

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

Modification of Analytical Principles
in Periodic Reporting
(Proposals Nine through Twelve)

Docket No. RM2011-5

Corrected Comments of the Public Representative in Response to Order No. 625
(March 7, 2011)

I. Procedural History

On December 20th, 2010, the Postal Service filed a Petition¹ requesting a modification of analytic methods with respect to the First Class Presort Letter Mail Processing Model, the Standard Mail Letter Mail Processing Model, the attribution of International Mail Processing Costs to Country Group, the attribution of IMTS costs to IMTS-Outbound and IMTS-Inbound, and the Mail Processing Cost Model for Media Mail/Library Mail, and Bulk Parcel Return Service, and the Transport Cost Model for Bound Printed Matter. Commission Order No. 625 appointed the undersigned Public Representative, and set a deadline for comments of January 28, 2011.²

II. These Proposals have a Material Impact on the Commission's Review of the Annual Compliance Report and the 2011 Rate Case

The proposed changes in methodology were filed less than two weeks before the Postal Service filed the Annual Compliance Report, and less than four weeks before the Postal Service filed R2011-2. The changes in methodology proposed in this docket were incorporated in the Postal Service's ACR2010 and R2011-2 filings. The Postal Service proposes worksharing rate differentials in R2011-2 that are based on cost differences calculated using the methods proposed in this docket, not the Commission's

¹ Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider a Proposed Change in Analytic Principles (Proposals Nine through Twelve), December 20, 2010 (Petition).

² Order Number 625 Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Twenty-Nine) (Issued December 28, 2010).

current accepted methodologies. The Postal Service's response to ACR 2010 CHIR 1 contained workpapers using current accepted methodologies. The worksharing differentials calculated in the CHIR 1 response, when applied to the R2011-2 proposed worksharing discounts, reveal multiple passthroughs over 100% in the R2011-2 rates. The difficulties associated with unwinding method changes in multiple dockets is precisely why, in ACR2007 - ACR2009, the Commission has encouraged the Postal Service to file methodology proposals of this nature well in advance of the ACR process. Of the proposals in this docket, Proposal Nine is especially troublesome. Four of the Postal Service's proposals do not involve a new study; they involve changing data inputs from a study to an assumption. While the Postal Service is correct in arguing the current accepted methodology is out of date, the argument for changing the method lacks analytical rigor. Such data likely exists, but without further information and explanation the decision on this proposal (as the record stands) will be based on stated operational expertise.

III. Proposal Nine Analysis

Proposal Nine is broken into several separate changes to input data for the First Class and Standard Letter Mail Processing Models. These changes are:

- Automation Density Table: Assume no 5-Digit finalization in outgoing processing
- Manual Density Table: New Study
- Manual Density Table: Assume no 5-Digit finalization in 030 outgoing processing
- Manual Density Table: Adjust 040 Operation Flow for 043 Operation
- PO Box Destination Percentage: Use CPC data to replace unavailable ODIS data
- Plant Manual Carrier Route Finalization: Assume Manual Incoming Secondary Sort is Performed at the Delivery Unit
- Manual Incoming Secondary and PO Box Walling Productivities: New Study
- Leakage Rate: Use Operations leakage Target as Assumption
- Bundle Sorting Cost: Use Flat Bundle Sorting Productivity as Proxy

This panoply of changes is designed to update the Letter models for current processing operations. Some of the input data being replaced is from MC95-1 and R2000-1, and the Automation Density table adjusts a study presented in ACR2008. All of the proposed changes are based on the idea that the Mail Processing models should reflect current operations, which is a correct and important goal.

This proposal involves three new studies:

PO Box study: This study uses the Carrier Piece Count System to estimate PO box volumes, replacing an ODIS volumes that are no longer available. While it is reasonable to use the data for this purpose, no explanation was provided as to using RPW volume (minus an implied Firm Holdout volume) as the denominator. The estimated percentage of mail destined at PO Boxes in the proposed method is 6.19 percent. If the CPC volume was used as a denominator, the percentage would be 5.92 percent.

Manual Density Table: the plants surveyed for the Automation Density Table developed in 2008 were surveyed again in 2010 for the purpose of developing a manual density table. However, many plants were unable to provide information. In the instance of the 043 operation, only 1 plant was able to provide data. It is unclear why so many plants were unable to respond. Further, it is unclear if the one plant used to develop the proposed Manual Density Table has any distribution bias that would be alleviated by including other plants. Surveys of one plant may not be sufficient to develop national density distributions.

Manual Incoming Secondary and PO Box Walling Productivities: This field study was conducted in 2010, collecting data from 18 delivery units. It appears that not every delivery unit surveyed performed these activities on the date of the survey, because less than 18 observations are recorded for two of the three activities surveyed. The Manual Incoming Secondary Letters Sort Productivity, the item with the most observations, has a standard deviation of 34.5 percent, suggesting that the productivity varies widely across delivery units.

Four new assumptions are incorporated:

Automation Density Table and Manual Density Table 5 Digit Finalization in Originating Operations: The MODS end of run reports used to develop the Automation Density Table in 2008 was developed using information that included First Class Single Piece Letters. Up to 45 percent of all originating mail is finalized to a 5 digit bin on the first sort. The Postal Service proposes that Presort letters are unlikely to be finalized to this level of sortation in origination operations and proposes to change this density value

to 0 percent. The data used as evidence of the veracity of this claim is the corresponding Standard Mail percentage, which is 1.2 and 0 percent. The Postal Service is likely correct in declaring that the current density value overstates the percentage of amount of mail finalized to 5- digit in originating operations. The proposed assumption is just as likely to understate the percentage finalized, though in absolute terms (such a 1.2 percent finalization rate), the new assumption would be more accurate.

Manual Density Table, Adjust 040 Operation Flow for 043 Operation: The Postal Service states that the ADC/ SCF flow determining how mail flows from one operation to the next. As such, the new study needs to be adjusted for this flow. This analysis appears to be performed at the national level. Given the provided information, this assumption seems rational.

Plant Manual Carrier Route Finalization: The Postal Service proposes to eliminate manual incoming secondary sorts at the Plant level in the letter model. This is the basis for performing a study to estimate Delivery Unit Productivity for this activity. This assumption is based in operating reality, and in terms of the overall accuracy of the model, an improvement. A review of IOCS tallies shows that manual incoming secondary sorts of letters at Plants were observed in 2010. It is unclear if these observations were of plants that house a delivery unit, as discussed in the Petition. No data was provided as evidence of the accuracy of this proposal.

Leakage Rate: The Postal Service proposes to use the Operations target of 5 percent as the assumed actual leakage rate. The current Leakage rate used in the Mail Processing Model is 8.26 percent, as developed in 2005. The finalization rate in 2010 was 91.89 percent, so it is unclear why the Postal Service believes that the 5 percent leakage rate would be more accurate. No data is provided.

One new methodology is proposed.

Bundle Sorting Cost Methodology: the Postal Service proposes to use the new Manual Density Table for bundle mail flows and costs. Insofar as the Manual Density Table is accurate, it is reasonable to assume that nonauto bundles will be processed in a similar manner.

On the whole, the methodologies in Proposal Nine represent an improvement from the current inputs. However, little data is provided to evaluate the veracity of the claimed improvement, with a general reliance on operational expertise. More precise input data will lead to more accurate models. The proposed changes adjust the model to replace specific, but outdated, information. The new assumptions and data reflect current operational reality, but rarely reflect actual operational performance data.

IV. Proposal Ten Analysis

This proposed methodology modifies the estimation of Segment 3 costs to international groups. This methodology would extend the methodology currently used to estimate downstream mail processing costs for the CRA to the ICRA. This methodology appears to be an improvement in the allocation of mail processing costs to country group, as it includes costs not associated with direct tallies, but incurred due to direct tallies. The Public Representative would like to note that when further methodologies of this nature are proposed, it would be helpful to all parties for the Postal Service to include more background materials, such as spreadsheets, explaining the proposed method. Notwithstanding the need for more information, the Commission should accept this methodology.

V. Proposal Eleven Analysis

The purpose of this methodological proposal is to allow for the separate reporting of Inbound and Outbound IMTS costs. The new methodology uses the tallies for each of these spate products to distribute the underlying costs. The limited IMTS IOCS tallies lead to the cost coverage confidence intervals that are outside the bounds of normal products. The Postal Service “plans to explore whether it can be sampled more heavily.”³ This would lead to a decrease in the CVs, and a better estimate of the cost distribution between the two products. With, or without, additional IOCS tallies, the proposed methodology is reasonable.

VI. Proposal Twelve Analysis

³ Response of the United States Postal Service to Chairman’s Information Request No.1 (January 19, 2011) Page 3

This proposal includes alternative data inputs to the Media Mail / Library Mail and Bulk Parcel Return Mail Processing Cost models and the Bound Printed Matter Transportation Model. The new data inputs, much like the old data inputs, are proxies. Much of the productivity and mail flow data used is from R97-1, R2000-1 and MC95-1. The assumption, for example, that the best proxy for Bulk Parcel Return is Standard Mail Parcels because the mailpieces are Standard Mail Parcels is reasonable, but not supported by data. The proposed mail processing models contain cost estimates that are similar to the current mail processing model because the inputs and proxies, while slightly different in form, are similar in function. Some of the new data, such as the amount of legs in the Bound Printed Matter Transportation model, is undocumented estimates. This information may be accurate, but without further documentation there is no way to evaluate such accuracy. It is unclear how the proposed methodology is an improvement in accuracy.

VII. Conclusion

The Public Representative respectfully submits these comments for consideration.

Respectfully submitted,

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