

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

MAIL PROCESSING NETWORK RATIONALIZATION
SERVICE CHANGES, 2012

Docket No. N2012-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO NPMHU INTERROGATORIES NPMHU/USPS-T10-5 AND 12-14,
REDIRECTED FROM WITNESS BRADLEY
(February 9, 2012)

The United States Postal Service hereby provides the responses of Witness Marc Smith to the above-listed interrogatories of the National Postal Mail Handlers Union, which have been redirected from Witness Michael Bradley. Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Pricing & Product Support

Nabeel R. Cheema

475 L'Enfant Plaza, S.W.
Washington, D.C. 20260-1137
(202) 268-7178; Fax -5402
February 9, 2012

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS SMITH TO NPMHU INTERROGATORY
REDIRECTED FROM WITNESS BRADLEY

NPMHU/USPS-T10-5

Does your cost estimates account for the fact that increased usage of mail processing equipment at each remaining site will lead to increased maintenance and a shorter useful life for these pieces of equipment? If so, please identify where in your cost estimates this fact is accounted for. If not, please explain why this was not included in your calculations.

RESPONSE:

My testimony, USPS-T-9, page 14, Table 3 provides mail processing equipment maintenance labor savings of \$313.5 million. These savings are based on the determination of witness Bratta that Network Rationalization will allow a reduction of 3,443 mail processing maintenance staff (see my testimony at pages 13-14). To the extent witness Bratta's determination reflects increased maintenance for the processing equipment at the remaining sites, then my cost savings do as well.

My cost savings estimate does not take into consideration any changes, shorter or longer, in the useful life of mail processing equipment. Depreciation for mail processing equipment is based on a 10 year service life. I have no information that this would change under the proposed Network Rationalization. Also, as I point out in my testimony, at pages 15-16, I have not estimated the savings in depreciation expense associated with the reduced equipment required under the full implementation of Network Rationalization.

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NPMHU/USPS-T10-12

Please explain how your calculations relate to the estimated reduction in FTE employee workhours stated in the Postal Service's response to the Public Representative's Interrogatory 1, USPS-T8-1, including in your answer: (a) whether one set of calculations was derived from the other and, if so, how they were so derived, and (b) what portion of your cost savings are attributable to these reduction in FTEs.

RESPONSE:

- a. As indicated in my response NPMHU/USPS-T8-1 redirected from witness Rachel, filed January 25, 2012, the FTE reductions provided in the response to PR/USPS-T8-1 are based on the savings put forth in my testimony, USPS-T-9, and witness Bradley, USPS-T-10. The spreadsheet NPMHU-USPS-T10-12.xls, which is attached to this response, shows the calculations of the FTE reductions. This demonstrates that the FTE reductions are simply a restatement of the savings estimates from witness Bradley and myself in terms of FTEs.
- b. The attached spreadsheet shows the basis for the calculations of the FTE reductions, referencing the pertinent testimonies and library references.

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NPMHU/USPS-T10-13

Please state what portion of the “rents or rental opportunity costs” savings you identify in Table 16 are: (a) attributable to rents on leased facility space; and (b) attributable to rent on leases from which the Postal Service may be released within 2012.

RESPONSE:

- a. Of the \$49.5 million savings for “Rents or Rental Opportunity Costs” shown in witness Bradley, USPS-T-10, Table 16, \$16.8 million are from rents on leased facility space.
- b. The portion of the \$16.8 million savings that is from leases that expire in 2012 is \$687,000. In addition, it is also possible that the Postal Service could be released in 2012 from leases that expire later than 2012 as well.

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NPMHU/USPS-T10-14

Please state whether your cost estimates for “rents or rental opportunity costs” account for the different commercial real estate market conditions in each of the various locations where the Postal Service may close processing facilities.

- (a) If the answer to the above is yes, please provide explain in detail on how these individual market conditions were determined and how they factored into your analysis.
- (b) Please explain how your calculations regarding “Facility Related Costs Changes” would change if the Postal Service is unable to rent or sell the properties that it currently owns.
- (c) Please identify any properties that the Postal Service owns that it is trying to sell, or has determined is not able to be sold.

RESPONSE:

Yes, commercial real estate market conditions in each of the various locations under study were taken into account. As indicated in response to APWU/USPS-T9-3, part c, the Postal Service obtained Broker Opinion of Value to sell (BOV), to estimate revenues from the sale of the properties under study.

- a. The BOV for each property provides the value of the property determined by a local broker assuming it is to be sold "as is" with in a 12 month time frame based on local real estate market conditions.
- b. The “Rents or Rental Opportunity Costs” savings shown in witness Bradley, USPS-T-10, Table 16 of \$49.5 million is based on estimated rents saved on leased space and the annual earnings on the net proceeds from selling vacated owned facilities as described in my testimony at pages 19-20. To the degree the

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Postal Service was unable to rent or sell these properties, the savings would be lower.

- c. The Postal Service has filed a partial objection to this interrogatory. In addition, the Postal Service notes that it has not made any decisions on what properties to sell associated with Network Rationalization.