BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268–0001

POSTAL RATE AND FEE CHANGES, 2001 | Docket No. R2001–1

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 8

The United States Postal Service hereby provides the responses to Presiding Officer's Information Request No. 8, issued January 9, 2002. Question number 11 contain answers provided by both witness Miller (USPS-T22) and Moeller (USPS-T28). The answer to question number 6 is forthcoming.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260–1137
(202) 268-2993, Fax –6187
January 22, 2002

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 8

1. Please refer to USPS-LR-J-125, file VF_AR_XLS, sheet SHARES. Show, step-by-step, how the basic automation letter discounts for Standard regular and nonprofit in cells T8 and AD8 were calculated.

RESPONSE:

The basic automation letter discounts for Standard regular and nonprofit are calculated in USPS-LR-J-123, file PRICES_AR.XLS, on sheet SUMMARY at cells Z13 and AP13, respectively.

These discounts are calculated as the average of the mixed-ADC and AADC discounts proposed by the Postal Service in this case.

For Standard Regular mail, the proposed mixed-ADC automation letter discount is 4.9¢, while the proposed AADC automation letter discount is 5.6¢. It is assumed that approximately 56.1 percent of automation basic letters would qualify for the AADC discount, with the remaining 43.9 percent receiving the mixed-ADC discount. Hence, the combined discount is calculated as follows:

$$(43.9\%)\bullet(4.9¢) + (56.1\%)\bullet(5.6¢) = 5.29¢$$

For Standard Nonprofit mail, the proposed mixed-ADC automation letter discount is 2.1¢, while the proposed AADC automation letter discount is 2.9¢. It is assumed that approximately 52.2 percent of automation basic letters would qualify for the AADC discount, with the remaining 47.8 percent receiving the mixed-ADC discount. Hence, the combined discount is calculated as follows:

$$(47.8\%)\bullet(2.1¢) + (52.2\%)\bullet(2.9¢) = 2.52¢$$

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2. Please refer to USPS-LR-J-125, file VF_AR_XLS, sheet PRICES. Show, step-by-step, how the worksharing discounts in cells CA5 through CH6 were calculated.

RESPONSE:

The worksharing discounts in cells CA5 through CH6 of VF_AR.XLS, sheet PRICES, are calculated in USPS-LR-J-123, file PRICES_AR.XLS, on sheet FirstClass at cells X211 through Y221. Specifically, cells CA5 and CA6 of VF_AR.XLS, sheet PRICES, are calculated at cells X212 and Y212, respectively, of file PRICES_AR.XLS, at sheet FIRSTCLASS. Cells CB5 and CB6 of VF_AR.XLS, sheet PRICES, are calculated at cells X216 and Y216, respectively, of file PRICES_AR.XLS, at sheet FIRSTCLASS. Cells CC5 and CC6 of VF_AR.XLS, sheet PRICES, are calculated at cells X217 and Y217, respectively, of file PRICES_AR.XLS, at sheet FIRSTCLASS. Cells CD5 and CD6 of VF_AR.XLS, sheet PRICES, are calculated at cells X218 and Y218, respectively, of file PRICES_AR.XLS, at sheet FIRSTCLASS. Cells CE5 and CE6 of VF_AR.XLS, sheet PRICES, are calculated at cells X219 and Y219, respectively, of file PRICES_AR.XLS, at sheet FIRSTCLASS. Cells CF5 and CF6 of VF_AR.XLS, sheet PRICES, are calculated at cells X220 and Y220, respectively, of file PRICES_AR.XLS, at sheet FIRSTCLASS. Cells CG5 and CG6 of VF_AR.XLS, sheet PRICES, are calculated at cells X221 and Y221, respectively, of file PRICES_AR.XLS, at sheet FIRSTCLASS. Finally, cells CH5 and CH6 of VF_AR.XLS, sheet PRICES, are calculated at cells X211 and Y211, respectively, of file PRICES_AR.XLS, at sheet FIRSTCLASS.

Each individual worksharing discounts is calculated as the difference between the first-ounce single-piece price and the first-ounce price of the appropriate worksharing category (before-rates, the first-ounce worksharing

discounts by category were as follows: nonautomation, 1.8¢; automation basic letters, 6.0¢; automation basic flats, 2.8¢; 3-digit automation letters, 7.1¢; 5-digit automation letters, 8.5¢; 3-digit automation flats, 4.3¢; 5-digit automation flats, 6.3¢; automation carrier-route letters, 9.5¢; after-rates, the first-ounce worksharing discounts by category were as follows: nonautomation, 1.8¢; automation mixed-ADC letters, 6.1¢; automation AADC letters, 6.9¢; automation mixed-ADC flats, 2.9¢; automation AADC flats, 3.7¢; 3-digit automation letters, 7.6¢; 5-digit automation letters, 9.0¢; 3-digit automation flats, 4.8¢; 5-digit automation flats, 6.8¢; automation carrier-route letters, 9.5¢), plus the heavy piece discount (4.6¢ before-rates, 4.1¢ after-rates) times the percentage of the worksharing category which received the heavy-piece discount in GFY 2000, plus the difference in the price per additional ounce (zero before-rates; 0.5¢ after-rates), times the number of additional ounces per-piece for the worksharing category in GFY 2000, plus the difference in the nonstandard surcharge (6.0¢ before-rates, 6.5¢ after-rates) times the percentage of the worksharing category which paid the nonstandard surcharge in GFY 2000.

The after-rates automation basic letters discount is the average of the mixed-ADC and AADC automation letters discounts, assuming that approximately 51.7 percent of automation basic letters would qualify for the AADC discount, with the remaining 48.3 percent receiving the mixed-ADC discount. The after-rates automation basic flats discount is the average of the mixed-ADC and AADC automation flats discounts, assuming that approximately 34.9 percent of automation basic flats would qualify for the AADC discount, with the remaining 65.1 percent receiving the mixed-ADC discount.

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The before- and after-rates 3/5-digit automation flats discounts are the average of the 3-digit and 5-digit automation flats discounts, assuming that 10.9 percent of 3/5-digit automation flats receive the 3-digit discount and 89.1 percent receive the 5-digit discount.

The average worksharing discount, presented in cells CH5 and CH6 of VF_AR.XLS, sheet PRICES, and calculated at cells X211 and Y211, respectively, of file PRICES_AR.XLS, at sheet FIRSTCLASS, is the weighted average of the aforementioned discounts, where the weights are equal to the relative proportion of each worksharing category in GFY 2000.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SCHENK TO PRESIDING OFFICER INFORMATION REQUEST NO. 8

Question 9. Please reference LR-J-199 provided by witness Schenk in response to Presiding Officer Information Request No. 6, Item 10(c.). The following questions refer to Standard mail.

(a) In LR-J-199, the distribution of rural carrier test year attributable costs by shape is based on the distribution of RPW test year piece volumes by shape. In the USPS version, the shape distribution of test year rural carrier costs is based on the distribution of base year rural carrier costs by shape as developed in LR-J-117 (See File: LR-J-117, Sheet: Rural Crosswalk, Cells: C51:E52). The latter distribution methodology was also used by witness Crum in Docket No. R2000-1. The difference between the distribution methodologies has a significant effect on total attributable costs by shape. It appears that the distribution key used in the USPS version would be applicable to the PRC version because there is no difference in the treatment of rural carrier costs between the two methodologies. Please provide a rationale for using a different distribution key for the PRC version, or alternatively, please provide a revised distribution.

(b) In LR-J-199, the distribution of city carrier test year elemental load attributable costs by shape is based on the distribution of RPW test year weight by shape. In the USPS version, the shape distribution of test year city carrier elemental load costs is based on the distribution of base year rural carrier costs by shape as developed in LR-J-117 (See File: LR-J-117, Sheet: City Load, Cells: C68:E69). The latter distribution methodology was also used by witness Crum in Docket No. R2000-1. The difference between the distribution methodologies has a significant effect on total attributable costs by shape. It appears that the distribution key used in the USPS version would be applicable to the PRC version because there is no difference in the treatment of city carrier elemental load costs between the two methodologies. Please provide a rationale for using a different distribution key for the PRC version, or alternatively, please provide a revised distribution.

RESPONSE:

(a) and (b). A revised LR-J-199, using the same distribution methods as the USPS version, will be filed in response to this question. Note that in the USPS version, the shape distribution of test year city carrier elemental load costs is based on the distribution of base year city carrier costs by shape, not on the distribution of base year rural carrier costs by shape, as stated above.

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Question 10. In the latest version of USPS-LR-J-58 (rev. 12/17/01), the cell in Table 1 of the spreadsheet LR58ASP_revised.xls which contains the additional ounce cost for First-Class single-piece mail (cell O28) was omitted. Please provide the revised figure and discuss any impact the revision may have had on the relationship between the additional ounce cost for First-Class presort (13.75 cents) and that of single-piece.

RESPONSE:

The test year additional ounce cost for First-Class single piece mail is 13.88 cents (2,452,438,370/17,673,302,608), as shown in cell O28 of the revised version of USPS-LR-J-58 (to be filed shortly). As the following table shows, the revision does not have any substantial effect on the relationship between the test year additional ounce costs for First-Class presort and single-piece mail.

Test Year Additional Ounce Costs For First-Class Mail (in cents)

	Original	Revised
Single-Piece	13.90	13.88
Presort	13.75	13.74

DECLARATION

I, Leslie M. Schenk, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Leslie M. Schenk

Dated: 1/22/02

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 8 QUESTION 11

Question 11 This item addresses mail processing cost for Standard 3/5-digit nonautomation letters. USPS LR-J-162 shows a mail processing worksharing-related cost of 8.257 cents. (See File: Standard.xls, Sheet: Letters Summary, Cell: E18) The comparable figure from Docket No. 2000-1 is 4.516 cents (See USPS-J-162, File: appiii, Sheet: DEAVGD NONAUTO UNIT COST, Cell: F45). The figure from the current case is nearly double that of the previous case and has substantially increased the cost differential between 3/5-digit nonautomation letters and 3-digit automation letters (the cost for this latter category has remained roughly constant). The referenced cost differential is used in the design of Regular and Nonprofit rates. Please discuss the reason(s) for the increase in this cost, whether the increase is reasonable, prospective changes in the cost differential, and the ramifications for rate design in the current rate case and prospectively.

PARTIAL RESPONSE:

In this docket, the nonautomation 3/5-digit presort letters worksharing related mail processing unit cost estimate can be found in USPS LR-J-60, page 56, cell E18. The figure cited above (8.257 cents), however, was taken from USPS LR-J-60 as filed on September 24, 2001. This library reference was subsequently revised on both November 5, 2001 and November 15, 2001. Consequently, the nonautomation 3/5-digit presort letters worksharing related mail processing unit cost estimate is now 8.386 cents.

Due to the passage of Public Law 106-384, this figure represents the aggregate costs for both Standard Mail Regular and Standard Mail Nonprofit nonautomation 3-digit/5-digit presort letters. In Docket No. R2000-1, separate costs were provided for both the Standard Mail Regular and Standard Mail Nonprofit rate categories. Consequently, the 8.386-cent figure is not directly comparable to any figure found in Docket No. R2000-1.

The Docket No. R2000-1 figure cited above (4.516 cents) was taken from USPS LR-I-162 and represents the nonautomation 3/5-digit presort letters worksharing related mail processing unit cost estimate for Standard Mail Nonprofit only. The unit cost estimate for the corresponding Standard Mail Regular rate category was 6.541 cents.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MILLER TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 8 QUESTION 11

PARTIAL RESPONSE TO POIR NO. QUESTION 11 (CONTINUED)

Furthermore, the Docket No. R2000-1 figures found in USPS LR-I-162 were estimates filed as part of the Postal Service's direct case. These figures relied on CRA mail processing unit cost estimates that were calculated using the "Base Year 98" methodology for separating nonautomation presort letters and automation presort letters costs. In response to Order No. 1294, the Postal Service also developed cost estimates that were calculated using the "Base Year 99" methodology for separating nonautomation presort letters and automation presort letters costs. These estimates can be found in USPS LR-I-467. The Base Year 99 methodology results in higher nonautomation presort letters unit cost estimates when compared to the Base Year 1998 methodology. In addition, the Postal Service relied upon the Base Year 99 methodology in developing its direct case in the instant proceeding.

In summary, the figures cited in question 11 are not directly comparable due to the fact that the Standard Mail costs have been aggregated in this docket. In addition, the worksharing related mail processing unit cost estimates for nonautomation 3/5-digit presort letters from Docket Nos. R2001-1 and R2000-1 can be obtained from USPS LR-J-60 and USPS LR-I-467, respectively. These estimates are shown below:

Docket No.	Cost Estimate	Source
R2001-1	8.386 Cents (All Std)	USPS LR-J-60 (Rev 11/15/01)
R2000-1	9.551 Cents (Std Reg)	USPS LR-I-467
R2000-1	5.164 Cents (Std NP)	USPS LR-I-467

For a discussion of potential rate design implications, see the response of witness Moeller to this question.

DECLARATION

I, Michael W. Miller, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

MICHAEL W. MILLER

Dated: January 22, 2002

RESPONSE OF WITNESS MOELLER TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 8

Question 11 This item addresses mail processing cost for Standard 3/5-digit nonautomation letters. USPS LR-J-162 shows a mail processing worksharing-related cost of 8.257 cents. (See File: Standard.xls, Sheet: Letters Summary, Cell: E18) The comparable figure from Docket No. 2000-1 is 4.516 cents (See USPS-J-162, File: appiii, Sheet: DEAVGD NONAUTO UNIT COST, Cell: F45). The figure from the current case is nearly double that of the previous case and has substantially increased the cost differential between 3/5-digit nonautomation letters and 3-digit automation letters (the cost for this latter category has remained roughly constant). The referenced cost differential is used in the design of Regular and Nonprofit rates. Please discuss the reason(s) for the increase in this cost, whether the increase is reasonable, prospective changes in the cost differential, and the ramifications for rate design in the current rate case and prospectively.

PARTIAL RESPONSE:

Based on witness Miller's partial response, I add the following observations.

Since the cited costs are not directly comparable, as explained in witness Miller's response, the ramifications on rate design are unclear, if there are indeed ramifications. Please note that I address the issue of cost differentials with respect to 3-digit automation, and how they might vary depending on the benchmark used. (USPS-T-32 at 14, lines 4-14)

DECLARATION

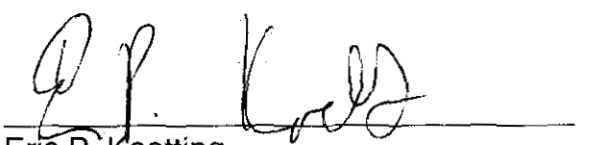
I, Joseph D. Moeller, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

JOSEPH D. MOELLER

Dated: January 22, 2002

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.



Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260–1137
January 22, 2002

DECLARATION

I, George Tolley, declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information and belief.

(Signed)

1-16-02
(Date)

RESPONSE OF UNITED STATES POSTAL WITNESS KIEFER TO PRESIDING OFFICER'S INFORMATION REQUEST 8

3. The FY 2000 piece data for Zone 5 of Intra-BMC Parcel Post in LR-J-106 does not match the data in LR-J-67, Attachment E, Table 3, page 5. Please reconcile the differences and provide revised exhibits, testimony, and library references as necessary.

RESPONSE

The volumes shown for Intra-BMC zone 5 Parcel Post in LR-J-67 (16,871) reflect only the Form 12 data for this rate category and zone. The billing determinants data shown in LR-J-106 for Intra-BMC zone 5 contain an additional 29,916 pieces identified from the USPS Permit system. These additional pieces were distributed to weight increments in the same proportions as the pieces in the Form 12 data employed by witness Eggleston. The total volume for zone 5 in the billing determinants is the sum of the Form 12 pieces and the Permit pieces. The aggregated Form 12 and Permit volume benchmarks to the RPW data, so it is the appropriate volume figure to use for rate design purposes. Witness Eggleston used the Form 12 data (without the additional Permit data) to develop average cubic feet estimates, to calculate the percent of each rate category that is machinable, and to run the regressions to develop the cube-weight relationship estimates. These uses of the data were internally consistent since only Form 12 data were used throughout these analyses. Witness Eggleston used my TYBR volume profiles, which were based on the billing determinants, for all of her cost and worksharing cost savings estimates. Given the limited and internally consistent use of the Form 12 data, as well as the relatively small size of the difference, neither witness Eggleston nor I believe that any material effects were produced on the costing or pricing analyses or outcomes, so no revisions to exhibits, testimony or library references are necessary.

RESPONSE OF UNITED STATES POSTAL WITNESS KIEFER TO PRESIDING OFFICER'S INFORMATION REQUEST 8

7. This question refers to LR-J-106 and LR-I-62 from Docket No. R2000-1.
   (a) The calculation of the piece charge for Parcel Post involves subtracting the surcharges from the total amount to be recovered by the piece charge. In LR-I-62 witness Plunkett used the proposed nonmachinable surcharge rate times the estimated TYBR nonmachinable volume to calculate the surcharges for Inter-BMC, Intra-BMC, and DBMC. In LR-J-106 witness Keifer uses the unit cost, rather than the proposed rate, of the nonmachinable parcels for Inter-BMC, Intra-BMC and DBMC to calculate the surcharges. Please explain the rationale for this change in methodology.
   (b) In LR-J-106 witness Kiefer increases the piece charge by a "rate constraint revenue reallocation factor" of 101%. Please explain how this factor is derived.

RESPONSE

(a) The method I used places all leakages and surcharges on an equal footing before adjustments are made, with passthroughs set at 100%. Then, as passthroughs are reduced from 100%, the revenue recovery impact of reducing the passthrough is apportioned to all Parcel Post mail pieces roughly proportionately to each piece's revenue burden. Using my method, the markup factor is slightly higher than if the reduction in surcharge passthroughs are assumed *a priori*, which is the approach used by witness Plunkett in Docket No. R2000-1. Both approaches yield the same amount of target revenue. Both methods represent reasonable approaches to reallocating the relatively small amounts of revenue required to offset the surcharge reductions. I believe that the approach I used has merit since it treats all factors requiring revenue adjustments (worksharing leakages, surcharge reductions, etc.) on a consistent basis.

(b) During the rate design process, when rate constraints were imposed, some revenue was lost. The "rate constraint revenue reallocation factor" was applied to give the per-piece rate element a slightly higher weight in recovering this lost revenue than it would have borne if the markup factor had simply been

increased. Increasing the per-piece rate element shares the burden of recovering revenues lost via rate change mitigation more equally to all Parcel Post pieces than would increasing the markup factor. The value used for the revenue reallocation factor was judgmentally determined to accomplish what I believe to be a fair and equitable redistribution of the burden of recovering lost revenue.

DECLARATION

I, James M. Kiefer, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

James M Kiefer

Dated: 1/22/02

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 8, QUESTION NO. 4

4. Library Reference J-202 provided in response to POIR 6, question 9 displays the components and distribution keys used in the SAS programs provided in USPS LR-J-46 and USPS LR-J-52. USPS LR-J-46 develops the piggyback factors for the Base Year and USPS LR-J-52 develops piggyback factors for the Test Year. A review of the distribution keys displayed in LR-J-202 indicate some inconsistencies in the rollforward process.
   a. Component 694, the distribution key for component 678, Joint Supervision is the same in the test year as it is for the base year. The same is true for component 294, distribution key for components 30, Higher Level Supervision, and 422, Administrative Clerks-General Office and Clerical. Since the distribution keys are developed by the summation of direct cost components which are rolled forward from the base year to the test year, should the distribution keys be different for the two years? If the keys should be different for the base year and the test year please provide corrections as necessary to Library References J-46 and J-52, the base year and test year piggyback factor calculations.
   b. The distribution key for segment 2 Employee and Labor Relations supervision (Component 528), Time and Attendance supervision (Component 483), and segment 3 Time and Attendance clerks (component 477) is shown to be component 525. This distribution key, component 525, does not include the PESSA labor costs for segment 11, custodial and equipment maintenance and segment 18, USPS protection force. Should the correct distribution key used in the piggyback factor calculation include these PESSA labor costs, as it does in the development of the base year and the rollforward to the test year? If the current distribution key used is incorrect, please provide the correct distribution key and indicate how the piggyback factors for the base year and the test year would change.
   c. The distribution key for the segment 18 and segment 20 labor-related benefits costs, component 526, also does not include the PESSA labor costs noted in part (b), above. Should the correct distribution key used in the piggyback factor calculation include these PESSA labor costs? If the current distribution key used is incorrect, please provide the correct distribution key and indicate how the piggyback factors for the base year and the test year would change.

RESPONSE:

a. A review of the calculation of Joint Supervision, Higher Level Supervision, and Administrative Clerks-General Office and Clerical costs for piggyback factors leads to the conclusion (as discussed below) that the calculation is

correct for the base year but incorrect for the test year. Correcting the test year piggyback factors would turn out to have a very small impact as demonstrated in USPS LR-J-214.[1]

After some investigation, it turns out the reason components 694 and 294 are the same in the base year and the test year cost models is that these components are only used in the base year. These components are used to distribute accrued costs of Joint Supervision (678), Higher Level Supervision (30), and Administrative Clerks-General Office and Clerical (422) in the base year. In the base year, these supervision and administration cost components are as volume variable and receive the same distribution as the labor costs for the staff that is supervised and administered.[2] Component 694 is the labor cost for the staff supervised by the personnel in Joint Supervision. Component 294 is the labor cost for the staff supervised by the personnel in Higher Level Supervision. Likewise, component 294 is the labor cost for the staff administered by Administrative Clerks-General Office and Clerical.

There is no comparable distribution in the test year. Once these components (678, 30 and 422) are defined in the base year, they are rolled-forward using the routine rollforward effects: cost level, mail

[1] Spreadsheet Typbacks.xls is the same as the test year piggyback factors provided in USPS LR-J-210, spreadsheet POIR7-TY.xls, except the calculation of costs for Joint Supervision, Higher Level Supervision and Administrative Clerks-General Office and Clerical is corrected.
[2] See USPS LR-J-1 at pages 2-5 to 2-7 and 3-16 to 3-19.

volume, nonvolume, additional workday, cost reductions and other programs. As such, there is no need in the rollforward to recalculate the underlying distribution in the test year and therefore no need to recalculate components 694 and 294.

The base year calculation of piggyback costs for Joint Supervision, Higher Level Supervision, and Administrative Clerks-General Office and Clerical costs, as done in USPS LR-J-46, parallels the development of these costs in the base year. For example the base year distribution of administrative clerks (422) is based on the distribution of the labor costs for the staff supported by this administrative work, which is component 294. The base year calculation of piggyback costs for administrative costs correctly uses component 294 in the same way as done in the base year cost development. As a result, the portion of component 294 associated with any function (e.g., mail processing) indicates the portion of administrative costs by function.

It is clearly incorrect to rely on components 694 and 294 for the calculation of test year piggyback factors, as I have done in USPS LR-J-52. Aside from the fact that these components are base year components, there is no comparable distribution of these supervision and administrative costs in the test year, as noted above. There are no test year distribution keys for these costs. Under the methods used in the rollforward, the test year distribution of these supervision and administrative costs across functions (e.g., mail processing, city carrier,

etc.) is as determined in the base year. Thus the test year costs for each subclass for Joint Supervision, Higher Level Supervision, and Administrative Clerks-General Office and Clerical should be split across functions by using the base year labor shares for components 694 and 294.

For example, the distribution key for Administrative Clerks--General Office and Clerical, component 294, consists of the labor costs for over 40 components as shown in USPS LR-J-214, spreadsheet BY00Keys.xls. As shown by this spreadsheet, the accrued costs for the labor elements which compose this distribution key are $40,210,145 for the base year. As shown in USPS LR-J-210, spreadsheet POIR7-BY.xls, sheet "Input-DK," cell D11, the portion that is First-Class single-piece is $8,763,090. The portion of this amount that is mail processing labor is $5,693,500 (also POIR7-BY.xls, sheet "MP Dep," cell AQ11). Thus, mail processing labor accounts for 64.97 percent of $8,763,090 First-Class single piece distribution key labor costs. The base year Administrative Clerks--General Office and Clerical cost (cost segment 3.3) for First-Class single-piece is $146,286. Applying the mail processing percentage of 64.97 percent to this gives us $95,044, which is the same as Administrative Clerks--General Office and Clerical reported at page 3 of USPS LR-J-46.

If we apply the base year cost percentage by function (64.97 percent as calculated above) to the test year Administrative Clerks--General Office and Clerical cost (cost segment 3.3) for First-Class single-

piece of $148,365, then we obtain $96,395.[3] This is $5,024 less than the $101,419 shown on page 5 of USPS LR-J-52. The corresponding differences for Joint Supervision and Higher Level Supervision are $2,039 and $661, giving us a total of $7,724. This is small compared to the test year First-Class single-piece mail processing labor cost of $4,647,852. As a result, the impact of any potential change would be very small. (Please note that all dollar figures used above are in thousands.)

b. The current calculation method (or distribution key) is correct for both the base year and test year. While it is true that the distribution key, component 525, does not include PESSA labor costs for segments 11 and 18 in its volume variable costs, the total accrued costs (class 200) for this component do include these labor costs. It is only the total accrued costs of this component that are used in the calculation of these three piggyback components (employee and labor relations, time and attendance supervisors, and time and attendance clerks).[4]

For example, the calculation of cost segment 3 time and attendance costs for each subclass for base year mail processing is done by multiplying the total mail processing related labor costs[5] by the ratio of

[3] This is the same as the general and administrative cost shown in USPS LR-J-214, spreadsheet Typbacks.xls, sheet "MP Dep," cell L11.
[4] See for example pages 9 (line43), 10 (line 102) and 15 (lines 217-219) of USPS LR-J-46 or pages 12 (line 41), 13 (line 99) and 18 (lines 214-216) of USPS LR-J-52.
[5] Line 18 of the General Pigggyback Matrix, p. 298 of USPS LR-J-52.

total accrued cost segment 3 time and attendance clerks divided by total accrued labor costs as per component 525.[6] Mail processing labor related costs for the base year are shown at page 4, column 17 of USPS LR-J-46. The ratio of total accrued cost segment 3 time and attendance clerks divided by total accrued labor costs as per component 525 is 222,638/44,335,250 (in thousands) which is .00502.[7] This produces the results by subclass shown on page 4 column 20 of USPS LR-J-46.

c. The answer for this part involves the same explanation given in part b. The current calculation method (or distribution key) is correct for both the base year and test year. While it is true that the distribution key, component 526, does not include PESSA labor costs for segments 11 and 18 in its volume variable costs, the total accrued costs (class 200) for this component do include these labor costs. As was the case in part b, it is only the total accrued costs of this component that is used in the calculation of the cost segment 18 and 20 benefits for piggyback factors.[8]

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[6] This is all non-headquarters related labor costs except for Employee and Labor Relations supervisors, Time and Attendance Supervisors and Time and Attendance Clerks. See USPS LR-J-214, spreadsheet BY00Keys.xls.

[7] This is the equivalent of using the ratio of component 477 to component 527 by subclass (see USPS LR-J-210, spreadsheet Poir7-by.xls, sheet "MP Dep," column S).

[8] See for example pages 9 (line 49), 10 (line 115) and 18 (lines 220-222) of USPS LR-J-46 or pages 12 (line 49), 13 (line 112) and 18 (lines 217 and 221) of USPS LR-J-52.

For example, the calculation of cost segment 20 Civil Service Retirement Interest costs for each subclass for base year mail processing is done by multiplying the total mail processing related labor costs[9] by the ratio of total accrued cost for Civil Service Retirement Interest divided by total accrued labor costs as per component 526.[10] Mail processing labor related costs for the base year are shown at page 4, column 21 of USPS LR-J-46. The ratio of total accrued cost for Civil Service Retirement Interest divided by total accrued labor costs as per component 526 is 1,567,757/45,834,089 (in thousands) which is .03421.[11] This produces the results by subclass shown on page 4 column 23 of USPS LR-J-46.

[9] Line 22 of the General Piggyback Matrix, p. 298 of USPS LR-J-52.
[10] This is all labor costs except for cost segment 18 and 20 benefits. See USPS LR-J-214, spreadsheet BY00Keys.xls.
[11] This is the equivalent of using the ratio of component 1436 to component 433 by subclass (see USPS LR-J-210, spreadsheet Poir7-by.xls, sheet "MP Dep," column AC).

DECLARATION

I, Marc A. Smith, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Marc A. Smith

Dated: 1-22-02

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 8

5. Please provide the following information regarding the APWU contract arbitration award of December 18, 2001:

— The FY 2002 and Test Year estimated cost of the $499 COLA lump sum awarded to APWU employees;

— The FY 2002 and Test Year estimated cost of the grade level upgrades awarded to specific position classifications. Include the number of employees affected by job classification title. Also indicate if the cost estimate can be incorporated into LR-J-50 in the same manner as the grade level upgrade awarded to the NALC in FY 2001;

— The FY 2002 and Test Year estimated cost of the lump sum payment for the retroactive pay increase for November 18, 2000 (1.2% increase) and November 17, 2001 (1.8% increase).

The information should be consistent with the spreadsheet formats in USPS LR-J-50, the Comprehensive Roll-Forward Factor Development Model (CRFDM). Please indicate how these data may be incorporated into LR-J-50.

RESPONSE:

• The $499 lump sum COLA payment is a cost for FY 2001. Since this amount will not be rolled into base pay, and the cost of lump sum payments does not recur in subsequent years, there is no cost impact on FY 2002 or the Test Year.

• The number of employees affected by the upgrades by job classification was provided in the response to POIR No.7, question 9. The unit costs and cost level impacts of the APWU upgrades are reflected in the Attachments to this response. The unit cost of the All Other Bargaining upgrades effective on November 16, 2002, was estimated at $613.19 per All Other Bargaining base workyear. This can be incorporated into LR J-50 in the same manner as the NALC upgrade, *i.e.*, by adding the estimated unit cost per base workyear to the FY 2003 estimated pay increase unit cost for All Other Bargaining employees. The unit cost of the Clerk A-J upgrades effective on March 23, 2002. was estimated at $139.04 per Clerk A-J base workyear. The unit cost of the Clerk A-J upgrades must be treated differently from the All Other Bargaining upgrade unit cost because it has a different effective date from that of the FY 02 Clerk A-J pay increase. Since the model allows for the input of only one pay increase unit cost for each employee

category in each fiscal year, a different approach must be used to allow for the different effective dates. First, the Clerk A-J annual unit cost amounts and effective dates of the FY 02 and FY 03 pay increases of 1.8% and 1.4% ($685.04 on 11/17/01 and $532.04 on 11/18/02) can be input into the Pers Unit Cost sheet of the Input_01s.xls workbook. This generates the amount of unit cost effective in each fiscal year on the Unit Cost Tables sheet in the Prff_01s.xls workbook. The annual pay increase unit cost effective on November 17, 2001 ($684.05) can then deleted and replaced by the annual unit cost and effective date of the Clerk A-J upgrade ($139.04). This generates the effective amount of Clerk A-J upgrade unit cost in each of FYs 02 and 03. Finally, the effective amounts of the Clerk A-J pay increase unit costs and the effective amounts of the upgrade unit cost for both FY 02 and FY 03 can then be input into the Pers Unit Cost sheet of the Input_01s.xls workbook. Since the effective amounts already reflect the amounts effective in each fiscal year, the effective dates can be changed to 10/1/01 and 10/1/02, in order to keep the cost impact in the proper fiscal year (see Attachment 3). The cost level dollar impact that results from the steps outlined above can be determined by referring to the Analysis of Pers Cost Lvl Chg sheet in the RF_Rpts_01s.xls workbook. These amounts are summarized on Attachments 1 and 2 of this response.

- The cost level dollar impacts and unit costs of the three general pay increases resulting from the recent APWU contract award are reflected in the three Attachments to this response. The unit costs for Clerks A-J, All Other Bargaining, and APWU TEs can be calculated by substituting the percentage pay increases from the APWU award for the ECI and ECI-1 percentages used previously in the GEN-INC sheet of the Uncst_est_01s.xls workbook. For FY 2001, the carryover amounts previously subtracted from the annual amounts related to the ECI must be deleted. Additionally, the base salary to which the percentage increases are applied must be changed to accounting period 13 of PFY 2000 for consistency with the arbitration award. This can be accomplished by changing the National Payroll Hour Summary Data, in rows AA and AB on the

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 8

Barg-$&Hrs(02-01) sheet in the Uncst_est_o1s.xls workbook, to Accounting Period 13 PFY 2000 current period data. This results in the recalculation of base salaries in the Bgn Avg Sal(02-01) sheet. Finally, the base salary cell references in the GEN-INC sheet for Clerks A-J, TE APWU, and All Other Bargaining, must be linked to the new base salaries in the Bgn Avg Sal(02-01) sheet for all three years (FY 01-03). Once the annual unit costs have been determined, the cost level impacts are calculated using the same methodology used to calculate the cost level impact of upgrades. This methodology is described in the preceding section. It should be noted that the steps outlined in this response result in the calculation of cost level impacts only. Cost level impacts represent most of the total cost change that would result from updating the items in question. However, the total cost impact can best be determined by re-running the rollforward model with all of the revised change factors that result from the steps described above. The change factors required to run the rollforward model can be found in the Rffac_01s.xls workbook. It is important to note that the Postal Service considers selective updating to be inappropriate. If updating is done, then all factors impacted by significant changes must be updated to reduce the possibility of a skewed result.

Attachment 1 to POIR 8
Question 5 Response

Docket No. R2001-1
Summary Cost Level Impacts
Pay Inc's & Upgrades Under APWU Arbitration Award
Dollars in Thousands

General Pay Inc's	FY 01	FY 02	FY 03	Totals
1.2% Pay Inc	178,840	26,617		205,457
1.8% Pay Inc		264,501	38,346	302,847
1.4% Pay Inc			202,449	202,449
Incremental Totals	178,840	291,118	240,795	710,753
Cumulative Totals	178,840	469,958	710,753	1,359,551
Upgrades				
Clerks	-	26,153	23,008	49,161
Other APWU	-		43,058	43,058
Incremental Totals	-	26,153	66,066	92,219
Cumulative Totals	-	26,153	92,219	118,372
Total Pay/Upgrades				
Incremental Totals	178,840	317,271	306,861	802,972
Cumulative Totals	178,840	496,111	802,972	1,477,923

Attachment 2 to POIR 8
Question 5 Response

Docket No. R2001-1
Comparison of Cost Level Change Amounts Reflected on the Analysis of Changes in Personnel Cost Levels
Dollars in Thousands

Description of FY 01-03 APWU	FY 01 Cost level Inc			FY 02 Cost level Inc			FY 03 Cost level Inc		
Pay Inc Unit Cost Changes	Salaries	Benefits	Total	Salaries	Benefits	Total	Salaries	Benefits	Total
No FY 01-03 APWU Pay Inc's	1,536,401	585,645	2,122,046	989,552	513,532	1,503,084	860,703	510,562	1,371,265
With 11/18/00 1.2% Pay Inc	1,690,217	610,669	2,300,886	1,012,441	517,260	1,529,701	860,703	510,562	1,371,265
Impact of 1.2% Pay Inc	153,816	25,024	178,840	22,889	3,728	26,617	-	-	-
Cumulative Impact						205,457			205,457
With 11/17/2001 1.8% Pay Inc	1,690,217	610,669	2,300,886	1,239,915	554,287	1,794,202	893,681	515,930	1,409,611
Impact of 1.8% Pay Inc	-	-	-	227,474	37,027	264,501	32,978	5,368	38,346
Cumulative impact									302,847
With 11/16/2002 1.4% Pay Inc	1,690,217	610,669	2,300,886	1,239,915	554,287	1,794,202	1,067,787	544,273	97,390
Impact of 1.4% Pay Inc	-	-	-	-	-	-	174,106	28,343	202,449
Total Impact of All Pay Inc.'s	153,816	25,024	178,840	250,363	40,755	291,118	207,084	33,711	240,795
Cumulative Impact of Pay Inc's			178,840			469,958			710,753
With 11/16/02 Upgrades	1,690,217	610,669	2,300,886	1,239,915	554,287	1,794,202	1,104,506	550,612	1,655,118
Impact of Other Barg. Upgrades							36,719	6,339	43,058
With 3/23/02 Upgrades	1,690,217	610,669	2,300,886	1,262,423	557,932	1,820,355	1,124,307	553,819	1,678,126
Impact of Clerk Upgrades				22,508	3,645	26,153	19,801	3,207	23,008
Cum Impact of Clerk Upgrades									49,161
Total Impact of Upgrades				22,508	3,645	26,153	56,520	9,546	66,066
Cumulative impact of Upgrades						26,153			92,219

Note: The above amounts are reflected on the Analysis of Pers Cost Lvl Chg sheet (RF_Rpts_01s.xls workbook). When the FY01-03 pay increase and upgrade unit costs shown on Attachment 3 are entered in the General Pay Increase Section of the Pers Unit Costs sheet (Input_01s_.xls workbook). APWU categories reflected in the model include Clerks Bargaining A-J, All Other Bargaining, and TE-APWU.

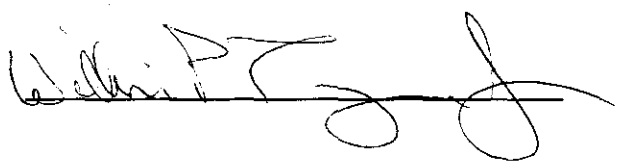
Attachment 3 to POIR 8
Question 5 Response

Docket No. R2001-1
Summary of General Pay Inc. and Upgrade Unit Costs
APWU Arbitration Award

			Fiscal Year		
Clerks A-J			2001	2002	2003
Effective Date	%	Unit Cost	Effective Amount		
11/18/00 Pay	1.2%	456.04	396.07	59.97	
11/17/01 Pay	1.8%	684.05		595.97	88.08
11/16/02 Pay	1.4%	532.04			464.99
3/23/02 Upgrade		139.04		73.14	65.90
Totals		1,811.17	396.07	729.08	618.97
Restructured Clerks					
11/18/00 Pay	1.2%	463.64	396.07	59.97	
10/1/01 Pay		614.45		595.97	
10/1/02 Pay		579.87			553.07
10/1/01 Upgrade		73.14		73.14	
10/1/02 Upgrade		65.90			65.90
Totals			396.07	729.08	618.97
All Other Bargaining					
11/18/00 Pay	1.2%	458.45	398.16	60.29	
11/17/01 Pay	1.8%	687.68		599.13	88.55
11/16/02 Pay	1.4%	534.86			467.45
11/16/02 Upgrade		613.19			535.91
Totals		2,294.18	398.16	659.42	1,091.91
APWU TE					
11/18/00 Pay	1.2%	295.73	256.95	38.78	
11/17/01 Pay	1.8%	443.59		386.47	57.12
11/16/02 Pay	1.4%	345.02			301.54
Totals		1,084.34	256.95	425.25	358.66

DECLARATION

I, William P. Tayman, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.



Dated: 1-22-2002

RESPONSE OF U.S. POSTAL SERVICE WITNESS MOELLER TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 8, QUESTION 8

8. Witness Moeller's Exhibit USPS-28B shows TYAR revenues of $11,037,577 for Standard Mail Regular Subclass and $1,669,064 for Nonprofit subclass. The total for these two subclasses is shown as $12,706,641. The source for these figures, USPS-T-32, p.28, contains only the total for the two subclasses and it is shown as $12,711,544. LR-J-132, WP 1, page W, the source for USPS-T-32, p.28, shows TYAR revenues of $11,042,480 for Standard Mail Regular Subclass and $1,669,063 for Nonprofit subclass. The total for these two subclasses is shown as $12,711.543. The figures are summarized below (Amounts in Thousands):

Subclass	Exhibit USPS-28A (1)	USPS-T-32 Page 28 (2)	LR-J-132 WP 1, p.W (3)
Regular	$11,037,577		$11,042,480
Nonprofit	$ 1,669,064		$ 1,669,063
Total	$12,706,641	$12,711,544	$12,711,543

Please reconcile the differences and provide revised exhibits, testimony, and library references as necessary.

RESPONSE:

The necessary revisions were filed on January 11, 2002. The revisions include a revised response to POIR #2, Question 6, as well as revised Exhibits USPS-28B and USPS-28E, and minor changes to the text of USPS-T-28, as I discussed when I appeared before the Commission on that date. See Tr. Vol. 9, pages 2497-98.

DECLARATION

I, Joseph D. Moeller, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

JOSEPH D. MOELLER

Dated: January 22, 2002