

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUTSCH
TO PRESIDING OFFICER'S INFORMATION REQUEST NUMBER 13**

1. The Employment Cost Index less one percent (ECI-1) has been utilized in prior rate proceedings as an estimate of compensation increases for bargaining employees in the absence of negotiated contract increases, much like the method used in this current proceeding. However, in previous proceedings, such as Docket No. R2001-1, the calculation of wage increases based on ECI-1 was adjusted for any carryover COLA or contracted wage increases from the previous estimated fiscal years, and the net "new wage growth" was used to estimate the increase in total compensation for the fiscal year. As explained in a footnote of the worksheet in USPS-LR-J-50, *uncst_est_01s.xls at tab Gen-Inc*, this was to avoid any double counting of compensation increases.

In the current proceeding, the estimated increase in FY 2007 bargaining unit compensation using ECI-1 has not been adjusted for any carryover of COLA or contracted wage increases from the previous fiscal year (FY 2006). See USPS- LR-L-50; file *Uncst_est_06.xls at tab Gen Incr*. Please confirm that the carryover of COLAs and the contractual wage increases from FY 2006 should be subtracted from the ECI-1 compensation increase estimate in FY 2007 and provide the affected corrected workpapers in USPS-LR-L-50. Otherwise, please explain the change in the use of the ECI-1 wage increase estimate between the current proceeding and prior proceedings.

RESPONSE:

Not confirmed. The Postal Service has made several different ECI benchmarked labor contract assumptions when developing its revenue requirements. The choice of each different assumption was dependent on management's judgment of its appropriateness at the time. As stated on page 36 of my testimony, the impact of wage increases for the year following the expiration of the current labor contract (FY 2007) is assumed to equal the projected increase in the ECI less one percent, plus the carryover from the pay and COLA increases effective in FY 2006, the final year of the current labor contracts. Use of this assumption was intentional. Also, this is the same assumption that was used in Docket No. R2005-1.¹

Please note that the application of an ECI-1 assumption in this docket, if adjusted for carryover from FY 2006, would now result in a negative amount available for FY2007 wage increases. This occurs due to the 1.6 percent APWU wage increase effective in

¹ Docket No. R2005-1, USPS-T-6, page 36, lines 1-5.

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March 2006 and the much higher-than-estimated September 2006 COLA (\$791 for NALC and \$812 for APWU, NRLCA, and Mailhandlers).