DOCKET SECTION

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

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97–1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PATELUNAS TO INTERROGATORIES OF AMERICAN BUSINESS PRESS (ABP/USPS-T15-1-9)

The United States Postal Service hereby provides responses of witness Patelunas to the following interrogatories of American Business Press: ABP/USPS-T15-1-9, filed on September 17, 1997.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS PATELUNAS
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ABP/USPS-T15-1 Please review the following comparison of domestic periodical regular-rate purchased transportation volume-variable costs derived from your testimony for the test year, from Witness Alexandrovich, USPS-T-5, USPS Exhibit 5A, at 45 (for BY 1996) and from the CRA for 1995 (Cost Segment and Components, FY 1995, p. 45):

1995	1996	1998 (Test Year After Rates)
$216,250,000	$248,294,000	$276,747,000

(a) Confirm that the purchased transportation costs for regular rate periodicals increased by $32,044,000, or 14.8% in one year, 1995-1996. If you cannot confirm, provide the correct data.

(b) Confirm that the purchased transportation costs for regular rate periodicals are estimated to increase by $28,453.000, or 11.45% between 1996 and 1998 (after rates). If you cannot confirm, provide the correct data.

RESPONSE

(a) Confirmed, in part. Your arithmetic is correct, but the comparison is an apples-to-oranges comparison. The FY 1995 transportation costs cited do not include, among other things, the effect of witness Bradley's revised variabilities. A better, though still imperfect, comparison would be the Base Year transportation costs filed as USPS Library Reference PCR-23 in Docket No. MC97-3. That version shows regular rate transportation costs to be $230,011 in BY 1995. The increase in regular rate second-class between base years would be 7.9 percent.

(b) Not confirmed. I calculate a percentage increase of 11.46%.

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ABP/USPS-T15-2 Please explain why purchased transportation costs for regular rate periodicals increased 14.8% in 1995-1996, especially since the volume (in weight) of regular-rate periodicals according to the CRA Reports for 1995 and 1996, decreased from 3,284,220,000 pounds to 3,250,571,000.

RESPONSE

As explained in the response to ABP-T15-1, the 14.8% increase is an improper comparison. A more appropriate comparison is between the base years in Docket No. MC97-2 and this case. The year-to-year increase results from an increase in highway costs attributed to regular rate periodicals since the attributable costs of air, rail, and water declined between the two base years. Although this suggests a modal shift of periodicals from air and rail to highway, it could also be due, in part, to variance in the statistical estimates of the TRACS distribution keys.

The mix of regular rate highway costs changed, increasing most in inter-SCF transportation and actually decreasing in intra-BMC.

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ABP-T15-3

a) Please explain in detail why you project that purchased transportation costs for regular-rate periodicals will increase 11.45% between 1996 and 1998, as compared with the 14.8% increase shown for periodical transportation between 1995-1996.

b) How much did private sector, national long-haul freight (provide separate answers for truck and rail) carriers on average increase their over-the-road rates between 1995 and 1996 for non-postal freight customers?

c) Does USPS compare its annual surface (or air) purchased transportation costs with national transportation industry data to evaluate if its costs are comparable to freight costs for other large national shippers? If it does make this comparison, please provide all studies, reports and analyses covering time periods since January 1988, since the current transportation cost allocation method derives from the decision of the Governors in Docket R87-1.

RESPONSE

a) The 14.8 percent increase is an overstatement of the cost increase from 1995-1996. Additionally, see my response to ABP-T15-1.

With regard to the increase from base year to test year after rates in this docket, please refer to Attachment I to this response. Lines 1 - 10 in columns (1-5) show the cost changes that appear in the rollforward model from Base Year 1996 through Fiscal Year 1997. Lines 12 - 19 in columns (1-5) show the cost changes that appear in the rollforward model from Fiscal Year 1997 through Test Year 1998 After Rates. Line 11 of columns (1-5) is the total change between Base Year 1996 and Fiscal Year 1997 and line 12 of the same columns is the percent change for that period. Line 21 of columns (1-5) is the total change between Fiscal Year 1997 and Test Year 1998 After Rates and line 22 of the same columns is the percent change for that period. Columns (6-10) show the

RESPONSE continued:

individual impacts in terms of the total change. For example, line 3 of column (6) shows the 3.15% of the total change that was the result of the FY 1996 to FY 1997 cost level effect in the rollforward model.

The development of the factors used in the rollforward model to calculate the amounts referenced in Attachment I can be found in USPS Library Reference H-12.

b) I have not studied this matter.

c) It is my understanding the Postal Service does not make this comparison. Also, the current transportation "cost allocation method" does not derive from the decision of the Governors in Docket R87-1. While it is fair to say that our econometric-based volume variability methodology was adopted at that time, and updated and improved in this case, the distribution methodology for Cost Segment 14 was initiated in Docket No. R90-1 with the development and implementation of TRACS. Passenger rail TRACS data were added in Docket No. R94-1, and new air distribution keys were added in this case. The Postal Service's transportation costing improvements are a matter of record in the rate and classification proceedings over the last decade.

Periodical Regular Rate

Line	Column=>	Absolute Total Change: Air (1)	Highway (2)	Rail (3)	Water (4)	Total (5)	Percent Change of Total: Air (6)	Highway (7)	Rail (8)	Water (9)	Total (10)
1	96MODS	13,515	158,791	72,880	3,108	248,294					
2											
3	CL	896	5,574	867	105	7,442	3 15%	19 59%	3 05%	0.37%	26.16%
4	MV	307	3,497	1,569	68	5,441	1.08%	12 29%	5 51%	0.24%	19.12%
5	NV	0	0	0	0	0	0 00%	0.00%	0 00%	0.00%	0.00%
6	AD	0	0	0	0	0	0 00%	0 00%	0 00%	0.00%	0.00%
7	CR	-676	0	0	0	-676	-2.38%	0.00%	0.00%	0.00%	-2.38%
8	OP	1,043	7,044	0	0	8,087	3 67%	24 76%	0 00%	0.00%	28.42%
9											
10	97RCR	15,085	174,906	75,316	3,281	268,588	5.52%	56.64%	8.56%	0.61%	71.32%
11	Change	1,570	16,115	2,436	173	20,294					
12	% Change	11 62%	10 15%	3 34%	5.57%	8 17%					
11											
12	CL	-443	2,449	2,154	94	4,254	-1.56%	8 61%	7.57%	0.33%	14.95%
13	MV	30	365	160	7	562	0 11%	1 28%	0 56%	0.02%	1.98%
14	NV	0	0	0	0	0	0 00%	0 00%	0.00%	0.00%	0.00%
15	AD	0	0	0	0	0	0 00%	0 00%	0.00%	0.00%	0.00%
16	CR	-31	-2,393	0	0	-2,424	-0.11%	-8 41%	0.00%	0.00%	-8.52%
17	OP	1,096	4,671	0	0	5,767	3.85%	16 42%	0.00%	0.00%	20.27%
18											
19	98RCB	17,307	196,113	80,066	3,555	297,041	13.33%	131.17%	25 26%	1.57%	171.32%
20											
21	Change	2,222	21,207	4,750	274	28,453					
22	% Change	14.73%	12.12%	6.31%	8.35%	10.59%					

Sources:
Cols (1-5) Lines (1-10) USPS-T15 WP-A
Cols (1-5) Lines (11-20) USPS-T15 WP-F
Col (5) Lines (1-19) = Sum cols(1-4)
Cols (1-5) Line 11 = Line 10 - Line 1
Cols (1-5) Line 12 = Line 11 / Line 1
Cols (1-5) Line 21 = Line 19 - Line 10
Cols (1-5) Line 22 = Line 21 / Line 10
Cols (6-10) = relevant change portion / total change

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ABP/USPS-T15-4

(a) Confirm that if the 1994 CRA shows purchased transportation costs attributed to regular rate periodicals to be 4,199,325,000 that their costs will have increased 38.8% according to the purchased transportation costs for periodical regular rates that you show for 1998 (after rates), of $276,747,000. (USPS-T-15, Ex. 15-H, p. 43).

(b) What was the volume (in pounds) of regular rate periodicals in FY 1994?

(c) Given your estimate of test year periodical after rates volume of 3,326,560,000 pounds, is the volume change from 1994-1998 the cause of a nearly 39% increase in purchased transportation costs attributed to regular-rate periodicals?

(d) Confirm that the volume (in pounds) of regular rate periodicals increase 1.3% from BY 1996 to your estimate of FY 1998 (after rates) volumes. If you do not confirm, provide your estimate of this change in volume from 1996-1998. Did this 1.3% increase in periodical weight primarily cause purchased transportation costs attributed to periodical to increase an average of nearly 10% per year?

RESPONSE

a) I confirm your arithmetic, but, as noted in my response to ABP-T15-1, the comparison is flawed.

b) Page 11 of the FY 1994 CRA on file with the Commission shows 3,124,691 thousand pounds.

c) No, this volume (in pounds) change is not the cause. First, the 3,326,560,000 pounds that you obtained from page 17 of my Exhibit USPS-15J is the result of a rollforward cost model multiplication of the Base Year 1996 average pounds per piece of .4654 by the 7,147,574,000 pieces forecast for Test Year 1998 After Rates. The factors from USPS LR-H-12 and their

RESPONSE continued:

application in the Postal Service's cost model are developed without regard to this calculated number of pounds.

d) Not confirmed, it increases 2.3 percent. See my response to part c) of this response.

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ABP/USPS-T15-5 Please examine the chart that follows, entitled Domestic Purchased Transportation Cost 1994-1998 The 1994 and 1995 data are derived from CRA reports; the 1996 data from USPS-T5 (Development of Cost by Segment and Component BY 1996), pp. 43-44; the 1997 and 1998 data are derived from your exhibits (USPS-15-B and USPS-15H).

DOMESTIC PURCHASED TRANSPORTATION COSTS
1994-1998

	FY 1994 (THOUSANDS)	FY 1995	1996 (BY)	FY 1997 (PROJ.)	FY 1998 (AR)
DOMAIR	1,089,800	1,120,866	1,053,608	1,221,486	1,208,635
HIGHWAY	935,774	983,881	1,215,158	1,346,277	1,502,854
RAILROAD	242,704	233,075	242,950	257,255	276,554
DOMESTIC WATER	23,000	24,263	23,295	25,351	27,372
SUBTOTAL	2,291,278	2,362,085	2,535,011	2,850,369	3,015,415

(a) Confirm that the subtotal increase for all domestic subclasses in all modes of purchased transportation from 1994-1998 (after rates) is 31.6%. If you do not confirm, by what percentage do you believe purchased transportation costs have increased from 1994-1998 (after rates), and demonstrate how you calculated your data.

(b) Confirm that highway costs for all subclasses as shown in the above chart increased 60.6 percent from 1994-1998 (after rates). If you do not confirm, provide an alternative calculation and demonstrate its derivation.

(c) Confirm that domestic air costs increased 10.9% from FY 1994 to 1998 (after rates).

RESPONSE

a-c) I confirm your arithmetic, but the comparison is flawed because it mixes costing methodologies as described in my response to ABP-T15-1. I have not recomputed 1994 costs using today's variability factors, but based on my answer to ABP-T15-1, I suspect the increase would be considerably less, particularly in highway transportation. The overall increase would also be less to the extent that highway is reflected in the subtotal

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ABP/USPS-T15-6

(a) Please state the volume, stated separately, in pounds and in pieces, of all domestic mail in 1994 and the same stated volume that you project in 1998 (after rates).

(b) What is the percentage of overall volume increase, expressed separately by pieces and by pounds, between 1994 and 1998 (after rates).

RESPONSE

a) Page 3 of the FY 1994 CRA on file with the Commission shows total pounds of 20,975.7 million and total pieces of 177,062.2 million. Page 3 of my Exhibit USPS-15J shows TYAR 1998 total pounds of 23,488.7 million and total pieces of 194,387.4 million

b) The amounts to do the calculations are provided in part a) of this response.

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ABP-T15-7 The following chart shows by mode of transportation, domestic purchased transportation costs for regular-rate periodicals from 1994-1998 (after rates). (Sources of data are identical to chart used in ABP/USPS-T15-5).

PERIODICAL (SECOND-CLASS) REGULAR-RATE DOMESTIC PURCHASED TRANSPORTATION COSTS					
	FY 1994 (THOUSANDS)	FY 1995	1996 (BY)	FY 1997 (PROJ.)	FY 1998 (AFTER RATES)
DOMAIR	10,676	16,553	13,515	15,085	15,737
HIGHWAY	115,998	123,161	158,791	174,906	179,998
RAILROAD	69,941	73,337	72,880	75,316	77,630
DOMESTIC WATER	2,710	3,199	3,108	3,281	3,382
SUBTOTAL	199,325	216,250	248,294	268,588	276,747

(a) Confirm that domestic air costs for periodicals regular-rate mail will be 47.4% higher in 1998 (after rates) than in 1994, compared with a 0.9% increase for all domestic air costs for the same period.

(b) Confirm that 1994 air costs increased by 55% from 1994 to 1995, but decreased 18.35% in BY 1996 from the 1995 costs.

(c) What is the basis for a 4.3% increase in air costs shown for periodicals (regular-rate) from 1997 to 1998, given the previously larger increase (and 1996 decrease) of FY 1994-1996.

(d) Describe how, why and where USPS decides to use domestic air transportation for periodicals.

(e) Provide the volume in pounds for each year, 1994-98 for air-carried periodicals.

(f) Does USPS have any data demonstrating whether periodicals that used domestic air transportation achieve more consistent on-time delivery than periodicals that use only surface transportation? If so, what do they show?

RESPONSE

a) I confirm your arithmetic, but the comparison is flawed because it mixes

volume-variability methodologies as described in my response to ABP-T15-1.

RESPONSE continued.

b) It is confirmed that air costs increase by 55% from 1994 to 1995. It is not confirmed that air costs decreased 18.35% from 1995 to BY 1996 since the costing methodologies are different. A comparison of fiscal years which use the same variability factors would result in a decrease of 17.6 percent.

c) Please see my response to ABP/USPS-T15-3(a) and Attachment I to that response.

d) It is my understanding that the general policy for the USPS is to use surface routings for all periodicals domestic transportation requirements. There are instances where air routings must be used because surface routings are not available, such as the service required in the state of Alaska. In addition, there may be instances where periodicals have been transported by air despite the general routing policy.

e) It is my understanding that this information is not available.

f) It is my understanding that the Postal Service does not have these data.

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ABP-T15-8

(a) Refer to the chart (ABP/USPS-T15-7) showing periodical transportation costs. Confirm that highway costs are projected to increase 55.2% between 1994 and 1998 (after rates).

(b) Confirm that a 36.9% increase for highway costs occurred between 1994-1996.

(c) Please explain these increases in purchased highway transportation costs as compared with increases shown for other modes of transportation for the same 1994-1996 period.

RESPONSE

a) Not confirmed. Your arithmetic is correct, but the magnitude of the increase is partly a matter of mixing apples and oranges. The FY 1994 costs are based on lower volume variability factors than those underlying the TY 1998 costs.

b) Not confirmed. Your arithmetic is correct, but the magnitude of the increase is partly a matter of mixing apples and oranges. The FY 1994 costs are based on lower volume variability factors than those underlying the BY 1996 costs.

c) Increases in Periodicals highway costs relative to increases in the costs of other modes are not necessarily related. Subclass costs are determined by the combination of volume variability factors and the Periodicals proportion of the relevant cost drivers reflected in TRACS. Costs in highway increase faster than costs in air, rail and water because (1) spending on highway contracts increased faster than spending in air, rail and water, (2) volume variabilities for

RESPONSE continued:

highway transportation are approximately 14 percent higher in BY 1996 than they were in prior years, and (3) a higher proportion of cubic feet (in the case of intra-SCF) and cubic foot-miles (in the cases of inter-SCF and inter-BMC) were observed in TRACS highway tests.

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ABP-T15-9

(a) With reference to the periodical transportation chart in interrogatory T15-7 above, please compare the costs paid by USPS to transport periodicals by rail from 1994 to 1998 (after rates) with highway increase for the same interval. Why would USPS pay 11% more in rail costs in the test year over 1994 rail costs, whereas USPS would pay 55.2% more for highway transportation for the same period?

(b) Provide the actual or projected volumes in pounds for each year, 1994-1998 inclusive, for regular-rate periodicals allocated to cost segment 14 rail accounts compared with cost segment 14 highway accounts for the same interval.

RESPONSE

(a) The comparison in the question overstates the difference in cost increases. There is virtually no change in the volume variability factors in rail and an (approximately) 14 percent increase in highway. The Postal Service spent more money on highway overall, but the mix of highway contract costs incurred for Periodicals changed. In FY 1994, 17.6 percent of Periodicals cost was spent on inter-SCF transportation; in BY 1996 inter-SCF contract costs were 29.0 percent of the Periodicals total, an increase of nearly $26 million. At the same time, intra-BMC contract costs declined by $5 million. Inter-BMC costs increased by nearly $11 million and intra-SCF increased by $8 million. Also, since inter-SCF contracts tend to be shorter haul, which tend to cost more per cubic foot-mile than longer haul contracts. Inter-SCF contracts include a large number of straight trucks which are more expensive per cubic foot mile than tractor trailers which are used commonly on inter-BMC and intra-BMC contracts.

RESPONSE continued:

Please note that the figures used in these comparisons are distorted since the variability factors changed in BY 1996.

Rail cost increases are the result of any underlying increases in accrued rail costs as well as the fact that the TRACS regular rate distribution factors for all rail subcomponents increased from 1994 to 1996.

For cost changes from Base Year 1996 to Test Year 1998 After Rates, see my response to ABP/USPS-T15-3(a) and Attachment I to that response.

(b) It is my understanding that these data are not available.

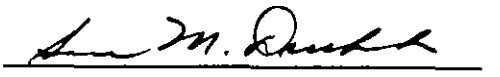
DECLARATION

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

Dated: 10/1/97

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.



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