

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

PERIODIC REPORTING

Docket No. RM2009-10

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO REQUEST
OF UPS REGARDING IMPACT OF CERTAIN PROPOSED METHODOLOGIES
ON INDIVIDUAL COMPETITIVE PRODUCTS
(August 21, 2009)

On August 14, 2009, UPS submitted a request that the Commission require the Postal Service to provide additional information on certain of the methodology changes proposed by the Postal Service in this proceeding on July 28, 2009. Specifically, UPS seeks to have the estimated impacts of Proposals Four, Six, Seven, Eight, Nine, Eleven, and Fourteen, expressed in percentage terms, broken out for individual competitive products. The Postal Service hereby responds to this request.

The implicit premise of the UPS request is that, with respect to individual competitive products, the estimated impact of a proposed methodological change expressed in percentage terms is, generally speaking, less likely to be commercially sensitive than the absolute level of the resulting costs. In the specific circumstances presented by the UPS request, the Postal Service chooses not to dispute that premise, and is willing to provide (and attaches to this pleading) most of the information that UPS requests. There are some aspects of the UPS pleading, however, with which the Postal Service does not agree.

In particular, while acknowledging that the petition initiating this rulemaking was filed before the new rules on confidentiality took effect on July 29, UPS nonetheless assumes that those new rules would apply. UPS Request at 2, n.1. The Postal Service disagrees. 39 C.F.R. Part 3007 was not in effect at the time this proceeding was initiated by the filing of the Postal Service's Petition and supporting materials, and those rules therefore do not apply. As UPS suggests in the alternative, however, its request is cognizable under the Commission's broader rule on motions.

It is also perhaps useful to keep in mind the somewhat limited function that impact information should play in these proceedings. Rule 3050.11(b)(1) solicits, "where feasible," an estimate of the impact of the proposed change in methodology. Impact information can unquestionably be highly useful when, for example, it quickly distinguishes those proposals of potentially major importance from those with much more limited effects. The inherent limitation of impact information, however, is that it can improperly interfere with objective evaluation of the technical merits of a proposed change. If the focus of debate shifts from whether a proposal constitutes a genuine methodological improvement to "whose ox is gored," the objective of the proceeding can become subverted. That is particularly true when, as with respect to most of the proposals for which UPS seeks expanded information, the essence of the proposal is to fix an error in the existing procedures, or incorporate operational or data system changes. See Postal Service Petition (July 28, 2009) at 1-2. In these instances, questions such as which products benefit from appropriately recalibrating the prior methodology, or which products might be disadvantaged, should generally not be relevant to the issue of whether the proposed change should be implemented.

Nonetheless, in compliance with Rule 3050.11(b)(1), the Postal Service in its Petition was able to provide impact information for many of its proposals, including most of the ones identified in the UPS request. The issue which UPS raises is that, in the impact tables provided, the impacts for domestic competitive products have been aggregated into one row. UPS Request at 2. In response to the desire of UPS for disaggregated impact by product, the Postal Service has disaggregated the domestic competitive row by providing percentage changes at the product level. The results are shown in the attachment to this pleading. The percentage changes shown are cost changes at the cost segment level.¹

UPS additionally notes that impact information is also aggregated for all international mail products. UPS Request at 3. This was done because the procedures for the distribution of costs among international mail products involve the ICRA model, and are therefore much more cumbersome than the process for domestic products, the results for which can be pulled directly from the workpapers for the affected cost segment. Those workpapers also provide the aggregate international number shown in the impact tables, but to disaggregate those international figures further would require separate ICRA runs for each proposal. There is no reason to believe that the marginal value of the information thus generated would have been worth the burden of producing it.

¹ A necessary exception, however, occurs with respect to Proposal Six. Within domestic competitive products, the impact of that change would be focused on Express Mail. As a result, to provide an explicit percentage change for Express Mail, in addition to the aggregate absolute change already provided, would allow simple approximation of the respective cost segment costs for Express Mail. Therefore, the attachment merely shows that the change for Express Mail from Proposal Six would be “Positive.” In relative terms, however, the Proposal Six percentage impact for Express Mail is higher in Cost Segment 10 than in Cost Segments 6&7.

For example, examining the impact tables provided with the Petition for Proposals Four, Seven, and Nine, there is nothing especially noteworthy about the aggregate cost difference shown for International Mail. For Proposals Six and Eight, the aggregate International Mail figures stand out a bit, but neither of these is a particular cause for concern. The nature of Proposal Six involves a redistribution of delivery costs for accountable mail (i.e., mail, for example, that needs a signature), and because International Mail contains a disproportionate amount of such mail, it is unsurprising that International Mail receives an above average impact from this proposal. Regarding Proposal Eight, the above average impact for International Mail merely underscores the need to update distribution factors based on a decade-old study with new factors based on current CCCS-SPR data. It would be highly dubious to suggest that any plausible disaggregation of the aggregate International Mail into individual products would have any material bearing on the determination to proceed with these changes or not, given the patent improvement each of these proposals represents relative to the existing methodology. Moreover, the cumulative estimated impact on International Mail shown in the impact tables for Proposals Four, Six, Seven, Eight, and Nine only represents roughly a quarter of one percent of the total FY08 attributable costs for International Mail.

The availability of International Mail data is quite different, however, with respect to Proposal Eleven, the one proposal which is focused directly on International Mail. For Proposal Eleven, a proposed “booked cost” version of the ICRA had already been run to present comparisons in the Postal Service Petition with the “imputed cost” version used in the ACD. Therefore, the Postal Service has available the information necessary

to calculate the percentage change impact figures for competitive International products, and those are also shown on the attachment to this pleading. (Recall that the switch from imputed costs to booked costs in Proposal Eleven has no effect on domestic mail costs, so there are no changes associated with the proposal to report for domestic Competitive products.)

The attachment to this pleading, therefore, provides UPS with most of what it has requested with respect to Proposals Four, Six, Seven, Eight, Nine, and Eleven. With respect to Proposal Fourteen, however, there is nothing comparable to provide. The reason is very straightforward. In FY07, the data systems generated unified information for all components of the old Parcel Post subclass. Further disaggregations (including those which split the subclass between its market dominant products and its competitive products) were done by model. For FY08, the data systems were revised to provide outputs directly for each of the products which formerly constituted the Parcel Post subclass. In other words, the world changed substantially between FY07 and FY08. Proposal Fourteen presents the methodology by which, in the new world, the Postal Service proposes to use the new FY08 data systems outputs as inputs to the competitive parcel models. There are, however, no corresponding results from the old world “established” methodology, using the same FY08 data, to which the results of the proposed methodology could be compared. An estimate of percentage differences, which UPS has requested, requires two sets of alternative results. In this instance,

there is only the one proposed set of results, and no percentage difference calculations are possible.²

In the attachment to this pleading, the Postal Service has provided the available information responsive to the request UPS has presented. While it is the view of the Postal Service that, given the substantial amount of information already provided with its Petition, such additional information is not necessary for interested parties to fully assess the merits of the proposed methodology changes, the Postal Service is nonetheless willing in this instance to provide this information in response to the UPS request. Having done so, however, it would seem that there is essentially no remaining need for further consideration of the UPS request. On that basis, the Postal Service respectfully suggests that the Request filed by UPS on August 14, seeking, in the alternative, further action by the Commission, be denied.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Pricing and Product Support

Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992, FAX: -5402
August 21, 2009

² Page 2 of the Proposal Fourteen attachment to the Postal Service's July 28 Petition indicated that the impact of the proposal was being presented under seal in USPS-RM2009-10/NP2. While UPS could not have known it, the impact therein was summarized merely by showing the resulting costs, and did not include any comparison tables such as those presented for Proposals Four, Six, Seven, Eight, and Nine. As explained above, there is nothing to compare.

ATTACHMENT TO RESPONSE TO UPS REQUEST FOR ADDITIONAL IMPACT DATA

Product	Proposal Four - Motor Vehicle Maintenance -Cost Segment 12	Proposal Six - Accountable Distribution Factors Cost Segments 6&7	Proposal Six - Accountable Distribution Factors Cost Segment 10	Proposal Seven - Loading/Unloading Vehicle Cost Segments 6&7	Proposal Eight - Special Purpose Routes Cost Segments 6&7	Proposal Nine-New Rural Evaluation Factors - Cost Segment 10
Domestic Competitive Filed Costs - (000) (1)	\$ 50,443	\$ 289,528	\$ 95,379	\$ 289,528	\$ 289,528	\$ 95,379
Domestic Competitive Proposed Costs - (000) (2)	\$ 48,049	\$ 289,895	\$ 96,795	\$ 293,492	\$ 290,614	\$ 98,355
(Proposed-Filed) Competitive Costs - (000) - (3)=(2)-(1)	\$ (2,394)	\$ 367	\$ 1,416	\$ 3,964	\$ 1,087	\$ 2,975
Domestic Competitive Percent Change - (3)/(1)	-5%	0%	1%	1%	0%	3%
Express Mail Percent Change	-14%	Positive	Positive	1%	-10%	9%
Priority Mail Percent Change	-3%	0%	0%	1%	-1%	4%
Parcel Select Percent Change	-5%	0%	0%	1%	10%	-1%
Parcel Return Service Percent Change	0%	0%	0%	1%	0%	12%
Premium Forwarding Service Percent Change	1%	0%	0%	3%	1%	-2%

Product	Proposal Eleven - Using Audited Accounting Expenses
Outbound Priority Mail International Percent Change	-5%
Inbound Priority Mail International Percent Change	0%
Outbound Express Mail International Percent Change	-6%
Inbound Express Mail International Percent Change	0%
IPA (Non-NSA) Percent Change	-8%
ISAL (Non-NSA) Percent Change	-8%
Direct Sacks -- M-Bags Percent Change	-7%
Inbound Surface Parcel Post (At Non-UPU Rates) Percent Change	0%
Special Services Percent Change	0%
International Negotiated Service Agreements Percent Change	-7%

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.

Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992, FAX: -5402
August 21, 2009