

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

PERIODIC REPORTING
(PROPOSALS SIX THROUGH NINE)

Docket No. RM2014-1

REPLY COMMENTS OF THE UNITED STATES POSTAL SERVICE
(December 10, 2013)

In response to a Postal Service petition filed on November 8, 2013, the Commission initiated this docket in Order No. 1877 on November 14th. The Order set December 2nd for initial comments, and December 9th for reply comments. The only initial comments were filed by the Public Representative on December 5th. The Postal Service hereby responds to the comments of the Public Representative.

The Public Representative recommends approval of Proposals Six, Seven, and Nine, so no reply appears warranted.¹ The recommendation regarding Proposal Eight is generally favorable, but there are elements of the Proposal for which the Public Representative's recommendations require further discussion.

¹ One potential exception is Proposal Seven. For that, the Public Representative (page 8) supports acceptance of the new sample, but cautions that further work in this area may be necessary to lower the CV of the volume estimate. This comment appears to overlook the relatively small amounts of the costs at stake here. The impact of the new estimate on the volume of third-party parcels would have raised total attributable costs less than one-half of one percent for Competitive Post Office Boxes in FY2012, on a product with an ample cost coverage. Moreover it is important to keep in mind that the Postal Service does not charge specifically for the use of service enhancements such as street addressing or Real Mail Notification, since the costs for these services are small compared to total cost. Since there is no real issue regarding either the ability of Competitive Post Office Boxes revenues to cover costs, or the level of any specific rate, the Postal Service does not agree that further work on this matter is likely to be cost justified.

The Public Representative supports most of the proposed changes to the MODS-based productivities in Proposal Eight, but is “unconvinced” that aggregating the manual MODS letter and flat operations is necessary and recommends that the Commission reject that specific part of the proposal pending further investigation. PR Comments at 12-13. The Public Representative suggests that because the “piece counts for manual operations are a computed number,” Postal Service analysts could instead “address anomalous productivities by examining the underlying data and correcting errors in the volume calculation spreadsheets.” *Id.*

The Public Representative’s suggestion that the data could be corrected after the fact as a spreadsheet modification greatly understates the complexity of such an effort. The manual letter and flat processing volumes (FHP and TPH) are imputed within the MODS system using facility-level factors. MODS data provide no means of identifying the relative contributions to the reported volume made by sources such as reject flows, manual-only pieces, and manual downflows, let alone identifying a direct or indirect volume measure of manually sorted pieces to serve as a basis for a correction.

Ultimately, a correction to anomalous productivities simple enough to be implemented in a spreadsheet would likely end up reducing productivity differentials by scheme, and thus effectively implementing the Postal Service’s proposed approach by other means. For instance, a reasonable assumption for an analyst could be to “correct” volumes based on the operational assumption that there should not be large productivity differences by scheme within larger operation groups such as outgoing manual letters.

The Public Representative also notes that the manual outgoing secondary letter operation has a large change in productivity under the proposal, and says that the Postal Service has not shown that that productivity has not been shown to be “historically overstated.” PR Comments at 13. While the existence of a gap between the productivities for outgoing primary and outgoing secondary manual letters is not new, it has widened anomalously under the current volume imputation method. Indeed, the productivity table exhibited by the Public Representative shows that the gap between the outgoing secondary and outgoing primary letter productivity has widened markedly, from 28 percent in FY 2008 (770 vs. 599 pieces/hour in outgoing secondary and primary, respectively) to 52 percent (1009 vs. 663 pieces/hour).

Historical data also suggests that the widening productivity gap is an anomaly, and appears to have opened up as a result of a general reduction in manual processing of letter mail across the board. In FY 2000, when manual letter operations were running on a much larger scale—and MODS outgoing volumes were primarily based on weight conversions—there was no material difference between the outgoing primary productivity (465 pieces/hour) and outgoing secondary (472 pieces/hour). See Docket No. R2001-1, USPS-LR-J-56, file YRscrub.xls.²

The Postal Service agrees that manual letter and flat productivities merit further investigation, given the inherent limitations of the imputation of the manual letter and flat processing volumes. However, the Postal Service disagrees that the current

² For incoming secondary letters, where the Public Representative seems to view the low productivity as anomalous (PR Comments at 13-14), workhours have declined 92 percent and TPH workload by 94 percent from FY2000 to FY2012. This is consistent with the Postal Service’s contention in Docket No. RM2011-5, Proposal Nine (based on testimony from Docket No. R2006-1 and subsequent field operations) that incoming secondary letter operations were substantially eliminated.

methodology is appropriate to retain in the interim. The current methodology makes more demands of the data by requiring that volumes and workhours be aligned well by scheme. This is relatively more likely to lead to anomalous productivity changes for relatively small manual operations such as outgoing and incoming secondary letter and flat distribution. All components of Proposal Eight, including that portion of the Postal Service's proposal that the Public Representative questions, should be adopted as the best available approach under current circumstances.

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, S.W.
Washington, D.C. 20260-1137
(202) 277-6333
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