

OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL RATE COMMISSION

In the Matter of:)
POSTAL RATE AND FEE CHANGES) Docket No.: R2006-1

VOLUME #2

Date: August 3, 2006
Place: Washington, D.C.
Pages: 47 through 244

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APPEARANCES: (Cont'd.)

On behalf of Direct Marketing Association, Inc.:

TOD ACKERLY, Esquire
Covington & Burling, LLP
1201 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
(202) 662-5296

On behalf of Growing Family, Inc.:

DAVID R. STRAUSS, Esquire
Thompson Coburn, LLP
1909 K Street, N.W., Suite 600
Washington, D.C. 20006-1167
(202) 585-6921

On behalf of United Parcel Service:

LAURA BIANCKE, Esquire
DLA Piper Rudnick
1650 Market Street, Suite 4900
Philadelphia, Pennsylvania 19103
(215) 656-3300

C O N T E N T S

WITNESSES APPEARING:

SCOTT J. DAVIS (Not Present)
 LILLIAN WATERBURY
 MICO MILANOVIC
 RICHARD G. LOUTSCH

<u>WITNESSES:</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>	<u>VOIR DIRE</u>
Lillian Waterbury	55	--	--	--	--
Mico Milanovic	73	--	--	--	--
Richard Loutsch	89				
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P R O C E E D I N G S

(9:31 a.m.)

1
2
3 CHAIRMAN OMAS: Good morning. I want to
4 welcome everyone to the Postal Rate Commission. Today
5 we begin hearings in Docket No. R2006-1 to receive the
6 testimony of the Postal Service witnesses in support
7 of its request for rate and fee changes.

8 I have a few brief procedural matters to
9 discuss before we begin to take testimony. During
10 these hearings, the Commission will provide up-to-date
11 information on the progress we are making in hearing
12 scheduled witnesses with a scrolling banner on our
13 home page. Please check the website instead of
14 calling our Docket Section to get accurate information
15 on how hearings are progressing.

16 Additionally, to receive a live audio feed
17 of these proceedings access the internet and direct
18 your web browser to www.prc.gov. When audio is
19 available there will be a link entitled Listen Live at
20 the bottom of the home page. Click once on Listen
21 Live to begin receiving live audio.

22 Finally, as many of you know the Commission
23 attempts to accommodate counsel's use of laptop
24 computers. If you would like to use a computer during
25 the hearing please contact the Commission's

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1 Administrative Office. They will try to make
2 arrangements to accommodate on a first come, first
3 served basis.

4 At this point does anyone have procedural
5 matters to discuss before we continue today?

6 (No response.)

7 CHAIRMAN OMAS: Four witnesses are scheduled
8 to appear today. They are Witnesses Davis, Waterbury,
9 Milanovic and Loutsch, and I hope I pronounced those
10 names correctly.

11 The Postal Service informs us that Witness
12 Davis will be unable to appear today. However, in
13 order to enter the road map testimony into evidence at
14 the beginning of these hearings I will schedule
15 Witness Davis first.

16 MR. KOETTING: Thank you, Mr. Chairman.
17 Eric Koetting on behalf of the Postal Service.

18 As you indicated, the Commission has
19 requested that we move the road map testimony in first
20 and so therefore the Postal Service is happy to do
21 that.

22 As you also indicated, however, the witness
23 is unavailable so I will simply hand two copies to the
24 reporter of the Direct Testimony of Scott J. Davis on
25 behalf of the United States Postal Service, which has

1 been labeled as USPS-T-47, and request that it be
2 admitted into evidence.

3 (The document referred to was
4 marked for identification as
5 Exhibit No. USPS-T-47.)

6 MR. KOETTING: I would also note there are
7 no library references associated with his testimony.

8 CHAIRMAN OMAS: I think I need to backtrack
9 a little bit. You started a little bit too soon. I
10 do need to put this in the record.

11 No participant, for the record, requested
12 either oral or written cross-examination of Witness
13 Davis. In past cases when there was no request for
14 oral cross-examination we have accepted previously
15 filed testimony into evidence supported by a signed
16 verification of accuracy.

17 Now, Mr. Koetting?

18 MR. KOETTING: Thank you, Mr. Chairman. The
19 Postal Service unfortunately, due to the witness'
20 unavailability, has neither the witness nor the signed
21 declaration. However, we will be furnishing that for
22 the record upon his return to the office next week.

23 Nevertheless, in accordance with the
24 Commission's wishes the Postal Service would now move
25 the direct testimony of Scott J. Davis on behalf of

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1 the United States Postal Service, USPS-T-47, into
2 evidence. I have two copies to furnish to the
3 reporter.

4 CHAIRMAN OMAS: Thank you.

5 Is there any objection?

6 (No response.)

7 CHAIRMAN OMAS: Without objection, so
8 ordered. Hearing none, I will direct counsel to
9 provide the reporter with two copies of the corrected
10 direct testimony of Scott J. Davis.

11 That testimony is received into evidence.
12 However, as is our practice, it will not be
13 transcribed.

14 (The document referred to,
15 previously identified as
16 Exhibit No. USPS-T-47, was
17 received in evidence.)

18 CHAIRMAN OMAS: Mr. Reimer, would you please
19 introduce the next Postal Service witness?

20 MR. REIMER: Thank you, Mr. Chairman. The
21 Postal Service calls Lillian Waterbury.

22 CHAIRMAN OMAS: Ms. Waterbury, would you
23 raise your right hand, please?

24 //

25 //

1 Q Are those library references designated as
2 USPS-LR-6, USPS-LR-7, USPS-LR-8 and USPS-LR-58?

3 A That is correct, yes.

4 MR. REIMER: Mr. Chairman, I am going to
5 hand two copies of the direct testimony of Lillian
6 Waterbury to the reporter and ask that it and its
7 associated library references be entered into the
8 record.

9 CHAIRMAN OMAS: Is there any objection?

10 (No response.)

11 CHAIRMAN OMAS: Hearing none, I will direct
12 counsel to provide the reporter with two copies of the
13 corrected direct testimony of Lillian Waterbury.

14 That testimony is received into evidence.
15 However, as is our practice, it will not be
16 transcribed.

17 (The document referred to,
18 previously identified as
19 Exhibit No. USPS-T-10, was
20 received in evidence.)

21 CHAIRMAN OMAS: Ms. Waterbury, have you had
22 an opportunity to examine the packet of designated
23 written cross-examination that was made available to
24 you in the hearing room this morning?

25 THE WITNESS: Yes.

1 CHAIRMAN OMAS: Is your mic on?

2 THE WITNESS: Yes.

3 CHAIRMAN OMAS: Okay. If questions
4 contained in that packet were posed to you orally
5 today would your answers be the same as those you
6 previously provided in writing?

7 THE WITNESS: Yes, they would.

8 CHAIRMAN OMAS: Are there any corrections or
9 additions you would like to make to those answers?

10 THE WITNESS: No.

11 CHAIRMAN OMAS: Counsel, would you please
12 provide two copies of the corrected designated written
13 cross-examination of Witness Waterbury to the
14 reporter? Excuse me. She had no corrections.

15 MR. REIMER: Yes, Your Honor.

16 CHAIRMAN OMAS: Okay. Those materials are
17 received into evidence, and it will be transcribed
18 into the record.

19 (The document referred to was
20 marked for identification as
21 Exhibit No. USPS-T-10 and was
22 received in evidence.)

23 //

24 //

25 //

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2006

Docket No. R2006-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS LILLIAN WATERBURY
(USPS-T-10)

Party

Interrogatories

Postal Rate Commission

PRC/USPS-POIR No.2 - Q6 redirected to T10
TW/USPS-T10-1-3

Time Warner Inc.

TW/USPS-T10-1-3

Respectfully submitted,



Steven W. Williams
Secretary

INTERROGATORY RESPONSES OF
UNITED STATES POSTAL SERVICE
WITNESS LILLIAN WATERBURY (T-10)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory

PRC/USPS-POIR No.2 - Q6 redirected to T10

TW/USPS-T10-1

TW/USPS-T10-2

TW/USPS-T10-3

Designating Parties

PRC

PRC, TW

PRC, TW

PRC, TW

RESPONSE OF POSTAL SERVICE WITNESS WATERBURY TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

6. USPS Exhibit T-10B details the volumes used by the cost rollforward model in calculating the mail volume cost effect.

a) Please confirm that the "other" category in special services volumes (transactions) consists of the transactions for Return Receipts, Delivery Confirmation, and Signature Confirmation. Also, please confirm that the volume estimates for these three categories are shown in Attachment A of USPS T-7.

b) The sum of the volumes for Return Receipts, Delivery Confirmation, and Signature Confirmation from Attachment A of USPS T-7 do not match what is shown in USPS Exhibit T-10B for each of the years of the rollforward, including the Base Year. A comparison of the volumes is shown below.

	Attachment A USPS T-7	USPS Exh. 10B	Difference
BY 2005	951,270	953,213	1,943
FY 2006	1,004,237	1,006,190	1,953
FY 2007BR	1,055,679	1,057,631	1,952
FY 2007AR	1,032,825	1,034,770	1,945
TY 2008BR	1,125,959	1,127,962	2,003
TY 2008AR	1,059,491	1,061,450	1,959

Please reconcile these differences.

RESPONSE:

a) Not confirmed. It is my understanding that the "other" category also includes restricted delivery.

b) It is my understanding that the numbers in the "difference" column are the numbers for restricted delivery.

RESPONSE OF USPS WITNESS WATERBURY (USPS-T-10) TO
INTERROGATORY OF TIME WARNER, INC.

TW/USPS-T10-1. Please refer to your roll forward testimony in Docket No. R2005-1.

- a. Please refer to page C-17 of Exhibit USPS-10D and confirm that you forecast FY2005 air transportation costs for Periodicals equal to \$20.033 million.
- b. Please refer to page C-17 of Exhibit USPS-10F and confirm that you forecast test year FY2006 before rates air transportation costs for Periodicals equal to only \$5.389 million, almost \$15 million less than the costs you had forecast for FY2005.
- c. Please confirm that your Docket No. R2005-1 forecast of an almost \$15 million reduction in Periodicals air transportation costs was due to the projected \$15 million transportation cost reduction under the Periodicals Cost Reduction Initiative, as shown in LR-K-49. If not fully confirmed, please explain why you forecast such a large reduction in air transport costs from one year to the next.

RESPONSE:

- a. Confirmed.
- b. Not confirmed. Page C-17 of Exhibit USPS-10F for FY2006BR shows air transportation costs for Periodicals equal to \$5.339 million. However, the amount is still almost \$15 million less than the costs estimated for FY2005.
- c. Confirmed that an almost \$15 million reduction in Periodicals air transportation costs was due to the projected air transportation cost reduction under the Periodicals Cost Reduction Initiative.

RESPONSE OF USPS WITNESS WATERBURY (USPS-T-10) TO
INTERROGATORY OF TIME WARNER, INC.

TW/USPS-T10-2

- a. Please refer to the FY2005 Cost Segments and Components, as shown in LR-L-3. Please confirm that the actual FY2005 air transportation costs attributed to Periodicals are \$18.042 million, or \$1.991 million less than you forecast in Docket No. R2005-1.
- b. Please refer to page C-16 of Exhibit USPS-10D in your present testimony. Please confirm that you now forecast FY2006 Periodicals air transportation costs equal to \$18.821 million, or \$13.432 million more than you forecast in Docket No. R2005-1.
- c. Please confirm that library reference LR-L-49 indicates a 2006 \$15 million transportation cost reduction under the Periodicals Cost Reduction Initiative, exactly as the corresponding LR-K-49 did in the previous docket.

RESPONSE:

- a. Confirmed.
- b. Confirmed that page C-16 of Exhibit USPS-10D illustrates Periodicals air transportation costs equal to \$18.821 million. However, it is \$13.482 million more than what was estimated in Docket No. R2005-1.
- c. Confirmed that LR-L-49 indicates for FY2006 a \$15 million transportation cost reduction under the Periodicals Cost Reduction Initiative which relates to Periodicals air transportation costs.

RESPONSE OF USPS WITNESS WATERBURY (USPS-T-10) TO
INTERROGATORY OF TIME WARNER, INC.

TW/USPS-T10-3. Witness McCrery has explained, in his testimony and in LR-L-49, that under the Periodicals Cost Reduction Initiative the outgoing processing of Periodicals flats has been consolidated into a much smaller number of facilities. As a result, Periodicals flats will no longer be sorted together with First Class flats in outgoing operations, unless they are addressed to destinations where First Class mail receives surface transportation. This should eliminate almost all air transportation of Periodicals, as reflected both in the current LR-L-49 and in LR-K-49 from the previous docket.

It appears that the sharp drop expected in Periodicals air transportation costs due to the above was properly included in your Docket No. R2005-1 roll forward calculations but has somehow not been included in your present testimony. Please confirm, or if not confirmed explain fully. Please make all necessary corrections in your forecast of test year Periodicals costs.

RESPONSE:

Not confirmed. The \$15 million reduction in air transportation costs was included in the present testimony for Docket R2006-1. However, this transportation cost reduction was distributed on domestic air and not to Periodicals only. The appropriate distribution for the \$15 million reduction in air transportation costs under the Periodicals Cost Reduction Initiative should be applied to Periodicals only, as was done in Docket R2005-1. Therefore, errata will be filed.

RESPONSE OF USPS WITNESS WATERBURY (USPS-T-10) TO
INTERROGATORY OF THE MAGAZINE PUBLISHERS OF AMERICA, INC.,
REDIRECTED FROM WITNESS TANG (USPS-T-35)

MPA/USPS-T35-21. Please refer to Page 5 of the document entitled "Summary of Changes to LR-L-126," which is attached to the notice of errata to Library Reference L-126 filed by the Postal Service on July 13, 2006. Please also refer to USPS-LR-L-126, REV 7-13-2006 LR 126 Outside County Revised.xls, worksheet "Rate Design Input," cell C18, which shows "Proportion of Transportation Cost That is Distance Related."

(a) Please confirm that witness Waterbury's errata (filed on July 11, 2006) eliminate almost all Test Year Periodicals Outside County air transportation costs. If not confirmed, please explain fully.

(b) Please confirm that the "Proportion of Transportation Cost That is Distance Related" was calculated as a percentage of all Base Year Periodicals Outside County transportation costs. If not confirmed, please explain fully.

(c) Please confirm that, excluding air transportation costs, the Base Year "Proportion of Transportation Cost That is Distance Related" for the Periodicals Outside County subclass is 0.6234. If not confirmed, please provide the correct figure, along with its derivation.

RESPONSE:

(a) The precise figures are as follows:

	Domestic Air Component 142 Costs in \$ '000s	
R2006-1 Periodicals	C Report As filed (5/3/2006)	Errata (7/11/2006)
FY2006	18,821	3,619
FY2007BR	17,134	3,295
FY2007AR	16,951	3,259
TY2008BR	15,683	3,015
TY2008AR	14,946	2,874

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

3 (No response.)

4 CHAIRMAN OMAS: This then brings us to oral
5 cross-examination.

6 No participants have requested oral cross-
7 examination. Is there any other party that would like
8 to cross-examine Witness Waterbury?

9 (No response.)

10 CHAIRMAN OMAS: In that case, Ms. Waterbury,
11 in your testimony at page 4 you said that after the
12 production of the output of the roll forward model it
13 was discovered that the distribution key used by
14 automated postal centers cost reduction was incorrect.
15 Additionally, the cost reduction was improperly
16 applied to Cost Component 35, Mail Processing, instead
17 of Cost Component 40, Window Services.

18 All the necessary adjustments have been
19 identified. Am I correct that even though the roll
20 forward has been rerun all of the exhibits and
21 appendices to your testimony and all of your
22 supporting workpapers filed as library references do
23 not reflect a roll forward that is accurate to the
24 best of your knowledge?

25 THE WITNESS: The library references have

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1 been --

2 CHAIRMAN OMAS: Can you speak up, please?

3 THE WITNESS: The library references do not
4 incorporate that rerun.

5 CHAIRMAN OMAS: Okay. The Commission is
6 disappointed that corrected exhibits and workpapers
7 have not been filed.

8 Please file replacement correction versions
9 of all exhibits, appendices and library references you
10 sponsor within seven days. These replacements should
11 include the corrections to the APC cost reduction and
12 the corrections to the periodical air transportation.

13 To ease the burden of producing paper
14 copies, the work papers and Library Reference L-6
15 through L-8 may be filed electronically only if you
16 prefer.

17 Are there any questions from the bench?

18 (No response.)

19 CHAIRMAN OMAS: Mr. Reimer, would you like
20 some time with your witness to review whether there
21 are any questions you need to address?

22 MR. REIMER: No. Thank you, Mr. Chairman.

23 CHAIRMAN OMAS: Okay. At that, Ms.

24 Waterbury --

25 MR. STRAUSS: Mr. Chairman?

1 CHAIRMAN OMAS: Go ahead.

2 MR. STRAUSS: I apologize for my late
3 arrival. I have designated written cross-examination
4 for this witness. Would it be possible for me to
5 present that?

6 CHAIRMAN OMAS: Certainly.

7 MR. STRAUSS: Thank you.

8 CHAIRMAN OMAS: Mr. Strauss, would you
9 please state that again for the record and your name
10 and who you represent please?

11 MR. STRAUSS: Yes, I better do that.

12 CHAIRMAN OMAS: I think that would be nice.

13 MR. STRAUSS: Mr. Chairman, David Strauss
14 for Growing Family, Inc. Again, I apologize for
15 arriving 10 minutes late, but there was something
16 going on on GW Parkway.

17 I have written cross-examination to
18 designate for Witness Waterbury. That would be
19 Growing Family GF/USPS-1, 2 and 3. I appreciate your
20 allowing me to introduce them and have them copied
21 into the record at this time.

22 CHAIRMAN OMAS: Without objection.

23 //

24 //

25 //

1 (The document referred to was
2 marked for identification as
3 Exhibit No. GF/USPS-T-10-1
4 through 3.)

5 MR. STRAUSS: I will hand two copies to the
6 witness so she can review them.

7 CHAIRMAN OMAS: Thank you.

8 MR. STRAUSS: On second thought, I'll hand
9 one copy to the witness and two to the reporter.

10 CHAIRMAN OMAS: Okay. That's the way to do
11 it.

12 THE WITNESS: Thank you.

13 (The document referred to,
14 previously identified as
15 Exhibit No. GF/USPS-T-10-1
16 through 3, was received in
17 evidence.)

18 //

19 //

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RESPONSE OF USPS WITNESS WATERBURY (USPS-T-10) TO
INTERROGATORY OF GROWING FAMILY, INC.

GF/USPS-T10-1. Exhibit USPS-9A, sponsored by witness Milanovic, shows COD "indemnities" for FY 2005 of \$1,952,000, Exhibit USPS-10D shows COD "indemnities" for FY 2006 of \$1,900,000, and Exhibit USPS-10F shows COD "indemnities" estimated for FY 2007 of \$1,728,000.

a. Please confirm these dollar amounts. If you cannot, please provide corrected dollar amounts.

b. Is the amount shown as COD "indemnities" the amount of claims paid (or forecast to be paid) to COD mailers? If not, please explain what the amount represents.

c. Are there any reasons for the decline in indemnities other than declining volumes? If so, please provide a list of the other reasons and an approximation of their individual impact on the total indemnities.

d. Please explain in detail the process used to forecast the COD "indemnities" for FY 2006, FY 2007 and FY 2008.

e. Please provide the amount of COD "indemnities" for FY 2003 and FY 2004

RESPONSE:

a. Not confirmed. Exhibit USPS-10D shows COD Indemnities for FY2006 of \$1,910,000. Also, Exhibit USPS-10F shows COD Indemnities estimated for FY2007(BR) of \$1,822,000. It is Exhibit USPS-10H that shows COD Indemnities estimated for FY2007(AR) of \$1,728,000.

b. Confirmed. I am informed that COD Indemnities is the amount of claims paid (or forecast to be paid) to COD mailers.

c. It is my understanding that declines in indemnities are due to declining volumes.

d. The process used to "roll forward" the COD Indemnities (component 397) costs for FY2006, FY2007, and TY2008 begins with the COD Indemnities costs for the

RESPONSE OF USPS WITNESS WATERBURY (USPS-T-10) TO
INTERROGATORY OF GROWING FAMILY, INC.

GF/USPS-T10-2.

a. Please confirm that Exhibit No. USPS-10C for FY 2006 shows volume variable city carrier costs (component 257) attributed to COD of \$896,000 and volume variable rural carrier costs (component 260) attributed to COD of \$1,807,000. If you cannot so confirm, please provide the correct dollar amounts.

b. Please provide a breakdown of the number or forecast of COD packages and the number or forecast of COD claims paid for FY 2006 into city carrier and rural carrier segments.

RESPONSE:

a. Not confirmed. It is Exhibit USPS-10D that shows FY2006 volume variable city carrier costs (component 257) attributed to COD of \$896,000 and volume variable rural carrier costs (component 260) attributed to COD of \$1,807,000.

b. See witness Berkeley's response to GF/USPS-T39-1(b).

RESPONSE OF USPS WITNESS WATERBURY (USPS-T-10) TO
INTERROGATORY OF GROWING FAMILY, INC.

GF/USPS-T10-3. In response to GF/USPS-T10-1(c), you stated your understanding that declines in indemnities are due to declining volumes.

(a) Have you been advised by anyone at the Postal Service that, starting in around the spring of 2005, the amounts paid on claims filed by the Postal Service's largest COD customer (or any customer) began to be calculated on a different basis, resulting in substantially lower indemnity payments?

(b) If you had been aware at the time of your forecasts that there was such a change in payment practices on COD indemnity claims, would you have taken those reduced payments into account in forecasting test year indemnity payments?

(c) Please recalculate the test year indemnity payments based upon the Postal Service's present claims payment policy.

RESPONSE:

(a) No.

(b) In order for me to take account of such a change in practice or policy, I would need to receive input or information from a source such as base year or final adjustments.

(c) Because I do not have any input or information that there has been a change in practice or policy, I am unable to make such a recalculation.

1 CHAIRMAN OMAS: Thank you, Mr. Strauss.

2 Is there anyone else?

3 (No response.)

4 CHAIRMAN OMAS: There being none, Ms.

5 Waterbury, that completes your testimony here today.

6 We appreciate your appearance and your contribution to

7 our record. Thank you very much, and you are excused.

8 THE WITNESS: Thank you.

9 (Witness excused.)

10 CHAIRMAN OMAS: Mr. Reimer, would you

11 introduce your next Postal Service witness?

12 MR. REIMER: Yes, Mr. Chairman. The Postal

13 Service calls Mico Milanovic.

14 CHAIRMAN OMAS: Mr. Milanovic, would you

15 please stand and raise your right hand?

16 Whereupon,

17 MICO MILANOVIC

18 having been duly sworn, was called as a

19 witness and was examined and testified as follows:

20 CHAIRMAN OMAS: Please be seated.

21 (The document referred to was

22 marked for identification as

23 Exhibit No. USPS-T-9.)

24 //

25 //

1 DIRECT EXAMINATION

2 BY MR. REIMER:

3 Q Mr. Milanovic, I'm about to hand you two
4 copies of a document entitled Direct Testimony of Mico
5 Milanovic on behalf of the United States Postal
6 Service.

7 Were those documents prepared by you or
8 under your supervision?

9 A Yes.

10 Q If you were to give the contents of those
11 documents as your oral testimony today, would they be
12 the same?

13 A Yes.

14 Q Are there Category II library references
15 associated with your testimony?

16 A Yes.

17 Q Are those library references designated as
18 USPS-LR-4, USPS-LR-5 and USPS-LR-57?

19 A Yes.

20 MR. REIMER: Mr. Chairman, I would like to
21 hand two copies of the direct testimony of Mico
22 Milanovic to the reporter and ask that it and its
23 associated library references be entered into the
24 record.

25 CHAIRMAN OMAS: Is there objection?

1 (No response.)

2 CHAIRMAN OMAS: Hearing none, I will direct
3 counsel to provide the reporter with two copies of the
4 corrected direct testimony of Mico Milanovic.

5 That testimony is received into evidence.
6 However, as is our practice, it will not be
7 transcribed.

8 (The document referred to was
9 marked for identification as
10 Exhibit No. USPS-T-9 and was
11 received in evidence.)

12 CHAIRMAN OMAS: Mr. Milanovic, have you had
13 an opportunity to examine the packet of designated
14 written cross-examination that was made available to
15 you in the hearing room this morning?

16 THE WITNESS: Yes.

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

21 THE WITNESS: Yes, they would.

22 CHAIRMAN OMAS: Are there any corrections or
23 additions you would like to make to those answers?

24 THE WITNESS: No.

25 CHAIRMAN OMAS: Counsel, would you please

1 provide two copies of the corrected designated written
2 cross-examination of Witness Milanovic to the
3 reporter?

4 MR. REIMER: Yes, Mr. Chairman.

5 CHAIRMAN OMAS: That material is received
6 into evidence and is to be transcribed into the
7 record.

8 (The document referred to was
9 marked for identification as
10 Exhibit No. USPS-T-9 and was
11 received in evidence.)

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

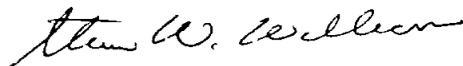
Postal Rate and Fee Changes, 2006

Docket No. R2006-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS MICO MILANOVIC
(USPS-T-9)

<u>Party</u>	<u>Interrogatories</u>
Office of the Consumer Advocate	OCA/USPS-T9-1
Postal Rate Commission	PRC/USPS-POIR No.4 - Q14, POIR No.5 - Q12a, 12c, 17a, 17b, 8 redirected to T9
United Parcel Service	UPS/USPS-T21-12d redirected to T9 UPS/USPS-T33-1 redirected to T9

Respectfully submitted,



Steven W. Williams
Secretary

INTERROGATORY RESPONSES OF
UNITED STATES POSTAL SERVICE
WITNESS MICO MILANOVIC (T-9)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory

Designating Parties

OCA/USPS-T9-1

OCA

PRC/USPS-POIR No.4 - Q14 redirected to T9

PRC

PRC/USPS-POIR No.5 - Q12a redirected to T9

PRC

PRC/USPS-POIR No.5 - Q12c redirected to T9

PRC

PRC/USPS-POIR No.5 - Q17a redirected to T9

PRC

PRC/USPS-POIR No.5 - Q17b redirected to T9

PRC

PRC/USPS-POIR No.5 - Q8 redirected to T9

PRC

UPS/USPS-T21-12d redirected to T9

UPS

UPS/USPS-T33-1 redirected to T9

UPS

**RESPONSE OF USPS WITNESS MILANOVIC (USPS-T-9) TO
INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-T9-1. Witness Bradley states in his testimony, USPS-T-17 at page 39, that you provided his Table 9, Volume Variable Costs, appearing on page 40 of his testimony. Please provide your underlying spreadsheet(s) and supporting documentation for the information in the table.

RESPONSE:

The first column of Table 9 is from USPS-LR-L-5, B_Workpaper, CS03.xls, tab "Outputs to CRA", column E (Window Service).

The values in the second column of Table 9, are derived by replacing the variabilities in my submitted USPS-LR-L-5, B_Workpaper, CS03.xls, tab 3.2.1, column N (Var Factors), with the variabilities from Docket No. R2005-1, submitted by Base Year witness Meehan in USPS-LR-K-5, CS03.xls, tab 3.2.1, column N (Var Factors).

As stated in Witness Bradley's testimony on Page 39, "[one] way to measure the impact of the update is to compare volume variable costs". Table 9 shows the results using both variabilities, side by side.

**RESPONSE OF POSTAL SERVICE WITNESS MILANOVIC TO
POIR NO. 4, QUESTION 14**

14. The following questions address discrepancies in volume calculations made in the file LOTUS.CITY.SATURATN.FY2005 in USPS-LR-L-11. Note, these questions assume that entries for the column "Letters" is the sum of "DPS Letters and Other Letters" in LOTUS.CITY.SATURATN.FY2005. Questions A and B apply to large parcels, small parcels, flats, and letters. Questions C through E apply to small parcels, flats, and letters.
- a. Please confirm that International Airmail Express Priority (AW38+AX38+AY38) in the above-mentioned file is not included in the International Mail Category in USPS-LR-L-5, B_Workpapers folder, File "CS06&7.XLS" worksheet 7.08. If not, why not?
 - b. Please confirm that volumes for the category "Other" in LOTUS.CITY.SATURATN.FY2005 in USPS-LR-L-11 (AW55+AX55+AY55) is positive, but there is no corresponding value in cell AA62 in USPS-LR-L-5, B_Workpapers, File "CS06&7.XLS, worksheet 7.08."
 - c. Please confirm that volumes for Standard ECR All Other (AW14+AX14+AY14) in LOTUS.CITY.SATURATN.FY2005 in USPS-LR-L-11 is positive, but there is no corresponding value in USPS-LR-L-5, B_Workpapers, File "CS06&7.XLS, worksheet 7.08."
 - d. Please confirm that small parcel volumes for Standard ECR (AW12+AX12+AY12) in LOTUS.CITY.SATURATN.FY2005 in USPS-LR-L-11 is positive, but there is no corresponding value in USPS-LR-L-5, B_Workpapers, File "CS06&7.XLS, worksheet 7.08."
 - e. Please account for the discrepancy between the sum of "Standard ECR All Other" and "Standard ECR" in LOTUS.CITY.SATURATN.FY2005 and "Enhanced Carrier Route" in file "CS06&7.XLS, worksheet 7.08."

RESPONSE:

- a. Not confirmed. Codes AW38, AX38 and AY38 are included in column Z (24), USPS-LR-L-5, B_Workpapers folder, File "CS06&7", worksheet 7.0.8. This product is included in the "Accountable" category because it requires a signature from the customer upon delivery.
- b. Confirmed.
- c. Not confirmed. Volumes for Standard ECR All Others can be found in USPS LR-L-5, B_Workpapers folder, File "CS06&7", worksheet 7.0.8. They are included in cells E31, F31, H31, and AA31.
- d. Not confirmed. Small parcel volumes for Standard ECR can be found in USPS LR-L-5, B_Workpapers folder, File "CS06&7", worksheet 7.0.8. They are included in cell H31 (Sequenced).

RESPONSE OF POSTAL SERVICE WITNESS MILANOVIC TO
POIR NO. 4, QUESTION 14

- e. The best way to verify that all of ECR included in USPS-LR-L-11 is included in worksheet 7.0.8 is to add cells U31, V31, W31, X31, Y31, Z31 and AA31, which sums to the same total (i.e. 23,591,992) as summing AW12, AX12, AY12, AW14, AX14, and AY14 in LOTUS.CITY.SATURATN.FY2005 in USPS-LR-L-11. The codes you mention are separated among two categories called ECR-Saturation (i.e. Sequenced) and ECR-Non-Saturation. More information on this is included in the instant docket in the direct testimony of witness Kelley, USPS-T30, beginning on page 7, line 18, as well as in Docket No. R2005-1, in the testimony of witness Bradley, USPS-T14, beginning on page 58, line 1.

RESPONSE OF U.S. POSTAL SERVICE WITNESS MILANOVIC (USPS-T-9) TO
PRESIDING OFFICER'S INFORMATION REQUEST (POIR) No. 5, 12a

12a Please confirm (if not confirmed, please explain):

- a. The Periodical volumes in line 3, "CCS," are used in the B workpapers' Cost Segment 6 and 7 distribution key, which distributes volume variable costs by shape, to class and subclass.

RESPONSE:

Confirmed that the Periodical volumes shown in line 3, "CCS", of Table 1, can be found in B_Workpapers, CS 7. Although VolAdj.USPS.xls is part of USPS-LR-L-67, the CCS volumes provided by witness Harahush, are used to distribute Cost Segment 7 costs in the B_Workpapers. The distribution of volume variable costs by shape is a disaggregation performed in USPS-LR-L-67.

RESPONSE OF U.S. POSTAL SERVICE WITNESS MILANOVIC (USPS-T-9) TO
PRESIDING OFFICER'S INFORMATION REQUEST (POIR) No. 5, 12c

12. Please confirm (if not confirmed, please explain):

c. The Periodical volumes in line 2, "RCS (without boxholder)," are used in the B workpapers' Cost Segment 10 distribution key, which distributes volume variable costs by shape, to class and subclass.

RESPONSE:

Confirmed that the Periodical volumes shown in line 2, "RCS(without boxholder)", of Table 1, can be found in B_Workpapers, CS 10. Although VolAdj.USPS.xls is part of USPS-LR-L-67, the RCS volumes provided by witness Riddle, both with and without boxholder volumes, are used to distribute Cost Segment 10 costs in the B_Workpapers. The distribution of volume variable costs by shape is a disaggregation performed in USPS-LR-L-67.

RESPONSE OF U.S. POSTAL SERVICE WITNESS MILANOVIC (USPS-T-9) TO
PRESIDING OFFICER'S INFORMATION REQUEST (POIR) No. 5, 17a-b

	A	B	C	D	E	F	G
	DPS Letters	Sec Seg Letters	Other Letters	Flats Del	Parcels Del		
1 Periodical Volume (000)	15,602	1,890	99,723	2,721,016	5,434		
2 Periodical Cost (000)	DPS 243	Sec Seg 84	Letters 4,495	Flats 144,278	Parcels 1,538		
3 Unit Cost	0.0156	0.0442	0.0451	0.0530	0.2831		
4 Periodical Volume (000)	dLet/rDps 15,602	dLet/rSS 1,890	dFlat/rFlat 20,626	dFlat/rFlat 2,721,016	dPar/dPar 451	dFlat/rLet 79,097	dFlat/rPar 4,983
5 Periodical Cost (000)	243	84	930	144,278	128	3,565	1,411
6 Unit Cost	0.0156	0.0442	0.0451	0.0530	0.2831	0.0451	0.2831
1	USPS-LR-L-5						
	File		"I-Forms.xls"				
	Worksheet		"I-CS10.RCS"				
2-3	USPS-LR-L-67						
	File		"UDCModel.USPS.XLS"				
	Worksheet		"6.Rural Cost"				
4-6	USPS-LR-L-67						
	File		"UDCModel.USPS.XLS"				
	Worksheet		"B.Rural Crosswalk"				

17. Please confirm, with respect to the above table, the following (If not confirmed, please explain fully):
- The volumes in A1-E1 are the Periodical Volumes (as measured by the RCCS) used in Cost Segment 10 to distribute shape costs to subclass.
 - The costs in A2-E2 are those found in CS10, worksheets 10.1.2 and 10.2.2.

RESPONSE:

- Confirmed that the periodical volumes, as measured by the RCCS, are used to distribute costs in Cost Segment 10. The distribution of volume variable costs by shape is a disaggregation performed in USPS-LR-L-67.

RESPONSE OF U.S. POSTAL SERVICE WITNESS MILANOVIC (USPS-T-9) TO
PRESIDING OFFICER'S INFORMATION REQUEST (POIR) No. 5, 17a-b

RESPONSE TO POIR No. 5, 17a-b (continued)

b. Confirmed that the costs in A2-E2, which are part of LR-L-67, are also found in CS 10, and are the sum of the individual values obtained from worksheets 10.1.2 and 10.2.2.

RESPONSE OF U.S. POSTAL SERVICE WITNESS MILANOVIC (USPS-T-9) TO
PRESIDING OFFICER'S INFORMATION REQUEST (POIR) No. 5, 8
modified July 3, 2006

8. Please provide a table that matches mail volume for each rate category code by shape produced in question 6.b. with the mail volume by rate category by shape shown in B_Workpapers, file CS10.xls, worksheet "Inputs DK." Please account for any discrepancies between the shape/rate category volumes listed in B_Workpapers, file CS10.xls, worksheet "Inputs DK, and LOTUS.RURAL.FY2005.FY05MC.DATA.

RESPONSE:

Please see POIR5 Q8 CS10.xls, attached. Volumes by rate category and shape using data from POIR Q6.xls are formatted to match volumes by rate category and shape as shown in B-Workpapers, revised CS10.xls -- worksheet "Inputs DK." Errata to that worksheet are being filed today.

RESPONSE OF USPS WITNESS MILANOVIC (USPS-T-9) TO
INTERROGATORY OF UNITED PARCEL SERVICE, REDIRECTED FROM WITNESS
MICHAEL W. MILLER (USPS-T-21)

UPS/USPS-T21-12. Refer to your response to UPS/USPS-T21-7 and Docket No. R2005-1, USPS-LR-K-46, page 27.

(a) Confirm that the Postal Service's calculated DBMC window service cost savings were 20.0 cents per piece in Docket No. R2005-1 based on FY2004 data. If not confirmed, explain in detail.

(b) Confirm that the 30.1 cents per piece in DBMC window service cost savings in this docket is based on FY2005 data.

(c) Explain the reasons for the more than 50% increase in the window service cost savings from FY2004 to FY2005.

(d) Explain the reasons for the increase in Parcel Post Window Service Cost Segment 3.2 costs from \$15.7 million in FY2004 to \$27.2 million in FY2005.

RESPONSE:

(d) My understanding is that the variability change that resulted from the Postal Service's update of window service supply-side variability study (see USPS-T17) lead to an increase in the Parcel Post window service variability from 56.37% (Docket No. R2005-1, LR-K-5, B_Workpapers, CS03.xls, tab 3.2.1, cell N37) to 75.9% (USPS-T-17, page 28, table 3). This increased variability was the reason for a material amount of the increase. A discussion of the updated window service variability study can be found in witness Bradley's testimony (USPS-T-17) at page 21, lines 3-14.

I am also informed that the IOCS redesign may have contributed to the increase in parcel post window service costs. Please refer to the testimony of witness Bozzo (USPS-T-46) at page 40, lines 7-14, where IOCS tallies for parcel post are discussed.

Finally, as shown in USPS-LR-K-5, A_Workpapers, ExA_BY04.CRpt, tab CS03, cell D48 and USPS-LR-L-5, A_Workpapers, ExA_BY05.CRpt, tab CS03, cell D48, accrued costs increased between FY 2004 and FY 2005, for window service cost segment 3.2, from \$2.580 billion to \$2.697 billion.

RESPONSE OF USPS WITNESS MILANOVIC (USPS-T-9) TO
INTERROGATORY OF UNITED PARCEL SERVICE, REDIRECTED FROM WITNESS
THOMAS M. SCHERER (USPS-T-33)

UPS/USPS-T33-1. Is any part of the costs of the FedEx contract which the Postal Service treats as non-variable included in the attributable costs of any of the classes of mail carried under the FedEx contract, either in the Base Year or in the Test Year? If so, please set forth, separately for the Base Year and for the Test Year, the total amount of such costs attributed to each class of mail carried or to be carried under the FedEx contract?

RESPONSE:

No for the Base Year. It is my understanding that this is also true in TY2008.

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

3 (No response.)

4 CHAIRMAN OMAS: Therefore, that brings us to
5 oral cross-examination.

6 One participant has requested oral cross-
7 examination, the United Parcel Service. Mr. McKeever?

8 MS. BIANCKE: Good morning, Mr. Chairman and
9 Commissioners.

10 CHAIRMAN OMAS: Good morning.

11 MS. BIANCKE: My name is Laura Biancke. I'm
12 here on behalf of United Parcel Service. We have no
13 questions for Mr. Milanovic.

14 CHAIRMAN OMAS: Thank you, Ms. Biancke.

15 MS. BIANCKE: Thank you.

16 CHAIRMAN OMAS: Is there any other party
17 that would like to cross-examine Witness Milanovic?

18 (No response.)

19 CHAIRMAN OMAS: It looks like you can get
20 off easy today, Mr. Milanovic.

21 Are there any questions from the bench?

22 (No response.)

23 CHAIRMAN OMAS: Mr. Milanovic, that
24 completes your testimony here today. We appreciate
25 your appearance and your contribution to our record,

1 and we thank you very much for your appearance. You
2 are now excused.

3 THE WITNESS: Thank you.

4 (Witness excused.)

5 CHAIRMAN OMAS: I think we need to give
6 counsel a little time to change.

7 (Pause.)

8 MR. REITER: Good morning, Mr. Chairman,
9 Commissioners. I'm Scott Reiter on behalf of the
10 Postal Service. Our next witness is Richard Loutsch.

11 CHAIRMAN OMAS: Remain standing. Would you
12 raise your right hand please, Mr. Loutsch?

13 Whereupon,

14 RICHARD G. LOUTSCH

15 having been duly sworn, was called as a
16 witness and was examined and testified as follows:

17 CHAIRMAN OMAS: Please be seated.

18 (The document referred to was
19 marked for identification as
20 Exhibit No. USPS-T-6.)

21 DIRECT EXAMINATION

22 BY MR. REITER:

23 Q Mr. Loutsch, you have with you two copies of
24 a document entitled Direct Testimony of Richard G.
25 Loutsch on behalf of the United States Postal Service

1 designated USPS-T-6.

2 Was this testimony prepared by you or under
3 your direction?

4 A Yes, it was.

5 Q And if you were to give your testimony
6 orally today would it be the same?

7 A Yes, it would.

8 Q Are there library references associated with
9 your testimony?

10 A Yes, there are.

11 Q And those are Library Reference 49, Part
12 1(b), 2(b) and 3, and Library Reference 50. Is that
13 correct?

14 A I'm not sure you have the reference. I
15 think it's (c) and (d). Yes, that's correct.

16 MR. REITER: Mr. Chairman, I will provide
17 those two copies of the testimony to the reporter and
18 ask that they be admitted into evidence, along with
19 the associated library references, as the testimony of
20 Witness Loutsch.

21 CHAIRMAN OMAS: Is there any objection?

22 (No response.)

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

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

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

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

12 THE WITNESS: Yes, I have.

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

17 THE WITNESS: I have a couple of corrections
18 to that that resulted from the errata that we filed
19 late last week.

20 CHAIRMAN OMAS: Okay.

21 THE WITNESS: Should I read the corrections
22 now?

23 CHAIRMAN OMAS: Yes, please.

24 THE WITNESS: On the interrogatory from
25 Advo/USPS-T-6-1, on the table on the second page for

1 Revenue for -- I'm going to modify the R2006-1 Rate
2 Case column and the Difference column.

3 On Revenue the Rate Case should be 72,147,
4 and the Difference is negative 193. On the Net Income
5 Loss line the Rate Case amount is 898, and the
6 Difference is negative 373. On the Net Loss After
7 Escrow the Rate Case amount is 2,095, and the
8 Difference is 285 negative.

9 On DMA/USPS-T-6-1, Item F, the Net Loss is
10 2.095 billion versus the 2.143.

11 On DMA/USPS-T-6-6, Item C, the example that
12 I was giving for a capital sale, under the first entry
13 I had a commission of 6,400. It should be 6,000.
14 That's noted in two other places. I just missed that
15 one 6,400.

16 On DMA/USPS-T-6-9 we changed this table a
17 little bit to get it clearer and to update it. The
18 columns that changed are the Cumulative Net Income
19 Loss now would become the Net Income and then in
20 brackets Loss, and then the other column would be the
21 Equity, the Net Capital.

22 For the first line, 2005, instead of Actual
23 that should say 2005-Cumulative. On 2006, the
24 Cumulative Net Loss would be 2,095, and the Equity or
25 Net Capital would be 3,282.

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes, 2006

Docket No. R2006-1

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS RICHARD G. LOUSCH
(USPS-T-6)

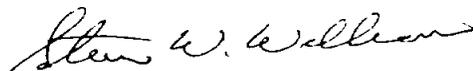
Party

Interrogatories

Direct Marketing Association, Inc.

ADVO/USPS-T6-1-8
DMA/USPS-T6-1-5, 6c-d, 7-17, 19-29
PB/USPS-T6-1-4

Respectfully submitted, ..



Steven W. Williams
Secretary

INTERROGATORY RESPONSES OF
UNITED STATES POSTAL SERVICE
WITNESS RICHARD G. LOUTSCH (T-6)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

Interrogatory

Designating Parties

ADVO/USPS-T6-1	DMA
ADVO/USPS-T6-2	DMA
ADVO/USPS-T6-3	DMA
ADVO/USPS-T6-4	DMA
ADVO/USPS-T6-5	DMA
ADVO/USPS-T6-6	DMA
ADVO/USPS-T6-7	DMA
ADVO/USPS-T6-8	DMA
DMA/USPS-T6-1	DMA
DMA/USPS-T6-2	DMA
DMA/USPS-T6-3	DMA
DMA/USPS-T6-4	DMA
DMA/USPS-T6-5	DMA
DMA/USPS-T6-6c	DMA
DMA/USPS-T6-6d	DMA
DMA/USPS-T6-7	DMA
DMA/USPS-T6-8	DMA
DMA/USPS-T6-9	DMA
DMA/USPS-T6-10	DMA
DMA/USPS-T6-11	DMA
DMA/USPS-T6-12	DMA
DMA/USPS-T6-13	DMA
DMA/USPS-T6-14	DMA
DMA/USPS-T6-15	DMA
DMA/USPS-T6-16	DMA
DMA/USPS-T6-17	DMA
DMA/USPS-T6-19	DMA
DMA/USPS-T6-20	DMA
DMA/USPS-T6-21	DMA
DMA/USPS-T6-22	DMA
DMA/USPS-T6-23	DMA
DMA/USPS-T6-24	DMA

Interrogatory

DMA/USPS-T6-25

DMA/USPS-T6-26

DMA/USPS-T6-27

DMA/USPS-T6-28

DMA/USPS-T6-29

PB/USPS-T6-1

PB/USPS-T6-2

PB/USPS-T6-3

PB/USPS-T6-4

Designating Parties

DMA

DMA

DMA

DMA

DMA

DMA

DMA

DMA

DMA

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORIES OF ADVO, INC.

ADVO/USPS-T6-1. In response to DMA/USPS-T6-1(i), you state that the FY 2006 Operating Budget is included in the Integrated Financial Plan which projects a FY 2006 loss of \$1.8 billion after escrow expense.

- (a) Please confirm that the "plan" amounts in each of the monthly operating and financial statements are based on the Integrated Financial Plan. If that is incorrect, please explain fully the source of those "plan" amounts and provide that source.
- (b) Please compare the projected FY06 income statement underlying your testimony to the projected FY06 results in the FY06 Integrated Financial Plan, identifying and explaining all differences in the assumptions used in the two projections.

RSPONSE:

- (a) Confirmed.
- (b) The FY 06 estimates developed for the rate case and the estimates developed for the FY 06 Operating Budget (Integrated Financial Plan (IFP)) were prepared in different timeframes and used different models, methodologies, processes, and formats.

The IFP was developed in July and August of 2005, prior to the end of FY 2005, while the FY 06 estimate included in the revenue requirement was completed in December 2005, five months later and after FY 05 actual data was available. The IFP was based on expenses driven by the Global Insight forecast released in July 2005, and a volume forecast based on the July Global Insight Release and FY 05 third quarter actual RPW data. The revenue requirement was based on expenses driven by the December 2005 Global Insight release and a volume forecast based on the December 2005 Global insight Release and fourth quarter FY 05 actual RPW data.

The IFP and the related operating budget are prepared in a budget line number and organizational format, while the revenue requirement is prepared by cost segment and component and class of mail. The IFP and the related operating budget are subject to negotiation and are used for resource allocation and management control, while the

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUTSCH
TO INTERROGATORIES OF ADVO, INC.

ADVO/USPS-T6-1 (cont'd)

revenue requirement is intended to support cost attribution and rate design. As a result of these differences, the IFP and the revenue requirement are not precisely reconcilable. The schedule below compares the major components of each income statement and the differences in millions of dollars.

	Operating Budget	R2006-1 Rate Case	Difference
Revenue	72,340	72,147	(193)
Expense	71,069	71,249	180
Net Income (Loss)	1,271	898	(373)
Escrow	3,081	2,993	(88)
Net Loss after Escrow	(1,810)	(2,095)	(285)

Dollars in millions

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUTSCH
TO INTERROGATORIES OF ADVO, INC.

ADVO/USPS-T6-2. Please provide, by quarter, your estimates of third and fourth quarter 2006 and all of 2007 revenues, expenses, and workhours.

RESPONSE:

The revenue requirement estimates were prepared on an annual basis only. No monthly or quarterly amounts are available.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORIES OF ADVO, INC.

ADVO/USPS-T6-3. If there are specific expense or revenue adjustments that are typically made at the end of each fiscal year and that are not reflected in the monthly/quarterly statements, please identify them and briefly explain each.

RESPONSE:

The Postal Service adjusts accruals throughout the year as new information becomes available that improves the accuracy of our estimates. This methodology is no different at year-end. Accruals are updated, if necessary, to reflect the best estimate of the liabilities as of September 30th of that year. The only accrual that is made only at year-end is the accrual for unrecorded liabilities. This accrual is intended to ensure that any liability that did not get recorded in the accounts payable system as of September 30th is appropriately reflected in the financial statements.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUTSCH
TO INTERROGATORIES OF ADVO, INC.

ADVO/USPS-T6-4. Please specify the workhour growth rate expected for June through September of FY06 in your USPS-T-6 projection.

RESPONSE:

Please see my response to ADVO/USPS-T6-2.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORIES OF ADVO, INC.

ADVO/USPS-T6-5. Are the effective dates in Exhibit USPS-6K also the dates when the increases were (or will be) put on the USPS books of account? If not, please identify those dates as well.

RESPONSE:

The effective dates for wage increases through FY 06 are specified in the labor contracts, and the expense is accrued in the books of account beginning on these dates. For FY 07 and FY 08, the effective dates are assumptions, and the actual implementation date will be determined based on the labor contracts for bargaining employees or administrative action for non-bargaining employees.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORIES OF ADVO, INC.

ADVO/USPS-T6-6. When are the February/March rural carrier route evaluation results actually implemented as compensation on the USPS books of account?

RESPONSE:

Article 9.2.C.3.a.(5) of the contract with the National Association of Rural letter Carriers states: "In 2006 all vacant and auxiliary routes will be counted. The only other routes to be counted will be those in which either the employer or the regular carrier opts for a count. These routes will be counted for twelve (12) working days, beginning February 24 and ending March 9. The mail count will be effective at the beginning of the second full pay period in the calendar month following the count."

Based on this contractual provision, this year's national rural mail count went into effect on April 15, 2006 (Pay Period 09). This is a contractual provision and future implementation is subject to negotiation.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORIES OF ADVO, INC.

ADVO/USPS-T6-7. Has the USPS determined a Total Factor Productivity or TFP goal associated with each of the years projected in your testimony? If so, please provide the TFP or TFP goal for each of those years.

RESPONSE:

No.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORIES OF ADVO, INC.

ADVO/USPS-T6-8. In your FY07 after-rates estimates, what is the R2006-1 rate implementation date assumed?

RESPONSE:

As stated on page 67 of my testimony, a May 6, 2007 rate implementation date was assumed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORY OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-1. Please refer to Exhibit USPS 6A.

- a) When were the estimates in this Exhibit prepared?
- b) Please confirm that this Exhibit shows that the Postal Service will incur a net loss of \$2.143 billion in FY 2006. If you do not confirm, please explain fully.
- c) Please confirm that the April Financial & Operating Statement report shows a net loss of \$89 million year to date. If you do not confirm, please explain fully.
- d) Please confirm that as of the end of April, there were 5 months left in the Fiscal Year.
- e) Please confirm that the Postal Service will have to incur an average loss of over \$400 million in each of the remaining months if they are to lose \$2.143 billion for the year. If you do not confirm, please explain fully.
- f) Do you still believe that the Postal Service will lose \$2.143 billion in FY 2006? Please explain your underlying logic.
- g) Please confirm that if the Service loses less than \$2.143 billion in FY 2006, it will be because revenues are higher than you predicted in USPS 6A, expenses are lower, or some combination. If you do not confirm, please explain fully.
- h) Please confirm that the April Financial & Operating Statement report shows that Total Revenue is \$346.2 million favorably above budget while Total Expense is \$159.8 million above budget. If you do not confirm, please explain fully.
- i) What is the budget for net income for the year that is reflected in the 2006 Financial & Operating Statements?

Response:

- a) The revenue requirement estimates were prepared beginning in November 2005. The before rates revenue requirement assumptions and estimates, with minor corrections, were completed in early December 2005, and the after rates revenue requirement estimates were finalized approximately one week prior to the filing of this docket.
- b) Confirmed.
- c) Confirmed.
- d) Confirmed.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUTSCH
TO INTERROGATORY OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-1 (cont'd)

- e) Confirmed.
- f) My best judgment is that the projected FY 2006 net loss of \$2.095 billion remains within a reasonable range, but it may be conservative given recent results.
- Postal Service finances typically worsen during the summer months as mail volume and revenue undergo seasonal declines. For example, in FY 2005 net income through April was \$2.025 billion and the year ended with a net income of \$1.445 billion reflecting losses of almost \$600 million during the period between April and September. A similar loss over the same time period in FY 2006, plus escrow expenses of almost \$1.3 billion, which were not incurred during FY 2005, would produce a FY 2006 net loss between the planned amount of \$1.8 billion (see part (i) below) and that included in the revenue requirement. I would caution that relatively small variations in revenues, year-end accounting accrual adjustments, and changes in the underlying expense drivers may all affect actual results. An example of a change that will adversely affect September results will be a much higher COLA wage increases than those estimated in the filing. Based on the CPI through May, the September COLA is now estimated to be \$666 per workyear compared to the estimate of \$291 per workyear reflected in the filing.
- g) Confirmed, assuming that the P.L. 108-18 escrow amount is considered an expense for the purposes of this question.
- h) Confirmed.
- i) The FY 2006 Operating Budget is included in the Integrated Financial Plan which projects a FY 2006 loss of \$1.8 billion after escrow expense.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORY OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-2. Please assume that revenues for Fiscal 2006 were \$1 billion higher than the estimate shown in USPS 6A. Knowing this and assuming you could then re-estimate revenue for FY 2007 and FY 2008, please confirm that all else being equal, your revised estimate would be higher than the estimates shown in USPS 6A. Please fully explain any failure to confirm.

Response:

Not Confirmed. I am not responsible for forecasting revenue in this case or as a part of my function at the Postal Service. But it is my opinion that the effect of an additional \$1 billion of revenue in FY 2006 on future years would depend on the source of the revenue and the various factors considered in preparing the volume and revenue estimates for future years. If the additional revenue results from one-time events such as appropriations or gains on the sale of assets, there may be no impact on future years. In other cases, the revenue increase may result from cyclical mailings such as the Census or possibly elections mail. These types of mailings may have little or no effect on revenue estimated for future years. If the increased revenue were to result from increased non-cyclical volume, the increase may affect future year revenue estimates, but the effect would be driven by the specific mail classes that changed. I would also point out that an increase in revenue would also increase costs of the affected mail classes, and thereby mitigate any positive impact of the revenue gain.

Please see the testimony of witness Thress (USPS-T-7) for volume forecasting methods and that of witness O'Hara (USPS-T-31) for revenue estimation considerations.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORY OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-3. Please assume that revenues for Fiscal 2006 were \$2 billion higher than the estimate shown in USPS 6A. Knowing this and assuming you could then re-estimate revenue for FY 2007 and FY 2008, please confirm that all else being equal, your revised estimate would be higher than the estimates shown in USPS 6A. Please fully explain any failure to confirm.

Response:

Not confirmed. Please see my response to DMA/USPS-T6-2. The additional variance of \$1 billion would not change my response.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORY OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-4. As a general proposition, do you believe that predictions about the future are more accurate the closer they are made to the events being predicted? Please explain the reasoning underlying your belief.

Response:

Not necessarily. As a non-postal event driven example consider a horse race.

Although handicappers may predict, even right at the start of a race, that a particular horse will win, their forecasts oftentimes do not prove accurate. Additionally, unforeseen events may occur that would, if known in advance, substantially change a handicapper's advance judgment concerning the winner of an upcoming race. A case in point would be the results of this year's Preakness after Barbaro's sad accident.

In a more relevant postal example, an expense forecast based on trends generally can be made with more confidence and accuracy if the forecast period is nearer at hand. For example, I would expect an estimate of FY 2006 labor cost made today, barring unforeseen events in the next three months, to be more accurate than a FY 2006 forecast made one or more years earlier. With a labor estimate, new and more definite information on workyear usage, workloads, labor mix, and wage and benefits increases (e.g. COLAs) is available on a weekly and monthly basis, thereby providing the forecaster the ability to refine the estimates.

But it is difficult to accurately predict other types of events, such as the effect of a hurricane season or the result of legislative changes that could affect postal revenues, regardless of how close one is to the occurrence of the event.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORY OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-5. Please provide a schedule showing when the Postal Service expects to release each Financial & Operating Statement for the rest of this year. If you do not know a precise date for the release of a statement, please provide your best estimate.

Response:

The current schedule for release of interim financial results is as follows:

Report Month	Projected Release Date
May, 2006	July 5, 2006
June, 2006	August 10, 2006
July, 2006	September 8, 2006
August, 2006	September 25, 2006

The results for September will be available upon completion of the annual financial statements and approval by the Board of Governors.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUTCHE
TO INTERROGATORY OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-6. As you know, the Postal Service is redesigning its processing and transportation network.

- a) Does the Postal Service intend to sell any real estate as a result of consolidating its processing network?
- b) If the Postal Service does not intend to sell any real estate, please explain why not and what it will do with the excess real estate.
- c) How would any proceeds from the sale of real estate be treated on the books of the Postal Service?
- d) Have any proceeds from the sale of real estate been accounted for in your estimates of revenue in 2006, 2007, and 2008?

Response:

- a) Redirected to the United States Postal Service.
- b) Redirected to the United States Postal Service.
- c) I am informed that the following entries would be recorded assuming the sale of a 20 year old Postal Service building along with the land for \$100,000 with a 6% commission. The original cost of the building is recorded at \$60,000, the land cost was \$15,000 and the depreciation to date is \$30,000.

Debit: Cash	\$94,000	
Credit: Escrow, Account 23465		\$94,000

This entry records the receipt of cash at the time of the sale.

(\$100,000 gross sales amount less the commission of \$6,000.)

Debit Escrow, Account 23465	\$94,000	
Debit: Commission Fee, Account 54129	\$6,000	
Debit: Reimbursement and Cost Reduction Control, Account 45960	\$100,000	
Credit: Land and Buildings Collection from Sales, Account 45961		\$100,000
Credit: Gain/Loss on PL&EQ – Gain/Loss-Sale of Land and Buildings, Account 45610		\$100,000

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORY OF THE DIRECT MARKETING ASSOCIATION

This entry records the sale based on the receipt of the property disposal letter provided by asset management.

Debit: Accumulated Depreciation, Account 17910	\$30,000
Debit: Gain/Loss on PL&EQ – Gain/Loss-Sale of Land and Buildings, Account 45610	\$45,000
Credit: Building Asset, Account 17121	\$60,000
Credit: Land, Account 17111	\$15,000

This entry removes the assets from the books and reduces the gain from the sale for the net book value of the assets. The result of the combined entries is to recognize a gain on the sale of the property of \$55,000 and commissions of \$6,000.

- d) The account for collections from the sale of real estate and buildings (account 45961) was unintentionally omitted from the miscellaneous income estimate. A correction will be provided in the near future.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORY OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-7. Does the Postal Service have any studies comparing market value to book value for any real estate owned by the USPS? If so, please provide them.

Response:

I am informed that, with the possible exception of studies concerning the disposal or development of specific properties, the Postal Service has not conducted any studies that compared the book value of the Postal Service owned real estate portfolio to market value.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUTSCH
TO INTERROGATORY OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-8. Please confirm that the market value of the real estate owned by the USPS is higher than the value at which it is carried on its books. If you cannot confirm, please explain why, particularly in light of the recent increase in the price of real estate.

Response:

The Postal Service records real estate at cost in accordance with generally accepted accounting principles. Therefore, any appreciation due to increasing land and possibly building values is not reflected in our financial statements. Although one may speculate regarding the likelihood that market value of Postal Service owned real estate exceeds book value, I have no specific information that would support that conclusion.

Moreover, market values may vary based on the location and condition of each property. The actual market value of a specific property cannot be known for certain until that property is sold.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUTSCH
TO INTERROGATORY OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-9. Please provide a table showing for each Omnibus Rate filing the USPS estimated equity in the Test Year After Rates.

Response:

The projected equity amounts for the interim and test years after rates for this Docket are included in the table below. The FY 2005-FY 2007 after rates amounts are obtained from Exhibit USPS 6I of my testimony. FY 2008 after rates is calculated based on the FY 2007 after rates equity, less the FY 2008 after rates net deficiency included at Exhibit USPS 6A. The capital contribution of the U.S. Government is not expected to change through the test year.

Fiscal Year	Capital Contribution of U.S. Government	Cumulative Net Income(Loss)	Equity (Net Capital)
2005 – Cumulative	3,034	2,342	5,376
2006	3,034	(2,095)	3,282
2007 After Rates	3,034	(1,188)	2,093
2008 After Rates	3,034	173	2,266

The estimated equity amounts for prior dockets are included in or can readily be calculated using the information contained in the revenue requirement witness's testimony, which is available on the PRC website, in the PRC Docket Room, or the Postal Service Library.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORY OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-10. Please confirm that all things being equal, in estimating Test Year Costs, a predicted decline in mail volume from the Base Year to the Test Year will lead to a reduction in clerks and mailhandlers, and that the reduction in the number of clerks and mailhandlers will lead to a reduction in the number of supervisors for these clerks and mailhandlers.

Response:

Not confirmed. A decline in total mail volume could result in a higher workload if shifts to higher work content pieces occur. I can confirm that when a decline in volume results in lower mail-volume-related workload, there is an opportunity to reduce the number of clerks and mailhandlers. This also creates an opportunity in some cases to reduce the number of supervisors. In recognition of this, it is my understanding that the rollforward reduces not only clerk and mailhandler costs, but supervisor costs as well, when mail volume workload declines.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORY OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-11. Please confirm that all things being equal, in estimating Test Year Costs, a predicted decline in mail volume from the Base Year to the Test Year will lead to a reduction in the in-office cost for city delivery carriers, and that this reduction will lead to a reduction in the costs of supervisors for these carriers.

Response:

Not confirmed. For example, a decline in total mail volume could result in a higher workload if shifts to higher in-office work content pieces occur. I can confirm that lower mail-volume-related workload results in the opportunity to reduce in-office costs for city carriers. This also creates an opportunity in some cases to reduce supervisor costs. In recognition of this it is my understanding that the rollforward reduces not only city carrier in-office costs, but supervisor costs as well, when mail volume workload declines.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORY OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-12. Please explain fully why the Postal Service does not fully piggyback all cost reduction programs.

Response:

It is my understanding that, as a general matter, cost reduction program savings are based on the estimates developed by the managers responsible for implementing the programs. These estimates are then subjected to the Postal Service's budget process, which involves negotiation among program managers, field managers, and headquarters managers of the amount of savings that are deemed to be achievable.

With respect to supervisor savings, these are reflected in initial cost savings estimates whenever, in the judgment of the program manager, such savings can be achieved based the specifics of the program. Once the budget negotiation process deems the savings to be achievable, they are reflected in the final budget and in the estimates provided in the rate case.

Supervisor savings of \$13.3 million in FY 2006, \$20.3 million in FY 2007, and \$26.2 million in FY 2008 have been included in the cost reduction program estimates. See attachments D, E, and F of Library Reference L-49.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORY OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-13. When the Postal Service sells a stamp, is the revenue booked at the time of sale, at the time the Stamp is used on a mail piece, or at some other time? Please feel free to provide separate answers for philatelic issues.

Response:

All revenue from sales of stamps is recorded at the time of the sale rather than at the time of usage. Annually, stamp sales revenue is adjusted by an amount estimated to reflect the amount of postage sold but not yet used. This deferred revenue amount is reflected on our balance sheet in the liabilities section under the title "Estimated Prepaid Postage."

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORY OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-14. Please provide the dollar value of stamps sold in the Base Year and an estimate of the dollar value of those that are expected to be sold in the Test Year.

Response:

FY 2005 stamp revenue was \$11.045 billion, as reported in the September 2005 Financial and Operating Statements. Since revenue is estimated by class of mail, rather than type of postage payment, there are no estimates of stamped revenue for the interim or test years.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORY OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-15. Please provide an estimate of the percentage of the dollar value of stamps that are sold but that are never used because they are lost, are purchased for philatelic reasons, or are not used on mail for some other reason. Please be sure to discuss how personal postage available from Zazzle or from other vendors affects the estimate. If there are studies, analyses, or reports from USPS auditors bearing on this issue, please provide them.

Response:

All stamps are assumed to be purchased for use on mail except for philatelic stamp sales by the Stamp Fulfillment Services group in Kansas City, which represented \$5 million in FY 2005.

I am not aware of any studies, analyses, or reports from USPS auditors dealing with the issue of non-philatelic stamps that are never used on mail.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORY OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-16. If revenue is booked only when stamps are used, please describe how the Postal Service accounts for the value of those stamps that are lost, purchased for philatelic reasons, or are not used on the mail for some other reason.

Response:

Not applicable. See my response to DMA/USPS-T6-13.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUTSCH
TO INTERROGATORY OF THE DIRECT MARKETING ASSOCIATION

DMA/USPS-T6-17. Please provide all studies, reports from USPS auditors, or analyses bearing on the topic of Postage in the Hands of the American Public.

Response:

Attached are the most recent (FY 2005) descriptions of the estimation and accounting for deferred revenue related to postage in the hands of the public (PIHOP).

Several more voluminous reports from the early and mid-1980s dealing with alternative estimation procedures, the review of the then existing model, and a system design document also exist and can be made available for review, if desired.

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**United States Postal Service
Postage in the Hands of the Public
Estimation Process
A – September 30, 2005
B-Q1**

Client contact(s): Jon Stratton, Manager – Corporate Financial Reporting
Bill Harris, Accountant – Corporate Financial Reporting
Originally prepared by: Bret Johnson, senior 10/28/03
Last updated by: Andrew Ma, senior – 11/15/05
Last reviewed by: Marian Rupp, senior manager – 11/17/05
Last approved by: Marian Rupp, senior manager - 11/17/05

Carry forward file – see update section for current year updates

Purpose

The purpose of this memo is to document our understanding of the liability for Postage in the Hands of the Public (PIHOP) and the methodology used by the United States Postal Service (USPS) to compute and record the year-end PIHOP liability.

Background

The Postal Service records revenue from collections generated from the sale of postage (i.e., postage from meters and stamps). However, to complete the revenue earning process, the Postal Service must fulfill the delivery obligation related to the postage (i.e., customer use of the postage so that the postage is in the mail stream). The PIHOP calculation is an estimate of meter and stamp revenue for which the Postal Service has not earned (i.e., postage has not been used), and consists of:

1. Estimated deferral of revenue for unused postage from meters
2. Estimated deferral of revenue for unused postage from stamps
3. Estimated Mail-in-Transit (mail in the mailing system and in the process of being delivered for which a portion of the postage is considered unused)

Accounting for PIHOP Liability

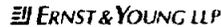
As sales are generated throughout the year, revenue is recorded on a cash basis of accounting, as follows:

Dr. Cash
 Cr. Revenue
To record sales generated during the year

Monthly, the USPS performs a calculation to estimate the PIHOP liability, recording the following adjustment to (1) modify the revenue that had been recorded on a cash basis to reflect revenue on the accrual basis of accounting and (2) record a computed liability for deferred revenue:

Dr. Revenue (account #41223 for meters / account #41199 for stamps)
 Cr. Est. PIHOP liability (account #25111)
To adjust revenue to accrual basis and to record a liability for deferred revenue

At year-end, the revenue and PIHOP liability accounts are tried-up to match the year-end PIHOP calculation.



General Ledger Accounts in PIHOP

The following general ledger (GL) accounts are utilized in the PIHOP estimate:

- Account #25111 – Est. PIHOP (deferred revenue account)¹
- Account #41199 – Miscellaneous, including adjustment for PIHOP
- Accounts #411xx (all) – Stamp revenue accounts
- Account #41220 – Customer Postages Meters (meter revenue)
- Account #41221 – Revenue PC Postage-Retail (meter revenue)
- Account #41223 – Revenue Postage – CMRS High Speed Meters (meter revenue)
- Account #41224 – Revenue Postage – CMRS Low Speed Meters (meter revenue)

Accounts #25111 and #41199 are the main PIHOP related accounts reviewed at the Headquarters (HQ) location. Account #25111 represents the estimated liability outstanding for mail in which funds have been collected, but delivery has not occurred (i.e., revenue has not yet been earned). Account #41199 represents an adjustment account for the Postal Service to record any computed deferral adjustments to stamp revenue (i.e., reduction of revenue recorded on a cash basis to reflect the accrual basis of accounting). Deferral adjustments to meter revenue are recorded into account #41223.

Accounts #411xx, #41220, #41221, #41223, and #41224 represent the revenue accounts underlying the PIHOP calculation.²

Key Assumptions in the Calculation of PIHOP

As noted above, the calculation of PIHOP consists of three elements (see above “background” section). The following sections discuss the key assumptions used for each element currently in the calculation of PIHOP.

Assumptions for Postage from Meters

Postage sales from meters represent the majority of postage revenue generated by the Postal Service. Based on trend analyses performed by the Postal Service between fiscal year (FY) 2000 and FY 2002, the Postal Service determined that customer trends indicated the resetting of meters approximately every 30 days (i.e., funds on the postage meters are replenished approximately every 30 days). Based on this trend of meter resets, approximately 30 days of meter revenue are assumed to be in the potential mail stream at any given time. Therefore, in its calculation of PIHOP, the Postal Service applies a deferral percentage to the meter revenue for the previous 30 days in order to compute the deferred revenue liability associated with meter revenue.

This deferral percentage for postage sales from meters is derived by the Postal Service sampling the acquisition and replenishment of postage for meters. This sampling is performed in an extraction process using the Postal National Meter Accounting and Tracking System (NMATS) – see memo BT-2 for more information. From the sampling process, the Postal Service receives data for monthly revenue and deferred revenue, resulting in an estimate of monthly deferral percentages for metered revenue. The deferral percentage utilized in the calculation of PIHOP (see

¹ Prior to fiscal year 2004, the USPS also utilized an account #26311 (PIHOP – POD Unfunded Liability) to record its PIHOP liability. This account had a historical balance of approximately \$300 million per year and represented the estimated deferred revenue liability of the Post Office Department prior to Postal reorganization on July 1, 1971. In FY 2004, as part of its change to an Oracle Systems based general ledger, the USPS consolidated the balance of account #26311 into account #25111.

² There are additional meter accounts in the GL that are not included in the PIHOP calculation. These accounts (#41225 – Revenue performance CPU Meters and #41230.xxx – Postage meters in post offices) represent postage meter sales occurring on-site at a post office for which the postage is immediately placed into the mail stream so the use of postage is assumed during the time of sale. Also, account #41240 – Presorted metered mail (discount waved) is a meter revenue account that is excluded from the PIHOP calculation. Account #41240 represents presort discounts denied to a customer for failure to meet mailing requirements for presorted mail.

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below) at any given time represents a rolling two-year average of the monthly deferral percentages resulting from the NMATS data extraction process.

Assumptions for Postage from Stamps

In 1990, over a 92-day period, the Postal Service conducted a survey to determine the stamp usage patterns for the stamp purchasing public as well as to determine the stamp usage for manually reset postage meters.³ Through the use of the Postal Service's PIHOP model, designed in 1976 by the outside accounting firm Arthur Young & Co., the Postal Service obtained a ratio, which represented the percentage of postage sold, but not yet used as of the end of the period. The resultant deferral ratio (20%) was then utilized by the Postal Service to estimate the amount of unearned revenue remaining at the end of the year related to stamp sales.

Each year after 1990, the Postal Service performed an annual survey of manually-reset meters in order to review the continued applicability of the deferral percentage for stamp sales. These annual surveys were performed for test periods covering April 7 to July 7 in each year in order to maintain a consistent year-over-year comparison of customer trends.⁴

Beginning in FY 1997, Postal Service management decided to cease its annual survey of stamp usage patterns for the public and from manually reset postage meters. Instead, Postal Management decided to utilize data from the NMATS data extraction process to estimate customer usage patterns. Due to data integrity issues during implementation of the NMATS process in 1997, the Postal Service maintained its use of a 20% deferral ratio for stamp revenue. In 1998, the Postal Service corrected its issues related to the NMATS data extraction process and began full implementation of the use of NMATS for estimating customer usage patterns during that year. Based on the data trends from NMATS, since FY 1998, the Postal Service has made revisions to its deferral ratio for stamp revenue, with a current ratio (implemented in FY 2005) equal to 16%.

For the calculation of PIHOP (see below), as the historical surveys of customer stamp usage patterns and manually-reset meters were based on a 92-day period, the Postal Service continues to assume that for the 92-days of revenue from stamp sales, approximately 15 days worth (i.e., 16%) are in the mail stream at any given time.

Assumptions for Mail-in-Transit

In its calculation of the mail-in-transit element of PIHOP, the Postal Service assumes that 50% of mail-in-transit has already been processed and delivered so that only 50% of the mail-in-transit represents unearned revenue. This deferral percentage is applied to the dollar value of mail by class (i.e., First Class, Priority, and Package Services) for an estimated average number of days mail is in-transit at period-end. With the estimated average number of days mail is in-transit at period-end determined in a formula based on the Original Destination Information System (ODIS). ODIS reflects the time from cancellation of a piece of mail (i.e., marking so that postage cannot be reused) to the point the mail is available for delivery (i.e., placed in a carrier's bag for delivery).

Calculation of PIHOP

The calculation of the PIHOP liability consists of the sum of the following:

1. Estimated deferred meter revenue
 - o Meter revenue for the last 30-days in a period (see GL accounts above)
 - X
 - o Deferral percentage for meter revenue (see sections above)
2. Estimated deferred stamp revenue

³ In the early 1990s, postage meters had to be manually reset by Postal employees. Technological advances since the early 1990s have resulted in meters that can be reset remotely by authorized meter manufactures (e.g., Pitney Bowes Corporation).

⁴ In its surveys of manually-reset meters, the period of April 7 to July 7 was considered by the Postal Service as representative to the last 92-days in a fiscal year.

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- o Stamp revenue for the last 92-days in a period (see GL accounts above -- excluding account #41199) less an estimate for Philatelic sales (see below section for Philatelic sales)
 - X
 - o Deferral ratio assumption for stamp revenue (see above sections)
3. Estimated revenue for Mail-in-Transit

The estimated revenue for mail-in-transit is computed by:

- Determining an average daily mail volume based on the mail volume as reported in a Revenue, Pieces, and Weight (RPW) report for the last month of the fiscal year
- Determining an average revenue per piece of mail based on the total revenue and number of pieces of mail as reported on the RPW report for the last month of the fiscal year
- Multiplying the average daily mail volume with an estimate of the weighted average days in-transit (see above sections) to compute an estimate of total mail volume in-transit
- Multiplying the estimate of total mail volume in-transit to the average revenue per piece to compute the estimated value of mail-in-transit
- Applying the assumed deferral percentage of 50% to the computed estimated value of mail-in-transit

Philatelic Sales

Philatelic mail represents commemorative stamps and postal stationary (e.g., postal cards, embossed stamped envelopes, and aerogrammes) that depict the cultural and historical heritage of the United States. Philatelic sales represent revenue generated when customers purchase stamps for collection purposes with the intent to never use the postage (e.g., purchase of collector stamps). Philatelic revenue is not differentiated in the general ledger accounts from revenue generated from the normal sale of stamps.

The Postal Service does not compute a deferral for revenue from philatelic sales as the Postal Service has considered its revenue earning process complete at the time of a philatelic sale (i.e., the Postal Service has assumed it has no further delivery obligation to the customer for the postage as it is assumed that the customer will never utilize the postage purchased under a philatelic sale). Because philatelic sales do represent postage, the possibility does exist that a customer whom originally intended to collect the stamp will use the stamp sometime in the future.

Given the inability to reasonably estimate future use of stamps sold for collection purposes, and due to the nature of the sales and consumer (stamp sales to collectors), it does not appear unreasonable to recognize revenue from philatelic sales at the time of sale.

Significant Noted Risks and Controls

Risk (What Could Go Wrong)	Control	Controlled by
• Revenue accounts underlying the PIHOP calculation are inaccurate	• Reconciliations between the meter manufacturers and Eagan ASC are performed on a monthly basis	Eagan ASC
• Assumptions for the PIHOP calculation are not valid or appropriate	• Deferral ratios are derived from sampling meter resetting data from NMATS	Eagan ASC
• NMATS data extraction process does not properly accumulate underlying information to the PIHOP calculation	• Data extraction from NMATS is reviewed monthly and quarterly for error messages or anomalies in the data.	Eagan ASC and HQ - Finance

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<ul style="list-style-type: none">• Data from reports (e.g., RPW/ODIS) used in the PIHOP calculation are not accurate	<ul style="list-style-type: none">• RPW/ODIS Reports are reviewed monthly for unusual fluctuations.	HQ – Revenue and Volume Reporting Department
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**United States Postal Service
Postage in the Hands of the Public
NMATS Data Extraction Process
A – September 30, 2005
B-Q2**

Client contact(s): Jon Stratton, Manager – Corporate Financial Reporting
Bill Harris, Accountant – Corporate Financial Reporting
Originally prepared by: Bret Johnson, senior – 10/28/03
Last updated by: Andrew Ma, senior – 11/15/05
Last reviewed by: Marian Rupp, senior manager – 11/17/05
Last approved by: Marian Rupp, senior manager – 11/17/05

Carry forward file – see update section for current year updates

Purpose

The purpose of this memo is to document our understanding of the National Meter Accounting and Tracking System (NMATS) and the program used to extract meter data from the NMATS database. NMATS data is utilized in the calculation of Postage in the Hands of the Public (PIHOP) by the United States Postal Service (USPS).

Background

NMATS was previously referred to as the Meter Accounting and Tracking System (MATS), which consisted of 85 separate databases residing at the District Accounting Offices (DAO). With the elimination of the District Accounting Offices in fiscal year (FY) 2004, all databases have been consolidated to a national database located at the Eagan, MN Accounting Service Center (ASC). NMATS has a web-enabled interface for which users can query data from system. NMATS also provides a link with the Computerized Meter Licensing System (CMLS).

With the implementation of NMATS, the Postal Service developed a user's guide to assist all NMATS users and to provide a training tool for new users. See the permanent file for a copy of the NMATS user guide (maintained as a soft copy on the Ernst & Young LLP Headquarters team folder).

For the purposes of the following memo, NMATS and MATS can be used interchangeably.

The Meter Accounting and Tracking System

The Meter Accounting and Tracking System was part of an effort by the USPS to certify the revenue from approximately two million postage meters in use nationwide. The USPS developed MATS in response to a recommendation by the Business Process Redesign team for meters. By gathering meter transaction information through Integrated Retail Terminals (IRT)¹ and establishing a national meter directory and communications hub, MATS enabled the USPS to track meter usage, providing a means for Postal management to attain improved internal control over meter activity.

MATS tracks all meter transactions (meter settings, refunds, meter examination data, adjustments/corrections, and transfers), with the following fields recorded:

- Date of transaction
- Ascending register before transaction
- Descending register before transaction
- Amount of setting/refund
- Descending register after transaction

¹ In fiscal year (FY) 2000, the Postal Service began a replacement Integrated Retail Terminals (IRT) with Point of Service ONE (POS ONE) terminals at postal field locations (i.e., post offices).



- Control total after transaction
- Transaction type (RMRS for remote reset; AUTO for IRT transactions; ADJU or CORR for adjustments/corrections; MANU for manually keyed transactions; TRAN for transferred to; TRNF for transferred from; REFU for refund; AADJ for auto-adjustments)

In addition to postage meters, MATS tracks all data relating to electronic stamps ("e-stamps") sold on Stamps.com and personal computer (PC) postage programs. These programs allow customers to prepay stamps over the Internet and then print postage using their own printer.

Types of Postage Meters

There are three general categories of meters: customer meters, postal meters (used by USPS), and government meters. Since customer meters are the only meters that are prepaid, they are the only meters that are relevant to the PIHOP calculation. As such, this memorandum focuses primarily on customer meters.

All meters have two registers which function similar to a car's odometer. The registers on a new meter are set to zero. As postage is added, the value on the descending register (which represents postage available) is increased. As postage is used, the value on the descending register decreases and the ascending register (which represents postage used) increases. The combined value of the two registers makes up the control total (with the control total representing the total amount of postage paid on the meter). Maintaining continuity of the control totals is a key internal control feature of MATS.

Types of Customer Postage Meters

There are two types of customer meters used by the USPS – Manual Reset meters and Computerized Meter Resetting System (CMRS) meters.

Manual Reset meters – Older postage meters are manual reset meters. Manual reset meters represent less than half of one percent of all active meters and continue to be phased out. Manual meters are physically reset by USPS employees (either at the post office or at a customer's place of business). To reset the meters, USPS employees add postage to a customer's meter and enter the register readings from the meters into the IRT or into POS ONE. Entry of the information creates an automated PS Form 3602, *Receipt for Postage Meter Setting*. The receipt information is uploaded daily from the field post office level with PS Form 1412, *Daily Financial Report*, to the financial accounting systems. If a post office does not use an IRT or POS ONE, the employee creates a manual PS Form 3602. In FY 1999, the USPS decertified all mechanical manual reset meters (non customers can only use electronic manual reset meters).

CMRS meters – CMRS meters are contracted to meter manufacturing companies by the Postal Service.² Customers with CMRS meters place funds on deposit (i.e., establish a trust account) with the USPS through the use of a lockbox account with Citibank. The deposited funds are transferred into the Postal accounts at the US Treasury and are recorded as a liability in the general ledger. CMRS customers can reset meters by contacting the meter vendor via modem access or via telephone. The meter vendors track all meter resetting activity and provide a daily data file download to the Minneapolis Information Service Center (MN ISC).

Recording Meter Data into MATS

All applications for customer, postal, and government agency meters are processed through the Centralized Meter Licensing System (CMLS). The meter manufacturers send tape downloads with all meter license applications to the USPS and the data is loaded into the CMLS. The CMLS processes the applications and electronically transmits approvals to the meter manufacturers, with the meter license data also transmitted to NMATS.

² The largest meter manufacturing companies contracted with the Postal Service are: (1) Pitney Bowes Corporation, (2) Neopost, (3) Hasler, and (4) Francotyp-Postalia.



In a few rare instances, a customer submits an application directly to the USPS. In these cases, the USPS inputs the information into the CMLS with the system generating a license that is mailed to the customer. The license data is then transmitted to the meter manufacturers and NMATS.

A customer should have only one meter license number per city and may have an unlimited number of meters associated with the license. Each new meter added to a customer's license is automatically recorded as "Active" in NMATS. However, employees may update the status to "Withdrawn", "Malfunction", "Lost", or "Stolen" as necessary.

Refunds and Transfers

If a meter is taken out of service, the remaining amount on the meter can be either refunded to the customer or transferred to another meter. To process a refund or transfer, the customer must complete a Form 3601-C, *Postage Meter Activity Report*. This form requires the following information to be provided:

- License information
- Meter location
- Meter type
- Register readings (ascending, descending, and control total)
- MATS control total

In addition, the amount of refund, transfer, or credit to the CMRS deposit account must be completed. A USPS employee is required to review all data for accuracy and sign the form.

Post offices can issue refunds up to \$700 with money orders. Any refund over \$700 must be processed through the district accounts payable application.

The completed Form 3601-C is sent to the district office for entry into MATS. For all refunds and transfers, MATS ensures that the amount of the refund/transfer is less than the descending register after the last setting. If the refund/transfer is more than this reading, then MATS provides an error notification. In addition, MATS performs the standard edit check of ensuring that the control total is accurate (ascending register before + descending register before - refund/transfer = control total).

MATS Finance Operations

Daily, POS ONE data is automatically loaded into MATS. Relative to IRT data, on a daily basis MATS Finance operations personnel at each district load IRT data and correct errors associated with IRT transactions. The Accounting Technician assigned to MATS is responsible for loading the daily Form 3603 transactions transmitted from the IRT. During a typical business day, the Accounting Technician will perform the following functions:

- Load IRT transactions
- Correct Errors
- Enter manual Forms 3603
- Print daily reports and balance setting amounts with the financial systems
- Enter Forms 2602-PO, *Postage Collected Through Post Office Meter*
- Balance MATS totals for Post Office meters with amounts in the financial systems
- Enter refunds for withdrawn meters
- Enter meter transfer information
- Enter six-month examination information

There are several edit checks for data entered into MATS. Some of the errors that may occur are listed in the following table.



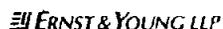
Error	Description of Error
Incorrect Unit Value	Meter has incorrect model code (i.e., unit value incorrectly recorded in MATS with a hundredths setting instead of a thousand setting, or vice versa)
Control Total Error	Incorrect control total recorded in MATS or reported incorrectly with setting (in most cases, when a model code is changed, the control total must also be changed)
Incorrect Finance Number	Meter is set at a location other than the licensing office and the setting is reported by the setting office
License Not Found/ Meter Not Found (Invalid Serial Number)	A setting is entered to an IRT but the meter information does not match a meter record in MATS
Manual Receipt IRT Error	Meter was set and only the setting was entered on the IRT receipt (i.e., the register readings were not included)
Un-settable Meter Status	Meter was set and the meter number is identified as either Withdrawn or Malfunction in MATS
Improper Set Method	IRT transaction is for a meter identified in MATS as a CMRS (CMRS meters are set by the customer via the telephone)
Under-set / Overset PS 3603 Meter Setting	When a setting employee places an incorrect amount of postage in a meter, a control total error will occur in MATS when the meter is reset. The error is not detected on the initial setting because the register readings are entered correctly to the IRT

Another edit check performed by MATS is a comparison of data for each meter transaction to the National Lost and Stolen Meter List. The National Lost and Stolen Meter List include all meters that the manufacturers and the USPS are unable to locate. This list is maintained by the meter manufacturers and provided to the USPS. The table in the MATS database containing the lost and stolen meter data is updated each accounting period. Transactions in MATS are compared to this list and MATS displays a message when a match occurs. The technician is responsible for printing the MATS screen and forwarding a copy to the Office of Inspector General (OIG).

Daily, MATS automatically identifies CMRS setting errors. It is the responsibility of the district Accounting Technician to follow-up and correct all meter errors. To ensure accuracy of the data in MATS, each district has a supervisor that oversees the correction of these errors.

When a transaction occurs for a particular meter error, the error is placed in a suspense table in the MATS database until it is corrected. Furthermore, if a meter has an outstanding error, then all subsequent transactions will show an error until all transactions are corrected. To resolve an error, the MATS technician often contacts the customer directly to obtain additional information. Adjustment transactions are recorded in MATS with a transaction type of: "ADJU" or "CORR." ADJU transactions do not go through the same edit checks as regular transactions therefore, if an adjustment transaction is incorrect, it will not result in an error. CORR transactions have the same edit checks as regular transactions.

After the errors have been corrected, the technician prints the *Consolidated Daily AIC 111 Report* from MATS and reconciles the amounts to the *Trial Balance Report for AIC 111*. The technician also prints the *Consolidated Post Office Meter Setting Report* from MATS and reconciles the amounts to the *Trial Balance Report for AIC 110*.



Meter Examinations

All customer meters are required to undergo a periodic examination. A setting or examination of a customer meter includes reviewing that the meter is in good operating condition and is secured properly. Additionally, the ascending and descending register readings must be recorded and submitted to the district MATS office for entry into the database to verify the control total. The register readings are usually recorded directly on the notification letter.

The date of examination and register readings are entered into MATS. The system verifies the control total and provides an error message when the control total entered does not equal the MATS control total. Under the new POS ONE systems that are replacing the IRT systems, meter exam data is automatically uploaded into MATS.

MATS is designed to print a three (3) month exam notification letters for all manual meters which have not been set or examined within the previous three (3) months or on demand for selected meter numbers. When a three (3) month letter is generated and the meter is not examined within 30 days, a final notification letter should be printed from MATS stating that the meter must be examined within five (5) days or the license may be revoked. Remote reset (CMRS) meters must be examined at least annually. The district offices are responsible for generating all exam notification letters.

By comparing control totals from the meters to MATS, the examination process helps to ensure that MATS is accurate. For CMRS meters, it specifically helps to ensure that the data received on the daily data files from the meter manufacturers is accurate (for example, if the control total on the meter was higher than the control total in MATS, it may indicate that the manufacturer has not transmitted all meter settings to MATS). In the case of manual reset meters, it specifically helps to ensure that data has been recorded correctly in MATS by Postal employees.

Meter Extraction

Postal programmers in Eagan, MN coded the MATS extraction program in 1997. The program was designed to extract all meter data needed for the PIHOP calculation. This program extracts all of the necessary data, but does not actually perform the actual PIHOP calculation. A separate program takes all of the extracted data and performs the PIHOP calculation (see further below).

As the NMATS application is maintained at the Eagan ASC, the data extraction occurs at the Eagan ASC. There are several tables in the database that are used in the extraction program. These tables include the following:

- Meter table (list of all meter numbers)
- Setting table (list of all meter transactions)
- License table (list of meter license numbers)
- Status table (e.g., active, inactive, withdrawn)
- Finance number table (list of finance numbers)
- Model table (list of meter models)

The extraction process consists of several different steps. Data for manual and CMRS meters is maintained separately in the MATS database; therefore, the extraction program is actually run twice – once for manual meters and once for CMRS meters. The logic of the extraction process is as follows:

1. **LTBSP** – The program scans the tables and extracts the LTBSP (where applicable) for all active customer meters (meter type = C and meter status = A). All government meters, postal meters, and inactive, withdrawn or malfunctioning customer meters are excluded. In addition, all transactions meeting the following criteria are excluded from the calculation:
 - a. Transaction type <> ADJU, UNDER, OVER, TRNF, OR TRAN (note: this logic is applicable to manual meters only because CMRS meters do not have these transaction types) or

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- b. Ascending register before setting \leq zero; and descending register after setting \leq zero; and ascending register before setting plus descending register after setting \leq zero

OR

Ascending register before setting \leq zero; and descending register before setting \leq zero; and ascending register before setting plus descending register after setting \leq zero

2. **FTISP** – The program performs the same logic as step #1, except it extracts the FTISP (where applicable).
3. **LTISP** – The program performs the same logic as step #1, except it extracts the LTISP (where applicable).
4. **FTASP** – The program performs the same logic as step #1, except it extracts the FTASP (where applicable)

Note - If there are two (2) or more transactions on the same day, all of the transactions on that day are extracted and sent to the mainframe in Minneapolis.

The result of the above extraction process is a raw data file, which consists of all active customer meters meeting the above criteria, residing in the Minneapolis mainframe. If a meter has no transactions, then the meter is not included in the raw data file.

The programmers in Minneapolis then run four (4) separate programs on the mainframe to further edit the data. The edits performed include the following:

- The programs scan the “ascending register before” and “descending register before” readings. If both of these readings are zero, then the transaction is excluded. (See additional discussions regarding “meter initialization” setting issues below).
- If there are two (2) or more transactions on the same day, then the program reads the date stamp on the transaction and selects only the first transaction on that day.
- The programs scan the transactions and exclude all transactions that have a negative in any one of the following fields: ascending register before setting, descending register before setting, amount set, and control total.

Extraction Process for Capturing “Meter Initializations” - Revised Logic during FY 2002

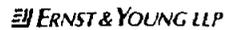
During FY 2002, management continued to review the PIHOP process and the trend analysis for the average days for meter resetting. Based upon the continuing trend of 30-35 days in reset patterns, management decided to implement a new 30-day method for the PIHOP calculation.

Based on the monthly data extracted from the MATS system, the PIHOP model calculated a 24-month period as the PIHOP deferral ratio. This initial calculation of the deferral ratio in FY 2002 was based on 61% of the “active” meters that period, which when management analyzed at year-end, realized that there were some issues with the meters being rejected as “invalid” as follows:

1. The initialization of meters for new customers were rejected by Extraction Program due to “0000” setting as first entry in MATS (computerized meters are able to be reset to zero instead of being continuous, like an odometer). The program then rejected all subsequent transactions for those specific meters with a “0000” setting as its first transaction entry.

Management was uncertain of the impact of the Initialization Transactions to the overall outcome on the PIHOP estimate, so management discussed an alternative approach to capturing these transactions with the Postal IT Programmers in Eagan, MN, that are familiar with the MATS extraction process.

2. The Meters specific to “PC Postage” (online transaction) were noted as “active” by the manufacturers. Customers who signed up for the product obtained free postage (totaling \$10 to \$20) as a promotion. The free postage was not included as Meter revenue, but was included as a transaction entry within the MATS. In addition, the customers may not “refresh” their postage after the promotional amount was used up,



resulting in only one transaction in the MATS system, and thus an "invalid" meter status per the Extraction Program. Also, reset patterns for these customers tended to be longer than 30 days, thus it was unlikely that their meters were being captured in the monthly extraction process.

3. Some meters that were used had only one setting. The Postal Service's sales group wanted to keep these meters listed as "active" in MATS in order to improve their statistics even though they were really "inactive" due to non-use, and thus "invalid" per the Extraction Program.
4. The change in the extraction program from MATS was made to "count" the transactions subsequent to the initialization of meters for new customers (with "0000" as first entry) as "valid" meter transactions. This change increased the number of "active" meters available each month per MATS to approximately 1.9 million. The invalid meters continue to be related to the same issues (PC Postage, Sales Group listed as active, etc).

To correct the above issues, the Eagan IT programmers wrote the following code to include the meters with "0000" as the initialization setting as "valid" meter transactions:

```

AND   E.ascending_register_before>=0
And   E.descending_register_after>=0
And   E.descending_register_before>=0
And   ((E.ascending_register_before>=0
And   E.descending_register_after>=0
And   E.descending_register_before>0)
Or    (E.ascending_register_before>=0
And   E.descending_register_after>0
And   E.descending_register_before>=0)
Or    (E.ascending_register_before>0
And   E.descending_register_after>=0
And   E.descending_register_before>=0))

```

Data Extraction from MATS

From MATS:

1. For each "commercial" postage meter in service during the "Sample Period" extract the following data:
 - FDC Code
 - Finance Number
 - Meter Number
 - Type Meter (electronic or manual)
 - Meter Value (P equals pennies or F equals fractions of a penny)
 - Date
 - Ascending Register Reading
 - Descending Register Reading
 - Amount of Setting
 - Descending Register Reading after Setting
 - Control Total
2. For Each:
 - Last transaction before sample period (LTBSP)
 - First transaction in sample period (FTISP)
 - Last transaction in sample period (LTISP)
 - First transaction after sample period (FTASP)

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NOTE(s):

1. Transactions include monthly and quarterly review (inspections).
2. If a meter doesn't have one or more of the four transactions identified above, then only an extraction of those transactions that are applicable is done.
3. If a meter changed hands during the sample period, provide only those transactions applicable to the customer who held the meter at the end of the sample period.

Examples:

1. Assuming the specified sample period was May 10, 1996 to August 10, 1996, and the meter had only one transaction during sample period:

Transaction Meter			Ascending	Descending		Descending	Control
Type	Number	Date	Register	Register	Setting	Reg. After Setting	Total
LTBSP	123456789	4/21/1996	00010000	00050000			00060000
FTISP	123456789	5/21/1996	00050000	00010000	0005000	00015000	00065000
FTASP	123456789	8/21/1996	00064950	00000050	0010000	00010050	00075000

2. Assuming the specified sample period was May 10, 1996 to August 10, 1996, and the meter had two (or more) transactions during the sample period:

Transaction Meter			Ascending	Descending		Descending	Control
Type	Number	Date	Register	Register	Setting	Reg. After Setting	Total
LTBSP	123456789	4/21/1996	00010000	00050000			00060000
FTISP	123456789	5/21/1996	00050000	00010000	0005000	00015000	00065000
LTISP	123456789	7/15/1996	00064950	00000050	0010000	00010050	00075000
FTASP	123456789	8/21/1996	00064950	00000050	0010000	00010050	00075000

3. Assuming specified sample period was May 10, 1996 to August 10, 1996, and the meter had no transactions during the sample period:

Transaction Meter			Ascending	Descending		Descending	Control
Type	Number	Date	Register	Register	Setting	Reg. After Setting	Total
LTBSP	123456789	4/21/1996	00010000	00050000			00060000
FTASP	123456789	8/21/1996	00059950	00000050	0010000	00010050	00070000

4. Assuming the specified sample period was May 10, 1996 to August 10, 1996, and the meter had no transactions before or during the sample period:

Transaction Meter			Ascending	Descending		Descending	Control
Type	Number	Date	Register	Register	Setting	Reg. After Setting	Total
LTBSP	123456789	4/21/1996	00010000	00050000			00060000

5. Assuming the specified sample period was May 10, 1996 to August 10, 1996, and the meter had no transactions before or during the sample period:

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Transaction Meter		Ascending	Descending	Descending	Control		
Type	Number	Date	Register	Register	Setting	Reg. After Setting	Total
FTASP	123456789	8/21/1996	00059950	00000050	0010000	00010050	00070000

The following data is extracted from MATS:

- Add appropriate Budget Authorization (BA) code.
- Verify transactions received from MATS cross-foots to the control total received with the transaction
- Update register/control total readings that have been "reset" (see exception handling).

PIHOP Model – Summary

The Postal Service uses meter transaction data from MATS to calculate the estimated PIHOP ratio. The following meter transaction data is extracted from MATS and downloaded into the PIHOP model:

- First transaction before the sample period (FTBSP)
- First transaction in the sample period (FTISP)
- Last transaction in the sample period (LTISP)
- First transaction after the sample period (FTASP)

Based on the customer's meter resetting history, each meter could have a combination from one (1) to four (4) of the above transactions. The PIHOP calculation varies based on the combination of transactions available for each meter (i.e., FTBSP, FTISP, LTISP, and FTASP). However, if only one transaction is available, the calculation excludes the meter and places it in an error category because deferred revenue cannot be estimated.

The general theory behind the calculations in the PIHOP model is that if two (2) or more meter transactions are available, then the average daily postage used can be calculated. Using the average daily postage used, a person can estimate a dollar value of deferred postage at the end of the monthly period by subtracting estimated postage used from the descending register reading on the last setting in the sample period (or adding estimated postage used to the descending register reading on the first setting after the sample period). A person can then calculate total revenue collected in the period (based on meter settings), and calculate a ratio of estimated deferred revenue to revenue. This ratio of estimated deferred revenue to revenue is the "PIHOP ratio."

PIHOP Model – Detailed Program to Compute the PIHOP Ratio

The following is the detailed program(s) to calculate the PIHOP ratio for meters based on data file(s) received from MATS.

When LTBSP, FTISP, and LTISP are available:

For each meter-

- Calculate revenue collected during the sample period by subtracting the control total from the last setting before the sample period from the control total of the last setting in the sample period.
- Calculate the number of days between LTISP and FTISP by subtracting the date of FTISP from the date of LTISP.
- Calculate deferred revenue by subtracting the estimated postage used from the greater of the descending register or descending register after setting on LTISP.
- Calculate average daily usage by dividing Postage Used by number of days between LTISP and FTISP.
- Calculate number LTISP and the end of the sample period by subtracting date of LTISP from sample end date.
- Calculate estimated postage used by multiplying number of days between LTISP and end of sample period by average daily usage.
- Calculate deferred revenue as a % by dividing deferred revenue by revenue collected for sample period.

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When only LTASP, FTISP and FTASP are available:

For each meter-

- Calculate revenue collected during sample period by reading setting value on FTISP.
- Calculate number of days between LTASP and FTISP by subtracting date of LTASP from date of FTISP.
- Calculate postage used by subtracting ascending register of LTASP from ascending register of FTISP.
- Calculate average daily usage by dividing postage used by number of days between LTASP and FTISP.
- Calculate number of days between FTISP and end of sample period by subtracting date of FTISP from sample end date.
- Calculate estimated postage used by multiplying number of days between FTISP and end of sample period by average daily usage.
- Calculate deferred revenue by subtracting estimated postage used from greater of descending register or descending register after setting on FTISP.
- Calculate deferred revenues as % by dividing deferred revenue by revenue collected in sample period.

When only FTISP, LTISP and FTASP are available:

For each meter-

- Calculate revenue collected during sample period by subtracting control total from FTISP from control total from LTISP and adding setting from FTISP.
- Calculate number of days between LTASP and FTISP by subtracting date of LTASP from date of FTISP.
- Calculate postage used by subtracting ascending register of LTASP from ascending register of FTISP.
- Calculate average daily usage by dividing postage used by number of days between LTASP and FTISP.
- Calculate number of days between FTISP and end of sample period by subtracting date of FTISP from sample end date.
- Calculate estimated postage used by multiplying number of days between FTISP and end of sample period by average daily usage.
- Calculate deferred revenue by subtracting estimated postage used from greater of descending register or descending register after setting on LTISP.
- Calculate deferred revenues as % by dividing deferred revenue by revenue collected in sample period.

When only FTISP, LTISP and FTASP are available:

For each meter-

- Calculate revenue collected during sample period by subtracting control total from FTISP from control total from LTISP and adding setting from FTISP.
- Calculate number of days between FTISP and LTISP by subtracting date of FTISP from date of LTISP.
- Calculate postage used by subtracting ascending register of FTISP from ascending register of LTISP.
- Calculate average daily usage by dividing postage used by numbers of days between FTISP and LTISP.
- Calculate number of days between LTISP and end of sample period by subtracting date of LTISP from sample end date.
- Calculate estimated postage used by multiplying number of days between LTISP and end of sample period by average daily usage.
- Calculate deferred revenue by subtracting estimated postage used from greater of descending register or descending register after setting on LTISP.
- Calculate deferred revenues as % by dividing deferred revenue by revenue collected in sample period.

When only FTISP and LTISP are available:

For each meter-

- Calculate revenue collected during the sample period by subtracting sum of ascending register and descending register before setting from FTISP from control total on LTISP.
- Calculate number of days between FTISP and LTISP by subtracting date of FTISP from LTISP.
- Calculate postage used by subtracting ascending register on FTISP from ascending register on LTISP.
- Calculate average daily usage dividing postage used by number of days FTISP and LTISP.
- Calculate number of days between LTISP and the end of sample period by subtracting date of LTISP from sample ending date.

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- Calculate estimated postage used by multiplying number of days between LTISP and end of sample period by average daily usage.
- Calculate deferred revenue by subtracting estimated postage used from greater of descending register or descending register after setting on LTISP.
- Calculate deferred revenues as % by dividing deferred revenue by revenue collected in sample period.

When only LTBSP and FTASP are available:*For each meter-*

- Calculate number of days between LTBSP and FTASP by subtracting date of LTBSP from date of FTASP.
- Calculate postage used by subtracting ascending register of LTBSP from ascending register of FTASP.
- Calculate average daily usage by dividing postage used by number of days between LTBSP and FTASP.
- Calculate number of days between end of sample period and FTASP by subtracting sample end date from date of FTASP.
- Calculate estimated postage used by multiplying number of days between FTASP by average daily usage.
- Calculate deferred revenue by subtracting estimated postage used from greater of descending register or descending register after setting on FTASP.

When only FTISP and FTASP are available:*For each meter-*

- Calculate revenue collected during sample period by reading setting value on FTISP.
- Calculate number of days between LTBSP and FTISP by subtracting date of LTBSP from date of FTISP.
- Calculate postage used by subtracting ascending register on LTBSP from ascending register of FTISP.
- Calculate average daily usage by dividing postage used by number of days between LTBSP and FTISP.
- Calculate number of days between FTISP and end of sample period by subtracting date of FTISP from sample end date.
- Calculate estimated postage used by multiplying number of days between FTISP and end of sample period by average daily usage.
- Calculate deferred revenue by subtracting estimated postage used from greater of descending register or descending register after setting on FTISP.
- Calculate deferred revenue as % by dividing deferred revenue by revenue collected in sample period.

Also calculate deferred revenue as a percentage for each organization level (e.g., finance number, FDC, BA and National) as follow:

- Divide total deferred revenue for meters in that organizational level by total revenue collected for meters in that organizational level.

NOTE - If meter is used in fractions of penny (meter value equals fractions) it will be necessary to include additional steps to round register and control total values.

Other Functions in PIHOP Model*Exception Handling*

1. Meter has only one transaction. Drop from calculation. Include on list of excluded meters with message "Only one transaction received - LTBSP". Message to include abbreviation for transaction that was received. Above example shown for Last Transaction before Sample Period.
2. Transaction received for meter does not cross-foot. Meter readings are similar to a car odometer in that they have a certain "high" value that once achieved results in the meter being reset to zero. When readings associated with a date do not cross-foot to the meter's control total, determine if the ascending register or control total have reset. If reset has occurred, determine if the totals in the meter cross-foots by expanding reading by one position to the left and placing a one (1) in that position. If a meter cross-foots using this expanded reading, use the meter. Otherwise exclude meter from the PIHOP calculation, list meter on report of excluded meters with message "Data for meter does not cross-foot".

 ERNST & YOUNG LLP

Inquiry

Provide ability for on-line initiated inquiry and display of selected meter transactions including ability to print selected data to printer specified by user.

Provide user options for sorting and selecting data displayed and included in calculations. Options used in generating reports are to be displayed on each screen or hard copy report page (preferably at top but under any standard heading). Sort data by BA, FDC, Finance Number, Meter Type (Manual or Electronic) and/or up to three random starting points and skip intervals.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORY OF DIRECT MARKETING ASSOCIATION**

DMA/USPS-T6-19. This is a follow up to your response to DMA/USPS-T6-5 in which you provided a schedule for the release of all the as-then unreleased Financial and Operating Statements for FY 2006 except for September's. With respect to September's release, you said "The results for September will be available upon completion of the annual financial statements and approval by the Board of Governors."

- a) Please confirm that in 2005, the Postal Service filed the Financial and Operating Statement (FOS) for September with the Postal Rate Commission on December 9, 2005. If you are unable to confirm, please provide the correct date.
- b) Are there any reasons to believe that the September FOS will take longer to prepare this year than it did last year? If so, please provide all of them.
- c) What is the latest date by which you would expect to file the September FOS with the Postal Rate Commission?

Response:

- a) Confirmed.
- b) & c) I have been informed by the organization that prepares and issues Financial Operating Statements (FOS) that the September FOS will be released in conjunction with the FY 2006 Annual Report, which is published within a reasonable timeframe after the December Board of Governors' meeting. A specific issuance date has not yet been determined.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORY OF DIRECT MARKETING ASSOCIATION**

DMA/USPS-T6-20. The Postal Service requires detailed data to produce Total Factor Productivity.

- a) Please confirm that on June 8 of 2006, the Postal Service filed with the Postal Rate Commission, Total Factor Productivity Annual Tables for FY 2005. If you cannot confirm, please provide the correct date.
- b) Please confirm that Table 13 of these tables, titled Millions of Hours by Occupation, provides workhours (in millions) for supervisors, for clerks and mailhandlers, for city carriers and vehicle service drivers, for special delivery messengers, and for rural carriers – as well as for other selected occupations - from 1963 to 2005.
- c) Please provide an Excel Spreadsheet of this table.
- d) Please provide an Excel Spreadsheet of this table which disaggregates supervisory hours into (1) Supervision of Clerks and Mailhandlers – mail processing, (2) Supervision of Clerks and Mailhandlers – not mail processing, (3) Supervision of City Delivery Carriers, (4) Supervision of Vehicle Service Drivers, and (5) all other supervision. If you are unable to disaggregate to this fine a level, please disaggregate to the finest level available.
- e) Please provide an Excel Spreadsheet of this table which disaggregates Clerks and Mailhandlers hours into (1) Clerks and Mailhandlers – mail processing and (2) Clerks and Mailhandlers – all other and which also disaggregate City Carriers and Vehicle Service Drivers hours into (1) City Carriers hours and (2) Vehicle Service Drivers hours.
- f) Please feel free to provide one spreadsheet in response to (c), (d), and (e).

Response:

- a) Confirmed.
- b) Confirmed.
- c) The requested schedules in Excel are attached.
- d) I am informed that the data reflected in this table is gathered from National Payroll Hours Summary Report, which is not disaggregated in the manner requested. Consequently, this table (in its current format) is presented in the finest level of detail available.
- e) I am informed that the data reflected in this table is gathered from National Payroll Hours Summary Report, which is not disaggregated in the manner requested.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORY OF DIRECT MARKETING ASSOCIATION**

Consequently, this table (in its current format) is presented in the finest level of detail available.

f) Not applicable.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORY OF DIRECT MARKETING ASSOCIATION**

DMA/USPS-T6-21. On page 31 of your testimony, you write "Between cost reductions programs and BPI, the Postal Service identifies realizable cost savings for technical personnel and supervisors. Supervisory cost savings beyond those estimated cannot be assumed to occur based on theories of volume variability, because supervisory responsibilities relate to mailflows, networks and operations – not merely to employees."

- a) Are supervisors responsible for supervising employees?
- b) Please provide any studies or analysis pertaining to the topic of how much of a supervisor's responsibilities are related to employees and how much are related to mailflows, networks, and operations.
- c) Please provide your best judgment of how much of a supervisor's responsibilities are related to employees and how much are related to mailflows, networks, and operations.
- d) Please provide all materials from supervisory training programs which demonstrate that supervisors are trained for their responsibilities in managing mailflows, networks, and operations.
- e) Please provide all materials which demonstrate that supervisors are evaluated based on their responsibilities in managing mailflows, networks, and operations.
- f) Please provide all materials which demonstrate that supervisors are compensated based on their responsibilities in managing mailflows, networks, and operations.

Response:

As illustrated in Exhibit B of my testimony and Exhibit D of Library Reference L- 49, the revenue requirement includes supervisory cost adjustments related to volume changes and as a part of the BPI/LMI cost reductions. Library Reference L-49 includes \$13 million, \$20 million, and \$26 million of BPI/LMI supervisory cost reductions for FY 2006, 2007 and 2008, respectively. Additionally, as described in Exhibit B to my testimony, volume related supervisory cost decreases of \$12 million in FY 2006, \$39 million in FY 2007 after rates, and \$33 million in FY 2008 after rates are included. Since management is unable to identify additional supervisory cost savings related to specifically identified cost reduction programs, it is improbable that further supervisory cost reductions will be achieved. I will amend my testimony to clarify this point.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORY OF DIRECT MARKETING ASSOCIATION**

- a) Yes, to the best of my knowledge supervisors are responsible for supervising employees. But Cost Segment 2 includes supervisory personnel, certain administrative personnel and technical personnel. A more complete description can be found in the "Summary Description of USPS Development of Costs by Segment and Components, Fiscal Year 2005," Library Reference L-1.
- b) & c) I am not aware of any studies or analyses that address how much of a supervisor's responsibilities are related to employees versus that related to mailflows, networks, and operations. But to better explain the responsibilities of supervisors, attached are the job descriptions for several common supervisory positions including distribution and operations, customer services, and transportation operations. As is indicated in these job descriptions, supervisors have a range of responsibilities beyond their primary function supervising a group of employees.
- d) Attached is an index of course modules for the 16-week Associate Supervisor's Program that outlines the areas for which training is provided to candidate supervisors.
- e) I have been informed that supervisors are subject to the EAS evaluation process and are evaluated on their performance of identified duties and the accomplishment of specific goals established by their immediate supervisor. Please see my response to items b. and c. that identifies supervisory position responsibilities of the various types of supervisors.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORY OF DIRECT MARKETING ASSOCIATION**

- f) I am informed that an EAS employees' compensation is based on their performance evaluation, the performance of their organization, and the performance of the Postal Service as a whole.

STD POSITION DESCRIPTION

U. S. Postal Service

SUPERVISOR, DISTRIBUTION OPERATIONS, EAS-17

FUNCTIONAL PURPOSE

Supervises an assigned group of automated, mechanized, and/or manual processing and distribution operations at a mail processing center/facility.

DUTIES AND RESPONSIBILITIES

1. Supervises a medium sized group of employees engaged in mail processing and distribution activities.
2. Schedules and assigns work; determines priorities; shifts employees during the course of the tour as the workload fluctuates.
3. Monitors operational performance data throughout the tour; resolves routine problems; reports unusual operational problems and recommends solutions.
4. Ensures that operational information reported is complete and accurate; participates in mail surveys/tests related to quality, service performance, etc.
5. Coordinates mail flow activities with other supervisors on the tour.
6. Supervises the on-the-job training program for processing and distribution employees on the assigned tour.
7. Provides input for the facility's operating budget; controls costs within budget allocations.
8. Investigates accidents; prepares necessary reports; ensures compliance with safety regulations and energy conservation practices.
9. Meets with customers and major mailers on a regular basis to resolve problems and/or improve service.
10. Meets with union representatives to resolve disagreements.

SUPERVISION

Manager, designated unit.

SELECTION METHOD

See Handbook EL-311, Section 540 - Selection Policies for Nonbargaining Positions.

(End of Document)

Document Date: 08-05-02

Occupation Code: 2315-0066

SUPERVISOR, DISTRIBUTION OPERATIONS, EAS-17
OCCUPATION CODE: 2315-0066

Attachment to response to
DMA/USPS-T6-21(c)
Page 2 of 6

Do t Date: August 24, 2002

REQUIREMENTS:

1. Knowledge of Distribution Operations policies, programs, and procedures sufficient to oversee automated, mechanized, and/or manual processing and distribution operations.
2. Knowledge of performance measurement systems and standards, and customer satisfaction indicators, as they relate to mail processing operations.
3. Ability to communicate information, instructions, or ideas to individuals or groups sufficient to provide guidance, resolve problems, facilitate information flow and write reports.

NOTE: Applicants who have successfully completed the 16-week Associate Supervisor training program may submit a statement of their training completion date as demonstration of meeting the requirements for this position.

Back

STD POSITION DESCRIPTION

U.S. Postal Service

SUPV CUSTOMER SERVICES EAS-17

FUNCTIONAL PURPOSE

Supervises a group of employees in the delivery, collection, and distribution of mail, and in window service activities within a post office, station or branch, or detached unit.

DUTIES AND RESPONSIBILITIES

1. Supervises carrier activities; evaluates the daily workload and makes carrier and route assignments; calls and assigns auxiliary carriers and messengers; makes temporary changes in routes and time schedules and authorizes overtime work.
2. Supervises the distribution and dispatch of mail and other mail handling activities, including handling change of address mail; ensures that proper procedures are followed related to receipt, recording, and delivery of accountable mail.
3. Supervises window services to the public, including sale of stamps and other accountable paper; providing special services such as Express Mail, box rental, and acceptance of advance deposits; providing information on postal services; setting meters; and accepting mail at public windows; conducts audits of employee flexible accountabilities.
4. Establishes work schedules and allocates work hours to meet service requirements; reschedules assignments based on changes in mail volume and human resource availability.
5. Analyzes delivery operations, mail flows, and retail operations within the work unit using observation, data analysis, and computer models; makes recommendations to improve operations.
6. Conducts or oversees mail counts and inspections; analyzes factors such as office practices, safety conditions, route layout, and delivery methods to determine if routes are laid out properly; makes recommendations for route adjustments and other efficiency improvements.
7. Ensures compliance with vehicle maintenance and inspection schedules; monitors vehicle service contracts; may investigate vehicle accidents.
8. Supervises a medium-size group of craft employees; provides on-the-job training; ensures complete training in current operating and safety procedures; assesses employee performance and provides guidance and direction to employees regarding work performance; makes recommendations for performance improvement; and ensures development of employees in the work unit.
9. Establishes effective work team relationships; involves employees in decisions that affect them; and encourages decision making at the lowest possible level.
10. Has frequent contact with the public, large volume mailers, and representatives of community, business, or mailing organizations to respond to mailing inquiries.

(Continued on next page)

Document Date: 08/05/2002

Occupation Code: 2310-0022

Page 1 of 2

STD POSITION DESCRIPTION

U.S. Postal Service

SUPV CUSTOMER SERVICES EAS-17

11. Supervises and participates in record-keeping of work hours, mail volumes, cost ascertainment data, carrier transportation costs, accident and injury occurrences and costs, and personnel time and attendance.
12. May personally perform certain non-supervisory tasks in order to meet established service standards, consistent with the provision of Article I, Section 6, of the National Agreement.

SUPERVISION

Postmaster or Manager, Customer Services, or designated unit manager.

SELECTION METHOD

See Handbook EL-312, Section 740 - Selection Policies For Nonbargaining Positions.

(End of Document)

Document Date: 08/05/2002

Page 2 of 2

Occupation Code: 2310-9022

SUPERVISOR, CUSTOMER SERVICES, EAS-17
OCCUPATION CODE: 2310-0022

Attachment to response to
DMA/USPS-T6-21(c)
Page 5 of 6

Dr. Date: August 24, 2002

REQUIREMENTS:

1. Knowledge of Customer Services policies, programs, and procedures sufficient to oversee carrier and window service activities.
2. Knowledge of performance measurement systems and standards, and customer satisfaction indicators, as they relate to customer service operations.
3. Ability to communicate information, instructions, or ideas to individuals or groups sufficient to provide guidance, resolve problems, facilitate information flow and write reports.

NOTE: Applicants who have successfully completed the 16-week Associate Supervisor training program may submit a statement of their training completion date as demonstration of meeting the requirements for this position.

Back

STD POSITION DESCRIPTION

Attachment to response to
DMA/USPS-T6-21(c)
U.S. Postal Service Page 6 of 6**SUPV TRANSPORTATION OPERATIONS EAS-16****FUNCTIONAL PURPOSE**

Supervises, on an assigned tour, the local dispatching and movement and mail transportation vehicles on scheduled and non-scheduled runs; ensures efficient and timely movement of mail.

DUTIES AND RESPONSIBILITIES

1. Supervises the assignment, movement and dispatching of Motor Vehicle Service and Highway Contract Route vehicles; ensures vehicle availability to meet installation's dispatch requirements.
2. Plans and adjusts vehicle transportation routes and schedules; ensures that they interface with outside carrier schedules; responds to emergency needs.
3. Assigns vehicles, issues schedules, keys and trip reporting devices; verifies arrivals/departures and utilization data; takes appropriate action to provide replacement vehicles when necessary.
4. Inspects incoming and outgoing vehicles to ensure proper utilization of vehicles, mail destination and security; ensures that vehicles are operated in a safe manner; investigates and/or cites violations against vehicle operators; provides remedial training as required.
5. Maintains a vehicle control and dispatching system and related records on location, availability and movement of trucks, tractors and trailers.
6. Provides on-the-job training for new employees and orientation for highway contractors.
7. Coordinates the orderly scheduling of postal vehicle maintenance to prevent delays and down-time.
8. Supervises a medium size workforce.
9. Has frequent contact with drivers of contractor's vehicles for spotting and pick-ups; has regular contact with drivers of customer's trucks and with large volume mailers regarding mailing pick-up.
10. Provides input for the development of the plant transportation budget.

SUPERVISION

Manager, Transportation and Networks; or other designated supervisor

SELECTION METHOD

See Handbook EL-312, Section 740 - Selection Policies For Nonbargaining Positions.

(End of Document)

Document Date: 10/19/1992

Page 1 of 1

Occupation Code: 2330-0005

Associate Supervisor Program Leadership and Management Training Outline

Week 1

Unit 1	Foreword and Introduction
Unit 2	Participant Introductions
Unit 3	Participant Roles & Responsibilities
Unit 4	Coach-Trainee Contract
Unit 5	Trainee Assessments and Program Evaluation
Unit 6	Structure of the Organization
Unit 7	Transition to Supervision
Unit 8	Transitional Leadership
Unit 9	Workplace Values & Employee Motivation
Unit 10	One-on-One Communications
Unit 11	Interpersonal Skills
Unit 12	Examination - Week 1
Unit 13	Program Evaluation - Week 1

Week 2

Unit 14	Managing Employee Performance
Unit 15	Tools for Influencing Performance
Unit 16	Giving and Receiving Feedback
Unit 17	Managing Your Boss
Unit 18	Culture Change & Managing Change
Unit 19	Team Building
Unit 20	You and Your Customer
Unit 21	Planning and Time Management
Unit 22	Written Communications
Unit 23	Valuing Diversity in the Workplace
Unit 24	Employee Assistance Program
Unit 25	Ethics in the Workplace
Unit 26	Security...All day...Everyday...Everybody
Unit 27	EEO
Unit 28	Sexual Harassment
Unit 29	Examination-Week 2
Unit 30	Program Evaluation-Week 2

Associate Supervisor Program Processing & Distribution Functional Training Outline

Week 3

Introduction w/ Plant Manager, Staff, Coach, Trainers
Unit 1 Facility Operating Plan/Tour of Facility
Unit 2 Platform Operations
Unit 3 Modes of Transportation
Unit 4 Mail Transportation Equipment
Unit 5 Color Code
Operation On-the-Job Assignment

Week 4

Unit 6 Mail Arrival and Mail Preparation
Unit 7 Mail Flow
Operation On-the-Job Assignment

Week 5 & 6

Unit 8 Automation
Operation On-the-Job Assignments

Week 7

Unit 9 Manual Distribution Operation
Unit 10 AFSM 100 and UFSM 1000
Unit 11 Small Parcel & Bundle Sorter (SPBS)

Operation On-the-Job Assignment

Week 8

Unit 12 Mail Condition Reporting System (webMCRS)
Unit 13 Tracking and Reporting System
Unit 14 Forecasting Workloads and Workweek Scheduling
Unit 15 Reporting Service Measurement Systems
Operation On-the-Job Assignment

Associate Supervisor Program Customer Service Functional Training Outline

Week 3

Introduction w/ District Manager, Staff, Coach, Trainers

Unit 1 Introduction to Automation

Unit 2 Address Management System (AMS) Editbooks

Unit 3 Delivery Point Sequencing (DPS)

Operation On-the-Job Assignment

Week 4

Unit 4 Volume Recording

Unit 5 Required City Delivery Control Forms

Unit 6 Delivery Operations Information System (DOIS)

Operation On-the-Job Assignment

Week 5

Unit 7 Workload Adjustments

Unit 8 Carrier Scheduling

Unit 9 Workload Reporting

Unit 10 Mail Count Forms and Minor Route Adjustments

Operation On-the-Job Assignment

Week 6

Unit 11 Street Management

Unit 12 Delivery Performance Indicators

Unit 13 Supervisor Duties and Responsibilities

Unit 14 Computer Forwarding System (CFS)

Operation On-the-Job Assignment

Week 7

Unit 15 Retail Vision and Mission

Unit 16 Retail Operations

Unit 17 Postal Accounting Procedures

Unit 18 Customer Service and Image

Operation On-the-Job Assignment

Week 8

Unit 19 Staffing and Scheduling

Unit 20 Retail Products and Services

Unit 21 Lobby Management

Unit 22 Retail Performance Indicators

Operation On-the-Job Assignment

Unit 23 (Optional) Rural Delivery and Highway Contract Routes

NOTE: Unit 23, Rural Delivery and Highway Contract Routes is an optional unit to be given where necessary. If this unit is to be given, an additional three hours of classroom training needs to be scheduled in the appropriate week.

Associate Supervisor Program Bulk Mail Center Functional Training Outline

Week 3

Unit 1 Facility Operating Plan
Unit 2 Color Codes
Unit 3 Inbound Docks
Operation On-the-Job Assignment

Week 4

Unit 4 Hazardous Materials
Unit 5 Mail Transport Equipment
Unit 6 Mail Flow Control
Unit 7 Non-Machinable Outsides (NMO)
Operation On-the-Job Assignment

Week 5

Unit 8 Sack Sorter Machines (SSM)
Unit 9 Sack Shakeout (SSO)
Unit 10 Rewrap
Unit 11 Primary
Unit 12 Package Bar Code System (PBCS)
Operation On-the-Job Assignment

Week 6

Unit 13 Mail Condition Reporting System (MCRS)
Unit 14 Reporting Service Measurement System
Unit 15 Secondary
Operation On-the-Job Assignment

Week 7

Unit 16 Tow Conveyor System
Unit 17 Small Parcel Bundle Sorter (SPBS)
Unit 18 Modes of Transportation
Operation On-the-Job Assignment

Week 8

Unit 19 Vehicle Tracking Analysis Performance System
(VTAPS)
Unit 20 Outbound Docks
Operation On-the-Job Assignment

Associate Supervisor Program Assuming Responsibility for Supervision Training Outline

Week 9

Unit 1 Safety for Postal Leadership
Operation On-the-Job Assignment

Week 10

Unit 2 Labor Relations – History of the Postal Service and
Postal Unions
Unit 3 Grievance Procedure
Unit 4 Correcting Employee Deficiencies
Unit 5 National Contract Overview
Unit 6 Union Representation and Information Requests
Unit 7 Local Agreements and Issues
Operation On-the-Job Assignment

Week 11

Unit 8 Injury Compensation Program
Operation On-the-Job Assignment

Week 12

Unit 9 Managing New Employees
Unit 10 Leave Control
Operation On-the-Job Assignment

Week 13

Unit 11 Workplace Violence Awareness
Operation On-the-Job Assignment

Week 14

Unit 12 Cross-Functional Interchange
NOTE: While the focus of this week is exposure to the cross functional
operation, the classroom day can be utilized to present local training initiatives.
Operation On-the-Job Assignment and Cross-Functional Checklists

Week 15

Unit 13 Managing the Unit
Performance Discussion

Week 16

Managing the Unit
Graduation/Reception

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUTSCH
TO INTERROGATORY OF DIRECT MARKETING ASSOCIATION**

DMA/USPS-T6-22. Please refer to the spreadsheet L49_R2006_8.xls which is part of USPS-LR-L-49.

- a) Please confirm that Attachment D, Page 1 of this spreadsheet shows that of the Cost Reduction Programs in FY 2006 for Section 1A, 21 cost reduction programs apply to clerks, 14 to mail handlers, 5 to city carriers, and 0 to supervisors. If you cannot confirm, please provide the appropriate numbers.
- b) Please confirm that Attachment E, Page 1 of this spreadsheet shows that of the Cost Reduction Programs in FY 2007 for Section 1A, 22 cost reduction programs apply to clerks, 9 to mail handlers, 6 to city carriers, and 0 to supervisors. If you cannot confirm, please provide the appropriate numbers.
- c) Please confirm that Attachment F, Page 1 of this spreadsheet shows that of the Cost Reduction Programs in FY 2008 for Section 1A, 14 cost reduction programs apply to clerks, 8 to mail handlers, 7 to city carriers, and 0 to supervisors. If you cannot confirm, please provide the appropriate numbers.
- d) Please confirm that there were 51 different cost reduction programs in Section 1A of these attachments.

Response:

- a) Confirmed.
- b) Confirmed.
- c) Confirmed.
- d) Although Section 1A of Library Reference-L-49 is sponsored by witness McCrery (USPS-T-42), my independent count of the programs agrees with your count. I would also note that not all of the listed cost reduction programs are active in each of the three years covered by the attachment.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORY OF DIRECT MARKETING ASSOCIATION**

DMA/USPS-T6-23. Please refer to page 30 of your testimony where you say "BPI cost savings are projected for supervisory costs between the Base Year and the Test Year and, when considered feasible by the program managers, for other cost reduction programs."

- a) Did program managers review each of the cost reduction programs to develop estimates of cost reductions for Clerks, Mailhandlers, and carriers? If not, who developed the estimates?
- b) Were program managers specifically requested to consider whether cost reduction programs were feasible for supervisors for each program they reviewed?

If so, please provide all the details of that request, including any documentation supporting the request.

If so, please provide all documentation of the response of each program manager to the request.

RESPONSE:

a) & b) For Decision Analysis Report (DAR) programs, the program managers are responsible for the program cost and savings estimates that would include all identifiable additional cost and all expected cost savings. They may develop the estimates themselves or the estimates may be prepared under their supervision. Also DARs are subjected to an extensive review process to ensure that additional cost and cost reduction estimates are realistic. Attached is the summary description of the reviews required of major programs. For non-DAR expense programs, estimates are developed by national operational managers and are reviewed as a part of the budget process.

To the extent that clerks, mailhandlers, or carriers positions are impacted by a DAR program, the effect would be included in the DAR program cost and cost reduction estimates. The program cost and cost reduction estimates would also address any identifiable reductions in supervisory staff. But barring the closure of a facility or the elimination of a function (e.g. Rec Consolidation Phase 4 effort included in Docket

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORY OF DIRECT MARKETING ASSOCIATION**

R2005-1, LR-K-49), I have been informed that it is unusual for a specific DAR program to result in the identifiable elimination of supervisory positions. Supervisory savings are normally captured through BPI/LMI efforts.

Updated July 5, 2006

DECISION ANALYSIS REPORT – HEADQUARTERS FUNCTIONAL AND FIELD REVIEW

Copies of all Headquarters and Field review concurrence sheets and any responses to issues raised are included in the final Decision Analysis Report (DAR) as part of the backup documentation. An issues resolution meeting may be required for some projects prior to final validation, depending on the criticality of the issue(s). Capital and Program Evaluation, Finance, depending upon the nature of the proposed investment, will determine modifications to these concurrence requirements.

Note: All of the HQ organizations listed below and their respective representatives and the representatives from the Inspection Service and the Office of Inspector General listed below should also be invited to DAR initial briefings.

USPS Headquarters Distribution

E – Equipment DARS

F – Facility DARS

CONCURRENCE FORM AND DECISION ANALYSIS REPORT

HQ Organization:	
Corporate Accounting (E)	
Chief Marketing Officer	
Product Development (E)	
Chief Technology Officer	
Information Technology (E,F)	
Employee Development (E)	
General Counsel (E,F)	
Facilities Projects Only (F)	
Intelligent Mail and Address Quality (E)	
Labor Relations (E,F)	
Operations (E,F)	
Delivery and Retail (E,F)	
Engineering (E,F)	
Facilities (E,F)	
Network Operations Management (E,F)	
Public Affairs and Communication (E)	
Supply Management (E)	
Strategic Initiatives (E,F)	

¹ Requests for concurrence from the following functional areas should be sent directly to Naomia Bourdon, Manager Field Operations Requirements and Planning, who coordinates Operations functional reviews and concurrence. Operations submits signed concurrence from Chief Operating Officer with separate signed concurrences from VP Delivery & Retail, VP Network Operations Management, VP Labor Relations, VP Engineering, and VP Facilities.

DECISION ANALYSIS REPORT ONLY (no comments required)

HQ Organization:	
Inspection Service (E,F)	
Office of Inspector General (E,F)	

Standard USPS Field Distribution**REVIEW CONCURRENCE FORM AND DECISION ANALYSIS REPORT (DAR)**

For DARs that have field budget and/or field operational impacts, the Area vice presidents must sign their concurrence with the DAR. Copies of the signed field concurrence forms and budget impact summaries must be included in the DAR Back-up.

For site-specific equipment DARs, the plant/facility managers must sign their concurrence with the operational and/or budget impacts of the DAR. The site-specific impacts and requests for concurrence must be transmitted through the respective Area offices. Copies of the signed field concurrence forms and budget impact summaries must be included in the DAR Back-up.

Notes:

No comments are requested from those individuals designated to receive a Decision Analysis Report Only. All other functional areas must submit a signed review concurrence form to the sponsoring organization within three weeks unless otherwise specified.

Copies of all signed review concurrence forms and any supporting documentation are sent to the Manager, Program Evaluation, Finance for inclusion in the DAR Back-Up. If the reviewing organization has issues with the proposed investment, the sponsoring organization must respond to those issues in writing or by email. This procedure should be followed even if the reviewer checks that is it OK to Proceed. A copy of the response must also be forwarded to the Manager, Program Evaluation for inclusion in the DAR Back-Up.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORY OF DIRECT MARKETING ASSOCIATION**

DMA/USPS-T6-24. Please confirm that all Supervisor's Cost Reduction Programs in FYs 2006, 2007, and 2008 are BPI/LMI programs, Human Capital Enterprise HR Shared Service Headquarters Programs, or EEO Staff Shift Programs.

RESPONSE:

Confirmed.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORY OF DIRECT MARKETING ASSOCIATION**

DMA/USPS-T6-25. Please refer to page 31 of your testimony where you state "In addition, cost reduction programs frequently require additional supervisory time and attention in order to capture cost savings, to maintain service, and to ensure operating efficiencies." Also please refer lines 24 and 25 on that page in the "Other Programs" sections that states "Example of types of program costs included in this category are: the offsetting cost increases associated with cost reduction programs."

- a) Does this imply that additional supervisory time and attention are required to capture cost savings, maintain service, and ensure operating efficiencies would be reflected in "Other Programs." If not, please explain why not.

Response:

Additional costs that are ongoing in nature, (e.g. additional maintenance support costs) are included in the Other Programs section, and they increase the base costs for the affected year and increase costs in subsequent years. If additional supervisory positions are required as a result of a program, the cost of the new supervisory positions would be reflected in the Other Program section. Library Reference L-49 contains one program, "DAR Impact from New Facilities." that results in an increase in ongoing supervisory cost.

The quote cited above explains why reductions in supervisory positions may not be associated directly with a specific cost reduction program even though there is a reduction in the number of employees supervised. A further explanation pertaining to mail processing supervisors is included in the "Summary Description of USPS Development of Costs by Segment and Components, Fiscal Year 2005," Library Reference L-1, Section 2.1.1.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORY OF DIRECT MARKETING ASSOCIATION**

DMA/USPS-T6-26. Please confirm that "Other Programs" increase supervisory costs by \$148,000 in FY 2006, \$0 in FY 2007, and \$0 in FY 2008. If these figures are not correct, please provide the correct figures.

Response:

Confirmed.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORY OF DIRECT MARKETING ASSOCIATION**

DMA/USPS-T6-27. Please provide any empiric studies or analyses that you have performed showing that cost reductions programs will not affect the number of supervisors proportionate to the effect of these cost reduction programs on the crafts supervised.

Response:

I have been informed that no such studies have been performed.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORY OF DIRECT MARKETING ASSOCIATION**

DMA/USPS-T6-28. DMA/USPS-T6-4 asked in part "As a general proposition, do you believe that predictions about the future are more accurate the closer they are made to the event being predicted?" As part of your answer to this question you introduced a horse racing theme by responding "Not necessarily. As a non-postal event driven example consider a horse race. Although handicappers may predict, even right at the start of a race, that a particular horse will win, their forecasts oftentimes do not prove accurate."

In continuing with this theme...

- a) Please confirm that in states with pari-mutual betting, the windows where wagers are placed close before the race starts and no more wagers may be placed after it starts. Please fully explain any failure to confirm.
- b) Do you believe handicappers would be more successful in picking winners if they were allowed to bet when the race was half over?
- c) Do you believe handicappers would be more successful in picking winners if they were allowed to bet when the race was three quarters over?
- d) If windows stayed open during the course of a race and handicappers were allowed to place wagers, do you believe the odds would change during the course of the race. If not, please explain why not.

Response:

- a) Not confirmed. I have not personally observed, nor do I have any studies that would confirm, that all states with pari-mutuel betting close the betting windows before the start of a race.
- b&c) I have no basis for assuming that a handicapper's success at picking winners is related to allowing the placement of bets on a horse race in progress. Additionally, I have no basis for assuming that a handicapper would be better able to pick a winning horse after the start of a race regardless of whether the race is half over or three quarters over.
- d) Based on my limited understanding of pari-mutuel betting, the odds may change whenever a single wager is made. Therefore, I assume that if betting continues during a race, the odds may change.

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORY OF DIRECT MARKETING ASSOCIATION**

DMA/USPS-T6-29. Please provide an Excel spreadsheet showing for all real estate sold by the Postal Service from 1995 to the present (1) the date sold, (2) the book value at the time of the sale, (3) the sales price, (4) and any costs (including commission) associated with the sale.

Response:

Attached is a listing of real estate sales and gains from FY 2001-FY 2006 year-to-date compiled from the property files and records. A similar listing was filed in Docket No. R2001-1 at LR-J-170 that included the period FY1992-FY2001. FY 2001 has been updated in the attached spreadsheet to include the FY 2001 sale of Telluride, CO.

PROPERTY SALES FY 2001

COMPLETE SALES - AP PROCESS SEQUENCE

REC	Fin/Sub-Loc	Post Ofc Name	FY 2001 AP	Type Sale	LAND Cost	Bldg Cost	ACCUM DEPREC	GROSS PROCEEDS	NET PROCEEDS	MISC. FEES A/C: 54129	NET GAIN / LOSS ACCT 54610 & 54129
1	11-4620-G05	Key West, FL	01	S	\$ 21,867	\$ 340,334	\$ 107,188	\$ 405,000.00	\$ 376,836.21	\$ 28,163.79	\$ (121,823.21)
2	11-4620-G06	Key West, FL	02	S	\$ 18,431	360,376	114,230	415,000.00	387,150.07	27,849.93	\$ (122,573.07)
3	26-3170-G01	Fergus Falls, MN	02	S	13,000	1,593,547	1,590,248	450,000.00	450,000.00	-	\$ (433,699.00)
4	41-6840-G01	Punxsutawney, PA	02	S	25,000	264,474	264,474	40,000.00	37,600.00	2,400.00	\$ (12,600.00)
5	48-0190-G01	Alpine, TX	02	S	6,000	270,739	240,712	155,000.00	144,400.00	10,600.00	\$ (108,373.00)
6	54-8050-G03	Spokane, WA	02	S	167,685	110,020	110,020	(Recorded 12/88)	(Recorded 12/88)	-	\$ 167,685.00
7	05-6678-G35	Sacramento, CA	03	S	-	-	-	79,000.00	78,956.00	44.00	\$ (78,956.00)
8	19-3179-G02	Ft. Scott, KS (Land)	03	S	118,401	-	-	30,000.00	28,862.65	1,137.35	\$ 89,538.35
9	35-5940-G01	N. Collins, NY (Land)	03	S	52,517	-	-	7,500.00	6,050.00	1,450.00	\$ 46,467.00
10	36-2176-G02	Dunn, NC	03	S	75,406	443,134	211,734	340,000.00	319,005.00	20,995.00	\$ (12,199.00)
11	40-6976-G01	Rainier, OR	03	S	46,150	-	-	44,650.81	44,650.81	-	\$ 1,499.19
12	48-9505-G01	Weatherford, TX	03	S	8,000	327,052	327,052	272,828.97	272,828.97	-	\$ (264,628.97)
13	56-3960-G01	Hudson, WI	03	S	9,000	127,910	123,492	200,000.00	190,310.14	9,689.86	\$ (176,892.14)
14	56-2250-G01	De Pere, WI	04	S	10,000	134,238	118,915	200,000.00	220,685.22	-	\$ (195,362.22)
15	19-8932-G02	Topeka, Ks	05	S	9,000	138,596	138,596	60,100.00	45,189.03	14,910.97	\$ (36,189.03)
16	20-4468-G01	Lawrenceburg, KY	05	S	7,000	128,105	128,105	181,100.00	126,038.50	35,061.50	\$ (119,038.50)
17	23-6912-G01	Owings Mills, Md	05	S	152,730	958,121	534,024	957,500.00	882,887.08	74,612.92	\$ (306,060.08)
18	28-4686-G03	Liberty, MO	05	S	27,422	219,889	16,243	450,000.00	446,500.00	3,500.00	\$ (215,432.00)
19	38-2863-G01	Fremont, OH	05	S	64,000	535,114	535,114	150,000.00	133,758.20	16,241.80	\$ (69,758.20)
20	45-0200-G02	Anderson, SC	05	S	47,218	457,704	83,625	392,000.00	363,100.09	28,899.91	\$ 58,196.91
21	51-2418-G02	Danville, VA	05	S	100,768	494,031	249,136	299,000.00	281,655.00	17,345.00	\$ 64,008.00
22	51-9930-G01	Wytheville, VA	05	S	5,525	365,095	365,095	250,000.00	235,545.00	14,455.00	\$ (230,020.00)
23	07-4212-G01	Hartree, CO	06	S	5,082	1	1	45,000.00	34,475.30	10,524.70	\$ (29,393.30)
24	21-9425-G01	Winnaboro, LA	06	S	7,000	240,293	240,293	75,000.00	65,500.00	9,500.00	\$ (58,500.00)
25	25-4800-G01	Jackson, MI	06	S	216,014	1,684,619	1,216,653	800,000.00	760,297.00	39,703.00	\$ (76,317.00)
26	35-7495-G01	Saugerties, NY	06	S	10,000	279,949	279,949	226,000.00	216,960.00	9,040.00	\$ (206,960.00)
27	45-6120-G01	Murrells Inlet, SC	06	S	75,507	487,587	175,619	1,000,000.00	932,915.20	67,084.80	\$ (545,440.20)
28	48-7085-G01	Pittsburg, TX	07	S	5,000	98,160	98,160	22,000.00	15,033.36	6,966.64	\$ (10,033.36)
29	49-5066-G01	Logan, UT (Parking)	07	S	42,157	76,163	76,163	-	-	-	(See Below)
30	49-5066-G02	Logan, UT	07	S	27,000	622,231	132,459	685,000.00	677,046.00	7,954.00	\$ (118,117.00)
31	56-5480-G08	Milwaukee, WI	07	S	21,877	34,128	34,128	10,000.00	5,521.50	4,478.50	\$ 16,355.50
32	02-5811-G01	Moose Pass, AK	08	S	150	165,155	165,155	-	-	-	\$ 150.00
33	02-7566-G01	Russian Mission, AK	08	S	-	194,527	55,399	-	-	-	\$ 139,128.00
34	11-8925-G15	Tampa, FL	08	D	-	2,562,718	656,066	-	-	-	\$ 1,906,650.00
35	04-5580-G02	Marion, AR	09	S	104,802	68,396	7,607	200,000	183,650.24	16,349.76	\$ (20,059.24)
36	24-0799-G47	Boston, MA	09	S	618,449	174,108	174,108	700,000	661,500.00	38,500.00	\$ (43,051.00)
37	35-4565-G02	Lakewood, NY	09	S	100,259	-	-	1	1.00	-	\$ 100,258.00
38	55-0564-G02	Beckley, WV	09	S	64,567	804,398	339,903	500,000	473,160.25	26,839.75	\$ 155,901.75
39	56-5250-G01	Medford, WI	09	S	9,000	132,636	132,636	25,000	23,500.00	1,500.00	\$ (14,500.00)
40	02-6513-G01	Nulato, AK	10	S	-	288,733	101,601	4,100	4,100.00	-	\$ 183,032.00
41	26-3110-G01	Fairmont, MN	10	S	10,000	141,612	141,612	85,000	78,100.00	6,900.00	\$ (68,100.00)
42	33-2100-G01	Delmont, NJ (Land)	10	S	17,300	-	-	1,000	940.00	60.00	\$ 16,360.00
43	48-1550-G02	Cedar Hill, TX	10	S	53,177	303,419	178,042	185,000	185,000.00	-	\$ (6,446.00)
44	02-6552-G01	Nunapitchuk, AK	11	S	-	200,628	72,587	-	-	-	\$ 128,041.00
45	20-8384-G01	Williamsburg, KY	11	S	8,000	336,860	336,860	150,500	144,480.00	6,020.00	\$ (136,480.00)
46	35-3015-G01	Fredonia, NY	11	S	-	-	-	-	-	-	-
47	45-1490-G15	Charleston, SC	11	S	30,579	1,053,948	217,104	925,000	858,177.50	66,822.50	\$ 9,245.50
48	48-1910-G01	Comanche, TX	11	S	3,000	153,030	15,303	50,000	47,000.00	3,000.00	\$ 93,727.00
49	55-2904-G01	Frametown, WV	11	S	-	39,948	16,354	-	-	-	\$ 23,594.00



PROPERTY SALES FY 2007

COMPLETE SALES - AP PROCESS SEQUENC

REC	Fin/Sub	Post Ofc Name	AP	FY 2002	Type	LAND	Cost	Bldg Cost	DEPREC	ACCUM	GROSS	NET	MISC. FEES	NET GAIN / LOSS
1	05-4794-G04	Marysville, CA	S	01	S	60,000	\$ 25,887	\$ 2,697	\$ 285,000.00	\$ 285,000.00	\$ 265,290.42	\$ 19,709.58	\$ (182,000.42)	
2	20-8328-G01	Whitesburg, KY	S	01	S	6,000	219,828	219,828	130,000.00	129,898.50	16,000.00	101.50	\$ (123,898.50)	
3	35-6248-G01	Ossining, NY	S	01	S	29,552	391,904	391,904	400,000.00	384,000.00	384,000.00	16,000.00	\$ (354,448.00)	
4	35-4805-G01	Lockwood, NY	S	02	S	12,223	-	-	4,000.00	3,924.00	76.00	8,299.00	\$ 8,299.00	
5	47-6528-G02	Orinda, TN	S	02	S	1,432	80,231	8,427	29,000.00	28,900.00	100.00	43,336.00	\$ 43,336.00	
6	12-7601-G01	Roswell, GA	S	02	S	77,480	587,881	296,275	1,248,500.00	1,248,500.00	1,500.00	(879,414.00)	\$ (879,414.00)	
7	25-8350-G01	Moran, MI	S	02	S	8,809	-	-	7,000.00	7,000.00	7,000.00	2,809.00	\$ 2,809.00	
8	26-8360-G19	St Paul, MN	S	02	S	558,841	-	-	420,000.00	403,025.00	16,975.00	155,816.00	\$ 155,816.00	
9	07-2356-G02	Denver, Co	S	02	S	15,000	1,860,659	1,860,659	431,949.00	431,949.00	-	(416,949.00)	\$ (416,949.00)	
10		No Sales	S	03										
11	05-4692-G01	Magalia, CA	S	04	S	199,292	73,957	31,594	272,500.00	253,560.81	18,939.19	(202,397.81)	\$ (202,397.81)	
12	23-1926-G01	Chalksburg, MD	S	04	S	8,800	73,957	31,594	272,500.00	253,560.81	18,939.19	(202,397.81)	\$ (202,397.81)	
13	35-3525-G01	Hamburg, NY	S	04	S	11,000	385,168	385,168	265,000.00	247,907.50	17,092.50	(236,907.50)	\$ (236,907.50)	
14	02-2769-G07	Fairbanks, AK	D	04	D	-	906,840	572,932	-	-	-	333,908.00	\$ 333,908.00	
15	02-8268-G01	Soldotna, AK	S	05	S	30,042	1,607,044	952,133	365,000.00	342,351.83	22,648.17	342,601.17	\$ 342,601.17	
16	04-0774-G02	Bentonville, AR	S	05	S	125,893	786,180	356,653	480,000.00	479,875.00	125.00	75,255.00	\$ 75,255.00	
17	05-4506-G01	Loomis, CA	S	05	S	378,215	-	-	280,000.00	262,877.50	17,122.50	115,337.50	\$ 115,337.50	
18	48-8900-G05	Midland, TX	S	05	S	960,773	825,000.00	778,650.00	120,320.00	7,680.00	(112,320.00)	48,350.00	\$ 48,350.00	
19	51-3480-G01	Galax, VA	S	05	S	8,000	239,102	239,102	128,000	120,320.00	7,680.00	(112,320.00)	\$ (112,320.00)	
20	20-5912-G01	Paintsville, KY	S	06	S	4,000	307,209	307,209	162,500.00	151,125.00	11,375.00	(147,125.00)	\$ (147,125.00)	
21	18-2439-G01	Dawitt, IA	S	07	S	5,000	184,217	184,217	90,000.00	90,000.00	-	(85,000.00)	\$ (85,000.00)	
22	02-7780-G01	Scammon Bay, AK	S	08	S	-	227,814	84,208	2,000.00	2,000.00	2,000.00	141,606.00	\$ 141,606.00	
23	04-9117-G01	Warren, AR	S	08	S	4,000	107,250	107,250	20,000.00	18,650.00	1,350.00	(14,650.00)	\$ (14,650.00)	
24	36-4326-G01	Madison, NC	S	08	S	8,000	339,129	339,129	100,000.00	92,600.00	7,500.00	(84,500.00)	\$ (84,500.00)	
25	12-2310-G01	Dallas, GA	S	09	S	105,880	654,300	261,399	475,000.00	456,000.00	19,000.00	42,791.00	\$ 42,791.00	
26	45-9880-G01	York, SC	S	09	S	5,000	382,966	359,343	240,000.00	240,000.00	-	(211,377.00)	\$ (211,377.00)	
27	04-6976-G01	Morrilton, AR	S	10	S	8,000	133,919	133,919	27,000.00	25,280.00	1,720.00	(17,280.00)	\$ (17,280.00)	
28	36-4960-G01	Mebane, NC	S	10	S	32,718	252,881	252,881	210,000.00	197,400.00	12,600.00	(164,682.00)	\$ (164,682.00)	
29	41-316-G01	Kutztown, PA	S	10	S	7,000	191,565	169,748	195,000.00	183,200.00	11,800.00	(154,383.00)	\$ (154,383.00)	
30	12-4675-G01	Jesup, GA	S	10	S	5,000	603,174	603,174	175,000.00	161,000.00	14,000.00	(156,000.00)	\$ (156,000.00)	
31	05-3710-G05	Irvine, CA	D	10	D	-	112,041	44,691	-	-	-	67,350.00	\$ 67,350.00	
32	05-5376-G02	Newport Beach, CA	D	10	D	-	79,952	33,328	-	-	-	46,624.00	\$ 46,624.00	
33	01-4240-G05	Huntsville, AL	S	11	S	16,162	14,426	14,426	31,256.00	31,256.00	-	(15,094.00)	\$ (15,094.00)	
34	04-6120-G01	Mt. Pleasant, AR	S	11	S	-	40,098	27,271	1,602.00	1,602.00	-	11,125.00	\$ 11,125.00	
35	04-6327-G01	Newport, AR	S	11	S	9,000	259,773	259,773	70,000.00	69,875.00	125.00	(60,875.00)	\$ (60,875.00)	
36	09-3630-G01	Laurel, DE	S	11	S	6,000	239,014	239,014	67,500.00	63,450.00	4,050.00	(57,450.00)	\$ (57,450.00)	
37	16-3342-G01	Gumee, IL	S	11	S	108,197	687,415	280,303	312,500.00	312,100.00	400.00	203,209.00	\$ 203,209.00	
38	16-3504-G01	Hebron, IL (land)	S	11	S	55,706	-	-	30,100.00	29,650.00	450.00	26,056.00	\$ 26,056.00	
39	17-6325-G01	N. Judson, IN (land)	S	11	S	37,893	-	-	22,500.00	22,450.00	50.00	15,443.00	\$ 15,443.00	
40	33-7845-G01	Somers Point, NJ	S	11	S	13,475	189,450	68,290	350,000.00	322,028.82	27,971.08	(187,393.92)	\$ (187,393.92)	
41	48-2330-G01	Decatur, TX	S	11	S	5,000	375,692	375,692	156,000.00	146,450.00	9,550.00	(141,450.00)	\$ (141,450.00)	
42	28-8376-G02	Wentzville, MO	S	12	S	160,544	-	-	100,000.00	91,905.00	8,095.00	68,639.00	\$ 68,639.00	
43	45-0640-G01	Bishopville, SC	S	12	S	8,000	166,360	166,360	90,000.00	84,600.00	5,400.00	(76,600.00)	\$ (76,600.00)	
44	01-2990-G01	Fayette, AL	S	13	S	6,000	165,247	165,247	50,000.00	50,000.00	-	(44,000.00)	\$ (44,000.00)	
45	05-7680-G01	Fair, CA	S	13	S	378,145	-	-	70,000.00	66,628.00	3,372.00	312,517.00	\$ 312,517.00	

ACCT 54610 & 54129

NET GAIN / LOSS

db Loss

CR Gain

PROPERTY SALES FY 2003

UPDATED FY03 TAB

COMPLETE SALES - FY 2003

REC	Fin/Sub	Post Ofc Name	FY 2003 AP	Type Sale	LAND Cost	BLDG Cost	ACCUM DEPREC	GROSS PROCEEDS	NET PROCEEDS	MISC. FEES A/C: 54129	NET GAIN / LOSS	
											ACCT 54610 & 54129	
1	02-0897-G01	Bethel, AK	01	S	\$ 128,875	\$ 1,491,687	\$ 534,522	\$ 690,000.00	\$ 689,560.00	\$ 440.00	\$ 396,480.00	
2	03-7659-G03	Scottsdale, AZ	01	S	\$ 1,486,587	29,764	1,539	675,000.00	634,010.50	40,989.50	880,801.50	
3	05-4794-G05	Marysville, CA	01	S	318,279	-	-	285,000.00	265,290.42	19,709.58	52,988.58	
4	11-5175-G02	Leesburg, FL	01	S	86,156	7,679	1,106	181,200.00	181,200.00	-	(88,471.00)	
5	48-7995-G01	San Benito, TX	01	S	9,000	442,290	442,290	75,000.00	67,250.00	7,750.00	(58,250.00)	
6	55-6594-G01	Princeton, WV	01	S	49,255	374,886	284,206	75,000.00	70,437.50	4,562.50	69,497.50	
7	12-0442-G18	Atlanta, GA (AMF)	02	S	-	7,202,347	3,376,618	5,750,000.00	5,750,000.00	-	(1,924,271.00)	
8	48-6830-G01	Paris, TX	02	S	7,000	1,435,049	1,435,049	150,000.00	140,810.00	9,190.00	(133,810.00)	
9	17-4664-G01	Lawrenceburg, IN	03	S	3,000	182,289	182,289	115,000.00	115,000.00	-	(112,000.00)	
10	35-0995-G31	Brooklyn, NY	03	S	520,733	-	-	6,482,292.67	6,436,116.58	46,176.09	(5,408,427.58)	
11	43-9380-G01	West Warwick, RI	04	S	30,000	539,795	400,234	450,000.00	424,339.63	25,660.37	(254,778.63)	
12	02-3081-G01	Galena, AK	04	Donation	-	292,902	292,902	-	-	-	-	
13	11-3105-G02	Ft. Pierce, FL	05	S	4,000	274,439	270,545	100,000.00	94,710.96	5,289.04	(86,816.96)	
14	04-8334-G01	Stuttgart, AR	05	S	8,000	229,183	229,183	65,000.00	54,800.00	10,200.00	(46,800.00)	
15	16-9904-G02	Chicago, IL	05	S	874,435	3,524,138	943,446	1,700,000.00	1,583,275.00	116,725.00	(1,871,852.00)	
16	05-6634-G24	San Jose, CA (site)	06	S	407,410	-	-	2,172,500.00	-	2,172,500.00	407,410.00	
18	16-7065-G03	Schaumburg, IL (site)	06	S	2,173,189	-	-	2,350,000.00	666,692.14	1,683,307.86	1,506,496.86	
19	24-1045-G02	Cape Cod, MA	06	S	39,411	1,883,758	1,104,445	940,125.32	-	940,125.32	818,724.00	
20	35-9505-G01	Woodstock, NY (site)	07	S	136,306	0	0	115,000.00	107,502.00	7,498.00	28,804.00	
21	35-5715-G01	Newfane, NY	07	S	34,761	148,189	60,996	65,000.00	61,100.00	3,900.00	60,854.00	
22	05-7524-G03	Stockton, CA	07	S	282,712	-	-	290,000.00	289,875.00	125.00	(7,163.00)	
23	20-0376-G03	Barbourville, KY	08	S	0	0	0	68,000.00	63,802.00	4,198.00	(63,802.00)	
24	48-9435-G02	Waller, TX	08	S	51,710	146,705	22,955	95,000.00	89,295.00	5,705.00	86,165.00	
25	35-0995-G17	Brooklyn, NY	09	S	506,956	-	See # 10	-	-	-	-	
26	48-0420-G23	Austin, TX	09	S	100,000	414,527	103,203	1,500,000.00	1,373,080.23	126,919.77	(961,756.23)	
27	43-8680-G02	Warwick, RI	09	Donation	-	195,167	56,797	-	-	-	-	
28	16-9801-G01	Forest Park, IL	10	S	142,577	3,926,845	3,821,280	1,650,000.00	1,538,714.65	111,285.35	(1,290,572.65)	
29	16-1542-GC2	Chicago, IL	10	S	153,707	-	-	162,500.00	152,275.00	10,225.00	1,432.00	
30	48-2269-G04	Dallas, Tx	11	S	700,000	3,950,663	569,729	2,813,200.00	2,647,285.86	165,914.14	1,433,648.14	
30	01-7380-G03	Selma, AL	12	S	22,524	74,024	12,624	120,000.00	112,800.00	7,200.00	(28,876.00)	
31	39-5742-G01	Muskogee, OK	12	S	14,780	21,484	21,484	14,000.00	14,000.00	-	780.00	
32	01-6610-G01	Point Clear, AL	13-A	S	29,569	-	-	10,200.00	10,200.00	-	19,369.00	
33	08-4590-G01	Naugatuck, CT	13-A	S	25,000	510,551	510,551	175,000.00	175,000.00	-	(150,000.00)	
34	38-0175-G02	Amherst, OH	13-A	S	41,523	-	-	-	-	-	41,523.00	
35	02-7137-G01	Point Hope, AK	13-A	Donation	-	220,495	220,495	-	-	-	-	
36	38-4592-G01	Lorain, OH	13-B	S	164,782	1,855,668	1,855,668	232,000.00	219,240.00	12,760.00	(54,458.00)	
37	45-6410-G01	N. Myrtle Beach, SC	13-B	S	56,774	342,329	220,651	665,000.00	665,000.00	-	(486,548.00)	

Sub Totals	\$ 8,609,011	\$ 29,716,8	16,974,807	\$ 30,231,017.99	\$ 24,692,662.47	\$ 5,538,355.5	(3,341,605.47)
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PARTIAL LAND SALES - FY 2003

REC	Fin/Sub	Post Ofc Name	AP	Type Sale	Cost Land Sold		GROSS PROCEEDS	NET PROCEEDS		NET GAIN / LOSS ACCT 54610 & 54129
1	26-5620-G01	Little Falls, MN	01	P	\$ 359		5,750.00	5,750.00	-	\$ (5,391.00)
2	54-0490-G01	Auburn, WA	03	P	\$ 3,757		44,300.00	44,300.00	-	\$ (40,543.00)
3	38-1603-G25	Cincinnati, OH	04	P	\$ 84,939		12,341.90	12,341.90	-	\$ 72,597.10
4	11-8925-G15	Tampa, FL	05	P	\$ 74,580		2,554,171.00	2,554,171.00	-	\$ (2,479,591.00)
5	05-4530-GA2	Los Angeles, CA	06	P	\$ 1,245,591		11,405,183.09	9,894,097.19	1,511,085.90	\$ (8,648,506.19)
6	05-6780-G02	San Francisco, CA	06	P	\$ 594,341		240,000.00	223,593.00	16,407.00	\$ 370,748.00
7	39-6138-G24	Oklahoma City, OK	06	P	\$ 106,390		186,190.00	186,097.50	92.50	\$ (79,707.50)
8	05-4531-G36	Los Angeles, CA	07	P	\$ 52,188		50,000.00	49,675.00	325.00	\$ 2,513.00
9	35-2085-G01	Dansville, NY	07	P	\$ 1,195		1,100.00	1,100.00	-	\$ 95.00
10	05-4529-G01	Los Angeles, CA	08	P	\$ 1,023,835		6,391,000.00	6,391,000.00	-	\$ (5,367,165.00)
11	05-4530-GA2	Los Angeles, CA	08	P	\$ 360,652		2,100,000.00	1,847,983.81	252,016.19	\$ (1,487,331.81)
12	17-0946-G02	Brownsburg, IN	08	P	\$ 8,378		5,054.50	5,054.50	-	\$ 3,323.50
13	30-5160-G05	Lincoln, NE	08	P	\$ 158,113		510,000.00	466,255.00	43,745.00	\$ (308,142.00)
14	51-1719-G04	Charlottesville, VA	08	P	\$ 36,177		54,250.00	54,250.00	-	\$ (18,073.00)
15	04-8874-G03	Van Buren, AR	09	P	\$ 197,699		95,500.00	85,850.00	9,650.00	\$ 111,849.00
16	32-7300-G01	Salem, NH	10	P	\$ 106,673		654,119.44	654,119.44	-	\$ (547,446.44)
17	43-6090-G02	North Kingstown, RI	12	P	\$ 249,117		289,500.00	272,130.00	17,370.00	\$ (23,013.00)
18	51-5772-G02	Mechanicville, VA	12	P	\$ 49,562		46,000.00	43,194.00	2,806.00	\$ 6,368.00
19	12-0440-G38	Atlanta, GA	13-A	P	\$ 105,747		15,000.00	15,000.00	-	\$ 90,747.00
20	21-9412-G01	Winnfield, LA	13-A	P	\$ 154		221,521.00	221,521.00	-	\$ (221,367.00)
21	48-0420-G26	Austin, TX	13-A	P	\$ 122,720		379,000.00	352,514.84	26,485.16	\$ (229,794.84)
22	03-6364-g37	Phoenix, AZ	13-B	P	\$ 454,998		220,000.00	206,512.00	13,488.00	\$ 248,486.00
	Sub Total				\$ 5,037,165		\$ 25,479,980.93	\$ 23,586,510.18	\$ 1,893,470.75	\$ (18,549,345.18)
	Gr Total				\$ 13,646,176		\$ 55,710,998.92	\$ 48,279,172.65	\$ 7,431,826.27	\$ (21,890,950.65)

Gr Tot Net Gain/Loss
\$ 7,431,826.27
Remove Fees
1,523,371.30
Unreconciled Difference
\$ (27,799,405.62)
Total Acct 54610

USPS PROPERTY SALES

COMPLETE SALES - FY 2004

cr / db = Loss
[(L) (u) - Net Proc]

REC	Fin/Sub	Post Ofc Name	FY 2004 MONTH	Type Sale	LAND Cost	BLDG Cost	ACCUM DEPREC	GROSS PROCEEDS	NET PROCEEDS	MISC. FEES A/C: 54129	NET GAIN / LOSS ACCT 45610 & 54129
1	45-2220-G01	Darlington, SC	OCT	S	\$ 40,480	\$ 595,430	\$ 595,430	\$ 125,000.00	\$ 117,500.00	\$ 7,500.00	\$ (77,020.00)
											\$ (77,020.00)
3	03-6364-G25	Phoenix, AZ	NOV	S	585,443	5,198	-	\$ 840,000.00	\$ 765,698.50	\$ 74,301.50	\$ (175,057.50)
4	05-6950-G04	Santa Clarita, CA	NOV	S	990,229	-	-	\$ 785,000.00	\$ 719,405.81	\$ 65,594.19	\$ 270,823.19
											\$ 95,765.69
5	11-8355-G01	Sanford, FL	JAN	S	61,180	787,414	231,939	\$ 550,000.00	\$ 549,700.00	\$ 300.00	\$ 66,955.00
6	11-9015-G01	Terra Cela, FL	JAN	S	277,596	-	-	\$ 131,000.00	\$ 123,140.00	\$ 7,860.00	\$ 154,456.00
7	24-1462-G01	Clinton, MA	JAN	S	15,000	475,953	475,953	\$ 400,000.00	\$ 376,000.00	24,000.00	\$ (361,000.00)
											\$ (139,589.00)
8	23-7596-G03	Randallstown, MD	FEB	S	68,000	255,805	41,357	\$ 400,000.00	\$ 375,762.94	\$ 24,237.06	\$ (93,314.94)
9	47-4632-G01	Knoxville, TN	APR	S	398,000	3,478,594	3,478,594	\$ 1,752,650.23	\$ 1,752,650.23	\$ -	\$ (1,354,650.23)
10	17-7436-G01	Rochester, IN	JUN	S	\$ 8,000	\$ 276,315	\$ 276,315	\$ 55,000.00	\$ 51,505.00	\$ 3,495.00	\$ (43,505.00)
11	28-7140-G97	St. Louis, MO	JUN	S	\$ 36,389	\$ 98,621	\$ 15,000	\$ 315,001.00	\$ 291,293.96	\$ 23,707.04	\$ (171,283.96)
											\$ (214,788.96)
12	51-1758-G01	Chester, VA	JUL	S	\$ 12	354,306	354,306	\$ 429,000.00	\$ 394,530.00	\$ 34,470.00	\$ (394,518.00)
13	25-2100-G01	Constantine, MI	JUL	S	\$ 46,946	\$ -	\$ -	\$ 8,000.00	\$ 8,000.00	\$ -	\$ 38,946.00
											\$ (355,572.00)
14	33-5297-G05	Red Bank, NJ	AUG	S	\$ 1,187,569	0	0	\$ 1,760,000.00	\$ 1,661,449.29	\$ 98,550.71	\$ (473,880.29)
15	38-1666-G39	Cleveland, OH	AUG	S	\$ 53,763	40,786	40,786	\$ 17,000.00	\$ 15,410.00	\$ 1,590.00	\$ 38,353.00
											\$ (435,527.29)
16	26-8360-G10	St. Paul, MN	SEPT	S	\$ 61,740	766,419	499,945	710,000.00	\$ 668,900.00	41,100.00	\$ (340,686.00)
17	22 2550-G03	Eastport, ME	SEPT	S	\$ 106,901	0	0	100,000.00	\$ 100,000.00	-	\$ 6,901.00
18	31-7280-G06	Reno, NV	SEPT	S	\$ 685,158	0	0	400,000.00	\$ 367,500.00	32,500.00	\$ 317,658.00
19	48-5995-G02	Mission, TX	SEPT	S	\$ 214,828	722,247	345,677	200,000.00	\$ 188,000.00	12,000.00	\$ 403,098.00
20	48-0420-G28	Austin, TX	SEPT	S	\$ 632,413	0	0	287,352.00	\$ 269,960.88	17,391.12	\$ 362,452.12
21	51-4062-G01	Harrisonburg, VA	SEPT	S	\$ 12,000	1,676,500	1,676,500	1,850,000.00	\$ 1,850,000.00	-	\$ (1,838,000.00)
22	36-5480-G01	New Bern, VA	SEPT	S	\$ 80,379	729,071	489,461	349,500.00	\$ 349,500.00	-	\$ (29,511.00)
											\$ (1,118,087.88)
				Sub - Totals	\$ 5,561,726	\$ 10,262,659	\$ 8,521,263	\$ 11,464,503.23	10,995,906.61	\$ 468,596.62	\$ (3,692,784.61)

REC	Fin/	Post Ofc Name	FY 2004 MONTH	Type Sale	Cost Land Sold			GROSS PROCEEDS	NET PROCEEDS	MISC. FEES A/C: 54129	IN / LOSS AC 10 & 54129
1	48-2845-G35	El Paso, TX	NOV	P	\$ 373,168			\$ 160,000.00	\$ 147,050.00	\$ 12,950.00	\$ 226,118.00
2	05-8100-G04	Van Nuys, CA	JAN	P	\$ 938,034			525,000.00	\$ 431,469.06	93,530.94	\$ 506,564.94
3	35-6445-G01	Penefield, NY	JAN	P	\$ 6,332			50,000.00	\$ 50,000.00	-	\$ (43,668.00)
											\$ 462,896.94
4	11-5851-G21	Miami, FL	FEB	P	\$ 1,250			10,900.00	\$ 10,900.00	-	\$ (9,650.00)
5	02-0312-G22	Anchorage, AK	FEB	P	\$ 3,825			4,200.00	\$ 4,200.00		\$ (375.00)
											\$ (10,025.00)
6	11-0735-G01	Belleview, FL	APR	P	\$ 2,720			48,220.00	\$ 39,720.00	8,500.00	\$ (37,000.00)
7	35-5185-G01	Medina, NY	APR	P	\$ 96			300.00	\$ 300.00	-	\$ (204.00)
8	45-8680-G01	Taylor, SC	APR	P	\$ 15,947			42,566.00	\$ 42,566.00	-	\$ (26,619.00)
											\$ (63,823.00)
9	45-3220-G02	Gaffney, SC	MAY	P	\$ 15,445			2,500.00	\$ 2,500.00	-	\$ 12,945.00
10	47-5340-G02	McKenzie, TN	MAY	P	\$ 10,274			6,500.00	\$ 6,500.00	-	\$ 3,774.00
											\$ 16,719.00
11	28-7141-G01	St. Louis, MO	JUN	P	\$ 13,878			7,800.00	\$ 7,800.00	-	\$ 6,078.00
12	39-2717-G03	Edmond, OK	JUN	P	\$ 14,506			81,600.00	\$ 81,600.00	-	\$ (67,094.00)
13	39-6138-G09	Oklahoma City, OK	JUN	P	\$ 103,572			208,000.00	\$ 196,410.00	11,590.00	\$ (92,838.00)
											\$ (153,854.00)
14	08-4727-G06	New Haven, CT	JUL	P	\$ 735			29,500.00	\$ 29,500.00	-	\$ (28,765.00)
15	12-3569-G0	North Metro, GA	AUG	P	\$ 102,910			156,000.00	\$ 156,000.00	-	\$ (53,090.00)
16	24-4591-G03	Middlesex Essex, MA	AUG	P	\$ 119,859			103,275.00	\$ 98,020.00	5,255.00	\$ 21,839.00
											\$ (31,251.00)
17	05-7254-G02	Simi Valley, CA	SEPT	P	\$ 1,416,398			2,100,000.00	\$ 1,988,690.00	111,310.00	\$ (572,292.00)
18	48-7805-G02	Round Rock, TX	SEPT	P	\$ 274,114			218,291.36	\$ 200,411.56	17,879.80	\$ 73,702.44
19	07-2359-G01	Denver, Co	SEPT	P	\$ 387,591			8,222,272.00	\$ 7,840,639.13	381,632.87	\$ (7,453,048.13)
20	33-3869-G01	New Jersey, NJ	SEPT	P	\$ 6,442			15,000.00	\$ 15,000.00	-	\$ (8,558.00)
											\$ (7,960,195.69)
P - Totals					\$ 3,807,096			\$ 11,991,924.36	\$ 11,349,275.75	\$ 642,648.61	\$ (7,542,179.75)

\$ 9,368,822	\$ 10,262,659	\$ 8,521,263	\$ 23,456,427.59	\$ 22,345,182.36	\$ 1,111,245.23	\$ (11,234,964.36)
Gr Tit - Land	Gr Tit - Bldg	Gr Tit - Accum	Gross Proceeds	Gr - Net Proceeds	Gr Tit - A/C 54129	Gr Tit Net Gain/Loss
						\$ 1,111,245.23
						Remove Fees
						151,996.59
						Unreconciled Difference
						\$ (12,194,213.00)
						Total Acct 45610

USPS PROPERTY SALES

cr = Gain / db = Loss

COMPLETE SALES - FY 2005

[(L + B - Accu) - Net Pro.

REC	Fin/Sub	Post Ofc Name	FY 2005 MONTH	Type Sale	LAND Cost	BLDG Cost	ACCUM DEPREC	GROSS PROCEEDS	NET PROCEEDS	MISC. FEES A/C: 84129	NET GAIN / LOSS ACCT 45610 & 84129	Sub - Tit Gain/Loss	
1		No Sales	OCT	S									
2	36-5552-G01	Newton, NC	NOV	S	\$ 41,002	\$ 438,990	\$ 438,990	\$ 171,000.00	\$ 170,553.00	\$ 447.00	\$ (129,551.00)		
3	02-4134-G01	Illamna, AK	NOV	S	\$ 6,073	\$ 93,675	\$ 93,675	\$ 8,000.00	\$ 7,921.00	\$ 79.00	\$ (1,848.00)		
4	36-7424-G01	Statesville, NC	NOV	S	\$ 20,000	\$ 1,043,151	\$ 1,043,151	\$ 1,200,000.00	\$ 1,200,000.00	\$ -	\$ (1,180,000.00)		
											\$ (1,311,399.00)	Sub Total	
5		No Sales	DEC	S									
6	34-0147-G23	Albuquerque, NM	JAN	S	\$ 1,032,118	\$ -	\$ -	\$ 738,984.00	\$ 680,392.41	\$ 58,491.59	\$ 351,725.99		
7	26-7630-G01	Prior Lake, MN	JAN	S	\$ 38,320	\$ 404,317	\$ 237,013	\$ 510,500.00	\$ 510,100.00	\$ 400.00	\$ (304,476.00)		
8	41-3480-G02	Harmony, PA	JAN	S	\$ 31,431	\$ -	\$ -	\$ 40,010.00	\$ 39,885.00	\$ 125.00	\$ (8,454.00)		
9	25-1530-G02	Caro, MI	JAN	S	\$ 141,307	\$ -	\$ -	\$ 44,000.00	\$ 36,379.20	\$ 7,620.80	\$ 104,927.80		
10	51-7716-G21	Roanoke, VA	JAN	S	\$ 838,099	\$ 469,410	\$ 15,832	\$ 1,200,000.00	\$ 1,136,960.00	\$ 63,040.00	\$ 154,917.00		
11	02-9087-G01	Tununak, AK	JAN	Donation	\$ 2,070	\$ 156,244	\$ 102,306	\$ -	\$ -	\$ -	\$ 56,009.00		
12	40-5920-G01	Myrtle Creek, OR	JAN	S	\$ -	\$ -	\$ -	\$ 43,002.00	\$ 35,725.67	\$ 7,276.33	\$ (35,725.67)		
											\$ 318,923.72	Sub Total	
13	16-3894-G01	Island Lake, IL	FEB	S	\$ 64,140	\$ -	\$ -	\$ 82,000.00	\$ 69,820.75	\$ 12,179.25	\$ (5,660.75)		
14	04-5373-G01	McGehee, AR	FEB	S	\$ 5,000	\$ 330,447	\$ 330,447	\$ 12,000.00	\$ 10,500.00	\$ 1,500.00	\$ (5,500.00)		
											\$ (11,180.75)	Sub Total	
15	42-4460-G11	San Juan, PR	MAR	S	\$ 1,337,323	\$ -	\$ -	\$ 1,400,000.00	\$ 1,318,293.10	\$ 81,706.90	\$ 18,029.90		
16	02-7586-G01	St. Mary's, AK	MAR	Donation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
17	02-7995-G01	Shishmaref, AK	MAR	Donation	\$ -	\$ 141,525	\$ 54,867	\$ -	\$ -	\$ -	\$ 86,658.00		
											\$ 105,687.90		
18	26-4440-G01	Montevideo, MN	APR	S	\$ 5,000	\$ 93,522	\$ 93,522	\$ 105,000.00	\$ 105,000.00	\$ -	\$ (100,000.00)		
19	35-9606-G01	New York, NY	APR	S	\$ 134,000	\$ 2,982,932	\$ 2,889,866	\$ 7,694,100.00	\$ 7,411,775.04	\$ 282,324.96	\$ (7,154,709.04)		
20	35-2895-G24	Flushing, NY	APR	S	\$ 141,243	\$ 853,885	\$ 524,286	\$ 4,200,000.00	\$ 3,823,575.00	\$ 376,425.00	\$ (3,352,733.00)		
											\$ (10,607,442.04)		
21	11-4925-G10	Tampa, FL	MAY	S	\$ 100,900	\$ 112,893	\$ 112,893	\$ 245,001.00	\$ 244,951.00	\$ 50.00	\$ (144,051.00)		
22	16-7944-G01	Urbana, IL	MAY	S	\$ 22,000	\$ 1,465,247	\$ 1,418,278	\$ 218,320.00	\$ 218,246.28	\$ 73.72	\$ (149,277.28)		
23	12-7689-G01	St. Marys, GA	MAY	S	\$ 42,300	\$ 44,187	\$ 44,187	\$ 113,000.00	\$ 82,782.00	\$ 30,238.00	\$ (40,462.00)		
24	48-3621-G04	Greenville, SC	MAY	S	\$ 21,684	\$ 28,172	\$ 28,172	\$ 42,000.00	\$ 42,000.00	\$ -	\$ (20,316.00)		
											\$ (354,106.28)		
25		No Sales	JUNE	S									
26	41-4104-G02	Jonestown, PA	JULY	S	\$ 28,000	\$ 327,932	\$ 109,272	\$ 84,550.71	\$ 77,050.71	\$ 7,500.00	\$ 149,609.29		
27	02-3159-G01	Girdwood, AK	JULY	S	\$ 40,893	\$ 385,150	\$ 237,843	\$ 451,000.00	\$ 450,782.00	\$ 218.00	\$ (262,682.00)		
28	25-4540-G02	Howell, MI	JULY	S	\$ 151,781	\$ -	\$ -	\$ 150,000.00	\$ 134,063.12	\$ 15,936.88	\$ 17,897.88		
29	31-2640-G01	Ely, NV	JULY	S	\$ 11,000	\$ 697,625	\$ 697,625	\$ 175,900.00	\$ 125,543.91	\$ 50,356.09	\$ (114,543.91)		
30	31-2640-G02	Ely, NV	JULY	S	\$ 44,330	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44,330.00		
31	36-1568-G01	Clinton, NC	JULY	S	\$ 5,000	\$ 275,395	\$ 275,395	\$ 137,500.00	\$ 120,848.36	\$ 16,651.64	\$ (115,848.36)		
											\$ (261,437.10)		
32	35-1120-G01	Cambridge, NY	AUGUST	S	\$ 8,243	\$ 88,238	\$ 33,949	\$ 6,000.00	\$ 4,700.00	\$ 1,300.00	\$ 58,832.00		
33	43-2520-G02	East Greenwich, RI	AUGUST	S	\$ 58,765	\$ 691,428	\$ 468,437	\$ 650,000.00	\$ 612,840.00	\$ 37,160.00	\$ (329,083.00)		
											\$ (270,251.00)		
34	31-7280-G15	Reno, NV	SEPTEMBER	S	\$ 57,549	\$ 195,477	\$ 26,096	\$ 401,000.00	\$ 378,897.00	\$ 24,103.00	\$ (149,967.00)		
35	39-8351-G02	Tulsa, OK	SEPTEMBER	S	\$ 81,924	\$ 384,260	\$ 77,710	\$ 1,200,000.00	\$ 1,200,000.00	\$ -	\$ (811,528.00)		
											\$ (961,493.00)		
												Sub Total	
					Sub - Total	\$ 4,511,475	\$ 11,714,903	\$ 9,331,511	\$ 21,322,767.71	\$ 20,247,564.55	\$ 1,075,203.16	\$ (13,352,697.55)	Gr Tit - S

PARTIAL LAND SALES - FY 2005

cr = Gain / db = Loss

FY 2004	Type	Cost	GROSS	NET	MISC. FEES	NET GAIN / LOSS
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Pln/Sub	Post Ofc Name	MONTH	Sale	Land Sold	PROCEEDS	PROCEEDS	A/C 84129	ACCT 45610 & 54129	
No Sales		OCT	P						
11-4413-G01	Jacksonville, FL	NOV	P	\$ 130,105	\$ 97,900.00	\$ 97,900.00		\$ 32,205.00	
3	48-4145-G51	Houston, TX	NOV	P	\$ 292,933	\$ 125,000.00	\$ 124,850.00	\$ 150.00	\$ 168,083.00
4	38-1392-G34	Charlotte, NC	NOV	P	\$ 407,058	\$ 105,000.00	\$ 105,000.00		\$ 302,058.00
									Sub Total
No Sales		DEC	P						
6	57-1558-G03	Casper, WY	JAN	P	\$ 194,914	\$ 395,000.00	\$ 383,848.91	\$ 11,151.09	\$ (188,934.91)
7	48-4215-G03	Huntsville, TX	JAN	P	\$ 31,460	\$ 63,093.00	\$ 63,093.00		\$ (31,633.00)
8	20-6164-G01	Pineville, KY	JAN	P	\$ 27	\$ 1,500.00	\$ 1,500.00		\$ (1,473.00)
9	48-2735-G01	Edinburg, TX	JAN	P	\$ 188,093	\$ 452,001.00	\$ 392,444.07	\$ 59,556.93	\$ (204,351.07)
									Sub Total
9	05-1242-G02	Canoga Park, CA	FEB	P	\$ 1,126,929	\$ 1,599,000.00	\$ 1,443,262.20	\$ 155,737.80	\$ (316,333.20)
10	04-3069-G03	Fayetteville, AR	FEB	P	\$ 318,051	\$ 145,000.00	\$ 144,900.00	\$ 100.00	\$ 173,151.00
									Sub Total
No Sales		MAR	P						
12	11-7410-G08	Pensacola, FL	APR	P	\$ 25,177	\$ 25,000.00	\$ 25,000.00		\$ 177.00
									Sub Total
13	04-6130-G18	Little Rock, AR	MAY	P	\$ 248,251	\$ 90,000.00	\$ 90,000.00		\$ 158,251.00
14	33-7485-G02	Saratoga Springs, NY	MAY	P	\$ 487,188	\$ 608,000.00	\$ 608,000.00		\$ (140,814.00)
15	33-8475-G02	Toms River, NJ	MAY	P	\$ 1,472	\$ 43,000.00	\$ 43,000.00		\$ (41,528.00)
16	33-2715-G01	Forked River, NJ	MAY	P	\$ 794	\$ 2,200.00	\$ 2,200.00		\$ (1,406.00)
17	48-1550-G03	Cedar Hill, TX	MAY	P	\$ 19,401	\$ 18,298.00	\$ 18,298.00		\$ 1,105.00
									Sub Total
18	49-7789-G32	Salt Lake City, UT	JUNE	P	\$ 4,248	\$ 16,279.00	\$ 16,279.00		\$ (12,031.00)
									Sub Total
No Sales		JULY	P						
20	23-2090-G01	Columbus, MD	AUGUST	P	\$ 94,990	\$ 400,000.00	\$ 399,850.00	\$ 150.00	\$ (304,860.00)
21	40-2848-G08	Eugene, OR	AUGUST	P	\$ 10,372	\$ 29,264.00	\$ 29,264.00		\$ (18,892.00)
									Sub Total
22	48-0409-G01	Austin, TX	SEPTEMBER	P	\$ 325,731	\$ 288,149.40	\$ 270,660.44	\$ 17,488.96	\$ 55,070.56
23	45-3320-G02	Georgetown, SC	SEPTEMBER	P	\$ 456,332	\$ 1,215,000.00	\$ 1,210,229.50	\$ 4,770.50	\$ (753,897.50)
									Sub Total
									Sub Total
P - Totals				\$ 4,343,522	\$ 5,718,682.40	\$ 5,469,577.12	\$ 249,105.28	\$ (1,126,055.12)	Gr Tlt - P

\$ 8,854,997	\$ 11,714,903	\$ 9,331,511	\$ 27,041,450.11	\$ 25,717,141.67	\$ 1,324,308.44	\$ (14,478,752.67)	Grand Tlt
Gr Tlt - Land	Gr Tlt - Bldg	Gr Tlt - Accum	Gross Proceeds	Gr - Net Proceeds	Gr Tlt - A/C 84129	Gr Tlt Net Gain/Loss	
					\$ 1,324,308.44		
					Remove Fees		
					368,152.11		
					Unreconciled Difference		
					\$ (15,434,909.00)		
					Total Acct 45610		

USPS PROPERTY SALES												
COMPLETE SALES - FY 2006 (as of June 30)												
((L + B - Accu) - Net Proc												
CR = Gain / db = Loss												
R/C	Fm/Bhp	Post Ofc Name	FY 2006 MONTH	Type	LAND Cost	BLDG Cost	DEPR/CC	PROCEEDS	GROSS PROCEEDS	NET PROCEEDS	MISC. FEES A/C: 54129	ACCT 45610 & 54129
1	35-7000-G01	Rensselaer, NY	OCT	B	\$ 17,000.00	\$ 385,112.00	\$ 385,112.00	\$ 150,000.00	\$ 141,000.00	\$ 9,000.00		\$ (124,000.00)
2	01-0280-G01	Tuscumbia, AL	NOV	B	\$ 8,000.00	\$ 215,051.00	\$ 215,051.00	\$ 128,000.00	\$ 114,965.00	\$ 13,015.00		\$ (108,985.00)
3	35-7095-G01	Riverhead, NY	NOV	B	\$ 14,000.00	\$ 487,545.00	\$ 487,545.00	\$ 700,000.00	\$ 658,875.00	\$ 41,125.00		\$ (644,875.00)
4	38-1792-G25	Columbus, OH	NOV	B	\$ 624,865.00	-	-	\$ 522,500.00	\$ 474,805.00	\$ 47,895.00		\$ 150,260.00
5	08-6508-G16	Oakland, CA	NOV	B	\$ 325,849.00	\$ 2,480,230.00	\$ 1,066,499.00	\$ 3,400,000.00	\$ 3,156,845.05	\$ 243,154.95		\$ (1,416,265.05)
6		No Sales	DEC	B								\$ (2,017,865.05)
7	08-4102-G03	Lancaster, CA	JAN	B	\$ 1,800,000.00	-	-	\$ 1,800,000.00	\$ 1,813,245.00	\$ 86,755.00		\$ 286,755.00
8		No Sales	FEB	B								\$ 286,755.00
9	25-7660-G03	Pinckney, MI	MARCH	B	\$ 67,240	\$ 120,904	\$ 24,872	\$ 255,000.00	\$ 233,937.50	\$ 21,062.50		\$ (70,665.50)
10	58-7780-G01	Spooners, WI	MARCH	B	\$ 63,138	-	-	\$ 35,000.00	\$ 34,902.50	\$ 97.50		\$ 28,236.50
11	39-3841-G01	Grove, OK	APRIL	B	\$ 7,512	\$ 350,169	\$ 229,087	\$ 270,000.00	\$ 248,325.00	\$ 21,675.00		\$ (119,731.00)
12		No Sales	MAY	B								\$ (42,430.00)
Sub - Total \$ 2,927,604 \$ 4,039,011 \$ 2,407,166 \$ 7,060,500.00 \$ 6,876,720.06 \$ 483,779.95 \$ (2,017,271.05)												

Sale

PARTIAL LAND SALES - FY 2006							cr = Gain / db = Loss			
REC	Fin/Sub	Post Ofc Name	FY 2006 MONTH	Type Sale	Cost Land Sold		GROSS PROCEEDS	NET PROCEEDS	MISC. FEES A/C: 54129	NET GAIN / LOSS ACCT 45610 & 54129
1	05-2864-G01	Fremont, CA	OCT	P	\$ 166,174		\$ 3,000,000.00	\$ 2,845,950.00	\$ 154,050.00	\$ (2,689,776.00)
2	12-1793-G01	Cleveland, GA	OCT	P	\$ 33,499		\$ 98,955.00	\$ 98,955.00	\$ -	\$ (65,456.00)
										\$ (2,755,232.00)
3		No Sales	NOV	P						
4		No Sales	DEC	P						
5		No Sales	JAN	P						
6	35-8955-G01	Waterloo, NY	FEB	P	\$ 615		\$ 7,500.00	\$ 7,500.00	\$ -	\$ (6,885.00)
										\$ (6,885.00)
7		No Sales	MARCH	P						
										\$ -
8	43-8090-G02	North Kingstown, RI	APRIL	P	\$ 54,114		\$ 69,500.00	\$ 69,250.00	\$ 250.00	\$ (15,136.00)
9	05-0462-G06	Bakersfield, CA	APRIL	P	\$ 313,834		\$ 420,000.00	\$ 394,675.00	\$ 25,325.00	\$ (80,841.00)
10	23-7884-G03	Rockville, MD	APRIL	P	\$ 44,379		\$ 80,800.00	\$ 80,800.00	\$ -	\$ (36,421.00)
11	08-4726-G01	New Haven, CT	APRIL	P	\$ 371		\$ 3,015.00	\$ 3,015.00	\$ -	\$ (2,644.00)
12	51-8479-G01	McLean, VA	APRIL	P	\$ 31,721		\$ 111,100.00	\$ 111,100.00	\$ -	\$ (79,379.00)
										\$ (214,421.00)
13	03-6365-G16	Phoenix, AZ	MAY	P	\$ 40,322		\$ 180,944.00	\$ 165,206.00	\$ 15,738.00	\$ (124,884.00)
14	03-8438-G02	Tempe, AZ	MAY	P	\$ 36,120		\$ 77,100.00	\$ 76,950.60	\$ 149.40	\$ (40,830.60)
										\$ (165,714.60)
P - Totals					\$ 711,149		\$ 4,048,914.00	\$ 3,863,401.60	\$ 195,512.40	\$ (3,142,252.60)

\$ 3,638,753	\$ 4,039,011	\$ 2,407,166	\$ 11,109,414.00	\$ 10,430,121.65	\$ 679,292.35	\$ (5,159,523.65)
Gr Tlt - Land	Gr Tlt - Bldg	Gr Tlt - Accum	Gross Proceeds	Gr - Net Proceeds	Gr Tlt - A/C 54129	Gr Tlt Net Gain/Loss
						\$ 679,292.35
						Remove Fees
						(624,636.29)
						Unreconciled Difference
						\$ (6,463,452.29)
						Total Acct 45610

RESPONSE OF POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORY OF PITNEY BOWES INC.

PB/USPS-T6-1. Please confirm that the need for a contingency could be caused by Test Year After Rates ("TYAR") costs higher than those predicted by the Postal Service. If you cannot confirm, please explain fully.

Response:

Confirmed. As described on page 62 of my testimony; "The contingency deals with the reality that events that affect the Postal Service's financial picture and the impacts of those events are, to varying and unknown degrees, unforeseen and unforeseeable."

The impact of unforeseen or unforeseeable events may be seen in the actual costs or revenues for a year when compared to the revenue requirement forecasts. A comparison of actual results and recent revenue requirement forecasts is included in my testimony at Exhibit USPS 6J.

RESPONSE OF POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORY OF PITNEY BOWES INC.

PB/USPS-T6-2. Please confirm that the need for a contingency could be caused by TYAR revenues lower than those predicted by the Postal Service. If you cannot confirm, please explain fully.

Response:

Confirmed. Please see my response to PB/USPS-T6-1.

RESPONSE OF POSTAL SERVICE WITNESS LOUSCH
TO INTERROGATORY OF PITNEY BOWES INC.

PB/USPS-T6-3. Please confirm that to provide an "adequate contingency" which is "essential to achieving financial stability and long-run break even" you have included a contingency of \$767 million in TYAR, which effectively increases estimated TYAR costs by 1 percent. If you cannot confirm, please explain fully.

Response:

Management's judgment is that a 1 percent contingency is reasonable in the circumstances of this case. However, as I point out on line 24, page 64, of my testimony, "in future cases management's judgment concerning a reasonable contingency may differ as the Postal Service's financial position and other circumstances change."

RESPONSE OF POSTAL SERVICE WITNESS LOUTSCH
TO INTERROGATORY OF PITNEY BOWES INC.

PB/USPS-T6-4. Please confirm that the costs of the unforeseen and unforeseeable events that create the need for the contingency will be randomly distributed across cost segments and components. If you cannot confirm, please explain fully.

Response:

Not confirmed. Since the nature of any unforeseen or unforeseeable events is unknown, I have no basis for determining how the related cost of such events will be distributed across segments and components.

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

3 (No response.)

4 CHAIRMAN OMAS: There being none, this
5 brings us to oral cross-examination.

6 One participant has requested oral cross-
7 examination, Direct Marketing Association. Mr.
8 Ackerly, you may begin.

9 MR. ACKERLY: Good morning, Mr. Chairman,
10 members of the Commission, Mr. Loutsch. My name is
11 Tod Ackerly representing Direct Marketing Association
12 in this proceeding.

13 CROSS-EXAMINATION

14 BY MR. ACKERLY:

15 Q Could I start by asking you to turn to page
16 62 of your testimony, please? That's where you
17 discuss the provision for contingencies.

18 A I have it.

19 Q The first question I have to ask you
20 actually refers to page 64 where you state on lines 22
21 and 23, and I quote, "Management must be allowed to
22 assume its responsibility to determine the amount of
23 contingency most appropriate for achieving its goals."

24 You're not suggesting, are you, that the
25 amount of the contingency is a matter for management's

1 discretion, or are you?

2 A I think within a range of contingency
3 amounts one has to make a judgment as to what is the
4 appropriate level considering not only what the
5 specific concerns are estimated in the revenue
6 requirement, but also a much broader perspective of
7 the impact on the mail orders, the general financial
8 condition, et cetera.

9 In this case the Board of Governors makes
10 that decision as to what the appropriate level of the
11 contingency is as they review and approve the revenue
12 requirement.

13 Q But you're not suggesting I hope that the
14 statute, when it calls for a reasonable provision for
15 contingencies to be included in the revenue
16 requirement, is not something that should be
17 determined by the Commission and incorporated into its
18 recommended decision based on all the evidence of
19 record.

20 The distinction that I'm trying to make here
21 is a matter for management's discretion and its
22 determination will be final as opposed to management's
23 determination which will be part of its request to the
24 Commission to be acted upon by the Commission in
25 accordance with the evidence of record.

1 MR. REITER: Mr. Chairman, and I think Mr.
2 Ackerly is essentially asking the witness a legal
3 question as to the relative authority between the
4 Postal Service and the Commission. That is not his
5 area of expertise.

6 I'll be happy to address it on the brief if
7 it comes up, but I think what the witness is here to
8 do is to tell us how the Postal Service formulated its
9 revenue requirement underlying the request for rates
10 in this case.

11 MR. ACKERLY: Mr. Chairman, I was simply
12 trying to clarify the record based upon a statement in
13 the witness' testimony when he refers to management's
14 responsibility, and I was hoping to get the witness'
15 views on that issue.

16 However, in light of what counsel for the
17 Postal Service has said, I will withdraw the question
18 and will be interested to see what the Postal Service
19 has to say on brief.

20 CHAIRMAN OMAS: Thank you, Mr. Ackerly.

21 MR. ACKERLY: I will state, however, for the
22 record that in a number of places, and one citation
23 that I would like to get into the record at this point
24 is from the R87-1 recommended decision at pages 35
25 through 36, and I quote: "Management's determination

1 is entitled to a good measure of deference, but the
2 contingency must be supported by substantial
3 evidence."

4 I believe that's been the Commission's
5 approach to this issue through its entire history of
6 dealing with the statutory requirement that there be a
7 provision for contingency.

8 BY MR. ACKERLY:

9 Q Anyway, Mr. Loutsch, let me turn back then
10 to page 62 of your testimony. I quote beginning at
11 line 3:

12 "The contingency provision deals with the
13 reality that events that affect the Postal Service's
14 financial picture and the impacts of those events are
15 to varying and unknown degrees unforeseen and
16 unforeseeable."

17 You then proceed to list on pages 62 and 63
18 a number of forecast elements that, as you phrase it,
19 and now I'm quoting from lines 13 and 14, "involve
20 significant unknowns."

21 There is another side to the coin, isn't
22 there? When the Postal Service and when the
23 Commission consider a reasonable provision for
24 contingencies, shouldn't part of the analysis be the
25 Postal Service's ability to cope with unforeseen and

1 unforeseeable events?

2 A The judgment on the contingency, as I said
3 earlier, is made by the Board. It is informed by
4 many, many sources beyond me I am sure.

5 Generally from where I look at the revenue
6 requirement, the major -- well, if you look even
7 historically at the contingency or the performance of
8 revenue requirements against what actually happens,
9 and you can see that in Exhibit J, the Postal Service
10 often times underestimates the revenue requirement.

11 We've had variances in Schedule J. I
12 believe they range from 1.6 to 3 point something
13 understated. The focus then I think is possibly
14 understating, when I was looking at this understating
15 the expense. To some extent there's a possibility
16 that you could have dips in revenue or other economic
17 events that would reduce revenue that would have some
18 negative impact.

19 Offsetting that you could have some positive
20 impacts. There are occasionally one-time gains that
21 we make, and I think you brought up the real estate,
22 where you have a relatively significant one-time gain.

23 There are cases when I think you also
24 brought up in one of the interrogatories that we are I
25 believe at the end of May I think we were about \$400

1 million in excess on revenue or excess or what we had
2 budgeted for revenue. I might also add we were \$200
3 and some million in expense as well, but there is room
4 for a positive.

5 The contingency that the Board did select
6 for this revenue requirement is one percent. You
7 know, given the financial condition and some of the
8 things that I think they may have looked at -- I was
9 not at the meeting. In fact, I didn't really adopt
10 this testimony until Mr. Tamen decided to retire, so I
11 inherited this in March. I wasn't intimately involved
12 in those decisions processes.

13 This is a historically low contingency
14 provision, and I think from my viewpoint just sitting
15 back from the person who supervised the preparation it
16 makes sense. We're in reasonably good financial
17 shape. We don't have any debt.

18 The economy has been doing reasonably well,
19 but we have a great deal of overhang here as far as
20 some of these assumptions are very optimistic in favor
21 of the mailers, so one percent I think is within the
22 realm of reasonableness, you know, when applied to
23 this particular set of situations or this particular
24 set of circumstances and this particular revenue
25 requirement.

1 I don't know if that fully responded to your
2 question, but I'm sure you'll have another if it
3 didn't.

4 Q Actually it didn't respond to my question.
5 My question was the following: In the three pages of
6 your testimony where you provide justification for the
7 provision for contingencies you list several what you
8 consider to be significant unknowns.

9 A Uh-huh.

10 Q I recognize that that's relevant to the
11 analysis as to what a reasonable provision for
12 contingencies might be under the circumstances of
13 this.

14 What I don't find in your testimony is any
15 reference to another relevant factor, which is the
16 ability of the Postal Service to cope with unforeseen
17 circumstances assuming those unforeseen circumstances
18 aren't positive, and you said that they might be, but
19 assuming that they're negative.

20 The question really is when the Postal
21 Service, and of course you're the person who is
22 speaking for the Postal Service in this case,
23 considers the reasonableness of the provision of
24 contingencies how did it take into effect the relative
25 ability of the Postal Service to cope with anything

1 that might come down the pike that's unknown or
2 unforeseeable?

3 A I think in the end it's making a judgment as
4 to all or many, many factors rolled into a single
5 decision where you have to put a number on how much
6 risk you want to take versus how much risk you want to
7 avoid by having a little bit higher revenue
8 requirement and a little bit of cushion, recognizing
9 that estimates are not clairvoyant. I mean, we don't
10 know exactly what's going to happen with the economy
11 or fuel prices or anything else, so I think there is
12 no formula.

13 I know in the past there's been a great deal
14 of discussion about using Exhibit J as a calculation
15 of what the contingency specifically should be, but
16 that's like saying the world is going to repeat itself
17 again and again and again specifically, exactly how it
18 was set up in the past.

19 I don't know that there's a formula to
20 approach this with and so how much consideration was
21 given specifically to say our financial position or
22 ability to borrow versus the risk that COLA would
23 increase by several hundred million dollars or
24 workers' comp might increase substantially, you know,
25 I don't know exactly what that balance was, and I

1 think that's why one would call it a judgment in the
2 end.

3 Q The reason, Mr. Loutsch, that I am focusing
4 on this is that again through its entire history this
5 Commission has considered the Postal Service's ability
6 to absorb the consequences of negative unforeseen
7 events, has been part of its calculations, its
8 analysis.

9 Just to quote going back now 30 years to
10 R76-1, and the citation is page 57 of the recommended
11 decision back then. It stated, "We must also take
12 into account in this connection the ability of the
13 Postal Service to absorb the consequences of erroneous
14 predictions of costs and revenues." That's the end of
15 the quotation. Again, this is a 30-year-old quotation
16 from the Commission.

17 Let me address your attention to one piece
18 of evidence that's in your testimony that seems to me
19 to be relevant to the Postal Service's ability to
20 cope. If you would turn to page 72 of your testimony?

21 It's Table 64, and in fact the number that I
22 am going to be focusing on also shows up in your
23 revised answer to DMA Interrogatory No. 9, and that is
24 the number at the lower right-hand corner of Table 64.
25 It's the \$2,265,986 number. Do you see that?

1 A Uh-huh.

2 Q Now, if I understand your testimony
3 correctly, that number reflects the equity from the
4 Postal Service's balance sheet test year after rates,
5 and what that says to me is that assuming the
6 Commission recommends the rates that the Postal
7 Service is asking for in this case that the Postal
8 Service anticipates that it will have in excess of
9 \$2.2 billion of positive equity at that point in time.

10 A Uh-huh.

11 Q Now, that is a correct interpretation of
12 your testimony, isn't it?

13 A It would have positive equity of \$2.2
14 billion, yes.

15 Q Right. Now, the amount of the contingency
16 in dollars is approximately \$767 million. That's
17 correct, isn't it?

18 A Roughly. Roughly.

19 Q Okay. So if you subtract that \$767 million
20 from the \$2.2 billion you end up with approximately
21 \$1.5 billion in positive equity, assuming that there
22 were a zero percent contingency. Is my math correct
23 on that?

24 A I would say reasonably so.

25 Q Okay.

1 funding basically, the underlying investment in the
2 whole organization.

3 We're now in 2006, and we're still talking
4 about now whether we should take that original \$3.034
5 billion and reduce it not only to \$2.286 billion, but
6 to reduce it further to \$1.5 billion.

7 Is that an accurate summary of what we're
8 talking about here?

9 Q You're the witness, Mr. Loutsch. I'm trying
10 to interpret. I'm trying to interpret your numbers.

11 What I see is that at the end of the test
12 year after rates however you got to the number, it's
13 your calculation that the Postal Service will have
14 positive equity of \$2.26 billion plus or minus. That
15 number is higher than the number that you included in
16 your initial testimony, which was just under \$2
17 billion.

18 A Uh-huh.

19 Q While we're on the subject, could you
20 summarize how you got from the original number of I
21 think it was \$1.994 billion to the \$2.266 billion?
22 What changes happened in your testimony that caused
23 the equity to --

24 A Actually when we filed the errata we ended
25 up with there were several changes. The first and

1 what caused the most actual changes in the testimony
2 was the rerunning of the roll forward to correct a
3 couple of mistakes that had been made or things that
4 had to be included. That was a very minor expense in
5 fact.

6 The two other things is you had pointed out
7 there was no real estate gains in the miscellaneous
8 income estimate. In the past, miscellaneous income
9 has been estimated just at a very gross level based on
10 the average for the past three years, and as it grows
11 it grows. As it doesn't grow, it doesn't grow.

12 In that particular number are maybe, you
13 know, 50 to 100 different sources of revenue that are
14 not separately estimated. There are things like the
15 passports and the photos and the copying and the Coke
16 machines, if they still have those, all the various
17 other sources of revenue.

18 In the past, in past cases before they
19 rolled that forward, they had pulled out real estate
20 gains, number one, because most of the time they're
21 not significant and, number two, because it's very
22 difficult to project the amount or the exact timing of
23 the settlement.

24 In this case they had in fact pulled out the
25 real estate gain, but they pulled out the wrong

1 number. They pulled out the collections from the sale
2 of real estate, not the net gain. so that made a
3 fairly significant difference on the order of the
4 change is about \$48 million when we put that account
5 back in and then included the real estate as we rolled
6 forward.

7 Let's see. \$48 million in 2006, \$32 million
8 in 2007. I'm sorry. Yes, \$32 million in 2007 and \$35
9 million in 2008. That was the miscellaneous income
10 correction, so that ended up being quite -- well, the
11 estimation process is going to be looked at if we file
12 another case any time soon or while I'm around to look
13 at if we can break out some of these subitems that
14 have started to grow.

15 The passports is an example. With the
16 change in the requirement for passports to leave the
17 country or re-enter the country, that has become a
18 fairly significant business as far as fairly
19 significant sales and fees related to that. Probably
20 items like that, when they grow and look like they
21 have some permanency, that one would separate those
22 and estimate them separately. This case we just did
23 not do that.

24 There was also a second thing with
25 miscellaneous income. When they converted the general

1 ledger from 2003 in 2003 to 2004 we put in a new
2 general ledger. As part of that general ledger
3 process real estate gains and losses had always been
4 considered an offset to an expense account. It was a
5 negative expense, and then it was reclassified for
6 financial statement purposes, so all the detail back
7 in 2003, all the detail accounts, would classify that
8 as a credit balance expense.

9 When we moved to the new general ledger they
10 moved it into a revenue account. They moved that
11 whole accounting for gains into a revenue account so
12 when the information was pulled from 2003 it didn't
13 have those accounts in it at all.

14 When you pointed that out we went back. We
15 checked the calculations, went back to the detail and
16 faithfully redid the calculations without doing any
17 updates to the calculations, okay? We didn't make any
18 big judgments as to well, we think now that this is
19 July we think that this number will be this or this
20 number will be that. Here's the calculation we said
21 we were going to make. It had errors in it. We
22 corrected them and filed the new information.

23 The second set of errata that we filed, it
24 was basically errata from the pricing witness. Much
25 of my testimony, as you know, pulls together testimony

1 by other witnesses and estimates by other witnesses
2 that they use in their testimony. For instance, a
3 pricing witness may be estimating the revenue from a
4 particular product which then gets summarized into the
5 revenue number and then is put into my testimony so
6 that we can calculate a profit and loss statement.

7 The change that we receive from the pricing
8 folks, and I believe this is going to be filed as an
9 errata by Witness O'Hara. I think that is what the
10 intention is, but we put his numbers in here
11 understanding they were final and that it was just a
12 matter of him preparing the errata and filing it and
13 so I guess you can expect that in the near future.

14 That number ended up, the changes in total
15 mail revenue affected fiscal year 2007 after rates,
16 and this is mostly after rates impact. It was \$21.48
17 million, and then 2008 after rates was an increase of
18 revenue of \$86.25 million and an increase in special
19 services of \$46 million, so those two had major
20 impacts.

21 The three impacts, one is whenever the roll
22 forward is rerun and there's a change in the expenses,
23 no matter how small, we generally modify the revenue
24 requirement, which has all those expense tables in it,
25 and summarize it so we can report by cost segment.

1 When revenue changes we generally modify --
2 you know, by and large we have to modify the revenue
3 requirement so that you can have an accurate profit
4 and loss, accurate equity projections and that. When
5 we make our own mistakes we modify the testimony and
6 file it.

7 Q Okay.

8 A That's basically what the difference is.

9 Q Yes. That's helpful. So the change in that
10 number that I've been focusing on from \$1.994 billion
11 to \$2.266 billion is basically the cumulation of a
12 number --

13 A Yes.

14 Q -- of changes, and you've described the most
15 significant of them I guess. So that does include the
16 impact of the real estate sales?

17 A Yes, it does.

18 Q Okay. We also asked some questions about
19 the fact that the Postal Service seems to be doing
20 better in the current year than it had originally
21 projected. Is that phenomenon reflected in the change
22 that we've been talking about?

23 A Changes in the errata?

24 Q The fact that the Postal Service is doing
25 better in the current year, fiscal 2006, than had

1 originally been estimated.

2 Has the extent of the positive impact on the
3 Postal Service's finances been incorporated in the
4 change that we have just talked about, or was that not
5 part of the calculus?

6 A That would be I think considered an update,
7 and I believe that there's a whole series of rules
8 about updates. No, we did not.

9 Q So that phenomenon is not in there?

10 A That's a separate issue.

11 Q Okay. There is also this phenomenon of the
12 forever stamp and the fact that -- I believe I've got
13 the testimony correct -- when a member of the public
14 buys stamps that the cash is recognized as revenue
15 right away.

16 A That's correct.

17 Q And that some adjustments to expense are
18 made in some way that I can't possibly understand,
19 but --

20 A There's some adjustment to revenue to lower
21 revenues to reflect the fact that when you buy a book
22 of stamps it may last an individual X period of time.

23 Q Right.

24 A It's really three things. Let me back up.
25 The Postal Service prepares statements based on

1 generally accepted accounting principles. One of
2 those principles is the matching concept where you
3 attempt to match the revenues with the related
4 expenses.

5 To the extent that I sell somebody a stamp
6 or a billion stamps and I have not yet delivered that
7 service I haven't incurred the expense, so we defer
8 some of that revenue in a very calculated manner. We
9 defer some of the revenue related to stamp sales, as
10 well as people resetting their meters, as well as we
11 recognize that at any one point in time there's mail
12 moving through the process, and we have not completely
13 provided the customer with the service.

14 We reflect that in what we call the PEHP
15 adjustment. It's a deferred revenue. We reduce
16 revenue, and we recognize that the reduction as a
17 liability going in the balance sheet.

18 Q Okay.

19 A I'm sorry.

20 Q Here's the guts of my question.

21 A Okay.

22 Q Assuming that the forever stamp is approved
23 and assuming that it is well accepted by the public,
24 the Postal Service would expect to receive additional
25 revenue from the sale of the forever stamps, right?

1 A That's correct.

2 Q Now, that additional revenue, the financial
3 phenomenon, was that included in the shift from \$1.994
4 billion to \$2.266 billion, or is that not included in
5 that calculation?

6 A I mean, I haven't seen the full proposal yet
7 on the forever stamp nor the analysis that goes behind
8 it. That was relatively late in the process.

9 As I understood the implementation of it,
10 and my lawyers can correct me if I'm wrong, that stamp
11 was supposed to be implemented with the rate change,
12 so those stamps would be sold at the current rate,
13 okay, at which time you would have to have -- I'm not
14 sure why an individual before this rate change would
15 want to pay 42 cents for a forever stamp to mail
16 something that's 42 cents after the rate change, okay?

17 I don't see why there would be any great
18 investment in forever stamps until you get to the
19 point where you're getting ready to change the rates
20 again.

21 I mean, there is a time value to money, and
22 if I'm a person basically running futures on the
23 forever stamp and going to sell them on eBay or
24 something as we go through I wouldn't buy them until
25 pretty much the last day before the new rate changes

1 went in, the last day they were on sale. I wouldn't
2 expect it to have a tremendous impact during 2008.

3 Q Okay.

4 A In future years now I will remark this. The
5 PEHP model as it currently exists, when we get to the
6 point where we're selling a lot of forever stamps we
7 may have to rethink how that PEHP model works because
8 you may be changing the characteristics of stamp sales
9 enough to cause somebody to reevaluate that model.

10 Q Okay. I'm just trying to understand what is
11 included in the \$2.266 billion number.

12 A That's not in the revenue requirement at all
13 as far as the --

14 Q Whatever happens on the forever stamp is not
15 in there?

16 A Not as far as a separate estimate of
17 revenue.

18 Q Okay. Let's now get back to the point that
19 I was talking a few minutes ago, which is the Postal
20 Service's ability to cope with the unknown and
21 unforeseeable circumstances.

22 Here's my question. Do you have any
23 information or did you do any analysis of the Postal
24 Service's equity position forecasted in the same way
25 as it is here in this number in prior rate cases and

1 the relationship between that equity position in the
2 prior cases matches up with the contingency that the
3 Postal Service requested in the prior cases and the
4 contingency that the Commission approved in the prior
5 cases?

6 A Well, first of all let me back up. I think
7 you're making an assumption that I would think that
8 the level of equity would necessarily drive the
9 contingency assumption.

10 Q It would be a relevant factor.

11 A I mean, it may be a very small, relevant
12 factor in the scheme of things. You know, from how I
13 look at it equity is a number on a piece of paper,
14 okay? You can't spend equity. You spend cash.

15 If I were looking at the ability of the
16 Postal Service to weather bad events, bad events
17 generally cost you money. It's how much money you
18 have, not necessarily how much is on the books as far
19 as equity.

20 When we were originally preparing these
21 estimates here on the cash side of it with the escrow
22 requirement of sticking \$3 billion away in restricted
23 cash or an escrow account, we were pretty much beyond
24 our borrowing limit by -- you know, the last day of
25 2007 was going to be a very bad day, okay, and 2008

1 from what I can see there not only wasn't the ability
2 from a cash standpoint to take care of contingencies
3 or difficulties.

4 There wasn't an ability to pay the payrolls
5 as far as I could see unless you got some kind of
6 forgiveness to borrow additional money.

7 Q Yes. Well, all I'm suggesting --

8 A And I would suggest to you that rather than
9 that the cash -- you know, if you're looking for a
10 component for some type of calculation of contingency
11 and making a judgment on contingency I would think the
12 cash position would be more important than the equity
13 position.

14 Q Okay.

15 A That's just my opinion.

16 Q Do you recall the last time that the Postal
17 Service requested a contingency of 1.0 percent, i.e.
18 the same percentage that it's requesting in this case?

19 A I don't recall exactly, but I think it was
20 1997.

21 Q Yes.

22 A Yes.

23 Q Yes, it was. It was R97-1.

24 A I knew you'd know that answer.

25 Q In fact, the Commission approved in that

1 case a contingency in that amount.

2 A You know, other than R2005, which was a
3 pretty unique case in the sense that we didn't propose
4 any contingency, no recovery of prior year loss --
5 well, there weren't any -- and it was targeted at that
6 escrow, raising the escrow cash, that was the lowest
7 contingency I think that we've ever proposed, the R97
8 one, equal to one percent.

9 Q Yes.

10 A That's a pretty fine -- we're doing three
11 year estimates here. I mean, we cut the assumptions
12 for these estimates off probably with some refinements
13 in January. I mean, we were looking at the end of
14 November, middle of December.

15 We're forecasting through September 2008,
16 and we're trying to forecast, and we're leaving
17 ourselves a margin of error of one percent. That's a
18 pretty risky proposition.

19 I mean, we have to do it because that's the
20 way. You can't set rates on a range of potential
21 results, but how many companies do you know,
22 commercial companies, that will even tell you what
23 they forecast 2008 to be? You're lucky if you get
24 them to tell you what they're going to forecast the
25 next quarter to be, but two, two and a half years in

1 advance?

2 Q Most public companies have got securities
3 laws problems if they try to do that.

4 A I was going to put the risk statement in.

5 Q Will you accept, subject to check, that the
6 equity position of the Postal Service as forecasted in
7 R97-1, that one percent contingency case, was a
8 negative 1.5 billion? In fact, the number I think is
9 negative \$1.499 billion.

10 In other words, a similar number of the
11 \$2.266, the number we've been talking about, in R97-1
12 was minus \$1.5 as opposed to a plus.

13 A Would that prove the point that maybe the
14 equity number isn't an important consideration when
15 the Board accepts a contingency?

16 Q Well, I think it would be up to the
17 Commission to decide for itself what the important
18 factors are.

19 A Well, the Board has to make a decision
20 whether this revenue requirement is suitable to send
21 to the Commission and for the Commission to review.

22 I know there's legal discussions that have
23 been going on for -- I don't know -- probably pretty
24 much since all this began on the contingency amount.
25 When the Board considered it maybe they considered

1 that, number one, maybe they didn't spend as much time
2 on the equity as on the cash and that's why you could
3 have a decision to say one percent, which would kind
4 of indicate that you're in pretty good shape and still
5 have negative equity.

6 Wasn't the recovery of prior year loss -- I
7 mean, I hate to go back to R97 because I can assure
8 you I do not have the numbers from R97 in my head, but
9 I believe there was a fairly sizeable recovery of
10 prior year loss too, which would provide a cushion.

11 Q I don't recall, Mr. Loutsch. Here's the
12 point. If you subtract the amount of the contingency
13 from the amount of the positive equity in the current
14 case, you end up with a positive equity of 1.5
15 billion, which is a full \$3 billion stronger than the
16 equity position that the Postal Service had in R97
17 when it also asked for a 1.0 percent contingency.

18 That's what the numbers seem to show, and my
19 question to you is do you think that that is a factor
20 that should be relevant in some way or other to the
21 Commission when it makes its determination in this
22 case as to what a reasonable contingency ought to be?

23 A I suspect that the fact that when the
24 decisions were made on filing this case the fact that
25 we had positive cumulative net income -- not equity;

1 positive cumulative net income -- of something over \$2
2 billion probably had an impact on their decision of
3 some type of another. I have no way of weighting it.
4 I wasn't there, didn't participate in the decision.

5 Q Okay.

6 A I would assume that it may have had some
7 minor impact on it, but I think the more relevant
8 thing is as you have more equity, presuming you're not
9 investing it totally in fixed assets, as the equity
10 goes up likely your cash balances are available or you
11 have more financial flexibility going forward.

12 Q Speaking of flexibility, let me just talk
13 about one more factor relevant to the contingency, and
14 this will be my last line of questions on the
15 contingency.

16 It is the current Postal Service strategy to
17 move toward more frequent rate increases; in fact,
18 annual rate increases. That's correct, isn't it?

19 A As far as I know that has been discussed. I
20 don't know if it's formal policy yet, but I know what
21 you're talking about.

22 Q And assuming that it is the case as it has
23 been in many circumstances in the past that the old
24 strategy, if you will, had rate increases every three
25 years, that significantly increases the ability of the

1 Postal Service to respond to unforeseen and
2 unforeseeable events, does it not? They can respond
3 more rapidly?

4 A Well, it would depend on when those annual
5 increases were to begin, okay? Number one is if you
6 have a rate case every year, a sufficient influx of
7 new revenue each year, you've got your control over
8 your expenses and you start out at a relatively stable
9 base, meaning that you're in reasonable good financial
10 condition when you start out.

11 If you have revenue requirements based on
12 the way we do the revenue requirement now and not some
13 type of artificial limits, it would give you more
14 flexibility. I agree.

15 Q Okay.

16 A Okay. But, I would say if you're going to
17 for this case, I don't know that I have seen anyone
18 talk about when the next rate case after this is. I
19 think they're still focused to finish this one first,
20 and then you see how things are going.

21 To the extent they start that process in
22 2009 or 2010, you're probably not going to have that
23 flexibility until you actually do an annual increase
24 and if that were to be consistently agreed to by
25 future Boards.

1 Q Okay. Let me turn now to Cost Segment 2 and
2 direct your attention to page 40 of your testimony.
3 Cost Segment 2, of course, are the costs of the
4 supervisors and technical personnel.

5 A What page did you say you wanted?

6 Q Page 40.

7 A Page 40. Okay.

8 Q The amount of the dollars involved in this
9 cost segment are somewhat in excess of \$4 billion.

10 A Uh-huh.

11 Q Is that correct? If you look at Table 26
12 it's \$4 billion and change, depending upon which year
13 we're talking about.

14 A And these are supervisors, as well as the
15 technical personnel that are out there, as well as
16 administrative personnel. I think that description is
17 in the cost segment report.

18 Q Right. If you would now turn to your answer
19 to DMA Interrogatory 21, please? The subject, Mr.
20 Loutsch, that I would like to talk about is the extent
21 to which under the Postal Service's testimony in this
22 case the Cost Segment 2 costs vary.

23 In your response in the first couple of
24 lines, your response to DMA No. 21, you state, "The
25 revenue requirement includes supervisory cost

1 adjustments related to volume changes and as a part of
2 the BPI/LMI cost reduction."

3 Do I understand correctly from your
4 testimony that the revenue requirement does not
5 include supervisory cost adjustments related to
6 changes in the number of personnel being supervised?

7 A That's an interesting question. No. Well,
8 first of all, the number of people -- if I'm a
9 supervisor and I have 20 people one day and 19 people
10 the next day, no, it doesn't include that.

11 To the extent you have changes in workload
12 where workload declines, as we feed into the roll
13 forward the roll forward then has a volume adjustment,
14 which then feeds back into our expense.

15 To the extent that you have a volume decline
16 that reduces clerks substantially you would have that
17 impact would be reflected in the revenue requirement.

18 Q Here's what I'm talking about. Let's say
19 that there is no volume decline, but let's say that
20 there is a reduction of a relatively large number, say
21 10,000 clerks and mail handlers as a result not of
22 volume changes, but of the greater use of automation
23 machinery.

24 That would be a situation where the impact
25 of volume wouldn't have an impact because there is

1 none under my hypothetical, but where you would have a
2 significantly fewer number of clerks and mail handlers
3 that needed to be supervised because you would have
4 fewer of them, and the reason that you have fewer of
5 them has nothing to do with volume.

6 It has to do with changes in your operating
7 methodology; let's say for example because of the
8 greater implementation of automated machinery.

9 A Well, the first thing that comes to my mind
10 is that if you had a 10,000 person reduction in
11 workforce and you have 37,000 postal facilities it's
12 something under a third of a person per facility.

13 You need to understand we have small units
14 out there and even small mail processing units where
15 you may not have -- even though you may have a
16 reduction, you really don't change the supervisory
17 role.

18 We've provided the job descriptions. We've
19 provided the training to try to explain that some of
20 these people actually do things other than the direct
21 supervision of people. Now, beyond that if you were
22 dealing with a processing facility and you bring in a
23 new piece of equipment you're really kind of changing
24 the environment that these people are operating under,
25 okay?

1 It may take time before you're able to take
2 a supervisor out of that role because say a piece of
3 equipment does replace 20 people, okay, over two
4 supervisory responsibilities. It may take time to
5 retrain those people, or it may take time to maximize
6 the efficiency out of the equipment. Those issues can
7 be probably better addressed by Witness McCrery, the
8 operations witness.

9 Over time you still attempt to keep the
10 ratio of supervisors to staff reasonably constant over
11 time, so what we have is you have the cost reductions
12 where you may or may not -- if you're closing the
13 facility, you're taking out supervisors, okay? I
14 think you saw that in the HR and the EEO cost
15 reduction programs below.

16 If you're building a facility or adding a
17 facility you're going to add supervisors, which we
18 only had one program where we actually added 3,000
19 hours or something.

20 Over time we had the item called or line
21 items called the Breakthrough Productivity or the
22 Local Management Initiative. What those basically are
23 are budget. Those are basically budget issues, and I
24 think it describes it. I think Mr. McCrery describes
25 how that is set up in his part of L-49 I think if you

1 were to look at page 22 and 23.

2 You have this very large number for
3 breakthrough productivity initiatives that is broken
4 out, since we're talking two and three years ahead.
5 It's broken out based on an opportunity calculation.
6 It does have supervisory reductions in it. That's how
7 you would capture.

8 That is the strategy that the Postal Service
9 uses for capturing supervisory reductions because they
10 may not happen coincident with the implementation of
11 the new machines. That's why it's set up the way it
12 is.

13 Q Okay. Let me address your attention to your
14 answers to DMA Interrogatory 21B and C. I'm quoting.
15 "I am not aware of any studies or analyses that
16 address how much of a supervisor's responsibilities
17 are related to employees versus that related to mail
18 flows, networks and operations."

19 Am I correct in understanding that while you
20 admit that there may be some correlation between the
21 number of craft personnel and the number of
22 supervisors that it probably would be one to one and
23 that in any event the Postal Service hasn't tried to
24 quantify it?

25 A One to one? What do you mean by one to one?

1 It's probably more like one to 20.

2 Q Okay. Geometric. In other words, some
3 ratio. Whatever the ratio is of supervisors to
4 supervised employees. If you reduce the employees by
5 10 percent, there will be a corresponding 10 percent
6 reduction in the number of supervisors.

7 That's what one would expect from your
8 statement that over time the relationship between the
9 number of supervisors and the number of employees is
10 relatively constant.

11 A I'm not sure. Did I use the word constant?
12 I don't think I used the word. I mean, there is a
13 relationship, okay? The relationship may vary over
14 time.

15 Q Okay.

16 A I mean, your span of control. If you're
17 supervising a highly complex and technical piece of
18 equipment it probably takes more time to make sure
19 that equipment is operating efficiently than a much
20 more simple piece of equipment where you have maybe
21 two or three of them.

22 I will say intuitively I would say over time
23 the Postal Service will drive to try to capture cost
24 savings that may be peripheral to the specific cost
25 reduction program, and we could capture them through

1 the line item called BPI/LMI.

2 Q Okay.

3 A You know, we're laying out a plan here.
4 Basically it's a plan. We're saying we have programs
5 here, and these programs go through a review process,
6 and people agree to them. They take it out of their
7 budget.

8 Then there's other, the BPI/LMI, where you
9 may have less defined programs that are initiated at a
10 local level or at a national level that are then taken
11 out of a person's budget. I got to contribute to LMI
12 last year.

13 Q To go back to the subject of what studies
14 the Postal Service has and has not conducted with
15 respect to this phenomenon, and the phenomenon I'm
16 talking about is the relationship between the number
17 of supervisors to the number of supervised employees.

18 A Uh-huh.

19 Q If you could turn to your response to DMA
20 Interrogatory No. 27?

21 That appears, and I want to be sure that I
22 understand your testimony correctly, which is why I'm
23 asking the question. That appears to be in effect
24 another statement that the Postal Service simply
25 hasn't done that kind of an analysis. Is that a

1 correct interpretation?

2 A Yes. I tried to check into that and see,
3 you know, after you asked the question. Certainly no
4 one has asked me, taking my job description, and tried
5 to identify how many minutes a day I spend on one
6 versus the other.

7 In the field unit it seems to me that you're
8 more talking about a span of control under certain
9 environments than you're talking about how much
10 specific time a supervisor would spend on a specific
11 area because that would change depending on the
12 operating environment you're in, I would think.

13 Q Yes.

14 A I mean, I don't know this because I have
15 never supervised the plant operations. Again, it
16 might be best to talk to Witness McCrery, who has that
17 experience and has the charge to deal with those types
18 of issues.

19 Q Okay. You have attached to our
20 Interrogatory No. 27 some what are called position
21 descriptions of various types of supervisors. I found
22 it quite interesting, frankly.

23 A Was that 27? There was an earlier one,
24 wasn't there?

25 Q It's 21.

1 A Twenty-one?

2 Q Twenty-one. It's attached to your response
3 to No. 21.

4 A All right.

5 Q I noticed, for example, in the first one --
6 it's page 1 of 6 of the attachment -- that the very
7 first duty, and there are 10 duties listed there, but
8 the very first is the supervision of a "medium sized
9 group of employees engaged in mail processing and
10 distribution activities."

11 A similar description of the very first duty
12 and responsibility appear to be customer service
13 supervisors, and that's from page 3 of that same
14 attachment.

15 That all supports your answer to DMA 21C as
16 I understand it where you say, "Supervisors have a
17 range of responsibilities beyond their primary
18 function supervising a group of employees." Do you
19 see that? It's your answer to 21C.

20 A Uh-huh.

21 Q Okay.

22 A I mean, my answer I think to 21A was the
23 same thing where you asked, as I recall, are
24 supervisors responsible for supervising employees.
25 The answer is that's probably why you hire them.

1 Q Okay. To summarize your testimony, their
2 primary function is to supervise a group of employees,
3 but they have other things that they do as well.
4 Basically that's right?

5 A And what I'm trying to say also is depending
6 on the size of the organization that's being
7 supervised, a certain cost reduction program may or
8 may not eliminate a supervisory position.

9 Again I would bring up like a post office
10 operation where you had 20 carriers or 19 carriers or
11 18 carriers. That may not generate enough efficiency
12 to capture the person who's supervising that
13 operation.

14 In other cases you change the work
15 environment, and you may have a more complex piece of
16 equipment or you may be processing much more mail
17 through a particular piece of equipment. It may
18 require additional time in that particular situation
19 to be spent on things like some of the other functions
20 like collecting mail flow information or whatever.

21 It's not clear that in the short term
22 because you put a piece of equipment in on a national
23 basis, it's not clear in my mind where it would
24 reduce. Each piece of equipment you put in would
25 reduce say four positions or five positions in a

1 facility.

2 With that five positions there would also be
3 a one-quarter of a supervisor that would disappear.
4 Over the long term I think that you probably would
5 basically gravitate to the one to 20 through budget
6 pressure on the local manager.

7 Q Could you turn to your answer to DMA 29? We
8 asked you there for the Excel spreadsheet showing the
9 real estate sold by the Postal Service. You provided
10 quite a complex series of pages after that.

11 A Actually it was a surprise when I received
12 that.

13 MR. ACKERLY: Would it be possible, and
14 perhaps, Mr. Chairman, if I may to address this
15 question to counsel, for us to receive an Excel
16 spreadsheet? In other words, the electronic
17 spreadsheet on which this what I believe is a pdf has
18 been based.

19 MR. REITER: Yes. I will certainly look
20 into that.

21 CHAIRMAN OMAS: Thank you.

22 MR. ACKERLY: Thank you, Mr. Chairman.
23 That's all we have, Mr. Chairman.

24 CHAIRMAN OMAS: Thank you very much, Mr.
25 Ackerly.

1 Any questions from the bench? Commissioner
2 Goldway?

3 COMMISSIONER GOLDWAY: Thank you, Mr.
4 Loutsch, for explaining the various issues brought up
5 by DMA counsel. I just have a couple of questions
6 that have surfaced in the same areas.

7 When you pulled out the estimates for the
8 additional revenue that was going to come from real
9 estate sales were you looking at a pattern of
10 increased sales of Postal Service real estate over the
11 last few years? Was there an indication that more
12 real estate was being sold than in previous years?

13 THE WITNESS: I believe there was. I'm not
14 sure how well I can explain this because I don't know
15 that much about the actual real estate sales function
16 and how they go about doing their business, but the
17 numbers that I was looking at on the sheets, you just
18 have these very sporadic, very, very large sales. I
19 think one of them was the facility in San Francisco
20 when we sold that.

21 COMMISSIONER GOLDWAY: Right.

22 THE WITNESS: And so you'll have a big sale,
23 and then you'll go for several years. Particularly I
24 think as I recall there was pretty much a budget
25 freeze on capital spending during the early 2000 era

1 when things were looking very, very bad after 9-11 and
2 all. You notice that the investment or the sales, the
3 gains on the sales were fairly small.

4 I don't know if this is conjecture or
5 whatever, but if you have a distribution and
6 processing network where we're moving the mail around
7 the country to the extent we have excess facilities I
8 think the Postal Service sells them.

9 To the extent that we have in-place
10 facilities and you're say closing a post office and
11 putting in a new facility, you're generally replacing
12 a very heavily depreciated asset with a full current
13 cost asset.

14 I would think in periods where you're doing
15 a budget freeze since you still have to have that
16 facility that when you're doing a budget freeze on
17 capital you have a tendency to sell less of the
18 smaller items or the smaller buildings and such
19 because you don't have the money to invest in the new
20 ones.

21 As you have more cash and more capital, I
22 think there's a tendency to improve facilities. I
23 know we just --

24 COMMISSIONER GOLDWAY: You know, I'm not an
25 expert on these things, and I see things the way an

1 ordinary homeowner would, which is that you've used a
2 property for 25 years. It's all paid for. You sell
3 it, and you get a whole lot more money for it than you
4 paid for it in a lot of places around the country, and
5 that's especially true in the last three or four
6 years.

7 Now, you have this depreciation formula, so
8 does that on the books change the amount of money that
9 you're saying you got for the property? If you bought
10 the property and depreciated it and then you sell
11 it --

12 THE WITNESS: Your gain would be
13 substantially higher.

14 COMMISSIONER GOLDWAY: Higher?

15 THE WITNESS: Higher.

16 COMMISSIONER GOLDWAY: Because you've
17 depreciated it?

18 THE WITNESS: The idea is you're taking a
19 piece of that property and applying it as an expense
20 during your ownership of the property, so as the book
21 value declines, the cost minus the depreciation, the
22 value on your books is smaller so as the money goes up
23 the difference, which is the gain, becomes higher.

24 COMMISSIONER GOLDWAY: Okay. It would seem
25 to me that even in times of being strapped for cash

1 selling property brings in revenue. It doesn't hurt
2 the Postal Service.

3 THE WITNESS: Well, I think it probably
4 depends on what you're replacing.

5 You know, assuming you have to replace the
6 facility, say you own a facility in a 50-year-old
7 shopping center in an area of town that's deteriorated
8 and you're going to build a new facility. You may not
9 generate the kind of return that you would on a house,
10 you know, in a nice neighborhood.

11 COMMISSIONER GOLDWAY: Yes, but it looks to
12 you like over the last few years there has been an
13 increase in revenue from real estate sales?

14 THE WITNESS: There was a pickup in the gain
15 in real estate in 2003.

16 COMMISSIONER GOLDWAY: Yes. You know, I
17 live in California, and even the most run down areas
18 have had increases in property values.

19 THE WITNESS: I believe that, yes.

20 COMMISSIONER GOLDWAY: That's true I would
21 say in at least a third of the nation.

22 I guess one thing that you were looking at
23 in the past few years thinking that there would be
24 this at least ongoing cash coming in from real estate
25 transactions?

1 THE WITNESS: Correct.

2 COMMISSIONER GOLDWAY: Was there any
3 factoring in in these projections of the Postal
4 Service's plan to decrease its number of facilities,
5 reduce its number of facilities, consolidate
6 facilities around the country so that there would be
7 less real estate?

8 THE WITNESS: Well, in an indirect way. We
9 did have discussions, and I think you're referring to
10 the whole NIA plan or the whole rationalization of the
11 network.

12 COMMISSIONER GOLDWAY: Yes.

13 THE WITNESS: We did have a conversation
14 with the project team, and this was back probably in
15 December.

16 Basically the effect, we didn't see much
17 effect through 2008 that wasn't already included in
18 some form of BPI program, be it a reduction in the
19 transportation or just a reduction in staff of one
20 type or another. You know, we basically assumed it
21 was in BPI or within those goals.

22 I mean, eventually we're going to run out of
23 places that we can just cut and make things more
24 efficient. You're going to have to go to some other
25 approach to capturing those gains or those cost

1 reductions.

2 COMMISSIONER GOLDWAY: Although we've been
3 told that the number of facilities is going to be
4 reduced over time with this END plan --

5 THE WITNESS: Right.

6 COMMISSIONER GOLDWAY: -- or whatever it's
7 called, that really hasn't been factored into these
8 plans in terms of real estate?

9 THE WITNESS: No, because I understood the
10 impact was mostly going to be just a little bit in the
11 end of 2008 and on, but to the extent they're doing
12 the mail processing consolidations that they've
13 proposed, I mean that would generally be considered a
14 BPI program. That type of thing would be considered a
15 BPI program.

16 COMMISSIONER GOLDWAY: So it wouldn't show
17 up there?

18 THE WITNESS: Well, it wouldn't show up as a
19 specific line item, no.

20 COMMISSIONER GOLDWAY: You mentioned the
21 growth in passport sales.

22 THE WITNESS: Uh-huh.

23 COMMISSIONER GOLDWAY: And that does look
24 like it's going to increase as the laws change. Do
25 you have any estimate about what that amount will be

1 over time?

2 THE WITNESS: I mean, my intuition is that
3 you're going to have relatively -- well, you've had
4 relatively significant increases, but I think it will
5 probably taper off and get to a fairly constant level
6 after the initial rush of people that go to Canada and
7 the Caribbean and get their passports, which I don't
8 know how long they're good for any more, but it used
9 to be I think 10 years.

10 I think you'll have a ramping up, and then
11 it will drop off. It won't drop off to where it was
12 before. I've talked to the revenue forecasting
13 people, and they're going to take a look at that.

14 COMMISSIONER GOLDWAY: Do you think it will
15 happen within this test year, this increase? That
16 there will be an increase above what's in your general
17 forecast within the test year?

18 THE WITNESS: I don't know because that's
19 grouped with a whole group of accounts that are
20 estimated together based on averages.

21 COMMISSIONER GOLDWAY: You said you're going
22 to talk to people about that. Would there be any
23 information that you could provide to the Commission
24 on the amount of revenue you expect in those years, in
25 the years covered by this case?

1 THE WITNESS: I'd have to talk to them. I
2 don't know what they're going to do about improving
3 the process. I had talked to them about before the
4 next rate case.

5 COMMISSIONER GOLDWAY: Could the Commission
6 get a response, perhaps an institutional response, on
7 how we can expect revenues from passport sales to
8 change in the years covered by this rate case?

9 MR. REITER: We can look into that and
10 provide you an answer, yes.

11 COMMISSIONER GOLDWAY: Thank you.

12 I had another question. You had said that
13 it's the Board of Governors who makes the decision on
14 the contingency. They look at it, and they determine
15 its relevance.

16 THE WITNESS: Yes.

17 COMMISSIONER GOLDWAY: When the Board of
18 Governors is presented the information to make a
19 determination on a contingency, is it given just a
20 staff recommendation of one percent, or is it given
21 operations?

22 You can do .5 percent, and this is what the
23 impact would be, one percent, 1.5, or were they just
24 given the one percent as what the staff recommended
25 when they deliberated?

1 THE WITNESS: I don't know exactly what they
2 were given. I know I had worked up alternatives.

3 COMMISSIONER GOLDWAY: You did work up
4 alternatives?

5 THE WITNESS: I did work up different
6 scenarios, which is kind of a normal process for us.
7 How far it goes up the chain, I just don't know what
8 they were actually presented with.

9 COMMISSIONER GOLDWAY: Okay. You had one
10 phrase that I wasn't very clear about. You said that
11 in the real estate you had pulled out only the
12 collections of real estate, not the net gain. Can you
13 explain that to me?

14 THE WITNESS: If you have some patience. In
15 the former general ledger, and this is just as I
16 understand it from the accountant. In the former
17 general ledger it was a COBALT system --

18 COMMISSIONER GOLDWAY: Yes.

19 THE WITNESS: -- made up of a whole group of
20 individual processing programs. When they
21 consolidated the general ledger and brought files
22 together they tried to have control numbers.

23 One of the control numbers that one would
24 want to have is the real estate where you booked
25 receipts. You needed to have a number that tied into

1 the change in cash and so when they booked it they
2 would book gross collections on sales as just an
3 account with an offsetting account so that number
4 would be readily apparent in the general ledger, and
5 then we could tie it into the cash account.

6 I'm not exactly sure exactly how that
7 process worked as far as the reconciliation. The
8 other aspect of it was you had an easy number, a
9 specific account when one of the financial managers or
10 senior managers came back and said how much money did
11 we get on those sales. You had an absolute amount of
12 what the sales were.

13 It was carried over into the new general
14 ledger, and I'm not exactly sure why that methodology
15 or that account structure was carried over. I suspect
16 it was carried over because they didn't have time to
17 modify all the subordinate accounting processes and
18 that some day they may do that. You know, they may
19 actually clean that up.

20 It's not a particularly useful account
21 beyond the sense when you're talking about gains on
22 sales because it's just gross collections.

23 COMMISSIONER GOLDWAY: Finally, I had this
24 question in other rate cases. When you do the
25 estimates for what the basic value of the Postal

1 Service is now -- you know, its book value, its net
2 assets -- do you factor in the increase in value of
3 the real estate?

4 THE WITNESS: No. The reason we don't is
5 that as of right now the generally accepted accounting
6 principles do not allow that level of judgmental
7 flexibility in reporting financial results because in
8 the end it would be pretty much a judgment as to how
9 much each of the 30,000 buildings were worth, and if
10 that were to affect your bottom line you could pretty
11 much make your bottom line whatever you wanted.

12 COMMISSIONER GOLDWAY: Couldn't you get
13 certified real estate appraisers to do that?

14 THE WITNESS: You could do that, but you do
15 have -- what is it? I think it's 27,000 or 30,000
16 facilities.

17 COMMISSIONER GOLDWAY: Yes. Yes.

18 THE WITNESS: You know, that would be
19 additional expense. The number from the generally
20 accepted accounting principles standpoint, they have
21 so far stuck with cost.

22 COMMISSIONER GOLDWAY: I just think of the
23 facilities you guys have in Manhattan alone, and it
24 seems to me you would add \$1 billion to your bottom
25 line, you know, if you were talking about the value of

1 the postal system now. I find these discussions about
2 not having assets or being at \$3 billion totally
3 unrealistic.

4 THE WITNESS: Well, to put it a little
5 differently, if you're required to have that facility
6 in New York and presuming that other facilities are
7 also going to cost you \$1 billion, the money basically
8 as far as I'm concerned it seems to be fairly locked
9 up, and if you release the money you end up having a
10 substantial increase in your ongoing costs.

11 I think turnaround specialists will go into
12 a company and they'll sell off all the real estate and
13 bring it back, lease the same property back on a
14 lease-back, pay themselves their initial investment
15 and then take the company to an IPO or, you know, do a
16 public offering of the company.

17 The company then, when it goes back to the
18 market, it has a whole different cost structure to it,
19 and to the extent that the Postal Service wanted to
20 capture those gains yet was required to keep that
21 facility, it would just increase the rates. It would
22 basically push rate increases out by capturing that
23 money today.

24 With the other overhangs over the Postal
25 Service the increasing areas such as this escrow, the

1 \$60 billion or so of unfunded retiree benefits, health
2 benefits, I don't know how much you can push forward
3 and still not cause yourself difficulties 10 years
4 down the line, 15 years down the line.

5 I mean, I haven't done the analysis, but my
6 gut tells me that that's what you're doing. You're
7 basically moving from this time to moving the rate
8 increases forward a little.

9 COMMISSIONER GOLDWAY: That's interesting.
10 Okay. I appreciate that answer.

11 All right. Thank you. That's all I have.

12 CHAIRMAN OMAS: Commissioner Tisdale?

13 VICE CHAIRMAN TISDALE: Yes. I just wanted
14 a clarification on something I thought I heard you
15 say, and you can tell me whether or not that's what
16 you said or what you meant. This concerned the
17 economic impact of the END program.

18 THE WITNESS: Uh-huh.

19 VICE CHAIRMAN TISDALE: I thought I heard
20 you say that the effect on the budget was considered
21 just a little bit at the end of 2008.

22 THE WITNESS: What I was referring to, if
23 you look at the overall scheme for END there were
24 processing facilities sometime in the future. There
25 were going to be processing facility consolidations of

1 one type or another.

2 I had no specifics other than in concept one
3 would simplify the network and structure in such a way
4 that you could get the maximum efficiencies out of it.
5 So that's one type of change, and that was the change
6 that as we were talking about it we were thinking
7 that's probably 2008 or beyond because you potentially
8 have building modifications to make, equipment
9 relocations, if you were going to do anything like
10 that.

11 There's a lot of work that has to be done,
12 and it will take some time I would suspect. There was
13 no indication that this was going to be in 2007 or
14 whatever.

15 On the consolidation efforts that you're
16 looking at where they're moving cancellations from one
17 facility to another, again I'm not that familiar with
18 it, but those would be relatively smaller dollar cost
19 savings, you know, compared to facility consolidation.

20 It would be smaller cost savings that would
21 be captured under the BPI, which is basically a
22 generalized category that says we're going to try to
23 reach these cost savings each year, so there would be
24 two aspects of it.

25 VICE CHAIRMAN TISDALE: Okay. So you

1 wouldn't expect that to really affect the budget very
2 much until some later point?

3 THE WITNESS: Yes. I would expect that that
4 would take a little bit of time to get in, but you
5 probably know more about NIA and END than I do at this
6 point.

7 VICE CHAIRMAN TISDALE: Okay.

8 THE WITNESS: We did specifically ask that
9 question, and the response was BPI more than covers
10 anything that we could think of before 2008, you know,
11 in addition to others. I mean, there's BPI. There's
12 just a general budget cut type deal where you're
13 looking for opportunities to increase your efficiency.

14 VICE CHAIRMAN TISDALE: Okay. Thank you.

15 CHAIRMAN OMAS: Commissioner Hammond?

16 COMMISSIONER HAMMOND: I have no questions
17 right now. Thank you.

18 CHAIRMAN OMAS: Thank you.

19 Mr. Loutsch, I do have a question. Your
20 Exhibit 60 cites as sources of estimated revenues
21 Witness O'Hara's Exhibit 31A, 31B and 31C revised.

22 Do you know if those revised exhibits have
23 been filed with the Commission?

24 THE WITNESS: I do not know. I would have
25 to rely on the lawyers, the attorneys.

1 MR. REITER: I don't know for sure, but I
2 think that they have not yet, and I think Mr. Loutsch
3 may have indicated that earlier. Didn't you say that?

4 THE WITNESS: Well, yes. I mean, I think
5 they have not because I only received the information
6 last I think it was Thursday, Wednesday evening or
7 Thursday, as to what the changes were, and I think he
8 had a number of changes to make.

9 MR. REITER: Right, but we wanted to be sure
10 that the effect of that was incorporated into Mr.
11 Loutsch's testimony since he was going to be here on
12 the first day.

13 My understanding is that Witness O'Hara is
14 scheduled for much later in the process, so I'm
15 relatively sure that you will have all of the updates
16 to that before he appears. We can check on that if
17 you need to know anything further.

18 CHAIRMAN OMAS: Mr. Reiter, I know it's
19 difficult to handle the volume of documents involved
20 in supporting an omnibus rate request. I want to make
21 it clear, however, that the Commission is very
22 concerned that the record reflect consistent corrected
23 Postal Service exhibits and supporting workpapers.

24 Please convey this to all the Postal Service
25 attorneys working on this case. We would consider

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1 that to be very helpful.

2 MR. REITER: I will do that, and I can
3 assure you we're already aware of that, but I will
4 pass along your reminder.

5 CHAIRMAN OMAS: Okay. Thank you. We want
6 to work with you, but we'd like for you to work with
7 us as well.

8 MR. REITER: We understand that you have a
9 lot to do as well.

10 CHAIRMAN OMAS: Thank you. Mr. Reiter,
11 would you like some time with your witness?

12 Wait. Excuse me.

13 COMMISSIONER GOLDWAY: I just wanted to
14 underline the Chairman's request for prompt data and
15 point out that because Witness O'Hara is the last day
16 it I think is really important that his updated
17 information be submitted at least a week before he
18 appears so that people who intend to cross-examine him
19 have the most current information.

20 MR. REITER: Yes. We understand that as
21 well, and I did not mean to imply that we would wait
22 until the last minute simply because he was scheduled
23 last.

24 CHAIRMAN OMAS: Yes. It's not only for the
25 Commission. Whatever the Commission gets we make

1 public. It's only fair that those involved in the
2 case have up-to-date information rather than making
3 them wait until the last minute and that they be
4 revised and be sent to us in a timely manner.

5 Would you like some time with your witness,
6 Mr. Reiter?

7 MR. REITER: If you would give me just a few
8 seconds, I can let you know if I will need that or
9 not.

10 CHAIRMAN OMAS: Well, I can give you a
11 minute.

12 MR. REITER: Okay.

13 (Pause.)

14 MR. REITER: Could we have five minutes,
15 please?

16 CHAIRMAN OMAS: Yes.

17 MR. REITER: Thank you.

18 CHAIRMAN OMAS: Okay. We'll recess for
19 about five minutes.

20 (Whereupon, a short recess was taken.)

21 CHAIRMAN OMAS: Mr. Reiter?

22 MR. REITER: We have no questions, Mr.
23 Chairman, but thank you for the time.

24 CHAIRMAN OMAS: Mr. Loutsch, that completes
25 your testimony here today. We appreciate your

1 appearance and your contribution to our record. We
2 thank you, and you are now excused.

3 THE WITNESS: Thank you very much.

4 (Witness excused.)

5 CHAIRMAN OMAS: If there is nothing else
6 further today, this concludes today's hearing. We
7 will reconvene tomorrow at 9:30 a.m. when we will
8 receive testimony from Postal Service Witnesses Miller
9 and Hintenach.

10 Thank you and good day.

11 (Whereupon, at 11:35 a.m. the hearing in the
12 above-entitled matter was adjourned, to reconvene at
13 9:30 a.m. on Friday, August 4, 2006.)

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REPORTER'S CERTIFICATE

DOCKET NO.: R2006-1
CASE TITLE: Postal Rate and Fee Changes
HEARING DATE: 8/3/06
LOCATION: Washington DC

I hereby certify that the proceedings and evidence are contained fully and accurately on the tapes and notes reported by me at the hearing in the above case before the *Postal Rate Commission*

Date: 8/3/06

Benedict J. Herboso

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