

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

**Periodic Reporting**

**Docket No. RM2008-2**

**Initial Comments Of Major Mailers Association**

Pursuant to Order No. 99,<sup>1</sup> Major Mailers Association (MMA) submits the following initial comments on the August 11, 2008 "Request of the United States Postal Service for Commission Order Amending the Established Costing Methodologies for Purposes of Preparing the FY 2008 Annual Compliance Report (August 11 Request).

MMA takes no position on the nine noncontroversial changes in cost methodology that the Postal Service proposed in ACR2008 and the Commission has redocketed as RM2008-1. Rather, MMA takes exception to the Postal Service's failure to propose a change for what certainly should be an equally noncontroversial matter – determination of workshare delivery cost savings using actual rather than theoretical, model-derived Delivery Point Sequencing Percentages (DPS %).

In ACR2007, MMA raised several problems with the existing methodology for determining workshare cost savings. *See Annual Compliance Report*, Docket No. ACR2007, Initial Comments Of Major Mailers Association, dated January 30, 2008 (MMA ACR2007 IC) at 9-17. With respect to measurement of delivery cost savings, MMA focused on only one obvious problem - the use of theoretical model-derived DPS %s that cannot be squared with readily available actual DPS % information. MMA ACR2007 IC at 15-16.

In a nutshell, the problem is that the Postal Service's theoretical model-derived DPS %s for NonAutomation and Automation letters are virtually identical whereas actual DPS % data show that the mail flow models significantly overstate the successful DPS rate for NonAutomation Letters while the overstatement for Automation Letters is much more modest. Table 1 (which was Table 9 in MMA's ACR2007-1 IC) compares the

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<sup>1</sup> *Periodic Reporting*, Docket. No. RM2008-2, Notice Of Proposed Rulemaking On Costing Methods Used In Periodic Reporting, issued August 14, 2008 (NOPR).

Postal Service's theoretical DPS% s with the most recently available actual DPS %s taken from the record in R2006-1.

Table 1  
Comparison of Theoretical and Actual DPS %s

First-Class Letter Category	DPS %s From Models	Actual R2006-1 DPS %s	DPS % Change
NonAutomation Total	86.93%	77.22%	9.71%
Automation Total	89.05%	85.24%	3.81%

Table 2 (taken from Table 10 of the MMA ACR2007-1 IC) shows the impact on delivery cost savings of using actual versus theoretical DPS %s.

Table 2  
Comparison of Delivery Cost Savings (Cents)

First-Class Workshared Category	USPS	Corrected	Change
NonAuto Mach (All Presort Levels)	0.07	0.05	-0.03
Auto Mixed AADC	-0.14	0.51	0.65
Auto AADC	0.09	0.67	0.58
Auto 3-Digit	0.13	0.70	0.57
Auto 5-Digit	0.28	0.83	0.55

Source: MMA-FY07-1, page 1

As Table 2 shows, use of actual DPS % data also has a material effect on the level of delivery cost savings.

In its Annual Compliance Determination,<sup>2</sup> the Commission ruled that ACR2007 was not the appropriate proceeding in which to resolve the problems raised by MMA. Accordingly, it deferred considerations to an unspecified future proceeding. However, the Commission specifically directed the Postal Service to address MMA's delivery cost issue prior to its ACR2008 Annual Compliance Report. As the Commission stated:

Regarding MMA's comments, the Commission agrees with the Postal Service that using modeled DPS'd percentages to develop unit delivery costs for individual rate categories is an established Commission practice. The

<sup>2</sup> *Annual Compliance Report*, Docket No. ACR2007, Annual Compliance Determination, issued March 27, 2008 (ACR2007 ACD).

Commission concludes that it would be imprudent to make such a substantial change in methodology in this proceeding. However, the use of sampled DPS'd delivery percentages rather than DPS'd percentages developed in mail processing models may be appropriate for the development of unit delivery costs. The Postal Service should review this issue prior to its next annual report.<sup>3</sup>

There is nothing controversial about using actual rather than theoretical model-derived DPS% s to measure delivery cost savings due to worksharing. Indeed, the concept of using actual data when they are available is entirely consistent with the Commission's approach to other results produced by the Postal Service's mail flow models. In this regard, the Postal Service first began using mail flow models to derive workshared cost savings in R97-1. From the inception of this practice, the results of the mail flow model did not square with actual costs as reported in the Postal Service's Cost and Revenue Analysis (CRA). Therefore, as the Postal Service and Commission have recognized, the model-derived costs must be reconciled with actual CRA costs.

What MMA is proposing for delivery costs is no different. MMA's methodology effectively reconciles the theoretical DPS %s produced by the mail flow models to readily available actual DPS %s. Where actual data are available, there simply is no reason not to test theoretical results against actual data.

The fact that using theoretical DPS %s to derive delivery cost savings by rate category is an established practice does not obviate the need to reconcile them the actual DPS %s. The fact is that this "practice" of not reconciling theoretical DPS %s to actual DPS %s arose and was perpetuated apparently because neither the Postal Service nor the Commission knew that actual DPS %s were readily available. In fact, in R2005-1, the Postal Service indicated that such actual data were not available.<sup>4</sup>

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<sup>3</sup> ACR2007 ACD at Appendix B, p. 9. The Commission also stated "[t]his is an issue the Commission also may examine after it establishes rules to alter cost or pricing methodologies outside of annual compliance reviews and/or annual price cap filings." *Id.* Since the Commission just recently proposed such rules in RM2008-4, it is obvious that the Commission will not be able to institute a separate proceeding to consider and resolve MMA's single delivery cost issue prior to the Postal Service's ACR2008 Report.

<sup>4</sup> In response to R2005-1 Interrogatory MMA/USPS- T21-6 (B), USPS witness Abdirahman testified "[t]he Postal Service does not collect DPS percentages by rate category. It is therefore not possible to reconcile the model-derived DPS percentages with actual DPS percentages." USPS witness Kelley testified in response to Interrogatory MMA/USPS-T16-4-F that he did not use any actual data to independently evaluate whether the theoretical model-derived DPS %s were reasonable or accurate. In

R2006-1 was the first case in which actual DPS % information was made available by the Postal Service. As soon as the Postal Service made actual DPS %s available, MMA used them to reconcile the obviously flawed theoretical DPS %s used by the Postal Service.

Reconciling theoretical DPS %s to actual data has a additional benefit. As Table 2 shows, the Postal Service's use of theoretical DPS %s produces anomalous, counter-intuitive results, namely that the delivery cost savings for NonAutomation letters are positive while the cost savings for Auto Mixed AADC letters are *negative*. See Table 2 above. As the Commission stated (ACR2007-1 ACD at Appendix B, p. 6(citation omitted),

MMA's method increases the difference between non-automation machinable presort and automation DPS'd percentages, thereby increasing avoided unit delivery casing costs for automated mail categories. Specifically, it solves what might be considered an anomaly, namely that Non-Auto Machinable mail for all presort levels had higher delivery workshared savings than Auto-Mixed AADC.

Derived cost savings should make sense. MMA's procedure of reconciling theoretical DPS % to actual data produces results that make sense. The Postal Service's practice of not reconciling model-derived DPS %s to actual information makes no sense and produces flawed results.

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R2006-1, USPS witness Kelley indicated in response to Interrogatory MMA/USPS-T30-5A that actual DPS %s "could have been calculated" in R2005-1 but apparently were not. See Tr. 12/3350.

## CONCLUSION

For all of the foregoing reasons, the Postal Service should be required to address MMA's workshare delivery cost issue prior to its ACR2008 Report, as the Commission has directed.

Respectfully submitted,

**Major Mailers Association**

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