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

PERIODIC REPORTING

Docket No. RM2010-4

# PETITION OF THE UNITED STATES POSTAL SERVICE REQUESTING INITIATION OF A PROCEEDING TO CONSIDER PROPOSED CHANGES IN ANALYTIC PRINCIPLES (Proposals Twenty-two – Twenty-five)
(October 23, 2009)

Pursuant to 39 C.F.R. § 3050.11, the Postal Service requests that the Commission initiate a proceeding to consider four proposals to improve analytic principles relating to the Postal Service's periodic reports. The proposals, labeled as Proposals Twenty-two through Twenty-five, are discussed below, and in greater detail in the attached text and documentation.[1]

Several of these proposals are intended merely to correct errors detected in some of the programs and spreadsheets used to prepare the ACR filing, or change format without necessarily changing substance, and thus probably do not require advance review under Rule 3050.11. Thus, Proposal Twenty-three seeks to remedy a previously undetected inconsistency in the treatment of window service costs with respect to international versus domestic money orders. Proposal Twenty-four is intended to streamline the presentation of the unit cost detail chart most recently filed as

[1] Proposal One was filed as Docket No. RM2009-5 on June 22, 2009; Proposal Two was filed as Docket No. RM2009-7 on July 7, 2009; Proposals Three through Nineteen were filed as Docket No. RM2009-10 on July 28, 2009; Proposal Twenty was filed as Docket No. RM2010-1 on October 6, 2009; and Proposal Twenty-One was filed as Docket No. RM2010-3 on October 20, 2009.

part of USPS-FY08-30, but is not intended to alter any results because of a change in analytic methodologies. Similarly, adoption of Proposal Twenty-two would not constitute a change in methodology, as currently there is no established methodology for the estimation of the incremental costs of competitive products. Nevertheless, no harm seems likely to result from including notice and review of such proposals in this filing. In contrast, Proposal Twenty-Five includes a number of proposed modifications to the Flats Costs Models previously presented in USPS-FY08-12. This proposal falls much more squarely within the ambit of the types of proposed methodological changes which these proceedings are intended to encompass.

The Postal Service requests that the Commission initiate a rulemaking proceeding pursuant to 39 C.F.R. § 3050.11 to consider these proposals.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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# PROPOSAL TWENTY-TWO

## A Postal Service Proposal to Calculate Incremental Cost for the Group of Competitive Products

**Objective:**

The purpose of this document is to present a methodology for calculating the incremental cost for the group of competitive products. The goal is to provide a more accurate measure of the cost required for testing for cross-subsidy.

**Background:**

The Postal Regulatory Commission is required to ensure that competitive products are not being cross-subsidized by market dominant products. In Order No. 43 Docket No. RM2007-1, issued October 29, 2007, the Commission stated (at 138): "Incremental Costs will be used to test for cross-subsidies by market dominant products of competitive products. To the extent that incremental cost data are unavailable, the Commission will use competitive product's attributable costs supplemented to include causally related, group-specific costs to test for cross-subsidies."

To date, the Commission has been using product attributable costs and group specific costs to check for cross subsidy in lieu of incremental cost.

**Proposal:**

The Postal Service proposes to calculate incremental costs for the group of competitive products including any group-specific costs. It proposes to calculate

incremental cost using the methodology presented by witness Bradley and implemented by witness Kay in Docket No. R2000-1.[1] The Postal Service has successfully implemented this methodology in subsequent rate cases such as Docket No. R2001-1 and Docket No. R2005-1.[2] The methodology and its application to the current ACR structure are described below.

The ACR, as approved by the Commission, is organized by cost component. The accrued cost ($C_j$) in a component is sum of any common fixed cost ($F_{0j}$), product-specific and/or group-specific fixed costs ($F_{ij}$) and costs caused by provision of the relevant cost driver ($D_j$). This can be expressed succinctly in a mathematical formula:

$$C_j = \sum_{i=0}^{n} F_{ij} + \beta_j D_j^{\varepsilon_j} .$$

The component volume variable costs for a specific product or group of products ($VVC_{ij}$) makes use of the elasticity of cost ($\varepsilon_j$) for the component:

$$VVC_{ij} = \varepsilon_j \beta_j D_j^{\varepsilon_j} \frac{D_{ij}}{D_j}$$

Finally, the attributable cost in the component augments the volume variable cost by including any product-specific or group-specific costs:

$$ATRC_{ij} = F_{ij} + \varepsilon_j \beta_j D_j^{\varepsilon_j} \frac{D_{ij}}{D_j}$$

With this structure, the incremental cost for a product or group of products can be calculated by identifying the decrement in total cost of the component that would occur if

[1] See, Direct Testimony of Michael D. Bradley on Behalf of the United States Postal Service, Docket No. R2000-1,USPS-T-22 and Direct Testimony of Nancy R. Kay on Behalf the United States Postal Service, Docket No. R2000-1,USPS-T-23.

[2] See Direct Testimony of Nancy R. Kay on Behalf the United States Postal Service, Docket No. R2001-1, USPS-T-12 and Direct Testimony of Nancy R. Kay on Behalf the United States Postal Service, Docket No. R2005-1, USPS-T-18.

the product or group of products were not to be provided. This can be more simply expressed in terms of the proportion of the component's driver caused by the product or group of products:

$$IC_{ij} = F_{ij} + \beta_j D_j^{\varepsilon_j} \left( 1 - (1 - \theta_{ij})^{\varepsilon_j} \right).$$

Finally, the overall product or product group incremental cost is calculated by summing the incremental costs calculated for each component:

$$IC_i = \sum_{j=1}^{m} \left[ F_{ij} + \beta_j D_j^{\varepsilon_j} \left( 1 - (1 - \theta_{ij})^{\varepsilon_j} \right) \right].$$

The calculation of the incremental cost for the group of domestic competitive products can make use of the ACR structure in employing the above formula. However, the structure of the ICRA does not facilitate the calculation of incremental cost because the split of international products into market dominant and competitive is not done at the cost pool level. The costs for international Negotiated Service Agreements (NSAs), which are competitive products, are calculated at the functional level. This calculation is a final step in the process and results in the shifting of cost from the overall cost of the underlying product to the relevant NSA product. In addition, the ICRA reclassifies as institutional much of the product-specific cost which is assigned to the overall international product in the CRA. This is because, unlike the CRA, the ICRA contains the individual international products making up the overall group. As a result, there are costs in the ICRA that are not caused by and thus cannot be assigned to specific international products. Moreover, they cannot be assigned to the "overall" international product because no such product exists in the ICRA. The ICRA contains separate

groups for the competitive and market dominant international products. Thus, until the ICRA structure is refined, the Postal Service is constrained to use the attributable cost of international competitive products in place of their incremental cost.

**Rationale:**

The incremental cost test is one of sufficiency. It is designed to answer the following question: Are the revenues earned by competitive products sufficient to cover the incremental cost of that group of products? It thus focuses on establishing a cost floor for competitive products.

Incremental costs for product or group of products will exceed the attributable costs for that same product or group of products in any component in which:

$$\frac{(1-(1-\theta_{ij})^{\varepsilon_j})}{\varepsilon_j \theta_{ij}} > 1$$

To identify when this condition will hold, we make use of the following two conditions that hold for all components in the ACR:

$$0 < \varepsilon_j \leq 1$$

$$0 < \theta_{ij} \leq 1$$

These limits imply that incremental costs will never be less than and generally will be greater than attributable costs for all components in the ACD. Note that the denominator of the above ratio can be no larger than one, and will generally be less than one. Note also that the numerator is bounded from below by one. An expression with a numerator that is never less than one, and denominator that is never greater than

one, can never be less than one. This means that incremental cost is never below attributable cost in any component. Generally, component incremental cost is above component attributable cost.

This has two implications. First, a product's or group of product's incremental cost will exceed the corresponding attributable cost and is thus a better cost floor for a cross-subsidy test. Second, even if the computation of a group of product's incremental cost is incomplete for some components, and the group's attributable cost is used instead for those components, the resulting hybrid will be greater than the group's overall attributable cost. This means that the hybrid is a preferred cost floor for performing a cross subsidy test.

**Impact:**

The impact of the proposed methodology, in terms of the difference between this approach and the approach used previously by the Commission for the cross-subsidy test, can be illustrated using cost data from the Postal Service's FY 2008 CRA. (The attributable cost figures might differ very slightly if pulled from the Commission's FY 2008 ACD, but the fundamental comparison, which is the purpose of the illustration, would be the same.) The incremental cost for domestic competitive products, and the hybrid incremental cost for the group of all competitive products, are presented below:

| | Attributable Cost | Group Specific | Incremental | Hybrid Incremental |
|---|---|---|---|---|
| Domestic Competitive Mail | $5,345,322 | $49,498 | $5,479,810 | $5,479,810 |
| International Competitive | $1,256,815 | 0 | na | $1,256,815 |
| Total Competitive | $6,602,137 | $49,498 | na | $6,736,625 |

*Thousands of Dollars. FY2008 CRA Costs.*

The total competitive hybrid incremental cost is $6,736,625, which is the sum of the hybrid incremental costs for domestic competitive mail and the hybrid incremental costs for international competitive. The Commission currently uses attributable cost plus group specific cost for the cross-subsidy test. That proxy provides a cost floor of $6,651,635 ($6,602,137 + $49,498). The hybrid provides a preferred cost floor because it includes at least some properly calculated incremental costs, and is a better approximation of the true incremental costs required for the test.

For the FY09 ACR, for purposes of performing the cross-subsidy test, the Postal Service proposes to use the hybrid incremental cost floor consisting of the sum of the hybrid incremental costs for domestic competitive mail and the hybrid incremental costs for international competitive.

# PROPOSAL TWENTY-THREE

**Proposal to Provide Consistency In the Treatment of Volume-Variable Costs Between Domestic and International Money Orders for Window Services.**

## OBJECTIVE:

The purpose of this document is to propose a change in the treatment of the volume-variable costs for International Money Transfer Services (IMTS) in the B Workpapers of Cost Segment 3 (Clerks and Mailhandlers) Component 3.2 (Window Services) and in the ICRA. Specifically, this proposal would remedy an inconsistency in the treatment of domestic and international money orders for FY 2009.

## BACKGROUND:

Currently, in the "B" Workpapers W/S 3.2, the costs for domestic Money Orders are grouped in window acceptance and given a volume-variable factor of 64.76 percent. The costs for International Money Transfer Services, on the other hand, are grouped with window non-acceptance international costs, and default to a volume-variability of 100 percent (which is the volume-variability for any product in window non-acceptance). The volume-variability factors for window acceptance are based on the results of a special study conducted by Cost Attribution and sponsored by Prof. Bradley in Docket No. R2006-1. The costs for Money Orders rely on IOCS (In-Office Cost System) tallies associated with money order activities performed by window clerks.

**PROPOSAL:**

This proposal seeks to provide consistency in the treatment of domestic and international money orders. For FY 2009, this proposal seeks to group the costs for domestic and international money orders in the "B" Workpapers W/S 3.2 in window acceptance, where the same volume-variability of 64.76 percent will be applied to both. These changes will flow through the relevant "B" Workpapers (CS03) and from the "B" Workpapers into the CRA and the ICRA.

**RATIONALE:**

There are two reasons for making these changes. First, the current methodology contains an inconsistency between the data being collected by IOCS, and the manner in which it is reflected in the "B" Workpapers W/S 3.2. Nearly all IOCS tallies for domestic and international money orders at the Window Services occur while serving a customer (IOCS Question 18G01). While this is construed primarily as an indication of window acceptance activities for domestic money orders, international money transfer services are instead all reflected in window non-acceptance. This inconsistency is not readily apparent because different worksheet mapping procedures are needed for domestic money orders (which are listed as a separate line number) and for international money orders (which are combined with other international mail and services as a single line number). For FY 2009, the suggested fix is to modify the inputs to the "B" Workpapers for Window Services so that all money orders flow into window acceptance.

Second, the suggested fix will also incorporate the same volume-variability factor for both domestic and international money orders/transfers for consistency.

**IMPACT:**

After flowing through all of the relevant steps, FY08 Window Service costs for International Money Transfer Services would have been reduced by 45 percent under this proposal, resulting in a reduction of the total attributable cost figure reported in the FY08 Nonpublic CRA of approximately one-third.

# PROPOSAL TWENTY-FOUR

## Unit Cost Model Modifications

**OBJECTIVE:**

The objective of the proposed changes to the NSA Unit Cost Detail Data Calculation model (Unit Cost Model, for short) is to enable users to more easily follow the model calculations and sources, hence, simplifying the maintenance and upkeep of the model. The modifications include removal of redundant data and corresponding calculations, use of new input/output data that align with the new structure of the Cost and Revenue Analysis (CRA) report, and update of formulae as needed. The intention of the proposed changes is not to alter the fundamental approach of the calculations, merely to simplify the model.

**BACKGROUND:**

The Unit Cost Model (USPS-FY08-30 in Docket No. ACR2008) estimates total unit costs (mail processing, window service, delivery – city and rural, vehicle service and transportation, and other) of presorted First-Class Mail, Standard Mail, ECR, and Parcel Post by shape and presort level. The layout (format and contents) of the model filed in ACR2007 and ACR2008 evolved from the test year unit cost model used to calculate Final Adjustments to the rollforward cost projections in rate case filings prior to the enactment of Postal Act of 2006 (PAEA). Thus, the model included several translations of data elements from test year to base year that are no longer relevant in a current year context. In addition, in the post-PAEA environment, the change of format for the CRA Cost

Segments and Components and mail classification changes have resulted in the direct production of costs by shape within the CRA itself, obviating the need for the Unit Cost Model to do so.

**RATIONALE:**

The model is being reconfigured to simplify the incorporation of the input data directly from the CRA and other cost models. In the process of realigning the spreadsheets, some computational errors were also discovered and will be corrected. A detailed review of the data and their functional relationships in the current version of the model led to several areas of improvement, as follow:

- Minimize use of hard-coded data
- Maximize use of linked data
- Remove redundant and duplicative data
- Modify inputs due to mail classification changes and additional information from the CRA
- Modify formulae as necessary to accommodate the simplification of the model and the new CRA format
- Change format of data tables for ease of use

The following table, entitled “Detailed Model Modifications,” lists the individual modifications and their cell references, and provides a description of each modification.

**IMPACT:**

The new model replaces the eleven worksheets of the current version with eight worksheets. Some of the old worksheets are deleted, and new worksheets are added. The contents have changed in the worksheets that remain. Some of the old formulae are either deleted or replaced by new formulae to fix the errors.

There is no material change in the results of the calculations. The new model is attached to this pleading electronically as “Prop.24.Updated.Unit.Cost.Model.xls”.

## Detailed Model Modifications

| Modification | Description | Data Cells |
|---|---|---|
| Modification 1 | Addition of the "CRASummary" Worksheet | |
| | | |
| | Discussion: The old model has the hard-coded CRA data of relevant cost components and mail classes. It used aggregate costs of First Class Flats. The "CRASummary" Worksheet is part of the Fiscal Year "Cost Segments and Components Reports". The worksheet contains the attributable costs of major mail classes by modeled cost components (Mail Processing, Window Service, City Carriers, Rural Carriers, Vehicle Service Drivers and Transportation). The updated model uses costs specific to presort First Class Flats and other costs from this worksheet. | |
| | | |
| Modification 2 | Addition of the "RPW" Worksheet | |
| | | |
| | Discussion: The old model has the hard-coded volume data of major mail classes. The"RPW" worksheet is the Fiscal Year Revenue, Pieces & Weight (RPW) Report. It contains the revenue, volume and weight data of major mail classes, and the updated model uses these volume data. | |
| | | |
| Modification 3 | Removal of the "CRA " Worksheet | |
| | | |
| | Discussion: The "CRA" worksheet has the hard-coded volume, CRA total cost, revenue, weight, and cube data of modeled mail classes. It also calculates unit cost by mail class and cost components. The updated model doesn't need this worksheet as cost and volume data are available in the new "CRASummary" and "RPW" worksheets and the unit costs are calculated in the summary worksheet. Cube and weight data are no longer relevant because, as a result of redefinitions of products, the CRA now produces the transportation costs separately by shape so this work paper no longer needs to address transportation costs. | |
| | | |
| Modification 4 | Removal of the "CRA – Parcel Post" Worksheet | |
| | | |
| | Discussion: This worksheet has the single piece parcel post costs data by CRA cost components, and the data it contains had no use in either the old or the new model. | |
| | | |
| Modification 5 | Removal of "1st Class and Standard Parcels " Worksheet | |
| | | |
| | Discussion: This worksheet has the mail processing unit cost and is no longer relevant to the unit cost model as the CRA report now produces costs by shape. | |
| | | |
| Modification 6 | Removal of "Rate cat by year " Worksheet | |
| | | |
| | Discussion: This worksheet has the unit cost data by shape and presort level from the "Summary" worksheet. It also | |

| Modification | Description | Data Cells |
|---|---|---|
| | calculates unit cost by shape (Letter, Flat and Parcel) which are not needed. | |
| | | |
| Modification 7 | Removal of "Parcels " Worksheet | |
| | | |
| | Discussion: This worksheet contains unit cost data of single piece inter/intra-BMC parcel post. These costs are no longer needed as the inter/intra-BMC pricing distinctions have been removed from the rate structure. | |
| | | |
| Modification 8 | Added volume data to the "Summary" worksheet. It shows volume by mail class, shape and presort level. | Column B in "Summary" Tab |
| | | |
| | Discussion: The volume by mail subclass is used to compute volume weighted unit cost at the aggregate mail class levels. | |
| | | |
| Modification 9 | Change the format of the cost table | "Summary" Tab |
| | | |
| | Discussion: The old table reports unit costs of letters and flats together in the same group. The new table reports unit cost by groups defined by class (First Class, Standard) and shape (Letters, Cards and Flats) to match product definitions. It reports unit cost by presort level and aggregate levels in each group. | |
| | | |
| Modification 10 | Fix formulae to compute mail processing unit costs for First-Class automation 5-digit presort letters. | Cell B16 (old ) vs. cell C12 (new model) in "Summary" Tab |
| | | |
| | Discussion: This unit cost should be the volume-weighted average of the unit costs of 5-digit "other" and 5-digit CSBCS/manual letters as available in the "Letters" worksheet. | |
| | | |
| Modification 11 | Fix formulas to compute City and Rural carriers cost for Standard nonautomation (MADC, ADC, 3-digit and 5-digit) presort letters | Cells 30-31, 34-35 (old model) vs. cells 35-38 (new model) of columns C and D in "Summary" Tab |
| | | |
| | Discussion: The unit cost of each category (MADC, ADC, 3-digit and 5-digit) should be the volume-weighted average of the unit costs of machinable and nonmachinable letters. | |
| | | |

| Modification | Description | Data Cells |
|---|---|---|
| Modification 12 | Removal of data cells for Single-Piece Parcel Post | "Summary" Tab |

# PROPOSAL TWENTY-FIVE
# Modifications to Flats Cost Models

This proposal includes three modifications to the Flats Cost Models last filed in USPS-FY08-11 in Docket No. ACR2008. Each modification is presented with its own Objective, Background, Rationale, and Impact. The applicability of each modification to the First-Class Mail, Periodicals, and/or Standard Mail flats cost models is indicated in the 'Impact' section of each modification. The Periodicals model is provided with all three modifications, incorporated with toggle switches in sheets 'COVERAGE FACTORS' and 'PIECE DENSITIES', to isolate the impact of each modification. (That model is provided as an electronic attachment to this filing, in an Excel file titled Prop.25.Per.Model.xls.) Modification 3 corrects an error in the calculation of MADC sack costs in the Periodicals cost model from the 2008 ACR, so no toggle switch is included. In addition, the Periodicals model cost summary sheet from the 2008 ACR has been provided to show the impact of all three changes in individual cells. The Periodicals cost model filed in the Docket No. ACR2008 (USPS-FY08-11), has been used to demonstrate these changes. Ordinarily the Commission's ACD version would be used; however, the Periodicals cost model workpapers in PRC-LR-5 (Docket No. ACR2008) exhibited a 'PCS IN' vs. 'PCS OUT' mismatch error[1] in sheet '5D'. Therefore, it could not be used for this purpose.

## Modification 1

**Objective:** The Postal Service seeks approval for a methodological change in the calculation of Flats Coverage Factors last calculated in USPS-LR-L-44 (Docket No. R2006-1). The proposed methodology uses a variety of data sources not used before to map mail volume and mail processing equipment to processing location. The result is an improved calculation of Coverage Factors.

**Background:** The Coverage Factors are used as an input for estimating the costs of First-Class Mail, Periodicals, and Standard Mail in the Flats Cost Models (USPS-FY08-11) filed in Docket No. ACR2008. Coverage factors quantify the proportion of mail volume that is processed at a facility equipped with a given piece of sortation equipment. The Coverage Factors were last calculated in USPS-LR-L-44 (Docket No. R2006-1). For calculating Coverage Factors in the past, ODIS-RPW volumes were matched up with mail processing equipment. Certain assumptions outlined in USPS-LR-L-44 were necessary. The proposed methodology uses ODIS, MODS, and MAILDIRECTIONv2 files as data sources. Appendix A, entitled "Coverage Factors Development", provides details on the development of the data and the mapping of the data sources needed to generate the Coverage Factors data.

[1] Proposal 12 filed in Docket No. RM2009-10 includes a modification that would rectify this mismatch error, and is currently pending before the Commission.

**Rationale:** The Postal Service estimates that the proposed Coverage Factors methodology will be more accurate in quantifying the operational reality of how flat mail is distributed. The proposed methodology includes annual updating to reflect data from the past fiscal year. The use of MAILDIRECTIONv2 and MODS data will assist in mapping mail volume to sites. On occasion, adjustments are made to incorporate local decisions regarding mail redirection.

**Impact:** The Periodicals cost model last presented in USPS-FY08-11 (Docket No. ACR2008) has been resubmitted with new Coverage Factors from the proposed methodology. The data are from FY08. FY09 data are not available at this time, but FY09 Coverage Factors will be generated in the preparation of the 2009 ACR. The impact of the revised data cannot be determined at this point in time. The new data will also replace Modification 10 from Proposal 12 (Docket No. RM2009-1). Modification 1 is applicable to the First-Class Mail, Periodicals, and Standard Mail flats cost models.

**Modification 2**

**Objective:** This modification proposes to use the UFSM1000 piece density data from USPS-FY08-14 (Docket No. ACR2008), replacing manual operations piece density data from USPS-LR-J-63 (Docket No. R2001-1).

**Background:** Piece Density study data provide the percentage of mail that is routed from a given operation to each succeeding operation. Piece density data for AFSM100 and UFSM1000 operations were last presented in USPS-FY08-14 (Docket No. ACR2008). Data were collected using automated systems, by accessing the End-of-Run reports and sort programs listings from a selected group of sites. Manual operations piece density data were not available using the same systems. Since sortation in UFSM1000 operations is conceptually similar to that of manual units, this modification will yield more accurate cost data. To make this modification, in sheet 'COVERAGE FACTORS', data in cells C11-G14 will be copied to cells C16-G19.

**Rationale:** The piece density data from USPS-FY08-14 are more current and reflective of modern operating conditions and equipment. In the absence of manual operations piece density study data, the UFSM1000 piece density data from USPS-LR-J-63 were used for manual operations piece density in the Flats cost models.

**Impact:** The new data have been added to the Periodicals cost model, which has been set up with a toggle switch to allow the analyst to isolate the effect of the modification. This modification causes a ripple effect in the cost of piece sortation. The cost summary sheet can be compared with the 'ACR2008 Summary' worksheet to determine the impact to individual cells. This

modification is applicable to the First-Class Mail, Periodicals, and Standard Mail cost models.

**Modification 3**

**Objective:** This modification corrects an error in the calculation of the cost of handling OSCF-entered MADC sacks.

**Background:** To make this correction, the following changes to the Periodicals model are necessary:

In sheet 'Container Flows' cell E22 should be changed to (1-'Model Volumes'!H95);
In sheet 'MADC Sacks' cell C42 should be changed to ((1-E4)*D9), and;
In the same sheet cell D43 should be changed to (E4*D10 + (1-E4)*D12)

**Rationale:** For OSCF-entered MADC sacks, in PRC-LR-L-14 (Docket No. R2006-1), L201 sacks received the SCF/ADC entry and worked costs (SEW) while the L009 sacks received the SCF/ADC entry and cross-dock costs (SEC) and the SCF/ADC entry upstream and worked costs (SW). Thus the handling cost of an OSCF entered sack should be the proportion of L201 sacks times the SEW costs plus 1 minus the L201 proportion times the sum of SEC and SW costs. The error, which first occurred in the Periodicals flat cost model (USPS-FY07-11) filed in Docket No. ACR2007, reverses the L009 costs and L201 costs. Therefore, the correction is necessary.

**Impact:** This modification increases the cost of handling OSCF-entered MADC sacks by 22.5 cents, when other modifications are turned “off”, as is evident from cell AJ14 in the 'Proposed Summary' sheet. This modification is applicable to the Periodicals cost model only.

APPENDIX A (Modification One)

Coverage Factors Development

## Introduction

This document describes the methodology employed to derive Coverage Factors estimates for the flats mail processing cost models. Coverage factors measure the proportion of mail pieces that are processed at a facility with a given piece of sortation equipment. The Coverage Factors are an input into the mail processing cost models and are used to derive the probability that a mail piece will be sorted on each of the various sortation technologies used by the Postal Service. Several data sources are used to estimate the Coverage Factors. The Postal Service's MAILDIRECTIONv2 file is used to identify the physical location where mail for each 3-Digit zone is processed. MODS data are used to identify the sortation technologies used at each facility. Finally, ODIS data are used to measure the relative volumes processed at each facility.

## Development of mappings from Finance Number to Facility ID code

The Postal Service assigns seven-digit Facility ID codes to identify each mail processing facility. These codes are used to communicate, to customers and other Postal Service facilities, the physical location where processing occurs so that mail is transported to the appropriate facility for processing. The MODS data used to assess the available sortation equipment at each facility are reported by Finance Number. As processing activities at more than one physical location can be reported under a single Finance Number, and more than one Finance Number can be used at a single physical location, a database of MODS Finance Numbers and Facility ID codes is needed.

To develop this database, the mailing addresses for each MODS Finance Number were obtained. Then, using the L002 labeling list, each Finance Number was paired with all facilities listed in the ADDRESS file of the Postal Service's Dropship Product that were in the same SCF service territory of the Finance Number.[2] Then by manually comparing the address with each Finance Number to the addresses listed in the ADDRESS file, each listed facility was identified as either belonging to the Finance Number or not belonging to the Finance Number.

## Coverage Factors

Coverage Factors were constructed by using the MAILDIRECTIONv2 file to identify the seven-digit Facility ID of the processing facility for each 3-digit zone. The facility ID was then mapped to the appropriate MODS Finance Number. MODS data were then used to identify the sortation technologies available at the facility. Finally, ODIS flats

[2] For this purpose, facilities listed only as DDU drop points in the MAILDIRECTIONv2 file were excluded.

volumes were weighted across 3-digit zones. The MAILDIRECTIONv2 records and ODIS volumes were chosen to be consistent with mail processing flows. The specific combinations for each estimated Coverage Factor are listed below:

Originating First-Class Mail Bundles
MAILDIRECTIONv2: DSCF Periodicals Flats[3]
ODIS Volume: ODIS originating First-Class Mail volume
Originating Periodicals Bundles
MAILDIRECTIONv2: DADC Periodicals Flats
ODIS Volume: ODIS destinating Periodicals volume
Originating Standard Mail Bundles
MAILDIRECTIONv2: DBMC Standard Mail Flats
ODIS Volume: ODIS destinating Standard Mail volume
Destinating First-Class Mail Bundles
MAILDIRECTIONv2: DSCF Periodicals Flats[4]
ODIS Volume: ODIS destinating First-Class Mail volume
Destinating Periodicals Bundles
MAILDIRECTIONv2: DSCF Periodicals Flats
ODIS Volume: ODIS destinating Periodicals volume
Destinating Standard Mail Bundles
MAILDIRECTIONv2: DSCF Standard Mail Flats
ODIS Volume: ODIS destinating Standard Mail volume

Originating First-Class Mail Pieces
MAILDIRECTIONv2: Default drop location from MAILDIRECTION
ODIS Volume: ODIS originating First-Class Mail volume
Originating Periodicals Pieces
MAILDIRECTIONv2: Default drop location from MAILDIRECTION
ODIS Volume: ODIS destinating Periodicals volume
Originating Standard Mail Pieces
MAILDIRECTIONv2: Default drop location from MAILDIRECTION
ODIS Volume: ODIS destinating Standard Mail volume
Destinating First-Class Mail Pieces
MAILDIRECTIONv2: Default drop location from MAILDIRECTION
ODIS Volume: ODIS destinating First-Class Mail volume
Destinating Periodicals Pieces
MAILDIRECTIONv2: Default drop location from MAILDIRECTION
ODIS Volume: ODIS destinating Periodicals volume
Destinating Standard Mail Pieces
MAILDIRECTIONv2: Default drop location from MAILDIRECTION
ODIS Volume: ODIS destinating Standard Mail volume

[3] For First-Class Mail, Periodicals DSCF is used as a proxy, since the MAILDIRECTION files list only those classes that are subject to destination entry discounts.
[4] For First-Class Mail, Periodicals DSCF is used as a proxy, since the MAILDIRECTION files list only those classes that are subject to destination entry discounts.

| **FLATS COVERAGE FACTORS** | | | | |
|---|---|---|---|---|
| FY08 data | | | | |
| **Originating** | | | | |
| **Activity** | **Method** | **First-Class** | **Periodicals** | **Standard** |
| Bundle Sorting | APPS | 44.76% | 54.44% | 44.65% |
| Bundle Sorting | SPBS / LIPS | 50.05% | 43.14% | 55.35% |
| Bundle Sorting | MANUAL | 5.19% | 2.42% | 0.00% |
| | | | | |
| | **TOTAL** | **100.00%** | **100.00%** | **100.00%** |
| | | | | |
| Piece Distribution | AFSM100 Only | 35.48% | 27.51% | 28.78% |
| Piece Distribution | UFSM1000 Only | 1.45% | 1.08% | 1.03% |
| Piece Distribution | AFSM100 / UFSM1000 | 61.95% | 71.41% | 70.19% |
| Piece Distribution | Manual | 1.12% | 0.00% | 0.00% |
| | | | | |
| | **TOTAL** | **100.00%** | **100.00%** | **100.00%** |
| | | | | |
| Piece Distribution | ATHS | 73.34% | 75.82% | 75.99% |
| | | | | |
| | | | | |
| **Destinating** | | | | |
| **Activity** | **Method** | **First-Class** | **Periodicals** | **Standard** |
| | | | | |
| Bundle Sorting | APPS | 38.22% | 33.98% | 37.24% |
| Bundle Sorting | SPBS / LIPS | 48.53% | 48.57% | 47.76% |
| Bundle Sorting | Manual | 13.24% | 17.45% | 15.00% |
| | | | | |
| | **TOTAL** | **100.00%** | **100.00%** | **100.00%** |
| | | | | |
| Piece Distribution | AFSM100 Only | 31.61% | 30.99% | 31.68% |
| Piece Distribution | UFSM1000 Only | 4.81% | 5.82% | 5.58% |
| Piece Distribution | AFSM100 / UFSM1000 | 57.40% | 54.19% | 54.63% |
| Piece Distribution | Manual | 6.18% | 9.00% | 8.11% |
| | | | | |
| | **TOTAL** | **100.00%** | **100.00%** | **100.00%** |
| | | | | |
| Piece Distribution | ATHS | 61.25% | 55.63% | 57.27% |
| | | | | |
| **FSS and Other Coverage factors** | | | | |
| | | | | |
| Piece Distribution | FSS | 0.00% | 0.00% | 0.00% |
| Piece Distribution | AFSM100 Only | 31.61% | 30.99% | 31.68% |
| Piece Distribution | UFSM1000 Only | 4.81% | 5.82% | 5.58% |
| Piece Distribution | AFSM100 / UFSM1000 | 57.40% | 54.19% | 54.63% |
| Piece Distribution | Manual | 6.18% | 9.00% | 8.11% |
| | | | | |
| | **TOTAL** | **100.00%** | **100.00%** | **100.00%** |

## 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

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