

1 I. PURPOSE AND SCOPE OF TESTIMONY AND GUIDE TO
2 SUPPORTING DOCUMENTATION
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4 My testimony presents the Postal Service's revenue requirement for the
5 Test Year (TY)¹. This testimony was prepared in conformance with the
6 Commission's Rules of Practice and Procedure to support the Postal Service's
7 revenue requirement for the Test Year. The attached exhibits and the material
8 included in Library References J-8 (section 2), J-49 (sections 2–4), J-50, and J-
9 51 supplement my testimony.

10 Exhibits A through T are at the end of my testimony and are preceded by
11 an index of Exhibits. These exhibits provide summary components of the
12 revenue requirement. Section 2 of Library Reference J-8, "Statement of
13 Revenue and Expenses" contains the Accounting Period 14 (government fiscal
14 year) Statement of Revenue and Expenses, a mainframe-generated report that
15 groups General Ledger accounts by cost segments and components. It is the
16 source document for the Cost Segments and Components Reconciliation to
17 Audited Financial Statements, which is contained in Section 3 of LR-J-8. Library
18 Reference J-49, "Explanation of Cost Reductions and Other Programs," supplies
19 the narrative descriptions and fundamental estimating elements of the cost
20 reduction program savings and other programs expense built into the revenue
21 requirement. I am sponsoring sections 2–4 of Library Reference J-49. Library
22 Reference J-50, "Rollforward Expense Factors," supplies the detailed
23 calculations underlying the revenue requirement. Library Reference J-51,
24 "Workers' Compensation Expense," supports the projection of Workers'
25 Compensation liability and expense.

26 My testimony is organized into five chapters as described below.

27 Chapter I explains the purpose of my testimony. Chapter II, entitled
28 "Summary of Financial and Operating Results and Current Financial Condition,"
29 describes (1) financial and operating results over the last ten years, and (2) the
30 current financial condition of the Postal Service. This chapter reflects the

^{1/} The various fiscal or other periods discussed in this testimony include the following:
The Test Year (FY 2003) - October 1, 2002 to September 30, 2003
Fiscal Year 2002 - October 1, 2001 to September 30, 2002
Fiscal Year 2001 - October 1, 2000 to September 30, 2001
The Base Year (FY 2000) - October 1, 1999 to September 30, 2000

1 developing deterioration in the Postal Service's financial position. The material
2 presented supports a proposed level of rate increases consistent with
3 management's goals of repairing the Postal Service's
4 financial position, recovering prior years' losses, reducing debt, supporting the
5 Postal Service's capital program, and restoring equity.

6 Chapter III, entitled "Test Year Revenue Requirement," (1) describes the
7 specific sources of the changes in Postal Service costs which are included in the
8 revenue requirement, (2) identifies the assumptions used to project cost
9 increases, and (3) defines the change in the revenue requirement by cost
10 segment. This chapter also presents management's rationale for selecting the
11 provisions for contingencies and recovery of prior years' losses; these support
12 the financial integrity and stability of the Postal Service. Considerable additional
13 discussion and analysis has been added to the section on the contingency
14 provision. This chapter also incorporates the Postal Service's testimony on
15 Workers' Compensation expense.

16 Chapter IV, entitled "Revenues Before and After Rates," describes the
17 level of revenue anticipated during the Test Year on a before-rates and after-
18 rates basis. This chapter unifies the analyses of our revenue estimates by
19 combining a discussion of the revenue anticipated from mail and special services
20 with a discussion of anticipated revenues from appropriations and investment
21 income.

22 In Chapter V, entitled "Test Year Revenue Deficiency," I calculate the
23 overall revenue deficiency and analyze the effect of the proposed rates on that
24 deficiency.