

DOCKET SECTION

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

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OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS TAYMAN TO INTERROGATORIES OF  
UNITED PARCEL SERVICE  
(UPS/USPS-T9-2-6)

The United States Postal Service hereby provides responses of witness Tayman to the following interrogatories of United Parcel Service: UPS/USPS-T9-2-6, filed on September 12, 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

  
\_\_\_\_\_  
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September 26, 1997

RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF  
THE UNITED PARCEL SERVICE

**UPS/USPS-T9-2.** Please refer to your testimony at page 9, lines 11 through 22. What are the "expenditures critical to the future viability of the Postal Service" to which you refer on line 19?

RESPONSE:

My statement regarding "expenditures critical to the future viability of the Postal Service" was intended as a general reference to capital and operating program initiatives, which, as I said on page 9, lines 4 through 7 of my testimony, are "designed to continue service improvements, improve responsiveness to customers, maintain and improve our infrastructure, and reduce costs in the future".

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**UPS/USPS-T9-3.** Please refer to your discussion of the contingency allowance, at page 38, lines 5 through 20, of your testimony.

(a) Please confirm that the Postal Service's proposed provision for contingencies (\$606.6 million TYAR) was not developed on the basis of a variance analysis or any other analysis of historical cost and revenue statistics. If not confirmed, please explain.

(b) Please confirm that the proposed amount of the contingency allowance was determined by the management of the Postal Service and the decision to request a one percent allowance was driven by a desire that the overall rate increase should be less than the rate of general inflation since the last omnibus rate case. Please explain your answer.

(c) Please explain your statement on lines 14 and 15 that you believe that a one percent contingency allowance is reasonable "in this case." How does this case differ from other cases so that a one percent contingency allowance is appropriate?

(d) You state that your one percent contingency allowance request does not represent a change in Postal Service policy and that a return to higher levels of the contingency allowance may be necessary in the future. What future circumstances or considerations might lead the Postal Service to propose in the future a larger allowance for unforeseen events and forecasting errors?

RESPONSE:

(a) Confirmed. However, this does not mean that historical variances are not considered when management exercises its judgment regarding the size of the contingency. Please refer to page 39, lines 20 and 21 where I stated "these types of analyses can only serve as information to be considered by management in setting Postal Service policy". Please note that the correct amount of the after rates contingency is \$605.6 million as reflected in my revised testimony filed on 8/22/97.

(b) As I said on page 38 lines 7-9 of my testimony, "the one percent included in this case represents the Postal Service's desire to keep rate increases as low as possible and below the level of growth in general inflation". As I further stated on lines 11-15, "in the context of the current circumstances, however, including recent financial success, the current favorable economic climate, and management's concern about the effect of the contingency on rate levels, I believe that one percent will provide a reasonable provision for contingencies in the test year in this case". The Postal Service might have opted for a larger contingency if the test year costs projected for this filing had been lower. Furthermore, in light of the probability that rates recommended in this case will continue in effect beyond the end of FY 1998, recommending a larger contingency within the existing revenue requirement would not be unreasonable.

(c) Revenue estimates for this case are largely hypothetical given the starting and ending dates of the test period when the case was filed, and the practical limitations imposed by the length of rate cases. Another case, involving a more fully prospective test period, might militate in favor of a larger contingency, since the actual window for the occurrence of unforeseen events would be significantly wider. Also see my response to part b.

(d) While I do not pretend to know every combination of circumstances which might result in the selection of a larger contingency, some possibilities include less favorable financial results, a less favorable economic environment, or the ability to have a larger contingency and still keep rate increases below the rate of inflation.

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**UPS/USPS-T9-4.** Please refer to the discussion of the contingency allowance on page 39 of your testimony. You argue that regardless of what history shows, the judgment of Postal Service management as to the size of the contingency allowance should be respected and should prevail.

(a) Please describe the process by which Postal Service management reached its judgment about the appropriate size of the contingency allowance proposed in this proceeding.

(b) Please describe and list with specificity the analyses and data on which Postal Service management based its judgment.

RESPONSE:

(a) A number of alternative rate scenarios and contingency levels were evaluated to determine the financial results they would produce. Through an iterative process rate levels were finalized and a level of contingency was judgmentally determined. During this process the balancing of Postal Service goals was also considered. These included minimizing the size of the rate increase, keeping the increase below the rate of inflation, improving service, recovering prior year's losses, and strengthening the Postal Service's financial position.

(b) Management did not base its judgment on any specific mechanical analyses or data but rather subjectively considered the information described in part a, along with the quantitative analyses contained in my testimony and the testimonies of other Postal Service witnesses in this case, when selecting an appropriate level of contingency. In addition to subjectively considering the quantitative data described above, management also based its decision on a

number of totally subjective considerations some of which are mentioned on page 38 lines 12 and 13 of my testimony. These included the Postal Service's recent financial success, the current favorable economic environment, and management's concern about the effect of the contingency on rate levels. The hypothetical nature of the additional net revenue projected for the FY 1998 test period, and the reality that rates will not be adjusted until late in the test year, were also considerations.

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**UPS/USPS-T9-5.** Please refer to page 40 of your testimony and define "unduly" as used on line 12.

RESPONSE:

Unduly is defined in The American Heritage dictionary as "excessively; immoderately". My use of the word is consistent with that definition.

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**UPS/USPS-T9-6.** Please refer to Table 1 on page 3 of your testimony, which shows losses in all years but one from FY 1987 through FY 1994.

(a) Do you agree that in some or all of the years in which the Postal Service suffered a loss, some subclasses of mail contributed disproportionately to the loss because the revenues of the subclass did not recover a substantial part of the attributable and non-attributable costs assigned to the subclasses while, at the same time, some subclasses were less of a loss-generation problem because they recovered more of the costs assigned them and some subclasses may have produced a "profit"? If no, please explain.

(b) Please confirm that subclasses with a large mark-up are less likely to contribute to the Postal Service's loss and equity attrition problem than subclasses with a small mark-up. If not confirmed, please explain.

RESPONSE:

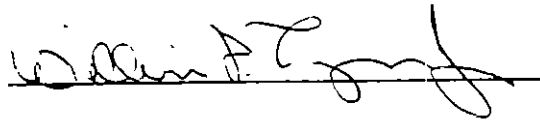
(a) I do not know if certain subclasses of mail contributed to historical net incomes and losses more than others. I do know that Prior Years' losses do not vary with mail volume in the test year and hence their treatment as other costs in this case is consistent with precedent and previous Postal Rate Commission Recommended Decisions.

(b) I have no evidence to verify that subclasses with lower markups have contributed more heavily to historical Postal Service losses than subclasses with larger markups.



## 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 cursive script, appearing to read "William P. Tayman", is written over a horizontal line.

Dated: SEPT. 26, 1996

**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.

  
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Scott L. Reiter

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