

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

Consideration of Technical Methods to Be
Applied in Workshare Discount Design

Docket No. RM2010-13

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 1
(January 18, 2011)

The Postal Service hereby files its response to the single question posed in Chairman's Information Request No. 1, issued on October 7, 2010. The response date was changed to January 18, 2011, in Order No. 568 (Oct. 25, 2010). The question is stated verbatim, and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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Q. Please provide the avoidable, worksharing-related unit mail processing, delivery, and collection costs for each of the following potential benchmarks (within single-piece First-Class letters):

- a. Information Based Indicia (IBI);
- b. Metered Letters;
- c. White Mail; and
- d. Average single-piece letters.

If direct cost estimates are not readily available, please provide proxies for the costs and estimate the time and resources that would be necessary to develop direct cost estimates. Please also provide supporting documentation that shows how each estimate is calculated, explains the assumptions on which it is based, and identifies all sources.

The term "avoidable worksharing-related unit costs" refers to costs from which the worksharing-related unit cost of Automation Mixed AADC presort letters would be subtracted to estimate the Automation Mixed AADC presort letter cost avoidance. The worksharing-related unit cost of the benchmark would also serve as the basis for estimating the avoided cost of nonautomation presort letters. For purposes of this exercise, "white mail" may be defined as it is defined in Initial Comments of the United States Postal Service, filed May 26, 2009, in Docket No. RM2009-3, at A-8 and A-9. The term "average Single-Piece Letters" means an average of all single-piece First-Class letter mail.

RESPONSE:

For purposes of this exercise, the Postal Service has used the mail processing unit costs models presented most recently in USPS-FY10-10 in the FY 2010 Annual Compliance Report (ACR) filing. These models use the methodology established by the Postal Regulatory Commission (the Commission) in Docket No. R2006-1 and in subsequent ACR filings and include the modifications presented in Docket No. RM2011-5, Proposal Nine.¹

¹ Chairman's Information Request No. 1 in Docket No. ACR2010, issued January 14, 2011, requested the Postal Service to reverse the Proposal Nine modifications because the Commission has not yet made a final ruling on inclusion of these modifications. The ChIR was issued late on Friday, January 14th, and the response to this ChIR had been prepared prior to receiving this request.

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Since the Postal Service first introduced the methodological approach of using Bulk Metered Mail (BMM) as the benchmark from which to develop cost avoidances for mail processing, the mail processing costs of "Metered" mail were used as the proxy for BMM mail processing costs. This was necessary because there are no rate elements or required mail markings for BMM that would permit the pieces to be so identified once the trays of BMM have been dumped for purposes of letter piece sortation; that is, it would look like any other metered mail. Thus, data collectors would not be able to identify BMM to develop separate costs for BMM. In addition, the lack of rate element and preparation requirement means that, aside from sampling which could not identify which pieces were entered together in trays, the RPW system has no means by which to obtain a volume estimate for BMM. As introduced by the Postal Service, the cost avoidance difference between BMM (as proxied by "Metered" mail) and MAADC did not consider cancellation operation costs because BMM was defined as metered mail that was trayed and faced, and would therefore bypass the cancellation operations. However, in response to proposals by intervenor witnesses, the Commission expanded the range of cost pools considered to be workshare-related such that the Metered mail cancellation operation costs were also included in the Commission's methodology for calculating the cost avoidance between MAADC and BMM.

Thus, as this current ChIR requests mail processing costs for Metered mail, as differentiated from BMM, an astute observer might notice that the cost models for Metered mail are identical to those for BMM which were filed in the FY 2010 ACR. The distinguishable difference between the two types of mail (BMM and Metered mail), the

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bypass of cancellation operation activity, was already eliminated by Commission methodology.

Further, the mail processing cost data for the "Metered" category actually includes, and has included, Metered mail, IBI mail and PVI mail. In fact, according to FY 2010 RPW, the "Metered" mail category is only 7.76 percent Metered letters. Another 1.03 percent of "Metered" mail is PVI letters, and the vast majority, 91.21 percent, is IBI mail. Therefore, when one considers the mail processing costs of "Metered" mail, one is actually considering the costs of a category currently dominated not by metered mail, but by IBI mail. One might ask if the data used to proxy the BMM benchmark formerly used in the First-Class Mail mail processing cost avoidance models was inappropriate, given that the "Metered" mail used as a proxy was actually dominated by IBI mail, but the Postal Service would disagree with that assessment. The idea of the BMM benchmark was to identify business-originated mail that was similar to the Presort letter mail but for the lack of presortation and prebarcoding. Whether the trayed and faced letters that were considered BMM used meter strips or IBI would have been immaterial, as either of those types of mail would have bypassed cancellation operations. The PVI mail was such a small portion of the total Metered category that it was not perceived to be "tainting" the data significantly.

Currently, "Metered" mail contains costs for Metered, PVI and IBI mail together, but this ChIR requests a more disaggregated approach. However, the Postal Service believes the mail processing data cannot be differentiated reliably into separate costs for Metered mail, PVI mail and IBI mail. Although IOCS (In-Office Cost System) records indicia categories for PVI, IBI and PC Postage (as a combined category), and non-IBI

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meter impressions, theoretically permitting a disaggregation of IOCS costs for IBI and Metered mail, a cursory examination of the data indicates the likelihood of a mismatch between the cost and volume data for the disaggregated indicia types. It is probable that a substantial portion of mail paid with IBI meters is being recorded using the non-IBI meter indicia category. There has been no investigation to determine the accuracy of the data resulting from such differentiation because, until this ChIR, there has not been interest in examining the unit costs separately. The distinction between the costs for Metered mail and IBI mail has not been material up until now. Before the Postal Service is prepared to use the cost data disaggregated for Metered mail and IBI mail, more in-depth examination of the data would be required to ascertain whether the seemingly anomalous result which yields very high unit costs for pure Metered mail is, in fact, reflecting some quality of Metered mail that makes it very expensive, or, more likely, that additional training and/or modification of the IOCS data collection instrument would be required in order to improve the accuracy of the detailed indicia data. It is difficult to say what the earliest time would be at which accurate data that derives from IOCS for the two categories in isolation would be available, but it is not possible that a full fiscal year of data would be available until the end of FY 2012. At this point in time, software changes for Quarter 4 of FY 2011 are being finalized. Analysts have yet to delve into the current results to see if they are reasonable, and training above that already provided would have to be developed and implemented. Even then, the stability and reliability of the data would not be certain, requiring review by postal analysts to ascertain the validity of the data. The cost of including this new analysis and any further IOCS or RPW questions required to support the analysis is also unknown, leaving aside

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the question of what to do with the small volume of PVI mail in the "Metered" mail category. Thus, for purposes of responding to this ChIR, the mail processing cost avoidance for Metered mail and IBI mail are identical, given the lack of reliable data that would permit differentiation.

The letter models provided in response to this ChIR also include a version in which the cost data for all of Single-Piece First-Class Mail letters have been substituted for the costs of the BMM (Metered mail) cost benchmark. This substitution is straightforward.

The request for mail processing costs for "white mail" is not one that may be accommodated, however. "White mail" is defined as general office mail that has a uniform envelope size, machine-generated addresses, and a meter strip. The only apparent and material differences between BMM and "white mail" is that the "white mail" would not necessarily be faced and trayed, and it is possible that some BMM was not machine-addressed. Given that "white mail" might not necessarily be faced and trayed, the extent to which "white mail" might be processed through cancellation operations is unknown. However, again, because the Commission altered the cost pools such that the BMM proxy included the cancellation operation costs, the cost of "white mail" as used in the cost avoidance model will look exactly like the Metered mail and IBI mail and BMM costs for mail processing. It is not possible to obtain the costs of "white mail" from postal data systems for the same reasons that the postal data systems cannot produce estimates for BMM in isolation: there are no mail markings or rate elements that would permit the data collector to identify this mail as being different from that of other single-piece letters, and no means by which to obtain the volume of this mail. The

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key features of "white mail" include the idea of uniform envelope size. If the "white mail" was entered in trays, the ability to compare the envelope sizes to each other would be eliminated once the tray of mail was dumped for piece sortation. Since "white mail" is not required to be trayed, it would be almost impossible for a data collector to locate the pieces generated from any particular office to be able to compare them to each other and establish that the envelopes are of uniform size. In order to develop a rough proxy for "white mail", it would eventually be possible to capture cost data for pieces with machine-generated addresses as differentiated from those pieces with handwritten addresses, although the data systems do not currently develop such estimates. It would also be possible to isolate the common characteristics of machine-written addresses and a meter strip or IBI. The earliest that questions supporting such cost information could theoretically be added to the software would be for Quarter 4 of FY 2011. However, just as with the problem of BMM, since there is no rate element or required mail marking for "white mail", there would be no volume figure to use in the denominator to obtain unit costs.

With no available unit cost data for "white mail", the question of an appropriate proxy arises. Since "white mail" is in uniform envelope sizes and has a meter strip, it is possible that it shares many characteristics with BMM or Metered mail. Although "white mail" is required to be machine addressed and "Metered" mail is not, it is likely that the vast majority of metered letters bear machine generated addresses. Consequently, "Metered" mail would also serve as the best available cost proxy for "white mail." Altering the data systems to provide the nexus between metered mail and machine-

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addressed mail could potentially provide the costs, but again, matching those costs with an appropriate volume would be difficult.

Attached to this response electronically are three Excel files, two of which address the mail processing cost differences. The file named ChIR.No.1. Metered MP.xls uses the "Metered" mail mail processing costs and delivery costs, as described in more detail below, and would serve as the cost proxy for Metered, IBI and "white mail". The file named ChIR.No.1.Single Piece MP.xls uses the average Single-Piece mail processing and delivery costs.

This ChIR indicates that the cost avoidance should incorporate differences between the benchmark costs in areas of delivery and collection costs, as well as the mail processing costs described above. Current data systems do not provide carrier street time estimates by indicia. It is not apparent that adding additional questions would yield data distinctions that would be stable and reliable, given the time constraint on the delivery of DPS mail. Adding extra questions to the data collection forms would be possible, but could not be done quickly, and training would have to accompany the roll-out of the new questions. If these data were collected, the results would then have to be examined for reliability. Thus, the Postal Service does not have street time cost differences for the types of mail listed in this ChIR.

This ChIR requests that consideration be given to the workshare-related cost avoidances in the areas of delivery and collection. Although the Postal Service had proposed that the delivery differences associated with differences in DPS success rates for the various levels of presortation might be spurious, the Commission methodology retains the presumption that the DPS percents generated by presort level in the mail

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processing unit cost models for Presort Letters accurately reflect the DPS percentages by presort level. The Postal Service does not have DPS percentages by indicia, however, and at this time there is not an obvious way to obtain that information for the categories requested in this CHIR. Reference to UDCmodel10.xls and UDCInputs10.xls in USPS-FY10-19 will reveal that the Cost Segment 6 in-office delivery cost for average single-piece First-Class Mail letters is \$0.03301, and the Cost Segment 6 in-office delivery cost for "Metered" single-piece First-Class Mail letters (including metered, IBI and PVI) is \$0.03578. Only in Cost Segment 6 is there a measured difference between the costs of the average single-piece letter and the cost of the "Metered" letter. By comparison, the in-office delivery cost for average Presort First-Class Mail letters is \$0.01510.

With regard to collection costs, UDCmodel10.xls in USPS-FY10-19 reveals that the total collection costs for single-piece First-Class Mail letters is \$0.03829 per piece. This figure for "Metered" single-piece First-Class Mail letters is \$0.03811, whereas no collection costs are assigned to Presort First-Class Mail letters. The cost differences between presort letters and single-piece or metered single-piece letters in both in-office delivery costs and collection costs are already subsumed in the delivery costs used to calculate the unit cost avoidances in the letter cost models.

A third Excel file attached to this response electronically, ChIR.No.1.Delrvy.Indicia.Collctn.xls, contains the calculations and derivations of the delivery costs. For the purposes of calculating the BMM benchmark, the Commission and the Postal Service have previously used the delivery costs of nonautomation machinable MAADC costs as a proxy. For purposes of this exercise, the actual average single-piece First-

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Class Mail letter delivery cost has been used for the single-piece model, and the actual "Metered" (i.e., Metered, IBI and PVI) delivery cost has been used in the model showing the proxy for Metered mail, IBI mail and "white mail".

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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