

**OFFICIAL TRANSCRIPT OF PROCEEDINGS
BEFORE THE
POSTAL RATE COMMISSION**

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OFFICE OF THE SECRETARY

In the Matter of:)
POSTAL RATE AND FEE CHANGES) Docket No. R2001-1

VOLUME #4

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POSTAL RATE COMMISSION

In the Matter of:)
) Docket No. R2001-1
 POSTAL RATE AND FEE CHANGES)

Suite 300
 U.S. Postal Rate Commission
 1333 H Street, N.W.
 Washington, D.C.

Volume 4
 Monday, December 17, 2001

The above-entitled matter came on for hearing
 pursuant to notice, at 9:32 a.m.

BEFORE:

HON. GEORGE A. OMAS, CHAIRMAN
 HON. RUTH Y. GOLDWAY, VICE-CHAIRMAN
 HON. DANA B. "DANNY" COVINGTON, COMMISSIONER

APPEARANCES:

On behalf of the United States Postal Service:

FRANK R. HESELTON, Esquire
 SUSAN DOCHEK, Esquire
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 (202) 268-3083

APPEARANCES: (cont'd.)

On behalf of the Postal Rate Commission:

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(202) 789-6859

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(205) 656-3310

C O N T E N T S

WITNESSES APPEARING:
 MARC A. SMITH
 KAREN MEEHAN
 RICHARD PATELUNAS
 NANCY R. KAY

<u>WITNESSES:</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>	<u>VOIR DIRE</u>
Marc A. Smith	413	--	--	--	--
Karen Meehan	416	433	--	--	--
Richard Patelunas	435	--	--	--	--
Nancy R. Kay	506	--	--	--	--

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C O N T E N T S

E X H I B I T S

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P R O C E E D I N G S

(9:32 a.m.)

1
2
3 CHAIRMAN OMAS: Today we continue the hearings to
4 receive the testimony of Postal Service witnesses in support
5 of Docket No. R2001-1, Request for Rate and Fee Changes.

6 Does anyone have any procedural matters to
7 discuss before we continue?

8 (No response.)

9 CHAIRMAN OMAS: Four witnesses are scheduled to
10 appear today. They are Witnesses Meehan, Patelunas, Kay and
11 Smith. The Postal Service has requested that Witness Smith
12 be taken first.

13 Mr. Heselton, would you please introduce your
14 witness?

15 MR. HESELTON: Yes, Commissioner Omas. The Postal
16 Service calls Mark A. Smith to the stand.

17 CHAIRMAN OMAS: Mr. Smith, would you rise, please?
18 Raise your right hand.

19 Whereupon,

20 MARK A. SMITH

21 having been duly sworn, was called as a witness
22 and was examined and testified as follows:

23 CHAIRMAN OMAS: Be seated.

24 //

25 //

1 (The document referred to was
2 marked for identification as
3 Exhibit No. USPS-T-15.)

4 DIRECT EXAMINATION

5 BY MR. HESELTON:

6 Q Mr. Smith, my colleague is handing you two copies
7 of a document entitled Direct Testimony of Mark A. Smith on
8 behalf of the United States Postal Service and identified as
9 USPS-T-15. Are you familiar with this document?

10 A Yes, I am.

11 Q Was it prepared by yourself?

12 A Yes.

13 Q Do you have any changes to make to this document
14 since it was filed?

15 A No I don't.

16 Q And if you were to give this testimony today
17 orally, it would be the same as filed?

18 A Yes.

19 Q Your document identifies three library references
20 to be sponsored as testimony along with USPS-T-15,
21 specifically USPS-LR-J-52 and then the same leading
22 designation for 53 and 54. Were these library references
23 prepared under your direction and control?

24 A Yes.

25 Q And if you were to prepare them today, they would

1 be the same?

2 A Yes.

3 Q Do you have any adjustments to make to these
4 library references?

5 A No, I don't.

6 MR. HESELTON: Mr. Chairman, I move that the
7 document designated as USPS-T-15 and the accompanying
8 library references be moved into evidence in this
9 proceeding.

10 CHAIRMAN OMAS: Without objection. I will direct
11 counsel to provide the reporter with two copies of the
12 corrected direct testimony of Mark A. Smith. That testimony
13 is received into evidence. As is our practice, it will not
14 be transcribed.

15 (The document referred to,
16 previously identified as
17 Exhibit No. USPS-T-15, was
18 received in evidence.)

19 CHAIRMAN OMAS: There was no designation for
20 written cross-examination for Witness Smith. Does anyone
21 wish to enter any written cross-examination for Witness
22 Smith?

23 (No response.)

24 CHAIRMAN OMAS: This brings us to oral cross-
25 examination. No participant has requested oral cross-

1 examination of Mr. Smith. Is there any party here today who
2 would like to cross-examine Witness Smith?

3 (No response.)

4 CHAIRMAN OMAS: Are there any questions from the
5 bench?

6 (No response.)

7 CHAIRMAN OMAS: Mr. Smith, that completes your
8 testimony here today. We appreciate your appearance and
9 your contribution to the record, and thank you again.
10 You're excused.

11 THE WITNESS: Thank you.

12 (Witness excused.)

13 MR. HESELTON: Thank you, Mr. Chairman.

14 MS. DOCHEK: The Postal Service calls Karen
15 Meehan.

16 CHAIRMAN OMAS: Ms. Meehan, would you please raise
17 your right hand?

18 Whereupon,

19 KAREN MEEHAN

20 having been duly sworn, was called as a witness
21 and was examined and testified as follows:

22 CHAIRMAN OMAS: Please be seated.

23 (The document referred to was
24 marked for identification as
25 Exhibit No. USPS-T-11.)

DIRECT EXAMINATION

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BY MS. DOCHEK:

Q Ms. Meehan, my colleague is handing you two copies of a document entitled Direct Testimony of Karen Meehan on behalf of the United States Postal Service designated as USPS-T-11. Are you familiar with that document?

A Yes.

Q Was it prepared by you or under your supervision?

A Yes.

Q Do you have any changes?

A No.

Q If you were to testify orally today, would this still be your testimony?

A Yes.

MS. DOCHEK: In addition, Mr. Chairman, there are a number of Category II library references associated with this witness' testimony. They are USPS-LR-J-4, Section 1; 5, Sections 1 and 2; 6, all of the '00 BY directories; 8, the portion consisting of reconciliation to audited financial statements and reallocation of expenses by component; and 57 in its entirety.

BY MS. DOCHEK:

Q Were these library references prepared by you or under your supervision?

A Yes.

1 Q And do you have any changes?

2 A No, I don't.

3 MS. DOCHEK: Mr. Chairman, I ask that the two
4 copies of the testimony, USPS-T-11, of Karen Meehan on
5 behalf of the United States Postal Service, as well as the
6 portions and the entirety of the various library references
7 I have listed, be entered into evidence.

8 CHAIRMAN OMAS: Without objection. I will direct
9 counsel to provide the reporter with two copies of the
10 corrected direct testimony of Karen Meehan. That testimony
11 is received into evidence. As is our practice, it will not
12 be transcribed.

13 (The document referred to,
14 previously identified as
15 Exhibit No. USPS-T-11, was
16 received in evidence.)

17 CHAIRMAN OMAS: Ms. Meehan, have you had an
18 opportunity to examine the packet of designated written
19 cross-examination that was made available to you in the
20 hearing room this morning?

21 THE WITNESS: Yes.

22 CHAIRMAN OMAS: If the questions contained in that
23 packet were posed to you orally today, would your answers be
24 the same as those you previously provided in writing?

25 THE WITNESS: Yes.

1 CHAIRMAN OMAS: Are there any corrections or
2 additions that you would like to make at this point to those
3 answers?

4 THE WITNESS: No.

5 CHAIRMAN OMAS: Counsel, would you please provide
6 two copies of the corrected designated written cross-
7 examination of Witness Meehan to the reporter? That
8 material is received into evidence, and it is to be
9 transcribed into the record.

10 (The document referred to was
11 marked for identification as
12 Exhibit No. USPS-T-11 and was
13 received in evidence.)

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes

Docket No. R2001-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS KAREN MEEHAN
(USPS-T-11)

Party

Interrogatories

Major Mailers Association

MMA/USPS-T43-18c redirected to T11

Office of the Consumer Advocate

UPS/USPS-T11-3, 5, 8

United Parcel Service

PSA/USPS-T40-3a-b redirected to T11
UPS/USPS-T11-1-6, 8

Respectfully submitted,



Steven W. Williams
Secretary

INTERROGATORY RESPONSES OF
UNITED STATES POSTAL SERVICE
WITNESS KAREN MEEHAN (T-11)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory

MMA/USPS-T43-18c redirected to T11
PSA/USPS-T40-3a redirected to T11
PSA/USPS-T40-3b redirected to T11
UPS/USPS-T11-1
UPS/USPS-T11-2
UPS/USPS-T11-3
UPS/USPS-T11-4
UPS/USPS-T11-5
UPS/USPS-T11-6
UPS/USPS-T11-8

Designating Parties

MMA
UPS
UPS
UPS
UPS
OCA, UPS
UPS
OCA, UPS
UPS
OCA, UPS

Response of United States Postal Service Witness Meehan
to
Interrogatories of Major Mailers Association
(Redirected from witness Schenk USPS-T-43)

MMA/USPS-T43-18. Please refer to your response to Interrogatory MMAIUSPS-T43-6.

- a. Please provide the derivation of the 9.57 cents that you indicate is the First-Class single piece city carrier delivery unit cost, excluding collection costs.
- b. Please provide the derivation of the 3.71 cents that you indicate is the First-Class single piece city carrier delivery unit cost, excluding collection costs.
- c. Please provide the total collection costs incurred by the Postal Service for BY00.

Response:

(c) Total collection costs incurred by the Postal Service for BY00 are not available because "total collection costs" include various non-carrier costs that we have not studied, such as vehicle service driver costs in Cost Segment 8, contract driver costs in Cost Segment 14, and some acceptance costs in Cost Segment 3.

**Response of United States Postal Service Witness Meehan
to
Interrogatories of Parcel Shippers Association
(Redirected from witness Cochrane USPS-T-40)**

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-LB-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?

Response:

(a) Yes.

(b) No.

**Response of United States Postal Service Witness Meehan
to
Interrogatories of United Parcel Service**

UPS/USPS-T11-1. For Base Year 2000, identify the total cost incurred in connection with the PMPC network and provide the source for all numbers in the Base Year workpapers.

- (a) Identify the non-transportation costs of operating the Priority Mail Processing Centers.
- (b) Identify the costs associated with transportation in the PMPC network.
- (c) Identify the non-transportation costs associated with the PMPC network.
- (d) Identify those PMPC network costs that are not included in (a) or (b).

Response:

(a) – (d) The PMPC network cost had the following costs in Base Year 2000. The PMPC contract costs were \$590 million, as shown in LR-J-8, page 128. Expendable equipment purchased for the PMPC costs was \$5.7 million, as shown in USPS-LR-J-8, page 163. There were also product specific costs associated with headquarters' oversight of the PMPC network which are not part of the volume variable costs but are part of the incremental cost of Priority Mail. The amounts are \$478 thousand in Cost Segment 15; \$7.09 million in Cost Segment 16; \$7.4 million in Cost Segment 18; \$80 thousand in Cost Segment 20. These amounts are shown in witness Kay's workpapers (USPS-T-21), summarized in table 4 (base year) on pages 20 and 21 of Volume I. Transportation costs were not broken out separately in the contract, so that breakdown is not available.

**Response of United States Postal Service Witness Meehan
to
Interrogatories of United Parcel Service**

UPS/USPS-T11-2. Refer to USPS-LR-J-49, spreadsheet "Prg_01_s.XLS", page "HQ & FSU," line item "HQ & Field Service Units."

- (a) What is the total cost of the Postal Service's Sales function in BY2000? Provide separate figures for Headquarters, field operations, and contract services, including references where these costs are found in the Cost Segments and Components report.**
- (b) Describe what activities are included in Sales function costs.**
- (c) Show the distribution of these costs to individual Postal Service products.**
- (d) Describe the methodology that is used to distribute these costs.**
- (e) Are customer service costs included in the total cost of the Sales function? If not:
 - i) Provide the total customer service costs for the Postal Service in BY2000, with separate figures for Headquarters, field operations, and contract services and including references where these costs are found in the Cost Segments and Components report.**
 - (ii) Describe what activities are included in customer service costs.**
 - (iii) Show the distribution of these costs to individual Postal Service products.**
 - (iv) Describe the methodology that is used to distribute these costs.****

Response:

(a) The base year cost of the Sales Function is part of the line item that you cite "HQ & Field Service Units" which is contained in cost component 191. Component 191 is shown in my Exhibit USPS-11A at page 56, Headquarters column. This component is a non-volume variable cost component. Also, I am informed that the personnel costs related to the Sales Function shown in Prg_01_s.XLS were included with the Field Area and District Offices for six accounting periods during FY 2000. District office sales personnel costs are in cost segment 2, component 33. Component 33 is shown in my Exhibit USPS-11A, page 18. Component 33 is non-volume variable. Area office sales personnel costs are in cost segment 18, component 193. Component 193 is

**Response of United States Postal Service Witness Meehan
to
Interrogatories of United Parcel Service**

shown in my Exhibit USPS-11A, page 56. Component 193 is non-volume variable. See also the Postal Service's response to UPS/USPS-T21-6a.

(b) According to the Vice President of Sales' position description, the activities this VP oversees are: (1) the development, implementation, evaluation and monitoring of national sales policies and programs; (2) the development and implementation of sales strategies and plans; (3) the direction for lead generation activities and initiatives in coordination with field and headquarters marketing managers; (4) the management, development, implementation and improvement of direct selling programs supporting postal service product lines; (5) the management, development and implementation of systems and solutions related to increasing high impact sales of postal products and services; (6) the management of lead generation activities, ensuring support for field sales through the development of lead generation systems, policies, programs, and training.

(c) Non-volume variable costs are not distributed to products.

(d) Non-volume variable costs are not distributed to products.

(e) The base year cost of "customer service" is not separately identified by segment or component. However, some activities may be considered "customer service" activities that are included in the activities of the Sales Function. See the response to subpart (b) above.

(i) See (e) above.

(ii) See (e) above.

**Response of United States Postal Service Witness Meehan
to
Interrogatories of United Parcel Service**

(iii) See (e) above.

(iv) See (e) above.

**Response of United States Postal Service Witness Meehan
to
Interrogatories of United Parcel Service**

UPS/USPS-T11-3. Provide the total cost incurred in Fiscal Year 2000 for training Postal Service Window Service personnel. Provide a reference, including page numbers, for your answer.

Response:

Window service training is not separately reported in the Fiscal Year 2000 CRA.

USPS-LR-J-1, the Summary Description of USPS Development of Costs by Segments and Components Fiscal Year 2000, at pages 3-19 (top at 3) and 3-20 (top at 3), contains a discussion of window service training, which is included with those of safety, administrative and clerical work in addition to processing and special service training. The same rationale is applied to this component 470 for Base Year 2000, and can be found in my Workpaper A-2 at pages 39 and 40, column 2, where I show "Training Other" whose total is \$106,387(000). Of this total, \$81,741(000) is volume variable and distributed to classes of mail and special services.

Response of United States Postal Service Witness Meehan
to
Interrogatories of United Parcel Service

UPS/USPS-T11-4. Provide the attribution of Window Service training costs to Postal Service products. If the Window Service training costs are not attributed, has the Postal Service studied Window Service training costs to determine whether or not it is possible to attribute them? If the Postal Service has not studied attribution of Window Service training costs, why not?

Response:

See my response to your UPS/USPS-T11-3.

Response of United States Postal Service Witness Meehan
to
Interrogatories of United Parcel Service

UPS/USPS-T11-5. Provide the total cost in BY 2000 of the Postal Service's call centers.

Response:

Although the BY 2000 CRA doesn't explicitly track postal call center costs, I am informed that in BY 2000, the call center cost was approximately \$116 million.

**Response of United States Postal Service Witness Meehan
to
Interrogatories of United Parcel Service**

UPS/USPS-T11-6. Identify the cost segment and component in which the Postal Service's call center costs are accrued.

Response:

Call centers are not explicitly listed in the cost segment and component report.

However, I have been provided with the costs, which I show below. The cost components that these costs are a portion of are shown as well, along with a reference to the page(s) that most clearly show the cost component's distribution.

Amount(\$)	Cost Segment/Comp. that each amount is a portion of	Workpaper and page number where distribution is shown
77,711	1/1	A-1 pp. 1-2
66,635	2/284	Exh. A pp.17-18.1
75,730	3/478	Exh. A pp.23-24.1
2,200	11/81	A-4 p. 9-10.1
4,380	13/117	A-1 p. 54
3,450	13/141	A-2 pp. 93-94.1
1,314,104	15/165	A-4 pp.11- 12.1
8,279	15/166	A-4 pp.13-14.1
387,001	15/167	A-4 pp. 13-14.1
21,517,214	15/168	A-1 p. 70
29,978	15/169	A-1 p. 70
26,117	15/170	A-1 p.70
460,519	16/174	A-1 p. 74
38,372	16/175	A-1 p. 74
2,074	16/176	A-4 pp. 15-16.1
5,339,552	16/177	A-2 pp. 113-114.1
3,965	16/179	A-1 p. 72
773,931	16/182	A-1 p. 72
13,486	16/246	A-1 p. 76
4,797,064	18/191	A-1 p. 80
16,051	18/193	A-1 p. 80

Response of United States Postal Service Witness Meehan
to
Interrogatories of United Parcel Service

9,948	18/204,205,541	A-2 pp. 125-128.1
61,969,376	18/210	A-1 p. 88
11,922,789	18/211	A-1 p. 88
37,300	18/1429	A-1 p. 90
24,192	19/220	A-1 p. 92
6,725,249	20/232	A-4 pp. 29-30.1
112,952	20/236	A-4 pp. 31-32.1
660,673	20/237	A-4 pp. 31-32.1
(37,470)	20/245	A-1 p. 106
(195,886)	20/249	A-1 p. 106 ⁻
42,358	20/1437	A-1 p. 102

Response of United States Postal Service Witness Meehan
to
Interrogatories of United Parcel Service

UPS/USPS-T11-8. Has the Postal Service studied the costs of operating the call centers? Provide the distribution of these costs to Postal Service products and describe the methodology that is used to distribute call center costs to Postal Service products.

Response:

Please see my response to UPS/USPS-T11-6 for the citations of the distribution of costs. No special cost study was performed in making the call center cost distributions listed in UPS/USPS-T-6 above. The methodologies for distributing costs are described in USPS-LR-J-1.

1 CHAIRMAN OMAS: Is there any additional cross-
2 examination for Witness Meehan?

3 (No response.)

4 CHAIRMAN OMAS: This now brings us to oral cross-
5 examination. One party has requested oral cross-
6 examination, the United Parcel Service, Mr. McKeever.

7 Is there anyone else who would like to cross-
8 examine Ms. Meehan?

9 (No response.)

10 CHAIRMAN OMAS: There being none, Mr. McKeever?

11 MR. MCKEEVER: Thank you, Mr. Chairman.

12 CROSS-EXAMINATION

13 BY MR. MCKEEVER:

14 Q Good morning, Ms. Meehan.

15 A Good morning.

16 Q I would just like to direct your attention to your
17 response to Interrogatory UPS/USPS-T-11-2, in particular
18 2(a).

19 A Yes.

20 Q We there asked, "What is the total cost of the
21 Postal Service's sales function in base year 2000," and then
22 went on to ask for separate figures for certain categories.

23 I do not see in your answer any number for the
24 total cost of the Postal Service's sales function in base
25 year 2000. Is it possible to quantify that?

1 A I believe that we made an estimate in an
2 institutional response that was referred to in that one,
3 UPS/USPS-T-21-6(a) redirected to the Postal Service.

4 Q Okay. So I can get the number for the cost of the
5 sales function in that response?

6 A Right.

7 MR. MCKEEVER: Okay. That's all I have, Mr.
8 Chairman. Thank you.

9 CHAIRMAN OMAS: Thank you, Mr. McKeever.
10 Is there any follow up cross-examination?

11 (No response.)

12 CHAIRMAN OMAS: Are there any questions from the
13 bench?

14 (No response.)

15 CHAIRMAN OMAS: Ms. Docek, would you like some
16 time with your witness?

17 MS. DOCHEK: I don't think that will be necessary,
18 Mr. Chairman. We have no redirect.

19 CHAIRMAN OMAS: Ms. Meehan, that completes your
20 testimony here today. We appreciate your appearance and
21 your contribution to our record. Thank you for being with
22 us today.

23 THE WITNESS: Thank you.

24 (Witness excused.)

25 CHAIRMAN OMAS: Ms. Docek, would you please call

1 your next witness?

2 MS. DOCHEK: Yes. The Postal Service calls
3 Richard Patelunas.

4 CHAIRMAN OMAS: Would you raise your right hand?
5 Whereupon,

6 RICHARD PATELUNAS

7 having been duly sworn, was called as a witness
8 and was examined and testified as follows:

9 CHAIRMAN OMAS: Please be seated.

10 (The document referred to was
11 marked for identification as
12 Exhibit No. USPS-T-12.)

13 DIRECT EXAMINATION

14 BY MS. DOCHEK:

15 Q My colleague is handing Mr. Patelunas two copies
16 of a document entitled Direct Testimony of Richard Patelunas
17 on behalf of United States Postal Service designated as
18 USPS-T-12. Are you familiar with that document?

19 A Yes.

20 Q Was it prepared by you or under your supervision?

21 A Yes.

22 Q Does it include your errata of October 31, 2001?

23 A Yes, it does.

24 Q And if you were to testify orally today, would
25 this still be your testimony?

1 A Yes.

2 MS. DOCHEK: In addition, Mr. Chairman, there are
3 several Category II library references associated with the
4 testimony of this witness, USPS-LR-J-4, Sections 2 through
5 9; 5, Sections 3 through 6; 6 all FY '01, FY '02 and FY '03
6 files; all of No. 7, all of No. 9; all of No. 48; and
7 Section 1 of 49.

8 BY MS. DOCHEK:

9 Q Are you familiar with these documents?

10 A Yes.

11 Q Were they prepared by you or under your
12 supervision?

13 A Yes.

14 Q Do you have any changes?

15 A No, I don't.

16 MS. DOCHEK: Mr. Chairman, I ask that the direct
17 testimony of Richard Patelunas on behalf of United States
18 Postal Service designated as USPS-T-12 and the portions of
19 the library references I have listed and the other library
20 references in their entirety be entered into evidence.

21 CHAIRMAN OMAS: Is there any objection?

22 (No response.)

23 CHAIRMAN OMAS: Hearing none, I will direct
24 counsel to provide the reporter with two copies of the
25 corrected direct testimony of Richard L. Patelunas. That

1 testimony is received into evidence. However, as is our
2 practice, it will not be transcribed.

3 (The document referred to,
4 previously identified as
5 Exhibit No. USPS-T-12, was
6 received in evidence.)

7 CHAIRMAN OMAS: Mr. Patelunas, have you had an
8 opportunity to examine the packet of designated written
9 cross-examination that was made available to you in the
10 hearing room this morning?

11 THE WITNESS: Yes.

12 CHAIRMAN OMAS: If the questions contained in that
13 packet were posed to you orally today, would your answers be
14 the same as those previously provided in writing?

15 THE WITNESS: Yes.

16 CHAIRMAN OMAS: Are there any corrections or
17 additions you would like to make at this time?

18 THE WITNESS: No.

19 CHAIRMAN OMAS: Counsel, would you please provide
20 two copies of the corrected designated written cross-
21 examination of Witness Patelunas to the reporter? That
22 material is received into evidence, and it is to be
23 transcribed into the record.

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(The document referred to was
marked for identification as
Exhibit No. USPS-T-12 and was
received in evidence.)

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes

Docket No. R2001-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS RICHARD L. PATELUNAS
(USPS-T-12)

Party

Interrogatories

Direct Marketing Association, Inc.

DMA/USPS-T6-13, 49-58, 60 redirected to T12

Magazine Publishers of America

MPA/USPS-T12-1-5

MPA/USPS-T6-1-2 redirected to T12

Parcel Shippers Association

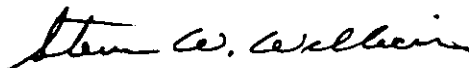
PSA/USPS-T40-1b, 3c, f-g, 4 redirected to T12

United Parcel Service

UPS/USPS-T12-1-5

UPS/USPS-T6-1-6, 10-12 redirected to T12

Respectfully submitted,



Steven W. Williams
Secretary

INTERROGATORY RESPONSES OF
 UNITED STATES POSTAL SERVICE
 WITNESS RICHARD L. PATELUNAS (T-12)
 DESIGNATED AS WRITTEN CROSS-EXAMINATION

<u>Interrogatory</u>	<u>Designating Parties</u>
DMA/USPS-T6-13 redirected to T12	DMA
DMA/USPS-T6-49 redirected to T12	DMA
DMA/USPS-T6-50 redirected to T12	DMA
DMA/USPS-T6-51 redirected to T12	DMA
DMA/USPS-T6-52 redirected to T12	DMA
DMA/USPS-T6-53 redirected to T12	DMA
DMA/USPS-T6-54 redirected to T12	DMA
DMA/USPS-T6-55 redirected to T12	DMA
DMA/USPS-T6-56 redirected to T12	DMA
DMA/USPS-T6-57 redirected to T12	DMA
DMA/USPS-T6-58 redirected to T12	DMA
DMA/USPS-T6-60 redirected to T12	DMA
MPA/USPS-T12-1	MPA
MPA/USPS-T12-2	MPA
MPA/USPS-T12-3	MPA
MPA/USPS-T12-4	MPA
MPA/USPS-T12-5	MPA
MPA/USPS-T6-1 redirected to T12	MPA
MPA/USPS-T6-2 redirected to T12	MPA
PSA/USPS-T40-1b redirected to T12	PSA
PSA/USPS-T40-3c redirected to T12	PSA
PSA/USPS-T40-3f redirected to T12	PSA
PSA/USPS-T40-3g redirected to T12	PSA
PSA/USPS-T40-4 redirected to T12	PSA
UPS/USPS-T12-1	UPS
UPS/USPS-T12-2	UPS
UPS/USPS-T12-3	UPS
UPS/USPS-T12-4	UPS
UPS/USPS-T12-5	UPS
UPS/USPS-T6-1 redirected to T12	UPS
UPS/USPS-T6-2 redirected to T12	UPS
UPS/USPS-T6-3 redirected to T12	UPS
UPS/USPS-T6-4 redirected to T12	UPS

UPS/USPS-T6-5 redirected to T12	UPS
UPS/USPS-T6-6 redirected to T12	UPS
UPS/USPS-T6-10 redirected to T12	UPS
UPS/USPS-T6-11 redirected to T12	UPS
UPS/USPS-T6-12 redirected to T12	UPS

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS TO INTERROGATORIES OF
DIRECT MARKING ASSOCIATION, INC.
(REDIRECTED FROM WITNESS TAYMAN)**

DMA/USPS-T6-13. Please refer to Exhibit G of USPS-LR-J-49 where you identify \$350 million in FY 01, \$400 million in FY 02, and \$350 million in FY 03 of Other Program Breakthrough Productivity savings.

(a) Please describe all initiatives that the Postal Service includes in the Breakthrough Productivity Other Program.

(b) Please provide in an electronic spreadsheet format a disaggregation of the Other Program Breakthrough Productivity savings by fiscal year, cost segment, mail class, and mail subclass.

Response:

(a) The total Other Program Breakthrough Productivity savings shown in Exhibit G of USPS-LR-J-49 consist of the initiatives shown in Exhibits A – C of USPS-LR-J-49. There are also Cost Reduction Breakthrough Productivity savings and these are shown at pages 1 - 3. The individual initiatives by cost segment are:

<u>OTHER PROGRAMS</u>				
<u>CS</u>	<u>Title</u>	<u>Exhibit A (FY2001)</u>	<u>Exhibit B (FY2002)</u>	<u>Exhibit C (FY2003)</u>
2	Supv.	0	69,000	50,000
3	Clk/MH.	172,500	123,695	110,443
6/7	City Carr.	77,500	99,932	89,225
10	Rural Car.	0	18,568	16,579
11	Maint.	0	9,650	8,616
12	MVS	0	28,154	25,138
16	Sup/Serv.	1,000	2,000	0
18	Admin.	99,063	48,638	49,663
Total		350,063	399,637	349,664.

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS TO INTERROGATORIES OF
DIRECT MARKING ASSOCIATION, INC.
(REDIRECTED FROM WITNESS TAYMAN)**

Response continued:

COST REDUCTIONS

<u>CS</u>	<u>Title</u>	<u>Ex E. Page1 (FY2001)</u>	<u>Ex. E Page 2 (FY2002)</u>	<u>Ex. E Page 3 (FY2003)</u>
14	Trans.	100,000	30,000	60,000
15	Bldg Occ.	40,000	42,000	40,000
	Total	140,000	72,000	100,000
Grand Total of Other Programs & Cost Reductions		490,063	471,673	449,664

See also the responses of witness Tayman to DMA/USPS-T6-25, 30 and 32.

(b) Please refer to Attachment 1 that accompanies this response. The attachment shows where the requested information can be found in both hardcopy and electronic formats.

Attachment 1
DMS\USPS-176-1264

Cost Request	Title	Format	USPS-LR-J-48 Exhibit A	USPS-LR-J-48 Exhibit B	USPS-LR-J-48 Exhibit C	USPS-LR-J-48 Exhibit D
2	Reprover	Hardcopy	NA	USPS-LR-J-171 p.5 USPS-LR-J-171 p.6	USPS-T-12 Workshop WP-E Table A pp 76-79 USPS-LR-J-6...W03048.dcl	USPS-T-12 Workshop WP-G Table A pp 76-79 USPS-LR-J-6...W03048.dcl
3	CDMM	Hardcopy	USPS-LR-J-171 p.1 USPS-LR-J-171 p.1	USPS-LR-J-171 p.6 USPS-LR-J-171 p.6	USPS-LR-J-171 p.10 USPS-LR-J-171 p.10	USPS-LR-J-171 p.13 USPS-LR-J-171 p.13
6A7	City Center	Hardcopy	USPS-LR-J-171 p.2 USPS-LR-J-171 p.2	USPS-LR-J-171 p.7 USPS-LR-J-171 p.7	USPS-LR-J-171 p.11 USPS-LR-J-171 p.11	USPS-LR-J-171 p.14 USPS-LR-J-171 p.14
10	Total Center	Hardcopy	NA	USPS-T-12 Workshop WP-C Table A pp 294-309 USPS-LR-J-6...W03048.dcl	USPS-T-12 Workshop WP-E Table A pp 294-309 USPS-LR-J-6...W03048.dcl	USPS-T-12 Workshop WP-G Table A pp 294-309 USPS-LR-J-6...W03048.dcl
11	Washington	Hardcopy	NA	USPS-T-12 Workshop WP-C Table A pp 317-319 USPS-LR-J-6...W03048.dcl	USPS-T-12 Workshop WP-E Table A pp 313-314 USPS-LR-J-6...W03048.dcl	USPS-T-12 Workshop WP-G Table A pp 313-314 USPS-LR-J-6...W03048.dcl
12	MAG	Hardcopy	NA	USPS-T-12 Workshop WP-C Table A pp 447-449 USPS-LR-J-6...W03048.dcl	USPS-T-12 Workshop WP-E Table A pp 381-382 USPS-LR-J-6...W03048.dcl	USPS-T-12 Workshop WP-G Table A pp 381-382 USPS-LR-J-6...W03048.dcl
16	Supplier	Hardcopy	USPS-LR-J-171 p.4 USPS-LR-J-171 p.4	USPS-LR-J-171 p.9 USPS-LR-J-171 p.9	NA NA	NA NA
18	Admin	Hardcopy	USPS-T-12 Workshop WP-A Table A pp 733-734 USPS-LR-J-6...W03048.dcl	USPS-T-12 Workshop WP-C Table A pp 745-746 USPS-LR-J-6...W03048.dcl	USPS-T-12 Workshop WP-E Table A pp 625-626 USPS-LR-J-6...W03048.dcl	USPS-T-12 Workshop WP-G Table A pp 625-626 USPS-LR-J-6...W03048.dcl
14	Transportation	Hardcopy	USPS-LR-J-171 p.3 USPS-LR-J-171 p.3	USPS-LR-J-171 p.8 USPS-LR-J-171 p.8	USPS-LR-J-171 p.12 USPS-LR-J-171 p.12	USPS-LR-J-171 p.15 USPS-LR-J-171 p.15
15	Big Open	Hardcopy	USPS-T-12 Workshop WP-A Table A pp 733-734 USPS-LR-J-6...W03048.dcl	USPS-T-12 Workshop WP-C Table A pp 745-746 USPS-LR-J-6...W03048.dcl	USPS-T-12 Workshop WP-E Table A pp 625-626 USPS-LR-J-6...W03048.dcl	USPS-T-12 Workshop WP-G Table A pp 625-626 USPS-LR-J-6...W03048.dcl

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS TO INTERROGATORIES OF
DIRECT MARKING ASSOCIATION, INC.
(REDIRECTED FROM WITNESS TAYMAN)**

DMA/USPS-T6-49. Please refer to your Library Reference J-49. On Page 5 you state, "Average annual savings budgeted for each AFSM 100 are approximately 34,480 workhours per machine. The AFSM 100 is expected to run an average of 16 hours per day, and a two-month time lag in savings is assumed."

- (a) How many days per week are the machines expected to run?
- (b) Please explain in as much detail as possible why a two month lag in savings is assumed.
- (c) Please explain the derivation of the 34,480 workhour savings per machine, including all assumptions and calculations.

Response:

- (a) The DAR assumes 286 processing days/year for primary operations and 302 processing days/year for secondary operations.
 - (b) The two month savings lag follows installation because time is needed to *integrate the new equipment into the operating environment. The two month period is generally the standard for equipment programs and it is based on years of implementation experience. For example, crew training is required for the operation of the new equipment. There is a period of learning and during the early parts, the operation and savings do not approach the maximum. Also, time is required to make the operational changes to adjust the mail flows within facilities to incorporate the new equipment.*
 - (c) Partial Objection filed on November 5, 2001. The 34,480 workhour savings are the budgeted savings calculated using, from the DAR, 21,760 lower bound savings plus 12,720 toward the upper bound savings. The lower bound savings were based on prototype machine testing. Once the DAR
-

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS TO INTERROGATORIES OF
DIRECT MARKING ASSOCIATION, INC.
(REDIRECTED FROM WITNESS TAYMAN)**

Response continued:

and the competitive testing were completed, expectations became that additional savings opportunities were available, and these are reflected in the 12,720 workhours toward the upper bound.

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS TO INTERROGATORIES OF
DIRECT MARKING ASSOCIATION, INC.
(REDIRECTED FROM WITNESS TAYMAN)**

DMA/USPS-T6-50. Please refer to your Library Reference J-49, Spreadsheet Prg_01_s_27094, Exhibit E, Summary of FY 2001 Cost Reduction Program Changes From Prior Year.

- (a) Please confirm that you list 24 programs for either clerks or mailhandlers that yield cost reductions.
- (b) Please confirm that you list 5 programs for carriers that yield cost reductions.
- (c) Please confirm that cost reduction programs for clerks save 6,561.9 work years for clerks, 917.4 workyears for mailhandlers and 2,270 workyears for carriers. If you cannot confirm, please provide the correct workyear savings.
- (d) Please confirm that the cost reduction programs for clerks and mailhandlers total 7,479.3 workyears. If you cannot confirm, please provide the correct workyear savings.

Response:

(a- d) Confirmed.

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS TO INTERROGATORIES OF
DIRECT MARKING ASSOCIATION, INC.
(REDIRECTED FROM WITNESS TAYMAN)**

DMA/USPS-T6-51. Please refer to Exhibit E, Summary of FY 2001 Cost Reduction Program Changes From Prior Year.

- (a) Please confirm that of the 24 programs with cost reductions for clerks or mailhandlers, only two have associated supervisor cost reductions. If you cannot confirm, please provide the correct number.
- (b) Please confirm that the cost reductions for these two programs aggregate 6.9 workyears. If you cannot confirm, please provide the correct number.
- (c) Please explain in as much detail as possible why it requires almost the same amount of supervisor workyears to supervise 7,479.3 fewer clerk and mailhandler workyears. Please include in your explanation references to "mailflows, networks and operations" which you cite on page 16 of your testimony as being factors in supervisory staffing requirements.

Response:

(a - b) Confirmed.

(d) All the cost reduction and other program amounts shown for FY 2001 and FY2002 were subjected to the Postal Service's budget process. This involves negotiations among program managers, field managers and headquarters managers to arrive at cost reduction amounts that are achievable. No part of the budget escapes this scrutiny and all realistic opportunities are explored. Thus, if there were savings opportunities for supervisors, they would have been included in the budget. Any additional conceptual or theoretical savings not considered in the formulation of field budgets will not be realized.

In addition to the cite on page 16, please refer to the following testimonies in Docket No. R2001-1: witness Kingsley, USPS-T-39, pages 37-38, and witness Smith, USPS-T-15, footnote 25 on page 20. Also, please refer to the direct

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS TO INTERROGATORIES OF
DIRECT MARKING ASSOCIATION, INC.
(REDIRECTED FROM WITNESS TAYMAN)**

Response continued:

testimony of witness Tayman, USPS-T-6, on page 14, and the rebuttal testimony of witness Patelunas, USPS-RT-4, on pages 1-4, filed in Docket No. R2000-1.

Please also refer to the hypothetical discussed at footnote 23 of the Postal Service Reply Brief and the Commission's comments at section [2035] of its Opinion and Further Recommended Decision, February 9, 2001.

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS TO INTERROGATORIES OF
DIRECT MARKING ASSOCIATION, INC.
(REDIRECTED FROM WITNESS TAYMAN)**

DMA/USPS-T6-52 Please refer to Exhibit E, Summary of FY 2001 Cost Reduction Program Changes From Prior Year.

- (a) Please confirm that of the 5 programs with cost reductions for carriers, none has associated supervisor cost reductions. If you cannot confirm, please provide the correct number.
- (b) Please explain in as much detail as possible why it requires the same number of supervisors to supervise 2,270 fewer carrier workyears. Please include in your explanation references to "mailflows, networks and operations" which you cite on page 16 of your testimony as being factors in supervisory staffing requirements.

Response:

- (a) Confirmed.
- (b) All the city carrier cost reductions shown in USPS-LR-J-49 reflect In-Office savings. The same reasons that supervisor cost reductions may not be realized in the mail processing environment apply equally to this portion of the City Carrier environment because it entails sorting and preparing mail for street delivery. Most of the savings are due to the Delivery Point Sequencing environment enhanced by the CSBCS and DBCS sorting equipment. The remaining savings are due to the ID Sort Code program that results in fewer manual handlings. See also the response to DMA/USPS-T6-51(c).

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS TO INTERROGATORIES OF
DIRECT MARKING ASSOCIATION, INC.
(REDIRECTED FROM WITNESS TAYMAN)**

DMA/USPS-T6-53. Please refer to Exhibit E, Summary of FY 2001 Cost Reduction Program Changes From Prior Year.

- (a) Please confirm that there are only five programs with cost reduction programs for supervisors. If you cannot confirm, please provide the correct number.**
- (b) Of these five, please confirm that only two have associated clerk and mailhandler cost reductions. If you cannot confirm, please provide the number.**
- (c) Of these five, please confirm that none has associated carrier cost reductions. If you cannot confirm, please provide the correct number.**

Response:

(a - c) Confirmed.

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS TO INTERROGATORIES OF
DIRECT MARKING ASSOCIATION, INC.
(REDIRECTED FROM WITNESS TAYMAN)**

DMA/USPS-T6-54. Please refer to Exhibit E, Summary of FY 2002 Cost Reduction Program Changes From Prior Year.

- (a) Please confirm that you list 21 programs for either clerks or mailhandlers that yield cost reductions.
- (b) Please confirm that you list 3 programs for carriers that yield cost reductions.
- (c) Please confirm that cost reduction programs for clerks save 8,887.6 workyears for clerks, 902.5 workyears for mailhandlers and 78 workyears for carriers. If you cannot confirm, please provide the correct workyear savings.
- (d) Please confirm that the cost reduction programs for clerks and mailhandlers total 9,790.1 workyears. If you cannot confirm, please provide the correct workyear savings.

Response:

(a - d) Confirmed.

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS TO INTERROGATORIES OF
DIRECT MARKING ASSOCIATION, INC.
(REDIRECTED FROM WITNESS TAYMAN)**

DMA/USPS-T6-55. Please refer to Exhibit E, Summary of FY 2002 Cost Reduction Program Changes From Prior Year.

- (a) Please confirm that of the 21 programs with cost reductions for clerks or mailhandlers, only three have associated supervisor cost reductions. If you cannot confirm, please provide the correct number.
- (b) Please confirm that the supervisor cost reductions for these three programs aggregate 48.3 workyears. If you cannot confirm, please provide the correct number.
- (c) Please explain in as much detail as possible why it requires almost the same number of supervisors to supervise almost 10,000 fewer clerk and mailhandler workyears. Please include in your explanation references to "mailflows, networks and operations" which you cite on page 16 of your testimony as being factors in supervisory staffing requirements.

Response:

- (a - b) Confirmed.
- (c) See response to DMA/USPS-T6-51(C).

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS TO INTERROGATORIES OF
DIRECT MARKING ASSOCIATION, INC.
(REDIRECTED FROM WITNESS TAYMAN)**

DMA/USPS-T6-56. Please refer to Exhibit E, Summary of FY 2002 Cost Reduction Program Changes From Prior Year. Please confirm that of the 3 programs with cost reductions for carriers, none has associated supervisor cost reductions. If you cannot confirm, please provide the correct number.

Response: Confirmed.

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS TO INTERROGATORIES OF
DIRECT MARKING ASSOCIATION, INC.
(REDIRECTED FROM WITNESS TAYMAN)**

DMA/USPS-T6-57. Please refer to Exhibit E, Summary of Test Year Cost Reduction Program Changes From Prior Year.

- (a) Please confirm that you list 20 programs for either clerks or mailhandlers that yield cost reductions.
- (b) Please confirm that cost reduction programs for clerks save 7,063 workyears for clerks and 161.1 workyears for mailhandlers. If you cannot confirm, please provide the correct work year savings.
- (c) Please confirm that the cost reduction programs for clerks and mailhandlers total 7,224.1 workyears. If you cannot confirm, please provide the correct workyear savings.

Response:

- (a - c) Confirmed.

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS TO INTERROGATORIES OF
DIRECT MARKING ASSOCIATION, INC.
(REDIRECTED FROM WITNESS TAYMAN)**

DMA/USPS-T6-58. Please refer to Exhibit E, Summary of Test Year Cost Reduction Program Changes From Prior Year.

- (a) Please confirm that of the 20 programs with cost reductions for clerks or mailhandlers, none has associated supervisor cost reductions. If you cannot confirm, please provide the correct number.
- (b) Please explain in as much detail as possible why it requires the same number of supervisors to supervise 7,224.1 fewer clerk and mailhandler workyears. Please include in your explanation references to "mailflows, networks and operations" which you cite on page 16 of your testimony as being factors in supervisory staffing requirements.

Response:

- (a) Confirmed.
- (b) See response to DMA/USPS-T6-51(c).

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS TO INTERROGATORIES OF
DIRECT MARKING ASSOCIATION, INC.
(REDIRECTED FROM WITNESS TAYMAN)**

DMA/USPS-T6-60. Please refer to Exhibit E, Summary of FY 2001 Cost Reduction Program Changes From Prior Years. The 17th program listed is "Automated Feeders and OCRs".

- (a) Please confirm that this is the program you describe on page 9 of Library Reference J-49.
- (b) Please confirm that witness Kingsley describes this program on page 15 of her testimony.
- (c) Please reconcile your statement on page 9 of LR J-49, " This program will install automated flats feeders and optical character readers (OCRs) on all 359 FSM 1000s" with her statement on page 15 of her testimony, "There are 351 machines deployed...Presently there are no plans to purchase additional FSM 1000s."

Response:

- (a) Confirmed.
 - (b) Confirmed.
 - (c) Of the total 359 machines, four are simulators and four are trainers; these *eight are not deployed in operations.*
-

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS TO INTERROGATORIES OF
MAGAZINE PUBLISHERS OF AMERICA
(MPA/USPS-T12-1)**

MPA/USPS-T12-1. Please refer to the column titled "Final Adjustments Free Mail" on Exhibit 12A. This column appears to shift \$410,000 of cost from Free Mail to the Periodicals Outside-County subclass. Please explain fully why costs should be shifted from Free Mail to the Periodicals Outside-County subclass.

Response:

The final adjustment that appears in Fiscal Years 2001-2003 is a continuation of the Base Year 2000 adjustment that is shown on Exhibit USPS-11B of witness Meehan's testimony (USPS-T-11). An adjustment was made to the Fiscal Year 2000 Revenue, Pieces and Weight report (RPW) to account for potential double counting of Periodicals pieces as free Mail for the Blind pieces. A cost adjustment was needed to coincide with this volume adjustment and it is assumed that the adjustment will continue into the future.

I am told that Free Mail for the Blind volume in the RPW report is obtained from the Domestic RPW sampling system which relies on the endorsement of Free Mail for the Blind for identification. There is a potential for some small amount of Periodicals mail bearing a Free Mail for the Blind endorsement to not qualify for this rate, thus causing an overstatement of the Free Mail for the Blind volume. An adjustment was made in RPW to decrease the Free Mail for the Blind volume to compensate for this potential overstatement. No similar adjustment was needed for Periodicals because these calculations rely on information from mailing statements and as such, there was no possibility of sampling error.

Periodicals and Free for the Blind Base Year 2000 costs rely on sampling mail as endorsed; therefore, adjustments were needed for both classes. The volume of Free

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF
MAGAZINE PUBLISHERS OF AMERICA
(MPA/USPS-T12-1)**

Response continued:

Mail for the Blind that was adjusted in RPW was multiplied by the unit cost of Free Mail for the Blind to yield the final adjustment. This was a negative volume adjustment, hence, the negative final adjustment.

The volume that was removed from Free Mail for the Blind was actually Periodicals volume and the Periodicals cost did not reflect that. The unit cost of Periodicals was multiplied by the volume amount removed from Free Mail for the Blind to yield the final adjustment. In this case, the increased volume resulted in a positive final adjustment.

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS
TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA**

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.

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS
TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA**

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.

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS
TO INTERROGATORIES OF MAGAZINE PUBLISHERS OF AMERICA**

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	3,675	(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	(8,489)
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	1,266	921	(366)
Special Services:			
Registry	8	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	26,006	44,934	19,930
Total Costs	94,823	94,823	(0)

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

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

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(Redirected from witness Tayman USPS-T-12)**

MPA/USPS-T6-1. In the section of USPS-LR-J-49 titled "AUTOMATED FLAT SORTING MACHINE (AFSM 100): FIRST BUY (175) AND SECOND BUY (882)", it briefly describes some of the assumptions and methods you used to quantify the cost savings that will result from the second AFSM 100 buy:

The site-specific savings are based on productivity increases expected in moving existing flat volumes from the FSM 881, FSM 1000, and manual operations in the plants and delivery offices to the AFSM 100. Additional workhours were added for taking flat mail that does not arrive in Postal Service standard flat tubs and placing it into mail prep carts that will be delivered with the AFSM 100s.

(a) Please provide all calculations underlying your estimate of the cost savings from AUTOMATED FLAT SORTING MACHINE (AFSM 100): FIRST BUY (175) AND SECOND BUY (362).

(b) Please provide all Decision Analysis Reports that the Postal Service has produced regarding AFSM 100s.

(c) What percentage of mail that will be processed on the second buy AFSM 100s was processed manually in FY 2000? If you cannot provide an exact estimate, please provide your best approximation.

(d) What percentage of mail that will be processed on the second buy AFSM 100s was processed on FSM 881 s in FY 2000? If you cannot provide an exact estimate, please provide your best approximation.

(e) What percentage of mail that will be processed on the second buy AFSM 100s was processed on FSM 1000s in FY 2000? If you cannot provide an exact estimate, please provide your best approximation.

Revised 10/24/01

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MAGAZINE PUBLISHERS OF AMERICA
(Redirected from witness Tayman USPS-T-12)**

Response:

a) Please see Partial Objection of United States Postal Service to Interrogatories of Magazine Publishers of America, Inc. to Witness Tayman and Uncontested Motion for Protective Conditions (MPA/USPS-T6-1(a) and (b), 2(a) and (b), and 3(a)), filed October 15, 2001. Please refer to Attachment 1 that accompanies this response; an electronic version is contained in USPS-LR-J-145. The calculations shown there present a general description, or crosswalk, from the original DAR calculations to the calculations that appear in USPS-LR-J-49. The DAR calculations were developed at a certain point in time and the crosswalk will help explain how those calculations changed by the time of preparing USPS-LR-J-49. The calculations are presented in three sections: DAR Calculation, Deployment Calculations and Rate Case Calculations.

For each year, the DAR calculations assume a certain "Labor Hour Savings per Machine" and a dollar "Savings per Machine", as well as a "Savings this year." From these assumptions, dividing the "Savings this year" by the "Savings per Machine" yields a "Calculated Average Number of Machines". These "Calculated Average Number of Machines" can be thought of as the implicit deployment schedule for the program.

The Deployment Calculations utilize actual deployment information as the schedule unfolds. In both Flat Sorting Machine programs shown here, the deployment occurs earlier than had been projected in the DAR; thus, the savings are expected to occur earlier. The "Deployment Months" is the number of months each year the

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(Redirected from witness Tayman USPS-T-12)**

Response continued:

machine is expected to realize savings and that, combined with the other information, can be used to calculate the Deployment "Calculated Average Number of Machines." Specifically, the calculation is "Deployment Savings this year (000s)" divided by "Savings per Machine."

The Rate Case Calculations show a "Calculated Average Number of Machines" also. This is calculated using the information shown in USPS-LR-J-49. It is the "Rate Case Savings this year (000s)" divided by "Savings per Machine".

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 DAR assumptions and the total program savings are still valid, although the timing has changed.

b) Please see Partial Objection of United States Postal Service to Interrogatories of Magazine Publishers of America, Inc. to Witness Tayman and Uncontested Motion for Protective Conditions (MPA/USPS-T6-1(a) and (b), 2(a) and (b), and 3(a)), filed October 15, 2001. See USPS-LR-J-152, filed October 24, 2001 under protective conditions.

c-e) It is my understanding that the Postal Service does not track volumes for Phase II machines nor does it track the source of the volumes handled on all of the AFSM 100s. Some AFSM 100 volumes came from manual operations, as well as the FSM 881s and the 1000s. Additionally, by freeing up capacity on the FSM 1000s, volumes

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Response continued:

were diverted from manual operations to the FSM 1000s, and the use of FSM 881s diminished much more rapidly than was planned.

However, for a better understanding, please refer to the testimony of witness Kingsley, USPS-T-39. On page 18, lines 8-10, witness Kingsley provides the percent of Plant processing by machine and manual for AP 12 Fiscal Year 2001. A comparison with Fiscal Year 2000 would not be useful, however, because there was very little volume on AFSM 100s in Fiscal Year 2000; Fiscal Year 2001 is when the major impacts begin.

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MPA/USPS-T6-2. In the section of USPS-LR-J-49 titled "AUTOMATED FEEDERS & OCRs", you briefly describe the method you used to quantify the cost savings that will result from adding automated feeders and OCRs to FSM 1000s

(a) Please provide all calculations underlying your estimate of the cost savings from adding automated feeders and OCRs to FSM 1000s.

(b) Please provide all Decision Analysis Reports that the Postal Service has produced regarding the retrofit of FSM 1000s with automated feeders and OCR. %

Response:

a) Please see Partial Objection of United States Postal Service to Interrogatories of Magazine Publishers of America, Inc. to Witness Tayman and Uncontested Motion for Protective Conditions (MPA/USPS-T6-1(a) and (b), 2(a) and (b), and 3(a)), filed October 15, 2001. Please refer to Attachment 1 that accompanies this response; an electronic version is contained in USPS-LR-J-145. The calculations shown there present a general description, or crosswalk, from the original DAR calculations to the calculations that appear in USPS-LR-J-49. The DAR calculations were developed at a certain point in time and the crosswalk will help explain how those calculations changed by the time of preparing USPS-LR-J-49. The calculations are presented in three sections: DAR Calculation, Deployment Calculations and Rate Case Calculations.

For each year, the DAR calculations assume a certain "Labor Hour Savings per Machine" and a dollar "Savings per Machine", as well as a "Savings this year." From these assumptions, dividing the "Savings this year" by the "Savings per Machine" yields

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Response continued:

a "Calculated Average Number of Machines". These "Calculated Average Number of Machines" can be thought of as the implicit deployment schedule for the program.

The Deployment Calculations utilize actual deployment information as the schedule unfolds. For the Feeder and OCR program shown here, the deployment occurs earlier than had been projected in the DAR; thus, the savings are expected to occur earlier. The "Deployment Months" is the number of months each year the machine is expected to realize savings and that, combined with the other information, can be used to calculate the Deployment "Calculated Average Number of Machines." Specifically, the calculation is "Deployment Savings this year (000s)" divided by "Savings per Machine."

The Rate Case Calculations show a "Calculated Average Number of Machines" also. This is calculated using the information shown in USPS-LR-J-49. It is the "Rate Case Savings this year (000s)" divided by "Savings per Machine".

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 DAR assumptions and the total program savings are still valid, although the timing has changed.

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(Redirected from witness Tayman USPS-T-12)**

Response continued:

b) Please see Partial Objection of United States Postal Service to Interrogatories of Magazine Publishers of America, Inc. to Witness Tayman and Uncontested Motion for Protective Conditions (MPA/USPS-T6-1(a) and (b), 2(a) and (b), and 3(a)), filed October 15, 2001. See USPS-LR-J-152, filed October 24, 2001 under protective conditions.

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS TO INTERROGATORIES OF
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(REDIRECTED FROM WITNESS COCHRANE)**

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

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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:

Please refer to Attachment 1 that accompanies this response. Attachment 1 shows the calculation of the \$211,600,000 of labor costs discussed in my earlier response to UPS/USPS-T6-2(a)(i), redirected from witness Tayman. That earlier response provided a general description of some of the site-by-site factors used to calculate the labor expenses of the transition. The earlier response further explained that nine-thirteenths of the total was applied to Fiscal Year 2001 and the remainder was applied to Fiscal Year 2002. My response to UPS/USPS-T12-2(b) should also be referenced as part of the explanation because, as I explained in that response, the labor costs of the transition shown in the rate case include all labor costs and they are all distributed to Priority Mail.

Referring to Attachment 1, Column (1) shows the general function or area of the personnel and Column (2) shows the related pay category. The footnotes for the second column explain the reasoning behind the workhours shown in Column (3). Footnote 1/ shows the calculation of the Casual and PS-5 mail processing hours using data from the previous year. Actual site volumes were summed to the "Total Volume" and it was assumed that 80% of this mail received a second handling; the sum of these two pieces yields the "Total Handled Volume". It was assumed that this mail was processed at a rate of 150

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Response continued:

pieces per hour; thus, dividing the "Total Handled Volume" by 150 PPH yields total workhours. Agreements with Postal unions set the constraint of 75% Full-Time hours and 25% Casual hours.

Footnote 2/ denotes additional mail processing hours that were derived from discussions with the field concerning implementation. Footnote 3/ is the first line mail processing supervision calculation and it utilized actual PMPC supervisor hours from the previous year. Footnotes 4/ and 5/ display the assumed support personnel required for the operation of the sites: Maintenance and Higher Level Supervisors.

The Average Rate per Hour in Column (4) is multiplied by the Workhours in Column (3) to arrive at the Total Cost in Column (5). Each of the amounts in Columns (3) through (5) are based on the previous year, so the Total Cost of \$205,738,000 was multiplied by a 2.8% Escalation Rate to estimate Fiscal Year 2001 dollar amounts. This generates the Total Cost of \$211,600,000 that appears in the rate case. As explained earlier, the Total Cost of \$211,600,000 was allocated to nine APs in Fiscal Year 2001 and four APs in Fiscal Year 2002.

Attachment 1
UPS/USPS-T12-1

(1)	(2)		Workhours (000s) (3)	Rate per hour (4)	Total Cost (000s) (5)
Mail Processing	Casual	1/	1,800	11.12	20,012
Mail Processing	PS-5	1/	5,399	30.66	165,534
Mail Processing	PS-05	2/	44	30.66	1,349
Mail Processing	PS-06	2/	18	32.17	579
Mail Proc. Supervision	EAS-16	3/	241	35.40	8,531
Maintenance	PS-07	4/	54	33.23	1,794
Maintenance	PS-10	5/	18	38.59	695
Human Resources	EAS-15	5/	1	33.91	20
Human Resources	EAS-17	5/	26	38.75	1,008
Operations Support	EAS-21	4/	55	45.31	2,482
Manager	EAS-23	4/	55	49.35	2,714
Manager	EAS-25	5/	18	56.07	1,009
			7,728		205,738

1.028 Escalation Rate
211,601

	FY 2001	FY 2002
9 APs	146,493	
4 APs		65,108

1/ Development of Casual/Full-time workhours:

	(000s)
Total Volume	599,890
80% Second Handling	479,912
Total Handled Volume	1,079,802
Total Hours @ 150 PPH	7,199
Full Time 75%	5,399
Casual 25%	1,800

2/ Additional mail processing requirements

3/ Calculated using actual supervisor hours for PMPC sites during previous year

4/ Three positions per site

5/ One position per site

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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.

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS TO INTERROGATORIES OF
UNITED PARCEL SERVICE
(REDIRECTED FROM WITNESS TAYMAN)**

UPS/USPS-T6-1. Refer to USPS-LR-J-49, spreadsheet "Prg_01_s.XLS", page "FY 01 Other Programs."

- (a) Confirm that the increase in Delivery Confirmation Scanning costs for FY2001 over FY2000 is \$8,030,000 for Cost Segment 3. If not confirmed, explain.
 - (i) Describe in detail how this figure was estimated. Include citations for inputs.
 - (ii) Describe the clerk activities that are included in this increased cost, the estimated time for each clerk activity, and the volume of each clerk activity.
- (b) Confirm that the increase in Delivery Confirmation Scanning costs for FY2001 over FY2000 is \$14,603,000 for Cost Segment 6/7. If not confirmed, explain.
 - (i) Describe in detail how this figure was estimated. Include citations for inputs.
 - (ii) Describe the carrier activities that are included in this increased cost, the estimated time for each carrier activity, and the volume of each carrier activity.

Response:

- (a) Confirmed.
 - (i) The Cost Segment 3 figure was estimated using the methodology employed in the testimony of witness Davis, USPS-T-30 in Docket No. R2000-1. Activity transaction times were developed, operational and volume assumptions were made and the scanner deployment schedule was utilized to estimate the number of workhours. The Clerk/Mailhandler workhour rates shown in Exhibit H of USPS-LR-J-49 were then applied to these workhour estimates to generate the total dollar amounts.
 - (ii) The clerk/mailhandler activities in this cost include: initializing the scanners, Box Section clerk delivery scanning, Box Section clerk attempted delivery scanning, Window clerk delivery scanning, Window

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Response continued:

clerk acceptance scanning, Window clerk affixing label, Accountable clerk at end of the day and customer inquiries.

(b) Confirmed.

- (i) The Cost Segment 6/7 figure was estimated using the methodology employed in the testimony of witness Davis, USPS-T-30 in Docket No. R2000-1. Activity transaction times were developed, operational and volume assumptions were made and the scanner deployment schedule was utilized to estimate the number of workhours. The City Carrier workhour rates shown in Exhibit H of USPS-LR-J-49 were then applied to these workhour estimates to generate the total dollar amounts.**
 - (i) The City Carrier activities in this cost include: initializing the scanners, carrier delivery scanning, clearing with Accountable clerk at end of the day and carrier attempted delivery scanning.**
-

**RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS PATELUNAS TO INTERROGATORIES OF
UNITED PARCEL SERVICE
(REDIRECTED FROM WITNESS TAYMAN)**

UPS/USPS-T6-2. Refer to USPS-LR-J-49, spreadsheet "Prg_01_s.XLS", page "FY 01 Other Programs."

- (a) Confirm that the increase in C/S 3 costs for FY2001 over FY2000 from the Postal Service handling PMPC activities is \$146,800,000. If not confirmed, explain.
- (i) Describe in detail how this figure was estimated. Include citations for inputs.
 - (ii) Is this cost also included in the testimony of witness Hatfield, USPS-T-18? Explain in detail, including citations to witness Hatfield's testimony and workpapers.
- (b) Confirm that the increase in C/S 14 costs for FY2001 over FY2000 from the Postal Service handling PMPC activities is \$259,500,000. If not confirmed, explain.
- (i) Describe in detail how this figure was estimated. Include citations for inputs.
 - (ii) Does this amount include any FedEx contract costs? If so, specify which costs and explain.
 - (iii) Is this cost also included in the testimony of witness Hatfield, USPS-T-18? Explain in detail, including citations to witness Hatfield's testimony and workpapers.

Response:

- (a) Confirmed.
- (i) The costs are all the labor costs required to operate the PMPC network in house. Labor workhours were developed on a site-by-site basis using the information available for each site. Actual FY 2000 originating and destinating volumes for each site were used along with assumed site specific productivities to calculate the workhours for each site. The workhours for the sites were summed to a total and the Clerk/Mailhandler workhour rates shown in Exhibit H of USPS-LR-J-49 were then applied to the total workhours to generate the total dollar amounts.

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Response continued:

The total annualized amounts for the PMPC in-house transition were estimated to be \$211,600,000. Of the total transition costs, 9 APs were to occur in FY 2001 and 4 APs in FY 2002; thus, nine-thirteenths of these amounts were FY 2001 expenses. Applying the nine-thirteenths factor yields the total of \$146,800,000 for FY 2001. In the rollforward model, these amounts are applied to Component 35 (Mail Processing) and distributed to Priority Mail. Please refer to USPS-LR-J-4, Section 2, Part A, page 217 for the amount, and Section 2, Part B, page 468 for the distribution.

- (ii) No, this cost is not included in the testimony of witness Hatfield, USPS-T-18. As described in USPS-T-18, Section 1, witness Hatfield's testimony only includes changes in purchased transportation costs that are the result of implementation of the FedEx transportation agreement. His testimony does not address any issues relating to cost segment 3.
- (b) Confirmed.
- (i) The total annualized transportation amounts for the PMPC in-house transition were estimated to be \$374,900,000, of which \$295,000,000 was for Domestic Air and \$79,900,000 was for Highway. Of the total transition

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Response continued:

costs, 9 APs were to occur in FY 2001 and 4 APs in FY 2002; thus, nine-thirteenths of these amounts were FY 2001 expenses. Applying the nine-thirteenths factor yields the total of \$259,500,000, the Domestic Air amount of \$204,200,000, and the Highway amount of \$55,300,000 for FY 2001. In the rollforward model, these amounts are applied to Component 142 (Domestic Air) and Component 143 (Highway) and distributed to Priority Mail. Please refer to USPS-LR-J-4, Section 2, Part A, page 216 for the amounts, and Section 2, Part B, page 468 for the distribution. The Domestic Air expenses include the dedicated air cost to replace service formerly performed by Emery Worldwide Airlines, Inc. (EWA) and the cost for actual volume formerly sent by EWA to commercial airlines. Also included in Domestic Air are the savings opportunities that exist in better utilizing back-haul space on the dedicated network. The Highway savings were developed using the transportation schedules formerly operated by EWA.

The total Domestic Air costs of \$295,500,000 is the combined impact of the following (difference from \$295.5 million is due to rounding):

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Response continued:

	(millions)
Dedicated	\$ 216
MIA-SJU	\$ 9
SEA-ANC	\$ 2
ASYS	\$ 78
Backhaul	\$ -27
Feeder Service	\$ 17.

The first amount is for dedicated air to replace service formerly performed by Emery. The Miami to San Juan segment is required because insufficient commercial lift is available between these locations. The Seattle to Anchorage costs must be included because under the Emery contract, the Postal Service provided lift from Seattle to Anchorage for Emery and was reimbursed for those costs. The ASYS is calculated from the total gross weight Emery actually sent to commercial airlines, as opposed to dedicated air or surface. The backhaul savings is mail formerly flown commercially that will travel on the return trip of the dedicated network. The Feeder costs are calculated for local surface transportation between the PMPCs.

The Highway costs were calculated assuming that highway contract route transportation would be used at all sites. The costs were calculated by determining the local miles and the long haul/ inter PMPC miles

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Response continued:

required to replace the transportation formerly provided by EWA. Using highway contract route estimates of the rate per mile with the required miles and a Spotter Service estimate of \$1,550,000 yielded a total surface transportation cost of \$79,900,000.

- (ii) No.
 - (iii) Witness Hatfield's testimony includes the portion of this cost that is related to purchased air transportation. Specifically, library reference USPS-LR-J-94, Table 102 at line 4 contains \$204,200,000 of the \$259,500,000 increase in Cost segment 14 costs. USPS-LR-J-94 is being withheld pending a ruling on the Postal Service's motion for protective conditions. As that motion made clear, however, not all data from the LR, including the figure cited in this response, are considered proprietary. This figure is included in the estimation of *status quo* costs as described by witness Hatfield (USPS-T-18, Section III.A.4 and Section III.B.5).
-

**RESPONSE OF UNITED STATES POSTAL SERVICE
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UNITED PARCEL SERVICE
(REDIRECTED FROM WITNESS TAYMAN)**

UPS/USPS-T6-3. Refer to USPS-LR-J-49, spreadsheet "Prg_01_s.XLS", page "FY 02

Other Programs."

- (a) Confirm that the increase in C/S 3 costs for FY2002 over FY2001 from the Postal Service handling PMPC activities is \$64,800,000. If not confirmed, explain.
 - (i) Describe in detail how this figure was estimated. Include citations for inputs.
 - (ii) Is this cost also included in the testimony of witness Hatfield, USPS-T-18? Explain in detail, including citations to witness Hatfield's testimony and workpapers.
- (b) Confirm that the increase in C/S 14 costs for FY2002 over FY2001 from the Postal Service handling PMPC activities is \$125,400,000. If not confirmed, explain.
 - (i) Describe in detail how this figure was estimated. Include citations for inputs.
 - (ii) Does this amount include any FedEx contract costs? If so, specify which costs and explain.
 - (iii) Is this cost also included in the testimony of witness Hatfield, USPS-T-18? Explain in detail, including citations to witness Hatfield's testimony and workpapers.
- (c) Confirm that the increase in C/S 14 costs for FY2002 over FY2001 from the FedEx contract is \$57,500,000. If not confirmed, explain.
 - (i) Describe in detail how this figure was estimated. Include citations for inputs.
 - (ii) Does this amount represent the increase in C/S 14 costs over what would have been incurred in the absence of the FedEx contract? If not, explain what this amount represents.
 - (iii) Is this cost also included in the testimony of witness Hatfield, USPS-T-18? Explain in detail, including citations to witness Hatfield's testimony and workpapers.
- (d) Confirm that the decrease in C/S 16 costs for FY2002 over FY2001 from the elimination of the PMPC contract is \$347,676,000. If not confirmed, explain.
 - (i) Describe in detail how this figure was estimated. Include citations for inputs.
 - (ii) 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, explain what this amount represents.
 - (iii) Is this cost also included in the testimony of witness Hatfield, USPS-T-18? Explain in detail, including citations to witness Hatfield's testimony and workpapers.

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Response:

(a) Confirmed.

- (i) Please refer to the response to UPS/USPS-T6-2(a). The FY2002 amount is the total shown in that response multiplied by four-thirteenths. The FY2002 amount is also the total minus the FY2001 amount shown in that response.**
- (ii) No, this cost is not included in the testimony of witness Hatfield, USPS-T-18. As described in USPS-T-18, Section 1, witness Hatfield's testimony only includes changes in purchased transportation costs that are the result of implementation of the FedEx transportation agreement. His testimony does not address any issues relating to cost segment 3.**

(b) Confirmed.

- (i) Please refer to the response to UPS/USPS-T6-2(b). The FY2002 amount is the total shown in that response multiplied by four-thirteenths. The FY2002 amount is also the total minus the FY2001 amount shown in that response.**
- (ii) No.**
- (iii) Witness Hatfield's testimony includes the portion of this cost that is related to purchased air transportation. Specifically, library reference USPS-LR-J-94, Table 102 at line 4 contains \$90,800,000 of the \$125,400,000 increase in Cost segment 14 costs. USPS-LR-J-94 is being withheld pending a ruling on the Postal Service's motion for protective conditions. As that**

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Response continued:

motion made clear, however, not all data from the LR, including the figure cited in this response, are considered proprietary. This figure is included in the estimation of status quo costs as described by witness Hatfield (USPS-T-18, Section III.A.4 and Section III.B.5).

(c) Confirmed.

- (i) – (iii) This cost is included in witness Hatfield's testimony. In fact, witness Hatfield's testimony is the source of this figure. Specifically, the sum of the columns labeled "Ground Handling" and "Additional Highway" in USPS-T-18, Table G at line 28 or library reference USPS-LR-J-94, Table 400 at line 28 is \$57,500,000. USPS-LR-J-94 is being withheld pending a ruling on the Postal Service's motion for protective conditions. As that motion made clear, however, not all data from the LR, including the figure cited in this response, are considered proprietary. These figures represent the additional ground handling and highway costs resulting from the implementation of the FedEx transportation agreement. The development of these figures is described in witness Hatfield's testimony (USPS-T-18, Section VI.B.2-3).**

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Response continued:

(d) Confirmed.

- (i) This amount represents the estimated Postal Service payment savings to EWA resulting from the termination of the contract.
 - (ii) Yes.
 - (iii) No, this cost is not included in the testimony of witness Hatfield, USPS-T-18. As described in USPS-T-18, Section 1, witness Hatfield's testimony only includes changes in purchased transportation costs that are the result of implementation of the FedEx transportation agreement. His testimony does not address any issues relating to cost segment 16.
-

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(REDIRECTED FROM WITNESS TAYMAN)**

UPS/USPS-T6-4. Refer to USPS-LR-J-49, spreadsheet "Prg_01_s.XLS", page "FY 03

Other Programs."

- (a) Confirm that the increase in C/S 14 costs for FY2003 over FY2002 from the FedEx contract is \$10,247,000. If not confirmed, explain.
 - (i) Describe in detail how this figure was estimated. Include citations for inputs.
 - (ii) Does this amount represent the increase in C/S 14 costs over what would have been incurred in the absence of the FedEx contract? If not, explain what this amount represents.
 - (iii) Is this cost also included in the testimony of witness Hatfield, USPS-T-18? Explain in detail, including citations to witness Hatfield's testimony and workpapers.
- (b) Explain why there is not a line item entry for PMPC in-house activities.
- (c) Explain why there is not a line item entry for termination of the PMPC contract.

Response:

- (a) Confirmed.
 - (i) – (iii) This cost is included in witness Hatfield's testimony. In fact, witness Hatfield's testimony is the source of this figure. Specifically, the sum of the columns labeled "Air Transportation" and "Ground Handling" in USPS-T-18 Table H at line 28 or library reference USPS-LR-J-94, Table 401 at line 28 is \$10,247,000. USPS-LR-J-94 is being withheld pending a ruling on the Postal Service's motion for protective conditions. As that motion made clear, however, not all data from the LR, including the figure cited in this response, are considered proprietary. These figures represent the additional air transportation and ground handling costs that result from the implementation of the FedEx transportation agreement. The development of these figures is described in witness Hatfield's testimony (USPS-T-18, Section VI.B.1-2).

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Response continued:

- (b) There are no PMPC in-house transition costs for FY2003 because the transition is expected to be completed in FY2002.
- (c) It is my understanding that no estimates for these termination costs are included in the Request.

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(REDIRECTED FROM WITNESS TAYMAN)**

UPS/USPS-T6-5. Refer to USPS-LR-J-49, spreadsheet "Prg_01_s.XLS", page "Cost Reductions."

- (a) Confirm that the reduction in C/S 14 costs for FY2002 over FY2001 of \$136,120,000 is a result of the FedEx contract.
- (c) Describe in detail how this figure was estimated. Include citations for inputs.
- (d) Describe in detail the source of these savings.
- (e) Is this cost also included in the testimony of witness Hatfield, USPS-T-18? Explain in detail, including citations to witness Hatfield's testimony and workpapers.

Response:

(a) Confirmed.

(c) – (e) This savings is included in witness Hatfield's testimony. In fact, witness Hatfield's testimony is the source of this figure. The column labeled "Air Transportation" in USPS-T-18 Table H at line 28 or library reference USPS-LR-J-94, Table 401 at line 28 is a reduction of \$136,120,000. USPS-LR-J-94 is being withheld pending a ruling on the Postal Service's motion for protective conditions. As that motion made clear, however, not all data from the LR, including the figure cited in this response, are considered proprietary. This figure represents the reduction in air transportation costs that results from implementation of the FedEx transportation agreement. The development of this figure is described in witness Hatfield's testimony (USPS-T-18, Section VI.B.1).

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UPS/USPS-T6-6. Refer to USPS-LR-J-49, spreadsheet "Prg_01_s.XLS", page "Cost Reductions."

- (a) Confirm that the reduction in C/S 14 costs for FY2003 over FY2002 of \$147,000 is a result of the FedEx contract.
- (b) Describe in detail how this figure was estimated. Include citations for inputs.
- (c) Describe in detail the source of these savings.
- (d) Is this cost also included in the testimony of witness Hatfield, USPS-T-18? Explain in detail, including citations to witness Hatfield's testimony and workpapers.

Response:

- (a) Confirmed.
- (b) – (d) This savings is included in witness Hatfield's testimony. In fact, witness Hatfield's testimony is the source of this figure. The column labeled "Additional Highway" in USPS-T-18 Table H at line 28 or library reference USPS-LR-J-94, Table 401 at line 28 is a reduction of \$147,000. USPS-LR-J-94 is being withheld pending a ruling on the Postal Service's motion for protective conditions. As that motion made clear, however, not all data from the LR, including the figure cited in this response, are considered proprietary. This figure represents the reduction in additional highway costs that results from implementation of the FedEx transportation agreement. The development of this figure is described in witness Hatfield's testimony (USPS-T-18, Section VI.B.3).

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UPS/USPS-T6-10. Explain why there are no "PMPC In-House" cost adjustments for FY 2003.

Response:

See my response to UPS/USPS-T6-4(b) redirected from witness Tayman and the Postal Service response to UPS/USPS-12(b). There are no PMPC in-house transition costs for FY2003 because the transition is expected to be completed in FY2002. As such, after FY2002, all PMPC in-house costs are included in the total costs of Cost Segments 3, 14, 15 and 16.

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UPS/USPS-T6-11. Refer to library reference USPS-LR-J-49, spreadsheet "Prg_01_s.XLS", page "Summary." Confirm that the net increase in costs from moving the Priority Mail Processing Center ("PMPC") operations "in-house" is \$201,969,000 in FY 2001. If not confirmed, please provide the correct number.

Response:

Confirmed as labeled. Library reference USPS-LR-J-49, spreadsheet "Prg_01_s.XLS", page "Summary" can also be seen in hardcopy as Exhibit G of the same library reference and this discussion will rely on Exhibit G. The individual amounts that constitute the totals shown in Exhibit G can be found in Exhibits A and B and it is useful to refer to the individual amounts to understand the presentation in Exhibit G. From Exhibits A and B, summing the lines for "PMPC in House" and "PMPC Contract" yields the total amounts shown in Exhibit G. As an additional explanatory aid, Attachment 1 that accompanies this response summarizes the individual amounts and the summations for FY 2001 and FY 2002.

Column (1) of Attachment 1 shows the relevant cost segments and column (2) shows the source in USPS-LR-J-49. Column (3) shows the PMPC transition costs of bringing the network in-house and column (4) shows the savings resulting from termination of the Emery contract. Column (5) is the sum of Columns (3) and (4). The footnote 1/ amounts are the net amounts for each year and they are also the amounts found in the "Summary" presented in Exhibit G.

Attachment 1
 UPS/USPS-T6-11
 Redirected from Witness Tayman

Cost Segment (1)	USPS-LR-J-49 (2)	PMPC In-House (3)	PMPC Contract (4)	PMPC Net (5)
3	Exhibit A, page 1	146,800		146,800
14	Exhibit A, page 2	259,500		259,500
15	Exhibit A, page 2	34,900		34,900
16	Exhibit A, page 2	3,200	(242,431)	(239,231)
FY01 Subtotal		444,400	(242,431)	201,969 1/
3	Exhibit B, page 1	64,800		64,800
14	Exhibit B, page 2	125,400		125,400
15	Exhibit B, page 2	18,600		18,600
16	Exhibit B, page 2	1,400	(347,670)	(346,270)
FY02 Subtotal		210,200	(347,670)	(137,470) 1/
Grand Total		654,600	(590,101)	64,499

1/ USPS-LR-J-49, Exhibit G, "Summary"

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UPS/USPS-T6-12. 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) Confirmed as labeled.

(b) Both years, FY 2001 and FY 2002, need to be looked at together to understand the transition from phasing-out the contract to bringing the network in house. By referring to Attachment 1 to UPS/USPS-T6-11, it can be seen that it is the timing of events that causes the totals to change from a cost increase in FY 2001 to a cost savings in FY 2002. Looking at the FY01 Subtotal line shows that the \$444 million of transition costs are only partially offset by the \$242 million of contract savings. The reason for this is that there were contract costs of \$223 million in FY 2001. Looking at the FY02 Subtotal line shows that much of the transition cost had occurred, leaving \$210 million of transition costs. This was more than offset by the \$348 million of contract savings for the entire year.

1 CHAIRMAN OMAS: Is there any additional written
2 cross-examination for Witness Patelunas?

3 (No response.)

4 CHAIRMAN OMAS: This now brings us to oral cross-
5 examination. One party has requested oral cross-
6 examination, the Parcel Shippers Association.

7 (No response.)

8 CHAIRMAN OMAS: They are not here.

9 MS. DOCHEK: Mr. Chairman, Mr. May contacted me
10 Friday afternoon and indicated that he likely would not have
11 any cross-examination.

12 CHAIRMAN OMAS: Thank you. Therefore, Ms. Dochek,
13 I would imagine you don't need any time with your witness?

14 MS. DOCHEK: Oh, I'm not sure. No. There will be
15 no redirect.

16 CHAIRMAN OMAS: Mr. Patelunas, that completes your
17 testimony here today. We appreciate your appearance and
18 your contribution to our record. Again, thank you. You are
19 now excused.

20 THE WITNESS: Thanks.

21 (Witness excused.)

22 CHAIRMAN OMAS: Mr. Koetting, would you please
23 introduce your witness?

24 MR. KOETTING: Thank you, Mr. Chairman. The
25 Postal Service calls as its next witness Nancy R. Kay.

1 CHAIRMAN OMAS: Ms. Kay, would you raise your
2 right hand?

3 Whereupon,

4 NANCY R. KAY

5 having been duly sworn, was called as a witness
6 and was examined and testified as follows:

7 CHAIRMAN OMAS: Please be seated.

8 (The document referred to was
9 marked for identification as
10 Exhibit No. USPS-T-21.)

11 DIRECT EXAMINATION

12 BY MR. KOETTING:

13 Q Ms. Kay, could you please state your full name and
14 position for the record?

15 A Nancy R. Kay. I'm a senior consultant with Foster
16 Associates.

17 Q I've handed you a document entitled USPS-T-21,
18 Direct Testimony of Nancy R. Kay on behalf of the United
19 States Postal Service. Are you familiar with this document?

20 A Yes, I am.

21 Q Was it prepared by you or under your supervision?

22 A Yes, it was.

23 Q Does the copy that I've handed you reflect the
24 revised pages of 10-31-01?

25 A Yes, it looks like it does.

1 Q Do you have any other changes to make this
2 morning?

3 A No.

4 Q If you were to testify orally today, would this be
5 your testimony?

6 A Yes, it would.

7 Q Ms. Kay, was it your intention to sponsor Category
8 II library references associated with this testimony?

9 A Yes.

10 Q And are those Category II library references the
11 ones listed in your table of contents as USPS-LR-J-70, Rural
12 Carrier Analysis; USPS-LR-J-71, Rural Mail Count Data;
13 LR-J-72, Supporting Materials Relating Incremental Cost
14 Model; and J-73, Calculation of Single Subclass Stop Ratios?

15 A Yes, those are my library references.

16 MR. KOETTING: Mr. Chairman, the Postal Service
17 would request that the direct testimony of Nancy R. Kay on
18 behalf of the United States Postal Service designated as
19 USPS-T-21 and the associated library references be admitted
20 into evidence in this proceeding.

21 CHAIRMAN OMAS: Is there any objection?

22 (No response.)

23 CHAIRMAN OMAS: Hearing none, I will direct
24 counsel to provide the reporter with two copies of the
25 corrected testimony of Nancy R. Kay. That testimony is

1 received into evidence. However, as is our practice, it
2 will not be transcribed.

3 (The document referred to,
4 previously identified as
5 Exhibit No. USPS-T-21, was
6 received in evidence.)

7 CHAIRMAN OMAS: Ms. Kay, have you had an
8 opportunity to examine the packet of designated written
9 cross-examination that was made available to you this
10 morning in the hearing room?

11 THE WITNESS: Yes, I have.

12 CHAIRMAN OMAS: If the questions contained in that
13 packet were posed to you orally today, would your answers be
14 the same as those provided in writing?

15 THE WITNESS: Yes, they would.

16 CHAIRMAN OMAS: Are there any corrections or
17 additions you would like to make at this point in your
18 answers?

19 THE WITNESS: No.

20 CHAIRMAN OMAS: Counsel, would you please provide
21 two copies of the corrected designated written cross-
22 examination of Witness Kay to the reporter? That material
23 is received into evidence and is to be transcribed into the
24 record.

25 //

1 (The document referred to was
2 marked for identification as
3 Exhibit No. USPS-T-21 and was
4 received in evidence.)

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes

Docket No. R2001-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS NANCY R KAY
(USPS-T-21)

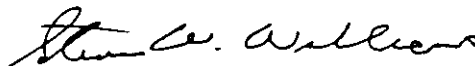
Party

Newspaper Association of America

Interrogatories

MPA/USPS-T21-1

Respectfully submitted,



Steven W. Williams
Secretary

INTERROGATORY RESPONSES OF
UNITED STATES POSTAL SERVICE
WITNESS NANCY R KAY (T-21)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory
MPA/USPS-T21-1

Designating Parties
NAA

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KAY TO
INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA

MPA/USPS-T21-1. Please refer to Section IV of your testimony regarding rural carrier costs.

- (a) What percentage of Periodicals Outside-County mail volume is delivered by rural carriers?
- (b) Please confirm that the rural carrier costing method used by the Postal Service in this case is exactly the same as that used by the Commission in Docket No. R2000-1. If not confirmed, please explain all differences.
- (c) Please provide the unit rural carrier cost for casing and delivering a Carrier Route flat that is not in Line Of Travel (LOT) sequence and the unit rural carrier cost for casing and delivering a Carrier Route flat that is in LOT sequence. Please explain why these unit cost figures are the same or why they are different.

RESPONSE

- a. This information is not available.
- b. Confirmed. However, the DPS and Sector Segment distribution keys were not available from the Rural Carrier Cost System in the Docket No. R2000-1 base year. A combined DPS/Sector Segment distribution key was derived from the letter distribution key by moving into the DPS key the estimated percentage of letters that were determined to be DPS mail. The DPS and Sector Segment distribution keys were available for PQ3 and PQ4 in the subsequent filing of the FY 1999 CRA during Docket No. R2000-1, and were used in rural carrier costing. For this case, the Rural Carrier Cost System provides distribution keys for DPS and Sector Segment mail for all postal quarters, and these are used in rural carrier costing.
- c. Rural carrier compensation is determined by a physical count of mail items received by the carrier during the National Rural Mail Count time period.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS KAY TO
INTERROGATORY OF MAGAZINE PUBLISHERS OF AMERICA

Rural carriers are compensated at a rate of 0.125 minutes per piece for delivering a flat, plus an additional time credit of 0.0166 minutes for pulldown or strapout. It is my understanding that the same compensation applies to any flat delivered by rural carriers, regardless of mail subclass or presort level.

1 CHAIRMAN OMAS: Is there any additional written
2 cross-examination for Witness Kay?

3 (No response.)

4 CHAIRMAN OMAS: No party has requested oral cross-
5 examination of Witness Kay. Is there any party who wants to
6 cross-examine this witness?

7 (No response.)

8 CHAIRMAN OMAS: Are there any questions from the
9 bench?

10 (No response.)

11 CHAIRMAN OMAS: Ms. Kay, that completes your
12 testimony here today. We appreciate your appearance and
13 your contribution to our record. Thank you. You are now
14 excused.

15 (Witness excused.)

16 CHAIRMAN OMAS: This concludes today's hearing.
17 We will reconvene tomorrow morning at 9:30 a.m. when we will
18 receive testimony from Postal witnesses Pickett, Bradley and
19 Shenk.

20 Thank you.

21 (Whereupon, at 9:50 a.m. the hearing in the
22 above-entitled matter was adjourned, to reconvene at
23 9:30 a.m. on Tuesday, December 18, 2001.)

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REPORTER'S CERTIFICATE

1
2
3 DOCKET NO.: R2001-1
4 CASE TITLE: Postal Rate and Fee Changes
5 HEARING DATE: December 17, 2001
6 LOCATION: Washington, D.C.
7

8 I hereby certify that the proceedings and evidence are
9 contained fully and accurately on the tapes and notes
10 reported by me at the hearing in the above case before the
11 Postal Rate Commission.
12

13
14 Date: December 17, 2001

15
16 

17 Official Reporter
18 Heritage Reporting Corporation
19 Suite 600
20 1220 L Street, N.W.
21 Washington, D C. 20005-4018
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