

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

MODIFICATION OF ANALYTIC PRINCIPLES IN
PERIODIC REPORTING (PROPOSALS TWENTY-
TWO THROUGH TWENTY-FIVE)

Docket No. RM2010-4

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO CHAIRMAN'S
INFORMATION REQUEST NO. 1
(November 23, 2009)

The Postal Service hereby files its responses to all of the questions (questions 1-3 regarding Proposal Twenty-three, questions 1-4 regarding Proposal Twenty-five, Modification 1, and questions 1-5 regarding Proposal Twenty-five, Modification 2) of Chairman's Information Request No. 1, issued on November 13, 2009. Each question is stated verbatim, and followed by the response. Since Question One references non-public material, an application for non-public treatment of that material is also attached.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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November 23, 2009

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Proposal Twenty-three, Q.1. The Postal Service explains that if the proposed methodology had been used in FY 2008, then FY 2008 window service costs for International Money Transfer Services (IMTS) “would have been reduced by 45 percent...resulting in a reduction of the total attributable cost figure reported in the FY 2008 Nonpublic CRA of approximately one-third.” Please provide the underlying worksheets to support the 45 percent reduction in window service costs and the approximately one-third reduction in FY 2008 attributable cost.

RESPONSE:

A complete nonpublic version of the requested documentation can be found in USPS-RM2010-4/NP1. A redacted version is attached to this response.

Table 1
From WS 3.2.1, International Mail with IMTS in Non-Acceptance
(source:USPS-FY08-32. FY 2008 CRA "B" Workpapers.)

	Total Window	col	Acceptance	col	Non-acceptance
International Mail		\$64,468 (1)	\$53,661 (6)		
add: mixed mail			\$107 (7)		
add: brk/pers, clock in/out, move empty eq.		\$7,324 (4)	\$6,109 (9)		
add: waiting time		\$11,452 (5)	\$9,551 (10)		
Total		\$83,244	\$69,428 (11)		\$13,816 (14)
Variability Factor			78.42% (12)		100.00%
Volume Variable Cost			\$54,445 (13)		\$13,816 (14)
IMTS					

Distribution Key for IMTS in Non-Acceptance

IMTS	Total International

Sources: USPS FY08-NP7, USPS FY08-NP4

Table 2
From W/S. 3.2.1, Money Orders (Domestic)
(source:USPS-FY08-32. FY 2008 CRA "B" Workpapers.)

	Total Window	col	Acceptance	col	non-acceptance
Domestic Money Orders		\$105,725 (1)			
add: mixed mail					
add: brk/pers, clock in/out, move empty eq.		\$12,012 (4)			
add: waiting time		\$18,781 (5)			
Total		\$136,518	\$136,518 (11)		
Variability Factor			64.76% (12)		100.00%
Volume Variable Cost			\$88,409 (13)		

Table 3
Simulated C/S 3.2 spreadsheet with IMTS in acceptance, using variability factor for domestic money orders
Percent Reduction in IMTS Window Costs

	Total Window	col	acceptance	col	non-acceptance
IMTS					
add: mixed mail					
add: brk/pers, clock in/out, move empty eq.					
add: waiting time					
Total					
Variability Factor			64.76%		
Volume Variable Cost					
Percent Increase/Decrease			-45%		

Table 4
Percent Reduction in IMTS Total Attributable Costs

Window Service Cost Reduction	
Window Service Piggyback Factor	1.53
Reduced Cost after Piggyback	
IMTS Attributable Cost (from FY2008 NonPublic CRA_R_NPLR 1)	
Percent Increase/Decrease	-32%

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Proposal Twenty-three, Q.2. Please refer to Docket No. MC2008-1, Statement of Pranab M. Shah on Behalf of the United States Postal Service. Witness Shah's statement indicates that IMTS includes hardcopy international money orders and international electronic money transfers. However, the proposal does not address the treatment of window service costs for international electronic money transfers. How does the Postal Service propose to treat window service costs associated with electronic money transfers?

RESPONSE:

The IMTS costs in the proposal include the costs for both paper money orders and electronic money transfers. These costs are based on both option "B. International Money Orders" (paper) and option "C. Dinero Seguro / Sure Money" (electronic) that are selected in response to the IOCS Window Service question "Q18G06. Other Product type."

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Proposal Twenty-three, Q.3. Please refer to Docket No. R2006-1, Direct Testimony of Michael D. Bradley on Behalf of the United States Postal Service. Witness Bradley's direct testimony indicates that the window service cost volume-variability factor for International Mail as a whole is 78.5 percent. Currently, window service costs for IMTS are grouped with International Mail and services as window non-acceptance costs and, therefore, are assigned a volume-variable factor of 100 percent. Proposal Twenty-Three would group IMTS window service costs with domestic money orders and treat the costs as window acceptance. This would give both domestic and international money orders a variability factor of 64.76 percent. Please provide the rationale for applying the 64.76 percent variability factor for domestic money orders to international money orders, rather than using the variability factor for international mail as a whole.

RESPONSE:

There were no IMTS transactions identified in the 2005 transaction time study from which the window acceptance volume variability factors for mail categories were derived. Since window service activities associated with IMTS are more akin to those for *domestic* money orders than to those for all other international mail categories combined, the 64.76 percent variability factor for domestic money orders is a more suitable proxy for IMTS.

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Proposal Twenty-five, Modification 1, Q.1. Please explain in what ways, other than the ability to provide annually updated piece densities, the proposed method and data sources improve upon the method used in Docket No. R2000-1.

RESPONSE:

The methodology used to calculate the Coverage factors in Proposal Twenty-Five is functionally equivalent to the PRC-approved methodology last used in USPS-LR-L-44 (Docket No. R2006-1). In the method established in Docket No. R2006-1, ODIS volumes are mapped to processing facility using the DMM labeling lists. Next, an equipment inventory is used to establish whether or not a piece will have access to a particular piece of equipment.

The Postal Service's processing network has changed to accommodate new processing technologies, such as the Automated Packaging Processing System (APPS) and Flats Sequencing System (FSS). These changes have resulted in the increased use of facilities such as Logistics and Distribution Centers (L&DCs) and Mail Processing Annexes to process the mail. As a result, a more refined method of determining access to technology is needed.

In Proposal Twenty-Five the MailDirectionv2 file is used to determine the actual physical location (plant, annex or L&DC) where the mail is to be processed, rather than assuming all mail will be processed at the main plant. The MailDirectionv2 file is a publically available file that the Postal Service uses to communicate to customers the precise physical facility to which they should direct drop-shipped mail for efficient processing. Data from MODS is then used to establish what technologies exist and are in use at each facility, rather than just what technologies exist at the facility.

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Proposal Twenty-five, Modification 1, Q.2. Please provide the documentation for the file entitled "MailDirectionv2." The documentation should explain:

- a. The method and assumptions used to assemble the file, and
- b. The fields that comprise the file.

RESPONSE:

a. The MailDirectionv2 file is constructed by communicating with local offices regarding the physical locations where mail is processed and the location where mail should be deposited for the most efficient processing and transportation. In the context of Proposal Twenty-Five it is assumed that the physical location that mail is directed to is the physical location where it will be processed.

b. The description of the structure and content of the MAILDIRECTIONv2 file (as well as the other files in the Postal Service's Drop Ship Product) is attached electronically to this response in the file "Prop.25.Mod.1.Q.2.LAYOUT.doc".

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Proposal Twenty-five, Modification 1, Q.3. Please explain how ODIS volumes are associated with each type of mail processing equipment for each unique 3-digit ZIP Code.

RESPONSE:

As was the case in Docket No. R2000-1, in the construction of coverage factors no attempt is made to associate ODIS volumes with a particular technology. The coverage factors measure the proportion of mail that originates (or destines) at a facility with a given technology. No attempt is made to determine the proportion of pieces actually worked on any technology. Thus if a facility employs a technology, then all the measured ODIS volume for that facility is assumed to have access to the technology. The modeled flow of pieces across technology types is governed by multiple model parameters and flows, of which the coverage factors are one.

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Proposal Twenty-five, Modification 1, Q.4. Please provide spreadsheets showing the development of the volumes used to calculate the coverage factors reported in Prop.25.per.model.xls, Sheet: Coverage factors.

RESPONSE:

The requested spreadsheets are provided in a ZIP file attached to this response electronically, Prop.25.Mod.1.Q.4.Coverage.Factors.zip.

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Proposal Twenty-five, Modification 2, Q.1. Please describe the steps that would need to be taken to perform a reasonably accurate field study estimating manual piece densities.

RESPONSE:

To conduct a manual piece density study, a study plan has to be formulated for collecting and aggregating the data for manual piece density study at manual flat cases.

The study plan would include:

- a) Creating a representative sample of sites to conduct the study. In the mail processing study presented in USPS-FY08-14 (Docket No. ACR2008), fifteen ADC/SCF sites were utilized.
- b) Planning for data collection, including a method of identifying, collecting and recording piece density data. The study plan would indicate number of people required to collect data at manual cases and identify the operations, time, and days at which data collection can take place. The number of people at each case may need to reflect the need to count the pieces quickly as soon as casing is finished so as to not cause delay in the dispatch of mail.
- c) Collecting data over multiple days of the week and multiple weeks of the year to rule out seasonality of the data.
- d) Aggregating the data from multiple sites over a period of time to yield the density table used in the flats cost model.

While conducting such studies, one needs to be cognizant of the potential impact to operations. The labor-intensive nature of the study can cause plan failures in the respective unit while measurement and data collection are taking place. These plan failures in clearing the mail cause delays in dispatch of mail.

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Proposal Twenty-five, Modification 2, Q.2. What would be the approximate cost of performing such a study?

RESPONSE:

The cost of conducting the study described in the response to question 1 would depend on several factors:

- i) Number of people required to collect and aggregate the data. In conducting such a study, at least one data collector would be required per manual case to collect piece data at the case, before mail pull-down, and just before dispatch of the mail, as mail cannot be dispatched until the all the pieces have been accounted for. The data collection may need to occur on different tours to accommodate the processing and dispatch of different classes of mail.
- ii) Number of sites at which data is collected.
- iii) Number of repeat visits at the sites.
- iv) Boarding/lodging, per-diem, salaries/benefits expenses of data collectors utilized during the time of the study.
- v) Intrusion to operations while data collection takes place – Since the data collection mentioned is of a manual nature, an impact on operations would be expected as described above.

Keeping the above factors in mind, it is obvious that the cost of conducting such a study cannot be easily determined, while similar benefits can be reaped by using the UFSM1000 density data which are available using automated systems.

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Proposal Twenty-five, Modification 2, Q.3. If such a field study were performed and the ratios of manual to UFSM1000 piece densities could be calculated, how many years could one expect this ratio to remain representative?

RESPONSE:

In general, piece densities change only when changes are made to the number of holdouts used or to the sort-level of the holdouts to which the mail is being sorted. The number of holdouts in manual flats cases has not changed significantly over the last several years. The sort-level of the holdouts, to which the mail is sorted, is occasionally adjusted by the Logistics Department of the Postal Service to accommodate its service needs. The sort-level of the holdouts, especially for incoming mail, varies by site.

Moreover, the Postal Service is not proposing to calculate a ratio of manual to UFSM1000 piece density. The purpose of calculating such a ratio is unclear. The Postal Service instead is proposing to use the UFSM1000 piece density data as a proxy for manual operations.

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Proposal Twenty-five, Modification 2, Q.4. Please describe the ways in which manually sorting pieces to the various downstream entry points is conceptually similar to that of mail sorted on the UFSM1000.

RESPONSE:

Both UFSM1000 and manual sorting operations use the same distribution and labeling information for maintaining holdouts to which mail is sorted. Outgoing manual flats operations use a main case (42 holdouts) and two wings (30 holdouts each) for a total of 102 holdouts, almost the same as the 100 holdouts on the UFSM1000. For that reason, Operations Support Specialists in the field may use the piece density data from the UFSM1000 to maintain the holdouts on the flats cases, lending credence to its use as a proxy for the manual densities. For incoming manual flats operations, fewer holdouts may be used as needed. On occasion, a holdout on a flats case is split using a "divider" to provide an extra separation.

Piece density data from the UFSM1000 is readily available using reports in WebEOR application, while collecting piece density data from manual operations is labor-intensive and costly. Operations Specialists at Headquarters admit that, due to increased focus on automation and decreased volume of mail in manual operations, field operations have not been required to maintain piece density information for manual operations in the Density Analysis System for the last several years. Therefore, despite the contrary claim in TW's comments (Initial Comments of Time Warner Inc. in Response to Order No. 327, at page 4 (November 16, 2009)), the piece density data for manual operations are not routinely maintained nationally in any database.

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The flow of mail in the manual operations is similar to the flow in the UFSM1000 operations. Mail rejected off of an AFSM100 is sorted either on the UFSM1000 or in manual operations. Certain mail that is deemed non-machinable on the AFSM100 flows directly to the UFSM1000 or to manual operations. When mail volume for either operation rises above capacity, the overflow is redirected to the other operation to maintain service. Labeling and dispatch of mail off of the UFSM1000 or after manual operations are similar.

In USPS-LR-J-63 (Docket No. R2001-1) the manual piece density data were not collected (USPS-LR-J-63, at page 2). Instead the UFSM1000 piece density data were used as a proxy in flats costs models, and such use was accepted by the Commission in Docket Nos. R2001-1, R2005-1, R2006-1, and ACR2007. In Docket No. ACR2008, the Postal Service provided new density data for the AFSM100 and UFSM1000 (filed in USPS-FY08-14) but continued to use the UFSM1000 piece density data from USPS-LR-J-63 for manual operations. In Proposal 25 - modification 2 (Docket No. RM2010-4), the Postal Service is merely asking for approval to conform with the PRC-approved methodology of using new UFSM1000 piece density data (USPS-FY08-14) as a proxy for manual operations data.

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Proposal Twenty-five, Modification 2, Q.5. Please identify what sources of information have led to this understanding (in question 4, above), including whether:

- a. Quantitative studies have been performed that support the assumption that UFSM1000 piece densities are equal to manual piece densities? If so, please provide them.
- b. The assumption that UFSM1000 piece densities are equal to manual piece densities is based primarily on the subjective opinions of operations experts?
 - i. If so, please provide any written documentation supporting the use of UFSM1000 piece densities for manual piece densities.
 - ii. If no written documentation is available, please provide an explanation from operations experts supporting the use of UFSM1000 piece densities for manual piece densities

RESPONSE:

Please see the response to Proposal Twenty-five, Modification 2, Question 4 above.

ATTACHMENT 1

APPLICATION OF THE UNITED STATES POSTAL SERVICE FOR NON-PUBLIC TREATMENT OF MATERIALS

In accordance with 39 C.F.R. § 3007.21 and Order No. 225,¹ the United States Postal Service (Postal Service) hereby applies for non-public treatment of certain materials filed with the Commission in response to a Chairman's Information Request in this docket. The materials pertain to window service costs related to International Money Transfer Services (IMTS). The unredacted spreadsheet is being filed separately under seal with the Commission as USPS-RM2010-4/NP1, although a redacted copy is filed with the Response of the United States Postal Service to Chairman's Information Request No. 1.

The Postal Service hereby furnishes the justification required for this application by 39 C.F.R. § 3007.21(c) below.

(1) The rationale for claiming that the materials are non-public, including the specific statutory basis for the claim, and a statement justifying application of the provision(s);

Information of a commercial nature, which under good business practice would not be publicly disclosed, as well as third party business information, is not required to be disclosed to the public. 39 U.S.C. § 410(c)(2); 5 U.S.C. § 552(b)(4). The Commission may determine the appropriate level of confidentiality to be afforded to such information after weighing the nature and extent of the likely commercial injury to the Postal Service against the public interest in maintaining the financial transparency of a government establishment competing in commercial markets. 39 U.S.C. §

¹ PRC Order No. 225, Final Rules Establishing Appropriate Confidentiality Procedures, Docket No. RM2008-1, June 19, 2009.

504(g)(3)(A).² Because the portions of materials filed non-publicly in this docket fall within the scope of information not required to be publicly disclosed, the Postal Service asks the Commission to support its determination that these materials are exempt from public disclosure and grant its application for their non-public treatment.

(2) Identification, including name, phone number, and email address for any third-party who is known to have a proprietary interest in the materials, or if such an identification is sensitive, contact information for a Postal Service employee who shall provide notice to that third party;

The Postal Service believes that there is no party with a proprietary interest in these materials.

(3) A description of the materials claimed to be non-public in a manner that, without revealing the materials at issue, would allow a person to thoroughly evaluate the basis for the claim that they are non-public;

As requested by the Chairman, the Postal Service is filing the underlying worksheets developed for Proposal 23 to determine that a 45 percent reduction in window service costs and an approximately one-third reduction in FY 2008 attributable costs should be applied to International Money Order transactions. Although the competitive products list has not been finalized, the Commission directed the Postal Service to file a request to add IMTS, including international money orders, to that list.³ Therefore, the Postal Service is treating international money orders as a competitive product in the meantime. The information the Postal Service seeks to protect from

² The Commission has indicated that “likely commercial injury” should be construed broadly to encompass other types of injury, such as harms to privacy, deliberative process, or law enforcement interests. PRC Order No. 194, Second Notice of Proposed Rulemaking to Establish a Procedure for According Appropriate Confidentiality, Docket No. RM2008-1, Mar. 20, 2009, at 11.

³ PRC Order No. 154, Review of Nonpostal Services Under the Postal Accountability and Enhancement Act, Docket No. MC2008-1, Dec. 19, 2008, at 38 and 89. See also 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

disclosure is information it will use to establish its costs, which will be a significant input to the determination of the appropriate pricing for this product.

The Postal Service limited its redactions in the underlying work sheets to the information it determined to be exempt from disclosure under 5 U.S.C. § 552(b) and which has not previously been disclosed to the public.⁴

(4) Particular identification of the nature and extent of commercial harm alleged and the likelihood of such harm;

The work sheets include the proposed methodology for determining the attributable costs and actual data from sources that have been protected from public disclosure when filed with the Commission in the past. Notes in the document identify those non-public sources. Table 3 uses previously protected information to demonstrate how including IMTS in acceptance and applying the volume variability factor associated with domestic money orders to international money order transactions would affect the costs attributable to international money order window transactions. All of this information is highly confidential in the business world. Unlike its competitors, the Postal Service is required demonstrate that each competitive product covers its attributable costs. If this information were made public, the Postal Service's competitors would have the advantage of being able to determine a significant portion of the Postal Service's pricing of this product and could make reasonable estimations of what the absolute floor for its pricing might be. Competitors with this information could develop pricing and marketing strategies with which the Postal Service could not compete, due to its statutory and regulatory constraints. The Postal Service's assessment is that the

⁴ The Postal Service does not intend to waive any right to claim that similar data disclosed publicly in the spreadsheet is eligible for protection in any future filing. However, since some of the data were previously released, the Postal Service is not seeking to protect those data in this context.

likelihood that the information would be used in this way by competitors to the international paper money order business is not extremely great. However, as it proposes to use this methodology for developing costing and pricing for electronic money transfer services, disclosure of the information at this stage could have a more serious negative impact on the potential development and success of that competitive product in the future.

(5) At least one specific hypothetical, illustrative example of each alleged harm;

Identified harm: Public disclosure of information in the work sheets would be used by competitors to the detriment of the Postal Service.

Hypothetical: A competing money transfer service company obtains a copy of the unredacted version of the work sheets from the Postal Regulatory Commission's website. It analyzes the work papers to determine what the Postal Service window service costs are to the Postal Service and estimates, based on its own experience, what portion of total costs of the product the window service costs constitute. The competitor then makes a reasonable estimation of the Postal Service's cost floor, knowing that the Postal Service must meet a statutory obligation for each competitive product to cover its attributable costs and to contribute to the Postal Service's institutional costs. It then sets its own rates for products similar to what the Postal Service offers customers under that threshold and markets its ability to guarantee to beat the Postal Service on price for international money transfer services. The competitor could take this approach in a permanent way, if its profit margins allow, or it might choose to use its ability to offer flexible pricing as a short term sale to motivate

price sensitive customers to switch providers and hope to retain them with other loyalty incentives when the sale prices end.

(6) The extent of protection from public disclosure deemed to be necessary;

The Postal Service maintains that the redacted portions of the materials filed non-publicly should be withheld from persons involved in competitive decision-making in the relevant market for international money transfer services (including both private sector providers and foreign postal administrations), as well as their consultants and attorneys. Additionally, the Postal Service believes that actual or potential customers of the Postal Service for this or similar products should not be provided access to the non-public materials.

The Commission's regulations provide that non-public materials shall lose non-public status ten years after the date of filing with the Commission, unless the Commission or its authorized representative enters an order extending the duration of that status. 39 C.F.R. § 3007.30. The Postal Service believes that the ten-year period of non-public treatment is sufficient to protect its interests with regard to the information it determined should be withheld due to commercial sensitivity.

(8) Any other factors or reasons relevant to support the application.

None.

Conclusion

For the reasons discussed, the Postal Service asks that the Commission grant its application for non-public treatment of the identified materials.

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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