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

PERIODIC REPORTING	Docket No. RM2008-2

REPLY COMMENTS OF THE UNITED STATES POSTAL SERVICE REGARDING PROPOSALS ONE THROUGHT NINE
(September 15, 2008)

On August 11, 2008, the Postal Service filed a motion regarding eight proposed changes in costing methodology for the FY08 ACR. That pleading resulted in the initiation of this docket, and the establishment of procedures to consider the Postal Service's proposals. Order No. 99 (August 18, 2008). Proposal Nine was subsequently added to the mix. Order No. 102 (August 21, 2008). After a technical conference on August 27, 2008, initial comments were filed on September 8, 2008. The Postal Service hereby replies to those initial comments.

Initially, it is necessary to emphasize, at least from the perspective of the Postal Service, the limited scope of this proceeding. For each of the nine proposals in question, there is the current or "established" methodology, and there is a proposed alternative. In order to be able to prepare the ACR, the Postal Service needs to know which methodology to use. While conceptually there is the possibility of a change in the established methodology short of (or beyond, or altogether different from) the proposed change, in practical terms, if the Postal Service is to complete the necessary work to provide the ACR by its December deadline, the choice in most (if not all) instances is to adopt the proposed change, or stick with the current methodology. The Postal Service does not dispute that consideration of the complete range of theoretical implications associated with a proposed change, beyond those immediately apparent, is often useful, and sometimes necessary. On the other hand, the process of fully contemplating all potential next steps, or every conceivable logical progression in methodological evolution, is time consuming at best, and at worst can lead to abstract discussion beyond the practical objectives of the task at hand. Given the impending end of the fiscal year, and the statutory deadline for submission of the ACR, there perhaps may not be sufficient time or opportunity in this proceeding to extend the focus to a large number of "big picture" issues.[1]

There are several ways to address this dilemma. One approach, perhaps attractive to some, is simply to reject any proposal which fails to resolve every possible issue raised relating to the matter involved. The effect of this, essentially, would be to freeze the status quo for those proposals to which any one objects. A more rational approach, however, would appear to be to try to evaluate which proposals <u>improve</u> the costs calculated in the ACR, without precluding opportunities to make even more improvements in the future. These reply comments are premised on the second approach, and the Commission is urged to adopt that perspective when making its determinations. On that basis, the Postal Service submits that each of the nine proposals would constitute an improvement over the current methodology, and should therefore be approved by the Commission.

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[1] By the same token, there is no reasonable opportunity at this time to address issues raised by Time Warner and MMA regarding far-reaching methodological changes beyond those contained in the nine proposals, and the Postal Service does not attempt to do so herein.

Proposal One

This proposal is to identify, by finance numbers, Headquarters functional units for which otherwise institutional costs are reasonably treated as group specific to either the market dominant or competitive group.[2] Initial comments addressing this proposal were filed by PSA, Robert Mitchell, Valpak, and the Public Representative (PR).[3]

Valpak and PSA express concern about the effect of the identification of group specific costs on determining the appropriate share of institutional costs. Valpak appears to suggest that deducting group specific costs from previous estimates of institutional costs will change the "hurdle" (in terms of contribution to institutional costs) that competitive products must meet. Valpak Comments at 11. In evaluating this claim, it bears noting that the direction of the change cannot be predicted *a priori*. The absolute amount of contribution required from competitive products will go down when a fixed amount (i.e., 5.5 percent) is applied to a smaller set of institutional costs (i.e., previous institutional costs minus group specific costs), but the amount of contribution generated by competitive products also goes down when costs are shifted from institutional to competitive group specific costs. Empirically, whether it is harder or

[2] As (hopefully) clarified by the Postal Service's errata Notice of September 5, Proposal One will extend to otherwise institutional costs in Cost Segments beyond CS 18, including CS 16 and CS 17. This rather mechanical aspect of the proposal does not seem to be implicated in the issues raised in the comments of other parties, which focus more on theoretical aspects equally applicable across all of those cost segments.

[3] To the extent that the Mitchell comments (e.g., pages 5-7) express concern about the efficiency effects of including non-volume variable (i.e., non-marginal) costs within the definition of attributable costs, for present purposes, the Postal Service only notes that those concerns are present whether one is discussing product-specific or group-specific non-marginal costs. While the inclusion or omission of non-marginal costs in a cost base used for purposes of applying a markup can be a critical concern (see testimony of Prof. Panzar, Docket No. R97-1, USPS-T-12), the Postal Service does not see this proceeding as an appropriate forum to address that aspect of the definition of attributable costs.

easier to meet the target is a function of the relative shares of former institutional costs reclassified as market dominant and competitive group specific. But the Postal Service would certainly not disagree with PSA's apparent suggestion (Comments at 3, 11) that the Commission may wish to take such a costing change into account when evaluating compliance with the contribution target in any given year. [4]

Several comments address the appropriate standard for determining when a cost pool should be identified as being caused by one set of products. There is concern that a standard of "predominance" or "substantial preponderance" is too subjective. PSA Comments at 4. As the Postal Service hoped to make clear in its August 29 Notice following the technical conference, however, the ultimate test to determine the requisite causal link is whether the costs being considered arise solely for the provision of one group of products. PSA agrees that is the appropriate standard. PSA Comments at 3. For an activity to be "caused *exclusively*" (PSA Comments at 3, emphasis in original) by one product group, however, does not preclude portions of that activity involving the other product group. For example, meeting the service standards of one type of mail may require a separate transportation run, and if so, that type of mail exclusively causes

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[4] Valpak (Comments at 5-9) and Mitchell (Comments at 9-20) claim it is improper to redefine "institutional costs." Proposal One is not made in an effort to change the fundamental definition of institutional costs. It is a proposal to identify and report certain types of group specific costs. Of course, once such costs are identified, appropriate treatment must be determined so that they are properly integrated with the other types of cost identified in the ACR. That includes establishing a consistent method of determining the share of institutional costs to be covered by Competitive products. For that purpose, the Postal Service proposes that all costs (i.e., attributable and group specific) that are causally related to products be deducted from total costs in order to calculate the appropriate contribution.

the run to be made. That causal link is not negated just because other types of mail can also be included to fill the load once the run is staged. [5]

Proposal One starts with a survey designed to identify likely candidates, within HQ finance numbers, of functional groups that each exist to deal with one product group (i.e., Competitive Products or Market Dominant products). That type of an approach seemed particularly prudent given changes in the Postal Service organizational structure over the past year, in response to the new law. Historically, HQ units did not deal with individual subclasses of mail, so there would have been little gain from conducting such a survey in the past in order to identify product-specific costs. Now, under the new law, group specific costs (at least regarding the two groups mandated by the law) have much more relevance, and therefore an effort focused on group-specific costs, rather than on much more rare product-specific costs, seemed warranted. Hence, the Postal Service initiated the survey described as part of Proposal One.

But while data obtained from the survey informs the determination of group specific costs, it is not the only information taken into account. For example, program descriptions prepared for budget purposes can also be reviewed. Additionally, if officials formally managing all or a portion of one product group are the officials deciding whether resources should be expended to conduct an activity, exercise of such authority may be another indication of whether the activity in question is caused by that specific group. As stated earlier, however, the ultimate test is a determination of

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[5] PSA, in fact, seems to be in agreement on many of these points, based on the discussion at the bottom of page 4 and continuing on page 5 of its comments. The Postal Service does not disagree with PSA that it is important in application not to lose sight of the theoretical basis for the exercise, which is to establish an exclusive causal link between (in this instance) a product group, and the activity in question.

whether the activity is undertaken solely for the provision of Market Dominant or Competitive products as a group. Contrary to PSA, the Postal Service submits that such an approach, although obviously including an element of judgment, does not preclude "the development and consistent application of a decision rule." See PSA Comments at 4.

The PR seems to agree in theory with the Postal Service's approach (PR Comments at 2-3), but stresses that the application needs to be constantly updated. PR Comments at 5. It would appear, however, that discussion of how frequently updating might be necessary can await resolution of whether the Commission approves the proposed change for FY08. Likewise, to the extent both Valpak (Comments at 8-9, 12) and Mitchell (Comments at 9) appear to be suggesting that further efforts could be made to identify group specific costs within subsets of cost pool costs, those issues likewise seem to have no bearing on whether the Commission should approve the proposed change for FY08. As to Valpak's concern (Comments at 12-13) regarding the potential effect of the identification of group specific costs on the *format* of the CRA Report and/or related materials, that would appear to be another matter that can addressed by the Commission if it approves Proposal One.

<u>Proposal Two</u>

Proposal Two involves the treatment of advertising costs caused by a group of products, but not by any specific product, as group specific. As such, it is not unrelated to Proposal One and to the types of factors discussed above by which the Postal Service proposes to make the determination of whether the activities in question (in this case, advertising campaigns) are group-specific or not.

Valpak (Comments at 14) appears to agree with Proposal Two. PSA, however, disagrees. PSA Comments at 5-7. PSA challenges the determination that the particular advertising costs cited in Proposal Two were caused by the provision of the group of competitive products. Obviously, the Postal Service cannot indisputably prove that causality, but would argue that if the Postal Service stopped offering competitive products, then this advertising would be eliminated. The fact that a market dominant product may use Carrier Pickup service does not undermine the fact that the advertising for the service was caused by the competitive products group. For example, it is difficult to dismiss the fact that the Carrier Pickup advertising campaign (even in FY08) was initiated before the one market dominant product (Merchandise Return Service) was, late in the year, added to the list of products for which Carrier Pickup is currently available. PSA asserts that this sequence of events does not prove that the advertising campaign would be dropped if competitive products were dropped, but that certainly seems to be a reasonable inference.[6] The Postal Service understands the concern that a rush to assign group-specific costs could lead to an arbitrarily inflated cost base for both market dominant and competitive costs. The test for assignment here would prevent such an over-assignment. Overall, the Postal Service urges the Commission to approve the concept of group-specific advertising costs, and to approve the type of application exemplified by the instances cited in the proposal (Carrier Pickup and Click-N-Ship).

[6] PSA (Comments at 6, n. 3) points out that merely knowing that MRS was not specifically mentioned in the ads may not be as useful as knowing if any of the specific products for which Carrier Pickup is available were mentioned. On that question, it appears that no specific products were mentioned in the ads. This fact underscores why potential classification of group specific costs offers a potentially useful enhancement to the analysis of advertising costs.

Proposal Three

Proposal Three involved changes to IOCS mixed mail coding. It does not appear to have been opposed in the initial comments of any party, and so the Postal Service urges the Commission to permit the adoption of this change.

Proposal Four

Proposal Four involves treating the non-volume variable costs of City Carrier time associated with sweeping collection mail from the blue street letter boxes as product specific to First-Class letters.[7]

APWU opposes the change, among other reasons, based on the age of the previous data indicating that First-Class Mail constituted in excess of 90 percent of the items in collection boxes. APWU Comments at 2-3. APWU wishes the Postal Service to produce more current information. *Id.* In fact, as noted by the Postal Service in this proceeding (see August 29 Notice of Technical Conference Material at 7), CCCS in FY08 is gathering collection box information. Moreover, the proposal to employ that CCCS information as the new distribution key for the volume-variable collection costs was filed on Friday, September 12, as Proposal Eleven. As noted there, from a preliminary review of partial year information (first three quarters), the proportion of mail in collection boxes that is First-Class Mail now appears to exceed 99 percent. Note, however, that while all indications thus far are that the new CCS data move in a direction consistent with the Postal Service's proposal, the Postal Service is <u>not</u> relying

[7] While not determinative, it is worth noting that the term street <u>letter</u> box reflects the fact that these boxes were originally put in place for the collection of letters. The first street letter boxes were put in place in 1858, before the existence of the few other products now allowed to be deposited in them. <u>See</u>, for example, *encarta.msn.com/encyclopedia_761570336_2/us_postal_service.html*

merely on the percentage of non-First-Class mail as the basis for that proposal. As explained before, the basis of the proposal is the conclusion that the Postal Service put the street letter boxes in place for the collection of First-Class letters, and if it ceased to offer First-Class single-piece letters, we would expect the Postal Service to eliminate its collection box network.[8]

The Public Representative (PR) seems to suggest that, even if the boxes hypothetically were no longer used for the collection of First-Class single piece because of the elimination of that product, the Postal Service would still have the boxes deployed, and would still continue to sweep whatever mail was left in them. PR Comments at 6. To the contrary, the relevant "cost" of the boxes is not in the cost of the equipment, but in the labor cost of collection. Should First-Class letters be eliminated (or even no loner permitted to be entered into the postal stream through use of collection boxes), the boxes would be pulled, and the network would not be serviced. In that respect, the PR's comments appear to be off base.

Somewhat more on point is the PR's restatement of the Postal Service's long-held view that, in a comprehensive incremental cost analysis, one must carefully account for the attributable costs for all products in a cost pool, whether or not those products caused the institutional costs to arise.[9] PR Comments at 7-8. For example, suppose that First-Class letters caused an operation to exist but, because of excess capacity, Priority Mail was also handled in that operation. If the volume variable cost of

[8] GCA bases its opposition to Proposal Four on the notion that changes in security regulations should not alter cost attribution, since mail security benefits all products. GCA Comments at 1-2. GCA's reasoning is not sound. The scope of products which benefit from mail security is not relevant to the answer to the one overriding question -- would collection boxes be retained if single-piece First-Class Mail were eliminated?
[9] See Direct Testimony of Michael D. Bradley, USPS-T-12 , Docket No. R2000-1, at 33.

handling that Priority Mail was less in its alternative operation, then the resulting excess or "premium" cost should be added to the incremental cost of First-Class letters. If the volume variable cost of Priority Mail in its alternative operation was the same, no adjustment in the First-Class letter incremental cost is required. Finally, if the operation permits lower volume variable costs for Priority Mail, then the resulting "discount" should be subtracted from the incremental cost of First-Class Mail. However, the topic of discussion is not, at this point, one of calculating incremental costs, but rather, consideration of group-specific costs, and none of this affects the appropriateness of finding the group specific costs for First-Class letters in the operation.

The PR mentions the options of carrier pickup and window service as alternative to street letter box collection of non First-Class letter mail. In fact, however, the PR is overlooking two minor points, and one major point. First, if the collection boxes were gone, the mail could be taken to a post office and, since postage must already have been applied if the piece were ready to deposit in a collection box, dropped in a lobby slot. Unlike a window transaction, there is no obvious additional cost with sweeping a lobby slot, as opposed to the previous cost of sweeping the same mail from a collection box. Second, if there are additional costs associated with some other mode of entry (e.g., left in the delivery box for the carrier), there could likewise be additional costs (e.g., having to cull Priority Mail out of the predominantly First-Class Mail collection mailstream) that could be avoided if the First-Class Mail mailstream were eliminated. The major point which undermines the "offset" objection, however, is that because there is so little non-First-Class Mail in street letter boxes, whatever cost offset there might be (if any) would be trivial. The new CCCS data strongly underscore that conclusion.

Proposal Five

Proposal Five involves the treatment of non-volume variable costs in certain Express Mail cost pools.

PSA erroneously suggests that the proposal is based just on the name of the cost pool. PSA Comments at 7. Perhaps recognizing that, in fact, it is IOCS data and not just the cost pool name which drives this proposal, PSA disparages the use of IOCS Q18A07, which the PSA Comments at 8 characterize as a "grab bag of possible answers" to record clerk out-of-office activities. With respect to the same IOCS question, PSA further claims that "Express Mail is the only class of mail explicitly identified for pickup or delivery and it is listed as the first option, possibly leading to errors or bias in responses in cases where the answer may be unclear." *Id.*

For reference, the wording of Q18A07 in FY07 was as follows:

Q18A7 Off Premises Activity
What type of work is the employee doing off the premises?
A Express Mail Pickup or Delivery
B Other Delivery
C Collection Mail Pickup
D Detached Mail Unit (DMU)/Acceptance at Mailer's Plant
E AMC/AMF Ramp Duties (typically Op # 188)
F Training
G Self-Service Postal Center
H Statistical Programs Data Collection Activities
I Other (Specify)

It is worthwhile to note that Q18A07 is carefully constructed to include in the first two options, A and B, clear contrasting choices for the data collector to differentiate between Express Mail Delivery, and some other delivery of non-Express Mail. Express Mail is identified in the first option so that delivery of non-Express Mail can be identified in the second option. As constructed, the question belies PSA comments that it includes "a grab bag of possible answers" and would lead to "errors or bias in responses in cases where the answer may be unclear." On the contrary, the question is constructed to avoid the pitfalls that PSA cites. Moreover, out of an overabundance of caution, in quarter 3 of FY08, the wording of Option A of the IOCS question Q18A07 was enhanced as follows in order to remove any possible ambiguity:

A Express Mail PickUp, Delivery or Transport (Express Mail Only)

It follows from the construct of Q18A07 that clerk costs for Express Mail associated with Option A would go away if the Express Mail products (Domestic and International) were no longer offered, and there consequently were no Express Mail to be delivered. The Postal Service is puzzled that there should be controversy regarding this use of such clear-cut questions in IOCS, which is fundamentally consistent with broad use of IOCS questions in general as a means of determining the activities of postal employees and the assignment of costs thereof.

Proposal Six

Proposal Six involves a change to the distribution key for empty equipment costs to exclude certain non-transportation costs from the analysis.

Only one interested party raised concerns about this proposal. Time Warner Inc. acknowledges that the proposal makes sense (Comments at 8), but takes exception with the current distribution method used to distribute highway and rail empty equipment costs. The current distribution method may have shortcomings, and the Postal Service is open to exploring new methods for distributing highway and rail empty equipment costs. Nonetheless, the intent of the established methodology is to distribute highway and rail empty equipment costs based largely on all other *transportation* related costs, and Proposal Six would achieve that objective better than the current methodology. Time Warner does not appear to dispute that conclusion, and thus, the Postal Service urges the adoption of this proposal.

Proposal Seven

Proposal Seven involves a change to the distribution key for the costs of Vehicle Service Drivers (VSD), contained in cost segment 8. The proposal would ensure that the calculation of attributable costs in the future would improve the accuracy of the distribution. The improvement has two parts. Because VSD costs are transportation costs, the improvement suggests using an existing highway transportation distribution key rather than the current national RPW proxy, which is known to contain volumes not transported by VSD (and, in some instances such as DDU items, mail that is not transported by the Postal Service at all).[10] In fact, the accuracy of the RPW proxy has degraded over time as transportation operations have changed. These operational changes have undermined the usefulness of the RPW proxy and make a strong argument for replacing it. Second, because the current approved methodology for VSD cost attribution uses cubic foot-miles as the cost driver, the proposed improvement

[10] The current distribution key is based upon “originating cubic feet” which is calculated by using RPW weights and a CRA density factor. Thus, the originating cube does not appear in the RPW report. Because the product weights are derived from RPW, to clarify the discussion, the distribution key will be termed the “RPW proxy” in these Reply Comments.

would also use cubic foot-miles for the distribution key rather than the current, and conceptually erroneous, cubic foot distribution key. [11]

In other words, the current distribution key has both methodological and conceptual deficiencies, both of which are mitigated by the proposed new approach. The proposed improvement is to use the current Intra-SCF distribution key (estimated proportions of cubic foot-miles) to distribute the attributable VSD costs. This distribution key is developed annually through the Transportation Cost System (TRACS).[12]

On a methodological basis, the use of the TRACS-based distribution key is preferred because it estimates cubic foot-miles, the cost driver for VSD costs. Although it is not always possible, it is generally preferred to use a distribution key that represents proportions of the component's cost driver. A correspondence between the cost driver and the distribution key has the advantage of adding direct causality to the cost tracing need to calculate attributable costs. It is crystal clear how changes in cubic foot-miles for a particular product being transported by VSD relate to changes in the overall cubic foot-miles being transported by VSD. It is far less clear how changes in national originating volume (RPW) relate to changes in the total cubic foot miles being transported by VSD.

Moreover, the use of the TRACS-based distribution key is also preferred because of the changing nature of Postal Service transportation operations. In fact, the

[11] See Direct Testimony of Steven H. Wade, USPS-T-20, Docket No. R97-1 pages 7-8.
[12] Because of the difficulty of identifying and maintaining mileage information on the many thousands of Intra-SCF highway contracts and because Intra-SCF transportation is made up of relatively short routes with many stops, in the approved methodology the TRACS system uses the number of "legs" on an Intra-SCF route to estimate the relevant miles on that route. Thus, calculation of the proportions of cubic foot-miles, by product, in the Intra-SCF distribution key are based upon the proportions of the cubic foot-legs by product.

underlying justification for the RPW based distribution key is no longer applicable. At the time the RPW proxy was first selected, virtually all mail needed to be transported, by truck, from a Sectional Center Facility (SCF) to a Destination Delivery Unit (DDU). As a result, virtually all mail recorded in the RPW needed to incur that cost. However, since the current methodology was established, the Postal Service has provided incentives (dropship discounts) for mailers to bypass the SCF-to-DDU transportation leg and enter mail at the DDU. Thus, the current RPW key erroneously incorporates the material amount of mail that does not go on VSD transportation and is therefore biased. This means that the current distribution methodology needs to be updated.

The ideal, of course, would be to have a distribution key that directly estimates the VSD cubic foot-mile proportions. However, development of the ideal distribution key would take considerable time and money and is not available in the near term. The absence of the ideal distribution key should not, however preclude the use of a better distribution key. A preferred distribution key exists and the Postal Service quite logically proposes using it. The distribution factors derived from Intra-SCF routes were proposed to replace the RPW proxy because Intra-SCF trips are similar to VSD trips. Both involve trips between post offices, branches, Processing and Distribution Facilities, Air Mail Facilities, and Bulk Mail Centers. The five determining factors on whether a specific route is VSD or subcontracted are not determined by the type of mail transported. Specifically they are the following: public interest; cost; efficiency; availability of equipment; and qualification of employees[13].

[13] Handbook EL-912, Agreement between USPS and American Postal Workers Union, AFL-CIO 2006-2010,Article 32, page148.

Several interested parties have expressed objections to the proposed change. The main objection of APWU to the proposal is that the Postal Service should not be allowed to change the distribution method based on an unsupported proxy when it should be able to produce and use real data for VSD cost allocation. APWU Comments at 4. Ideally, the Postal Service would utilize specific annual distribution factors for VSD, as they do for Highway Contract Routes (HCR). However, contrary to what APWU tries to suggest, no such distribution factors exist. The notion that the proposed distribution key is unsupported ignores the inherent similarity in the timing and need for both VSD and Intra-SCF trips.

The Public Representative objects to the proposal for two reasons 1) Intra-SCF trips tend to be longer than VSD trips, so the distribution factors based on cubic foot miles may not be a reasonable proxy and 2) the cost driver should be cubic feet rather than cubic feet miles. PR Comments at 9-10. The fact that Intra-SCF trips are longer than VSD trips could have an effect on distribution factors that are distance based. However, the Postal Service still views the proposal as an *improvement* over the current methodology, which assumes that all classes travel the same amount of VSD miles, and the distance component drops out. The notion that the cost driver should be cubic feet rather than cubic foot miles is inconsistent with the fact, as shown in the above citation to the Wade testimony, that the cost driver used to estimate variability is cubic foot miles. Objection to the proposal on that basis should be rejected.

Time Warner (Comments at 8) takes exception with the proposal based on two grounds. One, VSDs perform duties that do not involve driving, and, two, “replacing one inaccurate distribution key with another is hardly a satisfactory solution.” The fact that

VSDs perform non-driving duties is accounted for in the variability (approximately 60 percent), and is not relevant to the distribution of the volume variable costs of VSDs. Second, the Postal Service is continually trying to improve its product costing methodologies. There are degrees of imperfection, and the proposal involves moving from a more imperfect proxy to a less imperfect proxy, or, in other words, making an improvement.

Valpak (Comments at 15-18) also raises concerns about the proposal. Valpak does not believe that enough support has been provided by the Postal Service for the change and likewise objects to “replacing one flawed distribution key with another that may [be] flawed to an equal or even greater extent.” Valpak cites the (FY07) shift in the distribution factor for Bound Printed Matter (BPM) from the proposed change (currently 8.03 percent to a proposed 2.98 percent), and reasons that this cannot be explained from BPM being entered at delivery units. Valpak Comments at 17. Valpak is relying too heavily on the results regarding one relatively small product in one year to tarnish an improved methodology. The magnitude of the difference reveals nothing about which of the two alternatives might be more suspect – one cannot assume that the 8 percent figure was the “correct” distribution factor for VSD costs.

Moreover, a broader examination of the Table presented by the Postal Service in its original August 11 filing supports the Postal Service’s argument that Intra-SCF does provide a reasonable proxy for VSD. Specifically, when applied to FY07 costs, the proposal increases costs for First Class Mail Single Piece, Priority, Express, and Periodicals. This makes sense for two reasons 1) those classes are rarely entered at the DDU and 2) First Class Mail Single Piece, Priority, and Express often incur VSD transportation in two directions – at the origin and destination. Mail that originates in a collection box or window unit will often be transported to a plant by either VSD (or Intra-SCF contractors) for an originating sort and then again at the destination to move it to the DDU. Intra-SCF sampling captures that mail moving in both directions, something not possibly included in an RPW distribution key. Using cube as a proxy gives the same weight to the cube of types of mail likely to be transported once by VSD drivers as to the cube of types of mail likely to be transported twice. This provides another reason to prefer the Intra-SCF proxy over the cube proxy.

Proposal Eight

This proposal involves correcting an error in the Mail Characteristics Study regarding the mapping of First-Class Mail automation flats. No comments were submitted on the proposal, and the Postal Service urges the adoption of this correction.

Proposal Nine

This proposal involves updating the distribution key for certain costs relating to PARS. Time Warner supports this proposal (Comments at 9-10), and no other party opposes it. Thus, the Postal Service urges the adoption of the proposal.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

R. Andrew German
Managing Counsel, Legal Policy & Ratemaking

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

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Eric P. Koetting

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260–1137
(202) 268-2992, FAX: -5402
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