

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268B0001

POSTAL RATE AND FEE CHANGES
PURSUANT TO PUBLIC LAW 108-18

Docket No. R2005-1

INSTITUTIONAL RESPONSE OF UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF VALPAK DIRECT MARKETING SYSTEMS, INC.
AND VALPAK DEALERS' ASSOCIATION, INC.,
REDIRECTED FROM WITNESS SHAW
(VP/USPS-T2-30)
(July 1, 2005)

The United States Postal Service hereby provides its institutional response to interrogatory of Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc.: VP/USPS-T2-30, filed on June 17, 2005 and redirected from witness Shaw.

The interrogatory is stated verbatim, followed by the response.

Respectfully submitted,
UNITED STATES POSTAL SERVICE

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VP/USPS-T2-30.

The Data Quality Study (April 16, 1999), which was prepared for the Postal Service by A. T. Kearney, Inc., recommended (at p. 41) that one option for improving distribution key share data for MODS costs pools would be to replace the IOCS with a new sampling system that measures the actual concept of interest. What consideration is the Postal Service giving to this recommendation? Please describe any steps that have been taken in that regard.

RESPONSE:

The Data Quality Study offered two alternatives for improving "distribution key share" data for mail processing. Option A was to "Replace IOCS with a new sampling system that measures the actual concept of interest," and Option B was to "Retain IOCS with additional sub-sampling of mixed mail." Data Quality Study Summary Report at 42. The Summary Report further noted that "the study team did not conduct an exhaustive cost-benefit analysis for the replacement of IOCS." (Id.)

As part of its review of this Data Quality Study recommendation, the Postal Service weighed both options. The Study characterized Option A as requiring the Postal Service to: "Define the cost drivers for each MODS cost pool; and [] [d]efine a sampling system to collect the appropriate distribution key data for each cost pool." Id. at 41. For the mail distribution cost pools where the Postal Service's econometric models define piece handlings as the formal cost drivers, the Postal Service concluded that existing IOCS sampling procedures, with minor modifications, already collected information on the quantities of interest.

While the Study suggested sampling the output bins of barcode sorters rather than the mailpiece in an operator's hand, IOCS sampling procedures already yielded either a mailpiece in hand or a mailpiece from the input or output of a machine. That is,

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IOCS draws a sample of pieces from the mailflow through a given cost pool at random intervals given by the sampled instants of work time. The Postal Service's conclusion was that IOCS substantially met the requirements of Option A.

One apparent attraction of sampling output bins was the sampling of more mail pieces. However, obtaining more mail pieces per test would not necessarily improve sampling precision materially since most variation is captured between tests, rather than within a test.

The necessity of obtaining information on allied labor cost drivers such as container handlings, where "output" sampling is inapplicable or impractical, led to close consideration of the Study's Option B.

In evaluating costs and benefits of the options, the Postal Service determined that the existing IOCS sampling procedure has a substantial benefit in that it automatically assigns larger shares of sample observations to operations with relatively large labor costs, and does not require expert attention and redirection of sampling resources away from declining operations and towards growing ones. An alternative such as the machine output sampling suggested by the Study would require substantial effort by Postal Service analysts to monitor equipment deployments and usage to ensure sample observations were directed appropriately. Otherwise, it is possible that data collectors in an alternative system could discover that equipment scheduled for sampling had been decommissioned (e.g., FSM 881) while the replacing equipment (e.g., AFSM 100) was not being sampled.

Last, the Postal Service considered that in addition to ratemaking data, IOCS provides valuable data outside of its ratemaking use (developing costs by subclass)

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since it routinely collects detailed data on the actual work activities of employees in the sampled crafts. Losing this information in the process of turning IOCS into a vehicle suited only to collection of subclass distribution key data would hamper understanding of Postal Service operations and, indirectly, our ability to defend cost methods and results. In this light, the Postal Service disagrees with the Study's contention that data for "not handling" observations are "discarded" (id. at 42) and thus constitute an inefficiency of IOCS.

The Postal Service thus chose to retain IOCS and revamp the IOCS data collection instrument to provide for greater consistency between current operations and employee activity questions, to increase the accuracy of recorded mailpiece data, and to obtain additional information for mixed-mail observations as called for by the Study's Option B. The Postal Service is also continuing to study methods by which mixed-mail data may be further improved.