

DOCKET SECTION

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

RESPONSE OF UNITED STATES POSTAL SERVICE  
WITNESS TAYMAN TO INTERROGATORIES OF  
THE DIRECT MARKETING ASSOCIATION, INC.  
(DMA/USPS-T9-30-34)

The United States Postal Service hereby provides responses of witness Tayman to the following interrogatories of the Direct Marketing Association, Inc.: DMA/USPS-T9-30-33, filed on September 15, 1997; and DMA/USPS-T9-34, filed on September 22, 1997.

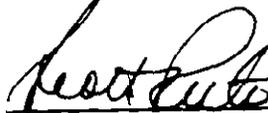
Each interrogatory is stated verbatim and is followed by the response.

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 29, 1997

RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF  
THE DIRECT MARKETING ASSOCIATION

**DMA/USPS-T9-30.** Please refer to page 29 of LR-H-10 where it states, "**MISCELLANEOUS HEADQUARTERS PROGRAMS** -- as described in detail in Library Reference H-12, Chapter VI, Section A, the FY 1997 changes in costs for most Headquarters programs and corporatewide activities are determined by comparing budgeted amounts by budget line numbers to actual costs by budget line numbers and account numbers. These costs are then allocated to cost segments and components." Please also refer to LR-H-10, Appendix A, Page 4, Line "Misc. HQ Programs," LR-H-10, Appendix B, Page 4, and LR-H-12, Chapter VI, Section a, Spreadsheet "Allocated."

- a. Please confirm that LR-H-12, Chapter VI, Section A, Spreadsheet Allocation compares FY 1996 and FY 1997 costs by account for all "Headquarters Administered Programs, Corporate-Wide Activities." If not confirmed, please explain.
- b. Please confirm that LR-H-12, Chapter VI, Section A does not provide a narrative explanation of the reasons why FY 1997 costs are higher than FY 1996 costs, and does not provide work papers describing how the Postal Service estimated the cost increase by budgeted line number and account.
- c. If subpart b. is confirmed, please explain fully, by budget line number, why miscellaneous HQ program were projected to increase by \$224 million between FY 1996 and FY 1997 and provide relevant workpapers.

RESPONSE:

- a. With the exception of amounts accounted for separately in the rollforward model (e.g. depreciation), I confirm. Please see the methodology note on page 128 of LR H-12 for a discussion of the amounts accounted for separately.
- b. The methodology note on page 128 of LR H-12 explains that these costs are higher in FY 1997 as a result of approved operating budgets. As discussed in my response to DMA/USPS-T9-6a., "FY 97 program estimates reflect the approved budget which resulted from the Postal Service's budget process and FY 98 estimates reflect preliminary amounts from the FY 98 budget process. Workpapers similar to those

typically provided to the Commission in support of most aspects of the rate filing which calculate the development of budgetary amounts are not available. The formulation of budget amounts is not based simply on mechanical calculations contained in a comprehensive set of workpapers. Instead, budgets are established through a complex management process that has incorporated the Postal Service's Customer Perfect! philosophy. As a result, budget targets involve negotiation, judgment, linkage to and support of operating goals, and the tactical allocation and re-allocation of resources to organizational units and programs.

c. See my response to part b.

RESPONSE OF WITNESS TAYMAN TO INTERROGATORIES OF  
THE DIRECT MARKETING ASSOCIATION

**DMA/USPS-T9-31.** Please refer to page 29 of LR-H-10 where it states, "**MISCELLANEOUS HEADQUARTERS PROGRAMS** – as described in detail in Library Reference H-12, Chapter VI, Section A, the FY 1997 changes in costs for most Headquarters programs and corporatewide activities are determined by comparing budgeted amounts by budget line numbers to actual costs by budget line numbers and account numbers. These costs are then allocated to cost segments and components." Please also refer to LR-H-10, Appendix B, Page 4, Line "Misc. HQ Programs," and LR-H-12, Chapter VI, Section a, Spreadsheet "RF Summary."

- a. Please confirm that the amount in Row "Total" and Column "Inc/(Dec) From FY 1997" on Spreadsheet "RF Summary" is \$351,180,860.
- b. Please confirm that the amount in the Row "Misc. HQ Programs" and Column "Total" of LR-H-10, Appendix B, Page 4 is \$200,000 and that all figures on this page are in thousands.
- c. Please explain why the amounts in subpart a. and subpart b. differ.
- d. Please explain which figure was included in the FY 1998 "Other Programs" adjustment for "Misc. HQ Programs."
- e. Please explain fully, by budget line number, why miscellaneous HQ programs were projected to increase by either \$200 million or \$351 million between FY 1997 and FY 1998 and provide relevant workpapers.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. The difference relates to changes in advertising (-\$22,865), research (\$2,990), delivery confirmation (\$75,633), and the PMPC contract (\$95,423) which were estimated separately and did not require allocation to a cost component. Please see the

reconciliation on page 127, and the narrative methodology description on page 128 of LR H-12.

d. See my response to part c.

e. In addition to the separate programs discussed in my response to part c., and the programs listed in Chapter Vb. of LR H-12, a preliminary increase of \$200 million for all other miscellaneous headquarters programs and corporatewide activities was estimated.

See my response to DMA/USPS-T9-30b.

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

**DMA/USPS-T9-32.** Are there categories of expenses in the Total Expenses on page 1 of the *Financial & Operating Statements by Accounting Period* issued by the Finance Group of the United States Postal Service that are not included in the Base Year or FY 1998 costs in the roll forward? If so, please list them.

**RESPONSE:**

Conceptually, the total expenses reflected in the rollforward model and the Financial & Operating Statements (FOS) are the same, with two exceptions. The FOS is used for internal reporting and is done on an accounting period and Postal Fiscal Year (PFY) basis, while the rollforward model reflects annual expenses on a Government Fiscal Year (GFY) basis. The two fiscal year amounts (PFY versus GFY) are different by the net value of the beginning and ending accounting periods 14. The FOS reflects reimbursements as revenues, while the rollforward treats reimbursements as offsets to expense. The treatment of reimbursements as offsets to expense makes rollforward expenses lower than the Accounting Period 13 year-to-date amounts reported in the FOS. However, this treatment of reimbursements does not effect net income because reimbursements are not included in revenue in the revenue requirement statement of revenues and expenses.

You **should** also note that expenses are reflected by budget line number and finance number in **the** FOS, and by cost segment and component in the rollforward model.

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

**DMA/USPS-T9-33.** Are there categories of costs in the Base Year or FY 1998 in the roll forward that are not included in the Total Expenses on page 1 of the Financial & Operating Statements by Accounting Period issued by the Finance Group of the United States Postal Service? If so, please list them.

**RESPONSE:**

Please see my response to DMA/USPS-T9-32.

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

**DMA/USPS-T9-34.** Please refer to your response to DMA/USPS-T9-28.

- (a) Please explain in detail how the Postal Service calculates Total Factor Productivity.
- (b) Please list any factors other than capital and labor which are incorporated in the Total Factor Productivity.
- (c) Please provide a comparable data series showing labor productivity and explain how it is calculated.

**RESPONSE:**

a.-c. Please refer to Library Reference H-279 and the attached schedule.

US Postal Service  
Labor Productivity

FISCAL YEAR	INDEX
1971	0.9918
1972	1.0000
1973	1.0441
1974	1.0230
1975	1.0188
1976	1.0152
1977	1.0453
1978	1.0770
1979	1.0557
1980	1.0683
1981	1.0640
1982	1.0580
1983	1.0623
1984	1.0658
1985	1.0691
1986	1.0899
1987	1.0949
1988	1.1005
1989	1.1016
1990	1.1387
1991	1.1373
1992	1.1504
1993	1.2033
1994	1.2124
1995	1.2014
1996	1.1985

## 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: SEPT. 24, 1997

**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

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
September 29, 1997