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

ANNUAL COMPLIANCE REVIEW, 2014	Docket No. ACR2014

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO COMMISSION REQUESTS FOR ADDITIONAL INFORMATION REGARDING IMTS AND EPG IN THE FY 2014 ANNUAL COMPLIANCE DETERMINATION
(June 30, 2015)

In its Fiscal Year 2014 Annual Compliance Determination, issued on March 27, 2015, the Postal Regulatory Commission requested additional information from the Postal Service regarding several issues within ninety days. One such item was that regarding International Money Transfer Service (IMTS). The Postal Service's response to that item follows. Responses to other items were filed on June 25, 2015. Also included herein is a response to an ACD item regarding another international matter, EPG, for which no particular response timeline had been established.

Respectfully submitted,

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4. International Money Transfer Services (IMTS) – Inbound and Outbound

The Commission directs the Postal Service to report within 90 days on the feasibility of developing attributable costs for both products based on alternatives to the IOCS methodology. In its report, the Postal Service should discuss the feasibility of conducting engineering studies or utilizing costs from other Special Services with similar functions, such as domestic Money Orders. In addition, the Commission considers a price increase for the IMTS—Outbound product to be one option the Postal Service may want to implement to reduce current losses. FY 2014 ACD at 76.

RESPONSE:

The following is a public version of the response, from which commercially sensitive information has been redacted. An unredacted version of the response is provided under seal as an attachment to the Preface of USPS-FY14-NP43. As the Postal Service has described in past ACR dockets, the Postal Service's regulatory reporting team has struggled for years to obtain adequate data to support the regulatory reporting requirements for IMTS. These difficulties are not confined to the nature of the estimation method used to develop the estimates of costs for Inbound IMTS and Outbound IMTS separately, but also encompass the lack of information related to the very volumes of transactions associated with the three types of transactions comprising IMTS: outbound paper money orders, inbound paper money orders, and the wire transfer service of Dinero Seguro. Without reliable estimates of volumes, even the use of unit costs from the possible sources that the Commission recommended -- engineering studies or other Special Services with similar functions – would not result in reliable costs for IMTS. This is for the simple reason that the unit costs would have to be multiplied by some volume figures to develop the cost estimates.

As the Postal Service noted in its June 26, 2013 response to Item 2 of the Commission's Request for Additional Information in the FY 2012 ACD, the Postal Service had not been successful in utilizing a special study, nor in utilizing POS-sourced data to estimate the volume of inbound money orders (because neither POS nor any other retail system tracks cashed foreign-origin money orders). The Postal Service had been instructed, in the FY 2012 ACD, to investigate the feasibility of using revenues received from foreign postal operators as a basis for estimating inbound money order transactions. In the Postal Service's response to the FY 2012 ACD, it noted that, in most cases, the fees were calculated on the basis of the face value of the money order and not on a per-item basis, making it difficult to use the inbound revenue as a way to estimate inbound volume.

Since that time, the Postal Service has been receiving a report from the Federal Reserve Bank which lists both the dollar value of the commissions from each foreign postal operator, as well as the number of foreign-origin money orders cashed at the retail windows of the Postal Service (and for which the countries of origin paid the Postal Service commissions for providing the cashing service). This volume estimate is admittedly rough in that it represents the volume of foreign-origin money orders for which settlement of commissions took place in a given year, not necessarily the number that the Postal Service actually cashed in that same year. However, in the absence of any other information that more reliably identifies the number of inbound money orders cashed, the use of this figure at least moves the volume of inbound money orders to a nonzero status. The Postal Service is proposing to utilize the reported number of foreign-origin money orders on which the commissions have been settled as the source of the inbound money orders volume. This, combined with the volume of outbound money order and Dinero Seguro transactions, would serve to provide total transaction figures for all of IMTS.

With the best available estimates of volume established, the next step is to develop reasonable estimates of costs for inbound and outbound, separately. Proposal Eleven (Docket No. RM2011-5), approved in Order No. 724 (May 4, 2011), proposed to implement the Commission's recommendation that the Postal Service report the financial results for IMTS-Outbound and IMTS-Inbound separately in the International Cost and Revenue Analysis (ICRA), using IOCS tallies to distribute IMTS total attributable costs between the IMTS-Outbound and IMTS-Inbound products. But, as the Commission acknowledges in Docket No. RM2011-5, the Postal Service has repeatedly cautioned that the use of IOCS tallies to develop IMTS attributable costs is problematic.

Because the number of IMTS transactions is small, it is difficult to obtain enough IOCS tallies through sampling to reliably estimate attributable cost for IMTS, resulting in relatively volatile unit costs. As the Postal Service explained in its response to the Commission Request for Additional Information in the FY 2012 ACD, the number of tallies in 2011 was only [redacted], and in 2012, only [redacted]. The number for FY 2014 was [redacted]. As the 2012 response described, the standard deviation around the estimate resulted in ranges of costs that left little confidence in the cost estimate itself. To wit, "[f]or 2008, the implied estimated cost of $[redacted] fell within a 95% confidence interval that ranged from $[redacted] to $[redacted] million. In FY 2011, the 95 percent confidence interval for IMTS cost coverage was [redacted]% to [redacted]%."

After the Postal Service investigated the use of heavy sampling in IOCS for IMTS, it returned to the time-consuming task of accumulating observations of IMTS transactions, specifically Dinero Seguro Transactions. This task was complicated by the extremely low volume and geographic dispersion of IMTS transactions, and this scarcity of potential observations was mitigated only slightly by focusing efforts at the highest volume offices and at the times of the year which had, in the past, shown the most transactions. The results from that effort, combined with the transactions observed in 2008, 2009 and 2010, totaled 67 transaction observations, with an average transaction time of [redacted] minutes, with the 95 percent confidence interval ranging from [redacted] minutes to [redacted] minutes.

The Postal Service proposes that this transaction time be used as the estimated retail window transaction time for Dinero Seguro IMTS activity. As shown in the Excel file provided in USPS-FY14-NP43, the [redacted] minutes will be translated into cost per transaction using the Commission-approved methodology for translating retail transaction time into cost, which applies established window clerk wage rates, piggyback costs, miscellaneous and wait time factors. The result of that approach would yield a unit cost of $[redacted] per transaction. This unit cost would be multiplied by the number of Dinero Seguro transactions to estimate the volume variable Dinero Seguro costs. Subtracting the Dinero Seguro volume variable costs from the total cost for IMTS results in a residual cost, which would then be apportioned between the inbound and outbound paper money orders based on volume.

The range of the estimate around the IOCS-based cost for IMTS raises doubt about the validity of the IMTS total cost from which these figures are derived. While it is tempting to rely upon proxies or field studies (when feasible, although not in this particular situation with so incredibly few transactions to track) to substitute for the IOCS-based estimate of costs, the Postal Service does not believe results from the established costing methodology should reflexively be set aside for the products for which costs simply seem unusual or inexplicable. The substitution of proxies or fieldwork-based costs for costs based on accepted methodologies should be used only with forethought and extreme caution.

It has long been understood that the data systems provide robust estimates, and are thus most useful, for larger products. However, it is a slippery slope to begin discarding the system-based costs for smaller products without serious consideration of implications. If fieldwork suggests that the IOCS-based cost for a given product is too small, and the field study results are substituted for the IOCS-based results, the difference between the IOCS-based cost and the field study-based higher costs must come from some other product or from institutional costs to compensate for the difference. Likewise, if the fieldwork or proxy-based cost for a given product is too large, the excess cost must be assigned elsewhere. The question is what the criteria for such transfers should be if the Commission decides to substitute costs for a product because the IOCS-based results are not within expectations. The temptation will be strong to substitute alternative methods for costs that may present different challenges.

The Postal Service takes very seriously its responsibility to provide the statutorily-required financial information for the defined products, but at the same time, must acknowledge that the data systems are designed for maximum validity for larger products. No simple solution – other than possible aggregation of multiple small products into larger, more stable groupings – resolves the question of determining costs for small products. It is also worth noting that the level of effort required – both of the Postal Service and the Commission -- to report robust estimates for small products such as IMTS should be balanced against the value of this product, only $[redacted] million in revenue in FY 2014. Comprehensive, collaborative review and consensus on efficient, appropriate estimation techniques for small products may yield more satisfactory approaches.

5. Inbound Air Parcel Post (at Non-UPU Rates)

The Commission concludes that the entry of inbound air parcels post from EPG-member countries is inconsistent with 39 U.S.C § 407(a)(2). The Commission therefore recommends that the Postal Service pursue additional improvements in on-time service performance through implementation of the EPG continuous improvement plan to improve the financial results for Inbound Air Parcel Post (at non-UPU rates) during FY 2015. The Commission directs the Postal Service to negotiate compensatory rates within the EPG-Agreement or extricate itself from the Agreement. FY 2014 ACD at 81.

RESPONSE:

Consistent with the second of the two options set forth by the Commission in the FY2014 Annual Compliance Determination (ACD) Report, the Postal Service has decided to provide notice to the EPG members prior to June 30, 2015 of its withdrawal from the Agreement. Consistent with Article 14 of the Agreement for the Delivery of Day-Certain Cross-Border Parcels (Core Agreement) and Article 12 of Sub-Agreement B to the Agreement for the Delivery of Day-Certain Cross-Border Parcels of the E-Parcels Group (EPG), termination of the agreement for the Postal Service will enter into force on the 30 June 2016, twelve months after said notice is given.