Postal Rate Commission
Submitted 6/23/2005 3:06 pm
Filing ID: 45262
Accepted 6/23/2005

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–T6–38-44)

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 June 10, 2005: OCA/USPS–T6–38-44.

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
scott.l.reiter@usps.gov
June 23, 2005

OCA/USPS-T6-38. Please refer to your response to OCA/USPS-T6-15. Your response indicates that, in addition to appropriations, property transfers to and from the Postal Service are included in the $1,348.207 million difference between the initial Postal Service equity of $1,685,717 million and “Cumulative Net Income “of $2,540.712 million.

a. Please list the types of properties involved in the transfers to which you are referring (for instance: real, intellectual or plant and equipment).

b. Please confirm that the initial equity position of the USPS in 1971 was $1,685.717 million. If you are unable to confirm, please explain.

c. Please specifically identify, by type, the amount of each type of property included in the original $1.685.717 million equity position. For example: real property, plant and equipment, cash, good will, or intellectual property. In your response, please cite your sources.

d. Please provide a break-out of the amount of net property transfers included in the Postal Service’s equity in your Exhibit No. USPS 6I that are related to property used to provide domestic postal services.

e. By year, for FY 1972 through FY 2004, please identify the type and amount of “property transfers” to the Postal Service included in the $1,348.207 million referred to above. Please cite all sources and provide the derivation of all calculated values. Include in your response the annual amount of gain or loss the Postal Service recognized as a result of the property being transferred to the Postal Service.

f. By year, for FY 1972 through FY 2004, please identify the amount of property transferred from the Postal Service included in the $1,348.207 million referred to above. Please cite all sources and provide the derivation of all calculated values. Include in your response the annual amount of gain or loss by year as a result of the property transferred from the Postal Service.

Response:

a. Property transfers have been for real property and equipment. The net transfer values are reflected in the financial statements found in the Annual Reports of the Postmaster General/US Postal Service. The amounts involved are relatively minor and the last transfer occurred in 1992.

b. Confirmed.

c. The Postal Reorganization Act (Public Law 91-375) provided that “The initial capital of the Postal Service shall consist of the equity, as reflected in the budget of the President, of the Government of the United States in the former Post Office

Department." Essentially, the equity position at Postal Reorganization is equal to the difference between total assets and total liabilities as of June 30, 1971.

d. See my responses to a. and c.

e. Of the $1,348.207 million, $1,000 million relates to 1976 and 1977 appropriations to reduce operating debt and $363.171 million of appropriations to fund the annual leave liability at Postal Reorganization date. The difference between these amounts and the $1,348.207 million ($14.964 million) is the value of net property transfers.

f. See my response to e.

OCA/USPS-T6-39. Please refer to your response to OCA/USPS-T6-15. Are any items other than the net of property transfers, appropriations and accumulated net income included in the $1,348.207 million difference between the initial equity position of the Postal Service and the sum of accumulated net income and appropriations as shown on your Exhibit No. USPS 6I? If so, please provide a description of the items and the amounts, by year, from FY 1972 through FY 2004.

Response:

None that I am aware of. See my response to OCA/USPS-T6-38.e.

OCA/USPS-T6-40. Please refer to your response to OCA/USPS-T6-17 in which you indicate the cost of land has not been included in the revenue requirement.

a. Is the cost of land ever included in the revenue requirement? If so, please explain.

b. Are any costs associated with the cost of land included in the revenue requirement, such as the interest on debt used to purchase land or the payments to repay debt incurred to purchase land? If so, please explain your statement that the cost of land has not been included in the revenue requirement.

Response:

a. To date, the cost of land has not been included in the revenue requirement.

b. To the extent that funds are borrowed to finance capital outlays that include the purchase of land, interest on this debt is included in the revenue requirement. Gains and losses on the sale of land are also included in the revenue requirement. As information, payments to repay debt are not included in the revenue requirement.

OCA/USPS-T6-41. Please refer to your response to OCA/USPS-T6-17 in which you refer to land investment costs and the Postal Service's increased investment in land since 1971 and state, "Accordingly, it is appropriate for the Postal Service to maintain cumulative net income."

a. The accumulated net income or loss of the Postal Service does not appear to bear a relationship to the Postal Service's land investment. Please explain the relationship.

b. What is basis for determining the amount of cumulative net income to be maintained?

c. Is there any maximum amount of cumulative net income appropriate for the Postal Service? If so, is $5 billion an appropriate maximum cumulative net income? Is $50 billion an appropriate maximum cumulative net income? If so, please explain and indicate what that amount may be.

d. Please explain why the Postal Service's maintaining a cumulative net income is consistent with a policy for the Postal Service that revenue from postal rates and fees plus appropriations equal the costs of the Postal Service.

Response:

a. There is no specific relationship. However, the maintenance of a cumulative net income would be one way of offsetting the cost to the Postal Service for the cash outlay required to purchase land.

b. Management should be responsible for determining an appropriate amount of cumulative net income. In my opinion, the cost of land would be one factor to consider.

c. See my response to b.

d. See my response to a.

OCA/USPS-T6-42. Your testimony at page 16 states, "In FY 2006, if rates were not to change, the Postal Service expects that it would need to borrow money to fund the escrow provision."

a. Based on your response to OCA/USPS-T6-33, and considering the Postal Service's earnings as of April 30 of $2,025.3 millions for FY 2005, please confirm that even if the Postal Service rates do not change in FY 2006, borrowing would occur only in the very last days of the fiscal year, and probably only the last day or two of the fiscal year or on September 30, 2006, in order to fund the escrow amount. If you do not confirm, please explain.

b. Based on the Postal Service's earning to date in FY 2005, please state the amount of money, if any, the Postal Service would need to borrow in the last days of September 2006 if the proposed rate change does not become effective during FY 2006. Please provide your calculations and citations supporting your response.

c. Your response to OCA/USPS-T6-33 states the Postal Service filing anticipates an FY 2005 net income of over $1.6 billion. As of April 30, 2005, the Postal Service's Financial and Operating Statement indicates actual earnings of $2,025.3 millions. What amount of net income in FY 2005 will be necessary to avoid borrowing funds in FY 2006, if the Postal Service rates do not change in FY 2006.

Response:

a. As stated on page 5 of my testimony, were it not for the escrow funding requirement imposed by Public Law 108-18, there would be no need to request an increase in postal rates at this time. The foundation of this statement is the strong financial performance reflected in this filing. Through the end of May, FY 2005 year-to-date net income as reported in the Postal Service's Financial and Operating Statement is $1,837 million. This value is consistent with the expected net income through May shown on page 14 of the Errata to USPS-LR-K-50, filed on June 9 (replacing page 260 of USPS-LR K-50 as originally filed). Because the escrow requirement is not due until the last day of September, 2006, that is precisely the date that additional borrowing would occur if there were no rate increase in 2006.

b. As described in response to a. above, the Postal Service's FY 2005 earnings to date were anticipated in this filing. Accordingly, current financial performance does not alter the basis of this request. However, if there were no rate increase in 2006, as detailed in the errata filed on June 9, 2005, before rates debt is estimated at $1.782 billion.

c. If all other assumptions remained the same as those included in the filing, and the changes to FY 2005 also increase cash over the same time period, a net income of approximately $3.4 billion would be required.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T6-43.. Please refer to USPS-LR-K 50 at page 256 to which you referred in response to OCA/USPS-T6-26. The statement of cash flow indicates for FY 2005 a payment of debt of $800 million when the beginning debt balance was $1.8 billion.

a. When was this cash flow statement originally prepared?

b. Please explain why that cash flow statement does not project a debt payment of $1.8 billion to pay off the entire debt which is what actually occurred early in FY 2005.

Response:

a. The cash flow statement was finalized just prior to the rate case filing.

b. The cash flow statement as originally filed shows the repayment of $1.8 billion of debt in October 2004, and the addition of $1.0 billion of debt in September of 2005. See page 259 of USPS-LR-K-50. Debt of $1 billion at the end of FY 2005 was assumed to provide a cushion against the statutory annual borrowing limitations ($1 billion operating and $2 billion capital).

OCA/USPS-T6-44. Please confirm that your testimony at page 16, lines 27-29, stating, "If borrowing were used to fund the escrow, we would likely exceed the annual borrowing limit of $3 billion in FY 2007" is based on the assumption that rates would not increase in either FY 2006 or FY 2007 and that it does not apply if rates did not increase in FY 2006 but did increase in FY 2007 pursuant to a rate proceeding. If you do not confirm, please explain.

Response:

The original statement was based on the assumption that rates would not be increased in FY 2006 or FY 2007. However, the statement may or may not apply if rates were to be increased depending on the amount and timing of the increase.

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

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
June 23, 2005