

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS TO INTERROGATORIES OF
THE ASSOCIATION OF AMERICAN PUBLISHERS
(AAP/USPS-ST44-2-16)

The United States Postal Service hereby provides the responses of witness Patelunas to the following interrogatories of the Association of American Publishers: AAP/USPS-ST44-2-16, filed on July 19, 2000. Interrogatory AAP/USPS-ST44-1 was redirected to the Postal Service.

Each 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 1, 2000

**Response of United States Postal Service witness Patelunas
to Interrogatories of
Association of American Publishers**

AAP/USPS-ST44-1 On page 1 (lines 1-3) of your testimony, you state that your testimony presents the "changes in the Postal Service's Docket No. R2000-1 revenue requirement that result from utilizing FY99 actual audited accounting data and costs by class of mail as the base year." Please describe and provide any and all changes in the Postal Service's proposed rates for Bound Printed Matter ("BPM") that the Postal Service has made that result from utilizing FY99 actual audited accounting data and costs by class of mail. If the USPS is proposing no changes in its proposed rates for BPM in this case, please so state.

RESPONSE:

Redirected to the Postal Service.

**Response of United States Postal Service witness Patelunas
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AAP/USPS-ST44-2 On page 5 (lines 1-3) of your testimony, you state that "test year cost reductions were updated to reflect the impact of breakthrough productivity savings and additional Periodicals initiatives savings identified since the Request was filed."

With respect to this statement:

(a) Please explain fully what the USPS means by "breakthrough" productivity savings and why these particular breakthrough savings only were identified after the Request was filed.

(b) Please describe the procedures by which the Postal Service identified these particular breakthrough savings since the Request was filed and state whether and to what extent additional breakthrough savings are likely to become known in the next two years.

(c) Please explain the extent to which the breakthrough savings have been applied to BPM. If the savings have not affected BPM, please state why.

(d) Please explain fully what the USPS means by "additional Periodicals initiatives savings" and why these particular additional Periodical initiative savings only were identified after the Request was filed.

(e) Please describe the procedures by which the Postal Service identified these particular additional Periodicals initiatives savings since the Request was filed and state whether and to what extent additional Periodical initiatives savings are likely to become known in the next two years.

(f) Please explain whether these additional Periodical initiative savings could be applied to BPM. If not, please explain why.

RESPONSE:

(a) Breakthrough Productivity refers to the expense savings described in the PMG's March 20, 2000 speech to the Postal Forum in Nashville, Tennessee. Thus, the Breakthrough Productivity concept did not exist when the Request was being developed. Please see my response to Presiding Officer's Information Request No. 14.

(b) As described in my response to Presiding Officer's Information Request No. 14, breakthrough productivity cost savings programs were identified, negotiated and accepted during the budget development process. As such, breakthrough productivity initiatives continue to evolve as time unfolds, and it is not known what additional savings might be identified in the next two years.

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- (c) In the case of mail processing, please refer to USPS-LR-I-408 for a presentation of how all mail processing cost reductions are applied to the classes, subclasses and special services. All cost reduction distributions to classes, subclasses and special services are shown in Table 6 of the Summary Tables presented in USPS-LR-I-410.
- (d) The "additional Periodicals initiative savings" are the result of the joint effort of the Postal Service and Periodicals mailers to identify opportunities for Periodicals cost savings. This joint effort commenced after the Request was filed; therefore, nothing was available when the Request was prepared.
- (e) The Periodicals initiatives were identified by the joint effort described in part (d) of this response. As this effort continues to evolve, it is not known what additional savings might be identified in the next two years.
- (f) Some of the Periodicals initiatives have been applied to BPM. Please see USPS-LR-I-408 for a presentation of the mail processing development, and for a presentation of all cost reduction distributions to classes, subclasses and special services, please see Table 6 of the Summary Tables presented in USPS-LR-I-410.

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AAP/USPS-ST44-3 Please indicate whether the Postal Service has quantified or has attempted to quantify, in any way, the effective change in productivity that will result from the cost increases that are described on pages 2-3 of your testimony and the cost reductions that are described on pages 5-7 of your testimony. Please provide any calculations of future Postal productivity made by the Postal Service.

RESPONSE: It is my understanding that the Postal Service has not quantified or attempted to quantify the change in productivity referred to in your question.

**Response of United States Postal Service witness Patelunas
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Association of American Publishers**

AAP/USPS-ST44-4. Please provide all documents and underlying data from DRI that support both the original and updated DRI indexes that are described on page 2 (lines 9-12) of your testimony and that are also reflected in Exhibit USPS-ST-44AB.

RESPONSE:

The original and updated DRI indexes and the names of the forecasting services that were used are reflected in Chapter IX of USPS-LR-I-127 and Chapter VIII of USPS-LR-I-421. DRI does not provide the Postal Service with the underlying forecasting models and databases.

**Response of United States Postal Service witness Patelunas
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AAP/USPS-ST44-5. Please provide a full description of how the Employment Cost Index (ECI), described on page 2 (lines 16-21) of your testimony, is calculated and what sectors of the economy are included in the ECI-wages and salaries index that is shown in Exhibit USPS-ST-44AB. Please explain how this index differs from better known measures of inflation such as the Gross Domestic Product (GDP) price index.

RESPONSE:

In order to estimate bargaining unit wage increases for the test year, I have utilized the Private Industry ECI for wages and salaries as a benchmark. I am not an expert on Bureau of Labor Statistics and other US Government indexes, but am generally aware that this index measures the change in wages and salaries for employees in the private sector. It is also my understanding that the GDP price index measures the cost of items produced in the domestic economy. Since these indexes measure conceptually different things, it is not surprising to me that they reflect different rates of change. There may be other technical differences in how these indexes are calculated and applied which could result in additional differences.

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AP/USPS-ST44-6. Please explain why the forecasted changes in the ECI that appear in Exhibit USPS-ST-44AB are higher than forecasted changes in better known measures of inflation such as the GDP price index. For example, in the latest Economic Report of the President transmitted to Congress in February 2000, the Administration predicts at Table 2.5, page 87, that the GDP price index will increase at an annual rate of 1.9% in 2000 and 2.0% in 2001. These projected growth rates are much lower than the USPS' revised forecasts for the ECI at a rate of 3.22% in 2000 and 4.63% in FY2001. Please explain why the ECI will increase at a greater rate than the GDP price index.

RESPONSE:

I am generally aware that tight labor markets are putting pressure on wages and this could account for the magnitude of the increase in the ECI. Also, please see my response to AAP/USPS-ST44-5.

**Response of United States Postal Service witness Patelunas
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AAP/USPS-ST44-7 Please provide all "Economic Value Added" calculations that are referenced in footnote 4 of Exhibit USPS-ST-44H. Please show how those calculations were used to derive the reductions in annual lump sum payments to non-bargaining workers that appear in Exhibit USPS-ST-44H.

RESPONSE:

Please refer to section VIIa, Uncst_est workbook, NB-LUMP worksheet, of USPS-LR-I-127 for the calculation of the "Economic Value Added" unit costs. The corresponding calculations in the original filing can be found in Section VIIIb of USPS-LR-I-127. This worksheet was updated to reflect FY 99 actual non-bargaining base workyears and no other changes were made from the original filing. The small reduction in the non-bargaining lump sum unit cost is due to a difference between the number of non-bargaining base workyears estimated for FY 1999 in the original filing and the actual number of workyears used in the revised filing.

**Response of United States Postal Service witness Patelunas
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AAP/USPS-ST44-8 For each Supplemental Exhibit accompanying your testimony that updates a prior Postal Service Exhibit, please provide a list that identifies the original Postal Service Exhibit that was updated as part of your testimony.

RESPONSE:

Please see the list of exhibits that accompanies the testimonies of witnesses Tayman, USPS-T-9, and Kashani, USPS-T-14, for the "prior" Postal Service exhibits. Please see the list of exhibits that accompanies my supplemental testimony, USPS-ST-44, for the "updated" exhibits.

**Response of United States Postal Service witness Patelunas
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AAP/USPS-ST44-9 Please refer to Exhibit USPS-ST-44S, "Cost Segments and Components, TY 2001 BR." With respect to this Exhibit:

(a) Please confirm that page 7 of the Exhibit shows total costs for Bound Printed Matter of \$499,728,000, an amount that is \$18,339,000 greater than the total TY 2001 BR costs reported on page 7 of Exhibit USPS-14H. If USPS-ST-44S and USPS-14H are not comparable, please provide the comparable figures that show the difference in BPM costs for TY 2001 as originally estimated by the Postal Service at the time of its original filing and as reflected in your testimony.

(b) Please explain fully why BPM costs in the test year before rates have increased since the Postal Service's original request and explain each major cause of this increase.

RESPONSE:

- a) Confirmed. These exhibits are comparable.
- b) I have not made this comparison because I have not had time and it is not necessary for my testimony. The comparison requires an examination of each change on a component by component basis. First, there are the changes resulting from using actual FY 1999 data as the base, rather than FY 1998 data. Second, there are the changes resulting from using updated rollforward factors developed with more recent information, such as inflation forecasts.

The following resources could be used to perform the examination and compare the changes from the Request to the update. The Summary Description of USPS Development of Cost Segments and Component, FY 1998,

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USPS-LR-I-1, provides an explanation of the costing methodology employed in Base Year 1998 and the testimony of witness Meehan, USPS-T-11, further explains, or identifies other witnesses who explain, the Base Year 1998 costing methodology. Likewise, the Summary Description of USPS Development of Cost Segments and Component, FY 1999, USPS-LR-I-404, provides the explanation for the costing methodology employed for FY 1999. See also, the FY 1999 Cost and Revenue Report (USPS-LR-I-275), the FY 1999 Cost Segments and Components Report (USPS-LR-I-276) and the underlying FY 1999 A and B workpapers (USPS-LRs-I-277 and 278).

For a comparison of the outyears, an examination of the rollforward factors used by witness Kashani, USPS-T-14, Exhibit A and the rollforward factors I used in the update, USPS Exhibit ST-44L, is a good starting point. Each change effect used in the rollforward is shown in these exhibits -- for example, cost level factors -- for all the cost components (component titles and numbers are displayed) that receive the effect. A comparison of the two exhibits -- for example, a comparison of the cost level factors -- will enable the user to see the difference between the Postal Service's request and the Order No. 1294 update. The application of the factors in the rollforward model by witness Kashani is detailed in USPS-LRs-I-4, 5 and 6 and shown in his workpapers. The application of the factors in the rollforward model that I used for the update responding to Order No. 1294 are detailed in USPS-LRs-I-406, 411 and 412 and shown in USPS-LR-I-410.

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The comparison of the development of the rollforward factors can be made by comparing the testimony of witness Tayman, USPS-T-9, and myself, USPS-ST-44. The calculation of the rollforward factors described in witness Tayman's testimony can be found in USPS-LR-I-127 and the calculation of the rollforward factors described in my testimony, USPS-ST-44, can be found in USPS-LR-I-421.

To see the impact of all the changes on all the components for all classes, subclasses and special services resulting from the response to Order No. 1294, please refer to USPS-LR-I-410. Each volume of USPS-LR-I-410 is organized as follows. Table A is the first section and it first shows a Summary Table. The Summary Table shows the accrued dollars in thousands, for each component receiving a rollforward effect. The presentation is by cost segment with each component title and number displayed. Additionally, each rollforward effect: cost level, mail volume, nonvolume, additional workday, cost reductions and other programs, is shown individually by cost component from the base year (or input year) through the following year.

The Summary Table continues with the information above shown on a component by component basis by class, subclass and special service and this is known as the "A Report". Again, each rollforward effect is shown from the input year through the following year. In the title of each page is shown a Table Number and these are organized by the various steps in the rollforward:

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Table 1	Cost Level Effect,
Table 2	Mail Volume Effect,
Table 3	Nonvolume Workload Effect,
Table 4	Additional Workday Effect,
Table 5	Cost Reductions, and
Table 6	Other Programs.

Table B follows in each volume and it shows the Factor Report. The Factor Report develops the factors used to calculate the PESSA costs that are displayed in Table C, the "B Report". PESSA costs consist of volume variable costs not developed in the "A Report", for example, space and rental costs.

The results of the "A Report" described earlier and the "B Report" described in the preceding paragraph are combined, resulting in the "C Report". The "C Report" is more commonly known as the Cost Segments and Components Report. This shows component groupings by segment for classes, subclasses and special services.

The final table in the appropriate volumes is Table E and it shows the Final Adjustments. This report is usually known as the "D Report" and it provides the total class, subclass and special service detail for a particular year. The "D Report" is only relevant for the volumes that include the entirety of a fiscal year, in USPS-LR-I-410, these volumes are: A, C, E and G.

**Response of United States Postal Service witness Patelunas
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AAP/USPS-ST44-10 Exhibit USPS-ST-44S shows TY 2001 BR total C/S-11 Custodial and Maintenance Service costs for BPM in the amount of \$18,338,000. With respect to this figure:

- (a) Please confirm that the similar line item on page 3 of Exhibit USPS-14H for TY 2001 BR total C/S-11 Custodial and Maintenance costs is \$16, 575,000. If these two Exhibits are not comparable, please provide the comparable figures that show the difference for BPM C/S-11 costs in TY 2001 BR as estimated by the Postal Service at the time of its original filing and as reflected in your testimony.
- (b) Please confirm that TY 2001 BR C/S-11 Custodial and Maintenance costs reported in Exhibit USPS-ST-44S are 10.6% greater than reported in the similar line item found on page 3 of USPS-14H.
- (c) Please explain fully why BPM Custodial and Maintenance Service costs for TY 2001 BR have increased by 10.6% since the Postal Service's original filing and explain each major cause of this increase.

RESPONSE:

- a) *Confirmed. These exhibits are comparable.*
- b) *Confirmed.*
- c) *Please see my response to AAP/USPS-ST44-9(b).*

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AAP/USPS-ST44-11 Exhibit USPS-ST-44S shows TY 2001 BR total C/S-12 Motor Vehicle costs for BPM in the amount of \$8,694,000 With respect to this figure:

(a) Please confirm that the similar line item on page 3 of Exhibit USPS-14H for TY 2001 BR total C/S-12 Motor Vehicle costs for BPM is \$7,820,000. If these two Exhibits are not comparable, please provide the comparable figures that show the difference for BPM C/S-12 costs in TY 2001 BR as estimated by the Postal Service at the time of its original filing and as reflected in your testimony.

(b) Please confirm that TY 2001 BR C/S-12 Motor Vehicle costs for BPM reported in Exhibit USPS-ST-44S is 11.2% greater than reported in the similar line item found on page 3 of USPS-14H.

(c) Please explain fully why BPM Motor Vehicle costs for TY 2001 BR have increased by 11.2% since the Postal Service's original filing and explain each major cause of this increase.

RESPONSE:

- a) Confirmed. These exhibits are comparable.
- b) Confirmed.
- c) Please see my response to AAP/USPS-ST44-9(b).

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AAP/USPS-ST44-12 Exhibit USPS-ST-44S shows TY 2001 BR total C/S-15 Building Occupancy costs for BPM in the amount of \$11,256,000. With respect to this figure:

(a) Please confirm that the similar line item on page 5 of Exhibit USPS-14H for TY 2001 BR total C/S-15 Building Occupancy costs for BPM is \$10,782,000. If these two Exhibits are not comparable, please provide the comparable figures that show the difference for BPM C/S-15 costs in TY 2001 BR as estimated by the Postal Service at the time of its original filing and as reflected in your testimony.

(b) Please confirm that TY 2001 BR C/S-15 Building Occupancy costs for BPM reported in Exhibit USPS-ST-44S is 4.4% greater than reported in the similar line item found on page 5 of USPS-14H.

(c) Please explain fully why BPM Building Occupancy costs for TY 2001 BR have increased by 4.4% since the USPS' original filing and explain each major cause of this increase.

RESPONSE:

a) Confirmed. These exhibits are comparable.

b) Confirmed.

c) Please see my response to AAP/USPS-ST44-9(b).

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AAP/USPS-ST44-13 Exhibit USPS-ST-44S shows TY 2001 BR total C/S-16 Supplies and Services costs for Bound Printed Matter in the amount of \$15,099,000 With respect to this figure:

- (a) Please confirm that the similar line item on page 5 of Exhibit USPS-14H for TY 2001 BR total C/S-16 Supplies and Services costs for BPM is \$11,572,000. If these two Exhibits are not comparable, please provide the comparable figures that show the difference for BPM C/S-16 costs in TY 2001 BR as estimated by the Postal Service at the time of its original filing and as reflected in your testimony.
- (b) Please confirm that TY 2001 BR C/S-16 Supplies and Services costs for BPM reported in Exhibit USPS-ST-44S is 28.5% greater than reported in the similar line item found on page 5 of USPS-14H.
- (c) Please explain fully why BPM Supplies and Services costs for 2001 TY BR have increased by 28.5% since the USPS' original filing and explain each major cause of this increase.

RESPONSE:

- a) Confirmed. These exhibits are comparable.
- b) Not confirmed. The correct percentage is 30.5.
- c) Please see my response to subpart (b) above and AAP/USPS-ST44-9(b).

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AAP/USPS-ST44-14 Exhibit USPS-ST-44S shows TY 2001 BR total C/S-18 Admin. & Area Operations costs for Bound Printed Matter in the amount of \$27,646,000. With respect to this figure:

(a) Please confirm that the similar line item on page 5 of Exhibit USPS-14H for TY 2001 BR total C/S-18 Admin. & Area Operations costs for BPM is \$25,894,000. If these two Exhibits are not comparable, please provide the comparable figures that show the difference for BPM C/S-18 costs in TY 2001 BR as estimated by the Postal Service at the time of its original filing and as reflected in your testimony.

(b) Please confirm that TY 2001 BR C/S-18 Admin. & Area Operations costs for BPM reported in Exhibit USPS-ST-44S is 6.8% greater than reported in the similar line item found on page 5 of USPS-14H.

(c) Please explain fully why BPM Admin. & Area Operations costs for 2001 TY BR have increased by 28.5% since the USPS' original filing and explain each major cause of this increase.

RESPONSE:

a) Confirmed. These exhibits are comparable.

b) Confirmed.

c) I assume that the explanation you seek is for the 6.8% I confirmed in part (b), not the 28.5% asked in the question. Please see my response to AAP/USPS-ST44-9(b).

**Response of United States Postal Service witness Patelunas
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AAP/USPS-ST44-15 With respect to the Special Standard subclass, Exhibit USPS-ST-44S shows TY 2001 BR costs as follows: (i) C/S-11 Custodial and Maintenance Service costs of \$14,097,000; (ii) C/S-15 Building Occupancy costs of \$8,571,000; (iii) C/S-16 Supplies and Services costs of \$11,355,000, and; (iv) C/S-18 Admin & Area Operations costs of \$18,465,000. With respect to these figures:

(a) Please confirm that, when compared to the TY 2001 BR Special Standard costs that are provided in Exhibit USPS-14H, the costs for each cost segment have increased by the following percentages (if these two Exhibits are not comparable, please provide the comparable figures that show the difference between Special Standard costs for C/S-11, C/S-15, C/S-16 and C/S-18 in TY 2001 BR as estimated by the Postal Service at the time of its original filing and as reflected in your testimony):

- (i) C/S-11 -- 34.2%
- (ii) C/S-15 -- 32.4%
- (iii) C/S-16 -- 60%
- (iv) C/S-18 -- 29.5%.

(b) Please explain why TY 2001 Special Standard TY 2001 BR costs for each of these cost segments appear to have increased so dramatically since the USPS' original request and explain each major cause of these increases.

RESPONSE:

- a) Confirmed. These exhibits are comparable.
- b) Please see my responses to AAP/USPS-ST44-9(b).

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AAP/USPS-ST44-16 With respect to the Library Mail subclass, Exhibit USPS-ST-44S shows TY 2001 BR costs as follows: (i) C/S-11 Custodial and Maintenance Service of \$1,744,000; (ii) C/S-15 Building Occupancy costs of \$1,158,000; (iii) C/S-16 Supplies and Services costs of \$1,531,000 and C/S-18 Admin. & Area Operations costs of \$2,662,000. With respect to these figures:

(a) Please confirm that, when compared to the TY 2001 BR Library Mail costs that provided in Exhibit USPS-14H, the costs for each cost segment have increased by the following percentages (if these two Exhibits are not comparable, please provide the comparable figures that show the difference between Library Mail costs for C/S-11, C/S-15, C/S-16 and C/S-18 in TY 2001 BR as estimated by the Postal Service at the time of its original filing and as reflected in your testimony):

- (i) C/S-11 – 26.2%
- (ii) C/S-15 – 17.6%
- (iii) C/S-16 – 51.7%
- (iv) C/S-18 – 26.0%

(b) Please explain fully why TY 2001 BR Library Mail costs in these cost segments have increased so dramatically since the USPS' original request and explain each major cause of these increases.

RESPONSE:

- a) Confirmed. These exhibits are comparable.
- b) Please see my responses to AAP/USPS-ST44-9(b).

DECLARATION

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

Richard Patelunas

Dated: 8/1/00

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

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2990 Fax -5402
August 1, 2000