

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

Before Commissioners:

Dan G. Blair, Chairman;
Mark Acton, Vice Chairman;
Ruth Y. Goldway;
Tony L. Hammond; and
Nanci E. Langley

Periodic Reporting

Docket No. RM2008-2

ORDER GRANTING POSTAL SERVICE MOTION TO
SUPPLEMENT LIST OF PROPOSED COSTING CHANGES

(Issued August 21, 2008)

On August 18, 2008, Order No. 99¹ established this docket to evaluate eight changes in costing methods that the Postal Service proposes to use in its FY 2008 annual report that it must file under 39 U.S.C. 3652. Later that day, the Commission received the Motion of the United States Postal Service to Supplement the List of Its Proposed Costing Changes for Purposes of Preparing the FY 2008 Annual Compliance Report (Motion). The Motion states that the Postal Service has finalized a ninth proposed change in costing methodology. It requests the Commission to consider its proposal under the procedures and schedule established in Order No. 99.

The Postal Service characterizes this additional proposed change as relatively straightforward. It notes that a description of the proposed change, the rationale for adopting it, and an estimate of the impact of adopting it, accompanies the Motion.

¹ PRC Order No. 99, Notice of Proposed Rulemaking on Costing Methods Used in Periodic Reporting, August 18, 2008 (Order No. 99).

Given these circumstances, the Postal Service argues, consideration of this additional proposal could be consolidated with the original eight proposals and evaluated under the procedures outlined in Order No. 99, without detracting from the ability of the postal community to evaluate the original eight.

The Commission agrees. It therefore orders consolidation of the proposed change in costing methods described below with the eight proposals already under consideration in Docket No. RM2008-2.

Proposal Nine

PROPOSED CHANGE IN DISTRIBUTION KEY FOR PARS EQUIPMENT DEPRECIATION, MAINTENANCE LABOR, AND PARTS/SUPPLIES COSTS

OBJECTIVE:

A methodology change is proposed for FY 2008 in the distribution key for the portion of depreciation (cost segment 20.1), maintenance labor (cost segment 11.2), and parts & supplies (cost segment 16.3.2) costs related to Postal Automation Redirection System (PARS) equipment.

BACKGROUND:

PARS equipment is being deployed, replacing the use of Computer Forwarding System (CFS) in the forwarding and return to sender operations for letters. A description of PARS was provided in Docket No. R2006-1 in the testimony of Marc McCrery, USPS-T-42. PARS reduces the costs for processing, transporting and delivery of letters by identifying letter mail that is to be forwarded or returned, at origin. As shown in ACR 2007, USPS-FY07-8, spreadsheet fy07equip.xls, the FY07 depreciation, maintenance labor and parts & supplies for PARS were \$59.5, \$3.6 and \$0.7 million. These will grow in FY08.

These costs, having a volume variability of nearly 100 percent, were distributed to class and subclass in the FY07 CRA based on the distribution key for CFS.

PROPOSAL:

The Postal Service is proposing to distribute the attributable costs to products based on the IOCS tallies for the PARS related operations, as done for the distribution key for the PARS related work in the remote encoding centers, LDC 15 (see ACR 2007, USPS-FY07-7, Preface.Part1, page 2).

RATIONALE:

The current method of distributing attributable PARS costs to products, using the CFS distribution, was the best available proxy in the past. But now that PARS tallies are available from the IOCS, there is no reason why the CFS proxy should not be replaced with information directly relating to relative usage of PARS. The current method incorrectly apportions much PARS equipment costs to classes and subclasses that benefit very little from PARS, particularly (because of shape) Periodicals. The proposed PARS distribution key will assign PARS equipment costs to those classes of mail processed with PARS, classes that also obtain the labor savings enabled by PARS.

IMPACT:

Attached is a spreadsheet which shows the impact of the proposed change on products (using FY07 costs).

Component Name		LDC 49 – Comp Forwarding System	FY07 Distribution of PARS Related costs	FY07 PARS tallies distribution	Distribution based on PARS tallies	Change in Distribution by Adopting Proposal Nine
Component Number		(938)	\$ in 000s		\$ in 000s	\$ in 000s
Cost Segment		98.1				
Notes		Set equal to 938 Set W = 0.9992				
First-Class Mail						
Single Piece Letters	101	26	16,597	30219.58	19,935	3,338
Presort Letters	102	25	16,138	43172	28,480	12,341
Total Letters	103	51	32,736		-	
Single Piece Cards	104	1	663	3023.1	1,994	1,331
Presort Cards	105	1	701	1663.9	1,098	396
Total Cards	108	2	1,365		-	
Total First-Class	109	53	34,100		-	
Priority Mail	110	1	657		-	(657)
Express Mail	111	0	19		-	(19)
Periodicals			-		-	-
Within County	113	1	516		-	(516)
Outside County	117	26	16,336	802.05	529	(15,807)
Total Periodicals	123	26	16,852		-	
Standard Mail						
Enhanced Carr Rte	126	1	567	219.81	145	(422)
Regular	127	10	6,688	16238	10,712	4,023
Total Standard Mail	135	11	7,256		-	
Package Services						
Parcel Post	136	1	516		-	(516)
Bound Printed Matter	137	2	1,014		-	(1,014)
Media Mail	139	0	236		-	(236)
Total Package Services	141	3	1,766		-	
U.S. Postal Service	142	4	2,499	1076.5	710	(1,789)
Free Mail	147	0	96	222.77	-	(96)
International Mail	161	0	89		147	57
Total All Mail	162	99	63,336		-	
Special Services						
Registry	163	0	64		-	(64)
Certified	164	0	-		-	-
Insurance	165	0	-		-	-
COD	166	0	-		-	-
Money Orders	168	0	-		-	-
Stamped Cards	159	0	-		-	-
Stamped Envelopes	169	0	-		-	-
Special Handling	170	0	-		-	-
Post Office Box	171	0	-		-	-
Other	172	1	351		-	(351)
Total Special Services	173	1	414		-	
Total Attributable	198	100	63,750	96637.71	63,750	(0)
Other Costs	199					
Total Costs	200					
		Deprec.	\$ 59,476			
		Maintenance Labor	\$ 3,627			
		Parts & Supplies	\$ 698			
			\$ 63,801			
		Variability	0.99920			
		Total Vol. Var. Costs	\$ 63,750			

It is Ordered:

1. The Motion of the United States Postal Service to Supplement the List of Its Proposed Costing Changes for Purposes of Preparing the FY 2008 Annual Compliance Report, filed August 18, 2008, is granted.
2. The proposal described in this Order will be considered under the current procedural schedule in Docket No. RM2008-2.
3. The Secretary shall arrange for publication of this Notice in the *Federal Register*.

By the Commission.

Judith M. Grady
Acting Secretary