

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
TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
REDIRECTED FROM WITNESS PATELUNAS
(OCA/USPS-ST44-33, 34 and 40(j)-(k))

The United States Postal Service hereby provides its responses to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-ST44-33, 34 and 40(j)-(k), filed on July 21, 2000, and redirected from witness Patelunas.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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August 2, 2000

**Response of United States Postal Service to
Interrogatories of Office of Consumer Advocate
(Redirected from witness Patelunas, USPS-ST-44)**

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.

Response: As a general concept, forecasts beginning with actual Fiscal Year data are preferable to forecasts beginning with estimates. However, it may not always be practical or desirable to update for interim actual results due to the realities and constraints of the ratemaking process. It is also unclear whether updating the base year for differences between estimated and actual interim results will produce changes in the test year that are material enough to warrant the additional time and work required to update forecasts or the due process concerns that may result.

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(Redirected from witness Patelunas, USPS-ST-44)**

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 costs 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, present total planned expense 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 expense 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) 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 ($\$65.1715 \text{ billion} - 64.7053 \text{ billion}$). If you do not confirm, explain fully.

Response: (a) - (c) Not Confirmed. The calculation procedure you outline relates to a timeframe different from the FY 2000 timeframe in USPS-ST-44 and therefore is not a reasonable procedure for projecting FY 2000 total expenses. Longer timeframes typically have greater costs. Due to higher workload and the impact of inflation, a later timeframe also typically has greater costs. The FY

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2000 period covered in USPS-ST-44 is both longer and later than the timeframe your calculations relate to. The Postal Service proposal in this docket is based on a projection for Government Fiscal Year (GFY) 2000. The calculations in your question relate to the Postal Service's actual performance and operating plan for Accounting Periods 1 through 13 of Postal Fiscal Year (PFY) 2000. GFY 2000 lasts 366 days and runs from October 1, 1999 through September 30, 2000. PFY 2000 lasts 364 days and runs from September 11, 1999 through September 8, 2000.

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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.

- (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 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 that 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 more accurate. If you do not confirm, explain fully.

(j) Confirmed for FY 2000.

(k) Not confirmed. The updated estimates more accurately reflect cost level increases. At the same time, the FY 2001 cost estimates now include the impact of Breakthrough Productivity Initiatives and other goals that may be at a greater risk of achievement than the FY 2001 cost reduction programs originally included in this rate filing.

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.



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