

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

Periodic Reporting  
(Proposal Ten)

Docket No. RM2015-19

CHAIRMAN'S INFORMATION REQUEST NO. 3

(Issued October 14, 2015)

To clarify the Postal Service's petition to consider a change in analytical principles, filed August 12, 2015,<sup>1</sup> the Postal Service is requested to provide written responses to the following questions. Answers to each question should be provided as soon as they are developed, but no later than October 22, 2015. Prompt responses will assist the Commission in issuing its decision as quickly as possible given the need for thorough review.<sup>2</sup>

1. The Postal Service proposes to combine CAG K-L offices with CAG H-J in one IOCS stratum.<sup>3</sup> Given the minute number of CAG K post offices sampled, please provide the method the Postal Service proposes to establish to ensure sufficient representation of CAG K-L post offices in the combined IOCS stratum and explain the rationale for selecting the method.

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<sup>1</sup> Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Ten), August 12, 2015 (Petition).

<sup>2</sup> In its reply comments, the Postal Service states for the first time that it would require a Commission decision by the end of October in order to incorporate the proposed change in the FY 2015 ACR. Reply Comments of the United States Postal Service Regarding Proposal Ten, October 5, 2015, at 5 (Postal Service Reply Comments). The Commission must balance the Postal Service's request for expediency with the need for due process and comprehensive analysis. Given that this proposal was filed on August 12, 2015, and revised on August 27, 2015, and also given that parties have raised a number of questions, the Commission does not anticipate issuing a final decision on the proposal by the end of October.

<sup>3</sup> See Petition at 3.

2. The Postal Service states that “costs for all other activities, including those for selling stamps, are classified as institutional. Because operational characteristics of these smaller offices differ from those at CAG A-J offices... .”<sup>4</sup> Please provide the method that will be used to ensure the comparatively different CAG K cost structure will be maintained in a combined IOCS stratum, and explain the rationale for selecting the method.
3. In Response to CHIR No. 1, question 4(b), the Postal Service notes that the CAG K clerk subaccount 105 will be eliminated and all the corresponding salary and benefit costs for those clerks will be subsumed into the Cost Segment 3 Clerk subaccount 104.<sup>5</sup> The current Cost Segment 3 includes the salary and benefits costs for clerks in subaccount 104 and mailhandlers in subaccount 107. Please explain the rationale for eliminating the 105 subaccount for CAG K clerks rather than just adding that subaccount to Cost Segment 3. The response should include all factors that could present issues in the analysis and determination of costs by function and distribution to products in the context of Proposal Ten.
4. The Postal Service has stated in its Response to CHIR No. 1, question 3 and Response to CHIR No. 2, question 1, that the differences between the CAG K and CAG H-J direct IOCS tally distributions are not significantly different.<sup>6</sup> It has also noted that the proposed CAG H-L IOCS stratum would appropriately represent CAG K offices in the first stage sampling. Please discuss the issues and obstacles involved in separately identifying CAG K clerk costs in the Cost Segment 3 workpapers, but allocating the costs by function and to products based on the more robust CAG H-L IOCS panel data.

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<sup>4</sup> See Summary Description of USPS Development of Costs by Segments and Components, Fiscal Year 2014, Cost Segment 4 Clerks, CAG K Post Offices (Summary Description) at 4-1.

<sup>5</sup> Responses of the United States Postal Service to Questions 1-5 of Chairman’s Information Request No. 1, August 31, 2015 (Response to CHIR No. 1).

<sup>6</sup> Responses of the United States Postal Service to Questions 1-3 of Chairman’s Information Request No. 2, September 16, 2015 (Response to CHIR No. 2).

5. The Commission is required by section 3651(b)(1)(A) of title 39 to, on an annual basis, estimate the cost associated with providing services to areas of the Nation where, in the judgement of the Commission, the Postal Service either would not provide services at all or would not provide such services but for the requirements of title 39. The Commission has determined that maintaining small post offices falls into this category and estimates the cost of maintaining these post offices by determining the savings that would be achieved if the retail transactions currently provided by the small post offices were instead provided by rural carriers. To estimate the small post office costs for the Universal Service Obligation (USO), the Commission uses the “B” workpaper worksheet “I-CS01.0.2” in spreadsheet “I-Forms.xls”<sup>7</sup> to obtain the salaries of postmasters in CAG K–L offices then applies the postmaster piggyback factor derived from the spreadsheet “FY14-24.public.PB.xls”<sup>8</sup> to account for rents, utilities, and other operating costs. The arbitration decision, which replaced the postmasters and postmaster relief and replacement positions with clerks in the smaller post offices, complicates the analysis of the cost of maintaining small post offices in the calculation of the cost of the USO.<sup>9</sup>

Because clerks are performing the duties previously performed by part-time postmasters and postmaster leave replacements in many CAG K-L offices, the costs of these clerks must be included in the calculation of the cost of maintaining small post offices.

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<sup>7</sup> Docket No. ACR2014, Library Reference USPS-FY14-32-FY 2014 CRA “B” Workpapers (Public Version), December 29, 2014.

<sup>8</sup> Docket No. ACR2014, Library Reference USPS-FY14-24-FY 2014 Non-Operation Specific Piggybank Factors (Public Portion), December 29, 2014.

<sup>9</sup> The Commission noted in the FY 2014 Annual Report that the cost of CAG K-L postmasters had declined by \$194 million and attributed the reduction to reduced hours at many small offices and were now staffed by part-time postmasters and postmaster leave replacements.

The Postal Service asserts in its Response to CHIR No. 1, question 2(b) and (c) and also in its reply comments<sup>10</sup> that if Proposal 10 is approved it will be possible to obtain clerk costs for CAG K–L from the accounting records.

From a review of the proposed “B” workpapers for Cost Segment 3 and the proposed “I-Forms.xls” workbook<sup>11</sup> it is not readily apparent as to how the costs of clerks assigned to operate the CAG K–L small post offices will be identified.

Please explain fully how costs for clerks assigned to CAG K–L post offices will be segregated and reported under Proposal Ten. Please include a discussion of how these clerk costs will be separated into Mail Processing, Window Service, and Administrative Activities and how this may affect the “B” workpapers structure. The explanation should include the input sources and proposed computations.

6. The Postal Service reports that there are 11,000 CAG K post offices.<sup>12</sup> The Postal Service states that the IOCS office frame is updated annually and consists of all finance numbers/post offices containing employees eligible for sampling.<sup>13</sup> Please refer to Table 1 below for the following questions.
  - a. The number of post offices/finance numbers shown in row 1 of Table 1 is the number identified as the “First-Stage Universe” - “Office Frame” out of which the actual samples of CAG K post offices shown in row 2 are sampled. Please explain the reasons for the decreased number of post offices identified in the IOCS CAG K office frame in row 1 and the number of post offices sampled in row 2.
  - b. Please provide the coefficients of variation in estimates for Cost Segment 4 in FY 2009 and FY 2014, and explain how the reduction in the number

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<sup>10</sup> Postal Service Reply Comments at 5.

<sup>11</sup> See Petition, “Prop.10.CS03\_MergeCS4.xls” and “Prop.10.I\_FORMS\_MergeCS4.xls.”

<sup>12</sup> See Summary Description at 4-1.

<sup>13</sup> See Docket No. ACR2014, Library Reference USPS-FY14-37-In-Office Cost System (IOCS) Documentation (Public Version), December 29, 2014, preface at 3.

of CAG K post offices sampled contributed to the change in the coefficient of variation over this time period.

- c. Please describe any modifications that have been made to IOCS CAG K sampling procedures in response to the reduced number of sampled employee readings shown in row 4. If no modifications have been made, please explain why not.

Table 1: CAG K IOCS Sample Selection Detail, FY 2007-FY 2014

R o w	CAG K IOCS Sample Selection Detail	Fiscal Year (FY)							
		2007	2008	2009	2010	2011	2012	2013	2014
1	Total Number of Post Offices/Finance Numbers Identified for CAG K Office Frame/Panel	15	12	118	106	90	157	163	91
2	Actual Number of CAG K Post Offices/Finance Numbers Sampled from Office Frame*	11	10	10	6	6	8	6	4
3	Total IOCS Readings Scheduled	281	262	340	270	200	218	130	71
4	Actual Number of IOCS Readings Obtained/Used for Estimated FY Costs**	122	97	101	69	55	47	32	36
<p>*First Stage Sample Selection, **Most of the IOCS sampled employee/time readings not obtained/valid were due to the employee not scheduled/at work for the sampling program selected reading day and time or the clerk was engaged in non-clerk roster designation activities (e.g., acting in a supervisor or postmaster role). Sources: Docket No. ACR2007, Library Reference USPS-FY07-27 in the "USPS-FY07-27 IOCS v5" file at 4 and 6, December 28, 2007; Docket No. ACR2008, Preface to Library Reference USPS-FY08-37 in the "USPS-FY08-37" file at 5 and 6, December 31, 2008; Docket No. ACR2009, Preface to Library Reference USPS-FY09-37 in the "USPS-FY09-37" file at 4 and 6, December 29, 2009; Docket No. ACR2010, Preface to Library Reference USPS-FY10-37 in the "USPS-FY10-37" file at 4 and 6, December 29, 2010; Docket No. ACR2011, Preface to Library Reference USPS-FY11-37 in the "USPS-FY11-37" file at 4 and 6, December 29, 2011; Docket No. ACR2012, Preface to Library Reference USPS-FY12-37 in the "USPS-FY12-37" file at 4 and 6, December 28, 2012; Docket No. ACR2013, Preface to Library Reference USPS-FY13-37 in the "USPS-FY13-37" file at 4 and 6, December 27, 2013; and Docket No. ACR2014, Preface to Library Reference USPS-FY14-37 in the "USPS-FY14-37" file at 4 and 6, December 29, 2014 (Docket No. ACR2014, Library Reference USPS-FY14-37, Preface). Primary reasons for scheduled IOCS readings not obtained/not valid are based on Commission analyses of the IOCS SAS dataset filed in the respective Annual Compliance Report FY.</p>									

By the Acting Chairman.

Robert G. Taub