

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 PICKETT TO INTERROGATORIES OF  
MAGAZINE PUBLISHERS OF AMERICA, INC.  
(MPA/USPS-T17-2(a), (f), (g), (h), (i), and 3 through 5)

The United States Postal Service hereby provides the responses of witness Pickett to the following interrogatory of Magazine Publishers of America, Inc.: MPA/USPS-T17-2(a), (f), (g), (h), (i), and 3 through 5, filed on November 13, 2001. An objection was filed to interrogatories MPA/USPS-T17-2(b) through (e) and a partial objection was filed to interrogatory MPA/USPS-T17-2(i) on November 23, 2001.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys

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November 27, 2001

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS JOHN T. PICKETT TO INTERROGATORIES OF THE MAGAZINE PUBLISHERS OF AMERICA

MPA/USPS-T17-2. Please refer to your response to MPA/USPS-T17-1 (c)(i) where you state, "If you are referring to the rate per linear foot that Amtrak charges the Postal Service [sic], I am told that this rate did not change from 1998 to 2000."

(a) Please confirm that the rate that Amtrak charges the Postal Service is a rate per linear foot. If not confirmed, in what unit is the rate that Amtrak charges the Postal Service stated?

(b) In the unit specified in your response to subpart (a), what was the per-unit rate that Amtrak charged the Postal Service in FY 1998?

(c) In the unit specified in your response to subpart (a), what was the per-unit rate that Amtrak charged the Postal Service in FY 1999?

(d) In the unit specified in your response to subpart (a), what was the per-unit rate that Amtrak charged the Postal Service in FY 2000?

(e) In the unit specified in your response to subpart (a), what does the Postal Service project the FY 2003 Amtrak per-unit rate to be?

(f) In the unit specified in your response to subpart (a), how many units of mail did Amtrak transport for the Postal Service in FY 1998?

(g) In the unit specified in your response to subpart (a), how many units of mail did Amtrak transport for the Postal Service in FY 1999?

(h) In the unit specified in your response to subpart (a), how many units of mail did Amtrak transport for the Postal Service in FY 2000?

(i) Please provide all contracts that the Postal Service has or had with Amtrak that cover FY 1998, FY 1999, and FY 2000.

RESPONSE

(a) Confirmed. However, Amtrak rates per linear foot vary depending on the service purchased. For example, the rate per linear foot for 15 linear feet on a daily run between cities 1000 miles apart would be different from the rate per linear foot for 120 linear feet on a five-times-per-week trip between cities 700 miles apart.

(b) Objection filed November 23, 2001.

(c) Objection filed November 23, 2001.

(d) Objection filed November 23, 2001.

(e) Objection filed November 23, 2001.

(f) The requested data are not available.

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(g) The requested data are not available.

(h) The requested data are not available.

(i) Partial objection filed November 23, 2001. The standard contract language for Amtrak service was provided in Docket No. R2000-1 as USPS Library Reference I-266. This language covers the period in question from July 1, 1998 through FY 2000. The contract language in effect for the period October 1, 1977 to June 30, 1998 was substantially the same.

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MPA/USPS-T17-3. Please refer to your response to MPA/USPS-T17-1(c)(iv) where you state, "Furthermore, freight rail and inter-BMC [highway] transportation contracts contain inflation adjustment clauses to cover increases in fuel costs. From BY 1998 to BY 2000 diesel fuel costs increased by 66 percent."

(a) Please describe all factor input prices that are included in inflation adjustment clauses for freight rail and inter-BMC highway transportation contracts.

(b) What weight do the inflation adjustment clauses for freight rail and inter-BMC highway transportation contracts place on diesel fuel costs?

(c) By what percentage did inflation adjustment clauses for freight rail and inter-BMC highway transportation contracts increase the rates charged to the Postal Service between FY 1998 and FY 2000?

RESPONSE

(a) There are no adjustment clauses for freight rail contracts. (See the revised response to MPA/USPS-T17-1.) Adjustments to freight rail contracts are made implicitly during contract negotiations. Economic pay adjustments for highway contracts are described in Postal Service Management Instruction PO-530-97-1 (attached).

(b) There are no adjustment clauses for freight rail contracts. (See the revised response to MPA/USPS-T17-1.) It is not known what weight various economic factors have on the rates charged by freight rail carriers. For inter-BMC highway contracts, the weight afforded any particular economic adjustment varies from contract to contract and from one time period to another. The Postal Service has not quantified the weights in question for inter-BMC contracts.

(c) There are no adjustment clauses for freight rail contracts. (See the revised response to MPA/USPS-T17-1.) It is not known what percentage various economic factors have on the rates charged by freight rail carriers. With

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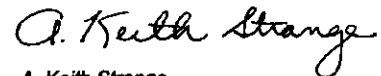
regard to inter-BMC highway contracts, the Postal Service does not have this  
information.

# Management Instruction

## Economic Pay Adjustments for Highway and Inland Domestic Water Contracts

This instruction establishes guidelines and procedures for making economic pay adjustments for regular and temporary highway and inland domestic water contracts.

Date	4/28/97
Effective	Immediately
Number	PO-530-97-1
Obsoletes	PO-530-89-09
Unit	NMTP



*A. Keith Strange*  
Vice President  
Purchasing and Materials

## 11 Policy

### 111 General

Section 5005 (b)(1) of title 39, U.S. Code, provides that the Postal Service, with the consent of a mail transportation contractor, may adjust the rate of compensation allowed under the contract because of increased or decreased costs resulting from changed economic conditions occurring during the term of the contract. It is Postal Service policy to allow regular and temporary highway and inland domestic water transportation contractors an adjustment in the rate of compensation when changed economic conditions or operational requirements occur over which the contractor has little or no control, subject to the provisions of this instruction.

### 112 Scope

This instruction applies only to adjustments in the rate of compensation due to changed economic conditions or operational requirements. Adjustments because of significant service changes must be negotiated between the contractor and the contracting officer before the changes are made and are provided for in the contract.

This instruction does not apply to emergency contracts, except as specifically stated in other sections of this instruction. Refer questions that cannot be resolved by the contracting officer at the Distribution Networks (DN) office level relating to the interpretation of these instructions to the manager of National Mail Transportation Purchasing.

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## 12 Authority

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### 121 General

The contracting officer (CO) or the contracting officer's representative (COR) is responsible for approving or disapproving all contract compensation adjustments covered by this instruction. The manager of National Mail Transportation Purchasing is responsible for conducting periodic reviews of contract adjustments at the DNs. The COR may approve adjustments up to 10 percent of the annual contract rate. Adjustments of more than 10 percent must be approved by the CO. Adjustments made under the provisions of this instruction may be made only with the consent of the contractor except for exceptions noted in other sections of this document and stated in the contract.

### 122 Criteria for Approval

The contractor's full request for economic adjustment may be granted if:

- a. The requested amount is less than or equal to the allowable amount, or
- b. The contractor has completed the appropriate section of the cost statement in which the contractor requests that the CO complete the cost statement and grant the maximum adjustment based on either:
  - (1) The Consumer Price Index – Urban Wage Earner (CPIW) numbers available when the adjustment is processed, or
  - (2) The application of the new wage determination.

Except as noted above, requests for less than the allowable amount may not be adjusted upward.

## 13 Basic Principles

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The following basic principles apply:

- a. A request for an adjustment in the rate of compensation paid may be initiated by the contractor or the Postal Service. Postal Service-initiated adjustments other than fuel are limited to the amount of increases granted during the term of the contract. Any exception to the above policy must be stated in the contract.
- b. To be eligible for an economic adjustment, the offeror must have submitted, prior to the contract award, a completed Form 7468-A, *Highway Transportation Contract – Bid or Renewal Worksheet*.

- c. Form 7463, *Cost Statement – Highway Transportation Contracts*, is designed to identify the contractor's operating cost items at the beginning and ending of the period for which an adjustment is requested. To receive consideration for an adjustment in compensation, the contractor must provide documented evidence of actual increased costs on those items requiring documentation.
- d. Cases involving suspected fraud require that the CO submit a written report, accompanied by supporting evidence, to the manager of National Mail Transportation Purchasing. The manager may refer the file to the Inspection Service for review and investigation.
- e. When Form 7463 is submitted to the CO, it becomes the basis not only for the requested adjustment but also for comparison with future costs. Therefore, the contractor must submit a completed Form 7463 to receive consideration for the requested adjustment and future contract adjustments.
- f. Do not consider an adjustment in the contract rate to recover a deficiency in income when the proposal or renewal price was predicated on revenue to be derived from other sources that did not materialize or which did materialize but were later lost.
- g. The Postal Service is not permitted to tell a contractor how or when to purchase supplies and equipment, but the contractor is expected to conduct an efficient operation and provide equipment that reflects favorably on the Postal Service's image.
- h. Decreases in the cost of specific items due to the contractor's initiative will be used to offset increases in other items only to the extent that increases were previously granted for these specific items during the contract term, with the following exceptions:
  - (1) When the contractor chooses to initiate fuel conservation measures, the CO will allow the realignment of the cost statement (Form 7463) such that affected line items may be increased to the extent of the corresponding reduction in the fuel line. If, for example, a contractor purchases new equipment that is more fuel-efficient than that presently operated, any cost savings realized from lower fuel consumption may be reallocated to another line item(s). This amount is to be in addition to the consumer price index (CPI) computation normally allowed for the change in equipment.
  - (2) When contractors request a realignment of costs under these provisions, they must identify in writing to the CO the specific conservation action they propose to take or have taken and the corresponding line item(s) in the cost statement to be adjusted.
  - (3) The Postal Service does not expect to benefit directly from a contractor's reduced operating costs. Only increased costs applicable to the specific contract services may be considered.



## 14 Limitations and Restrictions

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### 141 Adjustments

Adjustments are allowed only for cost changes that occur during the contract term or as otherwise specified herein.

### 142 Proposal Errors

Proposal errors or omissions in the contractor's cost statement are the responsibility of the contractor. The Postal Service does not allow adjustments for them, except as provided for under the mistake in proposal procedures in the *Purchasing Manual*.

### 143 Eligibility Periods

Adjustments are not allowed before the beginning of the 14th accounting period after proposal closing or the beginning of the 8th accounting period (including the accounting period in which the renewal was effective) after the effective date of the contract renewal and not before the beginning of the 14th accounting period (including the accounting period of the last effective adjustment) thereafter, except that one-line adjustments may be allowed as stated in 144. The CPIW comparison date on a novated or subcontracted contract is the same as the previous contractor's comparison date.

### 144 One-Line Adjustments

One-line adjustments must be processed and approved as outlined in 16. In instances where a one-line adjustment will result in a changed cost to another line item, the affected line item(s) may also be adjusted, e.g., change in equipment, fuel cost or insurance (gross receipts). Adjustments that increase or decrease the contractor's compensation may be processed as one-line adjustments due to the changed conditions listed below:

- a. Fuel price changes.
- b. Wage rate changes that were previously scheduled (union agreement, special agreement, collective bargaining agreement, etc., Department of Labor Wage Determination).
- c. Insignificant minor service changes that affect one-line item.
- d. Documented line items. These may be adjusted as part of a regular economic pay adjustment or in conjunction with a, b, and c above or with a negotiated service change. Adjustments to documented line items will be retroactive to the date costs were incurred provided that the contractor notified the CO of increases within 60 days of the contractor's knowledge of increases.

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## **Fuel Adjustments (Renewal Only)**

The following limitations apply to renewal fuel adjustments:

- a. At the time of negotiation of a renewal contract, the contractor will show the then-approved cost for fuel as the cost of fuel for the renewed contract. On the effective date of renewal, if the contractor's average cost of fuel for the immediately preceding 28-day period has increased or decreased by 5 cents or more per gallon from the renewal price, a one-line fuel adjustment effective on the day of the renewal may be allowed, provided that the request is received within 60 days after the renewal date. The effective date for a fuel cost adjustment received later than 60 days after the renewal date will be calculated as outlined in 173. If the CO has reason to believe that a contractor's cost for fuel has decreased sufficiently since signing the renewal contract, the CO will require the contractor to complete a new certification of the fuel cost for the immediately preceding 28-day period. If the contractor's cost of fuel has in fact decreased by 5 cents or more, the new cost will be effective as of the date of renewal.
- b. In instances where a contractor's average cost of fuel has not increased or decreased by 5 cents or more per gallon on the effective date of renewal, there will be no change in the rate. However, the contractor will be allowed a one-line fuel adjustment in accordance with the current instructions whenever the average cost of fuel changes by 5 cents or more per gallon from the renewal cost.

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## **Unanticipated Costs**

All adjustments during the first 13 accounting periods (APs) of a new contract, or during the first 7 APs of a renewal contract are further restricted to those items that could not have been reasonably anticipated at the time of the proposal submission or contract renewal, whichever is later. Adjustments in rate of compensation during the first 7 or 13 APs for any reason other than those listed in 144 may be made only with the prior written approval of the manager of National Mail Transportation Purchasing.

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## **Nonallowable Increases**

Nonallowable increases consist of:

- a. Cost increases for items that were omitted in the original or renewal cost statement.
- b. Increased labor cost resulting from a contractor's choice to hire a driver or supervisor in lieu of personal operation during the term of the contract, except as provided for below in 162.q(4).

- c. Rate of pay on emergency contracts. Exceptions are made for fuel cost increases after an emergency contract has been in effect for 56 days. One-line fuel adjustment shall not have an effective date prior to 56 days from start of contract regardless of certification date. To be considered for a fuel adjustment, the contractor is required to identify both fuel consumption and cost per gallon concurrent with or prior to start of the contract. The allowable increase or decrease is limited by the actual amount of change in the cost per gallon of fuel, provided that the amount of change must be at least 5 cents per gallon.

## 148 **Adjustment Limits**

Adjustment limits are as follows:

- a. Adjustments in the rate of compensation for lines 1B, 5, and 17 on Form 7463 are limited to an amount that does not exceed the CPIW percentage change.
- b. Adjustments in the rate of compensation for non-CPIW line items are limited to the actual cost changes documented by the contractor.

# 15 **Initiating the Request**

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## 151 **Contractor Responsibility**

The contractor who initiates an adjustment request must do so by completing and submitting Form 7463 and all the required documentation to the CO.

**Note:** The contractor must submit a request for Form 7463 to the CO.

## 152 **Postal Service Responsibility**

### 152.1 **Completion and Verification of Column 1 of Form 7463**

Upon receipt of contractor's request for adjustment forms, the CO will forward to the contractor, within five working days, a copy of Form 7463, with column 1 completed to show (whichever is later):

- a. The last approved cost and the CPIW index number used in developing the current column 1, or
- b. The CPIW index number in effect the month prior to the date of proposal closing or renewal.

Other pertinent forms are to be sent to the contractor at this time. The CO will also advise the contractor of the CPIW index number available when the forms are mailed and alert the contractor to verify column 1.

## 152.2 **Review of Cost Statement Submitted by Contractor**

When completed forms are received from the contractor, they must be verified by an itemized comparison with the last approved cost statement.

## 152.3 **Analysis and Approval of Adjustments**

After the initial review of the adjustment, the specialist must have the entire file reviewed by the contracting officer's designee. The contracting officer or COR, as appropriate, must approve or disapprove the adjustments. The adjustment file will contain all forms, correspondence, and documentation concerning the request.

## 152.4 **Documentation of Adjustments**

Each file must contain an itemized summary showing the reason for each non-CPI-changed line item.

# 16 **Processing the Request**

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## 161 **Completing Within 28 Days**

The adjustment requests must be completed within 28 days after receipt of a completed Form 7463 and other pertinent documentation.

## 162 **Analyzing Form 7463**

Form 7463 analysis consists of the following:

### a. *Item 1*

#### (1) *Item 1A, Vehicle Cost*

- (a) The annual vehicle cost should reflect the sum of the depreciation and the interest paid on the vehicle(s) purchased or leased as shown on the last approved cost statement.
- (b) The annual cost of each vehicle is subject to individual adjustment only when replacement equipment is placed in service on the route. The value of the replacement equipment must exceed the present value in order for the contractor to be considered for additional compensation. When a contractor changes equipment on the route, the allowable increase must be determined by identifying (whichever is the latest):
  - (i) the CPIW index number used in computing the most recent adjustment due to replaced equipment, or
  - (ii) the CPIW index number of the month prior to the solicitation proposal closing

to the CPIW index number of the month prior to the date that the equipment is placed in service on the route.

- (c) If the contractor agrees, use CPIW computation dates that will yield less than the maximum dollar adjustment for which the contractor may otherwise be eligible. As an example, the contractor, based on previous adjustments for equipment changes, may be eligible to use a comparison period from August 1986 to August 1995. To keep the contract rate competitive, the contractor may use a comparison period that will produce a total dollar increase that is less than the period cited above (e.g., August 1986 to August 1990). The maximum adjustment to which the contractor will be entitled, however, may not exceed the amount determined by the CPIW computation.

**Exception:** The manager of National Mail Transportation Purchasing may authorize the contracting officer to approve an increase in excess of CPIW for equipment replacement cost (purchased or leased) in unusual or unique situations. The contractor must provide complete documentation justifying an exception.

- (d) All replacement equipment involved in requests for economic cost adjustment must be properly documented and inspected as directed by the contracting officer.
- (e) A contractor may be granted an increase in the cost of leased equipment, provided that such an increase has actually been incurred. However, the allowable amount of the adjustment is limited to the same guidelines as outlined in 162.
- (f) The approved annual cost divided by the annual miles equals the new rate per mile. The rate per mile (unit cost) will be carried out five decimal places.

(2) *Item 1B, Operational Cost.* This includes cost of repairs, repair labor, tires, and other miscellaneous operational costs not carried in other line items on this form. The allowable increase in this line is the amount determined by using procedures outlined in 163. (No documentation is required.)

- b. *Item 2, Taxes.* This is for personal property taxes for vehicles to be used on the route or other business taxes specifically required to operate the mail transportation business. Documentation, such as a tax receipt or tax bill, is required.
- c. *Item 3, Vehicle Registration.* This should show registration fees for all vehicles used on the route. Any increase in cost incurred by the contractor as a result of increased registration fees is allowed only when properly documented.
- d. *Item 4. Miscellaneous.*

- e. *Item 5, General Overhead Cost.* General overhead includes all management expenses not included in other line items. Included are general supervision and all related supervisory costs (not included in line item 17) such as telephone, office expenses, garage rents, parking fees, bulk fuel handling cost, terminal cost, interest and insurance (except interest and insurance on vehicles), etc. The allowable adjustment in this line item is the amount determined by using procedures outlined in 163. (No documentation is required.)
- f. *Item 6, Fuel*
- (1) *Certification.* All cost adjustments for fuel are based on the change in the actual or prevailing self-service fuel price per gallon. The contractor must furnish a fuel certification sheet for the price of all fuel purchased during the certification period. This certification is a statement showing:
- (a) The type of fuel purchased.
  - (b) The type of purchase made (wholesale, retail-commercial, or retail-contractor owned). (See 162.f.(4).)
  - (c) Names, locations, and telephone numbers of the suppliers of fuel.
  - (d) The amount and price of fuel purchased from each supplier during a consecutive 28-day period prior to the date of request. The quantity should compare favorably with the consumption reflected on the cost statement (1/13 of annual gallons). As an example, a contractor who uses 130,000 gallons of fuel per annum might certify approximately 10,000 gallons for a certification period. Good judgment must be used in evaluating the number of gallons listed on the certification form(s).
  - (e) The relationship of the contractor to the fuel company, if any.
- If fuel was purchased from more than one supplier, the contractor must specify the above information for each supplier. The contracting officer may require a contractor to provide documentation of the actual price (in the form of receipts/invoices, etc.) when deemed necessary or appropriate. However, the contracting officer must require the contractor to provide fuel receipts not less frequently than once per annum.
- (2) *Calculation of Cost*
- (a) Increases or decreases for fuel cost are based on the allowed gallons shown on the last approved cost statement multiplied by the average price per gallon for the 28-day period shown on the certification. The average

cost per gallon is a weighted average based on the quantity of fuel purchased at each price.

- (b) The contracting officer aggregates fuel prices from a reasonable number of sources in general metropolitan areas where contractors purchase fuel to establish prevailing fuel rates for wholesale and retail. The contracting officer may also contact the suppliers to verify the price of fuel shown in the contractor's certification.
- (3) **Filing Eligibility.** Contractors may file for a fuel adjustment in the form of a one-line adjustment request when the average price of fuel for the certification period changes by at least 5 cents per gallon from the unit cost allowed in the last approved cost statement. These one-line adjustment requests must be accompanied by a fuel certification statement as described in 162.f.(1). In addition, each contractor must have filed a fuel purchase plan as described in 162.f.(6). Fuel price changes submitted with economic adjustments do not require a 5-cent per-gallon change in order for the price to be adjusted.
- (4) **Fuel Purchases.** Purchases of fuel may be made from any source at the option of the contractor. Depending on where and how (retail or wholesale) purchases are made, one of the following will apply:
  - (a) **Wholesale Purchase.** The contractor will be allowed compensation for the actual wholesale price paid for fuel. If the wholesale price per gallon exceeds the prevailing self-service retail commercial rate, the adjustment will be allowed based on the prevailing self-service retail (if available) commercial rate. The calculation of this amount is described in 162.f.(2).
  - (b) **Retail Purchase – Commercial Fuel Company.** The contractor will be allowed compensation for the actual retail price paid for self-service retail fuel purchases (where a choice is available). The calculation of this amount is described in 162.f.(2).
  - (c) **Retail Purchase – Contractor-Owned Fuel Company.** A contractor-owned fuel company is a fuel company that is substantially owned or controlled by a contractor, a member of the immediate family, the officers of the corporation (if the contractor is a corporation), their immediate families, and partners or their immediate families. Such fuel companies will be considered as retail fuel companies, and a purchase from such a source by a contractor will be considered as retail purchase from a contractor-owned fuel company. The contractor may be allowed, as compensation, the area prevailing wholesale rate for the type of fuel purchased. If the prevailing wholesale rate per gallon exceeds the prevailing

self-service retail commercial rate, the adjustment will be allowed based on the prevailing self-service retail (if available) commercial rate. The calculation of this amount is described in 162.f.(2).

**(5) *Reexamination of Prior Fuel Allowances***

- (a) ***New Certification.*** To avoid continuous reimbursement to a contractor at a higher rate, all contracts may be reviewed monthly by the CO to identify instances where it is suspected that a contractor is being allowed reimbursement for fuel costs greater than those actually being incurred. For any contracts in which the amount currently allowed exceeds the current prevailing self-service price (either wholesale or retail, as appropriate) by at least 5 cents per gallon in the area where the fuel is purchased and at least 60 days have elapsed from the effective date of the last fuel adjustment and no new fuel certification has been filed, the CO may require the contractor to file a new certification. The new certification is to cover the 28-day period starting with the immediately preceding 28 days from the date of receipt by the contractor of the recertification request from the CO. (Recertification notices must be sent Certified, Return Receipt.) Contractors will be allowed 60 days from the date they receive the notice from the CO to provide the recertification.
  - (b) ***New Fuel Allowance.*** The fuel allowance will be recomputed on the basis of the new certification if the change has been at least 5 cents per gallon. The effective date of the new rate will be from the first day of the accounting period that began during the certification period. If the requested recertification has not been received by the due date, the fuel allowance will be recomputed based on the area prevailing self-service rate (wholesale or retail, as appropriate) with an effective date of the first day of the accounting period that began during the requested certification period. This change will be processed regardless of the amount of change in fuel price.
- (6) ***Fuel Purchase Plan.*** During the term of the contract, the contractor may elect to change fuel purchase plans. No change will be permitted, however, that will result in an increase in the total compensation allowed the contractor. Therefore, contractors may be required to appropriately realign the specific line items of their cost statement. Likewise, the contractor will be given the opportunity to realign the cost statement so that the fuel purchase plan change does not result in a reduction in the total compensation. To change plans, the contractor must, in



writing, provide the contracting officer with the following information:

- (a) The type of change desired:
    - (i) Wholesale to retail commercial.
    - (ii) Wholesale to retail contractor-owned.
    - (iii) Retail commercial to wholesale.
    - (iv) Retail commercial to retail contractor-owned.
    - (v) Retail contractor-owned to wholesale.
    - (vi) Retail contractor-owned to retail commercial.
    - (vii) Changes in purchase ratio (specify).
  - (b) The last 28 days of fuel certification under the current plan and the first 28 days of fuel certification under the proposed plan.
  - (c) A realigned cost statement that shows the increased or decreased fuel line item cost and offsetting decreased or increased cost on another line item(s).
  - (d) A new fuel purchase plan showing the effective date of the new plan. (The effective date must be the same as the first day of the fuel recertification period.) Contractors must notify the CO within 60 days of the date they permanently change the manner in which they purchase fuel and must change their fuel purchase plan accordingly within that 60-day period. Failure to do so may result in termination of the contract for default.
- g. *Item 7, Oil.* Base the adjustment for the cost of oil on documented unit cost.
- h. *Item 8, Insurance*
- (1) *General.* This item is the cost of insurance on vehicles used in the performance of service on the route. (Insurance coverage carried by contractors for terminal facilities, keyman insurance coverage, etc., should be included in *item 5, General Overhead Cost.*) The adjustment will be allowed only when there is an increase or decrease in cost of "same coverage" as reflected in the last approved cost statement (see *Realignment* below). Cost of additional coverage purchased at the option of the contractor is not allowable. Also, no adjustment will be allowed for the higher cost of insurance caused by the contractor's high accident rate or other actions within the reasonable control of the contractor that result in increased premiums.
  - (2) *Realignment.* In instances where the current costs shown in *item 8, Insurance*, can be reduced due to the development of contractor or industry initiated programs, the contractor may be permitted to realign the cost sheet to reflect the new documented insurance costs and retain the money to the

extent that it is used in the development and maintenance of programs or other initiatives designed to reduce insurance cost. As an example, a contractor may, with approval, elect to assume responsibility for a portion of liability claims or develop a safety program that reduces insurance cost. The cost statement may be realigned and the contractor permitted to retain the savings for the maintenance of the programs or liability exposure. However, the annual contract rate may not be increased as a result of any such realignment. Decreases in insurance costs that are not due to the development of documented contractor or industry-initiated programs may not be realigned and may decrease the annual contract rate to the extent increases have been granted during the term of the contract. (Such decreases would include general rate reductions, change of insurance carriers, etc.)

- (3) *Documentation.* The contractor is required to document both previous and current insurance cost. Policies must be provided that reflect amounts and types of coverage and premium cost identifying vehicles used on the route.
- (4) *Gross Receipts.* The CO shall allow an adjustment of a contractor's insurance cost when the policy cost is based on a percentage of the contractor's annual gross receipts and the request for an insurance adjustment is accompanied with a request for any adjustment that changes the annual rate. In computing the amount of increased insurance cost, use the following procedure:
  1. Determine the total of column III of Form 7463 exclusive of insurance. Insurance cost may be included provided that the contractor provides proof that the insurance carrier uses insurance cost in developing total insurance cost.
  2. Identify the documented gross receipts rate per \$100 and change to a decimal equivalent.
  3. Subtract decimal equivalent of insurance premium rate (e.g., 7.05 percent converted to .0705) from decimal equivalent of gross adjustment base (e.g., 100 percent expressed as 1.0000).
  4. Determine the new contract rate by dividing step 1 by 3.
  5. The difference between amounts in steps 4 and 1 is the allowable insurance cost.
  6. The new contract rate multiplied by the insurance gross receipts rate must equal the insurance cost found in 162.h.(4)3.

**Example:**

1. Total column III of Form 7463, exclusive of insurance cost = \$47,904.00.
2. Gross receipts insurance rate \$7.05 per \$100.00 OR 7.05 percent.
3.  $1.000 \text{ less } .0705 = .92950$
4.  $\$47,904.00 \text{ divided by } .92950 = \$51,537.00$
5.  $\$51,537.00 \text{ less } \$47,904 = \$3,633.00$
6.  $\$51,537 \times .0705 = \$3,633.00$

**Note:** The above procedures are applicable to the cost sheet any time there is an increase or decrease in the contract annual rate. In processing adjustments that reduce the contract annual rate, the CO may process the insurance reduction as outlined above. The adjustments may reduce the contract rate below the original proposal price.

- i. *Item 9, Miscellaneous Road Taxes.* This item is for federal highway use tax, state highway use tax, state mileage tax, and state road tax. Increases due to additional state or federal taxes incurred by the contractor are allowable when properly documented.
- j. *Item 10, Tolls.* New or increased toll fees are allowable when incurred.
- k. *Item 11, Total Fixed and Operational Cost.* Sum of items 1 through 10.
- l. *Item 12, Straight Time*
  - (1) The contract rate of compensation may be adjusted to offset increased driver costs resulting from new wage determinations, collective bargaining agreements, or salary adjustments necessary to ensure employment of qualified and reliable drivers.
  - (2) It is not possible to establish minimum or maximum allowable percentage increases, but increases should be restricted to amounts that maintain reasonable and competitive rates for the service provided but allow the contractor's employees a reasonable salary. The percentage increases reflected in successive annual issuances of wage determinations may be used as a guideline for contractors who do not have collective bargaining agreements with their employees.
  - (3) The allowable adjustment is determined by multiplying the allowable hours by the hourly straight time rate.
  - (4) The allowable hours are the hours shown on the cost statement of original proposal, renewal contract, subcontract, last approved adjustment, or negotiated service change, whichever is latest, plus increased hours necessitated by

service change orders, new or revised statutes, and other changed conditions affecting the hours required to perform the service. Conversely, service change orders, new or revised statutes, or other changed conditions that enable the contractor to reduce paid hours will reduce the allowable hours and offset allowable increases in other line items (or result in a reduction in the annual rate).

- (5) Payroll journals or check stubs that reflect the number of hours paid, in addition to fringe benefits and the gross amount paid, will normally constitute sufficient documentation to support increased costs for these items. If the contractor has a collective bargaining agreement with employees, that document should normally be sufficient to document the employees' salary scale. The incorporation of a new wage determination into a contract requires the contractor to pay, as a minimum, the new wage rate. Therefore, a request for adjustment when a new wage determination is incorporated into a contract should be allowed without immediate documentation. The CO may require the contractor to furnish copies of payroll journals and/or check stubs within 90 days after the effective date of the increased wage rate. If the contractor fails to provide the requested information within 60 days of receipt of the request for the information, the contracting officer may retroactively rescind the adjustment. If the contractor provides the requested documentation at some later date, the adjustment will become effective the first day of the accounting period in which the documentation is received.
  - (6) The wages of terminal employees and/or supervisors are to be included in either item 1B or item 5 and, therefore, are not to be considered in this item.
- m. *Item 13, Overtime.* The allowable adjustment is determined by multiplying the allowable hours by the hourly overtime rate.
  - n. *Item 14, Payroll Taxes.* This is for federal or state payroll taxes paid on salaries of drivers. The contract rate of compensation may be adjusted to offset any increased cost incurred for these payroll taxes. Social Security tax paid by employers is based on a percentage rate of each employee's earnings up to the maximum as specified by law. The rates for state and federal unemployment compensation are controlled by state and federal governments. The contractor must adequately document the cost of federal and state unemployment compensation taxes when a request for an economic cost adjustment is filed. Worker's compensation is based on the experience factor of the employer and, therefore, may vary from year to year and contractor to contractor. The contractor may be allowed up to the manual rate for worker's compensation without consideration of experience modification. As an example, the contractor may, due to a low claims record,

reduce rates below the manual rate. The resulting savings may be realigned to another line item. Self-employment tax paid by the contractor is not an adjustable item.

- o. *Item 15, Fringe Benefits.* This item is for the cost of employee health and welfare, pension benefits, vacations, and holidays based on the number of employees reflected by the number of hours in items 12 and 13. Allow the increased cost resulting from new wage determinations or negotiated employee agreements. Fringe benefits are computed on the basis of the number of hours employees work. In cases where an employee does not work 40 hours per week, the fringe benefits are prorated according to the number of hours worked.
- p. *Item 16, Total Operations Labor Cost.* Sum of items 12 through 15.
- q. *Item 17, Contractor's Wages, Personal Driving or Supervision*

  - (1) The allowable adjustment in the contractor's wages granted solely for changed economic conditions is limited to the amount shown on the last approved cost statement multiplied by the percentage increase/decrease in CPIW since proposal closing, renewal, or last approved economic cost adjustment, whichever is the latest. (No documentation is required.)
  - (2) Determine the adjustment allowed by multiplying the annual cost by the appropriate CPIW multiplier and then dividing the product by the allowable hours shown on the last approved cost statement to obtain the per hour unit cost. If new hours are being added to the contract, multiply the new annual hours by the new hourly rate to determine the new annual cost.
  - (3) The contractor's wages may be increased in all cases to allow the contractor at least the minimum wages established by the Fair Labor Standards Act (as amended). If local minimum wages exceed FLSA wages, the CO may adjust the contractor's hourly wage rate up to the local minimum wage.
  - (4) Contracting officers are authorized to approve one-time payments when the illness of the contractor forces the contractor to temporarily employ a driver. Any reasonable increase over the hourly rate that contractors were receiving for their own driving time may be approved. The one-time payment is normally limited to the amount of increased cost for a period of 30 days or less. Requests for compensation that exceed 30 days must be approved by the manager of National Mail Transportation or designee.
- r. *Item 18, Total Cost.* Sum of items 11, 16, and 17.
- s. *Item 19, Return on Investment.* Return on investment may be adjusted only when vehicles used on a route are replaced and an increase is allowed in item 1A. The adjustment in return on

investment is limited to a maximum of 10 percent of the change allowed in item 1A.

- t. *Item 20, Total Contract Rate.* Sum of items 18 and 19.

## 163 Establishing Period of Comparison

### 163.1 General

Perform the following steps to establish the period of comparison for an economic adjustment:

**From:** Determine the CPIW Index number used in computing the most recent economic adjustment or the CPIW Index number for the month prior to the solicitation proposal closing or contract renewal, whichever is the latest.

**To:** Determine the CPIW Index number for the month prior to the effective date of the requested economic adjustment or use the CPIW Index number used by the contractor provided that the number used by the contractor does not result in increased cost in excess of that which would result by using the latest CPIW number.

**Note:** CPIW comparison date is adjustment-specific and not line-item-specific. As an example, a contractor, when submitting an economic adjustment, may elect to request a CPIW adjustment on line items 1B and 5. At the next adjustment, the CPIW comparison dates would be the same for all line items adjustable by CPIW, except items 1A.(1) or 1A.(2) equipment.

### 163.2 Percentage Change Formula

The contractor will be allowed an amount equal to the percentage change in the CPIW for those items adjustable by CPIW changes. Determine the percentage change as follows: Identify the CPIW index numbers in accordance with 163.1. After identifying the two CPIW index numbers to be used, divide the latest CPIW index number by the previously identified CPIW index number to determine the percentage factor. The result of this division factor multiplied by the amount in column III of the last approved amount for that line item determines the maximum compensation the contractor may be allowed.

**Example:**

1. Effective date of adjustment Oct. 15, 1994
2. Comparison period started July 1, 1993, June 1993 CPIW (142.0) to
3. Sept. 1994 CPIW (146.9) = 1.03451
4. 1.03451 times last approved line item cost of \$2,500.00 = \$2,586.28, the new allowable amount.

Example format for analysis:

HCR\_\_\_\_\_ Analysis\_\_\_\_\_ Date:\_\_\_\_\_

Period of Comparison for Economic Adjustment will be the month prior to one of the following dates:

■ Proposal Closing Date	_____	_____	_____
		(Prior Month Index #)	(Current Index #)
■ Renewal Date	_____	_____	_____
		(Prior Month Index #)	(Current Index #)
■ Last Econ. Adj	N/A	_____	_____
		(Prior Month Index #)	(Current Index #)

#### 164 **Approving the Request**

The CO or COR issues orders on Form 7440, *Contract Route Service Order*, if the full amount of the request has been approved.

#### 165 **Denying the Request**

When an adjustment request is denied, advise the contractor of the reason for this action. A detailed explanation is required.

#### 166 **Contractor Appeals**

When a contractor makes a request for adjustment in compensation for economic reasons, and the CO's allowance is less than that requested, the CO will advise the contractor in writing of each item disallowed in whole or in part and the specific reasons why. If the adjustment is disputed by the contractor, the case may be appealed by the contractor, after the CO has provided a final decision, in accordance with the claims and disputes provision of the contract.

## 17 **Effective Date**

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#### 171 **General**

Adjustment of different line items may be effective on different dates as prescribed in the following sections. Economic adjustments, that is, an adjustment solely for economic reasons, including contractor's wages, for awarded contracts will not be granted more frequently than every 13 accounting periods (364 days). The first economic adjustment after a renewal may be granted seven accounting periods (196 days) after the effective date of the renewal and every 13 accounting periods (364 days) thereafter.

172 **Other Than One-Line Adjustments**

The effective date of an economic adjustment (other than one-line adjustments and documented line items) is the first day of the accounting period in which the completed Form 7463 is received. If the contractor's initial request is not supported by the necessary documentation and the contractor fails to respond to the contracting officer's request for documentation within 28 days of the request (either providing the requested documentation or advising the contracting officer when the documentation will be provided), the adjustment for all line items will become effective the first day of the accounting period in which the necessary documentation is received.

173 **One-Line Fuel Adjustments**

The effective date for contractor-initiated one-line fuel adjustments will be the first day of the accounting period that begins during the certification period, provided the request for adjustment and supporting documentation is received within 60 days after the last day covered in the certification period. If the request is not received in this time period, the effective date will be the first day of the accounting period in which the request is received. The contracting officer must process the adjustment as explained in 162.

174 **New Wage Adjustments**

Adjustments in the rate of compensation due to new wage determinations, new labor contracts, and new or revised statutes are considered as one-line adjustments and are effective on the date the contractor actually incurs these increased costs, provided that the adjustment request is received within 60 days after the increased costs are incurred. If the adjustment request is not received within 60 days, the effective date is the first day of the accounting period in which the request is received.

175 **Documented One-Line Adjustments**

Adjustments in documented line items will be retroactive to the date costs were incurred provided that the contractor has notified the CO of increases within 60 days of the contractor's knowledge of increases. Failure to notify the contracting officer of increases, within 60 days of knowledge, will result in the increased costs being effective the first day of the A/P in which received in accordance with 144.

176 **Replaced Equipment Adjustments**

Adjustments in the rate of compensation due to the contractor's election to replace equipment on a route will be effective the date that such equipment was placed in service on the route, provided that the contrac-



for notifies the CO within 60 days of the date replacement equipment was actually placed in service on the route. Adjustments for equipment are treated as documented "one-line adjustments" (see 175).

## **18 Changes While Adjustment Is Pending**

### **181 Subcontracts**

If a route is subcontracted while a contract adjustment is pending, any adjustment that is determined to be due the contractor will be allowed to the subcontractor.

### **182 Service Change**

Any pending cost adjustment, if known at time of processing a negotiated service change that would have an effective date preceding the service change effective date, may be processed along with the service change but must be calculated separately, i.e., develop a cost statement for each. This will prevent an amendment to the service change at a later date.

### **183 Death**

If a contractor dies before completing a pending adjustment, the contractor's estate or next of kin should be given an opportunity to complete the adjustment case. Any adjustment thus allowed will be allowed to the subcontractor if the route is subcontracted.

### **184 Interim Adjustments**

#### **184.1 Contracting Officer**

The contracting officer/contracting officer's representative may approve a contractor's request for an interim adjustment when it is determined that there may be a delay in processing the contractor's request. Interim adjustments may be for the full amount that is not in dispute.

#### **184.2 Qualifying Adjustments**

The CO/COR shall qualify all interim adjustments with a statement on Form 7440 that the amount is not final and is subject to modification after final approval of the adjustment request.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS JOHN T.  
PICKETT TO INTERROGATORIES OF THE MAGAZINE PUBLISHERS OF  
AMERICA**

**MPA/USPS-T17-4. Please confirm that Amtrak transports Postal Service trailers on flat cars (TOFCs). If confirmed, what percentage of Postal Service costs for Amtrak is for TOFCs?**

**RESPONSE**

**Not confirmed.**

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS JOHN T. PICKETT TO INTERROGATORIES OF THE MAGAZINE PUBLISHERS OF AMERICA

MPA/USPS-T17-5. Please refer to your response to MPA/USPS-T17-1 (c)(iv) where you state, "It is my understanding that the increased reliance on Amtrak reflected in these data is not the result of an explicit policy decision to move more Periodicals to Amtrak. The decision to use Amtrak is typically made on a case by case basis. In some instances, use of Amtrak is considered more economical. In others, Amtrak is thought to provide better service."

(a) State all statistics in support of your contention that Amtrak is more economical than freight rail and inter-BMC highway transportation.

(b) State all facts in support of your contention that Amtrak provides better service than freight rail and inter-BMC highway transportation.

(c) What was Amtrak's on-time performance (stated as a percentage) in FY 1997?

(d) What was Amtrak's on-time performance (stated as a percentage) in FY 1998?

(e) What was Amtrak's on-time performance (stated as a percentage) in FY 1999?

(f) What was Amtrak's on-time performance (stated as a percentage) in FY 2000?

RESPONSE

(a) I did not say "that Amtrak is more economical than freight rail and inter-BMC highway transportation." What I indicated in my response was that Amtrak sometimes is less expensive than other surface transportation alternatives and sometimes it provides better service. It is my understanding that Amtrak can be less expensive than inter-BMC highway. Generally, it is not regarded as less expensive than freight rail. This observation is not based on an analysis; rather, it is based on discussions with personnel who plan and purchase these kinds of transportation for the Postal Service.

(b) I did not say "that Amtrak provides better service than freight rail and inter-BMC highway transportation." What I indicated in my response was that Amtrak sometimes is less expensive than other surface transportation alternatives and sometimes it provides better service. It is my understanding that Amtrak generally provides superior service than freight rail and may provide

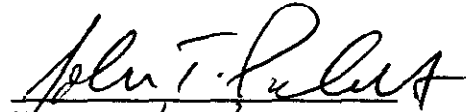
RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS JOHN T.  
PICKETT TO INTERROGATORIES OF THE MAGAZINE PUBLISHERS OF  
AMERICA

superior service to inter-BMC highway in some circumstances. This observation is not based on an analysis; rather, it is based on discussions with personnel who plan and purchase these kinds of transportation for the Postal Service.

(c) - (f) Amtrak's on-time performance data are unavailable.

# DECLARATION

I, John T. Pickett, declare under penalty of perjury the foregoing answers are true and correct, to the best of my knowledge, information and belief.

  
Date: 11/27/01

### **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.

A handwritten signature in black ink, appearing to read "Susan M. Duchek", is written over a horizontal line.

Susan M. Duchek

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November 27, 2001