

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 UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS TO INTERROGATORIES OF
PARCEL SHIPPERS ASSOCIATION REDIRECTED
FROM WITNESS COCHRANE
(PSA/USPS-T40-1(b), 3(c), (f), (g) and 4)

The United States Postal Service hereby provides the response of witness Patelunas to the following interrogatories of Parcel Shippers Association: PSA/USPS-T40-1(b), 3(c), (f), (g) and 4, filed on October 25, 2001, and redirected from witness Cochrane.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking:



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November 9, 2001

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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 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) Response provided by witness Cochrane, USPS-T-40.
- (b) No.
- (c) Response provided by witness Cochrane, USPS-T-40.

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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 rollforward, 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.

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

Response:

- (a) Response provided by witness Meehan, USPS-T-11.
- (b) Response provided by witness Meehan, USPS-T-11.
- (c) The entire Cost Segments 3 and 14 amounts were distributed to Priority Mail as Other Programs. The entire Cost Segment 15 amount was distributed as a PESSA distribution in the B Report, and as the relative amount of Priority space was increased to include bringing the PMPC operations in-house, the proper amount was distributed to Priority Mail to reflect the additional amount of space. The entire Cost Segment 16 amount was not directly distributed to Priority Mail; it was included as a portion of component 175 and was distributed to Priority Mail as Priority Mail's portion of the total of component 175.
- (d) Response provided by witness Cochrane, USPS-T-40.
- (e) Response provided by the Postal Service.
- (f) Confirmed.
- (g) Confirmed.
- (h) Response provided by the Postal Service.

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PSA/USPS-T40-4. Please identify all cost reduction initiatives that the Postal Service is currently implementing at bulk mail centers (BMCs), indicate whether the Postal Service has included the resulting cost reductions from each initiative in its rollforward, and, if so, provide a citation to where the cost reductions have been included.

Response:

Cost reduction programs are not separated between BMCs and other sites.

Library reference USPS-LR-J-49 shows all the cost reduction amounts in Exhibit E, pages 1 through 3 and describes each program in Sections 1 through 4.

To see these initiatives by class, subclass and special service in the Postal Service's Docket No. R2001-1 rollforward, please refer to the following workpapers associated with my testimony (Table 6 for cost reductions and Table 7 for other programs):

WP-A Fiscal Year 2001 Before Workyear Mix Adjustment, Table A, Tables 6-7

WP-C Fiscal Year 2002 Before Workyear Mix Adjustment, Table A, Tables 6-7

WP-E Fiscal Year 2003 Before Workyear Mix Adjustment (Current Rates)
Table A, Tables 6-7

WP-G Fiscal Year 2003 Before Workyear Mix Adjustment (Proposed Rates)
Table A, Tables 6-7

DECLARATION

I, Richard Patelunas, declare under penalty of perjury that the foregoing answers to interrogatories are true and correct to the best of my knowledge, information, and belief.

Richard Patelunas

Dated: 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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