

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 INTERROGATORY
OF UNITED PARCEL SERVICE
(UPS/USPS-T6-13)

The United States Postal Service hereby provides the response of witness Tayman to the following interrogatory of United Parcel Service: UPS/USPS-T6-13, filed on November 29, 2001.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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December 12, 2001

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
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UPS/USPS-T6-13. Refer to the Office of Inspector General's (OIG) report titled "Transition of the Priority Mail Processing Center Network" Report No. MK-AR-03-003, which was provided in library reference USPS-LR-178. On page 8 of that report, the OIG states, "The net present value of the Postal Service network was a negative \$623 million if anticipated contractor payments were included as savings. However, if anticipated contractor payments were excluded, the net present value of the network transition would be a negative \$4.4 billion.

- a. Confirm that the "anticipated contractor payments" to which the OIG refers in that report are those payments that would have been made to Emery had the PMPC contract not been cancelled. If not confirmed, explain what these "anticipated contractor payments" are.
- b. Explain how excluding contractor payments can decrease the net present value of the Postal Service's network from negative \$623 million to negative \$4.4 billion.
- c. Does the Postal Service's estimate of costs for operating the PMPC network "in house" reflect the net present value calculation of negative \$623 million or negative \$4.4 billion? Explain in detail.
- d. Reconcile your estimate of the cost changes associated with the Postal Service's estimated cost of operating the PMPC network "in house" with the net present value calculation of negative \$623 million or negative \$4.4 billion.
- e. If your estimate of the cost changes associated with the Postal Service's estimated cost of the PMPC network "in house" do not reflect the net present value calculation of negative \$623 million or negative \$4.4 billion, explain all differences between your methodology and the methodology that was used to arrive at the net present value calculation of negative \$623 million or negative \$4.4 billion.

RESPONSE:

- a. Confirmed.
- b. The numbers cited in the OIG report were taken from a draft DAR that was never validated and never used as the basis for any decision. Negative numbers in a cash flow represent costs and positive numbers represent savings. Forgone contractor payments are included in cash flows as savings or offsets to the cost of selected alternatives. Offsetting the cost of the in house network (cited by the OIG as \$4.4 billion

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net present value) with the contractor payments resulted in a cost differential with a net present value of \$623 million over a period of 11 years. In other words, the present value of the in-house network cost was estimated in the unused draft DAR to be \$623 million more costly than the present value of the contractor payments for the old network over an 11-year period.

c. The Postal Service's estimate of costs for operating the PMPC network "in house" is neither of these amounts. As stated in response b, above, these numbers were taken from an unused, draft DAR. However, if these were the final numbers, the answer to your question would be \$4.4 billion. The un-discounted cost estimates reflected in the final DAR cash flow are reasonably close to the amounts reflected in the rate case.

d. See my response to c.

e. See my response to c.

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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