

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

POSTAL RATE AND FEE CHANGES
PURSUANT TO PUBLIC LAW 108-18

Docket No. R2005-1

RESPONSES OF POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T6-1-10)

The United States Postal Service hereby provides the responses of witness Tayman to the following interrogatories of the Office of the Consumer Advocate, filed on April 26, 2005: OCA/USPS-T6-1-10.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE
By its attorneys:

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May 10, 2005

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
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OCA/USPS-T6-1. Please refer to your Exhibit USPS 6I.

a. Please confirm that the Postal Service's total net income for the last two complete fiscal years, FY2003 and FY2004, was, in millions, \$6,933.388. If you cannot confirm, please explain.

b. Please confirm that when net income for FY2003 and FY2004 are combined with the Postal Service's estimated net income for FY2005, the total net income for the three years, FY2003, FY2004 and FY2005 will be, in millions, \$8,576.841. If you cannot confirm, please explain.

c. Please confirm that the cumulative net income at the end of any fiscal year for the Postal Service has never been positive from the inception of the present Postal Service in FY1971 until the end of FY2004. If you cannot confirm, please explain.

d. Please confirm that the Postal Service has never filed a rate case before the Postal Rate Commission at a time when its cumulative net income was a positive amount. If you cannot confirm, please explain.

e. Please confirm that the cumulative net income figure in the "Cumulative NI(Loss)" column for FY2005, in millions, is \$2,540.712. If you cannot confirm, please explain.

f. Please confirm that based upon the filing in this proceeding, the total estimated retained earnings of the Postal Service at the end of FY2005, will be the same amount as in subpart e, above, in millions, \$2,540.712. If you cannot confirm, please explain.

g. Please confirm that the total estimated FY2006 cumulative net income figure in the "Cumulative NI(Loss)" column if it were extended to FY2006, would be comprised of, in millions, \$2,540.712, for the estimated FY2005 Cumulative net income plus, in millions, \$112 (Net surplus test year after rates from Exhibit 6A, line 30.) for a total, in millions, of \$2,652.712.

h. Please confirm that the "Equity" column in exhibit 6I is the "Cumulative NI (Loss)" plus cash infusions into the Postal Service authorized by Congress at various times. If you cannot confirm, please explain.

i. Please confirm that since 1970, Congress has authorized cash infusions into the Postal service amounting to the difference between the totals in the Equity and Cumulative NI(Loss) columns in your Exhibit USPS 6I, or approximately \$3.034 billion. If you cannot confirm, please explain.

j. Please confirm, as shown on your testimony in Table 63 at page 54, (Analysis of Changes in Equity, Ending Balance, Test Year Before Rates) that even if the Postal Service does not raise its rates during FY2006, based upon the estimates filed in this proceeding, the Postal Service equity at the end of FY2006 would be, in millions, a positive \$2,532.776 (i.e. \$5,574.636 less the Public Law 108-18 escrow payment, in millions, of \$3,041.860). If you cannot confirm, please explain.

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k. Please confirm, as shown on your testimony in Table 63 at page 54, (Analysis of Changes in Equity, Ending Balance, Test Year After Rates) that if the Postal Service raises its rates for FY2006, based upon the estimates filed in this proceeding, the Postal Service equity at the end of FY2006 would be, in millions, a positive \$5,686.659 (i.e. rounded \$5.7 billion). If you cannot confirm, please explain.

l. In view of the Postal Service's situation regarding retained earnings at the end of FY2005, please confirm that that if rates are not increased in FY2006, then the retained earnings of the Postal Service at the end of FY2006 would be a negative \$501 million. If you cannot confirm, please explain.

m. Please confirm that if rates are not increased during FY2006, based upon the Postal Service's filing and your Table 63 at page 54 of your testimony, the Postal Service's equity position at the end of FY2006 would be a positive, in millions, \$2,532.776. If you cannot confirm, please explain.

RESPONSE:

a. Confirmed.

b. Confirmed.

c. Confirmed. The positive cumulative net income at the end of FY 2004 is due in large part from the reduction in Civil Service Retirement System (CSRS) expense resulting from Public Law 108-18.

d. This case to fund the escrow expense requirements of Public Law 108-18 is the first case filed before the Postal Rate Commission at a time when its cumulative net income was positive. While the escrow expense is defined by Public Law 108-18 as an operating expense of the Postal Service, the escrow expense is unrelated to postal operations. As I stated on page 18 of my testimony, "In this unique instance, the escrow requirement stands alone as the reason for the proposed increases. Without an escrow requirement, a general rate increase would not be needed." As stated in witness Potter's testimony (USPS-T-1) at page 2 "The Postal Service's decision to seek

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changes in postal rates and fees at this time represents a policy judgment about the most reasonable, practical and effective way to meet a currently unavoidable financial obligation in Fiscal Year 2006. Otherwise, the Postal Service would not have filed this request now. Instead, in all likelihood, we would now be preparing to file in the future a more traditional omnibus filing.”

e. Confirmed. Also see my response to parts c. and d. above.

f. Confirmed. See response to part d. above.

g. Confirmed assuming the rate increases proposed in this filing were to be approved as requested and the revised rates were implemented on October 1, 2005. However, it should be noted that because implementation of rates resulting from this filing will not occur October 1, 2005 as assumed in the numbers cited above, the cumulative net income at the end of FY 2006 will be substantially less than \$2,652.712 billion. As stated in my testimony at page 54, I project that actual 2006 income will be at least \$800 million less than the After Rates projection if rates are implemented in January 2006.

h. Not Confirmed. The “Equity” column includes the equity at Postal Reorganization of \$1.686 billion, which represents the difference between the assets and the liabilities transferred at Reorganization, plus the “Cumulative Net Income,” plus any capital contributions such as the capital contribution made pursuant to the Postal Reorganization Act Amendments of 1976 (PL 94-421) of \$500 million in the Transition Quarter of 1976 and the \$500 million contribution in FY 1977. The appropriations language required that these funds be used to reduce operating indebtedness.

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- i. Not confirmed. See response to part h. above.

- j. Not confirmed. As shown in Table 63 at page 54 of my testimony, estimated total equity at the end of FY 2006 before implementation of new rates is \$2,532.776 million. This number represents the beginning equity of \$5,574,636 million less the estimated before rates net loss for 2006 of \$3,041.860 million. On a before rates basis, the estimated cumulative net loss would be \$501 million. However, as shown in Table 10 (Outstanding Debt as a Percentage of Statutory Ceiling) on page 15 of my testimony, this scenario would require increasing outstanding debt to \$1,999 million. Doing so would be inconsistent with the requirements of Public Law 108-18 to reduce outstanding debt. Additionally, note that the escrow payment required by Public Law 108-18 is \$3.081 billion not \$3,041.860 million.

- k. See my response to part g. above.

- l. Confirmed. See my response to parts d. and j. above.

- m. See my response to parts d. and j. above.

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OCA/USPS-T6-2. Please refer to your Exhibit USPS 6A, line 27, "Recovery of Prior Year Losses." Please confirm that the amount shown on that line is a zero amount for the Test Year before rates and Test Year after rates. If you cannot confirm, please explain.

RESPONSE:

Confirmed.

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OCA/USPS-T6-3. Please confirm that in recent past rate cases, in calculating the revenue requirement, the Postal Service and the Commission have included one-ninth of the prior years' losses on this line in order to recover the prior years' losses. If you cannot confirm, please explain.

RESPONSE:

Confirmed as to all past rate cases since Docket No. R77-1.

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OCA/USPS-T6-4. Please refer to your Exhibit USPS 6A, line 27, “Recovery of Prior Year Losses.”

- a. Please confirm that, theoretically, if prior year gains were to be accounted for in the revenue requirement, the heading of this line could appropriately be styled “Recovery of Prior Year Losses **(Gains)**.” If you cannot confirm, please explain.
- b. Please explain where the prior year gains (retained earnings) are accounted for currently in the revenue requirement, particularly in your Exhibit USPS6A?

RESPONSE:

a. The theory supporting a provision for recovery of prior years’ losses presupposes the existence of a cumulative net loss. As stated in the Commission’s Recommended Decision in Docket No. R94-1, at paragraph 2092, “As a matter of fact, revenue must exceed costs if the RPYL is to be accomplished. It is this excess of revenue over costs that, for the Postal Service, would become RPYL. When the total RPYL reaches the goal targeted by the Postal Service, it would no longer be necessary to include such a provision in the revenue requirement.” Since there are no prior years’ losses to recover, by definition there is no basis for including a recovery provision.

b. There is no provision in the revenue requirement for accounting for cumulative net income.

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OCA/USPS-T6-5. Please refer to your Exhibit USPS 6A, line 27, "Recovery of Prior Year Losses." Please confirm that if the amount shown on line 27 for Test Year Before Rates were the amount of the estimated cumulative net income of the Postal Service at the end of FY 2005, (in millions, \$2,540.712), the amount on line 30, "Net Surplus (Deficiency)," would be reduced by a like amount and, therefore, rather than showing a deficiency, in millions, of \$3,041.9, the deficiency would be \$501.2 million. If you cannot confirm, please explain.

RESPONSE:

Not confirmed. See my response to OCA/USPS-T6-4.

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OCA/USPS-T6-6. Please confirm that, because the current rates are estimated to produce a revenue deficiency of \$3.042 billion in FY2006, if the Postal Rate Commission were to recommend rates designed to reduce the cumulative net revenue to zero by the end of FY2006, the Postal Service revenue for FY2006 would need to be increased by only \$501 million, the difference between the estimated Cumulative NI (Loss) at the end of FY2005 and the Public Law 108-18 escrow payment of approximately \$3.1 billion. If you cannot confirm, please explain.

RESPONSE:

Not confirmed. First, the definition of the term “cumulative net revenue” is not clear. The difference cited above is the result of subtracting the Before Rates net loss in FY 2006 (not the escrow requirement of Public Law 108-18 of approximately \$3.1 billion) from the Cumulative Net Income (Loss) at the end of FY 2005. The adjustment you suggest is inconsistent with the Commission’s definition of prior years’ losses, as explained in my response to OCA/USPS-T6-4.

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OCA/USPS-T6-7. If revenue were to be increased in FY2006 by \$501 million, by an across the board rate increase in FY2006, what would be the required percentage rate increase? Please provide back-up documentation for your answer.

RESPONSE:

I see no merit in this calculation, as I have discussed in response to OCA/USPS-T6-4 and OCA/USPS-T6-6. Moreover, I have no basis for speculating on a specific revenue requirement amount or rate changes the Board of Governors might have requested if cumulative gains were required, by some heretofore undefined mechanism, to be accounted for either in a single year, as you suggest, or, alternatively, over time.

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OCA/USPS-T6-8. Please refer to your testimony at page 16, lines 27-29 where you state, "If borrowing were used to fund the escrow, we would likely exceed the annual borrowing limit of \$3 billion in FY2007.

a. Please confirm that the underlying predicate of your conclusion is that rates would not be also increased in FY2007.

b. How much borrowing would be required by the Postal Service in FY2007 if the rates proposed in this docket became effective at the beginning of FY2007?

RESPONSE:

a. Not confirmed. This section of my testimony was making the point that meeting the escrow obligation of Public Law 108-18 could not be met on an ongoing basis through borrowing. However, it is possible based on the timing of filing, litigating and implementing rates, that even with a rate increase in 2007, it could be too late in the year to meet the escrow funding requirement without exceeding the \$3 billion annual borrowing limit in that year.

b. I have not calculated the level of borrowing that would be required if the rates proposed in this docket were implemented at the beginning of FY 2007. As stated in my response to OCA/USPS-T6-1(j), borrowing to fund the escrow is inconsistent with the requirements of Public Law 108-18 to reduce outstanding debt and to treat the annual contribution to the escrow fund as an operating expense. However, because the escrow funding requirement is larger in 2007 than in 2006, and because there will be additional inflationary pressure on postal costs in 2007 that are not accommodated in this rate filing, I would expect that borrowing between \$2 billion and \$3 billion would be required.

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OCA/USPS-T6-9. Please refer to your testimony at page 16, lines 27-29 where you state, "If borrowing were used to fund the escrow, we would likely exceed the annual borrowing limit of \$3 billion in FY2007." Please also refer to Table 10, page 15, of your testimony showing the FY2006 before rates total debt increasing by 0.999 billion over the FY2005 total debt of 1.0 billion. Please confirm that if the proposed rates did not become effective during FY2006, the Postal Service would not exceed the annual borrowing limit of \$3 billion in FY2006.

RESPONSE:

Confirmed.

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OCA/USPS-T6-10. Please refer to your testimony at page 16, lines 27-29 where you state, "If borrowing were used to fund the escrow, we would likely exceed the annual borrowing limit of \$3 billion in FY2007." Please provide your calculations supporting this conclusion.

RESPONSE:

Please see response to OCA/USPS-T6-8(a) and (b).

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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May 10, 2005