

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

MOTION FOR LATE ACCEPTANCE OF AND RESPONSE OF
UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE DIRECT MARKETING ASSOCIATION, INC.
(DMA/USPS-T9-26-29)

The United States Postal Service hereby provides responses of witness Tayman to the following interrogatories of the Direct Marketing Association, Inc.: DMA/USPS-T9-26-29, filed on September 3, 1997. Each interrogatory is stated verbatim and is followed by the response.

The Postal Service moves that these responses be accepted one day late. The delay was caused by the witness's temporary unavailability and the need to coordinate the response with the Office of the Inspector General. This document has been faxed to counsel for DMA to mitigate the delay.

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 18, 1997

**RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF
THE DIRECT MARKETING ASSOCIATION**

DMA/USPS-T9-26. Please refer to your response to OCA/USPS-T9-12 where you state "The Postal Service remains satisfied with its Docket R97-1 revenue requirement and believes that no adjustments are necessary."

- a. If FY 1997 actual net income is \$1 billion greater than was estimated by the roll forward model, would you still believe that no adjustments are necessary?
- b. If FY 1997 actual net income is \$2 billion greater than was estimated by the roll forward model, would you still believe that no adjustments are necessary?
- c. How much greater would FY 1997 actual net income have to be than the income estimated by the roll forward model before adjustments would be necessary to the Postal Service's R97-1 revenue requirement?

RESPONSE:

a.-c. Without knowing the exact nature of the improved net income and what other circumstances might be impacting the Postal Service at that time, it is not possible to determine what impact such hypothetical situations might have on the revenue requirement.

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DMA/USPS-T9-27. Please refer to your response ANM/USPS-T9-1(e) where you state that "[t]he Postal Service's latest estimate for FY 1997 is a net income of between \$900 million and \$1.0 billion" and the attachment to ANM/USPS-T9-1(e) where you provide the "major expected causes of the difference" between the FY 97 net income estimate of \$636 million from your direct testimony and the "latest estimate."

- a. In the attachment to ANM/USPS-T9-1(e), you state that between \$250 million and \$350 million increase in FY 97 net revenue is due to "[n]on personnel costs mainly related to programs less than planned."
 - i) Please explain which "non personnel costs" within which programs are less than previously estimated and the revised estimated cost savings for each item.
 - ii) Please explain why these "non personnel costs" are less than previously estimated (e.g., lower than expected inflation, higher productivity).
 - iii) Please explain why you have included two "scenarios" for your revised FY 97 net income estimate and which scenario you believe to be more accurate.
- b. Please confirm that if all of the roll forward adjustments are made from the "latest estimate" of FY 97 net income as compared to the net income estimate from your direct testimony, then FY 98 net income would be higher than that estimated in the Docket R97-1 filing.
- c. Based on the fact that costs related to workers' compensation are lower than originally projected for FY 97, do you believe that estimates for such costs similarly will be smaller than projected for FY 98? If "yes," please provide revised estimates for workers' compensation expenses for FY 98.
- d. Based on the fact that non personnel costs are lower than originally projected for FY 97, do you believe that estimates for such costs similarly will be smaller than projected for FY 98? If "yes," please provide revised estimates for non-personnel costs for FY 98.
- e. Please list and describe any other causes (including revised revenue or cost projections) that will increase FY 98 net income over that estimated in the Docket R97-1 filing.

- f. Please list and describe any reasons other than those listed in the attachment to ANM/USPS-T9-1(e) (e.g., better-than anticipated productivity improvement, less than expected expenses for additional "Other Programs," lower inflation than projected) why the roll forward model projected a net income about \$300 million less than the Postal Service's "latest estimate." Please quantify the relative importance of each reason listed above.
- g. Does the Postal Service have revised projected total cost and total revenue estimates for FY97 which have caused the increase in the Postal Service's estimate for net income for FY97?
- h. If your response to sub-part g. is "yes," please compare the revised total cost and revenue estimates for FY97 with the roll forward estimate as calculated in LR-H-12.
- i. Please provide the increase in net revenue to the Postal Service for FY97 due to the increased mail volume processed during the recent United Parcel Service labor strike.
- j. Please confirm that the increased revenue stated in your response to sub-part i. was not included in your revised estimate of FY97 net income in your response to ANM/USPS-T9-1(e).

RESPONSE:

- a.(i.-iii.) My estimate was done in the aggregate and not by program or type of non-personnel expense. I expect that FY 1997 program expenses will be less than estimated in the Docket R97-1 rate filing because some programs are taking longer than originally planned to execute. I have included a range because of the uncertainty surrounding the estimate. Please note that my estimate does not include the impact of the UPS strike.
- b. At the present time I am unable to confirm. Based on the information currently available, neither of the items that reduced FY 1997 expenses in my latest estimate directly translates into lower FY 1998 expenses.

I am informed that the reduction to FY 1997 workers' compensation expense relates primarily to prior year injury costs which is not expected to be repeated in FY 1998. Efforts to return employees injured in prior years to work were very successful during FY 1997, and this was the major cause of lower expenses. FY 1997 medical costs were also reduced due to refunds of prior year payments which resulted from audits of medical service providers. Both of these efforts are believed to have run their course and will generate little additional savings during FY 1998. A new program is underway which emphasizes returning recently injured employees to work while they are still in a 45 day continuation of pay status. However, savings from this program are unproved and will take time to materialize. In view of the above, I do not believe it would be prudent to reduce the test year revenue requirement based on lower than estimated FY 1997 workers' compensation expenses which are mainly due to non-recurring events.

FY 1998 program related non-personnel expense levels were zero based and consequently are not reduced by lower than estimated program related non-personnel expenses for FY 1997.

c. See my response to part b.

d. See my response to part b.

e. I have not revised all of the variables required to update the test year revenue requirement estimates submitted in this filing. Some updated factors would result in higher net income in the test year while others would result in lower net income in the test year. Changes which might be considered to imply a reduced revenue requirement should be

viewed in the context of a 1% provision for contingencies which is the smallest percentage amount ever requested by the Postal Service.

The Postal Service remains satisfied with its Docket R97-1 revenue requirement and believes that no adjustments are necessary.

f. The three reasons listed in the attachment to ANM/USPS-T9-1 account for the difference between the original estimate of \$636 million and the latest estimate of between \$900 and \$1.0 billion. I have not quantified any other variances. I have noted that this does not include the impact of the UPS strike, which is not expected to have a material impact on FY 1998.

g. See my response to part f.

h. See my response to part f.

i. Please see my responses to OCA/USPS-T9-28-31.

j. No additional revenue has been reflected in the revised estimate of FY 97 net income provided in response to ANM/USPS-T9-1e.

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DMA/USPS-T9-28. Please provide the USPS Total Factor Productivity Index for all years that the Postal Service has data.

RESPONSE:

Please refer to the attached table.

US Postal Service
Total Factor Productivity

FISCAL YEAR	INDEX
1971	0.9883
1972	1.0000
1973	1.0420
1974	1.0230
1975	1.0141
1976	1.0092
1977	1.0299
1978	1.0658
1979	1.0440
1980	1.0493
1981	1.0557
1982	1.0414
1983	1.0355
1984	1.0384
1985	1.0369
1986	1.0587
1987	1.0630
1988	1.0666
1989	1.0600
1990	1.0916
1991	1.0736
1992	1.0792
1993	1.1200
1994	1.1169
1995	1.0995
1996	1.0838

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DMA/USPS-T9-29. Please refer to Appendix C, page 55 of the Office of Inspector General: Semiannual Report to Congress, which was filed as part of LR-H-220. The bolded TOTAL row indicates that the Office of Inspector General produced 42 reports between October 1, 1996 and March 31, 1997 and that implementation of the recommendations in these reports would reduce annual Postal Service cost by \$329,920,516. The row labeled "(i) Value of recommendations implemented by management" indicates that management implemented recommendations of 16 reports and reduced cost by \$237,293,420.

- a. Please confirm that the Postal Service's roll forward model reduces Test Year cost by \$329,920,816 to reflect implementation of all of the Office of Inspector General's recommendations referred to in the Office of Inspector General's Semiannual Report to Congress. If not confirmed:
 - 1) Please explain why the Test Year cost estimates do not include these cost reductions; and
 - 2) Please explain fully whether this means that you disagree with the Inspector General's estimates of potential savings.
- b. If sub-part a. is not confirmed, does the Postal Service's Test Year 1998 cost estimate reflect the cost savings from implementation of any of the recommendations made by the Office of the Inspector General? If "yes," please provide a list of all recommendations where the cost savings is reflected in the roll forward model for the Test Year 1998 cost estimates. For each of these recommendations, please provide (1) the report name and recommendation number, (2) the amount of the cost savings reflected in the roll forward model, and (3) a reference to the page and line number in LR-H-12 where the cost savings is shown.
- c. If sub-part a. is not confirmed, please confirm that the Postal Service's roll forward model reduces Test Year cost by \$237,293,420 to reflect the "value of recommendations implemented by management." If not confirmed:
 - 1) Please explain why the Test Year cost estimates do not include these cost reductions; and
 - 2) Please explain fully whether this means that you omitted cost savings already realized by the Postal Service.
- d. Please confirm that the Postal Service's roll forward model reduces cost for Fiscal Year 1997 and the Test Year to reflect implementation of the

Inspection Service's recommendations from Fiscal Year 1996 reports. If not confirmed, does this mean that you disagreed with the Inspection Service's estimates of potential savings from the FY96 reports? Please explain fully.

RESPONSE:

a) Not confirmed. I understand that the "recommendations that funds be put to better use" category includes (1) process audit recommendations and (2) adjustments related to contract audits. I understand that the "value of recommendations implemented by management" category includes process audit recommendations that have been agreed to by the manager of the affected program and adjustments related to contract audits. Contract audit adjustments tend to be cost avoidances related to pre-award audits and base year billing errors and fraud, rather than cost reductions that would impact the test year. Process audits relate to recommended changes in current methods. For process audits, "implemented by management" should not be interpreted to imply that management has in fact implemented the audit recommendations or captured the potential savings. A better reference for this line would have been "concurring to by management." This line refers to audit findings where management concurs with the recommendations made and the potential for the capture of savings. These amounts are hypothetical potential savings predicated on the assumption that findings at one site can be universally applied. Actual implementation of the recommendations made may in fact take several years and would be dependent upon attrition to capture any potential savings.

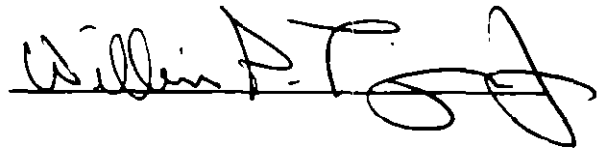
b. No. See my response to a. above.

c. Please see my response to a. above.

d. Not confirmed. See my response to a. above. Please note, the referenced report contains findings from both the Office of Inspector General and the Inspection Service.

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.

A handwritten signature in black ink, appearing to read "William P. Tayman", written over a horizontal line.

Dated: 9/18/97

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.

A handwritten signature in cursive script, appearing to read "Scott L. Reiter", is written above a horizontal line.

Scott L. Reiter

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