

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

Priorities for Future Data Collection
and Analytical Work Relating to
Periodic Reporting

Docket No. RM2011-3

INITIAL COMMENTS OF THE UNITED STATES POSTAL SERVICE
(February 18, 2011)

In Order No. 589 (Nov. 18, 2010), the Commission initiated this docket to conduct a strategic rulemaking that would “develop an inventory of longer-term data collection and analysis needs, comprehensively evaluate these needs, and devise a plan for meeting these needs, with input from mailers, the interested public, the Postal Service and Commission staff.” The Order set today as the date by which interested parties were invited to provide comments. The Postal Service hereby submits its Initial Comments.

I. Introduction

On November 18, 2010, the Postal Regulatory Commission issued Order No. 589, and established Docket No. RM2011-3, entitled, “Priorities for Future Data Collection and Analytical Work Relating to Periodic Reporting.” Known as the “strategic” rulemaking, this docket is designed to identify priorities for pursuing studies and data collection efforts that would improve the accuracy of the Postal Service’s cost

systems. In establishing the docket, the Commission requested comments from Postal Service and other members of the postal community:¹

Interested persons may propose areas of research that they think are needed, and may use the list of possible candidates in the attachment to this Order as a starting point. In doing so, they should consider the magnitude of the candidate's potential impact on estimated volumes, costs or revenues; the time and expense likely to be required to resolve it; and its potential relevance to determining compliance with the standards of the PAEA or supporting the various studies and reports that the PAEA requires the Commission to prepare.

In response to this request, the Postal Service submits these comments.

II. Determining Priorities

The Commission explicitly recognized that in an era of limited resources, not all studies and data collection efforts can be pursued, and priorities must be set.² In addition, the Commission indicated that it would look at both the costs and the benefits of any study or data collection effort in determining priorities:³

The Commission will balance the urgency and importance of resolving each issue with the practical considerations of time, cost, and other resource limitations.

Finally, the Commission proposed a framework for setting priorities that involved identifying studies and data collection efforts that would be appropriate to pursue in the

¹ See, Docket No. RM2011-3, Order No. 589, Notice and Order of Proposed Rule Making on Periodic Reporting, November 18, 2010, at 3.

² Id.

³ Id. at 5.

near term versus those that would be more appropriately considered longer-term improvements:⁴

The Commission hopes that the postal community will weigh both the costs and benefits of any proposed changes and provide input on what improvements in data collection and analysis warrant attention in the near term and what improvements would be warranted over a longer time horizon. Of those that are considered to be warranted over the near term, comments are requested concerning which research topics should be given priority, and what time frame should be considered feasible for completing the research.

The Postal Service made use of this framework in preparing its comments and applied it to the studies and data collection efforts it considered. During that application, however, it became apparent that a three-way classification may be of more use to the Commission in its determinations than a two-way classification. The Postal Service found that while some possible studies or data collection efforts were appropriately identified as near-term prospects and others were clearly long-term investigations, certain other studies or data collection efforts did not fit neatly into either of those categories. Thus, the Postal Service suggests that the Commission consider adding a third category of medium-term studies or data collection efforts.

As a result, the Postal Service proposes the following taxonomy of possible studies and data collection efforts:

Near Term:

The near-term group includes studies and data collection efforts for which there exists an established methodology and there is a fair amount of agreement on the general approach (although not necessarily the detailed methods). Also, for near-term studies

⁴ Id. at 3.

and data collection efforts, it is possible that progress could be made without the need for a costly field data collection effort.

Medium Term:

The medium-term group includes studies and data collection efforts for which there exists an established methodology and at least some agreement on the general approach. However, it seems likely that an expensive field data collection effort may be required for studies in this group.

Long Term

The long-term group includes studies and data collections effort for which there is no established methodology and there is the possibility of considerable disagreement on the general approach.

In reviewing possible areas of study, the Postal Service considered the potential benefits of the study or data collection effort in improving the accuracy of product costs including the degree to which the existing study or data collection effort is inaccurate or obsolete. It also considered the feasibility of the study or data collection effort including its potential dollar cost, its drain on Postal Service resources, and its likelihood of success. For example, an update of a study with an established methodology has a higher chance of being successful and is likely to be less costly than a study in an area in which there is no established methodology.

In addition, experience shows that field data collections are very expensive and very time consuming, and typically end up being the source of the lion's share of the cost of a study. It is not unreasonable to expect that any sizeable field data collection effort will cost in excess of one million dollars and take twelve to eighteen months to complete.

Based upon a thorough evaluation of the potential costs and benefits from the study or data collection effort, the Postal Service proposes the following priority for

future work. The proposed studies and data collection efforts are first categorized as being near term, medium term, or long term, and are then prioritized within each group.

Near-Term Study Areas:

1. Purchased Highway Transportation Costs
2. Postmaster Costs
3. Window Service Time

Medium-Term Study Areas:

4. Space Related Costs
5. City Carrier Street Time
6. Vehicle Service Driver Time

Long-Term Study Areas:

7. City Carrier Office Time
8. Window Service Costs
9. Supervisor Time
10. Mail Processing Time

In the next three sections of these comments, the Postal Service presents the background information on each proposed study and data collection effort that served as the basis for determining its priority.

III. Near-Term Studies and Data Collection Efforts.

This section includes discussion of the areas for the near-term studies and data collection efforts that the Postal Service has identified. Near-term studies and data collection efforts have an established methodology and share the possibility that progress could be made without the need for a field data collection effort.

A. Study Area: Purchased Highway Transportation Costs

The current purchased highway transportation variabilities were estimated by the Postal Service in Docket No. R2000-1 and reflect the structure of highway accounts that were established at that time. The econometric methodology and data construction processes evolved over several rate cases and were accepted, along with the estimated variabilities, without change by the Commission in Docket No. R2000-1.

One issue that arose during that docket was the relationship between capacity and volume. The current approach is to assume proportionality between volume and capacity, implying a 100 percent variability. A number of intervenors questioned that assumption and suggested that in the face of excess capacity, the variability should be less than one hundred percent.

The Commission agreed that the assumption should be investigated and that there are valid reasons why the variability might be different from one hundred percent, but argued that the current assumption is “reasonable”:⁵

The use of 1.0 for this elasticity is based on descriptions of postal operations and contracting practices. These descriptions suggest that a CFM-of-capacity figure is developed as a requirement based on such things as length of contract, peak loads, volume fluctuations, and the nature of round trip contractor runs. The argument is that if there is a 10 percent increase in overall postal volume, there will need to be an increase in the CFM-of-capacity purchased of about 10 percent. The Commission does not view this as a final answer; certain questions about it have been raised in this case.

⁵ See, PRC Op., Docket No. R2000-1, at 169.

In addition, the Commission mentioned several times it was interested in further analysis of this issue:⁶

The argument of witness Ball relates primarily to the elasticity of CFM capacity purchased with respect to changes in the volume of mail. . . The Commission believes that further analysis would be desirable. It is possible, for example, that increases in volume allow increases in the rate of utilization of capacity, and thus do not cause the need for a proportionate increase in the CFM capacity purchased.

The nature of the causal argument here could be that volume changes (a fact not established or mentioned) are causing changes in utilization rates. Since costs and utilization rates are affected by a number of factors, a more complete analysis would be needed to establish reliable relationships.

and:⁷

They relate to the first step in the analysis described above and it is possible that this elasticity is different from 1.0. No empirical analysis is available to allow an improved estimate of this elasticity and Nelson has not provided one. The Commission would welcome such an analysis, but notes the possibility that the correct answer could be 1.0. Indeed, the assumption that it is 1.0 is based on considerable testimony concerning how the transportation system functions.

A study in the area of purchased highway transportation would focus on two topics: updating the estimated variability between cost and capacity, and investigating the possibility of estimating a variability between capacity and volume.

⁶ See, PRC Op., Docket No. R2000-1, at 172.

⁷ See, PRC Op., Docket No. R2000-1, at 174.

The purchased highway transportation component had \$3.2 billion of accrued cost in FY2010.⁸ This is about 4 percent of total accrued cost. The component accounted for 5.3 percent of domestic market dominant products' attributable cost and 11.7 percent of domestic competitive products' attributable cost, so it is a sizeable component. In addition, the data supporting the current variabilities were collected in 1999. Since then, there has been a significant restructuring of Postal Service highway transportation network. Taken together, these facts indicate that the proposed study and data collection effort would likely improve compliance with the standards of the PAEA, as well as support the various studies and reports that the PAEA requires the Commission to prepare.

B. Study Area: Postmaster Costs

In Docket No. R84-1, the Postal Service presented an analysis of the variability for Postmasters at levels EAS 22 and below. The variability was based upon a regression of postmaster compensation grades on the Work Service Credits required to reach that grade. The regression permitted estimation of the change in postmasters' minimum salaries that resulted from a change in Workload Service Credits (WSCs). The Commission accepted the study with some reservations and encouraged the Postal Service to further refine the study in future rate cases:⁹

We have adopted with some reservations the Postal Service's reliance on ten workload criteria contained in the

⁸ The cost figures in this submission are for FY2010 and are taken from, "USPS-FY10-2-Public Cost Segments and Components Report," USPS-LR-2, Docket No. ACR2010.

⁹ See, PRC Op., Docket No. R84-1, at 247.

Expanded Postmaster Criteria System to calculate attributable costs for Postmasters at levels EAS 22 and below.

In March 2010, the OIG issued an audit reported entitled, "Management of Special Studies," which reviewed, among other things, the postmaster variability study. The OIG argued that the current postmaster variability study may not be up to date because it was completed in 1984 and is based upon data from 1978 and 1979. It also argued that a relatively small change in the estimated postmaster variability can have a "significant impact" on the attributable postmaster costs.¹⁰

A study in the area of postmasters could focus on three topics: First it could update the estimated variability between postmaster cost and postmaster workload using the established methodology. Next, it could consider refinements and improvements to that methodology. Finally, it could investigate the possibility of estimating the relationship between postmaster workload and volume. It is also important to note that the data underlying the current variabilities are quite dated; it was collected in 1979, making it over thirty years old.

The postmaster cost segment had \$2.2 billion of accrued cost in FY2010. This is about 3 percent of total cost. The segment accounted for 1.0 percent of domestic market dominant products' attributable cost and 0.8 percent of domestic competitive products' attributable cost.¹¹

¹⁰ See, Office of the Inspector General, United States Postal Service, Audit Report CRR-AR-10-002, Management of Special Studies, March 19, 2010 at 2.

¹¹ Note that the overall impact on product costs from a new study will be higher than this because of the impact of piggyback costs. This is true for all studies of direct labor.

Given the fact that the data used to estimate the current variability are over thirty years old and that the component cost is over \$2 billion, it seems likely a new postmaster study would improve compliance with the standards of the PAEA, as well as support the various studies and reports that the PAEA requires the Commission to prepare.

C. Study Area: Window Service Time

The Postal Service presented a set of transaction supply side variabilities in Docket No. R90-1. It refined and updated those variabilities in Docket No. R97-1. In Docket No. R2006-1, it further refined and updated the transaction supply side variabilities based upon a transaction time study that was done in 2005. The Commission accepted the Postal Service's study and estimated variabilities.

Since the passage of the PAEA, the Postal Service is required to estimate product costs for certain relatively small retail products such as mailing and shipping supplies and greeting cards. The current IOCS data collection system is not designed to calculate the window service costs of these small-volume retail products.

A near-term study in the area of window service time would thus investigate methods of identifying product costs for individual retail products that are consistent with the current established methodology for window service time.

Given that there are currently no comprehensive studies producing the required product costs for these retail products, it is quite likely that the proposed study would improve compliance with the standards of the PAEA, as well as support the various studies and reports that the PAEA requires the Commission to prepare.

IV. Medium-Term Studies and Data Collection Efforts.

This section includes discussion of the areas for the medium-term studies and data collection efforts that the Postal Service has identified. Medium-term studies and data collection efforts have an established methodology and share the strong likelihood that progress will require the need for a field data collection effort which may be expensive and time consuming.

A. Study Area: Space-Related Costs

In Docket No. R2005-1 the Postal Service introduced a facility space usage study that estimated the use of building space (by square feet) by operation and function. This was used in calculating the share of space related costs (rent, building depreciation, fuel, utilities, and custodial costs) by operation and function, a key input for determining the attributable space-related costs. Because the study was consistent with existing attribution principles the Commission accepted the study.

Space-related costs are relatively large. The combined cost across the various components (like rent, fuel, and utilities) was \$4.8 billion in FY 2010. Space-related costs represent 9.5 percent of domestic market dominant products' attributable cost and 7 percent of domestic competitive products' attributable cost. In addition, despite the fact the study was presented in Docket No. R2005-1, the data used in the survey were collected in 1999, raising the possibility that there has been a material shift in space usage since the last survey was done.

A study in the area of space related costs would involve an update of the 1999 study using established methods. Given the size of the affected cost components and the vintage of the data underlying the current space-related cost attribution, it is likely to improve compliance with the standards of the PAEA, as well as support the various studies and reports that the PAEA requires the Commission to prepare. However, such a study requires an extensive field data collection effort, and fielding such a data collection effort would be very expensive and time consuming.

B. Study Area: City Carrier Street Time

In Docket R2005-1, the Postal Service presented a carrier study based upon data collected in May and June of 2002. These data (the “CCSTS data set”) were collected at over 150 ZIP Codes (delivery units), and an attempt was made to include all carrier routes in each ZIP Code. The collected data included both delivered volume and time pools based upon self-scans of carrier activity. The volume data were collected by carrier supervisors, and the scan data were taken by individual carriers as they worked throughout their day. The new data were used to both update and revise the city carrier cost pools and variabilities.

The Commission accepted the Postal Service study, although it expressed some reservations about the data collection effort, the quality of the data, and the econometric modeling, and indicated additional analysis is required:¹²

¹² See, PRC Op., Docket No. R2005-1, at 74.

Further work needs to be done with respect to both data quality and model specification in order to achieve a robust and economically meaningful estimate of carrier street time variability that is consistent with operational experience.

The Commission is gratified that the Postal Service has reviewed its approach to carrier street time variability analysis from the “ground up” and collected new data on carrier street time activity that are designed to support improved econometric modeling of that variability. It urges the Postal Service to continue its analytical work to improve the quality of the data gathered, and to explore additional econometric models that will yield more robust results.

In Docket No R2006-1, in response to a Commission request, the Postal Service submitted additional CCSTS data that it had collected in 2004 and updated and refined the econometric analysis, in part, to be consistent with suggestions that the Commission made in its R2005-1 opinion. The refinements included selectively dropping cross-product terms, adding variables that reflected the extent that routes in a ZIP code were motorized, adding variables that reflected the extent to which deliveries were made primarily to businesses, and the use of a “three-bundle” approach which included DPS mail, cased mail (letters, flats, and small parcels) and sequenced mail.

The Commission found these modifications to be worthy of further investigation. Finally the Commission “strongly encourage[d] the Postal Service to improve the quality of any future data collection associated with CCSTS,” and recommended the examination of DOIS data as a way to mitigate multicollinearity problems.¹³

In January 2009, the OIG issued an audit reported entitled, “Data Quality Issues With the City Carrier Street Time Study.” The audit reviewed the 2002 and 2004 data sets, the design of the study, and the procedures used to collect the data and construct

¹³ See, PRC Op., Docket No. R2006-1, Appendix K at 3.

the data set. The audit stated the OIG opinion that the sample design was reasonable, but the data collection process needed better documentation and control. The OIG also opined that the data may be outdated.¹⁴

A study in the area of city carrier street time would revisit the issues raised by the Commission in Dockets No. R2005-1 and R2006-1 and would attempt to improve the accuracy and reliability of the data and econometric methods used in estimating attributable street time costs.

The city carrier street time cost component is relatively large; it had \$11.4 billion of accrued cost in FY2010. This is about 15 percent of total accrued cost. The cost segment accounted for 11.3 percent of domestic market dominant products' attributable cost, and 4.3 percent of domestic competitive products' attributable cost. In addition, with the introduction of FSS and the restructuring of carrier routes in response to volume declines, there have been material operational changes since the last data were collected.

Because of the size of the costs involved and because of the operational changes that have been taking place since 2002, it is likely that the proposed study would improve compliance with the standards of the PAEA, as well as support the various studies and reports that the PAEA requires the Commission to prepare. However, a new city carrier street time study would likely require some field data collection efforts which would be time consuming and expensive.

¹⁴ See, Office of the Inspector General, United States Postal Service, Audit Report CRR-AR-09-001, Data Quality Issues with the City Carrier Street Time Study, January 21, 2009 at 1.

C. Study Area: Vehicle Service Drivers Time

In Docket No. R97-1, the Postal Service presented a study and new estimate of the variability of vehicle service drivers (VSDs). The data used in the study were partly derived from VSD schedules (to determine hours) and partly from a survey of facilities with VSDs (to determine the cubic foot miles of mail transported). BMCs were not included in the survey because their VSDs serve as “spotters” for which the Postal Service assumed a zero variability.

The Commission accepted the VSD study, but noted that there may be biases arising from the way the sample was selected and was concerned that the vehicle service drivers at BMCs were excluded:¹⁵

As the Postal Service’s analysis is based on recent data, conforms to generally accepted methodology, and is not disputed by any party, the Commission accepts the adjusted variability of 60.44 percent. However, it should be noted that improvements are possible and should be considered for incorporation in future proposals. Specifically, the means of determining capacity utilization could be improved in order to achieve a greater degree of accuracy in the calculation of the crucial CFM variable. Also, Wade acknowledges that spotter workhour variability is likely greater than zero. Id. at 3221. A study to estimate the variability of this 9 percent of VSD costs would certainly improve the overall VSD variability estimate.

In Docket No. RM2008-2, the Postal Service proposed substituting the Intra-SCF distribution key in place of the RPW distribution key because the former would better represent the mix of mail transported on VSD transportation.

¹⁵ See, PRC Op., Docket No. R97-1,V-1 at 197.

The Commission accepted the Postal Service's proposed change, but expressed its discontent with the use of a proxy and urged the Postal Service to collect the data needed to directly estimate a VSD distribution key.¹⁶

The Commission agrees that there is potentially significant distance-related bias in the new VSD proxy that the Postal Service proposes. The Postal Service is encouraged to collect data that directly measures the product profile for VSD costs. Nevertheless, the Commission agrees with the Postal Service that using intra-SCF cubic-foot miles to distribute VSD attributable costs to products is likely to be less biased than the current proxy, both because DDU dropshipped mail will be excluded from the new key, and the new key will be consistent with the modeled driver of attributable VSD cost.

However, efforts are already underway to directly estimate a distribution key for VSD transportation, so a study in the area of vehicle service drivers would focus just on updating and refining the estimated relationship between cost and volume.

The vehicle service drivers cost component had \$615 million of accrued cost in FY2010. This is 0.8 percent of total accrued cost. The cost segment accounted for 0.7 percent of domestic market dominant products' attributable cost and 2.0 percent of domestic competitive products' attributable cost. Although this is a relatively small cost component, vehicle service drivers are an important part of the Postal Service's highway network and are an important source of costs for some products. In addition, the data underlying the current attribution methods were collected in 1993.

Because of the vintage of the existing data and because of the role that VSDs play in the Postal Service's transportation network, it is likely that a new study would

¹⁶ See, Docket No. RM2008-2, Order No. 115, Order Accepting Certain Analytical Principles for Use in the Postal Service's Periodic Reports, October 10, 2008, at 38.

improve compliance with the standards of the PAEA, as well as support the various studies and reports that the PAEA requires the Commission to prepare. However, a new vehicle service driver study might require a new field data collection effort, which would be time consuming and expensive.

V. Long-Term Studies and Data Collection Efforts.

This section includes discussion of the areas for long-term studies and data collection efforts that the Postal Service has identified. Long-term studies and data collection efforts do not have an established methodology.

A. Study Area: City Carrier Office Time

The time that city carriers spend in the office preparing mail for delivery, including such activities as casing the mail, is assumed to be exactly proportional to volume.¹⁷ However, this assumption has never been empirically tested, and even if it were accurate in the past, with the advent of DPS and FSS, it may no longer be accurate. It thus bears investigation.

A study in the area of city carrier office time would attempt to estimate the relationship between the time spent preparing mail for delivery and volume delivered.

The city carrier office time cost pool is a relatively large one and included \$4.3 billion in accrued cost in FY2010. It accounts for 10.2 percent of domestic market

¹⁷ Certain other carrier office activities are considered fixed and their costs are classified as institutional. These include routine functions such as maintaining route books and engaging in administrative activities unrelated to the handling of mail.

dominant products' attributable cost and 1.8 percent of domestic competitive products' attributable cost.

Given the size of this cost pool and its high level of attribution, it is quite possible that an improvement in the accuracy of the attribution of costs to products could improve compliance with the standards of the PAEA or support the various studies and reports that the PAEA requires the Commission to prepare. However, given that there is no established methodology for studying these costs, such a study is likely to take a relatively high degree of operational study and data exploration. It thus could be both time consuming and controversial.

B. Window Service Costs

In addition to improving and expanding the implementation of the current methodology for attributing the cost of window service time, it would be advantageous to review and consider improvements to that methodology.

The general methodology established by the Commission for attributing costs has two steps: (1) The attribution step in which the attributable cost of a specific operational activity is calculated through applying the appropriate variability to the activity's accrued cost and (2) the distribution step in which the attributable costs are distributed to products on the basis of their proportion of a distribution key. The methodology for window service labor time does not follow this approach, however, as it first identifies the costs associated with individual products transacted at the window and then applies product-specific variabilities to those cost pools. This current approach is computationally complex and relatively inflexible. This can make it a

challenge to accurately attribute costs to products in a changing environment. In addition, retail activities are different from other Postal Service functions in the need to stock and maintain inventories. The current methodology for attributing does not address this difference.

A long-term study in the area of window service costs would carefully review the current methodology and investigate refinements that would both make it more consistent with established Commission methodology and recognize the unique operational aspects of retail activities. Such a study would be just the first step in any revision of the current window service methodology and would not likely include any data collection or empirical analysis.

The window service component had \$2.4 billion of accrued cost in FY2010. This is just over 3 percent of total accrued cost. In addition, the component accounted for 2.3 percent of domestic market dominant products' attributable cost, 3.1 percent of domestic competitive products' attributable cost, and 3.9 percent of international products' attributable cost.

Given the size of this cost pool and the changing nature of the Postal Service's retail activities, it is quite possible that an improvement in the accuracy of the attribution of costs to products could improve compliance with the standards of the PAEA, as well as support the various studies and reports that the PAEA requires the Commission to prepare.

C. Study Area: Supervisor Time

Supervisor time is attributed to products on the basis of the assumption that supervisory hours are volume variable to the same degree as the direct labor being

supervised. In other words, mail processing supervisor hours are assumed to be as volume variable as the labor hours for mail processing personnel. Similar assumptions hold for window service and carrier supervisory hours. The assumption can also be interpreted as requiring supervisory hours (by type) to vary in direct proportion to the hours being supervised (by type).

This assumption has never been empirically tested and the ongoing changes in the nature of the Postal Service's labor complement raises questions about its accuracy. In addition, it is not clear that the relationship between supervisory time and direct labor time is necessarily the same across mail processing, window service and delivery.

A study in the area of supervisor time would attempt to estimate the relationship between the time spent supervising direct employees and volume.

The cost pool for supervisors is relatively large and included \$3.7 billion in FY 2010. It accounts for 5.1 percent of domestic market dominant products' attributable cost and 3.5 percent of domestic competitive products' attributable cost. Given the size of this cost pool and the changing nature of the Postal Service's labor complement, it is quite possible that an improvement in the accuracy of the attribution of costs to products could improve compliance with the standards of the PAEA, as well as support the various studies and reports that the PAEA requires the Commission to prepare. However, given that there is no established methodology for studying these costs, such a study is likely to take a relatively high degree of operational study and data exploration. It thus likely to be time consuming, and could be controversial.

D. Study Area: Mail Processing Time

In a series of rate cases, culminating in Docket No. R2006-1, the Postal Service presented a variety of econometric analyses that investigated the assumption that mail processing labor costs are essentially proportional to volume. In all of those cases, the Commission rejected the Postal Service's analyses and continued to apply the assumption. In Docket No. R2006-1, a number of parties presented an "instrumental variables" estimation in an attempt to deal with the perceived imperfections in the MODS data. The Commission found these attempts to be unsuccessful:¹⁸

For reasons explained in depth in Appendix J and summarized here, the Commission concludes that this technique has not been effective in accomplishing its purpose. The Commission finds that the error-ridden MODS data remains a formidable obstacle to econometrically modeling mail processing variability despite the use of extensive data scrubbing and the use of instrumental variables estimation techniques.

Moreover, the Commission went on to explain that, while it may be theoretically possible to estimate mail processing variabilities econometrically, such an effort would require greatly different data than the Postal Service currently has:¹⁹

OCA's presentation includes a well-developed theoretical component that the Commission generally endorses as making substantial headway toward the goal of estimating the marginal cost of mail processing labor. Using this theoretical structure to estimate marginal cost will require the development of plant-specific volume data disaggregated by relevant cost characteristics.

Finally, the Commission provided strong guidance it will not accept any econometric studies of mail processing based upon MODS data:²⁰

¹⁸ See, PRC Op., Docket No. R2006-1,V-1 at 21.

¹⁹ Id.

The Postal Service should understand that unless the quality of the MODS data improves, or alternative data is developed, models that rely on such data have little prospect of being accepted by the Commission.

A study in the area of mail processing labor time would attempt to estimate the degree to which mail processing labor hours varied with volume. Not only will a mail processing study need to both develop a methodology and new sources of data, it will also cover a large number of operations.

The mail processing labor time cost pool is very large. It had \$12.1 billion of accrued cost in FY2010. This is 16 percent of total cost. The component accounted for 27.9 percent of domestic market dominant products' attributable cost and 25.3 percent of domestic competitive products' attributable cost.

The Commission has never accepted a Postal Service study in this area, and there is great controversy about the appropriate methodology for measuring the variability of these costs. Moreover, the Commission has rejected the use of any existing data source. Thus it seems very unlikely that a study in this area could improve compliance with the standards of the PAEA or support the various studies and reports that the PAEA requires the Commission to prepare. Finally, because of the controversy and lack of existing data, a study in the area is likely to be extremely time consuming and quite expensive.

²⁰ See, PRC Op., Docket No. R2006-1,V-2, Appendix J at 3.

VI. The current rulemaking process is appropriate for the narrower cost and revenue estimation issues raised by the Commission.

The Commission identified a number of unresolved narrower cost and revenue estimation issues that have arisen during recent Annual Compliance Determinations.²¹ The Postal Service believes that these issues are better left to the traditional rulemaking processes in which the Postal Service petitions the Commission to make specific changes or additions to the established methodology. As opposed to the more structural studies and data collection efforts described in the previous sections of this submission, the issues identified by the Commission are of the type that evolve as operations change and are thus better handled on an ongoing case-by-case basis. The existing rulemaking process has worked well for reviewing and vetting this type of change to the established methodology and the Postal Service recommends its continued use.

Respectfully submitted,
UNITED STATES POSTAL SERVICE

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²¹ See, Docket No. RM2011-3, Order No. 589, Notice and Order of Proposed Rule Making on Periodic Reporting, November 18, 2010, at 3.

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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