

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Postal Rate and Fee Changes, 2001

Docket No. R2001-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE
WITNESS COCHRANE TO INTERROGATORIES
OF THE PARCEL SHIPPERS ASSOCIATION
(PSA/USPS-T40-1ac, 2, and 3d)

The United States Postal Service hereby provides the responses of witness Cochran to the following interrogatories of the Parcel Shippers Association: PSA/USPS-T40-1ac, 2, and 3d, filed on October 23, 2001. Interrogatories 3a and 3b were redirected to Witness Meehan, 1b, 3c, 3f, 3g and 4 were redirected to witness Patelunas, and 3e was redirected to the Postal Service.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
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November 9, 2001

**RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS COCHRANE TO
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PSA/USPS-T40-1. Please refer to page 12 of your testimony where you discuss Test Year cost savings opportunities for the in-house PMPC network. In particular, refer to where you state, "in summary, now that the contracted PMPC concept has been taken over by the Postal Service there is a renewed effort to pursue multiple paths that can reduce costs of processing and transporting Priority Mail."

- (a) Is it your opinion that bringing the PMPC network in-house will reduce costs for Priority Mail by the Test Year? Please explain your answer fully.
- (b) Have you included any savings from the Postal Service's "renewed effort to pursue multiple paths that can reduce costs of processing and transporting Priority Mail" in Docket No. R2001-1 ? If so, please provide a citation to where these savings were included in the rollforward.
- (c) If the Postal Service does identify savings from these "renewed efforts" to find cost savings in the PMPC network before the closing of the Docket No. R2001-1 record, please provide copies of all analyses that the Postal Service has performed to quantify these savings.

RESPONSE:

- a.) No. It is my understanding that based on the data in the rollforward, as confirmed in PSA/USPS-T40-3h, the net cost for Priority Mail will be an additional \$60M. However, if USPS can implement lessons learned in the PMPCs, the costs for Priority Mail may ultimately be reduced.
- b.) Redirected to witness Patelunas (USPS-T-12).
- c.) When the Postal Service is able to identify and adequately document processes and savings from any renewed efforts, they will be provided.

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PSA/USPS-T40-2. Please refer to page 5 of your testimony where you state, "Approximately 30 percent of all Priority volume was processed through these [PMPC] facilities." Please refer further to page 10 of your testimony where you state, "In 2001, the Postal Service opened three new PMPC test sites in Phoenix AZ, Charlotte NC, and Atlanta GA."

- (a) Will the Test Year in-house PMPC network process more Priority Mail volume than was processed in the base year under the PMPC contract? If so, please compare the amount of Priority Mail that will be processed in the Test Year by the in-house PMPC network and the amount of mail that was processed in the base year under the PMPC contract?
- (b) Will the Test Year in-house PMPC network process more total mail volume than was processed in the base year under the PMPC contract? If so, please compare the amount of total mail volume that will be processed in the Test Year by the in-house PMPC network and the amount of mail that was processed in the base year under the PMPC contract?
- (c) If your answer to part (a) or part (b) is "yes", when the Postal Service calculated the increase in mail processing and transportation costs that will result from bringing the PMPC network in-house, did it take into account the savings at mail processing plants that will result from shifting mail volume from plants to PMPCs? Please explain your answer fully.
- (d) If your answer to part (c) is no, please provide an estimate of the cost savings that will result at plants from reducing mail volumes at plants and a distribution of these cost savings to mail classes and subclasses. Also, please provide your underlying calculations.

RESPONSE:

- a.-b.) Given that the volume of Priority Mail is forecasted to be greater in the Test Year than in the Base Year and assuming the origin-destination (O-D pairs) profile remains roughly the same, I would expect so. The exact amount cannot be quantified because USPS does not forecast at the O_D pair level.
- c.) No. Your question assumes that there will be a shift from plants to PMPCs but that has not been established. Mail could stay in the P&DCs, but be processed more efficiently under PMPC distribution methodologies. However, I know of no

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cost studies that would allow either a shift in volume from plants to PMPCs or processing in plants under PMPC distribution methodologies to be taken into account in the rollforward.

d.) N/A - See response to subpart c.).

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PSA/USPS-T40-3. Please refer to the following excerpt from USPS-LR-J-49:

PMPC IN HOUSE - This program involves returning operations that had been previously contracted-out to the Postal Service. Additional operational expenses that will be incurred by the Postal Service include: clerk and mailhandler personnel, rent, equipment repair and maintenance, and air and highway transportation.

PMPC CONTRACT - This program is the savings to the Postal Service of not continuing its contract for the PMPC network. By bringing the PMPC operations in house, the Postal Service avoids the remaining costs contained in the original contract.

Please also refer to the rows in USPS-LR-J-49, Exhibits A and B that refer to PMPCs and page 10 of your testimony where you state, "One difference has been the introduction of other mail classifications to the PMPC network to prevent facility idle time."

- (a) In FY 2000, were all costs for the PMPC contract attributed to Priority Mail? If "no", please explain fully.
- (b) Did the Postal Service incur any costs in FY 2000 related to bringing the PMPC network in-house or canceling the PMPC contract? If so, how large were these costs and for what activities were these costs incurred?
- (c) In its roll forward, did the Postal Service attribute all FY 2003 costs for the In-House PMPC network to Priority mail? Please explain your answer fully.
- (d) Please confirm that in the Test Year the PMPC network will process mail other than Priority Mail. If not confirmed, please explain fully.
- (e) Why did the Postal Service decide to bring the PMPC network in-house?
- (f) Please confirm that the total cost of the PMPC in-house network will be more than \$650 million (the cumulative FY 2001 and FY 2002 PMPC In-House Other Program cost) in the Test Year. If not confirmed, please provide the correct figure and explain how you calculated it.
- (g) Please confirm that the cost savings from canceling the PMPC contract will be approximately \$590 million. If not confirmed, please provide the correct figure and explain how you calculated it.
- (h) Please confirm that, according to the Postal Service rollforward in this case, bringing the PMPC network in-house results in a net cost to the Postal Service of more than \$60 million. If not confirmed, please provide the correct figure and all

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underlying calculations. If confirmed, please explain why bringing the PMPC network in-house costs more than the PMPC contract.

RESPONSE:

- a. *Redirected to witness Meehan (USPS-T-11).*
- b. *Redirected to witness Meehan (USPS-T-11).*
- c. *Redirected to witness Patelunas (USPS-T-12).*
- d. *Confirmed.*
- e. *Redirected to the Postal Service.*
- f. *Redirected to witness Patelunas (USPS-T-12).*
- g. *Redirected to witness Patelunas (USPS-T-12).*
- h. *Redirected to witness Patelunas (USPS-T-12).*

DECLARATION

I, James P. Cochrane, declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information, and belief.


Date: 11-9-01

CERTIFICATE OF SERVICE

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


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