

ORDER NO. 1482

UNITED STATES OF AMERICA  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Before Commissioners:

George Omas, Chairman;  
Dawn A. Tisdale, Vice Chairman;  
Mark Acton; Ruth Y. Goldway; and  
Tony L. Hammond

Postal Rate and Fee Changes

Docket No. R2006-1

ORDER ACCEPTING CERTIFICATION AND SUSTAINING,  
IN PART, OBJECTION OF INTERVENORS TO DESIGNATION  
OF RESPONSES TO PRESIDING OFFICER'S INFORMATION  
REQUESTS FOR INCLUSION IN THE RECORD

(Issued November 8, 2006)

On October 16, 2006, the Presiding Officer designated the Postal Service's responses to Presiding Officer's Information Request No. 4, Questions 4-12, and Presiding Officer's Information Request No. 16, Questions 13-21, for inclusion in the record. P.O. Ruling R2006-1/83. On October 17, 2006, 18 intervenors jointly objected to their inclusion in the record.<sup>1</sup> The Presiding Officer has found that this pleading raises important questions of both law and policy under Rule 32(b) of our rules of practice, and has certified the intervenors' objection to the full Commission for

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<sup>1</sup> Objection of Magazine Publishers of America, Inc., American Business Media, Advo, Inc., Alliance of Nonprofit Mailers, Association for Postal Commerce, Direct Marketing Association, Dow Jones and Co., Inc., Growing Family, Inc., Mail Order Association of America, Mailing & Fulfillment Service Association, The McGraw-Hill Companies, Inc., National Association of Presort Mailers, National Postal Policy Council, National Newspaper Association, Parcel Shippers Association, Saturation Mail Coalition, Time Warner Inc. and U.S. News & World Report, L.P., to Receipt into Evidence of the Response of the United States Postal Service to Presiding Officer's Information Request No. 4, Questions 4-12, and Presiding Officer's Information Request No. 16, Items 13-21, October 17, 2006 (Objection).

disposition.<sup>2</sup> The Commission concurs with the Presiding Officer's finding, and accepts certification.

Prior to Docket No. R2005-1, the postal community had been relying primarily on the results of a set of engineering studies conducted in the 1980s to attribute city delivery carrier street time costs. In Docket No. R2005-1, the Postal Service proposed that these studies be replaced by econometric models based on City Carrier Street Time Study (CCSTS) data. The CCSTS survey data was collected in FY 2002 specifically for modeling street time costs.

The data collected and the modeling applied in the CCSTS study were fundamental departures from established methods. Under ordinary circumstances, this would require a thorough vetting of the data collection methods and the theory and implementation of the models employed. A settlement was reached before the issue of attributable street time costs was fully litigated and a complete record could be compiled. See PRC Op. R2005-1, ¶¶ 4012-18. Because of the unique posture of the case, the Commission decided to employ the CCSTS study's results, rather than continue to rely on the 1980s studies. It did so without reaching a conclusion on the merits of the CCSTS study, except in the sense that a set of street time variability estimates was required in order to determine whether the settled rates covered their overall attributable costs.

In Docket No. R2005-1, the Commission noted numerous apparent weaknesses in the approach taken by the CCSTS study to data collection and editing, and the subsequent modeling of the data. *Id.* at ¶¶ 4030-91. It ultimately concluded, however, that the weaknesses of the new study were less serious than the gross obsolescence of the established methods of attributing street time costs. The Commission took comfort from the realization that the new study would not serve as precedent in future cases under the stipulation that settled Docket No. R2005-1. The Commission urged the Postal Service to re-analyze numerous aspects of carrier street time attribution prior to

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<sup>2</sup> P.O. Ruling R2006-1/83.

the next general rate case. *Id.* at ¶ 4018.

In the current docket, the Postal Service's Request contains no substantive testimony regarding attributable street time costs. It makes no reference to the new CCSTS data that the Postal Service collected in FY 2004, and it does not refine the modeling of carrier street time that was begun in Docket No. R2005-1. Instead, its Request incorporates the street time variability estimates that were employed in Docket No. R2005-1, based on the FY 2002 CCSTS data and associated models. The Postal Service explains that there was too little time between the issuance of the Commission's Opinion in Docket No. R2005-1 and the preparation of its Request in the current docket "to refine the city carrier costing study along the lines indicated by the Commission." USPS-T-14 (Bradley) at 10.

On June 1, 2006, in an effort to strengthen the record regarding attributable street time costs, the Presiding Officer asked the Postal Service to provide the FY 2004 CCSTS data and to illustrate the effect that using the more recent dataset would have on the variability estimates produced by its Docket No. R2005-1 street time models. See Presiding Officer's Information Request No. 4, Questions 4-12. On June 9, 2006, the Postal Service filed a status report explaining that converting FY 2004 CCSTS data into a usable dataset would require extensive processing and review, and that modeling would require additional analysis if it were to incorporate improvements suggested by the Commission's R2005-1 Opinion. For these reasons, the Postal Service concluded, responding to Presiding Officer's Information Request No. 4 would require 13 to 18 weeks of additional work.<sup>3</sup> The Postal Service ultimately filed its response on September 22, 2006. After reviewing the response, the Presiding Officer asked a series of follow-up questions. See Presiding Officer's Information Request No. 16, Questions 13-21. Responses were provided on October 12, 2006.

The intervenors' objection argues that the Presiding Officer's Information Request responses at issue describe potentially significant differences between the

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<sup>3</sup> Status Report of the United States Postal Service Regarding Responses to Items 4-12 of POIR No. 4, June 9, 2006.

FY 2002 CCSTS dataset and the FY 2004 dataset with respect to such properties as sample size, the specific ZIP codes sampled, and the source of volumes. The objection adds that potentially significant changes were made to the scan rules applied by the data collectors in FY 2004, which required changes in the algorithms that interpret them. It notes, as well, that the Presiding Officer's Information Request responses at issue describe significant differences in the model variants that the Postal Service applied to the FY 2004 data, some of which respond to the suggestions for improvement contained in the Commission's Opinion in Docket No. R2005-1. Objection at 7-9.

The objection asserts that the referenced Presiding Officer's Information Request responses document the FY 2004 CCSTS data collection effort and the associated model variants in almost as much detail and complexity as the attesting witnesses documented the corresponding elements of the street time variability study adopted in Docket No. R2005-1. *Id.* at 6-7. It argues that carrier costs are a large part of total attributable costs, and that if a set of attributable street time estimates were to be based on the FY 2004 data and associated models, it could require a comprehensive revision of the Postal Service's rate proposal. *Id.* at 7. The objection contends that in view of the complexity of the new study, intervenors could not conduct discovery, cross-examine the attesting witnesses, and prepare rebuttal evidence in the time remaining in this proceeding. *Id.* at 16-20.

The argument that attributable carrier street time cost estimates are central to any general rate case, and that ample time is needed to examine the complexities of any new study of these costs, is well taken. The Commission concludes that there is insufficient time remaining in this proceeding to afford the intervenors the full panoply of procedural due process rights that the Postal Reorganization Act requires with respect to the street time cost analysis elicited by the Presiding Officer's Information Request responses. Accordingly, the above-referenced Presiding Officer's Information Request responses will not be admitted into evidence in this proceeding for purposes of establishing the truth of the matters asserted. Therefore, the information that they provide shall not serve as substantial evidence supporting any specific estimate

attributable carrier costs. Nevertheless, the information in these Presiding Officer's Information Request responses may provide useful context for the discussion of other carrier street time evidence, in this and in future dockets. Accordingly, they will be included in the record, but only for illustrative purposes.

The Commission reaches this conclusion reluctantly. The CCSTS data presented in Docket No. R2005-1 was the first new data gathered for estimating attributable street time costs in almost 20 years. The FY 2002 data, however, suffers from a number of deficiencies, including a substantial proportion of observations that are missing, mismatched, or difficult or impossible to interpret. Screening them from the modeled data invites the problems that heavily truncated datasets entail. See PRC Op. R2005-1, ¶¶ 4052-60, 4069-71, and Appendix I at 12-19. In addition, there is considerable uncertainty as to the ability of these data to accurately represent current or test-year delivery operations due to the rapid increase in the percentage of mail delivered as DPS bundles since those data were collected.

In the current docket, the Postal Service did not address any of these deficiencies until it responded to the Presiding Officer's Information Requests to which the intervenors object. The differences between the results of the R2005-1 study and the newer CCSTS study are substantial, raising concerns about the accuracy of both. These, in turn, differ substantially from the results that the Office of the Consumer Advocate (OCA) obtains from its modeling of routinely-reported DOIS data. As the objecting parties note, multicollinearity remains a major obstacle to the successful modeling of street time cost data that has yet to be fully assessed on the record. Objection at 15. See *also* Docket No. R2005-1, USPS-T-14 at 36-38.

While the record in this proceeding will benefit from the FY 2004 CCSTS data and analysis in only a very limited way, it is the Commission's hope that this research may yet contribute to the objective of effectively modeling the variability of carrier street time costs. The Postal Service suggests that its analysis and modeling of the CCSTS

data are a work in progress,<sup>4</sup> and the OCA suggests that this is true of its DOIS-based work. See OCA-T-3 (Smith) at 23. Those objecting to inclusion of the above-referenced POIR responses in the evidentiary record recognize the need to move the analysis of street time variability forward, and suggest an alternative way of doing so that is potentially promising.<sup>5</sup> In order to quicken the pace of progress in this crucial area of cost analysis, the Commission intends to institute an informal rulemaking after the conclusion of this docket in which all interested parties will be asked to contribute ideas and insights into the direction that future data collection and modeling of city carrier street time costs should take.

It is Ordered:

1. The Commission accepts certification by the Presiding Officer of the issues raised in Objection of Magazine Publishers of America, Inc., American Business Media, Advo, Inc., Alliance of Nonprofit Mailers, Association for Postal Commerce, Direct Marketing Association, Dow Jones and Co., Inc., Growing Family, Inc., Mail Order Association of America, Mailing & Fulfillment Service Association, The McGraw-Hill Companies, Inc., National Association of Presort

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<sup>4</sup> The response of Postal Service witness Michael D. Bradley (USPS-T-14) to Presiding Officer's Information Request No. 4 states

[T]o the extent possible in a short period of time, the Postal Service has attempted to apply some of the recommendations the Commission provided in its latest Opinion and Recommended Decision for future econometric work in this area. The Postal Service has made a good faith effort to accommodate the suggestions of the Commission within the structure of this POIR, but does not intend this as a complete response and plans to address the Commission's concerns more fully in future research.

<sup>5</sup> The Attachment to their Objection at 3, states,

[o]ur preference would be to have the Commission defer judgment on any new studies or models in this case and then to open a costing proceeding where full due diligence could be performed and all the issues could receive a full airing and discussion. Then, it would be easier for all involved to (1) determine the value of the data and how it should be used, (2) recognize the most appropriate modeling approaches, and (3) consider more appropriate approaches and study designs (for future Postal Service studies).

Mailers, National Postal Policy Council, National Newspaper Association, Parcel Shippers Association, Saturation Mail Coalition, Time Warner Inc. and U.S. News & World Report, L.P., to Receipt of the United States Postal Service to Presiding Officer's Information Request No. 4, Questions 4-12, and Presiding Officer's Information Request No. 16, Items 13-21, filed October 17, 2006.

2. The Objection of Magazine Publishers of America, Inc., American Business Media, Advo, Inc., Alliance of Nonprofit Mailers, Association for Postal Commerce, Direct Marketing Association, Dow Jones and Co., Inc., Growing Family, Inc., Mail Order Association of America, Mailing & Fulfillment Service Association, The McGraw-Hill Companies, Inc., National Association of Presort Mailers, National Postal Policy Council, National Newspaper Association, Parcel Shippers Association, Saturation Mail Coalition, Time Warner Inc. and U.S. News & World Report, L.P., to Receipt of the United States Postal Service to Presiding Officer's Information Request No. 4, Questions 4-12, and Presiding Officer's Information Request No. 16, Items 13-21, filed October 17, 2006, is sustained to the extent described in the body of this Order. The responses of the Postal Service to Presiding Officer's Information Request No 4, Questions 4-12, filed September 22, 2006, and its responses to Presiding Officer's Information Request No. 16, Questions 13-21, filed October 12, 2006, are included in the record for illustrative purposes only.

By the Commission  
(SEAL)

Steven W. Williams  
Secretary