

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

MODIFICATION OF ANALYTIC PRINCIPLES IN
PERIODIC REPORTING (PROPOSALS NINE
THROUGH TWELVE)

Docket No. RM2011-5

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-6 OF CHAIRMAN'S INFORMATION REQUEST NO. 1
(January 19, 2011)

The Postal Service hereby files its responses to questions 1-6 of Chairman's Information Request No. 1, issued on January 11, 2011. Each question is stated verbatim, and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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

Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992, FAX: -5402
January 19, 2011

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
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1. On page 2 of the attachment to the Petition supporting Proposal Eleven, the Postal Service states that the "Point of Sale System (POS) volume [for IMTS-Inbound] can be retrieved via back-end queries." Please explain in detail how the Postal Service is able to use POS volume to develop IMTS-Inbound volume.

RESPONSE:

POS keeps track of the volume for cashed paper money orders, and can distinguish between domestic and international money orders cashed. The international volume can be retrieved via a specific IT query.

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2. The attachment supporting Proposal Eleven states that the Postal Service will use In-Office Cost System (IOCS) tallies to distribute total attributable costs for IMTS between IMTS-Inbound and IMTS-Outbound. In Docket No. MC2009-19, the Postal Service stated that “the relatively small number of [IOCS] tallies and the costs they represented, when divided by the declining volume of transactions, led to relatively volatile unit costs.”¹

- a. For FY 2009 (and FY 2010, if available), please provide the total number of IOCS tallies for IMTS.
- b. Are there a sufficient number of IOCS tallies as a whole to minimize volatility and thereby ensure that the estimated unit costs for IMTS are statistically reliable?
- c. If the total number of IOCS tallies for IMTS as a whole is relatively small, developing costs based upon separating those IOCS tallies into “Inbound” and “Outbound” would produce an even smaller number of IOCS tallies for both products. Please explain how the Postal Service intends to minimize volatility and thereby ensure that the estimated unit costs for the IMTS-Outbound and IMTS-Inbound products are statistically reliable.
- d. Because of the relatively small number of IOCS tallies, the IMTS-Inbound and IMTS-Outbound products may exhibit annual cost variations that cause one product to show a positive contribution in one year and that same product to show a negative contribution in a subsequent year. How does the Postal Service address this potential problem?

RESPONSE:

- a) There were 13 IMTS tallies in FY2009, and 18 in FY2010.
- b) The coefficient of variation (CV) for the IOCS-based cost estimate for IMTS is about 30 percent. The 95 percent confidence interval for the cost coverage is from 50 percent to 160 percent.
- c) If IMTS cost needs to be reported by inbound and outbound separately, the Postal Service plans to explore whether it can be sampled more heavily, in a

¹ Docket No. MC2009-19, Supplemental Response of the United States Postal Service to Order No. 154, July 15, 2009, at 3.

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manner similar to other International products. Also, we will investigate alternatives to sampling, such as engineering-based estimates of the time required for IMTS-Outbound and IMTS-Inbound transactions.

d) Please see the above response to part c).

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3. [Proposal Eleven] For FY 2010, please provide a detailed worksheet that illustrates the impact of separating IMTS costs into IMTS-Inbound and IMTS-Outbound. In doing so, please show the number of IOCS tallies for IMTS-Inbound and IMTS-Outbound and the weighted tallies that are applied to the volume variable costs and product specific costs. The worksheet should show all calculations in electronic form.

RESPONSE:

The requested worksheet has been provided under seal as USPS-RM2011-5/NP1.

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4. [Proposal Twelve] Please explain why the proposed single-piece parcel post zoned-based distribution is an appropriate proxy for the distribution of unzoned Media Mail and Library Mail volume between inter-NDCs and intra-NDCs.

RESPONSE:

Using the Commission-approved methodology, the percentages of Nonpresort Parcel Post mail pieces that Inter-NDC and Intra-NDC parcels represent have historically been relied upon in the Media Mail – Library Mail mail processing cost models that have been filed in past annual compliance report and rate case dockets. As indicated in Proposal Twelve, question 18 of Chairman's Information Request No. 1 in Docket No. ACR2009 addressed the continued reliance on 2008 percentages in the model, given that the Parcel Post single-piece Inter-NDC and Intra-NDC price categories had been merged into one Nonpresort price category in 2009. In its response, the Postal Service indicated that it would evaluate the use of alternative cost model input data. After evaluating this issue, the Postal Service determined that the best proxy for the Parcel Post single-piece Inter-NDC volume percentage was the sum of the volumes for Zones 1, 2, and 3 divided by the total volume. It is proposed that this estimate should be relied upon in future Media Mail – Library Mail mail processing cost models because the volume data for Parcel Post single-piece are readily available. There are no Media Mail and Library Mail volume data that are readily available to be used to estimate Inter-NDC and Intra-NDC volume distribution percentages.

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5. [Proposal Twelve] Does the Postal Service plan to conduct a special study that will determine the actual volume distribution of Media Mail and Library Mail volume between inter-NDCs and intra-NDCs?

RESPONSE:

The Commission-approved methodology has historically relied on Parcel Post Inter-NDC and Intra-NDC volume distribution percentages as proxies in past compliance report and rate case dockets. The use of these proxies has not proven to be a controversial issue in the past. The Postal Service has therefore made no plans to conduct a special study to determine actual Media Mail - Library Mail Inter-NDC and Intra-NDC volume distribution percentages. Media Mail and Library Mail are not zoned, and have no Intra- and Inter-NDC distinctions in their rate designs, meaning that information regarding Intra- or Inter-NDC characteristics is not readily available for these pieces.

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6. [Proposal Twelve] Please confirm that the zone-related percentage in cell I14 on pages 7, 14, and 21 in USPS-FY09-16 should be 35 percent (rounded). This figure is a result of dividing "Air System Contracts–Loose Sack Line Haul–Mandatory" (52,066) figure in USPS-FY09-32 CS14.3 by the "Total Commercial Air" figure (150,601) in USPS-FY09-32 CS14.3. If confirmed, provide updated workpapers. If not confirmed, provide updated workpapers that include a calculation of the correct figure with relevant sources.

RESPONSE:

Confirmed. The corrected workpapers are contained in the following Excel files, which are attached to this response electronically:

ChIR.1.Q.6.BPM_TRANS_TOTAL.Prop.12.xls

ChIR.1.Q.6.BPM_TRANS_FLATS.Prop.12.xls

ChIR.1.Q.6.BPM_TRANS_PARCELS_Prop.12.xls

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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