

UNITED STATES OF AMERICA
Before The
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

RECEIVED
Jul 21 3 43 PM '00
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

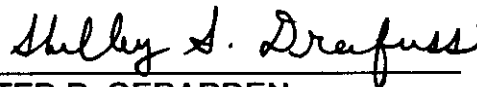
Postal Rate and Fee Changes, 2000)

Docket No. R2000-1

OFFICE OF THE CONSUMER ADVOCATE
INTERROGATORIES TO UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS (OCA/USPS-ST44-33-45)
JULY 21, 2000

Pursuant to Sections 26 and 27 of the Rules of Practice of the Postal Rate Commission, the Office of the Consumer Advocate hereby submits interrogatories and requests for production of documents. These interrogatories are submitted for the purpose of the development of changes to the OCA's direct case-in-chief in supporting revisions to test year forecasts and for the development of rebuttal testimony. Instructions included with OCA interrogatories OCA/USPS-1-14 dated January 24, 2000, are hereby incorporated by reference.

Respectfully submitted,



TED P. GERARDEN
Director
Office of the Consumer Advocate

SHELLEY S. DREIFUSS
Attorney

1333 H Street, N.W.
Washington, D.C. 20268-0001
(202) 789-6830; Fax (202) 789-6819

OCA/USPS-ST44-33. In Order No. 1294, the Commission states that:

All of the comments provided in response to NOI-2 recognize that actual costs are a more accurate representation of FY 1999 experience than estimates developed by rolling forward FY 1998 costs. . . . Actual data are obviously more accurate than estimates, and forecasts beginning with actual data are preferable to forecasts beginning with estimates.

Do you agree with these statements? If not, why not.

OCA/USPS-ST44-34. Please confirm that the following is a reasonable projection of FY 2000 total expenses based upon an incorporation of actual year-to-date expenses:

The Financial and Operating Statement for AP 10 reports that total expenses Y-T-D are \$49.5203 billion (as compared to an operating plan projection of \$49.6429 billion, *i.e.*, 49.5203 + 0.1226 billion). If one completes the FY 2000 estimate by adding a portion of the total FY 2000 cost estimate that you present in USPS-ST-44A (\$65.1715 billion), this would constitute an estimate that consists primarily of actual data, but completed with cost estimates that you recently developed and presented as USPS-ST-44.

The expense figure representing costs for the final three accounting periods of FY 2000 (APs 11-13) is developed in the following manner. The operating plan for FY 2000 filed by the Postal Service in response to interrogatory OCA/USPS-T9-27 on March 31, 2000, presents total planned expenses of \$64.739 billion. Planned expenses for the final three accounting periods were estimated to be \$15.0961 billion. Thus, they comprised 23.3% ($15.0961/64.739$) of the total planned expenses for the year. If one applies that percentage figure to your FY 2000 estimate of \$65.1715 billion, the result is \$15.185 billion. The \$15.185 billion figure (representing the last three accounting

periods of FY 2000) is then added to the Y-T-D figure of \$49.5203 for a total FY 2000 estimate of \$64.7053 billion.

- (a) If you do not confirm, then explain fully.
- (b) Also confirm that the projected FY 2000 total expense figure developed above (\$64.7053 billion) is likely to be a more accurate estimate of FY 2000 expenses than the \$65.1715 billion figure you present in Exh. USPS-ST-44A which does not take actual expenses for APs 1-10 fully into account. If you do not confirm, explain fully.
- (c) Confirm that your FY 2000 total accrued cost estimate likely overstates FY 2000 costs by \$466.2 million (\$65.1715 billion – 64.7053 billion). If you do not confirm, explain fully.

OCA/USPS-ST-44-35. Please confirm that your FY 2000 estimate of “Miscellaneous Local Operations” is \$30 million higher than witness Tayman’s (*i.e.*, \$344.3 million – 314.7, from USPS-ST-44A and USPS 9A, respectively). Explain all underlying assumptions and changes that cause this increase. Cite to testimony, exhibits, or library references that shed light on this phenomenon; also provide any other primary or intermediate sources for the determination of this cost.

OCA/USPS-ST-44-36. The following interrogatory refers to USPS-LR-I-421 at 96, USPS-LR-I-410, and Exhibit USPS-ST-44AA.

- (a) USPS-LR-I-421 at 96, indicates that total Other Program costs for FY 01 AR are \$918,232,000. USPS-LR-I-410, Volume F, indicates that total Other Program costs for FY 01 are \$918,232,000. Exhibit USPS-ST-

44AA indicates that total Other Program costs for FY 01 are \$1,042,232.

Please explain the apparent discrepancy between your Exhibit USPS-ST-44AA, USPS-LR-I-410 and USPS-LR-I-421.

- (b) Please identify the cause of the discrepancy and update documents as appropriate.

OCA/USPS-ST44-37. At pages 6-7 of your testimony, you state that:

Updated test year costs were reflected at the same level as [the] updated FY 2000 estimate . . . consistent with the proposed FY 2001 Operating Budget Plans are being formulated to reduce the modeled level of workers' compensation costs back to the amount budgeted for FY 2001.

You also indicate at page 8 of your testimony that "additional revenue reflected in the proposed FY 2001 Operating Budget" has been incorporated into test year revenue estimates. Please provide the FY 2001 Operating Budget in the same format used in the Postal Service's response to interrogatory OCA/USPS-T9-27.

OCA/USPS-ST44-38. At page 7 of your testimony you state that, "The overtime assumption was updated to reflect the overtime planned in the FY 2000 operating budget and the fact that overtime is currently over plan." Please state the new "overtime assumption" and how it differs from the overtime assumption contained in the Postal Service's original filing. Also cite to the locations in your exhibits and library references where the new overtime assumption is applied.

OCA/USPS-ST44-39. Are the changes to the revenue estimates for FY 2000 and the TYBR and TYAR limited to those described at page 8 of your testimony, lines 12-17? If not, please explain in detail any other changes made to revenue estimates.

OCA/USPS-ST44-40. At page 9 of your testimony you state that: "additional cost reductions and other programs were incorporated" as part of the rollforward updates. Please describe in detail all of the changes made to cost reduction and other program estimates. Include in this description:

- (a) The specific change made;
- (b) The reason for making the change;
- (c) The magnitude of the change;
- (d) Citations to your exhibits and library references where the change is applied;
- (e) In preparing your supplemental testimony, did you take a fresh look at all cost reduction and other program estimates made in the Postal Service's initial filing? If not, why not.
- (f) Please list the originally filed cost reduction estimates that were reviewed recently in preparation of your supplemental testimony.
- (g) Please list the originally filed cost reduction estimates that were not reviewed recently in preparation of your supplemental testimony.
- (h) Please list the originally filed other program estimates that were reviewed recently in preparation of your supplemental testimony.
- (i) Please list the originally filed cost reduction estimates that were not reviewed recently in preparation of your supplemental testimony.
- (j) Please confirm that, due to the cost reduction and other program estimates that you present in your testimony, exhibits, and accompanying

library references, when one compares the FY 2000 cost estimate that you present in USPS-ST-44 with the FY 2000 cost estimate found in Exh. USPS 9A, your recent cost estimate is more likely to be accurate. If you do not confirm, explain fully.

- (k) Please confirm that, due to the cost reduction and other program estimates that you present in your testimony, exhibits, and accompanying library references, when one compares the TYBR and TYAR cost estimates that you present in USPS-ST-44 with the TYBR and TYAR cost estimates found in Exh. USPS 9A, your recent cost estimates are more likely to be accurate. If you do not confirm, explain fully.

OCA/USPS-ST44-41. Please refer to page 5 of your testimony and your Exhibit USPS-ST-44Z titled "Comparison of Original to Updated Cost Reduction." You state that, "Test year cost reductions were updated to reflect the impact of breakthrough productivity and additional Periodicals initiatives savings identified since the Request was filed."

- (a) Please identify the lines and amounts on Exhibit USPS-ST-44Z related to the "additional Periodicals initiatives."
- (b) Please identify the lines and amounts reflecting the impact of "breakthrough productivity."
- (c) Please provide the source and explain the basis for the remaining lines of adjustments to cost reductions on Exhibit USPS-ST-44Z.

OCA/USPS-ST44-42. Please refer to page 6, lines 15-16 of your testimony discussing other programs expenses and stating "interest expense calculations have not been changed." Does not your Exhibit USPS-ST-44AA reflect a change in the interest expense in FY2000 of "(3,300)" and FY2001 of "300" on the "Interest on Debt" line? If so, please confirm that this is an update in the USPS estimate for interest on debt expense. If you do not confirm, please explain.

OCA/USPS-ST44-43. Please refer to pages 5-6 of your testimony stating, "Two new programs, E-Commerce and Co-Branded Advertising/Expanded Retail Product sales, were added to the test year." You further indicate that the two programs cost \$146 million and \$50 million, respectively.

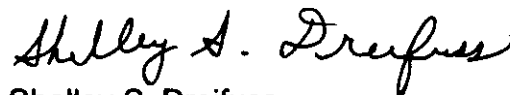
- (a) Where do these new programs appear in the FY 2000 Update Capital Investment Plan FY 1998-2002 attached to ANM/USPS-T9-8 (Tr. 2/124)? If they do not appear, please explain.
- (b) Please provide the dates when the programs were approved (or expected to be approved) by the level of Postal Service management with final approval over the programs.
- (c) Please provide the date of any action or transactions that you contend creates a binding commitment to incur costs for these new projects.
- (d) Are any other expenses for either of these programs included in FY00 or FY01?
- (e) Were any expenses for these programs included in the initial Request?

OCA/USPS-ST44-44. Please provide the basis for all of the assumptions together with related documentation supporting the estimates indicated on page 8, lines 16-17 of your testimony that the following test year revenue will be generated by the new programs: E-commerce-\$104 million, co-branded advertising-\$100 million and Retail Product sales-\$100 million.

OCA/USPS-ST44-45. Please refer to the response to POIR No. 14, Attachment I, and the "Field Reserve" estimate therein of \$200 million that is a reduction in the projected estimate of savings from the Breakthrough Productivity initiatives in the Postmaster General's speech. Is this \$200 million amount, or any other amount, for such a "Field Reserve" included in your test year estimates? If so, please identify the amounts and their location.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.


Shelley S. Dreifuss

Washington, D.C. 20268-0001
July 21, 2000