

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

PERIODIC REPORTING  
(PROPOSAL FOUR)

Docket No. RM2017-8

PETITION OF THE UNITED STATES POSTAL SERVICE FOR THE  
INITIATION OF A PROCEEDING TO CONSIDER PROPOSED CHANGES  
IN ANALYTICAL PRINCIPLES (PROPOSAL FOUR)  
(June 30, 2017)

Pursuant to 39 C.F.R. § 3050.11, the Postal Service requests that the Commission initiate a rulemaking proceeding to consider a proposal to change analytical principles relating to the Postal Service's periodic reports. The proposal, relating to a procedure by which Form 3999 data would be used to annually update the estimated proportion of time on regular city carrier routes spent delivering parcels, is labeled Proposal Four and is discussed in detail in the attachment to this Petition describing the proposal.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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## **Proposal Four: Adjust City Carrier Letter Route Street Time Proportions to Account for Volume Changes**

### **OBJECTIVE:**

The Postal Service proposes to adjust city letter route street time proportions to more accurately reflect current city carriers' street activities.

### **BACKGROUND:**

In Docket No. RM2015-7, Proposal Thirteen, the Commission accepted a new city carrier street letter route cost model.<sup>1</sup> The cost model accepted in that docket is the established methodology for assigning city carrier letter route street costs to products. The established methodology uses a current Form 3999 (street evaluations) data set, supplemented with information collected as part of the Package and Accountables Field Study (hereafter Package Study) in spring 2014. These two sources of data are used to form the cost pools for letter route street activities.<sup>2</sup> One benefit of using a current Form 3999 data set is that the resulting proportions are updated annually, so many of the cost pools are updated to reflect changes in carrier street activities. For parcels, the Form 3999 data are insufficient because the parcel time recorded includes only the time to deliver parcels that weigh more than two pounds and/or are larger than a shoebox. Essentially, this constraint precludes recognition of the delivery time associated with in-receptacle parcels. For costing purposes, it is important to investigate the delivery time associated with both in-receptacle parcels, and deviation parcels and accountables

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<sup>1</sup> See Order No. 2792, October 29, 2015, Docket No RM2015-7.

<sup>2</sup> See Docket No. RM2015-7, City Carrier Street Time Report at 91.

(hereafter IRP and DPA). Consequently the Postal Service conducted the Package Study.<sup>3</sup> During the Package Study, carriers measured their delivery times on the street associated with the delivery of both IRP and DPA, including additional driving time associated with delivering DPA.<sup>4</sup> Because the times measured during the Package Study more accurately reflected the total time required for delivering IRP and DPA, they were used to form the IRP and DPA cost pools.<sup>5</sup> However, the activity times collected during the Package Study for the parcels and accountables are not part of an ongoing Postal Service data system, and updating them requires another time-consuming and expensive special study. Consequently, the parcel and accountables cost pool proportions have essentially remained unchanged since the Package Study was conducted in the spring of 2014.

This proposal would use the information collected from the Package Study, along with the parcel and accountables time proportions from the current Form 3999 data set used to form the other street time cost pools, to adjust the letter route street cost pools so as to more accurately reflect carriers' street activities and, in turn, more precisely attribute costs to products. Moreover, rather than merely constituting a one-time adjustment, the proposed new procedure could be applied again each year to achieve annual updates.

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<sup>3</sup> Another issue with the Form 3999 is that it does not record Accountables volume but it does measure the delivery time associated with Accountables.

<sup>4</sup> The DPA time measured during the Package Study was roughly 16 percent higher than the corresponding time on the Form 3999 data set.

<sup>5</sup> The IRP and DPA activity proportions from the Package Study are not directly substituted for the corresponding proportions based on the Form 3999 data set. They are inflated by the ratio of total street time to directly attributable street time. Because this factor is applied to both the study proportions and the Form 3999 proportions, it cancels out and it is not relevant to this proposal. For a complete explanation of how the measured proportions from Package Study are adjusted, refer to Docket No. RM2015-7, Proposal Thirteen, City Carrier Street Time Report at 16.

PROPOSAL:

This proposal would annually adjust the letter route street activity cost pool proportions through a three-step process. Essentially the process updates the established IPR and DPA percentages by the *growth* in the Form 3999 DPA time. The three steps are described in detail below. The first step is new, and the remaining two steps simply apply the established methodology to the new IPR and DPA proportions. The steps are followed by a summary table and narrative that explains the cost impacts of this proposal at the cost pool level.

**Step 1:** – Multiply the IPR and DPA values from 2014 by the growth in the Form 3999 DPA time. This growth is measured by the ratio of the 2016 Form 3999 DPA time to the 2014 Form 3999 DPA time:<sup>6</sup>

$$(IRP_{New}) = (IRP_{Study}) \frac{DPA_{Form\ 3999}^{2016}}{DPA_{Form\ 3999}^{2014}} = (3.84\%) \frac{5.40\%}{4.05\%} = 5.12\%$$

$$(DPA_{New}) = (DPA_{Study}) \frac{DPA_{Form\ 3999}^{2016}}{DPA_{Form\ 3999}^{2014}} = (4.71\%) \frac{5.40\%}{4.05\%} = 6.28\%$$

**Step 2** – Calculate Proposed IPR and DPA Cost Pool Proportions by Applying the Ratio of Total Street Time to Directly Attributable Street Time:

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<sup>6</sup> In preparing this proposal, essentially immaterial errors were discovered in the street time proportions filed with the FY 2016 ACR. The correct regular delivery time and parcel proportions from Form 3999s that should have been entered in USPS-FY16-32 (NP14), workbook I-Forms, tab I-CS6&7 Factors New, cells I12 and I13 were 71.39 percent and 5.40 percent for regular delivery time and parcels respectively, rather than the 71.45 percent and 5.36 percent figures that were filed with the ACR. This small error resulted in an overstatement of regular delivery costs of \$8.3 M and had no impact on parcel costs because, as discussed earlier in this proposal, the established model has static cost pool proportions. However, for transparency and comprehension purposes relating to the calculations underlying this proposal, the correct rather than the filed Form 3999 regular delivery (71.39) and parcel (5.40) proportions are applied in the text and in folders USPS-RM2017-8/1 and USPS-RM2017-8/NP1.

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$$IRP_{Proposed} = IRP_{Study(New)} \times \frac{Total\ Street\ Time_{FY\ 2016\ (Filed)}}{Directly\ Attrib\ Street\ Time_{FY\ 2016\ (Filed)}} = 5.12\% \times 1.15 = 5.88\%$$

$$DRP_{Proposed} = DRP_{Study(Revised)} \times \frac{Total\ Street\ Time_{FY\ 2016\ (Filed)}}{Directly\ Attrib\ Street\ Time_{FY\ 2016\ (Filed)}} = 6.28\% \times 1.15$$

$$= 7.21\%$$

**Step 3:** Calculate a Proposed Regular Delivery Street Time Proportion that Offsets the Aggregate Change in the IRP and DPA Proportion.

$$RegDel_{FY\ 16\ (Filed)} = 78.30\%^7$$

$$\Delta RegDel_{Proposed} = RegDel_{FY\ 16\ (Filed)} + \Delta(IR + (DEV + ACCT))_{Proposed} = 78.30\% - 3.28\%$$

$$RegDel_{Proposed} = RegDel_{FY16} + \Delta RegDel = 78.30\% - 3.28\% = 75.01\%$$

**Summary: Table 1 – Proposal’s Cost Impacts on Letter Route Street Time Proportions**

Cost Pool	FY 16 Proposed Street Time Proportions	FY 16 Filed(Corrected) Street Time Proportions	Difference Proposed – Filed	Cost Impact
Regular Delivery	75.01%	78.30%	-3.28%	(\$390.2) M
In-Receptacle Parcels	5.88%	4.41%	1.47%	\$174.9 M
Deviation Parcels and Accountables	7.21%	5.40%	1.81%	\$215.3 M
<b>Total</b>	88.13%	88.13%	0.00%	\$0

Table 1 illustrates that this proposal reduces regular delivery time by 3.3 percentage points and adds roughly 1.5 and 1.8 percentage points of street time to IRP and DPA respectively. The cost impacts of these adjustments to the street time

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<sup>7</sup> *Id.*

proportions are calculated by multiplying the changes in the street time proportions by the FY 16 accrued letter route costs of approximately \$11.9 B. Consequently, the proposal decreases regular delivery costs by \$390 M and increases IRP and DPA costs by \$175 M and \$215 M, respectively.

RATIONALE:

This proposal updates the parcel delivery cost pool proportions in order to reflect the increase in parcel delivery activity that has taken place since 2014. Because the street time proportions aggregate to unity, this proposal also has the effect of reducing the regular delivery street time proportion by the increases of the proportions for IRP and DPA delivery.

The foundation of this proposal is that the street proportions that carriers spend delivering parcels has increased since the Package Study was conducted. For example, Table 2 shows the increase in parcel time recorded in the Form 3999 data.

**Table 2 –Parcels and Accountables Proportions from the Street Evaluations  
(Form 3999) FY 2014 – FY 2016**

	FY2014	FY2015	FY2016
Form 3999 Proportions	4.05%	4.99%	5.40%
Increase from Previous Year		23.21%	8.22%
Parcel/Accountables Street Time Proportions	8.55%	10.53%	11.41%
Increase from Previous Year		23.21%	8.22%

The DPA proportion on the Form 3999s has increased 33 percent from 4.05 percent in FY 2014 to 5.40 percent in FY 2016. This increase in parcel time results in approximately five additional minutes per day delivering deviation parcels and accountables based on 6.2 daily street hours.<sup>8</sup> This proposal calculates new IRP and DPA proportions that reflect the growth in the corresponding DPA time in the current set of Form 3999 data. In this way, it is capturing the actual growth in city carrier street time associated with the increased volume of parcels.

**Table 3 – Adjusted Aggregate Package Study Parcels/Accountables Proportions from Changes in Parcel/Accountables Form 3999 Proportions FY 2014- FY 2016**

	FY 2014	FY 2015	FY2016
Form 3999 Parcel and Accountables Proportion	4.05%	4.99%	5.40%
Ratio Current Form 3999 Parcel Accountables Proportion Corresponding FY 2014 Proportion	1.0000	1.2321	1.3341
Package Study Aggregate IRP and DPA Proportion	8.55%		
Package Study IRP and DPA Street Time Proportion with Ratio Applied	8.55%	10.53%	11.41%

As Table 3 illustrates, the impact of adjusting the ratio increases the aggregate IRP and DPA proportion used in the letter route cost model from 8.55 percent to 11.41 percent. This increase mimics the proportional increases in the Form 3999 parcel times. The 11.41 percent is then disaggregated into the proportions for IRP and DPA using the distribution factors from the Package Study. Lastly, the regular delivery time

<sup>8</sup> Recall that the Parcel and Accountables time from the street evaluations only measures the time associated with DPA.

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is offset by the corresponding change in the aggregate amount of IRP and DPA time, so that the street activity proportions across all activities add to unity.

In sum, this proposal is motivated by the increase in city carrier parcel volume and the recognition that the established cost model has static cost pool proportions for both IRP and DPA. This proposal provides a reasonable solution to this inconsistency. It adjusts the cost pool proportions for IRP and DPA, by having them grow at the measured growth rate in parcel and accountables delivery time measured in the Form 3999 data. If adopted, the proposed methodology would also allow the cost pool proportions to be easily adjusted annually, based on the most recently available data. Adoption of this proposal will result in a more dynamic and flexible letter route cost model that can much more easily adapt to shifts in carrier activities, and consequently will more accurately assign relevant costs to products. Because this proposal improves the flexibility and accuracy of the city letter route cost model, it should be adopted by the Commission.

### IMPACT:

The relevant cost impacts, including piggybacks, are illustrated in the following table for each Market Dominant Product and domestic competitive and international in aggregate.



Table 4 – Cost Impact of Proposal Four on each Market Dominant Product and Aggregate Domestic Competitive and International Products

USPS-RM2017-8/1, Proposal Four									
DOMESTIC MARKET DOMINANT PRODUCTS	CRA Class	CS06&7 Proposed \$(000)	CS06&7 Filed \$(000)	Difference (Prop-Filed) \$(000)	Piggyback Factor	Difference w/Piggyback	RPW Volume (000)	Unit Cost Impact w/Piggyback	
<b>First-Class Mail</b>									
Single Piece Letters	3	\$ 1,176,963	\$ 1,205,048	\$ (28,085)	1.35	\$ (37,908)	18,910,477	\$	(0.00)
Single Piece Cards	4	\$ 56,867	\$ 58,165	\$ (1,297)	1.35	\$ (1,748)	795,244	\$	(0.00)
Total Single Piece Letters and Cards	5	\$ 1,233,830	\$ 1,263,213	\$ (29,382)	1.35	\$ (39,656)	19,705,721	\$	(0.00)
Presort Letters	8	\$ 1,031,409	\$ 1,060,059	\$ (28,650)	1.35	\$ (38,581)	37,745,771	\$	(0.00)
Presort Cards	9	\$ 44,368	\$ 45,745	\$ (1,377)	1.35	\$ (1,862)	2,197,374	\$	(0.00)
Total Presort Letters and Cards	10	\$ 1,075,777	\$ 1,105,803	\$ (30,026)	1.35	\$ (40,442)	39,943,145	\$	(0.00)
Flats	14	\$ 211,410	\$ 214,295	\$ (2,885)	1.32	\$ (3,816)	1,570,219	\$	(0.00)
Parcels	19	\$ 61,069	\$ 53,250	\$ 7,819	1.36	\$ 10,602	253,945	\$	0.04
<b>Total First-Class</b>	<b>80</b>	<b>\$ 2,582,087</b>	<b>\$ 2,636,561</b>	<b>\$ (54,475)</b>	<b>1.35</b>	<b>\$ (73,347)</b>	<b>61,473,029</b>	<b>\$</b>	<b>(0.00)</b>
<b>Standard Mail</b>									
High Density and Saturation Letters	21	\$ 181,579	\$ 188,237	\$ (6,659)	1.36	\$ (9,079)	6,991,880	\$	(0.00)
High Density and Saturation Flats/Parcels	22	\$ 473,943	\$ 491,853	\$ (17,909)	1.37	\$ (24,457)	11,100,927	\$	(0.00)
Every Door Direct Mail Retail	24	\$ 31,819	\$ 33,004	\$ (1,185)	1.36	\$ (1,618)	810,238	\$	(0.00)
Carrier Route	23	\$ 447,177	\$ 454,533	\$ (7,355)	1.32	\$ (9,745)	6,783,061	\$	(0.00)
Letters	25	\$ 1,276,961	\$ 1,316,491	\$ (39,529)	1.35	\$ (53,472)	48,858,797	\$	(0.00)
Flats	26	\$ 701,705	\$ 714,309	\$ (12,603)	1.33	\$ (16,733)	6,340,264	\$	(0.00)
Parcels	27	\$ 11,059	\$ 9,398	\$ 1,660	1.34	\$ 2,228	44,767	\$	0.05
<b>Total Standard Mail</b>	<b>81</b>	<b>\$ 3,124,243</b>	<b>\$ 3,207,824</b>	<b>\$ (83,581)</b>	<b>1.35</b>	<b>\$ (112,491)</b>	<b>80,929,933</b>	<b>\$</b>	<b>(0.00)</b>
<b>Periodicals</b>									
In County	31	\$ 27,687	\$ 28,361	\$ (673)	1.34	\$ (904)	534,172	\$	(0.00)
Outside County	32	\$ 382,944	\$ 389,311	\$ (6,367)	1.33	\$ (8,450)	5,052,010	\$	(0.00)
<b>Total Periodicals</b>	<b>82</b>	<b>\$ 410,631</b>	<b>\$ 417,672</b>	<b>\$ (7,041)</b>	<b>1.33</b>	<b>\$ (9,351)</b>	<b>5,586,182</b>	<b>\$</b>	<b>(0.00)</b>
<b>Package Services</b>									
Alaska Bypass Service	45	\$ -	\$ -	\$ -	1.00	\$ -	-	\$	-
Bound Printed Matter Flats	42	\$ 21,086	\$ 21,309	\$ (223)	1.33	\$ (298)	264,935	\$	(0.00)
Bound Printed Matter Parcels	43	\$ 51,844	\$ 42,949	\$ 8,894	1.36	\$ 12,133	249,957	\$	0.05
Media/Library Mail	44	\$ 17,787	\$ 15,334	\$ 2,453	1.36	\$ 3,328	74,999	\$	0.04
<b>Total Package Services</b>	<b>83</b>	<b>\$ 90,716</b>	<b>\$ 79,593</b>	<b>\$ 11,124</b>	<b>1.35</b>	<b>\$ 15,067</b>	<b>589,891</b>	<b>\$</b>	<b>0.03</b>
<b>U.S. Postal Service</b>	<b>85</b>	<b>\$ 38,706</b>	<b>\$ 38,774</b>	<b>\$ (68)</b>	<b>1.32</b>	<b>\$ (90)</b>	<b>421,035</b>	<b>\$</b>	<b>(0.00)</b>
<b>Free Mail</b>	<b>86</b>	<b>\$ 4,020</b>	<b>\$ 3,465</b>	<b>\$ 555</b>	<b>1.34</b>	<b>\$ 745</b>	<b>45,316</b>	<b>\$</b>	<b>0.02</b>
<b>Total Domestic Market Dominant Mail</b>	<b>90</b>	<b>\$ 6,250,404</b>	<b>\$ 6,383,889</b>	<b>\$ (133,486)</b>	<b>1.34</b>	<b>\$ (179,524)</b>	<b>149,045,387</b>	<b>\$</b>	<b>(0.00)</b>
<b>Special Services</b>									
Ancillary Services									
Certified Mail	51	\$ 113,070	\$ 89,597	\$ 23,474	1.36	\$ 31,894	197,771	\$	0.16
COD	52	\$ 292	\$ 224	\$ 69	1.38	\$ 95	202	\$	0.47
Insurance	54	\$ 1,724	\$ 1,353	\$ 371	1.36	\$ 506	15,347	\$	0.03
Registered Mail	55	\$ 797	\$ 662	\$ 135	1.35	\$ 183	2,013	\$	0.09
Other Ancillary Services	58	\$ 60,239	\$ 46,497	\$ 13,742	1.37	\$ 18,819	4,504,659	\$	0.00
Money Orders	73	\$ -	\$ -	\$ -	1.00	\$ -	90,289	\$	-
<b>Total Domestic Market Dominant Services</b>	<b>91</b>	<b>\$ 176,123</b>	<b>\$ 138,332</b>	<b>\$ 37,791</b>	<b>1.36</b>	<b>\$ 51,485</b>	<b>4,810,280</b>	<b>\$</b>	<b>0.01</b>
<b>Total Domestic Market Dominant Costs</b>	<b>92</b>	<b>\$ 6,426,526</b>	<b>\$ 6,522,221</b>	<b>\$ (95,695)</b>	<b>1.35</b>	<b>\$ (128,734)</b>	<b>153,855,667</b>	<b>\$</b>	<b>(0.00)</b>
<b>Total Domestic Competitive Costs</b>	<b>192</b>	<b>\$ 970,840</b>	<b>\$ 824,958</b>	<b>\$ 145,881</b>	<b>1.36</b>	<b>\$ 198,480</b>	<b>4,272,339</b>	<b>\$</b>	<b>0.05</b>
<b>INTERNATIONAL MAIL AND SERVICES</b>	<b>185</b>	<b>\$ 102,183</b>	<b>\$ 85,319</b>	<b>\$ 16,864</b>	<b>1.36</b>	<b>\$ 22,929</b>	<b>1,005,888</b>	<b>\$</b>	<b>0.02</b>
<b>TOTAL VOL VAR &amp; PROD SPEC</b>	<b>198</b>	<b>\$ 7,499,549</b>	<b>\$ 7,432,499</b>	<b>\$ 67,050</b>	<b>1.35</b>	<b>\$ 90,325</b>			
<b>OTHER COSTS</b>	<b>199</b>	<b>\$ 8,408,357</b>	<b>\$ 8,475,407</b>	<b>\$ (67,050)</b>					
<b>TOTAL COSTS</b>	<b>200</b>	<b>\$ 15,907,906</b>	<b>\$ 15,907,906</b>	<b>\$ (0)</b>					