

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
BASED ON ERRATA TO TESTIMONY FILED JUNE 9, 2005
(OCA/USPS-T6-45-46)

The United States Postal Service hereby provides the responses of witness Tayman to the following interrogatories of the Office of the Consumer Advocate based on the errata to his testimony filed on June 9, 2005: OCA/USPS-T6-45-46. The interrogatories were filed on June 16, 2005, with errata to them filed on June 17, 2005.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE
By its attorneys:

Daniel J. Foucheaux, Jr.
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June 23, 2005

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE
BASED ON ERRATA FILED ON JUNE 9, 2005

OCA/USPS-T6-45. The following interrogatory refers to the errata filed on June 9, 2005 to USPS Exhibit 6A styled as USPS Exhibits 6A-1 and 6A-2 to your testimony.

- a. Please confirm that the revised estimate of net income for FY 2005, from \$1,643.5 million to \$1,679.9 million, resulted in an increase in net income of \$36.4 million. If you are unable to confirm, please explain fully.
- b. Please confirm that the revised net loss estimate for FY 2006BR, from a loss of \$3,041.9 million to a loss of \$2,879.9 million, resulted in a reduction in FY 2006BR losses by \$162 million. If you are unable to confirm, please explain fully.
- c. Please confirm that the revised estimate of net income for FY 2006AR, from \$112.0 million to \$281.5 million, resulted in an increase in net income of \$169.5 million for FY 2006AR. If you are unable to confirm, please explain fully.
- d. Given the errata filed to your testimony, please explain what impact the improvement in the FY 2005 and FY 2006 estimates will have on the implementation of new rates.
- e. Please provide an updated copy of the CRA Cost Segment Summary Report for FY 2006AR that details the impact of your errata changes in Exhibit 6A-2 by segment and by classes and sub-classes of mail.
- f. Please explain in detail the underlying reasons for the changes filed with respect to increasing the FY 2006 BR investment income revenue by \$145.856 million and reducing the FY 2006 BR interest expense by \$42.455 million.
- g. Please explain in detail the underlying reasons for the changes filed with respect to reducing the FY 2006 BR capitalized interest expense by \$18.025 million resulting from changes to interest on debt.

Response

- a. Confirmed.
- b. Confirmed.
- c. Confirmed.
- d. As stated on page 54 of my testimony, planned implementation of new rates will not occur before January 2006. Accordingly, these changes would have no impact on the implementation of new rates.

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- e. This information is included on the errata filed to LR-USPS-K-59, Attachment 14 a, 6 out of 6. By comparing this sheet to that contained in the original filing, the impact by class of mail can be determined. Please note, that the net interest impact of \$30,000 is not reflected.
- f. The following explanation was included in the errata to LR-USPS-K-50. The changes made were corrections of errors.

The following corrections were made to IntIncExp_R05

(1) In 2005 and 2006 (BR and AR), investment income was calculated using 2004 quarterly variable interest rates instead of the 2005 and 2006 quarterly variable interest rates which are listed below. These interest rates are included in LR K-50 at Chapter VIa. p. 256 (IntIncExp_R05.xls).

	FY 2004	FY 2005	FY 2006
Interest Rate - Variable Rate Debt Qtr1	1.14%	2.00%	3.50%
Interest Rate - Variable Rate Debt Qtr2	1.09%	2.50%	3.60%
Interest Rate - Variable Rate Debt Qtr3	1.05%	3.00%	3.60%
Interest Rate - Variable Rate Debt Qtr4	1.30%	3.50%	3.60%

(2) In computing the average monthly debt balance and average monthly investment balance for a given year, the model begins with the averages from the prior year and then adjusts those averages for assumptions for the current year that differ. For FY 2006 (BR and AR), the formula used in the initial filing for computing the average investment balance from the prior year treated the prior year balance as a reduction as opposed to an increase in the current year investment balance. This is reflected in the line description of the model ("Less: Average Investment Balance"). In LR K-50, Chapter VIa., pages 264 and 266, this row (row 85 in soft copy) should have been carried forward from the previous year as a negative amount because the formulas in the model treated positives as a reduction in cash and negatives as an increase in cash.

- g. The change in capitalized interest relates to the lower levels of interest expense subject to capitalization resulting from correction of errors.

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OCA/USPS-T6-46. Please provide a revised USPS Exhibit 6A reflecting these errata revisions. Please confirm that the test year, FY 2006BR, net deficiency shown on line 30 of a revised USPS Exhibit 6A is reduced from a revenue deficiency of \$3,041.9 million to a revenue deficiency of \$2,879.9 million.

Response

Confirmed. See attached.

STATEMENTS OF REVENUE AND EXPENSE
(\$ IN MILLIONS)

Attachment to Response to OCA/USPS-T6-46
USPS 6A Revised

LINE NUMBER		FY 2004	FY 2005	TEST YEAR	TEST YEAR
		ACTUAL	ESTIMATE	B/R	A/R
REVENUES					
1	OPERATING REVENUE	68,868.0	69,930.4	69,934.4	72,455.8
2	APPROPRIATIONS	128.0	119.6	222.8	222.8
3	INTEREST & INVESTMENT INCOME	32.6	97.6	176.9	239.1
4	TOTAL REVENUES	69,028.6	70,147.6	70,334.1	72,917.7
OPERATING EXPENSES					
5	POSTMASTERS	2,035.5	2,175.8	2,317.2	2,310.4
6	MANAGERS, SUPERVISORS & TECHNICAL PERSONNEL	3,883.3	4,080.7	4,275.9	4,242.7
7	CLERKS & MAILHANDERS	18,371.1	18,500.9	18,232.8	18,003.2
8	CLERKS, CAG K POST OFFICES	6.4	6.8	7.0	7.0
9	CITY DELIVERY CARRIERS	15,033.2	15,535.5	15,818.2	15,700.6
10	VEHICLE SERVICE DRIVERS	584.6	608.9	630.2	623.6
11	SPECIAL DELIVERY MESSENGERS	0.0	0.0	0.0	0.0
12	RURAL CARRIERS	5,153.1	5,570.0	5,849.1	5,810.4
13	CUSTODIAL & MAINTENANCE SERVICES	3,006.5	3,087.1	3,196.3	3,181.0
14	MOTOR VEHICLE SERVICES	937.3	991.9	1,005.7	1,000.6
15	MISCELLANEOUS LOCAL OPERATIONS	285.9	300.7	312.9	312.8
16	CONTRACTURAL TRANSPORTATION OF MAIL	4,968.9	5,249.2	5,333.8	5,218.1
17	BUILDING OCCUPANCY	1,855.3	1,924.2	1,968.8	1,968.8
18	RESEARCH & DEVELOPMENT	51.3	57.0	57.0	57.0
19	EQUIPMENT MAINT. & MANAGEMENT TRAINING SUPPORT	49.2	62.7	63.8	63.8
20	SUPPLIES & SERVICES	2,712.8	3,008.5	3,098.1	3,082.8
21	HQ & AREA ADMIN. & CORPORATEWIDE PERSONNEL COSTS	4,507.1	4,724.1	8,364.8	8,364.8
22	DEPRECIATION, WRITE-OFFS, CLAIMS, & INTEREST	2,522.2	2,596.4	2,713.1	2,712.7
23	SUBTOTAL SEGMENTS 16,18, AND 20	9,742.1	10,329.1	14,176.0	14,160.3
24	FINAL ADJUSTMENTS (not allocated to cost segment)		(12.7)	(30.8)	(24.0)
25	TOTAL ACCRUED COSTS	65,963.7	68,467.7	73,213.9	72,636.2
	NET INCOME (LOSS)	3,064.9	1,679.9	(2,879.9)	281.5
26	CONTINGENCY			0.0	0.0
	NET INCOME (LOSS) WITH CONTINGENCY			(2,879.9)	281.5
27	RECOVERY OF PRIOR YEAR LOSSES			0.0	0.0
28	TOTAL REVENUE REQUIREMENT			73,213.9	72,636.2
30	NET SURPLUS (DEFICIENCY)			(2,879.9)	281.5

NOTE: NUMBERS MAY NOT ADD DUE TO ROUNDING

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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June 23, 2005