

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

Before Commissioners:

Ruth Y. Goldway, Chairman;
Tony L. Hammond, Vice Chairman;
Mark Acton
Dan G. Blair; and
Nanci E. Langley

Modification of Analytic Principles
Used in Periodic Reporting
(Proposals Twenty-Two through Twenty-Five)

Docket No. RM2010-4

Public Representative Comments in Response to Order No. 327

November 17, 2009

On October 29, 2009, the Commission issued Order No. 327 requesting comments on the Postal Service's Proposals Twenty-Two through Twenty-Five to make changes in the analytical methods approved for use in periodic reporting. The Public Representative submits comments on Proposals Twenty-Three through Twenty-Five at this time.

Proposal Twenty-Three: Proposal to Provide Consistency in the Treatment of Volume-variable Costs between Domestic and International Money Orders for Window Services.

The Postal Service presents 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 International Cost Revenue Analysis (ICRA).

At the present time, the Postal Service purports that the accrued costs for domestic Money Orders are grouped with window services (acceptance) and a 64.76 volume-variability factor for money orders is applied to derive the volume-variable costs. The volume-variability factors for window services were estimated in a special study by Professor Michael Bradley in Docket No. R2006-1, USPS-T-17, USPS-LR-L-80, and USPS-LR-L-81. Also at the present time, the costs for International Money Transfer Services are grouped with window non-acceptance international costs, and a "default" volume-variability factor of 100 percent is used to derive the volume-variable costs.

In Proposal Twenty-Three, the Postal Service proposes for FY2009 to group both domestic and international money orders into the "B" Workpapers W/S 3.2 window acceptance, and then apply the same volume-variability factor of 64.76 percent to both

types of money orders. The Postal Service states that the present method 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. Almost all IOCS tallies for domestic and international money orders at the Window Services occur while serving a customer (IOCS Question 18G01).

The Postal Service estimates that the impact on FY2008 Window Service costs for International Money Transfer Services would have been reduced by 45 percent under Proposal Twenty-Three, which would result in a decrease in the total attributable costs in the FY2008 Nonpublic CRA by about one-third.

The Public Representative supports this correction of inconsistency between IOCS and the "B" Workpapers, as well as an inconsistency between the treatment of domestic money orders within window acceptance (VV factor of 64.76 percent) and international money orders within window non-acceptance (VV factor of 100 percent). IOCS Question 18G06 under the window acceptance questions even specifically names both domestic money orders and international money orders as choices.

The Public Representative would like to add that the volume-variability factor of 64.76 percent presented in Proposal Twenty-Three is lower than the actual volume-variability factor estimated by Professor Bradley in R2006-1 for money orders, which is 65.50 percent. It is suggested that the Commission request an explanation for the lowering of this volume-variability factor before accepting Proposal Twenty-Three.

Proposal Twenty-Four: Unit Cost Model Modifications

In Proposal Twenty-Four the Postal Service proposes to make changes to the NSA Unit Cost Detail Data Calculation model in order to facilitate the tracking of calculations within the model itself. These changes will also facilitate the updating of the Unit Cost Model. The changes include the removal of hard-coded data, redundant and duplicate data, and the modification of inputs, formula, and table formats as a result of mail classification changes and additional information from the CRA. The Postal Service states that the proposed changes do not alter the fundamental approach of the calculations in the model; the changes only simplify the model.

The Unit Cost Model calculates total unit costs for mail processing, window service, delivery, vehicle service and transportation, and other, for presorted First-Class Mail, Standard Mail, ECR, and Parcel Post by shape and presort level. The Unit Cost Model submitted in ACR2007 and ACR2008-USPS-FY08-30 was constructed from the test year unit cost model used to calculate the Final Adjustments to the rollforward cost model during rate cases. The changes in mail classification have necessitated the direct production of costs by shape within the CRA itself, thus it does not need to be reproduced in the Unit Cost Model as well. The Postal Service maintains that the Unit Cost Model is being restructured to simplify the incorporation of the input data directly from the CRA and other cost models. Furthermore, in the process of realigning the spreadsheets, some computational errors were also discovered which the Postal Service proposes to correct.

The Public Representative has reviewed the proposed changes and modifications to the Unit Cost Model in Proposal Twenty-Four and agrees with the

Postal Service that the changes are simplifying and will facilitate future updating and reviewing. The Public Representative encourages the Commission to accept Proposal Twenty-Four.

Proposal Twenty-Five: Modifications to Flats Cost Models

Proposal Twenty-Five presents three modifications to the Flats Cost Models that were last submitted for review in Docket No. ACR2008, USPS-FY08-11. The Public Representative comments on all three Proposal Twenty-Five modifications below.

Modification 1

In Proposal Twenty-Five Modification 1, the Postal Service proposes the use of several new data sources to map mail volume and mail processing equipment to facility location. The Postal Service purports that the new mapping will improve the calculation of Coverage Factors which compute the proportion of mail volume that is processed at a facility using a certain piece of mail processing equipment. Presently when calculating Coverage Factors, ODIS-RPW volumes are matched up with mail processing equipment only. The proposed modification will use ODIS-RPW, MODS, and MAILDIRECTIONv2 files as data sources. The Postal Service purports that the new mapping method using more data sources will be more accurate in computing the operational reality of how Flat mail is distributed. The proposed new mapping method will include annual updating to reflect data from the past fiscal year. Modification 1 will use MAILDIRECTIONv2 and MODS data to map mail volume to sites, but adjustments will be made regarding local decisions to mail redirection. The Postal Service re-

estimated the Periodical cost model from the ACR2008 with the new mapping methodology, but the impact could not be determined with this proposal.

The idea of a more accurate computation of Coverage Factors being achieved by the use of multiple data sets is a great one, and the Public Representative applauds the Postal Service's effort to achieve this goal. Proposal Twenty-Five's Modification 1 is ambitious and it appears to be a movement in the right direction, thus the Public Representative encourages the Commission to accept Modification 1, but with future reviews on its impact.

Modification 2

Proposal Twenty-Five's Modification 2 presents the use of UFSM1000 piece density data from ACR2008, USPS-FY08-14) to replace manual operations piece density data from Docket No. R2001-1, USPS-LR-J-63 for manual operations. Piece density study data provide the percentage of mail that is routed from a given operation to each succeeding operation.

The Postal Service maintains that sortation in UFSM1000 operations is conceptually similar to that of manual units, and thus will yield more accurate cost data presumably because the UFSM piece densities were more recently updated. The Postal Service also maintains that more current UFSM1000 data are reflective of modern operating conditions and equipment, and in the absence of an updated manual operations piece density study data, the UFSM1000 piece density data is proposed to be used for manual operations piece density in the Flats cost models.

The Public Representative maintains that manual piece density study data and USFM1000 piece density study data are quite different as shown in the Piece Distribution Mail Flow Density Tables Summary in USPS-FY08-14. For both the UFSM1000 and Manual operations most sortation begins in OP, but thereafter they diverge where subsequent USFM1000 sorting goes mostly to the next sortation level and then immediately tapers off, while subsequent Manual sorting goes fairly evenly into all the succeeding deeper sorts. Thus, if USFM1000 piece densities are used for Manual operations piece densities then Manual sortation will be greatly misrepresented. This is not an improvement towards accuracy. The Public Representative encourages the Commission to reject this Modification 2 and suggest that Manual piece densities continue to be used and updated, within manual operations, as the Postal Service can.

Modification 3

Proposal Twenty-Five's Modification 3 corrects an error in the calculation of the cost of handling OSCF-entered MADC sacks. Presently, for OSCF-entered MADC sacks, 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 Postal Service estimates that 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 L009 and L201 costs have been reversed in the Periodicals flat cost model since ACR2007, USPSFY07-11. The Postal Service estimates that Modification 3 increases the cost of

handling OSCF-entered MADC sacks by 22.5 cents. The Postal Service proposes 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 $(E4*D10 + (1-E4)*D12)$

The Public Representative has reviewed the development and impact of the error and finds its correction to be an improvement in accuracy, and thus encourages the Commission to accept Proposal Twenty-Five Modification 3.

Respectfully Submitted,

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