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Docket No. R2000-1

REBUTTAL TESTIMONY
OF
PAMELA A. THOMPSON

ON BEHALF OF
THE OFFICE OF THE CONSUMER ADVOCATE

AUGUST 14, 2000

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

Postal Rate and Fee Changes, 2000)

Docket No. R2000-1

REBUTTAL TESTIMONY
OF
PAMELA A. THOMPSON

1 I. STATEMENT OF QUALIFICATIONS

2 My name is Pamela A. Thompson. I am a senior Postal Rate and Classification
3 Specialist. I have been employed by the Postal Rate Commission since March 1990. A
4 more complete statement of qualifications is provided in my testimony, OCA-T-9,
5 submitted earlier in this proceeding.¹

¹ See Tr. 23/10405-06.

1 II. PURPOSE AND SCOPE OF TESTIMONY

2 The purpose of my testimony is two-fold. First, I provide a summary of certain
3 USPS cost data resulting from the updated information filed by the Postal Service in
4 response to Commission Order No. 1294. I accomplish this task by providing five
5 tables. Table I summarizes USPS FY 00 costs for the six cost effects presented by
6 USPS witness Kashani (USPS-T-14) and subsequently updated by USPS witness
7 Patelunas (USPS-ST-44), in response to Order No. 1294. Table II summarizes the
8 costs for the seven cost effects used in developing test year, FY 01, after rate costs as
9 presented by USPS witnesses Kashani and Patelunas. Tables III and IV show the
10 different test year after rates work-year mix adjustments made by USPS witnesses
11 Kashani and Patelunas. Table V summarizes the sources of information used by the
12 USPS in preparing updated cost factors for the development of the revenue
13 requirement forecast responsive to Order No. 1294.

14 Second, my testimony responds to the statement, at page 4 of Order No. 1294,
15 that "participants that offer specific test year revenue requirement forecasts also will
16 need to determine how to adjust those forecasts to incorporate actual FY 1999 CRA
17 cost data." The cost update data for the base year 1999 presented by USPS witness
18 Patelunas in his supplemental testimony was filed on July 7. Unfortunately, the FY 99
19 "base year" update did not roll forward FY 99 costs using the more "traditional" method
20 of beginning with the manual input requirement report. The Postal Service submitted its
21 supporting library references as soon as possible; and witness Patelunas's supporting
22 electronic files began to be filed on July 12 (USPS-LR-I-406). However, the files I

1 needed to complete an update of the OCA model presented in my direct testimony
2 were not filed until late July. Thus, I was not able to provide a complete update of the
3 OCA's proposals reflecting the changes proposed by OCA witnesses Smith and Ewen.
4 Instead, I primarily focus on three changes the Postal Service proposed when it
5 updated the test year forecast—use of ECI versus ECI-1, the work-year mix adjustment,
6 and the addition of a \$200 million "Field Reserve." The three changes should be
7 reviewed carefully by the Commission before being included in the final test year after
8 rates cost forecast.

1 III. A REVIEW OF THE POSTAL SERVICE'S UPDATES FOR FY 99, FY 00 AND
2 FY 01 AFTER RATE COSTS

3 In the USPS initial filing, USPS witness Kashani presented actual cost data for
4 FY 98 as well as forecasted data for FY 99, FY 00 and FY 01 test year before and after
5 rates.² In supplemental testimony, USPS witness Patelunas presented FY 99 actual
6 costs and updated cost projections for FY 00 and FY 01, before and after rates.³

7 In Tables I and II, the column identified as "Original" provides forecasted costs as
8 presented in USPS witness Kashani's testimony and workpapers. The column
9 identified as "Revised" relies upon the costs presented in USPS witness Patelunas's
10 supplemental testimony and USPS-LR-I-410.

11 FY 99 total costs form the basis of the FY 00 cost forecast.⁴ Table I incorporates
12 FY 99 actual (Patelunas) and forecasted (Kashani) total costs as well as the FY 00
13 forecasts for the six USPS cost effects.⁵ The result is the FY 00 total roll-forward
14 forecast.

² Cost detail by segment and component was provided in USPS witness Kashani's workpapers.

³ Cost detail by segment and component was provided in USPS-LR-I-410.

⁴ In Tables I and II, the FY 99 actual and forecasted roll-forward costs do not include the work-year mix adjustment, nor do they contain final adjustments.

⁵ Each of the six cost effects is explained in USPS witness Kashani's testimony. The six cost effects are: (1) cost level effect; (2) mail volume effect; (3) nonvolume workload; (4) additional workday; (5) cost reductions; and (6) other programs.

1 Table I shows that actual FY 99 total costs were \$147,319,000 lower than the
2 comparable costs originally forecasted in USPS witness Kashani's testimony—a
3 decrease of approximately 0.2 percent.⁶

4 Cost level changes refer to price level inputs, or changes in costs to the Postal
5 Service.⁷ The updated FY 00 total cost level increase shown in Table I was
6 \$70,622,000 higher than forecasted in USPS witness Kashani's testimony. FY 00 cost
7 reductions declined \$75,895,000 primarily due to a \$75,700,000 prior year international
8 adjustment.⁸ The single largest increase in forecasted costs for FY 00 occurred in other
9 programs.

10 Other program costs increased 88 percent to \$696,586,000. The two major
11 categories of other program cost increases are (1) non-personnel other program costs
12 (\$266,871,000) and (2) service-wide other program costs (\$86,255,000).⁹ The three
13 largest non-personnel other program cost increases are summarized in USPS witness
14 Patelunas's supplemental testimony as other headquarters programs (\$114,602,000),
15 expedited mail (\$94,428,000), and depreciation and amortization (\$30,814,000).¹⁰ The
16 two largest service-wide other program increases are (1) current workers' compensation
17 (\$77,914,000) and (2) prior workers' compensation (\$64,191,000). The largest

⁶ $(\$147,319,000) \div \$62,539,161,000 = (0.0024)$ or approximately (0.2) percent.

⁷ Docket No. R2000-1, USPS-T-14, see footnote at 4.

⁸ USPS-ST-44, Exhibit USPS-ST-44Z.

⁹ USPS-ST-44, Exhibit USPS-ST-44AA.

¹⁰ *Ibid.*

decrease in service-wide other program costs is the re-pricing of annual leave (\$35,782,000).¹¹

Netting the cost update increases and decreases, total FY 00 costs rolled forward to FY 01 are \$306,215,000 higher (approximately 0.5 percent) than originally forecasted.

| Table I | | | | |
|---|-------------------|-------------------|----------------|----------------------|
| FY 2000 Forecasted Roll-Forward Costs (\$000) | | | | |
| Cost Category | Revised A * | Original B + | Delta A - B | % Chg (A - B) / B |
| FY 99 TTL | 62,391,842 | 62,539,161 | (147,319) | -0.2% |
| Cost Level | 1,969,604 | 1,898,982 | 70,622 | 4% |
| Mail Volume | 820,907 | 839,260 | (18,353) | -2% |
| NonVolume Workld | 183,171 | 183,934 | (763) | 0% |
| Additional Workday | 44,848 | 44,308 | 540 | 1% |
| Cost Reductions | (904,682) | (980,577) | 75,895 | -8% |
| Other Programs | 696,586 | 370,993 | 325,593 | 88% |
| FY 00 Roll Fwd Costs | <u>65,202,276</u> | <u>64,896,061</u> | <u>306,215</u> | <u>0.5%</u> |
| Sources: | | | | |
| * USPS-LR-I-410, Volume B | | | | |
| + USPS-T-14, Workpaper E | | | | |

Table II provides a comparison of the updated FY 01 test year after rates costs with those presented initially in USPS witness Kashani's testimony. The six FY 01 cost effects are added to the updated FY 00 total roll-forward costs. The following discussion highlights three major areas of change. Updating the factors used in forecasting the FY 01 cost level effect resulted in an increase of 24 percent to

¹¹ *Ibid.*

1 \$2,732,917,000. Cost reduction programs increased 71 percent to (\$1,118,230,000).¹²
2 Personnel cost reductions of (\$426,729,000)¹³ were responsible for the majority of the
3 change. Forecasted other program costs declined 8 percent to \$918,233,000. A
4 decline in non-personnel other programs of \$154,741,000 was partially offset by the
5 other program service-wide cost increases totaling \$70,717,000.¹⁴ The three major
6 non-personnel other program cost changes are: (1) an E-commerce cost increase of
7 \$145,670,000; (2) a supply chain management cost decrease of \$113,000,000; and (3)
8 an advertising cost decrease of \$110,200,000.¹⁵ The three major service-wide other
9 program costs are: (1) an increase of \$49,321,000 in the CSRS annuitant COLA; (2) an
10 increase of \$31,836,000 in contingent liabilities; and (3) a decrease of \$41,079,000 in
11 current workers' compensation.¹⁶

12 In the test year, the employee work-year mix adjustment increased from a
13 negative \$2,658,000 to a positive \$213,750,000—an increase of \$216,408,000 from the
14 original work-year mix adjustment.¹⁷ I believe the change in the amount of the work-
15 year mix adjustment is significant and warrants a more thorough review than I had time

¹² *Ibid.* Note that the "R00-1 Original USPS Filing" for FY 01 other programs was \$1,001,426,000 not the \$1,125,426,000 shown on exhibit USPS-ST-44AA. Subsequently, the "R00-1 FY 1999 Base Update Filing" for FY 01 other programs should be \$918,233,000 not \$1,042,232,000. This assumes that the information provided in USPS-LR-I-410 is correct.

¹³ USPS-ST-44, Exhibit USPS-ST-44Z.

¹⁴ USPS-ST-44, Exhibit USPS-ST-44AA.

¹⁵ *Ibid.*

¹⁶ *Ibid.*

1 to perform. The summarization of the work-year mix adjustment is shown in Tables III
2 and IV. Table III provides the amount of the FY 01 after rate work-year mix adjustment
3 data used by USPS witness Kashani. Table IV provides the amount of the FY 01 after
4 rate work-year mix adjustment used in the update by USPS witness Patelunas.
5 Comparing Table III and IV shows that FY 01 costs for Clerks A-J increased from
6 (\$6,371,000) to \$162,975,000—an increase of \$169,346,000; City Carrier costs
7 increased from \$6,451,000 to \$18,100,000—an increase of \$11,649,000; and Mail
8 Handler costs increased from (\$2,738,000) to \$32,675,000—an increase of
9 \$29,937,000.

10 Updated FY 01 costs prior to the final adjustment are \$67,962,177,000 and
11 represent a forecast increase of \$495,019,000. Incorporating the updated final
12 adjustments of (\$320,076,000) results in revised FY 01 total accrued costs of
13 \$67,642,101,000. After including the 2.5 percent USPS requested contingency
14 provision, total accrued costs plus contingency for FY 01 are \$69,333,151,000—a
15 forecasted cost increase of approximately one-percent.

¹⁷ For each year, the employee work year mix adjustment is based upon the relationship a given year has to the base year. Consequently, the employee work-year mix adjustment is not part of the costs rolled forward. See also USPS-T-14 at 6.

Table II**FY 2001 Forecasted Costs (\$000)**

| Cost Category | Revised A * | Original B + | Delta A - B | % Chg (A - B) / B |
|----------------------|------------------------|-------------------------|------------------------|------------------------------|
| FY 00 TTL | 65,202,276 | 64,896,061 | 306,215 | 0.5% |
| Cost Level | 2,732,917 | 2,206,847 | 526,070 | 24% |
| Mail Volume | (36,000) | (30,195) | (5,805) | 19% |
| NonVolume Workld | 158,013 | 156,535 | 1,478 | 1% |
| Additional Workday | (108,782) | (106,911) | (1,871) | 2% |
| Cost Reductions | (1,118,230) | (653,947) | (464,283) | 71% |
| Other Programs | 918,233 | 1,001,426 | (83,193) | -8% |
| WorkYr Mix Adj | 213,750 | (2,658) | 216,408 | N/A |
| FY 01 Subtotal | 67,962,177 | 67,467,158 | 495,019 | 1% |
| Final Adjustments | (320,076) | (276,524) | (43,552) | 16% |
| Ttl Accrued | 67,642,101 | 67,190,634 | 451,467 | 1% |
| Contingency | 1,691,050 | 1,679,761 | 11,289 | 1% |
| Ttl Accrued +Cont | 69,333,151 | 68,870,395 | 462,756 | 1% |

Sources:

* USPS-LR-I-410, Volumes F and G, and USPS-ST-44, Exhibit W

+ USPS-T-14, Workpaper I and J

Table III**Roll-forward Model Work-year Mix Adjustment Summary (Kashani)**
(\$000)

| FY 2001 After Rates | Clerks A-J | City Carriers | Mail- Handlers | Total |
|----------------------------|-------------------|--------------------------|---------------------------|--------------|
| Chg. in Career @ Avg. | (30,178) | 208,964 | 12,642 | 191,427 |
| Extended Step vs. Avg. | - | - | - | - |
| Casual | (590) | 1,755 | 605 | 1,770 |
| Transitional | 12,297 | (63,651) | - | (51,354) |
| Subtotal Straight Time | (18,472) | 147,068 | 13,247 | 141,843 |
| Overtime | 12,101 | (140,617) | (15,985) | (144,501) |
| Ttl Chg from 98 Mix | (6,371) | 6,451 | (2,738) | (2,658) |

Source: USPS-LR-I-127, file name WKYRMX00.XLS, worksheet SUMMARY.

| Table IV Roll-forward Model Work-year Mix Adjustment Summary (Patelunas) (\$000) | | | | |
|--|-------------------|----------------------|----------------------|--------------|
| FY 2001 After Rates | Clerks A-J | City Carriers | Mail-Handlers | Total |
| Chg. in Career @ Avg. | 83,755 | 14,838 | 30,046 | 128,639 |
| Extended Step vs. Avg. | - | - | - | - |
| Casual | (128,106) | 114 | (24,048) | (152,040) |
| Transitional | 27,428 | (27,857) | - | (429) |
| Subtotal Straight Time | (16,923) | (12,905) | 5,998 | (23,830) |
| Overtime | 179,899 | 31,005 | 26,677 | 237,581 |
| Ttl Chg from 99 Mix | 162,975 | 18,100 | 32,675 | 213,750 |
| Source: USPS-LR-I-421, file name WKYRMXOR.XLS, worksheet SUMMARY. | | | | |

1 The original roll-forward expense factor detail was initially filed by the USPS in
 2 USPS-LR-I-127. In responding to Commission Order No. 1294, the USPS provided an
 3 update to USPS-LR-I-127 with USPS-LR-I-421. To the extent possible, Table V
 4 summarizes the dates of the information utilized by the USPS when it updated the roll-
 5 forward cost factors.¹⁸ For example, many of the cost level factors are impacted by
 6 DRI/McGraw-Hill forecasts. USPS witness Patelunas indicated that the DRI non-
 7 personnel cost level factors were updated with the most current data.¹⁹ The two USPS
 8 DRI/McGraw-Hill files used in preparing the update of non-personnel cost level factors
 9 are USSIM/Trend25Yr 0200 and CISSIM/Control 500. The February 2000
 10 USSIM/Trend25Yr 0200 file is a quarterly forecast; however, the Postal Service
 11 updated the data to include March and April information. The CISSIM/Control 500 file
 12 was updated as of May 2000.²⁰ Section I of Table V provides information on what

¹⁸ USPS-LR-I-127, Appendix I and II. See also, Tr. 36/16817-29.

¹⁹ Tr. 36/16794.

²⁰ *Id.* at 16822-24.

1 DRI/McGraw Hill indexes are included in each file. Mail volumes did not change. The
2 non-volume workload effect was updated to reflect FY 99 actual data. There was no
3 change in the additional workday assumptions. Cost reductions were updated to the
4 extent that assumptions could be reviewed.²¹ Other programs were updated to reflect
5 FY 00 actuals.²² The dates the forecasts were updated are shown in Table V.

²¹ *Id.* at 16827.

²² *Id.* at 16828.

Table V
Section I - DRI/McGraw Hill Indices
REVENUE REQUIREMENT FORECAST FACTORS

| DESCRIPTION OF FACTORS | FACTOR SOURCE | DATE OF FACTOR USED | REFERENCE |
|--|-------------------------------|---------------------|---------------|
| I. Cost Level Change Factors | | | |
| (a) Non-personnel cost level indexes | - | June 2, 2000 | USPS-LR-I-421 |
| (1) @USSIM/Trend25YR 0200 + March & April | DRI/McGraw-Hill Indexes | February 2000 | USPS-LR-I-421 |
| Contract Cleaners (Seg 11) | Rents | | |
| Rental of Motor Vehicles (Seg 12) | Transportation Services | | |
| Contract Station Service (Seg 13) | Rents | | |
| Rental Allowance - Postmasters (Seg 13) | Rents | | |
| Tolls & Ferriage (Seg 13) | Public Transportation | | |
| Freight - Supplies & Materials (Seg 13) | Transportation Services | | |
| Carfare (Seg 13) | Public Transportation | | |
| City Carrier Drive Out (Seg 13) | Carr Drive-out (Lbr Contract) | | |
| Domestic - Alaska Air (Seg 14) | Air Transportation | | |
| Domestic Air (Seg 14) | Air Transportation | | |
| Domestic Highway (Seg 14) | Highway Transportation | | |
| Domestic Rail (Seg 14) | Rail Transportation | | |
| Domestic Water (Seg 14) | Transportation Services | | |
| International (Seg 14) | Transport Ser & Air Transport | | |
| Rent (Seg 15) | Rents | | |
| Heating Fuel (Seg 15) | Fuel/Oil/Coal | | |
| Utilities (Seg 15) | Electricity | | |
| Communications (Seg 15) | WPI for Industrial Commod | | |
| Building Projects Expensed (Seg 15) | WPI for Industrial Commod | | |
| Moving Expense (Seg 15) | Transportation Services | | |
| Reimbursements (Seg 15) | WPI for Industrial Commod | | |
| Printing & Reproduction (Seg 16) | Printing Services | | |
| Stamps & Accountable Paper (Seg 16) | Printing Services | | |
| Money Orders (Seg 16) | Printing Services | | |
| (2) @CISSIM/Control 0500 | DRI/McGraw-Hill Index | May 2000 | USPS-LR-I-421 |
| Vehicle Supplies & Materials (Seg 12) | Supplies & Materials | | |
| Individual Awards (Seg 13) | CPI Projection | | |
| Banking Fees (Seg 13) | CPI Projection | | |
| Custodial Supplies & Services (Seg 16) | Supplies & Materials | | |
| Misc. Supplies & Services (Seg 18) | Supplies & Materials | | |
| Operating Equipment & Supplies (Seg 16) | Supplies & Materials | | |
| Reimbursements (Seg 16) | Supplies & Materials | | |
| Individual Awards (Seg 18) | CPI Projection | | |
| Supplies and Services (Seg 18) | Supplies & Materials | | |
| Inspection Services Expenses (Seg 18) | CPI Projection | | |
| Reimbursements (Seg 18) | CPI Projection | | |
| Commissions on Money Orders (Seg 18) | CPI Projection | | |
| Contract Training Support (Seg 19) | CPI Projection | | |
| Domestic & Int'l Indemnities (Seg 20) | CPI Projection | | |
| Claims & Loses (Seg 20) | CPI Projection | | |
| (b) Personnel Costs | Labor Contracts | June 2000 | USPS-LR-I-421 |
| II. Mail Volume Forecast Changes | DRI | June 1999 | USPS-ST-46 |
| (Existing FY 00 and FY 01 forecasts remain the best estimate to date. FY 99 actuals used in the original Docket No. R2000-1 filing.) | | | |

Table V
Section II - Other Sources
REVENUE REQUIREMENT FORECAST FACTORS

| DESCRIPTION OF FACTORS | FACTOR SOURCE | DATE OF FACTOR USED | REFERENCE |
|--|--|--|--|
| III. Non-Volume Workload | | | |
| FY 99 | Roll-Forward Model Inputs | FY 1999 | USPS-LR-I-421 |
| FY 00 and FY 01 | NPHSR A/P 13 YTD & HQ functional managers | FY 1999 Changes relate to BY | USPS-LR-I-421 USPS-LR-I-421 & USPS-ST-44 |
| IV. Additional Workday (Additional workday effect factors used in Request were used in the update Any changes relate to update of base year costs.) | | No Change | 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 update | USPS-LR-I-421 |
| Field Non-personnel Programs | Headquarters Program Mgrs. | June 2000 | USPS-LR-I-421 |
| VII. Workyear Mix Adjustment | | | |
| | FY 99 Actuals | Update for FY 99 Act | USPS-LR-I-421 & |
| | Update forecast FY 00 & FY 01 (using actual FY 00 data & FY 00 operating plan) | July 10, 2000 | USPS-ST-44 at 7 |
| 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 & Program Manager estimates | PFY 00 Act thru A/P 6 No date given | USPS-LR-I-421 |

1 IV. TWO POSTAL SERVICE TEST YEAR AFTER RATE PROPOSED CHANGES
2 BEAR FURTHER EXAMINATION

3 The Postal Service made other changes to its test year estimates that are worthy
4 of note and careful examination. USPS witness Patelunas indicated that a Field
5 Reserve of \$200 million was inadvertently omitted from his test year after rate cost
6 update.²³ Consequently, the Postal Service now forecasts a test year after rate loss of
7 \$475.3 million.²⁴ The addition of the "Field Reserve" would have the effect of making
8 the forecasted cost reductions less than they otherwise would be. The Postal Service
9 indicated that the Field Reserve was a

10 budget technique or strategy to leverage further cost reductions during FY
11 2001. The Field is challenged to achieve greater cost reductions than
12 called for by the National budget goal. There is a high degree of risk that
13 the field may not be able to accomplish their aggressive cost reduction
14 targets. In those situations, budget relief can be granted, if warranted,
15 without jeopardizing the national goal. The intent is to push the field to
16 accomplish as much as possible, while still recognizing the magnitude of
17 the challenge.²⁵
18

²³ Revised Response of United States Postal Service witness Patelunas to OCA/USPS-ST44-11(a).

²⁴ Revised Response of United States Postal Service to Presiding Officer's Information Request No. 14, Item 2(b) and (e) – ERRATA.

²⁵ Response of the United States Postal Service to OCA/USPS-ST44-11(e). The Postal Service made this statement in the context of denying that the "Field Reserve" was the same as a contingency provision. However, the use of the phrases "high degree of risk" and "if warranted" suggests that (at least in a nonlegal sense) the "Field Reserve" serves the same function as a contingency provision. That is, the "Field Reserve" is a fund that will be tapped *only if* field management fails to achieve certain goals, *i.e., is contingent on*, the occurrence of an adverse financial event. If a "Field Reserve" of \$200 million is to be included in the FY 2001 revenue requirement, then the provision for contingencies should be reduced by an equal amount.

1 The Postal Service may be overly pessimistic in its ability to achieve the full \$744
2 million Breakthrough Productivity. As quoted above, the field is being challenged to
3 achieve the full cost reduction.

4 The Postal Service also incorporated a change in a key wage rate assumption
5 for FY 01. The change relates to the use of ECI versus the previous use of ECI-1.
6 Using electronic files provided by the Postal Service in USPS-LR-I-421, one may
7 estimate the impact of changing the USPS employment wage assumption from 4.63
8 percent (ECI) to 3.63 percent (ECI-1). Comparing the data in OCA's updated
9 ACC_OR.xls file with that filed by the Postal Service in USPS-LR-I-421 indicates that
10 the cost difference is roughly \$230 million. In other words, the change to ECI increases
11 test year after rate costs by \$230 million above the level that would result from using
12 the historical ECI-1 calculation. However, in continuing to update the USPS-LR-I-421
13 data files, the file PRFF_OR.xls, which is where the cost model roll-forward cost factors
14 are calculated, indicates that the impact of using ECI-1 versus ECI increases the cost
15 difference to approximately \$245 million.²⁶ A copy of the files I used to prepare my
16 estimation of the impact of changing from ECI to ECI-1 are provided in OCA-LR-I-5.

²⁶ Originally, USPS-LR-I-421, file name PRFF_OR.xls, cell I32 was \$48,423,495,000. To change the USPS assumption of ECI to ECI-1, I updated USPS-LR-I-421, file name UNCST_EXT.xls, worksheet COLA-ECI, cell D53. I changed the USPS employment cost assumption from 4.63% to 3.63%. The change flows through to USPS-LR-I-421, file name UNCST_OR.xls. Then, I manually updated the information in USPS-LR-I-421, file name INPUT_OR.xls, worksheet PERS UNIT COST. The costs I manually updated were general pay increases as well as step increases in column F of INPUT_OR.xls, thereby reflecting the wage changes. After I updated Input_OR.xls for the ECI-1 change, I opened the USPS-LR-I-421, file name PRFF_OR.xls, worksheet COST FACTOR CALC, and found that the changes had updated cell I32 to \$48,178,490,000. The difference in the USPS-LR-I-421 value filed and my calculation was approximately \$245 million. In OCA-LR-I-5, are copies of the files I updated. Since I did not include copies of all the electronic files in USPS-LR-I-421, ignore any requests to update links. I did not have time to examine other electronic files in USPS-LR-I-421 to determine what if any additional impacts the change to ECI-1 might have on the FY 01 after rate costs.