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BEFORE THE
POSTAL RATE COMMISSION
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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

SPECIAL SERVICES REFORM, 1996

Docket No. MC96-3

MOTION OF THE UNITED STATES POSTAL SERVICE FOR RECONSIDERATION OF
ORDER NO. 1120, AND PARTIAL RESPONSE
(June 28, 1996)

The United States Postal Service ("Postal Service") hereby moves for reconsideration of Order No. 1120, *Order Directing the Postal Service to Provide Additional Cost Presentations*, issued by the Postal Rate Commission ("Commission") on June 18, 1996. The Postal Service requests reconsideration in light of the following. First, costs reflecting the Commission's methodology have little bearing on the justification for any of the Postal Service's proposals; relevant costs vary by insignificant amounts, so the fee and classification changes proposed are equally justified under either costing methodology. This can be seen from the cost information provided by the Postal Service and appended to this Motion. In this regard, the information called for by the Order is not required to evaluate the circumscribed issues raised by the Postal Service's Request in this case. Furthermore, in light of the changes made through classification reform, providing costs under the Commission methodology would not provide information that would be pertinent to comparing special services costs coverages with cost coverages for the reformed classes and subclasses of mail. Second, the Postal Service has presented costing information in compliance with Rule 54, and imposition of additional requirements is not warranted. Third, the Commission has the ability and information necessary to produce the requested information.



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Finally, compliance with the Order would be unduly burdensome for the Postal Service and may well be unattainable.

As indicated above, the Postal Service is providing more readily accessible information in partial response to Order No. 1120, which provides an alternative means to address the Commission's concerns.¹ Attachments A and B to this Motion are prepared in the basic format of Commission Appendix G, Schedule 1, from Docket No. R94-1. Attachment A reflects the Postal Service's Fiscal Year 1993 Cost and Revenue Analysis ("CRA"). Attachment B reflects the Commission's Base Year 1993 used in its Opinion and Further Recommended Decision in Docket No. R94-1. Attachment C shows the comparison between the cost and cost coverage figures contained in Attachments A and B. Ratios reflecting the differences in Postal Service versus Commission costs could be developed using Attachments A and B. These ratios could then be applied to the costs and cost coverages reflected in witness Patelunas's and Lyons's exhibits to indicate what the costs and cost coverages in this case would look like under the Commission's methodology.

I. BACKGROUND.

On June 7, 1996, the Postal Service filed its Request for a Recommended Decision on various special service proposals. *Request of the United States Postal Service for a Recommended Decision on Special Service Changes, June 7, 1996*. In that Request, the Postal Service proposed changes for only selected special services—post office boxes, certified mail, return receipts, insured mail, postal

¹ USPS LR-SSR-122, Materials in Partial Response to Order No. 1120, is being filed today. The library reference consists of the spreadsheets underlying Attachments A through C, appended to this Motion.

cards, registered mail, and special delivery.² As the Postal Service stated,

The goals of this Request are to reform several special services, using new data and analysis obtained since the last rate case, to better meet customer needs and reflect costs and customer demand. This Request does not encompass any changes to the rates for the classes and subclasses of mail, nor the fees for other special services not specifically addressed by the proposals.

Request at 1.

In its filing, the Postal Service used a Base Year of 1995 and a Test Year of 1996 following the standard cost methodology reflected in its CRA. *See Direct Testimony of Richard Patelunas on Behalf of United States Postal Service, USPS-T-5, at 7.*³ Moreover, as witness Patelunas explained, parties desiring to trace differences in Commission and Postal Service costing methodologies have had a wealth of materials provided over several dockets which would enable them to do so. *See USPS-T-5, at 5-8.*

In its notice of this proceeding, the Commission noted that the Postal Service had used the CRA methodology. The Commission stated, "In another departure from recent practice, its filing develops base year costs solely by the methods that

² Although postal cards are not a special service, the Postal Service's postal card proposal does not involve a change to the postal card rate, but rather seeks to establish a special service fee.

³ In fact, witness Patelunas did not have the audited CRA for Fiscal Year 1995 available at the time he prepared his testimony. *USPS-T-5, at 7.* The audited CRA and Cost Segments and Components Report for Fiscal Year 1995 were filed with the Commission on June 12, 1996, however, and the figures presented were the same as those used in witness Patelunas's testimony. *See Notice of the United States Postal Service of Filing of FY 1995 Cost and Revenue Analysis, and Cost Segments and Components Report, June 13, 1996.*

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the Postal Service uses in its own Cost and Revenue Analysis Report (CRA)."⁴

On June 18, 1996, the Commission issued Order No. 1120, stating that it needed to evaluate the test year cost coverages for the proposed special service changes to determine if they complied with the Act. *Order No. 1120, at 1*. The Commission expressed its belief that to do so, it needed to compare the proposed cost coverages with those for the classes and subclasses of mail and the special services not at issue in this proceeding. *Id.* Accordingly, the Commission directed the Postal Service "to submit cost presentations that reflect the Commission's Docket No. R94-1 attribution methodology," specifically ordering the Postal Service to produce new versions of Exhibits USPS-T-5A through J and of Exhibit C of USPS-T-1 by July 5, 1996. *Id. at 2-3*. The Postal Service now moves that the Order be reconsidered.

II. USE OF THE COMMISSION'S METHODOLOGY IS NOT NECESSARY TO EVALUATE THE POSTAL SERVICE'S PROPOSALS.

As can be seen from Attachments A through C, for the special services reflected in the CRA and proposed to be changed in this docket, the cost and cost coverage differences between the CRA and the Commission's methodology are quite small.⁵ Except for special delivery, the absolute differences between cost coverages using the CRA, versus the Commission's methodology, range from a

⁴ *Notice of Request for Changes in Domestic Mail Classification Schedule Provisions and Rates for Special Services and Order Instituting Proceedings, June 12, 1996, at 5.*

⁵ A comparison for return receipts was not possible as the Commission methodology, like the CRA, does not separately account for this category.

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low of -0.97 percent for post office boxes, to a high of +3.99 percent for certified mail.⁶ Although the difference in special delivery costs and cost coverages is larger, it is irrelevant, since the Postal Service is proposing to eliminate this service. The different methodologies thus have only inconsequential impacts on attributable costs and cost coverages for the affected special services.⁷ The Postal Service's proposals result in fees that would cover attributable costs, would not change, and are fully justified, regardless of which cost methodology is used.⁸

The Commission has explained that it needs "to evaluate the proposed test year cost coverages for the special services that are the subject of proposed fee increases and determine if those coverages are in conformance with the Act."

⁶ These absolute differences are derived by subtracting the cost coverage resulting from the Commission methodology from the cost coverage resulting from the CRA. *Attachment C*.

⁷ This is not surprising, given that certain of the adjustments the Commission makes in its cost methodology, such as those to Alaska or Hawaii air transportation costs, primarily affect classes or subclasses of mail not at issue in this docket. For example, the Alaska adjustment affects mostly parcel post. *PRC Op., R94-1, at III-53*. The Hawaii adjustment affects predominantly third-class. *Id. at III-52-53*. Even the largest adjustment, to city delivery carrier costs, has the greatest impact on First and third class. See, for example, *Docket No. MC95-1, Direct Testimony of Richard L. Patelunas on Behalf of United States Postal Service, Exhibit USPS-T-14J*. The Commission's Further Recommended Decision in Docket No. R94-1 also reflects the minor impact of its single subclass adjustment on the affected special services. See *PRC Op., R94-1 (Further Recommended Decision), App. Y, at 3 and 5*.

⁸ This point is further illustrated by a simple example. Taking the largest cost coverage difference (other than special delivery) reflected in Attachment C -- +3.99 percent for certified mail -- and subtracting it from the cost coverage of 199.1 percent for Base Year 1995 shown in Exhibit USPS-T-5C, at 16, results in 195.1 percent (representing the approximate expected cost coverage under the Commission's methodology). It would be surprising should the Postal Service change its proposal, or the Commission change its recommendation, because the cost coverage is 195.1 percent, rather than 199.1 percent.

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Order No. 1120, at 1. The Postal Service fully understands this objective, and it has provided detailed testimony explaining how its proposals conform with the Act. *See Direct Testimony of Susan W. Needham on Behalf of United States Postal Service, USPS-T-7, at 34-43, and USPS-T-8, at 22-26, 48-55, 68-73, 88-94, 108-116, and 128-132.* In fact, witness Lyons has provided a before and after rates cost coverage comparison for the special services at issue in this proceeding and has observed that "the new cost coverages are reasonable, and consistent with the systemwide Docket No. R94-1 cost coverage of 157 percent." *Direct Testimony of W. Ashley Lyons on Behalf of United States Postal Service, USPS-T-1, at 20, and Exhibit C.*

The Postal Service does not believe, however, that cost coverage comparisons need to be made between the special services that are at issue here and all classes, subclasses, and other special services in order to evaluate the proposals. *See Order No. 1120, at 1.* As the Postal Service stated in its Request, "The Postal Service does not intend to open up for consideration any rates or fees other than those directly affected by its proposal." *Request at 3.*

The Postal Service strongly believes, as a matter of law and sound business practice, that it should be able to propose changes in rates and fees under the statute without being drawn into a comprehensive examination of all rates and fees, and without, in effect, having to present documentation required to support omnibus rate changes. In this regard, it should be noted that the language of section 3622 of the Act does not explicitly require that all postal rates and fees be

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adjusted simultaneously.⁹ Nor does the Act require an explicit demonstration of costs and revenues for all categories of mail and services when limited changes are sought.

Further, in evaluating special service proposals in the past, the Commission has not always emphasized a comparison with specific cost coverages of all categories, but has tended to focus on comparisons with historical coverages for the same special services and with system averages. For example, in Docket No. R94-1, when discussing changes to certain special services, the Commission emphasized comparisons of past and present cost coverages only for those particular special services. The Commission stated:

In making these recommendations, the Commission finds that the fees for each of the special services satisfy relevant criteria of section 3622(b). Most importantly, the recommended fees meet the Act's most basic requirement that "each . . . type of mail service bear the direct and indirect postal costs attributable to that . . . type." 39 U.S.C. § 3622(b)(3) Consequently, the Commission is recommending a 1 percent increase in fees for postal insurance. In doing so, the Commission is reducing the proposed cost coverage to 139.8 percent, which moves toward the cost coverage recommended in Docket No. R90-1. . . . The higher costs identified by witness Foster are also evident by the Postal Service's comparatively lower cost coverage vis-a-vis the coverage of 132.8 percent recommended in Docket No. R90-1. These two factors -- the existence of higher costs and a desire to move toward the previous markup -- motivate the Commission to recommend a 13.9 percent increase for boxes and caller service.

PRC Op., R94-1, at V-140, V-157, and V-159.

⁹ Section 3622(a) provides, in pertinent part, "From time to time the Postal Service shall request the Postal Rate Commission to submit a recommended decision on changes in *a rate or rates of postage or in a fee or fees* for postal services. . . ." 39 U.S.C. § 3622(a) (*emphasis added*).

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In other dockets, the Commission generally has not compared specific special service cost coverages to those for the classes, subclasses or other special services. Rather, in the few instances where it has made cost coverage comparisons, the Commission has primarily weighed the cost coverages against the systemwide average. For instance, in Docket No. R90-1, the Commission said, "A lower than systemwide cost coverage and a corresponding decline in money order fees is appropriate because the users of this service tend to be people with lower incomes and those residing in rural areas." *PRC Op., R90-1, at V-403.* Likewise, in Docket No. R87-1, the Commission concluded, "At the Postal Service's proposed rates, certified mail will have a cost coverage of 239 percent which is considerably above the systemwide average." *PRC Op., R87-1, at 773-74.* Here, cost coverage comparisons among the affected special services provide adequate information for the parties and the Commission to assess the merits of the Postal Service's proposals.¹⁰

Finally, it should be noted that on July 1, 1996, sweeping changes in mail classifications will take place as a result of the Commission's and Governors' actions in Docket No. MC95-1. In light of these changes, providing costs under the Commission's methodology based on relationships under the old classification

¹⁰ Cost coverage comparisons among all classes, subclasses and special services for the base year, the test year before rates, and the test year after rates can be readily derived from witness Patelunas's exhibits. Although these cost coverages reflect the Postal Service's CRA cost methodology, they provide an adequate basis for comparison in this case where costs for the affected special services that are derived using the CRA methodology do not differ significantly from those using the Commission's methodology. *See Attachment C.*

structure will provide little useful information to evaluate the fee change proposals for future implementation. While the costs and cost coverages for the special services at issue in this filing are not expected to change significantly as a result of classification reform, for the classes and subclasses, the costs and cost coverages will change and, in some instances, the subclass groupings will change as well. In light of this circumstance, the information requested will be of limited, if any, value.

III. THE POSTAL SERVICE HAS PRESENTED COSTING INFORMATION IN COMPLIANCE WITH RULE 54, AND ADDITIONAL REQUIREMENTS ARE NOT WARRANTED.

Rule 54 requires that the Postal Service present total actual and estimated accrued costs for various years, *see Rule 54(f)(1) and (2)*, but it does not require that the Postal Service present those costs in a particular manner or in accordance with a particular costing methodology.¹¹ The Postal Service's costing submissions in this case comply with Rule 54 and are entirely proper.

The Postal Service's costing presentations in this and other cases reflect certain methodological choices, as the Commission is well aware, that are rooted in longstanding disagreements over law and policy. In at least one instance, these

¹¹ The Postal Service believes that Rule 54, as currently formulated, provides needed flexibility on costing issues. It does not seem prudent for either the Postal Service, the Commission, or other parties to be "locked in" to specific costing methodologies. The development of costing refinements and even correction of errors would be stifled if the Postal Service and the parties to a proceeding were allowed to present costs only in a specific, prescribed manner.

disputes have been the subject of lengthy litigation.¹² In a more general sense, the CRA report, which serves as the foundation for cost presentations in Commission proceedings, has traditionally reflected the Postal Service's views on competing costing approaches, as well as refinements that are developed between cases and that the Postal Service typically believes will be improvements in cost allocation and reporting. Although we understand that, for its purposes, the Commission might disagree with the practice of electing to use the Postal Service's approach in making proposals, the Postal Service views the matter as important from the standpoints of technical and theoretical principle and accuracy, as well as more realistic for its own internal analyses and for uses of the cost reports unrelated to ratemaking. The Postal Service further believes that in a case such as this one, which is limited in scope and objectives, and for which the pertinent methodological differences are of little consequence for the proposed changes, requiring more than specified in the rules would not be warranted.

¹² The dispute over the proper allocation of city carrier costs presents a particularly acute problem in light of the strength of the Governors' conviction, as expressed in several recent decisions acting on Commission recommendations, that the Postal Service's approach is the correct one, and that the Commission's various alternatives are unsound. In this regard, the Postal Service's adherence to its methodology reflects the Governors' clear expectation that the Postal Service will continue to oppose an approach that they have concluded is not appropriate. *See Decision of the Governors of the United States Postal Service on the Recommended Decision of the Postal Rate Commission on Postal Rate and Fee Changes, Docket No. R94-1, at 13 (Dec. 12, 1994); Decision of the Governors of the United States Postal Service on the Recommended Decision on Remand of the Postal Rate Commission on Postal Rate and Fee Changes, Docket No. R90-1, at 9-10 (Feb. 21, 1995); Decision of the Governors of the United States Postal Service on the Further Recommended Decision of the Postal Rate Commission on Postal Rate and Fee Changes, Docket No. R94-1, at 3 (July 31, 1995).*

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IV. THE COMMISSION LIKELY HAS THE ABILITY AND INFORMATION NECESSARY TO PRODUCE THE REQUESTED INFORMATION.

The Postal Service has provided comprehensive information with its filing which would allow the Commission to produce costs incorporating a single subclass stop analysis as well as other Commission costing adjustments.¹³

As the Postal Service has long contended, it should not be required to sponsor costing methodologies with which it disagrees and which, in the context of the present filing, do not make any difference to its proposals. The Commission can prepare the information from the data provided by the Postal Service, and is free to provide a witness or witnesses to sponsor its costing methodologies. *See Mail Order Association of America v. United States Postal Service, 2 F.3d 408 (D.C. Cir. 1993).*¹⁴

V. COMPLIANCE WITH ORDER NO. 1120 WILL BE UNDULY BURDENSOME FOR THE POSTAL SERVICE AND MAY WELL BE UNATTAINABLE.

Compliance with Order No. 1120 would be unduly burdensome and may not

¹³ The Postal Service will provide the Fiscal Year 1995 Summary Description of USPS Development of Costs by Segments and Components shortly. The Postal Service, however, notes that this document is *not* necessary for a comparison of Postal Service costs and those used by the Commission in Docket No. R94-1. *See Order No. 1120, at 2.* The information necessary to make such comparison has been provided with the Postal Service's filing. As only a partial list, *see USPS-T-1 and accompanying exhibits, Workpapers A through F to USPS-T-1, USPS-T-5 and accompanying exhibits, Workpapers A through G to USPS-T-5, and USPS-LR-SSR-4 through 11.* The Summary Description is what its title suggests -- a summary only.

¹⁴ To the extent that the Commission may have some problems extracting necessary information from the data tapes provided by the Postal Service, the Postal Service is willing to provide the Commission with further assistance.

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even be possible. Presumably, the latest Commission-approved costing methodology was reflected in its Further Recommended Decision of June 7, 1995, and accompanying workpapers in Docket No. R94-1.¹⁵ The Postal Service has the Commission cost model workpapers supplied with the Further Recommended Decision, contained in PRC-LR-17. See *Declaration of Richard Patelunas* ¶ 2 (*Attachment D*).

As stated by witness Patelunas, in order to comply with Order No. 1120, approximately ten to fifteen full person-days are needed. *Declaration at* ¶ 11.¹⁶

¹⁵ This is assumed because the cost model used for the Further Recommended Decision in Docket No. R94-1 contains the Commission's favored approach to the treatment of city delivery carrier costs and corrects errors made in the cost model used for the original Recommended Decision in that docket. Technically, the Recommended Decision in Docket No. MC95-1 reflects the "latest" Commission cost model because it came out *after* the Further Recommended Decision in Docket No. R94-1. However, the Docket No. MC95-1 decision reflected the Commission's cost methodology in the original R94-1 Recommended Decision because the Further Recommended Decision had not been issued at the time Docket No. MC95-1 was filed. Also, Docket No. MC95-1 did not contain a single subclass stop analysis. The Postal Service thus assumes that the Commission does not view the Docket No. MC95-1 Recommended Decision as the latest, approved costing methodology. See *PRC Op., MC95-1, at IV-60*.

¹⁶ In Docket No. R94-1, the Postal Service had indicated that it would have taken approximately 26 days to comply with Presiding Officer's Ruling No. R94-1/18, which basically required the Postal Service to change major parts of its filing to reflect the single subclass stop analysis used by the Commission in Docket No. R90-1. See *Docket No. R94-1, Motion of the United States Postal Service for Reconsideration of Presiding Officer's Ruling No. R94-1/18 or, in the Alternative, for Certification, June 6, 1994, at 7*. At that time, the Postal Service had not undertaken the effort it subsequently made for Docket No. MC95-1 to construct the Commission's model in a manner which not only would run the model, but would also produce the detailed documentation that the Postal Service is required to produce for its costing presentations under Rule 54. It is this effort which would allow the Postal Service to now build the Commission's Docket No. R94-1 cost model from its Further
(continued...)

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A detailed description of the steps needed is described by witness Patelunas.

Declaration at ¶¶ 5 through 10. This effort, among other things, would involve updating spreadsheets by hundreds of 1995 inputs as well as running the Commission version of the rollforward model four times -- to produce Test Year 1996 before rates without mix adjustment, Test Year 1996 before rates with mix adjustment, Test Year 1996 after rates without mix adjustment, and Test Year 1996 after rates with mix adjustment. *See Declaration at ¶ 5 and 8.*

The Commission itself has recognized the complexity of making changes to its own cost models. In Docket No. R94-1, the Commission stated:

With respect to the cost variables alone, there are 20 cost segments with hundreds of cost components and subcomponents. Adjustments to any component usually have "burden" and "ripple" effects on other segments and components. Numerous kinds of volume and non-volume effects are applied to each cost component to scale it from base year to test year.

PRC Op., R94-1 (Further Recommended Decision) at 33. These very same

¹⁶ (...continued)

Recommended Decision in a shorter time frame. In Docket No. R94-1, the Commission was critical of the Postal Service's estimate, stating that it took the Commission staff only five person-days "to calculate a complete set of attributable costs using R94-1 data and essentially the same computer programs and spreadsheets that the Postal Service uses." *PRC Op., R94-1 (Further Recommended Decision), at 26, n. 18.* The Postal Service points out that it is not surprising that Commission staff can perform tasks relating to its own model with less effort than the Postal Service. In addition, using "essentially" the same computer programs is not the same as using the identical computer programs. Any differences, however small, complicate replication efforts. The Postal Service also points out that the Commission staff effort initially reflected in PRC-LR-2 and 3, which apparently formed the basis for the Commission cost model reflected in its initial Recommended Decision in Docket No. R94-1, contained errors that the Commission later corrected. *See PRC Op., R94-1 (Further Recommended Decision), at 35-40.*

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complications apply to an even greater extent to any Postal Service attempts to run the Commission's cost model.

The Postal Service also points out that its costing presentations must and do comply with Rule 54. This normally results in production of thousands of pages of workpapers and thousands more pages of supporting library references. The Commission's cost model used in the Docket No. R94-1 Further Recommended Decision is not supported by backup materials to nearly as great a degree.

The lack of detailed documentation for the Commission's model means that the Postal Service presumably would be obliged to make a variety of assumptions at various points in its replication attempts. There is no guarantee that any such assumptions made would be accurate. In fact, witness Patelunas finds it "likely" that he "will not be able to exactly replicate the Commission's model." *Declaration at ¶ 13*. An example of this occurred in Docket No. MC95-1. There, witness Patelunas stated that he made several changes to the Commission workpapers, one of which was:

3) W/S 7.0.5 at lines 5 and 13, the Commission cites R94-1 PRC Op. & Rec. Dec., at para 3160 as the source for the .7133 factor. Paragraph 3160 shows a variability of .7331 and I use .7331 in W/S 7.0.5 at lines 5 and 13.

Docket No. MC95-1, Direct Testimony of Richard L. Patelunas on Behalf of United States Postal Service, USPS-T-14, at 4. It turned out that the figure actually used by the Commission was the .7133 factor. *See PRC Op., R94-1 (Further Recommended Decision), at 38*.

VI. CONCLUSION.

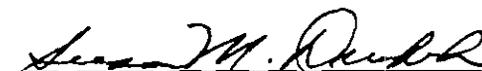
For all of the foregoing reasons and in light of the materials provided in Attachments A through D, the Postal Service respectfully requests that Order No. 1120 be reconsidered.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
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Susan M. Duchek

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.


Susan M. Duchek

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June 28, 1996

| CRA Line Number & Title | FY 1993 CRA | | FY 93 CRA | | FY 93 CRA | | Contribution per Piece | Rev./Pc | Contribution per Piece | Coverage |
|-------------------------|-------------|-------------------|------------|--------------|-----------|--------------|------------------------|---------|------------------------|----------|
| | Volume | Attributable Cost | Revenue | Contribution | Cost/Pc. | Contribution | | | | |
| First-Class Mail: | | | | | | | | | | |
| Letters | 87,854,454 | 15,909,392 | 27,878,997 | 11,969,605 | 18.11 | 31.73 | 13.62 | 175.24% | 175.24% | 144.24% |
| Cards | 4,314,996 | 557,368 | 803,957 | 246,589 | 12.92 | 18.63 | 5.71 | 197.16% | 197.16% | 130.16% |
| PRIORITY | 664,373 | 1,166,420 | 2,299,663 | 1,133,243 | 175.57 | 346.14 | 170.57 | 197.16% | 197.16% | 76.12% |
| EXPRESS | 52,380 | 481,753 | 627,073 | 145,320 | 919.73 | 1197.16 | 277.43 | 130.16% | 130.16% | |
| MAILGRAM | 7,179 | 9,271 | 7,057 | -2,214 | 129.14 | 98.30 | -30.84 | 76.12% | 76.12% | |
| Second-Class Mail: | | | | | | | | | | |
| WITHIN COUNTY | 1,057,671 | 104,084 | 85,030 | -19,054 | 9.84 | 8.04 | -1.80 | 81.69% | 81.69% | 90.99% |
| 2ND NONPROFIT | 2,296,252 | 295,354 | 268,733 | -26,621 | 12.86 | 11.70 | -1.16 | 90.99% | 90.99% | 113.20% |
| CLASSROOM | 94,021 | 11,230 | 12,712 | 1,482 | 11.94 | 13.52 | 1.58 | 113.20% | 113.20% | |
| 2ND REGULAR | 6,858,147 | 1,203,138 | 1,359,075 | 155,937 | 17.54 | 19.82 | 2.27 | 112.96% | 112.96% | |
| Third-Class Mail: | | | | | | | | | | |
| 3RD SINGLE PC. | 186,038 | 261,268 | 197,817 | -63,451 | 140.44 | 106.33 | -34.11 | 75.71% | 75.71% | 152.54% |
| TOTAL REGULAR | 53,629,457 | 5,472,385 | 8,347,802 | 2,875,417 | 10.20 | 15.57 | 5.36 | 152.54% | 152.54% | 110.54% |
| TOT NONPROFIT | 11,957,684 | 1,089,939 | 1,204,844 | 114,905 | 9.11 | 10.08 | 0.96 | 110.54% | 110.54% | |
| Fourth-Class Mail: | | | | | | | | | | |
| TOT ZONE RATE | 186,844 | 654,246 | 575,647 | -78,599 | 350.16 | 308.09 | -42.07 | 87.99% | 87.99% | |
| BND PRNT MATTER | 353,560 | 239,064 | 306,188 | 67,124 | 67.62 | 86.60 | 18.99 | 128.08% | 128.08% | |
| SPECIAL 4TH | 164,763 | 269,196 | 257,407 | -11,789 | 163.38 | 156.23 | -7.16 | 95.62% | 95.62% | |
| LIBRARY RATE | 38,680 | 66,985 | 42,813 | -24,172 | 173.18 | 110.69 | -62.49 | 63.91% | 63.91% | |
| USPS PENALTY | 543,674 | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| FREE BLIND | 52,799 | 25,175 | NA | NA | NA | NA | NA | NA | NA | NA |
| TOT INTERNATL | 907,022 | 1,133,600 | 1,406,515 | 272,915 | 124.98 | 155.07 | 30.09 | 124.08% | 124.08% | |
| Fees | | | | | | | | | | |
| TOT ALL MAIL | 171,219,994 | 28,949,868 | 45,908,727 | 16,984,034 | 16.91 | 26.81 | 9.90 | 158.58% | 158.58% | |
| REGISTRY | 23,852 | 83,314 | 130,358 | 47,044 | 349.30 | 546.53 | 197.23 | 156.47% | 156.47% | |
| INSURANCE | 30,773 | 33,935 | 52,020 | 18,085 | 110.28 | 169.04 | 58.77 | 153.29% | 153.29% | |
| CERTIFIED | 237,079 | 245,720 | 425,503 | 179,783 | 103.64 | 179.48 | 75.83 | 173.17% | 173.17% | |
| COD | 6,802 | 24,695 | 20,268 | -4,427 | 363.05 | 297.97 | -65.08 | 82.07% | 82.07% | |
| MONEY ORDERS | 186,404 | 175,930 | 187,949 | 12,019 | 94.38 | 100.83 | 6.45 | 106.83% | 106.83% | |
| SPEC DELIVERY | 331 | 2,204 | 2,409 | 205 | 665.86 | 727.79 | 61.93 | 109.30% | 109.30% | |
| STMPD ENVEL | 586,845 | 12,589 | 18,154 | 5,565 | 2.15 | 3.09 | 0.95 | 144.21% | 144.21% | |
| SPEC HNDLG | 421 | 2,274 | 18,154 | 5,565 | 2.15 | 3.09 | 0.95 | 144.21% | 144.21% | |
| P.O. BOX | 15,630 | 447,681 | 480,969 | 33,288 | 2,864.24 | 3077.22 | 212.98 | 107.44% | 107.44% | |
| OTHER | 0 | 204,424 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TOT SPECIAL SVS | 1,088,137 | 1,232,766 | 1,317,630 | 1,317,630 | | | | | | |
| Total Mail and Services | 172,308,131 | 30,182,634 | 47,226,357 | 17,043,723 | 17.52 | 27.41 | 9.89 | 156.47% | 156.47% | |

| CRA Line Number & Title | FY 1993 CRA Volume | PRC BY 93 Attributable Cost | Revenue | Contribution | Cost/Pc. | Rev./Pc. | Contribution per Piece | Coverage |
|-------------------------|--------------------|-----------------------------|------------|--------------|----------|----------|------------------------|----------|
| First-Class Mail: | | | | | | | | |
| Letters | 87,854,454 | 16,360,320 | 27,878,997 | 11,518,677 | 18.62 | 31.73 | 13.11 | 170.41% |
| Cards | 4,314,996 | 578,504 | 803,957 | 225,453 | 13.41 | 18.63 | 5.22 | 138.97% |
| PRIORITY | 664,373 | 1,169,122 | 2,299,663 | 1,130,541 | 175.97 | 346.14 | 170.17 | 196.70% |
| EXPRESS | 52,380 | 537,548 | 627,073 | 89,525 | 1026.25 | 1197.16 | 170.91 | 116.65% |
| MAILGRAM | 7,179 | 9,318 | 7,057 | -2,261 | 129.80 | 98.30 | -31.49 | 75.74% |
| Second-Class Mail: | | | | | | | | |
| WITHIN COUNTY | 1,057,671 | 79,637 | 85,030 | 5,393 | 7.53 | 8.04 | 0.51 | 106.77% |
| 2ND NONPROFIT | 2,296,252 | 308,468 | 268,733 | -39,735 | 13.43 | 11.70 | -1.73 | 87.12% |
| CLASSROOM | 94,021 | 11,338 | 12,712 | 1,374 | 12.06 | 13.52 | 1.46 | 112.12% |
| 2ND REGULAR | 6,858,147 | 1,232,463 | 1,359,075 | 126,612 | 17.97 | 19.82 | 1.85 | 110.27% |
| Third-Class Mail | | | | | | | | |
| 3RD SINGLE PC. | 186,038 | 263,026 | 197,817 | -65,209 | 141.38 | 106.33 | -35.05 | 75.21% |
| TOTAL REGULAR | 53,629,457 | 5,826,491 | 8,347,802 | 2,521,311 | 10.86 | 15.57 | 4.70 | 143.27% |
| TOT NONPROFIT | 11,957,684 | 1,133,172 | 1,204,844 | 71,672 | 9.48 | 10.08 | 0.60 | 106.32% |
| Fourth-Class Mail: | | | | | | | | |
| TOT ZONE RATE | 186,844 | 573,748 | 575,647 | 1,899 | 307.07 | 308.09 | 1.02 | 100.33% |
| BND PRNT MATTER | 353,560 | 235,753 | 306,188 | 70,435 | 66.68 | 86.60 | 19.92 | 129.88% |
| SPECIAL 4TH | 164,763 | 267,785 | 257,407 | -10,378 | 162.53 | 156.23 | -6.30 | 96.12% |
| LIBRARY RATE | 38,680 | 65,932 | 42,813 | -23,119 | 170.45 | 110.69 | -59.77 | 64.94% |
| USPS PENALTY | 543,674 | NA | NA | NA | NA | NA | NA | NA |
| FREE BLIND | 52,799 | 25,237 | NA | NA | NA | NA | NA | NA |
| TOT INTERNATL | 907,022 | 1,145,172 | 1,406,515 | 261,343 | 126.26 | 155.07 | 28.81 | 122.82% |
| Fees | | | | | | | | |
| TOT ALL MAIL | 171,219,994 | 29,823,032 | 45,908,727 | 16,110,932 | 17.42 | 26.81 | 9.39 | 153.94% |
| REGISTRY | 23,852 | 83,656 | 130,358 | 46,702 | 350.73 | 546.53 | 195.80 | 155.83% |
| INSURANCE | 30,773 | 34,221 | 52,020 | 17,799 | 111.20 | 169.04 | 57.84 | 152.01% |
| CERTIFIED | 237,079 | 251,510 | 425,503 | 173,993 | 106.09 | 179.48 | 73.39 | 169.18% |
| COD | 6,802 | 24,904 | 20,268 | -4,636 | 366.13 | 297.97 | -68.16 | 81.38% |
| MONEY ORDERS | 186,404 | 175,774 | 187,949 | 12,175 | 94.30 | 100.83 | 6.53 | 106.93% |
| SPEC DELIVERY | 331 | 3,007 | 2,409 | -598 | 908.46 | 727.79 | -180.66 | 80.11% |
| STMPD ENVEL | 586,845 | 12,586 | 18,154 | 5,568 | 2.14 | 3.09 | 0.95 | 144.24% |
| SPEC HNDLG | 421 | 2,273 | 480,969 | 37,285 | 2,838.67 | 3077.22 | 238.55 | 108.40% |
| P.O BOX | 15,630 | 443,684 | 480,969 | 37,285 | 2,838.67 | 3077.22 | 238.55 | 108.40% |
| OTHER | 0 | 204,191 | 0 | 0 | 0 | 0 | 0 | 0 |
| TOT SPECIAL SVS | 1,088,137 | 1,235,806 | 1,317,630 | 16,167,519 | 18.03 | 27.41 | 9.38 | 152.05% |
| Total Mail and Services | 172,308,131 | 31,058,838 | 47,226,357 | 16,167,519 | 18.03 | 27.41 | 9.38 | 152.05% |

004653

ATTACHMENT C
 FY93 CRA minus BY93 PRC
 APPENDIX G-type Analysis

| CRA Line Number & Title | USPS - PRC | Volume | USPS - PRC | Cost | USPS - PRC | Revenue | USPS - PRC | Contribution | USPS - PRC | Cost/Pc. | USPS - PRC | Rev./Pc | Contribution | USPS - PRC | Coverage |
|-------------------------------------|------------|----------|------------|----------|------------|---------|------------|--------------|------------|----------|------------|---------|--------------|------------|----------|
| First-Class Mail: Letters | 0 | 450,928 | 0 | -450,928 | 0 | 0 | 0 | 450,928 | 0 | -0.51 | 0.00 | 0.00 | 0.51 | 0.00 | 4.83% |
| Cards | 0 | 21,136 | 0 | -21,136 | 0 | 0 | 0 | 21,136 | 0 | -0.49 | 0.00 | 0.00 | 0.49 | 0.00 | 5.27% |
| PRIORITY | 0 | -2,702 | 0 | 2,702 | 0 | 0 | 2,702 | -2,702 | 0 | -0.41 | 0.00 | 0.00 | 0.41 | 0.00 | 0.46% |
| EXPRESS | 0 | -55,795 | 0 | 55,795 | 0 | 0 | 55,795 | -106,522 | 0 | -0.65 | 0.00 | 0.00 | 106,522 | 0.00 | 13.51% |
| MAILGRAM | 0 | -47 | 0 | 47 | 0 | 0 | 47 | -0.65 | 0 | -0.65 | 0.00 | 0.00 | 0.65 | 0.00 | 0.38% |
| Second-Class Mail: WITHIN COUNTY | 0 | 24,447 | 0 | -24,447 | 0 | 0 | 24,447 | -24,447 | 0 | 2.31 | 0.00 | 0.00 | -2.31 | 0.00 | -25.08% |
| CLASSROOM | 0 | -108 | 0 | 108 | 0 | 0 | 108 | -0.11 | 0 | -0.11 | 0.00 | 0.00 | 0.11 | 0.00 | 1.07% |
| 2ND REGULAR | 0 | -29,325 | 0 | 29,325 | 0 | 0 | 29,325 | -0.43 | 0 | -0.43 | 0.00 | 0.00 | 0.43 | 0.00 | 2.69% |
| Third-Class Mail: 3RD SINGLE PC. | 0 | -1,758 | 0 | 1,758 | 0 | 0 | 1,758 | -0.94 | 0 | -0.94 | 0.00 | 0.00 | 0.94 | 0.00 | 0.51% |
| TOTAL REGULAR | 0 | -354,106 | 0 | 354,106 | 0 | 0 | 354,106 | -0.66 | 0 | -0.66 | 0.00 | 0.00 | 0.66 | 0.00 | 9.27% |
| TOT NONPROFIT | 0 | -43,233 | 0 | 43,233 | 0 | 0 | 43,233 | -0.36 | 0 | -0.36 | 0.00 | 0.00 | 0.36 | 0.00 | 4.22% |
| Fourth-Class Mail: TOT ZONE RATE | 0 | 80,498 | 0 | -80,498 | 0 | 0 | 80,498 | 43.08 | 0 | 43.08 | 0.00 | 0.00 | -43.08 | 0.00 | -12.34% |
| BND PRNT MATTER | 0 | 3,311 | 0 | -3,311 | 0 | 0 | 3,311 | 0.94 | 0 | 0.94 | 0.00 | 0.00 | -0.94 | 0.00 | -1.80% |
| SPECIAL 4TH | 0 | 1,411 | 0 | -1,411 | 0 | 0 | 1,411 | 0.86 | 0 | 0.86 | 0.00 | 0.00 | -0.86 | 0.00 | -0.50% |
| LIBRARY RATE | 0 | 1,053 | 0 | -1,053 | 0 | 0 | 1,053 | 2.72 | 0 | 2.72 | 0.00 | 0.00 | -2.72 | 0.00 | -1.02% |
| USPS PENALTY | 0 | NA | 0 | NA | 0 | 0 | NA | NA | 0 | NA | 0.00 | 0.00 | NA | 0.00 | NA |
| FREE BLIND | 0 | -62 | 0 | 62 | 0 | 0 | 62 | NA | 0 | NA | 0.00 | 0.00 | NA | 0.00 | NA |
| TOT INTERNATL | 0 | -11,572 | 0 | 11,572 | 0 | 0 | 11,572 | -1.28 | 0 | -1.28 | 0.00 | 0.00 | 1.28 | 0.00 | 1.25% |
| Fees | | | | | | | | | | | | | | | |
| TOT ALL MAIL | 0 | -873,164 | 0 | 873,164 | 0 | 0 | 873,164 | -0.51 | 0 | -0.51 | 0.00 | 0.00 | 0.51 | 0.00 | 4.64% |
| REGISTRY | 0 | -342 | 0 | 342 | 0 | 0 | 342 | -1.43 | 0 | -1.43 | 0.00 | 0.00 | 1.43 | 0.00 | 0.64% |
| INSURANCE | 0 | -286 | 0 | 286 | 0 | 0 | 286 | -0.93 | 0 | -0.93 | 0.00 | 0.00 | 0.93 | 0.00 | 1.28% |
| CERTIFIED | 0 | -5,790 | 0 | 5,790 | 0 | 0 | 5,790 | -2.44 | 0 | -2.44 | 0.00 | 0.00 | 2.44 | 0.00 | 3.99% |
| COD | 0 | -209 | 0 | 209 | 0 | 0 | 209 | -3.07 | 0 | -3.07 | 0.00 | 0.00 | 3.07 | 0.00 | 0.69% |
| MONEY ORDERS | 0 | -156 | 0 | 156 | 0 | 0 | 156 | 0.08 | 0 | 0.08 | 0.00 | 0.00 | -0.08 | 0.00 | -0.09% |
| SPEC DELIVERY | 0 | -803 | 0 | 803 | 0 | 0 | 803 | -242.60 | 0 | -242.60 | 0.00 | 0.00 | 242.60 | 0.00 | 29.19% |
| STMPD ENVEL. | 0 | 3 | 0 | -3 | 0 | 0 | -3 | 0.00 | 0 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | -0.03% |
| SPEC HNDLG | 0 | 1 | 0 | -1 | 0 | 0 | 1 | 0.00 | 0 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00% |
| P.O. BOX | 0 | 3,997 | 0 | -3,997 | 0 | 0 | -3,997 | 25.57 | 0 | 25.57 | 0.00 | 0.00 | -25.57 | 0.00 | -0.97% |
| OTHER | 0 | 233 | 0 | -233 | 0 | 0 | 233 | 0.00 | 0 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00% |
| TOT SPECIAL SVS | 0 | -3,040 | 0 | 3,040 | 0 | 0 | 3,040 | 0 | 0 | 0 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00% |
| Total Mail and Services | 0 | -876,204 | 0 | 876,204 | 0 | 0 | 876,204 | -0.51 | 0 | -0.51 | 0.00 | 0.00 | 0.51 | 0.00 | 4.41% |

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

SPECIAL SERVICES REFORM, 1996

Docket No. MC96--3

DECLARATION OF UNITED STATES POSTAL SERVICE WITNESS
RICHARD PATELUNAS

I, Richard Patelunas, declare under penalty of perjury that the following statements are true and correct, to the best of my knowledge, information and belief:

1. I am submitting the following information regarding the burden of complying with Commission Order No. 1120. That Order requires that versions of my Exhibits USPS-T-5A through J be provided to reflect the Commission's Docket No. R94-1 cost methodology, and that a new version of witness Lyons's Exhibit C be provided.

2. I currently have in my possession PRC-LR-17 from Docket No. R94-1, which I understand to be the Commission's cost model workpapers for its Further Recommended Decision in Docket No. R94-1. These cost model workpapers are in hard copy and machine-readable form.

3. I work from the hard copy format because the machine-readable diskettes are in C language. I neither have C language software nor do I understand C programming language.

4. In order to create new versions of Exhibits USPS-T-5A through J, reflecting the Commission's cost model from its Further Recommended Decision in Docket No. R94-1, I would need to perform a number of tasks.

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5. First, I would create Base Year 1995 spreadsheets. I would do this by taking the Lotus spreadsheet files I used to replicate the Commission's initial R94-1 spreadsheets and updating them for all 1995 inputs for all cost segments and components. These 1995 inputs include all Revenue and Expense Report amounts, all LIOCATT amounts, all RPW volumes and revenues, all results from the rural carrier cost system, all TRACS outputs, and all results of the city carrier cost system, etc. In instances where the Commission's costing methodology differs from the CRA, I would also need to do additional work to update these spreadsheets. For example, with TRACS, I would have to isolate the Alaska costs and distribution key to develop the separate Alaska component. As another example, to reflect the Commission treatment of single subclass stops, I would have to execute the SAS program contained in PRC-LR-3 from Docket No. R94-1. The updating of these spreadsheets is necessary to calculate the manual inputs to the CRA/rollforward model. I estimate that this task would take approximately three to five person-days.

6. The next step would be to take the manual inputs referred to in paragraph 5 as well as extra-spreadsheet manual inputs, such as the 50 plus space distribution keys, and use them to update the Commission Base Year 1993 replication file (Docket No. MC95-1, USPS-T-14, W/P I) to 1995. Before doing this, however, I would need to validate that my W/P I replicates the Base Year portion of the Commission cost model from its Docket No. R94-1 Further Recommended Decision. After W/P I is updated, I would have created the Commission version of Base Year 1995. I estimate that this task would take approximately two person-days.

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7. Then, I would need to combine portions of two sets of files to replicate the rollforward portion of the Commission's cost model used in its Further Recommended Decision in Docket No. R94-1. The first set of files consists of my replication of the Commission's initial R94-1 cost model (Docket No. MC95-1, USPS-T-14, W/Ps II and III). The second set of files consists of my modifications to the Commission's initial R94-1 cost model (Docket No. MC95-1, USPS-T-14, W/Ps VIII and IX). The files resulting from combining portions of these two sets of files would create the rollforward model needed to produce Commission Test Year 1996 from the Commission Base Year 1995 referenced in paragraph 6. I estimate that this task would take approximately one to two person-days.

8. Next, I would update the factor files for the effects of cost level, mail volume, non-volume workload, additional workday, and cost reduction and other programs. I would then run this Commission version of the rollforward model for Test Year 1996 before rates without mix adjustment, Test Year 1996 before rates with mix adjustment, Test Year 1996 after rates without mix adjustment, and Test Year 1996 after rates with mix adjustment. I estimate that this task would take approximately one to two person-days.

9. I am unwilling to present or rely upon any cost model immediately after it has run. I believe that to do so needlessly increases the chances of error. Therefore, once I had run the Commission's cost model, I would take approximately one to two person-days to review the results. This estimate includes only my time. Normally, I involve other persons in the review process.

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10. After I was satisfied that the cost model had been run accurately, the results would be used, a SAS program would be run, and further analysis would be performed to develop piggyback factors. It is my understanding that these piggyback factors would be needed to recalculate the cost figure for return receipts shown in Exhibit USPS-T-1C. I estimate that this task would take approximately two person-days.

11. My estimate of the total time needed for complying with Order No. 1120 is ten to fifteen full person-days. I have given a range because I cannot now determine what problems may be encountered in performing the above tasks. There may be portions of the Commission cost model workpapers that I do not understand. There may be portions of the cost model workpapers that require me to make certain assumptions and possibly even change what the Commission may have intended. The Postal Service's mainframe computer is a timesharing operation in which processing priorities may delay processing of the work required to perform the tasks I have outlined above. To the extent that these problems are not encountered, then the total time needed to comply would be at the lower end of the range. To the extent that these problems are encountered, then the total time needed to comply would be at or even exceed the higher end of the range. Also, to the extent that the review process described in paragraph 9 detects any errors that would require rerunning the model, then the time needed to comply could extend beyond the higher end of my estimated range.

12. I am involved in other required duties for the Postal Service. It would not be possible for me to devote my full time and attention to Order No. 1120. Therefore, the actual time needed to comply may be longer than ten to fifteen days.

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13. The amount of time that I have estimated is needed to comply with Order No. 1120 assumes that I actually will be able to replicate the Commission's model. I do not have the kind of detailed workpapers for the Commission's model that I normally develop for my costing presentations in order to comply with the Commission's filing requirements. I believe it is likely that I will not be able to exactly replicate the Commission's model.



Richard Patelunas

June 28, 1996