our infrastructure." Please also refer to LR-J-49 Exhibit E listing Cost Reduction Program Changes for FY 2001 through FY 2003, respectively.

- (a) Please indicate which of the Other Programs as listed in LR-J-49, Exhibit E, for which the Postal Service is budgeting funds, provide or will provide an improvement in the quality of service and/or increase Postal Service responsiveness to customers.
- (b) For those programs in part (a), above, which you indicated do provide or will provide an improvement in the quality of service and/or increase Postal Service responsiveness to customers, please explain specifically what improvement in service quality or Postal Service responsiveness will be provided and which classes of service will be affected.

RESPONSE:

(a-b) Please see my response to OCA/USPS-T6-47. Also, please note that Exhibit E summarizes cost reduction programs..

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OCA/USPS-T6-49. Please refer to your testimony at page 18, discussing other program costs. You state, "Reduced program expense reflects management's concern about the Postal Service's financial condition as well as a continuing commitment to control costs. There is long term risk, however, in such an approach, as it requires deferral and cancellation of programs that would otherwise be planned to improve the quality of service, increase responsiveness to customers, and build and maintain our infrastructure." Please also refer to LR-J-49, Exhibit E, listing Cost Reduction Program Changes for FY 2001 through FY 2003, respectively.

- (a) Please indicate any other Postal Service initiatives for which the Postal Service budgets funds that are not listed in Exhibit E and which will provide an improvement in the quality of service and/or increase Postal Service responsiveness to customers.
- (b) For those programs in part (a), above, which you indicated do provide or will provide an improvement in the quality of service and/or increase Postal Service responsiveness to customers, please explain specifically what improvement in service quality or Postal Service responsiveness will be provided and which classes of service will be affected.

RESPONSE:

- (a-b) Please see my response to OCA/USPS-T6-47.

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OCA/USPS-T6-50. Please refer to your testimony at page 18, discussing other program costs. You state, "Reduced program expense reflects management's concern about the Postal Service's financial condition as well as a continuing commitment to control costs. There is long term risk, however, in such an approach, as it requires deferral and cancellation of programs that would otherwise be planned to improve the quality of service, increase responsiveness to customers, and build and maintain our infrastructure."

- (a) Please indicate the Postal Service initiatives that were deferred or cancelled that would have provided an improvement in the quality of service and/or increase Postal Service responsiveness to customers.
- (b) Please provide any decision analysis reports or other planning documents analyzing the justification for such programs that specifically discuss the program's potential for an improvement in quality of service or an expected increase in responsiveness to customers.
- (c) For those programs in part (a), above, which you indicated would have provided for an improvement in the quality of service and/or increase Postal Service responsiveness to customers, please explain specifically what improvement in service quality or Postal Service responsiveness would have been provided and which classes of service would have been affected.

RESPONSE:

(a) Please see my response to OCA/USPS-T6-47 for my comments on the impact of Postal Service cost reduction and other programs on service. Major expense program curtailments and deferrals for FY 01 include the following: Corporate Advertising, Point of Service, Associate Office Infrastructure, Mail Transport Equipment, Delivery Operations Information System, Retail Stamp Packaging, and various eCommerce and Engineering programs.

(b) I am informed that a review of decisions analysis reports for the programs listed under part (a) shows only limited and generic discussions of quality of service and responsiveness to customers in the Point of Service (POS) and Delivery Operations Information System (DOIS) DARs. The actual quotations are attached.

(c) Please see my response to OCA/USPS-T6-47.

Point of Service ONE Stage 2B Deployment (revised DAR dated Feb 8, 2000):

“The expected benefits of POS ONE are consistent with those outlined in the Stage 1 and Stage 2A DARs. POS ONE will provide: accurate service....” (page 2)

“[POS ONE] will significantly improve the quality of customer service and will provide a platform that will enable the Postal Service to deliver enhanced and new products and services.” (page 6)

“POS ONE is a key element in providing retail employees with the tools and information needed to provide our customers with prompt, accurate, and consistent service.”
(page 6)

Delivery Operations Information System (DAR dated April 5, 2000):

“DOIS also impacts the timeliness and consistency of delivery resulting in increased customer satisfaction.” (page 1)

“In summary, DOIS offers the potential to decrease costs while increasing consistency and timeliness of delivery, resulting in increased customer satisfaction.” (page 3)

“This [the route pivoting feature] assists supervisors in addressing Voice of the Customer strategic goals, by achieving consistent time of day delivery.” (page 4)

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OCA/USPS-51. If the Postal Service reaches its statutory debt ceiling and requires additional funds to continue normally planned operations, under current law would it be able to continue to borrow funds from the U.S. Treasury at:

- (a) The existing terms and conditions and, if so, please provide the basis for your response.
- (b) Under less favorable terms and conditions and, if so, please provide the basis for your response.

RESPONSE:

(a) – (b) The aggregate (\$15 billion) debt ceiling is an absolute proscription against incurring additional debt.

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OCA/USPS-52. If the Postal Service reaches its statutory debt ceiling and requires additional funds to continue normally planned operations but lacks the cash flow to continue normally planned operations; does the Postal Service have in place plans providing for controlled and organized reductions in service? If so, please summarize those plans and indicate the order in which classes and subclasses of service, including special services, would be affected.

RESPONSE:

There are no plans for organized elimination or reduction of service in connection with approaching or exceeding the debt ceiling.

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OCA/USPS-53. Is the current FY 2002 budget designed to insure that the value of service provided to all classes and subclasses of service will be maintained to the extent they were provided for in FY 2001 (the test year in Docket R2000-1) and the year for which the rates established were expected to reflect the service provided? If not, please explain which classes and subclasses of service now receive a lesser value of service than in the FY 2001 test year and explain why the budget is not sufficient to maintain the previous value of service.

RESPONSE:

No budgets for FY 2002 were designed with the intent of degrading any service. However, the Postal Service has suffered from service disruptions in the wake of the September 11th attacks and anthrax contamination and infections. At the same time, the Postal Service is implementing significant additional budget cuts in an effort to offset revenue losses relating to unplanned, sharp decreases in the volume of mail. And new processes are also being developed to address bio-terrorism threats and to enhance the safety and security of mail and employees. It is possible that some degradation in service quality will result under these circumstances, although it is difficult to predict how, when and where.

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OCA/USPS-T6-54. Has the deferral and cancellation of programs that you refer to on page 18 of your testimony had an impact upon the value of the service or been detrimental to the service standards of any of the classes or subclasses of mail?

RESPONSE:

The programs that have been deferred and cancelled generally relate to infrastructure or cut across many classes and subclasses of mail. The most likely impact of these cutbacks will be to reduce the accessibility of services to customers. It is difficult to predict what impact these cuts will have by class or subclass of mail.

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OCA/USPS-T6-55. Will the deferral and cancellation of programs reduce the value of service or cause the Postal Service to reduce its current service standards through the test year in this case (FY 2003) the year for which the rates are designed to reflect particular service standards?

RESPONSE:

No. However, over time the lack of funding may result in degradation in service performance that is difficult to predict.

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OCA/USPS-T6-56. Your testimony at page 64, lines 26-28 states, "In this case the Postal Service estimated labor costs using existing contracts where they exist, and ECI (Employment Cost Index) and ECI-1 assumption for wages where contracts do not exist." To determine annual salary increases, Library reference LR-J-50, Chap. VII, sec. J (Unit Cost Development), page 368, applies the ECI only for FY 2001 and ECI-1 for FY 2002 and FY 2003.

- (a) Does the ECI shown on page 368 apply to all employees (bargaining and non-bargaining) for FY 2001? If not, please explain.
- (b) Page 368 assumes ECI-1 for FY 2002. Please state when contracts establishing the wage level increase for FY 2002 for the employee categories listed on page 368 will be finalized.
- (c) Page 368 assumes ECI-1 for FY 2003. Please state when contracts establishing the wage level increase for FY 2003 for the employee categories listed on page 368 will be finalized.

RESPONSE:

(a) No. As reflected on page 368, the ECI of 4.12% for FY 2001 applies to all bargaining employees except city carriers. City carrier increases for FY 2001 are based on labor contracts as explained in footnotes 4 and 5. As explained on page 414, "so that the total increase effective for FY 2001 will not exceed the ECI calculated amount, it is reduced by the FY 2001 general increase and COLA carry-over amounts from FY 2000. This is the same method used by the Postal Service and accepted by the Commission for the Docket R2000-1 Order 1294 Update." For non-bargaining unit cost development see page 376. For a detailed explanation of personnel unit cost development see pages 414-417.

(b) I am informed that the Postal Service is currently in arbitration with the Rural Carriers and the APWU and that the arbitration process is not subject to a set timetable. I understand that the Mail Handler arbitration will likely commence some time after the APWU award has been issued. I also understand that negotiations with the NALC, originally to have ended on November 20, 2001, have been extended and are ongoing. It is uncertain at this time whether an agreement can be reached with the NALC or whether the parties will resort to the dispute resolution process, including interest arbitration.

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(c) See my response to (b).

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.

Scott L. Reiter

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