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AAP-ST-4

**Before The**
**POSTAL RATE COMMISSION**
**WASHINGTON, D.C. 20268-0001**

**POSTAL RATE AND FEE CHANGES, 2000** | **DOCKET NO. R2000-1**

**Supplemental Testimony of**
**Stephen E. Siwek**

**On Behalf of the**

**ASSOCIATION OF AMERICAN PUBLISHERS**

**DATED: August 14, 2000**

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## I. SUMMARY

My name is Stephen E. Siwek. On May 22, 2000, I filed Direct Testimony in this proceeding on behalf of the Association of American Publishers ("AAP"). In that testimony ("AAP-T-2"), I addressed the Postal Service's proposed rate increase for Bound Printed Matter ("BPM") and I recommended both an alternative rate level and rate structure for the BPM subclass.

On May 26, 2000, this Commission issued Order No. 1294 in which the Commission directed the United States Postal Service ("Postal Service" or "USPS") to prepare a "basic update" to the test year forecasts that had previously been filed in this case as part of the Postal Service's case-in-chief. On May 26, the Presiding Officer also issued Ruling No. R2000-1/71 that set out a revised procedural schedule to accommodate the receipt of the new test year information that the Postal Service would produce in response to Order No. 1294. That revised procedural schedule also permitted the parties to file changes in their cases in chief in order to incorporate the revisions in the test year information filed by the USPS. This Supplemental Testimony updates AAP's case in chief in response to the test year information that has now been filed by the Postal Service.

In this Supplemental Testimony, I conclude that despite its efforts to secure the most current data available, the Postal Rate Commission does not now have before it reliable and well-tested cost updates in support of the Postal Service's proposed test year in this case. The Postal Service has failed to respond fully and adequately to interrogatories that were submitted by intervenors such as AAP because, among other things, USPS witness Patelunas did not have time.[1] In addition, the Postal Service's updated cost information incorporates wholly unsupported changes in assumptions and methodologies that cannot be fully tested at this stage of the proceeding. For all of these reasons, I recommend that the Commission afford little if any weight to the updated information filed by the Postal Service in response to Order No. 1294.

Assuming, however, that the Commission decides to consider the Postal Service's updated information, the Commission should also recognize that the updating of Postal Service costs reduces the risk of forecast error in the test year. This reduction of forecast risk in turn permits a corresponding downward adjustment in the Postal Service's proposed provision for contingencies. The Postal Service originally proposed a test year provision for contingencies equal to two and one-half percent (2.5%) of the Postal Service's total segment expense including final adjustments.[2] In its update in response to Order No. 1295, the Postal Service retained the use of the 2.5% provision for contingencies.[3] The Postal Service's decision to retain the same provision for contingencies even as it was updating its test year information was in error. As shown in this testimony, I recommend that the provision for contingencies of 2.5% that is embodied in the Postal Service's update be reduced.

Finally, assuming again that the Commission decides to consider the Postal Service's test year revisions, the Commission should also recognize that the Postal Service's estimate of the own price elasticity of the Bound Printed Matter subclass has itself been revised downward. The

[1] USPS Response to AAP/USPS-ST-44-9 (b), Tr. 35/16626-29.

[2] USPS Witness Tayman, USPS-T-9 at 43.

[3] USPS Witness Patelunas, USPS-ST-45 at 7.

Postal Service's new coefficient of the own price elasticity for BPM (-0.280) is 28.6% percent lower than the own price elasticity for BPM that was contained in the USPS's original filing in this proceeding (-0.392). This change in the price elasticity of BPM clearly supports a lower cost coverage for the BPM subclass. For these reasons, even assuming the Commission were to consider the Postal Service's ill-founded updates, the Commission should still adopt the BPM rate structure and rate levels that were recommended in my Direct Testimony for AAP in this case.

## II. The Postal Service's Cost and Revenue Updates

USPS Responses to AAP

The Postal Service's response to Order No. 1294 included a variety of exhibits that were sponsored by USPS witness Patelunas. These exhibits set out the results of the Postal Service's cost updates for individual subclasses and for individual cost segments. Generally, however, these exhibits did not explain why the costs reported for a particular subclass such as Bound Printed Matter had increased as claimed by the Postal Service.

In order to develop a better understanding of why the costs of Bound Printed Matter in the test year had increased as claimed by the Postal Service, AAP submitted a number of interrogatories to the Postal Service that focused on specific cost segments.[4] These questions generally requested the Postal Service to confirm a change in costs that had occurred since the Postal Service's original filing and to "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

[4] See AAP/USPS-ST44-9-26.

increase."[5] In response to these questions, Mr. Patelunas' response was that he had "not made this comparison <u>because I have not had time</u> and it is not necessary for my testimony."[6] (emphasis added). While Mr. Patelunas did go on to describe the resources that "could be used" to perform the requested comparison, he could not find the time to explain large and seemingly paradoxical changes in the test year costs set forth in this update.

For example, the Postal Service claims that TY2001 Operating Equipment Maintenance costs (11.2) from C/S-11 for Bound Printed Matter have <u>increased</u> by 22.5% since the Postal Service original filing.[7] By contrast, according to the Postal Service, the TY2001 Operating Equipment Maintenance costs (11.2) from C/S-11 for Standard Mail (A) have <u>decreased</u> by 5.2% since the USPS original filing.[8] At this writing, there is no explanation for this anomaly and for other anomalies that were highlighted in AAP interrogatories. Mr. Patelunas cited his lack of time in his responses to the following interrogatories from AAP: AAP/USPS-ST-44-9-22, 23, 24, 25, 26. Since the Postal Service chose not to respond in a timely fashion to these questions, the cost updates that were the subject of these questions cannot be thoroughly and adequately tested by the parties, including AAP. For this reason alone, these cost updates should not be considered in the Commission's ultimate deliberations in this case.

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[5] See AAP/USPS-ST-44-9.

[6] USPS Response to AAP/USPS-ST-44-9(b), Tr. 35/16626-29.

[7] USPS Response to AAP/USPS-ST-44-17, Tr. 35/16695.

[8] USPS Response to AAP/USPS-ST-44-23, Tr. 35/16701.

Changes in Test Year Wage Levels

In its test year updates that were filed by the Postal Service in response to Order No. 1294, the Postal Service also increased the key inflation indexes that it uses to project costs into the test year. These key inflation indexes included the Employment Cost Index (ECI). As shown in Exhibit USPS-ST-44AB, the Postal Service now uses an ECI value of 4.63% for FY 2001. This value is 0.76 percentage points higher than the ECI value of 3.87% that was used in the USPS' original filing in this case.

The Postal Service appears to have changed more than the value of the ECI in deriving its updated test year costs. As noted in Interrogatory OCA/USPS-ST-44-31, the Postal Service's original witness on this issue, Mr. Tayman (USPS-T-9 at 19), had applied the following 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. [9] (emphasis added). In contrast to Mr. Tayman's use of ECI minus 1, the Postal Service's updated filing effectively uses ECI minus 0.

USPS witness Patelunas conceded this change. In response to OCA/USPS-ST-44-31, Mr. Patelunas testified that "the test year labor contract assumption has been refined."[10] Other than describing the mathematical application of this change, however,[11] the Postal Service offered no

[9] See OCA/USPS-ST-44-31.

[10] USPS Response to OCA/USPS-ST-44-31, Tr. 35/16673-74.

[11] Tr. 35/16786.

explanation whatsoever as to why it had now become necessary to abandon the ECI-minus 1 standard so late in this proceeding.

In questioning Mr. Patelunas on this issue, the Presiding Officer cited Postal Rate cases and Postal arbitrations dating back to 1984 in which ECI minus 1 served as a limit on Postal Service wage increases.[12] The Presiding Officer and Commissioner LeBlanc also attempted to elicit an explanation from Mr. Patelunas as to why this change had now been proposed. Mr. Patelunas' response was that he had been instructed to do it.[13]

The Postal Service's cost updates thus appear to embody a major change in the standards used in the past to project Postal wage levels in postal rates. This change is without factual support in the current record and should not be accepted by the Commission without extensive testimony and evidentiary review.[14] For this reason too, the Postal Service's cost updates, which incorporate ECI minus 0, should not be considered by the Commission in this case.

<u>Increases in PESSA Costs</u>

When the Postal Service updated its test year costs in response to Order No. 1294, it also revised certain costs known as "PESSA" costs. The PESSA acronym stands for plant, equipment, servicewide and selected administrative costs.[15] In the Postal Service's cost models, PESSA costs are first reported as non-volume variable "other" costs and then shifted by the Postal

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[12] Tr. 35/16796-800.

[13] Tr. 35/16800.

[14] On August 9, 2000, Chairman Gleiman wrote to Postmaster General Henderson requesting confirmation that the Postal Service had abandoned its longstanding ECI-Minus One wage growth policy.

Service to the volume variable category. In FY 1999, for example, the Postal Service shifted $5,675.2 million from the "other" category reported in the Postal Service's "A" report to "volume variable" category reported in the "B" report.[16]

In attempting to explain fully why these costs were shifted to the volume variable category, witness Patelunas explained that "PESSA costs are assumed to be volume variable over a longer period of time than a particular year or years under construction."[17] (emphasis added). These costs however, seem largely indistinguishable from other institutional costs of the Postal Service. PESSA costs include, for example, Cleaning and Protection Personnel, Imputed Rents, Retiree Health Benefits, Imputed Building Depreciation and Retirement Interest. While these costs may vary with volume over the longest of long runs, so would many other "fixed" costs that the Postal Service traditionally treats as institutional costs. For this reason, it was critical for the Postal Service to provide any cost studies or other data that it relied on to conclude that PESSA costs were and are indeed volume variable. This support was simply not provided by the Postal Service in connection with the PESSA cost increases that appear in the USPS's test year cost updates.

In AAP/USPS-ST-44-32, AAP requested that the Postal Service "provide and explain fully any logical or empirical calculations or studies relied on by the Postal Service" to conclude that a number of specific PESSA costs should indeed be considered volume variable. In its

(..continued)
[15] USPS Response to AAP/USPS-ST-44-31(b).

[16] USPS Response to AAP/USPS-ST-44-30.

[17] USPS Response to AAP/USPS-ST-44-31(c).

response, the Postal Service provided no logical or empirical calculations or studies and simply referenced its originally filed Summary Description of USPS Development of Costs by Segments and Components. This response is simply inadequate at this stage of this proceeding. The USPS claims that its PESSA costs have increased in its test year updates and those claims cannot be assessed and evaluated by the parties including AAP. For this reason, as with other aspects of the Postal Service's filing, these cost updates, which include PESSA costs, should not be considered by the Commission in its deliberations in this case.

## III. Provision for Contingencies

As part of its case in chief in this proceeding, the Postal Service requested a provision for contingencies equal to two and one-half percent of the total USPS Test Year segment expense including final adjustments. As shown in Exhibit USPS-9A, the recommended provision for contingencies was equal to $1.701 billion in the test year (B/R) and $1.680 billion in the test year (A/R). USPS witness Tayman testified that "[t]his mid-range contingency balances the Postal Service's desire to keep rate increases as low as possible with management's assessment of the degree of financial risk that currently faces the Postal Service."[18] According to Mr. Tayman, the recommended provision for contingencies is "judged as reasonable against unforeseen events and forecasting errors, given the magnitude of the Postal Service's operations and expenses." [19]

Mr. Tayman's testimony makes clear that the Postal Service developed its recommended provision for contingencies based on management's assessment of the degree of financial risk

[18] USPS-T-9 at 43.

[19] USPS-T-9 at 43.

that it perceived at the time this rate case was filed. At that time, the Postal Service did not have available much of the information that is now contained in the test year updates presented by Mr. Patelunas. For example, in Exhibit USPS-ST-44AB, Mr. Patelunas compared the Postal Service's original "key inflation indices" for FY 2000 and FY 2001 (Test Year) with the new values that are reflected in the Postal Service's updates. As shown in the source references on this Exhibit, the Postal Service's original filing reflected inflation projections as of November 1999. By contrast, the Postal Service's revised filing incorporates inflation projections from more recent periods. The revised "trend" forecast shown in USPS-ST-44AB, which is updated quarterly, was released on February 29, 2000 while the revised "control" forecast was released on May 8, 2000.[20] Assuming that the Postal Service's rate case presentation was finalized in November 1999, the "control" forecast now used by Mr. Patelunas incorporates forecast information that may be as much as six months more recent than the information that was available when the USPS finalized this rate case.

While the inflation projections (and other data) now used by the Postal Service are more current than the projections that were contained in the Postal Service's case in chief, the Postal Service's forecast target has not changed at all. In its current filing, the Postal Service is still attempting to project its costs and revenues in the FY 2000 and 2001 Test Years. In other words, the Postal Service's forecast targets have not changed even as the Postal Service has moved closer to them.

[20] USPS Response to OCA/USPS-ST-44-9 (c), Tr. 35/16648.

It is reasonable to expect that as the Postal Service moves closer to its forecast targets, the accuracy of its cost projections should improve. In general, the further that one projects into the future, the more uncertainty there is. For example, economic conditions three years into the future are typically more difficult to predict than conditions two years out. In this instance, however, the Postal Service faces less forecast uncertainty rather than more. In its original filing, the Postal Service needed to predict costs and revenues in a test year that was approximately three years beyond Base Year 1998. Now, as a consequence of its updated information, the Postal Service needs only to peer two years into the future (Base Year 1999 to Test Year 2001) rather than three. For this reason, one has every right to expect that the Postal Service's need to collect additional funds from Postal ratepayers to be maintained solely in the event of forecast errors has also declined correspondingly.

Accordingly, I recommend that the Commission reduce the recommended contingency provision, with respect to BPM, to account for test year costs. Such a reduction assumes that the Postal Service's forecast updates from FY 98 to FY 99 are to be considered and that they reduce forecast risk in a linear fashion.[21] It is also important to note that my recommendation is based solely on the reduction in risk associated with the fact that the Postal Service has updated its test year projections. The purpose of my discussion on this issue is only to explain that if the FY99 cost data is used, the contingency must be reduced. Nothing in my recommendations should preclude the Commission from reducing the contingency provision based on the arguments of

[21] There is no evidence to suggest that the Postal Service's original projections were particularly risky in any given forecast year. For this reason, there is no basis to suggest that the reduction in USPS risk associated with the Postal Service's projection updates is non-linear.

DMA witness Buc. It is my understanding that witness Buc recommends a one percent contingency provision for the USPS based on other factors that are not considered here.[22] I believe that his proposal is worthy of serious consideration by the Commission.

There is one final issue to be addressed that relates to the contingency provision in this case. This issue is motivated by certain USPS responses to interrogatories from the OCA. In response to OCA/USPS-ST44-28-29, witness Patelunas confirms the basic notion than the "revised cost level changes based on a later DRI forecast are likely to be more accurate." [23] However, in the case of FY 2001, he also states that "other updates were made to test year costs such as cost reductions related to breakthrough productivity," and that "I have been informed that the accomplishment of these cost reductions will be challenging and has a higher degree of risk."[24] As the Commission deliberates the Postal Service's test year updates, it is critical that it avoid any misunderstanding regarding the possible significance of these sorts of unsupported claims.

It is important to note first of all that Mr. Patelunas himself was "informed" that the cost reductions would be challenging but that he professed no personal knowledge of the alleged "higher degree of risk" associated with these programs. For this reason alone, these suggestions are without probative value. More importantly, however, the magnitude of greater risk associated solely with the new Postal Service's cost reduction programs is dwarfed by the magnitude of

[22] See DMA Witness Buc, DMA-T-1 at 11, 17.

[23] USPS Responses to OCA/USPS-ST-44-28 and 44-29, Tr. 16670-71.

[24] USPS Response to OCA/USPS-ST-44-29 (b), Tr. 16671.

overall risk reduction that results from updating all of the Postal Service' accrued cost projections for the test year. For example, in FY 2001, the Postal Service now claims that it will achieve cost reductions in the amount of $1.118 billion.[25] By contrast, in its original filing, the Postal Service claimed cost reductions in the amount of $0.654 billion.[26] Thus, the USPS now asserts that it will achieve an additional $0.464 billion in cost reductions but that there is allegedly a "higher degree of risk" associated with these programs.

When compared to the entire accrued cost of the Postal Service, these additional savings are trivial. According to the USPS' update, total accrued costs (A/R) in the test year will be $67.642 billion.[27] Assuming the Commission wishes to consider the Postal Service's FY99 updated costs, I recommend that the provision for contingencies for BPM be reduced to account for the reduction in forecast risk.

## IV. Postal Service's Revised Price Elasticity for BPM

In attempting to determine the institutional cost coverage to be applied to a subclass, the Postal Service generally considers the nine ratemaking criteria that are listed in Section 3622(b) of the Postal Reorganization Act. In my Direct Testimony in this case, I described these criteria in more detail, and I attempted to relate them to the Bound Printed Matter subclass. Under criterion 2, the USPS is supposed to consider the value of the mail to both sender and recipient. As noted in my Direct Testimony, the "value" of the mail that is contained in a given subclass is often established by reference to the "own price elasticity of demand" for that mail service. Own

[25] Exhibit USPS-ST-44Z.

[26] Exhibit USPS-ST-44Z.

price elasticity is measured as the percentage decline in mail volume that results from a one percent increase in price. The lower (in absolute value) the own price elasticity, the higher the value of the service.

As noted in my Direct Testimony, USPS witness Mayes originally reported the own price elasticity for BPM subclass as –0.392.[28] This BPM value was lower than the own price elasticity for all of the following Postal subclasses: First Class Cards-Stamped, First Class Cards-Private, Priority Mail, Express Mail, Standard A Regular Mail, Standard A ECR mail and Parcel Post.[29] Since the BPM subclass has a lower own price elasticity coefficient then any of these subclasses, BPM should have been considered a much more highly valued subclass than any of them under criterion 2. Nevertheless, the Postal Service has proposed a rate increase for BPM that is higher than the rate increase proposed for any of these lower valued subclasses.

Among the materials produced by the Postal Service in support of its cost updates in this case, the USPS filed the Supplemental Testimony of Thomas Thress. In that testimony, Dr. Thress explained that since the filing of the USPS' original case, certain underlying growth rates that had been relied upon by the Postal Service to project explanatory variables that were used in the USPS's forecasting models had changed.[30] He noted that because of these changes, "the

(..continued)
[27] Exhibit USPS-ST-44A.

[28] AAP Witness Siwek, AAP-T-2 at 27.

[29] USPS Response to AAP/USPS-T32-1, Tr. 11/4178.

[30] USPS-ST-46 at 6, lines 2-17.

estimated elasticities associated with these variables will likely be different using the new U.S. Commerce Department data than they were using the old Commerce Department data."[31]

AAP asked Dr. Thress to provide all new elasticities for Bound Printed Matter that he had calculated using the new Commerce Department data that had been described in his Supplemental testimony.[32] In response to this request, Dr. Thress re-estimated the Bound Printer Matter elasticities using the new Commerce Department data, a sample period through 2000Q3 and the same specifications that had been used in his direct testimony. Dr. Thress now reported own price elasticity for Bound Printed Matter as –0.280.[33] The updated value is more than 28% lower than the BPM own price elasticity previously estimated by the Postal Service.

As noted above, in Postal ratemaking, a lower own price elasticity is associated with higher value for a postal subclass. Using the USPS's updated information, the reported own price elasticity for BPM is now 28% lower than it was in the Postal Service's original filing. All else equal, BPM should now be granted a cost coverage markup that is even lower than the coverage that I previously recommended for BPM. For this reason, should the Commission decide to consider the Postal Service's cost updates, it should also consider the revised elasticity for BPM that was produced using the Postal Service's updated growth estimates. For BPM, this revision clearly implies a lower markup in BPM rates than the markup previously suggested for this subclass.

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[31] USPS-ST-46 at 6, lines 17-20.

[32] USPS Response AAP/USPS-ST-46-5, Tr. 35/16842.

[33] USPS Response to AAP/USPS-ST-46-5, Tr. 35/16842.

## V. Conclusions and Recommendations

As noted above, I have recommended that, for a variety of reasons, the Commission should afford little if any weight to the updated information filed by the Postal Service in response to Order No. 1294. Assuming, however, that the Commission decides to consider this data, I have also recommended that the Commission reduce both the Postal Service's recommended provision for contingencies and the cost coverage markup to be imposed on Bound Printed Matter. As a result, even assuming that the Commission decides to consider the Postal Service's updates, the Commission can and should still adopt the BPM rate structure and rate levels that were recommended in my Direct Testimony on behalf of AAP.

In Attachment 1 of my supplemental testimony, I have prepared several calculations that illustrate the effects of the recommendations that I have advanced in this Supplemental Testimony. As shown in Attachment 1, even if the Commission decides to consider the Postal Service's updates, the Commission can still adopt the BPM rate structure <u>and rate levels</u> that were recommended in my Direct Testimony.

On page 1 of Attachment 1, I show the BPM test year revenues and volumes that were included in the Direct Testimony of USPS witness Kiefer (Row I) and in my Direct Testimony (Row II). These figures reflect the test year BPM costs originally filed in this case by the Postal Service. In Row III, I show the contribution to institutional costs that would obtain from the BPM rates proposed in my Direct Testimony at the USPS's original test year costs. In Row III, one can also divide TYAR revenue by TYAR costs in order to yield the cost coverage ratio of 105% that I recommended for Bound Printed Matter.

As can be seen in the last column of page 1, BPM test year revenues in my Direct Testimony were based on the same (A/R) test year piece volume (524,742,871 pieces) as that shown by Mr. Kiefer. This convention was adopted to reduce complexity and because Mr. Kiefer's Excel work sheet (which I altered) did not include a interactive feature by which volume responses to price changes would be calculated automatically. It is true that the BPM rates that I have proposed in this case are lower than the BPM rates proposed by the Postal Service. For this reason, it is likely that the BPM rates that I recommend would stimulate higher piece volumes than the piece volumes shown by Mr. Kiefer. However, in this event, the volume variable costs for BPM would also be higher than they would have been if the Postal Service's BPM rate proposal had been adopted. Since piece volumes, revenues and volume variable costs would <u>all</u> be higher at my proposed rates, the resulting BPM <u>cost coverage</u> set forth in my Direct Testimony was not affected by the use of Mr. Kiefer's underlying (A/R) piece volumes. For the same reason, the implicit use of Mr. Kiefer's volumes in the USPS cost updates does not affect the basic conclusions that flow from page 2 of Attachment 1.

In Row I of page 2 of Attachment 1, I show the updated test year BPM costs now claimed by the Postal Service in Mr. Patelunas' Exhibits. In Row II of page 2, I estimate the updated test year BPM costs excluding the USPS' proposed contingency provision of 0.025. In Row III of page 2, I derive the effect of a reduced contingency provision on test year BPM costs. In Row IV, I solve for total BPM costs including a reduced contingency provision. This calculation yields updated test year BPM costs. This figure is then compared to the test year BPM revenue in the amount of $503.3 million that was derived in my Direct Testimony. As shown in Row V, this comparison suggests that even if the Commission were to consider the USPS cost updates, the BPM rates proposed in my Direct Testimony need not be adjusted.

As suggested in Attachment 1, my recommended BPM rates would now appear to yield a lower cost coverage (under the updated costs) than the BPM cost coverage shown in my Direct Testimony (at the original costs). However, even this lower cost coverage is clearly appropriate for BPM. Recall that the updated costs that are considered in Attachment 1 still include the effects of various unsupported Postal Service changes including the abandonment of the ECI minus 1 index. These updated costs would have been considerably lower had I also adjusted wage costs to reflect ECI minus 1. More importantly, however, a cost coverage ratio for BPM that is lower than 105% is appropriate on the merits and consistent with the corresponding decrease in the own price elasticity for BPM that was recently reported by USPS witness Thress. For all of these reasons, the BPM rate proposal set forth in my Direct Testimony can still be adopted by the Commission in this case even if the Commission were to decide to consider the Postal Service' recent test year cost updates.

# BOUND PRINTED MATTER
# AAP PROPOSED RATES
# ORIGINAL TEST YEAR COSTS

| | | REVENUE PER PIECE | REVENUE | VOLUME |
|---|---|---|---|---|
| I. | KIEFER † | | | |
| | Before Rates | $0.91 | $492,553,800 | 541,975,772 |
| | After Rates | $1.07 | $563,442,826 | 524,742,871 |
| | Per Piece Changes | 18.1% | 14.4% | -3.2% |
| II. | SES ‡ | | | |
| | Before Rates | $0.91 | $492,553,800 | 541,975,772 |
| | After Rates | $0.96 | $503,325,239 | 524,742,871 |
| | Per Piece Changes | 5.5% | 2.2% | -3.2% |

| | | |
|---|---|---|
| III. | RESULTING REVENUE & COST (ORIGINAL TEST YEAR COSTS) | |
| | TYAR REVENUE | $503,325,239 |
| | TYAR COST | $479,203,900 |
| | PROPOSED CONTRIBUTION | $24,121,339 |

NOTES:
† USPS-T-37, WP-BPM-29
‡ AAP-T-2, ATTACHMENT-7, WP-BPM-29

# BOUND PRINTED MATTER
# AAP PROPOSED RATES &
# UPDATED TEST YEAR COSTS

## I.

| | ORIGINAL COST | REVISED COSTS |
|---|---|---|
| USPS | $479,203,900 | $498,658,000 * |

## II. ESTIMATED COSTS EXCLUDING CONTINGENCY

$498,658,000 = X + .025(X)

X= $486,495,609.76

## III. ADJUSTED CONTINGENCY

.01667 * $497,679,394

$8,109,881.81

## IV. TEST YEAR BPM COSTS INCLUDING CONTINGENCY

$494,605,492

## V. RESULTING REVENUE & COST (UPDATED TEST YEAR COSTS)

| | |
|---|---|
| TYAR REVENUE | $503,325,239 |
| TYAR COST | $494,605,492 |
| PROPOSED CONTRIBUTION | $8,719,748 |

* EXHIBIT USPS-ST-44 W

AAP-ST-4

## CERTIFICATE OF SERVICE

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

John R. Przypyszny

Washington, D.C.
August 14, 2000