

ORIGINAL

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

SPECIAL SERVICES REFORM, 1996

Docket No. MC96-3

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS TO INTERROGATORY OF
THE OFFICE OF THE CONSUMER ADVOCATE
REDIRECTED FROM THE POSTAL SERVICE
(OCA/USPS-13)

The United States Postal Service hereby provides the response of witness Patelunas to the following interrogatory of the Office of the Consumer Advocate: OCA/USPS-13, filed on August 1, 1996, and redirected from the Postal Service. The response originally was due on August 15, 1996, but an extension of time for responding was granted. *Presiding Officer's Ruling Granting Motions for Extensions of Time to Respond, August 19, 1996.*


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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



Susan M. Duchek

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2990; Fax -5402
August 22, 1996



Answer of Richard Patelunas to the Interrogatories of
Office of the Consumer Advocate
to United States Postal Service

OCA/USPS-13.

Please refer to witness Patelunas' response to OCA/USPS-T5-4. Witness Patelunas states that there have been no processing or delivery changes what would account for the large decline in unit attributable costs.

- a) What else could have caused the decrease in unit attributable costs?
- b) Please explain why a large increase in the volume of certified mail would only cause a small decrease in attributable costs.
- c) Please provide a table, with dollar amounts, detailing the cost components or activity codes that show the decline in unit attributable costs.
- d) With regard to the unit cost items that have exhibited a significant change, please provide an explanation for the change.

OCA/USPS-13 Response:

a. Nearly forty percent of the 17.6% decline in Certified unit cost discussed in OCA/USPS-T5-4 results from a Revenue, Pieces and Weight report (RPW) reporting change. The Cost and Revenue Analysis report (CRA) showed a FY 1994 certified unit cost of 118.2 cents and the FY 1995 CRA showed a certified unit cost of 97.4 cents. Thus, the total unit cost change was 20.8 cents or 17.6%.

The RPW reporting change was for transaction revenues, and hence volumes, associated with return receipts for merchandise. Beginning in

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OCA/USPS-13 Response continued:

FY 1995, the volumes for return receipts for merchandise were included in with Certified Mail. For FY 1995, return receipts for merchandise volume was 22,395,409 and total Certified volume including these return receipts was 288,826,806. Had the return receipts for merchandise not been included, which would be comparable to FY 1994, the Certified volume would have been 266,431,397. Using Certified volume without the merchandise return receipt volume as the denominator yields a unit cost of 105.6 cents. The difference between the FY 1995 Certified unit cost in the CRA of 97.4 cents and the 105.6 cents is 8.2 cents. Thus, of the 20.8 cents per piece change between the FY 1994 CRA and the FY 1995 CRA, 8.2 cents per piece, or 39.4%, is the result of the RPW reporting change.

b. The large increase in the volume of certified mail did not cause a small decrease in attributable costs. Attributable costs in FY 1994 were \$277.4 million and in FY 1995 they were \$281.4 million.

c. See Attachment I that accompanies this response for a complete detail of all cost component changes for Certified Mail between FY 1994 and FY 1995.

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OCA/USPS-13 Response continued:

d. If significant change is defined as a change greater than 10%,

Attachment I shows changes for the following components:

(3.1) Mail Processing Direct Labor	-10.6% of total
(3.2) Window Service	-12.3% of total
(7.3) Elemental Load	-21.0% of total
(10.1) Evaluated Routes	-11.6% of total
(18.3.2) Civil Service Retirement	-17.2% of total
(20.5) Interest Expense	+14.5% of total

The Civil Service Retirement and the Interest Expense, and to a lesser extent the changes in Segment 16 (see Attachment I), are the result of account and component changes instituted for the FY 1995 CRA. I discussed these changes and provided an overall attribution change in my response to UPS/USPS-T5-3. As for the other changes involving mail processing, window service and delivery operations, there is no simple, obvious explanation. Inquiries to operations personnel resulted in no additional information to help understand the change in Certified unit cost. I also checked with data systems personnel who conducted detailed examinations of the costing systems and nothing was discovered to account for the change in Certified unit cost.

SUMMARY	FY 1994 1/	FY 1995 2/	FY 1995 3/	FY 1994 4/	FY 1995 5/	FY 1995 6/	% change 7/	% Total
	Unit Cost	Unit Cost	Unit Cost	Unit Cost	Unit Cost	Unit Cost	Unit Cost	Unit Cost
SPECIFIC	279	0	0	0	0	0	0.0%	0.0%
SUBTOTAL	824	8,872	8,872	87,565	1,957	0.307	-18.8%	-3.9%
FIXED	(3)	(3)	(3)	(3)	(5)	(6)	(7)	(8)
4 CLERKS, CAG-K								
POST OFFICES	C/S 03	478	85,608	87,565	1,957	0.3032	-0.0532 *	-14.9%
TOTAL								
6 CITY DELIVERY								
CARRIERS, OFFIC	HRU 6 2)							
ACTIVITY	(4 1)	254	81	28	-53 *	0.0003	-0.0002 *	-71.3%
TOTAL								
IN-OFFICE								
DIRECT LABOR	(6 1)	43	21,573	20,839	-734 *	0.0898	0.0722	-19.7%
TRAINING, VEH	(6 2)	604	1,457	1,476	19	0.0061	-0.0010 *	-15.8%
PREP & KEY HNDL	(6 2)	45	2	2	0	0.0000	0.0000	-16.8%
CAG K	(6 2)	44	3,518	3,617	99	0.0146	-0.0021 *	-14.5%
SUPPORT	(6 2)	837	26,550	25,934	-616 *	0.1105	0.0898	18.8%
SUBTOTAL	(6 2)	837	26,550	25,934	-616 *	0.0898	0.0207 *	18.8%
TOTAL								
7 CITY DELIVERY								
CARRIERS, STREE	HRU 7 5)							
ACTIVITY	(7 1 1)	390	0	0	0	0.0000	0.0000	0.0%
ROUTE	(7 1)	48	0	0	0	0.0000	0.0000	0.0%
ACCESS	(7 2)	46	43,279	41,058	-2,221 *	0.1802	0.1422	-21.0%
LOAD	(7 3)	47	612	698	86	0.0025	-0.0001 *	-5.2%
OTHER	(7 4)	280	8,575	8,437	-138 *	0.0292	-0.0005 *	-18.2%
SUPPORT	(7 5)	838	52,466	50,193	-2,273 *	0.2184	0.1738	-20.4%
VEHICLE SERVICE DRIVERS	(8 1)							
TOTAL								
9 SPECIAL DELIVE								
RY MESSENGERS	HRU 9 4)							
OFFICE	(9 1)	474	26	114	88	0.0001	0.0004	264.6%
STREET	(9 2)	59	114	119	5	0.0005	-0.0004 *	-13.2%
EQUIP MAINT	(9 3)	62	0	0	0	0.0000	0.0000	0.0%
ALLOWANCE	(9 3)	62	0	0	0	0.0000	0.0000	0.0%
SPECIAL	(9 4)	63	0	0	0	0.0000	0.0000	0.0%
TOTAL								
10 RURAL CARRIE								
S	RU 10 3)							
EVALUATED	(10 1)	69	41,817	44,228	2,411	0.1741	-0.0210 *	-12.0%
ROUTES	(10 2)	70	4,264	4,778	514	0.0178	-0.0012 *	-6.8%
OTHER	(10 3)	73	0	0	0	0.0000	0.0000	0.0%
EQUIP MAINT								
ALLOWANCE	(10 3)	260	46,061	49,006	2,925	0.1918	-0.0222 *	-11.6%
TOTAL								
11 CUSTODIAL AN								
ICES	RU 11 3)							
CUSTOMIAL	(11 1 1)	359	3,893	3,995	102	0.0162	-0.0024 *	-14.7%
PERSONNEL	(11 1 1)	344	253	256	3	0.0011	-0.0002 *	-15.9%
CLEANERS	(11 2)	75	271	296	25	0.0011	-0.0001 *	-9.2%
OPER EQUIP	(11 2)	79	1,885	1,918	33	0.0078	-0.0012 *	-15.4%
PLANT & BUILDING	(11 3)	482	6,302	6,465	163	0.0262	-0.0039 *	-14.7%
TOTAL								
12 MOTOR VEHICL								
SERVICE	U 12 3)							
PERSONNEL	(12 1)	90	301	325	24	0.0013	-0.0001 *	-10.2%
MATERIALS	(12 2)	108	279	316	37	0.0012	-0.0011 *	-5.8%
VEHICLE	(12 3)	108	100	101	1	0.0004	-0.0001 *	-16.0%
HIRE								
TOTAL								
13 MISCELLANEO								
OPERATING COSTS	RU 13 3)							
CONTRACT	(13 1)	111	0	0	0	0.0000	0.0000	0.0%
STATIONS	(13 1)	141	40	56	8	0.0002	-0.0001 *	-24.9%
DRIVEOUT	(13 2)	113	0	0	0	0.0000	0.0000	0.0%
TOLLS &	(13 2)	825	102	104	2	0.0004	-0.0001 *	-15.2%
SUBTOTAL	(13 2)	125	0	0	0	0.0000	0.0000	0.0%
FED RESERVE &	(13 3)							
COMMERCIAL BKS								

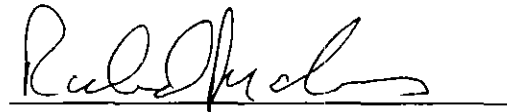
SUMMARY									
	FY 1994	FY 1995	Difference	FY 1994	FY 1995	Difference	FY 1995	FY 1994	% Total
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
	Unit Cost	Unit Cost	Unit Cost	Unit Cost	Unit Cost	Unit Cost	% change	Unit Cost	% Total
FERS	19	0	0	0	0	0	0.0%	0	0.0%
WORKERS	486	3,298	-85 *	0.0137	0.0111	-0.0026 *	-19.0%	0	-1.4%
UNEMPLOYMENT	453	611	549	0.0025	0.0019	-0.0006 *	-25.3%	0	-0.4%
COMPENSATION	208	3,278	-150 *	0.0136	0.0108	-0.0028 *	-20.6%	0	-1.6%
RETIREE HEALTH	71	3,877	37	0.0161	0.0001	-0.0160 *	-99.2%	0	-8.9%
BENEFITS	1435	0	2,867	0.0000	0.0099	0.0099	0.0%	0	5.5%
ANNUITY	207	0	0	0.0000	0.0000	0.0000	0.0%	0	0.0%
PROTECT PROGRA	835	7,155	6,032	0.0298	0.0209	-0.0089 *	-29.9%	0	-4.9%
ANNUITY	207	0	0	0.0000	0.0000	0.0000	0.0%	0	0.0%
SUBTOTAL	459	24,323	16,477	0.1013	0.0570	-0.0442 *	-43.7%	0	-24.5%
TOTAL	448	382	-89 *	0.0020	0.0013	-0.0006 *	-32.6%	0	-0.4%
EQUIPMENT	447	84	91	0.0003	0.0003	0.0000	0.0%	0	0.0%
DEPRECIATION	420	3,504	4,183	0.0146	0.0145	-0.0001 *	-0.7%	0	-0.1%
BLDG & LEASEHLD	397	0	0	0.0000	0.0000	0.0000	0.0%	0	0.0%
DEPRECIATION	283	2,407	8,045	0.0100	0.0362	0.0262	261.1%	0	14.5%
EXPENSE	475	6,466	15,108	0.0269	0.0523	0.0254	94.3%	0	14.1%
OTHER EXPENSES & CREDITS	485	277,437	281,429	3,992	1,1550	0.9744	-15.6%	0	-100.0%
TOTAL	240,197	288,827	48,630	2.00	2.00	0.00	0.0%	2.00	0.0%

Sources

1/ FY 1994 Segments and Components 4/ Col(1)/Volume @ Note 9
 2/ FY 1995 Segments and Components 5/ Col(2)/Volume @ Note 9
 3/ Col(2) - col(1) 6/ Col(5) - Col(4)
 7/ Col(6) / Col(4) 7/ Col(6) component changes/
 8/ total % change 9/ Worksheet B-1, W/S 1 1 2

DECLARATION

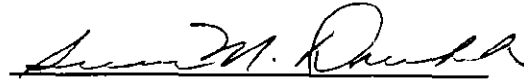
I, Richard Patelunas, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.



Dated: 8-22-74

CERTIFICATE OF SERVICE⁴

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.

A handwritten signature in cursive script, appearing to read "Susan M. Duchek", is written over a horizontal line.

Susan M. Duchek

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
August 22, 1996