

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

PERIODIC REPORTING

Docket No. RM2009-7

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO CHAIRMAN'S
INFORMATION REQUEST NO. 1
(August 20, 2009)

The Postal Service hereby files its responses to questions 1-4 of Chairman's Information Request No. 1, filed on August 6, 2009. Each question is stated verbatim, and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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1. Please describe what precludes the updating of the BRPW panels, specifically the adjustment of the inflation factors (survey weights) to reflect the conversion of some offices to PostalOne!.

RESPONSE:

There are costs associated with building a sampling frame. These costs are substantial and occur every time the Periodicals panel is updated. The Periodicals panel sampling frame of offices with Periodicals activity has historically been based on a mail-out survey. If we update the inflation factors without updating the frame, this will leave us with an old and biased panel with imprecise estimates and associated costs. The following lists the reasons that preclude updating the BRPW panel by only adjusting the inflation factors.

- a) Periodical panel offices that were selected in 2002 may not be representative of today's non-automated offices. Some of the panel offices do not have Periodicals mail volume any more.
- b) Mail volumes and mail categories change over the time, and non-automated offices are being converted to PostalOne! offices. All of these do not happen evenly across the strata. As a result, the estimation of a population characteristic can be imprecise using the old panel.
- c) Panel offices need to be relieved from reporting burden.

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2. In its Petition at 2, the Postal Service observes that its proposed approach “relies on the intuitively satisfying assumption that similarly-sized post offices with similar revenue will have similar mail characteristics.” Are there actual results that support the contention that the mail characteristics for the smaller PostalOne! offices are a proxy for the characteristics of the non-automated offices of similar size?

RESPONSE:

Since the time that postage statement data were first electronically available for analyses of this type, it has been observed that important mail category shares are correlated with office size. In recent years, as many non-automated offices have converted to electronic reporting, these correlations have persisted. Table ChIR.1.Q.2 below provides an example of this for FY2008. As such, converted offices have characteristics similar to offices that were previously automated by office size. There is no known reason for small converted offices to be different from small, as yet unconverted offices. We conclude that similarly-sized offices have similar characteristics, whether automated or not. In addition, the Periodicals census results for In-County support this conclusion. Applying mail characteristics by office size produces estimates reasonably close to a near census estimate of non-automated offices.

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Table ChIR.1.Q.2
Periodicals CBCIS Revenue Shares
by Stratum, FY08

<u>Stratum</u>	<u>In-County</u>	<u>Outside-County</u>
1	1.5%	98.5%
2	21.3%	78.7%
3	28.6%	71.4%
4	28.9%	71.1%
5	32.8%	67.2%
6	32.7%	67.3%
7	32.1%	67.9%
8	36.7%	63.3%
9	42.7%	57.3%

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3. What would be the impact of the proposed change on unit costs in FY 2008 for In-County Periodicals and other low-volume mail products?

RESPONSE:

The table below shows what the unit costs from the FY08 CRA (USPS-FY08-1) would have been if the alternative volumes had been used to derive unit costs from total costs.

Mail Classes and Products	FY08 Attributable Cost	FY08 Attributable Cost/Pc.	Alternate Volume	Alternate Attributable Cost/Pc.
MARKET DOMINANT MAIL				
First-Class Mail:				
Single-Piece Letters.....	\$8,443.1	\$0.252	33,529.9	\$0.252
Single-Piece Cards.....	446.5	0.242	1,867.5	0.239
Total Single-Piece Letters and Cards.....	8,889.6	0.251	35,397.4	0.251
Presort Letters.....	5,441.7	0.112	48,382.5	0.112
Presort Cards.....	282.3	0.079	3,446.6	0.082
Total Presort Letters and Cards.....	5,723.9	0.110	51,829.1	0.110
Flats.....	2,571.0	0.761	3,386.9	0.759
Parcels.....	1,079.7	1.783	607.9	1.776
Outbound Single-Piece First-Class Mail Intl.....	525.1	1.250	420.0	1.250
Total First-Class.....	19,047.2	0.207	91,641.5	0.208
Standard Mail:				
High Density and Saturation Letters.....	320.5	0.057	5,409.7	0.059
High Density and Saturation Flats and Parcels.....	844.4	0.062	13,266.7	0.064
Carrier Route.....	1,814.3	0.150	12,134.2	0.150
Letters.....	5,478.5	0.096	57,206.5	0.096
Flats.....	3,891.0	0.389	10,078.2	0.386
Not Flat-Machinables and Parcels.....	813.4	1.109	739.3	1.100
Total Standard Mail.....	13,162.0	0.133	98,834.7	0.133
Periodicals:				
In County.....	94.3	0.114	733.3	0.129
Outside County.....	2,637.8	0.339	7,816.8	0.337
Total Periodicals.....	2,732.1	0.317	8,550.1	0.320
Package Services:				
Single-Piece Parcel Post.....	784.0	8.756	89.6	8.751
Bound Printed Matter Flats.....	157.6	0.544	289.7	0.544
Bound Printed Matter Parcels.....	399.2	1.294	308.6	1.294
Media and Library Mail.....	478.8	3.020	158.6	3.019
Total Package Services.....	1,825.1	2.150	846.4	2.156

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4. On July 31, 2009, the National Newspaper Association filed comments on the Postal Service's proposal. See Comments of National Newspaper Association, July 31, 2009 (NNA Comments). NNA's Comments include seven questions that it suggests the Commission put to the Postal Service. *Id.* at 7-9. Those questions that relate to Proposal Two are reproduced below.

(a) USPS said it surveyed 4,100 offices with Periodicals activity. Appendix B, Table 1, of its Proposal shows 7,125 nonautomated offices amassed into their stratum groupings.

(i) Does that mean over 3,000 nonautomated offices had no Periodicals mailings in the measured quarter?

(ii) If 7,125 offices are nonautomated, what system captures revenue totals that would enable the survey designers to eliminate them from the census?

(b) Which AIC code is presently used to capture revenue totals for Within County?

(i) Is it AIC 135, formerly used for all periodicals, or is AIC 224 presently in use? If AIC 135 or some other class-level accounting code is used, how does the Postal Service determine revenues for Within County mail?

(ii) Has USPS ever audited its nonautomated offices to determine whether they reliably report Within County revenues by the correct AIC?

(iii) Was the revenue total for the quarter measured ever matched to the results of the 4,100 office survey, and if so, was the reported revenue an amount that would be presumed from the volumes reported in the census? If not, why not?

(c) Will the strata used for the matching in the proposed model remain the same as reported in Table 1?

(d) The Postal One offices in the 3 lowest strata represent 43, 31 and 17 percent of the total offices in those strata, respectively.

(i) What proportion of Within County volumes come from those three strata?

(ii) What are the high-low ranges of potential volumes that reliably could be estimated from the model, given the disproportionate numbers of nonautomated offices in those strata?

(iii) Would the Postal Service expect the volume estimates from the new model to report less dramatic swings in year-to-year or even quarter-to-quarter results than those that came out of the old sampling panels?

(e) What was the cost of producing the census with a 91% response rate?

(i) What would be the cost of producing quarterly reports from an updated sampling model?

(ii) What about annual reports? Would it be reasonable to replace the sampling model with an actual annual census for Within County mail?

(iii) Were most of the 9% of nonreporting offices in the lowest strata? What could be done to encourage their participation in the future, should the Commission require a periodic volume census for the subclass?

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(f) The Postal Service reports the pace of conversion of nonautomated offices to Postal One in Appendix A, Table 2. It appears that the conversion rate has slowed considerably in FY 2009.

(i) Is the slower rate expected to continue?

(ii) Has the Postal Service reached its anticipated ceiling for these conversions, given the smaller and more rural nature of the remaining nonautomated offices? Will some of these offices be closed, in light of the Postal Service's continued rationalization of its network and post office operations?

(iii) How many offices are likely to remain nonautomated throughout their tenure as operating offices, and what proportion of Within County mail volumes are likely to need to be estimated through some non-census method for the foreseeable future?

RESPONSE:

(a) Table 1 in Appendix B outlines the stratification used in Standard Mail Regular Rate. Independent stratifications are developed for First Class Mail, Priority Mail, Periodicals Mail, Standard Mail Regular Rate, Standard Mail Nonprofit Rate, and Parcel Post/Parcel Select. The Periodicals stratification is shown in Table Chir.1.Q.4.a below.

The number of offices in the census and the response rate should be corrected. There were 3,300 offices in the Periodicals census with an 11.4 percent non-response rate. Use of these corrected values does not change any conclusions made in the proposal. The number of non-CBCIS offices shown in Table ChIR.1.Q.4.a below is less than 3,300, due to a number of office conversions to PostalOne! during Q4 of FY 2008.

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Table ChIR.1.Q.4.a
Periodicals Stratification, FY 2008

Stratum	Trial Balance Revenue Share	CBCIS Offices Count	Non-CBCIS Offices Count
1	93.0%	341	0
2	2.0%	282	13
3	1.0%	269	35
4	1.0%	375	100
5	1.0%	521	217
6	1.0%	648	550
7	0.5%	402	554
8	0.3%	261	601
9	0.2%	509	1,075
Total	100.0%	3,608	3,145

- (b) (i). The system is designed to report In-County revenue in AIC 224, and outside-county revenue in AIC 135. However, not all offices follow this instruction. Some offices book revenue only to one of the two trial-balance accounts, typically AIC 135. As a result, revenue in AIC 224 is under-reported. In-County revenue is based on its share of total revenue, which is the sum of AIC 224 and AIC 135. The shares of In-County and Outside-County are calculated based on the combined activity reported in PostalOne!, and the Periodicals panel estimates.
- (ii). No.
- (iii) Yes. In-County revenue for survey respondents was under-reported by 11.5 percent. Total survey Periodicals revenue almost exactly equaled Trial Balance revenue in the sum of accounts AIC 224 and AIC 135. Therefore, In-County revenue is being incorrectly recorded in AIC 135.
- (c) As mentioned in response to Question 4(a) above, the stratification in Appendix B, Table 1 is not the stratification for Periodicals. It is the intent to update the

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stratification in each product category at the end of each year at the minimum. This will allow the models to account for small changes in subclass mix relative to office size. It is not expected that revisions in stratification would be significant.

(d) Again, Appendix B, Table 1 is not the stratification for Periodicals Mail. The FY08 stratification for Periodicals is shown in Table ChIR.1.Q.4.a above. The shares of In-County revenue by stratum are shown in Table Chir.1.Q.2, provided in response to Question 2 of this Information Request. The Postal Service expects In-County volume estimates using the proposed methods to be stable. Volumes will tie directly to total Periodicals revenue allocated to In-County and Outside County in proportion to known volumes in CBCIS (by stratum). Sampling variance will be removed. That is not to say that volumes will necessarily show less "dramatic swings," as this will depend on mailer behavior as measured in Trial Balance and CBCIS.

(e) (i). The Periodicals Census was conducted under contract for \$153,703.

Additional USPS employee costs plus mainframe processing costs would raise this to at least \$200,000. The cost of producing quarterly reports under the modeling approach would be significantly less than this; no more than \$20,000 per year. There has also been a one time development cost which has already been paid for in the FY2009 budget (approximately \$10,000).

(ii). No. The costs would be prohibitive to conduct annual surveys. The proposed method would be far less expensive.

(iii). No. Excluding the first stratum which contains no census offices, the non-response rate is generally even across the strata.

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(f) (i) The conversion stopped for a while from either November or December 2008 to April 2009. It has continued at a slower rate than that of the years 2006 to 2008.

(ii) No. There are still plenty of offices left to be converted. Due to District and Area consolidations, some Bulk Mail Entry Units (BMEU's) have been consolidated with others. There is also a separate effort to close smaller BMEU's and consolidate them with larger BMEU's.

(iii). Any office that has Business mail customers would eventually come on PostalOne!. Offices that do not have Business mail customers would not be on PostalOne!. There are about 20,000 sites that don't have Business Mail customers.

The proportion of In-County mail volumes that are likely to be estimated through non-census methods depends on the conversion rate and method of selection.

Generally, bigger offices (high revenue and volume) are selected to be converted first.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

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