

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
UNITED PARCEL SERVICE
(UPS/USPS-T12-2-5)

The United States Postal Service hereby provides the responses of witness Patelunas to the following interrogatories of United Parcel Service: UPS/USPS-T12-2-5, filed on November 15, 2001. An objection was filed to UPS/USPS-T12-1 and a partial objection was filed to USP/USPS-T12-2(a) on November 26, 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 29, 2001

**RESPONSE OF UNITED STATES POSTAL SERVICE
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UNITED PARCEL SERVICE**

UPS/USPS-T12-1. Refer to your response to interrogatory UPS/USPS-T6-2(a)(i), redirected from witness Tayman. Provide the supporting documentation and workpapers for calculating the costs to operate the Priority Mail Processing Center ("PMPC") network in-house for FY2001 and FY 2002.

Response:

Objection filed November 26, 2001.

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UPS/USPS-T12-2. Refer to your response to interrogatory UPS/USPS-T6-2(a)(i), redirected from witness Tayman.

- (a) Explain in detail how costs other than Cost Segment ("C/S") 3 costs were estimated for operating the Priority Mail Processing Center ("PMPC") network in-house for FY 2001 and FY 2002. Provide supporting documentation for your calculations.
- (b) Why are costs that are necessary to operate a facility, such as C/S 2 costs, not included in the PMPC in-house costs?
- (c) Are piggyback factors applied to the increase in C/S 3 costs in order to estimate the full cost of operating the PMPC network in-house?

Response:

- (a) Partial objection filed November 26, 2001. In addition to the labor costs in Cost Segment 3, costs were estimated for Transportation (Cost Segment 14), Rent (Cost Segment 15) and Equipment Repair/Maintenance (Cost Segment 16), all of which can be found in USPS-LR-J-49, Exhibits A and B, pages 1 through 2. The calculation of the Transportation costs is described in my response to UPS/USPS-T6-2(b)(i), redirected from witness Tayman.

As was the case with labor costs, the following costs in Cost Segments 15 and 16 were individually calculated for each of the sites based on facility specific information such as: location, square footage, dock space, time remaining on the lease, trailer parking availability and Christmas space requirements. The Cost Segment 15 amount includes: all identified options in the former Emery leases, guard service, amortized leasehold

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Response continued:

improvements, taxes, equipment maintenance and insurance. The Cost Segment 16 amount includes: equipment rental and repair, printing, recurring travel, supplies and services, miscellaneous and communications.

- (b) The labor costs of the transition shown in the rate case include all labor costs. Although there are some supervisor costs resulting from the operation of the PMPCs, they account for something less than ten percent of the total labor costs. In the rollforward, the entire labor cost, as developed in the budgets for FY 2001 and FY 2002, was applied to Cost Segment 3, Clerks and Mailhandlers, distributed to Priority Mail and rolled-forward in the usual fashion. Even recognizing that some portion of this total reflects supervisor costs in Cost Segment 2, rolling-forward the PMPC labor costs in this manner still captured the entire impact on labor costs.
- (c) No, piggyback factors were not used. As explained in part (b) of this response, the labor costs include Clerks and Mailhandlers, and Supervisors. It should be noted that for nonpersonnel space-related costs, the Priority factor used in the development of PESSA cost distributions was increased to reflect the impact of bringing the PMPCs in-house on those piggybacks.

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UPS/USPS-T12-3. Refer to library reference USPS-LR-J-49, spreadsheet "Prg_01_s.XLS", page "Summary."

(a) Confirm that the cost savings from moving the Priority Mail Processing Center ("PMPC") operations "in-house" is \$137,470,000 in FY 2002. If not confirmed, provide the correct number.

(b) Explain in detail why the impact of moving the PMPC network in-house changed from a cost increase in FY 2001 to a cost savings in FY 2002.

Response:

(a and b) See my response to UPS/USPS-T6-12, redirected from witness Tayman.

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UPS/USPS-T12-4. Refer to library reference USPS-LR-J-49, spreadsheet "Prg_01_s.XLS", page "FY 01 Other Programs."

(a) Confirm that the decrease in Cost Segment 16 costs for FY 2001 over FY 2000 from the elimination of the Priority Mail Processing Center ("PMPC") contract is \$242,431,000.

(b) Does this amount represent the amount that would have been paid to operate the PMPC network had the PMPC contract not been terminated? If not, please explain what this amount represents.

Response:

(a) Confirmed.

(b) Yes.

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UPS/USPS-T12-5. Refer to your response to interrogatory UPS/USPS-T6-3(d)(i), redirected from witness Tayman, where you confirm that Cost Segment ("C/S") 16 costs decrease by \$347,676,000 for FY 2002 over FY 2001. Is it correct that summing the decrease from FY 2001 (\$242,431,000) to the decrease from FY 2002 (\$347,676,000) represents the FY 2002 costs (\$590,107,000) of the outsourced Priority Mail Processing Center ("PMPC") contract had the contract not been canceled? If not, explain what the FY 2002 cost would have been and provide references and support.

Response:

Yes.

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", with a long horizontal flourish extending to the right.

Dated: 11/29/01

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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