

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

PERIODIC REPORTING
(PROPOSAL TEN)

Docket No. RM2015-19

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO QUESTIONS 1-6 OF CHAIRMAN'S INFORMATION REQUEST NO. 3**
(October 22, 2015)

The United States Postal Service hereby provides its responses to Questions 1-6 of Chairman's Information Request No. 3, issued October 14, 2015. The questions are stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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1. The Postal Service proposes to combine CAG K-L offices with CAG H-J in one IOCS stratum.¹ 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.

RESPONSE:

The number of CAG K-L offices in a combined CAG H-L stratum would be randomly drawn in proportion to the number of offices with employees eligible to be sampled within each CAG subgroup. Historically, with their small number of CAG K-L offices with employees eligible for sampling in IOCS, there would have been no guarantee that any CAG K-L offices would have been selected in the first-stage sample. The Postal Service has not yet conducted a formal analysis of the sample size requirement for a combined CAG H-L sample. However, the proportion of CAG K-L offices with clerks, relative to CAG H-J offices, implies that CAG K-L offices would make up about 35-40 percent of a combined CAG H-L finance number panel that was drawn randomly.

¹ See Petition at 3.

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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... .”² 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.

RESPONSE:

The Postal Service notes that the quoted passage draws a distinction between CAG K post offices and the entire set of offices in CAGs A-J included in Cost Segment 3. The combined IOCS stratum in Proposal Ten would only be for CAGs H-L. This avoids potential operational differences with larger and/or more urban post offices in CAGs A-G that may have more complex operations. The proposed combination is only with other very small post offices, which should minimize operational differences.

Further, as the Postal Service noted in the response to Chairman's Information Request No. 2, Question 1, the current method uses Cost Segment 3.1 costs, primarily occurring at CAG A mail processing plants (e.g., P&DCs/Fs, NDCs, and ISCs) that have “dramatically different cost structures” to distribute CAG K volume-variable costs from class to CRA products. Under the proposal, the CAG K (and L) post office costs would be attributed using Commission-accepted methods for “non-MODS” post offices. This would eliminate the use of operationally distinct costs from MODS plants and NDCs in attributing CAG K costs.

² 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.

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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 104.³ 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.

RESPONSE:

Eliminating subaccount 105 provides some administrative convenience for labor cost accounting, by allowing all clerk costs to be recorded under a common subaccount. As noted in the response to Chairman's Information Request No. 1, Question 2(b), costs by CAG can be obtained from Trial Balance data at the Finance number level if subaccount 105 is eliminated, so the Postal Service does not believe that subaccount 105 is necessary to measure CAG K-L clerk costs. From the perspective of the proposed cost methodology change, however, it is possible to implement the proposed methodology while retaining subaccount 105 by adding its costs to the current (CAG A-J) Cost Segment 3 total.

³ 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).

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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.⁴ 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

RESPONSE:

Allocating costs for CAG K and L clerks using the proposed Cost Segment 3 methods requires minimal modifications to the Cost Segment 3 model code as presented in ACR2014 folders USPS-FY14-7 and USPS-FY14-NP18, and the proposed methodology does not, in itself, require any modification to the Cost Segment 3 "B" Workpapers.

Separately reported CAG K-L clerk costs can be incorporated into the current Cost Segment 3 workpapers straightforwardly. Currently, the total costs can be obtained from the subaccount 105 totals presented in USPS-FY14-5. In the absence of reporting for subaccount 105, the CAG K-L subtotals could be broken out of the Cost Segment 3 total and reported in the Cost Segment 3 workpapers. A potential location would be a successor document to "USPS-FY14-7 part1.xlsx" workbook in folder USPS-FY14-7 from Docket No. ACR2014 (which shows the development of costs within Cost Segment 3).

Estimated proportions of costs by "function" (i.e., the mail processing, window service, and administrative components) could be obtained from the CAG H-L IOCS tally data and used to split the CAG K-L total costs. Summing and reporting CAG H-L tally costs by function would require only minimal modification to existing SAS code for processing non-MODS IOCS data. Following is a mockup of a table to report total CAG

⁴ 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).

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K-L clerk costs and estimated costs by function for possible inclusion in a successor document to USPS-FY14-7.

Table I - 1D
FY 15 CAG K-L Clerk Costs, Total and By Function
Source: Pay Data System, IOCS

Total	Costs
CAG K-L Clerk Labor [1]	XXXXXXXX
Estimated Cost Shares by Function (IOCS)	
Mail Processing [2]	YY%
Window Services [3]	YY%
Administration [4]	YY%
Estimated CAG K-L Costs by Function	
Mail Processing [5]	XXXXXX
Window Services [6]	XXXXXX
Administration [7]	XXXXXX

Sources:

[1] Pay data system, Trial Balance

[2]-[4] Shares of CAG H-L IOCS Tallies

[5]-[7] Row [1] times appropriate share in row [2]-[4]

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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"⁵ 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"⁶ 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.⁷

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.

The Postal Service asserts in its Response to CHIR No. 1, question 2(b) and (c) and also in its reply comments⁸ 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" workbook⁹ 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.

⁵ Docket No. ACR2014, Library Reference USPS-FY14-32-FY 2014 CRA "B" Workpapers (Public Version), December 29, 2014.

⁶ Docket No. ACR2014, Library Reference USPS-FY14-24-FY 2014 Non-Operation Specific Piggybank Factors (Public Portion), December 29, 2014.

⁷ 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.

⁸ Postal Service Reply Comments at 5.

⁹ See Petition, "Prop.10.CS03_MergeCS4.xls" and "Prop.10.I_FORMS_MergeCS4.xls."

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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.

RESPONSE:

The response to Chairman's Information Request No. 3, Question 4 shows how CAG K-L clerk costs may be reported and divided into costs by function based on IOCS data. As indicated in that response, the Postal Service believes that the most straightforward means of reporting the costs in question is in the workbooks that show the development of Cost Segment 3 cost pools (part of folder USPS-FY14-7 in Docket No. ACR2014), in which case it is not necessary to modify the structure of the “B” workpapers.

An alternative to the piggyback method described in the question would be to obtain non-labor costs for CAG K-L offices directly by summing expenses for CAG K and L finance numbers in the Trial Balance source data. The resulting cost figure may then be reported in a suitable ACR folder. An advantage of this approach over the piggyback method is that the piggyback ratios (including the Cost Segment 1 piggyback currently used by the Commission) will reflect cost structures of larger offices that comprise the bulk of the piggybacking cost segments, and thus may not accurately measure relative non-labor costs at CAG K-L offices.¹⁰

¹⁰ Nevertheless, a piggyback method could be implemented using estimated CAG K-L clerk costs by function, produced as per the response to Chariman's Information Request No. 3, Question 4, in conjunction with corresponding Cost Segment 3 piggyback factors.

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6. The Postal Service reports that there are 11,000 CAG K post offices.¹¹ 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.¹² 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 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.

¹¹ See Summary Description at 4-1.

¹² See Docket No. ACR2014, Library Reference USPS-FY14-37-In-Office Cost System (IOCS) Documentation (Public Version), December 29, 2014, preface at 3.

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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

*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.

RESPONSE:

a. CAG K offices that have clerks almost always have only one clerk, and historically some of these offices sometimes cease to have a clerk assigned to the office. This has been the cause of the decline in the number of offices sampled (row 2) since the last time the CAG K sampling panel was refreshed in FY2007. The finance number count in Row 1 does not yet reflect the growth in clerk labor at CAG K offices.¹³ Note that the

¹³ Note that the IOCS frame is updated annually at the beginning of the fiscal year, including advancements and relocations of CAG. If the CAG changes for a finance number that is sampled in IOCS, it will be shifted to a new sampling panel in the next year. However, except for these annual adjustments, the sampling panels themselves are not re-drawn randomly from the frame each year. This helps to isolate year-to-year cost changes from the effects of random selection of different sets of offices, as well as

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number of offices in the frame (row 1) is not used in estimating product costs; rather the total dollars paid to clerks in CAG K offices, obtained from the Trial Balance data, is used as a control total for cost estimation.

b. The Postal Service does not have a model for estimating coefficients of variation for Cost Segment 4. The CRA cost methodology for Cost Segment 4 combines class-level costs based on IOCS tallies from CAG K offices with a distribution of costs from classes of mail to CRA products using Cost Segment 3.1 costs as a distribution key. The code used to produce CVs for ACR2014 folders USPS-FY14-37 and USPS-FY14-NP21 cannot be modified to incorporate Cost Segment 4 for a timely response.

However, ACR2014 CVs for comparably small costs in Cost Segment 3 may provide a general indication of the magnitude of the CVs of Cost Segment 4 estimates for FY14. See Docket No. ACR2014, USPS-FY14-37, file "FY14 IOCS CVs public.xlsx." Since the number of IOCS readings in FY2014 is approximately one-third the FY2009 figure, the FY2014 CVs would be around 1.7 times larger than the FY2009 CVs (the reciprocal of the square root of 1/3), other things equal.

c. No modifications have been made to IOCS CAG K sampling procedures. Historically, a periodic panel rotation would address the gradual attrition of offices from the sample. Otherwise, the total costs for clerks in CAG K offices previously have been sufficiently small that there would be no significant impact to overall product costs, as shown in Table 1 in the original Proposal.¹⁴ Since the product distribution key for CAG K offices are similar to the distribution keys from CAGs H and J, the Postal Service is seeking to integrate the CAGs rather than maintain a separate sampling strata just for CAG K. Proposal Ten would provide a longer-term solution to providing stable distribution keys for the costs for all three CAGs, and now also for CAG L. If Proposal Ten is not approved, the CAG K panel would be refreshed ("panel rotation") for sampling in FY17.

to ease the burden of training personnel at each sampled office, The sampling panels are re-drawn randomly, a "panel rotation" every few years.

¹⁴ In FY14, total CAG K clerk costs were \$13M, 4 percent of the \$300M for clerks in the CAG H/J strata.

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In that case, the Postal Service would recommend incorporating CAG L offices to form a CAG K/L strata.