

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

Before Commissioners:

Robert G. Taub, Chairman;
Mark Acton, Vice Chairman;
Tony Hammond; and
Nanci E. Langley

Periodic Reporting
(Proposal Four)

Docket No. RM2017-8

ORDER ON ANALYTICAL PRINCIPLES USED IN PERIODIC REPORTING
(PROPOSAL FOUR)

(Issued December 1, 2017)

I. INTRODUCTION

On June 30, 2017, the Postal Service filed a petition pursuant to 39 C.F.R. § 3050.11, requesting the Commission to initiate a rulemaking proceeding to consider a proposal (Proposal Four) to change an analytical method approved for use in periodic reporting.¹ Proposal Four seeks to establish a procedure to be used annually to update the estimated proportion of city carrier letter route time spent delivering parcels. Petition at 1. Proposal Four updates the established proportion of city carrier delivery time on letter routes associated with both in-receptacle parcels (IRP) and deviation parcels and accountables (DPA) by the growth in the Form 3999 data measured parcels and

¹ 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, at 1 (Petition). Accompanying the Petition were a public and a non-public annex. See Notice of Filing of USPS-RM2017-8/1, USPS-RM2017-8/NP1, and Application for Nonpublic Treatment, June 30, 2017.

accountables street time (Form 3999 DPA).² *Id.* at 4. For the reasons discussed below, the Commission approves Proposal Four.

II. PROCEDURAL HISTORY

On July 5, 2017, the Commission issued a notice initiating this proceeding, providing for the submission of comments and appointing a Public Representative.³ The Public Representative filed a motion for issuance of an information request on July 10, 2017.⁴ United Parcel Service (UPS) also requested issuance of an information request.⁵ Chairman's Information Request No. 1 was issued on July 21, 2017.⁶ The Postal Service responded to CHIR No. 1 on August 2, 2017.⁷

Comments were filed on August 9, 2017, by the Public Representative, Amazon Fulfillment Services, Inc. (AFSI), the Parcel Shippers Association (PSA), and UPS.⁸ On

² IRP fit into the customer's mail receptacle and "are delivered in the course of the carrier's regular [letter route] line of travel, using regular delivery procedures." Docket No. RM2015-7, Library Reference USPS-RM2015-7/1, December 11, 2014, folder "Letter_Route_Report," pdf file "City Carrier Street Time Study Report.pdf," December 11, 2014, at 86, 88 (Docket No. RM2015-7, City Carrier Street Time Study Report). DPA "require the carrier to deviate from the regular delivery procedures and either make customer contact or make the delivery in a place other than the customer's regular receptacle." *Id.* at 89.

³ Order No. 3993, Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Four), July 5, 2017.

⁴ Motion of the Public Representative for Issuance of Information Request to the United States Postal Service (Proposal Four), July 10, 2017.

⁵ Motion of United Parcel Service, Inc. for Issuance of Information Request to the United States Postal Service, July 18, 2017.

⁶ Chairman's Information Request No. 1, July 21, 2017 (CHIR No. 1).

⁷ Responses of the United States Postal Service to Questions 1-11 of Chairman's Information Request No. 1, August 2, 2017 (Responses to CHIR No. 1).

⁸ Public Representative Comments on Analytical Principles Used in Periodic Reporting, Proposal Four, August 9, 2017 (PR Comments); Comments of Amazon Fulfillment Services, Inc., August 9, 2017 (AFSI Comments); Comments of the Parcel Shippers Association, August 9, 2017 (PSA Comments); Comments of United Parcel Service on Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Four), August 9, 2017 (UPS Comments). On August 10, 2017, the Public Representative added a section heading to his comments. Notice of Erratum, August 10, 2017. The UPS Comments were accompanied by Library Reference UPS-RM2017-8/1 (UPS Library Reference). See Notice of United Parcel Service, Inc. of Filing of Library Reference UPS-RM2017-8/1, August 9, 2017.

August 16, 2017, the Postal Service filed reply comments.⁹ On September 25, 2017, UPS filed a response to the Postal Service Reply Comments.¹⁰

On October 5, 2017, the Commission issued an order granting the UPS and Postal Service motions for leave to file the Postal Service Reply Comments and UPS Reply Comments, and authorizing a further filing by the Postal Service.¹¹ On October 10, 2017, the Postal Service provided further reply comments.¹²

III. PROPOSAL FOUR

Background. The Postal Service currently uses a current Form 3999 (city carrier letter route street time evaluations) data set, supplemented with information collected as part of the Package and Accountables Field Study (2014 Package Study) conducted in the Spring of 2014, to assign city carrier letter route street costs to products.¹³ Petition at 2. The Form 3999 data set is updated annually. *Id.* The 2014 Package Study has not been updated, and the Postal Service states that it would be “time-consuming and expensive” to do so. *Id.* at 3.

Proposal. The proposal would update the IRP and DPA time proportions obtained from the 2014 Package Study using the growth in the most current Form 3999

⁹ Reply Comments of the United States Postal Service Regarding Proposal Four, August 16, 2017 (Postal Service Reply Comments). These comments were accompanied by the Motion of the United States Postal Service for Leave to File Reply Comments Regarding Proposal Four, August 16, 2017.

¹⁰ Reply Comments of United Parcel Service on Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Rulemaking (Proposal Four), September 25, 2017 (UPS Reply Comments). These comments were accompanied by the Motion of United Parcel Service for Leave to File a Response to Reply Comments Submitted by United States Postal Service, September 25, 2017.

¹¹ Order No. 4148, Order Granting Motions for Leave to File and Authorizing Further Filing, October 5, 2017.

¹² Further Reply Comments of the United States Postal Service Regarding Proposal Four, October 10, 2017 (Postal Service Further Reply Comments).

¹³ Petition at 2. Because the Form 3999 only includes parcel delivery time for parcels that weigh more than two pounds and/or are larger than a shoebox, a special study was necessary to determine the delivery time associated with IRPs. *Id.*

DPA.¹⁴ The proposal would annually adjust the city carrier letter route street time proportions through a three-step process. *Id.* at 4. A new first step would multiply the 2014 Package Study IRP and DPA values by the growth in the Form 3999 DPA. *Id.* The next two steps would apply the established methodology to the new updated IRP and DPA proportions obtained in the first step.¹⁵

Rationale and Impact. Because the activity times collected during the 2014 Package Study for parcels and accountables have not been updated, the IRP and DPA proportions “have essentially remained unchanged since the Package Study was conducted in the [S]pring of 2014.” Petition at 3. The Postal Service states that Proposal Four would update parcel delivery cost pool proportions to better reflect the increase in parcel delivery activity that has taken place since 2014. *Id.* at 6.

Proposal Four would also allow cost pool proportions to be adjusted annually. *Id.* at 2. Proposal Four’s impact, using the corrected FY 2016 Annual Compliance Report (ACR) street time proportions, would add about 1.5 and 1.8 percentage points of street time to the 2014 Package Study IRP and DPA proportions, respectively, and be offset by a reduction in city carrier letter route regular delivery time of 3.3 percentage

¹⁴ See *id.* at 4-6. The Postal Service explains that the Form 3999 DPA “growth is measured by the ratio of the 2016 Form 3999 DPA time to the 2014 Form 3999 DPA time.” *Id.* at 4.

¹⁵ *Id.* at 4-5. Applying the ratio of total street time to directly attributable street time is the second step and calculating the regular delivery street time offset by the aggregate change in the updated IRP and DPA proportion is the third step. The Postal Service continues to use the 2014 Package Study IRP and DPA delivery time proportions in step 1 “[b]ecause the times measured during the [2014] Package Study more accurately reflected the total time required for delivering IRP and DPA” than the total time for parcels and accountables in the Form 3999 measured data. *Id.* at 3. A more detailed explanation of the adjustment made using the ratio of total street time to directly attributable street time in the second step can be found in Docket No. RM2015-7, City Carrier Street Time Study Report at 16.

points.¹⁶ The Proposal Four cost impacts of the updated street time proportions are obtained by multiplying the revised city carrier letter route street time proportions by the FY 2016 total accrued city carrier letter route street time costs of approximately \$11.9 billion. *Id.* at 5-6. The updated and higher IRP and DPA street time proportions would increase the FY 2016 IRP and DPA street time cost pools by \$175 million and \$215 million, respectively. *Id.* at 6. The reduction in regular delivery time due to the increased IRP and DPA city carrier letter route street time would result in a reduction of \$390 million in the FY 2016 regular delivery letter route street time cost pool. *Id.*

The impact of Proposal Four on FY 2016 costs (including piggybacks) would be an increase of approximately \$198.5 million in the attributable costs of domestic competitive products, an increase of approximately \$51.5 million in the attributable costs of domestic market dominant Special Services, and a decrease of approximately \$179.5 million in total domestic market dominant mail attributable costs.¹⁷ By domestic market dominant product overall, the impact of Proposal Four on FY 2016 attributable costs (including piggybacks) would be a decrease of \$73.3 million in First-Class, a decrease of \$112.5 million in Standard Mail, a decrease of \$9.4 million in Periodicals, and an increase of \$15.1 million in Package Services. *Id.*

IV. CHAIRMAN'S INFORMATION REQUEST

CHIR No. 1 requested clarification of which fiscal years' Form 3999 data were used in the proposal, as well as the data selection and screening criteria used to

¹⁶ See *id.* at 4-6. The Postal Service explains that "for transparency and comprehension" it corrected the FY 2016 ACR filing in Proposal Four because it discovered "essentially immaterial errors" in the street time proportions filed with the FY 2016 ACR. *Id.* at 4 n.6. The correct street time proportions for regular delivery time and parcel delivery are 71.39 percent and 5.40 percent, respectively, rather than the 71.45 percent and 5.36 percent figures filed with the FY 2016 ACR. *Id.* The Postal Service states that the "regular delivery time is offset by the corresponding change in the aggregate amount of IRP and DPA time, so the street activity proportions across all activities add to unity." *Id.* at 7-8.

¹⁷ *Id.* at 9. The impact of Proposal Four on FY 2016 costs without piggyback costs would be an increase of approximately \$145.9 million in the attributable costs of domestic competitive costs, an increase of \$37.8 million for total domestic market dominant Special Services, and a decrease of \$133.5 million for total domestic market dominant mail attributable costs. *Id.*

calculate the base year, and current year Form 3999 DPA proportions from which the current year growth rate was calculated. CHIR No. 1, question 1. In its response to question 1, the Postal Service states that the Form 3999 DPA proportion used as the base year from which the growth rate was calculated (labeled “2014” in the Petition step 1 calculation illustration) is based on the same Form 3999 data and same screening and selection methodology as was used in Docket No. RM2015-7, which consisted of route evaluations conducted in FY 2012 and FY 2013 (rather than “2014”).¹⁸

CHIR No. 1 also inquired about other differences in the FY 2016 city carrier cost pool proportions not discussed in the Petition’s explanation of the FY 2016 ACR corrections, as well as the collective cost impact of FY 2016 ACR errors. CHIR No. 1, question 2. In its response to question 2, the Postal Service explains that the corrected FY 2016 ACR figures filed with Proposal Four differ from those in its FY 2016 ACR filings because the Proposal Four FY 2016 figures were calculated from a different, larger set of Form 3999 evaluations and that the FY 2016 ACR corrections “do not have a material impact on either regular delivery or parcel costs.” Responses to CHIR No. 1, questions 1.b., 2.a.-2.b.

CHIR No. 1 also asked why the number of yearly route evaluations in the Form 3999 data appear to vary significantly. CHIR No. 1, question 3. In its response to question 3, the Postal Service explains that the set of Form 3999 route evaluations filed in this proceeding contains the most recent evaluation for each route, not the total number of evaluations conducted each year. Responses to CHIR No. 1, question 3.a.

¹⁸ Responses to CHIR No. 1, question 1. It appears that calendar year 2012 (the SAS programming code “if year gt 2011” would select only Form 3999 evaluations conducted after December 31, 2011) rather than fiscal year 2012 (FY 2012 evaluations would include those conducted in October-December 2011) was used to select the Form 3999 route evaluations on which the base year Form 3999 DPA proportion is based. See Docket No. RM2015-7, Library Reference USPS-RM2015-7/1, folder “Cost_Pool_Formation/SAS_Programs,” SAS file “Cost_Pools_Regular_Delivery_Time.sas.” Additionally, it appears that the only other Form 3999 data screening criteria difference between the base year and current year calculations is the removal of evaluations for which the sum of the directly attributable street hours (sector segment hours, parcel hours, accountable hours, relay hours, travel within hours, travel to hours, travel from hours, and blue box collection hours) is greater than the total (gross) street hours. See Response to CHIR No. 1, question 1.b.; Library Reference USPS-RM2017-8/1, June 30, 2017, folder “SAS_Materials,” SAS file “USPS.RM2017.8.1.Prop.Four.Cost.Pools.Form3999.sas.”

For this reason, the total number of FY 2015 evaluations cannot be determined from the data set filed in Proposal Four. *Id.* However, the Postal Service points out that the Form 3999 data set shows that “at least 128,446 route evaluations were conducted in FY 2016” which would be “more than 90 percent of the routes that should have been used to calculate the FY 2016 cost pool proportions.” *Id.*

The Postal Service states that it intends to continue to conduct street evaluations on each route at least once a year and cites resource availability as a “critical factor in determining when a ZIP Code is evaluated during the year.” Responses to CHIR No. 1, question 3.b-3.c. It states that it does consider a number of factors “[i]n prioritizing the sequence of ZIPs [Codes] to be evaluated” such as “vintage of the latest set of evaluations, and the performance of the ZIP Code, measured by comparing actual time to base time.” *Id.*, question 3.c.

In its response to question 5, the Postal Service explains that the route evaluations filed in its Library Reference USPS-RM2017-8/1 filing are the most recent route evaluations for those city letter routes that are managed via the Delivery Operation Information System (DOIS). Responses to CHIR No. 1, question 5.a.

In its response to question 8, the Postal Service explains that route evaluations are intentionally scheduled and conducted to try to reflect a typical day for that route, so that its normal workload consists of 8 hours. Responses to CHIR No. 1, question 8. Because “[d]elivery days occurring in March through October better reflect a typical day for the route . . . that period is a more appropriate time to conduct the route evaluations.”¹⁹ For these reasons, “unless the seasonal patterns of the mail materially changes” the Postal Service does not plan on modifying the seasonal distribution of when route evaluations are scheduled and conducted. Responses to CHIR No. 1, question 8.

¹⁹ *Id.* Consequently, over 80 percent of the route evaluations used to develop the FY 2016 street time proportions were conducted between March and October. *Id.*; see also Docket No. PI2017-1, Responses of the United States Postal Service to Questions 1-10 of Chairman’s Information Request No. 2, June 25, 2017, question 9.c.ii. (Docket No. PI2017-1, Responses to CHIR No. 2).

CHIR No. 1 also asked several specific questions related to the implementation and application of the Proposal Four methodology, as well as any analysis indicating whether the growth rate for IRP is the same or different as the growth rate for DPA. CHIR No. 1, questions 9-11. In its response to question 10, the Postal Service discusses and illustrates conceptually how the 2014 Package Study IRP and DPA street time proportions would be updated using the growth rate between the FY 2017 Form 3999 DPA time and the “2014” Form 3999 DPA time in step 1, and be applied in the established methodology shown in steps 2 and 3.²⁰ In support of its use of the same growth rate to update both the 2014 Package Study IRP and DPA proportions, the Postal Service provided a summary table showing that the City Carrier Cost System (CCCS) IRP and DPA volumes mix between FY 2014 and FY 2016 has remained stable.²¹

V. COMMENTS

Generally, all commenters support the rationale and need for updating the 2014 Package Study IRP and DPA city carrier letter route street time proportions given increases in these delivery times due to the increases in parcel volumes since 2014. UPS and the Public Representative offer suggestions for strengthening and improving the attribution of costs to products.

AFSI Comments. AFSI supports Proposal Four because it will increase the accuracy of the Postal Service’s cost estimates and improve the basis for its pricing decisions. AFSI Comments at 2. AFSI states that an update to the 2014 Package Study figures is warranted because of “[t]he changing composition of the Postal Service[’s] mailstream” and that the Proposal Four impact of a “33 percent adjustment

²⁰ Responses to CHIR No.1, question 10. The Postal Service explained that it provided the corrected formulas in its response because the Petition contained some typographical errors in its formulae detailing the steps.

²¹ *Id.*, question 11. For the fiscal years 2014 through 2016, the CCCS estimated IRP volume share of total parcels and accountables ranged from 52 percent to 54 percent, while the DPA volume share of total parcels and accountables ranged from about 46 percent to 48 percent. *Id.*

to the parcel delivery proportion of letter routes is consistent with recent USPS mail volume trends.” *Id.*

PSA Comments. PSA states that it agrees with the Postal Service’s rationale for adjusting parcel delivery costs upward to reflect increased parcel delivery activity. PSA Comments at 1. Despite not having reviewed the details of the proposed adjustment itself, PSA “encourages the Commission to evaluate the details of the proposed adjustment and, if found reliable, approve Proposal Four.” *Id.* at 2.

Public Representative Comments. The Public Representative supports Proposal Four but concludes that the calculation methodology could be improved. PR Comments at 6. Specifically, he asserts that the Postal Service’s method of combining multiple fiscal years’ Form 3999 data to calculate the Form 3999 DPA growth is not ideal for the cost pools developed for the Postal Service’s ACR. *See id.*

The Public Representative contends that “[t]he problem is that the growth rate in DPA Time is spread, or averaged, over several years” rather than calculated using only Form 3999 evaluations specific for the fiscal year under review and as a result, may smooth or mask annual variations and actual growth for the fiscal year under review. *Id.* For this reason, he “stresses the Commission should make clear that the Postal Service shall perform at least one route inspection for every DOIS city carrier route each year [beginning in fiscal year 2018] and construct a Form 3999 database to contain this data.” *Id.* at 3, 7.

Additionally, the Public Representative recommends that “[t]he Commission should allow . . . [using Form 3999 data which contains route evaluations from multiple fiscal years to calculate the base and current year DPA from which to measure growth] only if the Postal Service is unable to (re)construct annual censuses for fiscal years 2014, 2015, 2016, and 2017.” *Id.* at 7.

The Public Representative also “maintains Proposal Four does not clearly develop a method to annually update the relevant delivery cost pools using Form 3999 data.” *Id.* at 6. He states that “the Postal Service incorrectly designates the cost pools from the Package Study as being from fiscal year 2014, whereas earlier discussion

showed the Package [S]tudy mostly used Form 3999 data from fiscal years 2012 and 2013”²² and “presents the fiscal year of its analysis which is used to calculate the percentage change in cost pools as 2016,” yet “nearly 8 percent of the route data were collected in fiscal year 2015.” PR Comments at 6.

The Public Representative also contends, based on his analysis, that route evaluations conducted on Sundays (excluded from the Form 3999 DPA growth calculations in Proposal Four) show that “[c]learly parcel delivery is accounting for an increasing share of regular delivery time on city carrier routes on Sunday” and “[t]he Commission should keep this in mind as it proceeds in Docket No. PI2017-1.” *Id.* at 7.

UPS Comments. UPS supports Proposal Four because it is a method to annually update the time proportions allocated to parcels and accountables, which UPS asserts will increase the accuracy of the attribution of costs to products. UPS Comments at 2. Overall, UPS states that Proposal Four “represents an improvement in the reliability and accuracy of city carrier postal costing, by updating a key flaw in the established methodology that has the result of understating parcel delivery costs.” *Id.* at 9.

UPS contends that “an additional refinement to correct for the fact that the seasonal distribution of route evaluations is not representative of the seasonal distribution of letter route costs” should be adopted because it would improve Proposal Four. *Id.* It asserts that because parcel delivery time is significantly higher in December (due to the holiday gift-giving season), and Form 3999 route evaluations are relatively rare in December and much more common in the spring, a seasonal bias is present in the unadjusted Form 3999 data. *Id.* at 3. UPS asserts that “[i]f December and other high-package volume times of the year are not appropriately represented in the data

²² *Id.* The “earlier discussion” referenced at page 4 of the PR Comments appears to reference the collection study (“CCSTS Report, at 32”) rather than the 2014 Package Study which actually was conducted in FY 2014 (March 25, 2014 through April 7, 2014). See Docket No. RM2015-7, Library Reference USPS-RM2015-7/1, folder “Letter_Route_Report,” PDF file “City Carrier Street Time Study Report.pdf,” February 11, 2014, at 93.

used to calculate [the Form 3999 DPA] in Proposal four, parcel costs will be underestimated.” *Id.* at 6.

UPS proposes a monthly weighting procedure to be applied to the month-level Form 3999 DPA ratios as a correction adjustment.²³ UPS states that it “recommends that each month’s share of fiscal year letter route costs (“LRC”) be applied as a weighted average, based on In-Office Cost System (“IOCS”) tallies for the fiscal year”²⁴ UPS notes that “[o]ther weighting algorithms could also be used to implement the seasonal correction.” UPS Comments at 7 n.10. UPS obtains similar results using the monthly proportion of delivery days as the monthly weight.²⁵ The proposed adjustment “would result in a slight increase in implied growth in the Form 3999 DPA time, from 33.4% to 36.4%.” UPS Comments at 7. Based on the month-level Form 3999 DPA ratios it calculates, UPS contends that the December Form 3999 DPA ratio is higher than the other month-level Form 3999 DPA ratios.²⁶

UPS also asserts that applying the same growth rate to both the 2014 Package Study IRP and DPA proportions is reasonable because “the Postal Service has demonstrated that the mix of in-receptacle and deviation parcel and accountable volumes has remained stable over the time period in question” and the alternative, no change in the IRP proportion, is unreasonable. UPS Comments at 3.

UPS states that the Postal Service’s explanation of why and when Form 3999 route evaluations are performed is consistent with the Postal Service’s primary operational goal and explains the varying seasonal distribution in the number of route

²³ *Id.* at 3. Its “recommendation involves calculating average DPA shares for route evaluations conducted each month, and applying appropriate [monthly] weights to calculate a more representative annual DPA share.” *Id.* at 6 n.9. The UPS methodology applies weights to the month-level Form 3999 DPA ratios to calculate a weighted average of the month-level DPA ratios for the base year and current year growth rate calculation in step 1 of the Proposal Four methodology.

²⁴ *Id.* at 7. See Library Reference UPS-RM2017-8/1, August 9, 2017, Excel file “PA Share of Street Hours.xlsx,” tab “IOCS Weighted Avg.”

²⁵ See Library Reference UPS-RM2017-8/1, Excel file “PA Share of Street Hours.xlsx,” tab “DD Weighted Avg.”

²⁶ *Id.* at 5. See Library Reference UPS-RM2017-8/1, Excel file “PA Share of Street Hours.xlsx.”

evaluations conducted. *Id.* However, UPS asserts that the Postal Service's explanation does not address whether it is appropriate to use the unadjusted Form 3999 data for costing purposes. *Id.* at 5-6.

UPS also states that the Commission should require additional information from the Postal Service in its ACR filing to increase transparency related to the Postal Service's city carrier cost pool formation.²⁷

Postal Service Reply Comments. The Postal Service Reply Comments addressed assertions made in both the PR Comments and UPS Comments. In response to the Public Representative, the Postal Service states that "[t]he comments of the Public Representative seem grounded on some potential misapprehensions regarding the data." Postal Service Reply Comments at 2. The Postal Service states that "[t]he Form 3999 dataset is a rolling dataset containing the most recent route evaluations" and "only 8 percent of evaluations did not receive an update in FY 2016." *Id.* The Postal Service also asserts that the Commission should not follow the Public Representative's recommendation that the Commission require the Postal Service to conduct a route evaluation on all applicable city carrier routes each year. *Id.* at 4. It contends that the Public Representative made this recommendation without considering the reasons why a route may not be evaluated each year and "whether the additional information obtained would have any material effect on the application of these data[.]" *Id.* The Postal Service reiterates its intention "to conduct an evaluation of each route at least once a year," and asserts that "the data indicate that the Postal Service is largely meeting that objective." *Id.*

The Postal Service also states that "the available data are decidedly insufficient to support the claim made" by the Public Representative that "parcel delivery is 'clearly' accounting for an increasing share of regular delivery time on city carrier routes on Sunday." *Id.*

²⁷ See *id.* at 7-9. UPS refers to a Postal Service response to a CHIR as indicative of what it interprets as the Postal Service's "non-random selection of routes" and contends that this would result in "skewing of the evaluation process." *Id.* at 8.

In response to UPS, the Postal Service states that “UPS provides no analysis of its proposed weights, and their properties remain unknown.” *Id.* at 5. The Postal Service contends that “IOCS costs by month should not be used in the fashion UPS recommends because a reading can be rescheduled from earlier in the quarter to later [in another month of that quarter].” *Id.* at 7. Additionally, the Postal Service points to what it describes as “substantial changes” in the monthly values of the proposed (IOCS-estimated cost) weights between calendar years 2014 and 2016.²⁸ It contends that this variation (or “instability in the monthly IOCS weights”) “could quite likely be driving the results claimed by UPS as much as any ‘seasonality correction.’” Postal Service Reply Comments at 5-6.

The Postal Service also states that “UPS erroneously calculates the overall [Form 3999] DPA delivery ratio as the [weighted] average of the monthly ratios.” *Id.* at 6. It asserts that “[t]he correct method would be to calculate the ratio of the total DPA time for the year, divided by the total street time for the year.” *Id.* The Postal Service concludes that when the weights “suggested by UPS, when properly applied, does not have the effect claimed by UPS on the actual results.”²⁹

The Postal Service also states its opposition to the UPS “requirement that several variations on the Form 3999 database be provided simultaneously with the ACR.” Postal Service Reply Comments at 7. The Postal Service explains that “[t]he additional burden that would be created by this suggestion would fall exactly at the time of year when the Postal Service is struggling with compiling all of the components of the ACR, and thus has the least resources available to undertake additional tasks.” *Id.* at 7-8.

²⁸ *Id.* at 5-6. The Postal Service included the Excel file “PA Share of Street Hours.Extended.xlsx,” August 16, 2017, with its Postal Service Reply Comments. The monthly percent change is calculated in the Excel file “PA Share of Street Hours.Extended.xlsx,” tab “IOCS Weighted Avg,” cells E31-E42.

²⁹ *Id.* at 7. The Postal Service applies the monthly weight to the monthly Form 3999 DPA and gross street time hours and then sums the monthly weighted DPA hours (as the numerator), and sums the monthly weighted gross street hours (as the denominator) to calculate the base year and current year Form 3999 DPA proportions from which growth is measured. See the Excel file “PA Share of Street Hours.Extended.xlsx.”

UPS Reply Comments to Postal Service Reply Comments. UPS asserts that its proposal is robust with respect to the Postal Service's alleged instability in its proposed weights. UPS Reply Comments at 2. It contends that because the monthly distribution of collected Form 3999 data does not mirror the monthly distribution of actual delivery costs, error is introduced into the model underlying Proposal Four. It contends that the Postal Service's reply comments "have not disputed the potential for bias or the need for this correction." *Id.*

UPS explains that its suggested seasonality correction has less of an impact on the FY 2014 annual DPA share because June through September (months with the lowest DPA shares) are under-represented while the FY 2016 calculation April through June (months with the lowest DPA shares) are over-represented and the seasonality correction has a larger impact. *Id.* at 3. It states that the different results obtained when the proposed weights are applied to different versions of the Form 3999 data is not a sign of problems with the weights, but rather due to the different seasonal distribution of route evaluations conducted. *Id.* at 4. Consequently, it asserts that "unless Form 3999 data is collected in proportion to total delivery activity per month" errors will be introduced. *Id.* (emphasis omitted).

UPS "agrees with the goal of Proposal Four" and asserts that the results of its analysis "shows that the growth in the DPA share that will be calculated in future years under the Postal Service's proposed methodology is prone to potential over- or under-statement, due to both the unrepresentative nature of the gross street hours that are included in the Form 3999 data and the likelihood of differences over time in the distribution of Form 3999 evaluations between a given future year and the base year (FY14) to which it is being compared." *Id.* at 5. It contends that its "proposed correction would be a robust safeguard against this issue."³⁰

³⁰ *Id.* at 7. UPS notes that the two monthly weights it proposes (IOCS-estimated monthly proportion of city carrier letter route fiscal year costs and monthly proportion of fiscal year delivery days), produce similar results which it states is "further evidence that the weightings are robust, reliable, and accurate. To the extent the Postal Service is aware of a better source of data for that purpose, UPS would welcome the opportunity to consider another option." *Id.* n.13.

UPS asserts that the Postal Service's claim of uncovering an error in its proposed correction is incorrect. *Id.* at 8. It agrees with the Postal Service (if it were possible to derive the numbers) that "[t]he correct method would instead be to calculate the ratio of the total DPA time for the year, divided by the total street time for the year." *Id.* However, it states that this is not possible because the Postal Service does not collect DPA time for every single route on every single day of the year. *Id.* at 8. Further, it asserts that: "the Postal Service's proposed 'correction' doesn't correct anything, but simply has the effect of undoing the reweighting and restoring the lop-sided distribution of the unweighted Form 3999 evaluations (and thus gross street hours)." *Id.* at 9.

UPS states that the Postal Service's reply comments "mischaracterize the request made by UPS with respect to the Form 3999 data, because UPS asked only for a single version of the Form 3999 data."³¹ UPS states that it is "sensitive to the potential burdens associated with new data requests" and does not understand the basis of the Postal Service's objection since "DOIS maintains a complete archive of Form 3999s, by route."³²

UPS reiterates its support for Proposal Four and stresses the importance of its proposed seasonal correction "in order to address a potential bias inherent in the proposal." UPS Reply Comments at 10.

Postal Service Further Reply Comments to UPS Reply Comments. The Postal Service asserts that "the arguments advanced once again by UPS are flawed, and the Commission should reject the UPS attempt to modify Proposal Four." Postal Service Further Reply Comments at 1. Specifically, it explains that "UPS fails to address the instability in its proposed weights[,] uses "the average of the ratios, rather than the ratio

³¹ *Id.* "UPS's request was for the Postal Service to produce "a version of the Form 3999 dataset that includes, with masked zip code identifiers: (1) all route evaluations conducted during the fiscal year (possibly including more than one for some routes); and (2) the most recent route evaluation for those routes that were not evaluated during the most recent fiscal year." *Id.* n.16.

³² *Id.* at 10. UPS references the Postal Service's response related to the DOIS data in Docket No. PI2017-1, Responses to CHIR No. 2, question 9.g.

of the averages (or sums), [which] is fundamentally incorrect[.]" and "seeks obsolete versions of Form 3999 data with no apparent utility." *Id.* at 1, 4, and 8.

The Postal Service reiterates that "the correct method of weighting (if weighting is deemed necessary) is to apply the weights to the levels of hours and then to calculate the parcel delivery ratio, rather than averaging the weighted ratios." Postal Service Further Reply Comments at 7. Further, it asserts that "[i]n reality, however, weighting should not be deemed necessary because, as already demonstrated in the Postal Service's earlier reply comments, either weighting scheme proposed by UPS has no material impact on the estimated growth rate once the fundamental arithmetic error committed by UPS in the application of the weights is corrected." *Id.* (emphasis omitted). It states that "what UPS is proposing has virtually nothing to do with an appropriate adjustment for seasonality, and everything to do with creating an opportunity to misapply weights and thereby generate an apparently material adjustment in the calculation." *Id.* The Postal Service notes that "the implied growth of DPA time between FY 2014 and FY 2016 from 33.4 percent to 36.4 percent" under the proposed UPS methodology is "a nine percent additional increase in DPA time since FY 2014" which "translates, in aggregate, into approximately an additional \$36.9 M assigned to the aggregate of DPA and IR costs and a corresponding \$36.9 M decrease [in] regular delivery time costs."³³

The Postal Service asserts that "[b]ecause the additional information requested by UPS does not assist in constructing the required cost pools, it is superfluous and unnecessary, and accordingly should not be required." *Id.* at 8.

VI. COMMISSION ANALYSIS

Based upon a review of the Postal Service's filing, supporting workpapers, and the comments of the participants, the Commission approves Proposal Four. Pursuant

³³ *Id.* n.6. The Postal Service notes that it "would not, in this context, consider that a slight increase, but more importantly, it should be rejected because it is based on a flawed and erroneous calculation of an average." *Id.*

to 39 C.F.R § 3050.42, the Commission finds that the proposed modifications would improve the accuracy of the Postal Service's costing methodology for the estimated proportion of city carrier letter route time spent delivering parcels. Proposal Four provides an annual method to update the current static 2014 Package Study IRP and DPA city carrier letter route street time proportions by using the growth in the Form 3999 DPA city carrier letter route street time proportion. This change will more accurately reflect the increase in city carrier letter route street time due to the increased parcel volume that has occurred since the 2014 Package Study was conducted and, therefore, improve the accuracy of city carrier cost attribution.

The Commission does not adopt any specific modification to Proposal Four at this time to address the potential issues of the seasonal distribution of the number and months in which Form 3999 letter route evaluations are conducted. Based on the information presented, it is not clear that the proposed modification and implementation methodology would improve the overall accuracy of cost estimates. Specifically, it is unclear whether monthly weighting of the month-level Form 3999 DPA ratio as proposed by UPS produces results that are reliable and representative of the DPA ratio of all letter routes' street time activities for that month and would result in an overall improved and more accurate annual Form 3999 city carrier letter route DPA ratio result.³⁴

The Postal Service's Reply Comments and Further Reply Comments do not resolve the concern that Form 3999 data may not accurately or sufficiently reflect letter route parcel volume increases in the DPA ratio due to the low number of Form 3999 evaluations conducted in December. The Postal Service's weighting methodology depicted as "unambiguously providing the correct answer," given the weights illustrated, does not explicitly take into account the monthly variation in the number of workhours

³⁴ Aside from selecting an appropriate month-level weight (if needed), the UPS methodology to weight the month-level city carrier letter route DPA ratios and then summing the results to develop the annual Form 3999 DPA ratio, would appear to be one potential method to account or adjust for the monthly differences in the total number of hours due to the seasonality of when and the number of monthly letter route evaluations conducted.

due to the number of Form 3999 evaluations conducted.³⁵ As a result, the potential for certain months or groups of months to over- or under influence the overall average Form 3999 DPA ratio result more or less than other months appears to exist.

The “Combined Monthly” data row in Table 1 illustrates conceptually, how one month of Form 3999 letter route data could potentially influence the final result of the combined monthly average. In this example, combining monthly Form 3999 letter route data for December and May would result in an overall DPA ratio more similar to May than December. This is due to the much larger number of Form 3999 May letter route workhours, which in turn is due to the seasonality of when the Postal Service conducts its letter route evaluations.

Table 1 shows the relative magnitude of the Form 3999 letter route monthly differences for evaluations in December and May of FY 2016. The Form 3999 data contain over 17,000 eligible letter route evaluations conducted in May 2016, while there are just over 1,800 conducted in December 2015. Due to the much smaller number of letter route evaluations conducted in December 2015, the number of Form 3999 December 2015 letter route workhours is much lower than the number of Form 3999 May 2016 letter route workhours.

³⁵ Postal Service Further Reply Comments at 5. The series of examples on pages 5-6 of the Postal Service’s Further Reply Comments are not persuasive because simply summing the PA hours (weighted or unweighted) across all periods does not take into account that some months/periods have lower or higher number of hours due to the number of evaluations conducted. Weighting by the “proportion of observations” would not correct for or account for the fact that the base hours may be much lower or higher (as shown in Table 1) which would be driven by the seasonality of when Form 3999 evaluations are conducted.

**Table 1
Form 3999 Letter Route Evaluations and Total City Carrier Workhours
December 2015 and May 2016 Comparison**

Period	Number of Form 3999 Letter Route Evaluations Conducted	Associated Form 3999 Evaluations DPA Hours	Associated Form 3999 Evaluations Gross Street Hours	DPA Ratio ¹	Closest Payroll Periods Approximate Total City Carrier Hours ² (letter route and special purpose route workhours combined)
December 2015	1,834	804	11,776	6.83	47,812,728
May 2016	17,193	5,420	107,546	5.04	43,881,978
Combined December 2015 and May 2016	19,027	6,224	119,322	5.22	

¹ DPA Ratio= Form 3999 letter route DPA Hours Column figure divided by Form 3999 letter route Gross Street Hours Column figure.

² Total City Carrier Hours includes both letter route and special purpose route workhours. Payroll Periods are an approximate because payroll workhours are only publicly available by pay periods which do not match December 2015 and May 2016 calendar days precisely. "December 2015," pay periods (26, 27, and 1) encompass calendar days November 28, 2015 through January 8, 2016 and "May 2016," pay periods (10,11, and 12) encompass calendar days April 30, 2016 through June 10, 2016. See USPS 2015 Payroll Calendar, *Postal Bulletin*, 22403, November 27, 2014, url: https://about.usps.com/postal-bulletin/2014/pb22403/html/info_001.htm and USPS 2016 Payroll Calendar, *Postal Bulletin*, 22429, November 26, 2015, url: http://about.usps.com/postal-bulletin/2015/pb22429/html/info_001.htm.

Sources: Number of Form 3999 Route evaluations, DPA hours and gross street hours are based on the same screening criteria as Library Reference USPS-RM2017-8/1, folder "SAS_Materials," SAS file "USPS.RM2017.8.1.Prop.Four.Cost.Pools.Form3999.sas," using Library Reference USPS-RM2017-1/1, folder "Form_3999_Excel_File," Excel file "USPS.RM2017.8.1.Prop.Four.Form3999.Data.xlsx." Closest payroll periods approximate total city carrier hours are based on consolidated city carrier USPS Periodic Reports Payroll Workhours Summary for December 2015, pay periods 26, 27, and 1 were combined and for May 2016, pay periods 10, 11, and 12 were combined. See *National Payroll Hours Summary Reports* for closest mapped "December 2015" pay periods; December 18, 2015 (Pay period 26), January 4, 2016 (Pay period 27) and January 15, 2016 (Pay period 1) and for closest mapped pay periods "May 2016"; May 20, 2016 (Pay period 10), June 3, 2016 (Pay period 11), and June 17, 2016 (Pay period 12).

The fact that the number of city carrier hours in December 2015 is greater than in May 2016 is consistent with the Postal Service’s reported overall holiday and parcel workhour increases.³⁶ Although it is not known what the actual city carrier letter route December DPA ratio is on a national level, it is also not clear that the unadjusted or

³⁶ Under the "SEASONALITY" section of the Postal Service’s FY 2016 Form 10-K, the Postal Service states that "[m]ail volume and revenue are historically greatest in the first quarter of our fiscal year, which includes the holiday mailing season, and lowest in the third and fourth quarters of our fiscal year during the spring and summer. In national election years, direct mail may be heavily used by political organizations to reach their targeted audiences, thereby generating temporary volume and revenue increases during the months preceding an election." United States Postal Service, 2016 Report on Form 10-K, November 15, 2016, at 4.

unweighted letter route Form 3999 DPA ratio does or would materially underestimate *letter* (emphasis added) route December workhours because during “peak season” the Postal Service also utilizes more special purpose route workhours to support walking letter routes deliver parcel shaped mail and provide letter routes with auxiliary assistance.³⁷

As shown in Table 2, both city carrier letter routes and special purpose route delivery (street time) costs as estimated by the In-Office Cost System (IOCS) are highest in Quarter 1 (*i.e.*, the costs associated with the combined total of IOCS readings conducted in October, November, and December).

Table 2
IOCS-Estimated FY 2016 Quarterly City Carrier Letter Route and Special Purpose Route Delivery (Street Time) Costs

Type of City Carrier Route Street Time Cost ¹	FY 2016 Quarters			
	1 (Oct.-Dec. 2015)	2 (Jan.-Mar. 2016)	3 (Apr.-Jun. 2016)	4 (Jul.- Sept. 2016)
City Carrier Street Time Costs (\$ in Thousands)				
Total Letter Routes	3,034,450	2,952,046	2,958,906	2,951,728
Total Special Purpose Routes (SPR)	141,570	111,521	121,337	114,050
Exclusive Parcel Post SPR	58,795	33,207	37,615	35,028
Combination/Other SPR	44,966	47,430	47,893	40,473
¹ IOCS activity code 6710 in variable F262 using the IOCS cost weight variable F9250. The SAS code used to generate the estimates shown is included in Library Reference PRC-RM2017-8/1. Source: Commission generated IOCS-estimates using Docket No. RM2017-9, Library Reference USPS-RM2017-9/1, August 9, 2017, folder “DataSet,” SAS file “prcpub16_tacsadj.sas7bdat.”				

Table 3 shows that when the IOCS sample data are adjusted to the actual clocked payroll letter route and special route Time and Attendance Collection System

³⁷ See Docket No. RM2017-9, Responses of the United States Postal Service to Questions 1-15 of Chairman’s Information Request No. 2, October 19, 2017, questions 1.b., 2.c. (Docket No. RM2017-9, Responses to CHIR No. 2).

(TACS) workhours, the special purpose route costs in Quarter 1 are even higher.³⁸ Exclusive Parcel Post and Combination/Other Routes costs shown in Tables 2 and Table 3 are a subset of total special purpose route costs related to parcel delivery activities and both show higher Quarter 1 costs in Table 3.³⁹

Table 3
TACS-Adjusted IOCS-Estimated FY 2016 Quarterly City Carrier Letter Route and Special Purpose Route Delivery (Street Time) Costs

Type of City Carrier Route Street Time Cost ¹	FY 2016 Quarters			
	1 (Oct.-Dec. 2015)	2 (Jan.-Mar. 2016)	3 (Apr.-Jun. 2016)	4 (Jul.- Sept. 2016)
City Carrier Street Time Costs (\$ in Thousands)				
Total Letter Routes	2,956,714	2,914,012	2,937,711	2,921,396
Total Special Purpose Routes (SPR)	233,360	155,423	145,973	149,229
Exclusive Parcel Post SPR	97,606	46,465	46,620	46,751
Combination/Other SPR	73,391	65,395	55,727	51,585
¹ IOCS activity code 6710 in variable F262 using the TACS-Adjusted IOCS cost weight variable TALCOST. The SAS code used to generate the estimates shown is included in Library Reference PRC-RM2017-8/1. Source: Commission generated IOCS-estimates using Docket No. RM2017-9, Library Reference USPS-RM2017-9/1, folder "DataSet," SAS file "prcpub16_tacsadj.sas7bdat."				

As a result, it is not clear that UPS's proposed modification to the Proposal Four Form 3999 letter route DPA ratio calculation would address potential biases.

Under 39 C.F.R. § 3050.12, the Postal Service should continue to evaluate the Proposal Four methodology annually and report in the ACR whether and how, the city carrier letter route 2014 Package Study data, updated under the Proposal Four methodology, reflects operational reality. As part of the ACR supporting documentation, the Commission directs the Postal Service to file the Form 3999 data file used to

³⁸ The TACS-adjusted IOCS sample data methodology shown in Table 3 of this proceeding is currently under review in Docket No. RM2017-9. The Postal Service asserts the proposed TACS-adjustment "is an improvement that addresses some of the difficulties in IOCS sampling." See Docket No. RM2017-9, Responses of the United States Postal Service to Questions 16-18 and 21-22 of Chairman's Information Request No. 1, August 11, 2017, questions 21.c., 22.b.

³⁹ See Docket No. RM2017-9, Responses to CHIR No. 2, questions 2.c., 5.b.

calculate the city carrier letter route street time proportions as well as the SAS program, SAS log, and the related-SAS program outputs used to create, screen, and adjust the city carrier letter route street time proportions.

In conclusion, the Commission approves Proposal Four. The proposed modifications would improve the accuracy of the Postal Service's costing methodology for the estimated proportion of city carrier letter route time spent delivering parcels pursuant to 39 C.F.R. § 3050.42.

VII. ORDERING PARAGRAPH

It is ordered:

For purposes of periodic reporting to the Commission, the changes in analytical principles proposed by the Postal Service in Proposal Four are approved and the Postal Service is directed to provide the specified supporting materials discussed in the body of this order in its ACR filings.

By the Commission.

Stacy L. Ruble
Secretary