

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

PERIODIC REPORTING
(PROPOSAL SEVEN)

Docket No. RM2015-16

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO QUESTIONS 1-5 OF CHAIRMAN'S INFORMATION REQUEST NO. 1**
(August 27, 2015)

The United States Postal Service hereby provides its responses to Questions 1-5 of Chairman's Information Request No. 1, issued August 20, 2015. The questions are stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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August 27, 2015

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1. Please provide a summary table showing:
 - a. the discounts for the Standard Mail and Periodicals Flats Sequencing System (FSS) workshare categories approved in Docket No. R2015-4;
 - b. the avoided costs for the FSS workshare categories as estimated by Proposal Seven; and
 - c. the updated passthroughs for the categories.

With the response, please provide an Excel file with links to all source files and inputs.

RESPONSE:

Please see electronically-attached worksheet "FSS_CRT_Workshares.xls" for the summary tables in tabs "Periodicals Outside County" and "Standard Mail Flats Prst Prebcd". The source files for the cost avoidances can be found in the electronically-attached files; "STD_FLATS_Order 2472-5.xlsx", "Prop-Seven-FSS-Delivery-Calcs.xlsx", and "PER-OC-Order 2472-7.xlsx" and there are links between the source files and "FSS_CRT_Workshares.xls".

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2. In Docket No. RM2015-18 (Proposal Nine),¹ the Postal Service filed an updated Periodicals Flats Mail Processing Cost Model reflecting the changes proposed in the instant docket. However, the Postal Service did not file the updated Periodicals Model in the instant docket. To ensure the appropriate model appears on the docket for this proceeding, please provide the updated Periodicals Flats Mail Processing Cost Model that incorporates the changes proposed in Proposal Seven.

RESPONSE:

A copy of the requested Periodicals Mail Processing Cost Model (Excel file "PER_OC_Order 2472-7.xlsx"), originally filed in Docket No. RM2015-18 as a direct attachment to Proposal Nine, is attached to this response electronically.

¹ Docket No. RM2015-18, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Nine), August 5, 2015.

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3. In describing the methodology proposed for distributing flats volume between FSS and non-FSS, the Postal Service states that it used volume per delivery point by 3-Digit zone to estimate the volume per 5-Digit zone by class. Petition, Proposal Seven, Section One at 5–6.
- a. Please explain the rationale for using volume per delivery point by 3-Digit zone to estimate the volume per 5-Digit zone by class. In the response, please include a discussion of the similarities and differences between 3-Digit and 5-Digit volumes.
 - b. Please state if the Postal Service will have actual volume data per 5-Digit zone by class in future fiscal years. Please explain why or why not.

RESPONSE:

a. The Postal Service does not have reliable measures of destinating volumes by class and 5-Digit zone. The ODIS data measures destinating volume by class but is intended only to measure destinating volumes by 3-Digit zone. In Proposal Eight of Docket No. RM2015-16, an estimate is needed of the volume destinating in FSS zones in order to calculate the probability that a piece destinating in an FSS zone will be worked on the FSS. Absent a direct measure of destinating 5-Digit mail, a combination of Address Management System delivery point data and ODIS data are employed to generate an estimate using the best available data.

In these calculations, the ratio of destinating ODIS 3-Digit volume to delivery points in the 3-Digit zone is used to adjust for differences in volume per delivery point that may exist across 3-Digit zones.

Within each 3-Digit zone, corresponding 5-Digit zones will have similar geographic characteristics and population density characteristics. However, without

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measures of 5-Digit zone destinating volumes, it is not possible to evaluate the extent to which volume per delivery point vary across 5-Digit zones within a 3-Digit zone.

b. Beyond FY2015, these calculations will no longer be necessary for Standard Mail, Periodicals and Bound Printed Matter. The volume of mail destinating in FSS zones can be taken directly from volumetric measures, because pieces destinating in FSS zones will be subject to FSS prices. In these classes, there will be still be some volume that destinate in FSS zones that pay 3D, ADC or MADDC rates, but any inaccuracies generated by variations in volume per delivery point within 3-Digit zones will be mitigated. The Postal Service does not have plans to develop a comprehensive volumetric measurement system that is accurate at the 5-Digit level.

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4. The Postal Service states that “the CRA adjustment factor is calculated to [e]nsure the non-modeled costs distributed to FSS pieces are equal to those distributed to 5-Digit pieces.” *Id.* at 12. Please explain the calculations for the CRA proportional adjustment factor for Standard Mail Flats and the proportional unit costs for the Standard Mail FSS categories. See Excel file “STD_FLATS_Order 2472-5.xlsx,” worksheet “CRA ADJ UNIT COSTS,” cells F32, E49, E51, E61, and E63. In the response, please discuss why the CRA proportional adjustment factor was not calculated as the “modeled worksharing related proportional costs” divided by the “total weighted model costs” (cells F7/D30), as suggested by footnote 8 of the Excel worksheet.

RESPONSE:

In the Standard Mail Flats Mail Processing Cost Model, allied and platform operations are not explicitly modeled. Instead, the assumption is made that allied and platform costs are incurred in proportion to the direct piece and bundle handling costs. The imputation of allied and platform costs is conducted through the application of the CRA adjustment factor.

In the absence of FSS processing, this assumption can be justified as, in general, MADC pieces incur more allied and platform costs than ADC pieces; ADC pieces incur more allied and platform costs than 3D pieces; and 3D pieces incur more allied and platform costs than 5D pieces. However, FSS pieces generally incur allied and platform costs similar to 5D pieces.

Mail of both presort levels, 5D and FSS, generally arrives on a container where a single bundle sort is needed to separate bundles to IS/FSS piece distribution scheme. Bundles are then taken to IS/FSS piece distribution operation, where the bundles are opened, pieces are sorted, and then the resulting trays are transported to delivery units

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where the trays are distributed to carrier. For both presort levels, the incurred allied platform activities are nearly identical. However, incurred direct costs are not. Because the direct mail processing costs incurred by FSS pieces are 30 – 40 percent higher than 5D pieces, employing a strict ratio of modeled worksharing related proportional costs to total weighted costs would result in the distribution of allied and platform costs to FSS pieces that are 30 – 40 percent higher than those distributed to 5D pieces.

The CRA adjustment factor used in Docketed No. RM2015-4 forces the distributed costs to FSS pieces to be identical to those distributed to 5D pieces by calculating the CRA adjustment factor applying 5D modeled costs to FSS pieces. The formula in Excel file "STD_FLATS_Order 2472-5.xlsx," worksheet "CRA FLATS," cell F32:

$$(E30 * F7 - H28 - H29 - H22 - H23 + I28 + I29 + I22 + I23) / \text{SUM}(H18, H19, H20, H21, I22, I23, H24, H25, H26, H27, I28, I29)$$

can be broken down into the following components:

$E30 * F7$ = Total Standard Mail Flats mail processing costs

$(H28 + H29 + H22 + H23)$ = Total Modeled FSS mail processing costs

$(I28 + I29 + I22 + I23)$ = Total FSS volume at modeled 5D mail processing costs

$\text{SUM}(H18, H19, H20, H21, I22, I23, H24, H25, H26, H27, I28, I29)$ = Total modeled mail processing costs with FSS pieces incurring 5D modeled costs.

The resulting CRA adjustment factor distributes all non-modeled costs, while forcing distributed costs to FSS pieces to be the same as those distributed to 5D pieces.

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5. Please reconcile the total unit mail processing costs for Standard Mail Flats of 24.337 cents reported in the Standard Mail Flats Mail Processing Cost Model for Proposal Seven with the estimate of 28.051 cents reported in the Postal Service's Annual Compliance Report. *Compare* Excel file "STD_FLATS_Order 2472-5.xlsx," worksheet "CRA FLATS," cell E81 *with* Docket No. ACR2014, Library Reference USPS-FY14-11, Excel file "USPS-FY14-11 STD_flats.xlsx," worksheet "CRA FLATS," cell E81.

RESPONSE:

The 28.05-cent unit cost estimate for Standard Mail Flats filed in Docket No. ACR2014 (USPS-FY14-11, Excel file "USPS-FY14-11 STD_flats.xlsx," worksheet "CRA FLATS," cell E81) represents the unit cost of Standard Mail Flats under the FY2014 product definition. However, Docket No. R2015-4 changed the Standard Mail Flats product, and the Proposal Seven model reflects the R2015-4 product definition. Notably, the introduction of the FSS rate element in Docket No. R2015-4 shifts mail from the Standard Mail Carrier Route product into the Standard Mail Flats product. Mail destinating in FSS zones as defined by Labeling List L006 that had previously qualified for Standard Mail Carrier Route rates migrated to FSS rates in the Standard Mail Flats product. The 24.337-cent unit mail processing cost for Standard Mail Flats reported in the Proposal Seven Standard Mail Flats Processing Cost model ("STD_FLATS_Order 2472-5.xlsx," worksheet "CRA FLATS," cell E81) estimates the unit mail processing cost of Standard Mail Flats as it might have been if the product definition from Docket No. R2015-4 had been in effect in 2014.

As a result of the R2015-4 changes to Standard Mail Flats, roughly 20 percent of Standard Mail Carrier Route flats shifted into the Standard Mail Flats product. The migrated mail would tend to have different cost causing characteristics than the existing Standard Mail Flats, as the migrated Standard Mail Carrier Route mail tends to come from higher density mailings with more

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finely presorted containers. Calibrating the Standard Mail Processing Cost Model in Docket No. RM2015-16 to the Standard Mail Flats costs in Docket No. ACR2014 would result in erroneous measurement of the avoided mail processing costs, as the population of Standard Mail Flats is different in the two Dockets.

The Standard Mail Flats cost estimate in Docket No. RM2015-16 was computed by identifying IOCS tallies with Standard Mail Carrier Route activity codes where the destination ZIP Code of the sampled pieces was an FSS zone as defined by Labeling List L006, and re-coding such tallies to Standard Mail Flats activity codes to reflect the R2015-4 treatment. The recoded IOCS data set was processed using the Commission-method mail processing cost models (ACR2014 folders USPS-FY14-7/NP18). The resulting labor costs were used as alternative inputs to the Mail Processing Cost by Shape workbook (ACR2014 folder USPS-FY14-26) to obtain piggybacked unit costs by shape for input into the Proposal Seven model workbook.