

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

NOTICE OF MARKET-DOMINANT
PRICE ADJUSTMENT

Docket No. R2015-4

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
QUESTION 6 OF CHAIRMAN'S INFORMATION REQUEST NO. 1

The United States Postal Service hereby provides its response to the above-listed question of Chairman's Information Request No. 1, issued on January 23, 2015. Each question is stated verbatim and followed by the response. The responses to all other questions (Questions 1-5) were filed on January 30, 2015.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Eric P. Koetting
John F. Rosato
David H. Rubin

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 277-6333
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6. In Docket No. ACR2014, the Postal Service filed the Notice of the United States Postal Service of Filing Partial Supplemental Information in Response to Order No. 2313 on January 15, 2015. In that filing, the Postal Service summarized its efforts to review IOCS tallies for Standard Mail Flats with FSS pricing markings.

- a. Please confirm that if this review leads to a modification of the FY 2014 CRA, the Postal Service will concurrently provide revised Standard Mail workpapers in this docket.
- b. Please confirm the potential revision will be reflected in a revised version of the worksharing passthroughs in Attachment B, including justifications for any passthroughs over 100 percent.
- c. If parts a. and b. are not confirmed, please explain.

RESPONSE:

- a. Not confirmed.
- b. Not confirmed.
- c. The potential Standard Mail cost adjustments identified on the basis of the IOCS tally review referenced in the question are documented in USPS-FY14-45, filed on February 3, 2015, in the FY 2014 ACR docket. Given the nature of those potential cost adjustments, revisions in the Standard Mail workpapers in this docket, and revisions to the workshare cost avoidances or passthroughs, would be either unnecessary or infeasible. The potential cost adjustments identified would affect cost estimates only at the product level (i.e., as reported in the CRA Report). Costs at the product level (or, for that matter, below the product level) are not an element in the revenue-based Standard Mail workpapers (USPS-R2015-4/2) submitted in this CPI docket, and therefore consideration of revisions to those workpapers is unnecessary. Costs below the product level (e.g., workshare cost avoidances), if adjusted in the ACR context, might affect the workshare passthroughs presented in this docket, but for the reasons explained below, potential cost adjustments below the product level cannot be identified.

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The implicit assumption upon which the question appears to be based is that the IOCS review process would lead to production of a new IOCS tally set, reflecting a recoding of individual tallies believed to be originally associated with the incorrect rate category because of inadequate or incorrectly recorded mail markings. This would then (presumably) be followed by the substitution of the new IOCS tally set for the original IOCS tally set, and a subsequent rerun of all programs and models which directly or indirectly rely on the IOCS tally set – such as the B workpapers/CRA models, the mail processing models, the carrier models, and the cost avoidance models. And, in a more perfect world, one might envision this lengthy sequence of steps leading to the broader range of revisions possibly contemplated in this question.

In fact, however, data limitations render a tally-by-tally correction of IOCS impossible. The nature of the problem being investigated is whether IOCS data accurately identify FSS Scheme bundles (or pieces therein). In terms of IOCS data collection procedures, those observations are difficult to distinguish from observations properly classified as Standard Flats. Moreover, for FSS scheme bundles, conclusive product identification is not directly observable from information on the mailpiece, including the data in the Intelligent Mail Barcode (IMb). It is possible in theory to link full-service IMb (FSIMb) data to mailing records in PostalOne to determine the rate(s) paid, but this is not possible, in practice, for every IOCS tally.¹

¹ To evaluate individual tallies, it would be necessary to have an FSIMb code associated with the mailpiece that can be matched to a Mail.dat file or other piece-level mailing documentation. Not all IOCS tallies have associated scans, not all scanned pieces use the FSIMb, and not all FSIMb can be matched with the Mail.dat database. Consequently, there is information to allow only *some* specific tallies to be recoded.

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Given data limitations, it may be possible to estimate rates or probabilities with which mail identification issues related to FSS preparation rules may arise among Standard Flats tallies without FSIMb scans or without any barcode data, and to quantify an associated effect on Standard Flats costs in aggregate. This is, indeed, the goal of the IOCS review. But probabilities do not mark specific tallies for recoding.² Yet if specific individual tallies cannot be recoded, and if thus we do not know the cost pool in which each specific incorrect tally is appearing, it is impossible to create a new IOCS tally set to be used in the downstream IOCS-based cost models.

This issue, however, can be circumvented by making reasonable extrapolations, but confining the subsequent adjustments to costs at the product level. This can be accomplished by directly making the percentage-based adjustments (of the type sometimes used in the D Report of the CRA Model) -- subtracting costs from one product and adding those amounts to other Standard Mail products. This makes it possible to improve the estimate of product level costs for Standard Mail, but neither requires nor allows the more detailed analysis necessary to re-assign costs within specific cost pools and rerun the models which produce costs below the product level. While less than ideal, the resulting adjustments make the best use of the available information.

Moreover, because the tally analysis showed a material amount of misidentification, but not an amount so substantial as to suggest that misidentification comes anywhere near explaining the entire increase in the FY14 costs of Standard Mail

² If attempts are made to recode tallies randomly, the risk is run that a mail type could be assigned to a tally in a cost pool in which that type of mail would never normally appear (e.g., a tally in Incoming Primary piece distributions getting recoded as CR).

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Flats, the potential magnitude of the problem can be put in some perspective. Further attempts to refine the analysis on a tally-by-tally basis would most likely be impossible, and at best, extremely time-consuming.

Therefore, the potential adjustments identified on the basis of the IOCS tally review (as documented in USPS-FY14-45 in the ACR docket) are the most reasonable possible. With the available data, we have substantial confidence that the potential adjustments identified are each moving costs at the product levels in the right direction. In contrast, if we attempted to extend the analysis below the product level, the direction of any individual adjustment becomes quite difficult to predict or to evaluate. The risk at that level is that more spurious results could be introduced than improvements could be achieved. Furthermore, the situation calls for evaluating what additional steps are reasonable to allow recognition of the misidentification problem, but avoid delaying the process to the point where results arrive too late to use. Under these circumstances, the product-level approach is the only practical possibility. Consequently, in terms of the CPI docket, the product-level adjustments identified over the course of the IOCS tally review and presented in USPS-FY14-45 in the ACR docket provide no basis upon which to revise either the Standard Mail workpapers or the Standard Mail passthroughs submitted with the original filing in this case.