

ORIGINAL

# Official Transcript of Proceedings

*Before the*

**UNITED STATES POSTAL RATE COMMISSION**

In the Matter of: **POSTAL RATE AND FEE CHANGE**

Docket No.

R2000-1

VOLUME 35

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OFFICE OF THE SECRETARY

DATE: Thursday, August 3, 2000

PLACE: Washington, D.C.

PAGES: 16603 - 16868

**ANN RILEY & ASSOCIATES, LTD.**

1025 Connecticut Avenue, N.W., Suite 1014

Washington, D.C. 20036

(202) 342-0034

BEFORE THE  
POSTAL RATE COMMISSION

- - - - -X  
In the Matter of: :  
POSTAL RATE AND FEE CHANGE : Docket No. R2000-1  
- - - - -X

Third Floor Hearing Room  
Postal Rate Commission  
1333 H Street, N.W.  
Washington, D.C 20268

Volume XXXV  
Thursday, August 3, 2000

The above-entitled matter came on for hearing,  
pursuant to notice, at 9:35 a.m.

BEFORE:

HON. EDWARD J. GLEIMAN, CHAIRMAN  
HON. GEORGE A. OMAS, VICE CHAIRMAN  
HON. W.H. "TREY" LeBLANC, COMMISSIONER  
HON. DANA B. "DANNY" COVINGTON, COMMISSIONER  
HON. RUTH GOLDWAY, COMMISSIONER

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1 C O N T E N T S

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## P R O C E E D I N G S

[9:34 a.m.]

CHAIRMAN GLEIMAN: Good morning. Today we are here to receive evidence provided by the Postal Service in response to Order Number 1294 in Docket R2000-1.

Does any participant have a matter that they would like to address this morning? Mr. Myers?

MR. MYERS: Good morning, Mr. Chairman and Commissioner LeBlanc. There are three Category II Library References which have been filed by MPA, the Magazines Publishers, which have not yet been received into evidence.

Those are MPA-LR-2, which will be sponsored by Witness Glick, and MPA-LR-3, and LR-4, which will be sponsored by Witness Cohen. I have here the appropriate declarations of Witnesses Cohen and Glick, and I would like to move that these declarations be transcribed into the record and received into evidence.

CHAIRMAN GLEIMAN: The declarations regarding those three Library References will be transcribed into the record and the materials will be received into evidence but not transcribed into the record, as is our practice.

If you could please provide copies to the Court Reporter?

[Library References Numbered

MPA-LR-2, MPA-LR-3, and MPA-LR4

1                   Declarations were received into  
2                   evidence.]

3                   [Declarations of Witnesses Glick  
4                   and Cohen were received into  
5                   evidence and transcribed into the  
6                   record.]

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### Declaration

I, Sander A. Glick, declare under penalty of perjury that I am the sponsor of Magazine Publishers of America Library Reference MPA-LR-2. I further declare that this reference was prepared by me or under my direct supervision, and that it is true and correct to the best of my knowledge, information, and belief.

Sander A. Glick 8/2/2000  
Sander A. Glick Date

### Declaration

I, Rita D. Cohen, declare under penalty of perjury that I am the sponsor of Magazine Publishers of America Library References MPA-LR-3 and 4. I further declare that these references were prepared by me or under my direct supervision, and that they are true and correct to the best of my knowledge, information, and belief.

Rita D. Cohen 08/02/00  
Rita D. Cohen Date

1 CHAIRMAN GLEIMAN: Is there anyone else?

2 MS. DUCHEK: Mr. Chairman, Postal Service brought  
3 copies of everything they filed yesterday for the  
4 convenience of the parties and those around the table right  
5 in front of me.

6 CHAIRMAN GLEIMAN: We appreciate that, Ms. Duchek,  
7 thank you.

8 We have three witnesses scheduled to appear today.  
9 They are Witnesses Patelunas, Kay, and Thress.

10 There has been no request for oral cross  
11 examination that I'm aware of for Witness Kay, so we thought  
12 we would deal with Witness Kay's testimony first.

13 Mr. Koetting?

14 MR. KOETTING: Thank you, Mr. Chairman. The  
15 Postal Service calls as its next witness, Nancy Kay.

16 CHAIRMAN GLEIMAN: Ms. Kay, as I recall, you are  
17 already under oath in this proceeding, so there's no need to  
18 swear you in again.

19 Mr. Koetting, you can proceed.

20 Whereupon,

21 NANCY R. KAY,  
22 a witness, having been previously called for examination,  
23 and, having been previously duly sworn, was recalled;  
24 continued to be examined and continued to testify as  
25 follows:

## 1 DIRECT EXAMINATION

2 BY MR. KOETTING:

3 Q Ms. Kay, could you please state your full name for  
4 the record?

5 A Nancy R. Kay.

6 CHAIRMAN GLEIMAN: Could you please turn your  
7 microphone on, and pull it a little closer?

8 THE WITNESS: My name is Nancy Rosenberg Kay.

9 BY MR. KOETTING:

10 Q And you are the same Nancy R. Kay that previously  
11 testified in this case with respect to your direct  
12 Testimony, USPS-T-23, correct?

13 A That's correct.

14 Q And I have handed you a copy of a document  
15 entitled Supplemental Testimony of Nancy R. Kay on behalf of  
16 the United States Postal Service in Response to Order Number  
17 1294, which has been designated as USPS-ST-45, and which is  
18 dated July 7th, 2000.

19 Are you familiar with that document?

20 A Yes, I am.

21 Q Was it prepared by you or under your supervision?

22 A Yes, it was.

23 Q If you were to testify orally today, would this be  
24 your testimony?

25 A Yes, it would.



1 MR. KOETTING: Mr. Chairman, the Postal Service  
2 moves that the Supplemental Testimony of Nancy R. Kay on  
3 Behalf of the United States Postal Service in Response to  
4 Order 1294, designated USPS-ST-45 be admitted into evidence  
5 in this proceeding.

6 CHAIRMAN GLEIMAN: Is there any objection?

7 [No response.]

8 CHAIRMAN GLEIMAN: Hearing none, if counsel would  
9 please provide the Court Reporter with two copies of the  
10 testimony of Witness Kay, that testimony will be transcribed  
11 into the record and received into evidence.

12 [Supplemental Direct Testimony of  
13 Nancy R. Kay, USPS-ST-45, was  
14 received into evidence.]

15 CHAIRMAN GLEIMAN: There were no requests  
16 beforehand for oral cross of this witness. Is there anyone  
17 here who wishes to cross examine this witness?

18 [No response.]

19 CHAIRMAN GLEIMAN: If not, then -- and I don't  
20 believe there are any questions from the Bench --

21 MR. KOETTING: Mr. Chairman, I neglected to  
22 inquire of Witness Kay if she is also sponsoring a Category  
23 II Library Reference, USPS-LR-I407.

24 BY MR. KOETTING:

25 Q Is that Library Reference associated with your

1 Supplemental Testimony?

2 A Yes, it is.

3 MR. KOETTING: Mr. Chairman, the Postal Services  
4 moves that also be accepted into evidence.

5 CHAIRMAN GLEIMAN: The Library Reference in  
6 question, Library Reference 407, is received into evidence  
7 and not transcribed into the record.

8 [Library Reference USPS-LR-I407 was  
9 received into evidence.]

10 CHAIRMAN GLEIMAN: And unless we've missed  
11 something else, Ms. Kay, that completes your appearance here  
12 today. We appreciate your additional testimony and your  
13 contributions to the record. We thank you and you are  
14 excused.

15 [Witness Kay excused.]

16 CHAIRMAN GLEIMAN: Our next witness your witness,  
17 Ms. Duchek. Would you like to call him?

18 MS. DUCHEK: The Postal Service calls Richard  
19 Patelunas.  
20 Whereupon,

21 RICHARD PATELUNAS,  
22 a witness, having been called for examination, and, having  
23 been first duly sworn, was examined and testified as  
24 follows:

25 DIRECT EXAMINATION

1 BY MS. DUCHEK:

2 Q Mr. Patelunas, I have handed you two copies of a  
3 document entitled Supplemental Testimony of Richard  
4 Patelunas on Behalf of United States Postal Service in  
5 Response to Order Number 1294, dated July 7th, 2000,  
6 designated as USPS-ST-44.

7 Are you familiar with that document?

8 A Yes.

9 Q Was it prepared by you or under your supervision?

10 A Yes.

11 Q Do you have any changes to make?

12 A Yes, I do.

13 Q What are those changes?

14 A On page 5, line 24, add, in FY2000, after 595  
15 million; page 5, line 24, again, change, e-commerce to  
16 e-business; page 6, line 2, change e-commerce to e-business;  
17 page 8, line 17, change e-commerce to e-business; and  
18 Exhibit ST-44L, change 419 to 421, and change 420 to 419.

19 Q Have those changes been made on the two copies I  
20 gave you?

21 A Yes, they have.

22 Q With those changes, if you were to testify orally  
23 today, would this still be your testimony?

24 A Yes.

25 MS. DUCHEK: Mr. Chairman, I'm going to give two

1 copies of the Supplemental Testimony of Richard Patelunas on  
2 Behalf of the United States Postal Service in Response to  
3 Order Number 1294, designated as USPS-ST-44, to the  
4 Reporter, and ask that they be entered into evidence.

5 CHAIRMAN GLEIMAN: Is there any objection?

6 [No response.]

7 CHAIRMAN GLEIMAN: Hearing none, I'll direct  
8 counsel to provide those two copies to the Reporter, as she  
9 so graciously offered, and the testimony will be transcribed  
10 into the record and received into evidence.

11 [Supplemental Testimony of Richard  
12 Patelunas, USPS-ST-44, was received  
13 into evidence.]

14 CHAIRMAN GLEIMAN: Mr. Patelunas, have you had an  
15 opportunity to examine the packet of designated written  
16 cross examination that was made available earlier today?

17 THE WITNESS: Yes, I did.

18 CHAIRMAN GLEIMAN: And if those questions were  
19 asked of you today, would your answers be the same as those  
20 you previously provided in writing?

21 THE WITNESS: Yes, they would.

22 CHAIRMAN GLEIMAN: That being the case, counsel,  
23 if you would please provide two copies of the Designated  
24 Written Cross Examination of the Witness to the Court  
25 Reporter, I'll direct that that material be received into

1 evidence and transcribed into the record.

2 [Designated Cross Examination of  
3 Richard Patelunas was received into  
4 evidence and transcribed into the  
5 record.]

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BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION  
OF UNITED STATES POSTAL SERVICE  
WITNESS RICHARD L. PATELUNAS  
(USPS-ST-44)

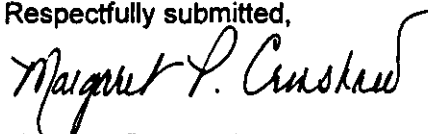
Party

Association of American Publishers

Interrogatories

AAP/USPS-ST44-3-5, 9-16

Respectfully submitted,



Margaret P. Crenshaw  
Secretary

INTERROGATORY RESPONSES OF  
UNITED STATES POSTAL SERVICE  
WITNESS RICHARD L. PATELUNAS (ST-44)  
DESIGNATED AS WRITTEN CROSS-EXAMINATION

| <u>Interrogatory</u> | <u>Designating Parties</u> |
|----------------------|----------------------------|
| AAP/USPS-ST44-3      | AAP                        |
| AAP/USPS-ST44-4      | AAP                        |
| AAP/USPS-ST44-5      | AAP                        |
| AAP/USPS-ST44-9      | AAP                        |
| AAP/USPS-ST44-10     | AAP                        |
| AAP/USPS-ST44-11     | AAP                        |
| AAP/USPS-ST44-12     | AAP                        |
| AAP/USPS-ST44-13     | AAP                        |
| AAP/USPS-ST44-14     | AAP                        |
| AAP/USPS-ST44-15     | AAP                        |
| AAP/USPS-ST44-16     | AAP                        |

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

**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  
to Interrogatories of  
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.

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**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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**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,

**Response of United States Postal Service witness Patelunas  
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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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**Response of United States Postal Service witness Patelunas  
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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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**Response of United States Postal Service witness Patelunas  
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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).
-

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

**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).

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

**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).
-

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

**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  
to Interrogatories of  
Association of American Publishers**

**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).
-

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

**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).

1 CHAIRMAN GLEIMAN: Is there any Additional  
2 Designated Written Cross Examination for the Witness?

3 MR. RICHARDSON: Yes, Mr. Chairman, OCA has some  
4 Additional Written Cross Examination.

5 CHAIRMAN GLEIMAN: Mr. Richardson?

6 CROSS EXAMINATION

7 BY MR. RICHARDSON:

8 Q Mr. Patelunas, you have before you, your responses  
9 to certain of the OCA interrogatories that were propounded  
10 to you, and all of those which you have responded to, to  
11 date.

12 If those questions were asked of you today, would  
13 your answers be the same?

14 A Yes.

15 Q And would you have any additions or corrections to  
16 those?

17 A No, not at this time.

18 MR. RICHARDSON: Mr. Chairman, the Interrogatories  
19 that are in the package relate to OCA/USPS-ST-44-1 through  
20 3; 5 through 7; 9 through 11; (a) through (d) as in dog; and  
21 13 through 32.

22 The omitted interrogatories were redirected to the  
23 Postal Service, and additional interrogatories are  
24 outstanding.

25 With that, I would give two copies to the Reporter

1 and ask that they be transcribed and admitted into the  
2 record.

3 CHAIRMAN GLEIMAN: If you would please provide  
4 those copies, it's so ordered.

5 [Additional Designated Written  
6 Cross Examination of Richard  
7 Patelunas, OCA/USPS-ST-44-1 through  
8 3; 5 through 7; 9 through 11; (a)  
9 through (d); and 13 through 32 were  
10 received into evidence and  
11 transcribed into the record.]  
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**WRITTEN INTERROGATORY RESPONSES OF USPS**

**WITNESS PATELUNAS**

**TO OCA**

**DESIGNATED BY OCA**



**Response of United States Postal Service witness Patelunas  
to Interrogatories of  
Office of the Consumer Advocate**

**OCA/USPS-ST44-1.** The following question relates to USPS-LR-I-406. USPS-LR-I-406 consists of electronic files for FY 99, FY 00 and FY 01. Many of the files have similar names with varying file extensions. For purposes of this interrogatory, please assume that an asterisk represents the file extension (\*). Please explain what each of the following seven file acronyms represent: (1) FY99tcm.\*; (2) FY00mix.\*; (3) FY00xt.\*; (4) FY01at.\*; (5) FY01atm.\*; (6) FY01b.\*; and (7) FY01bm.\*.

**Response** The abbreviated file names represent the following:

- (1) FY99tcm.\* is Fiscal Year 1999 after migration of Standard A Single Piece,
- (2) FY00mix.\* is Fiscal Year 2000 before the workyear mix adjustment,
- (3) FY00xt.\* is Fiscal Year 2000 after the workyear mix adjustment,
- (4) FY01at.\* is Fiscal Year 2001 before the workyear mix adjustment at proposed rates,
- (5) FY01atm.\* is Fiscal Year 2001 after the workyear mix adjustment at proposed rates,
- (6) FY01b.\* is Fiscal Year 2001 before the workyear mix adjustment at current rates,  
and
- (7) FY01bm.\* is Fiscal Year 2001 after the workyear mix adjustment at current rates.

**Response of United States Postal Service witness Patelunas  
to Interrogatories of  
Office of the Consumer Advocate**

**OCA/USPS-ST44-2.** Does your supplemental testimony rely upon the same FY 99 data as that used by USPS witness Kashani for the following components: (1) USPS component 555 - Total Square Feet; (2) USPS component 562 - Total Rental Value; (3) USPS component 1299 - Capital; (4) USPS component 1298 - Maintenance Labor; and (5) USPS component 1297 - Parts and Supplies? If not, please provide a printout of the information you used in a format similar to that provided in USPS witness Kashani's Workpaper A at 152 - 154. Include in your printout the applicable component numbers used.

**Response** No, my supplemental testimony relies upon actual FY 99 data as reflected in the FY 99 Cost and Revenue Analysis report. Please see USPS-LR-I-410, which is the supplemental testimony equivalent of witness Kashani's workpapers.

**Response of United States Postal Service witness Patelunas  
to Interrogatories of  
Office of the Consumer Advocate**

**OCA/USPS-ST44-3.** Please provide as a library reference printouts similar to those provided as workpapers by USPS witness Kashani. Please give priority to providing the following printouts: (1) your FY 99 data in a format similar to USPS witness Kashani's workpaper A; and (2) "B Reports" for FY 00 and FY 01.

**Response** See USPS LR-I-410.

**Response of United States Postal Service witness Patelunas  
to Interrogatories of  
Office of the Consumer Advocate**

**OCA/USPS-ST44-5.** USPS-LR-I-410, workpaper A references a file identified as "FY99XTCM." A review of USPS-LR-I-406 and USPS-LR-I-277 indicates that while both contain several electronic data files, "FY99XTCM" is not among them. Please provide electronic copies of all control and data files used in preparing your supplemental testimony, USPS-LR-I-410, and USPS-LR-I-277. In your response, please provide copies of all the electronic files used to create the FY 99 CRA, FY 00 and FY 01 forecasts, in a format similar to that provided in USPS-LR-I-6, subdirectories "CNTLFILE" and "DATAFILE." If a complete copy of the "control" and the "data files" has been previously provided, please identify the applicable USPS library reference(s).

**Response:**

The hardcopy version, USPS-LR-I-410, uses the file identification "FY99XTCM" only in report titles. The file identification in the electronic format, USPS-LR-I-406, is "FY99TCM". The electronic files used in the creation of my supplemental testimony, including FY 99 CRA, can be found in USPS-LR-I-406. It should be noted that some of the requested files were inadvertently omitted from the CD-rom initially included as USPS-LR-I-406 and a supplemental CD-rom has been filed as an addition to USPS-LR-I-406.

**Response of United States Postal Service witness Patelunas  
to Interrogatories of  
Office of the Consumer Advocate**

**OCA/USPS-ST44-6.** Did you incorporate into your FY 00 cost forecast any actual FY 00 data?

- (a) If so, please specify what data has been incorporated into your forecast, the accounting periods for which it is incorporated, and the total cost impact the data had on the updated FY 00 forecast. Please cite the sources you used and provide in your response a copy of the relevant page of the source document cited if not previously filed.
- (b) If not, please explain why no actual data was incorporated.
- (c) In your FY 00 forecast, for each cost level effect, cost reduction program and other program that changed, please cite the sources you used and provide in your response a copy of the relevant page of the source document cited if not previously filed.
- (d) For each cost level effect, cost reduction program and other program that changed in your FY 00 forecast, please itemize those changes and provide the most current year-to-date actual expenditures. Please cite the sources you used and provide in your response a copy of the relevant page of the source document cited if not previously filed.

**Response:**

Partial year FY 00 actual data was utilized only on a limited basis for a number of reasons. In most cases, the rollforward factor models are not designed to utilize partial year actual data. Therefore, the possibility of using additional partial year FY 00 actual data was not considered in view of the workload and time constraints involved. Additionally, the use of part year actual data does not necessarily provide a better estimate of that year's total costs than estimates using the prior year as the base. In cases where accounting period expenses are seasonal, reflect changing trends, or are otherwise erratic, the use of partial year actual to project year end costs can produce distorted results.

**Response of United States Postal Service witness Patelunas  
to Interrogatories of  
Office of the Consumer Advocate**

**Response continued:**

- a) Please refer to LR's I-127 and I-421. A limited application of actual part year data was used by the rollforward factor model in the original filing for FY 99. The same approach was also used in the updated filing for FY 00. For example, the workyear mix model utilized available accounting period actual paid employee data to estimate TE workyears. Other examples are the use of partial year actual monthly CPI data to estimate COLA's, the reflection of partial year actual monthly indexes in annual DRI index estimates and the reflection of the impact of the health benefits open season effective in January 2000 on personnel costs.
- b) See the general response above.
- c) Please refer to the machine readable copy of LR I-127. All inputs to the rollforward factor model that were updated are highlighted in lavender. Each input change can be traced through the model to determine its impact on rollforward sources of change factors.
- d) See the response to part c regarding changes. Actual sources of change by cost component for cost levels and cost reductions are not available on either a part or total year basis. Year-to-date other program expense changes for those costs components whose only source of change is reflected in the other program column can be calculated by comparing year to date actual for that account or group of accounts that

**Response of United States Postal Service witness Patelunas  
to Interrogatories of  
Office of the Consumer Advocate**

**Response continued:**

make up a specific component to the prior year total. Examples of such cost components are interest expense and corporate-wide personnel costs such as workers' compensation. This information can be calculated using the latest trial balance reports filed at the Commission each accounting period.

**Response of United States Postal Service witness Patelunas  
to Interrogatories of  
Office of the Consumer Advocate**

**OCA/USPS-ST44-7.** The following interrogatory refers to your FY 01 updated forecast. For each cost level, cost reduction and other program change that was updated in your testimony, please cite the sources you used and provide in your response a copy of the relevant page of the source document cited if not previously filed.

**Response:**

Please refer to the machine readable copy of LR-421, Rollforward Expense Factors in Response to Order No. 1294 for updated rollforward expense factors and sources. All updated inputs have been highlighted in lavender. Input changes can be traced through the model to determine their impact on rollforward cost factors.



**Response of United States Postal Service witness Patelunas  
to Interrogatories of  
Office of the Consumer Advocate**

**OCA/USPS-ST44-9.** Exhibit USPS-ST-44AB provides a comparison of a number of key inflation indices that were updated. The sources you cite in general for those revisions are (1) @ussim/trend25YR 0200, and (2) @cissim/control 0500.

- (a) If a copy of each of the sources has not been previously submitted, please file one. If one has been filed, please indicate the applicable USPS library reference. If the source is intended to represent an Internet address, please provide the full Internet address needed to access a copy of the information.
- (b) For each inflation index listed in your exhibit, please identify the applicable source.
- (c) For each index listed in Exhibit ST44-AB, please provide the date of the applicable updated forecast. In your response, please provide a table similar to that presented in Exhibit ST44-AB. Please note, that the column labeled "Difference" should be excluded.

**Response:**

- (a) Please see Chapter VIII of LR I-421 for the source indexes in question. Also see Chapter VIIa. of LR I-421 for the derivation of the lagged ECI index.
- (b) The ultimate sources are as noted on the Exhibit, i.e., the DRI Control 0500 forecast (CPI, supplies & materials) and the DRI Trend 25Yr0200 forecast (all other indices reflected on Exhibit).
- (c) I am informed that the Control forecast was released on or about May 8 and the Trend forecast was released on or about February 29. Please note however that the Trend forecast was re benchmarked to the most recent historical data points which in this case would be those available through April. The Trend forecast, which is updated quarterly, was not yet available for May.

**Response of United States Postal Service witness Patelunas  
to Interrogatories of  
Office of the Consumer Advocate**

**OCA/USPS-ST44-10.** The following interrogatories refer to page 2 of your testimony.

(a) You indicate that the non-personnel cost level change factors were updated to reflect the most current forecasts available. For FY 00 and FY 01, please indicate by segment and mail cost category the total cost impact of non-personnel cost level changes.

(b) You indicate that the personnel cost level change factors were updated. For FY 00 and FY 01, please indicate by segment and mail cost category the total cost impact of the personnel cost level changes.

(c) When the personnel cost level change factors were updated for FY 00, did you incorporate any actual data from the USPS payroll summary reports? If so, please identify the accounting period data used. If not, please indicate why the year-to-date actual USPS payroll summary reports were not relied upon in your testimony.

(d) For FY 00 and FY 01 and each non-personnel cost level factor that was updated in your testimony, please provide the following information:

(i) An itemized list of each factor updated;

(ii) The total amount incorporated for each factor identified in part (i) of this interrogatory;

(iii) The change in the current versus the prior forecasted amount; and

(iv) The date each non-personnel cost level factor was updated. If the specific date is not known, please confirm that you used the most current data available.

(e) For FY 00 and FY 01 and each personnel cost level factor that was updated in your testimony, please provide the following information:

(i) An itemized list of each factor updated;

(ii) The total amount incorporated for each factor identified in part (i) of this interrogatory;

(iii) The change in the current versus the prior forecasted amount; and

(iv) The date each personnel cost level factor was updated. If the specific date is not known, please confirm that you used the most current data available.

**Response:**

(a) The amounts requested can be calculated by subtracting the cost level change amounts reflected on the FY 00 and FY 01 rollforward change reports included in the original filing (Kashani Workpapers) from the cost level change amounts reflected

**Response of United States Postal Service witness Patelunas  
to Interrogatories of  
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on FY 00 and 01 rollforward change reports included in the updated filing ( Table A, LR I-410) for each non-personnel cost component.

(b) The amounts requested can be calculated in the same manner described in part a. except that personnel cost components would be used.

(c) Please see the response to OCA/USPS-ST44-6.

(d) The information requested is as follows:

(i) All non-personnel cost level factors were updated. See Chapter VIII of LR I-421.

(ii) See the rollforward change reports in LR I-410.

(iii) These amounts can be calculated by subtracting the cost level changes in the updated rollforward change reports (LR I-410) from the original rollforward change reports (LR I-127) for each non-personnel cost component.

(iv) Confirmed that the most recent DRI data available in time to incorporate in the update and still meet the filing deadline was used.

(e) The information requested is as follows:

(i) All personnel cost level factors were updated. See pages 328 and 329 of LR I-127 for updated cost level personnel factors.

**Response of United States Postal Service witness Patelunas  
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**Response continued:**

- (ii) See the rollforward change reports in LR I-410.
- (iii) These amounts can be calculated by subtracting the cost level changes in the updated rollforward change reports (LR I-410) from the original rollforward change reports (LR I-127) for each personnel cost component.
- (iv) Confirmed that the most recent data consistent with the rollforward factor model and available in time to incorporate in the update and still meet the filing deadline were used.

**Response of United States Postal Service witness Patelunas  
to Interrogatories of  
Office of the Consumer Advocate**

**OCA/USPS-ST44-11.** The following interrogatory refers to the Postal Service's response to P.O. Information Request No. 14 (June 29, 2000), part d, Attachment I.

- (a) In preparing your supplemental filing, did you incorporate the cost reduction programs listed under the column identified as "Order No. 1294," of Attachment I? If not, for each program listed on Attachment I, please indicate the total amount of the cost reduction you did incorporate.
- (b) For each program identified in the column identified as "Order No. 1294" of Attachment I, please provide the date(s) each forecast was reviewed and/or updated. If the specific date is not known, please confirm that you used the most current data available. If you are unable to confirm, please explain.
- (c) In Attachment I, the column identified as "Order No. 1294" has a line item identified as "Field Reserve" with a value of (\$200) million. Please confirm that the (\$200) million reduces the total cost reduction projection from \$744 million to \$544 million. If you are unable to confirm, please explain.
- (d) In Attachment I, please confirm that the column identified as "POIR 13" has a line item identified as "Field Reserve" with a value of (\$200) million. Please confirm that the (\$200) million reduces the total cost reduction projection from \$750 million to \$550 million. If you are unable to confirm, please explain.
- (e) Is the "Field Reserve" of \$200 million similar to a "contingency provision?" If not, please explain.

**Response:**

- (a) Yes
- (b) Confirmed that the most current data available were used.
- (c) Confirmed.
- (d) Confirmed.
- (e) Redirected to the Postal Service.

**RESPONSE OF WITNESS PATELUNAS TO INTERROGATORIES OF  
OFFICE OF THE CONSUMER ADVOCATE**

**OCA/USPS-ST44-13.** Please refer to the Attachment to this interrogatory. The Attachment compares the "after-rates" effects on costs for the "Statements of Revenue and Expense" filed by witness Tayman as Exh. USPS-9A on January 12, 2000, with the "Statements of Revenue and Expense" filed by you as Exh. USPS-ST-44A on July 7, 2000. This question focuses on the marked difference in the "after-rates" effect on the "Clerks and Mailhandlers" cost segment as compared to all the other segments.

- (a) Please explain in full why the "after-rates" effect on Clerks and Mailhandlers costs is so slight in your exhibit (a 0.9% after-rates effect) versus a 1.7% after-rates effect in witness Tayman's exhibit. (Observe from the Attachment that no other cost segment displays this phenomenon.)
- (b) If this effect is due to a non-volume-variable "cost reduction" or "other program" change, please so state. Also, provide citations to your testimony or exhibits, or any Postal Service library references, that shed light on this phenomenon.
- (c) If this effect is due to a "cost reduction" or "other program" change, explain what distribution key was used to distribute the change to the classes and subclasses.

**RESPONSE:**

- (a) The major cause of the difference is the larger after rates workyear mix adjustment in the updated filing. In the original filing, the difference between before and after rates was only -\$3.0 million. In the updated filing, this difference is \$144 million. Without this difference, the before rates to after rates change would be same in the updated filing as in the original filing. The reason for the changes in workyear mix are explained on page 7 of my testimony.
- (b) See the response to part a.
- (c) See the response to part a.

**Attachment to Interrogatory  
OCA/USPS-ST-44-13**

|  | PATELUNAS      |                |              |             | TAYMAN         |                |            |             |
|--|----------------|----------------|--------------|-------------|----------------|----------------|------------|-------------|
|  | TYBR           | TYAR           | Difference   | %           | TYBR           | TYAR           | Difference | %           |
| Postmasters                                | 1839.5         | 1832.8         | 6.7          | 0.4%        | 1876.3         | 1869.4         | 6.9        | 0.4%        |
| Managers, Supervisors & Technical          | 3830.5         | 3790.9         | 39.6         | 1.0%        | 3822           | 3782.6         | 39.4       | 1.0%        |
| Clerks & Mailhandlers                      | 19269.6        | 19088.3        | 181.3        | 0.9%        | 19442.5        | 19118.1        | 324.4      | 1.7%        |
| Cag K Clerks                               | 8.7            | 8.6            | 0.1          | 1.1%        | 9.7            | 9.6            | 0.1        | 1.0%        |
| City Carriers                              | 13718.2        | 13571          | 145.2        | 1.1%        | 13787.1        | 13638.1        | 149        | 1.1%        |
| Vehicle Service Drivers                    | 529.9          | 518.3          | 11.6         | 2.2%        | 523            | 511.9          | 11.1       | 2.1%        |
| Spec. Delivery Messengers                  | 0              | 0              | 0            |             | 0              | 0              | 0          |             |
| Rural Carriers                             | 4507.9         | 4462.7         | 45.2         | 1.0%        | 4399.9         | 4355.6         | 44.3       | 1.0%        |
| Custodial & Maintenance                    | 2799.9         | 2788.6         | 11.3         | 0.4%        | 2791.9         | 2780           | 11.9       | 0.4%        |
| Motor Vehicle Services                     | 738.3          | 736.6          | 1.7          | 0.2%        | 724.3          | 722.7          | 1.6        | 0.2%        |
| Miscellaneous Local Operations             | 361.4          | 361.2          | 0.2          | 0.1%        | 328            | 327.8          | 0.2        | 0.1%        |
| Contract Transport                         | 4774.9         | 4635           | 139.9        | 2.9%        | 4755.1         | 4619.6         | 135.5      | 2.8%        |
| Building Occupancy                         | 1582.7         | 1582.7         | 0            | 0.0%        | 1633.7         | 1633.7         | 0          | 0.0%        |
| Research & Developmt                       | 45.3           | 45.3           | 0            | 0.0%        | 45.3           | 45.3           | 0          | 0.0%        |
| Equip. Maint. & Mgmt Training Support      | 52.5           | 52.5           | 0            | 0.0%        | 48.5           | 48.5           | 0          | 0.0%        |
| Supplies & Services                        | 4077.4         | 4070           | 7.4          | 0.2%        | 3814.2         | 3807.5         | 6.7        | 0.2%        |
| HQ, Adminis., Corp. Personnel              | 5883.5         | 5883.5         | 0            | 0.0%        | 5767.2         | 5767.2         | 0          | 0.0%        |
| Depreciation, Write-Offs, Claims, Interest | 4330.2         | 4205.4         | 124.8        | 2.9%        | 4274.8         | 4150           | 124.8      | 2.9%        |
| Final Adjustments                          | 8.2            | 8.6            | 0.6          | 6.5%        | 3              | 2.8            | 0.2        | 6.7%        |
| <b>TOTAL ACCRUED COSTS</b>                 | <b>68357.5</b> | <b>67642.1</b> | <b>715.4</b> | <b>1.0%</b> | <b>68046.6</b> | <b>67190.6</b> | <b>856</b> | <b>1.3%</b> |

**RESPONSE OF WITNESS PATELUNAS TO INTERROGATORIES OF  
OFFICE OF THE CONSUMER ADVOCATE**

**OCA/USPS-ST44-14.** Please confirm that your FY 2000 estimate of "Supplies & Services" is \$255 million higher than witness Tayman's (\$3805.6 million – 3550.6 million, from Exh. USPS-ST-44A and Exh. USPS 9A, respectively). Explain all underlying assumptions and changes that cause such a dramatic increase in this cost. 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.

**RESPONSE:**

Confirmed. In the original filing, Headquarters Administered Programs and Corporate wide Activities costs for FY 2000 and FY 2001 were allocated to component using the same percentage distribution as the FY 1999 line item operating budget (internal format) and FY 1998 actual expenses. That is, the FY 2000 total operating budget was first allocated to line item using the FY 1999 plan distribution, and then, within line, to account number using the actual FY 1998 distribution. Account number amounts were then rolled up to component totals. See HQPRO\_00, Library Reference I-127, Section VIa. In the update, the FY 2000 operating budget by line item was used, and distribution to account numbers was based on FY 1999 actual expenses. See HQPRO\_0r, Library Reference I—421, Section Va. The shift between cost segment 16 (Supplies and Services) and other cost segments in the update is due to the differences in the calculated FY 2000 plan distribution, based on the FY 1999 operating budget, used in the original filing and the FY 2000 operating budget used in the revised filing. The total amount allocated for Headquarters Administered Programs and Corporate Wide Activities in the original filing and the update is the same.



**RESPONSE OF WITNESS PATELUNAS TO INTERROGATORIES OF  
OFFICE OF THE CONSUMER ADVOCATE**

**OCA/USPS-ST44-15.** Please confirm that your TYBR estimate of "Supplies & Services" is \$263.2 million higher than witness Tayman's (\$4077.4 million – 3814.2 million, from Exh. USPS-ST-44A and Exh. USPS 9A, respectively). Explain all underlying assumptions and changes that cause such a dramatic increase in this cost. 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.

**RESPONSE:**

Please see my response to OCA/USPS-ST44-14. In addition, FY 2001 supplies and services costs are affected by several new and updated programs shown in lavender in Library Reference I-421, Section IVb, SPTDC\_0r, Non Pers Other Programs.

**RESPONSE OF WITNESS PATELUNAS TO INTERROGATORIES OF  
OFFICE OF THE CONSUMER ADVOCATE**

**OCA/USPS-ST44-16.** Please confirm that your FY2000 estimate of "HQ & Area Admin. & Corporate Personnel Costs" is \$96 million higher than witness Tayman's (\$5510.7 million – 5414.7 million, from Exh. USPS-ST-44A and Exh. USPS 9A, respectively). Explain all underlying assumptions and changes that cause such a dramatic increase in this cost. 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.

**RESPONSE:**

The increase in FY 00 cost segment 18 costs relates mainly to the other programs column. All changes from the original filing are highlighted in lavender in the machine readable copy of LR I-421. The updated amounts can be compared to the original amounts reflected in LR I-127 to determine the differences. The major cause of the increase in FY 00 is workers' compensation which increased by \$112 million from the original filing.

**RESPONSE OF WITNESS PATELUNAS TO INTERROGATORIES OF  
OFFICE OF THE CONSUMER ADVOCATE**

**OCA/USPS-ST44-17.** Please confirm that your TYBR estimate of "HQ & Area Admin. & Corporate Personnel Costs" is \$116.3 million higher than witness Tayman's (\$5883.5 million - 5767.2 million, from Exh. USPS-ST-44A and Exh. USPS 9A, respectively). Explain all underlying assumptions and changes that cause such a dramatic increase in this cost. 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.

**RESPONSE:**

Please see my response to OCA/USPS-ST44-16. The major cause of the increase in TYBR is workers' compensation which increased by \$83 million from the original filing.

**RESPONSE OF WITNESS PATELUNAS TO INTERROGATORIES OF  
OFFICE OF THE CONSUMER ADVOCATE**

**OCA/USPS-ST-44-18.** Please refer to Exhibit USPS-ST-44AB. In the table comparing "Key Inflation Indices" in the original filing versus the revised filing, the % change in annual index for FY 2000, "CPI-Urban Wage and Clerical Workers," has been an increase of 0.56%, *i.e.*, 3.29% for the revised filing versus 2.73% in the original filing. Please give a ballpark estimate for the percentage of the \$65.1715 billion total accrued cost figure for FY 2000 that is directly affected by the CPI-Urban Wage and Clerical Workers index. Also state all cost segments/components directly affected by use of the CPI-Urban Wage and Clerical Workers index.

**RESPONSE:**

The non-personnel cost components directly impacted by the CPI are documented in Chapter I Appendix 2, and Chapter IV Section c. of LR I-127 and Chapter III Section c. of LR I-421. The impact of the updated CPI forecast can be determined by subtracting the cost level change column for the impacted cost components on updated rollforward change reports from the cost level change amounts for the same cost components in the original filing. The CPI also impacts personnel costs indirectly through Cost of Living Allowances. The impact of the updated CPI forecast on COLAs can be determined by comparing the COLA amounts on Exhibit USPS ST-44J to the COLA amounts on Exhibit 9Q. The CPI also impacts Annuitant COLA. The impact of the updated CPI forecast on annuitant COLA can be determined by changing the CPI inputs in the Annuitant COLA model (Chapter V Section d. of LR I-421) back to the CPI inputs reflected in the original filing (Chapter VI Section d. of LR I-127). Repricing of Annual Leave and CSRS Unfunded Liability are also impacted by COLAs. The impact of updated COLAs on these expense item can also be determined

**RESPONSE OF WITNESS PATELUNAS TO INTERROGATORIES OF  
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**RESPONSE:**

by substituting the original COLA estimates in the model in question for the current ones. This procedure can be followed for any expense item which is driven by the CPI or cola wage increases.

**RESPONSE OF WITNESS PATELUNAS TO INTERROGATORIES OF  
OFFICE OF THE CONSUMER ADVOCATE**

**OCA/USPS-ST-44-19.** Please refer to Exhibit USPS-ST-44AB. In the table comparing "Key Inflation Indices" in the original filing versus the revised filing, the annual index for FY 2000, "ECI—Wages and Salaries—Private Industry," has not been changed, *i.e.*, a 3.22 % index figure is used both in the revised filing and the original filing. Please give a ballpark estimate for the percentage of the \$65.1715 billion total accrued cost figure for FY 2000 that is directly affected by the ECI—Wages and Salaries—Private Industry index. Also state all cost segments/components directly affected by use of the ECI—Wages and Salaries—Private Industry index.

**RESPONSE:**

The estimation of FY 2000 labor costs was not directly impacted by the ECI. As I stated on page 2 of my testimony, "Postal Service wages represent the Postal Service's largest single expense, and the ECI is a key index because it was used as a benchmark for estimating changes in test year wage rates for bargaining unit employees whose labor contracts do not extend into the test year." The cost segments and components impacted by the ECI for FY 01 are those components with bargaining unit employees which are specified as applicable to personnel cost level factors in Chapter I, Appendix 1 of LR I-127. Those segments containing bargaining unit employees can be determined from Chapter VIIc of LR I-421.

**RESPONSE OF WITNESS PATELUNAS TO INTERROGATORIES OF  
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**OCA/USPS-ST-44-20.** Please refer to Exhibit USPS-ST-44AB. In the table comparing "Key Inflation Indices" in the original filing versus the revised filing, the % change in annual index for FY 2000, "Public Transportation," has been an increase of 4.67%, *i.e.*, 7.22% for the revised filing versus 2.55% in the original filing. Please give a ballpark estimate for the percentage of the \$65.1715 billion total accrued cost figure for FY 2000 that is directly affected by the Public Transportation index. Also state all cost segments/components directly affected by use of the Public Transportation index.

**RESPONSE:**

The non-personnel cost components directly impacted by the DRI indices are documented in Chapter I Appendix 2, and Chapter IV Section c. of LR I-127 and Chapter III Section c. of LR I-421. The impact of the each updated index can be determined by subtracting the cost level change column for the impacted cost components on updated rollforward change reports contained in LR I-410 from the cost level change amounts for the same cost components in the original filing.

**RESPONSE OF WITNESS PATELUNAS TO INTERROGATORIES OF  
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**OCA/USPS-ST-44-21.** Please refer to Exhibit USPS-ST-44AB. In the table comparing "Key Inflation Indices" in the original filing versus the revised filing, the % change in annual index for FY 2000, "Transportation Services," has been an increase of 2.39%, *i.e.*, 6.17% for the revised filing versus 3.78% in the original filing. Please give a ballpark estimate for the percentage of the \$65.1715 billion total accrued cost figure for FY 2000 that is directly affected by the Transportation Services index. Also state all cost segments/components directly affected by use of the Transportation Services index.

**RESPONSE:**

See the response to OCA/USPS-ST44-20.



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OFFICE OF THE CONSUMER ADVOCATE**

**OCA/USPS-ST-44-22.** Please refer to Exhibit USPS-ST-44AB. In the table comparing "Key Inflation Indices" in the original filing versus the revised filing, the % change in annual index for FY 2000, "Rent," has been a decrease of 0.04%, *i.e.*, 3.29% for the revised filing versus 3.33% in the original filing. Please give a ballpark estimate for the percentage of the \$65.1715 billion total accrued cost figure for FY 2000 that is directly affected by the Rent index. Also state all cost segments/components directly affected by use of the Rent index.

**RESPONSE:**

See the response to OCA/USPS-ST44-20.

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OFFICE OF THE CONSUMER ADVOCATE**

**OCA/USPS-ST-44-23.** Please refer to Exhibit USPS-ST-44AB. In the table comparing "Key Inflation Indices" in the original filing versus the revised filing, the % change in annual index for FY 2000, "Supplies & Materials," has been an increase of 1.28%, i.e., 4.42% for the revised filing versus 3.14% in the original filing. Please give a ballpark estimate for the percentage of the \$65.1715 billion total accrued cost figure for FY 2000 that is directly affected by the Supplies & Materials index. Also state all cost segments/components directly affected by use of the Supplies & Materials index.

**RESPONSE:**

See the response to OCA/USPS-ST44-20.

**RESPONSE OF WITNESS PATELUNAS TO INTERROGATORIES OF  
OFFICE OF THE CONSUMER ADVOCATE**

**OCA/USPS-ST-44-24.** Please refer to Exhibit USPS-ST-44AB. In the table comparing "Key Inflation Indices" in the original filing versus the revised filing, the % change in annual index for FY 2000, "Electricity," has been an increase of 2.94%, *i.e.*, 2.69% for the revised filing versus - 0.25% in the original filing. Please give a ballpark estimate for the percentage of the \$65.1715 billion total accrued cost figure for FY 2000 that is directly affected by the Electricity index. Also state all cost segments/components directly affected by use of the Electricity index.

**RESPONSE:**

See the response to OCA/USPS-ST44-20.

**RESPONSE OF WITNESS PATELUNAS TO INTERROGATORIES OF  
OFFICE OF THE CONSUMER ADVOCATE**

**OCA/USPS-ST-44-25.** Please refer to Exhibit USPS-ST-44AB. In the table comparing "Key Inflation Indices" in the original filing versus the revised filing, the % change in annual index for FY 2000, "Gas & Oil," has been an increase of 13.03%, *i.e.*, 30.69% for the revised filing versus 17.66% in the original filing. Please give a ballpark estimate for the percentage of the \$65.1715 billion total accrued cost figure for FY 2000 that is directly affected by the Gas & Oil index. Also state all cost segments/components directly affected by use of the Gas & Oil index.

**RESPONSE:**

See the response to OCA/USPS-ST44-20.

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**OCA/USPS-ST-44-26.** Please refer to Exhibit USPS-ST-44AB. In the table comparing "Key Inflation Indices" in the original filing versus the revised filing, the % change in annual index for FY 2000, "Air Freight," has been a decrease of 1.08%, *i.e.*, 0.90% for the revised filing versus 1.98% in the original filing. Please give a ballpark estimate for the percentage of the \$65.1715 billion total accrued cost figure for FY 2000 that is directly affected by the Air Freight index. Also state all cost segments/components directly affected by use of the index.

**RESPONSE:**

See the response to OCA/USPS-ST44-20.

**RESPONSE OF WITNESS PATELUNAS TO INTERROGATORIES OF  
OFFICE OF THE CONSUMER ADVOCATE**

**OCA/USPS-ST-44-27.** Please refer to Exhibit USPS-ST-44AB. In the table comparing "Key Inflation Indices" in the original filing versus the revised filing, the % change in annual index for FY 2000, "Interstate Trucking Costs," has been an increase of 1.16%, i.e., 3.80% for the revised filing versus 2.64% in the original filing. Please give a ballpark estimate for the percentage of the \$65.1715 billion total accrued cost figure for FY 2000 that is directly affected by the Interstate Trucking Costs index. Also state all cost segments/components directly affected by use of the Interstate Trucking Costs index.

**RESPONSE:**

See the response to OCA/USPS-ST44-20.

**RESPONSE OF WITNESS PATELUNAS TO INTERROGATORIES OF  
OFFICE OF THE CONSUMER ADVOCATE**

**OCA/USPS-ST-44-28.** Please confirm the following statements:

- (a) The Postal Service's revised total accrued cost estimate for FY 2000 reflects more current key inflation indices than the original total accrued cost estimate for FY 2000 filed on January 12, 2000. If you do not confirm, then present all reasons for not confirming.
- (b) As a result of the use of more current key inflation indices in the revised filing (versus the original filing), the revised total accrued cost estimate for FY 2000 is likely to be more accurate than the original estimate. If you do not confirm, then present all reasons for not confirming.

**RESPONSE:**

- (a) Confirmed.
- (b) Confirmed that the revised cost level changes based on a later DRI forecast are likely to be more accurate. All things being equal the overall estimate is also likely to be more accurate; however, I would note that all things are seldom equal. For example, the Postal Service is still looking for ways to accomplish its FY 2000 financial goal of a \$100 million net income.

**RESPONSE OF WITNESS PATELUNAS TO INTERROGATORIES OF  
OFFICE OF THE CONSUMER ADVOCATE**

**OCA/USPS-ST-44-29.** Please confirm the following statements:

- (a) The Postal Service's revised total accrued cost estimate for the FY 2001 test year reflects more current key inflation indices than the original total accrued cost estimate for the FY 2001 test year filed on January 12, 2000. If you do not confirm, then present all reasons for not confirming.
- (b) As a result of the use of more current key inflation indices in the revised filing (versus the original filing), the revised total accrued cost estimate for the FY 2001 test year is likely to be more accurate than the original estimate. If you do not confirm, then present all reasons for not confirming.

**RESPONSE:**

- (a) Confirmed.
- (b) Confirmed that the revised cost level changes based on a later DRI forecast are likely to be more accurate. However, other updates were made to test year costs such as cost reductions related to breakthrough productivity. I confirm that these cost reductions are a more up to date reflection of Postal Service goals. However, I have been informed that the accomplishment of these cost reductions will be challenging and has a higher degree of risk. Therefore, I am unable to confirm that the updated total test year costs are likely to be more accurate than those in the original filing.



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**OCA/USPS-ST-44-30.** For each of the Key Inflation Indices set forth in Exh. USPS-ST-44AB, state the date that original filing inflation index was generated, *i.e.*, for (a) CPI—Urban Wage and Clerical Workers, (b) ECI—Wages and Salaries—Private Industry, (c) Public Transportation, (d) Transportation Services, (e), Rent, (f) Supplies & Materials, (g) Electricity, (h) Gas & Oil, (i) Air Freight, and (j) Interstate Trucking Costs. Then state how many months later the revised filing inflation index was generated. Provide this information for all Key Inflation Indices used for FY 2000 and FY 2001 (Test Year).

**RESPONSE:**

The Trend 11/99 forecast was released on or about 11/28/99 and the Control 11/99 forecast was released on or about 11/15/99. Please see the response to OCA/USPS-ST44-9 for the release dates of the forecasts used in the update. The updated Trend forecast was released 3 months after the release of the original forecast and the updated Control forecast was released 6 months after the original forecast.

**RESPONSE OF WITNESS PATELUNAS TO INTERROGATORIES OF  
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**OCA/USPS-ST-44-31.** Please refer to USPS-T-9 at 19, lines 3-14. Witness Tayman applied the formula "Employment Cost Index for Wages and Salaries for Private Industry, less one percent, (ECI minus 1) for bargaining units that do not have contracts effective in the test year." Have you applied the same formula, *i.e.*, ECI minus 1, in your revised estimate of bargaining unit wages for the test year (excluding NALC whose contract extends through the test year)? If not, explain fully.

**RESPONSE:**

No. As stated at page 3 of USPS-ST-44, the test year labor contract assumption has been refined. As I indicated there, after "subtracting the impact of FY 2000 carryover costs, the effective change in wages related to the new contract is 2.8 to 3.0 percent, or 1.7 to 1.8 percent less than the Employment Cost Index." This assumption emphasizes constraining the annualized impact of new wages effective under the new labor contract to less than the ECI. This results in holding the effective impact of wage changes (including carryover from the prior year) for each subsequent year to less than the ECI. For example, the total FY 01 annualized wage increase assumed for clerks under the new labor contract is \$1,108. Because the assumed effective date is 11/18/00, the amount effective for FY 01 is \$962 and the carryover into FY 02 would be \$146. Assuming (hypothetically) an additional increase under the new labor contract of \$1,108 or 3.0% effective on 11/18/01, would result in holding the effective wage change (amount effective in FY 02 from the wage increase assumed to effective on 11/18/01 plus the carryover from the wage increase assumed to be effective on 11/18/00) for FY 02 to less than the forecasted lagged change in the ECI.

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**RESPONSE continued:**

I have also been advised that this assumption is consistent with the proposed FY 01 Operating Budget which did not exist when the case was originally filed. The refined assumption results in an effective test year change in wages, including carryover from the previous labor contract, equal to the one year lagged forecast for the ECI instead of ECI-1 which was the effective amount that resulted from the method used in the original filing.

**RESPONSE OF WITNESS PATELUNAS TO INTERROGATORIES OF  
OFFICE OF THE CONSUMER ADVOCATE**

**OCA/USPS-ST-44-32.** Please refer to the following news item published in *PostCom Bulletin*, July 14, 2000:

**STRASSER REVEALS NET LOSS, BOG APPROVES FUNDING.** At the July 11 USPS Board of Governors meeting, Acting Chief Financial Officer and Executive Vice President Richard J. Strasser, Jr. . . . that a big portion of the unplanned costs in fiscal year 2000 was due to workers' compensation increases of \$100 million, transportation and fuel cost increases of \$240 million, and cost of living raises of \$50 million. Every penny increase in the price of gasoline adds \$5 million to annual transportation costs.

- (a) Has PostCom accurately reported Mr. Strasser's statements to the Board of Governors? If not, please provide the correct figures and state their source.
- (b) Have the cited \$100 million of workers' compensation increases been directly incorporated into the FY 2000 total accrued cost estimate presented in USPS-ST-44A? If so, explain how it has been incorporated, including citations to testimony, other exhibits, and library references. If this increase has not been incorporated, explain why not.
- (c) Have the cited \$240 million of transportation and fuel increases been directly incorporated into the FY 2000 total accrued cost estimate presented in USPS-ST-44A? If so, explain how it has been incorporated, including citations to testimony, other exhibits, and library references. If this increase has not been incorporated, explain why not.
- (d) Have the cited \$50 million of cost of living raises been directly incorporated into the FY 2000 total accrued cost estimate presented in USPS-ST-44A? If so, explain how it has been incorporated, including citations to testimony, other exhibits, and library references. If this increase has not been incorporated, explain why not.

**RESPONSE:**

Please note that the numbers quoted by Post Com represent estimated cost impacts relative to selected expense categories in the FY 00 Operating Budget, not the FY 00 estimates reflected in the Docket No. R2000 rate filing. The rate case and the Operating Budget were developed at different times, used different methodologies

**RESPONSE OF WITNESS PATELUNAS TO INTERROGATORIES OF  
OFFICE OF THE CONSUMER ADVOCATE**

**RESPONSE continued:**

and processes, have different formats, and were developed for different purposes. As a result, some expense categories may be difficult to reconcile.

- (a) To the best of my knowledge, yes.
- (b) As stated on page 6 of my testimony, FY 2000 workers' compensation costs have been increased to \$848 million or \$112 million. The changes are highlighted in lavender in the machine readable version of LR I-421 and documented in LR I-422.
- (c) The DRI indexes related to transportation and fuel have been updated to reflect more recent actual data and more recent trends in these costs. Please see the response to OCA/USPS-ST44-20 for an explanation of how the impact of these changes can be calculated.
- (d) The CPI-W index has been updated to reflect more recent actual data and more recent trends in consumer prices. The impact of the updated CPI-W forecast has been reflected in the updated COLA calculations which are detailed in Chapter VII of LR I-421. The FY 2000 cost level impact of wage changes due to COLA can be determined by comparing the total reflected in the COLA columns in Exhibit USPS-ST-44J page 1, to the total reflected in the COLA columns in Exhibit USPS-9Q page 2.

1 CHAIRMAN GLEIMAN: I believe I misspoke a moment  
2 ago. This is still Postal Service testimony, and as a  
3 matter of practice, we don't transcribe Postal Service  
4 Testimony into the record. We receive it into evidence.  
5 Mr. Court Reporter, if you'd please make a note to yourself,  
6 correcting that, that the material is received into evidence  
7 but not transcribed into the record, talking about testimony  
8 now, and not Designated Written Cross Examination.

9 Mr. Hall?

10 MR. HALL: Thank you, Mr. Chairman.

11 CROSS EXAMINATION

12 BY MR. HALL:

13 Q Mr. Patelunas, I'm going to hand you two copies of  
14 your responses to Interrogatories MMA/USPS-ST-44-1 through  
15 7.

16 A Okay.

17 Q I would ask you to examine them, and I would point  
18 out to you that I guess late yesterday, the Postal Service  
19 filed some additional charts or tables that were part of our  
20 original questions that had been omitted by accident from  
21 your responses, and I have put those in behind each answer.

22 A Okay, here is 1 to 7 and 8 and 9. The 8 and 9  
23 were redirected to the Postal Service.

24 Q You're right. Now we've removed 8 and 9. With  
25 respect to 1 through 7, would your answers be the same today

1 as they were when you filed these responses?

2 A Yes.

3 Q No changes or corrections?

4 A None.

5 MR. HALL: Mr. Chairman, with that, I would like  
6 to hand the Reporter two copies and ask that they be  
7 transcribed into the record.

8 CHAIRMAN GLEIMAN: They will be transcribed into  
9 the record and admitted into evidence.

10 [Additional Designated Written  
11 Cross Examination of Richard  
12 Patelunas, MMA/USPS-ST-44-1 through  
13 7, was received into evidence and  
14 transcribed into the record.]

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**Response of United States Postal Service witness Patelunas  
to Interrogatories of  
Major Mailers Association**

**MMA/USPS-ST44-1** Please refer to EXHIBIT USPS-ST-44Y which splits up Standard Mail (A) Single Piece costs between First Class and Priority.

- (a) For what time period are the costs shown on pages 1-6?
- (b) Please confirm that the cost figures shown are exact dollar figures (as opposed to thousands of dollars). If you cannot confirm, please explain.
- (c) Please confirm that the cost analysis shown in this exhibit applies only to the first quarter of FY 99. If you cannot confirm, please explain.
- (d) Please confirm that the costs for the second, third and fourth quarters of FY 99 were attributed to First-Class and Priority Mail using the In-Office Cost System. If you cannot confirm please explain.
- (e) Please confirm that the costs are split up between First-Class and Priority on a 95%/5% basis, respectively
- (f) Are the Standard Mail (A) Single Piece volumes also split up between First-Class and Priority on a 95%/5% basis? If not, please explain.
- (g) Does this analysis assume that the unit cost of pieces being split up between First-Class and Priority is the same even though lighter weight pieces shift to First-Class and higher weight pieces shift to Priority? If not, please explain.
- (h) If your answer to part (g) is yes, please explain why the unit costs are assumed to be the same, i.e. independent of weight and/or shape.
- (i) Please confirm that when you prepared your testimony and the Postal Service's FY 1999 Update, you had actual data (i.e. data from Q3 and Q4 of FY 1999 and Q1 and Q2 of FY 2000) that accounted for all migrations of Standard Mail (A) Single Piece and Priority Mail to First-Class Single Piece mail. If you cannot confirm, please explain why not
- (j) Please explain why you did not simply use actual data regarding migrations of Standard Mail (A) Single Piece and Priority Mail to First-Class Single Piece mail in order to determine TYBR and TYAR volumes of First-Class Single Piece mail.



**Response of United States Postal Service witness Patelunas  
to Interrogatories of  
Major Mailers Association**

**Response:**

- (a) The time period is Fiscal Year 1999.
- (b) Not confirmed. The dollar amounts shown are in thousands of dollars.
- (c) Confirmed that Standard (A) Single Piece existed only in Quarter I of Fiscal Year 1999.
- (d) Not confirmed. Costs for Quarters II, III and IV of Fiscal Year 1999 were attributed to classes, subclasses and special services with the use of all sampling systems: In-Office Cost System, City Carrier Cost System, Rural Carrier Cost System, TRACS, etc.
- (e) Confirmed that the split in the exhibit is between First-Class and Priority on a 95%/5% basis.
- (f) It is my understanding that volumes are also split on the 95%/5% basis.
- (g) As the exhibit shows, I split the Standard (A) Single Piece cost by component; I did not use unit cost.
- (h) Not applicable.
- (i) Confirmed that the Q3 and Q4 of FY1999 and the Q1 and Q2 of FY2000 data were available.
- (j) I maintained the same methodology in the update that was used when the Request was filed because I didn't have time to consider new methodologies.

**Response of United States Postal Service witness Patelunas  
to Interrogatories of  
Major Mailers Association**

**MMA/USPS-ST44-2** Please refer to EXHIBIT USPS-ST-44W where you list updated volume variable costs by subclass for the test year after rates. Please provide the volumes and revenues associated with those costs by filling in the attached table marked "Attachment to MMA/USPS-ST44-2." Please provide the sources for each figure as well.

**Response:**

The volumes associated with the costs as presented in USPS-LR-I-410 can be found in Exhibit USPS-T14A, page 10. The revenues associated with the costs as presented in USPS-LR-I-410 can be found in two places: 1) aggregate amounts are shown in Exhibit USPS-ST44C, and 2) class, subclass and special service detail can be found in Exhibits USPS-32 B, as revised on 4/21/00.

Test Year After Rates Finances Using FY 99 Billing Determinants  
(\$000's)

| <u>Description</u>             | <u>Vol Variable<br/>Costs</u><br>(1) | <u>Revenues</u><br>(2) | <u>Volumes</u><br>(3) |
|--------------------------------|--------------------------------------|------------------------|-----------------------|
| First-Class Mail               |                                      |                        |                       |
| Single-Piece Letters           | 13,565,269                           |                        |                       |
| Presort and Automation Letters | 5,081,635                            |                        |                       |
| Total Letters                  | 18,646,903                           |                        |                       |
| Single-Piece Cards             | 543,567                              |                        |                       |
| Presort and Automation Cards   | 173,866                              |                        |                       |
| Total Cards                    | 717,433                              |                        |                       |
| Total First-Class Mail         | 19,364,336                           |                        |                       |
| Priority Mail                  | 3,194,537                            |                        |                       |
| Express Mail                   | 467,914                              |                        |                       |
| Mailgrams                      | 854                                  |                        |                       |
| Periodicals                    |                                      |                        |                       |
| Within County                  | 86,222                               |                        |                       |
| Outside County                 | 2,345,698                            |                        |                       |
| Total Periodicals              | 2,431,920                            |                        |                       |
| Standard Mail (A)              |                                      |                        |                       |
| Regular                        | 6,512,735                            |                        |                       |
| Enhanced Carrier Route         | 2,629,439                            |                        |                       |
| Total Commercial               | 9,142,174                            |                        |                       |
| Nonprofit                      | 1,363,390                            |                        |                       |
| Enhanced Carrier Route         | 199,829                              |                        |                       |
| Total Nonprofit                | 1,563,219                            |                        |                       |
| Total Standard Mail (A)        | 10,705,393                           |                        |                       |
| Standard Mail (B)              |                                      |                        |                       |
| Parcel Post                    | 1,077,003                            |                        |                       |
| Bound Printed Matter           | 498,658                              |                        |                       |
| Special Rate                   | 357,987                              |                        |                       |
| Library Rate                   | 54,015                               |                        |                       |
| Total Standard Mail (B)        | 1,987,665                            |                        |                       |
| Penalty                        |                                      |                        |                       |
| Free-for-the-Blind             | 31,833                               |                        |                       |
| Total Domestic Mail            | 38,184,452                           |                        |                       |
| International Mail             | 1,570,744                            |                        |                       |
| Total All Mail                 | 39,755,195                           |                        |                       |
| Special Services               |                                      |                        |                       |
| Registry                       | 100,215                              |                        |                       |
| Certified Mail                 | 460,071                              |                        |                       |
| Insurance                      | 79,550                               |                        |                       |
| COD                            | 16,628                               |                        |                       |
| Money Orders                   | 165,714                              |                        |                       |
| Stamped Cards                  | 3,048                                |                        |                       |
| Stamped Envelopes              | 11,077                               |                        |                       |
| Box/Caller Service             | 586,317                              |                        |                       |
| Other                          | 123,488                              |                        |                       |
| Total Special Services         | 1,546,109                            |                        |                       |
| Total Mail & Services          | 41,301,304                           |                        |                       |
| Other Costs                    | 28,031,846                           |                        |                       |
| Other Income                   |                                      |                        |                       |
| Prior Years Loss Recovery      | 317,709                              |                        |                       |
| Continuing Appropriations      |                                      |                        |                       |
| Investment Income              |                                      |                        |                       |
| Grand Total                    | 69,650,859                           |                        |                       |

**Response of United States Postal Service witness Patelunas  
to Interrogatories of  
Major Mailers Association**

**MMA/USPS-ST44-3** Please refer to EXHIBIT USPS-ST-44W where you list updated volume variable costs by subclass for the test year after rates. Please provide the volumes and revenues associated with those costs by filling in attached table marked "Attachment to MMA/USPS-ST44-3." Please provide the sources for each figure as well.

**Response:**

Assuming the question refers to the test year before rates, please refer to Exhibit USPS-ST44T for the appropriate volume variable costs. The volumes associated with the costs as presented in USPS-LR-I-410 can be found in Exhibit USPS-T14A, page 9. The revenues associated with the costs as presented in USPS-LR-I-410 can be found in two places: 1) aggregate amounts are shown in Exhibit USPS-ST44C, and 2) class, subclass and special service detail can be found in Exhibit USPS-32 A, as revised on 4/21/00.

Test Year Before Rates Finances Using FY 99 Billing Determinants  
(\$000's)

| Description                    | Vol Variable<br>Costs<br>(1) | Revenues<br>(2) | Volumes<br>(3) |
|--------------------------------|------------------------------|-----------------|----------------|
| First-Class Mail               |                              |                 |                |
| Single-Piece Letters           | 13,586,081                   |                 |                |
| Presort and Automation Letters | 5,115,088                    |                 |                |
| Total Letters                  | 18,701,169                   |                 |                |
| Single-Piece Cards             | 556,627                      |                 |                |
| Presort and Automation Cards   | 177,569                      |                 |                |
| Total Cards                    | 734,196                      |                 |                |
| Total First-Class Mail         | 19,435,365                   |                 |                |
| Priority Mail                  | 3,390,168                    |                 |                |
| Express Mail                   | 462,139                      |                 |                |
| Mailgrams                      | 850                          |                 |                |
| Periodicals                    |                              |                 |                |
| Within County                  | 87,046                       |                 |                |
| Outside County                 | 2,371,322                    |                 |                |
| Total Periodicals              | 2,458,368                    |                 |                |
| Standard Mail (A)              |                              |                 |                |
| Regular                        | 6,784,313                    |                 |                |
| Enhanced Carrier Route         | 2,685,551                    |                 |                |
| Total Commercial               | 9,469,864                    |                 |                |
| Nonprofit                      | 1,363,812                    |                 |                |
| Enhanced Carrier Route         | 202,982                      |                 |                |
| Total Nonprofit                | 1,566,795                    |                 |                |
| Total Standard Mail (A)        | 11,036,659                   |                 |                |
| Standard Mail (B)              |                              |                 |                |
| Parcel Post                    | 1,097,363                    |                 |                |
| Bound Printed Matter           | 512,221                      |                 |                |
| Special Rate                   | 361,266                      |                 |                |
| Library Rate                   | 54,852                       |                 |                |
| Total Standard Mail (B)        | 2,025,702                    |                 |                |
| Penalty                        |                              |                 |                |
| Free-for-the-Blind             | 31,724                       |                 |                |
| Total Domestic Mail            | 38,840,974                   |                 |                |
| International Mail             | 1,619,092                    |                 |                |
| Total All Mail                 | 40,460,066                   |                 |                |
| Special Services               |                              |                 |                |
| Registry                       | 104,550                      |                 |                |
| Certified Mail                 | 492,029                      |                 |                |
| Insurance                      | 80,900                       |                 |                |
| COD                            | 16,708                       |                 |                |
| Money Orders                   | 170,767                      |                 |                |
| Stamped Cards                  | 3,046                        |                 |                |
| Stamped Envelopes              | 11,061                       |                 |                |
| Box/Callier Service            | 593,497                      |                 |                |
| Other                          | 122,876                      |                 |                |
| Total Special Services         | 1,595,433                    |                 |                |
| Total Mail & Services          | 42,055,499                   |                 |                |
| Other Costs                    | 28,010,934                   |                 |                |
| Other Income                   |                              |                 |                |
| Prior Years Loss Recovery      | 317,709                      |                 |                |
| Continuing Appropriations      |                              |                 |                |
| Investment Income              |                              |                 |                |
| Grand Total                    | 70,384,142                   |                 |                |

**Response of United States Postal Service witness Patelunas  
to Interrogatories of  
Major Mailers Association**

**MMA/USPS-ST44-4** Please refer to the attachment to this interrogatory marked "Attachment to MMA/USPS-ST44-4" that compares the updated test year after rates volume variable costs by subclass from EXHIBIT USPS-ST-44W with the original (revised) test year after rates volume variable costs by subclass from USPS-T-32B.

- (a) Please confirm that all of the cost figures, differences and percent differences are correct. If you cannot confirm, please make any necessary corrections and explain each of those corrections separately.
- (b) Please provide a full, detailed explanation for each of the changes that affect:
  - 1) First-Class Single Piece
  - 2) First-Class Presorted
  - 3) Standard Mail (A) Regular
  - 4) Standard Mail (A) ECR

**Response:**

(a) Not confirmed. I am not able to explain where some of the amounts in column (1), Updated Vol Variable Costs, of the Attachment to MMA/USPS-ST44-4 were found. I am providing the correct amounts from Exhibit USPS-ST44W and for each amount in column (1) that changes, the Difference in column (3) and the % Difference in the last column will also change. The following amounts from Exhibit USPS-ST44W should replace the amounts displayed in column (1), Updated Vol Variable Costs, in the Attachment to MMA/USPS-ST44-4:

**Response of United States Postal Service witness Patelunas  
to Interrogatories of  
Major Mailers Association**

**Response continued:**

|                                      |                       |
|--------------------------------------|-----------------------|
| <b>First-Class Mail</b>              |                       |
| Single-Piece Letters                 | 13,565,268            |
| Presort and Automation Letters       | 5,081,635             |
| Total Letters                        | 18,646,902            |
| <b>Total First-Class Mail</b>        | <b>19,364,335</b>     |
| <br><b>Priority Mail</b>             | <br><b>3,194,537</b>  |
| <br><b>Total Standard Mail (B)</b>   | <br><b>1,987,663</b>  |
| <br><b>Total All Mail</b>            | <br><b>39,755,198</b> |
| <br><b>Special Services</b>          |                       |
| Insurance                            | 75,549                |
| COD                                  | 16,289                |
| <b>Total Special Services</b>        | <b>1,546,109</b>      |
| <br><b>Total Mail &amp; Services</b> | <br><b>41,301,305</b> |
| <br><b>Prior Years Loss Recovery</b> | <br><b>311,700</b>    |
| <br><b>Grand Total</b>               | <br><b>69,644,851</b> |

It should be noted that the Prior Years Loss Recovery amount is found in Exhibit USPS-ST44A. Also, the line stubs in Attachment to MMA/USPS-ST44-4 do not exactly match the lines stubs shown in Exhibit USPS-ST44W. The amount shown for Periodicals Outside County in the attachment is the summation of the following lines in Exhibit USPS-ST44W: Nonprofit, Classroom and Regular Rate. The amount shown for Special Services Other in the attachment is the summation of the lines for Special Handling and Special Services Other in Exhibit USPS-ST44W.

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

Test Year After Rates Finances Using FY 99 Billing Determinants  
(\$000's)

| Description                    | Updated<br>Vol Variable<br>Costs<br>(1) | Original<br>Vol Variable<br>Cost<br>(1) | Difference<br>(3) | % Difference |
|--------------------------------|---|---|-------------------|--------------|
| First-Class Mail               |   |   |                   |              |
| Single-Piece Letters           | 13,565,269                              | 13,326,042                              | 239,227           | 1.80%        |
| Presort and Automation Letters | 5,081,635                               | 5,019,464                               | 62,171            | 1.24%        |
| Total Letters                  | 18,646,903                              | 18,345,506                              | 301,397           | 1.64%        |
| Single-Piece Cards             | 543,567                                 | 539,919                                 | 3,648             | 0.68%        |
| Presort and Automation Cards   | 173,866                                 | 168,958                                 | 4,908             | 2.90%        |
| Total Cards                    | 717,433                                 | 708,877                                 | 8,556             | 1.21%        |
| Total First-Class Mail         | 19,364,336                              | 19,054,383                              | 309,953           | 1.63%        |
| Priority Mail                  | 3,194,537                               | 3,064,062                               | 130,475           | 4.26%        |
| Express Mail                   | 467,914                                 | 480,984                                 | (13,070)          | -2.72%       |
| Mailgrams                      | 854                                     | 1,000                                   | (146)             | -14.62%      |
| Periodicals                    |   |   |                   |              |
| Within County                  | 86,222                                  | 81,397                                  | 4,825             | 5.93%        |
| Outside County                 | 2,345,698                               | 2,384,191                               | (38,493)          | -1.61%       |
| Total Periodicals              | 2,431,920                               | 2,465,588                               | (33,668)          | -1.37%       |
| Standard Mail (A)              |   |   |                   |              |
| Regular                        | 6,512,735                               | 6,823,933                               | (311,198)         | -4.56%       |
| Enhanced Carrier Route         | 2,629,439                               | 2,471,864                               | 157,575           | 6.37%        |
| Total Commercial               | 9,142,174                               | 9,295,797                               | (153,623)         | -1.66%       |
| Nonprofit                      | 1,363,390                               | 1,320,611                               | 42,779            | 3.24%        |
| Enhanced Carrier Route         | 199,829                                 | 208,577                                 | (8,748)           | -4.19%       |
| Total Nonprofit                | 1,563,219                               | 1,529,188                               | 34,031            | 2.23%        |
| Total Standard Mail (A)        | 10,705,393                              | 10,824,985                              | (119,592)         | -1.10%       |
| Standard Mail (B)              |   |   |                   |              |
| Parcel Post                    | 1,077,003                               | 1,052,158                               | 24,845            | 2.36%        |
| Bound Printed Matter           | 498,658                                 | 479,204                                 | 19,454            | 4.06%        |
| Special Rate                   | 357,987                                 | 301,195                                 | 56,792            | 18.86%       |
| Library Rate                   | 54,015                                  | 47,444                                  | 6,571             | 13.85%       |
| Total Standard Mail (B)        | 1,987,665                               | 1,880,001                               | 107,664           | 5.73%        |
| Penalty                        |   |   |                   |              |
| Free-for-the-Blind             | 31,833                                  | 40,348                                  | (8,515)           | -21.10%      |
| Total Domestic Mail            | 38,184,452                              | 37,811,351                              | 373,101           | 0.99%        |
| International Mail             | 1,570,744                               | 1,429,916                               | 140,828           | 9.85%        |
| Total All Mail                 | 39,755,195                              | 39,241,267                              | 513,928           | 1.31%        |
| Special Services               |   |   |                   |              |
| Registry                       | 100,215                                 | 85,204                                  | 15,011            | 17.62%       |
| Certified Mail                 | 460,071                                 | 461,746                                 | (1,675)           | -0.36%       |
| Insurance                      | 79,550                                  | 76,638                                  | 2,912             | 3.80%        |
| COD                            | 16,828                                  | 14,992                                  | 1,836             | 10.91%       |
| Money Orders                   | 165,714                                 | 153,995                                 | 11,719            | 7.61%        |
| Stamped Cards                  | 3,048                                   | 3,444                                   | (396)             | -11.49%      |
| Stamped Envelopes              | 11,077                                  | 12,544                                  | (1,467)           | -11.69%      |
| Box/Caller Service             | 586,317                                 | 589,226                                 | (2,909)           | -0.49%       |
| Other                          | 123,488                                 | 141,324                                 | (17,836)          | -12.62%      |
| Total Special Services         | 1,546,109                               | 1,539,113                               | 6,996             | 0.45%        |
| Total Mail & Services          | 41,301,304                              | 40,780,380                              | 520,924           | 1.28%        |
| Other Costs                    | 28,031,846                              | 27,978,701                              | 53,145            | 0.19%        |
| Other Income                   |   |   |                   |              |
| Prior Years Loss Recovery      | 317,709                                 | 268,257                                 | 49,452            | 18.43%       |
| Continuing Appropriations      |   |   |                   |              |
| Investment Income              |   |   |                   |              |
| Grand Total                    | 69,650,859                              | 69,027,338                              | 623,521           | 0.90%        |



**Response of United States Postal Service witness Patelunas  
to Interrogatories of  
Major Mailers Association**

**MMA/USPS-ST44-5** Please refer to the attachment to this interrogatory marked "Attachment to MMA/USPS-ST44-5" that compares the updated test year before rates volume variable costs by subclass from EXHIBIT USPS-ST-44W with the original (revised) test year after rates volume variable costs by subclass from USPS-T-32B.

- (a) Please confirm that all of the cost figures, differences and percent differences are correct. If you cannot confirm, please make any necessary corrections and explain those corrections.
- (b) Please provide a full, detailed explanation for each of the changes that affect:
  - 1) First-Class Single Piece
  - 2) First-Class Presorted
  - 3) Standard Mail (A) Regular
  - 4) Standard Mail (A) ECR

**Response:**

(a) Not confirmed. I am not able to explain where some of the amounts in column (1), Updated Vol Variable Costs, of the Attachment to MMA/USPS-ST44-4 were found. I am providing the correct amounts from Exhibit USPS-ST44T and for each amount in column (1) that changes, the Difference in column (3) and the % Difference in the last column will also change. The following amounts from Exhibit USPS-ST44T should replace the amounts displayed in column (1), Updated Vol Variable Costs, in the Attachment to MMA/USPS-ST44-4:

**Response of United States Postal Service witness Patelunas  
to Interrogatories of  
Major Mailers Association**

**Response continued:**

|                                  |                   |
|----------------------------------|-------------------|
| <b>Total All Mail</b>            | <b>40,460,067</b> |
| <b>Total Special Services</b>    | <b>1,595,434</b>  |
| <b>Total Mail &amp; Services</b> | <b>42,055,501</b> |
| <b>Prior Years Loss Recovery</b> | <b>311,700</b>    |
| <b>Grand Total</b>               | <b>70,378,135</b> |

It should be noted that the Prior Years Loss Recovery amount is found in Exhibit USPS-ST44A. Also, the line stubs in Attachment to MMA/USPS-ST44-4 do not exactly match the lines stubs shown in Exhibit USPS-ST44T. The amount shown for Periodicals Outside County in the attachment is the summation of the following lines in Exhibit USPS-ST44T: Nonprofit, Classroom and Regular Rate. The amount shown for Special Services Other in the attachment is the summation of the lines for Special Handling and Special Services Other in Exhibit USPS-ST44T.

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

Test Year Before Rates Finances Using FY 99 Billing Determinants  
(\$000's)

| Description                    | Updated<br>Vol Variable<br>Costs<br>(1) | Original<br>Vol Variable<br>Cost<br>(1) | Difference<br>(3) | % Difference |
|--------------------------------|---|---|-------------------|--------------|
| First-Class Mail               |   |   |                   |              |
| Single-Piece Letters           | 13,586,081                              | 13,408,525                              | 177,556           | 1.32%        |
| Presort and Automation Letters | 5,115,088                               | 5,050,613                               | 64,475            | 1.28%        |
| Total Letters                  | 18,701,169                              | 18,459,138                              | 242,031           | 1.31%        |
| Single-Piece Cards             | 556,627                                 | 554,794                                 | 1,833             | 0.33%        |
| Presort and Automation Cards   | 177,569                                 | 172,879                                 | 4,690             | 2.71%        |
| Total Cards                    | 734,196                                 | 727,673                                 | 6,523             | 0.90%        |
| Total First-Class Mail         | 19,435,365                              | 19,186,811                              | 248,554           | 1.30%        |
| Priority Mail                  | 3,390,168                               | 3,263,396                               | 126,772           | 3.88%        |
| Express Mail                   | 462,139                                 | 476,631                                 | (14,492)          | -3.04%       |
| Mailgrams                      | 850                                     | 991                                     | (141)             | -14.26%      |
| Periodicals                    |   |   |                   |              |
| Within County                  | 87,046                                  | 82,227                                  | 4,819             | 5.86%        |
| Outside County                 | 2,371,322                               | 2,415,778                               | (44,456)          | -1.84%       |
| Total Periodicals              | 2,458,368                               | 2,498,005                               | (39,637)          | -1.59%       |
| Standard Mail (A)              |   |   |                   |              |
| Regular                        | 6,784,313                               | 7,125,095                               | (340,782)         | -4.78%       |
| Enhanced Carrier Route         | 2,685,551                               | 2,527,785                               | 157,766           | 6.24%        |
| Total Commercial               | 9,469,864                               | 9,652,880                               | (183,016)         | -1.90%       |
| Nonprofit                      | 1,363,812                               | 1,326,100                               | 37,712            | 2.84%        |
| Enhanced Carrier Route         | 202,982                                 | 212,388                                 | (9,406)           | -4.43%       |
| Total Nonprofit                | 1,566,795                               | 1,538,488                               | 28,307            | 1.84%        |
| Total Standard Mail (A)        | 11,036,659                              | 11,191,368                              | (154,709)         | -1.38%       |
| Standard Mail (B)              |   |   |                   |              |
| Parcel Post                    | 1,097,363                               | 1,078,203                               | 19,160            | 1.78%        |
| Bound Printed Matter           | 512,221                                 | 493,424                                 | 18,797            | 3.81%        |
| Special Rate                   | 361,266                                 | 304,846                                 | 56,420            | 18.51%       |
| Library Rate                   | 54,852                                  | 48,295                                  | 6,557             | 13.58%       |
| Total Standard Mail (B)        | 2,025,702                               | 1,924,768                               | 100,934           | 5.24%        |
| Penalty                        |   |   |                   |              |
| Free-for-the-Blind             | 31,724                                  | 40,302                                  | (8,578)           | -21.28%      |
| Total Domestic Mail            | 38,840,974                              | 38,582,272                              | 258,702           | 0.67%        |
| International Mail             | 1,619,092                               | 1,473,998                               | 145,094           | 9.84%        |
| Total All Mail                 | 40,460,066                              | 40,056,270                              | 403,796           | 1.01%        |
| Special Services               |   |   |                   |              |
| Registry                       | 104,550                                 | 89,271                                  | 15,279            | 17.12%       |
| Certified Mail                 | 492,029                                 | 494,945                                 | (2,916)           | -0.59%       |
| Insurance                      | 80,900                                  | 78,162                                  | 2,738             | 3.50%        |
| COD                            | 16,708                                  | 15,104                                  | 1,604             | 10.62%       |
| Money Orders                   | 170,767                                 | 159,605                                 | 11,162            | 6.99%        |
| Stamped Cards                  | 3,046                                   | 3,444                                   | (398)             | -11.55%      |
| Stamped Envelopes              | 11,061                                  | 12,542                                  | (1,481)           | -11.81%      |
| Box/Caller Service             | 593,497                                 | 597,451                                 | (3,954)           | -0.66%       |
| Other                          | 122,876                                 | 141,152                                 | (18,276)          | -12.95%      |
| Total Special Services         | 1,595,433                               | 1,591,676                               | 3,757             | 0.24%        |
| Total Mail & Services          | 42,055,499                              | 41,647,946                              | 407,553           | 0.98%        |
| Other Costs                    | 28,010,934                              | 27,992,970                              | 17,964            | 0.06%        |
| Other Income                   |   |   |                   |              |
| Prior Years Loss Recovery      | 317,709                                 | 268,257                                 | 49,452            | 18.43%       |
| Continuing Appropriations      |   |   |                   |              |
| Investment Income              |   |   |                   |              |
| Grand Total                    | 70,384,142                              | 69,909,173                              | 474,969           | 0.68%        |

**Response of United States Postal Service witness Patelunas  
to Interrogatories of  
Major Mailers Association**

**MMA/USPS-ST44-6** Please refer to section III of your testimony where you discuss "UPDATES IN ADDITION TO THE FY 99 CRA". Can you disaggregate the changes in the volume variable costs depending upon whether they originate from updates in the FY 99 billing determinants or other corrections and updates? If so, please provide the separate impacts of each of the changes as shown in the attachment to this interrogatory marked "Attachment to MMA/USPS-ST44-6." If you cannot do so, please explain why not.

**Response:**

No, I cannot disaggregate the changes in the volume variable costs. The Postal Service incorporated the FY 1999 Cost and Revenue Analysis report and revisions to the original cost change factors into the rollforward model through test year 2001; the separate impacts of the various changes could not, and cannot, be disaggregated within the time frame established by Order No. 1294 and Ruling No. 71.

Test Year After Rates Finances Using FY 99 Billing Determinants (\$000's)

| (1)                              | (2)  | (3)  | (4)   |
|----------------------------------|--|--|---|
| Original<br>Vol Variable<br>Cost | Change due to<br>FY 1999<br>Billing Determinants | Change Due to Corrections,<br>Updates and Other<br>Factors | Vol Variable<br>Updated<br>Costs<br>(1) + (2) + (3) |
| First-Class Mail                 | 13,326,042                                       |  | 13,565,289  |
| Single-Piece Letters             | 5,019,464  |  | 5,081,635   |
| Presort and Automation Letters   | 18,345,506                                       |  | 18,646,903  |
| Single-Piece Cards               | 539,919  |  | 543,587   |
| Presort and Automation Cards     | 166,858  |  | 173,866   |
| Total Cards                      | 706,777  |  | 717,453   |
| Total First-Class Mail           | 19,054,383                                       |  | 19,364,336  |
| Priority Mail                    | 3,064,062  |  | 3,194,537   |
| Express Mail                     | 480,984  |  | 467,914   |
| Mailables                        | 1,000  |  | 654   |
| Periodicals                      | 81,397   |  | 86,222  |
| Within County                    | 2,384,191  |  | 2,345,698   |
| Outside County                   | 2,465,586  |  | 2,431,920   |
| Total Periodicals                | 6,823,933  |  | 6,512,735   |
| Regular                          | 2,471,864  |  | 2,629,439   |
| Enhanced Carrier Route           | 9,285,797  |  | 9,142,174   |
| Nonprofit                        | 1,320,611  |  | 1,363,390   |
| Enhanced Carrier Route           | 206,577  |  | 189,829   |
| Total Nonprofit                  | 1,529,188  |  | 1,563,219   |
| Total Standard Mail (A)          | 10,824,985                                       |  | 10,705,393  |
| Standard Mail (B)                | 1,052,158  |  | 1,077,003   |
| Parcel Post                      | 479,204  |  | 498,658   |
| Bound Printed Matter             | 301,195  |  | 357,987   |
| Special Rate                     | 47,444   |  | 54,015  |
| Library Rate                     | 1,880,001  |  | 1,987,665   |
| Total Standard Mail (B)          | 40,348   |  | 31,633  |
| Free-for-the-Blind               | 37,811,351                                       |  | 38,164,452  |
| Total Domestic Mail              | 1,429,816  |  | 1,570,744   |
| International Mail               | 39,241,267                                       |  | 39,755,195  |
| Total All Mail                   | 85,204   |  | 100,215   |
| Special Services                 | 461,746  |  | 460,071   |
| Registered Mail                  | 76,638   |  | 79,550  |
| Insurance                        | 14,892   |  | 16,628  |
| COD                              | 153,995  |  | 165,714   |
| Money Orders                     | 3,444  |  | 3,046   |
| Stamped Cards                    | 12,544   |  | 11,077  |
| Stamped Envelopes                | 589,226  |  | 586,317   |
| Box/Caller Service               | 141,324  |  | 123,488   |
| Other                            | 1,539,113  |  | 1,546,108   |
| Total Special Services           | 40,780,380                                       |  | 41,301,304  |
| Total Mail & Services            | 27,978,701                                       |  | 28,031,846  |
| Other Costs                      | 269,257  |  | 317,709   |
| Prior Years Loss Recovery        |  |  |   |
| Continuing Appropriations        |  |  |   |
| Investment Income                |  |  |   |
| Grand Total                      | 69,027,338                                       |  | 69,850,859  |

**Response of United States Postal Service witness Patelunas  
to Interrogatories of  
Major Mailers Association**

**MMA/USPS-ST44-7**

**Please refer to USPS-ST-44A.**

- (a) Please confirm that the Postal Service projects a \$275.3 million loss in the test year after rates? If you cannot confirm, please provide the correct net revenue impact of the updated costs to FY 1999.**
- (b) Is the \$275.3 million loss acceptable in order for the Postal Service to meet its breakeven mandate? Please explain.**
- (c) If your answer to part (b) is no, please explain what changes the Postal Service has made to its originally proposed rates in order for it to break even.**

**Response:**

**(a) Confirmed.**

**(b - c) Redirected to the Postal Service.**

1 CHAIRMAN GLEIMAN: Thank you, Mr. Hall. Is there  
2 anyone else? Mr. Przypyszny?

3 MR. PRZYPYSZNY: Yes, Mr. Chairman.

4 CROSS EXAMINATION

5 BY MR. PRZYPYSZNY:

6 Q Mr. Patelunas, I have just handed you two copies  
7 of Interrogatories AAP/USPS-ST-44-17 through 33.

8 If called upon to answer those questions today,  
9 would your answers be the same?

10 A Yes.

11 MR. PRZYPYSZNY: Mr. Chairman, I'd like to make a  
12 motion to have the Designated Interrogatories transcribed  
13 into the record and admitted into evidence.

14 CHAIRMAN GLEIMAN: If you'd please provide two  
15 copies of that material to the Court Reporter, it is so  
16 ordered.

17 [Additional Designated Written  
18 Cross Examination of Richard  
19 Patelunas, AAP/USPS-ST-44-17  
20 through 33, was received into  
21 evidence and transcribed into the  
22 record.]

23

24

25

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

**AAP/USPS-ST44-17** At page 35, Exhibit USPS-ST-44S shows TY 2001 BR Operating Equipment Maintenance costs (11.2) in C/S-11, Custodial and Maintenance Services for Bound Printed Matter in the amount of \$8,091,000. This figure reflects an increase of 22.5% above the TY 2001 BR total Operating Equipment Maintenance costs (11.2) in C/S-11 Custodial and Maintenance Services for BPM in the amount of \$6,605,000 which was reported on page 35 of Exhibit USPS-14H.

(a) Please explain fully why BPM Operating Equipment Maintenance costs in the Custodial and Maintenance Services cost segment appear to have increased by 22.5% since the USPS' original Request and quantify each major cause of this increase.

(b) If these two Exhibits are not comparable, please provide the comparable figures for BPM Operating Equipment Maintenance costs within C/S-11 in TY 2001.

**Response:**

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

b) The exhibits are comparable.

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

**AAP/USPS-ST44-18** At page 37, Exhibit USPS-ST-44S shows TY 2001 BR Supplies and Materials costs (12.2) in C/S-12 Motor Vehicle costs for Bound Printed Matter in the amount of \$4,234,000. This figure reflects an increase of 13.4% above the TY 2001 BR total Supplies and Materials costs in C/S-12 Motor Vehicle costs for BPM in the amount of \$3,734,000 that was reported on page 37 of Exhibit USPS-14H.

(a) Please explain fully why BPM Supplies and Materials Costs in the Motor Vehicle cost segment in the test year appear to have increased by 13.4% since the USPS' original Request and quantify each major cause of this increase.

(b) If these two Exhibits are not comparable, please provide the comparable figures for BPM Supplies and Materials costs within C/S-12 in TY 2001.

**Response:**

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

b) The exhibits are comparable.

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

**AAP/USPS-ST44-19** At page 47, Exhibit USPS-ST-44S shows TY 2001 BR Fuels and Utilities (15.2) in C/S-15 Building Occupancy costs for Bound Printed Matter in the amount of \$3,366,000. This figure reflects an increase of 6.5% above the TY 2001 BR total Fuels and Utilities in C/S-15 Building Occupancy costs for BPM in the amount of \$3,162,000 that was reported on page 47 of Exhibit USPS-14H.

(a) Please explain fully why BPM Fuels and Utilities costs in the Building Occupancy cost segment in the test year appear to have increased by 6.5% since USPS' original Request and quantify each major cause of this increase.

(b) If these two Exhibits are not comparable, please provide the comparable figures for BPM Fuels and Utilities costs within C/S-15 in TY 2001.

**Response:**

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

b) The exhibits are comparable.

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

**AAP/USPS-ST44-20** At page 61, Exhibit USPS-ST-44S shows TY 2001 BR Workers' Compensation costs (18.3.3) in C/S-18 Admin. & Area Operations costs for Bound Printed Matter in the amount of \$5,061,000. This figure reflects an increase of 19.1% above the TY 2001 BR total Workers' Compensation costs for BPM in the amount of \$4,250,000 that was reported on page 61 of Exhibit USPS-14H.

(a) Please explain fully why BPM Workers' Compensation costs in the test year appear to have increased by 19.1% since the USPS' original Request and quantify each major cause of this increase.

(b) If these two Exhibits are not comparable, please provide the comparable figures for BPM Workers' Compensation costs within C/S-18 costs in TY 2001.

**Response:**

a) Note that Workers' Compensation costs are in (18.3.4). Please see my response to

AAP/USPS-ST44-9(b).

b) The exhibits are comparable.

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

**AAP/USPS-ST44-21** At page 63, Exhibit USPS-ST-44S shows TY 2001 BR Annuitant COLA Principal costs (18.3.8) in C/S-18 Admin. & Area Operations costs for Bound Printed Matter in the amount of \$5,522,000. This figure reflects an increase of 9.7% above the TY 2001 BR total Annuitant COLA Principal costs for BPM in the amount of \$5,036,000 that was reported on page 63 of Exhibit USPS-14H.

(a) Please explain fully why BPM Annuitant COLA Principal costs in the test year appear to have increased by 9.7% since the USPS' original Request and quantify each major cause of this increase.

(b) If these two Exhibits are not comparable, please provide the comparable figures for BPM Annuitant COLA Principal costs within C/S-18 costs in TY 2001.

**Response:**

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

b) The exhibits are comparable.

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

**AAP/USPS-ST44-22** At page 45, Exhibit USPS-ST-44S shows TY 2001 BR Transportation costs (C/S-14) for Bound Printed Matter in the amount of \$77,632,000. This figure reflects an increase of only 0.53% above the TY 2001 BR Transportation costs for BPM in the amount of \$77,223,000 that was reported on page 45 of Exhibit USPS-14H.

(a) Please explain fully why BPM Transportation costs appear to have increased by only 0.53% since the USPS' original Request.

(b) If these two Exhibits are not comparable, please provide the comparable figures for BPM Transportation costs (C/S-14) in TY 2001.

**Response:**

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

b) The exhibits are comparable.

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

**AAP/USPS-ST44-23** At page 35, Exhibit USPS-ST-44S shows TY 2001 BR Operating Equipment Maintenance costs (11.2) in C/S-11, Custodial and Maintenance Services for Total Commercial Standard Mail (A) in the amount of \$159,966,000. This figure reflects a decrease of 5.2% below the TY 2001 BR total Operating Equipment Maintenance costs (11.2) in C/S-11 Custodial and Maintenance Services for Total Commercial Standard Mail (A) in the amount of \$168,661,000 that was reported on page 35 of Exhibit USPS-14H.

(a) Please explain fully why Commercial Standard Mail (A) Operating Equipment Maintenance costs in the Custodial and Maintenance Services cost segment in the test year appear to have decreased by 5.2% since the USPS' original Request and quantify each major cause of this decrease.

(b) If these two Exhibits are not comparable, please provide the comparable figures for Total Commercial Standard Mail (A) Operating Equipment Maintenance costs within C/S-11 in TY 2001.

**Response:**

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

b) The exhibits are comparable.

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

**AAP/USPS-ST44-24** At page 45, Exhibit USPS-ST-44S shows TY 2001 BR Transportation costs (C/S-14) for Total Commercial Standard Mail (A) in the amount of \$430,584,000. This figure reflects a decrease of 5.5% below the TY 2001 BR Transportation costs for Total Commercial Standard Mail (A) in the amount of \$455,677,000 that was reported on page 45 of Exhibit USPS-14H.

(a) Please explain fully why Total Commercial Standard Mail (A) Transportation costs appear to have decreased by 5.5% since the USPS' original Request.

(b) If these two Exhibits are not comparable, please provide the comparable figures for Total Commercial Standard Mail (A) Transportation costs (C/S-14) in TY 2001.

**Response:**

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

b) The exhibits are comparable.

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

**AAP/USPS-ST44-25** At page 47, Exhibit USPS-ST-44S shows TY 2001 BR Fuels and Utilities (15.2) in C/S-15 Building Occupancy costs for Total Commercial Standard Mail (A) in the amount of \$61,539,000. This figure reflects a decrease of 3.2% below the TY 2001 BR total Fuels and Utilities in C/S-15 Building Occupancy costs for Total Commercial Standard Mail (A) in the amount of \$63,570,000 that was reported on page 47 of Exhibit USPS-14H.

(a) Please explain fully why Total Commercial Standard Mail (A) Fuels and Utilities costs in the Building Occupancy cost segment in the test year appear to have decreased by 3.2% since the USPS' original Request and quantify each major cause of this decrease.

(b) If these two Exhibits are not comparable, please provide the comparable figures for Total Commercial Standard Mail (A) Fuels and Utilities costs within C/S-15 in TY 2001.

**Response:**

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



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

**AAP/USPS-ST44-26** At page 63, Exhibit USPS-ST-44S shows TY 2001 BR C/S-18 Admin. & Area Operations costs for Regular Standard Mail (A) in the amount of \$430,003,000. This figure reflects a decrease of 4.0% below the TY 2001 BR C/S-18 costs for Regular Standard Mail (A) in the amount of \$447,867,000 that was reported on page 63 of Exhibit USPS-14H.

(a) Please explain fully why C/S-18 costs for Regular Standard Mail (A) in the test year appear to have decreased by 4.0% since the USPS' original Request and quantify each major cause of this decrease.

(b) If these two Exhibits are not comparable, please provide the comparable figures for Regular Standard Mail (A) C/S-18 costs in TY 2001.

**Response:**

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

b) The exhibits are comparable.

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

**AAP/USPS-ST44-27** Exhibit USPS-ST-44A shows that in FY 1999, the Postal Service's total actual accrued costs increased from \$59,566.5 million in FY 1998 to \$62,391.8 million in FY 1999. These totals also appear in USPS Exhibit 11-A, at page 8 (FY 1998) and in Table I of USPS-LR-I-410, at page 20 (FY 1999). These two exhibits in turn report that in the same period, total Postal Service "volume variable costs" declined from \$35,951.5 million in FY 98 to \$31,831.8 million in FY 99 while total Postal Service "other" costs increased from \$23,615.0 million to \$30,560.0 million.

(a) Please confirm that the total increase in the USPS' actual accrued costs of \$2,825.3 million that occurred in FY 1999 resulted from a decline of \$4,119.7 million in total Postal Service "volume variable costs" and an increase of \$6,945.0 million in total USPS "other" costs.

(b) Please explain any answer other than a confirmation.

**Response:**

a) Confirmed that there was an increase in USPS' actual accrued costs of \$2,825.3 million, a decline of \$4,119.7 million in total Postal Service "volume variable costs" and an increase of \$6,945.0 million in total USPS "other" costs between FY 1998 and FY 1999.

b) Not applicable.

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

**AAP/USPS-ST44-28** Page 7 of Exhibit USPS-11A shows that the total volume variable costs for Bound Printed Matter in Base Year 1998 were \$394.443 million. Page 19 of Table 1 of USPS-LR-I-410 to shows that total volume variable costs for Bound Printed Matter in Base Year 1999 were \$361.655 million.

(a) Please confirm that total volume variable costs for Bound Printed Matter declined by \$32.788 million (8.31%) in Base Year 1999.

(b) Please explain any answer other than a confirmation.

**Response:**

a) Confirmed that Bound Printed Matter total volume variable costs declined 8.31% between FY 1998 and FY 1999.

b) Not applicable.

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

**AAP/USPS-ST44-29** Table C of USPS-LR-I-410 shows the "B" Report (PESSA Detail) for FY 1999. Please provide the comparable "B" Report (PESSA Detail) for FY 1998 and for Test Year 2001.

**Response:**

The "B" Report (PESSA Detail) for FY 1998 is presented as USPS-T-11 witness Meehan's' Workpaper WP-A, Table 4. The "B" Report (PESSA Detail) for Test Year 2001 is presented as USPS-LR-I-410, Table C, of the following volumes: Volume D (Test Year Before Rates before Workyear Mix Adjustment), Volume E (Test Year Before Rates after Workyear Mix Adjustment), Volume F (Test Year After Rates before Workyear Mix Adjustment) and Volume G (Test Year After Rates after Workyear Mix Adjustment).

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

**AAP/USPS-ST44-30** Table D of USPS-LR-I-410 shows the "C" Report (including PESSA) for the USPS in FY 1999. Please confirm that at page 8, this report (including PESSA) shows total Postal Service "volume variable costs" of \$37,507.5 million in FY 99 which reflects a shift of \$5,675.2 million from the "other cost" category (that was reported in Table I of USPS-LR-I-410) to the volume variable cost category.

**Response:**

Confirmed that the "C" Report reflects a distribution of \$5,675.2 million of "A" Report "Other" costs to volume variable costs; this is accomplished in the "B" Report.

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

**AAP/USPS-ST44-31** Table D of USPS-LR-I-410 shows the "C" Report (including PESSA) for FY 1999.

(a) Please provide the comparable "C" Report (including PESSA) for FY 1998 and for Test Year 2001.

(b) Please state the full meaning of the acronym PESSA as reported in the "C" and "D" reports of USPS-LR-I-410.

(c) Please explain fully why PESSA costs, as reported in Table D ("C" Report) of USPS-LR-I-410 are considered volume variable costs when the same costs in Table I of USPS-LR-I-410 are considered "other" costs.

**Response:**

- a) The "C" Report (including PESSA) for FY 1998 is presented as USPS-T-11 witness Meehans' Workpaper Exhibit 11A. The "C" Report (including PESSA) for Test Year 2001 is presented as USPS-LR-I-410, Table D, of the following volumes: Volume D (Test Year Before Rates before Workyear Mix Adjustment), Volume E (Test Year Before Rates after Workyear Mix Adjustment), Volume F (Test Year After Rates before Workyear Mix Adjustment) and Volume G (Test Year After Rates after Workyear Mix Adjustment).
  - b) The acronym PESSA stands for: Plant, Equipment, Servicewide and Selected Administrative costs. See the response of witness Meehan to AMPU/USPS-T11-5.
  - c) PESSA costs are assumed to be volume variable over a longer period of time than a particular year or years under consideration. The methodology used in the update is the same methodology employed by witness Meehan, USPS-T-11 and Kashani, USPS-T-14. In addition to their testimonies and related documents, please see USPS-LR-I-1, Summary Description of USPS Development of Costs by Segments
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**Response of United States Postal Service witness Patelunas  
to Interrogatories of  
Association of American Publishers**

and Components, FY 1998 and USPS-LR-I-404, Summary Description of USPS  
Development of Costs by Segments and Components, FY 1999.

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

**AAP/USPS-ST44-32** Please provide and explain fully any logical or empirical calculations or studies relied on by the Postal Service to conclude that PESSA costs:

(a) within C/S-11 (Cleaning and Protection Personnel, Contract Cleaners and Plant and Building Equipment) should be considered volume variable costs for Bound Printed Matter as suggested on page 9 of Table C ("B" Report Detail) of USPS-I-LR-410.

(d) within C/S-15 (Imputed Rents) should be considered volume variable costs for Bound Printed Matter as suggested on page 11 of Table C ("B" Report Detail) of USPS-I-LR-410.

(e) within C/S-15 (Fuels, Utilities) should be considered volume variable costs for Bound Printed Matter as suggested on page 13 of Table C ("B" Report Detail) of USPS-I-LR-410.

(f) within C/S-18 (CSC Retirement Prior Year) should be considered volume variable costs for Bound Printed Matter as suggested on page 19 of Table C ("B" Report Detail) of USPS-I-LR-410.

(g) within C/S-18 (Retiree Health Benefits, Annuitant COLA/Principal) should be considered volume variable costs for Bound Printed Matter as suggested on page 21 of Table C ("B" Report Detail) of USPS-I-LR-410.

(h) within C/S-20 (Imputed Depreciation Building, Imputed Depreciation Leasehold) should be considered volume variable costs for Bound Printed Matter as suggested on page 31 of Table C ("B" Report Detail) of USPS-I-LR-410.

(i) within C/S-20 (Retirement Interest) should be considered volume variable costs for Bound Printed Matter as suggested on page 33 of Table C ("B" Report Detail) of USPS-I-LR-410.

**Response:**

(a - g) The methodology used in the update is the same methodology employed by witness Meehan, USPS-T-11 and Kashani, USPS-T-14. In addition to their testimonies and related documents, please see USPS-LR-I-1, Summary Description of USPS Development of Costs by Segments and Components, FY 1998 and USPS-LR-I-404, Summary Description of USPS Development of Costs by Segments and Components, FY 1999.



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

**AAP/USPS-ST44-33** Please provide reports that are comparable to pages 69-76 of Table D ("C") Report (including PESSA) for FY 1998 and for the Test Year 2001.

**Response:**

The "C" Report (including PESSA) for FY 1998 is presented as USPS-T-11 witness Meehans' Workpaper Exhibit 11A. The "C" Report (including PESSA) for Test Year 2001 is presented as USPS-LR-I-410, Table D, of the following volumes: Volume D (Test Year Before Rates before Workyear Mix Adjustment), Volume E (Test Year Before Rates after Workyear Mix Adjustment), Volume F (Test Year After Rates before Workyear Mix Adjustment) and Volume G (Test Year After Rates after Workyear Mix Adjustment).

1 CHAIRMAN GLEIMAN: Anyone else?

2 [No response.]

3 CHAIRMAN GLEIMAN: If not, that brings us to oral  
4 cross --

5 MS. DUCHEK: Mr. Chairman, there are some Category  
6 II Library References.

7 CHAIRMAN GLEIMAN: Most certainly, let's not  
8 forget the Category II Library References.

9 FURTHER DIRECT EXAMINATION

10 BY MS. DUCHEK:

11 Q Mr. Patelunas, are Library References 405, 406,  
12 and 408 through 422, associated with your testimony?

13 A Yes.

14 MS. DUCHEK: Mr. Chairman, I ask that those  
15 Library References be entered into evidence.

16 CHAIRMAN GLEIMAN: The material will be entered  
17 into evidence, but not transcribed into the record.

18 [Library References 405, 406, and  
19 408 through 422 were received into  
20 evidence.]

21 CHAIRMAN GLEIMAN: Anyone else?

22 [No response.]

23 CHAIRMAN GLEIMAN: If not that, brings us to oral  
24 cross examination. Five parties have requested oral cross  
25 examination; jointly, the American Bankers Association and

1 National Association of Presort Mailers; the Association of  
2 American Publishers; the Association of Priority Mail Users,  
3 Inc.; Major Mailers Association; and the Office of the  
4 Consumer Advocate.

5 Is there anyone else who wishes to cross examine  
6 this witness?

7 [No response.]

8 CHAIRMAN GLEIMAN: If not, Mr. Hart, you may  
9 proceed with cross examination.

10 MR. HART: Thank you, Mr. Chairman. For the  
11 record, my name is Henry Hart, representing the National  
12 Association of Presort Mailers. I'll be conducting the  
13 cross examination, and with me is Mr. Irv Warden,  
14 representing the American Bankers Association.

15 CROSS EXAMINATION

16 BY MR. HART:

17 Q Good morning, Mr. Patelunas.

18 A Good morning.

19 Q Do you have with you, the interrogatories -- I  
20 believe that not all have been responded to because they are  
21 not due yet, and some have been responded to, but they're  
22 institutional.

23 But do you have the interrogatories that ABA and  
24 NAPM propounded to you, in particular, Number 24, which was  
25 in the second set that was filed on July 28th?

1           As I noted, these responses were not due yet. The  
2       Postal Service obviously made a good-faith effort to get as  
3       many responses as they could to us today, and we appreciate  
4       that.

5           They are in the form of institutional responses,  
6       so I recognize that these are not your responses.

7           I wanted to ask you a few questions on them, and  
8       obviously you and your counsel, if you don't feel  
9       comfortable with them, can let me know that, but I think  
10      they are fairly simple.

11          A     Okay, Number 24?

12          Q     Yes, please.

13          A     Yes, I have it.

14          Q     In that question, in 24(a), we asked you, please  
15      confirm that in you revised case as submitted between early  
16      July and now, pursuant to Commission Order 1294, it is your  
17      belief that you were not required to submit, nor was it your  
18      intent to submit, nor did you submit revisions to cost  
19      avoidances for First Class workshared mail as that term,  
20      cost avoidance, is defined or measured in USPS-T24?

21                And the institutional response filed yesterday by  
22      the Postal Service was, confirmed; the Postal Service does  
23      not believe that revised cost avoidances for workshared  
24      First Class Mail were required by Order Number 1294.

25                My question to you is simply, is there anything in

1 your testimony, your supplemental testimony, 44, that you  
2 filed that you believe is inconsistent with that response?

3 A No.

4 Q Thank you.

5 Would you turn to ABA and NAPM/USPS-ST-44-28,  
6 which was the last interrogatory we filed? I don't have the  
7 date, but I believe it was July 31, I believe.

8 A I have it.

9 Q Thank you.

10 Again, the question was in 28(a) and (b), please  
11 confirm that as of July 28, 2000, you have not provided all  
12 of the piggyback data inputs in your revised case, which  
13 would enable Intervenor or the Commission to update your or  
14 their cost avoidance studies? If you cannot confirm,  
15 explain why not.

16 And do you intend to submit these remaining  
17 piggyback inputs to the Commission?

18 And the institutional response filed yesterday  
19 was, confirmed as to (a), and then (b), on the question of  
20 do you intend to submit these remaining piggyback inputs to  
21 the Commission, the response was, no, both because of time  
22 and resource constraints, and because some of the models  
23 used to develop cost avoidances are not structured to be  
24 used with FY 1999 data.

25 Again, I would ask you simply, is there anything

1 in your supplemental testimony filed in this case that you  
2 believe is inconsistent with that response?

3 A No.

4 Q Could you please turn to page 1, line 1, of your  
5 supplemental testimony.

6 A I have it.

7 Q There in stating the purpose of the testimony you  
8 state that you present changes to Postal Service Docket  
9 R2000-1 revenue requirement and test year costs from two  
10 items, one from utilizing FY '99 actual audited accounting  
11 data and costs by class of mail as the base year, and then  
12 you say, "Additionally the cost change factors used in the  
13 roll forward model to estimate FY 2000 and test year costs  
14 have been updated in accordance with Presiding Officer's  
15 Ruling 2000-1-71."

16 So am I correct that the purpose of this testimony  
17 is to show the effect of two things, the incorporation of  
18 the FY '99 actual audited accounting data in costs and  
19 additionally the cost change factors?

20 A Yes, that is the purpose.

21 Q Okay -- well, you don't even need to stay there.

22 Now if you would go to the interrogatory which ABA  
23 and NAPM propounded to you, Number 1, which was filed on  
24 July 25. Do you have that in front of you?

25 A Number 1?

1 Q Yes, 1(a).

2 A Okay, 1(a), okay, and these were redirected to the  
3 Postal Service?

4 Q Correct, and a response was filed yesterday  
5 institutionally.

6 A Okay.

7 Q The question in 1(a) was, "Please present your  
8 testimony and your summary test year data accompanying it  
9 showing only the impact of your use of the actual FY '99 CRA  
10 cost data."

11 The response filed yesterday as an institutional  
12 response was, "This material is not available. It has not  
13 been prepared as part of the response to Order Number 1294."

14 You were aware, were you not, when you prepared  
15 your testimony that that information, which is to say a  
16 showing of the effect of only the use of the actual FY '99  
17 data without the cost change factors, you were aware that  
18 that was not revealed by your testimony, is that correct?

19 A Okay, right. They are two -- the two things are  
20 together in my testimony.

21 Q And they can't be disaggregated in your opinion?

22 A Not the way I prepared the testimony.

23 Q And you were aware of that when you prepared the  
24 testimony, that the effect of these two factors, both the  
25 actual '99 data and the cost-sharing factors, was I don't

1 want to say blurred, was not separated but was shown as a  
2 single result?

3 A That's right, and the way the order update came  
4 about was limited time and limited resources and tried to  
5 incorporate what was the FY '99 data in what would be  
6 material, a material impact on the test year and try to get  
7 that incorporated within the timeframe.

8 Alternatively, it would have been to try and  
9 maintain multiple models.

10 Q Would you agree that the actual FY '99 cost data  
11 that was incorporated into your supplemental testimony was  
12 objective, actual data measured after the fact?

13 A I am not sure what the objective part of it is,  
14 but it is FY 1999 audited CRA data, so it is actual data,  
15 yes.

16 Q It is not a projection?

17 A It is not a projection.

18 Q By contrast, the cost change factors, the second  
19 factor which is reflected in your testimony are projections,  
20 are they not?

21 A They are projections to the interim year and the  
22 test year. Yes, that -- you utilize the change factors to  
23 get to the future years.

24 Q And would you agree that the cost change factor  
25 information is more subjective than is the actual FY '99



1 data?

2 A I don't know that it is subjective. I will say  
3 that any actual audited data is more concrete, if you will.  
4 It's there. It's historical, and anything that goes into  
5 the future is going to be less concrete than the base.

6 Q Without making any comment as to whether or not  
7 the cost change factors were manipulated, would you agree  
8 that there would be more opportunity to manipulate cost  
9 change factors than FY '99 data?

10 A I am still troubled by subjective and manipulated.  
11 There obviously would be more of an opportunity to use  
12 subjective judgments in any of the out-year projections.

13 Q Let me give you an example. Could you turn to  
14 Exhibit Z in your testimony?

15 COMMISSIONER LeBLANC: Mr. Hart, can you specify  
16 whether it is supplemental or regular?

17 MR. HART: I'm sorry.

18 COMMISSIONER LeBLANC: Just so it is clear for the  
19 record as well.

20 MR. HART: Thank you. Exhibit USPS-ST-44Z.

21 THE WITNESS: I have it.

22 BY MR. HART:

23 Q Here am I correct this is a chart showing cost  
24 reductions which are part of the second component that I  
25 have been talking about, which is the cost change factors,

1 not the actual FY '99 data?

2 A That's right.

3 Q If you go down in the column Personnel Cost  
4 Reductions, which is about five lines down, Personnel Cost  
5 Reductions --

6 A Right.

7 Q If you go in the indented lines down two you will  
8 see an entry for improved automation letter productivity.  
9 You go over under FY 2001 and I take it this is in  
10 thousands. That is a prediction of slightly over \$51  
11 million of cost reductions from improved automation letter  
12 productivity, correct?

13 A That is correct.

14 Q You go down another two lines and you see improved  
15 manual letter productivity and you see a little over \$102  
16 million of projected cost reductions in manual letter  
17 productivity, is that correct?

18 A That's right.

19 Q What was the basis for those -- did you call those  
20 plugs?

21 A I call those cost reductions.

22 Q What is the basis for it? -- but they are  
23 projections.

24 A They are projections and what is in the update  
25 was -- what is in the update is what was available by the

1 end of May in terms of what the Postal Service's views of  
2 2001 are, what the Postal Service was looking for in its  
3 proposed 2001 budget.

4 Q So this is not expert testimony, this is based on  
5 budget projections of Postal Service management?

6 A This is Postal Service management.

7 Q Are you aware that under your filing and the  
8 Library References that support your filing that there  
9 appears to be a substantial decrease in costs of Standard A  
10 mail?

11 A I honestly haven't looked at it like that. I  
12 haven't made a class by class comparison.

13 Q Do you know if there is a substantial increase in  
14 Standard A mail relative to -- I'm sorry, strike that.

15 Do you know whether if there is a substantial, say  
16 over \$100 million, increase in costs of Standard A mail  
17 relative to costs of First Class mail, if in fact that does  
18 exist, do you think that would be in your supplemental  
19 testimony and in the supporting Library References, do you  
20 think that would be more likely to be due to the actual FY  
21 '99 data or to the cost change factors?

22 A If I follow the question correctly, if there was  
23 an increase in \$100 million in Standard A costs --

24 Q At least.

25 A -- okay, at least --

1 Q No, I'm sorry, reduction.

2 A Okay, okay, so we are talking reduction.

3 Q I have misspoken.

4 A Okay, a reduction between when and when? What was  
5 in the --

6 Q The most recently revised USPS case filed here and  
7 the update versus the request.

8 A Yes.

9 Q Yes.

10 A Okay, the update versus the request, the level  
11 that you end -- whatever Standard A ends up with in the test  
12 year would be the result of both the FY '99 base data and  
13 the changes, the cost factor changes.

14 Q Are you aware of anything in the actual FY '99  
15 data that would cause a substantial decrease in Standard A  
16 costs?

17 A I haven't examined FY '99 CRA that closely. I  
18 don't know.

19 Q Are you aware of the fact that if rates don't  
20 change and if costs drop for Standard A that cost coverage  
21 increases?

22 A I don't do cost coverages. I don't know. I just  
23 have the cost part of things.

24 MR. HART: Excuse me one moment.

25 That is all I have. Thank you. Thank you, Mr.

1 Patelunas.

2 CHAIRMAN GLEIMAN: The Association of American  
3 Publishers.

4 MR. HART: Mr. Chairman, may I ask just --

5 CHAIRMAN GLEIMAN: Certainly, Mr. Hart.

6 MR. HART: These were all institutional responses.  
7 Is there a deadline for designating these into the record.  
8 It has not yet passed, I hope.

9 CHAIRMAN GLEIMAN: The deadline for putting that  
10 material in the record has not yet passed, and I would  
11 hazard a guess, based on all the stuff that has crossed my  
12 desk recently, and for some reason or another August the  
13 31st sticks in my mind, but --

14 MR. HART: I will check. It hasn't passed.

15 CHAIRMAN GLEIMAN: But I have signed a lot of  
16 orders and rulings within the past few days and so I may be  
17 confused. But it certainly has not passed.

18 MR. HART: Thank you.

19 CHAIRMAN GLEIMAN: Yes, sir.

20 MR. PRZYPYSZNY: Mr. Chairman, the Association of  
21 American Publishers will have no questions for the Postal  
22 Service witness today.

23 CHAIRMAN GLEIMAN: That bring us to the  
24 Association of Priority Mail Users, and it looks like Mr.  
25 Miles is going to do the cross-examination today.

1 MR. MILES: Yes, Mr. Chairman. Thank you.

2 CROSS-EXAMINATION

3 BY MR. MILES:

4 Q Mr. Patelunas, my name is John Miles, and I am  
5 speaking on behalf of the Association of Priority Mail  
6 Users, Inc. My questions will concern your supplemental  
7 testimony with respect to the methodology, some of which Mr.  
8 Hart just went into, and also with respect to the Priority  
9 Mail increases that you spoke about.

10 With respect to the CRA, the actual audited CRA  
11 costs for fiscal '99, did you have any role in collecting  
12 that data?

13 A No, I didn't.

14 Q When you did analyze it with respect to your  
15 supplemental testimony, did you basically compare it to the  
16 base year and 1998 data?

17 A I just used the FY '99 data as the input to go to  
18 the interim year and the test year.

19 Q So you just reported it?

20 A That's all.

21 Q You didn't analyze it to determine its correctness  
22 in any way?

23 A No, it is audited, I trust it is there.

24 Q Turning to your supplemental testimony, ST-44, at  
25 page 1, Mr. Patelunas, lines 8 through 10, you state that

1 the cost change factors used in the roll forward model to  
2 estimate FY 2000 and test year costs have been updated, is  
3 that correct?

4 A Yes.

5 Q Were these the same cost change factors that  
6 Witness Tayman had previously testified to in the case?

7 A They were the same type of cost change factors,  
8 but they were updated to come off of a new base.

9 Q Were you involved in updating them?

10 A To some extent, yeah.

11 Q What was the procedure you employed in doing that?  
12 How did you update the cost change factors?

13 A On the next page is a list of everything that was  
14 updated. There was first the DRI was updated to the most  
15 recent DRI at that time. Continuing the discussion on 3, on  
16 page 3, there was a change in the assumption for the labor  
17 contracts for bargaining units that -- for years that they  
18 don't have a contract. And then on page 9, cost reductions  
19 were updated and the other programs that were listed there  
20 were updated.

21 Q I understand that. Actually, what I was getting  
22 at was, what was your role in this procedure, you  
23 personally? Was this similar to your reporting of the  
24 fiscal '99 CRA data? Did you basically report this, is that  
25 what your testimony is, or did you analyze these matters?

1           A     Oh, my role would have been more reporting, I  
2     didn't analyze these.

3           Q     Turning to page 3 of your supplemental testimony,  
4     ST-44, under other programs, which is subpart (f), --

5           A     Are we on page 3 or 5?

6           Q     I'm sorry. Page 5. As you explain under other  
7     programs, you divided them into two major categories and  
8     then you speak to the first category. And there, if I may  
9     read from your testimony, "There are changes in costs  
10    associated with management initiated actions other than cost  
11    reductions that change the status quo."

12                   What is your understanding of what management  
13    initiated actions are?

14          A     Well, for example, further down on line 20,  
15    advertising costs were decreased, that was a management  
16    initiated action. It is those types of programs.

17          Q     Okay. Why don't we take a look at the programs  
18    themselves that you speak to. You start by saying, at line  
19    19, that three programs were revised for the test year,  
20    resulting in a net decrease of \$12 million. And then you, I  
21    believe you then speak to those three programs, consisting  
22    of advertising costs, expedited supplies and Priority Mail  
23    processing contract costs, is that correct?

24          A     That is right.

25          Q     Those are the three programs you are talking



1 about?

2 A Right.

3 Q Why are those three programs lumped together?

4 A They are not lumped together, they are mentioned  
5 because those are the three programs that were -- other than  
6 that, the programs, the total programmed expenditures in the  
7 test year for these corporate-wide activities hasn't changed  
8 from the initial filing. These changed from the initial  
9 filing.

10 Q Didn't some of the other programs that you  
11 mentioned after these three also change from the initial  
12 filing?

13 A Did I mention after?

14 Q You start by mentioning three programs.

15 A Right.

16 Q That had a net decrease of \$12 million.

17 A Right.

18 Q And then you go on to speak to other programs. My  
19 question is, are those three programs somehow within the  
20 same category of programs? Why are they lumped together to  
21 show a net decrease of \$12 million? If you know.

22 A Personally, I don't know, but if you read these,  
23 you have advertising, expedited supplies and Priority Mail.  
24 There would appear to be a similarity there in the expedited  
25 world, but I don't know what that -- why they are -- other

1 than it looks like that they may be similar, I don't know  
2 what it is.

3 Q Referring to the Priority Mail processing contract  
4 costs that you say were increased from 522 million to 567  
5 million, that was for the test year?

6 A Yes.

7 Q What was the basis for that increase?

8 A The basis for that increase was the Postal Service  
9 recognized additional accruals that were being paid to the  
10 contract.

11 Q Are you aware of what those accruals were for?

12 A No, they are more.

13 Q So these were payments the Postal Service would  
14 have made or would project would have to be made to Emery?

15 A That's right.

16 Q Under the PMPC contract?

17 A That is my understanding.

18 Q So when I look at this testimony where you have  
19 rolled forward, so to speak, or you have projected for the  
20 test year additional PMPC contracting costs, that is not  
21 based on any analysis that you did, you are just relating  
22 something that management told you to say?

23 A That's right.

24 Q The following line, after the line we just  
25 referred to about PMPC contract costs, reads "Additionally,

1 Priority Mail processing contract costs were increased by  
2 \$123 million, from \$472 million to \$595 million." And I  
3 believe you added today in Fiscal Year 2000.

4 A That's right.

5 Q Why was that line included in there?

6 A For clarification. It is another reflection of  
7 the increased accruals.

8 It's basically just explanation of going from 2000  
9 to 2001.

10 Q I didn't notice whether you did that for any other  
11 programs.

12 A I didn't explain any other programs like that.

13 Q Well, you mentioned increases and decreases in  
14 other programs for the test year, but I didn't notice that  
15 you mentioned also increases or decreases for Fiscal 2000,  
16 and I wondered what the relevance of this was with respect  
17 to priority mail processing costs.

18 A Only for further explanation for PMPC.

19 Q Do you have any knowledge of why the PMPC contract  
20 costs were increased by \$123 million in Fiscal Year 2000?

21 A I know there is the increase in accruals. I don't  
22 know what caused that.

23 Q Do you know if those are actual data or projected  
24 data?

25 A I don't know.

1           Q     Do you know whether those are payments projected  
2     to be made to Emery or were made to Emery based on the  
3     contract or outside of the contract for the priority mail  
4     network?

5           A     I don't know.

6           Q     Who would know?

7           A     I can't name who would know. I don't know.

8           Q     Were you given any documentation that would  
9     confirm these projected increases for priority mail contract  
10    processing costs? Were you given any documentation  
11    reflecting these accruals?

12          A     Other than the documentation that I provided in  
13    library reference 421, I don't know if there's anything  
14    additional.

15          Q     Well, the documentation in 421 doesn't describe  
16    precisely what they were for, do they?

17          A     It has an account number and what's in the  
18    account.

19          Q     What division would have furnished you with that  
20    information on the increase in priority mail contracting  
21    costs that were projected for Fiscal 2000 and 2001?

22          A     That I don't know.

23          Q     Is it just whatever is in library reference 421 is  
24    the data that you were given and you just included it as  
25    part of -- or you vouched for it as a library reference?

1 A For 421, yes.

2 Q And --

3 A And the information that's in 421 is presented in  
4 the traditional revenue requirement format for ease of use  
5 of the thousands of inputs that go into there. I don't know  
6 what those thousands of pieces of paper are or where they  
7 came from.

8 Q Is the contract with Emery and the Postal Service  
9 going to be terminated?

10 A I don't know.

11 Q You have no knowledge of that?

12 A No.

13 Q Have you heard anything officially from --

14 MS. DUCHEK: Mr. Chairman, I would note that APMU  
15 does have some interrogatories pending on this subject which  
16 we have not answered yet. Obviously from the tenor of the  
17 cross examination, those are going to be redirected to the  
18 Postal Service. He's free to, I guess, continue asking  
19 these questions, but I just wanted to note that.

20 CHAIRMAN GLEIMAN: I'm trying to keep score of how  
21 many "I don't knows" pop up, so I think we would like to  
22 hear him continue with the questions.

23 MR. FIELDS: Thank you.

24 CHAIRMAN GLEIMAN: I've got one piece of paper  
25 with a bunch of hash marks on it now; see how many pieces I

1 can fill up.

2 BY MR. MILES:

3 Q Mr. Patelunes, I'm just asking for your knowledge.  
4 Have you heard that the contract is going to be terminated?

5 A I haven't heard that. I read your interrogatory.

6 Q With respect to other programs and the cost factor  
7 changes relative to other programs, isn't it true that some  
8 programs satisfy a one-time need and are not intended to  
9 continue indefinitely as opposed to others which would be  
10 constant or at least present from year to year?

11 A That's true.

12 Q Are you aware of whether these projected increased  
13 priority mail costs are one-time costs that would be paid to  
14 Emery?

15 A I don't know.

16 Q If they were, would you agree that they would not  
17 be appropriate to roll forward into the test year?

18 A If they were a one-time occurrence, they would not  
19 be rolled forward to the following year.

20 Q Mr. Patelunes, do you know whether Emery provides  
21 air transportation to the Postal Service other than in  
22 conjunction with the PMPC network?

23 A I don't know.

24 Q And you, I assume, would not know whether the  
25 contracting costs that you projected on page 5 of your

1 supplemental testimony that we've been talking about were  
2 made to preserve the Postal Service's ongoing relationship  
3 with Emery? You don't know what they were made for, do you?

4 A Which what were made for? The other programs?

5 Q No, the priority mail processing contract costs  
6 that we've been discussing that you projected would be  
7 increased, you have no knowledge really of what they were  
8 for at all.

9 A It's my understanding they're for the contract.

10 Q Where did you derive that understanding?

11 A Because the account number that I see in my  
12 library reference 421 is for that contract.

13 Q Could they have been made to settle a claim  
14 launched or made by Emery against the Postal Service?

15 A Not to my knowledge.

16 Q If they were, would they be included in that  
17 account number?

18 A I don't know where it would appear.

19 Q You may have already answered this, Mr. Patelunas,  
20 but are you aware of any efforts to transition the PMPC  
21 network in-house within the Postal Service?

22 A No.

23 Q If the Postal Service were going to terminate its  
24 contract with Emery prior to the test year, would it be  
25 appropriate to roll forward these costs that you projected

1 on page 5 of your supplemental testimony?

2 A I don't know. You're giving me a hypothetical  
3 that may or may not exist and I don't know what the  
4 circumstances surrounding that hypothetical would be. I  
5 don't know whether one would roll it forward or not.

6 Q Thank you.

7 MR. FIELDS: No further questions.

8 CHAIRMAN GLEIMAN: Mr. Hall? Major Mailers  
9 Association.

10 MR. HALL: Thank you, Mr. Chairman.

11 CROSS EXAMINATION

12 BY MR. HALL:

13 Q Good morning, Mr. Patelunas.

14 A Good morning.

15 Q I'm Mike Hall and I'm representing the Major  
16 Mailers Association. I'm going to have some questions for  
17 you. Let's start with some of your responses to NMA  
18 interrogatories on your supplemental testimony.

19 If you could turn first, Mr. Patelunas, to your  
20 response to interrogatory number 7. There in part A, you've  
21 confirmed that the Postal Service projects a \$275.3 million  
22 loss in the test year after rates; is that correct?

23 A That's confirmed.

24 Q And do you have before you a copy of the Postal  
25 Service's response to POIR Number 16?



1 A I believe I do. Yes, I have POIR 16.

2 Q Do you see the line grand total under column 4?

3 A Do I see the -- what page are we on?

4 Q I'm sorry. Page 4.

5 A Revenue minus volume variable cost?

6 Q Yes.

7 A I see that.

8 Q Does that indicate a loss of  
9 three-hundred-fifty-five million nine-hundred and -- is that  
10 a 65 or an 85?

11 A Minus 355,985.

12 Q Okay.

13 A I agree that that's what's shown on that page.

14 Q Okay. And how does that compare to the loss that  
15 you've confirmed in response to our question number 7?

16 MS. DUCHEK: Mr. Chairman, Mr. Patelunas did not  
17 sponsor the request to POIR Number 16.

18 CHAIRMAN GLEIMAN: Okay.

19 MR. HALL: Perhaps I can --

20 MS. DUCHEK: And so I don't think he should be  
21 answering the question.

22 CHAIRMAN GLEIMAN: Well, you may not think he  
23 should be answering the question, but the question has been  
24 put to him, and if he can answer it, then he will, and if he  
25 can't answer it, he won't, unless you're going to make a

1 specific objection. You know, I always am willing to  
2 entertain objections, but, you know, counsel doesn't think  
3 he should answer it doesn't do much for me.

4 MS. DUCHEK: If he has some knowledge on it, he  
5 can answer it, but I just wanted to point out that he did  
6 not sponsor the answer, and I won't specifically object. If  
7 he has something to say, he can say it. I doubt that he'll  
8 have any.

9 CHAIRMAN GLEIMAN: He's got the "I don't know"  
10 line down pretty pat, so I'm sure that, you know, if that's  
11 what it comes to, that's what he'll use.

12 THE WITNESS: It's my understanding that the  
13 volume variable cost in the first column is the same volume  
14 variable cost that was the result of the order number 1294  
15 update. I don't know what the rest of the columns are.

16 BY MR. HALL:

17 Q Well, is it your understanding that the -- putting  
18 aside for the moment the pending Presiding Officer's  
19 Information Request Number 18, that the response to POIR 16  
20 represents the Postal Service's most up to date case or set  
21 of numbers in this case?

22 A I don't know what it represents. The column for  
23 the volume variable cost is the column -- I think it's the  
24 column that was the result of the update for 1294. The rest  
25 of it, I don't know how it was calculated.

1 Q In that case, I guess you would disagree if the  
2 amount of loss shown there in column 4 under grand total is  
3 \$355,000,985?

4 A I won't agree or disagree. At best, I could  
5 confirm the arithmetic. But the response to POIR Number 16  
6 and what I did in the update are not -- I'm not attempting  
7 to crosswalk. I don't know why one would call one correct  
8 or not correct.

9 Q Well, do you understand -- Mr. Patelunas, of  
10 course, you had a lot of difficulty in preparing the Postal  
11 Service's update in response to Order 1294; is that correct?

12 A That's correct.

13 Q And you had approximately two months to do that?

14 A I believe it was six weeks.

15 Q Okay. And now intervenors are going to have  
16 approximately eleven days from today to accomplish the same  
17 task for themselves. It would be important to know which  
18 numbers to lock in on, wouldn't it?

19 A I'm here with supplemental testimony supporting  
20 the results of the update for Order Number 1294.

21 Q Okay. And as far as you know, those are the  
22 official numbers of the Postal Service at this time?

23 A They are the update numbers from Order -- to  
24 comply with Order 1294.

25 Q So then you don't know how they relate to the

1 response to POIR 16?

2 A Only insofar as the first column of volume  
3 variable cost I believe is from the update to Order 1294.

4 Q Okay. And you were consulted by somebody in the  
5 Postal Service when you -- about using those numbers in  
6 column 1?

7 A I provided them. They could have gotten those  
8 from my testimony.

9 Q And they similarly could have gotten revenue  
10 numbers from your testimony, couldn't they?

11 A If they wanted to.

12 Q So you wouldn't know where the revenue numbers  
13 came from in column 2, for example?

14 A No, I don't.

15 MS. DUCHEK: Mr. Chairman, I believe where the  
16 revenue numbers came from is explained in the response to  
17 POIR Number 16.

18 CHAIRMAN GLEIMAN: Thank you, Ms. Duchek.

19 BY MR. HALL:

20 Q Well, if you could turn to Exhibit 44-A to your  
21 testimony.

22 A I have it.

23 Q And there you show total revenues of  
24 \$69,000,369.6?

25 A Test year after rates, that's right.

1 Q That's right. And turning again to page 4 of the  
2 response to POIR 16, the total revenue number doesn't agree  
3 with the number you have, does it?

4 A They are different.

5 Q And is your number for other income, revenue from  
6 other income, the other income line, the same as shown on  
7 POIR Number 16, the response to POIR Number 16?

8 MS. DUCHEK: Are we still on page 4 of POIR Number  
9 16?

10 MR. HALL: Yes, we are.

11 THE WITNESS: Other income isn't separated out in  
12 my Exhibit 44-A. There is operating revenue, appropriations  
13 and interest income.

14 BY MR. HALL:

15 Q Okay. Well, then, let's return to that. So you  
16 wouldn't know, for example, once again looking at page 5 of  
17 the response to POIR Number 16, why the other income item  
18 shown there in column 4 is different than the other income  
19 entry for column 2 on page 4 of the response to POIR 16?

20 A I don't know what the difference between page 4  
21 and page 5 of POIR 16 are.

22 MR. HALL: Mr. Chairman, if I could ask if the  
23 Postal Service is intending to have a witness who will be  
24 able to answer questions about these matters.

25 CHAIRMAN GLEIMAN: Ms. Duchek?

1 MS. DUCHEK: I would like to know specifically  
2 what matters Mr. Hall is referring to.

3 MR. HALL: The relationship between the figures  
4 filed by the witness, Mr. Patelunas, and the figures filed  
5 by the Postal Service in response to POIR Number 16 and  
6 specifically the items that I mentioned.

7 MS. DUCHEK: Well, I think Mr. Patelunas in his  
8 testimony said he didn't change FY '99 revenues and I think  
9 POIR 16 asked that different revenues be produced and they  
10 explain how they derived them.

11 I don't see what there is to explain. His  
12 testimony says one thing, that says the other. They both  
13 explain what revenues they use. I don't understand what the  
14 pending question is.

15 MR. HALL: I guess the pending question, to cut to  
16 the chase here, is our Intervenor is faced with a  
17 smorgasbord of choices here. One Intervenor can take the  
18 response to POIR-16. Another can take Mr. Patelunas's  
19 testimony. Somebody else can go back to the original case  
20 and if that is done, is that really going to clarify the  
21 record?

22 CHAIRMAN GLEIMAN: I am reluctant to ask the  
23 Postal Service to present more witnesses at this point in  
24 the proceeding. If you think that there are specific  
25 questions related to a potential cross-walk or what you

1 think should be a cross-walk between the response to POIR-16  
2 and Mr. Patelunas's testimony, I would respectfully request  
3 that you put them in writing and present them to the Postal  
4 Service and the Postal Service can either provide a response  
5 explaining where the explanations for the numbers in POIR-16  
6 are or they can object, in which case we will get involved  
7 in some motion practice.

8 MR. HALL: Fine. That would be a good resolution.  
9 Thank you.

10 BY MR. HALL:

11 Q Could you turn now to your response to  
12 MMA-ST-44-4?

13 A I have it.

14 Q By the way, I think I noted this when I put those,  
15 all of the interrogatories into the record today, there were  
16 tables that were left out from our original interrogatory  
17 that you had not filed as part of your response, right? --  
18 but it is also correct that when you filed them as part of  
19 your response or corrected that you didn't fill out the  
20 tables?

21 A That's right.

22 Q Okay, so in 44 here, you have -- 44-4 rather --  
23 you have on the second unnumbered page there you have  
24 purported to correct certain of the numbers that MMA  
25 provided to you, do you see that?

1 A Yes.

2 Q Now with respect to -- do you consider all of  
3 these changes that you have made material?

4 A What changes?

5 Q Well, you have changed, let's say you have changed  
6 a -- by the way, these are in dollars, is that correct?

7 A These are in -- I believe these are thousands.  
8 Aren't we looking at total cost? We're looking at volume  
9 variable cost in total?

10 Q Yes. I said these are dollars.

11 A Dollars, yes, thousands of dollars.

12 Q Oh, okay, right. Now for example, in the original  
13 table we gave you presort and automation letters were  
14 5,081,634 and you have corrected that to be 5,081,635, is  
15 that right?

16 A That's right. I took the numbers from the  
17 appropriate either exhibit or Library Reference that was  
18 associated with my testimony.

19 Q Okay, and you just wanted everything to be  
20 absolutely right. It wasn't that that was a material  
21 difference, was it?

22 A I don't know whether it was material or not. I  
23 provided the correct numbers.

24 Q Okay. Well, let's look then at Special Services.  
25 The number that you provide for insurance --



1 A Right.

2 Q -- is 75,549,000?

3 A That's right.

4 Q Does that agree with the amount shown on your  
5 Exhibit W?

6 A No. It looks like it is different

7 Q Which would be the correct number?

8 A Page 2 of Exhibit 44-W shows insurance as 79,549,  
9 which my guess is that in my response it was a typo.

10 Q Okay. Would you look at the next number there?

11 A Right.

12 Q COD -- would that be a typo as well?

13 A Yes -- 66,629 --

14 Q You mean 16 --

15 A I'm sorry, 16,629.

16 Q So then you would have to change the total for  
17 Special Services and the total for Mail and Services, is  
18 that correct?

19 A Right.

20 Q And will you provide those amounts for the record,  
21 please.

22 A I can do that.

23 Q Now here you list Prior Years Loss Recovery?

24 A Yes.

25 Q Of 311,700,000.

1 A Right.

2 Q That is not the same as the number I found on page  
3 8 of your testimony and perhaps elsewhere in your exhibits.

4 A Exhibit -- I took that number from Exhibit 44-A.  
5 It may be rounded. What is on page 8? Yes, 311,709,000,  
6 that should be 311,709,000. The 700 was rounded.

7 Q Okay, so then you would have to change also the  
8 Grand Total number on your --

9 A Yes.

10 Q -- on the second page to your response to ST-44-4?

11 A That's right.

12 Q And could you do that for the record, please.

13 A I can do that.

14 Q Now we then asked you in Part (b) to please  
15 provide a full detailed explanation for each of the changes  
16 that affect First Class single piece, First Class presorted,  
17 Standard Mail A regular, Standard Mail A ECR. Do you see  
18 that?

19 A Yes.

20 Q And you referred us to your response to  
21 AAP/USPS-ST-44-9?

22 A Right.

23 Q And I have read that and I have a copy of that  
24 with me and I assume that you have a copy of that with you.

25 A Yes, I do.

1 Q This would seem to involve an in-depth study of a  
2 number of sources, a number of source materials, is that  
3 right?

4 A That's right.

5 Q And further examination to understand the  
6 methodology used, is that right?

7 A That's right.

8 Q Okay. Now you didn't do any of this because you  
9 say you didn't have time, is that right?

10 A That's the first line of the response to Part (b),  
11 yes.

12 Q Right, and in fairness let's say it is also not  
13 necessary for your testimony.

14 A That's true.

15 Q And by that you mean it wasn't required by the  
16 Commission in Order 1294?

17 A It means those types of comparisons and  
18 explanations and analysis were not required to put the test  
19 year costs together.

20 Q Okay. Could you do the analysis -- now I am not  
21 really focusing on what the folks from AAP want. I want  
22 what we asked for but could you do the analysis that we  
23 asked for in the next five or six days?

24 A I have -- other than answering the question of how  
25 long it would take to just do this, I don't know, but the --

1 as you well know, I still have outstanding interrogatories  
2 that would precede that.

3 Q You mean other things that you have to do before  
4 you could turn your attention to this?

5 A At least some things, yes. I don't know how many  
6 of those there are left outstanding.

7 Q Okay. Let me assume for a moment, although it is  
8 a great assumption, that I am the Presiding Officer and I  
9 say to you, okay, put everything aside and take Mr. Hall's  
10 request first. How long do you think that would take?

11 A I don't know.

12 Q If you just devoted your attention --

13 A I don't know. I haven't tried it. I don't know.

14 MS. DUCHEK: Mr. Chairman, if I could interject  
15 here, Mr. Patelunas did provide the response to AAP Number  
16 9, which gives a detailed description of how parties can do  
17 this work themselves. In addition, at Mr. Patelunas's  
18 technical conference he spent several hours walking through  
19 a specific example -- I believe it was for Bound Printed  
20 Matter, Cost Segment 12, of how you would trace through that  
21 from the beginning of the roll-forward to the end, looking  
22 at class of mail detail, looking at cost component detail.

23 He took all the parties' questions on that. This  
24 is work that the parties certainly can do themselves.

25 CHAIRMAN GLEIMAN: Well, I think the question that

1 is up now is how long does it take to do this, that and the  
2 other, and Mr. Patelunas is playing what his priorities are  
3 and how long he thinks, so at this stage of the game we will  
4 let him go ahead and give his estimates on how long  
5 different things take, and then we will figure out what is  
6 going to happen after that.

7 THE WITNESS: My estimate is I don't have an  
8 estimate right now. I haven't even started this. If I put  
9 everything aside and start it, I don't know how long it will  
10 take.

11 BY MR. HALL:

12 Q Well, would you be confident that you could get it  
13 to us before we have to file testimony on the 14th, so that  
14 we could review it?

15 A I said I don't know, that is the level of my  
16 confidence. I don't know, I haven't tried it.

17 Q And certainly you would agree that you are more  
18 familiar with all of these numbers and the models and the  
19 relationships than the Intervenors are?

20 A I don't know if I am or not.

21 Q Let's turn to your response to Interrogatory 5,  
22 MMA-ST-44-5.

23 A I have it.

24 Q Once again, would we have to change the prior  
25 year's loss recovery that you show there to, I believe it is

1 \$311,709,000?

2 A Wait a second. I'm sorry, I don't have it, I was  
3 in the wrong pile. Let me go to the other 5.

4 If it was the same type -- this one, ST-44(w).  
5 Right. Prior year's loss recovery would be 311,709.

6 Q Okay. And once again, in response to part (b),  
7 which again asks you for more information about the changes  
8 affecting First Class single piece, First Class presorted,  
9 First Class mail A, Regular and Standard mail A ECR, you  
10 again referred us to the AAP response, is that correct?

11 A Yes, I did, and when I had the technical  
12 conference, one of the examples I used to walk through from  
13 the beginning of -- from '99 through the test year was for  
14 First Class single piece. That was one of the examples I  
15 used at the technical conference.

16 Q Okay. But you have no idea, could you tell us how  
17 long it would take you to prepare this?

18 A It is the exact same question you asked me before.  
19 I don't know.

20 Q Good. Sometimes that is a good answer. Could you  
21 turn to your response to Interrogatory MMA-ST-44-6?

22 A I have it.

23 Q And there we asked you if you could disaggregate  
24 certain changes in the volume variable costs reflected in  
25 Section 3 of your testimony where you discuss updates in

1 addition to the FY '99 CRA, is that correct?

2 A That's right.

3 Q And you say that, in part, that they cannot be  
4 disaggregated within the timeframe established by Order  
5 Number 1294 in Ruling Number 71, is that right?

6 A That's right.

7 Q Okay. How long would it take you to accomplish  
8 that disaggregation?

9 A I don't know how long it would take, that would  
10 entail going back and rebuilding a model just for FY '99.  
11 All of the change factors that occur in the roll forward  
12 after '99 have incorporated the updates. It is go through  
13 the exercise again with different assumptions.

14 Q So you would have to start from scratch to build a  
15 new model?

16 A Virtually.

17 Q Okay. Once again, you are more familiar with  
18 building those models than the Intervenor, aren't you?

19 A I don't know whether I am or not.

20 Q Would it help if we said you were?

21 A No.

22 Q Let's turn to something that has become part of a  
23 mystery to me, and there are probably several places where  
24 you refer us to this. Yes. For example, in your response  
25 to MMA-ST-44-2, you indicate that the volumes associated

1 with the costs as presented in Library Reference 410 can be  
2 found in an Exhibit USPS-T-14A, page 10.

3 A That's correct.

4 Q And you do that also in response to several  
5 others, Number 3 -- I am not going to try to be exclusive  
6 here -- I mean inclusive, or all-inclusive. But you also do  
7 it in response to Number 8, which was redirected to the  
8 Postal Service for an institutional response. We have been  
9 unable to locate any such exhibit.

10 A T-14A would have been the first exhibit associated  
11 with Witness Kashani's direct testimony, T-14.

12 Q Yes, I am aware of that. But in examination, do  
13 we by any chance have that exhibit handy?

14 A I don't have it with it.

15 Q Okay. Well, I looked and, admittedly, I think you  
16 will agree that you are better at this than I am, it didn't  
17 appear to have anything to do with the volumes.

18 A I believe page 10, unless it was missing out of a  
19 particular copy, page 10 would have been the Test Year 2001  
20 After Rates Volumes and the FY 2000 Volumes, because that is  
21 where the percentage difference is calculated, and that is  
22 what is applied in the roll forward model.

23 MR. HALL: Okay. Once again, we were unable to  
24 locate it, so, Mr. Chairman, or if I could ask you, Mr.  
25 Patelunas, if you would double check and just please have



1 your counsel provide us with a copy if it is there. Confirm  
2 that is there and we will try to work with you to locate it.

3 MS. DUCHEK: Mr. Chairman, if it is an incorrect  
4 reference, obviously, we will double check that and correct  
5 it. I believe there are copies of Mr. Kashani's testimony  
6 here in the docket room and all over the place. If Mr. Hall  
7 really doesn't have a copy, we will endeavor to get him one.  
8 But I don't understand why he wouldn't have a copy.

9 MR. HALL: Well, I would be happy to -- I think we  
10 can work it out informally.

11 BY MR. HALL:

12 Q Now, if you look at your Exhibit 44C, ST-44C.

13 A Okay. I have it.

14 Q There you show Test Year After Rate Revenues of  
15 69,370,000,000, is that right?

16 A Rounded, yes.

17 Q Okay. And you also have page 4 of the response to  
18 POIR 16?

19 A I have it.

20 Q Would you confirm that the comparable revenues  
21 shown there are approximately 69,289,000,000?

22 A That is what appears on page 4 of Presiding  
23 Officer's Information Request Number 16.

24 Q Thank you. Now, could you refer to USPS-32(b)?

25 A Are we -- are you talking about the footnote that

1 is on my Exhibit 44C? Because if you are not, I don't have  
2 Exhibit 32 with me.

3 Q Okay. I am referring to what you have referred us  
4 to in response to -- pardon me -- what the Postal Service  
5 has referred us to in response to MMA-ST-44-8. It is  
6 USPS-32(b), as revised on 4/21.

7 MS. DUCHEK: Excuse me. Are you referring to the  
8 response to MMA Number 8?

9 MR. HALL: Yes.

10 MS. DUCHEK: That is an institutional response  
11 concerning the PRC version and Mr. Patelunas is not prepared  
12 to answer questions about that.

13 If you want to ask about Exhibit 32, I believe, in  
14 MMA-4, and some of your other responses that Mr. Patelunas  
15 answered, he referred you to that as well.

16 MR. HALL: Okay. I guess we could do with respect  
17 to any of them, so let's just generalize it.

18 BY MR. HALL:

19 Q There the Total Revenues After Rate -- Test Year  
20 After Rate Revenues are shown as 69,065,560 -- I'm sorry,  
21 that is 69,065,560,000.

22 A Where are you reading from?

23 Q My notes which were taken from Exhibit USPS-32(b),  
24 as revised on April 21.

25 A Okay. Subject to check. I said I don't have that

1 exhibit with me.

2 Q Okay. Why would you be referring us back to  
3 USPS-32(b)?

4 A Because that was the source that was available for  
5 the revenues that I used in the update.

6 Q And why wouldn't you update the revenues? You are  
7 updating the costs, aren't you?

8 A I updated the costs, yes.

9 Q And why don't you update the revenues?

10 A They were what was available. I didn't -- I  
11 wasn't instructed to update the revenues, that would have  
12 been a result of something other than the costs.

13 Q Okay. And so the same would be true if we are  
14 talking about the Postal Service methodology or the  
15 Commission's methodology?

16 A I am speaking about the Postal Service's  
17 methodology.

18 Q Now, let's see --

19 CHAIRMAN GLEIMAN: Mr. Hall, do you have much more  
20 to go? If you do, take as much time as you want, but if you  
21 do have a bit more to go, then I think that this would be a  
22 good time to perhaps take a short break.

23 MR. HALL: I have maybe 15 minutes or so, so maybe  
24 that would be a good time. I could organize.

25 CHAIRMAN GLEIMAN: Well, let's take a ten-minute

1 break and come back at five after the hour.

2 [Recess.]

3 CHAIRMAN GLEIMAN: Mr. Hall, I didn't think you  
4 needed time to organize. I thought you were pretty  
5 organized this morning, but whenever you're ready to  
6 proceed, you certainly may.

7 MR. HALL: Thank you. As a preliminary matter,  
8 let me say that we did put that time of the recess to good  
9 use, and the Postal Service has very kindly -- or perhaps it  
10 was the OCA or both of them -- provided me with a copy of  
11 page 10 of USPS Exhibit 14(a).

12 I guess the explanation is that not everything  
13 goes up on the website, so I think it's perhaps my  
14 misunderstanding as much as anything else.

15 But I'm happy to have the information, and pleased  
16 that the Postal Service cooperated.

17 CHAIRMAN GLEIMAN: I won't go into detail, but I  
18 made better use of the break than you did, and we'll check  
19 into finding out why that wasn't up on the website.

20 MR. HALL: Now, let me say that I would like to  
21 have introduced as a cross examination exhibit, a two-page  
22 document, the first page of which on the upper right-hand  
23 corner is entitled Attachment of MMA/USPS-ST-44-2.

24 And if we could have that identified with an  
25 appropriate number?

1 CHAIRMAN GLEIMAN: We'll mark it  
2 MMA/USPS-ST-44-XE-1, how about that? Does that work for  
3 everybody?

4 [Exhibit Number MMA/USPS-ST-44-XE-1  
5 was marked for identification.]

6 MR. HALL: Fine. I've handed copies to counsel  
7 and to the witness.

8 BY MR. HALL:

9 Q Mr. Patelunas, do you recognize this table, in  
10 part, as the table that was attached to Interrogatory  
11 MMA/USPS-ST-44-2?

12 A It looks familiar, yes. I believe it was there.

13 Q And the same thing would be true of the next page  
14 of that exhibit? That's the --

15 A For Number 3.

16 Q That was the attachment to Number 3.

17 A Right.

18 Q Okay, now, what we've done here is to -- you  
19 didn't fill in this table when you made your response; is  
20 that right?

21 A That's right.

22 Q But that's what we had asked you to do, but you  
23 didn't do it.

24 Now, we have done this, and all I would ask you to  
25 do is to accept these numbers, subject to check.

1 MS. DUCHEK: Mr. Chairman, if I could interject  
2 here, certainly no one has any reason to question the fact  
3 that Mr. Hall may have transcribed these numbers accurately,  
4 but I see, at the -- he's getting his columns of numbers  
5 from POIR Number 16, and then calculating what the  
6 contribution of institutional costs would be.

7 This witness didn't respond to POIR Number 16 or  
8 sponsor it, as I think I have made clear. Perhaps the  
9 better tact to take here would be to get this to the Postal  
10 Service, and have it responded to institutionally or  
11 whatever.

12 I don't want to put this witness in the position  
13 of confirming column after column of numbers that he didn't  
14 even sponsor.

15 CHAIRMAN GLEIMAN: Well, I think that inasmuch as  
16 the table was available and not filled in -- and I'm not  
17 sure I understand all the reasons why it wasn't, but it  
18 wasn't, and since the sources of the numbers that were  
19 filled by Mr. Hall are understood in terms of where they  
20 have come from, that let's just go ahead.

21 I think that the witness started off by saying,  
22 subject to check, and I think that puts it all in proper  
23 perspective.

24 If, on reflection, after the hearing today, after  
25 the witness is no longer on the stand, you feel that there's

1 a problem based on something that was said, or some of the  
2 numbers and how they were presented, then, you know, we can  
3 get a response.

4 MR. HALL: With that, Mr. Chairman, I have nothing  
5 further. I'd just move the exhibit into evidence, and hand  
6 two copies to the Reporter.

7 THE WITNESS: They are subject to check. Do I do  
8 anything with this?

9 [Laughter.]

10 CHAIRMAN GLEIMAN: Mr. Hall, now, I'm a bit --

11 THE WITNESS: There's a few hundred numbers here.

12 CHAIRMAN GLEIMAN: Excuse me.

13 THE WITNESS: Okay.

14 CHAIRMAN GLEIMAN: There's not an outstanding  
15 question. If your counsel wants to object, your counsel can  
16 object. I'm trying to recall, and if you all would like,  
17 I'll have the record read back.

18 You presented this, you asked the witness to look  
19 at the numbers and accept them, subject to check.

20 My guess is that -- I don't know if the Postal  
21 Service is going to object or not.

22 [Laughter.]

23 CHAIRMAN GLEIMAN: I see somebody shaking their  
24 head in the affirmative over there. You know, the question  
25 arises. Ms. Duchek?

1 MS. DUCHEK: All I was going to say, Mr. Chairman  
2 -- and it was fine for Witness Patelunas, pursuant to your  
3 comments, to say he accepts these, subject to check, and if  
4 Mr. Hall would like to transcribe this into the record as a  
5 cross examination exhibit on that basis, I suppose that's  
6 fine.

7 What I think I heard him say was that the wanted  
8 it entered into evidence. Again, POIR-16 was not this  
9 witness's response.

10 He said he'd accept that the numbers are correct,  
11 subject to check, subject to the fact that he didn't prepare  
12 that response.

13 Transcription into the record is fine; I object to  
14 it being entered into evidence through this witness.

15 CHAIRMAN GLEIMAN: Mr. Hall?

16 MR. HALL: I'm not sure what the nature of the  
17 objection is. The numbers will be either confirmed or they  
18 won't be confirmed.

19 Once again, we're really looking for numbers that  
20 we can use in our update. We presented the Postal Service  
21 with one, two, three, four, five --

22 CHAIRMAN GLEIMAN: Is there an institutional  
23 response outstanding with respect to the tables that didn't  
24 get filled in by Mr. Patelunas?

25 MS. DUCHEK: No, Mr. Chairman. The questions to



1 Mr. Patelunas attached a number of tables, including  
2 volume-variable costs from his exhibits, and he said -- and  
3 then the questions then said fill in the columns for  
4 revenues and volumes and nothing about POIR-16.

5 So the witness responded, not filling in the  
6 columns, but giving the sources from which the revenue and  
7 volume figures that he used could be derived in the update.

8 He didn't say a word about POIR-16, and I would  
9 point out that those revenue and volume figures are  
10 available in a variety of places in the -- that the revenue  
11 and volume figures that this witness used are available in a  
12 variety of exhibits and things in his testimony.

13 Quite honestly, we didn't -- we weren't trying to  
14 be noncooperative, but to have Mr. Patelunas, who still has  
15 quite a few interrogatories outstanding, type in figures  
16 from his sources that the party could get themselves, didn't  
17 seem like a good use of his time where he could be  
18 responding to other of the hundreds of pending  
19 interrogatories that he has.

20 CHAIRMAN GLEIMAN: Mr. Hall, the numbers that you  
21 added to the table come out of Presiding Officer's  
22 Information Request Number 16?

23 MR. HALL: Yes, they did.

24 CHAIRMAN GLEIMAN: I want to take a two-minute  
25 break.

1 [Recess.]

2 CHAIRMAN GLEIMAN: We're going to transcribe this  
3 into the record, not admit it into evidence. Responses to  
4 POIR Number 16, I don't recall whether they are in evidence  
5 yet, but they will be placed into evidence, if by no one  
6 else, by the Bench.

7 And that will resolve the issue, because the  
8 numbers will then be in evidence in the POIR, and they can  
9 be extracted from that document, rather than from a table  
10 which was put together and which there seems to be some  
11 concern about.

12 Quite frankly, having ruled on that and put it to  
13 bed, just let me mention that what troubled me at the outset  
14 was that it wasn't clear, based on the one question, that it  
15 was a legitimate cross examination exhibit at all.

16 I mean, I was troubled by that, but we can resolve  
17 this whole matter by making sure that the numbers supplied  
18 by the Postal Service that you are interested in, Mr. Hall,  
19 on behalf of your clients, get into the record as evidence,  
20 and we will attend to that if it hasn't already been done.

21 [Exhibit Number MMA/USPS-ST-44-XE-1  
22 was transcribed into the record.]

23

24

25

MMA/USPS-ST-44-X

Attachment of MMA/USPS-ST44-2

Test Year After Rates Finances Using FY 99 Billing Determinants  
(\$000's)

| Description                    | Vol Variable<br>Costs<br>(1) | Revenues<br>(2) | Contribution to<br>Institutional Costs<br>(3) | Volumes<br>(4) |
|--------------------------------|------------------------------|-----------------|---|----------------|
| First-Class Mail               |                              |                 |   |                |
| Single-Piece Letters           | 13,565,269                   | 22,841,864      | 9,276,595                                     | 52,877,658     |
| Presort and Automation Letters | 5,081,635                    | 13,250,227      | 8,168,592                                     | 46,979,736     |
| Total Letters                  | 18,646,903                   | 36,092,091      | 17,445,187                                    | 99,857,394     |
| Single-Piece Cards             | 543,567                      | 603,623         | 60,056  | 2,770,783      |
| Presort and Automation Cards   | 173,866                      | 448,789         | 274,923                                       | 2,670,168      |
| Total Cards                    | 717,433                      | 1,052,412       | 334,979                                       | 5,440,951      |
| Total First-Class Mail         | 19,364,336                   | 37,144,502      | 17,780,166                                    | 105,298,345    |
| Priority Mail                  | 3,194,537                    | 5,656,260       | 2,461,723                                     | 1,249,750      |
| Express Mail                   | 467,914                      | 1,016,142       | 548,228                                       | 72,301         |
| Mailgrams                      | 854                          | 1,136           | 282   | 3,340          |
| Periodicals                    |                              |                 |   |                |
| Within County                  | 86,222                       | 82,297          | (3,925)                                       | 862,061        |
| Outside County                 | 2,345,698                    | 2,365,325       | 19,627  | 9,459,105      |
| Total Periodicals              | 2,431,920                    | 2,447,622       | 15,702  | 10,321,166     |
| Standard Mail (A)              |                              |                 |   |                |
| Regular                        | 6,512,735                    | 9,126,996       | 2,614,261                                     | 40,998,656     |
| Enhanced Carrier Route         | 2,629,439                    | 5,164,832       | 2,535,392                                     | 32,828,211     |
| Total Commercial               | 9,142,174                    | 14,291,827      | 5,149,653                                     | 73,826,867     |
| Nonprofit                      | 1,363,390                    | 1,544,246       | 180,858                                       | 11,425,579     |
| Enhanced Carrier Route         | 199,829                      | 262,328         | 62,499  | 2,851,875      |
| Total Nonprofit                | 1,563,219                    | 1,806,574       | 243,355                                       | 14,277,455     |
| Total Standard Mail (A)        | 10,705,393                   | 16,098,401      | 5,393,008                                     | 88,104,322     |
| Standard Mail (B)              |                              |                 |   |                |
| Parcel Post                    | 1,077,003                    | 1,126,746       | 49,743  | 374,096        |
| Bound Printed Matter           | 498,658                      | 554,060         | 55,402  | 524,743        |
| Special Rate                   | 357,987                      | 333,099         | (24,888)                                      | 205,789        |
| Library Rate                   | 54,015                       | 49,661          | (4,355)                                       | 28,432         |
| Total Standard Mail (B)        | 1,987,665                    | 2,063,566       | 75,902  | 1,133,060      |
| Penalty                        | 0                            | 0               | 0   | 348,543        |
| Free-for-the-Blind             | 31,833                       | 0               | (31,833)                                      | 56,675         |
| Total Domestic Mail            | 38,184,452                   | 64,427,630      | 26,243,178                                    | 206,587,501    |
| International Mail             | 1,570,744                    | 1,778,913       | 208,170                                       | 1,031,627      |
| Total All Mail                 | 39,755,195                   | 66,206,543      | 26,451,348                                    | 207,619,128    |
| Special Services               |                              |                 |   |                |
| Registry                       | 100,215                      | 96,301          | (3,914)                                       | 11,174         |
| Certified Mail                 | 480,071                      | 577,361         | 117,290                                       | 274,934        |
| Insurance                      | 79,550                       | 104,522         | 24,972  | 44,680         |
| COD                            | 16,628                       | 19,981          | 3,353   | 3,544          |
| Money Orders                   | 165,714                      | 305,035         | 139,321                                       | 226,435        |
| Stamped Cards                  | 3,048                        | 8,317           | 5,269   | 415,873        |
| Stamped Envelopes              | 11,077                       | 16,041          | 4,964   | 400,000        |
| Box/Caller Service             | 586,317                      | 805,860         | 219,542                                       | 17,958         |
| Other                          | 123,488                      | 414,141         | 290,653                                       | N/A            |
| Total Special Services         | 1,546,109                    | 2,347,559       | 801,450                                       | 1,394,597      |
| Total Mail & Services          | 41,301,304                   | 68,554,103      | 27,252,798                                    | 207,619,128    |
| Other Costs                    | 28,031,846                   |                 | (28,031,846)                                  |                |
| Other Income                   |                              | 687,847         | 687,847                                       |                |
| Prior Years Loss Recovery      | 311,709                      |                 | (311,709)                                     |                |
| Continuing Appropriations      |                              | 67,093          | 67,093  |                |
| Investment Income              |                              | (20,168)        | (20,168)                                      |                |
| Grand Total                    | 69,644,859                   | 69,288,875      | (355,985)                                     |                |

Source:

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## Test Year Before Rates Finances Using FY 99 Billing Determinants (\$000's)

| Description                    | Vol Variable Costs | Revenues   | Contribution to Institutional Costs | Volumes     |
|--------------------------------|--------------------|------------|-------------------------------------|-------------|
| First-Class Mail               | (1)                | (2)        | (3)                                 | (4)         |
| Single-Piece Letters           | 13,586,081         | 22,236,977 | 8,650,897                           | 53,213,828  |
| Postnet and Automation Letters | 5,115,088          | 12,789,270 | 7,673,182                           | 47,047,888  |
| Total Letters                  | 18,701,169         | 35,026,247 | 16,324,079                          | 100,261,726 |
| Single-Piece Cards             | 556,827            | 592,337    | 35,710                              | 2,650,850   |
| Postnet and Automation Cards   | 177,568            | 436,980    | 258,421                             | 2,734,081   |
| Total Cards                    | 734,196            | 1,029,327  | 295,131                             | 5,584,931   |
| Total First-Class Mail         | 19,435,365         | 36,054,574 | 16,619,210                          | 105,846,657 |
| Priority Mail                  | 3,390,168          | 5,345,639  | 1,955,471                           | 1,356,715   |
| Express Mail                   | 462,139            | 1,005,884  | 543,746                             | 71,641      |
| Mailgrams                      | 850                | 1,136      | 286                                 | 3,340       |
| Periodicals                    | 87,046             | 76,728     | (10,318)                            | 872,194     |
| Outside County                 | 2,371,322          | 2,111,857  | (259,465)                           | 9,556,551   |
| Total Periodicals              | 2,458,368          | 2,188,585  | (269,783)                           | 10,428,745  |
| Standard Mail (A)              | 6,784,313          | 8,708,739  | 1,922,425                           | 42,783,773  |
| Regular                        |                    |            |                                     |             |
| Enhanced Carrier Route         | 2,885,551          | 5,043,421  | 2,157,870                           | 33,630,517  |
| Total Commercial               | 9,469,864          | 13,750,160 | 4,280,296                           | 76,414,281  |
| Nonprofit                      | 1,363,812          | 1,457,426  | 93,613                              | 11,510,795  |
| Enhanced Carrier Route         | 202,982            | 230,257    | 27,275                              | 2,907,206   |
| Total Nonprofit                | 1,566,795          | 1,687,683  | 120,889                             | 14,418,001  |
| Total Standard Mail (A)        | 11,036,659         | 15,437,843 | 4,401,185                           | 90,832,291  |
| Standard Mail (B)              | 1,097,383          | 1,109,627  | 12,264                              | 378,447     |
| Parcel Post                    | 512,221            | 486,862    | (25,359)                            | 541,876     |
| Bound Printed Matter           | 361,266            | 321,866    | (39,401)                            | 208,887     |
| Special Rate                   | 54,852             | 48,513     | (6,339)                             | 28,009      |
| Library Rate                   | 2,025,702          | 1,966,868  | (58,835)                            | 1,158,118   |
| Total Standard Mail (B)        | 31,724             | 0          | (31,724)                            | 56,675      |
| Free-for-the-Blind             | 38,840,974         | 62,000,529 | 23,159,555                          | 210,102,726 |
| Total Domestic Mail            | 1,619,092          | 1,772,350  | 153,258                             | 1,066,939   |
| International Mail             | 40,460,066         | 63,772,880 | 23,312,813                          | 211,169,664 |
| Total All Mail                 | 42,055,499         | 65,825,673 | 23,770,174                          | 211,169,664 |
| Total Mail & Services          |                    |            |                                     |             |
| Other Costs                    | 28,010,934         | 687,847    | (28,010,934)                        |             |
| Other Income                   |                    |            |                                     |             |
| Prior Years Loss Recoveries    | 311,709            |            | (311,709)                           |             |
| Continuing Appropriations      |                    | 87,093     | 87,093                              |             |
| Investment Income              |                    | (21,959)   | (21,959)                            |             |
| Grand Total                    | 70,378,142         | 66,558,654 | (3,819,488)                         |             |

Source:

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1 MR. HALL: Okay, at this time, then, Mr. Chairman,  
2 I'd also like to ask that the Postal Service be required to  
3 complete the tables that we provided to them as part of our  
4 Interrogatories Numbered MMA-ST-44-4, 44-5, and 44-6.

5 And let me tell you that the point of Tables 2 and  
6 3 were that we were able, we thought, to put together the  
7 appropriate numbers, based on our understanding of what the  
8 Postal Service's case was and what the most recent update  
9 was.

10 The reason for providing tables, in general, was  
11 so that we could lock into numbers. We don't have the time,  
12 the luxury to be chasing around a warren of library  
13 references and exhibits and trying to analyze all this.

14 It is the Postal Service which has all this  
15 information. The Postal Service is the one that can  
16 respond.

17 And I would add that if you look -- and Mr.  
18 Patelunas and I had a colloquy a little while ago about, for  
19 example, his response to MMA-ST-44-4, in which Mr. Patelunas  
20 did take substantial time to correct a number of the figures  
21 that we placed on the table that we asked him to complete.

22 And it turned out that several of those numbers  
23 that he corrected, in fact, were wrong. So now we've got  
24 the numbers.

25 But if we had used those numbers, we would have

1     been incorrect. So, I think perhaps a better use of Mr.  
2     Patelunas's time would be simply -- or the Postal Service's  
3     time, or somebody in power's time, would be to simply give  
4     us what we want, so we can put on an update case.

5             Otherwise, we'll be deprived of the opportunity to  
6     do so.

7             MS. DUCHEK: Mr. Chairman, I believe we have been  
8     fully responsive to the questions by pointing Mr. Hall to  
9     the sources where he can get the numbers from.

10            If we've made mistakes -- and we possibly have in  
11     the rush to get out as much discovery as we could prior to  
12     Mr. Patelunas's taking the stand, we will correct them.

13            However, in essence, what Mr. Hall is asking Mr.  
14     Patelunas to do is to do his typing for him. He has the  
15     sources where the material can be found.

16            He can type in his tables himself.

17            CHAIRMAN GLEIMAN: Mr. Hall, I'm going to ask you  
18     to discuss with the Postal Service, in an informal manner,  
19     where the sources of the numbers are, if they have not  
20     already made that information available as part of the  
21     response to POIR-16.

22            And they -- if the numbers are, indeed, available,  
23     then it seems to me that it's just a matter of mechanics.

24            And while I appreciate the time constraints that  
25     you're operating under, all of us at one time or another in

1 this proceeding are going to operate under certain time  
2 constraints.

3 I'm not prepared to tell the Postal Service to --  
4 or this particular witness -- to put outstanding  
5 interrogatories on the back burner, because there are other  
6 parties that are waiting for those responses.

7 So if I could get you to continue in the spirit of  
8 cooperation that you mentioned existed during our short  
9 break just a moment ago, and if there continues to be a  
10 problem, then a short motion to the Commission would be  
11 entertained.

12 But if it is, indeed, just a matter of mechanics  
13 of pulling numbers out from existing documents, and the  
14 Postal Service can help you and point you in the right  
15 direction for those numbers, then that's the best way to  
16 proceed at this point.

17 MR. HALL: Certainly, Mr. Chairman, I'd be happy  
18 to do that. It was never my intention to simply have the  
19 Postal Service do my typing for me. But we can possibly do  
20 this through an informal conference call or something of  
21 that nature.

22 BY MR. HALL:

23 Q Mr. Patelunas, I'm now going to hand you and your  
24 counsel, a document entitled Response of the United States  
25 Postal Service to Requests for Admissions from Major Mailers

1 Association.

2 In that request for admission, Mr. Patelunas, do  
3 you see that -- first, have you ever seen this document  
4 before?

5 A I have.

6 Q Okay. We are asking you to confirm that your FY  
7 1990 updates don't include certain materials. Do you see  
8 that?

9 A 1999 update?

10 Q Fiscal Year 1990 updates.

11 A Yes.

12 MR. HALL: And for your information, Mr. Chairman  
13 and Commissioner LeBlanc, the materials listed there were  
14 materials that MMA requested be provided as provided as part  
15 of the update in response to Order 1294, and specifically in  
16 answer to the Postal Service's request for reconsideration  
17 of that order.

18 BY MR. HALL:

19 Q I would like you to turn to page 2 of that exhibit  
20 -- not exhibit, that document, and look at Items F through  
21 I. And there you confirm that you are not going to be  
22 filing updates to that information, is that right?

23 A I didn't confirm that. These are Postal Service  
24 responses.

25 Q Okay. But you see that that is what the answer



1 is, the Postal Service --

2 A I see that is what the answer is.

3 Q And you are aware, aren't you, that Library  
4 Reference 162A deals with the derivation of workshare cost  
5 savings under the USPS methodology?

6 A No, I don't know that.

7 Q Will you accept that subject to check?

8 A Subject to check.

9 Q And that Library Reference 147, which is part (f),  
10 is comparable, but on the PRC costing methodology, will you  
11 accept that subject to check?

12 A Subject to check.

13 Q Okay. And the (g) and (i) are QBRM cost savings  
14 derivations in Library Reference 146 and 160?

15 A Subject to check.

16 Q And also 160 and the one shown in (h) as well.

17 A Subject to check.

18 Q And further up there on (d), you say, confirmed  
19 that -- now we are back to 162A, which you said you weren't  
20 aware of. I won't ask you that question since you are not  
21 aware of it. Could you now turn to your Exhibit 44Y?

22 A 44Y, I have it.

23 Q Now, in this exhibit, that we have actually  
24 referred you to in our Interrogatory MMA-ST-1, you were  
25 doing -- you are reflecting the migration of mail Standard

1 Mail A single piece to First Class and Priority?

2 A That's correct.

3 Q Okay. First, what is the total quantity of mail  
4 that will be migrating?

5 A I don't understand the question. The volume?

6 Q Yeah. What is the volume that is going to be  
7 migrating?

8 A I don't know. What I did in Exhibit 44Y was to  
9 show what I did in the roll forward to migrate those pieces  
10 of Standard A single piece that existed in Quarter 1 of FY  
11 1999, because after Quarter 1 of '99 they are non-existent.

12 Q Right. And they are non-existent, why?

13 A My understanding is that classification doesn't  
14 exist.

15 Q Okay. And before the classification disappeared,  
16 the rates were the same, or the fees were the same as they  
17 were for First Class, weren't they?

18 A I don't know.

19 Q Well, let's see, you were simply given volumes and  
20 you had to distribute costs, right?

21 A I think that is -- okay, let's be a little bit  
22 clearer on that. I was simply given volumes and distributed  
23 costs. There was more going on than that. I am trying to  
24 figure out what the question is right here.

25 Q I am trying to figure out where the costs came

1 from. The costs are associated with a certain number of  
2 pieces.

3 A The costs were in the '99 CRA.

4 Q Okay. And they were picked up, specifically, the  
5 volumes would have been picked up, what, by the RPW system?

6 A Presumably, that would be my understanding.

7 Q Okay. I guess my question is, and maybe you can't  
8 answer it, and you can tell me if there is anybody who is  
9 going to be testifying who could answer it, it occurs to us  
10 that even before the classification was done away with, if  
11 the rates -- if I am correct that the rates were the same,  
12 there would be no reason for anybody to be mailing Standard  
13 A -- Standard Mail A single piece letters, would there?

14 A I don't know why people choose to use whatever  
15 mail classes they choose.

16 Q And would you know which witness could answer my  
17 questions?

18 A Why people choose classes of mail? No, I don't  
19 know who.

20 Q Why there was something that you needed to  
21 migrate.

22 A Because in the roll forward, I would have had, if  
23 I didn't get rid of the Standard A single piece costs from  
24 '99, they would sit in there as a residual. Unless I  
25 somehow performed a negative operation to take them out of

1 the system, even with no mail volume, those costs would  
2 remain in the system.

3 Q Okay. Now, how did the costs get into the system?

4 A Presumably, it was Standard A single piece that  
5 existed in Quarter 1 of '99.

6 Q And how would that be determined?

7 A Through the data systems. It is in the CRA, '99.

8 Q And specifically, how would you pick that up?

9 A I don't know. It is reported, I used '99.

10 Q Okay. And so if there were some error in  
11 reporting, that is one way it could have crept in, is that  
12 right?

13 A My understanding is that RPW and the CRA are both  
14 audited. That is probably as good of a quality that I can  
15 imagine.

16 Q But, in general, in the scheme of \$70 billion,  
17 this is probably not going to be something that somebody  
18 puts a real fine eye on, is it?

19 A I don't know.

20 Q Okay. In terms of the migration, you have used --  
21 why don't you tell me, when you prepared your update, what  
22 actual data did you have available to you?

23 A The '99 CRA.

24 Q Well, you had data for fiscal year '99, quarters  
25 2, 3, and 4, right? You had actual data for those quarters?

1 A For '99?

2 Q Right.

3 A The entire year would have been or the entire  
4 fiscal year was there because it was a FY '99 CRA.

5 Q Right, but we said that Standard A mail single  
6 piece -- or Standard Mail A single piece still existed in  
7 the first quarter of fiscal year '99?

8 A That's right, that's right.

9 Q So it would have been possible, wouldn't it for  
10 you to have used actuals for quarters 2, 3 and 4, and then  
11 simply done an adjustment to reflect migration that would  
12 occur or that would have occurred in the first quarter?

13 A In terms of what I did in the roll-forward is I  
14 used the methodology used by Witness Kashani when he did it  
15 in his direct testimony. Some questions arose about that  
16 and I enhanced that, but I used the same methodology.

17 I didn't approach the update as an opportunity to  
18 change methodologies.

19 Q Okay. Similarly, you also had what I will call a  
20 hybrid test year available to you in terms of actuals,  
21 right?

22 A 2001?

23 Q No, a hybrid -- a hybrid -- I am going to call it  
24 a hybrid test year because I think that is what it's been  
25 called before, and if you are not aware of it let me refer

1 you to the status report that the United States Postal  
2 Service filed regarding the response that Presiding  
3 Officer's Information Request Number 16.

4 MS. DUCHEK: Mr. Chairman, again that referred to  
5 I believe hybrid billing determinants. It had nothing to do  
6 with a hybrid test year of costs, which is what Mr. -- well,  
7 he didn't do a hybrid test year but test year of costs --  
8 again, I don't think questioning this witness about POIR  
9 Number 16 is appropriate.

10 MR. HALL: I am not really cross examining the  
11 witness about this directly. I am just pointing out that  
12 the Postal Service has used the term elsewhere.

13 CHAIRMAN GLEIMAN: Well --

14 MR. HALL: But I will be happy to restate the  
15 question.

16 CHAIRMAN GLEIMAN: Yes, maybe you ought to restate  
17 the question because if that is your purpose, then you can  
18 do that with rebuttal testimony or on brief or whenever  
19 else, but the term is hybrid test year?

20 MR. HALL: That is the term I have used. I  
21 believe we used it with Mr. Front when he appeared to be --

22 CHAIRMAN GLEIMAN: But the document in question is  
23 the Postal Service's July 24 status report?

24 MR. HALL: That's right.

25 CHAIRMAN GLEIMAN: I just want to make sure that I

1 am looking at the right document.

2 MR. HALL: Right -- and the term is mine. I am  
3 trying to explain to him what -- the term is really mine. I  
4 am trying to explain to him what it is.

5 CHAIRMAN GLEIMAN: But it is not a term that is  
6 found in that document then?

7 MR. HALL: I do not know.

8 CHAIRMAN GLEIMAN: Okay.

9 BY MR. HALL:

10 Q In any event, what I am referring to, Mr.  
11 Patelunas, is -- and if you could confirm for me that when  
12 you prepared the update you had actual cost information for  
13 Fiscal Year '99 quarters 3 and 4, and also information from  
14 Fiscal Year 2000, Quarters 1 and 2.

15 A What type of information? I had cost data from FY  
16 '99.

17 Q And also you had cost data from Fiscal Year 2000  
18 through Quarter 2, didn't you?

19 A There would have been financial reports through  
20 the first two quarters, but we don't, we didn't develop new  
21 cost factors because of the costs that had occurred in 2000  
22 to that point.

23 Q That is not really my question. My question is  
24 you had the data and if you had actuals for that period the  
25 migration would have already been completed, totally

1 complete, isn't that right?

2 A The -- after Quarter 1 of '99 there was no longer  
3 a Standard A single piece classification.

4 Q Right, so if you had used actuals there wouldn't  
5 have been any need to follow the projection that was done  
6 that you say was a methodology that you decided you didn't  
7 want to change as part of the update, is that right?

8 A If I am using just Quarters 2, 3 and 4 from '99  
9 after it existed, then I am not using true '99 cost data.

10 Q But you would be using more up-to-date data and  
11 data which didn't rely on application of projections, isn't  
12 that correct?

13 A In terms of the update I was -- I thought the  
14 function was to incorporate FY '99 data. The FY '99 data  
15 that was in the CRA became the base year for this updated  
16 roll forward.

17 Q Okay, fine. Now you, in response to part (g) of  
18 Interrogatory MMA-ST-44-1, first let me say that you split  
19 costs 95-5 percent between First Class and Priority, isn't  
20 that right?

21 A 95 percent to First Class mail and 5 percent to  
22 Priority, that's right.

23 Q And in (g) we asked you does this analysis assume  
24 that the unit cost of pieces being split up between First  
25 Class and Priority is the same, even though lighter weight



1 pieces shift to First Class and higher weight pieces shift  
2 to Priority?

3 Your answer is, "As the exhibit shows, I split the  
4 cost by component. I did not use unit costs."

5 A That is correct.

6 Q But do the components assume that the unit costs  
7 are the same?

8 A Which unit costs?

9 Q The unit costs of heavier weight pieces and the  
10 unit costs of lighter weight pieces.

11 A Within a component there is an average unit cost  
12 for Standard A single piece, for example. The components,  
13 the parts that make up that average I don't know.

14 Q Okay, so you don't know if there's any  
15 differentiation made for the unit costs of lighter weight  
16 pieces versus the unit costs of heavier weight pieces  
17 because it is just an average, is that right?

18 A I use an average.

19 Q Okay, and you didn't study or did you study what  
20 percentage of pieces migrated to different weight categories  
21 in First Class?

22 A I did not study that.

23 MR. HALL: Thank you. Those are all the questions  
24 I have.

25 CHAIRMAN GLEIMAN: OCA, Mr. Richardson.

1 MR. RICHARDSON: Thank you, Mr. Chairman.

2 CROSS EXAMINATION

3 BY MR. RICHARDSON:

4 Q Good morning, Patelunas.

5 I would like to ask you a couple questions about  
6 your testimony. First, page 5 of your testimony, just for  
7 clarification purposes, lines 16 through 19.

8 There is a sentence there, "However, other than a  
9 few changes and additions the amount of year to year change  
10 in this category of other programs was adjusted to produce  
11 the same level of test year costs reflected in the request"  
12 and this category the sentence refers to is  
13 Headquarters-administered programs and corporate-wide  
14 activities, is that correct?

15 A That's right.

16 Q So your testimony is that there has been no change  
17 in those programs reflected in your testimony?

18 A The level of those programs.

19 Q The cost level?

20 A The level, the ultimate level. The hundred  
21 dollars that was there in the test year and initial request  
22 is still \$100 in the update. It may -- it is shifted around  
23 between the line numbers but the level of the program  
24 remains the same.

25 Q Does that appear in any particular single place in

1 your exhibits or it is broken up into several lines in your  
2 exhibits, ST-44AA or --

3 A It would be in the Library Reference 421.

4 Q Now I'd like to refer to page 6 of your testimony  
5 on line 19, which discusses medical expenses, and there you  
6 indicate that some increased medical expenses were partially  
7 offset by a change in the life tables used to calculate the  
8 liability related to long-term cases. Do you see that?

9 A That's right.

10 Q And then there was a question, an interrogatory  
11 that OCA asked, OCA/USPS-ST-44-4, which I understand was  
12 referred to the Postal Service and that the Postal Service  
13 has answered that. It provides a little further  
14 explanation.

15 Do you have that before you, or are you familiar  
16 with that?

17 A I have it.

18 Q It indicates that the Postal Service is switching  
19 from life tables from the Centers for Disease Control that  
20 relate to the general U.S. population and switching to the  
21 Social Security Administration's experience for disabled  
22 populations and then on the top of the second page of the  
23 response says, "Our analysis indicates that using a life  
24 table reflecting experience with the disabled population is  
25 more reflective of our experience than a life table

1 reflecting trends for the general population."

2           You go on to point out or the answer goes on to  
3 point out that it results in a 400 million dollar savings by  
4 using this new life annuity table, which is certainly  
5 commendable, however I am wondering why switching from a  
6 life table relating to the general population would be more  
7 expensive or tend to be more expensive than that related to  
8 a disabled population.

9           The question in my mind is perhaps there may be a  
10 saving in these years. Is there some additional cost in  
11 outlying years? Would you be familiar with any of that?

12           A     I don't know.

13           Q     The response also says "our analysis indicates" --  
14 that was not you, I guess --

15           A     No, that is the Accounting.

16           MR. RICHARDSON: I would ask if the Postal Service  
17 could indicate or respond to a question as to the source of  
18 their analysis and also whether or not it is intended to be  
19 a permanent change to those life tables.

20           CHAIRMAN GLEIMAN: Counsel?

21           MS. DUCHEK: Mr. Chairman, I think probably we  
22 would be happy to entertain a follow-up interrogatory to  
23 that response from OCA and we would provide a response in  
24 writing.

25           CHAIRMAN GLEIMAN: Why don't we consider the

1 question that was laid on the table just now to be the  
2 interrogatory and we will save a couple pages and a little  
3 bit of time.

4 MR. RICHARDSON: Thank you, Mr. Chairman.

5 BY MR. RICHARDSON:

6 Q Further on your testimony on page 6, lines 20 to  
7 22, again you indicate that updated test year costs were  
8 reflected at the same level as updated FY 2000 estimate  
9 consistent with the proposed FY 2001 operating budget.

10 Which updated test year costs were reflected at  
11 the same level?

12 A Those are the Workers Comp costs.

13 Q They are all the Workers Comp?

14 A Right. That paragraph is still talking about the  
15 Workers Comp.

16 Q Okay. Then on your testimony on page 8 there were  
17 some questions from counsel, Mr. Hall, about the prior year  
18 loss recovery amount, the annual increment that is on your  
19 table on page 8 of your testimony that shows a calculated  
20 recovery for past year losses of \$311,709,000.

21 Do you see that?

22 A Yes.

23 Q Now that assumes a certain net loss for FY 2000,  
24 is that correct --

25 A Yes, it does.

1           Q     -- that you show on that table. That figure is  
2 solely a factor determined by the amount of the net loss or  
3 profit that will be determined or earned by the Postal  
4 Service in Fiscal Year 2000, is that correct? That's the  
5 only change that could occur in the next few months before  
6 the Commission issues its decision?

7           A     The \$325 loss reflected in this table is a result  
8 of the assumptions that were used in the update.

9           Q     And if the Commission had the actual figures for  
10 the period FY 2000 at the time it issued its decision, it  
11 could easily make an adjustment by calculating the total  
12 recovery divided by one-ninth to determine the prior year  
13 loss recovery based on the actual FY 2000 numbers, is that  
14 correct?

15          A     The arithmetic appears to be simple.

16          Q     And it would not affect significantly any of the  
17 other costs that you present? Because it is the last line  
18 item in the overall revenue requirement, it can be easily  
19 added into the revenue requirement calculation, is that  
20 correct?

21          A     If you wait until the end of FY 2000 and have a  
22 different result, a different net income that appears in  
23 this update, the rolling that forward to the test year would  
24 provide a different test year calculation.

25          Q     And it would affect the rates in there?

1           A     It could. I am just saying that the test year,  
2     the 2001 test year would be different if the 2000 was  
3     different.

4           Q     I see. So would it be your testimony that if the  
5     Commission did have that number and it was available from  
6     the Postal Service documents, that would it be inappropriate  
7     to make that adjustment using FY 2000 actual in calculating  
8     the prior year loss?

9           A     I can't draw a conclusion that is that simple. I  
10    don't know the circumstances surrounding what will happen  
11    between now and when they have an opportunity to issue a  
12    recommended decision.

13          Q     I would like to ask you about one of your  
14    responses to OCA's Interrogatory OCA/USPS-ST44-2.

15          A     I have it.

16          Q     Now, that asks you if you relied on the same data  
17    that was used by Witness Kashani for several components.  
18    And your response indicated that you followed -- or that  
19    your testimony was equivalent to Witness Kashani's  
20    workpapers, or at least you used those. And you referred to  
21    USPS Library Reference 410.

22          A     Yes.

23          Q     I understand that the space category value  
24    breakout for those items that are listed in the question,  
25    such as total square feet, et cetera, are not in 410, or do

1 not appear in 410. And I am wondering if you would be able  
2 to provide those.

3 A Yes. As a matter of fact, that came up at the  
4 technical conference, and I confirmed at that point, I  
5 agreed that they may not be there, and that I was looking  
6 into it.

7 Q Would you be able to provide those for the record?  
8 And, also, the same question relates to Fiscal Year 2000 and  
9 Fiscal Year 2001 for the same factors.

10 A Yes. I intended on doing that, I just haven't  
11 gotten to it yet.

12 MR. RICHARDSON: Fine. It will be provided for  
13 the record, is that correct? Thank you.

14 BY MR. RICHARDSON:

15 Q Referring to the OCA Interrogatory  
16 OCA/USPS-ST-44-11, which related to the Order 1294  
17 materials, and in that interrogatory we asked you if the  
18 information in 1244 response was included in your data, and  
19 I believe your answer is, yes, it is, is that correct?

20 A Yes.

21 Q And there is a reference to a field reserve in  
22 that table of \$200 million. The interrogatory didn't ask  
23 you, is the field reserve incorporated at all in your  
24 documentation, or is it omitted from your documentation? It  
25 was my understanding that it was not there. Is it included?



1 A It is included in the update.

2 Q The 200 million field reserve?

3 A Yes.

4 Q And how did you go about apportioning the field  
5 reserve to the different categories in that case?

6 A What I -- where I could identify breakthrough  
7 productivity, I ratioed everything down such that the 200  
8 million was not in the cost reductions.

9 Q You ratioed every line as a proportion of the  
10 total?

11 A Yes. That existed in what could be identified as  
12 breakthrough productivity.

13 Q And it is only the lines on that particular  
14 schedule, on 1244, which may be broken down further in  
15 documentation?

16 A It is broken down further, yes.

17 Q Is that labeled in your documentation as a certain  
18 -- as field reserve adjustment in some way?

19 A No. No.

20 Q How can it be determined in your calculations?

21 A It is prior to what shows up. I don't know if it  
22 shows up in the individual cells in the Excel sheets or not.  
23 The printed page is just going to show an amount. I don't  
24 know if those calculations are shown in each individual  
25 cell, I just don't know.

1           Q     So the total impact, rather than 544 million --  
2     excuse me, rather than the 744 million is 544 million?

3           A     Yes.

4           Q     Okay. I would refer you to OCA/USPS-ST-44-31,  
5     which relates to ECI.

6           A     I have it.

7           Q     Now, your answer seems to indicate that you are  
8     utilizing ECI in your documentation rather than the ECI  
9     minus 1 which was used in the initial request, is that a  
10    fair statement?

11          A     That's correct.

12          Q     And yet in your response, about the fourth line,  
13    you indicate that the effective change in wages related to  
14    the new contract is 2.8 to 3.0 percent, or 1.7 to 1.8  
15    percent less than the Employment Cost Index. That indicates  
16    that the effective change in wages is something less than  
17    the Employment Cost Index. Could you explain how that  
18    relates to your use of the ECI without adjustment?

19          A     Can you repeat the question?

20          Q     You seem to be suggesting that the change in wages  
21    is something less than the Employment Cost Index. It is 1.7  
22    to 1.8 percent less. And yet you use the Employment Cost  
23    Index in your documentation. Why didn't you reflect that  
24    reduction?

25          A     This is reflected. The Employment Cost Index acts

1 as the benchmark to cap the wages at. This refers to the  
2 effective changes in the new wages.

3 Q And so there is that change which is less than the  
4 Employment Cost Index is fairly represented by your use of  
5 the Employment Cost Index without a change?

6 A I am trying to -- when you say the Employment Cost  
7 Index without the change, is that the ECI minus 1?

8 Q Well, or some other figure since this indicates  
9 that the change is actually 1.7 to 1.8 less than the  
10 Employment Index is what it seems to indicate.

11 A Okay. Were you going to ask --

12 Q Perhaps if you explained how you did it for FY  
13 2000 and FY 2001, and whether you -- how you accounted for  
14 what you indicate, the change in wages of 1.7 percent less  
15 than the Employment Cost Index.

16 A I don't know that I can really explain that one  
17 any better than what I said. I would have to check on the  
18 calculations on that particular sentence to get back to that  
19 one.

20 Q Are you making a distinction between the fact that  
21 most wages are known for FY 2000, but they are not known for  
22 2001, is that somehow impacting this sentence?

23 A It impacts the sentence, but I don't -- I can't  
24 explain exactly how it impacts the sentence.

25 MR. RICHARDSON: Mr. Chairman, I would suggest

1 that perhaps the Postal Service might respond in writing to  
2 the question. If the question is confusing the issue, that  
3 would be understandable, too.

4 CHAIRMAN GLEIMAN: Put that one on the list. And  
5 while we are at this where there is another request on the  
6 table, let me just say that we will use the seven day rule,  
7 which means that requests made today are due by close of  
8 business next Wednesday, and that would go for questions  
9 that are outstanding that have been raised earlier by any of  
10 the counsel for Intervenorors, by OCA, which might be raised  
11 by any of them along the way in follow-up, and also requests  
12 that might come from the bench.

13 MS. DUCHEK: Mr. Chairman, the seven day rule is  
14 fine, but did I hear you say close of business Wednesday?

15 CHAIRMAN GLEIMAN: Yes, we will count today as the  
16 first day. Time is getting short. People need to prepare  
17 rebuttal testimony, at least I have heard the say that a  
18 couple of times. Close of business Wednesday would be  
19 great. If it really is make on break on getting the right  
20 answer, we will entertain giving you until Thursday, but we  
21 really would like to push it a little bit given where we are  
22 in the proceedings.

23 BY MR. RICHARDSON:

24 Q Mr. Patelunas, I'd refer you to OCA/USPS-ST-44-6.

25 [Pause.]

1           And that discussed the possibility of using FY200  
2 actual figures.

3           A     Yes.

4                   [Pause.]

5           Q     The Postal Service has filed a financial and  
6 accounting and operating statements for -- through AP10; is  
7 that correct; are you familiar with that?

8           A     I don't know. They may have.

9           Q     And do you know or would you agree, subject to  
10 check, that the Accounting Period 10 had an ending date of  
11 June 16th, 2000?

12          A     Subject to check.

13          Q     And would you agree that the 10 AP reports reflect  
14 the seasonality influences from the period September 1,  
15 1999, which was the first day of the fiscal year, through  
16 June 16th, 2000?

17          A     I agree that there is the accounting data. I  
18 don't know if it reflects seasonality. I'm not sure how  
19 that term is being used.

20          Q     In your answer to ST-44-6, you use the term,  
21 seasonality, at the bottom of the first page: In cases  
22 where accounting period expenses are seasonal.

23          A     Yes.

24          Q     You use the term, and also indicate that they may  
25 be erratic, that it's not desirable to use actual figures

1 for part of the year.

2 What do you mean by erratic, account period  
3 expenses may be erratic, or otherwise erratic?

4 A If something was a one-time occurrence, it could  
5 cause it to be erratic. If there was a hurricane, it could  
6 cause it to be erratic.

7 If the spending expenses didn't happen in a linear  
8 fashion; it could happen at the beginning of the year; it  
9 could happen at the end of the year.

10 Q And how many accounting periods of data would you  
11 need to be able to use the full fiscal year?

12 A The full fiscal year, including AP-14, to do a  
13 GFY fiscal year.

14 [Pause.]

15 Q I'd refer you to OCA/USPS-ST-44-33.

16 [Pause.]

17 This was redirected by you to the Postal Service  
18 for an answer. And the Postal Service answer contains a  
19 statement, it is unclear, whether updating the base year for  
20 differences between estimated and actual interim results  
21 will produce changes in the test year that are material  
22 enough to warrant the additional time and work required to  
23 update forecasts or the due process concerns that may  
24 result; do you see that?

25 A I do.

1 Q And --

2 [Pause.]

3 If you had incorporated actual known costs for  
4 FY2000 into your interim year cost estimate, and that had  
5 resulted in a about a half a billion dollars less in the  
6 interim year, is it generally correct that the test year  
7 total cost estimate would be approximately a half a billion  
8 less?

9 [Pause.]

10 A Repeat the question, please.

11 Q If you had incorporated actual known costs for  
12 FY2000 into your interim year cost estimate, and that had  
13 resulted in about a half a billion less in the interim year,  
14 is it generally correct that the test year total cost  
15 estimate would be approximately one-half billion dollars  
16 less?

17 A No.

18 Q That it would have a impact of about the same  
19 amount?

20 A Not necessarily. It may; it may not.

21 [Pause.]

22 MR. RICHARDSON: That's all the questions I have.

23 CHAIRMAN GLEIMAN: Is there any followup? I know  
24 there are questions from the Bench, but before I get to the  
25 questions from the Bench -- and I'm going to start off today

1 and let my colleague ask some questions also after I get my  
2 first round in -- I just wanted to mention that the response  
3 to POIR Number 16 is, as I sort of thought I recalled, in  
4 the record.

5 It was put in the record on the 31st of July,  
6 Ruling 104. Also, because of my concern that folks out  
7 there might be concerned about the integrity of the  
8 Commission's web-based, Internet-based database, I just  
9 wanted to mention that -- and I think I remember the page  
10 that was at issue -- it was Kashani, which is T-14, Exhibit  
11 A, page 10 -- is, and I believe was on the web page.

12 Now, that's a 512-page document, and I can  
13 certainly appreciate, having waded through documents of that  
14 length and more in this case, that one could easily miss a  
15 page or two, and I'm sure I've missed more than my fair  
16 share of pages, thumbing through documents on the Internet,  
17 too, but I didn't want people to be concerned that the  
18 integrity of the database that they might be using for  
19 searching wasn't decent.

20 So, I just wanted to mention that.

21 Mr. Richardson asked you some questions earlier  
22 about the allocation of the field reserve. And you talked  
23 about some formula that you used?

24 THE WITNESS: Yes.

25 CHAIRMAN GLEIMAN: I assume there's a spreadsheet



1 that shows that?

2 THE WITNESS: There is a spreadsheet that shows  
3 that, and I'm just not positive that it's in 421 as that.

4 CHAIRMAN GLEIMAN: If it's not in 421 as that,  
5 could you provide it?

6 THE WITNESS: Yes.

7 CHAIRMAN GLEIMAN: Okay. Now, I'm going to use  
8 the chart up here to ask you the first question that I had.

9 [Pause.]

10 There are two formulas up here. One equals one  
11 and one equals .5. Is one of them correct and one of them  
12 incorrect?

13 THE WITNESS: I believe so.

14 CHAIRMAN GLEIMAN: If I made a not-equals between  
15 the one and the .5, would that make both of them correct?

16 THE WITNESS: Under generally accepted arithmetic,  
17 yes.

18 CHAIRMAN GLEIMAN: I just wanted to make sure that  
19 my arithmetic was the same as yours before we got started.

20 THE WITNESS: Okay.

21 CHAIRMAN GLEIMAN: Mr. Hart asked you a question  
22 earlier on about ABA/NAPM/USPS-ST-44-28. I think it was  
23 Part (b), having to do with piggybacks.

24 And you said, no, because of time and resource  
25 constraints and because some of the models used to develop

1 cost avoidances are not structured to be used with FY1999  
2 data.

3 Could you please provide a cost avoidance list of  
4 all the instances where cost avoidance models are not  
5 structured to use FY '99 data and in each of these instances  
6 would you explain how the models would need to be altered to  
7 allow them to use FY '99 data, and you can have until next  
8 Friday for that one.

9 THE WITNESS: I appreciate your generosity. Can I  
10 go back to the -- which question was that? I was trying to  
11 keep --

12 CHAIRMAN GLEIMAN: It was ABA/NAPM/USPS-ST-44-28.

13 THE WITNESS: Thank you.

14 CHAIRMAN GLEIMAN: And the question (b) was "Do  
15 you intend to submit these remaining piggyback inputs to the  
16 Commission, and your answer, if I have the correct answer  
17 here, is "No, both because of time and resource constraints  
18 and because of some of the models used to develop cost  
19 avoidances are not structured to be used with FY 1999 data."  
20 So that is what we are talking about.

21 THE WITNESS: Okay.

22 CHAIRMAN GLEIMAN: Give us the particulars on that  
23 one.

24 You presented a projection of test year costs that  
25 incorporates actual FY '99 costs, is that correct?

1 THE WITNESS: That is correct.

2 CHAIRMAN GLEIMAN: Okay. Does your projection use  
3 the same roll forward method that the Postal Service used in  
4 its initial filing in this case?

5 THE WITNESS: Yes, it does.

6 CHAIRMAN GLEIMAN: Did you consider whether the  
7 roll forward method could be improved or did you simply use  
8 the existing programs?

9 THE WITNESS: I used the existing programs except  
10 where things had been pointed out that were in error,  
11 particular I think was Part 10 and 12 and I thought I had  
12 gotten all of those but it was pointed out in the technical  
13 conference that I didn't get all of those.

14 There is no change in methodology. I just tried  
15 to make corrections.

16 CHAIRMAN GLEIMAN: Okay. You updated nonpersonnel  
17 cost level factors to reflect changes in inflation. Did you  
18 use the same DRI indices that were used in Postal Service's  
19 initial filing, or did you evaluate whether different  
20 indices might be more appropriate?

21 THE WITNESS: We used the most current DRI.

22 CHAIRMAN GLEIMAN: Are those the same ones that  
23 you used in the original case?

24 THE WITNESS: No.

25 CHAIRMAN GLEIMAN: You also updated personnel

1 costs, <sup>Projected</sup>~~projected~~ employment <sup>costs</sup>~~cost~~ index for the test years/  
2 now more than three-quarters of a percent higher than it was  
3 in the initial filing, and you incorporated this higher  
4 number into your presentation.

5 As a result of that change, would you expect labor  
6 costs for bargaining unit employees to be about  
7 three-quarters of a percent higher in the test year than was  
8 projected in the initial filing as a result of this change?

9 THE WITNESS: I don't know if it multiplies  
10 through. I don't know if that is the sole effect or not.

11 CHAIRMAN GLEIMAN: You would expect them to be  
12 higher though, I take it?

13 THE WITNESS: I would expect them to be higher on  
14 a wage rate, yes.

15 CHAIRMAN GLEIMAN: You also increased labor costs  
16 to reflect higher cost of living allowances that result from  
17 increases in the CPIW forecast, is that correct?

18 THE WITNESS: That is correct.

19 CHAIRMAN GLEIMAN: None of the changes that I have  
20 mentioned involve changes in policy, is that right? They  
21 are simply updating to reflect actual FY '99 results, is  
22 that correct?

23 THE WITNESS: The changes were for FY '99 and  
24 updates to the DRI indices.

25 CHAIRMAN GLEIMAN: No changes in policy though?

1 THE WITNESS: I don't think so. If that's where  
2 the question stops is in '99 in just DRI.

3 CHAIRMAN GLEIMAN: Well, let me turn now to a  
4 change that you made that I consider to be a change in  
5 policy.

6 In each rate case since the R87-1 docket the  
7 Postal Service has employed the assumption that changes in  
8 wage rates would be limited to at least one percent below  
9 the employment cost index -- this is ECI minus 1.

10 It was an assumption adopted by the Postal Service  
11 following the Kerr arbitration award in 1984.

12 In R87 Postal Service Witness <sup>Burditt</sup>~~Burdette~~ explained  
13 that the Kerr arbitration award was premised in relevant  
14 part on the finding that Postal wages exceeded the  
15 comparability standard established in Section 1003 of the  
16 Act. He went on to state that the Kerr award recommended  
17 that the way to eliminate the wage premium was to limit wage  
18 growth to bargaining employees to one percent less than the  
19 growth in private sector wages. ECI measures growth in  
20 private sector wages. Thus, since the Kerr award Postal  
21 Service policy has been to obtain Postal Service wage  
22 increases limited to ECI minus 1.

23 Since that time rate case projections of Postal  
24 wage growth have always been below ECI and Postal Service  
25 Witnesses have always adhered to the rationale that Postal

1 wages exceeded the comparability standard.

2 In this case Witness Tayman presented Postal  
3 Service projections of Postal wage growth that continued the  
4 ECI minus 1 policy.

5 Now for the first time since R87 in your update  
6 you have abandoned the rationale that Postal wages exceed  
7 the comparability standard and deviated from the ECI minus  
8 something method of estimating wage changes.

9 I have some questions about this change.

10 First, did you brief the Board of Governors on  
11 this change and did they authorize you to abandon the  
12 position that Postal wages exceed the comparability  
13 standard?

14 THE WITNESS: I don't know what the Board was  
15 briefed on.

16 CHAIRMAN GLEIMAN: You did not brief the Board?

17 THE WITNESS: I did not.

18 CHAIRMAN GLEIMAN: And you don't know if the Board  
19 was briefed on this?

20 THE WITNESS: That's true.

21 CHAIRMAN GLEIMAN: Did Postmaster General  
22 Henderson direct you to change the method of estimating wage  
23 growth?

24 THE WITNESS: Not directly.

25 CHAIRMAN GLEIMAN: Indirectly?

1 THE WITNESS: I don't know.

2 CHAIRMAN GLEIMAN: Well, what do you mean by not  
3 directly?

4 THE WITNESS: He has never said a word to me. I  
5 don't know if this came from his direction or not.

6 CHAIRMAN GLEIMAN: You don't know if or you don't  
7 know -- you have no reason to believe that it did?

8 THE WITNESS: I don't know that it did or it  
9 didn't. I just don't know.

10 CHAIRMAN GLEIMAN: Did anyone tell you that the  
11 Postmaster General was in favor of abandoning the previous  
12 Postal Service policy with regard to wage comparability?

13 THE WITNESS: Nobody told me that.

14 CHAIRMAN GLEIMAN: Did Deputy Postmaster General  
15 Nolan, to your knowledge, pass the word down the line that  
16 this policy was to be changed?

17 THE WITNESS: Not to my knowledge.

18 CHAIRMAN GLEIMAN: Did Acting <sup>Comptroller</sup>~~Controller~~ Strasser  
19 direct you to make this change, or do you know whether he  
20 directed someone else to pass this down the line to you?

21 THE WITNESS: I don't know.

22 CHAIRMAN GLEIMAN: Is this change consistent with  
23 Postmaster General Henderson's policy of reducing mail  
24 processing costs by \$700 million annually, as he <sup>enunciated</sup>~~annunciated~~  
25 in his Memphis Postal Forum speech this past spring?

1 THE WITNESS: I don't know if it is consistent  
2 with that or not.

3 CHAIRMAN GLEIMAN: Do you know whether Postal  
4 Management intends to abandon the position that Postal wages  
5 exceed the comparability standard in upcoming wage  
6 negotiations?

7 THE WITNESS: I don't know.

8 CHAIRMAN GLEIMAN: Did you inquire from upper  
9 level Management whether it intended to abandon the position  
10 that Postal wages exceed comparability in the upcoming  
11 negotiations?

12 THE WITNESS: No, I didn't.

13 CHAIRMAN GLEIMAN: I think I will pass the baton  
14 right now and let my colleague take a shot at you. He has  
15 got some questions too.

16 COMMISSIONER LeBLANC: Mr. Patelunas, let me jut  
17 follow up on what the Chairman said.

18 Whose decision was it? Did you just arbitrarily  
19 pick the ECI minus 1?

20 THE WITNESS: No, I didn't make the decision --

21 COMMISSIONER LeBLANC: How did it come about?

22 THE WITNESS: Postal Management after reviewing  
23 conditions and trends determined that the ECI assumption was  
24 more appropriate for the test year 2001.

25 COMMISSIONER LeBLANC: With all due respect, the



1 Chairman gave you a list of Postal Management. Who is left?

2 THE WITNESS: I can only refer to this as Postal  
3 Management made the decision. I don't know at what level or  
4 what particular individuals made that decision.

5 COMMISSIONER LeBLANC: But yet you took it on your  
6 own to do it then?

7 If they did not tell you to do it, then you took  
8 it on your own to do it. Somebody either had to tell you to  
9 do it or you took it on your own to do it.

10 Now would you please tell me one way or another  
11 how that happened?

12 THE WITNESS: I was instructed to do it.

13 COMMISSIONER LeBLANC: By who, sir?

14 [Pause.]

15 THE WITNESS: I have to think. It's hard to  
16 remember exactly back to that.

17 COMMISSIONER LeBLANC: Thank you then. That's  
18 good enough then.

19 Let's move on here. In your colloquy with Mr.  
20 Richardson you talked about erratic and one of the things  
21 that fascinated me was, throughout this thing is when you  
22 developed your cost change factors they were based on  
23 updated economic forecasts, as I would appreciate it. This  
24 is kind of a summation -- and that included what was called,  
25 one line item I saw on there was New Break-Through

1 Productivity Initiatives, Additional Periodical Initiatives.

2 Is there any chance of any of that being erratic,  
3 seasonal, changeable, and how would that affect your  
4 figures?

5 THE WITNESS: In terms of the future, anything can  
6 be erratic and unpredictable.

7 COMMISSIONER LeBLANC: And yet it is your position  
8 that with all that in place, we ought to just, in effect,  
9 buy what is before us now?

10 THE WITNESS: I am not sure what is for sale that  
11 you are buying.

12 COMMISSIONER LeBLANC: Your testimony for one.

13 THE WITNESS: I am presenting an update that  
14 responds to Order 1294.

15 COMMISSIONER LeBLANC: Thank you. Now, as the  
16 Chairman did, we have a few liberties here on the bench, but  
17 I have got some copies of LR-I-420, Section 2, page 1 of 4.  
18 If anybody would care to get them after it is over here, I  
19 will leave them right up here for anybody that may or may  
20 not want them, but it is part of the Library Reference, so  
21 you are welcome to come now if you would like it or  
22 whatever.

23 If we run out of copies, I am sure we have got a  
24 copying machine that works. Believe me, it is not that big  
25 of an issue I don't think here. Maybe it is, I don't know.

1           If anybody does want any other copy, just let us  
2 know, we will get a copy for you. You have got --

3           THE WITNESS: Yes, I would like to have a copy.

4           COMMISSIONER LeBLANC: Yes. Susan is on the ball.  
5 She is coming already for you over here.

6           Our wonderful legal man himself is now giving the  
7 court reporter one. Thank you.

8           Do you want to take a minute to just glance at it?  
9 I mean are you okay with that now, Mr. Patelunas?

10          THE WITNESS: Okay.

11          COMMISSIONER LeBLANC: Now, in Section 2, there is  
12 a table which represents mail processing unit costs of First  
13 Class letters. Now, I understand that these represent the  
14 direct costs only, is that correct?

15          THE WITNESS: That is correct.

16          COMMISSIONER LeBLANC: Now, one thing that stands  
17 out in this table is that the direct unit mail processing  
18 cost of Nonautomation Presort letters is about 2-3/4 cents,  
19 call it, or if you will accept my math, about 40 percent  
20 higher than the benchmark Bulk Metered Mail. Do you see  
21 that?

22          THE WITNESS: Yes.

23          COMMISSIONER LeBLANC: Now, this would suggest  
24 that presort mail is more expensive to process than mail  
25 which is not presorted. Is this a result that one would

1 ordinarily expect, would you think?

2 MS. DUCHEK: Commissioner LeBlanc, I don't know if  
3 it will help or not, this issue was raised at Mr. Patelunas'  
4 technical conference and we are looking into it.

5 COMMISSIONER LeBLANC: Okay. I understand that,  
6 Ms. Duchek, I wanted to try get him while he was on the  
7 stand, just get a clarification for me as well. So if he  
8 can, I realize it was asked, let me pursue this just a  
9 little further, please, ma'am.

10 When I look at this thing, it seems that the  
11 volume variable costs of processing BMM were fairly stable  
12 between '98 and '99, but the volume variable costs of  
13 processing Nonautomation Presort increased by roughly 25  
14 percent. Now, coincidentally, if you will keep that thought  
15 in mind, the cost of processing Standard A Regular  
16 Nonautomation letters also increased substantially by about  
17 32 percent. You will accept my math subject to check,  
18 please.

19 Further, it appears that much of the increased  
20 cost occurred in a few cost pools which nearly doubled  
21 between '98 and '99, such as manual unit distribution and  
22 manual sorting of non MODS offices, among other things.

23 Now, was there some change in methodology, cost  
24 measurement technique or operational procedure for  
25 processing Nonautomation letters which may have caused such

1 a drastic increase?

2 THE WITNESS: I don't know.

3 COMMISSIONER LeBLANC: Who would know? Where did  
4 you get your figures from? Can we go back and get this in  
5 seven days and get an answer to this in writing?

6 THE WITNESS: We can't investigate, but I don't  
7 know whether there is an answer. As counsel said, it was  
8 raised at the technical conference.

9 COMMISSIONER LeBLANC: No, I understand

10 THE WITNESS: And we are looking into.

11 COMMISSIONER LeBLANC: You all are still looking  
12 into it.

13 THE WITNESS: Right.

14 COMMISSIONER LeBLANC: You have no answer on it at  
15 this point?

16 THE WITNESS: Right.

17 COMMISSIONER LeBLANC: Okay. Ms. Duchek, when you  
18 get an answer from the technical conference, a response, if  
19 you could provide it fully for the record, I would  
20 appreciate it.

21 MS. DUCHEK: Certainly, we will.

22 COMMISSIONER LeBLANC: Thank you. Then let me ask  
23 the other question, I will probably get the same response,  
24 and I will go back to Ms. Duchek again also here. But let's  
25 try it. If you assume that this cost data is correct,

1 accurate, is there something about the characteristics of  
2 Nonautomation Presort that would cause it to be more  
3 expensive to process than mail that is not presorted? And  
4 again I am getting that smile, so you are going to tell me  
5 you --

6 THE WITNESS: That I don't know.

7 COMMISSIONER LeBLANC: If you could, in writing,  
8 please, ma'am. Thank you.

9 Let's try the last question that we have here, I  
10 have got that bothers me. Is the Postal Service handling  
11 Nonautomation Presort in a new way that not only prevents it  
12 from taking advantage of the worksharing that has been done,  
13 but causes it to be more expensive than the nonworkshared  
14 mail?

15 THE WITNESS: I don't know.

16 COMMISSIONER LeBLANC: Ms. Duchek. Thank you,  
17 ma'am.

18 Mr. Patelunas, in your colloquy this morning with  
19 counsel about Emery costs, at USPS-ST44 at page 5, you  
20 discuss changes -- I will give you a moment to get there.

21 THE WITNESS: Thank you. Okay, I have it.

22 COMMISSIONER LeBLANC: You discuss there changes  
23 to the Emery contract costs as a result of updating the base  
24 year from Fiscal Year '98 to '99, is that a fair estimation  
25 there? Correct me if I am wrong. It seems to me the

1 original filing unit costs decreased about 2 percent. This  
2 is what I am trying to get at, decreased 2 percent between  
3 '99 and 2000, and increased 10 percent between 2000 and  
4 2001. So, I am just asking, is the updated version of the  
5 unit cost increases 18 percent between '99 and 2000 and then  
6 decreases again 5 percent between 2000 and 2001, the  
7 opposite of what occurred in the original filing? So I am  
8 just trying to understand what happened here.

9 THE WITNESS: The change in unit costs, which unit  
10 costs are we talking about here.

11 COMMISSIONER LeBLANC: I will try the question  
12 again. I had to write it so I wouldn't lose it myself.

13 THE WITNESS: Okay.

14 COMMISSIONER LeBLANC: In the original filing unit  
15 costs decreased 2 percent between 1999 and 2000, and  
16 increased 10 percent, these are the Emery contracts costs  
17 now.

18 THE WITNESS: Okay. And there is my question,  
19 just for clarification before we go any further, unit cost  
20 of Priority Mail?

21 COMMISSIONER LeBLANC: Emery costs, total cost.

22 THE WITNESS: Total cost of --

23 CHAIRMAN GLEIMAN: If you know of something else  
24 that is being done under the Emery contract other than  
25 Priority Mail, you can tell us the unit cost on that also.

1 COMMISSIONER LeBLANC: Thank you.

2 CHAIRMAN GLEIMAN: We would love to hear it.

3 THE WITNESS: Okay. So it is the total Emery cost  
4 divided by the total Emery volume? Or total --

5 COMMISSIONER LeBLANC: What else is in the Emery  
6 costs?

7 THE WITNESS: That would be.

8 COMMISSIONER LeBLANC: Thank you.

9 THE WITNESS: Okay.

10 COMMISSIONER LeBLANC: That is the way -- that is  
11 how I understood it.

12 THE WITNESS: Okay.

13 COMMISSIONER LeBLANC: I was going to look to you  
14 because you did the math on it. So now, since you discussed  
15 these changes, in the original filing --

16 THE WITNESS: Okay.

17 COMMISSIONER LeBLANC: -- unit costs decreased 2  
18 percent between '99 and 2000, and they increased 10 percent  
19 between 2000 and 2001. Do you understand, are you with me  
20 so far?

21 THE WITNESS: Yes.

22 COMMISSIONER LeBLANC: Okay. Now, in the updated  
23 version, the unit cost increases 18 percent between 1999 and  
24 2000 and decreases 5 percent between 2000 and 2001, the  
25 opposite of what originally occurred, if you will.



1 THE WITNESS: Okay.

2 COMMISSIONER LeBLANC: Okay. Can you explain why  
3 this occurs?

4 THE WITNESS: The only explanation would be the  
5 change in accruals that changed the program amount in the  
6 Emery contract costs.

7 COMMISSIONER LeBLANC: But you didn't do any  
8 checking, you didn't do any background on this?

9 THE WITNESS: No. That is what was provided.  
10 Right.

11 COMMISSIONER LeBLANC: I hate to give you another  
12 assignment, but is there any way that you can look into that  
13 and get back with me in writing as to actually if anybody  
14 knows of any -- why it occurred, if you will?

15 THE WITNESS: We can look into it.

16 COMMISSIONER LeBLANC: Whoever gave you the costs.

17 THE WITNESS: Yes.

18 MS. DUCHEK: We will look into that.

19 COMMISSIONER LeBLANC: Thank you, Ms. Duchek.

20 Now, one other question I have got in that regard,  
21 do the Fiscal Year 2001 costs reflect the same assumptions  
22 about the Emery network total configuration as were made in  
23 the original filing, or do they reflect some dismantling of  
24 the network?

25 THE WITNESS: I don't think that it has been

1 dismantled. I don't know if it is the exact same  
2 assumptions that were in the original.

3 COMMISSIONER LeBLANC: So you don't know whether  
4 it was disaggregated in any manner?

5 THE WITNESS: I don't know if it was changed in  
6 any manner.

7 COMMISSIONER LeBLANC: Can you look into that and  
8 get me answer, please?

9 THE WITNESS: Yes.

10 COMMISSIONER LeBLANC: Thank you. Thank you very  
11 much, Mr. Patelunas.

12 Thank you, Mr. Chairman.

13 CHAIRMAN GLEIMAN: The piece that was distributed  
14 by my colleague just a few minutes ago, I would like to have  
15 that transcribed into the record.

16 [LR-1-420, Section 2, Page 1 of 4  
17 was transcribed into the record.]

18  
19  
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25

**FIRST-CLASS LETTERS SUMMARY**  
**DIRECT COSTS ONLY - ORDER 1294**

|  | (1)       | (2)       | (3)       | (4)       | (5)     |
|--|-----------|-----------|-----------|-----------|---------|
|  | MAIL PROC | MAIL PROC | DELIVERY  | TOTAL     |         |
|  |           | WORK-     | WORK-     | WORK-     | WORK-   |
|  |           | SHARING   | SHARING   | SHARING   | SHARING |
| BENCHMARK                                | TOTAL     | RELATED   | RELATED   | RELATED   | RELATED |
| RATE CATEGORY                            | UNIT COST | UNIT COST | UNIT COST | UNIT COST | SAVINGS |
| Bulk Metered Mail Letters                | 6.445     | 5.028     | 5.479     | 10.507    | ---     |
| Nonautomation Presort Letters            | 9.194     | 7.120     | 5.479     | 12.599    | -2.093  |
| Bulk Metered Mail Letters                | 6.445     | 5.028     | 5.479     | 10.507    | ---     |
| Automation Basic Presort Letters         | 2.882     | 2.386     | 4.319     | 6.705     | 3.802   |
| Automation Basic Presort Letters         | 2.882     | 2.386     | 4.319     | 6.705     | ---     |
| Automation 3-Digit Presort Letters       | 2.408     | 1.912     | 4.196     | 6.108     | 0.597   |
| Automation 3-Digit Presort Letters       | 2.408     | 1.912     | 4.196     | 6.108     | ---     |
| Automation 5-Digit Presort Letters       | 1.801     | 1.305     | 3.997     | 5.302     | 0.806   |
| Other Sites                              | 1.682     | 1.186     | 2.966     | 4.152     |         |
| CSBCS/Manual Sites                       | 2.050     | 1.554     | 6.160     | 7.714     |         |
| Automation 5-Digit Presort Letters       | 2.050     | 1.554     | 6.160     | 7.714     | ---     |
| (CSBCS/Manual Sites)                     |           |           |           |           |         |
| Automation Carrier Route Presort Letters | 1.368     | 1.029     | 6.059     | 7.088     | 0.626   |

**(1) CRA Mail Processing Unit Costs:**

Worksharing Proportional Cost Pools + Worksharing Fixed Cost Pools + Non-Worksharing Fixed Cost Pools

**Model-Based Mail Processing Unit Costs:**

(Model Cost \* Worksharing Proportional Adjustment) + Worksharing Fixed Adjustment + Non-Worksharing Fixed Adjustment

**(2) CRA Mail Processing Unit Costs:**

Worksharing Proportional Cost Pools + Worksharing Fixed Cost Pools

**Model-Based Mail Processing Unit Costs:**

(Model Cost \* Worksharing Proportional Adjustment) + Worksharing Fixed Adjustment

**(3) USPS-T-28, Table 5****(4) (2) + (3)****(5) Benchmark (4) - Rate Category (4)**

1 CHAIRMAN GLEIMAN: I started off by asking you to  
2 take a look at a couple of simple mathematical equations up  
3 there, and you confirmed my understanding of simple math.

4 Let me ask you, do I understand correctly that the  
5 Postal Service has already abandoned the plan announced by  
6 the PMG last spring to cut costs by a billion dollars in the  
7 test year that is in 2001, that now the Postal Service, you  
8 are saying that actually the savings is going to be  
9 somewhere between 450 million and 466 million, depending on  
10 whether you pay attention to the response to POIR 14 or the  
11 response to Order 1294?

12 THE WITNESS: They are continuing to try and get  
13 breakthrough productivity?

14 CHAIRMAN GLEIMAN: So that number then, this is  
15 not a final number, that 450 or 466 could go way up?  
16 Somebody over there could do what the PMG said you all were  
17 going to do?

18 THE WITNESS: It is possible. I said in one of  
19 the responses, it continues to evolve.

20 CHAIRMAN GLEIMAN: Kind of a reverse contingency,  
21 it seems to me.

22 I asked you earlier on for the spreadsheet about  
23 the \$200 million field reserve, but I had another thought  
24 about that I wanted to ask you. The concept of a field  
25 reserve of \$200 million, in effect, what you are saying is

1 we are not sure we can really save this money, so we want to  
2 increase the revenue requirement to reflect our possible  
3 failure to capture these costs, these cost savings, is that  
4 a fair characterization of what the field reserve is?

5 THE WITNESS: I wouldn't characterize the field  
6 reserve as an attempt to do anything with the revenue  
7 requirement. The field reserve is a budget strategy used  
8 with the field that, if those -- all of those cost  
9 reductions that were given in the field, if they are not  
10 realized, money will have to be spent where it is not saved.

11 My understanding is that it is not an unusual  
12 budget procedure. For example, the COLAs that go to the  
13 field don't -- they are held in headquarters until those  
14 COLAs materialize, and then it is given out to the field.

15 CHAIRMAN GLEIMAN: If you were sure the field was  
16 going to actually achieve the cost savings that supposedly  
17 has been assigned to them, then the revenue requirement  
18 would be \$200 million less, would it not?

19 THE WITNESS: If everything was certain, that is  
20 the way the arithmetic would work if everything is certain.

21 CHAIRMAN GLEIMAN: Thank you. By the way, have  
22 the Governors approved the FY 2001 budget?

23 THE WITNESS: No.

24 CHAIRMAN GLEIMAN: They haven't. Then can you  
25 tell me how you know that -- and I am looking at page 3 of

1 your testimony, lines 11 and 12, the sentence starts three  
2 words in from the end of line 11, "This assumption is  
3 consistent with the FY 2001 operating budget." How can  
4 something be consistent with the operating budget if the  
5 Governors have to approve the operating budget and it has  
6 not been approved?

7 THE WITNESS: I think I should have said "proposed  
8 FY 2000 operating budget."

9 CHAIRMAN GLEIMAN: When the Governors do approve  
10 the operating budget, do you think you could convince your  
11 colleagues at the Postal Service to send us a copy?

12 THE WITNESS: I don't know.

13 CHAIRMAN GLEIMAN: You don't know whether you  
14 could convince them. Let me ask someone else in the room  
15 from the Postal Service whether we might be able to get a  
16 copy of that operating budget when it is approved.

17 MS. DUCHEK: Mr. Chairman, my response is the same  
18 as the witness', I am not sure if I can convince people or  
19 not either.

20 CHAIRMAN GLEIMAN: Well, this is not --

21 MS. DUCHEK: I certainly will take your request  
22 back.

23 CHAIRMAN GLEIMAN: Well, this is just so the  
24 people to whom you have to take this request back  
25 understand, that this is just not some lark of being

1 interested in seeing an operating budget. I mean people  
2 tell me, who have been at this business much longer than I,  
3 that there is somewhat of a disconnection between rate case  
4 budgets and operating budgets. But inasmuch as an assertion  
5 has been made with respect to an element that has a fairly  
6 decent dollar sign attached to it, it would help all of us  
7 to understand what we were looking at in the way of  
8 anticipated wage costs later on. So we would like to have  
9 that

10 And as a matter of fact, it really, really would  
11 be helpful if we could get the operating budgets for FY 1999  
12 and FY 2000. So when you talk with whomever over there,  
13 perhaps you can ask them about those two also.

14 You don't have to give me an answer right now.

15 MS. DUCHEK: Mr. Chairman, the only thing I was  
16 clarifying was that I think some FY2000 budget information  
17 was already provided in an interrogatory response by Mr.  
18 Tayman.

19 CHAIRMAN GLEIMAN: Well, I'm trying to recall Mr.  
20 Tayman's interrogatory responses, and my impression is that  
21 I still was trying to figure out exactly what the operating  
22 budget was on an Accounting Period basis, after I looked at  
23 Mr. Tayman's interrogatory responses.

24 So, if you'd go back and look, and, if, indeed, a  
25 complete operating budget has already been submitted for

1 2000 by Mr. Tayman, that would be great, because then there  
2 would be no reason for anybody to have -- not to give us the  
3 FY99 and once it's approved, the 2001 budgets.

4 But I think that what Mr. Tayman gave us was  
5 perhaps somewhat deficient and we'd like a more complete set  
6 of all three years, if possible.

7 MR. RICHARDSON: Mr. Chairman, if I could just  
8 interject briefly for OCA, that Mr. Tayman did submit the  
9 FY2000 operating budget, and it appears as OCA/USPS-T-9-27  
10 in the record.

11 CHAIRMAN GLEIMAN: Thank you, sir.

12 MR. RICHARDSON: I do not have the transcript  
13 cite.

14 CHAIRMAN GLEIMAN: Well, I'll go back and look at  
15 it, and if I'm convinced that that's the kind of operating  
16 budget that the Postal Service actually operates under, then  
17 I'll withdraw my request for the year 2000, and let it stay  
18 in for the other two years.

19 I just have another question or two: A couple of  
20 weeks ago, the Postmaster General testified before the  
21 Senate Subcommittee on International Security Proliferation  
22 and Federal Services, which also has jurisdiction over  
23 Postal Service matters.

24 And during his testimony -- and I don't have a  
25 direct quote, but during his testimony, he indicated a



1     desire, perhaps a commitment, to trim the rate increase for  
2     magazines, for periodicals, from the 15 or so percent that  
3     was proposed in the original submission, R2000-1 submission,  
4     down to the eight to ten percent range.

5             Do you have any sense of what the abandonment of  
6     ECI minus one as a guide for wages has on -- will have on  
7     the likelihood of being able to achieve the PMG's goals,  
8     desires, commitments, whatever they might have been with  
9     respect to periodicals cost increases, rate increases?

10            A     I don't know how the change impacts that.

11            Q     I mean, Postal Service is 80 percent, give or take  
12     a little bit, labor intensive?

13            A     Something like that.

14            Q     If labor costs are higher then costs of  
15     processing, collecting, delivery mail are higher?

16            A     Generally speaking, yes.

17            Q     So, if somebody's trying to go from 15 to eight,  
18     and they were basing their desires on an assumption that  
19     labor costs were going to go in the ECI minus one direction,  
20     and now somebody is saying they're going to go in the ECI  
21     minus zero direction, do you think that there would be a  
22     cost impact; that there would be some negative force pushing  
23     against the PMG's desire to cut back in this area?

24            A     It would appear to make it more difficult.

25                   CHAIRMAN GLEIMAN: Thank you, sir. I have no

1 further questions. Are there followup questions?

2 MR. RICHARDSON: Yes, Mr. Chairman, I have some  
3 questions.

4 FURTHER CROSS EXAMINATION

5 BY MR. RICHARDSON:

6 Q Mr. Patelunas, you were asked by the Chairman  
7 about forecasts date reporting changes, and do you have  
8 before your or available to you, the OCA exhibit that we  
9 prepared and provided to you two days ago to look at?

10 A Yes.

11 MR. RICHARDSON: Mr. Chairman, I have an OCA cross  
12 examination exhibit which I would like to distribute and  
13 have copied into the record.

14 CHAIRMAN GLEIMAN: Certainly.

15 MR. RICHARDSON: Mr. Chairman, this is titled  
16 Forecast Updates used in USPS Cost Data Update Per  
17 USPS-ST-44 and Supporting Library References.

18 It's four pages, and styled OCA/XE-ST-44-1. I  
19 would just ask that that be copied into the record for  
20 purposes of questions of Mr. Patelunas.

21 CHAIRMAN GLEIMAN: It will be transcribed into the  
22 record.

23 [Exhibit Number OCA/USPS-XE-ST-44-1  
24 was marked for identification and  
25 transcribed into the record.]

## FORECAST UPDATES USED IN USPS COST DATA UPDATE PER USPS-ST44 AND SUPPORTING LIBRARY REFERENCES

Page 1

| DESCRIPTION<br>OF FORECASTED DATA       | FORECAST<br>TOOL                               | FORECAST<br>DATE REPORTED | SOURCE        |
|---|--|---------------------------|---------------|
| I. Cost Level Change Factors            |  |                           |               |
| (a) Non-personnel cost level indexes    | -  | June 2, 2000              | USPS-LR-I-421 |
| @USSIM/Trendlong 02/00                  | DRI/McGraw-Hill Index                          | February 2000             | USPS-LR-I-421 |
| @CISSIM/Control 05/009                  | DRI/McGraw-Hill Index                          | May 2000                  | USPS-LR-I-421 |
| Contract Cleaners (Seg 11)              | DRI/McGraw-Hill Rents Index                    |                           |               |
| Vehicle Supplies & Materials (Seg 12)   | DRI Supplies & Materials Index                 |                           |               |
| Rental of Motor Vehicles (Seg 12)       | DRI Transportation Services Index              |                           |               |
| Individual Awards (Seg 13)              | DRI CPI Projection                             |                           |               |
| Contract Station Service (Seg 13)       | DRI Rents Index                                |                           |               |
| Rental Allowance - Postmasters (Seg 13) | DRI Rents Index                                |                           |               |
| Tolls & Ferriage (Seg 13)               | DRI Transportation Index                       |                           |               |
| Freight - Supplies & Materials (Seg 13) | DRI Transportation Services Index              |                           |               |
| Banking Fees (Seg 13)                   | DRI CPI Projection                             |                           |               |
| Carfare (Seg 13)                        | DRI Public Transportation Index                |                           |               |
| City Carrier Drive Out (Seg 13)         | Carrier Drive-out Index(Labor Contract)        |                           |               |
| Domestic - Alaska Air (Seg 14)          | DRI Air Transport. Index                       |                           |               |
| Domestic Air (Seg 14)                   | DRI Air Transport. Index                       |                           |               |
| Domestic Highway (Seg 14)               | DRI Highway Transport. Index                   |                           |               |
| Domestic Rail (Seg 14)                  | DRI Rail Transportation Index                  |                           |               |
| Domestic Water (Seg 14)                 | DRI Hill Transportation Services Index         |                           |               |
| International (Seg 14)                  | DRI Transportation Serv & Air Transport. Index |                           |               |
| Rent (Seg 15)                           | DRI Rents Index                                |                           |               |
| Heating Fuel (Seg 15)                   | DRI Fuel/Oil/Coal Index                        |                           |               |
| Utilities (Seg 15)                      | DRI Electricity Index                          |                           |               |
| Communications (Seg 15)                 | DRI Industrial Commodities                     |                           |               |
| Building Projects Expensed (Seg 15)     | DRI Industrial Commodities                     |                           |               |
| Moving Expense (Seg 15)                 | DRI Transportation Services Index              |                           |               |
| Reimbursements (Seg 15)                 | DRI WPI for Industrial Commodities             |                           |               |
| Custodial Supplies & Services (Seg 16)  | DRI Supplies & Materials Index                 |                           |               |

| DESCRIPTION<br>OF FORECASTED DATA  | FORECAST<br>TOOL   | REPORTED<br>FORECAST DATE                           | SOURCE  |
|--|--|---|---|
| Miscellaneous Supplies & Services (Seg 16)   | DRI Supplies & Materials Index                             |   |   |
| Printing & Reproduction (Seg 16)   | DRI Printing Services Index                                |   |   |
| Stamps & Accountable Paper (Seg 16)  | DRI Printing Services Index                                |   |   |
| Money Orders (Seg 16)  | DRI Printing Services Index                                |   |   |
| Operating Equipment & Supplies (Seg 16)  | DRI Supplies & Materials Index                             |   |   |
| Reimbursements (Seg 16)  | DRI Supplies & Materials Index                             |   |   |
| Individual Awards (Seg 18)   | DRI CPI Projection   |   |   |
| Supplies and Services (Seg 18)   | DRI Supplies & Materials Index                             |   |   |
| Inspection Services Expenses (Seg 18)  | DRI CPI Projection   |   |   |
| Reimbursements (Seg 18)  | DRI CPI Projection   |   |   |
| Commissions on Money Orders (Seg 18)   | DRI CPI Projection   |   |   |
| Contract Training Support (Seg 19)   | DRI CPI Projection   |   |   |
| Domestic & Int'l Indemnities (Seg 20)  | DRI CPI Projection   |   |   |
| Claims & Loses (Seg 20)  | DRI CPI Projection   |   |   |
| (b) Personnel Costs  | Labor Contracts  | June 2000   | USPS-LR-I-421                                   |
| FY 00/01 Overtime Assumptions  | PFY 00 actuals through A/P 6                               | Actuals   | USPS-LR-I-421                                   |
| FY 00/01 TE Requirements   | On Rolls&Pd Employee Stats &<br>Program Managers estimates | PFY 00 Act thru A/P 6<br>No date given<br>June 2000 | USPS-LR-I-421<br>USPS-LR-I-421<br>USPS-LR-I-421 |
| II. Mail Volume Forecast Changes<br>(Existing FY 00 and FY 01 forecasts remain<br>the best estimate to date. FY 99 actuals<br>used in the original Docket No. R2000-1 filing.) | DRI  | June 1999   | USPS-ST-46                                      |

| DESCRIPTION<br><u>OF FORECASTED DATA</u>   | FORECAST<br><u>TOOL</u>           | REPORTED<br><u>FORECAST DATE</u> | <u>SOURCE</u>              |
|--|-----------------------------------|----------------------------------|----------------------------|
| III. Non-Volume Workload   | Roll-Forward Model Inputs         | June 2000                        | USPS-LR-I-421              |
| FY 99  | NPHSR A/P 13 YTD                  | June 2000                        | USPS-LR-I-421              |
| FY 00 and FY 01  | HQ functional managers            | Changes relate to BY             | USPS-LR-I-421 & USPS-ST-44 |
| IV. Additional Workday<br>(Additional workday effect factors used<br>in Request were used in the update<br>Any changes relate to update of base year costs.) |                                   | June 2000                        | USPS-ST-44                 |
| V. Cost Reductions   |                                   |                                  |                            |
| FY 00 - Personnel  | Headquarters Program Mgrs         | June 2000                        | USPS-LR-I-421              |
| FY 00 - Non-personnel  | Logistics Program Mgrs            | June 26, 2000                    | USPS-LR-I-421              |
| FY 01 - Personnel  | Headquarters Program Mgrs.        | June 2000                        | USPS-LR-I-421              |
| FY 01 - Non-personnel  | Logistics Program Mgrs            | June 26, 2000                    | USPS-LR-I-421              |
| VI. Other Programs   |                                   |                                  |                            |
| Headquarters Personnel Other Programs  |                                   |                                  |                            |
| FY 00  | FY 00 Operating Budget            | FY 00 Bud - A/P 6                | USPS-LR-I-421              |
| FY 00 & FY 01 Workyear Increases   | Headqtrs Mgrs & Budget Staff      | June 2000                        | USPS-LR-I-421              |
| Cost Of Living Allowances  | DRI CPI-W                         | May 2000                         | USPS-LR-I-421              |
| Workers' Compensation Liability  | DRI CPI-W                         | May 2000                         | USPS-LR-I-421              |
| Workers' Compensation:   |                                   |                                  |                            |
| Est. of FY 00 Expense Accrual  | FY 00 Q3 Actuals                  | Actuals                          | USPS-LR-I-421              |
| Based on FY 00 Q3 Data + Est. 4th Qtr  | Casualty Actuarial Services, Inc. | June 10, 2000                    | USPS-LR-I-421              |
| Estimate of FY 01 Expense  | Casualty Actuarial Services, Inc. | June 14, 2000                    | USPS-LR-I-421              |
| Servicewide Personnel Other Programs   | Program/Functional Mgrs.          | Nov. 99 & FY 01 updated          | USPS-LR-I-421              |
| Field Non-personnel Programs   | Headquarters Program Mgrs.        | June 2000                        | USPS-LR-I-421              |

## FORECAST UPDATES USED IN USPS COST DATA UPDATE PER USPS-ST44 AND SUPPORTING LIBRARY REFERENCES Page 4

| <u>DESCRIPTION</u><br><u>OF FORECASTED DATA</u> | <u>FORECAST</u><br><u>TOOL</u>  | <u>REPORTED</u><br><u>FORECAST DATE</u> | <u>SOURCE</u>  |
|---|---|---|--|
| VII. Workyear Mix Adjustment                    | FY 99 Actuals<br>Update forecast FY 00 & FY 01 (using<br>actual FY 00 data and FY 00<br>operating plan) | Update for FY 99 Act<br>July 10, 2000   | USPS-LR-I-421 &<br>USPS-ST-44 at 7                             |
| VIII. Final Adjustments                         | -   | June 2000                               | USPS-LR-I-419,<br>421 & other supporting<br>USPS LR References |

1 BY MR. RICHARDSON:

2 Q Mr. Patelunas, when we provided this document to  
3 you listing different descriptions of forecasted data and  
4 the reported forecast date, which we derived from the Postal  
5 Service documentation, we asked your counsel if you could  
6 review this document and determine whether forecasts dates  
7 reported on the document conform to the dates in your  
8 submissions to the Commission, in an attempt to simplify  
9 some of the confusion about when forecasts were updated in  
10 your filing.

11 Have you had a chance to review these documents?

12 A Yes.

13 Q Do you have any general comments on the forecast  
14 dates that are in the third column of the document? Did you  
15 have any particular difficulty or see any particular errors  
16 with those reported forecast dates for the items listed?

17 A I'm not sure what you mean, whether they're in  
18 error.

19 Q That's correct.

20 A The May 2000 date is the control DRI numbers; the  
21 February 2000 date is the Trend-Long.

22 Q If I could just break in there --

23 A Okay.

24 Q Because we did -- OCA did ask the question,  
25 ST-44-9, that asked you about the trend and the control

1 references which are also referenced as a source in your  
2 exhibit, ST-44-AB, in a footnote.

3 And we were wondering which of those sources  
4 applies to which of the data. And your response in  
5 ST-44-9-B, indicates that DRI control 0500 forecasts relates  
6 to CPI supplies and materials.

7 And while that does relate to your Exhibit  
8 ST-44-AB, if you would be able to indicate which of those  
9 data descriptions are listed on our cross examination  
10 exhibit, under the cost level change factors, non-personnel  
11 cost level indices, of which there are a number that go on  
12 to the second page, middle of the second page --

13 A Which one of those are the control?

14 Q Yes. Whichever way might be simpler for you,  
15 because you do have -- we have listed there under 1(a), at  
16 trend-long 2000 and control at five.

17 A Right.

18 Q And those were -- those forecasts were from  
19 different periods. The trend was in February 2000, and the  
20 control was in May 2000, as I understand it.

21 And we were hoping to determine which of these  
22 apply to which of these data.

23 A Okay, first of all, they really are from the same  
24 period of time. The trend-long is the longer term forecast,  
25 some years out into the future.



1           And it is updated quarterly. That's why the  
2   reporting date is February. But it also includes the data  
3   from March and April.

4           The mechanics of that, I don't understand. It's  
5   been described as a base adjustment. I don't know what that  
6   means, but that's a DRI function.

7           The May date, that's for the control, and that's  
8   for the more immediate time, rather than the longer time, so  
9   that both of those forecasts really do reflect up to the May  
10  time.

11          Q    And is one of the forecasts applicable to each of  
12  these levels, or is the trend forecast applicable to some of  
13  these cost level change factors, or both of them applicable?

14          A    I think that as in the description, where you have  
15  a -- where it's CPI, that's the control. Most of them are  
16  the trend-long.

17               In terms of control, where CPI -- individual  
18  awards would be, banking fees would be May; DRI WPI down at  
19  the bottom in Segment 15, would be May.

20          Q    Which one is that?

21          A    Down towards the bottom you have a DRI WPI for  
22  industrial commodities.

23          Q    I see, it's reimbursements in the first column,  
24  correct?

25          A    One of them, but go above that also in Segment 15,

1 you have communications and building projects expensed.

2 Q Yes.

3 A Right. In Segment 16, the miscellaneous supplies  
4 and services are the control. Segment 16, other operating,  
5 operating equipment and supplies and also reimbursements use  
6 control.

7 And the whole last section for Segments 18, 19,  
8 and 20, use the control also.

9 Q And what about on the first page, the last line,  
10 custodial supplies and services; is that control?

11 A Yes, it is.

12 Q Okay, and then also you indicate in your answer to  
13 the interrogatory, supplies and materials, and would that  
14 cover --

15 A That's the Segment 16 stuff, yes, the DRI supplies  
16 and materials index in Segment 16.

17 Q What about the second one in that column, vehicle  
18 supplies and materials, Segment 12? Is that a control?

19 A Yes, it is.

20 Q And those are all the controls, as far as you can  
21 see.

22 A Yes, I think so, I think so.

23 Q Okay. And we could just quickly move through  
24 these other areas where we have tried to indicate your  
25 forecasted date.

1           Those covered non-personnel cost level indexes in  
2 the small (a). Now, the personnel costs, we show June 200  
3 from your Library Reference 421. Is that accurate?

4           A     Where?

5           Q     On the second page, Section 1(b).

6           A     Oh, (b).

7           Q     Yes, personnel costs, labor contracts.

8           A     Yes. I'm not sure what they -- on your's, the --  
9                 [Pause.]

10           I'm trying to think of how to explain that. To  
11 whatever --

12                 [Pause.]

13           Okay, personnel cost, June 2000. I'm just trying  
14 to think in terms of if there was any, you know, DRI related  
15 things in there, whether you represented as June or whatever  
16 the last forecast would be, but we're okay.

17           Q     Okay. And Roman Numeral II, Mail Volume Forecast  
18 Changes, DRI, June '99; is that --

19           A     Right. If that was the DRI that was in the --  
20 yes, it was in the original request, yes.

21           Q     And going to the page 3, there is Roman Numeral  
22 III, Non-Volume Work Load. We have June 2000 for a couple  
23 of lines.

24                 Would you confirm those as the appropriate dates?

25           A     Well, the June -- I think the June 2000 that you

1 see there is just at the point when it was updated, as  
2 opposed to when the non-volume work load, because that's why  
3 '99, that was obviously done well before June 2000, and what  
4 was used was the National Payroll Summary Report through  
5 AP-13.

6 The date it was put into the model probably shows  
7 June 2000, but it's the FY99 data.

8 Q Through AP-13 of '99?

9 A Yes. And that probably holds for -- that's part  
10 of my hesitancy about some of the June stuff. I think the  
11 June is just what shows up in that cell that, you know, most  
12 recently updated.

13 Q Yes. Well, let's go to the additional work day  
14 for Roman Numeral IV. Is June 2000 when those --

15 A The additional work day didn't change from the  
16 request.

17 Q Okay, and, again, cost reductions, now, there are  
18 some headquarters program managers forecast date for June  
19 2000. Were those updated?

20 A To whatever extent things could be reviewed and  
21 reflected, whatever data we had, by the end of May when we  
22 started this, that input in the beginning or during June of  
23 2000 is correct.

24 Q Okay, and the rest of the numbers under Cost  
25 Reductions for June 2000 you would confirm -- and that

1 leaves, on page 3, Other Programs.

2 Is there anything, any date there which you do not  
3 agree with for the forecast date?

4 A Not that I can recognize.

5 Q Okay, and then that just takes us to page 4, roman  
6 numeral VII, Work Year Mix Adjustment Updated for Fiscal  
7 Year '99 Actuals and July 10th for an Update.

8 A I am not sure where the July 10th date came from  
9 that you showed there, ST-44 at 7.

10 Q Is there another date that you feel --

11 A Well, I just --

12 Q -- more certain about?

13 A Oh, oh, oh, oh, that's okay. That's what I was  
14 wondering. We are looking at the TEs updated through  
15 Accounting Period 9 of PFY 2000. If that is July 10th then  
16 that is the date.

17 Q Okay, and the Final Adjustments date for June  
18 2000, could you confirm that?

19 A Yes.

20 Q Okay. One other question on this -- going back to  
21 your discussion of the trend long, you say that while that  
22 is a February 2000 date that it actually includes March and  
23 April data.

24 A Yes.

25 Q Is it fair to say then that that actually

1 represents information up to the first of May, up to May,  
2 like the Control --

3 A I think that's fair. As I said, it is a base  
4 adjustment DRI. I know they update the trend long  
5 quarterly. What the distinction is between the trend long  
6 and the Control, I don't know what the exact definition of  
7 the difference is.

8 MR. RICHARDSON: Mr. Chairman, I would ask that  
9 this cross examination exhibit be placed into evidence at  
10 this time.

11 CHAIRMAN GLEIMAN: So ordered.  
12 Would you like it transcribed into the record  
13 also?

14 MR. RICHARDSON: I think it was.

15 CHAIRMAN GLEIMAN: All right.

16 [Cross-Examination Exhibit  
17 OCA-Patelunas-XE-ST44-1 was  
18 received into evidence.]

19 MR. RICHARDSON: Those are all the questions I  
20 have, Mr. Chairman.

21 CHAIRMAN GLEIMAN: Is there any other follow-up?  
22 [No response.]

23 CHAIRMAN GLEIMAN: I don't have any more questions  
24 but I have a request for some information, Mr. Patelunas.  
25 Back to the much-discussed ABA/NAPM Number 28,

1     which is the one that involved the piggyback and all that  
2     good stuff.

3             You are going to be providing some additional  
4     information both in response to requests that were made  
5     today and also based on earlier commitments that you had  
6     made and I was wondering if you could, when you provide the  
7     additional information, provide updates for FY '99 to Parts  
8     roman IV through roman VIII of Library Reference I-106,  
9     Library Reference I-138, and Library Reference I-188, all of  
10    which contain information on Cost Segment 3 Variable Costs  
11    using both the USPS and PRC treatments; updates to Library  
12    Reference I-16 and -17, which contain Carrier Cost System  
13    data for city and rural carriers --

14            MS. DUCHEK: Which one was that, Mr. Chairman?

15            CHAIRMAN GLEIMAN: 16 and 17; a corrected version  
16    of Library Reference 278, the B work papers for FY 1999,  
17    which updates the single subclass distribution key for FY  
18    '99 data --

19            MS. DUCHEK: Mr. Chairman, I think those are  
20    coming over today.

21            CHAIRMAN GLEIMAN: Well, as I said, I thought  
22    that, you know, some of this material might be coming  
23    pursuant to previous commitments but I just wanted to make  
24    sure.

25            One last item -- updates to Library Reference 335,

1     which pertain to rural carrier cost calculated with annual  
2     Carrier Cost System data -- and I'm done.

3             Would you like some time with your witness?

4             MS. DUCHEK: Two things, Mr. Chairman. Yes, I  
5     would, but I think I am only going to need about ten  
6     minutes, and I wanted to request on your request for things  
7     to be updated that we take back, I think, a number of these  
8     items will be impossible to complete within your normal  
9     seven-day rule.

10            CHAIRMAN GLEIMAN: If you would give us a  
11   guesstimate on the time required for those items, we would  
12   appreciate that.

13            You only need 10 minutes but it is about that time  
14   anyway. We have been at it for quite awhile now. What I  
15   think I would like to do, unless somebody has a strenuous  
16   objection, is give you your ten minutes and then let you and  
17   everyone else have some additional time, come back on the  
18   hour at 2 o'clock, finish up with Witness Patelunas, and  
19   then move on to our next witness, Mr. Thress.

20            We will be back in here at 2 o'clock.

21            [Whereupon, at 1:09 p.m., the hearing was  
22   recessed, to reconvene at 2:00 p.m., this same day.]

23

24

25



1 AFTERNOON SESSION

2 [2:00 p.m.]

3 CHAIRMAN GLEIMAN: Well, at the risk of getting  
4 myself into a great deal of trouble, I am going to exercise  
5 the prerogatives of the Bench and ask Mr. Patelunas four  
6 more questions, really three, one of which has two parts.  
7 Whereupon,

8 RICHARD L. PATELUNAS,  
9 the witness on the stand at the time of the recess, having  
10 been previously duly sworn, was further examined and  
11 testified as follows:

12 CHAIRMAN GLEIMAN: If you need additional time,  
13 you will let me know.

14 In Cost Segment 14.1 of the Postal Service version  
15 of the updated roll forward calculations, there is a  
16 separate line for Total Day Net Costs. Are these costs the  
17 costs incurred for using the Eagle Network to transport  
18 Priority and First Class mail during the day?

19 THE WITNESS: I don't know what that represents.

20 CHAIRMAN GLEIMAN: Also in Segment 14.1, the Eagle  
21 Air Network costs increased 42 percent compared to the 1998  
22 costs -- that is, \$252 million in '99 versus \$177 million in  
23 '98.

24 Can you explain what occurred between FY '98 and  
25 '99 to cause this increase?

1 THE WITNESS: No.

2 CHAIRMAN GLEIMAN: The unit costs for Standard B  
3 special mail increased between FY '98 and FY '99 by 21  
4 percent from \$1.30 to \$1.56. Much of this increase, 17  
5 cents, appears to be related to Cost Segment 3, clerks and  
6 mail handlers.

7 Can you explain why the Cost Segment 3 costs have  
8 increased so much?

9 THE WITNESS: I haven't looked at that. I don't  
10 know.

11 CHAIRMAN GLEIMAN: Okay, so then you wouldn't be  
12 able to tell whether there had been a change in mail  
13 characteristics or processing procedures?

14 THE WITNESS: I don't know.

15 CHAIRMAN GLEIMAN: Okay. Thank you for indulging  
16 me. Ms. Duchek?

17 MS. DUCHEK: There will be no redirect.

18 CHAIRMAN GLEIMAN: Gee, if only we had known that  
19 before, we could have let Mr. Patelunas go and he wouldn't  
20 have had to suffer through those three questions, one of  
21 which had two parts -- and I didn't give anybody a chance to  
22 follow up on those questions, and I won't, unless somebody  
23 insists.

24 Mr. Patelunas, we complete your testimony here  
25 today. We appreciate your appearance, your good nature, and

1 your contributions to the record, and we thank you and you  
2 are excused.

3 [Witness excused.]

4 CHAIRMAN GLEIMAN: And Mr. Koetting, you have the  
5 next witness, I believe?

6 MR. KOETTING: Yes. Thank you, Mr. Chairman. The  
7 Postal Service calls as its next witness Thomas Thress.

8 CHAIRMAN GLEIMAN: While we are switching batters  
9 up there at the witness table, is it possible that the  
10 Postal Service could provide an answer to those three  
11 questions that Mr. Patelunas was not familiar with? It sure  
12 would be helpful.

13 MS. DUCHEK: We will add them to the list. On  
14 some of the things we will look into it. I don't know what  
15 the explanation is or even if we will have one, but we will  
16 try.

17 CHAIRMAN GLEIMAN: Thank you.

18 Mr. Thress, you are already under oath in this  
19 proceeding, so there is no need to swear you in, and when  
20 your counsel is ready to proceed then we will proceed.  
21 Whereupon,

22 THOMAS E. THRESS,  
23 a witness on behalf of the U.S. Postal Service, having been  
24 previously duly sworn, was further examined and testified as  
25 follows:

## 1 DIRECT EXAMINATION

2 BY MR. KOETTING:

3 Q Mr. Thress, are you the same Thomas E. Thress who  
4 previously testified in this proceeding with direct  
5 testimony, USPS-T-7?

6 A Yes.

7 Q I have just handed you a copy of a document  
8 entitled Supplemental Testimony of Thomas E. Thress on  
9 behalf of the United States Postal Service in Response to  
10 Order Number 1294, which is dated July 21st, 2000, and has  
11 been designated as USPS-ST-46.

12 Are you familiar with that document?

13 A Yes.

14 Q Was it prepared by your or under your supervision?

15 A Yes.

16 Q If you were to testify orally today, would this be  
17 your testimony?

18 A Yes.

19 Q Are there any Category 2 Library References  
20 associated with this testimony?

21 A No.

22 MR. KOETTING: Mr. Chairman, I would ask -- I hand  
23 two copies of the Supplemental Testimony of Thomas E. Thress  
24 on behalf of the United States Postal Service in Response to  
25 Order Number 1294, designated USPS-ST-46, to the reporter

1 and request that they be accepted into evidence in this  
2 proceeding.

3 CHAIRMAN GLEIMAN: Is there an objection?

4 Hearing none, counsel if you will provide two  
5 copies of that material, that testimony to the court  
6 reporter, I will direct that the material be received into  
7 evidence and transcribed into the record.

8 THE REPORTER: Not transcribed.

9 CHAIRMAN GLEIMAN: Excuse me.

10 Once again, it is not going to be transcribed into  
11 the record. It is Postal Service testimony. It is tough to  
12 switch gears at this stage.

13 [Supplemental Testimony of Thomas  
14 E. Thress on behalf of the United  
15 States Postal Service in Response  
16 to Order Number 1294, USPS-ST-46,  
17 was received into evidence.]

18 CHAIRMAN GLEIMAN: Mr. Thress, have you had an  
19 opportunity to examine the packet of designated written  
20 cross examination that was made available earlier today?

21 THE WITNESS: Yes, I have.

22 CHAIRMAN GLEIMAN: And if those questions were  
23 asked of you today, would your answers be the same as those  
24 you previously provided?

25 THE WITNESS: Yes, they would.

1 CHAIRMAN GLEIMAN: It would? In that case,  
2 counsel, if you would provide two copies, this material will  
3 be admitted into evidence and transcribed.

4 [Designated Written  
5 Cross-Examination of Thomas E.  
6 Thress, USPS-ST-46, was received  
7 into evidence and transcribed into  
8 the record.]

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BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2000

Docket No. R2000-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION  
OF UNITED STATES POSTAL SERVICE  
WITNESS THOMAS E. THRESS  
(USPS-ST-46)

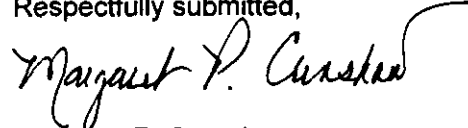
Party

Association of American Publishers

Interrogatories

AAP/USPS-ST46-1-2, 5

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Margaret P. Crenshaw", with a long, sweeping flourish extending from the end of the name.

Margaret P. Crenshaw  
Secretary

INTERROGATORY RESPONSES OF  
UNITED STATES POSTAL SERVICE  
WITNESS THOMAS E. THRESS (ST-46)  
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory

AAP/USPS-ST46-1

AAP/USPS-ST46-2

AAP/USPS-ST46-5

Designating Parties

AAP

AAP

AAP



**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF ASSOCIATION OF AMERICAN PUBLISHERS**

AAP/USPS-ST46-1 At Table 1 of your testimony, you provide a comparison of actual Total Standard B mail volume for the first three quarters of 2000 with the USPS' forecasted Total Standard B mail volumes for the same three quarters. With respect to this Table, please provide the underlying forecasted and actual volumes for the same period separately for Parcels Zone Rate, Bound Printed Matter, Special Standard and Library Mail.

**RESPONSE:**

|                       | R2000-1<br>(2000Q1 - 3) | Actual<br>(2000Q1 - 3) | Difference |            |
|-----------------------|-------------------------|------------------------|------------|------------|
|                       |                         |                        | Pieces     | Percentage |
| Parcel Post           | 254.580                 | 241.982                | 12.598     | 5.21%      |
| Bound Printed Matter  | 338.142                 | 353.491                | (15.349)   | -4.34%     |
| Special Rate          | 148.349                 | 156.852                | (8.503)    | -5.42%     |
| Library Rate          | 20.526                  | 19.880                 | 0.646      | 3.25%      |
| Total Standard B Mail | 761.597                 | 772.205                | (10.608)   | -1.37%     |

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF ASSOCIATION OF AMERICAN PUBLISHERS**

AAP/USPS-ST46-2 At Table 2 of your testimony, you provide a comparison of forecast accuracy for the USPS R2000-1 forecast versus the forecast accuracy of the R97-1 and R94-1 forecasts. With respect to this Table, please provide the underlying data separately for Parcels Zone Rate, Bound Printed Matter, Special Standard and Library Mail for the R97-1 and R94-1 forecast error calculation.

**RESPONSE:**

|                       | <b>R97-1</b>       | <b>Actual</b>      | <b>Difference</b> |                   |
|-----------------------|--------------------|--------------------|-------------------|-------------------|
|                       | <b>(97Q3-98Q2)</b> | <b>(97Q3-98Q2)</b> | <b>Pieces</b>     | <b>Percentage</b> |
| Parcel Pos:           | 234.822            | 256.940            | (22.118)          | -8.61%            |
| Bound Printed Matter  | 553.616            | 511.433            | 42.183            | 8.25%             |
| Special Rate          | 198.850            | 195.132            | 3.718             | 1.91%             |
| Library Rate          | 29.666             | 26.758             | 2.908             | 10.87%            |
| Total Standard B Mail | 1,016.954          | 990.263            | 26.691            | 2.70%             |

|                       | <b>R94-1</b>        | <b>Actual</b>       | <b>Difference</b> |                   |
|-----------------------|---------------------|---------------------|-------------------|-------------------|
|                       | <b>(1994Q1 - 3)</b> | <b>(1994Q1 - 3)</b> | <b>Pieces</b>     | <b>Percentage</b> |
| Parcel Post           | 150.948             | 167.399             | (16.452)          | -10.90%           |
| Bound Printed Matter  | 226.557             | 267.919             | (41.363)          | -18.26%           |
| Special Rate          | 128.870             | 135.729             | (6.860)           | -5.32%            |
| Library Rate          | 21.074              | 27.012              | (5.939)           | -28.18%           |
| Total Standard B Mail | 527.447             | 598.059             | (70.612)          | -13.39%           |

**RESPONSE OF POSTAL SERVICE WITNESS THRESS  
TO INTERROGATORIES OF ASSOCIATION OF AMERICAN PUBLISHERS**

**AAP/USPS-ST46-5 Please provide all new elasticities for Bound Printed Matter that you, or the Postal Service, have calculated using "new Commerce Department data" as described on page 6 (lines 16-20) of your testimony.**

**RESPONSE:**

As I stated in my testimony at page 7, lines 9 through 13, "a simple mechanical re-estimation of the equations used in R2000-1 may be inappropriate, as the *relationship between mail volume and certain macroeconomic drivers of mail volume* may need to be re-evaluated in light of the new macroeconomic data. Such an analysis is not practical within the brief time permitted for the Postal Service to address this issue in this case."

Hence, I do not necessarily recommend the following results. Nevertheless, in an effort to be responsive to your request, I can report that I have re-estimated the bound printed matter elasticities using new Commerce Department data, using a sample period through 2000Q3, using the same specification as was used in R2000-1 (see my direct testimony, USPS-T-7, at pages 69-70 and 74).

For this regression, the estimated permanent income elasticity of bound printed matter is 1.309 and the estimated own-price elasticity of bound printed matter is -0.280.

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1 CHAIRMAN GLEIMAN: Additional written cross  
2 examination for this witness?

3 There is none. Then that brings us to oral cross  
4 examination. Three parties have requested oral cross  
5 examination -- American Bankers Association jointly with the  
6 National Association of Presort Mailers; the Major Mailers  
7 Association; and United Parcel Service.

8 Is there anyone else who wishes to cross examine  
9 the witness?

10 [No response.]

11 CHAIRMAN GLEIMAN: Is there anyone here from  
12 American Bankers Association and National Association of  
13 Presort Mailers?

14 MR. KOETTING: Mr. Chairman, they did inform me  
15 earlier that they had concluded that they did not need to do  
16 any oral on this witness.

17 CHAIRMAN GLEIMAN: Thank you, Mr. Koetting, and we  
18 thank them.

19 That being the case, the next party to cross  
20 examine would be the Major Mailers Association. Mr. Hall,  
21 whenever you are ready.

22 MR. HALL: I think I can add to that list, Mr.  
23 Chairman. We don't have any questions. We only have a  
24 clarification that I think we have an outstanding  
25 interrogatory directed to the witness and it is my belief

1 that it hasn't been answered yet, but with the flurry of  
2 documents coming around --

3 THE WITNESS: That interrogatory is going to be  
4 redirected I believe to the Postal Service. I don't know  
5 who specifically will answer it, but --

6 MR. HALL: Okay, that's fine.

7 CHAIRMAN GLEIMAN: But we can expect an answer in  
8 due course?

9 MR. KOETTING: I am not even aware of the  
10 existence of the interrogatory but I am assuming that we  
11 will give an answer if we got the --

12 MR. HALL: As long as witness is.

13 CHAIRMAN GLEIMAN: Mr. Hall, just so we are clear  
14 on the record about this, if you could identify the  
15 interrogatory, if you recall, off the top of your head, or  
16 Mr. Thress?

17 THE WITNESS: They were the standard MMA/USPS --

18 CHAIRMAN GLEIMAN: The number has been lost.

19 THE WITNESS: There were several of them. I don't  
20 remember. They were nothing I could answer so I merely  
21 looked at them long enough to determine they were nothing I  
22 could answer and moved along.

23 CHAIRMAN GLEIMAN: That being the case, gentlemen,  
24 I would just ask that inasmuch as it is being redirected  
25 within the Postal Service that your usual conscientious

1 effort be made to provide a response as promptly as possible  
2 so that counsel can use that material as he sees fit, to  
3 prepare for the next phase of these proceedings.

4 That brings us to United Parcel Service.

5 MR. PINAMONT: Mr. Chairman, we will buck the  
6 trend. We have just a few questions.

7 CHAIRMAN GLEIMAN: If you could identify yourself.  
8 We know you are not John McKeever.

9 MR. PINAMONT: Mr. Chairman, William Pinamont for  
10 United Parcel Service. Thank you, Mr. Chairman.

11 CROSS EXAMINATION

12 BY MR. PINAMONT:

13 Q Mr. Thress, would you please direct your attention  
14 to page 3, table 1, of your testimony, entitled "Actual  
15 Volume versus R2000-1 Volume Forecast, First Three Quarters  
16 of 2000."

17 A Okay.

18 Q It is page 3 of your testimony.

19 A I've got it.

20 Q You have it? I just have a few questions to  
21 clarify the meaning of table 1.

22 In the first column, entitled R2000-1, the numbers  
23 that are listed there represent the forecast of volume for  
24 each class of mail for the first three quarters of 2000, is  
25 that right?

1 A That is correct.

2 Q In the second column, entitled, Actual, the  
3 numbers listed there represent the actual volume for each  
4 class of mail for the first three quarters of 2000, is that  
5 right?

6 A That is correct.

7 Q Now in the third column, entitled Pieces for  
8 Priority Mail, on line 12, the number 33.506 is in  
9 parentheses. Does this mean that actual volume is above or  
10 below the forecast?

11 A Actual is above. The pieces number represents the  
12 forecast minus the actual, with the parentheses indicating a  
13 negative number.

14 Q So in the fourth column, entitled Percentage for  
15 Priority Mail, on line 12 the minus 3.81 percent indicates  
16 that actual Priority Mail volume is running almost 4 percent  
17 above what the Postal Service forecast?

18 A Yes.

19 Q So then for Express Mail on line 13 the minus 1.90  
20 percent means that actual Express Mail volume is running  
21 almost 2 percent above the forecast?

22 A Yes.

23 MR. PINAMONT: Mr. Chairman, I have no further  
24 questions.

25 CHAIRMAN GLEIMAN: Is there any follow-up?

1 [No response.]

2 CHAIRMAN GLEIMAN: No follow-up? That brings us  
3 to questions from the bench and I do have some questions  
4 that I would like to ask and I would like to distribute  
5 something to you and your counsel, if I may.

6 [Pause.]

7 I have several other copies here if any one wants  
8 them. They are copies of an excerpt from the Postal Rate  
9 Commission regulations, 3001-45 (j) (6). And for those of  
10 you who don't have a copy, I'll try and read it quickly:

11 (iii) - Subject to paragraph (a) (2) of this  
12 Section, there shall be furnished in every formal request, a  
13 computer implementation of the methodology employed to  
14 forecast volumes and revenues in each class and subclass of  
15 mail in Postal Service.

16 (iv) - The computer implementation described in  
17 paragraph (j) (6) (iii) of this Section shall be able to  
18 compute forecasts of volumes and revenues, compatible with  
19 those referred to in paragraphs (j) (2), (j) (3), and (j) (5)  
20 of this Section (4) (a), any set of rates and fees within a  
21 reasonable range of the pre-filed and suggested rates; (b)  
22 any date of implementation within the range spanned by the  
23 assumed date and the start date of the future fiscal year.

24 (c) - Alternative forecasts of economic  
25 determinants of Postal volumes other than Postal rates and



1 fees, and,

2 (d) - Alternative values of any parameters with  
3 assigned values that are based upon unverifiable judgments.

4 I'm going to give you just a moment, without me  
5 prattling on, to look that over.

6 THE WITNESS: Okay.

7 CHAIRMAN GLEIMAN: Are you the author of the set  
8 of Lotus 1-2-3 worksheets that were submitted by the Postal  
9 Service to comply with this rule as it applies to the Postal  
10 Service's volume forecasts, except for Priority and Express  
11 Mail?

12 THE WITNESS: Yes.

13 CHAIRMAN GLEIMAN: When did you prepare the volume  
14 forecasts submitted by the Postal Service in its initial  
15 filing?

16 THE WITNESS: I think the before rates forecasts  
17 we did sometime in November, and the after rates would have  
18 been November or December, somewhere in there, and the  
19 spreadsheets were finalized in December or January.

20 You know, it was fulfilled with the full case in  
21 early January.

22 CHAIRMAN GLEIMAN: In the course of your work,  
23 there must have been a point when the Postal Service  
24 provided you with rates or fees or possibly fixed weight  
25 index prices based on the rates and fees that corresponded

1 to the Service's filing.

2 When did the Service provide you with this  
3 information?

4 THE WITNESS: It seems to me it was late November,  
5 early December when the fees were finalized. I'm thinking  
6 December 2nd may have been when we finalized the after rates  
7 forecasts, but I don't know.

8 It was sometime probably between Thanksgiving and  
9 maybe the first week of December.

10 CHAIRMAN GLEIMAN: In the course of your work  
11 there must have been a point when the Postal Service  
12 provided you with volumes for the base year for the  
13 forecasts.

14 The base year for volume forecasting purposes is  
15 Postal Service Fiscal Year 1999. When did the Postal  
16 Service provide you with the volume statistics for the last  
17 quarter of 1999 Postal Fiscal Year?

18 THE WITNESS: I believe I received those in late  
19 October. I would have to look it up to know the exact date,  
20 but I believe it was late October.

21 CHAIRMAN GLEIMAN: In the course of your work  
22 there must have been a point when it was determined to use  
23 values for many of the economic variables that are derived  
24 from the DRI trend-long forecast dated June, 1999.

25 Did you participate in that decision?

1 THE WITNESS: Yes.

2 CHAIRMAN GLEIMAN: When was the decision made to  
3 use the June, 1999, DRI trend-long forecasts?

4 THE WITNESS: The decision on what DRI data to be  
5 used in the forecast filed would have been made in November  
6 at the time that the actual forecast was made.

7 CHAIRMAN GLEIMAN: DRI released a new trend-long  
8 forecast in November of 1999. Were you aware of this new  
9 forecast before the worksheets were used to produce the  
10 Service's volume forecast?

11 THE WITNESS: Yes, I was.

12 CHAIRMAN GLEIMAN: Doesn't DRI also produce a  
13 control forecast each month that could have been used within  
14 the Service's worksheets?

15 THE WITNESS: DRI does, indeed, produce a control  
16 forecast on a monthly basis. I discuss the choice -- well,  
17 I discuss the issue of updating the DRI data in Section  
18 (2)(b) of my supplemental testimony, pages 6 and 7, in which  
19 I point out that the Interstate Commerce Commission changed  
20 their income and consumption data, and began reporting them  
21 in 1996 dollars.

22 They began doing this in October. At that point,  
23 Commerce began restating data as it came available. They  
24 did not restate, historically.

25 In October, I believe they presented October which

1 had no basis for comparison. In November, they restated  
2 back maybe two or three or four years, but there was a  
3 problem that the 1996 current data was not restated far  
4 enough back that it was usable in our econometric  
5 estimation.

6 Further, for that period of time where there was  
7 data in 1996 dollars and data in '92 dollars, the data  
8 seemed sufficiently different that we were concerned that we  
9 couldn't simply do a mechanical adjustment to restate  
10 everything in either '92 dollars or '96 dollars.

11 And so a decision was made that at that point, we  
12 would revert back to an old DRI forecast that we knew to be  
13 consistent with the historical data, rather than try to rely  
14 on a new DRI forecast which incorporated new data that had  
15 not been restated far enough historically, so that we  
16 weren't even clear how DRI was incorporating this new data,  
17 and to the extent that they were, we were afraid that it  
18 would be inconsistent with the elasticities to which we  
19 would be applying that data.

20 So a decision was made that we wanted to be  
21 consistent, so we chose a DRI forecast that predated the  
22 Commerce Department restatement of the data.

23 CHAIRMAN GLEIMAN: Now, suppose that a more recent  
24 DRI forecast describes higher rates of growth for all major  
25 income and consumption series such as real disposable

1 personal income and personal consumption expenditures?

2 Would this mean that the Service's volume  
3 forecasts for the test year are typically too low?

4 THE WITNESS: Not necessarily. Again, the DRI  
5 forecasts now would be presumably based on this restated  
6 data, and as I --

7 I give an example at the middle paragraph of page  
8 6 of testimony, lines 9 through 15, over the period '92  
9 through '97, which is a historical period and was a  
10 historical period when we filed the case, the data we used,  
11 the original Commerce Department data, said that consumption  
12 grew two percent per year over that five-year period.

13 The newly restated Commerce Department data says  
14 that consumption grew 2.3 percent per year over that time  
15 period. So the new data suggests that there has been  
16 greater growth, historically, which means that in order to  
17 make -- in order to meaningfully relate DRI's newest  
18 forecasted growth rates to volume, one would need to back  
19 historically and re-estimate elasticities so that we were  
20 sure that the elasticities were estimated using data, the  
21 same data on which the forecasts were based.

22 So I thought I explained fairly well, and one of  
23 the points of my testimony was to explain that in this case,  
24 I don't believe simply mechanically taking new DRI numbers  
25 and pasting them into our spreadsheet would give meaningful

1 results, unless one did the further analysis of  
2 re-estimating the demand equations, and reevaluating the  
3 relationship of mail volume with income, historically.

4 CHAIRMAN GLEIMAN: Don't the more recent forecasts  
5 from DRI show higher growth rates for the major income and  
6 consumption series?

7 THE WITNESS: Yes, they do.

8 CHAIRMAN GLEIMAN: Okay. Are all the elasticities  
9 for income variables in your model positive?

10 THE WITNESS: Yes, they are.

11 CHAIRMAN GLEIMAN: And wouldn't one assume then  
12 that higher rates of growth for income variables would  
13 produce higher volume forecasts?

14 THE WITNESS: Again, if you hold all other things  
15 equal, yes.

16 CHAIRMAN GLEIMAN: Okay, thank you. If you wanted  
17 to continue, go ahead. I didn't mean to cut you off.

18 THE WITNESS: Oh, I was just going to say that  
19 because the historical data is also different, however, I  
20 don't believe one can hold everything else equal; I think  
21 one would need to re-estimate the elasticities.

22 And if, in point of fact, you have a high growth  
23 rate of income but a lower elasticity, it's not clear which  
24 direction that would affect the forecast, for example.

25 CHAIRMAN GLEIMAN: When preparing a forecast such

1 as the Service's forecast of Postal volumes wouldn't it  
2 normally be considered the better practice to use the most  
3 recent DRI economic forecast?

4 THE WITNESS: All other things being equal, yes.  
5 However, in this case, with this Commerce Department  
6 restatement, we did not view all other things as being  
7 equal.

8 CHAIRMAN GLEIMAN: Wouldn't using the most recent  
9 forecast tend to reduce errors in the Postal Service's  
10 volumes forecast?

11 THE WITNESS: In theory, it should.

12 CHAIRMAN GLEIMAN: Does the Postal Service use the  
13 system incorporated in your spreadsheets to forecast volumes  
14 for any purposes other than Postal Rate proceedings?

15 THE WITNESS: I make forecasts for the Postal  
16 Service on other occasions that they use for other purposes,  
17 yes.

18 CHAIRMAN GLEIMAN: Do you know what these other  
19 occasions, and could you tell us what these other occasions  
20 and purposes are?

21 THE WITNESS: I give them a volume forecast that  
22 in some way works into the budget, although, to be honest, I  
23 don't know exactly how my volume forecast works into their  
24 budget, because they make a budget, for example, on an AP  
25 basis, and I forecast on a quarterly basis, and I believe

1 management occasionally overrides certain things. So I  
2 don't know, you know, I don't know the exact details, but  
3 occasionally they ask me for forecasts. Occasionally I give  
4 them forecasts.

5 CHAIRMAN GLEIMAN: Do you know whether there are  
6 other specific instances that they use -- other purposes for  
7 which they use your forecasts other than the budget?

8 THE WITNESS: I don't know specifically what they  
9 use my forecasts for.

10 CHAIRMAN GLEIMAN: And was the most recent use  
11 that they made, aside from this rate case, in preparing  
12 their budget for the next fiscal year?

13 THE WITNESS: I assume so, but all I do is give  
14 them numbers. You would really have to ask someone else  
15 what they are doing with them.

16 CHAIRMAN GLEIMAN: What general economic forecast  
17 was used for the information that you gave the Postal  
18 Service most recently?

19 THE WITNESS: The most recent forecast I gave the  
20 Postal Service used DRI's May forecast. However, it did not  
21 simply use DRI's Trendlong May forecast. DRI, most months,  
22 makes several forecasts. In the case of May, they made  
23 three forecasts. They made a baseline forecast, which I  
24 believe Rick talked about a little this morning. They make  
25 -- in this case, they made a pessimistic forecast, and they



1 made a forecast that they referred to as a late recession  
2 forecast.

3 In most cases, their baseline forecast is their  
4 median forecast, that was the case in June of '99. In the  
5 most recent case, however, for the year that we are  
6 interested in, which is 2001, in point of fact, their late  
7 recession forecast and their pessimistic forecast are both,  
8 in fact, more pessimistic in terms of income and consumption  
9 growth than their baseline forecast.

10 Specifically, DRI is predicting, in their May  
11 forecast, that there is about a 45 percent chance that there  
12 will be significant economic slowdown, or possibly even  
13 recession by the end of the Postal Service's test year. In  
14 light of that fact, we felt it was appropriate, rather than  
15 to simply use the baseline forecast, to, in fact, use an  
16 expected value forecast, which would be DRI, when they make  
17 their forecast, they also assign a probability to their  
18 forecast, so they say it is 55 percent likely it will be the  
19 baseline. I believe the numbers were 35 percent likely it  
20 would be late recession, 10 percent likely it would be  
21 pessimistic.

22 So, taking their probabilities and their  
23 forecasts, we constructed what we call an expected value of  
24 the DRI forecast for May of 2000. And we made a forecast  
25 based on that. Again, in keeping with my testimony,

1 reestimating the equations, and in some cases reevaluating  
2 some of the specifications and making some changes to some  
3 specifications where it looked like perhaps because the  
4 historical was restated, perhaps we needed to rethink some  
5 things.

6           Anyway, that was the most recent forecast that I  
7 made for the Postal Service. And in point of fact, that  
8 forecast is not terribly different for 2001 from the  
9 forecast as filed.

10           CHAIRMAN GLEIMAN: You just mentioned that the May  
11 DRI forecast posed the possibility, 45 percent possibility  
12 of a slowdown in the economy during the test year.

13           THE WITNESS: Yes.

14           CHAIRMAN GLEIMAN: The next earlier DRI figures,  
15 which would have been three months before, did they also  
16 show or anticipate an economic slowdown?

17           THE WITNESS: I don't -- I am not sure I ever  
18 looked at the February DRI. I think that was so close to  
19 the case and we had the interrogatory period. The Postal  
20 Service doesn't have a tendency to ask for a lot of forecast  
21 updates right after the file a case, because they are kind  
22 of locking in on a forecast. So I am not sure that I did  
23 any analysis of DRI's February forecast.

24           CHAIRMAN GLEIMAN: Do you think mailers look at  
25 DRI's forecasts?

1 THE WITNESS: I don't know. I don't know that any  
2 mailers specifically look at DRI, but I would certainly  
3 think that, you know, there are some mailers that certainly  
4 are going to look at economic forecasts of what the economy  
5 is doing.

6 CHAIRMAN GLEIMAN: Do you know whether Commerce  
7 has completed its restatement of data back to 1992?

8 THE WITNESS: It is my understanding that Commerce  
9 has now completed its restatement.

10 CHAIRMAN GLEIMAN: That being the case, forgetting  
11 the moment that we are operating under some time  
12 constraints, would it be possible to reestimate using  
13 consistent data today, unlike the situation that you were  
14 faced with last year?

15 THE WITNESS: Ignoring time constraints,  
16 certainly.

17 CHAIRMAN GLEIMAN: When did you finish fitting the  
18 various economic models that are used in the worksheets as  
19 they were submitted with the Postal Service's initial  
20 filing, and have you refit any of these models since these?

21 THE WITNESS: I believe I would have finished  
22 estimating the equations that were used in the original  
23 forecast in November, and, yes, I have reestimated all of  
24 these equations, as I stated, in June, the forecast I was  
25 just talking about in June that relied on DRI's May 2000

1 forecast, included a reestimation of all of the demand  
2 equations.

3 CHAIRMAN GLEIMAN: What is your practice with  
4 respect to reestimating these models? Do you regard it as  
5 necessary to reestimate the models every time a data series  
6 is revised or extended? What is the normal practice with --

7 THE WITNESS: As a general rule, we try to update  
8 the equations on a quarterly basis probably. Generally  
9 speaking, whenever we get a new quarter, whenever there is a  
10 new quarter of volume data, at some point someone in the  
11 Postal Service will ask something about that, either how  
12 accurate was the forecast, or can you give us a new  
13 forecast? And I think as a general rule, time permitting, I  
14 at least like to have my equations estimated using all the  
15 data I have, so that as we get a new quarter of data, if  
16 time permits, we will try to reestimate all the equations.

17 Now, also, in the interim, of course, we do a lot  
18 of experimentation with specifications, putting new  
19 variables into equations, taking new variables out. We do a  
20 lot of that, much more of that. But just on a general,  
21 regular, make sure we are using the most recent data, we try  
22 to do it quarterly, maybe every -- maybe it only happens  
23 every six months, it is hard to tell. I mean, again, you  
24 know, the press of a rate case sometimes precludes us from  
25 doing things that we would otherwise do. You know, to have

1 to answer interrogatories, so that takes time away from  
2 maybe reestimating the equations.

3 CHAIRMAN GLEIMAN: Is the quarterly update that  
4 you do the normal practice for econometric models that are  
5 used to make forecasts periodically? For example, the  
6 econometric models used by DRI.

7 THE WITNESS: My understanding is that DR would  
8 again update their model every time they come out with a new  
9 forecast. So, in the case of DRI, I believe they update  
10 their model monthly, but I can't swear to that, and I think  
11 that, as is, you know, the case with us, I think some of  
12 those updates are more mechanical than others. But I think  
13 they try each monthly certainly to incorporate whatever new  
14 information they have got versus what they had the month  
15 before.

16 CHAIRMAN GLEIMAN: Now, earlier on I gave you a  
17 copy of an excerpt from the Commission's regulations. In  
18 order to comply fully with those Rules of Practice and  
19 Procedures, it must be possible to use your worksheets to  
20 compute forecasts of volumes using alternative, if you will,  
21 quoting from that rule, alternative forecasts of the  
22 economic determinants of Postal volumes other than Postal  
23 rates and fees.

24 Will your worksheets produce valid forecasts of  
25 Postal volumes using the more recent DRI forecasts of

1 economic conditions, such as the November 1999 DRI Trendlong  
2 forecast?

3 MR. KOETTING: Could I clarify, Mr. Chairman, is  
4 it your interpretation of the rule that it says that the  
5 output of the -- I mean I interpret this rule as a computer  
6 implementation, in other words, the computer program has to  
7 function mechanically, so that when you put in different  
8 inputs, you come out with different outputs. Is it your  
9 interpretation that the rule requires that when you put in  
10 different inputs, that the output necessarily has to be  
11 valid?

12 CHAIRMAN GLEIMAN: Whether an output is valid or  
13 not is a judgment.

14 MR. KOETTING: I seem to hear that in your  
15 question, and I was, you know, I mean as I interpret the  
16 rule, what the rule says, you have to be able to change the  
17 numbers.

18 CHAIRMAN GLEIMAN: Well, there are two aspects of  
19 it. One, will it work mechanically? And, two, will the  
20 outputs be valid outputs, or at least not outside of the  
21 realm of reason? So let's get answers to both questions.

22 THE WITNESS: Okay. The mechanical question is  
23 easy. Yeah, mechanically, you can plug in any numbers you  
24 want into the economic data, and it will give you forecasts.  
25 In terms of the judgment, it is my judgment that if you are

1 going to plug in new forecast data based on a new DRI  
2 forecast, which is based on restated Commerce Department  
3 data, that it would also be necessary for you to also plus  
4 in new elasticities which are estimated using consistent  
5 data.

6 It is possible, given the spreadsheet I provided,  
7 to plug in new economic data and also to plug in new  
8 elasticities. It would further, in theory, I suppose be  
9 possible to reestimate those elasticities using the demand  
10 equations that I -- the computer programs to estimate the  
11 demand equation which I provided as part of, I believe it  
12 was Library Reference I-122. So, I suppose, yes, I think  
13 that I filed does satisfy this rule.

14 CHAIRMAN GLEIMAN: Part of the rule says that you  
15 should be able to compute forecast in volumes for any date  
16 of implementation with a range spanned by the assumed dates  
17 and the start of the future fiscal year.

18 Is your model a live model for the entire 10  
19 months of the proceeding and beyond that to the start of the  
20 projected implementation date, which would be in January of  
21 2001?

22 THE WITNESS: I am not a lawyer, but as I read  
23 (b), and this is the first I have ever seen it, if this  
24 refers to the date of implementation of the rates, the range  
25 spanned by the assumed date and the start of the future

1 fiscal year, there is no range. We assumed that rates were  
2 implemented the first day of the fiscal year, so I am not  
3 sure -- as I read it, and I am no lawyer, as I read it (b)  
4 is moot.

5 CHAIRMAN GLEIMAN: With respect to this case.

6 THE WITNESS: With respect to this case.

7 CHAIRMAN GLEIMAN: Okay.

8 THE WITNESS: Now to take it a step further, yes,  
9 one can change the implementation date within the program.  
10 I am not sure how easy it is to do, but it is in theory  
11 doable.

12 CHAIRMAN GLEIMAN: Your econometric models are  
13 supposed to have a useful life that is at least sufficient  
14 for the 10 month span of the Postal rate case.

15 Do you believe that your models have a useful life  
16 that spans the entire range

17 THE WITNESS: Yes.

18 CHAIRMAN GLEIMAN: But yet you feel that as you  
19 indicated in your supplemental testimony that the models  
20 would not have a decent output if we were to use the more  
21 recent forecast data?

22 THE WITNESS: The output may not be reasonable if  
23 you were to inconsistently use the more recent forecast  
24 data.

25 CHAIRMAN GLEIMAN: Okay. Are you aware that in



1 the R90 case the Commission did indeed change the forecast,  
2 use a changed forecast?

3 THE WITNESS: I am aware of that.

4 CHAIRMAN GLEIMAN: Did I understand you to say  
5 that you made a 2001 forecast using 2000 DRI data?

6 THE WITNESS: Yes, I did.

7 CHAIRMAN GLEIMAN: Could you provide that to us?

8 THE WITNESS: If nobody objects, sure.

9 MR. KOETTING: That can be provided, Mr. Chairman.

10 CHAIRMAN GLEIMAN: I think I am about to -- I know  
11 I am well beyond my range of expertise and understanding. I  
12 don't know at this point whether there are any follow-up  
13 questions or not.

14 Would you like some time with your witness?

15 MR. KOETTING: Mr. Chairman, I think we would like  
16 some time with the witness.

17 [Laughter.]

18 CHAIRMAN GLEIMAN: Gee, I must not have gone far  
19 enough beyond my range then.

20 [Laughter.]

21 CHAIRMAN GLEIMAN: Ten minutes?

22 MR. KOETTING: Yes -- if we could reconvene, say  
23 at ten to the hour, would that be all right?

24 CHAIRMAN GLEIMAN: Certainly, not a problem.

25 MR. KOETTING: Thank you.

1 [Recess.]

2 CHAIRMAN GLEIMAN: Mr. Koetting, before you start  
3 your redirect, as we were closing out before we took the  
4 break I asked if the witness would provide us with the  
5 forecast, the 2001 forecast, and he said barring some  
6 objection from a higher authority, like the people who  
7 employ him, that he would have no problems with it.

8 When I said "the forecast" I meant not only the  
9 output but the model, the equations.

10 MR. KOETTING: Yes, okay.

11 CHAIRMAN GLEIMAN: And just one other point I want  
12 to mention, so that I don't miss it later on. Earlier today  
13 we talked about the budgets, the operating plans for '99,  
14 2000, 2001.

15 There was mention of the Postal Service's response  
16 to OCA/USPS-T9-27, provided by Witness Tayman, and that  
17 interrogatory asked for the operating plan, and the response  
18 that was provided was seven lines of aggregated data. It  
19 was provided by accounting period, but it was just seven  
20 lines of aggregated data.

21 Operating revenue, appropriations, investment  
22 income, total revenue, total expenses, net income, total  
23 mail volume -- did I do seven? I left a couple out but when  
24 I think of the operating plan I think of it in the context  
25 of the reports I used to hear many years ago when I used to

1 go to Governors' meetings and I know that those reports are  
2 still given by the Finance Department.

3 The quarterly reports where the Governors are  
4 given much more information, detailed, for example of the  
5 volumes and costs by mail class, and it is this type of  
6 detail, this type -- this is the type of document that I was  
7 thinking of when I was thinking of an operating plan.

8 I was thinking of what it is that the Governors  
9 approve, not some aggregated subset of what the Governors  
10 approve, and it is that which I am interested in on behalf  
11 of the Commission, so when you do go back and query  
12 officials over there who make these kinds of decision, you  
13 will understand that that was the context of my request and  
14 I thank you for putting up with me for a few minutes before  
15 you start your redirect. You have got them mike.

16 MR. KOETTING: Mr. Chairman, we have no redirect.

17 CHAIRMAN GLEIMAN: In that case I am not so sorry.

18 That being the case, Mr. Thress, that completes  
19 your testimony here today. We do truly appreciate your  
20 appearance and your contributions to the record.

21 Every once in awhile I get exposed to something  
22 that people think I should know about but don't, and I learn  
23 a little bit, and that's been the case today. You have been  
24 very helpful. I thank you and you are excused.

25 [Witness excused.]

1 CHAIRMAN GLEIMAN: That concludes today's hearing.  
2 We will reconvene tomorrow, August the 4th, at 9:30 and we  
3 will receive testimony at that time from Office of the  
4 Consumer Advocate Witness Callow, and unless somebody has  
5 some comment or request -- Mr. Richardson?

6 MR. RICHARDSON: Mr. Chairman, just a short  
7 request for clarification or maybe a reminder to the Postal  
8 Service that our understanding is that is an opportunity for  
9 follow-up interrogatories to the outstanding interrogatories  
10 and those that have been answered very recently where we  
11 haven't had a chance to respond.

12 Rule 26 does provide for follow-up interrogatories  
13 where the initial discovery period has ended.

14 CHAIRMAN GLEIMAN: That is my understanding of  
15 where we are in the process too, you know, and of course  
16 this has been difficult for everyone as we have tried to put  
17 together the best and most recent information on which to  
18 make our recommendations, and I would just urge everyone who  
19 is continuing to discover on these witnesses where written  
20 discovery is still available to proceed in a reasonable  
21 manner, and I think it will help the Postal Service and in  
22 the final analysis thoughtful questions will help all of us  
23 when we see the responses, so I am glad you brought the  
24 point up and we were able to clarify it.

25 I want to thank you all. You have a good evening.

1                   [Whereupon, at 2:55 p.m, the hearing was recessed,  
2 to reconvene at 9:30 a.m., Friday, August 4, 2000.]

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