

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

RESPONSE OF POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE
REDIRECTED FROM WITNESS POTTER
BASED ON ERRATA TO TESTIMONY OF WITNESS TAYMAN
FILED ON JUNE 9, 2005
(OCA/USPS-T1-5)

The United States Postal Service hereby provides the response of witness Tayman to the following interrogatory of the Office of the Consumer Advocate, filed on June 17 , 2005, and redirected from witness Robinson: OCA/USPS-T27-16.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE
By its attorneys:

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June 23, 2005

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OCA/USPS-T1-5. At page 5 of USPS-T-1, you state:

Allowing for the decline in volumes associated with a rate change, \$3.1 billion amounts to about 5.4 percent of our estimated revenue need in FY 2006, as described by Postal Service witness William Tayman (USPS-T-6). Accordingly, the Board of Governors has directed the Postal Service to request that the Commission recommend uniform 5.4 percent increases over existing rates and fees.

On June 9, 2005, witness Tayman filed errata to his revenue testimony, including "Summary of R2005-1 Revenue Requirement Errata Impacts," Exhibit USPS-6A-1, [revised] 6/9/05. Among the changes reported by witness Tayman are that:

- (1) If postal rates and fees are increased by 5.4 percent as you requested, net income in the Test Year, After Rates, will be \$281.5 million, instead of the \$112 million initially presented; and
- (2) The net loss that must be covered in the test year is \$2.88 billion, not the \$3.1 billion you alluded to in the testimony quoted above.

Ceteris paribus, please confirm that the across-the-board increase that best achieves breakeven in the test year under the Postal Service's current financial circumstances (without considering the impact of elasticity of demand on revenues and costs) is approximately 5 percent, not 5.4 percent, i.e., $(2.88/3.1 = 0.93)$ therefore, 0.93×5.4 percent = 5 percent rounded).

- a. If you do not confirm, then please explain.
- b. If you do confirm, then do you plan to modify the pending request. If so, when?
- c. Since the need for the money in the test year is less urgent than you believed at the time the rate case was filed, does the Postal Service intend to defer implementation of a recommended rate increase for some period of time, say one month longer than was initially intended? Please explain.
- d. The following statement was made at the website of [postcom.org](http://www.postcom.org) on June 17, 2005 (<http://www.postcom.org>):

PostCom has learned that because of the radical improvement in USPS finances, postal management had asked the Governors for permission to pull the 2005 postal rate case, but several members of the Board objected.

- i. Do you agree that that there has been a radical improvement in Postal Service finances in April and May of 2005? If not, please explain.
- ii. Do you favor withdrawal of the rate case owing to substantial improvement in the Postal Service's financial condition and the errata to witness Tayman's testimony, as compared to the information filed on April 8, 2005? If not, please explain.

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Response

- a. Not confirmed. The 5.4 percent across-the-board increase continues to best achieve breakeven in the test year given the Postal Service's current financial circumstances. The increase of \$169 million to the test year after rates net income based on the errata filed is immaterial relative to the \$800 less net income expected in 2006 due to the proposed January 2006 implementation date for new rates.
- b. N/A.
- c. The filing of the errata does not lessen the urgency for the need for money in the test year to fund the escrow obligation. The January 2006 implementation date for new rates already represents a three-month delay and significant revenue loss over what is assumed in the test year.
- d.
 - i. There has not been any improvement in Postal Service finances in April and May of 2005 over what was assumed in this filing. Through May, actual year-to-date net income is \$42 million higher than the monthly net incomes estimated in the rate case. As reflected in the errata, net income for April 2005 was estimated at \$120 million and for May 2005, a net loss of \$87 million was estimated. Actual net income in April was \$60 million and the actual net loss in May was \$198 million. This represents a cumulative difference for these two months of \$171 million. This difference is not a "radical improvement" but a significant worsening.

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- ii. As stated above, there has not been substantial improvement in the Postal Service's financial condition over what was depicted in this filing. Additionally, the April 9 errata increased net income only \$36 million for FY 2005. Also, as stated in response to OCA/USPS-178, through May of 2005, the actual cash position of the Postal Service is approximately \$400 million less than the cash position assumed in this filing (as corrected) for May 2005. Accordingly, the Postal Service's financial condition does not warrant withdrawal of this rate case and in fact supports the need for implementation of the requested increase in January 2006.

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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