

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

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POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PATELUNAS TO
INTERROGATORIES OF DIRECT MARKETING ASSOCIATION, INC.
(DMA/USPS-T15-1-8)

The United States Postal Service hereby provides the responses of witness Patelunas to the following interrogatories of Direct Marketing Association, Inc.:
DMA/USPS-T15-1-8, filed on September 4, 1997.

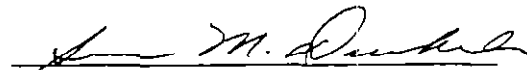
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



Susan M. Duchek

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2990; Fax -5402
September 18, 1997

Response of United States Postal Service Witness Patelunas
to Interrogatories of
Direct Marketing Association, Inc.

DMA/USPS-T15-1. Please refer to pages 93-96 of LR-H-12.

- a. Were the program managers who estimated savings from personnel-related cost reduction programs instructed to determine whether reductions in Clerks and Mailhandlers and City Carriers work hours would reduce the amount of supervisor and technician work hours needed to manage the craft workers when they estimated cost savings?
- b. If your answer to sub-part a. is "no," why not?
- c. If your answer to sub-part a. is "yes," please provide the instructions given to program managers.

DMA/USPS-T15-1 Response:

- a. No.
- b. The program managers who estimated the savings from personnel-related cost reduction programs made their estimates based on their expertise. The program managers have first-hand knowledge of the particular programs and operations; thus, they are the best judges of estimating how the programs will impact operations. The program managers use their own understanding of the relationships between craft employees and supervisors when they determined these cost reduction estimates.
- c. Not Applicable

Response of United States Postal Service Witness Patelunas
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DMA/USPS-T15-2. Please refer to your response to DMA/USPS-T914(b), LR-H-12 (page 21), LR-H-1, page 2-2, Section 2.1.1 (where it states, "The workhours, and therefore the costs, for firstline supervision [of mail processing] are largely a function of the workhour-related costs of the supervised activities and supervisory span of control (number of employees per supervisor). Mail processing supervisors have a span of control that is essentially constant in a given work organization structure"), and LR-H-1, page 2-5, Section 2.4.1 (where it states, "As in the case of mail processing supervision, these costs (for supervision of delivery and collection) are largely a function of the workhour-related costs of each of the supervised activities...")

- a. Please confirm that, in the absence of cost reduction and other programs, the roll forward model adjusts supervisor and technician work hours to maintain a predetermined ratio of supervisors and technicians to craft workers.
- b. If subpart a. is confirmed, please explain fully the reason for making this adjustment.
- c. If subpart a. is confirmed, please explain fully the rationale for this ratio.
- d. What is the predetermined ratio of Clerk and Mailhandler supervisors and technicians to Clerk and Mailhandler craft workers?
 - (1) When did the Postal Service first decide to project Clerk and Mailhandler supervisor and technician work hours using a predetermined ratio of Clerk and Mailhandler supervisors and technicians to Clerk and Mailhandler craft workers?
 - (2) For how long has the Postal Service used the ratio that it is using in this case to project Clerk and Mailhandler supervisors and technicians work hours?
 - (3) What was the previous ratio, when was it first used, and what was the rationale for changing it to the current ratio?
- e. What is the predetermined ratio of City Carrier supervisors and technicians to City Carrier craft workers?
 - (1) When did the Postal Service first decide to project City Carrier supervisor and technician work hours using a predetermined ratio of City Carrier supervisors and technicians to City Carrier craft workers?

Response of United States Postal Service Witness Patelunas
to Interrogatories of
Direct Marketing Association, Inc

DMA/USPS-T15-2 continued:

- (2) For how long has the Postal Service used the ratio that it is using in this case to project City Carrier supervisors and technicians work hours?
 - (3) What was the previous ratio, when was it first used, and what was the rationale for changing it to the current ratio?
- f. Do any of the cost reduction or other programs change the mail processing "work organization structure"? If so, please list the programs affecting the mail processing work organization structure and explain fully how the programs affect the mail processing work organization structure.
 - g. If your answer to subpart f. is "yes," do the cost reduction and other programs change the work organization structure in a way that would affect the predetermined ratio of supervisors and technicians to craft workers?
 - h. Assuming everything else being equal, are more supervisors and technicians required per craft worker in a more automated mail processing environment than in a less automated environment? If so, please explain fully.
 - i. Please list all reasons, other than a change in work organization structure, why the optimal ratio of supervisors and technicians to craft workers would change. Please explain each reason fully.
 - j. Please explain whether any cost reduction or other program would change the optimal ratio of supervisors and technicians to Clerks and Mailhandlers due to any of the reasons in your response to subpart i.
 - k. Do any of the cost reduction or other programs change the City Carrier "work organization structure"? If so, please list the programs affecting the work organization structure and explain fully how the programs affect the work organization structure.
 - l. If your answer to subpart k is yes, do the cost reduction and other programs change the work organization structure in a way that would affect the predetermined ratio of supervisors and technicians to craft workers?

Response of United States Postal Service Witness Patelunas
to Interrogatories of
Direct Marketing Association, Inc.

DMA/USPS-T15-2 continued:

- m. Please list all reasons, other than a change in work organization structure, why the optimal ratio of supervisors and technicians to craft workers would change. Please explain each reason fully.
- n. Please explain whether any cost reduction or other program would change the optimal ratio of supervisors and technicians to craft workers due to any of the reasons in your response to subpart m.
- o. Individually for each of the past ten years, what was the actual ratio of supervisors and technicians to craft workers for (1) Clerks and Mailhandlers and (2) City Carriers.
- p. Over the past ten years, have any events changed the work organization structure in a way that has affected the optimal ratio of supervisors and technicians to craft workers? If so, please explain each event fully.
- q. Over the past ten years, have any events changed the optimal ratio of supervisors and technicians to craft workers, but not affected the work organization structure? If so, please explain fully.

DMA/USPS-T15-2 Response:

- a. Not confirmed.
- b. Not Applicable
- c. Not Applicable
- d. (1)-(3) There is no predetermined ratio.
- e. (1)-(3) There is no predetermined ratio.
- f. Over a period of time, the deployment of mechanization and automation, the utilization of employees and the configuration of the work organization structure might change, but to my knowledge this has not been studied.

Response of United States Postal Service Witness Patelunas
to Interrogatories of
Direct Marketing Association, Inc.

DMA/USPS-T15-2 Response continued:

g. Even if the response to part f is a qualified yes, there is no predetermined ratio of supervisors and technicians to craft employees.

h. It is not possible to answer such a general question. Is the definition of automated versus less automated environment the entire environment of postal operations or is it some subset of operations within the postal environment that have experienced automation? Furthermore, it appears that the question concerns the supervision of craft employees. If the absolute number of supervisors and technicians is part of the consideration, it should be noted that the technicians in this employee category have little or nothing to do with the supervision of craft workers. The absolute number of technicians may change differently than the change in the absolute number of supervisors. Additionally, in terms of the employee categories of supervisors and technicians, clerks, mailhandlers and city carriers, is it the absolute number of employees in each category, or should some consideration be given to the different types of employees in each category: full-time regular, part-time regular, part-time flexible, casual and transitional employees. In combination with these possible variations, the deployment of resources and the configuration of operations may result in the supervisor and technician to craft worker ratio increasing, decreasing or remaining the same either in the total Postal environment or within individual operations.

Response of United States Postal Service Witness Patelunas
to Interrogatories of
Direct Marketing Association, Inc.

DMA/USPS-T15-2 Response continued:

i. As in the case of the predetermined ratio of supervisors and technicians to craft workers, the Postal Service does not plan as if there is some sort of optimal ratio. Therefore, because I do not know what this optimal ratio is, I cannot discuss how it might change.

j. See my response to subpart i.

k. See my response to subpart f.

l. See my response to subpart g.

m. See my response to subpart i.

n. See my response to subpart i.

o. Using all employees on the rolls, the following chart shows ratio of the total number of Supervisors and Technicians to each of the requested groups for each of the requested years:

<u>Year</u>	<u>Clerks and Mailhandlers</u>	<u>City Carriers</u>
1986	.1358	.2129
1987	.1477	.2282
1988	.1444	.2235
1989	.1498	.2270
1990	.1543	.2209
1991	.1602	.2264
1992	.1571	.2292
1993	.1216	.1764
1994	.1247	.1850
1995	.1204	.1843
1996	.1206	.1883

p. See my response to subpart i.

q. See my response to subpart i.

Response of United States Postal Service Witness Patelunas
to Interrogatories of
Direct Marketing Association, Inc.

DMA/USPS-T15-3. Please refer to your response to DMA/USPS-T9-14c and LR-H-12, page 21, and assume: (1) the predetermined ratio of Clerks and Mailhandler craft workers to Clerk and Mailhandler supervisors and technicians is 20:1 and (2) the roll forward model projects a 40,000 work hour decrease (in the absence of cost reduction and other programs) in Clerks and Mailhandlers from FY 1996 to FY 1997.

- a. Please confirm that, to maintain the predetermined ratio of supervisors and technicians to workers, the roll forward from FY 1996 to FY 1997, in the non-volume workload adjustment step, would reduce Clerk and Mailhandler supervisors and technicians work hours by 2,000.
- b. Please confirm that if program managers estimated that cost reduction programs, in aggregate, would reduce FY 1997 Clerks and Mailhandlers work hours by 40,000 and Supervisors and Technicians Clerks and Mailhandlers work hours by 0 hours, the roll forward model would not adjust FY 1997 Clerk and Mailhandler supervisors and technicians work hours to maintain the predetermined ratio of supervisors and technicians to craft workers.
- c. Please confirm that the cost reduction programs described in subpart b would reduce the FY 1997 ratio of Clerks and Mailhandlers to Clerk and Mailhandler supervisors and technicians to below 20:1.

DMA/USPS-T15-3 Response:

- a. Not confirmed. First, the use of a predetermined ratio of Clerks and Mailhandler craft workers to Clerk and Mailhandler supervisors and technicians is only an assumption in this question. Second, the rollforward model projects costs only; it does not project work hour changes, although costs can be converted to workhours by using the sources provided in USPS Library Reference H-12. Third, the change factors for any of the six rollforward effects: cost level, mail volume, nonvolume, additional workday, cost reduction and other programs, are calculated externally to the rollforward model. See my Exhibit USPS-15A (revised). Additionally, each of the above listed effects is executed sequentially in the rollforward model and the nonvolume workload

Response of United States Postal Service Witness Patelunas
to Interrogatories of
Direct Marketing Association, Inc.

DMA/USPS-T15-3 Response continued:

adjustment occurs before either the cost reduction or other programs effects. See my testimony at pages 6 - 16. Furthermore, the nonvolume workload adjustment for Supervisors and Technicians is a piggyback on either Time and Attendance Clerks and Mailhandlers or Access and Route Time for City Carrier Street Time. Thus, being piggyback effects, there is no way the nonvolume workload effect is used to maintain any predetermined ratio of Supervisors and Technicians to craft employees.

b. Not confirmed. As stated in part a of this question, the rollforward model does not project work hours.

c. Apart from the fact that the rollforward model only projects costs, it would be an arithmetic truism to state the ratio of crafts workers to supervisors and technicians would be reduced to less than 20:1. This can be seen in the following example:

$$[20 / 1 \quad \text{is greater than} \quad (20 - X) / 1].$$

Response of United States Postal Service Witness Patelunas
to Interrogatories of
Direct Marketing Association, Inc.

DMA/USPS-T15-4. Please refer to your response to DMA/USPS-T9-14c and LR-H-12, page 21, and assume: (1) the predetermined ratio of City Carriers to City Carrier supervisors and technicians is 20:1 and (2) the roll forward model projects a 40,000 work hour decrease (in the absence of cost reduction and other programs) in City Carriers from FY 1996 to FY 1997.

- a. Please confirm that, to maintain the predetermined ratio of supervisors and technicians to workers, the roll forward from FY 1996 to FY 1997, in the non-volume workload adjustment step, would reduce City Carriers supervisors and technicians work hours by 2,000.
- b. Please confirm that if program managers estimated that cost reduction programs, in aggregate, would reduce FY 1997 City Carriers work hours by 40,000 and Supervisors and Technicians City Carriers work hours by 0 hours, the roll forward model would not adjust FY 1997 Supervisors and Technicians City Carriers work hours.
- c. Please confirm that the cost reduction program described in sub-part b. would reduce the FY 1997 ratio of City Carriers to Supervisors and Technicians City Carriers to below 20:1.

DMA/USPS-T15-4 Response:

- a. Not confirmed. See my response to DMA/USPS-T15-3 a.
- b. Not confirmed. See my response to DMA /USPS-T15-3b.
- c. See my response to DMA/USPS-T15-3c.

Response of United States Postal Service Witness Patelunas
to Interrogatories of
Direct Marketing Association, Inc.

DMA/USPS-T15-5. Please refer to LR-H-12, pages 93-96.

- a. Please confirm that, in aggregate, Field Personnel Related Cost Reductions and Other Programs change estimated FY 1997 (as compared to FY 1996) work years by craft by the amounts specified below: (1) Clerks CAG A-J - 3,977 workyear decrease, (2) City Carriers 4,190 workyear decrease, (3) mailhandlers - 1,764 workyear decrease, (4) Supervisors - 427 workyear increase, and (5) Maintenance - 542 workyear increase.
- b. Please confirm that, in aggregate, Field Personnel Related Cost Reductions and Other Programs change estimated FY 1998 (as compared to FY 1997) work years by craft by the amounts specified below: (1) Clerks CAG A-J - 168 workyear decrease, (2) City Carriers 6,978 workyear decrease, (3) mailhandlers - 2,104 workyear decrease, (4) Supervisors - 702 workyear increase, and (5) Maintenance - 692 workyear increase.
- c. Please confirm that of the 17 FY 1997 Field Personnel Related Cost Reductions and other Programs with an estimated savings or cost figure for Clerks - CAG A-J, City Carriers, or Mailhandlers (in which 4 are cost increases and 13 are cost savings), 4 have net costs in the Supervisors column (including two that have net savings for the related craft workers) and zero have net savings in the Supervisors column.
- d. Please confirm that of the 48 FY 1998 Field Personnel Related Cost Reductions and Other Programs with an estimated savings or cost figure for Clerks - CAG A-J, City Carriers, or Mailhandlers (in which 20 are net cost increases and 28 are cost savings), 4 have net costs in the Supervisors column (including two that have net savings for the related craft workers) and zero have net savings in the Supervisors column.
- e. Please confirm that 88% of cost reduction programs for FY 1997 and FY 1998, program managers did not adjust Supervisor workyear estimates at all in response to changes in City Carrier and Clerk and Mailhandler workyears.
 - i) If confirmed, please confirm that this indicates that program managers did not analyze the effect on supervisor and technician workyears of cost reduction programs which were focused on City Carrier and Clerk and Mailhandler cost reductions.
 - ii) If not confirmed, please explain fully.

Response of United States Postal Service Witness Patelunas
to Interrogatories of
Direct Marketing Association, Inc.

DMA/USPS-T15-5 continued:

- f. Please confirm that, all else being equal, not adjusting supervisor and technician work hours in response to reductions in City Carrier and Clerk and Mailhandler work hours lowers the ratio of supervisors and technicians to craft workers.
- g. If subpart f. is not confirmed, please explain fully why the roll forward model, in the absence of cost reduction and other programs, adjusts supervisor and technician work hours in order to maintain a predetermined ratio of supervisors and technicians to workers.
- h. Please provide the projected Test Year Proposed Rate ratio of workers to supervisors and technicians for (1) City Carriers and (2) Clerks and Mailhandlers.

DMA/USPS-T15-5 Response:

- a. Part a is confirmed for these amounts that appear on page 93-96 of LR-H-12.

These are only a portion of the cost reductions and other programs; total cost reductions and other programs are shown on pages 319-320 of LR-H-12.

- b. Part b is confirmed.

- c. Part c is confirmed.

- d. Part d is not confirmed. Please refer to USPS Library Reference H-12, page 96.

There are 51 FY 1998 Field Personnel Related Cost Reductions and Other Programs, of which 25 are net cost increases and 26 are net cost savings. There are also four programs for Supervisors that have net cost increases and zero Supervisors programs that have net cost savings.

- e. Confirmed, although using the amounts in part d, the arithmetic yields an amount of 88.2%.

Response of United States Postal Service Witness Patelunas
to Interrogatories of
Direct Marketing Association, Inc.

DMA/USPS-T15-5 Response continued:

i) Not confirmed. The program managers arrived at their estimates using their knowledge and experience in operations. It would not be realistic to conclude

DMA/USPS-T15-5 Response continued:

from your arithmetic that program managers did not analyze the effect on supervisor and technician workyears.

ii) Not applicable.

f. This arithmetic truism is confirmed: not adjusting supervisor and technician work hours in response to reductions in City Carrier and Clerk and Mailhandler work hours lowers the ratio of supervisors and technicians to craft workers. Using the example from earlier in this response, merely replace the value of 20 with any value of Y:

$$[X / 1 \quad \text{is greater than} \quad (X - Y) / 1]$$

g. Not applicable.

h. It appears that the question is asking for a projected number of supervisors and technicians compared with a projected number of (1) City Carriers and (2) Clerks and Mailhandlers. This is not available in the rollforward or in USPS Library Reference H-12. What is available in the rollforward for Test Year 1998 at Proposed Rates is: Supervisor and Technician costs, Clerk and Mailhandler costs and City Carrier costs. See my exhibit USPS-15H, pages 11-22 and 25-18. USPS Library Reference H-12 provides the workyears for Supervisor and Technicians, Clerks and Mailhandlers and City Carriers. See USPS LR-H-12, pages 319 and 320.

Response of United States Postal Service Witness Patelunas
to Interrogatories of
Direct Marketing Association, Inc.

DMA/USPS-T15-6. Assume there is only one cost reduction program -- installation of automated mail processing equipment -- in FY 1998 and it results in a net reduction in Clerk and Mailhandler work years of X percent. If program managers estimated that the cost reduction program would have no effect on supervisors and technician work hours:

- a. Would you question this assumption if X were .1 percent?
- b. Would you question this assumption if X were 1 percent?
- c. Would you question this assumption if X were 5 percent?
- d. Would you question this assumption if X were 10 percent?
- e. Would you question this assumption if X were 50 percent?
- f. Would you question this assumption if X were 90 percent?
- g. At what percentage reduction in Clerks and Mailhandlers work years would you question the program managers' assumption?

DMA/USPS-T15-6 a-g. Response:

a-g. I cannot answer this question in terms of a quantitative percentage level at which I would question the program managers' estimates. Whether I question the assumption or not depends on the situation, the particular program, the circumstances for which the assumption was made, etc. It is possible that in some situation I might question the program managers' assumption, but to date, I have had no cause to question their estimates.

Response of United States Postal Service Witness Patelunas
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Direct Marketing Association, Inc.

DMA/USPS-T15-7. Is an increasing ratio of supervisors and technicians to mail processing or delivery and collection employees a possible indication of a decrease in efficiency?

DMA/USPS-T15-7 Response:

The importance of the ratio cannot be determined without a definition of exactly what this ratio is. Without a clear definition of the ratio, it is speculation to draw any conclusions at all. I do not think it is possible to draw any conclusions about whether or not a possibly increasing ratio of supervisors and technicians to mail processing or delivery and collection employees is a possible indication of a decrease in efficiency. It is possible that in certain types of operations additional supervision may result in increased productivity. For example, a change in the operational mix (OCR processing versus manual casing) may require more supervision which accounts for the mix, but the overall efficiency resulting from automation has increased.

There could be a number of problems arising from the use of some ill-defined ratio. First, it may be important to consider that the technicians included in the supervisors and technicians category have little or nothing to do with supervising craft employees. Second, in each of the employee categories that you discuss, supervisors and technicians, clerks and mailhandlers and city carriers, what type of employees should be used in the ratio? For instance, some of the employee types are: full-time regular, part-time regular, part-time flexible, casual and transitional employees. Third, what are the proper units to measure each employee category in the ratio? One could

Response of United States Postal Service Witness Patelunas
to Interrogatories of
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DMA/USPS-T15-7 Response continued:

use each category by expense dollar, by number of employees, by number of workhours or by number of workyears.

Response of United States Postal Service Witness Patelunas
to Interrogatories of
Direct Marketing Association, Inc.

DMA/USPS-T5-8. Please refer to your response to DMA/USPS-T914(d) in which you state that reducing Supervisors and Technicians mail processing costs for Test Year 1998 by the same percentage reduction in Clerks and Mailhandlers mail processing direct labor costs for Test Year 1998 would result in a savings of "about \$80 million."

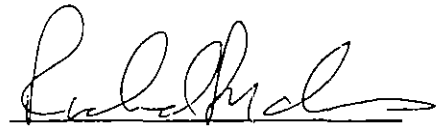
- a. Please provide the precise amount of savings for Supervisors and Technicians mail processing costs in Test Year 1998. Please provide all data and calculations supporting this figure.
- b. Please confirm that a reduction in City Delivery Carriers costs for Test Year 1998 due to cost reduction programs would reduce City Carrier Supervisors and Technicians costs by the same percentage decrease. Please provide the precise amount of savings for City Carrier Supervisors and Technicians costs in Test Year 1998 applying the same percentage decrease as that for the City Carrier costs and provide all data and calculations supporting this figure.

DMA/USPS-T15-8 Response:

- a. There are no savings for Supervisors and Technicians mail processing costs in Test Year 1998. See my workpaper WP-D, Part 1 of 2, Table A, page 1.
- b. As in my response to DMA/USPS-T9-14(d), part (b) is not confirmed. Following my response DMA/USPS-T9-14(d) further, if the 9.5% ratio for City Delivery Carriers is mechanically applied to the \$3,514,726 for Total Supervisors in Test Year 1998, the savings are about \$334 million.

DECLARATION


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

A handwritten signature in cursive script, appearing to read "Richard Patelunas", written over a horizontal line.

Dated: 9/18/97

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.



Susan M. Duchek

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2990; Fax -5402
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