

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

INTERROGATORIES OF THE UNITED STATES POSTAL SERVICE TO
DIRECT MARKETING ASSOCIATION ET AL. WITNESS BUC
(USPS/DMA-T1-1-29)

Pursuant to Rules 25 and 26 of the Commission's Rules of Practice and Procedure, the United States Postal Service directs the following interrogatories to Direct Marketing Association et al. witness Buc: USPS/DMA-T1-1-29.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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USPS/DMA-T1-1. On page five of your testimony, you quote witness Loutsch from page 31 of his testimony (USPS-T-6), as follows:

Between cost reductions programs and BPI, the Postal Service identifies realizable cost savings for technical personnel and supervisors. Supervisory cost savings beyond those estimated cannot be assumed to occur based on theories of volume variability, because supervisory responsibilities relate to mailflows, networks and operations – not merely to employees. In addition, cost reduction programs frequently require additional supervisory time and attention in order to capture cost savings, to maintain service, and to ensure operating efficiencies. Therefore, the Postal Service specifically examines cost savings opportunities relating to Cost Segment 2 for each applicable program, rather than making arbitrary assumptions that supervisor costs follow in lockstep with estimated changes in craft staffing levels.

- a. Please confirm that the section of witness Loutsch's testimony that you quote was modified by errata filed on July 31, 2006 as shown below. If you do not confirm, please explain fully.

Between specific cost reduction programs and BPI, the Postal Service identifies realizable cost savings for technical personnel and supervisors. Cost reduction program implementations and supervision of operations frequently require additional supervisory time and attention in order to capture cost savings, to maintain service, and to ensure operating efficiencies. Therefore, the Postal Service specifically examines a program's cost savings opportunities, including those relating to Cost Segment 2, rather than making assumptions that supervisor costs follow in lockstep with estimated changes in craft staffing levels. Most cost reduction programs result in changes to the work environment. While a supervisor may have less people to supervise in the new environment, other responsibilities related to the new equipment and/or a changed environment add to a supervisor's workload. There are also ongoing responsibilities that do not change as a result of fewer employees, e.g., budget, safety, operating performance data monitoring, and coordination of mail flows. While not directly related to specific programs, supervisory, technical, and administrative savings are being pursued via the BPI/LMI processes.

- b. If you do confirm, will you be correcting your testimony to reflect witness Loutsch's testimony as received into evidence? If not, why not?

USPS/DMA-T1-2. You state on page 2, line 14-17 of your testimony that:

However, the Postal Service claims that these truly impressive savings in craft labor will not enable it to save even a single supervisor workhour in any of these three years. See USPS-LR-L-49, L49_R2006_8hr.xls, Attachments D, E, and F. This claim is simply not credible.

- a. Please confirm that the Postal Service has included the following reductions in supervisory workhours and costs in the “BPI/LMI” portion of Section 1A, “Operating Programs Cost Reductions” at LR-L-49 Attachments A, B, C, D, E, and F.

(Dollars an workhours in thousands)	Segment 2 BPI /LMI Portion of Section 1A, Workhours	Segment 2 BPI /LMI Portion of Section 1A, Dollars	LR-L-49 Reference
FY 2006	302	\$13,309	Attachment A, D
FY 2007	442	\$20,269	Attachment B, E
FY 2008	550	\$26,166	Attachment C, F
Total	1,294	\$59,744	

- b. Please explain the basis for your statement quoted above in view of witness Loutsch’s testimony on page 31 of USPS-T-6: “While not directly related to specific programs, supervisory, technical, and administrative savings are being pursued via the BPI/LMI processes.”
- c. Please explain your understanding of the relationship between the supervisory savings included in the BPI/LMI portion of Section 1A and the specific programs identified in Section 1A.

USPS/DMA-T1-3. Do you agree that supervisors have ongoing responsibilities, such as those described by witness Loutsch on page 31 of his testimony that would continue in a new work environment? If your response is other than an unqualified yes, please explain fully.

USPS/DMA-T1-4. Please refer to page 1 of the attachment to the response to DMA/USPS-T6-21.

- a. Please confirm that supervisory duties include the following: monitoring operational performance data, ensuring that operational information reported is complete and accurate, participation in mail surveys/tests related to quality and service performance, coordination of mail flows, budget preparation and control, and meeting with customers and major mailers to resolve problems and improve service. If you do not confirm, please explain why.
- b. Please confirm that these duties would not vary materially if at all with the number of employees supervised. If you do not confirm, please explain which ones would vary materially and why.

USPS/DMA-T1-5. Using the Automated Induction System – Phase 1 program (described at page 10 of LR-L-49) as an example, please respond to the following.

- a. Please confirm that this program is defined to automate the preparation and feeding of flat mail to 210 AFSM 100 machines as described in LR-L-49 at page 10.
- b. Please confirm that on Attachment A, and B of LR-L-49, the clerk workhour savings for this program are stated at 572,000 in FY 2006 and 1,358,000 in FY 2007 for a total of 1,930,000 workhours.

- c. Assuming that there are 1,767 workhours (LR-L-49, Attachment N) in a workyear, please confirm that the stated savings convert into approximately 1,092 clerk workyears.
- d. Assuming that the systems are implemented at the planned 210 sites, please confirm that the savings for a single implementation would be 5.2 workyears.
- e. Assuming that all supervisors at the implementation site are currently supervising twenty employees each, how many supervisory positions would be eliminated at each of the facilities as a result of this program.
- f. Please provide an explanation of and the calculations on which your estimate of supervisory reductions is based.

USPS/DMA-T1-6. On page 2 of your testimony you also state that “the Postal Service recognizes that, as a general matter of cost causality, supervisory workhours are a function of craft workhours.” To support this argument you cite USPS-LR-1, which states that “mail processing supervisors have a span of control that is essentially constant in a given work organization structure.... It is recognized that a change in employee workhours, caused by a change in mail volume, may not be accompanied immediately by a corresponding change in first line supervisory workhours. However, for any substantial or prolonged change in the level of nonsupervisory employee effort for a given work activity, there will be an accompanying change in first line supervisory requirements”. Please confirm that this quote recognizes a relationship between supervisor and craft hours “*caused by a change in mail volume,*” and only “*in a given work organization structure*” and only “*for a given work activity.*” If you do not confirm, please explain fully.

USPS/DMA-T1-7. Refer to Table 13 in your testimony.

- a. Would you agree that changes in workhours from year to year are impacted by other factors besides cost reduction program, e.g. workload, composition of days in a year, leap year, service improvements, and other program changes? If you do not agree, please explain fully.
- b. Have you done any analysis of how much of the change in your table 13 relates to cost reduction programs? If your answer is other than no, please provide your analysis and explain it fully.
- c. Please confirm that the workhour data shows only how workhours have changed and do not explain the causes on the changes. If you do not confirm, please explain fully.
- d. Have you done any quantitative analysis of the causes of the workhour changes in your Table 13? If so, please provide the analysis.

USPS/DMA-T1-8. Please refer to page 7 of your testimony where you state: “since 1999, total employee workhours, excluding those of Postmasters and Supervisors, have been reduced by 11.4%; in this same period of time, supervisory hours have been reduced by 9.5%.”

- a. Please explain your basis for selecting 1999 as the appropriate base year for making these calculations.

- b. Why would 1999 be a more appropriate base year than 1996 or 1997? Please explain fully.
- c. Please confirm that total hours have declined by almost 9.7% since 1997 but supervisor hours have declined by only 5.2% since 1997. If you do not confirm, please provide the correct percentages and explain how they were calculated.
- d. If, as you state, "it is manifest in the (Table 13) data that reductions in craft labor are accompanied by reductions in supervisory hours," please explain why total hours have declined by almost 9.7% since 1997 while supervisor hours have declined by only 5.2%.
- e. Please confirm that total hours have declined by almost 8.6% since 1996, but supervisor hours have declined by only 2.5% since 1996. If you do not confirm, please provide the correct percentages and explain how they were calculated.
- f. If "it is manifest in the (Table 13) data that reductions in craft labor are accompanied by reductions in supervisory hours," please explain why total hours have declined by 8.6% since 1996 while supervisor hours have declined by only about 2.5%.

USPS/DMA-T1-9. Please refer to page 4 of your testimony where you point to the Letter Recognition Enhancement Program as evidence that many cost reduction programs do not change the work environment.

- a. Do you have any evidence other than the intuitive interpretation you have provided that this program has no impact on the work environment? If so, please provide any such evidence.
- b. Do you have any evidence that any of the Postal Service's other cost reduction programs do not change the work environment? If so, please provide it.
- c. Do you have any quantitative analysis to support your conclusions? If so, please provide it.

USPS/DMA-T1-10. Please refer to page 1 of the attachment to the response to DMA/USPS-T6-21 and confirm that only one of the ten supervisor duties and responsibilities listed is the direct supervision of employees. If you do not confirm, please explain fully.

USPS/DMA-T1-11. Please refer to Attachments G, H, and I of USPS-LR-L-49.

- a. Please confirm that many cost reduction programs result in the addition of clerk, maintenance, and other craft hours, but no supervisor hours. If you do not confirm please explain your answer.
- b. Using your logic that cost reduction programs savings should generate proportional craft savings, should these program increases result in proportional supervisor increases? If your answer is other than yes, please explain your answer.

USPS/DMA-T1-12. Please refer to USPS-T-6 Exhibit K. Please confirm that the Postal Service estimated the September 2006 COLA to be \$291. If you do not, confirm please explain why.

USPS/DMA-T1-13. Please refer to the response to POIR 13.

- a. Please confirm that the actual September 2006 COLA was much higher than estimated (\$791 for NALC and \$812 for APWU, NRLCA, and Mailhandlers, versus \$291 as shown in USPS-T-6 Exhibit K). If you do not confirm, please explain why.
- b. Should the Commission take this additional cost into account when considering the appropriateness of a 1 percent contingency? Please explain any negative response.

USPS/DMA-T1-14. Please refer to the Integrated Financial Plan FY 2007. The FY 2007 Financial Summary table at page 1 indicates that the planned Net Deficiency After Escrow is \$1.6 billion. This approved budget plan includes \$0.8 billion additional revenue (\$75.3 billion less \$74.5 billion) when compared to the FY 2007 After Rates revenue at Exhibit USPS 6A (revised), yet the resulting deficiency is \$0.4 billion more than is projected in the revenue requirement. Given this projected increase in the net deficiency, do you continue to believe that the contingency should be reduced to zero? If your response is anything other than "no," please explain your reasons for continuing to believe the contingency should be reduced in light of the worsening net deficiency.

USPS/DMA-T1-15. Please refer to page 17 of your testimony where you state that one of the reasons the contingency can be eliminated is that the Postal Service can respond to adversity through annual rate increases. Please confirm that a future rate increase would have to be implemented well prior to the end of FY 2008 to have any impact on the test year. If you do not confirm, please explain why.

USPS/DMA-T1-16. Please refer to pages 16-17 of your testimony where you state that one of the reasons the contingency can be eliminated is that Postal Service real estate has appreciated and can be used as a buffer against adversity as sales of buildings increase due to END related closings and consolidations. Please identify the specific facilities that will be vacated and sold as a result of the END program prior to the end of FY2008. Please provide documentation quantifying the expected gain on the sales of these facilities and the cash flow resulting from the sales.

USPS/DMA-T1-17. Should the Commission consider any factors not mentioned in your testimony, e.g. the state of the economy, identifiable financial and operational risks, when considering the Postal Service's proposed contingency? If your answer is yes, please provide the factors you believe should be considered.

USPS/DMA-T1-18. Please refer to the Commission's Opinion and Recommended Decision in Docket No. R84-1 at paragraph 1051, which states that the "the most recent data available show that the Service has a current equity of \$451 million. Viewed against the Service's test year revenue requirement of over \$29 billion, this figure, of

itself, does not militate in favor of reducing the contingency.” Does the fact that the Commission chose to recommend a 3.5 percent contingency in Docket No. R84-1 despite equity equal to 1.6 percent of the revenue requirement alter your opinion that the 1 percent contingency in the current proceeding should be reduced to zero percent? Please explain your answer fully.

USPS/DMA-T1-19. Have you performed any analysis of the time required to transfer processing operations, close, and sell a mail processing facility? If so, provide that analysis.

USPS/DMA-T1-20. Please confirm that equity in the Postal Service’s real property is of no use in dealing with an adversity that would require additional cash unless the properties are sold or borrowed against. If you do not confirm, please explain how such property provides a buffer against adversity in the Test Year.

USPS/DMA-T1-21. Please Consider the following hypothetical. A budget analyst estimates that revenue for one item his company sells will be \$10,000 three years into the future. Actual revenue for that year turns out to be \$10,022. Would you consider this a significant variance? If your answer is other than no please explain how much variance you would consider significant and what criteria were used.

USPS/DMA-T1-22. Please refer to line 27 page 8 of your testimony, where you state: “A net surplus of \$173 million does not appear to meet the plain English requirements of the Act.”

- a. What amount would meet the requirements of the Act?
- b. Please explain how the proper amount of surplus or deficit should be determined.

USPS/DMA-T1-23. Please refer to line 1 of page 9 of your testimony, where you state: “As the table shows, a surplus of \$173 million is very inconsistent with historical values for surplus/deficits.”

- a. Please confirm that the surplus in Docket No. R2005-1 was \$281 million. If you do not confirm please explain why.
- b. Do you consider \$281 million to be “very inconsistent with historical values for surplus/deficits”? Please explain your answer.

USPS/DMA-T1-24. Please refer to Appendix C of the Docket No. R2005-1 Opinion and Recommended Decision. Please confirm that the test year net surplus recommended by the PRC was \$184.671 million. If you do not confirm please explain why.

USPS/DMA-T1-25. Please refer to page 10 of your testimony, where you urge the PRC to “reduce rates by enough so that there is no surplus in TYAR.” Please consider the following hypothetical. The PRC runs the rollforward model and designs a set of rates intended to generate enough revenue to produce a test year breakeven considered to meet all PRA and Commission criteria. When the after rates revenue from this exercise is totaled, and a statement of revenue and expenses is produced, the result is a TYAR

surplus of \$172.6 million. In this scenario should the PRC re-design the rates in order to reduce the surplus? If your answer is yes, which rates should be reduced in order to reduce the surplus? Please explain your answer.

USPS/DMA-T1-26. Please refer to Table 2 on page 14 of your testimony.

- a. Please confirm that Docket No. R76-1 reflects equity of \$363 million, which was 2.6 percent of the revenue requirement of \$14.171 billion. If you do not confirm, please explain.
- b. Please also confirm that the contingency in that Docket was 4.0 percent. If you do not confirm, please explain.
- c. Would you agree that your position that equity of \$2.266 billion, or 2.9 percent of the revenue requirement of \$77.511 billion in this Docket, should result in a contingency of zero percent is inconsistent with the equity, revenue requirement, and contingency amounts reflected in Docket No. R76-1? If you do not agree, please explain how the R76-1 relationships support your argument.

USPS/DMA-T1-27. Please refer to page 15 of your testimony, where you state that the “projected cash balance at the end of the test year is \$3.8 billion,” and LR DMA-1, tab 8, where you calculate this amount by adding cash changes for FY 04 through FY 06 from various sources to the FY 03 ending cash balance. Please confirm that the methodology you have used does not include cash changes for FY 07 and FY 08. If you do not confirm, please explain fully.

USPS/DMA-T1-28. Please refer to LR DMA-LR-1, tab 8, where you calculate the \$3.820 billion amount by adding cash changes for FY 2004 through FY 2006 from various sources to the FY 2003 ending cash balance. Please confirm that using these amounts and this method results in a calculated end of year cash balance of \$3.983 billion for FY 2005 ($\$3.426 - \$1.390 + \$1.947 = \3.983). If you do not confirm please explain fully.

USPS/DMA-T1-29. Please refer to the FY 2005 Annual Report of the Postal Service and page 582 of USPS LR L-50, and confirm that the ending FY 2005 cash is \$930 million. If you do not confirm, please explain fully.