

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

MODIFICATION OF MAIL CLASSIFICATION
SCHEDULE PRODUCT LISTS IN RESPONSE
TO ORDER NO. 154

Docket No. MC2009-19

**SUPPLEMENTAL RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
ORDER NO. 154**

In response to Order No. 154 and in accordance with 39 U.S.C. § 3642 and 39 C.F.R. § 3020.30 et seq., on March 10, 2009, the United States Postal Service (Postal Service) requested, among other things, that International Money Transfer Services--Inbound (IMTS--Inbound) and International Money Transfer Services—Outbound (IMTS—Outbound) be added to the competitive products list within the Mail Classification Schedule (MCS). In support of its request, the Postal Service filed the Supporting Statement of Justification of Jeff Colvin and the Supporting Statement of Justification of Pranab Shah. Mr. Colvin's statement outlined certain information gaps encountered by the Postal Service in its review of the costs underlying international money transfer services and offered to provide a supplemental response following further investigation of the matter.

With this Supplemental Response, Ms. Virginia Mayes, Manager, Special Studies, provides information that updates information previously provided in this docket. The Statement of Supporting Justification of Virginia Mayes is being filed separately under seal for the Commission's consideration, although a redacted copy is filed as Attachment A. The Postal Service incorporates by reference its prior

demonstration filed in this docket concerning the confidential nature of the redacted information based on its commercial sensitivity.¹

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Anthony F. Alverno
Chief Counsel, Global Business

Laree Martin

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-3816, Fax -5329
laree.k.martin@usps.gov
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¹ Docket No. MC2009-19, Request Of The United States Postal Service To Add Postal Products To The Mail Classification Schedule In Response To Order No. 154, March 10, 2009, at 4-6.

Statement of Supporting Justification

I, Virginia J. Mayes, Manager, Special Studies, am providing this statement in support of the Request filed in Docket No. MC2009-19 that the Commission add International Money Transfer Service to the competitive products list. Jeff Colvin's Statement of Supporting Justification in support of the Request was filed on March 10, 2009, and in it he offered to provide a supplemental statement by July 15, 2009, after completing additional review of the cost attributes and methodology associated with International Money Transfer Services (IMTS). He indicated in that statement that special studies might have to be employed as a part of his review. I am the Postal Service manager responsible for conducting such special studies, and my statement provides details of the ongoing activities in which the Postal Service is engaged to determine the costs associated with IMTS. The responses contained in Mr. Colvin's statement are hereby supplemented with the following:

- (c) *Explain why, as to competitive products, the addition, deletion, or transfer will not result in the violation of any of the standards of 39 U.S.C. § 3633.*

Upon initial review of the Postal Service's Annual Compliance Report for 2008, the Commission inquired about the apparent failure of IMTS to cover its costs. Commission Information Request No. 1 (Jan. 14, 2009), Question 4(b). The January 22nd response to Question 4(b), filed as part of USPS-FY08-NP28, indicated that although the Postal Service was aware of the problem, further

study was required to understand its causes before any representations could be made as to how the problem might be corrected.

Following its March 10, 2009, filing in this docket, the Postal Service undertook several activities in an effort to draw conclusions concerning the measures necessary to address the shortfall in cost coverage reported for international money orders. The first step involved investigation of the existing cost methodologies, the implications for costs and the degree of confidence in such measures. The product specific costs assigned to IMTS increased from \$ [REDACTED] in FY 2007 to \$ [REDACTED] in FY 2008. It is my understanding that the largest component of that increase in product specific costs, approximately \$ [REDACTED], was due to one-time start-up costs in FY 2008 associated with testing a new system for electronic money transfer. The project associated with the new system for effecting electronic money transfers is on hold, with no current plans to expend such resources in FY 2009 or in the immediate future. Thus, a substantial component of the product specific costs in FY 2008 is not expected to remain in the cost base for this product in the future.

As the window costs attributed to the IMTS product represented a significant portion of the volume variable costs associated with this service, \$ [REDACTED] of the total \$ [REDACTED] in volume variable costs in FY 2008, the In Office Cost System (IOCS) tallies associated with the IMTS product were examined to determine the reliability of using them as a measure of window activity costs for this relatively low volume product. The following table provides the breakout of the IOCS tallies for window activity for IMTS for the fiscal years 2005 through 2008. Prior to FY 2005, IMTS was not isolated in IOCS.

Tallies for IMTS
FY 2005 – FY 2008

IOCS Tallies	FY05	FY06	FY07	FY08
Dinero Seguro				
Selling Int'l Money Orders				
Cashing Int'l Money Orders				
Total				

The relatively small number of tallies and the costs they represented, when divided by the declining volume of transactions, led to relatively volatile unit costs. Examination of the variances in the window service costs revealed that the standard deviation around the estimated cost swamped the estimated cost. For example, the implied estimated cost of \$ [REDACTED] in FY 2008 fell within a 95% confidence interval that ranged from \$ [REDACTED]. In FY 2007, the range of costs went from [REDACTED] [REDACTED]. For a product with such low volumes, a range of this size is not likely to be useful in determining the profitability of the product.

Although development of "bottom-up" costs for the various products was considered and had certain appeal, the question remained regarding what to do with the cost differences between the "bottom-up" costs and the costs that were identified by the data systems and CRA/ICRA model. If the "bottom-up" costs were lower than those implied by the CRA/ICRA, where should the residual costs be assigned? If the "bottom-up" costs were higher than those identified by the CRA/ICRA for this product, from where should the additional costs be taken? The efforts regarding the IMTS profitability question should not result in dismantling a costing system that serves well for a wide range of products. Rather, we hope that the result of this exercise will be a methodology that will also be applicable to other relatively small products with a similar sampling issue.

One suggested way to improve statistical reliability while maintaining continuity with the IOCS and CRA as the sources of comprehensive cost information would be to aggregate smaller products with other products for which a sufficient number of tallies is reported such that a more stable category would be created. Then a new distribution key could be developed to reallocate the aggregated costs. In the case of IMTS, a logical and appropriate choice for aggregation appeared to be domestic money orders.

In an effort to develop the new distribution key, we turned to studying the window transaction times for international money order purchases, presentations of foreign money orders for cash, and purchases of Dinero Seguro money transfer services. Although a team was deployed to offices that included some of the highest transaction locations in the country, only one targeted transaction was observed in a week-long study. The team then attempted to identify specific locations, days of the month and hours of the day when IMTS transactions were most likely to occur and focused their observation activities on the resulting operations. These more focused efforts did not lead to observations of transactions such that a comparison of the IMTS transaction time to that of domestic money order transactions could be made and applied within a new distribution key.

Since our initial attempt to observe actual IMTS transactions was unsuccessful, we began mapping out the step-by-step activity associated with IMTS, including Dinero Seguro. We intended then to match methods-time measurement standards and other types of transaction times against the individual process steps to develop the distribution keys relative to the unit cost

for domestic money orders. We continue in this effort, but it is complicated by a lack of critical information. For example, we suspect that variation in transaction time estimates may be attributable to the relative familiarity of both the customer and the employee conducting the transaction with the service. When both the customer and employee are familiar with the service, the transaction time is likely to be less than when they are both encountering the service for the first time, with a range of variability between these two ends of the experiential spectrum.

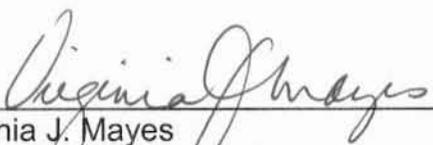
Ordinarily, we would develop estimates for both types of transactions, those that are faster because the parties are familiar with the service and those that are slower because the parties are unfamiliar with the process. Then we would weight times by the prevalence of each type of transaction. In the case of IMTS, though, we have no data to help determine what percentage of transactions is likely to be of either sort. Arbitrarily weighting more heavily toward existing customers and employees who are familiar with the service could result in an underestimate of the costs not only for the current time period, but would also underestimate the costs that would be incurred should the business grow in the future, since we anticipate that the growth would likely come from new customers. On the other hand, if too great a percentage of the transactions is assumed to be with customers and employees unfamiliar with the service, the result is a product that may not be capable of being competitively priced or that would be unnecessarily high for the customers.

Another option we have pursued in the absence of a sufficient number of observations of actual transactions is simulating transactions for the purpose of estimating labor costs. Our observation of actual transactions causes us to

conclude that in the case of IMTS transactions, this approach would not be valid. In our observation of the few actual transactions that we have witnessed, we noted that level of fluency with the English language has what appears to be a significant impact on the transaction time. In our simulations, we would have to be able to simulate that factor, which we do not believe can be done with any validity.

Therefore, we have returned to the resource and time consuming task of accumulating enough observations of IMTS transactions to determine more reliably the costs attributable to them. We might then be able to propose aggregating IMTS with domestic money orders for cost reporting purposes and to propose allocation of costs using an appropriate distribution key based on the information that results from our completed study and the other information that we are able to gather to document any assumptions that we must make in the absence of definitive data being available.

For the Commission to meet its statutory obligation of 39 U.S.C. § 3633(a)(2) to “ensure that each competitive product covers its costs attributable,” the Postal Service proposes to continue to identify the basic information needed to analyze the cost coverage of the IMTS product, including a more refined cost distribution methodology.



Virginia J. Mayes
Manager, Special Studies