

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
MAGAZINE PUBLISHERS OF AMERICA, INC.
(MPA/USPS-T12-2-5)

The United States Postal Service hereby provides the response of witness Patelunas to the following interrogatories of Magazine Publishers of America, Inc.: MPA/USPS-T12-2-5, filed on November 1, 2001.

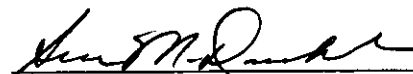
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys

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



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November 15, 2001

**RESPONSE OF UNITED STATES POSTAL SERVICE
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MPA/USPS-T12-2. Did the Postal Service use a model to calculate the cost savings from Phase II of the Automated Flat Sorting Machine 100 (AFSM 100) deployment? If the answer is in the affirmative, please provide it in electronic form and answer the following questions regarding it.

(a) Was this model used to estimate cost savings from any other cost reduction programs?

(b) If your response to subpart (a) of this interrogatory is in the affirmative, for what other cost reduction programs was this model used to estimate cost savings?

Response:

Yes, a model was used. A Partial Objection was filed on November 13, 2001 concerning providing the electronic version.

(a) No.

(b) Not applicable.

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MPA/USPS-T12-3. Did the Postal Service use a model to calculate the cost savings from Phase I of the AFSM 100 deployment? If the answer is in the affirmative, was this the same model referred to in MPA/USPS-T12-2 to estimate the cost savings from the AFSM 100 – 2nd Buy? If the same model was not used, please provide a cost savings estimate for the AFSM 100 – 1st Buy using the model referred to in MPA/USPS-T12-2.

Response:

Yes.

No.

A Partial Objection was filed November 13, 2001 concerning these calculations.

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MPA/USPS-T12-4. Please refer to USPS-LR-J-145 and your response to MPA/USPS-T12-1 (a) where you state, "The rate case amounts are similar to those of the Deployment calculations and the main source of the difference is the use of slightly different deployment projections when the rate case was being prepared. The Decision Analysis Report (DAR) assumptions and the total program savings are still valid, although the timing has changed."

- (a) Please identify and describe all differences (other than timing of deployment and number of machines being deployed) that caused the rate case savings for deploying AFSM 100s to be different than the DAR and deployment savings estimates.
- (b) Please define "Threshold Level" as used in the title "DAR Calculations (Threshold Level)" in USPS-LR-J-145.
- (c) Were other "levels" or "scenarios" evaluated in the AFSM 100 – 1st Buy DAR?
- (d) If your response to subpart (c) is in the affirmative, please provide the cost savings estimated for the other "levels" or "scenarios" in a format similar to that provided for the threshold level savings in USPS-LR-J-45.
- (e) Were the Phase I AFSM 100s located in facilities where the savings were estimated to be the highest? If your answer is anything other than an unqualified "yes", please describe the method used by the Postal Service to determine where to locate the Phase I machines.

Response:

- (a) Other than the timing of deployment and the number of machines being deployed, the only identifiable difference is the cost of labor. The cost of labor is different because the calculations were done at different points in time.
- (b) The "Threshold Level" is the scenario shown on page 9 of the March 18, 1998 DAR contained in USPS-LR-J-152, filed under protective conditions on October 15, 2001.

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Response continued:

- (c) Yes.
- (d) Please see USPS-LR-J-152 filed under protective conditions on October 15, 2001.
- (e) I am informed that the Phase I AFSM 100 DAR targeted facilities that needed additional flat sorting capacity. To be included in the DAR, a site had to meet our minimum savings level and certify that they had existing space available to take the new machine(s). Since the Postal Service was adding capacity to the flat sorting network, and moving mail from manual operations at the Plants and Associate Offices to automation, the savings were expected to be higher than if we had been doing an FSM 881 replacement buy.

There were a few sites that met the minimum savings level but did not have sufficient space to accommodate an AFSM 100, and thus, were excluded from the Phase II DAR.

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MPA/USPS-T12-5. Please refer to Appendix A of your testimony and USPS-LR-J-49, Exhibit B.

- (a) Please confirm that the FY 2002 Costs for the AFSM 100 – 2nd Buy in Appendix A to your testimony are \$85.2 million. If not confirmed, please provide the correct figure.
- (b) Please confirm that the FY 2002 Other Programs costs for the AFSM 100 - 2nd Buy are \$59.3 million. If not confirmed, please provide the correct figure.
- (c) Please explain the difference between the USPS-LR-J-49 figure and the figure in Appendix A of your testimony.
- (d) Which of these FY 2002 costs for the AFSM 100 - 2nd Buy did the Postal Service use in its rollforward?
- (e) Please confirm that you distributed costs and cost savings from the AFSM 100 – 2nd Buy and from the deployment of automated feeders and Optical Character Readers on Flat Sorting Machine (FSM) 1000s using the FSM distribution key (#1442).

Response:

- (a) Confirmed.
- (b) Confirmed.
- (c) The \$85.2 million referred to in part (a) of this question is incorrect. This amount includes \$72.5 million for Cost Segment 3 and \$12.7 million for Cost Segment 11. The Cost Segment 11 amount is correct; thus, the focus of this explanation will be on Cost Segment 3. In Appendix A, I distributed the Operational costs of the various programs based on the relative hours of each program (see pages 7 and 10 of Appendix A). The total \$94,823 million that was distributed on page 10 of Appendix A mistakenly included the following non-Operational costs from Page 1 of USPS-LR-J-49, Exhibit B:

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Response continued:

Cost of Retail Initiatives (\$25 million), Facilities DARs (\$3.5 million) and REC Consolidation (\$4 million). As such, the total was overstated by the sum of these three programs, or \$32.5 million. The correct amount to be distributed is \$62.3 million, and of this total, \$47.6 million would be distributed to the AFSM 100 program and this is the same amount that is shown in USPS-LR-J-49, Exhibit B, page 1.

The impact of correcting this error is shown on Attachment 1 that accompanies this response. Additionally, the details of how the impact was calculated is presented in both hard copy and electronic formats in USPS-LR-J-177 filed on November 15, 2001 in response to this question.

(d) The Appendix A amount of \$85.2 million was used in the rollforward.

(e) Confirmed.

Attachment 1
MPA/USPS-T12-5

	Original Total	Revised Total	Difference
	94,823 1/	94,823 2/	
First-Class Mail:			
Single-Piece Letters	29,362	22,094	(7,267)
Presort Letters	4,966	3,875	(1,090)
Total Letters	34,328	25,970	(8,358)
Single-Piece Cards	557	456	(101)
Presort Cards	106	76	(30)
Total Cards	663	532	(131)
Total First	34,990	26,502	(8,488)
Priority Mail	1,496	989	(506)
Express Mail	32	21	(11)
Mailgrams	0	0	(0)
Periodicals			
In-County	59	39	(20)
Outside County	5,562	3,661	(1,902)
Total Periodicals	5,622	3,700	(1,922)
Standard Mail			
Enhanced Carrier Route	1,567	1,066	(502)
Regular	22,840	15,370	(7,470)
Total Standard Mail	24,407	16,436	(7,972)
Package Services			
Parcel Post	97	64	(33)
Bound Printed Matter	453	298	(155)
Media Mail	173	114	(59)
Total Package Services	723	475	(248)
U S Postal Service	411	275	(135)
Free Mail-Blind & Hndc & Servicemen	36	24	(12)
International Mail	1,288	921	(368)
Special Services:			
Registry	9	6	(3)
Certified	31	20	(10)
Insurance	7	5	(2)
COD	0	0	(0)
Money Orders	13	9	(4)
Stamped Cards	-	-	-
Stamped Envelopes	-	-	-
Special Handling	4	3	(1)
Post Office Box	10	6	(3)
Other	739	498	(242)
Total Spc Svcs	813	546	(267)
Volume Variable	69,818	49,889	(19,930)
Other	25,005	44,934	19,930
Total Costs	94,823	94,823	(0)

1/ Last column of "Original" sheet of MPA5att.xls in USPS-LR-J-177

2/ Last column of "Revised" sheet of MPA4att.xls in USPS-LR-J-177

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.

A handwritten signature in black ink, appearing to read "Richard Patelunas", is written over a horizontal line.

Dated: 11/15/01

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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