

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

Periodic Reporting
(Proposal Ten)

Docket No. RM2015-19

PUBLIC REPRESENTATIVE COMMENTS ON PROPOSED CHANGES IN
ANALYTICAL PRINCIPLES USED IN PERIODIC REPORTING (PROPOSAL TEN)

September 25, 2015

I. Introduction

The Postal Service's petition, filed pursuant to 39 C.F.R. § 3050.11, proposes "to merge Cost Segment 4, Clerks, CAG K and L Post Offices, together with Cost Segment 3, Clerks and Mail Handlers, CAG A-J Post Offices."¹ According to the Postal Service, the elimination of a separate and distinct cost segment for Cost Ascertainment Group (CAG) K and L clerks would reduce the administrative burdens required for data collection, reporting and analysis with essentially no impact on product costs. *Id.* It would also eliminate potential conflation of the clerk costs of CAG K and L Post Offices with the costs of small post offices impacted by POSTPlan implementation.² *Id.*

Clerk costs in Cost Segment 4 have increased due to an arbitration award which concluded that jobs in four and six hour post offices must be assigned to clerks-not Part-Time Postmasters or Postmaster reliefs (PMRs). *Id.* at 3. The Postal Service indicates that the arbitration ruling established a minimum of 3,000 new level six career jobs in six-hour offices and 18-hour offices and made them full-time employees. *Id.* The ruling also established more than 6,000 new level 6 non-career jobs in four-hour offices to be filled by Postal Support Employees. *Id.* As a result, clerk costs will increase while postmaster costs will decrease. *Id.* The Postal Service asserts that the

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Ten), August 10, 2015 (Petition), Attachment at 1.

² See Docket No. N2012-2, Advisory Opinion on Post Office Structure Plan, August 23, 2012

clerk cost effects occur in both Cost Segment 3 and Cost Segment 4, with the implication that analyzing the effects of POSTPlan may be complicated by including affected clerk costs in two distinct cost segments. *Id.* The Postal Service also notes that recent increases in Cost Segment 4 costs are the result of reclassifying positions and shifting them from postmasters (Cost Segment 1) to clerks (Cost Segments 3 and 4), and are not due to increases in total costs at the very small post offices. *Id.*

The Postal Service further notes that clerk costs in Cost Segment 4 have increased recently due to the fact that clerks have taken over former postmaster roles, although they are small relative to Cost Segment 3 non-Management Operating Data System (MODS) post office costs. *Id.* at 5. Moreover, the CAG criterion for defining Cost Segment 4 is sufficiently different from the transaction volumes used in POSTPlan such that CAG K costs are not a valid proxy for POSTPlan office costs. *Id.*

Under this proposal, for Fiscal Year 2015, the In-Office Cost System (IOCS) would also include the data from readings at CAG K and L offices together with those from CAG H and J offices. *Id.* at 3. The Postal Service states that the distribution of costs between CAG K offices and CAG H and J offices is statistically identical, even though the lack of clerks in CAG K offices makes this comparison difficult.³ As a result, combining the data from these offices would provide a more accurate assessment of small and very small post offices. *Id.* at 4.

The Postal service concludes that incorporating Cost Segment 4 costs with other non-MODS post office post offices would provide a more reliable basis for attribution of costs, in line with the Cost Segment 3 methodology, particularly once the IOCS CAG H-L office panel is refreshed. *Id.* at 11. Merging CAG K and L clerk costs with the much larger CAG A-J costs in Cost Segment 3 would result in a better assessment of Postal Service clerk costs as a whole, and avoid the distortions caused by analyzing Cost Segment 4 costs separately. *Id.*

³ Responses of the United States Postal Service to Questions 1-5 of Chairman's Information Request No. 1, August 31, 2015 (Responses to CHIR No. 1), question 3.

II. Comments

Among the factors that must be considered in reviewing the Postal Service's proposal are its potential impacts on data availability and data quality. Data availability concerns the ease and feasibility of accessing disaggregated data for small and very small post offices, particularly for the purpose of evaluating POSTPlan. Data quality concerns the statistical soundness of combining both the cost segments and CAG offices in the IOCS.

A. Data Availability

In 2008, the Commission issued a report on universal postal service and the postal monopoly as required by section 702 of the Postal Accountability and Enhancement Act of 2006, Pub. L. No. 109-435, 120 Stat. 3198 (2006) (PAEA).⁴ In that report, the Commission included an estimate of the cost of maintaining “small post offices” as part of the overall cost of providing universal postal service. See *id.* at 136-139. Since then, the Commission has updated its estimate of small post office costs annually in the report required by 39 U.S.C. § 3651(b). *e.g. Annual Report to the President and Congress Fiscal Year 2014*, at 40-41, January 5, 2015.

The USO Report expressly considered the methodology to be used in estimating the cost of maintaining small post offices. Of central importance was the definition of what constituted a “small office”. USO Report at 136-39. The Commission ultimately chose to utilize the costs of CAG K through L post offices as the appropriate measure of “small post office” costs. *Id.* at 138.

The Public Representative is concerned that if Proposal Ten is implemented as proposed and Cost Segments 3 and 4 are merged as well as IOCS data for CAG H, J, K, and L post offices, the data that the Commission has relied upon to calculate the cost of maintaining small (CAG K and L) post offices could be lost. The Postal Service has addressed this concern in its response to CHIR No. 1, Question 2, where it provides a method for calculating the total costs for each small post office CAG level if Cost

⁴ Postal Regulatory Commission, Report on Universal Postal Service and the Postal Monopoly, December 19, 2008 (USO Report).

Segments 3 and 4 are combined. The Postal Service states that total (“accrued”) costs can be computed by CAG from the Trial balance source data (at the finance number level) underlying ACR2014 folder USPS-FY14-5, by summing expenses within each CAG and that the costs solely attributable to CAG K and L offices can be readily extracted if Cost Segments 3 and 4 are merged.

The method proposed by the Postal Service appears to be a feasible way to extract the costs of maintaining CAG K and L post offices. The need to rely upon this methodology is, of course, based upon the assumption that the IOCS data for CAG K and L post offices will, as proposed by the Postal Service, be combined with data from CAG H and J offices. For the reasons discussed below, the Public Representative submits that the combination of IOCS data for CAG K, L, H, and J offices is both unnecessary and ill-advised. If, as the Public Representative recommends, the IOCS data is not combined, it will remain available to the Commission to calculate the total costs for each CAG K and L post office in its annual report under section 3651(b). In any event, the Public Representative supports the combination of Cost Segments 3 and 4, since, in either case, it appears that the combination of those cost segments will not preclude the extraction of CAG K and L costs.

B. Data Quality

Proposal Ten would make changes to two sources of data: cost segment accounting data and the IOCS data used to distribute costs across products in cost segments. The Public Representative is concerned that although the combination of cost segments will improve data quality, the combination of IOCS data will worsen data quality. As a result, data quality will decrease overall, because the disaggregated cost segment data rely in part on the IOCS data. The Public Representative therefore recommends that the cost segments be combined as proposed by the Postal Service, but that the IOCS data remain separate to maximize data quality.

Combining the cost segment accounting data will not have a negative impact on data quality, as the product data rely on IOCS and MODS data. As long as the component parts of the product data of cost segments remain clear, the data for CAG K

and L will be readily extractable and, should make analysis of POSTPlan easier for the Postal Service since it will not be necessary to reconcile methodologies across cost segments.

By contrast, combining the IOCS data for offices in CAGs H, J, K, and L will negatively impact data quality. These offices have unique characteristics that would be lost in the aggregation, and difficult to reconstruct for individual analysis. Additionally, the combination of IOCS data will foreclose an opportunity to take advantage of new sampling opportunities otherwise available as a result of POSTPlan.

To support its proposed combination of IOCS data, the Postal Service asserts that there is no statistically significant difference between the distribution of costs between CAG H/J and CAG K, and that there would be no negative impact on data quality in combining them. This assertion is predicated on the claim that statistical similarities of the cost pools would not bias the cost distributions for the CAGs.⁵

Although the distribution of costs may be statistically identical, the average cost between CAGs is not. As a result, the combination of these CAGs in the IOCS may obscure the absolute costs of small post offices. This is confirmed by the t-test for equality of averages which demonstrates statistically significantly different average costs. As shown in Table below. The t-value of 4.35 and associated p-value of <.0001 suggest that there exists a less than .01% chance that these two average costs are statistically significantly identical. Because it is unclear if the IOCS cost weighing factors are computed at the CAG level for the combined CAG groups, it is possible that absolute costs will be improperly distributed across CAG H-L offices.⁶

⁵ Responses of the United States Postal Service to Questions 1-3 of Chairman's Information Request No. 2, September 16, 2015 (Responses to CHIR No. 2), question 1.

⁶ See 2014 Annual Compliance Review, Library Reference USPS-FY14-37, IOCS Documentation (FY 2014 IOCS Documentation).

TABLE 1
T-Test Results
Average Costs Between CAG H/J Clerks and CAG K Clerks

CAGs	N	Mean	Std Dev	Std Err
H/J	5428	47290.8	528962	7179.7
K	91	14591.9	21268.1	2229.5
Method	Variances	DF	t Value	Pr > t
Satterthwaite	Unequal	4180.2	4.35	<.0001

In its Petition, the Postal Service argues that by maintaining a small, separate panel of finance numbers to sample for CAG K offices, some products may have zero recorded costs simply because the sample size is too small. In its Responses to CHIR No. 2, question 1, the Postal Service asserts further that pooling CAG K with CAG H and J in the IOCS will improve data quality and avoid biasing the CAG K Cost distribution. This pooling, however, is entirely unnecessary, since the recent arbitration decision created 6,000 new clerk positions in 4-hour POSTPlan offices, the vast majority of which are CAG K offices. As a result, the Postal Service will have a much larger panel of finance numbers from which to sample, improving data quality without the need to pool CAGs.

The Postal Service's proposal also precludes an opportunity to improve data quality in the CAG K offices. Currently, sampling at those offices is highly variable, as the Postal Service notes in the Responses to CHIR No.2, question 3. This variability is attributable to two factors: the small number of finance numbers sampled (four in the most recent IOCS sample), and the difficulty in sufficiently sampling those locations due to nonscheduled leave, unavailable employees, etc. *Id.*

In the 2014 ACR IOCS documentation, the Postal Service notes that 29 of the 71 employees they attempted to sample were unavailable, and could therefore not be fully used in the IOCS. FY14 IOCS Documentation at 6. With the 6,000 additional clerk

positions, however, the Postal Service can improve data quality substantially by sampling more finance numbers, and this increased sample size would eliminate the need to combine CAGs to improve data quality.

For these reasons, combining the CAGs in IOCS would actually worsen data quality. By combining CAGs with highly unequal average costs, the aggregate costs of the individual CAGs will be obscured, and the clarity of the data will be the worse for it. Furthermore, with the addition of 6,000 clerk positions in 4-hour offices, the Postal Service has the opportunity to expand its IOCS data collection in these offices to increase the sample size of CAG K offices, increasing data quality to the level of other CAGs. This expansion of CAG K data collection, alongside the combination of the cost segments, will maximize data quality.

III. Conclusion

For the reasons set forth above, the Public Representative supports the combination of Cost Segments 3 and 4, but recommends against the combination of IOCS data as proposed by the Postal Service.

Respectfully submitted,

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