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Before the

POSTAL RATE COMMISSION

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OFFICE OF THE SECRETARY

In the Matter of:

Postal Rate and Fee Changes — Docket No. R2001-1

VOLUME 11-C

Designation of Responses of Postal Service
Witnesses Smith through Xie filed
In Response to P.O. Ruling R2001-1/23

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes — Docket No. R2001-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION

Party	Interrogatories
United States Postal Service	
Marc A. Smith (USPS-T-15)	
Postal Rate Commission	POIR No. 6, Question 9 POIR No. 7, Question 6 POIR No. 7, Question 6 (Further Response)
Don M. Spatola (USPS-T-20)	
Office of the Consumer Advocate	POIR No. 5, Question 8
Postal Rate Commission	POIR No. 4, Question 3 POIR No. 5, Question 8
United Parcel Service	POIR No. 4, Question 3
William M. Takis (USPS-T-19)	
United Parcel Service	UPS/USPS-T19-1, 4
Altaf H. Taufique (USPS-T-34)	
National Newspaper Association	NNA/USPS-T34-1-3
Postal Rate Commission	POIR No. 4, Question 12 POIR No. 5, Question 1, 2, 3

Party	Interrogatories
William P. Tayman (USPS-T-6)	
Direct Marketing Association, Inc.	DFC/USPS-T6-2
	DMA/USPS-T6-1-2, 4-5, 7-8, 11-12, 15-17, 19-23, 25-35, 44-47, 59, 62-63
	MPA/USPS-T6-4
	NAA/USPS-T6-3-4, 6
	OCA/USPS-T6-3-7, 10-11, 16, 18, 30, 32, 34, 36-37, 38c-d, 40, 42, 51
	VP/USPS-T6-2-3, 9, 14
Newspaper Association of America	DMA/USPS-T6-15a, 19, 23, 28-29, 33
	NAA/USPS-T6-1-6
	OCA/USPS-T6-1, 7, 23-24, 38, 40, 46, 51-54, 56
	VP/USPS-T6-5, 8
Office of the Consumer Advocate	DMA/USPS-T6-1-12, 14-26, 34-43, 47-48
	OCA/USPS-T6-1-57
Postal Rate Commission	POIR No. 6, Question 7
	POIR No. 7, Questions 9, 10
George S. Tolley (USPS-T-7)	
Postal Rate Commission	POIR No. 7, Questions 7, 8
Eliane Van-Ty-Smith (USPS-T-13)	
AOL Time Warner	AOL-TW/USPS-T13-1c-e, 2, 4b, e, g, 5-8
Magazine Publishers of America	MPA/USPS-T13-1
Postal Rate Commission	POIR No. 6, Question 6(b-c)
United Parcel Service	AOL-TW/USPS-T13-4b, e, g, 5, 8
	MPA/USPS-T13-1

Party	Interrogatories
Jennifer Xie (USPS-T-2)	
Parcel Shippers Association	PSA/USPS-T2-1-3
Postal Rate Commission	UPS/USPS-T25-27 redirected to T2 POIR No. 2, Question 3

Respectfully submitted,

Steven W. Williams
Secretary

INTERROGATORY RESPONSES
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory	Designating Parties
United States Postal Service	
Marc A. Smith (USPS-T-15)	
POIR No. 6, Question 9	PRC
POIR No. 7, Question 6	PRC
POIR No. 7, Question 6 (Further Response)	PRC
Don M. Spatola (USPS-T-20)	
POIR No. 4, Question 3	PRC, UPS
POIR No. 5, Question 8	OCA, PRC
William M. Takis (USPS-T-19)	
UPS/USPS-T19-1	UPS
UPS/USPS-T19-4	UPS
Altaf H. Taufique (USPS-T-34)	
NNA/USPS-T34-1	NNA
NNA/USPS-T34-2	NNA
NNA/USPS-T34-3	NNA
POIR No. 4, Question 12	PRC
POIR No. 5, Question 1, 2, 3	PRC
William P. Tayman (USPS-T-6)	
DFC/USPS-T6-2	DMA
DMA/USPS-T6-1	DMA, OCA
DMA/USPS-T6-2	DMA, OCA
DMA/USPS-T6-3	OCA
DMA/USPS-T6-4	DMA, OCA
DMA/USPS-T6-5	DMA, OCA
DMA/USPS-T6-6	OCA
DMA/USPS-T6-7	DMA, OCA
DMA/USPS-T6-8	DMA, OCA
DMA/USPS-T6-9	OCA
DMA/USPS-T6-10	OCA

Interrogatory	Designating Parties
DMA/USPS-T6-11	DMA, OCA
DMA/USPS-T6-12	DMA, OCA
DMA/USPS-T6-14	OCA
DMA/USPS-T6-15	DMA, OCA
DMA/USPS-T6-15a	NAA
DMA/USPS-T6-16	DMA, OCA
DMA/USPS-T6-17	DMA, OCA
DMA/USPS-T6-18	OCA
DMA/USPS-T6-19	DMA, NAA, OCA
DMA/USPS-T6-20	DMA, OCA
DMA/USPS-T6-21	DMA, OCA
DMA/USPS-T6-22	DMA, OCA
DMA/USPS-T6-23	DMA, NAA, OCA
DMA/USPS-T6-24	OCA
DMA/USPS-T6-25	DMA, OCA
DMA/USPS-T6-26	DMA, OCA
DMA/USPS-T6-27	DMA
DMA/USPS-T6-28	DMA, NAA
DMA/USPS-T6-29	DMA, NAA
DMA/USPS-T6-30	DMA
DMA/USPS-T6-31	DMA
DMA/USPS-T6-32	DMA
DMA/USPS-T6-33	DMA, NAA
DMA/USPS-T6-34	DMA, OCA
DMA/USPS-T6-35	DMA, OCA
DMA/USPS-T6-36	OCA
DMA/USPS-T6-37	OCA
DMA/USPS-T6-38	OCA
DMA/USPS-T6-39	OCA
DMA/USPS-T6-40	OCA
DMA/USPS-T6-41	OCA
DMA/USPS-T6-42	OCA
DMA/USPS-T6-43	OCA
DMA/USPS-T6-44	DMA
DMA/USPS-T6-45	DMA
DMA/USPS-T6-46	DMA
DMA/USPS-T6-47	DMA, OCA

Interrogatory	Designating Parties
DMA/USPS-T6-48	OCA
DMA/USPS-T6-59	DMA
DMA/USPS-T6-62	DMA
DMA/USPS-T6-63	DMA
MPA/USPS-T6-4	DMA
NAA/USPS-T6-1	NAA
NAA/USPS-T6-2	NAA
NAA/USPS-T6-3	DMA, NAA
NAA/USPS-T6-4	DMA, NAA
NAA/USPS-T6-5	NAA
NAA/USPS-T6-6	DMA, NAA
OCA/USPS-T6-1	NAA, OCA
OCA/USPS-T6-2	OCA
OCA/USPS-T6-3	DMA, OCA
OCA/USPS-T6-4	DMA, OCA
OCA/USPS-T6-5	DMA, OCA
OCA/USPS-T6-6	DMA, OCA
OCA/USPS-T6-7	DMA, NAA, OCA
OCA/USPS-T6-8	OCA
OCA/USPS-T6-9	OCA
OCA/USPS-T6-10	DMA, OCA
OCA/USPS-T6-11	DMA, OCA
OCA/USPS-T6-12	OCA
OCA/USPS-T6-13	OCA
OCA/USPS-T6-14	OCA
OCA/USPS-T6-15	OCA
OCA/USPS-T6-16	DMA, OCA
OCA/USPS-T6-17	OCA
OCA/USPS-T6-18	DMA, OCA
OCA/USPS-T6-19	OCA
OCA/USPS-T6-20	OCA
OCA/USPS-T6-21	OCA
OCA/USPS-T6-22	OCA
OCA/USPS-T6-23	NAA, OCA
OCA/USPS-T6-24	NAA, OCA
OCA/USPS-T6-25	OCA
OCA/USPS-T6-26	OCA

Interrogatory	Designating Parties
OCA/USPS-T6-27	OCA
OCA/USPS-T6-28	OCA
OCA/USPS-T6-29	OCA
OCA/USPS-T6-30	DMA, OCA
OCA/USPS-T6-31	OCA
OCA/USPS-T6-32	DMA, OCA
OCA/USPS-T6-33	OCA
OCA/USPS-T6-34	DMA, OCA
OCA/USPS-T6-35	OCA
OCA/USPS-T6-36	DMA, OCA
OCA/USPS-T6-37	DMA, OCA
OCA/USPS-T6-38	NAA, OCA
OCA/USPS-T6-38c	DMA
OCA/USPS-T6-38d	DMA
OCA/USPS-T6-39	OCA
OCA/USPS-T6-40	DMA, NAA, OCA
OCA/USPS-T6-41	OCA
OCA/USPS-T6-42	DMA, OCA
OCA/USPS-T6-43	OCA
OCA/USPS-T6-44	OCA
OCA/USPS-T6-45	OCA
OCA/USPS-T6-46	NAA, OCA
OCA/USPS-T6-47	OCA
OCA/USPS-T6-48	OCA
OCA/USPS-T6-49	OCA
OCA/USPS-T6-50	OCA
OCA/USPS-T6-51	DMA, NAA, OCA
OCA/USPS-T6-52	NAA, OCA
OCA/USPS-T6-53	NAA, OCA
OCA/USPS-T6-54	NAA, OCA
OCA/USPS-T6-55	OCA
OCA/USPS-T6-56	NAA, OCA
OCA/USPS-T6-57	OCA
VP/USPS-T6-2	DMA
VP/USPS-T6-3	DMA
VP/USPS-T6-5	NAA
VP/USPS-T6-8	NAA

Interrogatory	Designating Parties
VP/USPS-T6-9	DMA
VP/USPS-T6-14	DMA
POIR No. 6, Question 7	PRC
POIR No. 7, Questions 9, 10	PRC
George S. Tolley (USPS-T-7)	
POIR No. 7, Questions 7, 8	PRC
Eliane Van-Ty-Smith (USPS-T-13)	
AOL-TW/USPS-T13-1c	AOL-TW
AOL-TW/USPS-T13-1d	AOL-TW
AOL-TW/USPS-T13-1e	AOL-TW
AOL-TW/USPS-T13-2	AOL-TW
AOL-TW/USPS-T13-4b	AOL-TW, UPS
AOL-TW/USPS-T13-4e	AOL-TW, UPS
AOL-TW/USPS-T13-4g	AOL-TW, UPS
AOL-TW/USPS-T13-5	AOL-TW, UPS
AOL-TW/USPS-T13-6	AOL-TW
AOL-TW/USPS-T13-7	AOL-TW
AOL-TW/USPS-T13-8	AOL-TW, UPS
MPA/USPS-T13-1	MPA, UPS
POIR No. 6, Question 6(b-c)	PRC
Jennifer Xie (USPS-T-2)	
PSA/USPS-T2-1	PSA
PSA/USPS-T2-2	PSA
PSA/USPS-T2-3	PSA
UPS/USPS-T25-27 redirected to T2	PRC
POIR No. 2, Question 3	PRC

United States Postal Service

Marc A. Smith
(USPS-T-15)

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 6, QUESTION NO. 9

9. The piggyback and related factors for the Base Year and Test Year in LR-J-46 and LR-J-52, respectively, are developed using SAS programs. While the final output generated by these SAS programs is provided in the aforementioned library references, it is not possible to track various CRA/Rollforward type cost components and the relevant distribution keys. The cost components, referred to as 'COMP' in the SAS program, are not the same as those used in the CRA/Rollforward. Please provide a spreadsheet containing LR-J-46 and LR-J-52 components and distribution keys by cost function and mail subclass that are used to develop the piggyback and related factors for the Base Year and the Test Year.

RESPONSE:

Spreadsheets containing the LR-J-46 and LR-J-52 components and distribution keys by cost function and subclass are provided in USPS LR-J-202. There is one Excel workbook for the base year and one for the test year. Each cost function is provided on a separate sheet within these workbooks. For each of these components, the component number for the CRA/Rollforward is provided as well as the corresponding "COMP" component number from the SAS programs.

In addition, to help link the CRA/Rollforward components to the programmer assigned "COMP" numbers we have provided two Tables in USPS LR-J-202 (in poir6pb.xls). Table 1 is the general piggyback matrix from page 298 in USPS-LR-J-52. This summarizes the calculation of the piggyback factors by cost function, indicating the CRA/Rollforward components used in the calculation of piggyback factors. Table 2 is this same general piggyback matrix showing programmer assigned component numbers or "COMP" numbers, which correspond to those CRA and Roll Forward component numbers in Table 1.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 6, QUESTION NO. 9

These two tables provide a crosswalk between CRA/Roll Forward component numbers and programmer-assigned SAS component numbers.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 7, QUESTION NO. 6

6. Library Reference USPS-J-52 contains a matrix table that details the calculations used to develop the piggyback factors for the test year (LR-J-52) and the base year (LR-J-46). In regard to the base year piggyback calculations, specifically those that compute the rents and building & leasehold depreciation costs, an attempt to replicate these costs for city delivery carriers and rural carriers show significant differences.
For example, the calculation for the base year city delivery carrier rents in LR-J-46, produces costs that are nearly twice as much as produced using the formula in the matrix table in LR-J-52.

(a) Please provide a walkthrough, showing all computations, for the city carrier & rural carrier base year and test year piggyback calculations for rents and the building & leasehold depreciation as shown at page 58 and 59 of USPS LR-J-46.

(b) Please provide a walkthrough of the calculations used to determine the results of the costs associated with the column labeled "Joint Superv" in the test year mail processing piggyback factor computations at page 5 of LR-J-52.

RESPONSE:

The observation that the base year city delivery carrier rents shown in USPS LR-J-46, page 58 are nearly twice as much as produced using the formula given in the "General Piggyback Matrix" documentation at page 298 of USPS LR-J-52 is confirmed. This difference is due to an error in the computer program for the base year city carrier piggyback factors. This error affects the calculation of rents, building and leasehold depreciation and the associated interest expense. The same error exists in the computer programs for the test year city carrier piggyback factors as well (in USPS LR-J-52). The corrected program indicates a reduction in the piggyback factors of about 2 percent. Similarly, there is about a 2 percent decline in the unit costs which are calculated with these factors. Errata will be filed shortly.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 7, QUESTION NO. 6

In order to investigate the concerns of this POIR and to help in providing the walkthroughs for parts a and b, I provide spreadsheet replication of many of the base year and test year piggyback factors in USPS LR-J-210. Using these spreadsheets two other errors of very small impact also were detected. These errors occur in base year and test year rural carrier piggyback factors for cleaning and protection costs, and for base year mail processing costs for miscellaneous supplies and services. The piggyback factors which incorporate the corrected calculation are shown in the spreadsheets in USPS LR-J-210. Comparisons with the filed piggyback factors in USPS LR-J-46 (pages 1 and 109) and USPS LR-J-52 (page 193) show the impact of the corrections to be *de minimus*. USPS LR-J-210 also contains a description of the errors and corrections in the computer programs for all three cases.

a. The calculations for the city and rural carrier base year and test year rents and building and leasehold depreciation for the piggyback factor is shown in the spreadsheets in USPS LR-J-210. (These spreadsheets contain the corrected calculations for city carriers, rather than the calculations shown at page 58 and 59 of USPS LR-J-46.) As an example of these, consider the calculation of the rents for the test year city carrier piggyback factor for First-Class single-piece in the spreadsheet Typback.POIR7.xls, sheet "City Dep," cell AC11, which is 33,811. As indicated in the General Piggyback Matrix at page 298 of USPS LR-J-52, formula "d2" in line 77,

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 7, QUESTION NO. 6

there are four components of this calculation, which are associated with the rents for space used by:

1. city carriers,
2. employee facilities (restrooms, lunchroom, etc.) used by city carriers,
3. office space used by supervisors and administrative staff that are associated with city carriers and
4. vehicle maintenance for city carrier vehicles.

The rents for the first item, city carrier space, is the term (using component numbers) -- (165/1199) * 1139. This first ratio is the total volume variable costs for rents to the percentage of facility space which is volume variable (times 100,000,000) or 925,053/59,525,957. Component 1139 is the percentage of facility space used by city carriers associated with First-Class single-piece (times 100,000,000) or 1,674,863. Rearranging the terms gives us 925,053 * (1,674,863/59,525,957) which is the total volume variable rent times the share of rents associated with city carriers working on First-Class single-piece.

The second item, the rents for employee space utilized by city carriers, is the term (using component numbers) – (165/1199)*(1147/947) * (sum of city carrier and related labor costs). The first ratio is as described above. The second ratio is the percentage of facility space which is for employee facilities for all classes (times 100,000,000) divided

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 7, QUESTION NO. 6

by the total volume variable labor costs for all non-headquarters employees or 4,107,518/28,317,594. Finally the sum of city carrier and related labor costs for First-Class single-piece is the sum of the labor costs for city carriers, supervision, joint supervision, general supervision, motor vehicle service, higher level supervision and administrative clerks for this subclass which is 2,158,010. Rearranging these terms gives us 925,053 * (4,107,518/59,525,957) * (2,158,010/28,317,594) which is the total volume variable rent times the share of rents associated with employee facilities times the share of employee facility space associated with city carriers working on First-Class single-piece.

The third item, the rents for office space utilized by supervisors and administrators that support city carriers, is the term (using component numbers) – (165/1199)*(1144/944) * (sum of city carrier related higher level supervision and administrative labor costs). The first ratio is as described above. The second ratio is the percentage of facility space which is for office space for all classes (times 100,000,000) divided by the total volume variable labor costs for all non-headquarters supervisory and administrative employees or 3,914,459/1,272,078. Finally the sum of city carrier related higher level supervision and administrative costs for First-Class single-piece is 45,226. Rearranging these terms gives us 925,053 * (3,914,459/59,525,957) * (45,226/1,272,078) which is the total volume variable rent times the share of rents associated with office space times

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 7, QUESTION NO. 6

the share of office space associated with city carriers working on First-Class single-piece.

The fourth item, the rents for vehicle maintenance space utilized by city carrier vehicles, is the term (using component numbers) – (165/1199)*(1148/90) * (87). The first ratio is as described above. The second ratio is the percentage of facility space which is for vehicle maintenance for all classes (times 100,000,000) divided by the total volume variable labor costs for all vehicle maintenance employees or 464,881/64,429. Finally the component 87 is city carrier related motor vehicle maintenance labor costs for First-Class single-piece which is 6,743. Rearranging these terms gives us 925,053 * (464,881/59,525,957) * (6,743/64,429) which is the total volume variable rent times the share of rents associated with motor vehicle maintenance times the share of vehicle maintenance space associated with city carriers working on First-Class single-piece.

b. The calculations of the test year mail processing piggyback factor "Joint Superv" (or Joint Supervision) is shown in the spreadsheet Typback.POIR7.xls, sheet "MP Dep" of USPS LR-J-210. As an example of these calculations consider cell J11, which is the Joint Supervision costs for First-Class single-piece, which is 53,858. The formula in that cell is:

(component 678/component 694) * (component 35 + component 423).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 7, QUESTION NO. 6

The first ratio is the total volume variable Joint Supervision costs over the volume variable costs associated with the distribution key for Joint Supervision or 230,320/19,915,961. This is multiplied by the sum of mail processing and quality control clerk labor costs for First-Class single-piece, which is 4,657,165 (=4,647,852 + 9,313). Rearranging these terms gives us component 678 * (components 35 & 423/component 694), which is the total volume variable Joint Supervision costs times the share of Joint Supervision associated with mail processing for First-Class single-piece.

FURTHER RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 7, QUESTION NO. 6

6. Library Reference USPS-J-52 contains a matrix table that details the calculations used to develop the piggyback factors for the test year (LR-J-52) and the base year (LR-J-46). In regard to the base year piggyback calculations, specifically those that compute the rents and building & leasehold depreciation costs, an attempt to replicate these costs for city delivery carriers and rural carriers show significant differences.
For example, the calculation for the base year city delivery carrier rents in LR-J-46, produces costs that are nearly twice as much as produced using the formula in the matrix table in LR-J-52.

(a) Please provide a walkthrough, showing all computations, for the city carrier & rural carrier base year and test year piggyback calculations for rents and the building & leasehold depreciation as shown at page 58 and 59 of USPS LR-J-46.

(b) Please provide a walkthrough of the calculations used to determine the results of the costs associated with the column labeled "Joint Superv" in the test year mail processing piggyback factor computations at page 5 of LR-J-52.

FURTHER RESPONSE:

This provides my further response to Question No. 6 of Presiding Officer's Information Request No. 7, issued December 19, 2001, and initially responded to on January 2, 2002. In my initial response, I indicated that correcting an error in computer programs used to calculate base year and test year city carrier piggyback factors would result in a reduction of about 2 percent in the factors, and that corresponding errata would be filed.

The corrections would change Attachments 10 and 13 to my testimony, USPS-T-15, and certain pages in each of three library references, as follows:

USPS-LR-J-46, at pages 54, 58-61, and 72;

USPS-LR-J-52, at pages 133, 134, 139-141, and 153;

USPS-LR-J-80, at pages 92, 93, 98-100, and 112.

Revised Attachments 10 and 13 to USPS-T-15 are attached. I also provide revisions to the indicated library references as noticed in a separate filing of today's date. The revisions do not affect piggyback factors for final adjustments.

REVISED 1/3/02

Attachment 10

TEST YEAR PIGGYBACK FACTORS BY MAJOR FUNCTION

CLASSES, SUBCLASSES, SPECIAL SERVICES	MAIL PROCESSING	WINDOW SERVICE	CLERK/ MESSENGER	CITY DELIVERY CARRIER	VEHICLE SERVICE DRIVER	RURAL CARRIER
FIRST-CLASS :-SINGLE PC. LTRS	1.599	1.465	1.821	1.336	1.583	1.247
PRESORTED LETTERS	1.622	1.465	1.811	1.333	1.536	1.244
TOTAL LETTERS	1.605	1.465	1.832	1.335	1.562	1.245
SINGLE-PIECE CARDS	1.543	1.465	1.611	1.337	1.581	1.246
PRESORTED CARDS	1.588	1.465	1.750	1.338	1.542	1.245
TOTAL CARDS	1.552	1.465	1.769	1.337	1.563	1.245
TOTAL FIRST-CLASS MAIL	1.603	1.465	1.831	1.335	1.562	1.245
PRIORITY MAIL	1.472	1.465	1.818	1.372	1.555	1.245
EXPRESS MAIL	1.516	1.465	1.828	1.397	1.544	1.244
MAILGRAMS	1.471	-	1.800	1.436	1.000	1.067
PERIODICALS: WITHIN COUNTY	1.498	-	1.000	1.341	1.573	1.247
PERIODICALS: OUTSIDE THE COUNT	1.539	1.464	1.545	1.334	1.569	1.246
TOTAL PERIODICALS	1.538	1.464	1.500	1.335	1.569	1.246
STANDARD: ENHANCED CARR. RTE.	1.574	1.464	1.333	1.339	1.553	1.245
STANDARD: REGULAR	1.590	1.464	1.500	1.330	1.539	1.244
TOTAL STANDARD MAIL	1.589	1.465	1.600	1.333	1.545	1.245
PACKAGE SERVICES: PARCELS	1.579	1.465	1.619	1.392	1.516	1.243
BOUND PRINTED MATTER	1.606	1.461	1.000	1.410	1.548	1.245
MEDIA MAIL	1.647	1.464	1.000	1.426	1.633	1.251
TOTAL PACKAGE SERVICES	1.595	1.465	1.609	1.404	1.528	1.244
US POSTAL SERVICE	1.576	1.464	1.600	1.331	1.567	1.246
FREE MAIL	1.632	-	-	1.337	1.553	1.245
INTERNATIONAL MAIL	1.527	1.465	1.828	1.367	1.527	1.244
TOTAL ALL MAIL	1.581	1.465	1.828	1.338	1.548	1.245
SPECIAL SERVICES: -REGISTRY	1.722	1.465	1.870	1.342	-	1.249
CERTIFIED	1.688	1.465	-	1.330	-	1.244
INSURANCE	1.391	1.465	-	1.331	-	1.244
C.O.D.	1.765	1.463	1.500	1.334	-	1.250
MONEY ORDERS	1.286	1.465	-	-	-	1.242
STAMPED ENVELOPES	1.266	1.464	-	-	-	-
SPECIAL HANDLING	3.314	1.458	-	-	-	-
POST OFFICE BOX	1.287	1.465	-	1.318	-	-
OTHER	1.840	1.465	1.545	1.313	-	1.200
TOTAL SPECIAL SERVICES	1.724	1.465	1.833	1.326	-	1.245
TOTAL VOLUME VARIABLE	1.583	1.465	1.828	1.337	1.548	1.245
Source: LR-J-52, Part II, Page:	9	42	111	134R	172	199

REVISED 1/3/02

Attachment 13

Additional Piggyback Factors and Other Costs

Test Year Accounting and Auditing Piggyback Factor	1.529
(Source: LR-J-52, page 66)	
Test Year Window Service Piggyback Factor:	
All subclasses & Spec. Ser. Except P.O. Box	1.465
All subclasses & Spec. Ser. Except P.O. Box, excluding space related	1.264
(Source: LR- J-52, page 35)	
Test Year City Carrier Piggyback Factor, Using Total Special Services Costs:	
Office	1.315
Street	1.330
Total	1.326
(Source: LR- J-52, page 133R)	
Test Year Cost per Square Foot:	
Rent	9.02
Facility-Support	6.92
Total	15.95
(Source: LR- J-52, page III-11)	

United States Postal Service

Don M. Spatola
(USPS-T-20)

RESPONSE OF POSTAL SERVICE WITNESS DON M. SPATOLA TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 4, QUESTION No. 3

3. In USPS-T-20, at page 7, witness Spatola states, "The Postal Service can avoid [ ] handlings at the FedEx hub by preparing air containers that bypass the FedEx sort."
   (a) Are the handlings referred to in this statement piece handlings?
   (b) Do air containers that bypass the FedEx sort have D&R tags affixed to them?
   (c) If so, will FedEx scan the tags on containers that bypass the FedEx sort?
   (d) Please describe how containers that bypass the FedEx sort are routed to their destination.

RESPONSE

(a) No. The handlings refer to mailbags, tubs, trays or outsides.

Please see page 5 of the USPS FedEx Transportation Agreement (USPS-LR-J-97).

(b) Yes. There are specialized D&R tags called container D&R tags for this purpose. Container D&R tags have the same basic information as other D&R tags.

(c) Yes.

(d) When bypass containers arrive at the FedEx hub, they are unloaded and sent to a "bypass lot" where they are sorted by destination. From the bypass lot, they are dispatched to the outbound aircraft assigned to the destination city. They are then loaded on the aircraft and flown to their destinations.

Revised 01/11/02

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DON M. SPATOLA TO PRESIDING OFFICERS INFORMATION REQUEST NO. 5, QUESTION NO. 8

8. Please describe the typical travel path a Priority Mail piece would follow between the following origins and destinations, including whether or not it would pass through FedEx's Memphis hub. Please also indicate whether the piece would use FedEx or commercial air transportation and describe any other transportation it would incur, such as highway or rail.

(a) Miami, Florida and Chicago, Illinois
(b) Houston, Texas and Des Moines, Iowa
(c) Los Angeles, California and Eureka, California
(d) Washington, DC and Bangor, Maine
(e) Nashville, Tennessee and Wichita, Kansas

RESPONSE

(a) Starting from the originating Miami facility to the Miami PMPC via USPS surface; from the Miami PMPC to FedEx Miami via USPS surface; from FedEx Miami to the bypass area in the FedEx Memphis Hub via FedEx air; from the FedEx Memphis Hub to FedEx Chicago via FedEx air; from FedEx Chicago to the O'Hare AMC via USPS surface; from the O'Hare AMC to the destinating Chicago facility via USPS surface.

(b) Starting from the originating Houston facility to the Houston AMC via USPS surface; from the Houston AMC to FedEx Houston via USPS surface; from FedEx Houston to the sort area in the FedEx Memphis Hub via FedEx air; from the FedEx Memphis Hub to FedEx Des Moines via FedEx air; from FedEx Des Moines to the Des Moines AMC via USPS surface; from the Des Moines AMC to the destinating Des Moines facility via USPS surface.

(c) Starting from the originating Los Angeles facility to the Van Nuys Surface Hub via USPS surface; from the Van Nuys Surface Hub via either route

Revised 01/11/02

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DON M. SPATOLA TO PRESIDING OFFICERS INFORMATION REQUEST NO. 5, QUESTION NO. 8

(1) to the Oakland PDC via USPS surface; from the Oakland PDC to North Bay CA via USPS surface; from North Bay CA to Eureka CA via HCR surface; or via route (2) to the Sacramento Surface Hub via USPS surface; from the Sacramento Surface Hub to Redding CA via USPS surface; from Redding CA to Eureka CA via USPS surface.

(d) Starting from the originating Washington DC facility to the Capital HASP via USPS surface; from the Capital HASP to the Nashua PMPC via USPS surface; from the Nashua PMPC to the Eastern Maine P&DF via USPS surface; from the Eastern Maine P&DF to the destinating Bangor facility via USPS surface.

(e) Starting from the originating Nashville facility to the Nashville AMC via USPS surface; from the Nashville AMC to the sort area in the FedEx Memphis Hub via USPS surface; from the FedEx Memphis Hub to FedEx Wichita via FedEx air; from FedEx Wichita to the Wichita AMC via USPS surface; from the Wichita AMC to the destinating Wichita facility via USPS surface.

United States Postal Service

William M. Takis
(USPS-T-19)

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAKIS
TO INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T-19-1. Refer to your discussion of the start-up fee for the FedEx transportation agreement on page 8 of your testimony. Explain the business reason for the start-up fee.

UPS/USPS-T-19-1 Response: As I state in my direct testimony, the "start up" fee of $100 million is a non-recurring fee (in two equal payments) not associated with any specific transportation services. The "business reason" for the start-up fee is that it is part of the negotiated terms between the Postal Service and FedEx for the air transportation described by Witness Spatola (USPS-T-20). Specifically, it represents a portion of the payments from the Postal Service to FedEx for air transportation services.

Revised 11/20/01

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAKIS
TO INTERROGATORIES OF UNITED PARCEL SERVICE

UPS/USPS-T19-4. Provide all termination costs and any continuing costs that the Postal Service has or will incur separately for each of the following contracts: ANET, WNET, TNET, and the PMPC contract. If exact amounts are not available, provide the Postal Service's best available estimates of the termination costs for each contract.

UPS/USPS-T19-4 Response: A partial objection to this interrogatory was filed on October 22, 2001.

It is my understanding that the current aggregate "best available" estimate of termination for convenience costs for the ANET, WNET, and TNET contracts is $226 million. It also is my understanding that the Postal Service has made a provisional payment of $70 million on the ANET termination for convenience, against a cap of $150 million for both termination for convenience and other ANET claims. Furthermore, I do not address PMPC contract termination costs in my testimony, and it is my understanding that no estimates for these termination costs are included in the Request. It is my understanding that the Postal Service has made a $60 million provisional payment on the PMPC termination for convenience.

United States Postal Service

Altaf H. Taufique
(USPS-T-34)

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO INTERROGATORIES OF THE NATIONAL NEWSPAPER ASSOCIATION

NNA/USPS-T-34-1. Please refer to your testimony with regard to pallets and sacks on page 10. Please provide a list of containerization options, with the exception of sacks, available for low volume Periodical mailings that cannot be commingled.

RESPONSE:

My understanding is that the containerization options for nonletter-size Periodicals mail are sacks and pallets.

Based on my understanding, in a single mailing, the minimum load per pallet is 250 pounds. In a mailing or mailing job presented for acceptance at a single postal facility, one overflow pallet may be prepared containing less than 250 pounds if the mail is for the service area of the entry facility.

There is no minimum load per pallet for pallets entered at a destination delivery unit if the mail on those pallets is for that unit's service area. For mail entered at an SCF, the manager of that facility may issue a written authorization allowing preparation of any 5-digit, 3-digit, or SCF pallets containing less than the minimum required volume if the mail on those pallets is for that SCF's service area.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO INTERROGATORIES OF THE NATIONAL NEWSPAPER ASSOCIATION

NNA/USPS-T-34-2. *Please refer to page 4 of your testimony where you state:* 'I am also proposing a change to DMCS 421.45 to limit the destination entry discounts to mail entered at the destination facility," and also to your recognition of the history of cost increases for Periodical mail, referenced on page 6 of your testimony.

a. Please confirm that Periodical mail has received higher-than-system average rate increases in the past two rate cases. If you do not confirm, please explain your answer.

b. Please confirm that some periodicals are entered within a Sectional Center Facility (SCF) zone for delivery within an SCF zone without necessarily passing through the SCF itself. If you do not confirm, please explain your answer.

c. Please confirm that newspaper mail that is typically entered within an SCF zone for delivery within an SCF zone without necessarily passing through the SCF itself may actually be considered "drop-shipped" in the sense that mail is deposited closer to a destination than required of the mailer. If you do not confirm, please explain your answer.

d. Please confirm that through proper bundling and packaging, a Periodical mailer can prepare mail for entry within an SCF zone for delivery within the same SCF zone without requiring opening of the container, sorting or further handling within the SCF. If you do not confirm, please explain your answer.

e. Please confirm that the periodicals involved in question b, c and d would be denied a destination entry discount under your proposal. If you do not confirm please explain your answer.

RESPONSE:

a. Confirmed. Even with significantly lower cost coverages in both cases the overall increase for Periodicals has been higher than average. Mitigation efforts and cost reduction initiatives by the mailers and the Postal Service were successful in reducing some of this impact.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO INTERROGATORIES OF THE NATIONAL NEWSPAPER ASSOCIATION

b. Confirmed based on my understanding of the process. For example, a 5-digit container may be entered at the associate office that services the addresses within the container and has only manual processing to carriers.

c. Confirmed based on my understanding of the process.

d. Confirmed based on my understanding of the process – e.g., a 5-digit container destined for a manual only associate office may pass through the SCF but may not be opened for processing at the SCF.

e. My understanding is that factors such as the container level, the machinability of the mailpieces, whether or not the destination office is an automated zone, and whether there is transportation between the office of entry and the office of destination would determine eligibility for the DSCF rate in parts b and c. The DSCF rate would not apply to packages of mail that require backhauling to the SCF, regardless of the package level. Conversely, the DSCF rate would apply if backhauling to the DSCF is not required for operational reasons.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO INTERROGATORIES OF THE NATIONAL NEWSPAPER ASSOCIATION

NNA/USPS-T-34-3. Please refer to MPA/USPS-T-34-8, redirected from you to witness Mayes, where she confirms that no cost analyses have been conducted with regard to DSCF rated pieces entered at the destination facility and those not so entered.

a. If the Postal Service has conducted no studies of the cost impact, upon what costing theory or basis have you made the recommendation to restrict this discount to pieces entered into the destination facility? Please describe this costing theory or basis in detail.

b. If a mail piece were entered at an associate office within an SCF for delivery within the SCF, is it conceivable that such a piece would create no greater attributable cost than the same piece entered at an SCF for delivery within the SCF? If your answer is yes, please explain the circumstances under which that might occur. If your answer is no, please fully explain your answer.

c. Would your answer to 3b depend upon whether transportation normally traveling between the entry associate office and the destination office exists? Please explain your response.

d. Has the Postal Service considered granting the destination entry discount to any mail entered and delivered within the SCF, other than the mail entered directly at the destination facility? If your response is yes, please explain the terms under which the discount might be granted. If your response is no, please explain why such an option was not proposed in this case.

RESPONSE:

a. Please refer to the response to part (a) of MPA/USPS-T34-8 where witness Mayes states: "The current and proposed discounts are based on cost savings estimates developed using the assumption that mail receiving the destination entry SCF discount is dropped at the destinating facility and not just at any facility within the service area of that SCF."

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO INTERROGATORIES OF THE NATIONAL NEWSPAPER ASSOCIATION

b. Yes. Refer to the example in subpart b of NNA/USPS-T34-2.

c. The answer to b depends on factors such as the container level, the machinability of the mailpieces, whether or not the destination office is an automated zone, and whether there is transportation between the office of entry and the office of destination.

d. Yes, depending on factors such as those described in c.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NUMBER 4
Question 12

Question 12

In USPS-LR-J-107, in worksheet "RR TYAR" of notebook "OC0l .xls" at cell D77, the formula "SUM (D6:D74)" does not include the amount (5,468) in cell D75. This amount is labeled "WKSHRING DISCNT DADC ENTRY." Please explain why the sum in cell D77 does not include this amount.
Similarly, in worksheet "NP TYAR" of notebook "OCOI .xls" at cell D84, the formula "SUM (D6:D15) + SUM (D24:D38) +SUM (D60:D74)" does not include the amount (624) in cell D75. This amount is labeled "WKSHRING DISCNT ADC ENTRY." Please explain why the sum in cell D84 does not include this amount.

RESPONSE:

In both worksheets "RR TYAR" and "NP TYAR", cell D75 was inadvertently left out of the sums in cell D77 (RR TYAR) and cell D84 (NP TYAR). Fortunately, the value of this cell is so small that it should not impact the after rates financial estimates.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE
TO PRESIDING OFFICER'S INFORMATION REQUEST NUMBER 5
Questions 1-3

Question 1.
Please refer to USPS-LR-J-107, file OC0l.xls, worksheet 'Pound Data-Ed. In the cells for regular rate, Cl4 and Cl 5, the values were calculated as follows: Editorial Pound Rate All other zones (0.203) less Destinating SCF (0.180) equals 0.023 and Editorial Pound Rate All other zones (0.203) less Destinating delivery unit (0.158) equals 0.045. In the Science of Agriculture section, however, the corresponding cell C l9 contains the value 0.017. According to worksheet 'Rates,' the difference between proposed rates for Science of Agriculture Editorial Zones 1 & 2 (0.152) and Editorial Destinating Delivery Unit (0.120) is 0.032. Similarly, cell C20 contains the value 0.008. According to worksheet 'Rates,' the difference between proposed rates for Science of Agriculture Editorial Zones 1 & 2 (0.152) and Editorial Destinating SCF (0.136) is 0.016. Should the calculations in the Science of Agriculture section be consistent with those for regular rate? Please explain.

RESPONSE:

Calculations in the Science of Agriculture section should be consistent with those for regular rate. The resulting rates do not change with either method of calculation in this particular case.

Question 2.
Please refer to the first page of Rate Schedule 421 in the Request. The last line refers to "All other zones," and thus appears to provide a low rate to Science of Agriculture editorial matter in zones 1 & 2 as well as zones 3 through 8. Please explain whether this is the intended rate proposal or whether the last line should refer only to zones 1 & 2. If the latter, should there be another line for zones 3 through 8?

RESPONSE:

This was an oversight. The editorial matter rate for Science of Agriculture titled "All other Zones" is the rate intended for Zones 1 & 2. The rate for "All other Zones" should be $0.203, the same as the Outside County unzoned editorial pound rate. Errata to Rate Schedule 421 were filed on November 21, 2001.

Question 3.
Please refer to the response to question 3 of POIR No. 3 and to cell C40 in worksheet 'Pound Data_Adv' in file OCOI .xls in USPS-LR-J-107. Please explain why distributing 50 percent of the transportation cost to the advertising pounds is more appropriate than distributing 44 percent of the transportation cost to advertising pounds, when advertising is approximately 44 percent (calculable from cells B64 and D64 in worksheet 'Test Year BR') of the weight transported. Also, since changing the proportion in cell C40 to 0.44 appears to reduce the rate for zone 8, please explain further the reference in parts b-c of the response to "a sharper increase in the farther zones" in light of the objective (USPS-T-34 at 7) to mitigate the increase.

RESPONSE:

Distributing approximately 44 percent of the transportation cost to the calculation of advertising pound rates is more appropriate than the 50 percent allocation in the context of the Postal Service proposal. The comment "a sharper increase in the farther zones" was in the context of applying 53 percent (the allocation of revenue to advertising pounds) of transportation cost to the calculation of advertising pound rates.

United States Postal Service

William P. Tayman
(USPS-T-6)

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF DOUGLAS F. CARLSON

DFC/USPS-T6-2. Please refer to your response to DMA/USPS-T6-30(b). Please describe the specific changes that will be made in "AMP of Saturday First-Class originating operations," including the facilities that will be affected.

RESPONSE:

As stated in the response DMA/USPS-T6-30(b) "an aggressive refocus on Area Mail Processing (AMP) is included to maximize success of automation technology." I am informed that AMP of Saturday FCM is when the small Saturday volume of collection mail from one facility is sent to another, larger, facility to be consolidated with their volumes for processing, thereby eliminating the need for staffing outgoing FCM operations at the smaller facility. At this time, it is not known which facilities will be affected.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-1. Please refer to Table 4 on page 6 of your testimony. In particular, please refer to the row titled "Before Rates FY 2003*."

(a) Please confirm that this table shows that expenses in Before Rates FY 2003 (excluding contingency) are projected to be 4.1 percent higher than FY 2002 expenses. If not confirmed, please explain fully.

(b) Please confirm that expenses in Before Rates FY 2003 (including contingency) are projected to be 7.2 percent higher than FY 2002 expenses. If not confirmed, please explain fully and provide the appropriate expense growth figure for Before Rates FY 2003 (including contingency).

(c) Please confirm that 7.2 percent expense growth is the highest percentage increase in expenses since FY 1991. If not confirmed, please explain fully.

RESPONSE:

(a) Confirmed, as stated at lines 16 and 17 of my testimony. Please note if reference were made to the projected after rates expenses the growth rate of expenses in FY 2003 over FY 2002 would have been 2.6 percent. This would have been the second lowest expense growth rate since Postal Reorganization, and would result in the planned expense growth rates for FYs 2002 and 2003 being the second and third lowest expense growth rates in more than three decades. As indicated at page 4 of my testimony, these growth rates result from Postal Service plans to manage expense growth through the test year.

(b) Not confirmed. Projected and planned for expenses do not include the contingency. Please refer to Exhibit USPS-6A entitled "Statements of Revenues and Expenses." That exhibit shows that the test year contingency is a separate line item from accrued costs. Further, as I state at page 47 of my testimony,

> "The contingency provision provides protection against possible adversities. When adversities strike they can affect any part of the postal system. Adversities can affect revenues. Adversities can affect costs."

Because the contingency relates to revenues or costs and because as a matter of principle full use of the contingency may not be required, I do not agree it is

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

appropriate to include contingency as part of planned for or projected total expense and to project expense growth on that basis.

(d) Not confirmed. Please see the response to (b), above.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-2. Please refer to Table 5 on page 7 of your testimony. Please define workyear as used in this table.

RESPONSE:

A workyear is a standard measure of labor resources, sometimes referred to as a full time equivalent. The total hours used in the base year are converted into workyears. For most categories of employee, one workyear equates to 2080 hours. This is the number of hours for which a full-time employee is compensated in one year (i.e. 40 hours per week for 52 weeks). The exception is part time flexible employees for which a workyear equates to 2000 hours. 2000 hours is used because part time flexible employees are not paid for holidays (i.e., 10 holidays @ 8 hours).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-3 Please refer to Table 6 on page 8 of your testimony. Please confirm that the Total Debt figures in this table are end-of-year figures. If not confirmed, please explain fully.

RESPONSE:

Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-4. Please refer to Table 7 on page 9 of your testimony. Please explain why current assets decreased by more than $1.3 billion between FY 1995 and FY 1996.

RESPONSE:

Current assets between 1995 and 1996 dropped primarily because the Postal Service experienced favorable financial results during that time period (including a $1.6 billion net income in FY 1996) and elected to reduced its outstanding debt and decrease the amount of cash and cash equivalents on hand. Cash and cash equivalents dropped by approximately $1.2 billion ($1.517 billion to $0.310 billion) between FY 1995 and FY 1996. This was a tactical shift in the Postal Service's financing policy that represented the Postal Service's then buoyant financial condition. The Postal Service's financial situation has changed dramatically since that time. As stated at pages 10 and 11 of my testimony, a declining current ratio and an increasing debt level are indicative of a worsening financial condition. This relationship appears in the portions of the data series that are more recent than the data cited in your question.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-5. Please refer to page 18 of your testimony where you state, "A significant amount of growth in FY 2001 results from non-recurring costs related to the start up of the Fed Ex contract and bringing the Priority Mail network in house."

(a) Please provide a list of all cost reduction and other programs in this case related to bringing the Priority Mail network in house.

(b) For each of the cost reduction and other programs listed in your response to subpart (a), by how much did the program increase or decrease Postal Service costs as a whole.

(c) For each of the cost reduction and other programs listed in your response to subpart (a), by how much did the program increase or decrease Priority Mail costs.

(d) Please provide a list of all cost reduction and other programs in this case related to the Fed Ex contract.

(e) For each of the cost reduction and other programs listed in your response to subpart (d), by how much did the program increase or decrease Postal Service costs as a whole.

(f) For each of the cost reduction and other programs listed in your response to subpart (d), by how much did the program increase or decrease Priority Mail costs.

Response:

(a) Please refer to USPS-LR-J-49. The cost impact of bringing the PMPCs in house is reflected as Other Programs. Total amounts are shown on the "PMPC in House" and "PMPC Contract" lines of the following exhibits: Exhibit A (FY 2001 Other Programs) Pages 1-2, and Exhibit B (FY 2002 Other Programs) Pages 1-2. I am informed that details are available in USPS-LR-J-4 on pages 214-217, 493-496, 552-555 and 611-614 (see factors 90, 192, 193, 200 and 254).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

(b) The amounts shown in USPS-LR-J-4 are how much Postal Service costs are estimated to change. The amounts in thousands are:

	FY01	FY02	FY03
Domestic Air	204,000	90,800	0
Highway	55,300	34,600	0
Mail Processing	146,800	64,800	0
Bldg Occupancy	37,900	18,600	0
Supp&Services (Repair)	3,200	1,400	0
Supp&Services (Contract)	-242,431	-347,670	0

(c) I am informed that the entire amounts for Domestic Air, Highway, Mail Processing and Building Occupancy in part (b) of this question were distributed to Priority Mail. None of the Repair amounts of 3,200 or 1,400 in FY01 and FY02, respectively, were distributed to Priority Mail. The Contract amounts of -242,431 and -47,670 in FY01 and FY02, respectively, are a portion of the total component 187 amounts of -245,944 and -357,370. Of the component 187 totals, -235,955 and -48,667 were distributed to Priority Mail.

(d) Please refer to USPS-LR-J-49. The Cost Reductions associated with the FedEx contract are shown in Exhibit E, pages 1 – 3 on the "Fed Ex Contract" line. The Other Programs associated with the FedEx contract are shown in Exhibits A, B and C on the "Fed Ex Contract" line. I am informed details are available in USPS-LR-J-4 on pages 215-216, 494-495, 553-554 and 612-613 (see factors 172 through 178).

(e) The amounts shown in USPS-LR-J-4 are how much Postal Service costs are estimated to change. The amounts in thousands are:

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

		FY01	FY02	FY03
Factor 172	FedEx Startup	100,000	-100,000	0
Factor 173	FY02 Air	0	-136,120	0
Factor 174	FY02 Ground	0	54,500	0
Factor 175	FY02 Highway	0	3,000	0
Factor 176	FY03 Air	0	0	10,187
Factor 177	FY03 Ground	0	0	60
Factor 178	FY03 Highway	0	0	-147

(f) Of the amounts shown in part (e) of this question, I am informed the following amounts (in thousands) were distributed to Priority Mail:

		FY01	FY02	FY03
Factor 172	FedEx Startup	0	0	0
Factor 173	FY02 Air	0	65,207	0
Factor 174	FY02 Ground	0	42,551	0
Factor 175	FY02 Highway	0	2,342	0
Factor 176	FY03 Air	0	0	4,442
Factor 177	FY03 Ground	0	0	-338
Factor 178	FY03 Highway	0	0	-138

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-6. Please refer to page 21 of your testimony where you state, "In order to predict costs, known and reasonably certain cost changes are projected. In addition, estimates based on reasonable assumptions (for costs which will certainly change, but for which the rates of change are not precisely known) are made." Please confirm that the uncertainty for "known and reasonably certain cost changes" is lower than that for cost changes estimated "based on reasonable assumptions." If not confirmed, please explain fully.

RESPONSE:

Not confirmed. The passage quoted in your question concerns the processes employed for constructing test year cost estimates. It does not classify costs into certain and less certain cost pools. Known and reasonably certain cost changes are only known and reasonably certain in the sense that specific information is available for some sources of change used in constructing cost estimates. It does not mean that the cost estimates themselves are certain. There can be and frequently are other, highly unpredictable sources of change that affect estimated costs.

For example, following the passage of my testimony cited in your question, I go on to say that depreciation on existing plants and buildings and interest on debt already outstanding are known and reasonably certain. However, total depreciation expense can vary substantially from projections due to the unexpected destruction of facilities and equipment or due to changing capital requirements (such as have been initiated within the last several weeks with respect to the prospective purchase of equipment to sanitize the mail). Also, refinancing actions, maturation of debt, unexpected variations in cash flows, and movements in financial markets and interest rates can have a dramatic effect on total interest expense. Thus, I cannot agree that cost changes for total depreciation expense or for total interest expense are known with reasonable certainty.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-7. Please refer to page 46, lines 22-23 where you discuss the cost of new delivery facilities.

(a) Please provide the average cost per new facility individually for bulk mail centers (BMCs), new processing and distribution centers (P&DCs), new processing and distribution facilities (P&DFs)? Please describe how you calculated this figure.

(b) How many BMCs does the Postal Service currently operate?

(c) How many delivery facilities does the Postal Service currently operate?

(d) How many P&DCs does the Postal Service currently operate?

(e) How many P&DFs does the Postal Service currently operate?

(f) Does the Postal Service have information on the following subjects for each of its facilities? If not, please describe in detail the portions, if any, of this information that the Postal Service does have for some or all of its facilities. Please provide any and all such information as a Library Reference and indicate the source of this information.

(i) Facility type (e.g., P&DC, delivery facility)
(ii) Date of purchase
(iii) Initial purchase price
(iv) USPS cost for upgrades and modifications
(v) Current market value
(vi) Current book value
(vii) Address

(g) Please provide the following information in an electronic spreadsheet format for all facilities that the Postal Service has sold in the last ten years. Also, please indicate the source of your data.

(i) Facility type (e.g., P&DC, delivery facility)
(ii) Date of purchase
(iii) Initial purchase price
(iv) USPS cost for upgrades and modifications
(vi) Date of sale
(vi) Book value at time of sale
(vii) Sale price
(vii) Address

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

RESPONSE :

(a) The average cost for new P&DCs is $43 million and P&DFs is $6 million. No Bulk Mail Centers have been built since the 1970's. These numbers are based facilities placed in service since 1998.

(b) The Postal Service currently operates 21 BMCs.

(c) The Postal Service currently operates 34,508 delivery facilities.

(d) The Postal Service currently operates 245 P&DCs.

(e) The Postal Service currently operates 36 P&DFs.

(f) Please see USPS-LR-J-170, *USPS Facility Listing and Facility Sales*. Please note, « occupancy date » is provided for date of purchase and current market value information is not avaliable. The source is the facilities management system.

(g) Please see response to « f » above.

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DMA/USPS-T6-8. Please refer to page 53 of your testimony, where you state, "The baseline economic forecast used in the Postal Service's volume and Revenue projections is assigned merely a 55 percent probability by DRI - WEFA. The other DRI-WEFA scenarios - Late Recession (10 percent probability) and Pessimistic (35 percent probability) - have less economic growth through the test year."

(a) Has the Postal Service estimated Test Year Before Rates volumes using the DRI-WEFA Late Recession or Pessimistic forecasts? If so, please provide them in a format similar to Exhibit USPS 6C.

(b) Were the inflation estimates that the Postal Service used in the rollforward based upon the same baseline economic forecast that was used to project volume and revenue? If your answer is anything other than an unqualified yes, please explain fully.

(c) For every price index used in the rollforward, please provide the equivalent value based upon the DRI-WEFA Late Recession scenario.

(d) Please provide the date each of the forecasts was prepared for each of the 18 series you show in your exhibit USPS 6T.

(e) For every price index used in the rollforward, please provide the equivalent value based upon the DRI-WEFA Pessimistic scenario.

(a) The portion of my testimony that you cite reflects the fact that the Postal Service's experience has been, consistent with the experience of virtually every business, that recessions adversely affect volume and revenue growth. The alternative forecasts requested in your question are not necessary to reach the conclusion that recessions are bad for business. The alternative forecasts have not been produced.

(b) Yes.

(c) Please see the attachment to this response. Please note that inflation through the test year is generally higher in the Late Recession scenario than in the baseline forecasts. This is a property of the timing of the Late Recession scenario, but it also reflects that fact that reduced price pressures associated with recessions typically lag weakening economic growth. This lag can be exacerbated in the Postal Service because labor cost estimates and cost of living allowances lag

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inflation. Thus any benefit of lower expense growth associated with a recession could occur well beyond the onset of the recession. Further, in the current environment, there are also risks that severe material shortages or supply disruptions could increase the rate of inflation, even as economic activity decreases. These risks are not specifically represented in the referenced DRI scenarios.

(d) The dates and sources of the forecasts are given in the notes on the bottom of Exhibit USPS-6T.

(e) Please see the attachment.

1. DRI-WEFA ANNUAL FORECAST
LATE RECESSION

	FY				
	1999	2000	2001	2002	2003
CPI - Urban Wage and Clerical Workers	482.93	498.85	514.63	528.97	545.87
%	1.9	3.3	3.16	2.79	3.19
Wholesale Price Index	124.35	130.84	137.82	141.5	145
%	-0.86	5.22	5.33	2.67	2.47
Public Transportation	708.69	757.29	761.89	775.61	787.6
%	2.35	6.86	0.61	1.8	1.55
Transportation Services	429.03	455.6	467.65	470.87	478.37
%	0.37	6.19	2.65	0.69	1.59
Fuel Oil & Coal	541.44	787.78	878.79	821.78	840.82
%	-6.89	45.5	11.55	-6.49	2.32
Rent	417.08	431.15	449.46	464.09	474.94
%	3.25	3.37	4.25	3.26	2.34
Supplies & Materials	122.28	127.81	130.89	131.31	133.5
%	-1.35	4.53	2.41	0.32	1.67
Paper and Paper Products	145.51	159.29	160.61	163.04	166.47
%	-1.68	9.47	0.83	1.51	2.1
Natural Gas	618.63	682.06	926.11	917.17	910.57
%	-1.65	10.25	35.78	-0.97	-0.72
Electricity	422.03	426.99	453.71	464.64	467.88
%	-1.96	1.17	6.26	2.41	0.7
Air Freight	106.62	108.16	112.79	111.06	113.14
%	1.75	1.45	4.28	-1.53	1.87
Interstate Trucking Costs	117.05	121.59	127	128.85	130.61
%	3.54	3.88	4.44	1.46	1.37
Railroad Freight	113.02	113.99	115.67	116.03	116.46
%	-0.19	0.86	1.47	0.31	0.37
Private Transportation	138.94	147.42	151.59	152.49	154.69
%	0.23	6.1	2.83	0.6	1.44

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2. DRI-WEFA MONTHLY FORECAST
LATE RECESSION

	Jan 1999	Feb 1999	Mar 1999	Apr 1999	May 1999	Jun 1999	Jul 1999	Aug 1999	Sep 1999	Oct 1999	Nov 1999	Dec 1999
CPI - Urban Wage and Clerical Workers	479.70	479.80	480.90	484.70	484.90	485.00	486.30	487.80	490.50	491.50	491.70	491.80
%	0.23	0.02	0.23	0.79	0.04	0.02	0.27	0.31	0.55	0.20	0.04	0.02
ECI - Wages and Salaries - Private Industry	137.70	137.90	138.10	138.63	139.17	139.70	140.10	140.50	140.90	141.37	141.83	142.30
%	0.15	0.15	0.15	0.39	0.38	0.38	0.29	0.29	0.28	0.33	0.33	0.33

	Jan 2000	Feb 2000	Mar 2000	Apr 2000	May 2000	Jun 2000	Jul 2000	Aug 2000	Sep 2000	Oct 2000	Nov 2000	Dec 2000
CPI - Urban Wage and Clerical Workers	493.2	495.9	500	500.4	501.1	504.1	504.7	504.2	507.6	508.2	509	508.5
%	0.28	0.55	0.83	0.08	0.14	0.6	0.12	-0.1	0.67	0.12	0.16	-0.1
ECI - Wages and Salaries - Private Industry	142.83	143.37	143.9	144.4	144.9	145.4	145.83	146.27	146.7	147.1	147.5	147.9
%	0.37	0.37	0.37	0.35	0.35	0.35	0.3	0.3	0.3	0.27	0.27	0.27

	Jan 2001	Feb 2001	Mar 2001	Apr 2001	May 2001	Jun 2001	Jul 2001	Aug 2001	Sep 2001	Oct 2001	Nov 2001	Dec 2001
CPI - Urban Wage and Clerical Workers	511.6	513.4	514.2	516.7	518.5	520	517.6	517.3	520.59	521.21	522.04	522.14
%	0.61	0.35	0.16	0.49	0.35	0.29	-0.46	-0.06	0.64	0.12	0.16	0.02
ECI - Wages and Salaries - Private Industry	148.43	148.97	149.5	149.97	150.43	150.9	151.27	151.63	152	152.56	153.12	153.68
%	0.36	0.36	0.36	0.31	0.31	0.31	0.24	0.24	0.24	0.37	0.37	0.36

	Jan 2002	Feb 2002	Mar 2002	Apr 2002	May 2002	Jun 2002	Jul 2002	Aug 2002	Sep 2002	Oct 2002	Nov 2002	Dec 2002
CPI - Urban Wage and Clerical Workers	524.02	526.26	528.29	530.23	531.66	533.74	534.57	535.7	537.76	538.9	540.02	539.78
%	0.36	0.43	0.39	0.37	0.27	0.39	0.16	0.21	0.39	0.21	0.21	-0.04
ECI - Wages and Salaries - Private Industry	154.27	154.87	155.46	156	156.53	157.07	157.6	158.14	158.68	159.25	159.82	160.39
%	0.39	0.39	0.38	0.34	0.34	0.34	0.34	0.34	0.34	0.36	0.36	0.36

	Jan 2003	Feb 2003	Mar 2003	Apr 2003	May 2003	Jun 2003	Jul 2003	Aug 2003	Sep 2003	Oct 2003	Nov 2003	Dec 2003
CPI - Urban Wage and Clerical Workers	541.1	543.08	545.05	547.04	548.39	550.33	550.98	551.95	553.78	554.69	555.54	554.84
%	0.24	0.36	0.36	0.36	0.25	0.35	0.12	0.17	0.33	0.16	0.15	-0.13
ECI - Wages and Salaries - Private Industry	161.03	161.66	162.3	162.88	163.46	164.04	164.63	165.22	165.81	166.28	166.76	167.23
%	0.4	0.39	0.39	0.36	0.36	0.36	0.36	0.36	0.36	0.29	0.29	0.28

1. DRI-WEFA ANNUAL FORECAST
PESSIMISTIC

	FY 1999	2000	2001	2002	2003
CPI - Urban Wage and Clerical Workers	482.93	498.85	514.63	525.16	534.93
%	1.9	3.3	3.16	2.05	1.86
Wholesale Price Index	124.35	130.84	137.43	137.36	138.1
%	-0.86	5.22	5.03	-0.05	0.54
Public Transportation	708.69	757.29	761.89	775.61	787.6
%	2.35	6.86	0.61	1.8	1.55
Transportation Services	429.03	455.6	467.65	470.87	478.37
%	0.37	6.19	2.65	0.69	1.59
Fuel Oil & Coal	541.44	787.78	878.79	821.78	840.82
%	-6.89	45.5	11.55	-6.49	2.32
Rent	417.08	431.15	449.46	464.09	474.94
%	3.25	3.37	4.25	3.26	2.34
Supplies & Materials	122.28	127.81	130.69	127.92	128.02
%	-1.35	4.53	2.25	-2.12	0.08
Paper and Paper Products	145.51	159.29	160.61	163.04	166.47
%	-1.68	9.47	0.83	1.51	2.1
Natural Gas	618.63	682.06	926.11	917.17	910.57
%	-1.65	10.25	35.78	-0.97	-0.72
Electricity	422.03	426.99	453.71	464.64	467.88
%	-1.96	1.17	6.26	2.41	0.7
Air Freight	106.62	108.16	112.79	111.06	113.14
%	1.75	1.45	4.28	-1.53	1.87
Interstate Trucking Costs	117.05	121.59	127	128.85	130.61
%	3.54	3.88	4.44	1.46	1.37
Railroad Freight	113.02	113.99	115.67	116.03	116.46
%	-0.19	0.86	1.47	0.31	0.37
Private Transportation	138.94	147.42	151.59	152.49	154.69
%	0.23	6.1	2.83	0.6	1.44

2. DRI-WEFA MONTHLY FORECAST
PESSIMISTIC

	Jan 1999	Feb 1999	Mar 1999	Apr 1999	May 1999	Jun 1999	Jul 1999	Aug 1999	Sep 1999	Oct 1999	Nov 1999	Dec 1999
CPI - Urban Wage and Clerical Workers	479.70	479.80	480.90	484.70	484.90	485.00	486.30	487.80	490.50	491.50	491.70	491.80
%	0.23	0.02	0.23	0.79	0.04	0.02	0.27	0.31	0.55	0.20	0.04	0.02
ECI - Wages and Salaries - Private Industry	137.70	137.90	138.10	138.63	139.17	139.70	140.10	140.50	140.90	141.37	141.83	142.30
%	0.15	0.15	0.15	0.39	0.38	0.38	0.29	0.29	0.28	0.33	0.33	0.33

	Jan 2000	Feb 2000	Mar 2000	Apr 2000	May 2000	Jun 2000	Jul 2000	Aug 2000	Sep 2000	Oct 2000	Nov 2000	Dec 2000
CPI - Urban Wage and Clerical Workers	493.2	495.9	500	500.4	501.1	504.1	504.7	504.2	507.6	508.2	509	508.5
%	0.28	0.55	0.83	0.08	0.14	0.6	0.12	-0.1	0.67	0.12	0.16	-0.1
ECI - Wages and Salaries - Private Industry	142.83	143.37	143.9	144.4	144.9	145.4	145.83	146.27	146.7	147.1	147.5	147.9
%	0.37	0.37	0.37	0.35	0.35	0.35	0.3	0.3	0.3	0.27	0.27	0.27

	Jan 2001	Feb 2001	Mar 2001	Apr 2001	May 2001	Jun 2001	Jul 2001	Aug 2001	Sep 2001	Oct 2001	Nov 2001	Dec 2001
CPI - Urban Wage and Clerical Workers	511.6	513.4	514.2	516.7	518.5	520	517.6	517.3	520.59	520.91	521.41	520.83
%	0.61	0.35	0.16	0.49	0.35	0.29	-0.46	-0.06	0.64	0.06	0.1	-0.11
ECI - Wages and Salaries - Private Industry	148.43	148.97	149.5	149.97	150.43	150.9	151.27	151.63	152	152.44	152.88	153.32
%	0.36	0.36	0.36	0.31	0.31	0.31	0.24	0.24	0.24	0.29	0.29	0.29

	Jan 2002	Feb 2002	Mar 2002	Apr 2002	May 2002	Jun 2002	Jul 2002	Aug 2002	Sep 2002	Oct 2002	Nov 2002	Dec 2002
CPI - Urban Wage and Clerical Workers	521.88	523.43	524.81	526.15	526.93	528.28	528.34	528.76	530.2	530.72	531.23	530.52
%	0.2	0.3	0.26	0.26	0.15	0.26	0.01	0.08	0.27	0.1	0.1	-0.13
ECI - Wages and Salaries - Private Industry	153.77	154.23	154.68	155.06	155.44	155.82	156.21	156.6	156.99	157.41	157.83	158.26
%	0.3	0.29	0.29	0.25	0.25	0.24	0.25	0.25	0.25	0.27	0.27	0.27

	Jan 2003	Feb 2003	Mar 2003	Apr 2003	May 2003	Jun 2003	Jul 2003	Aug 2003	Sep 2003	Oct 2003	Nov 2003	Dec 2003
CPI - Urban Wage and Clerical Workers	531.39	532.86	534.31	535.75	536.6	538.1	538.33	538.88	540.42	541.03	541.62	540.91
%	0.16	0.28	0.27	0.27	0.16	0.28	0.04	0.1	0.29	0.11	0.11	-0.13
ECI - Wages and Salaries - Private Industry	158.75	159.25	159.74	160.21	160.67	161.13	161.66	162.18	162.71	163.19	163.67	164.15
%	0.31	0.31	0.31	0.29	0.29	0.29	0.33	0.33	0.32	0.3	0.29	0.29

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DMA/USPS-T6-9. Please refer to your Exhibit USPS-6Q. Please define the following types of personnel cost level changes and describe the method that you used to calculate each type of personnel cost level change:
(a) Carryover Costs
(b) New Costs
(c) Net Lump Sum
(d) STEP/MERIT
(e) ROLLUP PREMIUM
(f) OTHER

RESPONSE:

Items (a) through (e) above are defined in Chapter I, pages 35 and 36 of LR J-50, (Section IV of file Rfdescr01s.DOC, Description of the Production of Cost Change Factors to Support the Postal Service Roll-Forward Model). Item (f) is not used in this rate filing. The method used to calculate each type of personnel cost level change can be found in Chapter VII, pages 414-418 of LR J-50, file Puncst01s.DOC, Development of Personnel Unit Costs.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
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DMA/USPS-T6-10. Please refer to Exhibit 6O of your testimony. For pay increases that begin in the middle of one year, please describe the meaning of an effective pay increase amount that occurs in the following year.

RESPONSE:

Please refer to section IV.B. on page 36 of LR J-50, for an explanation of how wage changes are separated between new costs and carryover costs (file Rfdescr01s.DOC, Description of the Production of Cost Change Factors to Support the Postal Service Roll-Forward Model).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
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DMA/USPS-T6-11. Please refer to Exhibits 6O and 6Q of your testimony. Please explain the relationship between the $163.95 and $409.45 figures in the FY 2002 column of Exhibit 6O and the $131,853 figure in the Carryover COLA cost column on page 2 of Exhibit 6Q.

RESPONSE:

The total impact of the COLA carryover costs for City Carriers in FY 2002 of $131,853,000 is calculated by multiplying the FY 2002 effective unit costs of $163.95 and $409.46 (note the typographical error in the question) by FY2002 estimated base workyears for City Carrier career and transitional employees. The formula used and the details of the calculations can be found in LR J-50, workbook Rf_Rpts_01s.XLS, sheet Analysis of Pers Cost Lvl Chg.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
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DMA/USPS-T6-12. Please refer to Footnote 17 on page 17 of your testimony and Footnote 18 on page 18 of your testimony. Please explain the difference between the $1.4 billion in breakthrough productivity savings mentioned in Footnote 17 and the approximately $1.1 billion in breakthrough productivity savings ($351 million plus $400 million plus $350 million) identified in Footnote 18.

RESPONSE:

Please refer to USPS Library Reference J-49. As reflected on Exhibit G, the total impact of Breakthrough Productivity for the period FY 2001 – FY 2003 is a cost reduction of $1.411 billion (footnote 17). The amount reflected in the other program column is $1.1 billion (footnote 18) and the amount reflected in the cost reduction column is $312 million.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-14. Please provide the date each of the forecasts was prepared for each of the 18 series you show in your exhibit USPS 6T.

RESPONSE:

Please see the response to interrogatory DMA/USPS-T6-8(e).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-15. Page 62 of your test says that "Total Factor Productivity (TFP) measures the growth or decline in the Postal Services productivity from year to year.
(a) Please provide total factor productivity changes for all years that the aUSPS has been calculating TFP.
(b) Please provide TFP for TYAR.
(c) Please also fully describe the methodology for calculating TFP.

RESPONSE:

(a) Please see the attachment to this response.

(b) There have been no TFP calculations made beyond FY 2002.

(c) See USPS Library Reference H-279, Docket No. R97-1, Total Factor Productivity.

Attachment to Response
to DMA/USPS-T6-15(a)

U. S. POSTAL SERVICE
FY 1971 - 2000

	TFP	LFP
FISCAL YEAR	%CHG. FROM SPLY	%CHG. FROM SPLY
1971	1.2%	1.5%
1972	1.2%	0.8%
1973	4.0%	4.3%
1974	-1.7%	-2.0%
1975	-0.9%	-0.4%
1976	-0.5%	-0.4%
1977	2.0%	2.9%
1978	3.3%	3.0%
1979	-2.1%	-2.0%
1980	0.4%	1.2%
1981	0.2%	-0.4%
1982	-1.3%	-0.6%
1983	-0.6%	0.4%
1984	0.3%	0.3%
1985	-0.2%	0.3%
1986	1.9%	1.9%
1987	0.3%	0.5%
1988	0.1%	0.5%
1989	-0.7%	0.1%
1990	2.9%	3.4%
1991	-1.8%	-0.1%
1992	0.4%	1.0%
1993	3.8%	4.6%
1994	-0.2%	0.8%
1995	-1.9%	-1.3%
1996	-1.3%	-0.1%
1997	1.2%	1.7%
1998	-1.1%	1.2%
1999	-0.1%	0.9%
2000	2.5%	2.1%

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DMA/USPS-T6-16. Given the timing of the filing of Docket No. R2001-1, please confirm that the USPS could implement the rates resulting from this case before the start of the test year.

RESPONSE:

Assuming that the Postal Rate Commission consumes the full ten month statutory period for considering the Postal Service's request, and given the time necessary for the Governors to consider and order rates changes into effect and the additional lead time necessary for software changes to reflect those rate changes, it is unlikely that the Postal Service could implement rates more than ten days prior to the beginning of the test year. We have asked the Postal Rate Commission to expedite consideration of this rate request to supply the flexibility in timing the increase in relationship to the Postal Service's fluid financial situation. The Postal Service will consider the actual timing of rate implementation based on a review of the facts and circumstances as they exist at the time the Postal Rate Commission issues its recommended decision.

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DMA/USPS-T6-17. Please confirm that the mail volume and mail and services revenue forecasts for 2003 in your Exhibit USPS 6T are before rates estimates.

RESPONSE:

Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-18. *On page 6 of your testimony, you state,* "The 3.2 percent expense growth projected for FY 2002 is the second lowest such growth rate over the 13 years in the table, as well as the second lowest such rate since Postal Reorganization in 1971."
(a) Please provide volume changes on this chart.
(b) Please confirm that when you do so, the volume growth for this year will be the third lowest on the chart.

RESPONSE:

(a) The requested volume changes are provided in Exhibit USPS-6T, page 2 of 3.

(b) Not confirmed. As shown in Exhibit USPS-6T, starting in 1991 there are three other years with volume growth rates less than the 1.1 percent growth projected for FY 2002. There are also two years with volume growth rates very similar to that projected growth rate – those are the 1.5 percent growth rates in FY's 1995 and 1996. In only one of these five years with volume growth rates similar to or less than the projected growth in FY 2002 is the expense growth less than 3.2 percent.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-19. On page 6 of your testimony, you state, "The 4.1 percent projected expense growth for FY 2003 before rates is lower than eight of the thirteen years displayed in the table" Please refer to your Exhibit 6C.
(a) Please confirm that the exhibit shows total mail growth of 6.639 billion pieces between FY 2002 and TYBR.
(b) Please confirm that of these 6.639 billion pieces, 5.193 billion are Standard Mail.
(c) Please also confirm that the unit cost for Standard Mail is less than the average unit cost for all mail.

RESPONSE:

(a) Confirmed.

(b) Confirmed, consistent with the trend over the entire thirteen-year period mentioned in the question, that the vast majority of mail volume growth is concentrated in Standard Mail.

(c) Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-20. Table 9 on page 10 of your testimony provides assets from FY 1989 to FY 2000. Please provide assets from 1972-1988.

RESPONSE:

The requested information can be found in the Annual Reports of the Postmaster General which are available in the U.S. Postal Service Library.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-21. In the last five years, has the Postal Service asked Congress to increase the USPS debt limit. If so, please provice the date of each request and the position that the House and Senate took on raising the Postal Service's debt limit in response to each request.

RESPONSE:

The Postal Service has not asked Congress to increase the USPS debt limit in the last five years.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-22. On page 11 of your testimony, you state, "In my testimony that follows, I project the expected results for the Test Year. The Test Year deficiency, if the proposed rates are not implemented, will be approximately $5.3 billion, which includes a reasonable contingency and prior years' losses recovery."
(a) Please confirm that the projected loss in the Test Year is $2.460.7 billion. If you cannot do so, please provide the correct figure.
(b) Please confirm that the difference between the "Test Year deficiency" and the projected loss is a contingency of $2.191 billion dollars and recovery of prior years losses of $632.8 million.

RESPONSE:

(a) Confirmed that the projected net loss, excluding the contingency and recovery of prior years' losses is $2.4507 billion.

(b) The "Test Year deficiency" includes two critically necessary revenue requirement items in addition to the projected net loss. These are the contingency provision and the provision for prior years' losses recovery. As is explained in Section III.C.2. of my testimony, the contingency provision relates to the overall operation of the Postal Service and does not bear any necessary relationship to the size of the proposed rate increase (or the size of the projected test year net loss.) The prior years' losses recovery provision represents one-ninth of the cumulative net losses incurred since postal reorganization. As is shown on Exhibit USPS-6A, the before rates test year contingency amount is $2.191 billion and the recovery of prior years' losses provision is $632.8 million.

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TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-23. Please refer to your Exhibit USPS 6-M.
(a) Please confirm that total USPS accrued costs are estimated to increase by $3.229 billion from FY 2000 to FY 2001, by $2.162 billion from FY 2001 to FY 2002, and by $1.841 billion from 2002 to TYAR. If you cannot confirm, please provide the correct amount.
(b) Of these increases, what percentage is due to cost-level increases in each of these years?
(c) Of these increases, what percentage is due to the city carrier non-volume workload effect in each of these years?
(d) Of these increases, what percentage is due to the rural carrier non-volume workload effect in each of these years?

RESPONSE:

(a) Confirmed.

(b) The percentage of the total increase due to cost-level is reflected on the Exhibit.

(c) For Fiscal Years 2001-2003 AR, city carrier non-volume workload is estimated to add $46 million, $49 million, and $52 million respectively. This represents 1.4%, 2.3%, and 2.8% of the total estimated increase in costs for each year. Please note that this represents the labor cost for city carriers only. It does not include other costs that would result such as piggyback costs and the cost of increased facilities space and vehicles. Please note as well that the aggregate cost effects for the Mail Volume Effect and Final Adjustments (which largely reflect mail mix shifts) are sharply negative ($-689.6 million) through the test year after rates. This indicates that mail volume is not only losing its ability to support network growth, it is also losing its ability to support the existing network.

(d) For Fiscal Years 2001-2003 AR, rural carrier non-volume workload is estimated to add $63 million, $70 million, and $75 million respectively. This represents 2.0%, 3.3%, and 4.1% of the total estimated increase in costs for each year. Please note that this represents the labor cost for rural carriers only. It does not include other costs that would result such as piggyback costs and the cost of increased facilities space and vehicles. See also the response to (c) above.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
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DMA/USPS-T6-24. On page 14 of your testimony you state, "Additional delivery points are an important expense driver for the postal system. Between the base year and the test year the Postal Service will have added approximately 5 million new delivery points to its network. This is equivalent to three cities the size of Chicago. The Postal Service does not charge for existing or new delivery points. This is very different from other services, such as electric, gas, water, and local telecom, which virtually without exception have some sort of monthly access, hookup, or system charge. Moreover, our pricing structure is not designed to fund network growth. When mail volume growth is less than network growth, as it is currently and is projected to be the case through the test year after rates on a cumulative basis, this limitation of our pricing structure places pressure on rates to rise faster than inflationary pressures otherwise dictate. "

(a) Please confirm that in the rollforward program the non-volume workload effect for city carriers is less than $46 million in FY 2001, less than $50 million in FY 2002, and about $52 million in the Test Year. If you can not do so, please provide the correct figures.

(b) Please confirm that in the rollforward program the non-volume workload effect for rural carriers is $63 million in FY 2001, $70 million in FY 2002, and about $75 million in the Test Year. If you cannot do so, please provide the correct figures.

RESPONSE:

(a-b) Please see the response to DMA/USPS-T6-23.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
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DMA/USPS-T6-25. On page 16 of your testimony, you state, "As identified in Section f. below, large Breakthrough Productivity Initiative (BPI) savings or Bold Actions in Cost Segment 2 are identified in Fiscal Year 2002 ($69.0 million) and Fiscal Year 2003 ($50.0 million)."

(a) Please define and describe "Bold Actions" in as much detail as possible.

(b) Please provide all material in the possession of USPS explaining the meaning of "Bold Actions."

RESPONSE:

(a) "Bold Actions" is the term used in FY 2001 to describe what were referred to as "Breakthrough Productivity Initiatives" in previous years.

(b) Please refer to pages 5 and 6 of the FY 2002 Integrated Financial plan, provided as Attachment I to OCA/USPS-T6-7.

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DMA/USPS-T6-26. Please list all cost reduction programs for FY 2001 that were included in the rollforward in Docket No. R2000-1 that are not part of the rollforward in Docket No. R2001-1. For each of these programs, please provide the cost savings estimated in Docket No. R2000-1 and describe why it is not included in Docket No. R2001-1.

Response:

The cost reductions developed for Docket No. R2000-1 can be found in USPS-LR-I-126, Exhibit E, page 3. The cost reductions developed for the Postal Service's response to Order No. 1294 can be found in Exhibit USPS-ST44-Z of witness Patelunas's testimony, USPS-ST-44. The cost reductions developed for Docket No. R2001-1 can be found in USPS-LR-J-49, Exhibit E, page 1.

One would not expect the list of cost reduction programs to be the same in the different dockets, or even from year-to-year. As conditions change, assumptions relating to deployment schedules, mail volumes, operating environments, etc. will also change. The conditions facing the Postal Service while preparing the R2001-1 filing were very different from the conditions existing during the preparation of R2000-1. In some instances, cost reductions expected to occur in FY 2001 in R2000-1 may have been advanced into FY 2000 and as such, would not appear as FY 2001 cost reductions in R2001-1. In other instances, the cost reductions may have been delayed until later than FY 2001, or completely terminated. In other cases, new initiatives were identified that resulted in new R2001-1 cost reduction programs that were not included in the R2000-1 filing.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
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DMA/USPS-T6-27. Please refer to Table 6 on page 8 of your testimony.
(a) Please confirm that the time periods listed in the first column are Government Fiscal years.
(b) Each of the two rows following the row labeled "TQ" is labeled "FY 1977." Please confirm that "TQ" is an abbreviation for "Transition Quarter".
(c) Please confirm that the first of these two rows should be labeled "FY 1976". If you do not confirm, please provide the appropriate label and an explanation thereof.
(d) If the time periods listed in the first column are Government Fiscal years, please explain the need for and meaning of a "TQ".

RESPONSE:

(a) Confirmed.

(b) Confirmed.

(c) Not confirmed. The row labeled T.Q. should be labeled FY 1976 and the first row labeled FY 1977 should be labeled T.Q. The mislabeled rows are due to typographical errors.

(d) In 1976 the end of the Government Fiscal Year was changed from June 30 to September 30. The Transition Quarter or "TQ" covered the three month transition period between the old fiscal year ending on June 30 and the new fiscal year ending on September 30.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
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DMA/USPS-T6-28. On May 7, DMNews had a headline "Kmart runs banners ads on USPS web site".

(a) Please confirm that these ads ran.

(b) Please also confirm that the story said.

"Banner advertising on the USPS Web site is offered as part of the Postal Ad Network, which makes a variety of postal service assets available to advertisers, including delivery vehicles, collection boxes, and Priority Mail and Express Mail packaging.'

(c) How long has the Postal Ad Network been in existence?

(d) For each of these years, what were its revenues?

(e) Are projected revenues for the Network included in revenue estimates of FY 2001 through FY 2003? (i) If not, why not? (ii) If so, where are they reflected and what is their magnitude?

RESPONSE:

(a) Confirmed.

(b) Confirmed.

(c) The Postal Ad Network was created at the beginning of FY 2001. In the Postal Service's August 2000 filing in response to Order 1294, the Postal Service included an estimated $100 million in revenue from the Postal Ad Network.

(d) Actual revenue for FY 2001 was $2.8 million. In addition, approximately $6 million in advertising costs were not incurred because of Postal Service advertising used on Postal Vehicles and envelopes.

(e) The rate case FY 2002 and 2003 projections reflect $20 million and $40 million from the Postal Ad Network, respectively. These projections are aggressive and are a source of considerable financial risk.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
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DMA/USPS-T6-29. Please provide a copy of the Corporate Flats Strategy, prepared by Operation Planning and Processing, July 2001.

(a) Please confirm that page 2 says, "To ensure that these and other flat-shaped products remain affordable, actions must be immediately taken to mitigate recent cost increases."

(b) Please list all such actions that the Postal Service has taken or intends to take prior to the end of the Test Year.

(c) Are all such actions reflected in cost reduction or other programs?

(d) If your answer to (c) is yes, please provide a reference for each.

(e) If your answer to (c) is no, please explain why.

Response:

The Corporate Flats Strategy has already been provided as USPS-LR-J-151.

(a) Not confirmed. The correct quote is: "To ensure that these and other flat-shaped products remain affordable, actions must be immediately taken to mitigate recent cost trends."

(b) In addition to the list of actions provided in USPS-LR-J-151, please see the response of the Postal Service to Postcom/USPS-T-39-10.

(c – e) Generally yes. Please see Attachment 1 that accompanies this response for a comparison of the cost reductions and other programs in the Corporate Flats Strategy and R2001-1. As the Postal Service's operating environment changes, both physically and financially, programs will be planned, begun or never started, terminated or completed early, shifted into future planning, etc. As such, the costs and savings associated with programs will change over time as the environment changes, and comparison of even the same program at two different points in time may be a comparison of apples and oranges.

Attachment 1
DMA/USPS-T6-29

Full Time Employee equivalent/Workyears

1/

	Corporate Flats Strategy			Total
	FY 2001	FY 2002	FY 2003	
AFSM 100 (1st deployment)	2,369	663	-	3,032
AFSM 100 (2nd deployment)	533	4,056	1,270	5,859
Automated Package Processing System (APPS)	-	-	298	298
FSM 1000 Automated Flat Feeder and OCRs	(1)	443	437	879
SPBS Feed System (228 buy)	137	5	-	142
SPBS Feed System (37 buy)	12	-	-	12
TMS, Phase 3	468	338	83	889
Universal Transport System	(3)	20	3	20
Total	3,515	5,525	2,091	11,131

2/

	R2001-1 (USPS-LR-J-49)			Total
	FY 2001	FY 2002	FY 2003	
AFSM 100 (1st deployment)	2,370	690	-	3,060
AFSM 100 (2nd deployment)	452	6,303	1,377	8,132
Automated Package Processing System (APPS)	-	-	-	-
FSM 1000 Automated Flat Feeder and OCRs	-	50	410	460
SPBS Feed System (228 buy)	133	8	-	141
SPBS Feed System (37 buy)	13	-	-	13
TMS, Phase 3	498	330	68	896
Universal Transport System	(3)	14	6	17
Total	3,463	7,394	1,862	12,719

	Difference (R2001 - Strategy)			Total
	FY 2001	FY 2002	FY 2003	
AFSM 100 (1st deployment)	1	27	-	28
AFSM 100 (2nd deployment)	(81)	2,247	107	2,273
Automated Package Processing System (APPS)	-	-	(298)	(298)
FSM 1000 Automated Flat Feeder and OCRs	1	(393)	(27)	(419)
SPBS Feed System (228 buy)	(4)	3	-	(1)
SPBS Feed System (37 buy)	1	-	-	1
TMS, Phase 3	30	(8)	(15)	7
Universal Transport System	(3)	(3)	(3)	(10)
Total	(55)	1,872	(236)	1,581

1/ USPS-LR-J-151, page 7
2/ USPS-LR-J-49: Net Cost Reductions and Other Programs
: Cost Reductions (See Exhibit E)
: Other Programs (See Exhibits A-C)

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DMA/USPS-T6-30. *The September 17, 2001 issue of* Business Mailers Review (attached), at page 6, says, "PMG Potter opened the board meeting last week with a report on his first 100 days as postmaster general. In his comments he noted that the Postal Service plans to announce the consolidation of whole plants or tours in mid-October, to be effective in January."

(a) Please confirm these comments.

(b) Please describe the consolidation in as much detail as possible, including the plants or tours that will be affected.

(c) Is the consolidation reflected in the Postal Service's filing in this case?

(d) If your answer to (c) is yes, where are they reflected?

(e) If you answer to (c) is no, why are they not reflected?

RESPONSE:

(a) Confirmed.

(b) Consolidation of mail processing operations has always been a Postal Service strategy to obtain greater productivity and reduce costs. As part of a strategy of Bold Actions, an aggressive refocus on Area Mail Processing (AMP) is included to maximize success of automation technology Specific targeted opportunities include:

- AMP of Saturday First-Class originating operations
- AMP of all First-class originating operations
- Consolidation of First-Class incoming operations
- Consolidation of overnight Priority Mail processing
- Consolidation of Originating Priority Mail processing
- Consolidation of originating and destinating Priority Mail processing
- Closing of annexes
- Consolidation of facilities

The following table lists consolidations to be implemented in FY 2002"

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AREA MAIL PROCESSING (AMP) CONSOLIDATIONS		
OFFICE FROM	OFFICE(S) TO	Type
Anaheim, CA P&DC	Industry, CA P&DC & Santa Ana, CA P&DC	Originating
Ashland, KY P&DF	Huntington, WV P&DC	Originating
Batesville, AR PO	Jonesboro, AK PO	Originating
Beckley, WV PO	Charleston, WV P&DC	Originating
Bluefield, WV PO	Charleston, WV P&DC	Originating
Bridgeport, CT P&DF	Stamford, CT P&DC	Originating
Bristol, TN PO	Roanoke, VA P&DC	Originating
Bronx, NY P&DC	Morgan, NY P&DC	Originating
Burlington, IA PO	Quad City, IL P&DF	Originating
Chillicothe, OH PO	Columbus, OH P&DC	Originating
Fort Smith, AR PO	Fayetteville, AR PO	Originating
Greensburg, PA PO	Pittsburgh, PA P&DC	Orig/Dest
Greenville, TX PO	North Texas P&DC	Destinating
Harrison, AR PO	Fayetteville, AR PO	Originating
Kinston, NC PO	Fayetteville, NC P&DC	Originating
Lufkin, TX PO	East Texas P&DC	Originating
Pasadena, CA P&DC	Los Angeles, CA P&DC	Originating
Steubenville, OH PO	Youngstown, OH P&DF	Originating
Tuscaloosa, AL PO	Birmingham, AL P&DC	Originating
Waterbury, CT P&DF	Southern, CT P&DC	Originating
Wheeling, WV PO	Pittsburgh, PA P&DC	Orig/Dest
Wilkes-Barre, PA P&DF	Lehigh Valley, PA P&DC & Scranton, PA P&DF	Orig/Dest
Zanesville, OH PO	Columbus, OH P&DC	Originating

(c) Yes.

(d) While the details of some initiatives were not known when the revenue requirement was developed, FY 2002 and FY 2003 Breakthrough Productivity Initiative (BPI) or

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Bold Action savings were included for clerks and building service employees. These savings, which total $134 million for FY 2002 and $119 million for FY 2003, are summarized in LR J-49, Exhibit B.

(e) See the response to part (d).

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DMA/USPS-T6-31. The September 17, 2001 issue of Business Mailers Review, at page 6, goes on to say "In addition, the USPS continues to work closely with stakeholders and the General Accounting Office to develop a transformation plan. 'an initial draft outlining the many areas of consideration will be forthcoming at the end of the month:, he [PMG Potter] said.'" Please provide the draft.

RESPONSE:

Please see LR-J-163, Outline for Discussion: Concepts for Postal Transformation, September 30, 2001.

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DMA/USPS-T6-32 The September 17, 2001 issue of Business Mailers Review, at page 4, says "The new organization reduces the number of Headquarters officers by 20% and downsizes the number of headquarters and headquarters-related positions by 800 people. Potter has eliminated two area offices, the Mid-Atlantic and Midwest areas, folding their territory into other areas. The eight area offices will continue to reduce their staffs to meet their 30% reduction target."

(a) Are the cost savings from these changes reflected in cost reduction program or other programs?
(b) If so, where?
(c) If not, why not?

RESPONSE:

(a) Yes. While the specifics of these actions were not known at the time the revenue requirement was prepared, Breakthrough Productivity Initiative (BPI) savings were reflected for Headquarters and related Field Service Units and Area Administration. BPI saving for Headquarters and Field Service Units, and Area Administration are summarized in LR J-49, Exhibit D. These total $99 million, $49 million, and $50 million, respectively for Fiscal Years 2001-2003.
(b) These savings are reflected in cost components 191 and 193 in cost segment 18.
(c) See the response to (a).

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DMA/USPS-T6-33. Payments are due the Postal Service under the Revenue Foregone Reform Act of 1993.

(a) Please describe the timing of payments due to the Postal Service under the Revenue Foregone Reform Act of 1993.
(b) Has the Postal Service asked Congress to advance payments on the schedule?
(c) If not, does the Postal Service intend to ask Congress to advance payments on the schedule?
(d) Are advanced payments reflected in the projected revenues of the Postal Service?
(e) If Congress were to pay their RFRA liability in advance of the schedule, how would the Postal Service book the revenue?

RESPONSE:

(a) As explained on page 72 of my testimony, "the Revenue Forgone Act of 1993 authorized the appropriation of $1.218 billion in 42 annual $29 million payments through FY 2035".
(b) Yes, the Postal Service has requested a supplemental appropriation of $957 million for FY 2002.
(c) See the response to part c.
(d) No.
(e) If the $957 million was received in FY 2002 as requested, accounts receivable would be reduced by $370 million and revenue of $587 would be recognized.

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DMA/USPS-T6-34. Please refer to page 21 of your testimony where you state, "For FY 2002 and the Test Year, an assumption is made that the total change in wages will equal the rate of change in the Employment Cost Index for Wages for Private Industry (ECI) less one percent. The change in wages assumed to be effective on October 1 reflects the percentage change in the ECI over the previous 12 months, less one percent."

(a) Please provide all Postal Service documents related to the Postal Service's "ECI-1%" position on wage increases.

(b) Please describe the origin and history of the Postal Service's "ECI-1%" position on wage increase.

(c) Is it the Postal Service's position that wage increases for postal workers should increase at an annual rate that is no higher than ECI-1%? If your response is anything other than an unqualified yes, please explain your response fully.

RESPONSE:

(a)-(c) I would characterize the use of ECI minus1% as an *assumption* made to estimate wage costs for FYs 2002 and 2003 for purposes of this case. It is not a "position on wage increases." As you point out, my testimony states that "For FY 2002 and the Test Year, an assumption is made that the total change in wages will equal the rate of change in the Employment Cost Index for Wages for Private Industry (ECI) less one percent." However, your question fails to take into account that for 2001 wages were assumed to increase by the full ECI: "For FY 2001, the effective change in bargaining unit employee wages (except city carriers), including the carryover from FY 2000, was set at the Employment Cost Index for Wages and Salaries for Private Industry (ECI)." USPS-T-6, page 21. The Postal Service's *assumptions* with regard to bargaining unit wages are fully described in my testimony and in LR J-50. Please refer to past rate cases for the assumptions used to estimate wage costs in those cases.

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DMA/USPS-T6-35. (a) Please confirm that the USPS-proposed provision for contingencies in this case was initially determined by USPS management and subsequently submitted to and approved by the Board of Governors. If you cannot confirm, please explain in detail.

(b) In preparing its proposals for this case, did USPS management submit to, or discuss with, the Board of Governors a proposed provision for contingencies different from 3%? If so, please explain in detail the size of the proposed provisions for contingencies that were submitted or discussed, and summarize the discussions that took place between the members of the Board of Governors and USPS management on this subject.

(c) Please identify the member or members of USPS management who made the decision (or contributed to the making of the decision) to propose a provision for contingencies of 3%.

(d) Did you personally have a role in management's determination to propose a 3% contingency in this case? If so, please describe this role in as much detail as possible.

(e) At the time that the proposed contingency was submitted by management to the Board of Governors, was it your personal opinion that a contingency of 3% was "reasonable," as required by the Postal Reorganization Act of 1970? If so, what, in your opinion at that time, were the most important factors that caused you to believe that a contingency of 3% was "reasonable"?

RESPONSE:

(a) The Board accepted management's recommendation that a 3 percent contingency provision be adopted and that the case be filed early enough to allow implementation of new rates at the beginning of the test year.

(b) The initial judgment that a 3 percent contingency should be used held up well throughout the rate case preparation process. No other contingency provision was presented to the Board for its approval. However, there may have been discussions of contingency provisions as high as 6 percent and as low as 0 percent in the context of developing the mathematics of phasing proposals

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(c) The USPS management team involved in determining the contingency provision was the Rate Case Steering Committee consisting of the Deputy Postmaster General, the Chief Operating Officer, the General Counsel, the Chief Financial Officer, the Vice President of Pricing and Product Design, and the Manager of Budget and Financial Analysis.

(d) Yes, I had a personal role. My role entailed participation in weekly meetings with the group noted above, interactions with the listed individuals and members of their staffs during the meetings and between meetings, and frequent consultations with the Chief Financial Officer and other managers and employees within the Finance function

(e) I agreed that the 3 percent contingency provision was "reasonable" and was "the minimum amount that is necessary" as stated at page 47 of my testimony. The factors underlying this judgment are fully described in the section of my testimony discussing the contingency.

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DMA/USPS-T6-36. Please describe in as much detail, and with as much specificity, as possible the reasons why the Postal Service believes that a 3.0% provision for contingencies is reasonable in this case, when it was of the opinion that a 2.5% provision for contingencies was reasonable in Docket No. R2000-1?

RESPONSE :

The Postal Service's best judgment is that a 3% contingency provision is warranted when compared with the Postal Service's 2.5% contingency provision in the last case. The Postal Service's financial condition has deteriorated, and its ability to absorb risk has decreased. Clearly the risks the Postal Service is facing have increased. My testimony at pages 3 through 11 and pages 45 through 67 outlines a number of these risks. In my judgment a 3.0 percent contingency provision would have been reasonable in R2000-1. The fact that a 2.5 percent was ultimately used then does not make a 3.0 percent contingency provision unreasonable now. It is also clear that the 2.5 percent contingency provision was inadequate in the last case.

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DMA/USPS-T6-37. Please refer to your testimony at page 52, lines 18 - 20, where you state, "There has been a sharp, unexpected slowdown in economic growth that placed the economy on the verge of a recession."

(a) Is the current level of economic activity reflected in the USPS cost and revenue projections for the Test Year? If your answer is other than an unqualified "yes," please explain in detail.

(b) Is it your opinion that this "sharp, unexpected slowdown in economic growth" supports a larger provision for contingencies than in Docket No. R2000-1? If so, please explain your opinion in detail.

RESPONSE:

(a) No. As a result of the events of September 11th and following, there have been even more severe economic disruptions to the Postal Service than are reflected in the interim and test year forecasts.

(b) Yes. The reference to a "sharp, unexpected slowdown in economic growth" was intended to support the observation that the Postal Service's finances are subject to significant risk. When faced with significant, increased risk, it is prudent to include a larger provision for contingencies. My reference was meant to be counterpunctual to the statement in the Commission's Docket No. R2000-1 Opinion that there was no significant risk of financial harm to the Postal Service from the economy. In this case, as in Docket No. R2000-1, there are risks of sharp, unexpected slowdowns in economic growth, relative to what had been assumed in the filing. Saying that there is no significant risk of financial harm from the U.S. economy in this case would be as wrong today as it was in Docket No. R2000-1.

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DMA/USPS-T6-38. Please refer to your testimony at page 48, lines 1-2, where you state, ". . . adversities may crop up in the context of non-volume workload."

(a) Please define "non-volume workload" as you have used the term.

(b) Please describe in as much detail as possible the types of adversities that may crop up in this context.

(c) To what extent are the financial consequences of these adversities to the Postal Service unknowable? Please respond in as much detail as possible.

RESPONSE:

(a) Non-volume workload is workload that is unrelated to volume or, in some cases, may be indirectly related to volume. Categories of non-volume workload currently recognized in the revenue requirement and rollforward process include the number of Post Offices, possible city deliveries, rural route box miles, rural boxes, contract stations, CAG L Post Offices, leased facilities square footage, and interior facilities square footage.

(b) Adversities can crop up with respect to the nature and extent of resources required to service non-volume workload, the introduction of new non-volume workload items, new drivers of non-volume workload, services or processes, the cost levels of such services or processes, and the quantity of items serviced or processed.

(c) When projecting into the future, all of the particulars of non-volume workload are unknown or unknowable. An example of a new facilities requirement that has introduced significant new requirements and uncertainties into the non-volume workload arena is the need to build and allocate facilities space to house equipment and personnel who will be assigned to sanitize the mail.

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DMA/USPS-T6-39. Please refer to your testimony at page 49, lines 18-19, where you state, "The size of a given rate increase has no bearing on the magnitude of possible adversities. The only possible relationship is that a smaller increase may represent a greater risk, ..."

(a) In light of this statement, would you agree that the fact that the Postal Service is requesting greater rate increases in this case as compared to Docket No. R2000-1 does not support a provision for contingencies in this case greater than the provision for contingencies in Docket No. R2000-1? If your answer is other than an unqualified "yes," please explain in detail.

(b) In light of this statement, would you agree that the fact that the Postal Service is requesting greater rate increases in this case as compared to Docket No. R2000-1 may support a provision for contingencies in this case lesser than the provision for contingencies in Docket No. R2000-1? If your answer is other than an unqualified "yes," please explain in detail.

RESPONSE:

(a) & (b) No in both cases. Your questions ask me to link the size of the contingency with the size of the rate increase. As I have testified, the size of a rate increase has no relationship with the magnitude of possible adversities.

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DMA/USPS-T6-40. Please refer to your testimony at page 50, line 1 through page 52, line 3, where you discuss the subject, "Institutional Factors Demonstrate the Need for the Postal Service's Contingency Provision."

(a) Please confirm that the "institutional factors" that you discuss are: (1) universal service, (2) the USPS deferred retirement cost liability, and (3) the "zero net profit margins that result from the Postal Service's breakeven objective." If you cannot confirm, please explain in as much detail as possible.

(b) Please describe in as much detail as possible the ways in which "universal service" increases the risk of unknown adversities in the Test Year.

(c) Please describe in as much detail as possible the ways in which "the USPS deferred retirement cost liability" increases the risk of unknown adversities in the Test Year.

(d) Please describe in as much detail as possible the ways in which "the breakeven objective" increases the risk of unknown adversities in the Test Year.

RESPONSE:

(a) Not confirmed. The two plus pages referenced from my testimony cite more than the three factors you mention.

(b) The obligation to provide universal service reduces the Postal Service's ability to absorb risk. Comparisons can be made with the commericial airline industry, which has eliminated somewhere in the neighborhood of 20 percent of its scheduled routes in order to save expenses during this time of extreme financial difficultly. Further, many airlines are substantially reducing the number of their city ticket offices. The Postal Service is not in a realisitic position to eliminate 20 percent of its delivery routes or close down a substantial portion of its retail outlets and so cannot use these types of actions as an option for absorbing financial adversity.

(c) This is another factor which is cited primarily to suggest the Postal Service's limited ability to absorb risk. The deferred retirement liability represents expeditures which must be made in the future regardless of whether or not revenues are generated to adequately cover those expenses. These obligations limit the Postal Service's ability to absorb risk.

(d) The breakeven objective, *i.e.*, a zero profit margin, negates the Postal Service's ability to absorb adversities, except to the extent contingency provisions are adequate. Further, the ratemaking process typically requires 18 months for preparation, planning, litigation, and implementation of new rates. The combined impact of these is to sharply limit the Postal Service's ability to absorb adversity.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-41. Please refer to your testimony at page 53, lines 29 - 30, where you state, "This means the macroeconomic risks are badly skewed against the Postal Service."

(a) Has the Postal Service made any study or estimates of the extent to which the DRI-WEFA economic forecasts used in the USPS volume and revenue projections would need to be wrong in order to create an adverse impact on the USPS net revenue as large as $2,200,000,000, the approximate size of a 3% provision for contingencies? If so, please provide any such study or estimates and describe them in detail.

(b) Has the Postal Service made any study or estimates of the extent of the impact on USPS net revenues if the "Pessimistic" DRI-WEFA economic scenario occurs? If so, please provide any such study or estimates and describe them in detail.

(c) Has the Postal Service made any study or estimates of the extent of the impact on USPS costs if the "Pessimistic" DRI-WEFA economic scenario occurs? If so, please provide any such study or estimates and describe them in detail.

(d) Has the Postal Service made any study or estimates of the extent of the impact on USPS net revenues if the "Late Recession" DRI-WEFA economic scenario occurs? If so, please provide any such study or estimates and describe them in detail.

(e) Has the Postal Service made any study or estimates of the extent of the impact on USPS costs if the "Late Recession" DRI-WEFA economic scenario occurs? If so, please provide any such study or estimates and describe them in detail.

RESPONSE:

(a) The contingency provision is not created to solely reflect risks of errors in DRI-WEFA macroeconomic forecasts, though under current circumstances the risk of such errors is substantial. As noted at page 53 of my testimony, before September 11th, the assessment was, "the risk [of forecast error] is especially high now, and the range of possible outcomes is uncomfortably large." And as noted in my response to OCA Interrogatory 21, the "fallout from the attacks now makes U.S. and global recessions inevitable." Net revenues can also be adversely affected by mail mix shifts (such as occurred in the R2000-1 test year) and by risks specific to the Postal Service (such as mailing pattern changes in response to anthrax) or by competitive inroads (such as occurred in the R2000-1 test year). It is conceivable that some combination of these and other factors could fully consume the contingency.

(b) – (e) Please see my response to DMA Interrogatory DMA/USPS-T-6-8(a).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-42. Please refer to Table 51 in your testimony on page 57.

(a) Please provide the complete calculations underlying each of the 10 line items that, when applied against a "Net Income Potential" of $2.0 billion, produce a "FY 2001 net loss."

(b) Please provide references to all information used in making such calculations.

RESPONSE:

(a) – (b) Please see my testimony at pages 59 through 64. The calculations are presented separately for each line item in this portion of my testimony. For example, at page 61, a base year health benefits costs of $3,835 million is given at line 14. Additional health benefits expense acceleration of one to five percent is noted lines 12 and 13. Over a two year period (see page 59, lines 3 through 8), the potential variation using these parameters is then from $77 million (1.01**2*3,835-3,835=77.0835) to $393 million (1.05**2&3,835-3,835=393.0875). These are the amounts shown for health care benefits in Table 51.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-43. Please refer to your testimony at page 58, lines 8 - 12, where you state, "The dominant considerations in selecting a contingency provision remain management judgment and policy with respect to the degree of risk that the Postal Service is willing and able to absorb. This judgment should be upset if and only if it can be shown that the proposed contingency provision, as I have described it, is unreasonable."

(a) Has the Postal Service modified, in any respect whatsoever, the legal positions it asserted during the course of Docket No. R2000-1 concerning its authority over the size of a "reasonable provision for contingencies" and the authority of the Postal Rate Commission over this issue? If so, please describe any such modification in as much detail as possible.

(b) Is it a reasonable summary of the Postal Service's position in this respect to say that, while the Commission has the authority to recommend rates based on a provision for contingencies different from that underlying the USPS request, the Commission has the burden of demonstrating that the USPS-proposed provision for contingencies is "unreasonable"?

(c) Given your assertion that the "dominant considerations" in choosing a provision for contingencies "remain management judgment and policy," does the Postal Service have a position on the type and extent of the evidence or other information that would be legally necessary or sufficient to support a Commission determination on this subject different from that of management? If so, please describe such evidence or other information in as much detail as possible.

(d) Given your assertion that the "dominant considerations" in choosing a provision for contingencies "remain management judgment and policy," does the Postal Service have a position on whether the Postal Service has a legal obligation to support its "judgment and policy" with objective evidence of any kind? If so, please describe such obligation in as much detail as possible.

RESPONSE:

(a) Not to my knowledge.

(b) I am not a lawyer, but it is my layman's opinion based on my understanding of the law that the Commission should not change any reasonable contingency provision used by the Postal Service in its revenue requirement.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

(c) My layman's opinion is that postal management is in a better position to judge the extent of operating and economic risk on postal operations than anyone outside the Postal Service. I think it is dangerous for the Commission to substitute its judgment for postal management's, as it did in the last case, based on what the Commission thought was sufficient evidence on the record provided by parties outside the Postal Service. It turned out that the Postal Service's assessment of the risks it faced was correct and the view the Commission adopted was not.

(d) Again, I am not a lawyer, and cannot tell you the legal bounds of your implied hypothetical. From a reasonable layman's perspective, I do not see the hypothetical as applicable, since I believe that the Postal Service has supported its position with substantial objective evidence, both in this case and in past cases. Indeed, in this case, I have endeavored to provide greater detail in my discussion of the contingency so that there can be no doubt or mystery about the reasonableness of or the bases for management's judgment underlying the Postal Service's contingency provision.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-44. Please consider a hypothetical situation where the Postal Service had projected Test Year After Rates volumes in this case one percent smaller on a class by class, subclass by subclass, rate cell by rate cell basis.

(a) Please confirm that the revenues associated with this forecast would be less than those associated with the Postal Service's actual forecast.

(b) Please confirm that the Test Year After Rates costs would be less than those associated with the Postal Service's actual forecast.

RESPONSE:

(a) Not confirmed.

(b) Not confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-45. Page 46 of your testimony refers to the freeze and deferral of capital programs and projects.

(a) If the freeze and deferral had not been in effect, how much more cash would the Postal Service have expended in FY 2000?

(b) In FY 2001?

(c) If the freeze and deferral had not been in effect, how much bigger would the revenue requirement have been?

RESPONSE:

(a) The Postal Service was scheduled to spend $3.564 billion in FY 2000, which was reduced by the freeze and deferrals to $3.169 billion, or a $395 million reduction.

(b) For FY 2001, the Postal Service had scheduled cash outlays of $3.531 billion, which were reduced to $2.804 billion, or a $727 million reduction.

(c) The impact of the freeze on the revenue requirement depends on what type of capital commitments would have been made, when such commitments would have resulted in acquisitions, and the exact date they would have been put in service, without the freeze. Additionally, in relation to facilities, certain lease costs may have been incurred as a result of the capital freeze. The net impact of these actions on the revenue requirement is unknown.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-46. *Page 46 of your testimony says, "The resulting annual capital need* for network growth is approximately $400 million." How much depreciation is associated with the capital expenditure of $400 million?

RESPONSE:

Postal facilities are depreciated over a 40-year period. The $400 million capital expenditure equates to an additional $10 million yearly to the depreciation cost.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-47. On page 53 of your testimony you say, "Second, the economy can slow down or contract and reduce the Postal Service's revenue stream." Please confirm that in the US, slowing or contracting economies have typically not been accompanied by high rates of inflation. If you can not confirm, please explain why you believe this generalization to be untrue and provide as much data or other information as possible to support your view.

RESPONSE:

It is my understanding that the benefits of slowing inflation, if any, typically lag economic contractions. I am informed that this is the mainstream view among economists. This situation is exacerbated with respect to the Postal Service where costs for important items are driven by inflation from a previous time period. For example, COLA's are based on actual, not projected values. ECI is handled consistent with this lagged process in developing test year projections for this case, as in previous cases. The Postal Service's current situation is one where it is suffering sharply and immediately from a revenue slowdown, and has experienced little, if any, net palpable benefit from reduced inflation.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-48. On page 53 of your testimony you say, "First, inflation can accelerate beyond projections and negatively affect the Postal Service's costs."

(a) Please confirm that in the US high rates of inflation have been accompanied by high rates of income growth. If you can not confirm, please explain why you believe this to be untrue and provide data to support your view.

(b) Please also confirm that high rates of income growth have been accompanied by high levels of growth in Postal volumes. If you can not confirm, please explain why you believe this to be untrue and refer to witness Tolley's model for volume forecasting.

RESPONSE:

(a) Not confirmed. I have not studied this, but, I understand that there is not any necessary correlation between income growth and inflation. For example, a period of substantial economic and income growth peaked in calendar year 2000. This growth was accompanied by fairly low inflation rates, particularly when compared to the very high rates of inflation that persisted during some lower growth periods in the late 1970s and early 1980s.

(b) Not confirmed. Again, I have not studied this, but I understand that there is not any necessary correlation between income growth and volume growth. For example, it is my understanding that, using historical norms, Postal Service volume growth was relatively weak during the last 5 years, relative to total economic growth. I understand that witnesses Musgrave, Thress, and Tolley rely on many variables to project volumes, not merely one that represents income growth.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-59. You briefly discuss Final Adjustments on pages 20 and 21 of your testimony. On page 20 you state, "FY 2000 costs reflect the mail volume mix that existed prior to the Docket No. R2000-1 rate changes that went into effect on January 7, 2001 and July 1, 2001. In order to reflect the cost changes due to those rate changes and certain other volume trends at a finer level of aggregation than represented in the Cost and Revenue Analysis (CRA) report, adjustments were made."

(a) Please confirm that if the mail becomes more presorted (and everything else stays the same) between base year and test year, the final adjustment will reduce costs. If you cannot confirm, please explain why this is not so.

(b) Please confirm that if the mail becomes more barcoded (and everything else stays the same) between base year and test year, the final adjustment will reduce costs. If you cannot confirm, please explain why this is not so.

(c) Please confirm that if the mail becomes more dropshipped (and everything else stays the same) between base year and test year, the final adjustment will reduce costs. If you cannot confirm, please explain why this is not so.

(d) Please confirm that the final adjustments reduce clerk and mailhandler costs. If you cannot confirm, please explain why this is not so.

(e) Please confirm that clerk and mailhandlers costs decrease because the work content of the mail decreases. If you cannot confirm, please explain why this is not so.

(f) Please confirm that cost changes due to changes in mail mix reflect changes in work content, not changes in USPS productivity. If you cannot confirm, please explain fully.

RESPONSE:

(a) Not confirmed. It is my general understanding that in certain situations in an automated environment, presortation may have no value to the Postal Service. As I am not an operations expert, I cannot detail the full range of such situations.

(b) Not confirmed. It is my general understanding in certain situations, bar-coding has no value to the Postal Service, such as if mail is not machinable. As I am not an operations expert, I cannot detail the full range of such situations.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

(c) Not confirmed. It is my general understanding in certain situations drop shipping has no value to the Postal Service, such as where mail must be moved upstream in order to receive automated processing. As I am not an operating expert I cannot detail the full range of such situations.

(d) Confirmed that final adjustments reduced projected clerk and mailhandler costs.

(e) I agree that reduced work content presents an opportunity to reduce costs. The ability to actually capture these cost savings can vary from time to time and place to place.

(f) It is my understanding that the work content of mail is reflected in the output measure used in Postal Service productivity calculations. Accordingly, the Postal Service would not get any productivity credit for cost savings that it captures as a result of mail mix changes.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-62. Exhibit USPS 6T provides a forecast for the 1-Year Treasury Bill.

(a) Please confirm that the exhibit shows a forecast for the 1-Year bill in 2001 of 3.9 percent.

(b) What is the current yield on 2 Year notes?

(c) Please confirm that the yield curve is not currently inverted.

RESPONSE:

(a) Confirmed.

(b) The yield on 2 Year Treasury notes as of November 2, 2001 was 2.47%.

(c) Not confirmed. As of November 2nd the yield for 6 month bills was less than the yield for 3 month bills.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-63. Please refer to your Library Reference J-49, Spreadsheet Prg_01-$_27094, Exhibit A, Summary of FY 2001 Other Program Changes from Prior Years.

(a) Please confirm that there are no "Other Program" breakthrough productivity savings for supervisors even though there are $172.5 million of savings for clerks and $77.5 million of savings for city carriers in 2001.

(b) Please describe the process by which you decided there would be no "Other Program" savings for supervisors in FY 2001.

(c) Please describe the process by which you decided there would be "Other Program" savings for supervisors in FY 2001.

RESPONSE:

(a) Confirmed. Please refer to my testimony at page 16, lines 12-24, where I explain why it is incorrect to assume that targeted savings in clerk and city carrier costs automatically result in supervisor savings.

(b) The process for determining achievable program savings is discussed in Section 1 of LR J-49.

(c) The breakthrough productivity "Other Program" savings for Fiscal Years 2002 and 2003 shown in the Segment 2 (supervisors) column of LR J-49, Exhibits B and C, are district professional staff. Please refer to Chapter V, Section d. of LR J-50, and page 26, lines 26 and 27 where these savings are identified as district professional staff.

REVISED RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORY OF THE MAGAZINE PUBLISHERS OF AMERICA

MPA/USPS-T6-4. On page 62 of your testimony, you note that TFP grew by 2.5 percent in FY 2000, is on pace to grow by 2.0 percent in FY 2001, and is projected to grow by 1.1 percent in FY 2002.

(a) If the Postal Service's FY 2002 cost and volume forecasts (as well as all underlying forecasting assumptions) come to pass, how much higher would USPS total factor productivity (TFP) be in FY 2002 than in FY 2001?

(b) If the Postal Service's FY 2002 and TYBR cost (excluding contingency) and volume forecasts (as well as all underlying forecasting assumptions) come to pass, how much higher would USPS TFP be in TYBR than in FY 2002?

(c) If the Postal Service's FY 2002 and TYAR cost (excluding contingency) and volume forecasts (as well as all underlying forecasting assumptions) come to pass, how much higher would USPS TFP be in TYAR than in FY 2002?

(d) Please provide detailed documentation regarding how the Postal Service calculates TFP.

RESPONSE:

(a) Based on the assumptions included in the R2001-1 rate case filing for FYs 2001 and 2002, TFP is estimated to increase by 1.1 percent in FY 2002. .

(b) There have been no TFP calculations made beyond FY 2002.

(c) There have been no TFP calculations made beyond FY 2002.

(d) See USPS Library Reference H-279, Docket No. R97-1, Total Factor Productivity.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T6-1 Please refer to your testimony at Page 4, Table 1. Is it a correct reading of this Table that the Postal Service's net equity, as of year end FY 2000, was a negative $646 million?

RESPONSE:

Yes.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T6-2 Please refer to your testimony at page 5, Table 3. Do the data in this Table 3 include capital investments/expenditures? If so, please explain how these dollars are included.

RESPONSE:

No. However, the expense impact of capital investments is included in the form of depreciation.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T6-3 Does your Table 3 indicate that the Postal Service's actual revenue growth, taken over the decade, slightly exceeded its growth in expenses?.

RESPONSE:

Yes. However, please note that expense growth has exceeded revenue growth in each of the last five years.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T6-4 Does your Table 3 indicate that the Postal Service's essentially "broke even" during the past decade, but made very little progress towards restoring its net equity?

RESPONSE:

Yes. As I stated on page 4, line 18 of my testimony "this means the Postal Service was unable to make significant progress against its prior years' losses recovery objective during the last decade". As reflected in Exhibit 6L, equity improved from a negative $1.278 billion in FY 1990 to a negative $646 million in FY 2000, an average improvement of only $63 million a year.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T6-5 Please refer to your testimony at page 6, Table 4 and line 14. Please provide the basis for your projected FY 2002 expense growth rate of 3.2 percent, instead of a higher or lower number.

RESPONSE:

There are numerous sources of change driving the estimated Fiscal 2002 expense growth of 3.2%. Sources of change are discussed in Chapter IIIA.3. of my testimony. Detailed calculations supporting most of these sources of change can be found in LR J-50. A general perspective on the relative impact of each source of change can be found in Exhibit 6M. As I stated on page 6 line 13 of my testimony, "the Postal Service plans to manage expense growth through the test year". A review of LR J-49, Exhibit G, is useful to understand the minimal amount of program growth and the significant amount of cost reductions driving Fiscal Year 2002 expenses.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

NAA/USPS-T6-6 Please refer to your testimony at page 9, Table 7. Does the "Current Assets" column include the book value of the Postal Service's real estate, after depreciation, does it reflect market value, or does it have some other meaning?

RESPONSE:

Current assets are mainly cash and cash equivalents, and short term accounts receivable. Real estate is reflected on the balance sheet at book value as an asset under buildings. Please refer to LR J-50, page 671 for the buildings portion of USPS FY 1998-2000 financial statements.

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

OCA/USPS-T6-1. The following refer to the USPS FY 2001 and FY 2002 Operating Plans.

(a) Please provide the FY 2001 Operating Plan and the most current USPS FY 2002 Operating Plan by accounting periods for Postal Service operating revenues, appropriations, investment income, expenses and volumes.

(b) For each of the thirteen accounting periods presented in part "a" of this interrogatory, please provide the most current USPS Operating Plan with operating revenues broken out by mail class and subclass cost categories.

RESPONSE:

(a) The FY 2001 Operating Plan by accounting period is attached. The FY 2002 accounting period Operating Plan has not been finalized. However, the FY 2002 Operating Plan for the categories requested is as follows:

U.S. Postal Service
FY 2002 Operating Plan
(Millions)

Operating Revenue	$68,746.8
Appropriations	47.6
Investment Income	29.1
Total Revenue	$68,823.5
Total Expenses	70,172.6
Net Loss	$ 1,349.1
Total Mail Volume	209,939

(b) As indicated in response to part (a) above, The FY 2002 accounting period Operating plan has not been finalized. However, the FY 2002 operating revenue by class of mail is as follows:

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

U.S. Postal Service
FY 2002 Operating Revenue Plan
(Millions)

First-Class Mail	$36,357
Priority Mail	5,500
Express Mail	1,077
Mailgrams	1
Periodicals	2,379
Standard Mail	16,740
Package Services	2,124
International	1,838
Special Services	2,234
Other Income	497
Total Operating Revenue	$68,747

ATTACHMENT
OCA/USPS-T6-1(a)

U.S. POSTAL SERVICE
FY 2001 OPERATING PLAN
($THOUSANDS)

	AP 01	AP 02	AP 03	AP 04	AP 05	AP 06	AP 07	AP 08	AP 09	AP 10	AP 11	AP 12	AP 13	TOTAL
OPERATING REVENUE	5,191,202	5,245,188	5,125,925	5,461,637	5,188,074	5,194,605	5,474,951	5,465,089	5,258,232	4,936,311	4,919,421	5,043,257	5,141,909	67,645,801
APPROPRIATIONS	5,134	5,134	5,134	5,134	5,134	5,134	5,134	5,134	5,134	5,134	5,134	5,134	5,130	66,738
INVESTMENT INCOME	3,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,135	27,135
TOTAL REVENUE	5,199,336	5,252,322	5,133,059	5,468,771	5,195,208	5,201,739	5,482,085	5,472,223	5,265,366	4,943,445	4,926,555	5,050,391	5,149,174	67,739,674
TOTAL EXPENSES	4,982,236	5,113,018	5,101,723	5,523,923	5,236,926	5,292,520	5,391,102	5,331,983	5,351,309	5,103,306	5,102,275	5,259,359	5,379,994	68,169,674
NET INCOME (LOSS)	217,100	139,304	31,336	(55,152)	(41,718)	(90,781)	90,983	140,240	(85,943)	(159,861)	(175,720)	(208,968)	(230,820)	(430,000)
CONVERSION TO GFY														(50,000)
NET INCOME (LOSS)														(480,000)
TOTAL MAIL VOLUME	16,977,769	17,301,445	16,142,368	15,737,419	16,013,906	15,998,603	16,511,046	16,454,784	15,900,568	14,809,040	14,741,233	15,106,597	15,941,998	207,636,776
CONVERSION TO GFY														80,834
NET INCOME (LOSS)														207,717,610

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

OCA/USPS-T6-2. Please provide the USPS FY 2001 and FY 2002 budgets broken down by accounting period as used in the following schedules and pages of the Financial and Operating Statements filed each accounting period with the Commission.

(a) Highlights on page 1.
(b) Statement of Income & Expense on page 2.
(c) Revenue by Category on page 5A.
(d) Expense Analysis on page 6.
(e) Analysis of Operating Expenses on page 7.
(f) Analysis of Non-Personnel Expenses on page 8.
(g) Work Hours & Overtime/Sick Leave ratios

RESPONSE:

(a–g) As indicated in the above question, the information requested has been filed with and is available from the Commission for accounting periods 1 – 12 of FY 2001. The attached provides the requested plan information for accounting period 13, FY 2001. As indicated in response to OCA/USPS-T6-1, the FY 2002 accounting period Operating Plan has not been finalized. Available budget information for FY 2002 can be found in the FY 2002 Integrated Financial Plan included in my response to OCA/USPS-T6-7.

Highlights
Accounting Period 13, FY 2001
(Millions)

Accounting Period 13 Budget		Year-to-Date Budget
$ 5,149.1	Total Revenue (1)	$ 67,739.6
5,379.9	Total Expense (2)	68,169.6
$ (- 230.8)	Income/(Loss)	$ (- 430.0)
$ 651.9	Capital Commitments (3)	$ 1,600.7
121.3	Total Work Hours	1,612.0
15,942.2	Mail Volume	207,640.1

[ ] = Unfavorable variance to budget

Note: Totals may not sum due to rounding.

Note: Mail Volume numbers are preliminary numbers and are subject to change.

(1) The revenue plan reflects rates as requested in the R2000-1 Omnibus Rate Case. These averaged 6.4%. Rates implemented January 7, 2001 based on Postal Rate Commission (PRC) decision averaged 4.6%.

(2) Please see explanation on page 6 referencing transportation expense.

(3) The capital plan was reduced from $3.6 billion to $2.6 billion.

Actual Number Of:	Current Period	Last Period	SPLY
Post Offices	-	-	-
Active Postal Owned Vehicles			
Administrative	-	-	-
Operations	-	-	-
Possible City Deliveries (000)	-	-	-
City Delivery Routes	-	-	-
Rural Routes	-	-	-
Career Employees (Excludes Inspector General)	-	-	-
Casual Employees	-	-	-
Transitional Employees	-	-	-

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Statement of Income & Expense
Accounting Period 13, FY 2001
($ Millions)

Current Period Budget		Year-to-Date Budget
$ 5,147.0	Operating Revenue *	$ 67,712.5
5,227.4	Operating Expense	66,135.5
$ (- 80.4)	Income (Loss) From Operations	$ 1,577.0
2.1	Investment Income	27.1
- 28.6	Interest Expense	- 423.1
- 123.9	Interest on Deferred Ret. Liabilities	- 1,611.0
$ (- 230.8)	Income/(Loss)	$ (- 430.0)

[ ]=Unfavorable variance to budget

Note: Totals may not sum due to rounding.

* The revenue plan reflects rates as requested in the R2000-1 Omnibus Rate Case.

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REVENUE BY CATEGORY
Accounting Period 13, FY 2001
($ Millions)

Current Period Budget		Year-to-Date Budget
	Commercial Revenue	
$ 2,383.8	Permit Revenue	$ 29,068.9
1,514.4	Other Commercial Accounts Revenue	21,369.2
$ 3,898.2	**Total Commercial Revenue**	**$ 50,438.1**
	Retail Revenue	
978.5	Retail Postage Revenue	13,719.1
114.6	Retail Services Revenue	991.7
8.9	Retail Products Revenue	125.1
125.8	Other Retail Channels Revenue	1,785.4
$ 1,227.8	**Total Retail Revenue**	**$ 16,621.3**
$ 5,126.0	**Total Commercial & Retail Revenue**	**$ 67,059.4**
15.9	Other Income	586.4
5.1	Revenue Forgone	66.7
$ 5,147.0	**Total Operating Revenue**	**$ 67,712.5**
2.1	Investment Income	27.1
$ 5,149.1	**Total Revenue ***	**$ 67,739.6**

[ ]=Unfavorable variance to budget
Note: Totals may not sum due to rounding.
*** The revenue plan reflects rates as requested in the R2000-1 Omnibus Rate Case.**

EXPENSE ANALYSIS
Accounting Period 13, FY 2001
($ Millions)

Current Period Budget		Year-to-Date Budget
$ 3,904.2	**Personnel Compensation**	**$ 51,584.4**
	Non-Personnel Expense:	
374.6	Transportation	4,825.9
* 345.2	Supplies & Services	3,432.0
603.4	Other	6,293.2
$ 1,323.2	**Subtotal**	**$ 14,551.1**
$ 5,227.4	**Total Operating Expense**	**$ 66,135.5**
28.6	Interest Expense	423.1
123.9	Interest on Deferred Ret. Liabilities	1,611.0
$ 5,379.9	**Total Expense**	**$ 68,169.6**

]=Unfavorable variance to budget

Note: Totals may not sum due to rounding.

* In Fiscal Year (FY) 2001, the Postal Service began accruing for the cost of holiday transportation when incurred, rather than recognizing the expense when paid. The impact of this change in accounting policy is to increase the reported growth in AP 4 transportation expenses by $137 million, relative to the same period last year (SPLY). Future accounting periods in FY 2001 will also be less comparable to the prior year, as the reported growth will be slightly lower than it otherwise would have been, compared to SPLY.

ANALYSIS OF NON-PERSONNEL EXPENSES
Accounting Period 13, FY 2001
($ Millions)

Current Period Budget	Description	Year-to-Date Budget
$ 374.6	Transportation	$ 4,825.9
345.2	Supplies & Services	3,432.0
180.2	Depreciation	2,272.9
78.0	Rent	911.0
67.8	Fuel & Utilities	543.0
30.3	Rural Carrier Equip Maint Allowance	390.3
38.1	Vehicle Maintenance	414.5
57.9	Information Technology	437.9
42.5	Building Projects Expensed	227.5
5.7	Contract Job Cleaners	70.4
15.4	Travel & Relocation	165.4
30.2	Communications	252.5
6.2	Contract Stations	73.4
4.4	Printing	43.4
9.8	Training	93.5
5.3	Carfare & Tolls	66.2
3.1	Vehicle Hire	44.8
3.9	Accident Cost	48.2
- 5.0	Capitalized Interest	- 65.0
29.6	Miscellaneous	303.2
$ 1,323.2	**Total Other Operating Expenses**	**$ 14,551.1**

WORK HOURS & OVERTIME/SICK LEAVE RATIOS
Accounting Period 13, FY 2001
(Data in Thousands)

Current Period Budget	Total Work Hours	Year-to-Date Budget
	Operations:	
770	-Support	10,225
30,007	-Mail Processing	411,529
13,311	-Rural Delivery	173,295
36,453	-Other Delivery	483,910
2,507	-Vehicles Services	33,657
6,455	-Plant & Equip Maint	85,437
19,340	-Customer Services	260,728
786	Controller	10,138
754	Human Resources	9,998
1,069	Customer Service & Sales	14,343
5,141	Administration	67,037
4,667	Other	51,701
121,260	Total Work Hours	1,611,998

Overtime		
Budget		Budget
8.0%	Overtime Ratio Per 100 Work Hours	8.1%

Sick Leave		
Budget		Budget
--	Sick Leave Ratio Per 100 Work Hours	--

[ ]=Unfavorable variance to budget

* Recasted Data

Note: Totals may not sum due to rounding.

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

OCA/USPS-T6-3. Please provide the Postal Service's FY 2001 and FY 2002 annual Capital Investment Plan similar to the Capital Investment Plans for FY 1999 and FY 2000 included in the record of Docket No. R2000-1 at Tr. 2/409-15. Also, please provide any updates to the FY 2001 and FY 2001 annual Capital Investment plans.

RESPONSE:

Please see my response to OCA/USPS-T6-7 for copies of the FY 2001 and 2002 capital investment plan included in the Integrated Financial Plan for each of these years. Please note that page 7 of the FY 2002 Integrated Financial Plan reflects the revised FY 2001 Capital Investment Plan that was reduced from $3.6 billion to $1.6 billion. The FY 2002 capital plan was reduced from $3.7 billion to $2.4 billion.

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

OCA/USPS-T6-4. Please provide the Postal Services current five year capital plan and any updates for FY 2001 and FY 2002, if any, to the Postal Service's current five year capital plan similar to the FY 1999 update to the FY 1998-2002 Capital Investment Plan included in the record of Docket No. R2000-1 at
Tr. 2/416-427.

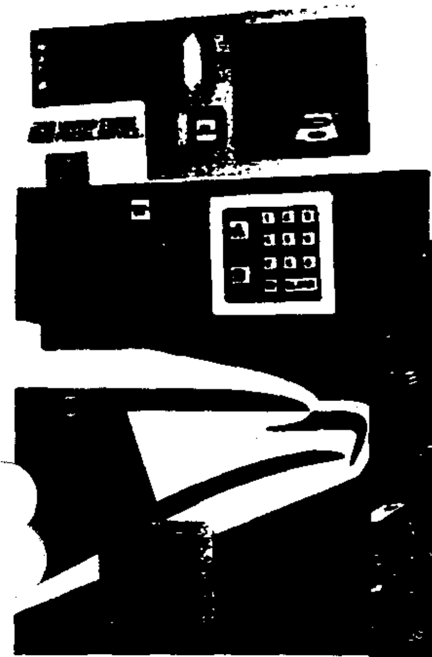
RESPONSE:

Attached is the last approved five-year capital investment plan (FY 2001-2005). This plan does not reflect the FY 2001-2002 reductions referenced in my response to OCA/USPS-T6-3.

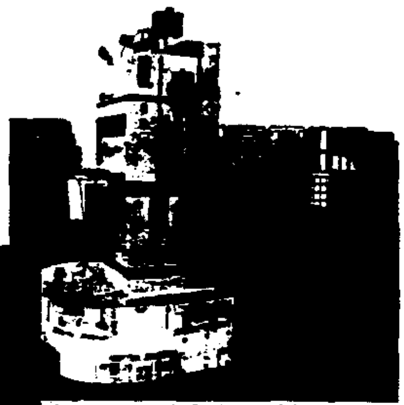
ATTACHMENT
OCA/USPS-T6-4

UNITED STATES
POSTAL SERVICE™

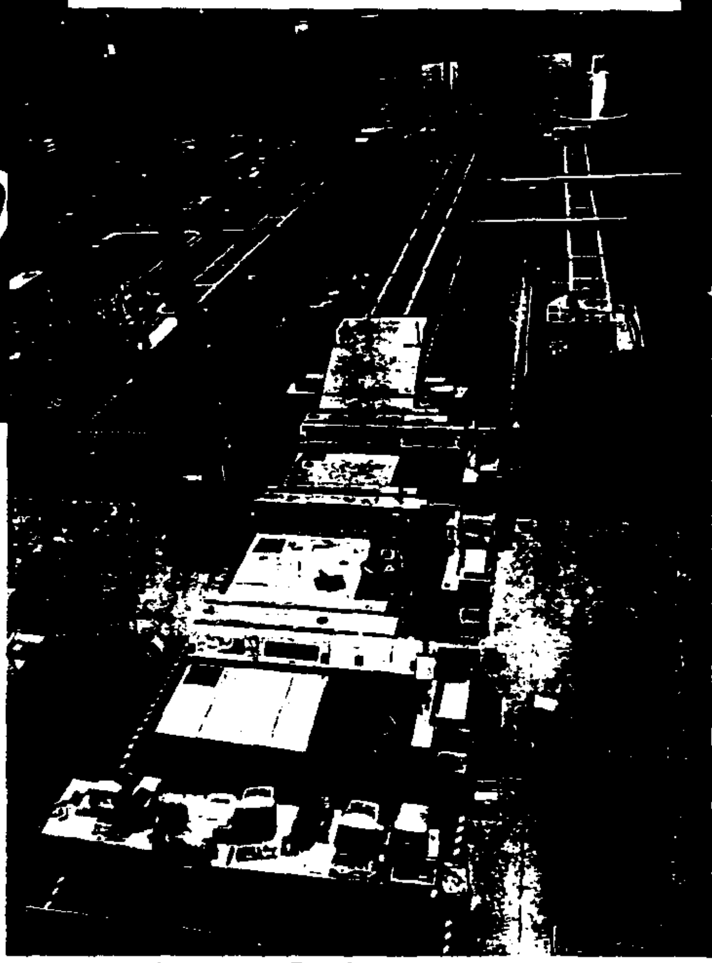
CAPITAL INVESTMENT PLAN FY 2001-2005



Stamp Vending Machines



Automated Guided Vehicles



Automated Flat Sorting Machines

Great Falls, VA Main Post Office

Cargo Vans

Fiscal Year 2000 Results

During quarter 2 the Fiscal Year 2000 capital plan was adjusted from $4 billion to $3.5 billion.

ON MY MIND

[redacted] *ensuring minimum infrastructure investment for expansion of the delivery network, while emphasizing higher return investments. The Board will review this each year as further business trends unfold."*

Richard J. Strasser, Jr.
Chief Financial Officer
Executive Vice President

The capital plan for Fiscal Year 2000 had four major goals, to improve the quality of customer service; allow for aggressive cost management; increase productivity gains through technology; and, maintain infrastructure. The following table lists the primary capital projects committed in Fiscal Year 2000 in support of the four goals, representing approximately 50 percent of the total capital commitments for the year.

The total capital commitment of funds was approximately 92 percent of the final planned amount for Fiscal Year 2000. The fiscal year began with a corporate capital plan of $3.9 billion. However, at midyear an ongoing business reassessment cross-functional team recommended that the plan be reduced by $550 million, most of this reduction came from the facility budget. At the end of the fiscal year, the new capital plan was approximately $3.5 billion with the total year-end to date capital commitments equaling $3.2 billion.

[redacted]

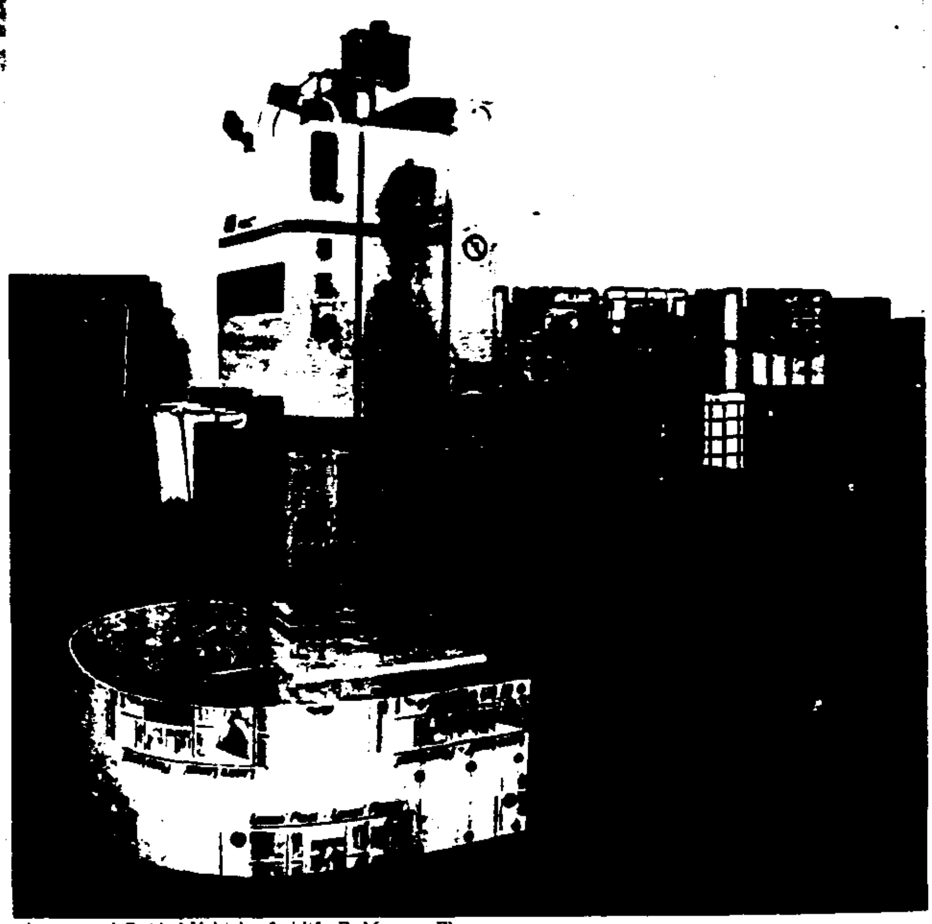
FY 2001-05 Capital Investment Plan

The major categories of capital investment and the actual commitments for Fiscal Year 2000 are displayed in the table above. Except for retail equipment, each of the categories of investment declined from the previous year's levels. The increase in the retail equipment category is attributed to the continued successful deployment of the Point of Service (POS) One terminals to post offices throughout the country

During FY 2000, the capital plan was adjusted from $4 billion to $3.5 billion. However, this was the fifth consecutive year that we have had capital commitments of over $3 billion. During 2000, we completed 9 Board approved projects totaling more than $571 million. Of these 9 projects, 7 were equipment projects, 1 was a facility project, and 1 was classified as an "other" project.

The "other" category includes investments in information systems, retail equipment, customer support systems and new products and services. The Board also approved a total of $1.606 billion for 20 new major capital investment projects.

The effectiveness of the overall capital plan is unequivocal. The improvements in operations show record setting performances in service and productivity. Clearly, the actual capital commitments support the planned emphasis on equipment and infrastructure projects. For the present and the future, the results of the Fiscal Year 2000 capital investments yields the outcomes expected from the objectives set for Postal Service's capital plan.



Automated Guided Vehicles-forklift. Ft Meyers, Fl

FY 2001-05 Capital Plan

The Fiscal Years 2001-2005 capital plan totals $17.5 billion. FY 2001 portion is $3.6 billion.

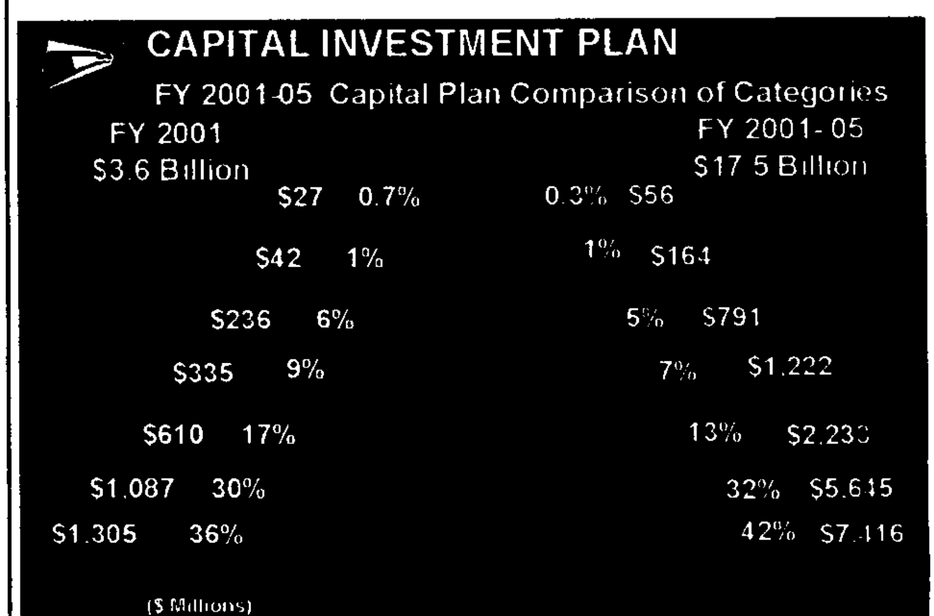
ON MY MIND

"Our new five-year plan has an overarching strategy that focuses on high return-on-investment projects, specifically the automated flats sorting machine (AFSM) 100s and the Time and Attendance Control System (TACS), as well as maintain our infrastructure and accommodate growth through our facilities, vehicles, and information systems; plus explore and prepare for opportunities in the e-environment."

Donna M. Peak
Vice President
Finance, Controller

This is the first five-year capital plan since 1998. For illustrative purposes, the total capital plan is divided into the seven categories shown below. The amounts and the percentages down the sides of this pyramid roughly represent each category's portion of the total plan for FY's 2001 and 2001-2005.

As shown below, significant capital investments of $3.6 billion in FY 2001 and $17.5 billion across five years will influence future operating results. To aid cost management efforts, technology will be used for automation and modernization projects affecting distribution, processing, and delivery operations. The capital investment plan also includes programs that will improve the quality of customer services and facilitate revenue growth. Concurrently, infrastructure investments are necessary to sustain operational changes resulting from workload growth. This effort includes the repair or replacement of aging assets and providing a modern information



FY 2001-05 Capital Investment Plan

technology network and infrastructure. The investment strategy is designed to achieve continuous year-to-year performance improvements. To minimize future borrowing requirements, projects in the FY 2001- 2005 Capital investment plan will be funded internally to the maximum extent possible. The Postal Service bylaws require that the capital budget be submitted to the Board of Governors for approval each year. The Board approval signifies general concurrence with the plan. Projects greater than $10 million are individually presented to the Board for approval.

Development of the plan is only the beginning of the capital investment process. Each major project within the plan will be subjected to a vigorous review, validation and approval process, designed to ensure the project is properly justified. Anticipated results are documented and return on investment methodology analyzed to ensure accurate projections. Operating budgets are reduced to reflect those investments based on cost savings. Studies are performed on selected major project following implementation to determine if financial and operating goals were achieved.

The FY 2001-2005 Capital Investment Plan reflects the Postal Service's focus on high return on investment and infrastructure projects. The strategy illustrates the importance of committing resources toward revenue generating activities, as well as funding our eBusiness initiatives, technological infrastructures, and information platform projects. We estimate that our current portfolio of capital investment opportunities will produce a return on investment greater than the cost of borrowing capital funds.

For the purpose of illustration each project within the capital plan has been classified into one of the following categories: Equipment, Facilities, Infrastructure, Vehicles, Retail, eBusiness, and Research & Development.

Automated Flat Sorting Machine

EQUIPMENT PROJECTS

The total equipment category comprises $1.3 billion of the FY 2001 capital plan. The capital resources dedicated to equipment technology escalates in the coming years to a total of $7.4 billion, which is 42 percent of the FY 2001-2005 plan. This investment strategy will continue to be a key enabling element for the achievement of future performance targets. Equipment consists of automation and mechanization investments to enhance previously deployed technologies and expand the technology base available to support postal operations. While most of these investments are directly targeted at controlling costs, many will also contribute to improvements in service quality and ease-of-use goals.

Below is a list of the major equipment projects in the five year capital plan.

Subcategory	Project Name
Parcel	Next Gen Small Parcel Bundle Sorter
Letters	Multi-line Optical Character Reader Replacement
Material Handling	Robotics Container Loader
Other	Information Based Indicia Postage Camera
Letters	Delivery Barcode Sorter Expanded Capability
Material Handling	Field Material Handling Systems
Material Handling	Automated Airline Assignment System
Letters	24-Digit Tray Label
Material Handling	Auto Tray Sleever
Parcel	Upgrade/Replace Parcal Sorting Machine
Parcel	Parcel Singulator/Tunnel
Other	Mail Item Retreival System
Letters	HIP 2000 (Remote Comp Read)
Flats	New Flat Sorting Machine
Material Handling	Tray Systems Support
Letters	Remote Computer Reader
Letters	Fastforward
Other	New Equipment Methods
Other	Recognition Imprvmnt
Other	Intelligent Delivery Unit-Mail Item Retreival System
Parcel	Small Parcal Bundle Sorter Ph II
Letters	Carrier Sequence Barcode Sorter Bulky Mod
Material Handling	Commercial Distribution
Letters	Carrier Sequence Barcode Sorter 21/25 Stacker Upgrade
Letters	Carrier Sequence Barcode Sorter Optical Character Reader

[illegible] ... tem will monitor plant activity and direct the machines according to dynamic operating plans, adjusting for equipment performance and anticipated mail volumes.

The near-term focus of the IPF is on letter mail, consistent with the current forecast of the mail volume and product mix. The later phases concentrate on processing flats and parcels.

EQUIPMENT CATEGORIES

Automated Guided Vehicles- Tugger, Ft Meyers, Fl

Equipment programs are segregated into the following sub categories based on the type of mail to be processed.

MATERIAL HANDLING

(FY 2001 plan $401 million. Five-Year plan $2.5 billion.)

The emphasis in this area will be on the robotics and automated tray-handling programs designed to support the expected change in mail mix and offset growing material handling labor costs. The material handling plan calls for linking work units within a plant and automating allied labor functions. The material handling plan is intended to integrate processing across all product lines. It will provide the foundation for unit load tracking. FY 2001 capital funding includes the following programs:

The Robotic Containerization Loader System supports the acquisition of 100 robots to automatically unload letter mail trays and flat tubs out of mail containers.

Robotic Containerization Loader System

These systems will replace current labor intensive operations with automation. This will be implemented in the opening unit and container breakdown operations of mail processing Centers. Upon full deployment, a significant reduction in mail handler workhours is expected.

The Automatic Airline Assignment (AAA) and Semi-Automatic Scan Where You Band (SASWYB) System has been developed to replace the continuous flow system, which has been discontinued. The SASWYB system processes sacks, pouches, outsides, trays and tubs. It provides a semi-automatic means of processing and assigning all types of mail to airline flights.

Field Material Handling Systems cover continuing field mail processing projects that support material handling systems in mail processing centers These projects address the safety concerns of the Postal Service and will improve efficiency by increasing productivity while providing for better service.

PARCEL DISTRIBUTION

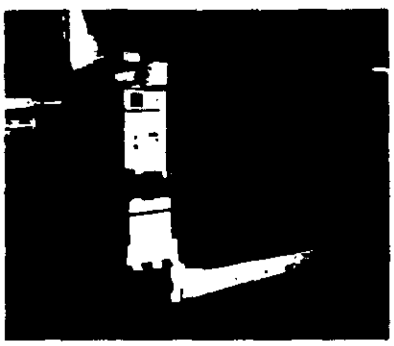
(FY 2001 plan $384 million. Five-Year plan $1.3 billion.)

Over the next several years, parcel-sorting capacity will be expanded and investments in technology will be made to improve the performance of the

Parcel Distribution

equipment. The following programs are included in the capital plan:

The Next Generation Parcel/Bundle sorter channels multiple streams of parcels into a single line in a process known as singulation. The ZIP code/barcodes are read with optical character reader technology or remote keying is used to automatically assign parcels and bundles to the appropriate separation. This machine will be capable of assigning over 11,000 parcels per hour onto the sorter and will reduce mail processing labor by 50 percent from the present small parcel and bundle sorter operation.



Automated Guided Vehicles- forklift, Ft Meyers, Fl

Automated Tray Lidder

The Upgrade/Replace Parcel Sorting Machine/Sack Sorting Machine program's objective is to investigate and evaluate state-of-the-art equipment dedicated to the sorting of parcels and sacks. These new technologies will provide innovative approaches to improve sort capacity, efficiency and reliability in the 21 BMC's, that currently use 30 year-old technology, which is becoming increasingly more difficult to maintain. The new improved sorters will offer greater sort accuracy and reliability.

The BMC Singulator Scan Induction Unit is an automated parcel singulation and induction system that singulates a bulk mail stream of parcels, reads their barcodes, and assigns them onto the secondary parcel sorter in the BMC's. This machine will be capable of assigning over 5,000 parcels per hour onto the sorter and will reduce mail processing labor by four keying positions per tour.

LETTER DISTRIBUTION

(FY 2001 plan $354 million. Five-Year plan $1.7 billion.)

The optical character reading, barcode sorting, and remote encoding technology required to automate letter piece distribution is now deployed. By the end of FY 2001, a number of key programs will have been implemented to further enhance the capability of this equipment and expand the capacity of the system. The following letter distribution programs are included in the FY 2001 capital plan:

The Multi-Line Optical Character Reader Replacement program calls for the acquisition of 600 Delivery Bar Code Sorter Input/Output Sub-System kits and 100 Delivery Bar Code sorting machines to replace 875 out-moded multi-line optical character readers. This program will involve the manufacture and installation of the equipment as well as the removal and disposition of the multi-line devices. The program will provide all logistical support elements such as spare parts and training.

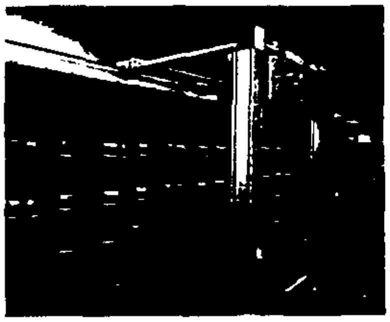
The Delivery Barcode Sorter Expanded Capability program deploys 1,000 expanded capability modification kits to be installed on delivery bar code sorter machines at 250 sites. This will enable the delivery barcode sorters to handle the majority of mail that is currently being sorted manually.

The Remote Computer Reader 2000 program enhances the address recognition technology used in the Remote Computer Reader that targets a 10 percent improvement in handwritten address recognition, while meeting existing throughput and error rate requirements. The upgrade is part of a continuing, highly successful effort to reduce mail processing costs. The encode rate improvement software reduces the number of manually keyed addresses, thereby providing substantial cost savings and improved productivity.

CUSTOMER AND OTHER EQUIPMENT

(FY 2001 plan $175 million. Five-Year plan $789 million.)

This category includes customer service equipment programs designed to enhance Postal Service products, and equipment that supports multiple equipment categories and non-fixed automation and mechanization projects. The following programs are included:



Robots

The Information Based Indicia (IBI) Postage Camera Replacement equips automated facer cancelors, optical character readers, and barcode sorters with cameras of sufficient resolution to read the IBI postage codes. This makes tracking information available in-house and to the customer. The ability to read the IBI postal code is necessary to meet customer requirements and can potentially track approximately 40 percent more of the mail than current capabilities.

Equipment Performance Improvement is for the maintenance and enhancement of existing equipment. The programs cover the entire inventory of automation and mechanization currently deployed and being deployed. Examples of the support programs include testing/fielding/training for the Flat Sorting Machine 100 and training for occupational health and safety issues.

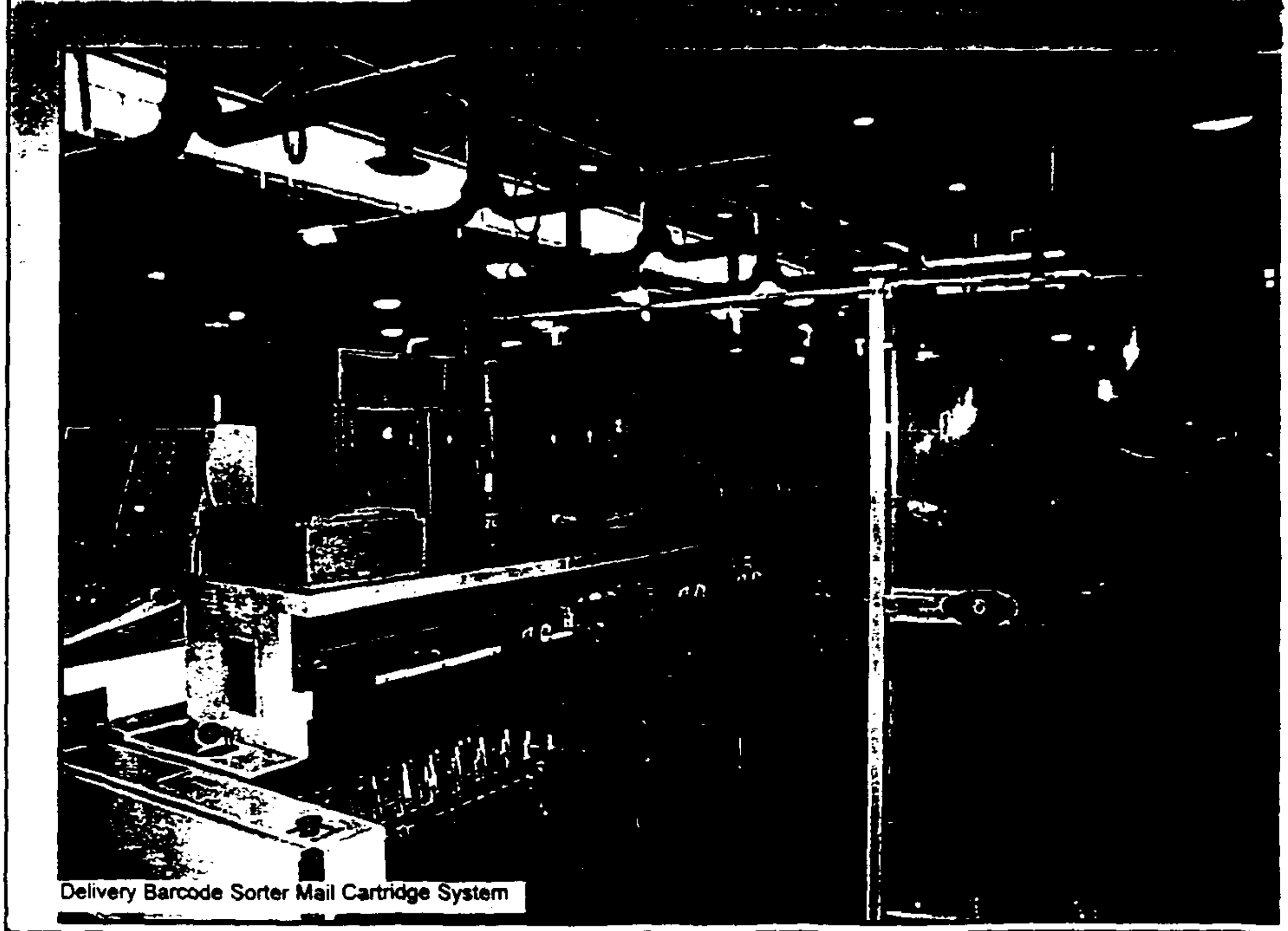
The Mail Item Retrieval System is a service enhancement concept for automating the tracking, storage, and retrieval of mail items that have been brought back to a delivery unit by carriers, i.e. undelivered mail items. The Mail Item Retrieval System utilizes two primary components: a computerized service and monitoring system that provides information on undelivered mail items and an automated secure storage and retrieval carousel.

FLATS DISTRIBUTION

(FY 2001 plan $23 million. Five-Year plan $1.1 billion.)

Flats distribution technology will be improved and capacity will be expanded in FY 2001 and beyond. The major portion of the flats program involves flat sorting machines.

The Advanced Flat Sorting Support Program is the Postal Service's three phased approach to automating flat mail processing. The Phase I purchase of 175 Automated Flat Sorting Machines provides the field sites with additional processing capacity. The deployment is scheduled from March through December 2000. Phase II is an additional purchase of approximately 400 units that will replace the existing 812 Flat Sorting Machines (model 881). The Phase III purchase consists of about 575 machines to delivery point sequence the nation's flats. The system features include on-line video coding, an optical character reader, three automatic feeders, tray take-away conveyors and a through-put of over 17,000 flats per hour.



Delivery Barcode Sorter Mail Cartridge System

FACILITIES

(FY2001 plan $1.1 billion. Five-Year plan $5.6 billion)

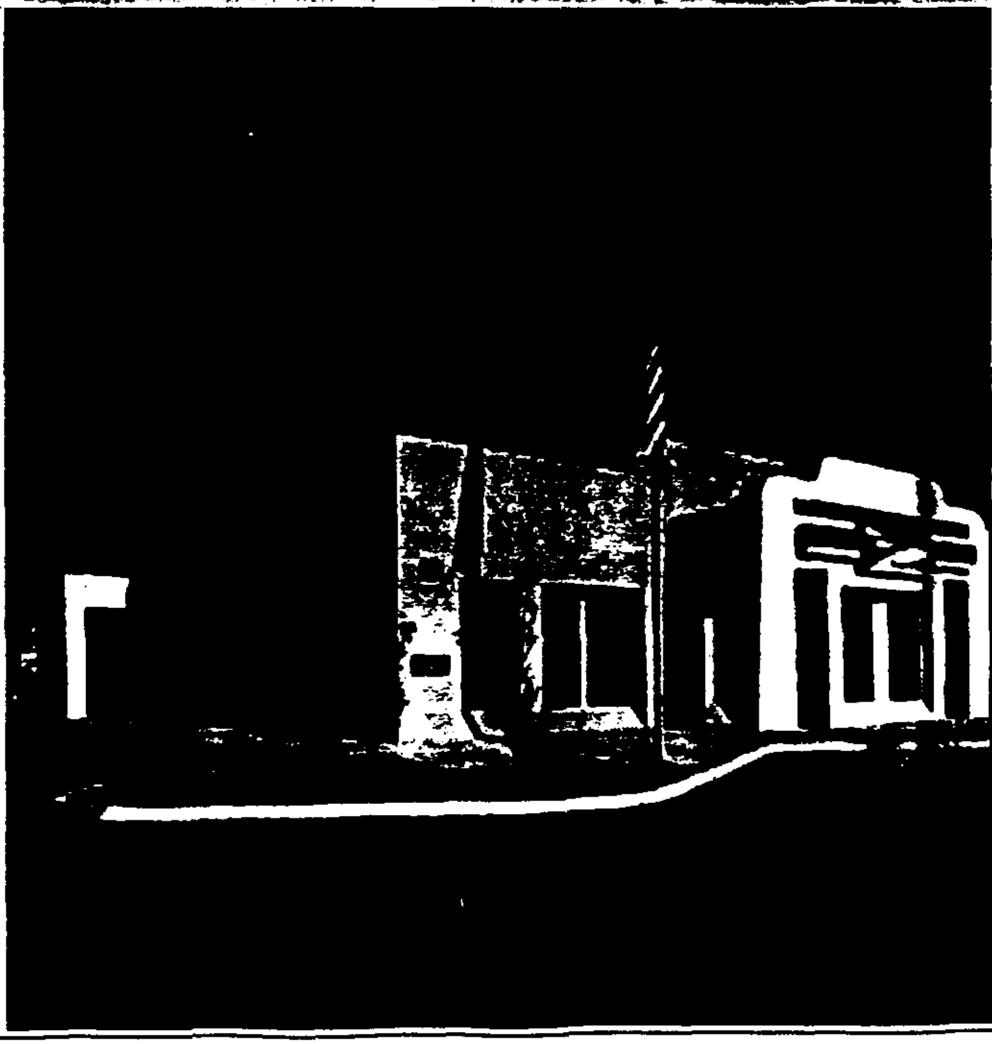
The facility investment decisions are no longer "business as usual". As the mail mix changes, repair and alteration and expansion projects are emphasized over new construction to maintain our valuable assets. The Postal Service seeks to optimize the use of space currently available. The criteria for determining whether to lease or build postal owned facilities will be reviewed. In some areas with multiple facilities, sites may be considered for consolidation or used differently as mail volume begins to decline.

Below is a list of the major processing facility locations in the five year capital plan.

Corrales, New Mexico Post Office *pictured below*

This is the first straw bale post office in the United States. The old fashioned technique of using bales of straw as insulation between support beams was combined with the latest energy conservation systems and recycled materials. The result is a "green," resource-efficient building that fits the rural character and Western environment of the Corrales, New Mexico community.

CHARLOTTE P&DF
CINCINNATI P&DC
HOUSTON AMC
INDIANAPOLIS P&DC
MILWAUKEE P&DC
NORTHEAST METRO P&DC
PORTLAND P&DC
SAN ANTONIO P&DF ANNEX
SEATTLE P&DC R&A
WESTERN CT P&DC
BRONX GPO
NJ METRO P&DC
OKLAHOMA CITY P&DF
PHOENIX AMC
STATEN ISLAND P&DC
ALBUQUERQUE P&DC
ONTARIO AMC
BOSTON AMC
BRONX LASALLE
GREENVILLE P&DC
RICHMOND P&DC
PHILADELPHIA P&DC NCO & RENOVATIONS



To accommodate growth, there will continue to be a need for new facilities in high growth areas and communities under served by delivery and retail facilities, especially in support of the gateway to the household strategy for package delivery. However, the need for the new stand-alone facilities must be evaluated against strategies to provide retail or pickup and return services through alternative means. The facilities commitment plan for FY 2001 is $1.1 billion, which accounts for 30 percent of the total capital plan and includes funding for the following items:

The Major Mail Processing Facilities program funds the planning, site acquisition, and design and construction for plant projects that cost in excess of $5 million.

The Developmental Real Estate program focuses on maximizing benefits and generating revenues from Postal Service real property. Activities to accomplish this objective include the sale of excess real property, development of underutilized real property, and the acquisition of leased facilities.

CAPITAL INVESTMENT PLAN

FY 2001-2005 Capital Projects - Facilities

Project Title	2001	2001-2005
Field Customer Service Projects	331	2.087
Major Mail Processing Facilities	289	1.154
Field Repair & Alterations	262	1.576
Developmental Real Estate	35	215
BMC Expansions	10	10

Great Falls, VA Main Post Office
Location: 10001 Georgetown Pike, Great Falls, VA

Building Size: 10.941 Net Sq Ft
Deliveries: 5.366

Facilities Completed in FY 2000

The GSA Building Security program provides for increased security measures at facilities that house high-visibility federal tenants, such as: the FBI, Federal Courts, and the Alcohol, Tobacco and Firearms Agency. This requirement, as set forth in the Department of Justice (DOJ) study entitled "Vulnerability Assessment of Federal Facilities," was in response to the bombing of the Alfred P. Murrah building in Oklahoma City. Approximately 260 Postal Service owned facilities with federal tenants fall within the scope of this program.

The Bulk Mail Center Facility Expansion program enables the BMC network to adjust to expected future growth in palletized volume and large parcels in an efficient and more timely manner. This program is expected to increase customer satisfaction by improving the network's ability to adapt to the changing mail characteristics.

Tulsa Oklahoma Processing and Distribution Center

Building Size: 362,851 square feet

Annual Mail Volume
(Total Originating and Destinating)
approximately 2 million pieces

Technology

INFRASTRUCTURE

(FY 2001 plan $610 million. Five-Year plan $2.2 billion.)

The Infrastructure category comprises capital projects, which provide the day-to-day support equipment necessary to help employees perform their work more efficiently and to enhance management's effectiveness.

This category includes the new Information Platform subcategory of projects. The Information Platform group integrates several previously separate areas into one. "Stove pipe" projects from Information Systems, Engineering, and other sponsoring organizations are consolidated to encourage the benefits from economies of scale and project synergy. Information Platform will focus on projects that provide a return on the infrastructure investment. Information Platform infrastructure projects will emphasize improved management tools, using information accessibility. The result will be quantifiable savings in labor and other direct and indirect costs.
The plan includes funding for the infrastructure and postal Information Platform programs listed to the right.

MAJOR INFRASTRUCTURE PROJECTS IN THE FY 2001 - 2005 CAPITAL PLAN

Subcategory	Project Name
Miscellaneous	Future HR/Payroll
Miscellaneous	HR/Pay Enterprise
Miscellaneous	Redesign Enabling Process
Miscellaneous	Employee Assistance Program
Miscellaneous	Central Repair Facility (Topeka)
Miscellaneous.	National Center for EmployeeDevelopment Training
Miscellaneous	National Technical Support Network
Miscellaneous	Two Day International Express
Miscellaneous	Site Meta
Miscellaneous	Breakthrough Productivity Improvement
Miscellaneous	Corporate Market Research
Info Systems	Delivery Operations information System
Info Systems	Mail Evaluation, Readability & Look up Instrument
Info Systems	Distributed Infra. Standardization
Info Systems	Postalone!
Info Systems	Surface Air Maint. System
Info Systems	Integrated Data System
Info Systems	Assciate Office Infrastructure
Info Systems	Postal Field Computer Infrastructure
Info Systems	Standard Acctg Retail
Info Systems	Time & Attendance Collection System
Info Systems	Time & Attendance
Info Systems	EEO Complaint Tracking System
Info Systems	International Systems
Info Systems	Facility Flow Model Analysis
Info Systems	Delivery Redesign
Info Systems	Correspondence & Transactions
Info Systems	Delivery Confirmation Reciept System
Info Systems	Entry Schedule Periodicals
Info Platform	Processing & Distribution Information System
Info Platform	Structured Plant Wiring
Info Platform	Corporate Data Mart
Communications	Enhanced Street Performance
Communications	Telephone Equipment Installation

FY 2001-05 Capital Investment Plan

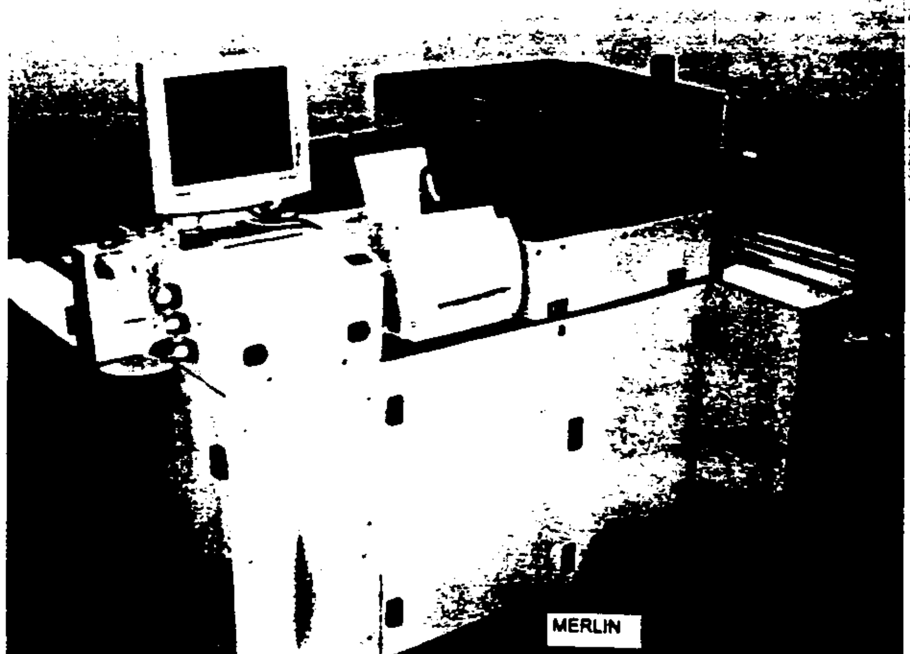
The Mailing Evaluation, Readability and Lookup Instrument (MERLIN) program is designed to read the address and indicia marks, verify meter amounts, weigh the mail, check thickness, and perform many other mail acceptance and business mail entry unit functions. This program is expected to improve the consistency of mail acceptance and improve address quality, while supporting revenue protection goals.

The Delivery Operations Information System (DOIS) is expected to replace our antiquated delivery operations support systems with state-of-the-art software packages that provide delivery unit supervisors with data they need to make solid business decisions in balancing the current daily workload with the available resources. The DOIS pilot successfully deployed the application to six districts (New Hampshire, Salt Lake City, Sacramento, Erie, Lancaster and Fort Worth).

The Surface-Air Management System will provide an integrated transportation system for large customers, plants, and airport mail facilities and centers. The program will incorporate all transportation planning into one system.

Structured Wiring is a program for the installation in all plants of scalable, comprehensive, state-of-the-art data wiring that will support the mail processing equipment and systems on the work room floor. It assures the Postal Service of one nationally configured wiring infrastructure that is standard and supportable across all plants and BMC's.

PostalOne! is a three-phase program that will provide business mailers the opportunity to electronically interact with the Postal Service. The program offers information access and future electronic links to our products and services that fills the gaps in our ability to communicate and serve the business community. This project is also designed to support our revenue protection effort.



MERLIN

VEHICLES

(FY 2001 plan $335 million. Five-Year plan $1.2 billion.)

The primary purpose of the vehicle capital program is to support growth and to replace the mail transport and delivery vehicles that are past their useful service life. Newer vehicles provide better driver safety, higher fuel efficiency, greater reliability, and lower maintenance costs. The FY 2001 capital funding plan for vehicles is $335 million, which represents about 9 percent of the plan. The vehicle category includes the following programs:

Vehicle Projects included in the five year Capital Plan

Alternate Fuel Vehicles
Mixed Delivery & Collection Vehicles
Long Life Vehicle Shelving
Modification
Alternative Fuels
Truck Tractors
Cargo Vans
Trailers

Trailers

Cargo Vans

The Mixed Delivery and Collection Vehicles program covers the purchase of 2,200 two-ton vehicles. A portion of the purchase will replace existing vehicles that have reached maximum service life and the balance will provide for new service requirements.

The Cargo Vans program procures 1,250 cargo vans, which support daily transportation of mail between processing centers, large mailers, and delivery units. These new vehicles will allow the Postal Service to avoid higher operating costs due to the increased breakdowns of the older vehicles to be replaced. The reduction in vehicle breakdowns, resulting from this new purchase, will ultimately provide an increased quality and reliability of customer service with more timely deliveries.

The Carrier Route Vans program provides for the acquisition of 15,865 vehicles, beginning in FY 2002 through FY 2005. The vans will replace older vehicles used to support the daily delivery of mail.

Mixed Delivery and Collection Vehicles

RETAIL EQUIPMENT

(FY 2001 plan $236 million. Five-Year plan $791 million.)

Capital investments for lobby, window, and self-service retail equipment enhance customer service by expanding the availability and convenience of our products and services. Investments in retail and acceptance automation is designed to make both processes more cost-effective, accurate, and responsive. These changes should reduce waiting time in lines in postal lobbies, and provide more relevant, helpful information to both clerks and customers. Streamlining the acceptance process saves both the Postal Service and mailers time and money. Commitments planned for FY 2001 include the following major programs:

MAJOR RETAIL PROJECTS IN THE FIVE YEAR CAPITAL PLAN

- Point Of Service
- Self Service Vending Equipment
- Stamp Service Centers
- In-Store Message Management
- Money Mover
- Stamp Manufacturing
- Retail Operations

Point of Service (POS) One, Stage 2B is the third of the four phases of the POS program, which was started with Board approval of phase one in June 1996. This phase includes the planned installation of 13,504 terminals in 4,615 retail facilities. POS is a sophisticated system that will replace the aging integrated retail terminals (IRTs). POS is a strategic tool that will implement an information platform to make technology work for postal management and our customers. The final phase of POS is included within the FY 2001 - 2005 capital plan.

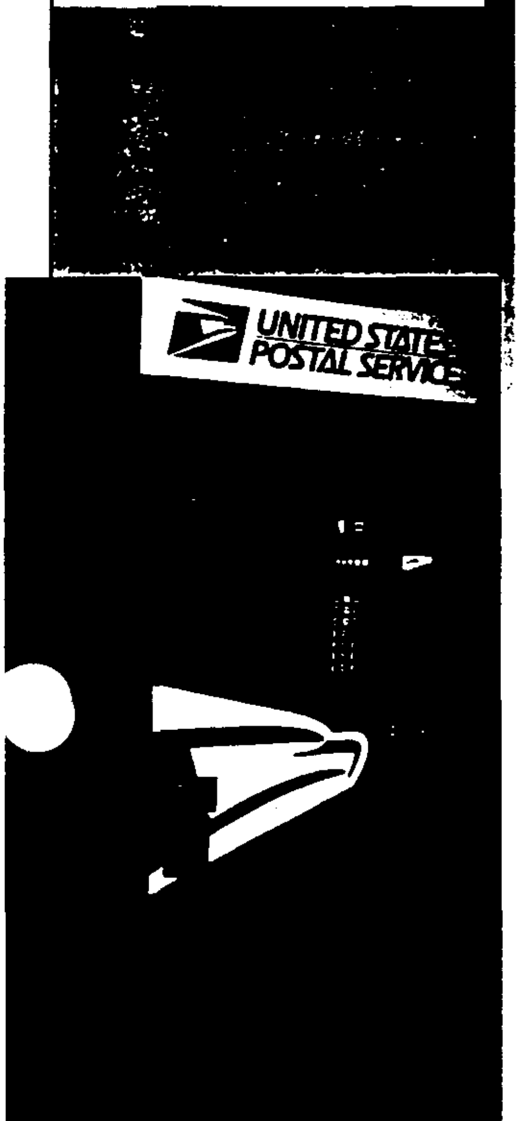
The Self-Service Vending Equipment program provides for the purchase of new stamp vending machines. The following described machines will be capable of communicating with an information system for reporting debit/credit transaction data. and management information to a central site.

Postal Stamp machines (PS-22B) are fully equipped with the latest software enhancements and feature the new postal branded design. These machines use two coil stamp dispensers that vend individual first-class and/or postcard stamps. Full deployment to the field of the 2,000 machines purchased was completed in March 2000.

The Postal Booklet/Stamp Machines (PBSM-624B) are fully equipped with the latest software enhancements and feature the new postal branded design. These machines use two coil stamp dispensers that vend individual first-class and/or postcard stamps and also four criss-cross dispensers that vend stamp booklets. Full deployment to the field of the 1,000 machines purchased is expected to be complete by the end of calendar year 2000.

Contract Postal Units are an ongoing program. however an improvement effort is underway based on lessons learned in the Midwest and Sou theast areas.

The Automated Postal Center will become the central platform for "Smart Vending" to provide commonly available postal products and potentially new financial services and products via an unattended unit.



Postal booklet stamp machine

eBUSINESS

(FY 2001 plan $42 million. Five-Year plan $164 million.)

The goal of eBusiness is to provide new Internet based products and services for our customers, and to enhance features and access to core postal products and information about our services. The programs include:

The Internet Infrastructure program includes several projects designed to get eBusiness off the ground and provide the infrastructure "backbone" needed to compete in the electronic arena.

Mailing Online enables small businesses and other mailers to use the Internet as a channel to access information and services related to First-Class and Standard (A) Mail.

eBusiness Security will provide a strong security architecture designed to protect the USPS networks, platforms, and mission critical electronic business applications.

Internet Shipping Solutions will offer a suite of shipping tools that extends existing USPS products, services, and information to the Internet.

RESEARCH AND DEVELOPMENT

(FY 2001 Plan $27 million, Five-Year Plan $56 million.)

Key Research and Development projects emphasize research into operational areas that will lead to reduced costs and improved customer service. In general, Research and Development costs are expensed and not capitalized. However, the following programs have capital funding:

Automation Support provides software development for the National Directory Support System, which is the offline automation support for mail processing activities.

The Flat Bundle Collator program extends the development of a prototype flats delivery sequencer for large carrier stations.

Material Handling Robotics supports the technology transfer of commercial robotics applications into the Postal Service environment.

Retail Outlet Alternatives explores the low cost alternatives for providing customers convenient access to postal products and services.

SUMMARY

The FY 2001-2005 capital plan supports investing to improve quality customer service, and encourages aggressive cost management. Our capital plan sets the platform for future productivity gains through technology, while maintaining our infrastructure. Our five year $17.5 billion Capital Plan supports the following strategies: investment in high return on investment projects (automation/mechanization/information platform), and maintenance of our infrastructure, while accommodating growth.

Our ability to achieve the commitments outlined in the plan will be determined by future business trends and will greatly depend upon our financial position over the life of this plan.

MAJOR R&D PROJECTS IN THE FY 2001-2005 CAPITAL PLAN

Automation System Communication Support
Optical Character Reader Recognition Support
Midas Rewrite
Vehicle Support
Automation Support
Information Techonology Infrastructure R&D
Retail Outlet Research & Development
Mail Handling Robotics Support
Flats Bundle Collator

FY 2001 - 2005 CAPITAL PLAN BY CATEGORY

($000)

Categories	5-Years
Equipment	7,415,605
Facilities	5,645,380
Vehicles	1,221,802
Infrastructure	2,232,560
Retail	790,983
R&D	55,645
eBusiness	164,114
Total	**17,526,090**

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
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OCA/USPS-T6-5. For each capital program and major program initiative with costs that are included in the FY 2002 interim year and the FY 2003 test year revenue requirement, please provide the following information:

(a) The date when the program was approved (or is expected to be approved) by the level of Postal Service management with final approval over the program.

(b) The date each vendor contract was executed (or is expected to be executed).

(c) The date of any other action or transaction that you contend creates a binding commitment to incur costs for the project, and the amount of costs thereby incurred.

(d) Business records sufficient to verify your responses to the previous parts of this question.

RESPONSE:

(a-d) The attachments to OCA/USPS-T6-3 (the line summary of the Postal Service's Capital Investment Plan for FY 2001-2002) and OCA/USPS-T6-4 (Capital Investment Plan FY 2001-2005) provides information on approved major capital programs. Attachment I provides a further breakdown of capital programs as of Quarter III, FY 2001. The following table provides similar information for major programs.

Major Programs		
Program	**Vendor**	**Contract Award Date**
Corporate Call Management	TeleTech Facilities Mgt.	9/16/96
Corporate Call Management	TeleTech Facilities Mgt.	7/27/98
Point of Service	NCR	8/9/96
Point of Service	IBM	8/12/96
Associate Office Infrastructure	MCI Telecommunications	3/24/97
MTESC	DDD Company	9/18/98
MTESC	DynCorp	9/18/98
MTESC	New Breed	12/24/97
MTESC	Resource Consultants, Inc.	9/18/98
MTESC	Alan Ritchey, Inc.	9/18/98
PMPC	Emery Worldwide Airlines, Inc.	4/23/97
Delivery Confirmation	Lockheed Martin	8/27/97

III. Ca[illegible] Commitments & Capital Cash Outlays, by y[illegible] EQUIPMENT PROJECTS as of QUARTE[illegible], 2001

Project Name	Status	Board of Governors Approval		
		Date	Capital Investment	Expense Investment
Advanced Facer Canceler Systems (AFCS), 173 units Completed	Late 100%	Dec-97	$85.9	$1.2
Automated Flat Sorting Machine (AFSM 100) - 175 Units Post Deploy.	Late 100%	Jun-98	$434.5	$11.5
Automated Flat Sorting Machine (AFSM-100) - 362 units Deployment	On-Time 20%	Jul-00	$574.8	$4.1
Automated Flats Feeder & OCR FSM 1000 - 359 units Design	On-Time 0%	Aug-00	$104.3	$2.2
Automated Tray Sleever Deployment	Behind 18%	Aug-99	$25.8	$0.8
Automatic Airline Assgmnt & Semi-Automatic Scan Where U Band Deployment	Behind 35%	Jan-99	$108.9	$3.4
Bulk Mail Center (BMC) Singulation Scan Induction Unit (SSIU) Pre-Production	On-Time 0%	Jan-00	$102.3	$0.9
Carrier Route Vehicles (a) - 5,949 units Completed	Late 100%	May-96	$115.0	$0.1
Carrier Route Vehicles (b) - 10,000 units Completed	Late 100%	Sep-98	$213.1	$0.0
Carrier Route Vehicles (c) - 11,275 units Production	Behind 79%	Aug-99	$277.6	$0.0
Carrier Sequence Bar Code Sorter (CSBCS) Sort Bin Expansion First Article Test	On-Time 0%	Aug-00	$21.1	$0.2
Delivery Bar Code Sorter (DBCS) Additional Capacity Deployment	On-Time 100%	Mar-99	$228.8	$1.4

III. Capital Commitments & Capital Cash Outlays, by year: EQUIPMENT PROJECTS as of QUARTER III, 2001

Project Name	Status	Board of Governors Approval		
		Date	Capital Investment	Expense Investment
Delivery Bar Code Sorter (DBCS) Expanded Capability Pre-Production	On-Time 1%	Aug-00	$55.3	$0.8
Forwarding Control Systems Completed	Late 100%	Aug-98	$33.0	$0.8
Identification Code Sort Completed	Behind 101%	Sep-98	$114.3	$8.3
Integrated Buffer System, R&D Phase III Completed	Late 100%	May-97	$0.0	$17.1
Integrated Mail Handling System (b) Deployment	Behind 97%	Jun-95	$194.5	$167.4
Letter Mail Recognition Enhancement Program Pre-Award	Behind 0%	May-01	$223.3	$0.0
Mail Cartridge System Res. & Devel.	Behind 65%	Jul-99	$27.5	$7.0
Mixed Delivery & Collection Vehicles - 2403 units Production	On-Time 0%	Aug-00	$111.8	$0.0
Recognition Improvement Program First Article Test	Behind 1%	Jun-00	$125.2	$6.0
Remote Computer Reader (RCR) 2000 Handwriting Recognition Deployment	Ahead 92%	May-99	$190.6	$2.0
Robotic Container Unloader - 100 units Deployment	Behind 72%	Aug-99	$80.0	$1.4
Robotic Tray Handling System Phase I Deployment	Behind 85%	Aug-96	$37.0	$0.7

III. Capital Commitments & Capital Cash Outlays, by year: EQUIPMENT PROJECTS as of QUARTER III, 2001

Project Name	Status	Board of Governors Approval		
		Date	Capital Investment	Expense Investment
Small Parcel & Bundle Sorter (SPBS-1) Feed System, 230 units Completed	Late 100%	Feb-96	$117.6	$6.9
Small Parcel & Bundle Sorter (SPBS-2) Feed System, 37 units Production	Behind 92%	Feb-99	$20.7	$0.0
Small Parcel & Bundle Sorter - Redesign Production	Ahead 11%	Aug-00	$27.0	$0.5
Tractors - Spotter Completed	Late 100%	Dec-95	$91.3	$0.3
Tractors - Truck Completed	Late 100%	Aug-98	$31.0	$0.0
Tray Management System, Phase II, Prototype Post Deployment	Behind 100%	Feb-96	$47.1	$13.8
Tray Management System, Phase III, Deploy 42 Deployment	Behind 96%	Jun-96	$396.4	$100.9
Universal Tray System Integration	On-Time 0%	Jul-99	$34.3	$1.7

III. *Capital Commitments & Capital Cash Outlays, by year: FACILITY PROJECTS* *as of QUARTER III, 2001*

Project Name	Status	Board of Governors Approval		
		Date	Capital Investment	Expense Investment
Ansonia Station, NYC, NY - Renovation	Behind	Mar-00	$6.9	$0.0
Const. Solicitation	40%			
Arlington, VA, Headquarters Administrative Space	Behind	Sep-98	$9.2	$31.3
Completed	100%			
Bronx, NY, P&DC, Exterior Renovation	Behind	Aug-99	$12.9	$0.0
Construction	98%			
Brooklyn, NY, GPO, sale to GSA and lease-back	Behind	Aug-99	$15.4	$0.0
Construction	40%			
Champaign, IL, P&DF, Expansion	Ahead	Oct-00	$13.0	$0.0
Construction	37%			
Church Street Station, Phase II	Ahead	Dec-97	$91.0	$0.0
Construction	81%			
Cincinnatti, OH, AMC	Behind	Jun-99	$9.6	$0.0
Completed	100%			
Columbus, OH, P&DC	Behind	Aug-99	$140.6	$0.0
Construction	83%			
Geensbord, NC, P&DC	On-Time	Aug-99	$69.6	$0.0
Completed	100%			
Indianapolis, IN, Consolidated Mail Processing Annex	Behind	Dec-00	$3.9	$11.5
Construction	65%			
Las Vegas, NV, Crossroads	On-Hold	Aug-00	$6.4	$0.0
Design	100%			
Las Vegas, NV, Topaz Stations	On-Hold	Aug-00	$6.5	$0.0
Design	95%			

III. Capital Commitments & Capital Cash Outlays, by year: FACILITY PROJECTS as of QUARTER III, 2001

Project Name	Status	Board of Governors Approval		
		Date	Capital Investment	Expense Investment
Los Angeles, CA BMC Expansion	Ahead	Apr-00	$67.7	$0.0
Construction	94%			
Los Angeles, CA, Mar Vista Station	Behind	Feb-01	$9.6	$10.4
Construction	#Error			
Midtown Station, NYC, NY	Early	Mar-00	$0.0	$27.6
Completed	100%			
Milwaukee, WI, P&DC, Ramp Restoration	Behind	Dec-00	$13.3	$0.0
Construction	25%			
Minneapolis, MN, Metro Hub	Behind	May-98	$6.9	$26.3
Completed	100%			
Northwest Center - P&DF, Waltham, MA	Late	Nov-90	$88.5	$0.0
Completed	0%			
Phoenix, AZ, PM-PPC	Ahead	Jun-00	$20.4	$32.4
Completed	100%			
San Francisco, CA, AMC Expansion	Behind	Aug-00	$74.4	$0.8
Construction	23%			
Seattle, WA, P&DC	On-Hold	Nov-95	$85.4	$0.0
Reopen				
Seattle, WA, P&DC, NCO, HVAC, Roof R&A	On-Time	Mar-01	$48.1	$0.0
Construction	#Error			
St. Paul - Twin Cities AMF	Ahead	Dec-99	$57.6	$2.2
Construction	80%			
Stamford, CT, Springdale Station	Behind	Nov-99	$13.8	$0.0
Completed	100%			

III. Capital Commitments & Capital Cash Outlays, by year: OTHER PROJECTS as of QUARTER III, 2001

Project Name	Status	Board of Governors Approval Date	Capital Investment	Expense Investment
Associate Office Infrastructure (a) R&D	Early	Feb-96	$2.2	$11.1
Completed	100%			
Associate Office Infrastructure (b) Ph I, Deployment	Late	Jun-96	$236.9	$2.9
Completed	100%			
Associate Office Infrastructure (c) Ph II, Deployment	Behind	Nov-97	$201.2	$6.2
Deployment	92%			
CODES Equipment Replacement Project:	Behind	Dec-96	$12.7	$0.0
Completed	100%			
Commitment Management - Integrated Operations Management Prog	Behind	Sep-98	$27.9	$6.0
Post Deployment	100%			
Corporate Call Management Ph I, R&D	Late	Dec-95	$4.0	$25.9
Completed	100%			
Corporate Call Management Ph II, Prototype	Late	Jun-96	$28.7	$0.0
Completed	100%			
Corporate Call Management Ph III, Deployment	On-Time	Jun-98	$226.8	$29.0
Deployment	65%			
Delivery Confirmation Infrastructure Acquisition	Behind	May-97	$628.1	$76.2
Post Deployment	100%			
Delivery Operations Information System (DOIS) - Deployment	On-Time	Aug-00	$127.6	$0.0
Deployment	0%			
Delivery Operations Information Systems (DOIS) - R&D	Behind	Jun-98	$34.2	$5.8
Post Deployment	100%			
Enhanced Security Capability	On-Time	Nov-01	$43.3	$0.0
Impementation	15%			

III. Capital Commitments & Capital Cash Outlays, by year: OTHER PROJECTS as of QUARTER III, 2001

Project Name	Status	Board of Governors Approval		
		Date	Capital Investment	Expense Investment
Integrated Data System Upgrade Design	Behind 0%	Jan-00	$33.8	$0.0
International/Military Service Centers Deployment	Behind 88%	Aug-97	$146.9	$129.7
Mail Evaluation Readability, & Lookup Instrument (MERLIN) Production	On-Time 4%	Jul-00	$43.9	$1.5
Mail Transport Equipment Service Centers Completed	Late 100%	Jul-97	$1.3	$0.0
Net-Post Post Deployment	Behind 85%	Nov-99	$18.6	$0.0
Point of Service (POS ONE) Deployment Deployment	Behind 98%	Jun-96	$899.2	$0.0
Postal Field Computing Infrastructure (PFCI) & Remote Office LAN Deployment	On-Time 13%	Jan-00	$41.6	$0.0
PostalOne!, Business Customer Support System - Devel & Test Completed	Behind 44%	Feb-00	$10.1	$0.0
Radio Frequency Infrastructure Development & Testing Terminated	On-Hold 0%	Dec-97	$0.0	$12.4
Self-Service Vending Machine Acquisition Post Deployment	Behind 100%	Aug-98	$26.3	$3.6
Stamp Fulfillment Services Center [SFSC], Kansas City, MO Deployment	Behind 97%	Aug-96	$33.5	$2.2
Standard Accounting for Retail-RA (SAFR-AR) Design	On-Time 0%	Jan-00	$34.4	$0.0

III. Capital Commitments & Capital Cash Outlays, by year. OTHER PROJECTS as of QUARTER ., 2001

Project Name	Status	Board of Governors Approval		
		Date	Capital Investment	Expense Investment
Surface-Air Management System (SAMS)	On-Time	Jul-00	$38.4	$0.0
Deployment	44%			
Time and Attendance Collection System (TACS)	Ahead	Jan-00	$46.7	$0.0
Deployment	13%			

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

OCA/USPS-T6-6. The following questions refer to the FY 2001 investment plan.

(a) How much of the FY 2001 capital investment plan was actually committed to in FY 2001?

(b) Were all of the FY 2001 capital investment plan committed funds actually spent in FY 2001? If not, please provide the amount actually spent in FY 2001.

(c) Were any capital investments incurred in FY 2001 that were not included in the FY 2001 capital investment plan? If so, please list them and indicate the amount spent.

(d) Have any of the FY 2001 capital investment planned expenditures been pushed forward to FY 2002? If so, how much of the FY 2002 plan includes funds originally included in the FY 2001 plan? If not, please explain what happened to the FY 2001 capital investment planned expenditures that were not actually committed to in FY 2001.

RESPONSE:

(a) In FY 2001, $1.2 billion was committed versus an adjusted plan of $1.6 billion.

(b) No, and one would not expect them to be. Capital commitments are recorded in the year that specific project authorization is made. Actual spending is normally made in future years as projects are completed. Of the $1.2 billion committed in FY 2001, $236 million was actually spent in FY 2001.

(c) No.

(d) Yes. $1.1 billion of the $2.4 billion FY 2002 capital commitment plan represents commitments originally included in the FY 2001 plan.

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

OCA/USPS-T6-7. Please produce every study, analysis or plan for FY 2001 and FY 2002 relating to the appropriate level of debt financing for Postal Service capital programs and program initiatives, including the annual Integrated Financial Plan to the Board of Governors for FY 2001 and FY 2002 similar to the FY 1999 and FY 2000 plans in the record in Docket No. R2000-1 at Tr. 2/115-116.

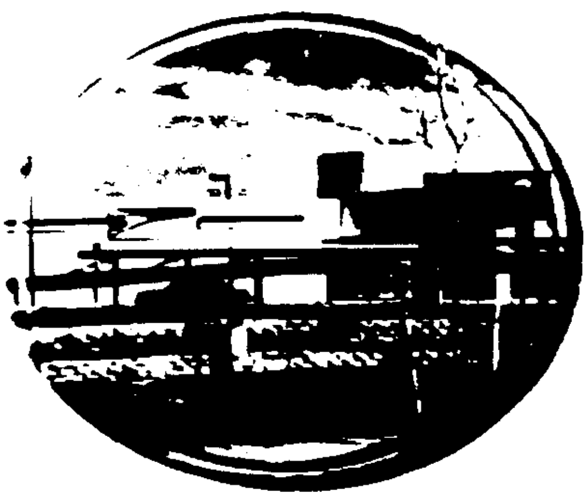
RESPONSE:

Attachments I and II provide copies of the FY 2001 and FY 2002 Integrated Financial Plan. These documents provide analysis of the required level of debt financing for each of these years. Additionally, Attachment III provides a discussion paper prepared by JPMorgan that considers debt in the context of debt levels for private sector companies. This is the only study on the appropriate level of debt that I am aware of.

UNITED STATES
POSTAL SERVICE

INTEGRATED FINANCIAL PLAN
FISCAL YEAR 2002

OPERATING PLAN



CAPITAL PLAN

FINANCING PLAN

9/10/01

SPECIAL NOTE

TO THE FY2002 INTEGRATED FINANCIAL PLAN

The Information contained in this document does not reflect the impact of the aftermath of the World Trade Center and Pentagon attacks on September 11, 2001.

Table of Contents

INTEGRATED FINANCIAL PLAN

FISCAL YEAR 2002

EXECUTIVE SUMMARY

The Fiscal Year (FY) 2002 Integrated Financial Plan incorporates the Operating, Capital and Financing Plans that are built upon projected FY2001 financial results. With a projected net loss for FY2001 of *$1.65 billion, the FY2002 operating plan generates a net loss of $1.35 billion.*

Revenue
Operating results in FY2001 were hit hard by the economic downturn and increased inflation. Despite the R2000-1 rate increase that was implemented in January and July of 2001, revenue growth, estimated at 2.7 percent, is slightly more than one-half of last year's expectations or, $1.6 billion below plan.

Economic forecasts estimate that this softness in the economy will continue through the second quarter of 2002. Accordingly, with virtually no volume growth in FY2001, volume for FY2002 is forecast to grow by 1.1 percent. This volume growth combined with a full year of increased rates generates revenue growth of 3.7 percent.

Expense
Despite strong expense controls and labor usage below last year, FY2001 expenses are estimated to increase by nearly 5.0 percent. Inflation in labor costs and other nonpersonnel items has outpaced revenue growth in the slow economic environment.

In FY2002, planned expenses will increase by only 3.2 percent, due to further reductions in expenses and work hours. In all of Postal Service history, only in 1994 was the expense growth rate lower. Over the last two years, career complement has been reduced by 21,000 employees while productivity has grown by 4.5 percent. The continuation of these trends is incorporated in the FY2002 operating plan with a reduction in work years of 13,000 and productivity growth of 1.1 percent.

Capital
Due to reduced operating cash flow in FY2001, the capital commitment plan was reduced from $3.6 billion to $1.6 billion to minimize cash outlays in both FY2001 and FY2002. An FY2001 freeze on new capital commitments was put in place and included over 800 planned facility projects. Corresponding cash outlays in FY2001 were reduced from $3.5 billion to $2.7 billion.

With declining cash flows from operations, the FY2002 capital commitment plan of $2.4 billion reflects continued constraint on new capital commitments. FY2002 capital cash outlays are expected to be $2.2 billion, of which 68% represent projects committed in prior years. Over one-half of the commitment plan provides funding for high return on investment equipment projects; the balance of the plan is for emergency facilities and other infrastructure needs such as vehicles. New facilities construction will remain frozen.

Borrowing
Reducing capital spending in FY2001 kept the increase in outstanding debt at $2.0 billion. By reducing capital cash outlays in FY2002, the increase in debt is minimized at $1.6 billion. This brings total outstanding debt at the end of FY2002 to $12.9 billion, an amount that represents 86 percent of the total statutory borrowing level.

Despite management efforts to control the impacts of inflationary cost increases, an increase in Postal price is required. Management has developed an Omnibus Rate Filing using FY2003 as the test year. The FY2002 interim year revenue and expenses included in that filing are based upon and tie to this Integrated Financial Plan.

OPERATING PLAN

The FY2002 Operating Plan was developed under the *CustomerPerfect$_{sm}$* management cycle. In light of the soft revenue and volume growth of FY2000 and FY2001, and current economic indicators, management adopted a conservative FY2002 revenue plan reflective of modest volume growth.

Expenses have been held below plan in FY2001 in response to below plan revenue growth. For the year, total expenses of $68.0 billion will be about $400 million under plan and 5.0 percent more than FY2000 expenses. Management controlled expense growth during FY2001 in spite of higher labor costs, escalating fuel and utility prices, increased workers' compensation costs, and rising health benefit costs. Though mail volume was essentially flat, 1.7 million more delivery points were serviced with 10,000 fewer work years.

NET LOSS

The Operating Plan for FY2002 targets a net loss of $1.35 billion.

Total revenue is estimated to grow 3.7 percent, from $66.3 billion to $68.8 billion. Revenue growth reflects the carryover of FY2001 rate increases and modest volume growth projected for FY2002. Total expense will grow 3.2 percent, from $67.9 billion to $70.2 billion. This is the second lowest annual expense increase since Postal Reorganization.

FY2002 Operating Budget

	FY2001 Estimate	FY2002 Plan	Change	% Change
Revenue	$ 66,340	$68,820	$2,480	3.7
Expense	67,990	70,170	2,180	3.2
Net Loss	$ (1,650)	$ (1,350)	$300	

($ Millions)

VOLUME AND REVENUE

Revenue is projected to grow $2.5 billion. Approximately $1.8 billion of this growth is from the R2000-1 rate increase implemented on January 7 and July 1, 2001. The remainder is attributable to volume growth.

Volume Forecasts and Related Revenue Impacts

The volume and revenue forecasts underlying the plan were built using DRI*WEFA's June, 2001 baseline macroeconomic projections. The DRI*WEFA forecast assumes that economic growth recovers from the anemic 1.0 percent average during the last three calendar quarters of 2001 to a more robust rate of 2.0 percent in 2002. DRI*WEFA assigned a 55 percent probability to its baseline projection, leaving a 45 percent probability assigned to its less favorable "Late Recession" and "Pessimistic" forecasts. Therefore, there is a downside risk associated with the volume projections. Additional adverse economic developments could reduce volume and revenue below what is projected for the FY2002 plan. The volume forecast

Volume

	FY2001 Estimate	FY2002 Plan	Growth	% Growth
First-Class	103,001	103,493	491	0.5
Priority	1,162	1,187	24	2.1
Express	71	73	2	2.8
Periodicals	10,195	10,081	-113	-1.1
Standard Mail	90,554	92,301	1,746	1.9
Parcel Post	353	379	26	7.5
Other Package Svcs.	756	761	5	0.6
International	1,182	1,249	68	5.7
Other Mail	426	417	-9	-3.2
Total Volume	207,700	209,940	2,240	1.1

(Millions)

reflects the impact of modest economic growth and the carryover impact of price increases. Total volume is projected to grow by 1.1 percent over estimated FY2001 volumes. First-Class Mail is projected to grow at less than one-half the growth rate of the adult population, currently growing at 1.1 percent. This reflects the sluggish economy and the negative impact of growing Internet use on First-Class Mail volumes. Moderate growth is projected for Priority Mail, Express Mail, Standard Mail and Package Services. Declines in Periodicals volume are projected to continue and International volume is expected to build upon its growth in FY2001.

Revenue	FY2001 Estimate	FY2002 Plan	Change	% Change
First-Class	$ 35,751	$ 36,357	$606	1.7
Priority	5,139	5,500	361	7.0
Express	1,023	1,077	54	5.2
Periodicals	2,275	2,379	104	4.6
Standard Mail	15,914	16,740	825	5.2
Parcel Post	1,123	1,191	68	6.1
Other Package Svcs.	886	933	47	5.3
International	1,773	1,838	65	3.7
Other Revenue	2,456	2,805	349	14.2
Total Revenue	$ 66,340	$ 68,820	$2,480	3.7
($ Millions)				

Overall, revenue is projected to grow 3.7 percent. The revenue growth for Priority Mail, Express Mail, Periodicals Standard Mail, and Package Services primarily reflects the impact of the rate increase that occurred in FY2001. The lower revenue growth rate for First-Class Mail is accounted for by both slow total volume growth and declining single-piece letter volume. Projected growth in International revenue primarily relates to volume growth. Approximately half of the $349 million planned increase in Other Revenue is generated by diverse revenue initiatives, including those of retail, postal ad networks and e-commerce.

EXPENSE

Operating Budget

In FY2002, total expenses are planned at $70.2 billion, which is 3.2 percent more than FY2001 estimated total expenses of $68.0 billion. This represents the second lowest annual growth rate in total expenses since Postal Reorganization.

Three labor contracts expired in November 2000. These are the agreements with the Mailhandlers, the American Postal Worker's and the Rural Letter Carriers unions. In the absence of an approved contract for these three union groups, labor rates have been estimated based on an expected Employment Cost Index (ECI) for FY2002, less 1 percent.

FY2002 Expenses	FY2001 Estimate	FY2002 Budget	Change	% Change
Field	$ 54,800	$56,010	$1,210	2.2
Corp Transportation	3,020	3,220	200	6.7
Corporatewide Activities	2,210	2,590	380	17.2
Interest	1,970	2,040	70	3.6
HQ Administrative	1,400	1,400	-	-
OIG and PRC	110	125	15	10.5
Servicewide	4,480	4,785	305	6.8
	$ 67,990	$70,170	$2,180	3.2
($ Millions)				

Field Expense

Field expenses will increase by $1.2 billion in FY2002, with the majority of the increase attributed to inflation in labor costs. The growth in field costs will be restrained by $795 million through cost reduction efforts, including an $80 million reduction in administrative work hour costs at the Area and District offices. Health benefits expense grew by 10 percent in FY2001 and is expected to do so again in FY2002.

Of the $874 million in FY2002 cost reductions, $795 million relates to field operations. Specific capital investment programs account for $402 million of the field cost reductions. The largest single program is the Automated Flat Sorter Machine (AFSM) 100. In addition to the program savings, other field cost reduction efforts account for $393 million in savings. This is broken down into $280 million savings from operations, $80 million in administrative reductions, $17 million in Supply Chain Management and $16 million in transportation savings.

These programs produce a 1.9 percent work hour reduction in FY2002. In FY2001 work hours will be reduced by 1.3 percent compared to the previous year and were reduced by 0.7 percent in FY2000 compared to FY1999. The Postal Service last reduced work hours in three consecutive years in the 1976-1978 period when Presort First-Class Mail discounts were first introduced. The FY2002 reduction target is equivalent to over 13,000 full time employees.

Headquarters Expense
Headquarters expense includes the headquarters organizations and their field service units, and the Postal Inspection Service. Headquarters administrative costs of $1.4 billion are unchanged from the FY2001 estimate. In FY2001, complement was reduced by 500 positions, resulting in $34 million in cost savings. Inflationary cost pressures in FY2002 will be absorbed through staffing reductions.

Programs and Corporatewide Expense
Program and Corporatewide activity costs are budgeted at $2.6 billion in FY2002, compared to our year-end estimate of $2.2 billion for FY2001. Almost 75 percent of the program and corporatewide activity budget is devoted to ongoing activities that represent legal or contractual requirements or are needed to support operations. These include: Mail Transportation Equipment Service Centers ($313 million), the purchase of Mail Transportation Equipment ($159 million), Stamp Manufacturing ($140 million), and Point-of-Service (POS) ONE ($160 million). The FY2002 planned expense holds total program spending at FY1999 levels and represents an increase of only $279 million over what was originally planned for FY2001. The FY2001 budget for these items was reduced to offset the impact of reduced revenue.

Information technology and infrastructure expense programs are planned to increase in FY2002. Included are programs to install security software, advanced employee interfaces to support the transition from internal computer applications to Web-based technology and to automate manual processes. Although these efforts require substantial investments, they are less costly to operate over time. In addition, in FY2002 replacement of the internal desktop computing infrastructure will begin. The current computing environment is technologically obsolete and no longer supported by key vendors. Without improvements, maintenance costs will increase substantially. Updating minimizes future maintenance costs.

Major Program Spending
Top Ten Programs FY2002

Program	FY2001 Estimate	FY2002 Plan	Change	% Change
Total MTESC Program	$325	$313	$(13)	(3.6)
Point of Service	128	160	32	24.8
Recurring Mail Transport	137	159	23	16.7
Corporate Advertising	148	140	(8)	(5.5)
Stamp Manufacturing	152	140	(12)	(7.6)
Expedited Supplies	138	125	(13)	(9.4)
Total CCM Program	101	99	(2)	(2.0)
Delivery Confirmation	57	69	12	21.3
Total AOI Program	69	67	(2)	(3.5)
Environ. Field Support	55	55	-	-
	$1,310	$1,327	$17	1.4

($ Millions)

As a final point, much of the increase in this category is directly related to the decisions made in FY2001 to defer program spending in order to offset the impact of the anemic economic growth on revenue. These decisions generated short-term expense reductions at the risk of jeopardizing long-term cost reductions. Program spending in FY2002 has been structured to offset this risk.

Servicewide Expense

Servicewide expenses are national-level expenses that cannot be isolated and charged to individual operating units and are outside local management control. These expenses are expected to increase by $305 million in FY2002. This increase is largely driven by annuitant Cost-of-Living-Allowances (COLAs) and annuitant health benefits.

National network transportation, which accounts for over 60 percent of total transportation costs, was significantly impacted by fuel costs in FY2001. Continuing efforts to reduce the cost of the transportation network through means such as shifting a greater percentage of transportation from air to ground will limit network transportation costs to $3.2 billion.

In FY2002, benefiting from lower interest rates, interest expense on debt will be about $395 million, an increase of $30 million over FY2001. In addition, the current interest expense on Civil Service Retirement System (CSRS) deferred retirement liabilities is expected to increase by $40 million and total $1.6 billion.

Expense by Component

To gain a different perspective on the FY2002 Operating Plan, expense growth can be examined by component. Personnel expense, including annuitant and workers' compensation costs make up $1,810 million of the FY2002 expense growth. Growth in salaries and benefits is driven by wage inflation and is not a result of growth in work hours which, in fact, decline in FY2002. Health benefit inflation, which had been relatively stable for several years, rose by double digits (10%) in FY2001 and will rise by 10 percent in FY2002. This in turn contributed to the increase in workers' compensation expense that is expected to continue into FY2002. Workers' compensation expense is expected to increase 8.0 percent, bringing the total to over $1 billion in FY2002.

FY2002 Expense by Component

	FY2001 Estimate	FY2002 Plan	Change	% Change
Personnel	$ 51,700	$ 53,510	1,810	3.5
Nonpersonnel	9,230	9,420	190	2.0
Transportation	5,070	5,220	110	2.2
Interest	1,970	2,040	70	3.6
Total Expense	$ 67,990	$ 70,170	2,180	3.2

($ Millions)

Deployment of capital investments committed in prior years drives the increase in non-personnel expense depreciation, which is expected to increase by $145 million, or 6.6 percent. A modest increase in direct transportation expenses is associated with the transfer of Priority Mail operations back to the Postal Service and a zero inflation forecast for fuel costs.

COST REDUCTION PROGRAMS

Offsetting the increase in depreciation resulting from capital investments are the benefits derived as an asset is utilized. In the FY2002 budget, $874 million in cost reductions are included. The benefits are spread between specific operational programs and other productivity initiatives that are described as "Bold Actions." Operational programs total $402 million and are targeted entirely at the field. Bold actions account for $472 million in savings between headquarters and field units. All told, $795 million of the savings will be achieved at the field level and the remainder at headquarters.

The primary focus for operational efficiencies in FY2002 is the processing of flats. Roughly, 60 percent of the program savings will come from these efforts, with tremendous opportunities resulting from automated flat sorting machines. Material handling programs account for approximately 15% of the program savings and another 15% is due to further consolidation of the Remote Encoding Centers. The final 10% is rounded out between letter mail programs and Finance's new Time and Attendance Collection System (TACS).

More than half of the FY2002 savings results from bold actions to reduce costs. Increased efficiencies in all operational functions will save the organization $280 million through reduced work hours. In addition, reductions in the administrative functional areas will net the organization $120 million. The final $72 million in savings will be achieved through supply chain management initiatives and more efficient transportation utilization.

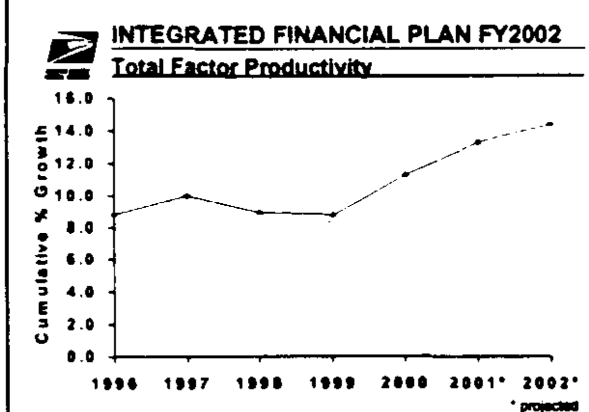
FY2002 Cost Reduction Overview

Activity	Savings	Total
Programs:		
Flat Sorting Machines	$ 239	
Remote Encoding Center Programs	60	
Time & Attendance Collection System	25	
Tray Management Systems	23	
AAA SWYB	13	
ID Code Sorting	11	
Robotics	11	
Parcel Singulator	9	
DBCS	6	
Other	5	$ 402
Bold Actions:		
Operations	$ 280	
Administrative	120	
Supply Chain Management	42	
Transportation	30	472
Total		$ 874

($ Millions)

PRODUCTIVITY

Total Factor Productivity (TFP) measures the change in relationship between outputs, or workload, and all resources used in producing those outputs. Labor productivity measures the change in the relationship between workload (mail volume and deliveries) and the labor resources used in producing those outputs.



It is not uncommon for TFP growth to fluctuate from one year to another. During FY2001, both TFP and labor productivity are projected to grow 2.0 percent, equivalent to $1.3 billion in expense reductions. When compared to other years with strong TFP growth, the FY2001 achievement is significant. In FY2001, TFP growth is estimated to be 2.0 percent in spite of a below average workload increase of just 0.7 percent. In earlier years, strong TFP growth was fueled largely by absorbing workload growth. In FY2001, strong productivity growth has been fueled by substantial restraint on resource usage.

The FY2002 financial plan assumes a 2.1 percent increase in labor productivity and a 1.1 percent TFP growth rate. Without this productivity increase, the net loss would exceed $2 billion. The FY2002 financial plan calls for smaller expense growth than in FY2001, while total workload growth resulting from mail volume and deliveries changes will be less than one percent.

CAPITAL INVESTMENT PLAN

The FY2001 plan for capital commitments was significantly reduced to minimize cash outlays in both FY2001 and FY2002. This action was necessitated by the impact of the soft economy on postal revenue and the corresponding declines in cash from operations. Accordingly, the FY2002 capital commitment plan reflects continued constraint on new capital commitments. The FY2002 plan for commitments was reduced from $3.7 billion to $2.4 billion and the cash outlay plan reduced from $3.2 billion to $2.2 billion. Capital investments will focus on funding projects that provide a high return on investment, and on handling emergency infrastructure requests.

FY2002 Capital Investment Plan

The FY2002 capital commitment plan of $2.4 billion includes address automation and mechanization projects that apply to distribution, processing, and delivery systems. Also included are projects that improve the quality of customer interactions. Infrastructure investments will be necessary to support workload growth, to repair or replace aging assets, and to provide necessary information and communications technology networks. Our plans call for applying new technologies to achieve aggressive cost management and additional productivity improvement through projects with a high return on investment. The current portfolio of capital investment opportunities will produce an estimated return on investment of approximately 17 percent over five years. As information, the Board has previously approved approximately $600 million of the $2.4 billion. In addition, $1.5 billion of the $2.2 billion capital cash outlays in FY2002 relates to commitments made in prior years.

Capital Commitments

	FY 2001 Plan	FY 2001 Revised	FY 2002 Plan
Equipment	$1,305	$681	$1,230
Facility	1,087	462	520
Infrastructure	652	191	472
Vehicle	335	58	94
Retail	236	199	80
R&D	27	10	11
Total	$3,642	$1,601	$2,407

($ Billions)

Capital Cash Outlays

	FY 2001 Plan	FY 2001 Revised	FY 2002 Plan
Equipment	$1,522	$1,111	$925
Facility	1,078	815	612
Infrastructure	425	360	254
Vehicle	285	181	217
Retail	221	233	192
Total	$3,531	$2,700	$2,200

($ Billions)

According to its bylaws, the Board of Governors must approve the capital budget each year. Such approval represents a general concurrence with the capital investment plan. In addition, the Board must approve each investment greater than $10 million.

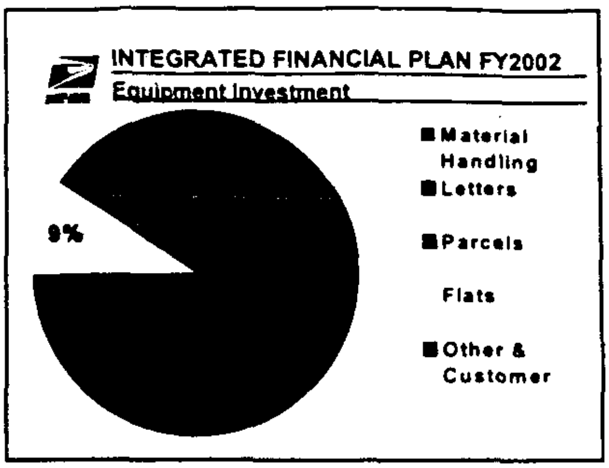
All projects in the approved plan are subjected to an in-depth review and approval process that ensures they are fiscally sound or service oriented. Accountability is established for the results the project is expected to produce and the project is analyzed using a Return on Investment methodology to ensure that projections are accurate. Finally, studies are conducted on selected projects, to determine whether financial and operating goals are achieved. Major programs and project descriptions follow below.

Equipment

The equipment category of the FY2002 capital commitment plan totals $1.2 billion, or 51 percent, for programs that generate reduced operating costs. The chart on the following page reflects the allocation of funds across the various types of equipment projects.

Automated equipment not only saves work hours and associated indirect costs but also improves speed and service quality. Automation provides management with data gathering capabilities that can be used in future information-based services. For example, the material handling systems can be integrated with the Next Generation Small Parcel and Bundle Sorting Machine that utilizes optical character readers and video encoding to process over 11,000 pieces of mail per hour. Completion of the AFSM 100 program will improve processing of periodicals and flat mail volume.

Investment in the Postal Automated Redirection System (PARS) is expected to yield large savings by eliminating multiple downstream handling and moving the process of all undeliverable as addressed letter mail into the automated mail stream. It will also improve service by significantly reducing the amount of time to process this letter mail volume.



Facilities
In FY2002, $520 million will be committed on facilities. These are emergency facility needs only. Consistent with the freeze on new commitments, rather than build new facilities, management will optimize use of existing space whenever possible and avoid investing in more costly new construction.

With average annual growth in delivery points of 1.5 percent, the customer service facility infrastructure will be maintained via ongoing repair and alteration projects equal to 54 percent of the FY2002 facilities plan. Also included are commitments for major mail processing facilities such as the New Jersey Metro Processing and Distribution Center in Teterboro, New Jersey.

Vehicles
In FY2001, the planned commitments for vehicles were delayed in response to the capital freeze. Due to continued growth in deliveries and the aging vehicle fleet, the FY2002 capital plan includes funds in the amount of $94 million for cargo vans and carrier route vans.

Infrastructure
Infrastructure projects maintain and meet communication, computer and network system needs. The capital freeze forced the re-prioritization of the planned FY2001 infrastructure investments. Only non-discretionary or high return on investment projects were pursued. The FY2002 Capital Commitment Plan for infrastructure is $472 million. Included in this category is the Mailing Evaluation Readability and Lookup INstrument (MERLIN) that improves the consistency of mail acceptance, verifies meter amounts, and weighs and measures the thickness of mail to determine that proper postage has been paid.

Other systems include the Delivery Operations Information System (DOIS) infrastructure project reduces work hours by providing supervisors with actionable data on available resources to handle daily workload. The next phase of the Surface and Air Management System (SAMS) improves our ability to control air routing and transportation costs. The Time and Attendance Collection System replaces five systems and reduces considerable work hours related to timekeeping. The initiation of the Human Resources and Payroll Enterprise project, to reengineer and replace our current personnel and payroll systems, is part of the FY2002 plan. Finally, implementing the Enhanced Security Capability program will permit secure communication with business partners, customers, and employees. It will mitigate the risk of a financial loss and ensure the ability to provide services throughout the business environment.

Retail
In FY2002, $80 million will be committed for retail operations. Over 76 percent of this amount is earmarked for Stage 3 of Point-of-Service (POS) ONE. When fully deployed, POS ONE will capture detailed sales and customer information. This, when integrated with the technology platform, will reduce accounting workload in district offices, integrate debit/credit card functionality, provide inventory management, enable automatic reordering, and provide for post office box administration.

FINANCING PLAN

The Financing Plan for FY2002 is integrated across fiscal years with the Operating and Capital Plans for FY2002. With numerous uncertainties facing the Postal Service, a multi-year strategic view of our financing needs is required, especially in light of the statutory limits on our debt.

The annual change in debt within a fiscal year is driven by the interaction of cash flow from operations, capital cash outlays, and changes in our cash balance. When cash flow from operations has exceeded capital cash outlays, debt has been reduced. In recent years, cash outlays for capital have been greater than cash flow generated from operations and debt has increased.

Financing Plan	FY 2001	FY 2002
Cash from Ops	$ 1.4	$ 0.2
- Capital Cash Outlays	2.7	2.2
+/- Cash	0.7	(0.4)
= Borrowing	2.0	1.6
Debt Outstanding	$ 11.3	$ 12.9

($ Billions)

Last November, management estimated that cash flow from operating activities would total $1.8 billion in FY2001 and capital cash outlays would be $3.6 billion. A $200 million increase in cash was recommended to provide a cushion for financial uncertainties the Postal Service could be facing in the years ahead. Based on the plans for a net loss, capital cash outlays and cash on hand, management estimated an increase in debt outstanding of $2 billion. Since presentation of the Integrated Financial Plan last November, net losses have worsened but liquidity has been preserved by reducing capital cash outlays. Additionally, in May, the Board Audit and Finance Committee was notified that up to $1 billion in obligations to be accrued in FY2001 might not result in cash outflows until FY2002. Therefore, a larger cash increase at the end of FY2001 is recommended, in part to provide next year's added payments, but also to serve as a buffer against increased risks. The financing request for FY2001 remains at a net increase in debt outstanding of $2 billion.

For FY2002, management projects that cash flow from operations will be $200 million based on a loss of $1.35 billion. Accrued payments from FY2001 contribute to the low cash flow from operations, as does the fact that FY2002 has 27 payroll tax days, versus the usual 26. Capital cash outlays are projected to total $2.2 billion. A net increase in debt of $1.6 billion in FY2002 is necessary to finance the capital cash outlay target. At the end of FY2002, debt outstanding with the Federal Financing Bank will total $12.9 billion, and cash and cash equivalents will be an estimated $950 million.

On a cautionary note, the cash flow figures can be no more than approximate, since they are based on underlying assumptions and judgments regarding cash versus non-cash expenses and changes in working capital accounts. In addition, risks to the net loss plan translate into risks to cash flow from operations that could increase borrowing in FY2002 or require that management make greater reductions to the cash balance.

FINANCIAL OUTLOOK

The chart at right shows the critical elements of the financial condition for FY2001 and FY2002. The first four lines of this chart reflect the generation of cash flows from the operations as outlined in the Operating Plan. As noted in the Financial Planning section, accruals and an extra payroll tax day result in only \$200 million of projected operating cashflows in FY2002. The next line in the chart shows anticipated capital cash outlays. The difference between cash flow from operations and capital cash outlay net of any planned changes to cash on hand is the amount needed to borrow, which drives the Financing Plan. The remainder of this chart provides additional information on the Postal Service's financial condition. Debt represents the expected outstanding debt at the end of each fiscal year. The capital commitment plan reflects the estimated new capital commitments in each year. The equity amount – the sum of contributions from the federal government and prior years' losses – is shown in the last line of this chart.

INTEGRATED FINANCIAL PLAN FY2002
Financial Outlook

	FY2001	FY2002
Net Loss	(1.6)	(1.3)
Depreciation	2.2	2.3
Adjustments	0.8	(0.8)
Cash Flow From Operations	1.4	0.2
Capital Cash Outlay	2.7	2.2
Change in Cash	.7	(0.4)
Net Borrowing	2.0	1.6
Debt	11.3	12.9
Capital Plan	1.6	2.4
Equity	(2.3)	(3.6)
Prior Year Losses	(5.3)	(6.6)

($ Billions)

Board Resolution 95-9, concerning restoration of equity and recovery of prior years' losses, established a policy of planning for net incomes that "equal or exceed the cumulative prior years' loss recovery target" set in the last omnibus rate proceeding. Due to accumulated impacts of earlier net incomes that exceeded annual targets, the Postal Service entered FY2001 \$1.1 billion ahead of the cumulative target. However, given the projected net loss of \$1.65 billion in FY2001 and \$1.35 billion in FY2002, the Postal Service will finish FY2002 \$2.5 billion below the target.

Resolution 95-9 provides that, if it appears that the projected recovery target will not be met, the Board and management "will take actions that reduce costs and/or increase revenues." Management's preliminary Operating Plan includes approximately \$874 million in cost reductions and approximately \$187 million in revenue increases from new initiatives. Also, management is continuing to make capital investments that will produce additional savings in future years. However, additional revenue, derived from a postage increase, is needed to put equity restoration back on track.

RISKS

The FY2002 Integrated Financial Plan is the product of an extensive development process, during which numerous scenarios were examined. Management has established a firm foundation for the achievement of the plan. Aggressive actions to manage expenses in response to the slow volume growth during FY2001 have been successful. Because the \$1.35 million net loss in the FY2002 plan is minimized, there is minimal reserve for unforeseen events. Risk factors must be acknowledged and are discussed below.

Revenue
Governors' modified rates were implemented in July 2001, principally impacting Standard Mail and Package Services. Historically, mail volume growth has tended to dip after a rate increase. Other factors, such as the economic slowdown and migration of mail toward lower-contribution categories may exaggerate the normal post-rate slowdown in growth. Management believes the modest volume growth plan reflects recent experience. However, acceleration of these trends could result in volume declines.

Economic Risk
Significant dangers and risks characterize the Postal Service's economic environment, as FY2002 begins. Oil prices are still very erratic. As private sector enterprises continue to post profits lower than

analyst expectations, concerns mount about a lengthier economic downturn. Federal Reserve attempts to counter this by lowering interest rates have had little impact. Should the economy slow more rapidly or severely than management estimated, significant negative impact to postal operations will result.

Labor Arbitration

Three labor contracts, the American Postal Worker's Union, the Mailhandlers, and the Rural Letter Carriers are currently in arbitration; and the Letter Carrier contract comes up for renewal in November 2001. In the absence of an approved contract, labor rates for these three union groups were estimated based on the expected Employment Cost Index (ECI), less 1 percent each year. Should the negotiations produce a substantially different outcome, the ability to achieve the FY2002 plan will be materially impacted.

Expense Risks

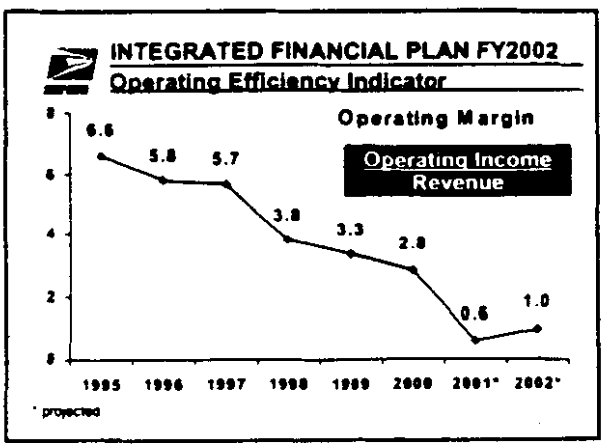
A continuation of FY2001 adverse workers' compensation trends in FY2002 could drive costs beyond the optimistic estimates included in the plan. Management believes that the accelerated claims processing has a one-time impact that will not continue over the course of FY2002. However, the increase in reported injuries, disproportionately attributable to occupational claims filings, may have a lasting impact on the number of medical and indemnity claims as well as the average cost per medical claim. This could adversely impact the workers' compensation expense accrual and result in additional costs in FY2002.

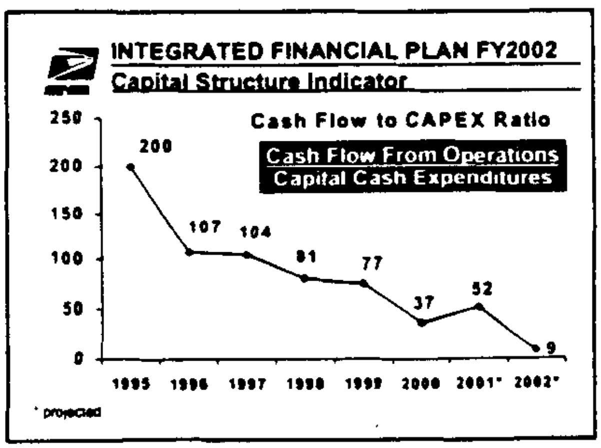
As always, the potential for the occurrence of unplanned events, such as natural disasters which could adversely impact the Postal Service's finances, must be acknowledged as a risk.

FINANCIAL POLICIES AND INDICATORS

In 1999, the Board of Governors adopted selected financial Indicators for their use in setting financial policy for the Postal Service. The areas of financial performance are: financial margins, capital structure and efficiency. The indicators frame the planned Postal Service financial results for FY2002.

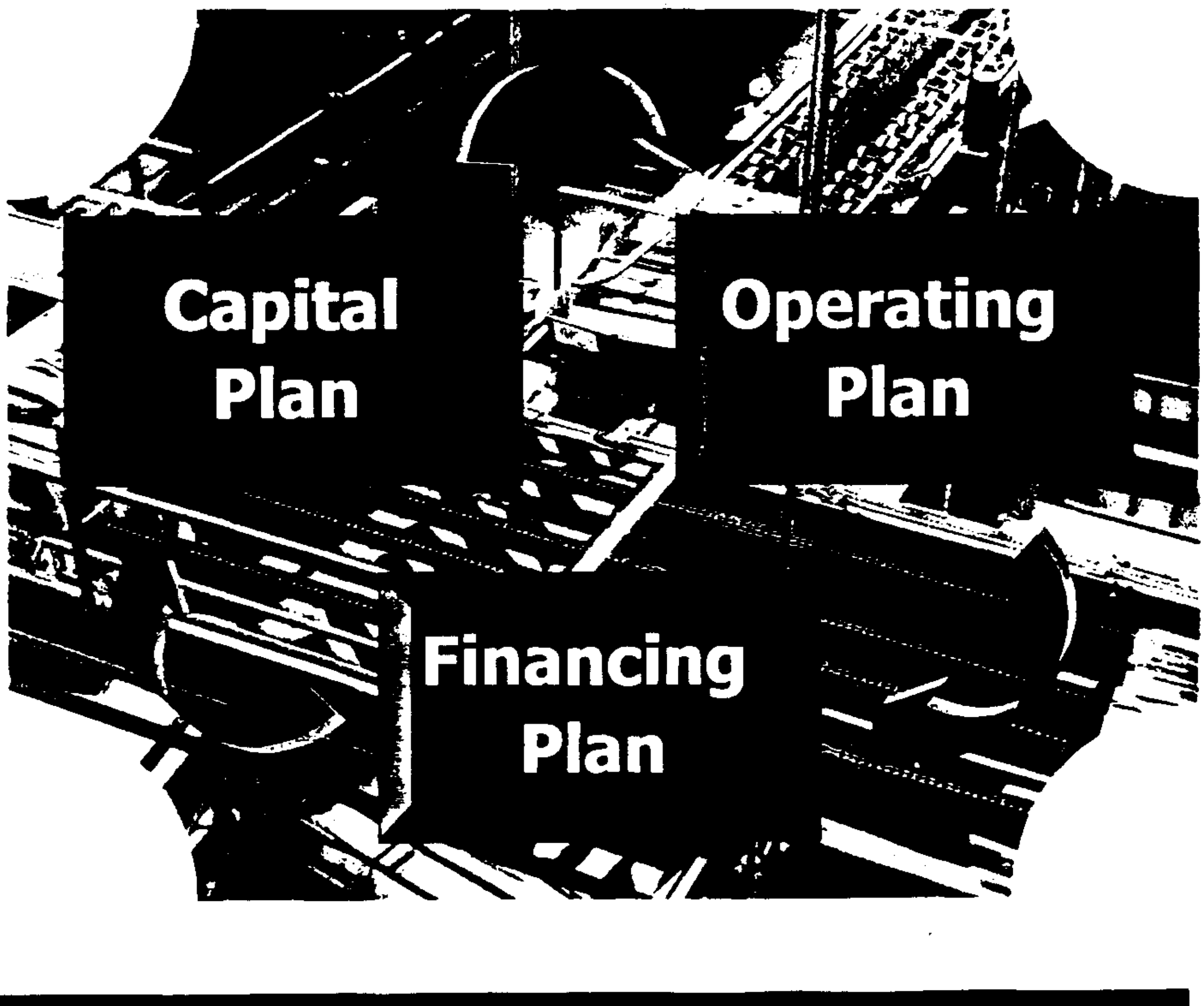
The charts below reflect the historical results of these indicators for FY1995 through FY2002. The Integrated Financial Plan produces an operating margin result of 1.0 in FY2002. Operating margin, defined as operating income divided by revenue, measures performance in areas in which management has the most control. The cash flow to capital expenditures ratio is calculated by dividing operating cash flow by capital cash expenditures. This defines the level of capital expenditures to be financed from internal cash generation versus external financing. For the FY2002 capital structure, a CAPEX result of nine will be produced. This is significantly lower than in recent years.





UNITED STATES
POSTAL SERVICE

INTEGRATED FINANCIAL PLAN
FISCAL YEAR 2001



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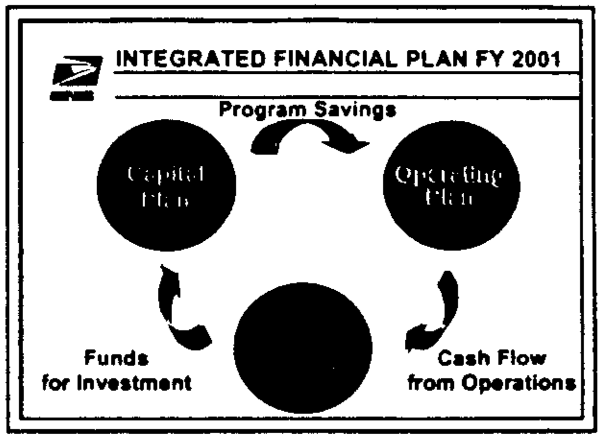
INTEGRATED FINANCIAL PLAN

FISCAL YEAR 2001

EXECUTIVE SUMMARY

The Fiscal Year (FY) 2001 Integrated Financial Plan incorporates the Operating, Capital and Financing Plans that are built upon estimated FY 2000 operating results. These components of the Integrated Financial Plan are linked as indicated on this diagram. The **Operating Plan** allocates resources to meet established goals and generates operating cash. A portion of that cash flow is an element of the **Financing Plan** in which cash and debt are managed. The **Capital Plan** allocates funds for construction and purchase of facilities and equipment that will improve service and infrastructure and generate future efficiencies. These investments are partially funded by cash flows generated from the Operating Plan.



Highlights of Integrated Financial Plan

Operating Plan

The FY 2001 Operating Plan projects total revenue of $67.9 billion, an increase of 5.2 percent. This projected revenue growth is driven predominantly by the price increase anticipated for January 2001. The FY 2001 Operating Plan was developed in the context of disappointing revenue and volume growth in FY 2000. The revenue weakness began shortly after the January 1999 rate increase and has continued through the present. The plan estimates that the combined effects of the price increase, the slowing economy, and an exceedingly competitive environment will flatten mail volume growth in 2001.

The FY 2001 expense plan of $68.4 billion is an increase of 5.6 percent over estimated year-end FY 2000 expenses. This increase is due almost entirely to inflation and other expenses required for operations. The new operating expenses follow five quarters of imposed restraint on expense growth and are now necessary to upgrade services, product offerings, and infrastructure. Continually cutting costs to achieve positive net incomes eventually presents the risk of making it difficult or impossible to engage in the type of innovation necessary to survive in an increasingly complex and competitive environment[1]. Continued cost cutting in order to achieve positive net incomes will ultimately affect infrastructure, which places the long-term future of the organization at risk. Allocating these monies to required operating expenses rather than to present Net Income is an essential strategic investment in the immediate and long-term future of the Postal Service.

Of this $3.6 billion growth in expenses, $2.7 billion is dedicated to the field. The major portion relating to compensation and benefits. The growth in personnel expenses is entirely owing to higher than average increases in salary and benefits mandated by cost-of-living adjustments (COLA) and the new National

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[1] As reported in Business Week, July 17, 2000, Professor Gary Hamel of the Harvard Business School terms this strategy, "corporate liposuction," and warns that it can be taken too far. He pointed to a recent study of companies that raised earnings at least five times faster than sales between 1993 and 1996 and experienced a significant downturn within three years thereafter.

Association of Letter Carriers (NALC) contract. Health benefits expense had a double digit increase in FY 2000 and is expected to increase by double digits in FY 2001.

FY 2001 Corporatewide and Program activity expenses will be $2.8 billion, an increase of $142 million. This expense increase represents, in part, a return to normal and necessary levels to ensure the Postal Service's future after the severe reductions of the last two years. Depreciation expense increases $207 million with the largest part of this increase due to deploying the Point-of-Service (POS) ONE retail terminals and the Automated Flat-Sorting Machines, AFSM 100's.

The remaining expense growth relates to increases in Servicewide costs of $419 million, and interest expense of $227 million. The increase in Servicewide expense is due to increases in annuitant related costs and growth in workers' compensation.

The FY 2001 Operating Plan sets ambitious productivity and expense management targets. Although essentially zero growth in mail volumes is projected, management anticipates shifts in the mail mix towards lower-work-content mail, and budgeted work hours accordingly to account for this change. Additional reductions in budgeted work hours have been achieved as a result of Breakthrough Productivity Initiatives (BPI) and program cost savings, which dictated further work hour reductions in the FY 2001 plan. In total, the budget calls for a 1.5 percent reduction in work hours, or 13,200 workyears. This reduction follows the 0.7 percent (6200 workyears) reduction achieved through local management initiatives and program cost savings in FY 2000. Transportation costs are budgeted at the same level as FY 2000, as newly instituted efficiencies will offset rising fuel prices.

The BPI Initiative focuses on four specific areas:

- The Operations segment focuses primarily on improving plant, delivery, and customer service non-retail operations through the application of performance management techniques, the identification and distribution of best practice tools, and implementation of standard operating procedures. These efforts help support the work hour reduction target.

- The Transportation effort will focus initially on utilization and modal optimization, including the potential for expanded use of rail. During FY 2001, these efforts will help keep the transportation expense at FY 2000 levels.

- Purchasing initiatives will include use of Web-based purchasing, improved supply chain management, and strategic outsourcing.

- Overhead initiatives include reductions in personnel and non-personnel costs in headquarters, area, and other administrative offices.

The workload projections combined with the work hour reductions and changes in materials and capital use result in an estimated Total Factor Productivity (TFP) increase of 0.7 percent for FY 2001. This follows TFP growth of 2.4 percent in FY 2000. The labor productivity component represents a 2.0 percent increase in FY 2001, following a 2.1 percent increase in FY 2000. Note, since labor productivity is a partial measure, it does not distinguish whether the increase is due to growth in the other inputs (capital and materials) or due to increases in efficiency.

The net result of these revenue, expense management, and productivity targets is a net loss of $480 million. Depreciation and other non-cash expenses included in the net loss of $480 million produce cash flow from operations of approximately $1.7 billion.

Capital Plan

The Capital Plan portion of the Integrated Financial Plan consists of $3.6 billion in capital commitments and capital cash outlays of $3.5 billion. The Capital Plan supports the goals of the strategic plan. A new five-year Capital Investment Plan has been presented to the Board covering FY 2001 – 2005. The Board approved the last five-year plan in October 1997, for fiscal years 1998 – 2002. Historically, the Board approves a five-year plan each year with more current information and extension into the next fiscal year. However, to allow time to reassess the strategic direction of the Postal Service and align the investments with that direction, the Capital Plan was only updated for FY 1999 and FY 2000. Now that the strategic plan has been solidified, it is time to update the long-term capital investment strategy for the next five years. The overarching strategy is to:

- Concentrate on high return investments, such as automation/mechanization, and information platform projects;
- Maintain the existing infrastructure (facilities, vehicles, and information systems) and
- Accommodate growth areas, including delivery network growth.

Financing Plan

Based on estimated FY 2001 capital cash outlays of $3.5 billion, and the estimated $1.7 billion in cash to be generated from operations, management estimates that $2 billion in new net borrowing will be required. An increase in cash of $200 million is embedded in this borrowing requirement. With the additional borrowing, outstanding debt at the end of FY 2001 will be $11.3 billion. The FY 2001 increase in debt follows a $2.4 billion increase in debt in FY 2000. Average daily debt outstanding will increase from $4.7 billion in FY 2000 to $6.9 billion in FY 2001. Interest expense on debt will increase from $270 million to $430 million. Risks to the net income plan translate as risks to cash flow from operations and could adversely affect borrowing and liquidity. If the net loss is greater than planned, cash from operating activities will be lower, which could increase borrowing levels.

OPERATING PLAN

The FY 2001 Operating Plan was developed under the *CustomerPerfect$_{sm}$* Establish, Deploy, Implement, and Review cycle. After review, it became apparent that the revenue target was too ambitious in light of the soft revenue growth during FY 1999 and 2000. Accordingly, management reduced the 2001 revenue plan to reflect essentially zero volume growth. Management believes this weakness, especially in Single-piece First-Class Mail, is most likely due to mailing industry consolidation and to the diversion of communications from hard copy to electronic media.

Expenses were held below plan in FY 2000 in response to below plan revenue growth. For the year, total expenses of $64.8 billion were $534 million under plan and only 3.8 percent more than FY 1999 expenses. Management controlled expense growth during FY 2000 in the face of 5.4 billion more pieces of mail, 1.8 million more deliveries with 6,200 fewer workyears. This performance is more impressive when the additional costs of rapidly escalating fuel prices, workers' compensation costs and medical expense inflation are considered. Higher fuel prices cost the Postal Service an estimated $275 million in FY 2000.

Medical expense inflation, which had been relatively stable for several years, heated up again in FY 2000, increasing health benefits expense by 12.2 percent. This, too, impacted workers' compensation expense, although the FY 2000 increase was driven primarily by a higher number of claims. In FY 2000, the number of paid indemnity claims increased by 8.2 percent, the number of paid medical claims increased by 7.7 percent, while the average cost per medical claim increased 13.7 percent. These increases were of unprecedented scale and were due primarily to three factors. Those were: expedited claims processing by the Department of Labor; a 5.9 percent increase in injuries, primarily occupational injuries, reported to the Department of Labor; and a larger proportion of occupational medical claims, typically having higher costs per claim than traumatic claims.

NET INCOME (LOSS)

The Operating Plan for FY 2001 targets a net loss of $480 million.

FY 2001Operating Budget ($ Millions)

	2000 Estimate	2001 Plan	Increase	% Increase
Revenue	64,581	67,925	3,344	5.2
Expense	64,781	68,405	3,624	5.6
Net Income	$ (200)	$ (480)	(280)	

Total revenue is estimated to grow 5.2 percent, from $64.6 billion to $67.9 billion. Revenue growth is almost all due to the proposed 6.4 percent rate increase that management expects to implement in January 2001. Approximately $200 million of the revenue growth is derived from a minor change in the volume mail mix. The revenue plan also includes $304 million of new revenue generated by eBusiness initiatives, retail initiatives, and co-branded advertising.

Total expense will grow 5.6 percent, from $64.8 billion to $68.4 billion. Of the $3.6 billion in expense growth, $2.2 billion, or 59 percent, is due to field salaries and benefits and to other personnel compensation. This represents a 4.9 percent increase in compensation expense over FY 2000. The remainder of the growth is in non-personnel, annuitant costs and interest expense, increases of $1.0 billion, $363 million and $227 million, respectively. The FY 2001 plan includes adding 1.7 million new deliveries, and no workload growth associated with mail volume. The plan does include cost reductions of $1.0 billion.

The growth in compensation expense is entirely related to higher average salary and benefits rates, driven by cost-of-living adjustments (COLA) and the new National Association of Letter Carriers (NALC) contract. The increase in personnel costs would be much larger were it not for a planned 1.5 percent reduction in field work hours and administrative reductions at headquarters and the area offices.

The cost pressures that made a major impact on the FY 2000 bottom line are expected to continue in FY 2001. In addition, the FY 2001 plan calls for increased spending on e-Business initiatives as well as continued investments to improve customer service, grow traditional businesses and maintain infrastructure.

VOLUME AND REVENUE

Total revenue is projected to grow $3.3 billion, which is 5.2 percent higher than the FY 2000 estimate. The major drivers of revenue growth are First-Class, Priority, and Standard (A) mail, which combine to generate 86 percent of the total revenue. Minimal growth in mail volumes is projected in FY 2001, based on product elasticities and below plan mail volume growth in FY 2000.

Economic Basis for Revenue and Volume Forecasts

Over 90 percent of mail volume originates with businesses and other institutions. How businesses use the mail to achieve their objectives determines Postal revenues. Consequently, economic activity and the trends in business practices fundamentally drive Postal Service volume changes.

The New Economy: In recent years, U.S. economic growth has been exceptionally strong as the technology-driven "New Economy" led to the highest productivity growth the U.S. economy has experienced in decades. The increasing spread of computers, new software and the use of the Internet have enabled businesses to operate more efficiently and to better meet customer needs. Consumption spending has grown strongly in the first half of 2000 as households benefit from rising higher incomes, low unemployment and investment gains. The American people have enjoyed the longest economic expansion in U.S. history.

Risks in the Economy: Significant dangers and risks characterize the Postal Service's economic environment, as FY 2001 begins. The phenomenal rise in equity prices seems to have peaked. The U.S. trade deficit is now greater than 4% of the Gross Domestic Product (GDP), causing prudent analysts to question whether the rest of the world will continue to finance low U.S. domestic saving and high stock market valuations. Worldwide economic growth has caused commodity prices to rise significantly over the last twenty months raising a very serious warning that inflation could return to the world economy as it did in the 1970s. Oil prices have risen from as low as $10 a barrel in 1998 to over $36. As labor markets have tightened and capacity becomes strained, concerns about domestic inflation, which has been rising has moved the Federal Reserve to raise interest rates.

Mail and the New Economy: While the New Economy seems to have outstripped the old rules of the business cycle, there is evidence that growth in the New Economy does not translate into mail volume growth to the same degree as did traditional economic growth. First-Class single piece mail has been shrinking and Standard A growth is somewhat more modest than would be expected given the extraordinary economic growth of the last five years. Information Technology has certainly made communications markets more competitive and complex. The World Wide Web has made the Internet a potential alternative to hard copy billing. The growth of the Internet as an advertising medium has made it more difficult for direct mail to compete for its share of the advertising dollar. Simultaneously, Information Technology has improved the prospects for fine-tuning targeting and, thereby, for growing the mail.

Management regularly monitors both the economy and market developments. The FY 2001 plan incorporates recent trends and is based on an economic forecast that reflects these current uncertainties. The Consumer Price Index (CPI) is expected to rise 2.8 percent and the employment cost index (ECI) an alarming 4.6 percent in FY 2000. Total consumer spending is projected to rise 2.7 percent in real terms.

Volume Forecasts and Related Revenue Impacts

Prices, economic developments, and technology drive volume growth, as well as that of competitors'. In analyzing these factors and forecasting Postal Service economic outcomes, the pricing assumption underlying the analysis is particularly important. The FY 2001 revenue and volume plan assumes R2000-1 rates, as proposed by the Postal Service, will be implemented January 7th, 2001. Should the Postal Rate Commission substantially change the proposal, a major impact on FY 2001 estimated revenue and volume would likely result.

Volume

	FY 2000	Plan FY 2001	Growth	% Growth
First-Class	103,526	104,433	907	0.9
Priority	1,222	1,230	8	0.7
Express	71	72	1	1.4
Periodicals	10,365	10,378	13	0.1
Standard (A)	90,057	89,489	-568	-0.6
Parcel Post	324	376	52	15.9
Other Std (B)	804	769	-36	-4.4
International	1,099	1,054	-46	-4.2
Other Mail	413	408	-5	-1.2
Total Volume	207,882	208,208	326	0.2
(Millions)				

Overall Mail Volume Growth: R2000-1 rates will not only affect the fiscal year growth but the pattern within the year. The proposed rates for some of the more price sensitive products (such as Standard A and Priority) are larger than the 6.4 percent average rate increase and will cause negative growth rates after the new postal rates are implemented. The projection is for no volume growth in FY 2001 based on positive growth at the beginning of the year and volume losses over the last two thirds of the year.

Revenue

	FY 2000	Plan FY 2001	Change	% Change
First-Class	35,516	36,503	987	2.8
Priority	4,837	5,330	493	10.2
Express	996	1,039	43	4.3
Periodicals	2,171	2,397	226	10.4
Standard (A)	15,193	16,025	832	5.5
Parcel Post	1,042	1,057	15	1.4
Other Std (B)	870	922	51	5.9
International	1,658	1,746	89	5.3
Other Revenue	2,298	2,907	608	26.5
Total Revenue	64,581	67,925	3,343	5.2
($ in Millions)				

First-Class: The projected growth in First-Class Mail volume is 0.9 percent in FY 2001. First-Class Mail will continue to be impacted by electronic media. Largely due to rate increases, First-Class revenue is estimated to grow $987 million, 29 percent of the total FY 2001 increase.

Priority Mail: Priority Mail volume growth, with an average price increase of 15 percent, will drop to 0.7 percent. This is one of the lowest volume growth rates in almost two decades. Priority revenues are targeted to increase $493 million, or 10.2 percent, which is 18 percent of the total planned revenue growth.

Standard (A): After persistent softness in 1999 and the beginning of FY 2000, Standard (A) finished FY 2000 with 5.1 percent volume growth. Standard (A) volume is projected to decline 0.6 percent in FY 2001, primarily due to the price elasticity typically seen after new rates are implemented. Due entirely to increased rates, Standard (A) revenue is projected to increase $832 million.

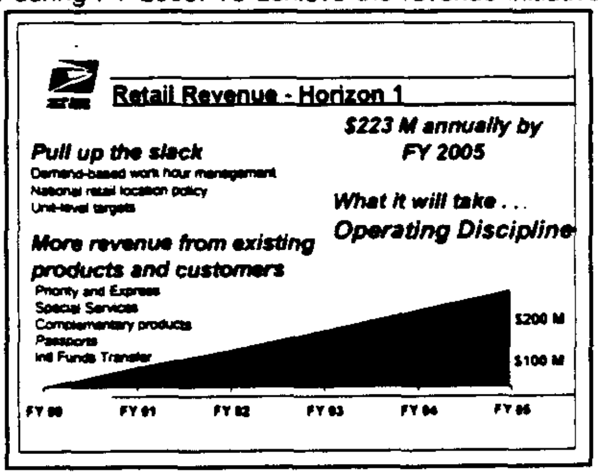
Parcel Post: Parcel Post revenue is expected to increase only 1.4 percent despite an estimated 15.9 percent volume growth and a price increase. This disparity is due to declining revenue per piece as mailers take advantage of the discount rates for drop-shipping, increasing volumes of Parcel Post entered more deeply into the system.

International: International mail revenue is targeted to grow $89 million, or 5.3 percent on a volume decline of 4.2 percent. Growing diversion to electronic media continues to constrain international mail volume growth.

Revenue Initiatives

The $304 million target for new revenue generation is split equally among three initiatives: eBusiness, co-branded advertising, and retail revenue. eBusiness initiatives are projected to provide benefits by leveraging Information Technology and Internet communications to create greater customer satisfaction, cost reduction, revenue generation, and/or employee satisfaction. These new initiatives are for Internet based products and services for consumers, businesses and government entities that will generate revenue to the Postal Service through user charges and license fees. These initiatives include ePayments, NetPost.Certified, PosteCS, StampsOnline/Postal Store, and USPS Electronic Postmark™ (EPM).

An aggressive retail revenue plan for FY 2001 complements the eBusiness initiative. During the *CustomerPerfect!*$_{sm}$ catchball process, it was determined an additional $100 million revenue opportunity existed for retail operations. This was based on the missed revenue opportunity attributed to low sales skills as measured by the Mystery Shopper Program during FY 2000. To achieve the revenue initiative target, Retail Operations has developed unit level revenue plans, calculated from the Mystery Shopper scores. Postmasters and Station Managers have been given a daily walk-in revenue threshold. The plan to increase retail revenue has three stages, called horizons. In FY 2001, effort will be concentrated on the first horizon, by focusing on increasing sales of existing products, enforcing operating disciplines, and developing partnerships. Passport acceptance generated revenue of $58 million in FY 2000. One Retail initiative calls for expanding Passport Acceptance services to 300 additional sites identified by the State Department as a critical need.



Sales of co-branded and commercial advertising rely on the name recognition received through partnering, commercial advertising sales, and sponsorship activities. Revenue growth of $100 million has been targeted for this initiative.

EXPENSES

Operating Budget

In FY 2001, total expenses will be $68.4 billion, which is 5.6 percent more than FY 2000's estimated total expenses of $64.8 billion. The FY 2001 growth rate is high, due to labor cost inflation and to servicing an ever-expanding delivery network. The addition of approximately 1.7 million new delivery points in FY 2001 is equivalent to servicing a city the size of Chicago. Additionally, without approximately $1.0 billion in cost reductions built into the plan, expense growth would exceed 7 percent.

The major drivers of the higher growth rate in 2001 are cost increases for labor (COLA), corporatewide and program expenses, and depreciation.

FY 2001 Expenses

	2000 Estimate	2001 Budget	Change	% Change
Field	52,035	54,749	2,714	5.2
Corp. Transportation	2,858	2,847	(11)	(0.4)
CWA & Programs	2,655	2,797	142	5.3
Interest	1,820	2,047	227	12.5
HQ Admininistrative'	1,309	1,396	87	6.6
OIG	68	113	45	66.7
Servicewide	4,036	4,455	419	10.4
	64,781	68,405	3,624	5.6
($ millions)				

Three labor contracts come up for renewal in November 2000. These are the American Postal Worker's Union, the Mailhandlers, and the Rural Carriers. In the absence of an approved contract for these three union groups, labor rates have been estimated based on an Employment Cost Index (ECI) assumption. Combined with the carryover of wage increases from the previous contracts, the actual assumed new salary increases equate to ECI –1. The labor agreement with the Letter Carriers has one additional year to run and those increased costs can be estimated fairly precisely. The Letter Carrier upgrade from level five to level six will cost an additional $266 million.

Field Expenses

Field budget increases account for approximately three-quarters of the expense growth, increasing by $2.7 billion (5.2 percent). About $2.2 billion is for personnel compensation and benefits, due entirely to higher average salary and benefits costs. The major drivers of the higher costs are COLAs for substantially all bargaining unit employees and the higher wage rates given to city carriers in the new NALC contract. Health benefits expenses, which increased 9.4 percent for active employees and 12.2 percent overall, are expected to increase another 10 percent again in FY 2001.

These cost increases are offset by a planned 1.5 percent reduction in work hours, which equates to a $700 million reduction. FY 2001 will be the second year in a row with work hours below the previous year. This will be only the fourth time since 1980 that this has occurred. Reductions of a similar scale attained in the late 1970's were largely enabled by the introduction of presort incentives and resulting work-sharing. Work hour reductions were obtained in FY 1990 and FY 1992 in a period of flat volumes and corporate restructuring. The Postal Service has not attained a reduction of 1.5 percent in the last 20 years. The Field work hour budget for FY 2001 is extremely challenging, but without this large work hour reduction, expenses would be approximately $700 million higher. Attainment of the Breakthrough Productivity Initiatives will be a critical aspect of the work hour targets reduction.

Fuel cost inflation will continue to exert upward pressure on field expenses in 2001. However improving transportation efficiency will largely offset this. As a result, field transportation expense increases a modest 0.6 percent, while the total transportation budget for FY 2001 is essentially the same as FY 2000. Another major driver of field expense growth in 2001 is depreciation, which will increase by over $200 million due to increased capital investments already made and now in use.

Headquarters Expenses

Headquarters administrative costs of $1.4 billion, which are held at essentially the same level despite inflation and the Sales organization being redefined as a headquarters unit, include the expenses of headquarters organizations and their field service units, as well as the Postal Inspection Service and the Postal Rate Commission. Headquarters administrative budgets are $87 million more than FY 2000, due entirely to expanded budgets for eBusiness and the transfer of the Sales organization to headquarters. One component of the BPI will be continuing the administrative reductions that were started during FY 2000. In FY 2000, headquarters complement was reduced by 400 positions. In 2001, complement will be reduced by 500 additional positions.

Programs and Corporatewide Expenses

Program and Corporatewide activity costs of $2.8 billion will increase by approximately $142 million, or 5.3 percent, over 2000. Increased spending for a series of e-Business initiatives, and information technology infrastructure projects such as Point of Service and the Information Platform drives this increase.

In developing the FY 2001 budget, program spending was analyzed extensively, since some portions of the program budget, such as research and development are truly discretionary. A no growth policy for these items was essentially followed for FY 2001. However, necessary spending increased for eBusiness initiatives, POS ONE, and other critical programs such as delivery confirmation and the Delivery Operations Information System (DOIS), and resulted in an overall spending increase.

The table at right details Corporatewide spending for the ten largest programs and activities in the Postal Service's FY 2001 budget. These programs all support core business activities and are either non-discretionary, or are critical to upgrade services or information systems. These ten programs, by themselves, account for approximately one-half of the Postal Service's entire program budget. In spite of more than doubling spending to continue the rollout of POS ONE, net spending on the largest programs actually decreases by $2 million.

Major Program Spending FY 2001
($ Millions)

Program	FY 2000 Actual	Plan 2001	Change	% Change
Priority Mail Network	512	480	(32)	(6.3)
Corporate Advertising	158	160	2	1.3
Recurring Mail Transport Equip.	163	155	(8)	(5.0)
Stamp Manufacturing	151	151	(0)	(0.1)
Point of Service (POS One)	74	150	76	103.3
Expedited Supplies	139	108	(31)	(22.6)
Corporate Call Management	117	99	(18)	(15.3)
Associate Office Infrastructure	84	82	(2)	(2.3)
Delivery Confirmation	59	66	7	10.9
Telecommunications Network	43	48	5	12.2
	1,499	1,498	(2)	(0.1)

Servicewide Expenses

Servicewide expenses, which are national-level expenses that cannot be isolated and charged to individual operating units and are often not controllable by management, are expected to increase by $419 million in FY 2001. This increase is largely driven by the increases of $124 million in the accrual for civil service retirement annuitant COLAs, $100 million for increases in annuitant health benefits costs, and $100 million for increased workers' compensation.

Transportation was significantly impacted by fuel costs in FY 2000. Similar trends are expected to continue in FY 2001. Because much of the transportation network is served by contractors there is a delay in the pass through of fuel cost increases, thus continued upward pressure on prices is expected into FY 2001. By continuing efforts to reduce the cost of the transportation network through means such as shifting a greater percentage of transportation from air to ground, network transportation expenses will be held to $2.8 billion, approximately the same as 2000.

In FY 2001, interest expense on debt will be about $430 million, an increase of $180 million over FY 2000. This increase is caused by continued cash outlays for operations and capital investments, combined with higher interest rates and slower growth in revenues. In addition, the current interest expense on CSRS deferred retirement liabilities is expected to increase by $50 million, to $1.6 billion. Of the $50 million increase, $32 million is interest on the CSRS principal and $18 Million is interest on the COLA principal.

Expenses by Component

To gain a different perspective on the FY 2001 Operating Plan, expense growth can be examined by component. Personnel expense, including annuitant costs makes up the largest growth segment of the FY 2001 Operating Plan, at $2.4 billion. Growth in salaries and benefits is the result of labor contracts, health benefits and other pay related expense drivers, and not a result of growth in work hours. Nonpersonnel increases of $1.0 billion, or 11.8 percent, reflect a commitment to upgrade services and infrastructure. The single largest component of the nonpersonnel expense is depreciation, which is expected to increase by $207 million, or 10 percent. Spending on programs such as Point-of-Service (POS) ONE, DOIS, and eCommerce drives the remainder of the increase in nonpersonnel expenses. Total transportation expense will decline by $40 million. This is below historically allocated inflation due to BPI initiatives and improved transportation efficiencies.

Fiscal Year 2001 Expense by Component

	2000 Estimate	2001 Plan	Change	% Change
Personnel	49,453	51,875	2,422	4.9%
Nonpersonnel	8,772	9,787	1,015	11.6%
Transportation	4,736	4,696	(40)	-0.8%
Interest	1,820	2,047	227	12.5%
Total Expense	64,781	68,405	3,624	5.6%

($ millions)

COST REDUCTION PROGRAMS

A total cost reduction of $1.0 billion is budgeted for FY 2001 with about 45 percent of the savings derived from specific programs and the remaining 55 percent from breakthrough productivity initiatives at the field and headquarters level. Of the total cost reductions, $950 million will come from the field and the remaining from headquarters and servicewide activities.

The vast majority of program specific savings are linked to new or enhanced equipment and software that will enable the workforce to be more efficient. Programs to enhance sorting capabilities account for 83 percent of program cost reductions and for one third of the total cost savings. Investments in programs to reduce letter-sorting cost will result in cost reductions of $245 million across all functions in FY 2001. Programs to reduce flat-sorting costs will result in cost reductions of $148 million, and material-handling investments will produce a cost reduction of $ 74 million across all functions in FY 2001.

A total of $750 million is allocated to breakthrough productivity initiatives. Operational areas with the greatest opportunity for achieving productivity cost savings have been identified using BPI pilots sites during FY 2000. Management established operational improvement targets and developed a comprehensive metric system to provide the areas and plants with data related to current performance levels, improvement opportunities, and ranking relative to similar operations. Best practices have been developed for national use. Through this effort savings of $250 million in mail processing operations, $148 million in delivery operations, and $60 million in customer services are expected. Other BPI savings include $100 million each in transportation, supply chain management and administrative activities. Recognizing the difficulty in achieving the aggressive cost reductions in FY 2001, the first year of BPI, a $200 million field reserve has been allocated.

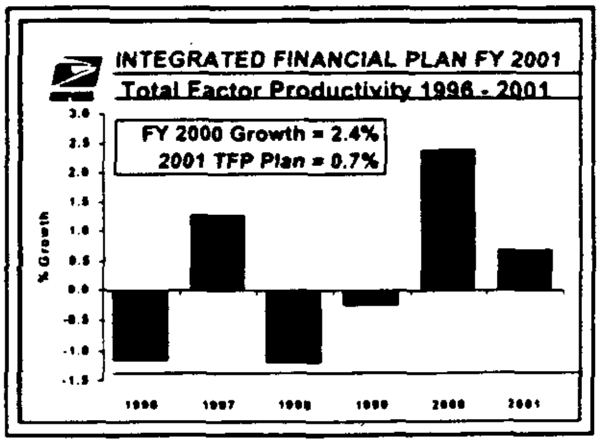
Cost Reduction Programs

Activity	Cost Savings	Total
Programs:		
Flat Mail Program	$ 143	
Delivery Barcode Sorter Program	137	
Indenlification Barcode Sort Program	48	
Remote Computer Read 2000 Program	38	
Tray Management System	32	
Remote Encoding Center Consolidation	25	
Robotics	14	
Automatic Airline Assignment Program	14	
Mail Transport Equipment Service Centers	13	
Small Parcel and Bundle Sorter Program	9	
		$ 473
Breakthrough Productivity Initiatives (BPI):		
Operations	450	
Transportation	100	
Supply Chain Management	100	
Administrative	100	
Less Field Reserve	(200)	
		550
Total		$ 1,023
($ in Millions)		

The goal of the BPI transportation initiative is to optimize existing transportation while maintaining or improving service and reducing cost. By reviewing all mail transportation contracts to identify and eliminate under-utilized and redundant service, a savings of $72 million will be realized. Trailer lease program costs were reduced $2.1 million through a reverse auction. Fuel cost savings of $25 million will be achieved by maximizing purchasing power on up to 560 million gallons of fuel to be bought in bulk for use by both highway contracts and private vehicle services. The supply chain management target will be achieved by using best-in-class purchasing processes. This effort includes national supply purchasing via the Internet and re-negotiating contracts by working with suppliers to achieve more efficient product design, usage and delivery schedules. Administrative savings will be achieved by limiting the growth in program support, consolidating other activities, and reducing personnel where appropriate.

PRODUCTIVITY

Total Factor Productivity (TFP) measures the change in relationship between outputs and all resources used in producing those outputs. Labor productivity measures the change in relationship between outputs (mail volume and delivery points) and the labor resources used in producing those outputs. It is not uncommon for TFP growth to fluctuate from one year to another. Over the long run, a successful organization will average positive growth in productivity.

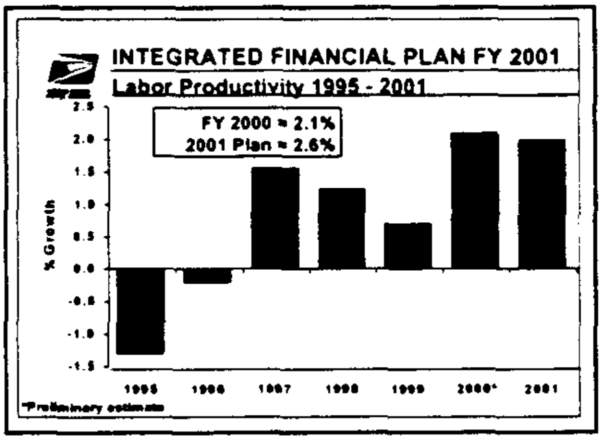


The output measure is the mail volume processed and delivered, and the number of delivery points served. The TFP measure takes into account workload factors such as size (e.g., letter, parcel, and magazine), preparation (e.g., prebarcoding and presorting), and service (e.g., Priority, First Class, or Standard mail). The resource measure is composed of all of the labor, capital and purchased goods and services and materials used in providing services and supporting operations, including all equipment, facilities, transportation, other nonpersonnel costs, as well as indirect costs such as headquarters expenses. During fiscal year 2000 labor productivity grew

2.1 percent. TFP grew by 2.4 percent, which is equivalent to $1.5 billion in expense reductions. This is the highest productivity growth achieved by the Postal Service since 1993. Cumulatively, since 1990 TFP has improved 1.7 percent. Management laid the groundwork during the 1990s, through investments in infrastructure upgrades, automation and mechanization, to achieve strong TFP growth. The result of these investments is reflected in the TFP growth rate for FY 2000.

When compared to other years with strong positive TFP growth, the achievement of FY 2000 is significant. During the 1990's TFP grew, on average, 0.2 percent annually while workload grew 1.9 percent, on average, annually. In 2000, TFP growth of 2.4 percent was achieved in spite of a below average workload increase of just 1.7 percent. In earlier years, strong TFP growth was fueled largely by workload growth. In FY 2000, strong productivity growth was fueled by substantial restraint on resource usage. Work hours declined by 0.7 percent and materials use fell by 4.4 percent.

The FY 2001 financial plan assumes a 2.0 percent increase in labor productivity and a 0.7 percent TFP growth rate. Without this productivity increase, the net loss would be approximately $430 million greater. The FY 2001 financial plan calls for greater expense growth than in recent years, while total workload resulting from mail volume and deliveries changes will show minor growth. The expense growth and planned capital investments offset work hour reductions to yield a 0.3 percent net decrease in resource use. Mail volume for FY 2001 will be approximately the same as FY 2000, though the mail mix will shift to one with less workload content. Delivery points will grow approximately 1.5 percent, which is slightly above average The combination of mail volume and delivery changes will result in a workload growth of only 0.4 percent, challenging positive TFP growth.



The labor productivity growth estimate for FY 2001 of 2.0 percent in FY 2001 results from planned work hours at 1.5 percent below FY 2000. When combined with labor mix changes, the work hour reduction yields a 1.6 percent decrease in labor use in the 2001 plan.

Worksharing discounts that were introduced in the 1970s and 1980s, and increased in the 1990s provided cost savings for the Postal Service and customers, but impact potential TFP gains. These incentives shift a portion of the workload associated with automation compatible mail to business mailers. While improving the nation's economy as a whole, some of the prime productivity improvement opportunities are thus transferred from the Postal Service. As higher and higher levels of efficiency are achieved within the mailing industry, incremental productivity improvements become more and more challenging.

Achieving the FY 2001 TFP target will require continuing active management of resource utilization against actual volume and delivery point growth. Recent trends suggest the Postal Service is on the right track.

CAPITAL INVESTMENT PLAN

The Fiscal Year 2001 Capital Plan totals $3.6 billion. The Capital Plan consist of investments in high return on investment programs, improvements to facilities, major engineering efforts, customer service programs, and provides funding for eBusiness initiatives, technological infrastructures, and information platform projects. A new five-year Capital Plan has been presented to the Board.

FY 2001 CAPITAL INVESTMENT PLAN
Supports Strategic Objectives

Investments that:

- **Improve Quality of Customer Service**
- **Allow for Aggressive Cost Management**
- **Increase Productivity Gains through Technology**
- **Maintain Infrastructure**

CAPITAL PLAN HIGHLIGHTS

The capital requirements will support the Postal Services' strategic objectives. Investments will be made in programs to ease customers' business contacts with the Postal Service. The plan includes programs that will improve the quality of customer services and increase opportunities for revenue enhancements. Infrastructure investments will be necessary to support workload growth, to repair or replace aging assets and to provide necessary information and communications technology networks. The Postal Service will be applying technology to achieve more aggressive cost management, to gain efficiencies, and to improve productivity. Automation and mechanization projects will be applied to distribution, processing, and delivery systems.

Specific plan commitments of funds illustrate these strategies. Funds for new distribution equipment will reduce material handling costs, important to our cost management strategy. Funds are allocated for commitments for 10 major mail processing and distribution facilities and for over 300 small facility projects identified by the area vice presidents for commitment in FY 2001.

In accordance with the long-term vehicle plan, the plan includes funds for 2,200 mixed delivery and collection vehicles, 1,250 cargo vans, and 375 truck tractors. The plan funds Point-of-Service (POS) ONE, next generation flat sorting machines, and robotics.

FY 2000 CAPITAL INVESTMENTS

During FY 2000, the Capital Plan was adjusted from $4 billion to $3.5 billion. However, this was the fifth consecutive year that the Postal Service has had capital commitments of over $3 billion. During 2000, the Service completed nine Board approved projects totaling more than $571 million. Of these nine projects, seven were equipment projects and one was a facility project. The remaining completed project was the Mail Transport Equipment Service Centers. In FY 2000, the Board approved a total of $1.6 billion for 20 new major capital investment projects.

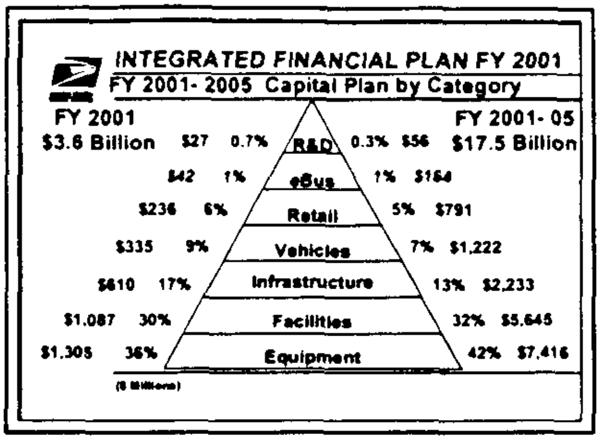
INTEGRATED FINANCIAL PLAN FY 2001
FY 2000 Actual Capital Commitments

Automation/Mechanization	1,001
Facilities	1,336
Support Equipment	363
Retail Equipment	334
Vehicles	127
eBusiness	-
Total	3,161

$ Millions

FY 2001 Capital Investment Plan

The FY 2001 Capital Plan totals $3.6 billion. With its strong focus on technology, this plan will support aggressive cost management efforts by promoting automation and modernization projects that affect the distribution, processing, and delivery of the mail. This plan also includes programs that will improve the quality of customer services and promote revenue growth. In addition, management will continue to make investments in infrastructure to support continuing workload growth, repair or replace aging assets, and build the information technology network needed to develop new products and services while delivering the highest quality customer service.



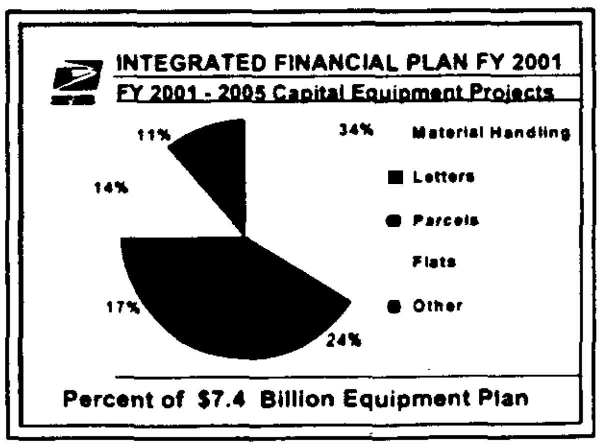
To minimize borrowing, projects are funded with cash flow from operations as much as possible. According to Postal Service bylaws, the Board of Governors must approve the capital budget each year. This approval represents a general concurrence with the Capital Investment Plan. In addition, the Board approves all investments greater than $10 million.

All projects in the approved plan are subjected to an in-depth review and approval process that ensures they are fiscally sound or service oriented. Accountability is established for the results the project is expected to produce; and the project analyzed using a Return on Investment methodology to ensure that projections are accurate. Finally, studies are conducted on selected projects, to determine whether financial and operating goals are achieved.

By committing more resources to revenue generating activities, this capital investment plan reflects the focus on a high return on investment and infrastructure projects, as well as funding eBusiness initiatives, technological infrastructure, and information platform projects. The current portfolio of capital investment opportunities will produce an estimated return on investment of approximately 16 to 18 percent over five years. Capital investments will consist of improvements to facilities, major engineering efforts and customer service programs. Major programs and projects in each of these categories are described on the following pages.

Equipment

The FY 2001 Capital Plan for equipment is $1.3 billion. Automating an increasing number of functions, allows the Postal Service to reduce costs and improve performance. Automated equipment not only saves work hours and associated indirect costs but also delivers faster, higher quality service. The investments in automation and mechanization are essential to the goals of strengthening our financial viability by managing costs and increasing revenues.



Percent of $7.4 Billion Equipment Plan

Automation provides management with data gathering capabilities that can be used in future information-based services. For example, the material handling systems will be able to be integrated with the Next Generation Small Parcel and Bundle Sorting Machine that utilizes optical character readers and video encoding to process over 11,000 pieces of mail per hour.

Investments in the Delivery Barcode Sorter Input/Output Subsystem (DIOSS), a universal modification kit to be installed on all delivery barcode sorters (DBCSs) to improve the capacity, speed and accuracy in which letter mail processing equipment reads, processes and sorts mail, will continue. The Parcel Sorter *Singulator Scan Induction System will be installed on all Bulk Mail Center* parcel sorters to improve the capacity, speed, and accuracy in which parcel mail processing equipment sorts the mail. Adding 175 Automated Flat Sorting Machines (AFSM 100) will improve periodicals and flat mail processing.

Facilities

INTEGRATED FINANCIAL PLAN FY 2001	
FY 2001Capital Projects - Facilities	
Field Customer Service Projects	331
Major Mail Processing Facilities	289
Field Repair & Alterations	262
Developmental Real Estate	35
BMC Expansions	10
$ Millions	

In 2001, $1.1 billion will be committed on facilities. These improvements are necessary to keep up with growing population, increasing mail volume, and changing delivery points, as well as to repair or replace aging facilities. However, rather than build new facilities, management will optimize use of existing space whenever possible.

With delivery points growing at over 1.4 percent, on average, annually, the customer service projects comprise the biggest portion of the facility plan – 31 percent of the FY 2001 plan and 37 percent of the five year capital investment plan. There are a total of 23 separate major mail processing facility projects in the five-year plan. Of these, 10 major mail processing facility projects will require Board approval in FY 2001.

To maintain current facilities, ongoing repair and alteration projects equal 37 percent of the FY 2001 facilities plan and more than 36 percent of the total for five years. This is greater than the plan for mail processing facilities.

Infrastructure

INTEGRATED FINANCIAL PLAN FY 2001	
FY 2001 Major Infrastructure Projects	
Merlin	87
Delivery Operation Information Sys.	83
Surface & Air Management Sys.	35
Structured Wiring	35
$ Millions	

Infrastructure projects maintain and meet the communication, computer and transportation system needs. The FY 2001 Capital Plan for infrastructure is $610 million.

In order to improve mail processing automation and develop future customer services, it is necessary to improve data collection and management capabilities. This includes developing the ability to identify and track individual pieces of mail, alone and in unit loads. The Mailing Evaluation Readability and Lookup Instrument (MERLIN) can improve the consistency of mail acceptance and design robots to read address and indicia, verify meter amounts and weigh and measure the thickness of mail. The Delivery Operations Information System (DOIS), which replaces two legacy systems, will reduce work hours by providing supervisors with actionable data on available resources to handle daily workload.

The Surface and Air Management System (SAMS) will improve our ability to control air routing and air transportation costs.

Vehicles

For 2001, an investment of $335 million in new vehicles will be made. This includes projects for mixed delivery and collection vehicles, cargo vans, and carrier route vans. The Postal Service's award winning alternate fuel program requires continual funding to comply with federal, state and local transportation regulations.

INTEGRATED FINANCIAL PLAN FY 2001 FY 2001 Major Vehicle Projects	
Mixed Delivery and Collection Vehicles	103
Cargo Vans	76
Long Life Vehicle Shelving Modifications	29
Truck Tractors	28

$ Millions

Consistent with the long term vehicle plan, management will request approval for the acquisition of 2,200 mixed delivery and collection vehicles, 1,250 cargo vans, 375 truck tractors, and shelving modifications for one fifth of deployed Long Life Vehicles (LLVs) in FY 2001. The Capital Plan will continue to replace vehicles that have exceeded their useful life, while adding to the fleet in order to cover growth in delivery points. The shelving modification is an improvement to the existing vehicle model, and contributes to our ability to better manage the changing mix of the mail within our current vehicle capacity.

Retail

In 2001, $236 million will be committed on retail capabilities. Over 90 percent of this amount is earmarked for Point-of-Service (POS) ONE. When fully deployed, POS ONE will capture detailed sales and customer information. This, when integrated with the technology platform will reduce accounting workload in district offices, integrate debit/credit card functionality, provide inventory management, enable automatic reordering, and provide post office box administration ability.

INTEGRATED FINANCIAL PLAN FY 2001 FY 2001Major Retail Projects	
Point Of Service One Stage 2B	213
Self Service Vending Equipment	12
Contract Retail Operations	3
Debit / Credit VARS	2

$ Millions

Investments in new postal booklet stamp vending machines, and new stamp vending machines with debit and credit payment capability will be made.

eBusiness

The Postal Service is now investing in *e*Business technologies to continue the proud tradition of providing universal service in the Internet age. The goal of *e*Business is to provide new Internet based products and services for customers, enhance features and access to core postal products, and improve information about Postal services. *e*Business initiatives are categorized as *e*Commerce, *e*Service, *e*People, and Infrastructure.

INTEGRATED FINANCIAL PLAN FY 2001 *FY 2001 Major eBusiness Projects*	
Internet Infrastructure	18
Mailing Online	5
eBusiness IT Infrastructure	4
eBusiness Security	4
eCommerce Enabling Support	3

$ Millions

*e*Commerce initiatives are new internet based products and services for consumers, businesses and government entities that generate revenue for the Postal Service through user license fees. *e*Service initiatives will enhance features, access, and information about core products and services. *e*People efforts will keep employees better informed, provide a full range of "self service" items, reduce administrative tasks, and increase access to developmental opportunities. All will be supported by an infrastructure that links our core production processes, parallels the hard copy flow of messages, merchandise and money, increases the convenience of retail transactions currently done at a post office and allows for new electronic products, services and choices to be offered to our customers.

The Internet and eBusiness infrastructure programs include several projects designed to get eBusiness off the ground by providing the infrastructure "backbone" needed to compete in the electronic arena. Mailing Online enables small businesses and other mailers to use the Internet as a channel to access information and services related to First-Class and Standard (A) Mail. eBusiness security will provide a strong security architecture designed to protect the USPS networks, platforms, and mission critical electronic business applications. Enabling support for eCommerce will be developed using Internet Shipping Solutions, which offers a suite of shipping tools that extends existing USPS products, services, and information to the Internet.

Research and Development

Key research and development projects focus on research into operational areas that will lead to reduced costs and improved customer service. While Research and Development projects are generally expensed, the following programs will be capitalized consistent with current accounting practices:

INTEGRATED FINANCIAL PLAN FY 2001

FY 2001 Research & Development

Project Title	2001
Automation Support	11
Flats Bundle Collator	4
Material Handling Robotics	4
Retail Outlets - Alternatives	3

$ Millions

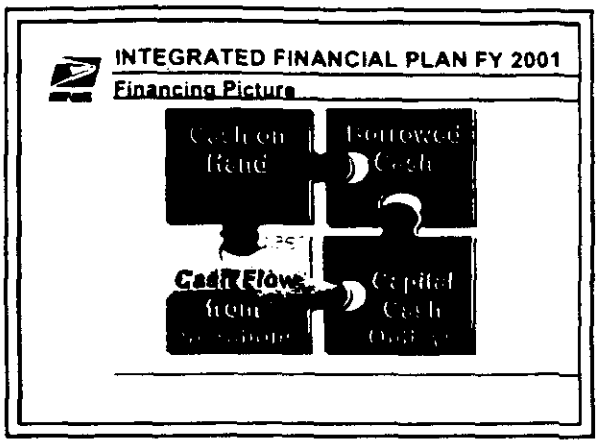
Automation Support provides software development for the National Directory Support System, the offline automation support for mail processing activities.

The Flat Bundle Collator program extends the development of a prototype flats delivery sequencer for large carrier stations.

Material Handling Robotics supports the technology transfer of commercial robotics applications into the Postal Service environment.

Retail Outlet Alternatives explores the low cost alternatives for providing customers convenient access to postal products and services.

FINANCING PLAN



As reflected in the financial outlook on page 23, an estimated $2.0 billion in new net borrowing will be required in FY 2001. The financing picture, as shown, contains four interlocking pieces: cash on hand, cash flow from operations, capital cash outlays, and borrowing (or financing).

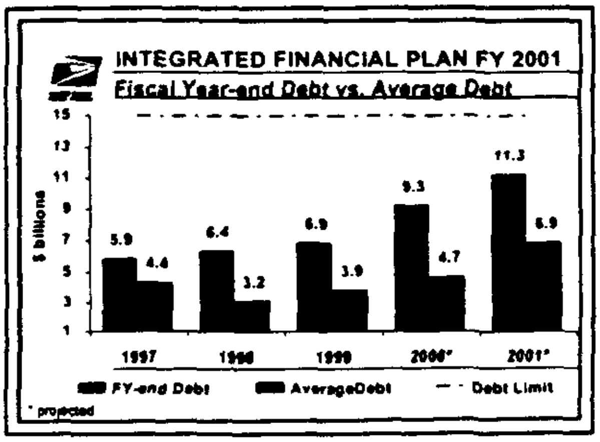
A change in any one piece requires an offsetting change in one or more of the other pieces. The annual change in debt is determined by the interaction of cash flow from operations, capital cash outlays, and changes in the cash balance. In addition, capital cash outlays often differ substantially from capital commitments that do not immediately affect cash.

Taking a longer-term strategic view, management increased the year-end cash balance in FY 2000 and plans to increase cash by $200 million in FY 2001. Given the financial uncertainties that the Postal Service will face in the next few years, a modest increase in the year-end cash balance is a prudent strategy. This action translates into higher balances entering each fiscal year, providing the Postal Service with increased flexibility.

The strategy of minimizing cash and debt has not changed; it has only been refined where cash balances on the last day of the fiscal year are concerned. Management will continue to minimize cash and debt on a daily basis.

The financing needed in any year remains driven by the difference between cash flow from operations and capital cash outlays. When cash flow from operations has been greater than capital cash outlays, the Postal Service has reduced debt. In recent years, cash outlays for capital have exceeded cash flow generated from operations, and debt has increased. In other words, borrowing occurs when capital investments cannot be entirely financed through internally generated funds.

In FY 2001 the Postal Service expects $3.5 billion in cash outlays for capital purchases and cash flow from operations totaling $1.7 billion. These cash flows combined with a planned increase in cash of $200 million will produce a borrowing requirement of $2 billion for FY 2001. Borrowing the full amount requested would bring the debt outstanding with the Federal Financing Bank (FFB) to $11.3 billion.



Due to active management of credit lines, the average debt outstanding during the year will be far less than the year-end balance. The average debt outstanding will increase to $6.9 billion in FY 2001 from $4.7 billion in FY 2000 and FFB interest expense will increase to $430 million from $270 million. Risks to the net income plan translate into risks to cash flow from operations and could adversely affect borrowing and liquidity.

RISKS

The FY 2001 Integrated Financial Plan is the product of an extensive development process, during which numerous scenarios were examined. Management has established a firm foundation for the achievement of the plan. Aggressive actions to manage expenses in response to the lower-than-expected volumes of FY 2000 have been successful. Because the $480 million net loss in the FY 2001 plan is minimized, there is minimal reserve for unforeseen events. Abundant risk factors must be acknowledged and some of these are discussed below.

Revenue
Mail volume and revenue growth fell well below planned levels following the January 10, 1999, rate increase. Historically, mail volume growth has tended to dip after a rate increase. Other factors, such as experimentation with alternate advertising media and the migration of mail toward lower-contribution categories may have exaggerated this normal post-rate increase slowdown in growth. Management believes the zero volume growth plan reflects this recent experience. However, acceleration of these trends could result in volume declines. Additionally, the plan includes $304 million in revenue from new initiatives that carry some degree of uncertainty.

Rate Case Decision
The plan assumes the Postal Rate Commission will return a decision consistent with the rate request. Should the PRC return a substantially different recommendation, the ability to achieve the FY 2001 plan will be materially impacted.

Economic Risk
Significant dangers and risks characterize the Postal Service's economic environment, as FY 2001 begins. Oil prices have risen from a low of $10 a barrel in 1998 to over $36 In October 2000. As labor markets have tightened and capacity has become strained, concerns about mounting domestic inflation, have moved the Federal Reserve to raise interest rates. Economic growth may be poised to flatten. Significant economic change could negatively impact postal operations.

Productivity Improvements
Significant savings from Breakthrough Productivity Initiatives are built into this plan. They are challenging but achievable, and operations management has developed specific strategies for their achievement. These strategies center on the capture of the savings opportunities afforded by improving on plant, delivery, and customer service operations by applying performance management concepts, identifying and distributing best practice tools and standard operating procedures. Economic utilization of the transportation network are also targeted for improvement.

Labor Arbitration
Three labor contracts come up for renewal in November 2000 – the American Postal Worker's Union, the Mailhandlers, and the Rural Carriers. In the absence of an approved contract, labor rates for these three union groups were estimated based on the expected Employment Cost Index (ECI). Should the negotiations produce a substantially different outcome, the ability to achieve the FY 2001 plan will be materially impacted.

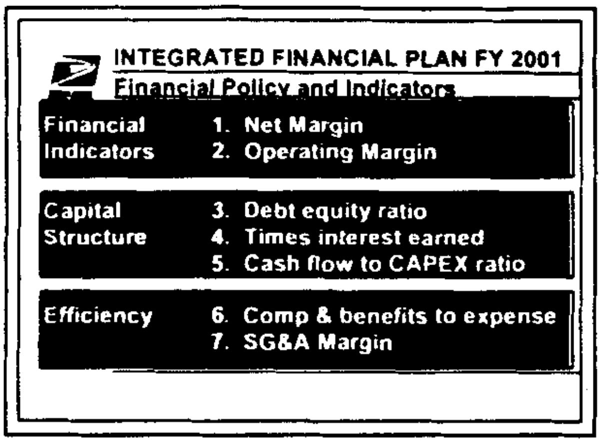
Expense Risks
Significant regulatory changes for the trucking industry are now being proposed and could be effected in FY 2001. The changes relate to the number of hours worked and days off. These changes may add additional expense to Postal Service operations. Management cannot predict any financial impact at this time as no changes to existing regulations have been adopted.

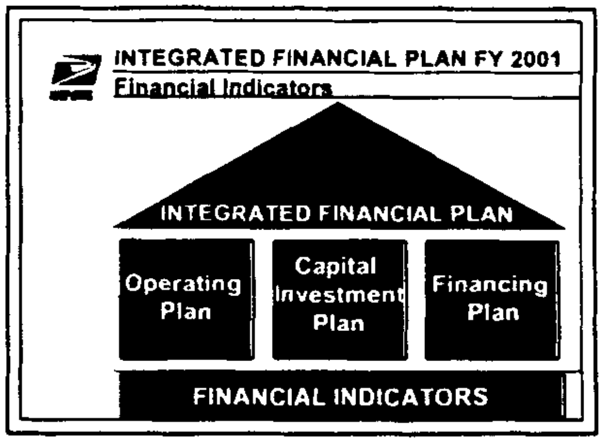
A continuation of FY 2000's adverse workers' compensation trends in FY 2001 could drive those costs beyond the optimistic estimates included in the plan. Management believes that the accelerated claims processing has a one-time impact that will not continue over the course of FY 2001. However, the increase in reported injuries, disproportionately attributable to occupational claims filings, may have a lasting impact on the number of medical and indemnity claims as well as the average cost per medical claim. This will adversely impact the workers' compensation expense accrual, and could result in additional costs in FY 2001.

As always, the potential for the occurrence of unplanned events, such as natural disasters, that could adversely impact the Postal Service's finances, must be acknowledged as a risk.

FINANCIAL POLICIES AND INDICATORS

In 1999, the Board of Governors adopted selected financial Indicators for their use in setting financial policy for the Postal Service. The three areas of financial performance are: financial margins, capital structure and efficiency These are now monitored with the aid of the Indicators listed in the Tables below.





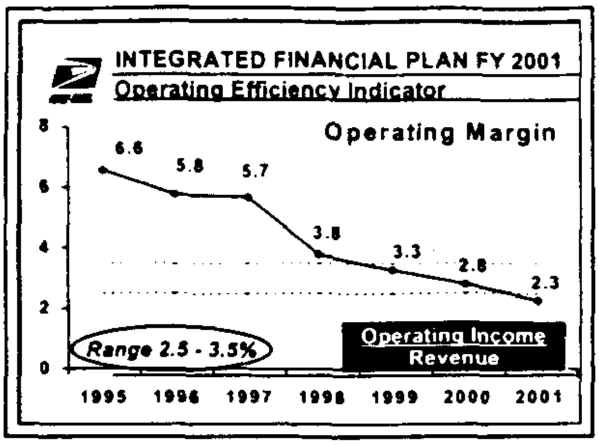
FINANCIAL INDICATORS

These selected financial Indicators, with their specific targets, offer the Board and postal management the opportunity to gain sharper focus on financial performance. Taken together, these Indicator targets frame the planned Postal Service financial results for FY 2001. The Target for each Indicator originates in and corresponds to the specific policy for each financial area that has been established by the Board. As illustrated in the tables on page 22, the indicators and targets are the framework upon which the Integrated Financial Plan is built. The FY 2001 Integrated Financial Plan produces operating margin and CAPEX results within recommended targets. Recovery of prior years' losses is also highlighted here as an integral part of the capital structure.

The Integrated Financial Plan produces an operating margin result of 2.3, which is slightly below the recommended indicator target range of 2.5 to 3.5. Operating margin, defined as operating income divided by revenue, measures performance in areas in which management has the most control.

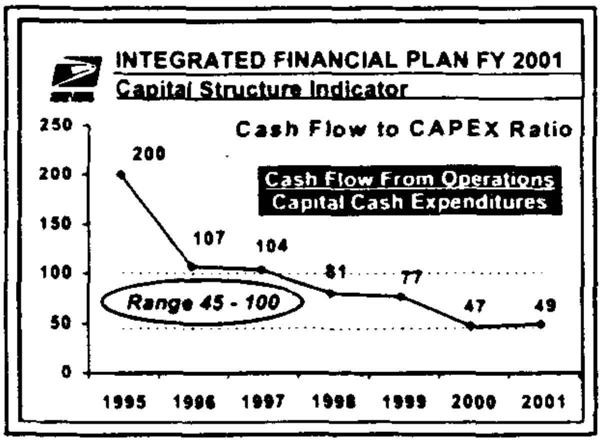
FY 2001 is the third year of the R-97 rate case that assumed price increases would occur in FY 1998. Considering that the implementation of those rates was delayed until January 1999, the reduction in the recovery of the prior years' loss provision from $936 to $377 million, and holding further price increases until January 2001, these results are reasonable.

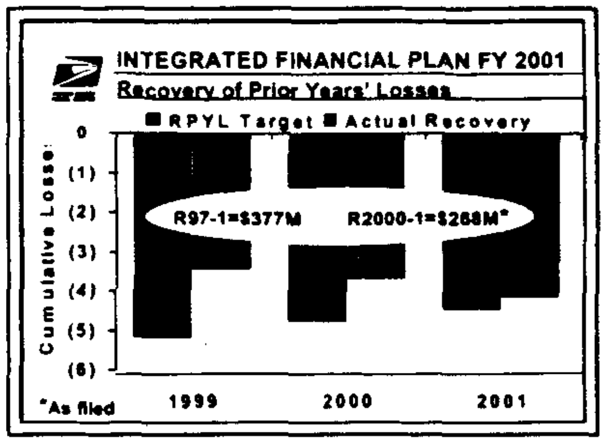
Historical Results of Financial Indicators



The cash flow to capital expenditures ratio is calculated by dividing operating cash flow by capital cash expenditures. This defines the level of capital expenditures to be financed from internal cash generation versus external financing. For the FY 2001 capital structure, a CAPEX result of 49 will be produced. This is on the low side of the targeted range of but it represents a small increase over FY 2000, which had a CAPEX ratio of 47 percent.

The charts to the left and below, reflect the historical results of these indicators for FY 1995 through 2001. Also included on the charts is the recommended range for these Indicators.





This plan will consume a portion of the progress made on the recovery of prior years' losses in relation to Board Resolution 95-9. Due to the accumulated impact of earlier net incomes that exceeded annual targets, the Postal Service will enter FY 2001 an estimated $1.1 billion ahead of the cumulative target. Based on a projected $480 million net loss in FY 2001 and the $295 million annual prior years' loss recovery target, Management estimates finishing FY 2001 $330 million ahead of the cumulative target.

FINANCIAL OUTLOOK

The financial plan allocates resources to achieve corporate goals, strategies, and targets. The plan has three components – the Operating Plan, the Capital Plan, and the Financing Plan – and these are incorporated in this financial outlook. The outlook through 2002 assumes that the Postal Service will implement the pending 6.4 percent rate increase request on January 7, 2001.

The net losses projected for FY's 2001 and 2002 are driven by increases in labor costs. Cost per workyear increases (wages and benefits) are estimated to average 5 percent per year over FY's 2001 and 2002. This rate of labor cost growth reflects acceleration in the growth of labor costs in the economy as a whole as measured by ECI, and the impact of the city carrier contract arbitration award that drives labor cost increases above ECI in FY 2001. This 5 percent growth rate is more than double the average 2.2 percent labor cost growth rate experienced between 1995 and 1999 when the Postal Service earned accumulated net incomes of $5.5 billion. If this lower rate of cost growth had continued, the Postal Service most likely would be predicting net incomes instead of net losses.

INTEGRATED FINANCIAL PLAN FY 2001

Financial Outlook

	2000	2001	2002
Net Income	(0.2)	(0.5)	(0.9)
Depreciation	2.0	2.3	2.4
Adjustments	(0.3)	(0.1)	(0.1)
Cash Flow From Operations	1.5	[illegible]	1.4
Capital Cash Outlay	3.2	[illegible]	3.3
Change in Cash	.7	[illegible]	.0
Net Borrowing	2.4	[illegible]	1.9
Debt	9.3	[illegible]	13.2
Capital Plan	3.4	[illegible]	3.7
Equity	(0.8)	[illegible]	(2.8)
Prior Year Losses	(3.8)	[illegible]	(5.2)

($ Billions)

For FY 2002, there currently are no contracts with the major craft unions. In the absence of agreed to contracts, labor costs are assumed to increase by ECI-1 in FY 2002.

The chart above shows the critical elements of the financial condition through FY 2002. The first four lines of this chart reflect the generation of cash flows from the Operating Plan. Net income, depreciation and other adjustments are the sources of cash flow from operations. The next line in the chart is the capital cash outlay. This represents the cash disbursements necessary to fund capital investments. The difference between cash flow from operations and capital cash outlay is the amount needed to borrow, and that drives the Financing Plan.

The remainder of this chart provides additional information on the Postal Service's financial condition. Debt represents the expected outstanding debt at the end of each fiscal year through 2002. The capital commitment plan reflects the estimated new capital commitments in each year. The equity amount is the sum of contributions from the federal government and prior years' losses, shown in the last line of this chart.

Board Resolution 95-9, concerning restoration of equity and recovery of prior years' losses, established a policy of planning for net incomes that "equal or exceed the cumulative prior years' loss recovery target" set in omnibus rate proceedings. Due to the accumulated impact of earlier net incomes that exceeded annual targets, the Postal Service will enter FY 2001 an estimated $1.1 billion ahead of the cumulative target. Based on a projected $480 million net loss in FY 2001 and the $295 million annual prior years' loss recovery target, the Postal Service will lose ground, but is still estimated to finish FY 2001 $330 million ahead of the cumulative target.

Resolution 95-9 provides that if it appears that the projected target will not be met, the Board and management "will take actions that reduce costs and/or increase revenues." It currently appears that the equity restoration target will not be met in FY 2002. Consistent with this directive, management's preliminary FY 2002 cost projections include approximately $1.1 billion in new cost reduction, primarily relating to breakthrough productivity initiatives. The FY 2002 projection also reflects cumulative new initiative revenue increases of approximately $400 million. It is clear that another omnibus rate case is on the horizon.

Memorandum

CONFIDENTIAL

JPMorgan

J.P. Morgan Securities Inc.

To: Richard J. Strasser
Chief Financial Officer
United States Postal Service

From: Winthrop Watson
Managing Director

Date: August 3, 2001

Subject: Debt

JPMorgan has been asked by the United States Postal Service to consider its debt in the context of debt levels for private sector companies. This letter summarizes the key messages in analyzing the Postal Service's debt, describes the role of debt for private sector companies, compares those companies to the Postal Service, and discusses methodologies for the Postal Service to evaluate the difficult trade-offs inherent in debt financing.

JPMorgan was not asked to focus specifically on retirement and leasing obligations, however, your staff and ours agree that the inclusion of their impact on cash flow is a necessary aspect of a comprehensive debt analysis.

KEY MESSAGES

- Comparisons of appropriate debt levels for the Postal Service to private sector companies are difficult. Without market-oriented pressures related to equity returns and debt costs, corporate finance theories that guide optimal equity and debt relationships for private sector companies cannot readily be applied to the Postal Service.
- Long-term forecasting and related sensitivity analyses are important to help clarify the trade-offs between rates, investing, cost-cutting, borrowing, and repaying debt.
- It is possible to devise substitutes for market constraints that could provide debt level guideposts.
- The Postal Service's management and Board of Governors need to apply their judgement to determine target debt levels for the organization on an ongoing basis.
- If the Postal Service determines that increased borrowing beyond the debt ceiling is necessary, reasonable arguments could be made to Congress and appropriate constituents.

PRIVATE SECTOR COMPANIES

The goal of private sector companies is to maximize the value of equity for their shareholders. The development of financial policies that balance appropriate levels of equity and debt in the capital structure is a complex process subject to considerable judgement or "art" in addition to the more objective "science" of standard parameters set forth by markets or corporate finance theory. The relevant factors considered include the financial prospects for the company, the expected ability to pay interest and repay debt, the availability and cost of equity and debt, as well as the risk tolerances of the shareholders and debt holders. The balance between debt and equity can be a key driver of stock market valuation.

Debt has the potential to magnify risks and returns to equity shareholders and divides the risks and returns of ownership between shareholders and lenders. When companies are profitable, interest expense, which is tax deductible, can provide a tax shield that enhances earnings. The availability and market cost of debt are critical components in determining appropriate debt levels. Market costs of debt rise as a company's risk of insolvency increases, and increased debt increases the risk of insolvency. Provided that returns to the company exceed the principal and interest costs of debt, the addition of debt can magnify earnings available to shareholders. Conversely, debt can magnify losses and reduce shareholder earnings if company returns do not exceed the principal and interest costs of debt.

Debt capacity and optimal capital structure

Companies use several methodologies to evaluate their overall debt capacity and their optimal debt levels. Key tools in these evaluations are forecasts that project financial performance based on prospective balance sheets, income statements, and cash flow statements. These forecasts take into account expected prices, volumes, expenses, investments, acquisitions, efficiencies, potential asset sales, competitive dynamics, macroeconomic conditions, the availability and cost of equity and debt, and other relevant information. Generally, multiple scenarios are forecasted to assess the potential for future results to vary from base case projections. Management judgement, however, is ultimately required to balance the risks and rewards of debt.

- Debt capacity measures how much debt a company can service (pay interest and repay principal). Forecasts are used to estimate the potential cash flow available to service debt, and therefore the maximum amount of debt that can be borne.

- Companies apply corporate finance theory to arrive at their optimal capital structure. These theories are built on balancing the market costs of equity and debt, the value of the tax shield, and the risk tolerances of shareholders, debt holders, and management to create the lowest cost capital structure for the company. In effect, companies balance the benefits of leverage and the tax shield against the cost of debt, the potential costs of bankruptcy, and the desire to retain access to additional financing at reasonable cost.

Corporate finance theory implies that companies with safe, tangible assets and taxable income to shield should have an optimal capital structure that relies more heavily on debt. Less profitable companies with risky, intangible assets should have an optimal capital structure that relies less heavily on debt financing.

Credit risk, cost of debt and access to debt capital

Credit rating agencies, such as S&P and Moody's, use basic forecasts as a tool to compare companies' ability to service their debt. The traditional letter ratings from each agency (AAA, Baa, etc.) imply probabilities of default and recovery. These guide investors to appropriate debt pricing and availability. Companies often use credit ratings as key inputs in balancing debt levels with cost effective market access. When a company's actual performance falls short of expectations and issues arise about the ability to service debt, credit ratings fall, cost of debt rises, and sometimes access to debt ends.

In these circumstances, companies turn to more complex financing techniques to supplement their cash flow. These techniques include asset sales and secured financing structures such as leasing or securitization related to real estate, equipment and other assets. Depending on the circumstances, these transactions can be more cost effective than other alternatives, provide more financing capacity than unsecured debt, and sometimes provide access to financing in times when equity and debt markets are inaccessible.

We have highlighted credit statistics and other financial information for several companies in Appendix I; these companies include UPS, FedEx, several large corporations with revenues or other attributes similar to the Postal Service, and the Tennessee Valley Authority which is a government corporation that also has a Congressionally-mandated debt ceiling. The debt levels and other information show that each company has a somewhat different financing strategy. The key similarity is the choice to maintain relatively high credit ratings. FedEx maintains a lower investment grade rating. By contrast, UPS is one of the few private sector AAA rated companies in the world. TVA, a government corporation that borrows in the public markets, has a higher rating than its financial performance warrants due to its relationship to the government. The financing strategies of these companies include various degrees of equity, debt, leasing, asset sales, and other techniques. With the exception of TVA, their corporate structures are all very complex with multiple businesses in the U.S. and globally. They are all active in mergers, acquisitions, joint ventures, and strategic investments.

THE UNITED STATES POSTAL SERVICE

Comparisons of appropriate debt levels for the Postal Service relative to private sector companies are difficult to make. Without market-oriented pressures related to equity returns and debt costs relative to risk, the corporate finance theories that guide optimal equity and debt relationships for private sector companies cannot be applied to the Postal Service.

Many of these comparative limitations are a result of the Postal Service's statutory structure. Under the current statutory structure, the Postal Service:

- Has the authority to borrow up to $15 billion from the Federal Financing Bank of the Department of Treasury with annual limits of $2 billion for capital purposes and $1 billion for operating expenses.

- Maintains full access to debt at a cost equal to the yield on comparable maturity Treasuries plus 1/8% provided that it remains under its statutory annual and total debt limits but regardless of the financial condition of the Postal Service. As of September 30, 2000, the Postal Service's debt payable to the Federal Financing Bank totaled $9.3 billion.

- Operates for the benefit of the American people, particularly those using the mail services; it is not required to earn a return on equity, and currently maintains negative equity.

- Is limited in terms of financing options since it cannot raise equity and is supposed to break-even over time. This leaves debt and, potentially, asset sales as the only unsecured financing vehicles to manage cash flow timing, accelerate investments and/or supplement cash flow associated with earnings shortfalls.

Methodologies for assessing debt financing

Given the constraints of the current $15 billion debt ceiling, management can set a financial policy with an internal debt limit at a level that provides a safety cushion below the statutory ceiling. If the Postal Service exceeds the internal debt limit, management will have to balance cost savings and investments in order to generate the necessary cash to avoid further borrowing and to potentially repay debt. Additionally, Postal Service management could emulate private sector companies with limited financing alternatives by considering the potential for asset sales or secured financing to raise cash.

Private sector company financial forecasting tools can also help determine whether more or less debt financing is appropriate. We understand that the Postal Service regularly engages in this analysis for the purposes of financial forecasting and rate case preparation. The forecasting and related sensitivity analyses can help clarify the trade-offs between rates, investing, cost-cutting, borrowing, and repaying debt. The impact of retirement obligations, leasing, and other factors would be included in the forecasting. In conducting such analyses, other Postal Service specific issues need to be considered, such as the need to make low return investments, the cash flow implications of recovery of prior years' losses, and contingencies in new rate cases. This process facilitates clear goals allowing for defendable responses to inquiries about the Postal Service's investment and financing programs. Additionally, forecasting analysis helps the Postal Service determine its risk tolerance for debt in the context of its other decisions.

If, through these or other methodologies, the Postal Service determines that increased borrowing beyond the debt ceiling is necessary, arguments can be made to Congress and appropriate constituents. Several rationales could be developed such as: (i) the debt ceiling has not grown with inflation rates or the revenue growth of the Postal Service; if it had, the ceiling would now be around $20 billion; and (ii) the increased borrowing is necessary to achieve the Postal Service's overall objectives.

Risks and rewards of debt for the USPS

The use of debt can act as a powerful tool to finance investments. Debt can provide cash for investments in the near term that might be undesirable or unattainable through rates. Additionally, the timing of interest and principal payments can be matched to the timing of the expected returns of the investments. Generally speaking, the investments will be successful if the aggregate returns exceed the aggregate cost of the debt. Any additional benefits in the form of cost efficiencies, enhanced service, etc. would accrue to the Postal Service and its constituents. Clearly, a critical

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component of such analysis is the return generated by increased investments financed by debt. Theoretically, the Postal Service could justify all investments for which the aggregate returns exceed the aggregate cost of the debt.

In practice, debt has risks. Not all investments perform as planned. If overall investments do not pay for themselves or the Postal Service has cash shortfalls related to under performance in other parts of its business, the existing debt's interest and, eventually, principal will need to be serviced by other sources of cash. This would require some combination of additional borrowing (if available), increased rates, cost cutting, lower investments, asset sales or secured financings. This demonstrates the risky aspect of debt. Key components in evaluating the degree of risk are (i) the probabilities that returns exceeding the cost of debt will be realized; and (ii) the plan for repayment of debt.

Management's role

The Postal Service's management and Board of Governors needs to apply its judgement to determine target debt levels for the organization on an ongoing basis. While JPMorgan believes it is feasible to devise a methodology with substitute constraints that could provide debt level guideposts for the Postal Service, the preparation and collaboration that would be required are beyond the timing and scope of this work.

The Postal Service ultimately will need to incorporate its thinking about debt into the complications of the rate case process and the limitations of operating at break-even over time.

I look forward to discussing these issues further with you.

Appendix I: Comparative statistics

Company data as of fiscal year end 2000

Moody's/S&P ratings	Company	Revenue ($MM)	Net income[1] ($MM)	TBF[2] ($MM)	Net worth ($MM)	Cash flow[3] ($MM)	CAPEX ($MM)	Market cap[4] ($MM)	P/E ratio[4] (x)	Times interest earned[5] (x)	Cash flow/ TBF (x
Baa2/BBB	FedEx	18,257	688	1,783	4,785	1,836	1,627	12,415	18.5	8.3	1.0
Aaa/AAA	United Parcel Service	29,771	2,934	3,604	9,735	4,026	2,147	63,641	24.7	21.9	1.1
Aa2/AA	McDonald's	14,243	1,977	8,474	9,204	3,049	1,945	37,700	21.1	7.5	0.4
A2/A	Philip Morris	63,276	8,510	29,122	15,005	11,23	1,682	100,435	12.4	14.1	0.4
Aa1/AA	Wal-Mart	191,329	6,295	22,316	31,343	9,024	8,042	250,443	39.2	7.9	0.4
A2/A	AT&T	65,981	4,669	69,749	103,19	15,99	14,566	69,848	28.0	2.1	0.2
A1/A+	Verizon	64,826	10,810	57,329	34,578	26,50	17,633	147,504	18.2	5.9	0.5
Aaa/AAA	TVA	6,762	24	25,377	4,951	1,444	867	N/A	N/A	1.0	0.1
N/A	United States Postal Service	64,540	(199)	9,316	(646)	1,830	3,337	N/A	N/A	0.4	0.2

Source: Compustat
[1] Net Income: Calculated before extraordinary items
[2] Total borrowed funds: the sum of debt in current liabilities and total long term debt
[3] Cash Flow: Sum of income before extraordinary items, depreciation and amortization and deferred taxes
[4] Bloomberg 8/2/01
[5] Times Interest Earned = EBIT / Interest expense

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

OCA/USPS–T6–8. Please refer to your testimony at page 15, lines 8-24. The testimony discusses cost reduction programs, many of which appear to be associated with significant investments and projected to attain savings over the next two years. Please provide planned and actual capital investments and commitments for the years 1990-2004 as available for land, buildings, vehicles, customer service equipment, postal support equipment, mechanized support equipment, and automated processing equipment in current year and constant year dollars.

(a) How much of each year's investment is for improvements in quality of service?
(b) How much of each year's investment is for product additions?
(c) How much of each year's investment is for cost reduction?
(d) How much of each year's investment is for new capacity?

RESPONSE:

Actual and planned historical capital commitments by major category for FY 1990 through Accounting Period 12 of FY 2001 can be found in the Financial & Operating Statements. These reports are provided to the Postal Rate Commission and are also available in the U.S. Postal Service Library. Please refer my responses to OCA/USPS-T6-3 and 4 for planned capital commitments.

(a-d) Capital investments are not accounted for according to the categories you have specified. The purpose of many capital investments typically relates to more than one of these categories.

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

OCA/USPS-T6-9. Please refer to your testimony at page 3, line 6; page 16, line 29; page 18, line 15; page 46, line 7; and page 50, line 6. The cited testimony mentions service, generally in reference to investment needs.

(a) Please explain by type of investment project how the implementation of capital investment projects has impacted services and service standards. Please distinguish between improvements in quality of service, increases in types of service, and extensions of service to additional customers.

(b) Please define how the Postal Service measures service quality. Assuming that the answer to this question includes information on the number of days for delivery, please also indicate what other measures of service are used.

(c) If service has improved, please explain how investment projects have resulted in service improvements; please give specific examples.

(d) If service has declined, please explain how investment projects have resulted in service decline; please give specific examples.

RESPONSE:

(a) At page 3, line 6, I was referring to both the quality and scope of service and did not have any specific investment projects in mind.

At page 16, line 29 and page 18 line 15, the reference is to improve the quality of service, and improved service can take on the form of greater speed, better reliability, improved accessibility or improvements in any other attributes that our customers value. Essentially all capital investments of whatever type contribute to one or more of these areas of improvement. I have not distinguished capital investments by each.

To the extent that I have discussed service in my testimony in relation to capital investments and the capital freeze, the emphasis is on the need to have an adequate capital investment program to supply productive capacity and be in a position to serve our growing delivery network. Freezing our capital program impedes our ability to serve customers and that is why I refer to that freeze at page 46, line 7 as a "stopgap measure." I specifically refer to universal service at page 50 line 6, because our universal service obligations lead to a continuing need to increase facility, vehicle and infrastructure regardless of whether mail volume grows or declines.

(b) The Postal Service measures service quality in a number of ways, as follows:

- External First Class Measurement System (EXFC) is an independent, third-party system that measures First-Class Mail performance from the time mail enters the mailstream until the time it is delivered. EXFC examines service from a customer perspective for overnight, two-day, and three-day service areas.
- Express Mail Reporting System (EMRS) is an internal system that measures the on-time performance of Express Mail on an individual piece basis.
- Priority Mail End-to-End (PETE) is an independent, external measurement system that measures Priority Mail performance from the time mail enters the system until the time it is delivered. PETE is a customer-focused system which encompasses about 70% of the nation's destinating, identified Priority Mail volume.
- Customer Satisfaction Measurement (CSM) is an independent, third-party measurement system that provides measures of customer experience with Postal products and services. The CSM survey provides information to Postal Service management on ways to improve overall customer satisfaction.
- The Accuracy of Delivery Indicator (ADI) is an independent, externally-measured quality indicator for misdelivered and damaged mail. ADI is for internal use only and is intended to complement the customer satisfaction measures of accuracy.

(c) The Postal Service believes that service has generally improved over the last five to ten years, but is concerned that this trend may not continue if capital spending is excessively limited. Capital investments typically improve service by responding to network growth, by increasing productive capacity, improving accessibility, increasing reliability and/or throughput of operations or otherwise directly or indirectly serving our customers. Virtually any automation or facilities project or vehicle purchase could be used to illustrate this impact.

(d) See answer to part (c), above.

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

OCA/USPS-T6-10. Please refer to your testimony at page 46, lines 4-13. Please define the hurdle rate used by the Postal Service in determining whether to implement a capital investment project.

(a) Assuming that the hurdle rate is the internal rate of return that an investment must yield in order to qualify for implementation, please explain how the rate is computed, including examples of the measurement of benefits, measurement of costs, and derivation of a cost of capital.

(b) Please provide three examples of the computation of a hurdle rate, based on actual investments.

(c) If the hurdle rate is not the internal rate of return that an investment must yield in order to qualify for implementation, please explain the computation of the appropriate rate, including examples of the measurement of benefits, the measurement of costs, and the derivation of a cost of capital.

(d) Please provide three examples of the computation of a hurdle rate, based on actual investments.

RESPONSE:

The required economic return for capital projects is addressed in Section 1-5.2 of Handbook F-66, General Investment Policies and Procedures (see Attachment I). As noted in Attachment II, Decision Analysis Report Factors/Costs of Borrowing Update, for economically justified projects, a Return on Investment (ROI) threshold or hurdle rate of 20 percent is used.

(a) Please see Attachment II referenced above.

(b) Attachment III provides the cash flow statements for three projects reflecting return on investment calculations.

(c) Please see above response.

(d) See my response to (b) above.

1-5 Investment Strategy

1-5.1 Objectives

The investment strategy of the Postal Service has the following objectives:

- To invest in buildings, equipment, and other corporate initiatives to attain maximum operating efficiency or an overall acceptable return on investment (ROI).
- To invest in facilities and equipment that provide desirable working conditions for Postal Service employees.
- To provide convenient access to existing and future air and surface transportation facilities.
- To control costs.
- To support the strategies of the Strategic Plan and the goals of the *CustomerPerfect!$_{sm}$* performance management system.
- To ensure adequate security of the mail and postal assets.
- To improve the level of services offered and respond to customer needs.
- To enhance material handling, transportation, retail, and administrative operations.
- To invest in revenue-generating programs.

1-5.2 Required Economic Return

The vice president, Finance, Controller, periodically publishes a memo updating the required ROI for investment projects. This memo establishes the current cost of capital and risk factors, which are used to determine the discount rate used in the cash flow to calculate the net present value (NPV) of a proposed investment. The NPV determines whether a project meets the investment standards of the Postal Service. To be justified solely on economics, a project must meet or exceed the ROI threshold (discount rate) for that category of project. This memo also provides updated DAR factors for escalation of baseline costs, servicewide costs, and productive workyears (see Exhibit 1-1).

1-5.2.1 Generative and Sustaining Investments

Different discount rates apply, depending on the type of project and whether the investment is generative or sustaining:

- **Generative Investments** are driven by economic considerations. They must not only measurably enhance postal operations but must demonstrate the potential to provide economic benefits (that is, an ROI that equals or exceeds the established minimum ROI).
- **Sustaining Investments** assure the continuation of ongoing operations (for example, by correcting or eliminating a problem) while maintaining security, service, and appropriate working conditions. Economic benefits, if any, are generally secondary.

VICE PRESIDENT
FINANCE, CONTROLLER

UNITED STATES
POSTAL SERVICE

August 22, 2001

ALL OFFICERS
AREA FINANCE MANAGERS
DISTRICT MANAGERS
MANAGERS, PROCESSING AND DISTRIBUTION CENTER/FACILITY
MANAGERS, FACILITIES SERVICE OFFICE

SUBJECT: Decision Analysis Report Factors/Cost of Borrowing Update

A review of the cost of borrowing to be utilized in the calculation of present values for Decision Analysis Reports has been performed. This rate has been determined to be 5.5 percent. This reflects our current cost of debt financing and should not be confused with the cost of capital utilized in the calculation of Economic Value Added nor as the input to the Pay for Performance Program.

The escalation factors for USPS labor, non-USPS labor, energy-related cost items, and all other costs were reviewed and updated using the June 2001 Data Resource Incorporated–WEFA forecast. The factors represent a ten-year average beginning fiscal year 2000 through 2009. These factors reflect a downward trend in labor costs and upward trend in energy and other costs over the previous forecast. The servicewide and productive workyear factors have not changed, based on fiscal year 2000, the latest complete fiscal year. All of the factors will be reviewed and updated, as necessary.

Attached for your information is an updated matrix portraying the current rates, which will be effective on September 8, 2001. All projects not in the review cycle should use these new factors. For those projects currently being considered for final approval, please contact Capital and Program Evaluation for guidance.

Donna M. Peak

Donna M. Peak

Attachment

cc: Mr. Hartsock
Mr. Sgro
Mr. Tayman
Ms. Weir

475 L'ENFANT PLAZA SW RM 8011
WASHINGTON DC 20260-5200
(202) 268-4177
FAX (202) 268-6934

DECISION ANALYSIS REPORT (DAR) FACTORS

A. DISCOUNT RATE/RETURN ON INVESTMENT (ROI)

Type of investment / Nature of investment	sustaining			generative		
	risk factor (a)	cost of borrowing (b)*	discount rate (a+b)	risk factor (a)	cost of borrowing (b)*	discount rate (a+b)
Building/vehicles	1.5%	5.5%	7.0%	3.5%	5.5%	9.0%
mechanization (automation)	2.5%	5.5%	8.0%	4.5%	5.5%	10.0%
high technology	-	-	-	5.5%	5.5%	11.0%
new ventures	-	-	-	5.5%	5.5%	11.0%

reviewed semi-annually

Economically justified projects should meet or exceed a 20 percent ROI threshold. However, other issues, such as service and safety, may influence this threshold.

B. ESCALATION FACTORS

USPS workhour rate*	2.9%
Non-USPS labor workhour rate	3.9%
Energy-related cost items	2.9%
All other costs	2.0%

**Composite rate, including all benefits and servicewide, to be used when specific outyear rates are unknown.*

C. SERVICEWIDE FACTORS

Servicewide factors are to be used in a financial analysis of contracting out versus in-house services only. This factor is multiplied against labor costs to determine personnel costs paid at the national level which are not reflected in the local labor rates (example: civil service deferred retirement liability and unemployment compensation).

bargaining	supervisor
8.7%	6.8%

D. PRODUCTIVE WORKYEAR FACTORS

Productive workyear factors for use in all decision analysis reports and contracting out versus in-house service analyses. These factors represent the number of workhours in a workyear and are used in conjunction with the local workhour rates (which include compensation and benefits) in order to determine the cost per workyear.

bargaining	supervisor
1,763 hours	1,823 hours

Effective date: September 8, 2001

Authorized: Donna M Peak

Donna M. Peak
Vice President, Finance, Controller

Equipment Project, Example #1 ($000)

YEAR	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TOTAL
PROJECT YEAR	0	1	2	3	4	5	6	7	8	9	10	11	12	
# OF MACHINES INSTALLED	0	11	35	0	0	0	0	0	0	0	0	0	0	46
I. CAPITAL INVESTMENT														
HARDWARE	-3964	-17875	-17892											-39731
SITE PREPARATION		-583	-1855											-2438
CONTINGENCY		-1092	-895											-1987
INITIAL SITE SPARES	-215	-1005	-1025											-2245
TOTAL CAPITAL INVESTMENT	-4179	-20555	-21666											-46400
II. EXPENSE INVESTMENT														
DEPOT SPARE PARTS		-18	-56											-74
TOTAL EXPENSE INVESTMENT	0	-18	-56											-74
III. OPERATING VARIANCES														
ENERGY COSTS		-6	-249	-359	-371	-384	-397	-411	-425	-439	-454	-469	-485	-4449
RECURRING SPARES		-2	-132	-213	-218	-223	-229	-235	-241	-247	-253	-259	-266	-2517
INITIAL MAINT. TRAINING (DIRECT LABOR)		-664	-2301											-2964
INITIAL OPERATOR TRAINING (DIRECT LABOR)		-329	-1403											-1732
RECURRING MAINT./OPERATOR TRAINING		-8	-168	-178	-183	-187	-192	-197	-202	-207	-212	-217	-223	-2175
ADDITIONAL SUPERVISION & ALLIED LABOR		-171	-2517	-3088	-3205	-3327	-3454	-3585	-3721	-3862	-4009	-4162	-4320	-39420
POSTAL MAINTENANCE		-26	-1590	-2588	-2687	-2789	-2895	-3005	-3119	-3237	-3360	-3488	-3621	-32405
SAVINGS		403	19234	25221	26179	27174	28207	29278	30391	31546	32745	33989	35280	319646
IV. TOTAL OPERATING VARIANCES	0	-803	10875	18794	19515	20263	21040	21847	22684	23554	24456	25393	26366	233984
V. NET CASH FLOW	-4179	-21375	-10848	18794	19515	20263	21040	21847	22684	23554	24456	25393	26366	187510
VI. RETURN ON INVESTMENT	40.3%													
VII. NET PRESENT VALUE @ 11.8%	$66,646													

Equipment Project, Example #2 ($000)

FISCAL YEAR	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TOTAL
PROJECT YEAR	0	1	2	3	4	5	6	7	8	9	10	11	
# OF MACHINES INSTALLED		240											240
I. CAPITAL INVESTMENT													
HARDWARE	-31200	-46800											-78000
SITE PREPARATION	-1536	-2304											-3840
CONTINGENCY	-3120	-4680											-7800
INITIAL SITE SPARES	-3232	-4848											-8081
MAINTENANCE CONTRACT COSTS		-3798											-3798
OPERATOR CONTRACTOR TRAINING		-95											-95
SPECIAL TOOLING	-103	-155											-259
INSTALLATION	-2880	-4320											-7200
TOTAL CAPITAL INVESTMENT	-42072	-67000											-109072
II. EXPENSE INVESTMENT													
DEPOT SPARE PARTS		-2159											-2159
TOTAL EXPENSE INVESTMENT		-2159											-2159
III. OPERATING VARIANCES													
RECURRING SPARES		-792	-2071	-2123	-2176	-2230	-2286	-2343	-2402	-2462	-2523	-2587	-23995
INITIAL MAINT. (DIRECT LABOR)		-4930											-4930
INITIAL OPERATOR TRAIN. (DIRECT LABOR)		-3161											-3161
RECURRING OPERATOR TRAINING		-124	-328	-341	-353	-367	-381	-395	-410	-426	-442	-459	-4027
RECURRING MAINT. TRAINING		-699	-1852	-1922	-1995	-2071	-2149	-2231	-2316	-2404	-2495	-2590	-22723
POSTAL MAINTENANCE		-1984	-5257	-5457	-5665	-5880	-6103	-6335	-6576	-6826	-7085	-7354	-64523
ENERGY		-259	-683	-706	-730	-755	-780	-807	-834	-863	-892	-922	-8231
SAVINGS		12314	54169	56724	58879	61117	63439	65850	68352	70950	73646	76444	661884
TOTAL OPERATING VARIANCES		366	43978	46175	47960	49814	51739	53738	55814	57969	60208	62532	530293
IV. NET CASH FLOW	-42072	-68794	43978	46175	47960	49814	51739	53738	55814	57969	60208	62532	419062
V. RETURN ON INVESTMENT		36.72%											
VI. NET PRESENT VALUE @ 11.8%		$157,129											

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Equipment Project, Example #3 ($000)

FISCAL YEAR	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TOTAL
PROJECT YEAR	0	1	2	3	4	5	6	7	8	9	10	11	
# OF MACHINES INSTALLED		240											240
I. CAPITAL INVESTMENT													
HARDWARE	-31200	-46800											-78000
SITE PREPARATION	-1536	-2304											-3840
CONTINGENCY	-3120	-4680											-7800
INITIAL SITE SPARES	-3232	-4848											-8081
MAINTENANCE CONTRACT COSTS		-3798											-3798
OPERATOR CONTRACTOR TRAINING		-95											-95
SPECIAL TOOLING	-103	-155											-259
INSTALLATION	-2880	-4320											-7200
TOTAL CAPITAL INVESTMENT	-42072	-67000											-109072
II. EXPENSE INVESTMENT													
DEPOT SPARE PARTS		-2159											-2159
TOTAL EXPENSE INVESTMENT		-2159											-2159
III. OPERATING VARIANCES													
RECURRING SPARES		-792	-2071	-2123	-2176	-2230	-2286	-2343	-2402	-2462	-2523	-2587	-23995
INITIAL MAINT. (DIRECT LABOR)		-4930											-4930
INITIAL OPERATOR TRAIN. (DIRECT LABOR)		-3161											-3161
RECURRING OPERATOR TRAINING		-124	-328	-341	-353	-367	-381	-395	-410	-426	-442	-459	-4027
RECURRING MAINT. TRAINING		-699	-1852	-1922	-1995	-2071	-2149	-2231	-2316	-2404	-2495	-2590	-22723
POSTAL MAINTENANCE		-1984	-5257	-5457	-5665	-5880	-6103	-6335	-6576	-6826	-7085	-7354	-64523
ENERGY		-259	-683	-706	-730	-755	-780	-807	-834	-863	-892	-922	-8231
SAVINGS		20895	91919	96254	99912	103708	107649	111740	115986	120394	124968	129717	1123142
TOTAL OPERATING VARIANCES		8947	81728	85706	88993	92406	95949	99628	103448	107413	111530	115805	991552
IV. NET CASH FLOW	-42072	-60213	81728	85706	88993	92406	95949	99628	103448	107413	111530	115805	880320
V. RETURN ON INVESTMENT		66.4%											
VI. NET PRESENT VALUE @ 11.8%		$387,678											

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

OCA/USPS-T6-11. Please refer to your testimony at page 46, lines 4-13.

(a) What has been the average projected and realized internal rate of return (or the expected hurdle rate) over each of the last five years for initiated capital projects on a total basis in each of the following areas: land, buildings, vehicles, customer service equipment, postal support equipment, mechanized processing equipment, and automated processing equipment. Please provide both projected and realized rates. Please provide information on a total basis for each of the types of investment.

(b) How does the Postal Service determine whether a project is successful--i.e. is there internal monitoring of actual savings or, alternatively, a different type of measure? Please explain in detail.

(c) Please provide the documentation that delineates the USPS standards for determining the success or failure of investment projects.

RESPONSE:

(a) Attached is the requested information for projected rates of return that is available by investment category for FYs 1998 through 2002. The actual realized rates by category are not calculated.

(b) A successful project is one that meets the goals established in the projects Decision Analysis Report (DAR). For sustaining projects, the benefits could be related to such non-economic factors as service improvement, safety, infrastructure, or some other objective spelled out in the DAR. A generative project would be expected to attain the ROI projected for it in the DAR to be judged a complete success; at a minimum, however, it should meet or exceed the Postal Service's discount rate. To ensure that cost savings from capital projects are captured, cost reductions are included in operating budgets.

(c) See my response to OCA/USPS-T6-10.

FIVE-YEAR CAPITAL ROI PLAN
EXECUTIVE SUMMARY
(MILLIONS)

ATTACHMENT
OCA/USPS-T6-11

	1998	1999	2000	2001	2002
TOTAL FACILITIES CAPITAL BUDGET	$1,964	$1,653	$1,443	$462	$519
CORRESPONDING NET CASHFLOW =	($667)	($526)	($528)	($271)	-216
NPV =	($4,628)	($3,446)	($4,267)	($2,969)	($2,878)
FACILITIES PROGRAM ROI =	3.3%	3.5%	3.4%	2.3%	2.2%
TOTAL AUTO/MECH CAPITAL BUDGET	$1,733	$1,489	$1,470	$691	$1,133
CORRESPONDING NET CASHFLOW =	($569)	($472)	($534)	($265)	($444)
NPV =	$6,823	$5,014	$6,556	$3,803	$5,338
AUTO/MECH PROGRAM ROI =	28.6%	31.1%	28.6%	30.2%	29.7%
TOTAL VEHICLES CAPITAL BUDGET	$298	$292	$353	$58	$94
CORRESPONDING NET CASHFLOW =	($121)	($119)	($141)	($26)	($38)
NPV =	($312)	($258)	($324)	($567)	($206)
VEHICLES PROGRAM ROI =	-3.7%	2.8%	-3.2%	-7.3%	-2.9%
TOTAL RETAIL EQUIPMENT CAPITAL BUDGET	$381	$387	$244	$199	$80
CORRESPONDING NET CASHFLOW =	($194)	($185)	($124)	($102)	($40)
NPV =	($186)	($149)	($163)	($152)	($42)
RETAIL EQUIPMENT PROGRAM ROI =	7.8%	5.5%	8.0%	6.6%	10.2%
TOTAL POSTAL SUPPORT CAPITAL BUDGET	$1,217	$641	$490	$191	$581
CORRESPONDING NET CASHFLOW =	($925)	($489)	($388)	($155)	($439)
NPV =	($754)	($615)	($616)	($590)	($710)
POSTAL SUPPORT PROGRAM ROI =	3.3%	4.2%	2.1%	4.5%	3.0%

SUMMARY	1998	1999	2000	2001	2002
TOTAL 5-YR CAPITAL PLAN =	$5,593	$4,442	$4,000	$1,601	$2,408
CORRESPONDING NET CASHFLOW =	($2,476)	($1,611)	($1,713)	($819)	($1,177)
SUM OF NET PRESENT VALUES =	$943	$546	$1,186	($476)	$1,503
R.O.I. FOR THE MIX =	15.9%	14.9%	18.6%	14.7%	17.6%

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

OCA/USPS-T6-12. Please refer to your testimony at page 46, lines 4-13. What are the projected internal rates of return over each of the next five years for the planned capital projects on an overall basis and in the following areas: land, buildings, vehicles, customer service equipment, postal support equipment, mechanized processing equipment, and automated processing equipment.

(a) What is the projected dollar level of investment for each of the above cost classifications?

(b) How will each of these investments impact service quality and service standards?

RESPONSE:

Please see my response to OCA/USPS-T6-11(a) for the projected return on investment for FY 2002. A revised five-year Capital Investment Plan has not been developed, accordingly the requested information is not available beyond FY 2002.

(a) Please see my response to OCA/USPS-T6-7.

(b) Please see my response to OCA/USPS-T6-9(a).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
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OCA/USPS-T6-13. Please refer to your testimony at page 11, lines 18-24. This discusses the problem of paring down further an already limited capital program. The Postal Service earlier this year made major cuts in its investment budget.

(a) For each year since and including FY 1999 for which the investment budget has been cut, please explain why the planned level of investment was cut.
(b) For each year since and including FY 1999 for which the investment budget has been raised, please explain why the planned level of investment was raised.
(c) Please explain how these changes in the level of investment have impacted or will impact customer service, the quality of service, and service standards for the postal years 2000-2005; please provide projected information on a yearly basis.
(d) Please explain how these changes in the level of investment have impacted or will impact the need for a contingency.
(e) Please explain how these changes in the level of investment have impacted operating costs in the past or will impact operating costs over the next five years; please provide information on a yearly basis.
(f) Please provide USPS documentation justifying the elimination and/or deferment of capital projects since and including FY 1999.
(g) Please provide information on the projected internal rates of return for the investment projects terminated or delayed by the following asset classes: land, buildings, vehicles, customer service equipment, postal support equipment, mechanized processing equipment, and automated processing equipment.

RESPONSE:

(a) There was no reduction in the capital investment plan for Fiscal Year 1999. Planned capital investments for Fiscal Year 2000 were reduced by $550 million as referenced in the attachment to my response to OCA/USPS-T6-4. The planned commitments for Fiscal Year 2001 were reduced by $2 billion as referenced in my testimony on page 46, lines 4-13.

(b) There were no actions taken to raise investment levels in the years requested.

(c) Although the investment level was reduced, the Postal Service focused on using available funds to invest in generative projects. The outcome for both FY 2000 and 2001 has been an improvement in the productivity rates for the organization. We do not project a degradation in service.

(d) Reductions in planned for capital investments were implemented to conserve cash. The inadequate contingency recommended by the Commission in Docket No. R2000-1 contributed to the cash shortfall. This unfortunate experience reinforces the

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need to adopt the Postal Service's reasonable contingency provision and demonstrates the Postal Service's ability to absorb financial risk is extremely limited and has collateral consequences.

(e) In FY 2000, capital investments were reduced by $553 million in an effort to reduce the depreciation cost. The impact was a reduction in depreciation cost of $40 million; however, at the end of the fiscal year, prior investments in the Point of Service project were capitalized, resulting in depreciation overruns. For FY 2001, the reduction of $2 billion in investments resulted in a $44 million reduction in the depreciation cost. We know that a reduction in capital expenditures now will most likely result in a negative impact on operating costs in the out years. However, it is impossible to project the effect of those reduced expenditures on a yearly basis due to the many unknowns involved and the complex nature of the business. It should be noted that the investments are not being reduced to save money; they are being curtailed as a result of our diminished ability to generate sufficient funds in the present economic environment.

(f) See the attached statement of the Chairman of the Board of Governors.

(g) All the delayed projects for FY 2001 were facility-related projects having projected rates of return of zero or less.

Statement
Robert F. Rider, Chairman of the U.S. Postal Service Board of Governors

February 6, 2001
San Antonio, Texas

Following a report on the Postal Service's integrated financial plan, the U.S. Postal Service Board of Governors issued the following statement today.

While the Board recognizes that management has successfully reduced labor costs, and has achieved record productivity and service improvements, and continues to do so, they directed several immediate management actions. Specifically:

- to undertake a thorough review of all programs and projects, and curtail or eliminate all non-essential activities.
- to begin preparing a rate case as soon as possible to ensure the continued financial viability of the Postal Service.
- to evaluate the Postal Service's rate making needs over the long range (up to five years), which will allow the Postal Service to respond to rapidly changing market conditions.
- to review the rules established by the Postal Rate Commission to determine whether changes can be made to ensure a more responsive rate making process.
- to review all management tools within the present statutory and regulatory framework to aggressively improve its financial integrity.

The Board directed management to reduce its capital commitment budget in fiscal year 2001 from $3.6 billion to $2.6 billion; to postpone making future financial capital commitments and to consider the financial outlook as it moves forward and to match future capital commitments to cash flow.

The Board unanimously stated disappointment with the PRC recommended decision in the recent rate case and looks forward to the PRC reconsideration. In the decision, the PRC reduced $1 billion from the revenue requirement, including a $700 million contingency fund reduction. In addition to the adverse consequences of the PRC decision, the Postal Service continues to experience shrinking margins as costs rise more sharply than revenues.

The Board reaffirmed its prior public commitment to protect the universal service mandate by pursuing statutory reform.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
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OCA/USPS-T6-14. The Postal Service has presented information in speeches by its senior management on the need for investment to control costs, improve service, etc. Please also refer to your testimony at page 46, lines 4-13. In particular please focus on the sentence in line 7, "This is a stopgap measure."

(a) What is the overall level of additional needed investment?

(b) Is there a plan for achieving this needed level of investment?

(c) What will be the effect on the quality of service if this level of investment is not achieved?

RESPONSE:

(a-c) As indicated in my response to OCA/USPS-T6-12, a revised capital plan beyond FY 2002 has not been developed. Also, please see my response to OCA/USPS-T6-9 (a) and (c) for discussion of service relative to capital investments.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
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OCA/USPS-T6-15. Please refer to your testimony at page 46, lines 4-13. On the assumption that there is an unmet need for additional capital investment, please provide information in current year and constant year dollars for end of year real capital stock by the following asset types for the years 1990-present: land, buildings, vehicles, customer service equipment, postal support equipment, mechanized processing equipment, automated processing equipment.

(c) Does this level equal the optimal level of capital stock needed for customer service?.

(d) If the answer to question (a) is negative, what is the impact on customer service?

(e) If the answer to question (a) is negative, what is the impact on operating costs?

(f) Do you have any studies related to the overall need for additional investments?

RESPONSE:

This information in constant year dollars is provided in the categories requested with the exception of "mechanized processing equipment" and "automated processing equipment" which is combined under the category of "mail processing equipment" as follows:

1997-1999	R2001-1, Chapter XII, LR J-50
1997-2000	R2000-1, Chapter XIII, LR I-27
1995-1996	R1997-1, Chapter XIII, LR H-12
1992-1993	R1994-1, Exhibit 8-B, testimony of John Ward

For the years 1990, 1991 and 1994, the requested information in constant dollars can be extracted from the accounting period 14 Trial Balance for these years that are on file with the Postal Rate Commission.

(a) Based on the assumption included in the question "that there is an unmet need for additional capital investment," I would assume that the level of capital stock would not be at the optimal level needed for customer service.

(b) Please see my response to OCA/USPS T6-9 (a) for relationships between capital investments and service.

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OCA/USPS-T6-15. CONTINUED.

(c) We have not identified the optimum level of capital investment for customer service, accordingly, we have likewise not quantified the impact on operating costs related to different levels of capital investments.

(d) There are no current studies that I am aware of relating to the overall need for additional investments

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OCA/USPS-T6-16. Please refer to your testimony at page 44, line 18 to page 45, line 15, discussing depreciation.

(a) Please provide the rates of depreciation, by asset class, that the Postal Service applies to its capital stock.

(b) Does the Postal Service have any studies that indicate that the performance of the equipment degrades proportionally with the depreciation? If so, please provide them.

(c) Does the Postal Service have any studies that show how maintenance costs for equipment are related to the age of the equipment? If so, please provide them.

RESPONSE:

(a) See the attachment.

(b No.

(c) No.

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
3DJ	4230.65	86233	07	HAND PALLET TRUCK 5000LBS (EMERY)
1NY	3700.04	86531	10	ACCESS CONTROL SYS BADGE READER
1NY	3700.00	86531	10	ACCESS CONTROL SYSTEM
1NY	3700.08	86531	10	ACCESS/SECURITY/ALARM EQUIPMENT
3TY	3980.00	86533	03	ACOUSTICAL COVERS/SILENCING EQPT
3TY	3980.04	86533	05	ADAPTER, ADP
1HC	3500.00	86531	05	ADDRESSING MACHINE
3TY	3905.50	86533	05	ADP CLEANING/MAINTENANCE EQPT
3TG	3900.98	86533	03	ADP MODIFICATION COST
3TY	3905.60	86533	05	ADP TESTING/ANALZ/MONITORING EQPT
2MA	2200.00	86532	10	AIR CONDITIONER
3TY	3990.00	86533	03	AIR CONTRACT DATA COLL SYS, ACDCS
2MY	2220.00	86532	10	AIR CURTAIN, ENTRANCE/EXIT DOOR
1RP	8900.00	86531	10	AIRCRAFT
2DK	9210.20	86235	07	ALERT SPRKLR/RAPISTAN EQUIP (EMERY)
2MC	2210.00	86532	10	ALTERNATOR, POWER PLANT
1MC	8210.00	86531	05	AMPLIFIER, POWER/SOUND
2DC	4010.91	86232	10	ANALYZER, MARK II
2PB	6010.00	86532	10	ANALYZER, VEHICLE MAINTENANCE
3FY	4430.15	86233	07	ANGLE SCALE (EMERY)
1SA	3600.00	86531	10	ANSWERING/RECORDING UNIT, TELE SYS
3TA	3955.10	86533	05	AOI/NETWORK-RTR,SPLS/SVCS,LAN WIRE
3TA	3955.20	86533	05	AOI/USER-SERVER,MONTOR,PRINTER
1KY	3000.00	86531	10	ART/STATUARY/DECORATOR ITEMS
3TA	3955.00	86533	05	ASSOCIATE OFFICE INFRASTRUCTURE
1MY	8230.90	86531	10	AUDIO-VISUAL MISCELLANEOUS EQPT

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
1MY	8230.00	86531	10	AUDIO-VISUAL SPECIAL EFFECTS EQPT
1MF	8220.00	86531	10	AUDIO, PLAYER/RECORDER
1RE	8010.00	86531	10	AUDIOMETER
1DF	9300.60	86231	10	AUTO PACKAGE PROCESSING SYS (APPS)
3TY	3980.08	86533	03	BADGE PUNCHER
2KY	2080.00	86532	10	BALER, PAPER
2DD	9500.00	86235	10	BAR CODE READER
1RE	8010.04	86531	10	BED, MEDICAL UNIT
2LB	2110.00	86532	10	BENDER/BRAKE, METAL
1HF	3500.04	86531	10	BINDING MACHINE
1DF	9700.00	86231	10	BMC CONTAINER LOADER/UNLOADER
1DF	9700.19	86231	10	BMC INBOUND-OUTBOUND CONV MOD COST
1DF	9700.10	86231	10	BMC INBOUND-OUTBOUND TOW CONVEYOR
1DF	9700.20	86231	10	BMC PARCEL SORTING INDUCTION UNIT
1DF	9700.29	86231	10	BMC PARCEL SORTING MACH MOD COST
1DF	9700.22	86231	10	BMC PARCEL SORTING MACHINE
1DF	9700.39	86231	10	BMC PROCESS CONTROL SYS MOD COST
1DF	9700.30	86231	10	BMC PROCESS CONTROL SYSTEM
1DF	9700.40	86231	10	BMC SACK SHAKEOUT MACHINE
1DF	9700.50	86231	10	BMC SACK SORTER AND LOADER
1DF	9700.60	86231	10	BMC TOWVEYOR - INTERNAL TOW CONV
1DF	9700.62	86231	10	BMC TOWVEYOR - WEARBAR LUBRICATOR
2MY	2220.10	86532	10	BOARD, DIRECTORY, CONTROL OR MISC
2PA	6000.00	86532	10	BODY & FRAME MAINTENANCE EQUIPMENT
2PY	6090.00	86532	10	BODY, UTILITY VEHICLE MAINT SERVICE
1KA	3000.10	86531	10	BOOKCASE

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BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
1RE	8010.08	86531	10	BOOTH, AUDIOMETER EXAMINING
2PY	6070.00	86532	10	BRAKE MAINTENANCE EQUIPMENT
3DJ	4230.05	86233	03	BTRY BCKUP CHGR SYS FRKLFT (EMERY)
2MY	2220.90	86532	10	BUILDING EQUIPMENT, MISCELLANEOUS
1DF	9000.00	86231	10	BULK CONVEYOR
1EY	7000.00	86431	10	BULLETIN BOARD, LOBBY
3TY	3980.12	86533	05	BURSTER, FORM OR CARD
1MD	8110.00	86531	10	CABINET/SPECIAL FURN, FILM PROCESS
1HY	3100.32	86531	10	CABINET, ADP
1HG	3100.00	86531	10	CABINET, FILE
1HG	3100.04	86531	10	CABINET, FILE CARD
1HG	3100.08	86531	10	CABINET, FILE LATERAL
1HG	3100.12	86531	10	CABINET, FILE SECURITY
1HG	3100.16	86531	10	CABINET, FILE/STAND VISIBLE RECORDS
1HY	3100.40	86531	10	CABINET, LABORATORY
1HG	3100.36	86531	10	CABINET, MAP/PLAN
1RE	8010.12	86531	10	CABINET, MEDICAL UNIT
1HG	3100.44	86531	10	CABINET, MICROFILM/MICROFICHE
1HY	3100.48	86531	10	CABINET, STORAGE
2LY	2150.00	86532	10	CABINET, TOOL AND PARTS
1RB	8000.00	86531	10	CAFE EQ, CABINET
1RB	8000.02	86531	10	CAFE EQ, CART
1RB	8000.04	86531	10	CAFE EQ, CASH REGISTER
1RB	8000.06	86531	10	CAFE EQ, COFFEE URN
1RB	8000.08	86531	10	CAFE EQ, CONDIMENT STAND
1RB	8000.10	86531	10	CAFE EQ, COUNTERLINE

ATTACHMENT
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BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
1RB	8000.12	86531	10	CAFE EQ, DINING TABLE
1RB	8000.14	86531	10	CAFE EQ, DISH WASHER
1RB	8000.16	86531	10	CAFE EQ, DISPLAY CASE
1RB	8000.18	86531	10	CAFE EQ, DISPOSAL UNIT
1RB	8000.20	86531	10	CAFE EQ, DRINK DISPENSER
1RB	8000.22	86531	10	CAFE EQ, FREEZER
1RB	8000.24	86531	10	CAFE EQ, FRYER
1RB	8000.26	86531	10	CAFE EQ, GRILL
1RB	8000.28	86531	10	CAFE EQ, HOOD
1RB	8000.32	86531	10	CAFE EQ, ICE DISPENSER
1RB	8000.34	86531	10	CAFE EQ, ICE MAKER
1RB	8000.36	86531	10	CAFE EQ, ICE STORAGE
1RB	8000.38	86531	10	CAFE EQ, KETTLE
1RB	8000.40	86531	10	CAFE EQ, KITCHEN WORK TABLE
1RB	8000.42	86531	10	CAFE EQ, MICROWAVE
1RB	8000.44	86531	10	CAFE EQ, MISC COOKING & HEATING
1RB	8000.46	86531	10	CAFE EQ, MISC FOOD PREPARATION EQPT
1RB	8000.48	86531	10	CAFE EQ, MISCELLANEOUS APPLIANCES
1RB	8000.50	86531	10	CAFE EQ, MIXER
1RB	8000.52	86531	10	CAFE EQ, OVEN
1RB	8000.54	86531	10	CAFE EQ, RACK/SHELVING
1RB	8000.56	86531	10	CAFE EQ, RANGE
1RB	8000.58	86531	10	CAFE EQ, REFRIGERATOR
1RB	8000.60	86531	10	CAFE EQ, SERV-O-LIFTS
1RB	8000.62	86531	10	CAFE EQ, SINK
1RB	8000.64	86531	10	CAFE EQ, SLICER

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
1RB	8000.66	86531	10	CAFE EQ, STEAM TABLE
1RB	8000.68	86531	10	CAFE EQ, TRAY HANDLING EQUIPMENT
1RB	8000.70	86531	10	CAFE EQ, WARMING CABINET
1HD	3200.00	86531	05	CALCULATOR
1HD	3200.10	86531	05	CALCULATOR, PROGRAMMABLE
1MB	8100.00	86531	10	CAMERA
1MB	8100.60	86531	10	CAMERA ACCESSORIES
1MB	8100.20	86531	10	CAMERA, DOCUMENT
1MB	8040.00	86531	10	CAMERA, ID
1MB	8100.30	86531	10	CAMERA, MICROFILM
1MB	8100.40	86531	10	CAMERA, MOVIE
1MH	8100.50	86531	10	CAMERA, VIDEO
2FA	4010.40	86232	10	CANCELLER FLAT
2FA	4010.30	86232	10	CANCELLING MACHINE
2DC	4010.00	86232	10	CANCELLING MACHINE, M-36
2DC	4010.10	86232	10	CANCELLING MACHINE, MARK II
2DC	4010.20	86232	10	CANCELLING/FACING MACHINE
3TA	3905.00	86533	05	CARD PUNCH
3TA	3905.04	86533	05	CARD READER
3TA	3905.08	86533	05	CARD SORTER
1HY	8600.00	86531	10	CARDBOARD CASE MAKING MACHINE
2KC	2040.00	86532	10	CARPET CLEANING MACHINE
3DG	4400.00	86233	10	CARRIER, CARGO & MATERIALS
3DG	4400.10	86233	10	CARRIER, PERSONNEL
2KY	2080.10	86532	10	CART/TRUCK, CUSTODIAL
1RE	8010.16	86531	10	CART, MEDICAL UNIT

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
1HY	3300.00	86531	10	CART, OFFICE MAILROOM
1KC	3000.20	86531	05	CHAIR
1RE	8010.20	86531	10	CHAIR, MEDICAL TREATMENT
3KC	7200.00	86433	10	CHANGER, COIN
3KC	7200.10	86433	10	CHANGER, CURRENCY
3KC	7200.20	86433	10	CHANGER, CURRENCY/COIN
3TA	3900.00	86533	05	CHANNEL CONTROLLER
2LY	2120.00	86532	10	CHARGER, BATTERY
2PY	6080.00	86532	10	CHARGER, BATTERY - VEHICLES
2DK	9210.70	86235	07	CHUTE EQUPMENT RAPISTAN (EMERY)
2LY	2130.00	86532	05	CLEANER, AIR CONDITIONER
2LY	2130.10	86532	05	CLEANER, BOILER TUBES
2LY	2130.20	86532	10	CLEANER, PARTS
2PH	6050.00	86532	10	CLEANING EQUIPMENT, VMF MAINTENANCE
2MY	2220.20	86532	10	CLOCK, MASTER CONTROL & MISC CLOCKS
1MH	8300.00	86531	10	CLOSED CIRCUIT TV SYSTEM
2DK	9210.50	86235	07	CNTR BELT & CONVR RAPISTAN (EMERY)
1QB	8510.00	86531	10	COIL CRADLE EQUIPMENT
1HF	3500.06	86531	10	COLLATOR
1HF	3500.08	86531	10	COLLATOR BINDER
3TA	3990.50	86533	05	COMM.MAN.-INT.OPER.MAN.SYS (CMIOM)
2LY	2120.10	86532	10	COMPRESSOR AIR
2DK	9210.00	86232	05	COMPUTERIZED FORWARDING EQUIPMENT
3TA	3990.40	86533	05	COMPUTERIZED ON-SITE DATA ENTRY SYS
2MY	2220.30	86532	10	CONSOLE, CONTROL
2KY	2080.20	86532	10	CONTAINER TRASH, SCRAP, DISPOSAL

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BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
1MY	8230.10	86531	10	CONTROL CONSOLE, AUDIO-VISUAL
3TY	3980.20	86533	04	CONVERTER, CARD/PAPER/TAPE EQPT
2FC	4200.05	86232	07	CONVERYOR SYS & CONTROL (EMERY)
2FC	4200.00	86232	10	CONVEYOR
2FB	4200.10	86232	10	CONVEYOR, EXTENDIBLE
2FY	4200.30	86232	10	CONVEYOR, TRACTOR
2MA	2200.10	86532	10	COOLER, ROOM
3TY	3905.10	86533	05	COOLING SYSTEM, ADP
1HH	3500.10	86531	05	COPYING MACHINE
1KD	3000.30	86531	10	COUCH
3KA	7300.00	86433	10	COUNTER, COIN
3KA	7300.10	86433	10	COUNTER, CURRENCY
3TY	3980.16	86533	05	COUNTER, PAPER
2JC	7100.10	86432	10	COUNTERLINE, WINDOW MULTI PURPOSE
2LY	2140.00	86532	10	CRANE
1KY	3000.40	86531	10	CREDENZA
2DB	4000.00	86232	10	CULLING MACHINE
1MB	8040.10	86531	10	CUTTER, ID BADGE
2LB	2110.02	86532	10	CUTTER, METAL
1HY	3500.12	86531	10	CUTTER, PAPER
3TA	3920.00	86533	03	DATA ENTRY SYSTEM
3FY	4430.05	86233	07	DECK SCALE, BALL RAM (EMERY)
3TY	3980.24	86533	05	DECOLLATOR
2DD	9500.20	86235	10	DELIVERY BAR CODE SORTERS (DBCS)
3TY	3990.10	86533	05	DELIVERY RECEIPT SYSTEM, ADR
1EY	7000.10	86431	10	DESK/TABLE, LOBBY

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
1KE	3000.50	86531	10	DESK/WORKSTATION
1HE	3210.00	86531	05	DICTATING/TRANSCRIBING EQUIPMENT
3TA	3900.10	86533	03	DISK PACK
3TA	3900.20	86533	05	DISK STORAGE DRIVE
3FY	4410.20	86233	10	DISPENSER, LABEL
3FB	4420.00	86233	10	DISPENSER, TAPE
1EY	7000.20	86431	10	DISPENSER, TICKET MACHINE
2DC	4010.92	86232	10	DIVERTER CHUTE MARK II
2DH	4020.00	86232	05	DIVERTER EDGER FEEDER ATTACHMENT
3DF	2300.05	86233	07	DOCK PLATE PORTABLE (EMERY)
3DF	2300.00	86233	10	DOCKBOARD/DOCKRAMP, PORTABLE
2PD	6020.00	86532	10	DOLLY, VEHICLE TOWING
1HY	3300.10	86531	10	DRAFTING EQUIPMENT
1HY	3300.12	86531	10	DRAFTING TABLE
2LB	2110.04	86532	10	DRILL
2LB	2110.06	86532	10	DRILL PRESS
1HY	3500.14	86531	10	DRILL/PUNCH, PAPER
2JC	7100.20	86432	10	DRIVE-THRU/WALK-UP WINDOW ASSEMBLY
1MD	8110.10	86531	10	DRYER, FILM PROCESSING
2DB	4000.10	86232	10	DUAL PASS ROUGH CULL SYSTEM (DPRCS)
3DB	4200.50	86233	10	DUMPER, HAMPER
1HF	3500.16	86531	10	DUPLICATING EQPT, OFFSET
1HF	3500.18	86531	05	DUPLICATING EQPT, PLATE MAKER UNIT
1HF	3500.20	86531	10	DUPLICATING EQPT, STENCIL UNIT
1HF	3500.22	86531	10	DUPLICATING EQPT, TRANSPARENCY UNIT
1HF	3500.24	86531	10	DUPLICATING EQPT, VARITYPER

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
1HY	3500.90	86531	10	DUPLICATING/PRINTING, MISC EQPT
1MF	8220.10	86531	10	DUPLICATOR, AUDIO
1HM	3995.00	86531	10	DUPLICATOR, MICROFILM/MICROFICHE
2PY	6090.10	86532	10	DYNAMOMETER, VEHICLE
2DH	4020.10	86232	05	EDGER FEEDER
2DH	4020.20	86232	05	EDGER STACKER
3DJ	4230.45	86233	07	ELECTRIC FORK LIFT (EMERY)
1RE	8010.24	86531	10	ELECTROCARDIOGRAPH
1HY	3500.26	86531	10	EMBOSSING MACHINE
2PC	6010.10	86532	10	ENGINE MAINTENANCE EQUIPMENT
1MD	8110.20	86531	10	ENLARGER, FILM PROCESSING
3FY	4440.00	86233	10	ENVELOPE STUFFER / SEALER SYSTEM
3TY	3980.26	86533	03	EPROM PROGRAMMER DEVICE
1HF	3500.28	86531	05	FEEDER, ADDRESSING EQUIPMENT
1HF	3500.30	86531	10	FEEDER, COLLATOR EQUIPMENT
3FY	4410.30	86233	10	FEEDER, LABEL PRINTER
1HH	3500.32	86531	05	FEEDER, PHOTOCOPY EQUIPMENT
1HG	3100.20	86531	10	FILE, AUTOMATED SYSTEM UNIT
1HG	3100.24	86531	10	FILE, ROTARY
1HG	3100.28	86531	10	FILE, SHELVING
1MD	8110.90	86531	10	FILM PROCESSING, MISCELLANEOUS EQPT
2LB	2110.08	86532	10	FINISHING EQUIPMENT, METAL
1RY	8700.00	86531	10	FIRE, SAFETY & RESCUE EQUIPMENT
1DF	9000.10	86231	10	FIXED MECH MEMORY CONT SYS
2DK	9200.10	86235	10	FLAT SORTER BIN UNIT
2DK	9200.20	86235	10	FLAT SORTER CULL UNIT

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
2DK	9200.30	86235	10	FLAT SORTER EXTRACTOR UNIT
2DK	9200.40	86235	10	FLAT SORTER FEED UNIT
2DK	9200.00	86235	10	FLAT SORTER MACHINE
2DK	9200.50	86232	10	FLATS FEEDER/OCR
2DK	9210.10	86232	05	FLATS FORWARDING TERMINAL
1HY	3500.34	86531	10	FOLDER, PAPER
1HY	8600.10	86531	10	FORMING MACHINE, CARTON OR TRAYS
2LB	2110.10	86532	10	FORMING MACHINE, METAL
2MC	2210.10	86532	10	GENERATOR
2LA	2100.00	86532	10	GENERATOR, SIGNAL
3TA	3970.00	86533	03	GRAPHICS SYSTEM
3TA	3970.10	86533	03	GRAPHICS SYSTEM, CONTROLLER
3TA	3970.20	86533	03	GRAPHICS SYSTEM, DISPLAY UNIT
3TA	3970.30	86533	03	GRAPHICS SYSTEM, PLOTTER
2LB	2110.12	86532	10	GRINDER
2PC	6010.20	86532	10	GRINDER, VALVE
1QA	8500.00	86531	10	GROMMET MACHINE
2LB	2110.14	86532	10	HAMMER MACHINE, METAL
3DJ	4230.55	86233	07	HAND PALLET TRUCK (EMERY)
2LB	2110.16	86532	10	HEAT TREAT EQUIPMENT
2MY	2220.40	86532	10	HEATER, PORTABLE
2LY	2140.10	86532	10	HOIST
2MY	2200.20	86532	10	HUMIDIFIER
3TY	3990.20	86533	05	HVAC ENERGY MANAGEMENT SYSTEM
1RE	8010.28	86531	10	HYDROCOLLATOR
1HY	3250.00	86531	10	IMPRINTING MACHINE

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
2DH	4020.30	86232	05	INCLINED FEEDER ASSEMBLY
2LA	2100.02	86532	10	INFRARED VIEWER
1HY	3500.36	86531	10	INSERTING EQUIPMENT
1NY	3700.12	86531	10	INSP SERVICE CRIME LAB EQPT
2GG	9999.98	86232	10	INSTALL COST, NON-FIXED MECHANIZATN
1DF	9999.99	86231	10	INSTALLATION COST FIXED MECHANIZATN
1SB	3610.99	86531	05	INSTALLATION COST, RADIO EQUIPMENT
1MH	8300.10	86531	10	INTERCOM, CLOSED CIRCUIT TV
2DC	4010.93	86232	10	INVERTER, MARK II CANCELLING MACH
2JG	7120.20	86432	07	IRT, INTERGRATED RETAIL TERMINAL
2PD	6020.10	86532	10	JACK
1HY	3500.38	86531	10	JOGGER, PAPER
2LB	2110.18	86532	10	JOINTER, WOOD
2LY	2120.20	86532	10	KEY DUPLICATING/CUTTING MACHINE
1QA	8500.10	86531	10	KEY MANUFACTURING MACH-MAIL EQ SHOP
2FD	4410.00	86232	10	LABEL PRINTING SYSTEM
2LY	2120.30	86532	10	LACER, BELT
2LY	2140.20	86532	10	LADDER, SAFETY PLATFORM
1MB	8040.20	86531	10	LAMINATOR, ID BADGE
2LB	2110.20	86532	10	LATHE
2KY	2050.90	86532	05	LAWN & YARD, MISCELLANEOUS EQPT
1MC	8210.10	86531	10	LECTURN
1MB	8100.70	86531	10	LENS
2DD	9100.00	86232	10	LETTER SORTING MACHINE, MULTI POS
2DD	9100.10	86232	10	LETTER SORTING MACHINE, SINGLE POS
1HY	3400.00	86531	10	LETTERING EQUIPMENT & SYSTEMS

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
2LY	2140.40	86532	10	LIFT PLATFORM, CLEANING/MAINTENANCE
2LY	2140.25	86532	10	LIFT, BATTERY
2LY	2140.30	86532	10	LIFT, TABLE
2PD	6020.30	86532	10	LIFT, VEHICLE
1RE	8010.32	86531	10	LIGHT, MEDICAL UNIT
1MY	8230.20	86531	10	LIGHTS & LIGHTING, SPECIALIZED
1DF	9700.09	86231	10	LOADER/UNLOADER MODIFCATION
1DF	9000.20	86231	10	LOOSE MAIL CONVEYOR SYSTEM
2DD	9100.34	86232	10	LSM - ELECTRONIC SORT PROCESSOR
2DD	9100.91	86232	10	LSM - EXPANDED ZIP RETROFIT
2DD	9100.92	86232	07	LSM - EZR MAINTENANCE TERMINAL
2DD	9100.94	86232	10	LSM - VACUUM SYSTEM
2DD	9100.30	86232	10	LSM - ZIP MAIL TRANSLATOR
2DD	9100.93	86232	10	LSM MISC MODIFICATION COST
2DD	9100.20	86232	10	LSM TRAY CONVEYOR SYSTEM
2DD	9110.00	86232	05	LSM(AFCS-DBCS DIRECT CONNECT SYS)
3TA	3900.30	86533	05	MAGNETIC TAPE UNIT
3TA	3900.34	86533	05	MAGNETIC TAPE UNIT, AUTOMATED
1QA	8500.90	86531	10	MAIL EQPT SHOP MISCELLANEOUS EQPT
1DF	9000.30	86231	10	MAIL PREPARATION SYSTEM
1QB	8510.90	86531	10	MAILBAG FACILITY MISCELLANEOUS EQPT
2LY	2120.90	86532	10	MAINTENANCE, MISC TOOLS AND EQPT
1RE	8010.36	86531	10	MEDICAL INSTRUMENT/DIAGNOSTIC EQPT
1RE	8010.40	86531	10	MEDICAL TREATMENT EQPT & DEVICES
3TA	3900.40	86533	05	MEMORY STORAGE UNIT
3TA	3900.44	86533	05	MEMORY STORAGE, CONTROLLER

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
2DH	4050.00	86232	10	MERLIN SYSTEMS
1NY	3700.16	86531	10	METAL DETECTOR
3TB	3920.10	86533	03	MICR DATA ENTRY/CAPTURE SYS
3TA	3950.00	86533	03	MICRO COMPUTER SYSTEM
3TA	3950.10	86533	03	MICRO CONTROLLER
3TA	3950.20	86533	03	MICRO CRT/VDT
3TA	3950.30	86533	03	MICRO DISK DRIVE
3TA	3950.40	86533	03	MICRO KEYBOARD
3TA	3950.50	86533	03	MICRO MEMORY STORAGE UNIT
3TA	3950.80	86533	03	MICRO PRINTER
3TA	3950.82	86533	03	MICRO PRINTER/KEYBOARD
3TA	3950.60	86533	03	MICRO PROCESSOR
3TA	3950.70	86533	03	MICRO TAPE DRIVE
3TA	3950.90	86533	03	MICROCOMPUTER SOFTWARE
3TY	3995.10	86533	10	MICROFILMER COMPUTER OUTPUT
1MC	8210.20	86531	10	MICROPHONE
1NY	3700.20	86531	10	MICROSCOPE
2LB	2110.22	86532	10	MILLING MACHINE
3TA	3940.10	86533	05	MINI COMPUTER PROCESSOR
3TA	3940.00	86533	05	MINI COMPUTER SYSTEM
3TA	3940.20	86533	05	MINICOMPUTER SOFTWARE
2LY	2120.40	86532	10	MIXER, CONCRETE
2MY	2400.00	86532	10	MOBILE HOME/POST OFFICE
3TB	3910.00	86533	04	MODEM
1SA	3600.99	86531	10	MODIFICATION COST, TELEPHONE SYSTEM
2DC	4010.94	86232	05	MODIFICATION, MARK II CONTROL

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
1MH	8300.20	86531	10	MONITOR, TV
1DF	9000.39	86231	10	MONORAIL MODIFICATION COST
1DF	9000.35	86231	10	MONORAIL SORTING SYSTEM
2KY	2050.00	86532	05	MOWER, LAWN
3KJ	7210.10	86433	10	MULTI-COMMODITY VENDING MACHINE
1DF	9000.50	86231	10	MULTI-SLIDE
1DF	9000.40	86231	10	MULTIBELT SORTING SYSTEM
3TB	3910.10	86533	04	MULTIPLEXOR
2LB	2110.26	86532	10	NOTCHER
1KY	3000.45	86531	07	OFFICE FUNITURE CREDENZA (EMERY)
1KE	3000.55	86531	07	OFFICE FURNITURE DESK (EMERY)
1KY	3000.90	86531	10	OFFICE FURNITURE, MISCELLANEOUS
1HY	3250.90	86531	10	OFFICE MACHINES & EQUIPMENT, MISC
1HY	3250.04	86531	10	OPENER, ENVELOPE
1SC	3620.00	86531	10	P/A - INTERCOM - MUSIC - SYSTEM
2KY	2080.30	86532	10	PACKER/COMPACTER, TRASH, DISPOSAL
2LY	2160.00	86532	10	PAINT SHOP EQUIPMENT, MISCELLANEOUS
1DF	9000.60	86231	10	PALLET UNLOADER
1DF	9300.00	86231	10	PARCEL SORTING MACHINE
1HY	3500.40	86531	10	PERFORATOR
1SA	3600.20	86531	07	PHONE SYSTERM & LAN (EMERY)
1NY	3700.24	86531	10	PHOTO IMAGE ID KIT
1HF	3500.42	86531	05	PHOTOTYPE COMPOSING MACHINE
2LB	2110.28	86532	10	PIPE BENDING/CUTTING/THREADING EQPT
2LB	2110.30	86532	10	PLANER
3DF	2300.10	86233	10	PLATFORM ELEVATOR/LIFT, PORTABLE

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
2JG	7120.30	86432	05	POINT OF SERVICE (POS)
2KB	2010.00	86532	10	POLISHER/SCRUBBER, FLOOR
2KB	2010.10	86532	10	POLISHER, FLOOR
1NY	3700.28	86531	10	POLYGRAPH
2JE	7110.00	86432	10	POSTAGE METERS
2DD	9680.00	86235	10	POSTAL AUTO REDIRECT SYS (PARS)
3TY	3905.12	86533	07	POWER CONDITIONER
3TY	3905.14	86533	05	POWER CONVERTER
3TY	3905.18	86533	07	POWER PROTECTION/ALARM UNIT
2MC	2210.20	86532	10	POWER SUPPLY
3TY	3905.16	86533	05	POWER UNIT
2DF	9000.70	86232	10	PP DISTRIBUTION RING
2LB	2110.32	86532	10	PRESS, ARBOR/POWER
3TA	3900.50	86533	05	PRINTER
3FY	4410.10	86233	10	PRINTER, ADDRESS LABEL
1MD	8110.30	86531	10	PRINTER, FILM PROCESSING
1HY	3400.10	86531	10	PRINTER, SIGN AND SHOWCARD
3TA	3900.54	86533	05	PRINTING SYSTEM
1MD	8110.40	86531	10	PROCESSOR, FILM
3TA	3900.60	86533	05	PROCESSOR, MAINFRAME
3TA	3900.64	86533	05	PROCESSOR, MAINFRAME CONTROLLER
3TA	3900.68	86533	05	PROCESSOR, OPERATOR CONSOLE/STATION
1ME	8200.90	86531	10	PROJECTOR ACCESSORIES & MISC EQPT
1ME	8200.00	86531	10	PROJECTOR, COMPUTER IMAGE
1ME	8200.10	86531	10	PROJECTOR, MOVIE
1ME	8200.20	86531	10	PROJECTOR, OPAQUE

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BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
1ME	8200.30	86531	10	PROJECTOR, OVERHEAD
1ME	8200.40	86531	10	PROJECTOR, SLIDE
1ME	8200.50	86531	10	PROJECTOR, STRIP FILM
1ME	8200.60	86531	10	PROJECTOR, TELEVISION
2PY	6090.20	86532	10	PULLER EQUIPMENT
2MY	2220.50	86532	10	PUMP, MISCELLANEOUS PORTABLE
2PE	6030.00	86532	10	PUMP, SERVICING/DISPENSING
2LY	2150.10	86532	10	RACK, MAINTENANCE
1KY	3000.60	86531	10	RACK, OFFICE MISCELLANEOUS
2FY	4210.00	86232	10	RACK, TRAY STORAGE
1SB	3610.00	86531	10	RADIO, BASE STATION
1SB	3610.04	86531	10	RADIO, DUPLEXOR
1SB	3610.08	86531	10	RADIO, ENCODER
1SB	3610.12	86531	10	RADIO, FREQUENCY FILTER
1SB	3610.16	86531	05	RADIO, INSERTER
1SB	3610.20	86531	05	RADIO, MOBILE TELEPHONE UNITS
1SB	3610.90	86531	05	RADIO, OTHER MISCELLANEOUS TYPES
1SB	3610.24	86531	05	RADIO, PAGER
1SB	3610.28	86531	10	RADIO, REMOTE CONTROL UNIT OR BASE
1SB	3610.32	86531	10	RADIO, REPEATER
1SB	3610.36	86531	10	RADIO, SIGNAL BOOSTER
1SB	3610.40	86531	10	RADIO, SYSTEM CONTROL CONSOLE
1SB	3610.44	86531	10	RADIO, TOWER
1SB	3610.48	86531	05	RADIO, TWO-WAY PORTABLE
1SB	3610.52	86531	05	RADIO, TWO-WAY VEHICLE
1SB	3610.56	86531	05	RADIO, VOTING SYSTEM

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
1HM	3995.30	86531	10	READER/PRINTER, MICROFICHE
1HM	3995.50	86531	10	READER/PRINTER, MICROFILM
3TY	3980.28	86533	04	READER/PUNCHER, PAPER TAPE
1HM	3995.20	86531	10	READER, MICROFICHE
1HM	3995.40	86531	10	READER, MICROFILM
2DD	9600.00	86235	10	READER, OPTICAL CHARACTER
2DD	9600.10	86235	10	READER, OPTICAL CHARACTER (OCR/CS)
3FY	1000.20	86233	01	RECLASSIFIED EXPENSE
3KY	1000.40	86433	01	RECLASSIFIED EXPENSE
1HY	1000.50	86531	01	RECLASSIFIED EXPENSE
2DD	9650.00	86235	05	RECOGNITION TECHNOLOGY
3TY	3980.32	86533	03	RECORDER, COMPUTER IMAGE
2LA	2100.04	86532	10	RECORDER, PLOTTING
3TY	3990.30	86533	05	REGISTER DISPATCH SYS, ADSRM
1DF	9000.90	86231	05	REMANUFACTURED MISC MAIL PROC EQPMT
2DD	9600.20	86235	10	REMOTE BAR CODING IMAGE PROCESS SYS
1RE	8010.44	86531	10	RESUSCITATOR MANIKIN
2JG	7120.40	86432	05	RETAIL DATA MART (RDM)
3FB	4420.10	86233	10	REWRAP OR PATCH-UP EQUIPMENT
2LB	2110.36	86532	10	RIVETING EQUIPMENT
1DF	9400.99	86231	10	SACK SORT MACH MODIFICATION
1DF	9400.00	86231	10	SACK SORTING MACHINE
1ND	7310.00	86531	10	SAFE
1ND	7310.10	86531	10	SAFE, VAULT SHELL
1DF	9800.30	86231	03	SAFETY IMPROVEMENT SYS, P&D CTR
1DF	9800.10	86231	03	SAFETY IMPROVEMENT SYS,AIR MAIL CTR

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
1DF	9800.20	86231	03	SAFETY IMPROVEMENT SYS,BULK MAIL CT
1DF	9800.00	86231	03	SAFETY IMPROVEMENT SYSTEM
2LB	2110.38	86532	10	SANDER
2LB	2110.40	86532	10	SAWS AND SAW EQUIPMENT
3FY	4430.00	86233	10	SCALE, FLOOR OR PLATFORM
2JF	7120.00	86432	10	SCALE, MISCELLANEOUS
2JF	7120.10	86432	05	SCALE, PROGRAMMABLE/ELECTRONIC
3FY	4430.10	86233	10	SCALE, REMOTE CONSOLE/INDICATOR
3TC	3925.40	86533	05	SCANNER, CHARGING/COMMUMICATIONS
3TC	3925.00	86533	03	SCANNER, CONTROLLER
3TC	3925.10	86533	03	SCANNER, FIXED UNIT
3TC	3925.30	86533	05	SCANNER, HANDHELD DATA TERMINAL
3TC	3925.20	86533	03	SCANNER, PORTABLE UNIT
3DG	4400.20	86233	05	SCOOTER
1NY	3700.32	86531	10	SCOPE, COVERT VEHICULAR
1RC	8030.00	86531	10	SCORING, TEST, MACHINE
1ME	8200.70	86531	10	SCREEN, PROJECTION
1QA	8500.20	86531	10	SCREW MACHINE
2KC	2010.20	86532	10	SCRUBBING MACHINE
1HY	3250.12	86531	10	SEALER, ENVELOPE
1QB	8510.10	86531	10	SEALER, HEAT TYPE
1ND	7310.20	86531	10	SECURITY CONTAINER WITH CABINET
3TA	3940.05	86533	03	SERVER-WORKSTATION (EMERY)
2PE	6030.10	86532	10	SERVICING/DISPENSING EQUIPMENT
2KY	2070.00	86532	10	SEWER MAINTENANCE EQUIPMENT
1QB	8510.20	86531	10	SEWING MACHINE

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
1QA	8500.30	86531	10	SHAPING/FORMING MACHINE
2LB	2110.42	86532	10	SHEAR, METAL
2MY	2400.20	86532	10	SHED, STORAGE
2MY	2400.30	86532	10	SHELTER, DOCK OR YARD TYPE
2MY	2400.40	86532	10	SHELTER, SECURITY GUARD
1NY	3700.36	86531	10	SHOOTING RANGE EQUIPMENT
1EY	7000.30	86431	10	SHOWCASE/DISPLAY CASE
1RE	8010.48	86531	10	SHOWER/WASH, MEDICAL OR SAFETY
1HY	3250.16	86531	10	SHREDDER
1HY	3250.20	86531	10	SHREDDER AND PULPER
1HY	3250.24	86531	10	SHREDDER SOUND ENCLOSURE
1HY	3400.20	86531	10	SIGN SHOP, MISCELLANEOUS EQUIPMENT
2MY	2220.60	86532	10	SIGN, INDOOR/OUTDOOR
1NY	3700.02	86531	07	SIGNALING SYS/DOCK DOORS (EMERY)
1HY	3250.28	86531	10	SIGNER, CHECK OR OTHER
1MD	8110.50	86531	10	SINK, FILM PROCESSING
2DD	9500.10	86235	10	SMALL BAR CODE SORTER (SBCS)
2DL	9300.40	86232	10	SMALL PARCEL/BUNDLE SORTER SYSTEM
1DF	9300.50	86231	10	SMALL PARCEL/ROLL SORTER SYSTEM
2KD	2060.00	86532	05	SNOW BLOWER
2KD	2060.90	86532	10	SNOW/ICE REMOVAL/CONTROL MISC EQPT
2LY	2120.50	86532	10	SOLDERING/DESOLDERING EQUIPMENT
2DK	9210.60	86235	07	SORTATION EQUIP RAPISTAN (EMERY)
3KA	7300.20	86433	10	SORTER/CHANGER, COIN
3KA	7300.30	86433	10	SORTER/COUNTER, COIN
3KA	7300.40	86433	10	SORTER, COIN

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
1MC	8210.30	86531	10	SPEAKER SYSTEM
2LY	2160.10	86532	10	SPRAYER, PAINT
2KD	2060.10	86532	10	SPREADER, ICE & SNOW CONTROL
3TA	3955.30	86533	03	SRVR LAN WIRG & FBR OPTICS (EMERY)
3KB	7210.39	86433	10	SSPC, INSTALLATION COST
3KB	7210.30	86433	10	SSPC, SELF SERVICE POSTAL CENTER
2DH	4020.40	86232	10	STACKER UNIT
3KJ	7210.20	86433	10	STAMP VENDING MACHINE
2PD	6020.40	86532	10	STAND, VEHICLE MAINTENANCE
1HY	3500.44	86531	10	STAPLER
2PY	6090.30	86532	10	STARTER, VEHICLE
1RE	8010.52	86531	10	STERILIZER
1HY	3500.46	86531	10	STITCHING MACHINE, BOOK
2FF	4220.05	86232	07	STRAPPING MACHINE (EMERY)
2FF	4220.00	86232	10	STRAPPING MACHINE, NON-METALLIC
2LY	2120.60	86532	10	STRAPPING MACHINE, STEEL
2FF	4220.10	86232	10	STRAPPING SYSTEM
2LY	2160.20	86532	05	STRIPE PAINTING EQUIPMENT
1NY	3700.44	86531	10	SURVEILLANCE, MISCELLANEOUS EQPT
1HY	3300.20	86531	10	SURVEYING EQUIPMENT
2KE	2030.30	86532	10	SWEEPER ACCESSORY/ATTACHMENT
2KE	2030.00	86532	10	SWEEPER, LAWN
2KE	2030.10	86532	10	SWEEPER, MANUAL
2KE	2030.20	86532	10	SWEEPER, POWERED
3TA	3900.70	86533	05	SWITCHING UNIT
1KG	3000.70	86531	10	TABLE

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
1RE	8010.60	86531	10	TABLE/COUCH, MEDICAL EXAM/TREATMENT
2PE	6030.20	86532	10	TANK, GAS
2KC	2010.30	86532	10	TANK, MOPPING
2PE	6030.30	86532	10	TANK, OIL
3TB	3910.20	86533	04	TELECOMMUNICATIONS UNIT
1SA	3600.10	86531	10	TELEPHONE SYSTEM
1SA	3600.90	86531	10	TELEPHONE SYSTEM, MISC EQUIPMENT
1MH	8300.30	86531	05	TELEVISION
1SB	3630.00	86531	10	TELEVISION STATION EQUIPMENT
3TB	3930.00	86533	03	TERMINAL, BADGE READER
3TB	3930.10	86533	03	TERMINAL, CRT/VDT
3TB	3930.30	86533	03	TERMINAL, POINT OF SALE
3TB	3930.40	86533	03	TERMINAL, SCALE INPUT
3TB	3930.60	86533	03	TERMINAL, TELECOPIER
3TB	3930.50	86533	03	TERMINAL, TELETYPE
3TB	3930.20	86533	03	TERMINAL, TRANSACTION
2PC	6010.30	86532	10	TEST EQ, VEHICLE ELECTRICAL SYSTEMS
2PC	6010.50	86532	10	TEST EQ, VEHICLE EXHAUST
2PC	6010.40	86532	10	TEST EQ, VEHICLE TUNE-UP/DIAGNOSIS
2LA	2100.40	86532	10	TEST/MEASURING EQUIP TELEVISION STA
2LA	2100.22	86532	10	TESTING/MEASURING EQ, OSCILLOSCOPE
2LA	2100.32	86532	10	TESTING/MEASURING EQ, STANDARD SETS
2LA	2100.06	86532	10	TESTING/MEASURING EQPT, AIR
2LA	2100.08	86532	10	TESTING/MEASURING EQPT, CHEMICAL
2LA	2100.10	86532	10	TESTING/MEASURING EQPT, DISTANCE
2LA	2100.12	86532	10	TESTING/MEASURING EQPT, ELECTRICAL

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
2LA	2100.14	86532	10	TESTING/MEASURING EQPT, FUEL
2LA	2100.16	86532	10	TESTING/MEASURING EQPT, LABORATORY
2LA	2100.18	86532	10	TESTING/MEASURING EQPT, LIGHT
2LA	2100.20	86532	10	TESTING/MEASURING EQPT, OPTICAL
2LA	2100.24	86532	10	TESTING/MEASURING EQPT, PHYSICAL
2LA	2100.26	86532	10	TESTING/MEASURING EQPT, SOUND
2LA	2100.28	86532	10	TESTING/MEASURING EQPT, SPEED
2LA	2100.30	86532	10	TESTING/MEASURING EQPT, TEMPERATURE
2LA	2100.34	86532	10	TESTING/MEASURNG EQ, WATER/MOISTURE
1HY	3250.32	86531	10	TICKOMETER
3TA	3954.00	86533	03	TIME & ATTENDANCE SYS(TACS)
2PG	6040.00	86532	10	TIRE MAINTENANCE EQUIPMENT
2MY	2400.50	86532	10	TOILET, PORTABLE
1QA	8500.40	86531	10	TOOLING MACHINE, ELECTRIC DISCHARGE
2KY	2050.11	86532	05	TRACTOR & MOWER ACCESSORIES
3DJ	4230.00	86233	05	TRACTOR, ATTACHMENTS & ACCESSORIES
3DJ	4230.10	86233	10	TRACTOR, INDUSTRIAL & FARM TYPE
2KJ	2050.10	86532	05	TRACTOR, LAWN & YARD TYPE
3DJ	4230.20	86233	05	TRACTOR, TOW/TUG/WAREHOUSE
3DJ	4230.30	86233	10	TRACTOR, W/AUTO GUIDANCE SYSTEM
2MY	2400.10	86532	10	TRAILER, UTILITY/STORAGE BUILDING
1RC	8030.02	86531	10	TRAINER, BASIC ELECTRICITY
1RC	8030.04	86531	10	TRAINER, BASIC HYDRAULIC/PNEUMATICS
1RC	8030.08	86531	10	TRAINER, COMPUTER ELECTRONICS
1RC	8030.12	86531	10	TRAINER, DRIVER TRAINING SYSTEM
1RC	8030.16	86531	10	TRAINER, ELECTRICAL SYSTEMS

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
1RC	8030.20	86531	10	TRAINER, ELEVATOR MAINTENANCE
1RC	8030.24	86531	10	TRAINER, KEYBOARD
1RC	8030.28	86531	10	TRAINER, KEYBOARD PARCEL SACK
1RC	8030.32	86531	10	TRAINER, LSM TRAINING CONSOLE
1RC	8030.36	86531	10	TRAINER, MISC HVAC & BLDG SYSTEMS
1RC	8030.40	86531	10	TRAINER, MISC VEHICLE SYSTEMS
1RC	8030.44	86531	10	TRAINER, MISCELLANEOUS
1RC	8030.48	86531	10	TRAINER, PARCEL OR SACK SORTER
1RC	8030.52	86531	10	TRAINING SYSTEM, AUDIO VISUAL
1RC	8030.56	86531	10	TRAINING VISUAL AID
2MC	2210.30	86532	10	TRANSFORMER, PORTABLE
1NY	3700.40	86531	10	TRANSMITTER, SURVEILLANCE
1DF	9000.80	86231	10	TRAY TRANSPORT SYSTEM
3DJ	4230.40	86233	10	TRUCK, FORK LIFT
2PD	6020.50	86532	10	TRUCK, FORK LIFT/TOW, VEHICLE MAINT
3DJ	4230.50	86233	10	TRUCK, HAND LIFT/PALLET
3DJ	4230.60	86233	10	TRUCK, LIFT SPECIALIZED SYSTEM
3TY	3980.36	86533	03	TRUCK, REEL
1EY	7000.40	86431	10	TURNSTILE
2FF	4220.20	86232	10	TYING MACHINE
1HK	3220.00	86531	10	TYPEWRITER, ELECTRIC
1HK	3220.10	86531	10	TYPEWRITER, W/EXTENDED CAPABILITIES
2FY	4210.20	86232	07	ULD RACK-4-WAY & BALL (EMERY)
2KC	2040.10	86532	10	UPHOLSTERY CLEANING MACHINE
2KF	2020.00	86532	05	VACUUM CLEANER
1NE	7310.30	86531	10	VAULT DOOR/ENTRANCE

BIC	PROPERTY CODE NO.	COMMITTMENT ACCOUNT	SERV LIFE	PCN DESCRIPTION
3KJ	7210.40	86433	10	VENDING CONSOLE
2DH	4020.50	86232	05	VIBRATOR HOPPER ASSEMBLY
1MH	8300.50	86531	10	VIDEO SPECIAL EFFECTS EQUIPMENT
1MF	8300.40	86531	10	VIDEO, PLAYER/RECORDER
1ME	8200.80	86531	10	VIEWER, SLIDE/STRIP/MOVIE
2LY	2120.70	86532	10	VISE
1RE	8010.64	86531	10	VISION TESTING/MEASURING DEVICE
1MY	8230.30	86531	10	VISUAL PRESENTATION EQUIPMENT
2PY	6090.90	86532	10	VMF MAINTENANCE EQ, MISCELLANEOUS
2DK	9210.30	86235	07	VOICE NETWKNG/RAPISTAN EQUIP(EMERY)
2KC	2040.20	86532	05	WASHER, CLOTHES
2PH	6050.10	86532	10	WASHER, VEHICLE
2KC	2040.30	86532	10	WASHING/CLEANING MACHINE
2KB	2010.40	86532	10	WAXER, FLOOR
2LY	2120.80	86532	10	WELDING EQUIPMENT
3DF	2300.20	86233	10	WHEEL RAISER
2PJ	6060.00	86532	10	WHEEL/SUSPENSION MAINTENANCE EQPT
2DK	9210.40	86235	07	WOOD FLR SYS/ RAPISTAN EQUIP(EMERY)
3TW	3960.00	86533	03	WORD PROCESSING SYSTEM
3TW	3960.40	86533	03	WORD PROCESSING, CONSOLE
3TW	3960.30	86533	03	WORD PROCESSING, CONTROLLER
3TW	3960.70	86533	03	WORD PROCESSING, FEEDER
3TW	3960.60	86533	03	WORD PROCESSING, KEYBOARD
3TW	3960.20	86533	03	WORD PROCESSING, MEMORY UNIT
3TW	3960.50	86533	03	WORD PROCESSING, PRINTER
3TW	3960.10	86533	03	WORD PROCESSING, TERMINAL

VEHICLE MAKE/MODEL SERVICE LIFE AND SALVAGE VALUE			
		SERVICE	**SALVAGE**
MAKE	**MODEL**	**LIFE (YRS)**	**VALUE**
	1/4-TON		
01-10	1/4T AMG 75-76 LH	6	5%
01-20	1/4T AMG 75-76 RH	6	5%
01-30	1/4T AMG 79 RH	8	5%
01-40	1/4T AMG 77 RD	8	5%
01-51	FORD PINTO 3DR 80 CA	8	15%
01-57	FORD PINTO 3DR 80	8	15%
01-61	1/4T AMG 78 RH CA	8	5%
01-70	CHRYSLER ARIES/REL.S/W 81	8	20%
01-71	CHRYSLER ARIES/REL.S/W 81CA	8	20%
01-80	1/4T AMG 82 RH	8	20%
01-81	1/4T AMG 82 RH CA	8	20%
01-90	1/4T AMG 83 RH	8	20%
01-92	1/4T AMG 84 RH	8	20%
02-10	1/4T AMG 70-71 LH	6	5%
02-20	1/4T AMG 70-71 RH	6	5%
02-30	1/4T AMG 73-74 LH	6	5%
02-40	1/4T AMG 73-74 RH	6	5%
	1/2-TON		
10-01	1/2T FORD AEROSTAR AWD 97	8	5%
10-02	1/2T FORD WINDSTAR FWD 98	8	5%
10-03	1/2T FORD/UTIL FFV 00 FLEXF RH	24	5%
10-04	1/2T FORD/UTIL FFV 01 FLEXF RH	24	5%
10-05	1/2T FORD/UTIL FFV 01 4x4 RH	24	5%
10-10	1/2T CHEROKEE 4WD 93 RH	8	5%
10-20	1/2T FORD 70 RH	6	5%
10-30	1/2T AMG 71 RH	6	5%
10-40	1/2T AMG 73-74 RH	6	5%
10-50	1/2T AMG 4x4 83 RH	6	15%
10-60	1/2T AMG 83 RH	8	15%
10-61	1/2T AMG 83 RH CA	8	15%
10-70	1/2T GRUMMAN LLV 87 RH	12	20%
10-71	1/2T GRUMMAN LLV 88 RH	12	20%
10-72	1/2T GRUMMAN LLV 89 RH	12	20%
10-73	1/2T GRUMMAN LLV 90 RH	12	20%
10-74	1/2T GRUMMAN LLV 91 RH	12	20%
10-75	1/2T GRUMMAN LLV 92 RH	12	20%
10-76	1/2T GRUMMAN LLV 93 RH	12	20%
10-77	1/2T GRUMMAN LLV 94 RH	12	20%
10-78	1/2T GRUMMAN LLV 87 LPG RH	12	20%
10-79	1/2T GRUMMAN LLV 88 LPG RH	12	20%

10-80	1/2T GRUMMAN LLV 89 LPG RH	12	20%
10-81	1/2T GRUMMAN LLV 90 LPG RH	12	20%
10-82	1/2T GRUMMAN LLV 91 LPG RH	12	20%
10-83	1/2T GRUMMAN LLV 92 LPG RH	12	20%
10-84	1/2T GRUMMAN LLV 93 LPG RH	12	20%
11-20	OTHER 1/2T VEHICLES	6	5%
12-77	1/2T GRUMMAN LLV 94 ELECT RH	8	10%
12-80	1/2T FORD/GRUMMAN LLV 01 ELECT RH	8	5%
13-70	1/2T GRUMMAN LLV 87 DUAL CNG RH	12	20%
13-71	1/2T GRUMMAN LLV 88 DUAL CNG RH	12	20%
13-72	1/2T GRUMMAN LLV 89 DUAL CNG RH	12	20%
13-73	1/2T GRUMMAN LLV 90 DUAL CNG RH	12	20%
13-74	1/2T GRUMMAN LLV 91 DUAL CNG RH	12	20%
13-75	1/2T GRUMMAN LLV 92 DUAL CNG RH	12	20%
13-76	1/2T GRUMMAN LLV 93 DUAL CNG RH	12	20%
13-77	1/2T GRUMMAN LLV 94 DUAL CNG RH	12	20%
75-13	1/2T GRUMMAN LLV 83 RH DSL	8	15%
	1-TON		
16-01	1T GMC 96 DSL	12	5%
16-10	1T CHEV PARCEL DEL 83	8	15%
16-11	1T CHEV PARCEL DEL 83 CA	8	15%
16-12	1T FORD VAN 81	8	15%
16-20	1T DODGE VAN WAGON 83	8	15%
16-21	1T DODGE VAN WAGON 83CA	8	15%
16-22	1T DODGE VAN WAGON 84	8	15%
16-32	1T CHEV. PARCEL DEL 83 DSL	8	15%
16-40	1T AMG 76 LHD	6	5%
16-50	OTHER 1T VEHICLES	8	5%
16-51	1T FORD AEROSTAR PRC.DEL 86 CA	8	15%
16-81	1T DODGE 80 CA	8	15%
16-82	1T DODGE 80	8	15%
	2-TON, 2 1/2 TON		
21-01	2T GMC 96 DSL	12	5%
21-30	2T AIRSTREAM 75 LH	7	5%
21-40	2 1/2T CHEV.PRC.DEL 84 DSL	12	15%
21-41	2 1/2T CHEV.PRC.DEL 84 CA DSL	12	15%
21-50	2T CHEV.PRC.DEL 87-88 DSL	12	15%
21-51	2T CHEV.PRC.DEL 87-88 CA DSL	12	15%
21-52	2T FREIGHTLINER 01 LEV DSL	12	5%
21-54	2T CTC/WORKHORSE 01 DSL	12	5%
22-10	2T SOLECTRIA 01 ELEC	12	5%
22-50	2T CHEV.PRC.DEL 87-88 DED.CNG	12	15%
22-51	2T FREIGHTLINER 96 DED. CNG	12	5%
22-52	2T FREIGHTLINER 97 DED. CNG	12	5%
	5-TON CARGO VAN		
26-40	5T FORD CARGO VAN 75 COE	8	5%

26-41	5T FORD CARGO VAN 75 COE CA	8	5%
26-50	5T FORD CARGO VAN 75 CBE	8	5%
26-60	OTHER 5T VEHICLES	10	5%
26-70	5T IHC CARGO VAN 78 COE	8	5%
26-71	5T IHC CARGO VAN 78 COE CA	8	5%
26-80	5T IHC CARGO VAN 84 COE DSL	12	10%
26-82	5T IHC CARGO VAN 86 COE DSL	12	10%
	7-TON CARGO VAN		
26-99	7T IHC ARMORED CARGO VAN	8	10%
27-02	7T IHC CARGO VAN 84 COE DSL	12	10%
27-03	7T IHC CARGO VAN 86 COE DSL	12	10%
27-70	7T VOLVO GM CARGO VAN 91 DSL	8	10%
27-72	7T FORD CARGO VAN 92 DSL	8	10%
	9-TON CARGO VAN		
27-73	9T FORD CARGO VAN 96 DSL	8	10%
27-90	9T VOLVO GM CARGO VAN 91 DSL	8	10%
27-92	9T FORD CARGO VAN 92 DSL	8	10%
27-99	9T CARGO VAN EMERY	5	5%
	TRACTOR - SINGLE AXLE		
31-01	TRC SA MACK 92	8	5%
31-02	TRC SA MACK 97	8	5%
31-03	TRC SA MACK 97 CBE	8	5%
31-04	TRC SA MACK 99 COE	8	5%
31-05	TRC SA MACK 99 CBE	8	5%
31-11	TRC SA MACK 84 CA	8	5%
31-12	TRC SA MACK 84	8	5%
31-20	TRC SA VOLVO-WHITE 83	8	5%
31-21	TRC SA VOLVO-WHITE 83 CA	8	5%
31-60	TRC SA WHITE 76	8	5%
31-61	TRC SA VOLVO-WHITE 86-87 CA	8	5%
31-62	TRC SA VOLVO-WHITE 86-87	8	5%
31-63	TRC SA VOLVO GMC 92	8	5%
31-70	TRC SA WHITE 82	8	5%
31-71	TRC SA WHITE 82 CA	8	5%
31-80	TRC SA MACK 78-79	8	5%
31-97	TRC SA FREIGHTLINER EMERY FL-70	5	5%
31-99	TRC SA FREIGHTLINER EMERY FL-112	5	5%
	TRACTORS - TANDEM AXLE		
32-01	TRC TA MACK 92	8	5%
32-02	TRC TA MACK 97	8	5%
32-03	TRC TA MACK 99 COE	8	5%
32-04	TRC TA MACK 99 CBE	8	5%
32-10	TRC TA VOLVO-WHITE 83	8	5%
32-11	TRC TA VOLVO-WHITE 83 CA	8	5%
32-21	TRC TA MACK 84 CA	8	5%

32-22	TRC TA MACK 84	8	5%
32-40	TRC TA WHITE SD 82	8	5%
32-41	TRC TA WHITE SD 82 CA	8	5%
32-50	TRC TA WHITE TD 82	8	5%
32-60	TRC TA VOLVO-WHITE 86-87	8	5%
32-61	TRC TA VOLVO-WHITE 86-87 CA	8	5%
32-62	TRC TA VOLVO GMC 90	8	5%
32-70	TRC TA MACK 78-79	8	5%
32-98	TRC TA FREIGHTLINER EMERY SLPR	5	5%
32-99	TRC TA FREIGHTLINER EMERY	5	5%
	TRACTOR - SPOTTER		
33-40	SPOT IBEX 76 GAS	8	5%
33-50	SPOT IBEX 79 GAS	8	5%
34-01	SPOT CAP. OF TEXAS 97 DSL	8	5%
34-02	SPOT CAP. OF TEXAS 98 DSL	8	5%
34-20	SPOT OTTAWA 75 DSL	8	5%
34-30	SPOT T & J INDUSTRIES 83 DSL	8	5%
34-40	SPOT CAP. OF TEXAS 87 DSL	8	5%
34-50	SPOT CAP. OF TEXAS 89-90 DSL	8	5%
34-60	SPOT OTTAWA 95 DSL	8	5%
34-98	SPOT EMERY	0	1%
34-99	SPOT EMERY	5	5%
	TRAILERS 11' x 6"		
41-01	TRL WABASH 28x11'6 92	12	5%
41-02	TRL WABASH 32x11'6 92	12	5%
41-03	TRL WABASH 38x11'6 92	12	5%
41-04	TRL WABASH 45x11'6 92	12	5%
41-05	TRL WABASH 28X11'6 98	12	5%
41-06	TRL WABASH 33X11'6 98	12	5%
41-20	TRL COPCO 24x11'6 68	10	5%
41-21	TRL BAILLIE 22x11'6 87	12	5%
41-22	TRL COPCO 24x11'6 69	10	5%
41-23	TRL COPCO 24x11'6 74	10	5%
41-24	TRL MONAN 22x11'6 83	12	5%
41-25	TRL MONAN 28x11'6 83	12	5%
41-26	TRL MONAN 32x11'6 83	12	5%
41-27	TRL MONAN 38x11'6 83	12	5%
41-30	TRL COPCO 28x11'6 68	10	5%
41-31	TRL BAILLIE 28x11'6 87	12	5%
41-32	TRL COPCO 28x11'6 69	10	5%
41-33	TRL COPCO 28x11'6 74	10	5%
41-40	TRL COPCO 32x11'6 75	8	5%
41-42	TRL BLACK DIAMOND 32x11'6 78	12	5%
41-44	TRL MONAN 28x11'6 84	12	5%
41-45	TRL MONAN 32x11'6 84	12	5%
41-46	TRL MONAN 38x11'6 84	12	5%
41-50	TRL COPCO 34x11'6 74	10	5%

41-51	TRL STOUGHTON 32x11'6 87	10	5%
41-60	TRL COPCO 36x11'6 68	10	5%
41-72	TRL COPCO 38x11'6 75	10	5%
41-73	TRL BLACK DIAMOND 38x11'6 76	10	5%
41-74	TRL BLACK DIAMOND 38x11'6 78	12	5%
41-75	TRL COPCO 38x11'6 74	10	5%
41-76	TRL BLACK DIAMOND 38x11'6 80	12	5%
41-80	TRL STOUGHTON 38x11'6 87	12	5%
41-99	OTHER MAIL HAULING TRAILERS	8	5%
	TRAILER 12' 6"		
43-01	TRL WABASH 38x12'6 92	12	5%
43-02	TRL WABASH 45x12'6 92	12	5%
43-03	TRL WABASH 38X12'6 98	12	5%
43-04	TRL WABASH 45X12'6 98	12	5%
43-05	TRL WABASH 45X12'6 98 PLATE	12	5%
43-50	TRL MONON 38x12'6 83	12	5%
43-52	TRL MONON 38x12'6 84	12	5%
43-53	TRL MONON 45x12'6 84	12	5%
43-70	TRL COPCO 38x12'6 75	12	5%
43-72	TRL BLACK DIAMOND 38x12'6 76	8	5%
43-73	TRL BLACK DIAMOND 38x12'6 78	12	5%
43-74	TRL BLACK DIAMOND 38x12'6 74	8	5%
43-75	TRL BLACK DIAMOND 38x12'6 80	12	5%
43-76	TRAILMOBILE 38x12'6 75-76	12	5%
43-77	TRL MONON 38x12'6 75-76	12	5%
43-80	TRL STOUGHTON 38x12'6 87	12	5%
43-90	TRL STOUGHTON 45x12'6 87	12	5%
	TRAILER 13'6"		
44-01	TRL WABASH 45X13'6 98	12	5%
44-91	TRL EMERY 48'X13'6"	10	5%
44-92	TRL EMERY 48'X12'	10	5%
44-93	TRL EMERY 28'X12'	10	5%
44-94	TRL EMERY 53'X12'6" ROLLER	10	5%
44-95	TRL EMERY 53'X13'6" ROLLER	10	5%
44-96	TRL EMERY 28'X12'6"	10	5%
44-97	TRL EMERY 33'X11'6"	10	5%
44-98	TRL EMERY 48'X12'6"	10	5%
44-99	TRL EMERY 53'X13'6"	10	5%
	VEHICLE MAINTENANCE SERVICE		
59-00	VM 01 CNG	8	10%
59-01	VM 01 FLX	8	10%
59-02	VM PICKUP, VAN 02	8	10%
59-10	VM PRIOR TO 1991	8	10%
59-11	VM TRAILER	8	10%
59-13	VM 02 CNG	8	10%
59-14	VM 02 FLX	8	10%

59-15	VM 99 CNG	8	10%
59-16	VM 99 FLX	8	10%
59-17	VM 00 CNG	8	10%
59-18	VM 00 FLX	8	10%
59-20	VM PICKUP, VAN 91	8	10%
59-21	VM PICKUP, VAN 92	8	10%
59-22	VM PICKUP, VAN 93	8	10%
59-23	VM PICKUP, VAN 94	8	10%
59-24	VM PICKUP, VAN 95	8	10%
59-25	VM PICKUP, VAN 96	8	10%
59-26	VM PICKUP, VAN 97	8	10%
59-27	VM PICKUP, VAN 98	8	10%
59-28	VM PICKUP, VAN 99	8	10%
59-29	VM PICKUP, VAN 00	8	10%
59-30	VM WRECKER 91	8	10%
59-31	VM WRECKER 92	8	10%
59-32	VM WRECKER 93	8	10%
59-33	VM WRECKER 94	8	10%
59-34	VM WRECKER 95	8	10%
59-35	VM WRECKER 96	8	10%
59-36	VM WRECKER 97	8	10%
59-37	VM WRECKER 98	8	10%
59-38	VM WRECKER 99	8	10%
59-39	VM WRECKER 00	8	10%
59-40	VM FLATBED WRECKER 91	8	10%
59-44	VM FLATBED WRECKER 02	8	10%
59-45	VM FLATBED WRECKER 96	8	10%
59-46	VM FLATBED WRECKER 97	8	10%
59-47	VM FLATBED WRECKER 98	8	10%
59-48	VM FLATBED WRECKER 99	8	10%
59-49	VM FLATBED WRECKER 00	8	10%
59-50	VM TRANSPORT TRAILER 91	8	10%
59-51	VM TRANSPORT TRAILER 92	8	10%
59-52	VM TRANSPORT TRAILER 93	8	10%
59-53	VM TRANSPORT TRAILER 94	8	10%
59-54	VM TRANSPORT TRAILER 95	8	10%
59-55	VM TRANSPORT TRAILER 96	8	10%
59-56	VM TRANSPORT TRAILER 97	8	10%
59-57	VM TRANSPORT TRAILER 02	8	10%
59-58	VM TRANSPORT TRAILER 99	8	10%
59-59	VM TRANSPORT TRAILER 00	8	10%
59-60	VM TRANSPORT TRAILER 01	8	10%
59-70	VM WRECKER 01	8	10%
59-80	VM FLATBED WRECKER 01	8	10%
59-81	VM WRECKER 02	8	10%
59-90	VM PICKUP, VAN 01	8	10%
	PLANT SERVICE VEHICLES		
65-00	PLANT 01 CNG	8	10%

65-01	PLANT 01 FLX	8	10%
65-10	PLANT PRIOR TO 1991	8	15%
65-11	PLANT TRAILER	8	15%
65-12	ALL OTHER PLANT VEHICLES	8	10%
65-13	PLANT 02 CNG	8	10%
65-14	PLANT 02 FLX	8	10%
65-15	PLANT 99 CNG	8	10%
65-16	PLANT 99 FLX	8	10%
65-17	PLANT 00 CNG	8	10%
65-18	PLANT 00 FLX	8	10%
65-20	PLANT PICKUP 1/2-3/4-1 T 91	8	10%
65-21	PLANT PICKUP 1/2-3/4-1 T 92	8	10%
65-22	PLANT PICKUP 1/2-3/4-1 T 93	8	10%
65-23	PLANT PICKUP 1/2-3/4-1 T 94	8	10%
65-24	PLANT PICKUP 1/2-3/4-1 T 95	8	10%
65-25	PLANT PICKUP 1/2-3/4-1 T 96	8	10%
65-26	PLANT PICKUP 1/2-3/4-1 T 97	8	10%
65-27	PLANT PICKUP 1/2-3/4-1 T 98	8	10%
65-28	PLANT PICKUP 1/2-3/4-1 T 99	8	10%
65-29	PLANT PICKUP 1/2-3/4-1 T 00	8	10%
65-30	PLANT MINI PICKUP 91	8	10%
65-31	PLANT MINI PICKUP 92	8	10%
65-33	PLANT MINI PICKUP 94	8	10%
65-34	PLANT MINI PICKUP 95	8	10%
65-35	PLANT MINI PICKUP 96	8	10%
65-36	PLANT MINI PICKUP 97	8	10%
65-37	PLANT MINI PICKUP 98	8	10%
65-38	PLANT MINI PICKUP 99	8	10%
65-39	PLANT MINI PICKUP 00	8	10%
65-40	PLANT VAN 1/2-3/4-1 T 91	8	10%
65-41	PLANT VAN 1/2-3/4-1 T 92	8	10%
65-42	PLANT VAN 1/2-3/4-1 T 93	8	10%
65-43	PLANT VAN 1/2-3/4-1 T 94	8	10%
65-44	PLANT VAN 1/2-3/4-1 T 95	8	10%
65-45	PLANT VAN 1/2-3/4-1 T 96	8	10%
65-46	PLANT VAN 1/2-3/4-1 T 97	8	10%
65-47	PLANT VAN 1/2-3/4-1 T 98	8	10%
65-48	PLANT VAN 1/2-3/4-1 T 99	8	10%
65-49	PLANT VAN 1/2-3/4-1 T 00	8	10%
65-50	PLANT STAKEBED 91	8	10%
65-51	PLANT STAKEBED 92	8	10%
65-52	PLANT STAKEBED 93	8	10%
65-53	PLANT STAKEBED 94	8	10%
65-54	PLANT STAKEBED 95	8	10%
65-55	PLANT STAKEBED 96	8	10%
65-56	PLANT STAKEBED 97	8	10%
65-57	PLANT STAKEBED 98	8	10%
65-58	PLANT STAKEBED 99	8	10%
65-59	PLANT STAKEBED 00	8	10%

65-60	PLANT MINIVAN 91	8	10%
65-61	PLANT MINIVAN 92	8	10%
65-62	PLANT MINIVAN 93	8	10%
65-63	PLANT MINIVAN 94	8	10%
65-64	PLANT MINIVAN 95	8	10%
65-65	PLANT MINIVAN 96	8	10%
65-66	PLANT MINIVAN 97	8	10%
65-67	PLANT MINIVAN 98	8	10%
65-68	PLANT MINIVAN 99	8	10%
65-69	PLANT MINIVAN 00	8	10%
65-70	PLANT MINIVAN 02	8	10%
65-80	PLANT PICKUP 1/2-3/4-1 T 01	8	10%
65-81	PLANT PICKUP 1/2-3/4-1 T 02	8	10%
65-85	PLANT MINI PICKUP 01	8	10%
65-86	PLANT MINI PICKUP 02	8	10%
65-90	PLANT VAN 1/2-3/4-1 T 01	8	10%
65-91	PLANT VAN 1/2-3/4-1 T 02	8	10%
65-95	PLANT STAKEBED 01	8	10%
65-96	PLANT STAKEBED 02	8	10%
	ADMINISTRATIVE		
66-01	ADMN 98 FLX	8	10%
66-02	ADMN 99 FLX	8	10%
66-03	ADMN 00 FLX	8	10%
66-04	ADMN 01 FLX	8	10%
66-05	ADMN 02 FLX	8	10%
66-10	ADMN PRIOR TO 1991	8	15%
66-20	ADMN COMPACT 91	8	10%
66-21	ADMN COMPACT 92	8	10%
66-22	ADMN COMPACT 93	8	10%
66-23	ADMN COMPACT 94	8	10%
66-24	ADMN COMPACT 95	8	10%
66-25	ADMN COMPACT 96	8	10%
66-26	ADMN COMPACT 97	8	10%
66-27	ADMN COMPACT 98	8	10%
66-28	ADMN COMPACT 99	8	10%
66-29	ADMN COMPACT 00	8	10%
66-30	ADMN MIDSIZE 91	8	10%
66-31	ADMN MIDSIZE 92	8	10%
66-32	ADMN MIDSIZE 93	8	10%
66-33	ADMN MIDSIZE 94	8	10%
66-34	ADMN MIDSIZE 95	8	10%
66-35	ADMN MIDSIZE 96	8	10%
66-36	ADMN MIDSIZE 97	8	10%
66-37	ADMN MIDSIZE 98	8	10%
66-38	ADMN MIDSIZE 99	8	10%
66-39	ADMN MIDSIZE 00	8	10%
66-40	ADMN SW/MINIVAN 91	8	10%

66-41	ADMN SW/MINIVAN 92	8	10%
66-42	ADMN SW/MINIVAN 93	8	10%
66-43	ADMN SW/MINIVAN 94	8	10%
66-44	ADMN SW/MINIVAN 95	8	10%
66-45	ADMN SW/MINIVAN 96	8	10%
66-46	ADMN SW/MINIVAN 97	8	10%
66-47	ADMN SW/MINIVAN 98	8	10%
66-48	ADMN SW/MINIVAN 99	8	10%
66-49	ADMN SW/MINIVAN 00	8	10%
66-50	ADMIN FULL SIZE 91	8	10%
66-51	ADMIN FULL SIZE 92	8	10%
66-52	ADMIN FULL SIZE 93	8	10%
66-53	ADMIN FULL SIZE 94	8	10%
66-54	ADMIN FULL SIZE 95	8	10%
66-55	ADMIN FULL SIZE 96	8	10%
66-56	ADMIN FULL SIZE 97	8	10%
66-57	ADMIN FULL SIZE 98	8	10%
66-58	ADMIN FULL SIZE 99	8	10%
66-59	ADMIN FULL SIZE 00	8	10%
66-60	ADMIN FULL SIZE 01	8	10%
66-61	ADMIN FULL SIZE 02	8	10%
66-70	ADMIN COMPACT 02	8	10%
66-80	ADMIN MIDSIZE 01	8	10%
66-81	ADMIN MIDSIZE 02	8	10%
66-90	ADMIN SW/MINIVAN 01	8	10%
66-91	ADMIN SW/MINIVAN 02	8	10%
66-98	ADMIN COMPACT EMERY	7	5%
66-99	ADMIN FORD VAN EMERY	5	20%
68-32	ADMN MIDSIZE 93 DUAL CNG	8	10%
68-51	ADMN FULL SIZE 92 DUAL CNG	8	10%
68-52	ADMN FULL SIZE 93 DUAL CNG	8	10%
68-53	ADMN 98 DUAL CNG	8	10%
68-54	ADMN 99 DUAL CNG	8	10%
68-55	ADMN 00 DUAL CNG	8	10%
68-56	ADMN 02 DUAL CNG	8	10%
69-43	ADMN SW/MINIVAN 94 DED CNG	8	10%
	BUS		
67-10	IHC BUS	8	10%
	INSPECTION SERVICE		
76-01	INSP 02 FLX	8	10%
76-02	INSP 02 CNG	8	10%
76-03	INSP 99 FLX	8	10%
76-04	INSP 99 CNG	8	10%
76-05	INSP 00 FLX	8	10%
76-06	INSP 00 CNG	8	10%
76-07	INSP 01 FLX	8	10%
76-08	INSP 01 CNG	8	10%

76-10	INSP ADMN PRIOR TO 91	8	15%
76-20	INSP ADMN 91	8	10%
76-21	INSP ADMN 92	8	10%
76-22	INSP ADMN 93	8	10%
76-23	INSP ADMN 94	8	10%
76-24	INSP ADMN 95	8	10%
76-25	INSP ADMN 96	8	10%
76-26	INSP ADMN 97	8	10%
76-27	INSP ADMN 98	8	10%
76-28	INSP ADMN 99	8	10%
76-29	INSP ADMN 00	8	10%
76-30	INSP ADMN 01	8	10%
76-31	INSP ADMN 02	8	10%
78-10	INSP SECURITY PRIOR TO 91	8	15%
78-20	INSP SECURITY 91	8	10%
78-21	INSP SECURITY 92	8	10%
78-22	INSP SECURITY 93	8	10%
78-23	INSP SECURITY 94	8	10%
78-24	INSP SECURITY 95	8	10%
78-25	INSP SECURITY 96	8	10%
78-26	INSP SECURITY 97	8	10%
78-27	INSP SECURITY 98	8	10%
78-28	INSP SECURITY 99	8	10%
78-29	INSP SECURITY 00	8	10%
78-30	INSP SECURITY 01	8	10%
78-31	INSP SECURITY 02	8	10%
79-10	INSP LAW ENFORCE PRIOR TO 91	8	15%
79-20	INSP LAW ENFORCE 91	8	10%
79-21	INSP LAW ENFORCE 92	8	10%
79-22	INSP LAW ENFORCE 93	8	10%
79-23	INSP LAW ENFORCE 94	8	10%
79-24	INSP LAW ENFORCE 95	8	10%
79-25	INSP LAW ENFORCE 96	8	10%
79-26	INSP LAW ENFORCE 97	8	10%
79-27	INSP LAW ENFORCE 98	8	10%
79-28	INSP LAW ENFORCE 99	8	10%
79-29	INSP LAW ENFORCE 00	8	10%
79-30	INSP LAW ENFORCE 01	8	10%
79-31	INSP LAW ENFORCE 02	8	10%
	MISCELLANEOUS		
75-10	EXPERIMENTAL	10	15%
75-72	FORD ESCORT AUTOMATIC 81	8	20%
75-73	FORD ESCORT MANUAL 81	8	20%
82-10	MOBILE SELF-POWERED P. O.	8	15%
82-20	MOBILE POST OFFICE TRAILERS	12	15%
	STORAGE		
82-23	1/4T RR MISC (STORAGE ONLY)	8	20%

99-10	STORAGE	7	5%
99-20	NON-ROAD USE STORAGE TRAILER (TEMP.	12	5%
	STORAGE ONLY)		
99-90	SOLD	8	5%

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OCA/USPS–T6–17. Please refer to your testimony at page 20, Table 14 that presents workyear mix.

a. Why does the clerk overtime ratio remain constant during and after FY2001?
b. Why does the casual percentage remain constant for clerks, city carriers, and mail handlers throughout the table?
c. Why does the transitional usage increase for clerks and decrease for city carriers in Table 14?

RESPONSE:

(a) Please refer to page 19 of my testimony. On line 13, I state that "overtime is based on the FY 2001 operating plan." I further state on line 17 that "the clerk overtime ratio is assumed to continue at the FY 2000 level for FY 2001, as reflected in the FY 2001 operating plan, and then remain at that level through the test year." This is a reasonable assumption in view of the fact that overtime assumptions made in conjunction with operating plan development were not available for FYs 02 and 03.

(b) Please refer to page 19 of my testimony. On line 27, I state that "casuals are assumed to continue to be utilized at the same level experienced in FY 00 for all years through the test year." This is a reasonable assumption in view of the fact that casual assumptions made in conjunction with operating plan development were not available for FYs 02 and 03.

(c) Please refer to page 19 of my testimony. On lines 19-27, I state that "clerk transitional employee (TE) workyears for FY 2001 reflect actual data through Accounting Period 9, and are assumed to be little changed from FY 2000, based on year-to-date FY 2001 actual paid employee experience. Clerk TE workyears are assumed to remain at the FY 2001 level through the test year. FY 2001 city carrier transitional employee workyears are also based on actual data through Accounting Period 9 of FY 2001, and are assumed to decline from the FY 2000 level based on FY 2001 actual paid employee data. City carrier TEs are assumed to continue to decline in FYs 2002 and 2003 at the same rate of decline experienced in FY 2001." These are reasonable assumptions in view of the fact that TE assumptions made in conjunction with operating plan development were not available for FYs 02 and 03.

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Please refer to Chapter VIII of Library Reference J-50 for additional information and calculations related to the mix of base workyears (career, casual, and transitional), and overtime workyears.

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OCA/USPS–T6–18. Please refer to your testimony at page 42, line 33, which references Standard & Poor's DRI publications. Please provide the following information.

(a) Please identify the publication from which information is used by name, date, page number, etc. If you used more than one edition of the publication, please identify which edition(s) apply to the various portions of your testimony.

(b) Please provide copies of the relevant Standard & Poor's publication tables, graphs, text, and briefing/summary charts that underlie the numbers used in your testimony regarding the budget and the contingency amount.

RESPONSE:

a. The indices referenced on page 42 of my testimony relate to workers' compensation only. Please refer to Exhibit USPS–6S for the names of the publications from which these indices were taken. The publications containing the data for 1998–2000 are available in the U.S. Postal Service Library. The publications contatining earlier data are no longer maintained in the Library, although they may be available from DRI/WEFA.

b. The DRI/WEFA indices used to calculate and support the revenue requirement are referenced on page 23 of my testimony and in Exhibit 6T. As stated on page 23 line 28 of my testimony, a detailed list of the indices used can be found in Chapter IV of Library Reference J-50. The annual indices were developed on a Fiscal Year basis specifically for the Postal Service and were not taken from a DRI/WEFA publication. The forecasts used by DRI/WEFA to develop the indices used by the Postal Service are referenced in my testimony (USSIM/CONTROL 0601 and CISSIM/TRENDLONG 0501).

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OCA/USPS-T6-19. Please refer to your testimony at page 45 line, 29 and page 47, line 3. The word "reasonable" is used in referring to the proposed contingency. You also note that the Postal Service has a strong productivity performance, has aggressive cost savings programs, and continues to limit capital spending, at page 47, lines 11-13.

(a) On what basis is it concluded the Postal Service's productivity performance is strong – e.g. how is performance measured, and what is the standard of benchmarking the performance of comparable organizations. Please provide the measurements.

(b) On what basis is it concluded that the Postal Service's cost savings programs are aggressive— e.g. how are the cost savings programs measured to determine that they are aggressive and what is the standard of benchmarking the cost savings programs against that of comparable organizations.

(c) In view of these Postal Service efforts, what is the justification for the Postal Service request for a contingency of three percent that is higher than in previous cases?

RESPONSE:

With regard to the predicate for your questions, my testimony does not merely say that a 3 percent contingency provision is reasonable. It also says this is the minimum amount necessary to address the inherent uncertainties relating to the Postal Service's projected financial status in the test year.

(a) With regard to the measurement part of your question, productivity performance is typically measured in terms of ratios of outputs to inputs, and changes in productivity performance are typically referenced in terms of percent changes in those ratios. An increase in ratios over time indicates increasing productivity and a decrease in ratios over time indicates decreasing productivity. The strong productivity performance in FYs 2000 and 2001 referenced at page 47 of my testimony is documented by Exhibit USPS-6T, which displays 2.5 percent total factor productivity growth in FY 2000 and 2.0 percent estimated end-of-year growth in FY 2001. These productivity growth rates are among the strongest ever experienced by the Postal Service, are substantially greater than the long-term trend in private non-farm, multi-factor productivity growth and are reflected in the

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revenue requirement. The revenue requirement would be greater by approximately $3 billion if it were not for the productivity improvement in FYs 2000 and 2001.

With regard to the benchmarking part of your question, I do not believe there are comparable organizations to the United States Postal Service (my discussion of the contingency provision identifies a number of attributes of the Postal Service that make it unique). Further, it has been my experience that other organizations rarely, if ever, publish comparable productivity data. Therefore, I am unable to supply information responsive to the second part of your question because I do not believe such information exists and the Postal Service has no such information.

(b) With regard to the measurement part of this question, cost savings programs are measured by dollar amounts. As is stated at page 17 of my testimony, the net cost savings included in this rate case total $2.6 billion. These net cost savings are included in the revenue requirement. If it were not for these net cost savings, the revenue requirement would be greater by $2.6 billion dollars, and would result in rate increases that are half again as large as those proposed (i.e., an average rate increase of approximately 13 percent). My assessment that these savings are aggressive is based primarily on the benefit of these savings to customers and on my six years of experience as Manager of Budget and Financial Analysis, which involves budgeting for cost savings programs.

With regard to the part of your question on benchmarking, as mentioned above I do not believe there are comparable organizations to the United States Postal Service. Further I am not aware of other organizations that regularly publish comprehensive information on cost savings programs. Therefore, I am unable to supply information responsive to the second part of your question because I do not believe such information exists and the Postal Service has no such information.

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(c) I do not agree that the 3 percent contingency provision is higher than in previous cases. It is in fact equal to or lower than the contingency provision proposed in 7 out of the 11 previous omnibus rate cases. It is also only 0.5 percentage points greater than the 2.5 percent contingency provision that proved to be inadequate in the recently completed Docket No. R2000-1 rate case. Further, going into the test year in this rate case the Postal Service will be in a much weaker financial position than in Docket No. R2000-1. The 3 percent contingency represents the Board's and management's assessment of the Postal Service's exposure to financial risks and its willingness and ability to absorb those risks—prior to September 11, 2001—as is explained throughout the contingency section in my testimony.

Concerning the requested justification, the cost savings programs and strong productivity improvements I reference do not reduce financial risk or enhance the Postal Service's ability to absorb that risk. As I noted above, these efforts are built into the Postal Service's revenue requirement and therefore have reduced the revenue requirement from what it otherwise would be. t would therefore seem odd to cite them as a basis for lowering the contingency, as is seemingly implied by the question.

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OCA/USPS-T6-20. Please refer to your testimony at page 48, lines 14-15 where you state that the Postal Service does not control its rates and fees.

(a) Please confirm that the current case does, in fact, have an impact on rates and fees, and that the Board of Governors will receive a decision from the Postal Rate Commission.

(b) Please confirm that the Postal Service has an opportunity to update filings reflecting experience following the filing of a case and adjustments for known or knowable cost changes.

(c) Please confirm that the 76.7 percent of total expenses related to labor, that you delineate on page 49, line 4 of your testimony are known in terms of current wage rates, and as estimates of future wage rates (subject, however, to arbitration).

(d) Please confirm that the 76.7 percent of total expenses related to labor can be affected by the amount of labor used and is possibly open to change from the implementation of innovative techniques, such as changes in materials requirements planning, robotics, electronic data interchange, improved scheduled, enterprise resource planning, and computerization.

(e) Does the Postal Service have information on how implementation of such techniques referred to in part (d), above, has affected productivity in other industries?

RESPONSE:

(a) Not confirmed. It will not be known whether and to what extent the current case will have an impact on rates and fees unless and until there is a recommended decision returned by the Postal Rate Commission that is acted upon by the Postal Service's Governors. In this connection, I understand that the statute expressly contemplates that the Postal Rate Commission may fail to return a recommended decision within the prescribed ten-month period. I also understand that the statute provides for extension of that ten-month period under certain circumstances. These are uncertainties and risks that I did not specifically mention in my testimony, but which could be added to the list if more specificity were desired.

(b) Confirmed that the Postal Rate Commission has in the past ordered updates and testimony to be filed that indicated higher costs than assumed in the original filing. However, the Commission has resisted increasing the revenue requirement based on

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such information, meaning that the Postal Service may not receive financial relief as a result of such testimony being filed. In Docket No. R2000-1, for example, three recommended decisions and the Governors' modification decision were required before the Postal Service could gain the benefit of updated cost data (and by the time rates were implemented in July, 2001, the updated cost data were over a year old).

(c) Confirmed that FY 2000 labor expenses are known. I cannot confirm that estimates of future estimates of wages are known. By virtue of being estimates these future wages are unknown.

(d) I can confirm that labor expenses are affected by the factors listed in the question, but would suggest they are more affected by wage rates, cost levels and benefit expenses than by the listed factors. Both the factors listed in your question and the additional factors that I have cited are subject to considerable uncertainty.

(e) I am not aware of any such listing and the Postal Service has no such listing.

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OCA/USPS-T6-21. Please refer to your testimony at page 54 line 27. You state that the dollar may weaken, a conclusion apparently tied to the sad tragedy of September 11. Further information on the impact of postal costs is needed.

(a) A "weak" dollar" (explicitly, the exchange rate moving so as to require more dollars to buy a peso, pound sterling or other currency) ceteris paribus means that U.S. exports are less expensive, providing economic stimulation. Would this not result in a favorable impact on the economy, thereby stimulating the demand for Postal Services?

(b) On page 54 lines 22-26 of your testimony, you cite the recent terrorist attack on the World Trade Center. Dealing only with the economic relationships as noted by experience with no implied value judgement, economic textbooks indicate that military expenditures have stimulated the economy. Accordingly, what economic logic leads to the prediction of increased economic slowdown?

RESPONSE:

(a) Your question ignores the fact that imports become more expensive when the dollar weakens, meaning that consumers spend more for imported goods and inflation accelerates. Increased inflation negatively impacts postal finances.

Please note that I addressed the export issue at page 54 of my testimony where it is stated, "[I]n the end there are not lifelines for the U.S. economy from the rest of the world." This is because much of the remainder of the industrialized world is in a cyclical slump. So, rather than relying on export growth, the passage at page 54 of my testimony says that continued United States economic growth would depend on "keeping consumer spending buoyant." The likelihood that export lifelines will not be available to the U.S. economy afloat, is reinforced by DRI-WEFA's October release, quoted in part (b) below, which states that a global recession is now "inevitable."

(b) I do not understand that economic textbooks indicate that military spending is better than other types of spending.

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Martin Baily, past chairman of the Council of Economic Advisors, apparently disagrees in the current situation with the hypothesis stated in your question. He reports as follows:

> There is broad agreement that the terrorist attack will push the US economy into recession and the global economy into a period of slow growth.

"Economic Policy Following the Terrorist Attacks," Economic Policy Briefs Number 01-10, Institute for International Economics, October 2001, p.2.

DRI-WEFA's confidence in the prospects for economic growth has also been shaken.

> Prior to the September 11 terrorist attacks on the United Sates, there was a slightly better than 50/50 chance that the U.S. economy and the rest of the world could avoid a recession. The fallout from the attacks now makes U.S. and global recessions inevitable.

"Post-Attack World Economic Prospects: A Deeper Recession and a Faster Recovery," DRI-WEFA, October 12, 2001, p. 1.

In the new DRI-WEFA forecasts, the faster recovery does not fully compensate for the deeper recession. DRI-WEFA projects less economic growth through the test year as a result of the terrorist attacks, and specifically notes that growth in consumer spending and the resilient service sectors were badly damaged by the terrorist attacks. This lower level of economic activity would tend to reduce the Postal Service's volume and revenue below that projected in the rate filing.

In the current economic situation there are significant new risks and real indications of sharp slowdowns in consumer spending, construction and business investment. There are already hundreds of thousands of people who have been furloughed or laid off, or have had their hours worked significantly reduced in the travel, transportation and tourism industries. Increases in unemployment reverberate throughout the economy. It

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would take rather extraordinary increases in military spending, including enormous increases in personnel hired to provide and support national defense to compensate for these impacts on the civilian workforce and to restore rattled consumer confidence. Your question makes no reference to the negative impacts.

I know of no economic textbook that says that a country's being attacked and being subject to attack is good for the economy of that country. Attacks and fears of attack rattle confidence and divert scarce resources into non-productive security expenditures. Increased defense and security expenditures, by crowding out productivity enhancing investment and research, can slow economic growth and induce higher inflation. These risks are real. In addition, recent uses of mail as an agent for distributing anthrax spores directly affect the Postal Service. We can be hopeful that fear induced by this activity will not have any long-term impact on Postal Service volume and revenue. But the stark reality may not justify this hope.

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OCA/USPS-T6-22. Please turn to your testimony at page 46, lines 23-24, wherein you state that the annual capital need for network growth associated with the provision of additional service to approximately 1.7 million new delivery points per year is approximately $400 million.

(a) Please provide the additions to annual revenues based on current and proposed rates from the additional provision of mail service to the approximately 1.7 million new delivery points each year, assuming that the capital investment of approximately $400 million is invested (which was apparently not the case in FY 2001 due to the budget freeze).

(b) Please provide the addition to annual operating costs for FY 2001 through FY 2003 that would be associated with the $400 million of capital investment needed to serve the approximately 1.7 million new delivery points every year.

(c) For the additional annual costs referenced in (b), please provide a breakout between annual costs resulting from the investment of capital (e.g., typically amortization, depreciation, and possibly other costs flowing through to the income statement) and direct costs (e.g., typically wages, supplies, etc., again flowing through to the income statement).

RESPONSE:

(a) There is no additional revenue. As I say at page 14 of my testimony, the "Postal Service does not charge for existing or new delivery points."

(b) I have not estimated the impact on annual operating costs.

(c) Not applicable.

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OCA/USPS-T6-23. Please turn to your testimony at page 46, lines 24-25, wherein you state that the investment projects associated with the addition of the 1.7 million new delivery points have not been funded due to the capital freeze.

(a) How has the Postal Service been able to deliver mail (assuming that such is the case) to the additional 1.7 million new delivery points, assuming that the investment projects were in fact needed but not made?

(b) Assuming that the mail to the 1.7 million new delivery points was delivered in FY 2001 without incurring the $400 million of needed investment, how much additional annual cost was incurred to make those deliveries that would not have been incurred had the additional investment been made?

(c) Please explain how the annual cost incurred in providing the additional service to the 1.7 million new delivery points (but absent the addition of the desired capital investment) is different from what would have been incurred had the capital projects been implemented. Please provide quantification in your answer in addition to explanations.

(d) Assuming that mail to the 1.7 million new delivery points is being delivered without the addition of capital projects, can it be assumed that this is the result of increased efficiency by the Postal Service? In the management literature this is sometimes referenced as "Doing more with less."

(e) If you agree that the Postal Service delivery of mail to 1.7 new delivery points without the addition of needed capital investment is the result of increased Postal Service efficiency, is such increased Postal Service efficiency probably likely to occur in future years?

RESPONSE:

(a) Space needs unmet by the capital program can be satisfied by shoehorning personnel and operations into existing space, by executing temporary leases, or other even shorter-term solutions such as placing trailers or erecting tents in parking lots.

(b) No comprehensive study has been conducted, but it is believed that the short-term solutions noted in part (a) above are ultimately more costly to the Postal Service than building proper facilities.

(c) Annual operating costs are higher without facility investment but the short-term cash outflow is less.

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(d) No. It is hard to imagine that employees or production processes are more efficient in temporary quarters and substandard environments.

(e) Not applicable.

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OCA/USPS-T6-24. You have delineated $400 million of capital projects associated with the addition of 1.7 million new delivery points.

(a) Are there any other additional capital costs that would be associated with the addition of the new delivery points exclusive of the already mentioned $400 million? Such costs might, for example, be associated with the need for additional mail processing equipment. If you agree, please quantify the additional capital costs. If you disagree, please explain.

(b) If there are any additional costs, please break out the additional annual direct costs similar to the request in OCA/USPS-T6-22(c).

(c) How many of the 1.7 million new delivery points, if any, represent a transfer of existing mail service to a new location concurrent with the elimination of the old location?

(d) How much are annual capital investment and direct costs, as delineated in OCA/USPS-T6-22(c), decreased when the delivery point of mail is transferred to a new delivery point and the previous delivery point eliminated? The number may be aggregated in terms of a specific quantity of sites rather than site specific.

RESPONSE:

(a) No.

(b) Not applicable.

(c) None. That figure is a net number.

(d) See (c).

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OCA/USPS-T6-25. Please turn to your testimony at 49, lines 21-26, wherein you state that the Postal Service's overall revenue and expense projections must be at least 99.5 percent accurate in order for the three percent contingency not to be fully consumed by adverse variances. Please provide the underlying mathematical reasoning and computations including references to specific exhibit pages and lines, if appropriate, that lead to this conclusion.

RESPONSE:

Please refer to the parenthetical at lines 24 and 25 of the cited passage of my testimony where the requirement for 99.5 percent accuracy is stated in terms of being accurate within 0.5 percent, per year for each revenue and expense.

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OCA/USPS-T6-26. Please turn to your testimony at page 51, lines 13-19, wherein you state that the break-even requirement allows no margin of safety other than through the contingency provision. Based on information in the financial press, it is common knowledge that companies frequently announce major and substantial budget cuts in order to achieve lower costs during times of financial difficulty.

(a) Is it your testimony that such an approach is inapplicable to the Postal Service?

(b) If your answer is "yes", please explain the unique characteristics that produce such a situation for the Postal Service.

(c) If your answer is "no", please explain how much of the currently projected costs could be cut in the interim years and test year during economic adversities.

RESPONSE:

(a) – (c) The Postal Service has made significant budget cuts and cost reductions. When the Postal Service announces and commits to budgetary cuts, those cuts are used to reduce the Postal Service's revenue requirement and thus limit the revenues that otherwise would be available to support bottom line financial performance. It seems unlikely that many, if any, of the companies that you are referring to are required to balance revenue and expense in this way. The $2.6 billion in cost savings I identify at page 17, line 8 of my testimony is passed along to customers in the form of lower rates. None of those savings are available to cushion against financial adversity. In the other situations that you reference, a large portion, or perhaps all, of these savings would go to the bottom line of the income statement.

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OCA/USPS-T6-27. Please turn in your testimony at 53, lines 20-21, wherein you state that inflation can accelerate beyond projections and negatively affect the Postal Service's costs. It is understood that over 76 percent of the Postal Service's costs are labor. It is further understood that these costs are set by contract or by management policy and are not subject to inflation except to the degree that economic conditions such as inflation impact the terms of the contract or management policy.

(a) Assuming that accelerated inflation is an important issue to consider, would the aforementioned 76 percent of costs be subject to inflation once the contracts or management policies had been determined? If your answer is other than no, please explain.

(b) Assuming that accelerated inflation is an important issue to consider, have the interim year and test year revenue and cost projections taken this possibility into account?

(c) Have you quantified the potential levels of accelerated inflation and their potential impacts? Is so, please furnish the studies.

RESPONSE:

(a) Yes. Inflation can be a factor that either directly, such as through a cost of living allowance, or indirectly, such as through medical costs underlying health benefit expenses, affects wage and benefit expenses.

(b) Neither the interim year nor test year revenue and cost projections have been adjusted to assume accelerated inflation.

(c) Table 52 on page 65 of my testimony shows potential variations for a number of expense items. Some or all of these variations could relate to accelerated inflation depending on specific circumstances.

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OCA/USPS-T6-28. You state at page 53, lines 27-29, that two alternate DRI-WEFA scenarios have less economic growth through the test year.

(a) Does this mean that you have used a forecast that is optimistic but has only a 55% chance of occurring as a probability?

(b) Does correct budgeting and planning suggest that you should take into account all reasonably prudent possibilities?

(c) Was there any consideration of using more realistic numbers, allowing for downside implications in preparing the revenue and cost projections?

(d) What part of the requested three percent contingency is expected to cover inflation and adverse economic conditions, and what percent is for other contingencies?

RESPONSE:

(a) We used the forecast scenario that was most likely at the time the forecast scenarios were produced. This macroeconomic scenario was more optimistic than the other available scenarios, but was not optimistic when compared with actual economic growth in the years leading into the rate case forecast.

(b) I concur that planning and budgeting should consider various possibilities. In particular, these should be performed to the extent possible with an understanding of the applicable risks. I would also say that when it comes to assessing those risks, those risks should not be dismissed and unduly minimized.

(c) There was limited discussion concerning the possible use of a weighted version of the DRI-WEFA forecasts. At the time of that discussion it was not clear that a weighted forecast would be more realistic.

(d) The contingency provision is not allocated or allocable among different sources of risk. As is suggested by the non-exhaustive list of risks in Table 52 on page 65 of my testimony, the total risks to breakeven performance far outstrip the funds that would be made available by a 3 percent contingency provision. A 3 percent contingency cannot be allocated among these various components.

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OCA/USPS-T6-29. Please turn to your testimony on page 54, lines 1-2, discussing the economic outlook. Is it your testimony that a more pessimistic economic possibility is appropriate, suggesting that the use of the June estimate of the economy was incorrect?

RESPONSE:

The world has changed dramatically since June and a more pessimistic economic outlook is appropriate at this time. Please see my response to OCA/USPS-T6-21.

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OCA/USPS-T6-30. Please turn to your testimony at page 58, line 1 through page 61, line 15. Are there any potential situations under which costs could be lower than expected?

RESPONSE:

Yes. These situations do not create financial risk for the Postal Service and do not give rise to a need for a contingency provision. To the extent any such situation would come to pass and lead to unexpected net incomes, the benefit would accrue to the ratepayers in the form of deferred future rate increases and/or increased investment toward improved service.

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OCA/USPS-T6-31. Please turn to your testimony at page 61 line 18 through page 62, line 2. You have discussed potential revenue variances of one percent and three percent.

(a) Please indicate the types of changes in each of the variables in the DRI-WEFA forecasts that would result in a one percent revenue variation, upwards or downwards.

(b) Please indicate the types of changes in each of the variables in the DRI-WEFA forecasts that would result in a three percent revenue variation, upwards or downwards.

RESPONSE:

(a) - (b) There are virtually an infinite number of combinations of economic conditions and projected values for economic variables which can result in a reduction in revenues in the ranges noted in the question. There is also a wide range of factors other than changes in macroeconomic assumptions that can have an adverse affect on revenue.

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OCA/USPS-T6-32. Please turn to your testimony on page 62, lines 7-26.

(a) You testify past and expected increases in Postal Service Total Factor Productivity (TFP) of 2.5 percent in FY 2000, 2.0 percent in FY 2001 through accounting period 12, 1.1 percent in FY 2002, and at least 0.5 to 1.0 percent lower than assumed in the test year after rates. Please state the TFP assumption for the test year.

(b) In many cases, programs to lower costs are stated in terms of cutting specific dollars or percentages of costs. Please indicate how a percentage cut in costs relates to the TFP projections you present. For example, assuming that the overall level of cost is cut by one percent, how much does TFP increase? Please state all assumptions.

RESPONSE:

(a) There have been no TFP calculations made beyond FY 2002.

(b) It would depend on what type of costs are cut as to their impact on TFP. As a rule of thumb, generally a $600 million reduction in costs equates to an approximate one percent improvement in TFP.

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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 you 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.

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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

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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

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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.

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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 <u>not</u> 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 corporatewide 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.

Attachment to Response
to OCA/USPS-T6-50(b)

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).

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OCA/USPS-T6-57. Please refer to your testimony at 53, lines 19-30, wherein you discuss economic risks. Presumably these risks can potentially affect revenues, costs, and the need for a contingency. For purposes of responding to the following subparts asking for the impact of adjusting a basic assumption, please assume that all other facts and assumptions would remain constant, *i.e., ceteris paribus.*

(a) Please confirm that the underlying economic information supporting the projections of a need for a contingency was based on DRI-WEFA economic forecasts produced in June of 2001 and, therefore, based on DRI-WEFA's understanding of the economy as of that date. If you do not confirm, please state the date(s) of the forecast(s) used by you and any other witnesses on whose testimony you rely as well as which underlying economic data series correspond to which forecast dates.

(b) How would your estimate of a need for a contingency be impacted by a GDP growth estimate that was one percent higher than originally projected for each of the years in your forecast through 2003, the test year? Please explain all reasoning and calculations.

(c) How would your estimate of a need for a contingency be impacted by a GDP that was one percent lower than originally projected for each of the years in your forecast through 2003, the test year? Please explain all reasoning and calculations.

(d) Please state the assumptions for inflation in the forecast you used and then explain how the need for a contingency would be impacted by an inflation rate that was one percent higher than originally projected for each of the years in your forecast through 2003, the test year. Please explain all reasoning and calculations.

(e) Please state the assumptions for inflation in the forecast you used and then explain how the need for a contingency would be impacted by an inflation rate that was one percent lower than originally projected for each of the years in your forecast through 2003, the test year? Please explain all reasoning and calculations.

(f) Please state the assumptions for the index of consumer confidence in the forecast you used and then explain how the need for a contingency would be impacted by an index that was five points higher than originally projected each of the years in your forecast through 2003, the test year. Please explain all reasoning and calculations. Please explain all reasoning and calculations.

(g) Please state the assumptions for the index of consumer confidence in the forecast you used and then explain how the need for a contingency would be impacted by an index that was five points lower than originally projected for each of the years in your forecast through 2003, the test year. Please explain all reasoning and calculations.

(h) Please state the assumptions for the unemployment rate in the forecast you used and then explain how the need for a contingency would be impacted by an unemployment rate that was one percent higher than originally projected for each of the years in your forecast through 2003, the test year. Please explain all reasoning and calculations.

(i) Please state the assumptions for the unemployment rate in the forecast you used and then explain how the need for a contingency would be impacted by an

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unemployment rate that was one percent lower than originally projected for each of the years in your forecast through 2003, the test year. Please explain all reasoning and calculations.

(j) Please state the assumptions on the level of business investment in the forecast you used and then explain how the need for a contingency would be impacted by a level of investment that was 10 percent higher than originally projected for each of the years in your forecast through 2003, the test year. Please explain all reasoning and calculations.

(k) Please state the assumptions on the level of business investment in the forecast you used and then explain how the need for a contingency would be impacted by a level of investment that was 10 percent lower than originally projected in each of the years in your forecast through 2003, the test year. Please explain all reasoning and calculations.

RESPONSE:

Because you are asking for *ceteris paribus* responses,[1] I need preface my response to the subparts of your question by explaining that development of the contingency provision is not a *ceteris paribus* exercise. The contingency provision is not something that is built up block by block, brick by brick, or step by step. It is neither a forecast nor a mathematical calculation. Rather, the *raison d'être* of the contingency provision is to correct for the inherent inability of step-by-step, line-item forecasting exercises to supply the financial foundation that is necessary to support the capital needs and ongoing operations of the Postal Service. The contingency provision is explicitly intended to be an amount *in addition to* total forecasted costs in order to ensure that the Postal Service will break even. The greater the risk that the Postal Service faces, the larger the contingency needs to be. Changing a brick or a block (or a macroeconomic forecast) does not change the need for a contingency provision adequate to protect against potential risks. As I stated at page 47 of my testimony, "there is always the potential for the unknown and the unknowable." None of the changes in specific line item forecasts

[1] Please note as well that the *ceteris paribus* premise of the question is itself questionable. For instance, it seems unrealistic to assume that the unemployment level could change without affecting the level of consumer confidence, or that the level of business investment could change without affecting GDP.

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or the specifics of any particular forecast postulated in the subparts of your question necessarily change the risks inherent in those forecasts. Nor do those changes eliminate or correct for the fact that the future is fraught with unknowns.

Macroeconomic forecasts are subject to considerable risk regardless of whether those forecasts are favorable or unfavorable and regardless of whether those forecasts are decreased or increased. Similarly, the Postal Service is vulnerable to financial shocks regardless of whether the macroeconomic forecasts are increased or decreased and regardless of whether those forecasts are favorable or unfavorable.

Rather than being a forecast, the contingency provision reflects a general assessment of how the risks are stacked up against the Postal Service and how well the Postal Service is able to absorb those risks. The Postal Service's assessments in this regard have been good. In the mid-1990s we reduced the contingency provision when it appeared that the Postal Service was in a position to perform well financially. The Postal Service did perform well. However, in the last rate case, our financial fortunes began to shift and we sought to increase the level of protection. Again, we were right, but unfortunately were not heeded.

Even if one or other of the economic factors cited in the question were to improve in some sense, now would not be the time to reduce the contingency provision proposed by the Postal Service. The Postal Service has not broken even over time, which means that it has not had an adequate financial cushion. We are getting very close to the statutory debt limit. This is not the time to risk reducing the level of protection against the risk of not breaking even that is provided by the contingency provision proposed by the Postal Service. The law requires that rates and fees cover costs, and rates and fees over time have failed to achieve that mandate. Particularly in this time of extraordinary uncertainty and risk, the Postal Service's ability to reach break even should not be compromised in any way.

(a) Not confirmed. The contingency provision was not derived from any particular DRI/WEFA forecast. Rather, the contingency provision was developed by

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reviewing the Postal Service's exposure to risks and the Postal Service's capacity to absorb those risks. At the time the contingency provision was developed, those risks appeared to have been increasing and the Postal Service's capacity to absorb those risks was rapidly dissipating. As discussed above, these risks do not change necessarily as result of changes in macroeconomic forecasts.

(b & c) A one percent higher or lower GDP forecast would not have any necessary impact on the risks facing the Postal Service or on the Postal Service's capacity to absorb risk.

(d & e) The inflation assumptions used in my testimony are documented in Library Reference J-50. If projected Inflation rates had been one percent higher or lower, these would not have any necessary impact on the amount of risk inherent in the forecast, on the risks facing the Postal Service, or on the Postal Service's capacity to absorb risk.

(f & g) I did not use an index of consumer confidence in the preparation of my testimony. However, because of the risks the Postal Service is facing and the limited capacity of the Postal Service to absorb risk, under current circumstances I believe the Postal Service would require a substantial contingency provision whether or not consumer confidence projections have grown or declined.

(h & i) I did not use an unemployment rate in the preparation of my testimony. However, because of the level of risk and the limited capacity of the Postal Service to absorb risk, under current circumstances I believe the Postal Service would require a contingency provision at least as high as presented in my testimony whether or not unemployment rate projections have grown or declined.

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TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

(j & k) I did not use a level of business investment in the preparation of my testimony. However, because of the level of risk and the limited capacity of the Postal Service to absorb risk, under current circumstances I believe the Postal Service would require a contingency provision at least as high as presented in my testimony whether or not business investment projections have grown or declined.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF VAL-PAK DIRECT MARKETING SYSTEMS, INC.

VP/USPS-T6-2. Your testimony at page 3, lines 25-29 references the additional cost transfer to the Postal Service under the Balanced Budget Act of 1997.

(a) What was the estimated total expense as a result of transferring the requirement for the funding of Post Office Department Workers' Compensation to the Postal Service?.

(b) How was the total estimated expense recorded? That is, was it entered as a one-time accrued cost, or does it appear in the budget and roll-forward model as an annual recurring expense?

(c) If your answer to part b Is that it is an annual recurring expense, what is the total expense for the base year 2000 and for each of the years 2001 through 2003?

RESPONSE:

(a) The total expense incurred through FY 2000 is $291 million.

(b) The total estimated liability of $258 million was recorded as an expense in FY 1997. Additional amounts equal to the estimated change in the liability have been charged to expense in each year since then.

(c) As reflected in Chapter VI, Section f, of LR J-50, the annual expenses for the period FY 2000-2003 are $14.2 million, $9.3 million, $8.4 million, and $6.5 million, respectively.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF VAL-PAK DIRECT MARKETING SYSTEMS, INC.

VP/USPS-T6-3. Your testimony at page 22 lines 20-22, refers to "performance-based increases (such as) lump sum payouts."

(a) Are you referring here to a program of the Postal Service that is sometimes referred to as Economic Value Added ("EVA")? If not, to what specifically are you referring?

(b) How much did the Postal Service spend on the EVA program in each fiscal year since its inception including the latest fiscal year?

(c) How much has the Postal Service budgeted for the EVA program in FY 2002?

(d) In the roll-forward model, what is the estimated expense for the EVA program in Test Year 2003?

(e) In what cost segment or segments are the costs of the EVA program recorded?

(f) Please list all criteria being used to determine awards under the EVA program for FY 2002, and indicate the relative importance of each criterion in making each award.

(g) Please describe the process for recommending and making awards under the EVA program, including the titles of the persons making such recommendations and decisions

RESPONSE:

(a) The performance-based lump sum payments referred to in my testimony are the lump sum portion of non-bargaining merit pay and non-bargaining variable pay or pay-for-performance (referred to previously as EVA).

(b) The EVA Pay for Performance program was first implemented in FY 1996. It currently covers all non-bargaining career employees (over 83,000) of the Postal Service. The employees who participate in this program do not receive the twice-per-year cost-of-living-allowance pay increases that our bargaining employees receive. They also do not receive any annual general increases as our bargaining employees receive or that other federal employees receive. In addition, over 30,000 of the covered employees forwent premium over time pay for work in excess of 8 hours in a day. Since the inception of this program, the Postal Service has recorded the following amounts as an expense in each of the following fiscal years:

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF VAL-PAK DIRECT MARKETING SYSTEMS, INC.

1996	$268M
1997	$327M
1998	$277M
1999	$257M
2000	$284M

The amount for fiscal year 2001 will be based on audited financial results and is accordingly not yet finalized.

(c) As reflected on page 408 of LR J-50, the FY 2002 assumption for variable pay expense reflected in this filing is $1,839.98 per base work year or approximately $200 million.

(d) As reflected on page 408 of LR J-50, the FY 2003 assumption for variable pay expense reflected in this filing is $1,839.98 per base work year or approximately $200 million.

(e) The cost impact of variable pay is reflected in those cost segments which include the personnel costs of career non-bargaining employees. These include segments 1,2,11,12,13,16,18, and 19.

(f) Please see the response to DFC/USPS-8.

(g) Please see the response to DFC/USPS-8. The national goals under this group pay for performance program are recommended by the Postmaster General and approved by the Board of Governors. Actual awards are based upon goal attainment and employees who do not fully contribute to the performance of the organization or

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF VAL-PAK DIRECT MARKETING SYSTEMS, INC.

whose conduct was clearly unacceptable to the organization may be recommended for exclusion by their manager.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF VAL-PAK DIRECT MARKETING SYSTEMS, INC.

VP/USPS-T6-5. Your testimony at page 51 (ll. 6-8) states that "the Postal Service carries an extremely large liability on its balance sheet ... for deferred retirement costs ...." The balance sheet of the Postal Service also carries and offsetting item, "Deferred Retirement Costs," amounting to some $32.183 billion as of the end of FY 2000. The liability for deferred retirement costs shown on the balance sheet of the Postal Service at the end of FY 2000 amounted to $30.212 billion. Why is the asset for deferred retirement costs greater than the corresponding liability?

RESPONSE:

The difference between the asset and the long-term liability is the current liability (i.e., the amount of principal payable within the next year). The total liabilities equal the total deferred retirement cost.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF VAL-PAK DIRECT MARKETING SYSTEMS, INC.

VP/USPS-T6-8. At a hearing held on September 20, 2001 by the Senate Subcommittee on International Security, Proliferation, and Federal Services, Postmaster General John E. Potter stated, in response to a question by Chairman Daniel K. Akaka, that the Postal Service had sent a request for $50 million due to the destruction of the Church Street Station in New York City on September 11, 2001.

(a) To whom was this request sent?

(b) Please provide the status of this request, including any responses to this request received from the White House Office of Management and Budget and/or from Congressional committees, as well as from other government entities.

(c) Have any other funds been sought in wake of the events of September 11, 2001? If so, please explain.

RESPONSE:

(a) A request totaling $61,160,000 (see attachment) for restoration of the Church Street Station and other September 11 disaster-related costs was sent to the Director, Office of Management and Budget.

(b) To my knowledge, this request remains outstanding. To date we have received no official response from OMB on this request.

(c) No other funds have been requested by the Postal Service relating to the events of September 11, 2001. However, on October 23, 2001, at the request of Governor Tom Ridge, Office of Homeland Security, the Postal Service submitted a list of Anthrax incident-related expenses anticipated through November 2001. On November 5, 2001 the President authorized the transfer of $175 million (see attachment) from the Emergency Response Fund to the Postal Service, subject to a Congressional 15-day "report and wait" period.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF VAL-PAK DIRECT MARKETING SYSTEMS, INC.

VP/USPS-T6-9. At the open meeting of the Board of Governors held on October 2, 2001, Vice Chairman S. David Fineman commented that Congress should be asked to pay the Postal Service what it owes. It appears that about $957 million is owed, and $29 million per year is being received by the Postal Service without interest.

(a) Please indicate whether any action has been taken on Vice Chairman Fineman's suggestion, and, if so, please describe the status of such action.

(b) Please discuss any responses regarding this matter received from the Office of Management and Budget and/or from Congressional committees.

RESPONSE:

(a) On August 31, 2001 the Postmaster General forwarded a FY 2002 Supplemental Request for $957 million to the Director, Office of Management and Budget. Also, on October 4, 2001, a letter requesting the $957 million was sent to the Chairman, Committee on Appropriations of the House of Representatives. To my knowledge, this request remains outstanding. Please refer to my response to DMA/USPS-T6-33 for a discussion of how such an appropriation would impact Postal Service net income.

(b) To date, there have been no responses to the above requests.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORY OF VAL-PAK DIRECT MARKETING SYSTEMS, INC.

VP/USPS-T6-14 Please refer to your response to VP/USPS-T6-3.

(a) In your response to part b. of that interrogatory, you indicated that "employees who participate in this program do not receive the twice-per-year cost-of-living pay increases that our bargaining employees receive." Is your statement intended to imply that over time the basic pay scale for the 83,000 non-bargaining career employees has not increased in line with (i) the rate of inflation, or (ii) the basic pay scale of clerks and mailhandlers? If this is not the case, what are you attempting to convey by your statement? Please explain fully.

(b) Is your statement quoted in preceding part a intended to imply that the EVA Pay for Performance program is treated as, and should be considered as, an annual "entitlement" designed to replace a cost-of-living adjustment? If this is not the case, what are you attempting to convey by your statement? Please explain fully.

(c) You also state in part b that the "non-bargaining" career employees (over 83,000) ...do not receive any annual general increases as our bargaining employees receive or that other Federal employees receive." Are you saying that over the last, say, five years, non of the 83,000 non-bargaining career employees have received a general pay increase? Unless your answer is an unqualified affirmative, please provide your best estimate of the average pay increase over the last five years for the 83,000 non-bargaining career employees who are eligible to participate in the EVA Pay for Performance program.

(d) You further state in part b that "over 30,000 of the covered employees forwent premium overtime pay for work in excess of 8 hours a day."

(i) Please explain fully what you intend by this statement.
(ii) Are the "30,000 covered employees who forwent premium overtime" paid on a fixed salary or an hourly basis ?
(iii) If they are hourly employees, is the Postal Service not required by law to pay overtime for work in excess of 8 hours a day?

(e) Please confirm that 83,000 times $1839.98 is equal to approximately $152.7 million.

(f) Please confirm that $200 million divided by 83,000 is approximately $2,410.

(g) Please confirm that $200 million divided by $1,839.98 per employee is equal to approximately 108,700 employees.

(h) Please reconcile the computations in preceding parts e, f, and g with your responses to other parts of the above-referenced interrogatory, especially parts c and d.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORY OF VAL-PAK DIRECT MARKETING SYSTEMS, INC.

RESPONSE:

(a) No. My response did not compare the basic pay scale of non-bargaining career employees with the rate of inflation or the basic pay scale of clerks and mailhandlers. My response was intended however, to make it clear that merit pay and pay for performance (incentive pay) constitute the only types of wage changes received by non-bargaining employees.

(b) No. I'm am merely pointing out the differences between the pay system of our bargaining and non-bargaining employees. The distinction is being made because prior to implementation of the pay for performance system, the non-bargaining employees received many of the increases received by bargaining employees.

(c) Yes.

(d)

(i) I intended to explain that certain non-bargaining employees who previously received premium overtime (i.e. time and a half) for overtime hours are no longer eligible for this benefit.

(ii) These employees are full time career employees, not hourly rate employees. However, some of these employees are paid the straight time rate for hours worked in excess of 8.5 hours in a day or on non-scheduled work days.

(iii) See the response to part (ii).

(e) Confirmed. However this calculation does not cover the full amount estimated for this program.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORY OF VAL-PAK DIRECT MARKETING SYSTEMS, INC.

(f) Confirmed.

(g) Not confirmed. $1839.98 does not include the cost of benefits. When "rolled up" for benefit costs of 3.8%, the average cost becomes $1909.54. $200 million divided by $1909.54 results in 104,737 base workyears, which is the number that was used to derive the average cost before roll up. (See page 408 of LR J-50).

(h) The intention was to include the estimated value of the pay for performance (incentive pay) funding pool or $200 million in each year's estimated expenses. This is a conservative estimate is relation to the amounts expensed for this program in previous years, as shown in my response to VP/USPS-T6-3. The methodology used to reflect lump sum payments in personnel costs is to multiply the estimated average lump sum per base workyear times the total base workyears for the employee category that is affected. This results in the total cost (before premium and benefit roll ups) for that year. The current year's lump sum cost must then be subtracted from the previous year's lump sum cost, because lump sum payments are one-time events that do no increase base pay. Non-bargaining base workyears are higher than the number of non-bargaining employees, due to the higher level pay hours that some bargaining employees work when they fill in for supervisors on a temporary basis. These employees are not eligible for pay for performance (incentive pay). Using the number of employees to determine the average cost would result in an overstatement of cost when multiplied by base workyears. The controlling number for pay for performance (incentive pay) is $200 million, regardless of whether it is divided by base workyears or the number of employees. Please refer to Chapter I page 35 of LR J-50 (Rfdescr01s.doc) for a description of lump sum payments and their treatment in calculating the effect of wage changes. Also see Chapter VII (Personnel Cost Factor Development) of LR J-50 for the calculation of personnel cost level factors for non-bargaining employees including the treatment of lump sum payments (Prff_01s.xls).

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 6, QUESTION 7

7. Please provide all workpapers, including electronic spreadsheets, used to develop the Base Year 2000 workyears in LR-J-50 Chapter IV, Section I.

RESPONSE:

The spreadsheets requested are being provided as USPS-LR-J-213. These spreadsheets replicate the mainframe program originally used to generate base year workyears.

Please note that library references contains both an electronic version of the base year workyear calculation spreadsheets (wyrs00s.xls) and a revision of the electronic file Realtb00s.xls, which was previously provided as part of USPS-LR-J-50. The version of Realtb00s.xls included in LR-J-213, rather than the original version in LR-J-50, must be used in conjunction with wyrs00s.xls. The revised version contains named ranges linked to wyrs00s.xls, which were not reflected in the version of Realtb00s.xls provided as part of LR J-50.

RESPONSE OF UNITED STATES POSTAL SERVICE TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 7, QUESTION 9

9. The recently awarded contract arbitration between the APWU and the Postal Service contained provisions for the upgrades of various position classifications. Please provide the number of positions and the corresponding number of workyears in the following APWU represented position classifications:

a. Mail Processors (Level 4)
b. Senior Mail Processors (Level 5)
c. Motor Vehicle Operator (Level 5)
d. Tractor Trailer Operator (Level 6)
e. Building Equipment Mechanic (Level 7)
f. Maintenance Mechanic MPE (Level 7)
g. Electronic Technician (Level 9)
h. Electronic Technician (Level 10)

RESPONSE:

The estimated number of positions that will be impacted is listed below. Assuming all impacted positions are full time, this would translate into the same number of base workyears. Please note that the effective dates of the promotions will determine the number of base workyears applicable to each fiscal year.

a. Mail Processors (Level 4)	32,770
b. Senior Mail Processors (Level 5)	551
c. Motor Vehicle Operator (Level 5)	3,358
d. Tractor Trailer Operator (Level 6)	5,912
e. Building Equipment Mechanic (Level 7)	2,291
f. Maintenance Mechanic MPE (Level 7)	5,844
g. Electronic Technician (Level 9)	7,452
h. Electronics Technician (Level 10)	114
Total	58,292

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 7, QUESTION 10

10. *In response to* OCA *interrogatories* OCA/USPS-T6-1 and OCA/USPS-T6-2 filed on October 17, 2001 witness Tayman said that the FY 2002 operating plan by accounting period was not yet finalized. Has the FY 2002 operating plan by accounting period been finalized yet? If it has, please provide the FY 2002 operating plan information by accounting period as requested *in OCA interrogatories OCA/USPS-T6-1 and* OCA/USPS-T6-2. If this information has not been finalized please indicate when this information will be available and filed as requested.

RESPONSE:

Please see attached.

Attachment to response
to POIR 7 Question 10

U.S. POSTAL SERVICE
FY 2002 OPERATING PLAN
($THOUSANDS)

	AP 01	AP 02	AP 03	AP 04	AP 05	AP 06	AP 07	AP 08	AP 09	AP10	AP 11	AP 12	AP 13	TOTAL
TOTAL OPERATING REVENUE	5,372,190	5,534,029	5,313,219	5,674,414	5,315,271	5,235,221	5,408,035	5,413,501	5,248,580	4,948,799	4,890,735	5,033,999	5,090,930	68,478,926
APPROPRIATIONS	5,134	5,134	5,134	5,134	5,134	5,134	5,134	5,134	5,134	5,134	5,134	5,134	5,130	66,738
INVESTMENT INCOME	3,531	2,257	2,119	2,119	2,119	2,119	2,119	2,119	2,119	2,119	2,119	2,119	2,119	29,094
TOTAL REVENUE	5,380,855	5,541,420	5,320,472	5,681,667	5,322,524	5,242,474	5,415,288	5,420,754	5,255,833	4,956,052	4,897,988	5,041,252	5,098,179	68,574,758
TOTAL EXPENSES	5,137,653	5,223,673	5,252,862	5,749,217	5,286,426	5,391,500	5,499,906	5,452,264	5,501,249	5,248,695	5,207,665	5,337,595	5,588,395	69,877,102
NET INCOME(LOSS)	243,202	317,747	67,610	(67,550)	36,098	(149,026)	(84,618)	(31,510)	(245,416)	(292,643)	(309,677)	(296,343)	(490,216)	(1,302,344)
CONVERSION TO GFY														(47,656)
NET INCOME(LOSS)														(1,350,000)
TOTAL MAIL VOLUME	16,846,328	17,554,200	16,628,431	16,452,077	15,989,433	15,731,251	16,401,104	16,459,315	15,947,599	14,975,502	14,846,281	15,319,296	15,482,289	208,633,105
CONVERSION TO GFY														1,306,082
NET INCOME(LOSS)														209,939,187

United States Postal Service

George S. Tolley
(USPS-T-7)

RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO THE PRESIDING OFFICER'S INFORMATION
REQUEST NO. 7, QUESTION 7

7. In response to Interrogatory OCA/USPS-304, the Postal Service provides a table that identifies the number of ZIP code pairs subject to one, two, and three day service standards for First-Class Mail and Priority Mail. Please provide estimates of the volume, or percentage of volume, that can be associated with each of the cells in the table for FY 2001, or some other recent period for which the data may be more readily available.

RESPONSE:

First-Class Mail and Priority Mail ODIS Volumes, FY 2001

Service Standard	First-Class Mail Volume	Priority Mail Volume
One Day (Overnight)	32,802,944,697 (43.5%)	169,022,767 (19.6%)
Two Days	20,413,800,809 (27.0%)	658,380,109 (76.3%)
Three Days	22,273,616,374 (29.5%)	35,815,357 (4.1%)
Total	75,490,361,880	863,218,233

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY TO
PRESIDING OFFICER'S INFORMATION REQUEST

POIR-7-8. Please refer to USPS-LR-J-123, After-Rates Fixed-Weight Price Indices. Show how the "current" and "proposed" Standard mail parcel surcharges of $0.1575 and $0.2075, respectively, were calculated in USPS-LR-J-123 at file "prices_ar", page "StdA", cells AY20, AZ20, AY38, AZ38, AY179, AZ179, AY197 and AZ197. In addition, explain why these surcharges were used instead of the actual current and proposed surcharges of $0.18 and $0.23, respectively.

RESPONSE:

The parcel surcharges listed in USPS-LR-J-123 are the combined prices of the parcel surcharge of $0.18 and $0.23 (before- and after-rates) and the parcel barcode discount of $0.03 (both before- and after-rates). It is assumed that 75 percent of Standard parcels qualify for the barcode discount. Hence, the prices shown in the cells cited above are equal to $0.18 - (0.75)•$0.03 = $0.1575 before rates and $0.23 - (0.75)•$0.03 = $0.2075 after-rates, respectively.

United States Postal Service

Eliane Van-Ty-Smith
(USPS-T-13)

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
VAN-TY-SMITH TO INTERROGATORIES OF AOL-TW

AOL-TW/USPS-T13-1. You refer to USPS LR-J-55 as fulfilling the same role as USPS LR-I-106 did in R2000-1. You also state that the purpose of your testimony is to summarize USPS LR-J-55. USPS-T13, at 1. Yet LR-J-55, both the hard copy and the electronic version posted on the Commission's web site, contains only a few listings of SAS code. On the other hand, USPS LR-J-82, the "PRC Version" of LR-J-55, contains much more information, including eight EXCEL files with various tables and an apparently more complete list of SAS code files.

a. Please describe the contents of each of the Excel files in LR-J-82.
b. Please indicate which, if any, of the EXCEL files in LR-J-82 also apply to EXCEL-J-55.
c. Please provide LR-J-55 equivalents of each EXCEL file in LR-J-82.
d. Please provide, in electronic spreadsheet and hard copy form, the equivalent information for this rate case of each of the tables in LR-I-106, to the extent they are not provided in response to parts b or c of this interrogatory.
e. Does the narrative provided in LR-I-106 apply without any change to LR-J-55? If not, please provide an updated narrative that includes all changes in program logic, cost pool definition, etc. between the last rate case and this one.

Response to AOL-TW/USPS-T13-1.

a. Redirected to the Postal Service.
b. Redirected to the Postal Service.
c. Please refer to tables in the pdf file for LR-J-55 on the PRC WEB site and to the Postal Service's response to AOL-TW/USPS-T13-1b.
d. Please refer to tables in the pdf file for LR-J-55 on the PRC WEB site.
e. No. The updated narrative for this rate case is included in the pdf file for LR-J-55 on the PRC WEB site.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
VAN-TY-SMITH TO INTERROGATORIES OF AOL-TW

<u>AOL-TW/USPS-T13-2</u> Please provide electronic spreadsheet (e.g., Excel) *formats for the tables shown at the end of your testimony.* If an electronic spreadsheet format already has been provided for some or all of these tables, please provide all relevant references.

<u>Response to AOL-TW/USPS-T13-2</u>

Please refer to the T13 Tables.xls file on the PRC WEB site.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS VAN-TY-SMITH TO INTERROGATORIES OF AOL TIME WARNER, INC.

<u>AOL-TW/USPS-T13-4</u> Your testimony states:

> "To reflect the emergence of the ISCs (International Service Centers) as separate entities related to international programs, costs for MODS finance numbers in FY 2000 are further disaggregated into costs for ISC and non-ISC finance numbers."

a. What is an ISC? In particular, please explain what you mean by describing them as "separate entities related to international programs."

b. How many ISC's are there?

c. Where are ISC's typically located? Specifically, how many are located: (1) inside mail processing plants (P&DC's); (2) at airports; or (3) in separate facilities?

d. Do employees receive special training in order to work in an ISC? If yes, what kind of training do they receive, and how long does such training last?

e. LR-J-55 states that mail processing IOCS tallies with "ISC encrypted finance numbers" are extracted and included in the cost pool called INTL ISC. What are the ISC associated finance numbers?

f. How many employees work at ISC's?

g. Should ISC's be considered as distinct from both Function 1 and Function 4 offices?

h. Assume that a Periodical is being handled in an ISC. Which of the following is most likely, and which is least likely?

(1) the Periodical has domestic origin and international destination;
(2) the Periodical has international origin and domestic destination; or
(3) the Periodical has domestic origin and domestic destination?

i. Please answer the questions in part h of this interrogatory assuming that the mail piece is a single piece letter, rather than a Periodical.

<u>Response to AOL-TW/USPS-T13-4</u>

a. Redirected to the Postal Service.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS VAN-TY-SMITH TO INTERROGATORIES OF AOL TIME WARNER, INC.

b. Seven ISC finance numbers were included in the Base Year 2000 volume-variable costs for the INTL ISC cost pool.

c-d. Redirected to the Postal Service.

e. Program MOD1POOL lists the seven ISC encrypted finance numbers under the section labeled "........*Establish ISC Cost Pool*............".

f. Redirected to the Postal Service.

g. As part of an on-going effort to "separate the costs of programs clearly related to products where possible" in response to a recommendation from the FY 96 Audit (see Witness Meehan's testimony, page 5, lines 10-13), ISC's were considered distinct from other Function 1 and Function 4 offices because they were identified as centers which process predominantly international mail in the base year 2000 (see response of the Postal Service to TW/USPS-T13-4a).

h-i. Redirected to the Postal Service.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS VAN-TY-SMITH TO INTERROGATORIES OF AOL TIME WARNER, INC.

AOL-TW/USPS-T13-5 Please refer to Table 3 in your testimony and confirm that your cost distribution results in $0.63 million of INTL ISC costs being attributed to the domestic subclass called "Outside County Periodicals".

Response to AOL-TW/USPS-T13-5

Confirmed. $630 (000's) or $0.63 million is obtained from Table 3 by adding the volume-variable costs in the INTL ISC column for the rows corresponding to mail classes "8-2 Periodicals-Regular," "8-3 Periodicals-Non Profit" and "8-4 Periodicals-Classroom."

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
VAN-TY-SMITH TO INTERROGATORIES OF AOL TIME WARNER, INC.

AOL-TW/USPS-T13-6

a. Please confirm that the four MODS cost pools that you define as "support" pools have direct tallies in the BY2000 IOCS data with combined tally costs of $106.13 million.

b. Please confirm that the BY2000 direct tally costs at the four support pools are 18.3% higher than the corresponding costs in FY98.

c. Please confirm that your proposed method, like the method you proposed in R2000-1, effectively ignores the IOCS subclass identifications for all direct tallies in the four "support" pools.

Response to AOL-TW/USPS-T13-6

a. Confirmed.

b. Confirmed, if the cited costs in "a" above are compared to the BY98 direct tally costs for the same cost pools in LR-I-184 in Docket R2000-1. Please also note that the percent of direct tally costs out of the total tally costs for these four support pools is 13.14% for BY 98 and 14.00% for BY 2000.

c. Confirmed. The treatment of the direct tallies in the "support" pools in Docket R2001-1 is based on the method that the Postal Service proposed in Docket R2000-1.

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS
VAN-TY-SMITH TO AOL/TIME WARNER INC.

AOL-TW/USPS-T13-7 Please refer to your response to interrogatory TW/USPS-T17-18 in Docket No. R2000-1, Tr. 15/6621-24, and to your distribution in this docket of mail processing costs in Non-MODS facilities,

a. Please confirm that the methodology you propose for distributing Non-MODS costs in this case is identical to the one you proposed in R2000-1. If not confirmed, please explain all differences.

b. Please confirm that except for tallies with activity code 6521, representing break-time, you assign all other mail processing Non-MODS tallies to cost pools based on the Question 18 and Question 19 answers stored in fields F128, F9211, F116, F118 and F121 of the IOCS data, plus the uniform operation codes stored in F260. If not confirmed, please explain in detail.

c. Please confirm that, as in R2000-1. you assign all break-time tallies to a separate cost pool, named "Z BREAKS", and that you do not use any of the recorded Question 18 or Question 19 data, or operation code data, to distribute the break-time costs. If not confirmed, please explain fully.

d. In Docket R2000-1 you prepared, in response to TW/USPS-T17-18, an alternative distribution of Non-MODS costs that assigned break-time tallies to cost pools in the same way that it assigns all other tallies. Please perform a similar alternative distribution of Non-MODS costs to subclasses and special services, using the BY2000 IOCS data. Please present the results in a manner similar to that you used in R2000-1.

Response to AOL-TW/USPS-T13-7

a. Confirmed.

b. Confirmed.

c. Confirmed.

d. See the attached tables. Table 1 shows a comparison of the distributed ZBREAKS costs to Non-MODS cost pools between the two methods. Table 2 shows a comparison of the Non-MODS volume-variable mail processing costs for subclasses and special services between the two methods.

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Response to AOL-TW/USPS-T13-7d - Table 1. Base Year 2000 data						
	Distributed ZBREAKS Costs		Total Pool Costs excl. actv=6522 (Clocking in/out)		Total Pool Costs incl. actv=6522 (Clocking in/out)	
Non-MODS Pools	Proportional Distribution of Zbreaks (USPS Method)	Method Described in TW-T13-7d Interrogatory	Proportional Distribution of Zbreaks (USPS Method)	Method Described in TW-T13-7d Interrogatory	Proportional Distribution of Zbreaks (USPS Method)	Method Described in TW-T13-7d Interrogatory
ALLIED	61,319	37,781	696,205	672,667	706,170	682,294
AUTO/MEC	16,121	15,280	183,028	182,187	185,647	184,795
EXPRESS	2,180	269	24,753	22,842	25,107	23,169
MANF	50,788	53,044	576,640	578,895	584,893	587,181
MANL	69,461	98,536	788,643	817,718	799,930	829,423
MANP	16,094	17,009	182,731	183,646	185,346	186,274
MISC	26,738	22,654	303,574	299,490	307,919	303,775
REGISTRY	4,219	2,348	47,900	46,029	48,586	46,687
Total Mail Processing	246,920	246,920	2,803,474	2,803,474	2,843,598	2,843,598

Response to AOL-TW/USPS-T13-7d - Table 2. Base Year 2000 data

BY00 Non-MODS Mail Processing Volume-Variable Costs, incl. Clocking in/Out				
Subclasses	Based on Proportional Distribution of Zbreaks (USPS Method)	Based on Method Described in TW-T13-7d Interrogatory	Difference	Percent
	(a)	(b)	(b)-(a)	(b-a)/a
First-Class Mail:				
Single Piece Letters	1,053,770	1,062,827	9,057	0.86%
Presort Letters	318,318	319,681	1,363	0.43%
Single Piece Cards	36,065	36,682	617	1.71%
Presort Cards	10,436	10,605	169	1.62%
Total First	1,418,589	1,429,795	11,206	0.79%
Priority Mail	142720	141717	(1,003)	-0.70%
Express Mail	18364	17559	(805)	-4.38%
Periodicals				
In-County	6,259	6,225	(34)	-0.55%
Outside County	162,460	161,302	(1,158)	-0.71%
Total Periodicals	168,718	167,527	(1,192)	-0.71%
Standard Mail (A)				
Enhanced Carrier Route	99,040	97,532	(1,508)	-1.52%
Regular	637,881	640,379	2,498	0.39%
Total Standard (A)	736,921	737,911	990	0.13%
Standard Mail (B)				
Parcels Zone Rate	45,185	44,724	(461)	-1.02%
Bounded Printed Matter	30,560	30,317	(243)	-0.80%
Media Mail	13,494	13,497	3	0.02%
Total Standard (B)	89,239	88,538	(701)	-0.79%
US Postal Service	27,710	27,075	(635)	-2.29%
Free Mail	645	671	25	3.93%
International Mail	15,003	14,760	(243)	-1.62%
Special Services				
Registry	5,260	5,052	(208)	-3.95%
Certified	13,936	12,844	(1,092)	-7.84%
Insurance	88	81	(7)	-7.84%
COD	434	400	(34)	-7.83%
Other Services	10,841	9,992	(850)	-7.84%
Total Special Services	30,558	28,369	(2,190)	-7.17%
			-	
Total	2,648,469	2,653,921	5,452	0.21%

RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS
VAN-TY-SMITH TO AOL/TIME WARNER INC.

AOL-TW/USPS-T13-8 Please refer to the field named F114 in the IOCS dataset.

a. Please confirm that for the MODS mail processing tallies, F114 contains the 3-digit MODS number based on which you assign tallies to cost pools.

b. Please confirm that the majority of Non-MODS and BMC mail processing tallies also contain 3-digit codes in F114.

c. Are the 3-digit codes found in F114 on most Non-MODS and BMC tallies recorded by the IOCS clerks? If no, how were they generated? If yes, based on what instructions were these numbers recorded?

d. Please explain the meaning of each 3-digit number found in field F114 of Non-MODS tallies. Please also provide any written documentation explaining the meaning of these numbers.

e. Please explain the meaning of each 3-digit number found in field F114 of BMC tallies. Please also provide any written documentation explaining the meaning of these numbers.

Response to AOL-TW/USPS-T13-8

a. Confirmed.

b. Confirmed.

c. Yes. Please refer to Chapter 11, pages 11-1 to 11-3 of Handbook F-45 filed in USPS-LR-I-14 in Docket No. R2000-1.

d. See response to c. From the instructions in the F-45 handbook, the operation code in field F114 represents the operation number (if any) into which the employee is clocked at the time of the reading. I am not aware of any written documentation providing standardized definitions of the operations numbers for offices outside the MODS system. Consequently, the Postal Service methodology does not use or rely on the 3-digit codes recorded in field F114 to partition the tallies into components and cost pools for the Non-MODS facilities.

e. See response to c. The Postal Service methodology does not use or rely on the 3-digit codes recorded in field F114 to partition the tallies into components and cost pools for the BMC's. It is my understanding that the definitions of the operation numbers used at BMCs generally differ from the MODS definitions and may further vary from office to office. For further details, please refer to Postal Service's response in Docket No. R97-1 to DMA/USPS-T14-34 (redirected from witness Bradley), Tr. 19B/8719-23, and the Postal Service's responses to the follow-ups to that response, DMA/USPS-2 - 10, Tr. 19B/8677-87.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS VAN-TY-SMITH TO MPA INTERROGATORIES

MPA/USPS-T13-1. In Section B.2.3 of your testimony, you describe how you developed distribution keys for mail processing cost pools.

(a) Please identify and describe all differences between the method you are proposing in this case to develop cost pool distribution keys and the method you proposed in Docket No. R2000-1.

(b) Since the closing of the record in Docket No. R2000-1, has the Postal Service or any of its contractors performed any analyses of the causal relationship between allied mail processing costs and subclasses of mail? If so, please provide a copy of each analysis.

Response to MPA/USPS-T13-1.

(a) Once the tallies are assigned to cost pools based on the procedures described in Section B.2.2, there is no difference in the way the Postal Service uses the tallies to develop cost pool distribution keys in this rate case and the method it proposed in Docket No. R2000-1.

(b) I am not aware of any such studies.

RESPONSE OF UNITED STATES POSTAL SERVICE TO PRESIDING OFFICERS INFORMATION REQUEST NO. 6

6. Please refer to USPS-LR-J-10 and J-55.

a) Do the activity codes in the fields F9805 and F9806 of the USPS-LR-J-10 SAS data set PRCOO reflect international activity codes as the labels for these two fields imply they do?

(b) Please confirm that the activity codes stored in F9806 are the result of applying "Encirclement Rules" as described in Appendix E of USPS LR-J-10, R2001-l. If confirmed, please explain why these rules are again applied in a SAS program named ENCIRCLE in USPS-LR-J-55, encircle.txt.

(c) In USPS-LR-J-55, the field ACTV in SAS program ENCIRCLE is defined by selecting activity codes from both fields F9805 and FY9806. Please explain the rationale for creating the field ACTV by selecting pre-encircled activity codes associated with F9805.

RESPONSE:

(a) (By Shaw)

(b) (By Van-Ty-Smith) Confirmed. The encirclement rules, as described in Appendix E of USPS LR-J-10 are applied using the IOCS Uniform Operation codes, as was done before Docket No. R97-1. The ENCIRCLE SAS program applies the encirclement rules using the MODS-based cost pools for tallies in the MODS offices in Cost Segment 3.

(c) (By Van-Ty-Smith) The field ACTV in SAS program ENCIRCLE reflects when a Special Service code or the underlying subclass code is assigned to the piece of mail being processed. When the mail pieces with paid Special Services are processed by employees clocked into the Special Service-related cost pools, they are assigned Special Service costs based on the encircled codes from F9806. In the distribution and allied operations, with certain exceptions, the same mail pieces are processed as ordinary mail pieces of the same subclasses, therefore they are assigned the underlying subclass costs corresponding to the pre-encircled codes. The use of a single ACTV field facilitates the mechanics for the computation of direct, mixed-mail, and not-handling costs associated with subclasses and special services in the cost pools. (See USPS-T-13, section B.2.3.d).

United States Postal Service

Jennifer Xie
(USPS-T-2)

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS XIE
TO INTERROGATORIES OF PARCEL SHIPPERS ASSOCIATION

PSA/USPS-T2-1. Please refer to your response to PSA/USPS-T25-4(a)-(c) where you define stop-days. Assume that Trip A from facility A to facility B has a driving distance of x miles and Trip B from facility B to facility C has a driving distance of 10x miles.

(a) On average, how much more will the highway contractor charge the Postal Service for Trip B than for Trip A? Please explain your response fully.

(b) Please confirm that the one day of Trip A would contribute one stop-day. If not confirmed, please explain fully.

(c) Please confirm that one day of Trip B would contribute one stop-day. If not confirmed, please explain fully.

RESPONSE:

(a) I don't know. TRACS does not rely on such information.

(b) Confirmed.

(c) Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS XIE
TO INTERROGATORIES OF PARCEL SHIPPERS ASSOCIATION

PSA/USPS-T2-2 Please refer to your response to PSA/USPS-T25-4(a)-(c) where you define stop-days. Please refer further to witness Eggleston's response to PSA/USPS-T25-2, which states, "only 45 percent of the stop-days of Inter-BMC [bulk mail center] highway transportation are at BMCs. Therefore, the Parcel Post transportation model was adjusted by distributing 45 percent of inter-BMC highway costs (the same percent as the number of stop-days) to the long distance zone-related cost category."

Please assume that Trip C originates at facility A, which is a bulk mail center (BMC), and stops at facility B, which is another BMC, and facility C, which is a sectional center facility (SCF) within the service territory of facility B. Please further assume that intermediate transportation is primarily transportation between a BMC and the facilities within its service territory and that long-distance transportation is primarily transportation from one BMC to another BMC.

(a) Please confirm that one day of Trip C would contribute one BMC stop-day and one non-BMC stop-day. If not confirmed, please explain fully.

(b) What is the average driving distance between BMCs? Please describe your data source and provide your underlying calculations

(c) What is the average driving time between BMCs? Please describe your data source and provide your underlying calculations.

(d) Please provide in an electronic spreadsheet format the distance from each BMC and each auxiliary service facility (ASF) to every other BMC and ASF and explain how you calculated these distances.

(e) What is the average driving distance between a BMC and the SCFs in its service territory? Please describe your data source and provide your underlying calculations.

(f) What is the average driving time between a BMC and the SCFs in its service territory? Please describe your data source and provide your underlying calculations.

(g) Please provide in an electronic spreadsheet format the driving distance from each BMC and each ASF to every SCF in each of their service territories and explain how you calculate these distances.

(h) Please confirm that the average driving distance and time between two BMCs is higher than the average driving distance and time between BMCs and the SCFs in their service territory. If not confirmed, please explain fully.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS XIE
TO INTERROGATORIES OF PARCEL SHIPPERS ASSOCIATION

(i) Please confirm that it is accurate to distribute inter-BMC highway transportation costs to a cost category based upon the number of stop-days only if the average trip distance is approximately the same for each cost category. If not confirmed, please explain fully.

(j) Taking into account your responses to the above subparts of this interrogatory, please confirm that distributing Inter-BMC highway transportation costs to the intermediate and long-distance cost categories based upon number of stop-days overstates the costs of intermediate transportation and understates the cost of long-distance transportation because the average distance of long-distance transportation is much longer than the average distance of intermediate transportation. If not confirmed, please explain fully.

RESPONSE:

(a) Confirmed.

(b) I have not calculated the average distance between BMCs. TRACS does not need nor does it rely on that information. The driving distance between each pair of BMCs can be obtained from commercially available software packages. TRACS uses the 'Prophesy Plus Mileage Series' software, which is commercially available, to determine the distance for each leg of a trip. Driving distances can also be obtained from various internet sites such as http://maps.yahoo.com or http://expedia.com. Addresses for BMCs can be found on the Postal Service website http://www.usps.com/bulkmailcenters.

(c) I have not calculated the average driving time between BMCs. TRACS does not need nor does it rely on that information. Various internet sites such as http://maps.yahoo.com and http://expedia.com provide some

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS XIE
TO INTERROGATORIES OF PARCEL SHIPPERS ASSOCIATION

driving time information. Addresses for BMCs can be found on the Postal Service website http://www.usps.com/bulkmailcenters.

(d) I have not produced such a spreadsheet. TRACS does not need nor does it rely on such a spreadsheet. The driving distance between each pair of BMCs and ASFs can be obtained from commercially available software packages. Addresses for BMCs and ASFs can be found on the Postal Service website http://www.usps.com/bulkmailcenters. See also the response to part (b) of this interrogatory.

(e) I have not calculated the average distance between BMCs and the SCFs in their service territories. TRACS does not need nor does it rely on that information. See also the response to part (b) of this interrogatory. Library Reference USPS-LR-J-200, Information Provided in Response to PSA/USPS-T2-2, contains the list of facilities that were included in FY00 TRACS sampling frame and indicated in NASS as an SCF/PDC/ PDF, along with their addresses and the BMC with which they are associated.

(f) I have not calculated the average driving time requested. TRACS does not need nor does it rely on that information. See also the response to part (c) of this interrogatory. Library Reference USPS-LR-J-200, Information Provided in Response to PSA/USPS-T2-2, contains the list of facilities that were included in FY00 TRACS sampling frame and indicated in NASS as an SCF/PDC/ PDF, along with their addresses and the BMC with which they are associated.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS XIE
TO INTERROGATORIES OF PARCEL SHIPPERS ASSOCIATION

(g) I have not produced such a spreadsheet. TRACS does not need nor does it rely on such a spreadsheet. See also responses to parts (b), (c), and (d) of this interrogatory. Library Reference USPS-LR-J-200, Information Provided in Response to PSA/USPS-T2-2, contains the list of facilities that were included in FY00 TRACS sampling frame and indicated in NASS as an SCF/PDC/ PDF, along with their addresses and the BMC with which they are associated.

(h) Not confirmed. I have not performed the analyses needed to answer this question. TRACS does not need nor does it rely on such information.

(i) Not confirmed. I have not studied the use of stop-days for distributing transportation costs.

(j) Not confirmed. I have not studied the use of stop-days for distributing transportation costs.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS XIE
TO INTERROGATORIES OF PARCEL SHIPPERS ASSOCIATION

PSA/USPS-T2-3. Please refer to your response to PSA/USPS-T25-5(c)-(f).

(a) In FY 2000, what percentage of intra-bulk mail center (BMC) stop-days were for trips [legs] that originated and destinated in the service territories of different bulk mail centers (BMCs)? Please provide your underlying calculations.

(b) In FY 2000, what percentage of inter-sectional center facility (SCF) stop-days were for trips [legs] that originated and destinated in the service territories of different bulk mail centers (BMCs)? Please provide your underlying calculations.

(c) Please provide the average distance of intra-BMC transportation legs that originated and destinated in the service territories of different BMCs.

(d) Please provide the average distance of inter-SCF transportation legs that originated and destinated in the service territories of different BMCs.

(e) Please provide the average distance of intra-BMC transportation legs that originated and destinated in the service territory of the same BMC.

(f) Please provide the average distance of inter-SCF transportation legs that originated and destinated in the service territory of the same BMC.

Response

(a) Less than two percent of intra-BMC stop-days were for legs that originated and destinated in the service areas of different BMCs. Out of the 2,048,108 total stop-days in FY 2000, 35,424 were in different service areas.

(b) Fifteen percent (15%) Inter-SCF stop-days were for legs that originated and destinated in the service areas of different BMCs. Out of the 4,545,748 total stop-days in FY2000, 660,028 were in different service areas.

(c) The average distance of such transportation legs weighted by their operating days in FY2000 is two hundred and twenty-seven (227) miles.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS XIE
TO INTERROGATORIES OF PARCEL SHIPPERS ASSOCIATION

(d) The average distance of such transportation legs weighted by their operating days in FY2000 is two hundred and fifty-four (254) miles.

(e) The average distance of such transportation legs weighted by their operating days in FY2000 is eighty-six (86) miles.

(f) The average distance of such transportation legs weighted by their operating days in FY2000 is fifty-one (51) miles.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS XIE
TO INTERROGATORIES OF UNITED PARCEL SERVICE
(REDIRECTED FROM WITNESS EGGLESTON)

UPS/USPS-T25-27. Refer to the table of BY2000 Inter-BMC (Bulk Mail Center) Stop Days provided in your response to interrogatory PSA/USPS-T25-3, part (d). Provide the data for non-BMC Stop Days separately for Sectional Center Facilities ("SCF"s) and Associate Office/Destination Delivery Units ("AO/DDU"s).
(a) Provide the same data (including, if available, the separation of non-BMC into SCFs and AO/DDUs) for intra-BMC highway service.

RESPONSE:

The following table shows the split between "SCF/P&DC"s and other facilities for all non-BMC Stop-days under the Inter-BMC contract type. The category "Others" includes annex, AO/DDU, AMF, etc. The facility type variable in NASS does not explicitly identify AOs or DDUs.

BY 2000 Inter-BMC Non-BMC Stop-Days

	PQ1	PQ2	PQ3	PQ4	BY2000
SCF/P&DC	71,616	72,000	71,148	95,168	309,932
Others	11,748	11,520	11,100	13,968	48,336
Total Inter-BMC	83,364	83,520	82,248	109,136	358,268

(a) The following table shows Intra-BMC stop-days separated by BMC, SCF/P&DC, and others:

BY 2000 Intra-BMC Stop-Days

	PQ1	PQ2	PQ3	PQ4	BY2000
BMC	130,068	131,580	138,840	186,160	586,648
SCF/P&DC	235,632	239,316	243,108	324,112	1,042,168
Others	92,196	92,544	100,536	134,016	419,292
Total Intra-BMC	457,896	463,440	482,484	644,288	2,048,108

3. In R2000-1 witness Bradley presented, and the Commission recommended, a 'compromise' method of allocating empty space in formulating the distribution keys for highway transportation. See R2000-1 USPS-RT-8 for an explanation of this method. Has the Service used this method to develop the distribution key for highway transportation in this docket? If not, why not? If so, please provide a cite to the relevant calculations.

RESPONSE

Yes. For documentation of the "compromise method" please see Postal Service Library Reference J-32, page 25.