

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY
Docket No. R97-1

POSTAL RATE AND FEE CHANGES, 1997

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS TAYMAN TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T9-28-37)

The United States Postal Service hereby provides responses of witness Tayman to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T9-28-37, filed on August 29, 1997.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



Scott L. Reiter

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2999; Fax -5402
September 12, 1997

RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
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OCA/USPS-T9-28. Please provide data by accounting periods showing the effects of the United Parcel Service strike upon the volume of express mail, priority mail and Standard mail, and the increased revenues in each of those mail classes and the increased expenses attributable to the United Postal Service(UPS) strike.

RESPONSE:

The UPS strike covered the time period from August 2 through August 18, 1997 and continued to materially impact the Postal Service for a short time after the end of the strike. Actual revenue, expense and volume data for the period impacted by the strike are not yet available. Once accounting period 13 general ledger and PQ IV RPW data are available, estimates of the strike's impact will be made.

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OCA/USPS-T9-29. Please provide an estimate of the impact on your exhibit, USPS 9A, of the UPS strike upon Postal Service operating revenue, total accrued costs, and net income for FY 1997 and FY 1998.

RESPONSE:

Please see my response to OCA/USPS-T9-28. While we expect an improvement in FY 97 net income as a result of the strike, any carryover effect into the test year is expected to be minimal.

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OCA/USPS-T9-30. Please provide an estimate of the total increased volumes of mail which were and will be handled during FY 1997 as a result of the UPS strike.

RESPONSE:

Please see my response to OCA/USPS-T9-28

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OCA/USPS-T9-31. Please provide an estimate of the increased volumes of mail which will be handled during FY 1998 as a result of the UPS strike.

RESPONSE:

Please see my response to OCA/USPS-T9-29.

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OCA/USPS-T9-32. A recent Washington Post article of August 23, 1997, page A4, stated the Postal Service Board Chairman would "like to push the [increase] date back" as a result of the billion dollar profit the Postal Service seems certain to report for this fiscal year ending September, 1997.

- a. Are there any plans at this time to delay the implementation of all or any part of the proposed rate increase? If so, please state what the plans are.
- b. What alternative options, if any, for delaying all or part of the rate increase are being considered by postal service management?
- c. Did any discussion of a delay or other modification of the rate increase filing occur at the September meeting of the Board of Governors?
- d. Is discussion of a delay or other modification of the rate increase filing scheduled for any future meeting of the Board of Governors? If so, please describe the agenda item.

RESPONSE:

- a.,b.&d. *Actual options have yet to be determined and evaluated and a final decision is not likely to be made by the Board of Governors until after the Postal Rate Commission has issued its Recommended Decision.*
- c. A partial objection has been filed related to the closed session. The only discussion of the Docket R97-1 rate filing which took place at the September Board of Governors meeting open session was in the prepared statement of the Chairman as follows:

This appears to be an appropriate time for me to clarify my recent statement regarding the pending rate case which was filed on July 1 and is currently at the Postal Rate Commission. As you probably know, I have been quoted in the media regarding a possible delay in implementation of any new rates, in light of the continued financial success of the Postal Service. I would like to re-emphasize that the full

Board will make its decision after we receive and act on the Postal Rate Commission's recommendation. You can be assured that any decision by the Board will be made with both our customers' and the Postal Service's best interests in mind. The rates will be "just enough" and we will make sure they take effect at "just the right time".

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OCA/USPS-T9-33. Please refer to your response to OCA/USPS-T9-16 discussing funds for the Augmented Sales Force Program listed at LR H-10, Section 2, p.25. You stated that, "In addition to the pilot, the funds have been redirected to other programs such as development of a Manifest Mailing System and Customized Packaging."

- a. Please describe the Manifest Mailing System and whether the costs for the program will replace the costs of another program listed in LR H-10 for FY 1998.
- b. What is the cost now estimated for the Manifest Mailing System for FY 1997 and FY 1998?
- c. Please indicate if and where any Manifest Mailing System costs are included in the rate filing for either FY 1997 or FY 1998.
- d. Please describe the Customized Packaging program and state how it is related to the Pack and Send program. Will the costs replace any other program costs listed in LR H-10 for FY 1998?
- e. What is the cost now estimated for the Customized Packaging for FY 1997 and FY 1998?
- f. Please indicate if and where any Customized Packaging costs are included in the rate filing for either FY 1997 or FY 1998.
- g. In as much as funds have been redirected from the Augmented Sales Force Program, what is the amount now estimated for expenditure in FY 1998 by the Augmented Sales Force Program?

RESPONSE:

- a. The Manifest Shipping System program will provide a service similar to that offered by private shipping companies. The Postal Service will initiate a pilot test under which shipping systems are installed on customer premises. Private shipping companies in the parcel and expedited services market commonly install proprietary

shipping systems in customers' mailing operations. When a customer has been identified as a participant in the program, the appropriate equipment (e.g., a desktop CPU, printer, monitor, or specialized label printer) will be installed by a contracted vendor and leased to the Postal Service. During the test the Postal Service will evaluate the volume of mail shipped, the postage revenue generated, and the costs and performance of the equipment. The Manifest Mailing System program will be paid for with FY 98 funds redirected from the Augmented Sales Force program.

b. The Manifest Mailing System is a new program in FY 1998 and cost is estimated to be \$6 million.

c. Manifest Mailing System costs were not included in the Docket R97-1 rate filing.

d. The Customized Packaging program is an effort to increase revenue by providing customers with customized Priority and Express Mail boxes, envelopes, and/or labels. The Customized Packaging program is not related to Pack and Send. The cost of the Customized Packaging program will be paid for with FY 98 funds redirected from the Augmented Sales Force program.

e. Customized Packaging will be reported as a separate program for FY 1998 and the cost is estimated to be \$10.2 million. The \$6 million estimated to be spent on customized packaging in FY 1997 is being funded from the budget for expedited mail supplies.

f. No Customized Packaging costs are included in the Docket No. R97-1 rate filing.

g. The Augmented Sales Force pilot in the New York Metro area will cost about \$2 million. Based on success of the pilot, the program may be expanded into other areas.

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OCA/USPS-T9-34. In your response to OCA/USPS-T9-16 you state the Augmented Sales Force program is being re-evaluated and is part of the Tactical Sales Force Strategy.

- a. Please confirm that the Tactical Sales Force Strategy to which you refer is a program listed separately at LR H-10, Section 2, page 27, with a cost for FY 1997 of \$16.624 million, and that the cost shown there of \$26.666 for FY 1998 should read \$26.666 million as listed in Exhibit B of that reference. If you do not confirm, please explain.
- b. Is the Tactical Sales Force strategy being re-evaluated?
- c. What is the expenditure for FY 1997 and the current estimated expenditure for FY 1998 for the Tactical Sales Force Strategy?

RESPONSE:

- a. Not confirmed. The Tactical Sales Force Strategy encompasses several programs including Tactical Sales Force, Augmented Sales Force, Customized Packaging, and Manifest Mailing System. I confirm that the \$26.666 million is the correct FY 98 incremental cost change for the Tactical Sales Force program.
- b. As I said in my response to OCA/USPS-T9-16, the Augmented Sales Force program, which is part of the Tactical Sales Force Strategy, is being re-evaluated.
- c. A strategy is a plan of action not a funding mechanism. The programs related to the Tactical Sales Force Strategy and the amount of funding associated with each one are discussed above, in my response to OCA/USPS-T9-33, and in LR H-10.

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OCA/USPS-T9-35. Please refer to your response to OCA/USPS-T-9-13. Exhibit USPS-9A shows that cost segment 16, supplies and services, is expected to increase 47.73 percent from Actual FY 1996 through the test year FY 1998. Please provide for the last ten years a table showing the Actual FY expenditures and the annual rate of growth for cost segment 16.

RESPONSE:

Actual cost segment 16 expenses can be found in the Summary Description of USPS Development of Costs by Segments and Components and the Cost and Revenue Analysis. These reports are available in the Postal Service Library and the Postal Rate Commission Library. Please note that some accounts were reclassified in FY 1995 and this had a material effect on cost segments 16, 18 and 20. Comparisons of FY 95 and subsequent data to FY 94 and prior may not be meaningful. Please refer to the footnote on my Exhibit 9J.

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OCA/USPS-T9-36. Please refer to your response to OCA/USPS-T9-13. Exhibit USPS-9A shows that cost segment 20, depreciation, write-offs, claims, & interest are expected to increase 24.46 percent from Actual FY 1996 through the test year FY 1998. Please provide for the last ten years a table showing the Actual FY expenditures and the rate of growth for cost segment 20.

RESPONSE:

Please see my response to OCA/USPS-T9-35.

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OCA/USPS-T9-37. Please confirm that effect of the Postal Service earnings estimated by Mr. Riley, USPS Chief Financial Officer, at the August 5, 1997 meeting of the USPS Board of Governors to be about \$1 billion for FY 1997 (meeting transcript page 44), or approximately \$465 million more than estimated in your exhibit 9A for FY 1997, would result in a reduction in the estimated amount for recovery of past year losses of at least \$51.7 million (\$465 million divided by 9 year recovery period). If you do not confirm, please explain.

RESPONSE:

Not confirmed. The difference between a \$1.0 billion net income and the \$636 million net income reflected on my Exhibit 9A is \$364 million. The impact of an additional \$364 million of net income in FY 97 on the prior years loss recovery would be \$40.4 million.

While changes such as the one mentioned above might be considered to imply a reduced revenue requirement, they should be viewed in the context of a 1% provision for contingencies which is the smallest percentage amount ever requested by the Postal Service

Please also note that updating could result in a revenue requirement that is inconsistent with management's goals and objectives and infringes upon management's prerogative to determine financial policy. The Postal Service remains satisfied with its Docket R97-1 revenue requirement and believes that no adjustments are necessary. If updating is considered despite the obvious potential for problems that it presents, it must not be done selectively.

DECLARATION

I, William P. Tayman, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

William P. Tayman

Dated: 9/12/97

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.



Scott L. Reiter

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