

BEFORE THE
POSTAL REGULATORY COMMISSION

Annual Compliance Report, 2017

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Docket No. ACR2017

**MOTION OF UNITED PARCEL SERVICE, INC. FOR
ISSUANCE OF INFORMATION REQUEST TO
THE UNITED STATES POSTAL SERVICE**

(January 12, 2018)

In accordance with 39 C.F.R. § 3050.11(c), United Parcel Service, Inc. (“UPS”) respectfully requests that the Presiding Officer issue an Information Request to the Postal Service to obtain answers to the appended set of questions. These questions are intended to provide greater clarity regarding some of the very complex costing practices that underlie the Annual Compliance Report. Answers to these questions will serve the important goal of providing additional transparency regarding Postal Service costing practices to the public and to interested parties and may point to ways in which those practices can be improved or by which apparent anomalies can be addressed. As the Commission has observed, the Postal Accountability and Enhancement Act “relies on public transparency . . . to achieve its goal of Postal Service accountability.” Dkt. No. RM2008-1, Order No. 194 (March 20, 2009) (“Order No. 194”) at 2.

Respectfully submitted,

UNITED PARCEL SERVICE, INC.,

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PROPOSED QUESTIONS:

- 1) The following statement was made by the Postal Service in its 2017 Form 10-K Report, on page 20: “To accommodate the surge in volume and to avoid service disruptions during the holiday season, we have increased Sunday delivery service for some of our customers in limited U.S. markets and are again adding employees for the holiday season.”
 - a) Please identify the annual costs from Sunday delivery service that the Postal Service experienced in FY2016 and FY2017, or indicate where these costs are broken out in the ACR data.
 - b) In each of those years, please identify the share of Sunday delivery costs that are classified as Negotiated Service Agreement costs versus those that accrue to general delivery operations.
 - c) What portion of any increase in these costs that occurred between FY2016 and FY2017 was attributable to competitive products?

- 2) On page 24 of the Postal Service’s 2017 Form 10-K Report, the Postal Service reported that the number of total employees increased 22,000, or 3.5%, between 2015 and 2017. The Postal Service stated that this increase was, at least in part, “the result of an increase in career employees needed to support the continuing growth in our Shipping and Packages business, primarily Sunday deliveries, and the continuing growth in the number of delivery points.”
 - a) What percent of the increase in employees was attributable to competitive products?
 - b) What percent of the increase in employees was treated as institutional?

- 3) On page 34 of the Postal Service’s 2017 Form 10-K Report, the Postal Service reported that highway and air transportation expenses increased approximately 12% and 15%, respectively, from 2015 to

2017 due, at least in part, “to volume growth in our Shipping and Packages business and our strategic efforts to continue to improve our delivery service results.”

- a) How much of the increase in costs was institutional versus attributable?
- b) Of the attributable costs, how much was attributed to competitive products?

4) The following statement was made in the Postal Service’s 2017 Form 10-K Report, on page 37: “We purchased approximately 9,000 new vehicles to add to our fleet during the year ended September 30, 2017. Additionally, we are investing in upgrades of letter sorting equipment that is at or near the end of its useful life, and also investing in sorting and handling equipment to fully capitalize on business opportunities in the growing package delivery market.”

- a) Please provide an inventory of the type, including cubic footage, and intended purpose, of the 9,000 vehicles purchased in FY2017.
- b) Please describe how the depreciation associated with these new vehicles (as opposed to the entire fleet, which is summarized in 20.2) is attributed to products. Specifically, what share are attributed to market dominant products, what share are attributed to competitive products, and what share is treated as institutional?

5) According to Washington Technology, the Postal Service has awarded a \$215 million contract with Lockheed Martin to provide new automated mail processing systems. Lockheed Martin built the “Enhanced Package Processing System” to process up to 25,000 packages an hour to over 400 unique destinations. The contract covers up to 10 EPPS platforms, for an October 2018 initial

deployment at a future processing and distribution center in Portland, OR.¹

- a) How much cost has been incurred in FY2017 in connection with this procurement? Please include any costs associated with evaluation of the system, drafting of solicitations, evaluation of responses, and contract preparation, as well as any payments made under this contract.
 - b) Where do these costs appear within the Postal Services Cost and Revenue Analysis?
 - c) What portions of these costs are attributed to (1) competitive products and (2) market dominant products?
 - d) What portion is treated as institutional costs?
 - e) How does the Postal Service plan to attribute future depreciation costs associated with this investment?
- 6) According to various public documents, the Postal Service is constructing a processing and distribution center in Portland, Oregon.
- a) What is this facility's current status? Is it currently under construction? When is it projected to open?
 - b) Is this facility being built specifically to handle packages? If not, please describe the intended use of the facility.
 - c) Please provide a list and quantity of the intended equipment that will be housed in the facility.
 - d) What share of the facility's square footage will be occupied and used primarily to house equipment dedicated to packages?
 - e) What share of the facility's square footage will be occupied and used utilized primarily to house equipment dedicated to for mail (letters and flats)?
 - f) What is the methodology or methodologies that will be used to depreciate this facility and the equipment it will contain?

¹ <https://washingtontechnology.com/articles/2017/11/07/lockheed-postal-contract.aspx>.

- g) What is the expected share of the facility's depreciation costs in the facility's first full fiscal year of operation that will be attributed to market dominant products, to competitive products, and to institutional (other) costs?
- 7) According to NBC 4 New York, NYC mail carriers have been locked out of buildings: "There are 2,000 buildings in the Bronx and 600 more in Manhattan where the United States Postal Service can't deliver packages because of a limited key-sharing situation: the letter carriers have the key to the building, but when the package carrier arrives, they don't have the key, the USPS says."²
- a) Please confirm that it is typical for delivery operations in New York City to have more than one carrier (with one or more primarily delivering letters and one or more primarily delivering packages) visiting a single residential building on a typical day. If not confirmed, please explain.
- b) Please confirm that there are carriers in New York City whose regular route is focused on delivering packages to residential addresses. If not confirmed, please explain. If confirmed, please indicate whether there are carriers in cities other than New York whose regular route is focused on delivering packages to residential addresses.
- c) What operations code would package carriers, as the term is referred to in the NBC New York story, or in the responses to parts a) and/or b), be clocked into when servicing these routes?
- d) Would the routes serviced by package carriers, as the term is referred to in the NBC New York story, or in the responses to parts a) and/or b), be regarded as regular delivery routes or special purpose routes?

² <https://www.nbcnewyork.com/news/local/USPS-Cant-Deliver-Packages-Pile-Up-Post-Offices-NYC-No-Building-Access-458310763.html>.

- 8) Please refer to Library Reference USPS-FY17-39 (FY2017 Competitive Products Fund Reporting Materials).
- a) In FY17-CP02, please define what constitutes a “financial obligation” or “investment” for competitive products, and please explain why there were no financial obligations or investments for the competitive products, when on page 38 of the Postal Service’s 2017 Form 10-K Report, the Postal Service said it is “also investing in sorting and handling equipment to fully capitalize on business opportunities in the growing package delivery market.”
 - b) Please refer to spreadsheet FY17-CP03.xlsx. Please confirm that the assets listed on this spreadsheet (one shredder and three micro computer systems, whose costs total less than \$55,000, with a net book value of less than \$1,200) are the only assets identified by the Postal Service as specifically belonging to the “theoretical competitive products enterprise.” See 39 C.F.R. § 3060.14). If not confirmed, please explain.
 - c) Please confirm that the purpose of spreadsheet FY17-CP04.xlsx is to report on the allocation of Postal Service assets and liabilities that cannot be assigned to a single product or group of products to competitive products, pursuant to CFR Sections 3060.14 and 3060.20-23. If not confirmed, please describe the purpose of FY17-CP04.xlsx.
 - d) The FY17-CP04.xlsx spreadsheet references a file named “Balance Sheets Analysis Final-September 2017.xlsx” from which many of the figures, such as “Equipment” and “Construction in Progress,” are taken. Is this file produced anywhere in the ACR2017 docket?
 - e) Are the individual assets underlying the line items in the FY17-CP04.xlsx spreadsheet (such as “Buildings,” “Equipment.,” and “Construction in Progress”) itemized at a more granular level

anywhere in the ACR2017 docket or other public or non-public Postal Service materials? If not, please explain.

- 9) The Rule 39 C.F.R. Section 3050.60(f) Report for Fiscal Year 2016 describes product-specific delivery activities (cost segment 7.2.2, in the file “CS07-16.docx”) as “product specific costs for Domestic Competitive products and International products.” Please describe, from an operational standpoint, what is meant by “product-specific delivery activities.” Are these costs accrued on delivery runs where only a single product is delivered? If not, please elaborate, and include a description of how these costs are identified.
- 10) Please refer to FY17-31 CRA Model. In Column D of “USPS-FY17-31\CRA Report Files\FY17Public.DRpt.xls”, there is a series of “Final Adjustments” to attributed costs totaling \$1.5 billion in total. For example, the volume variable and product specific costs for Post Office Box Service are adjusted downwards by more than \$376 million, while total domestic competitive costs are increased by more than \$700 million. Please describe in detail the nature and reason for these changes, and any public or non-public documents that summarize these adjustments.
- 11) Several datasets are compiled and manipulated in SAS and JCL to produce the public IOCS dataset “USPS-FY16-37\Data\PRCPub16.sas7bdat”).
 - a) Are all of the inputs needed to run the SAS code in “USPS-FY16-37\SASPrograms” provided?
 - i) In particular, are the “IOCS Tally Data” mentioned in the FY-16-37 Preface³ input provided in USPS-FY16-37?⁴ If it is provided, please specify the filename(s) containing these

³ See the “Program Documentation” section of the IOCS documentation provided in Docket No. ACR2016, USPS-FY16-37, PDF file “USPS-FY16-37.pdf,” at 9.

⁴ This input appears to be referred to as “IOCSIN” in the JCL and SAS files.

data. If not, please explain why these data are not provided.

- ii) Please specify the filename(s) or location of any other inputs that are mentioned in the FY-16-37 Preface⁵ as an input to the SAS programs, but that do not appear to exist in the FY-16-37 directory, such as “Periodicals data” and “Zip Code to County mapping.”
- 12) Please describe how data are extracted from the CODES system and processed before being used in i) the In-Office Costing System (USPS-FY-16-37), ii) the City Carrier Costing System (USPS-FY-16-34), and iii) Rural Carrier Costing System (USPS-FY-16-35).
- 13) In the CCCS documentation, the Postal Service states that monthly datasets⁶ are concatenated to form quarterly volume files using SAS file ALD299 (SPR299 for CCCS-SPR). Are these validated monthly datasets provided as part of the ACR2017 filing? If so, please specify the filename(s) or location of these or any other inputs used in the calculation of the quarterly Z file.⁷
- 14) Please refer to USPS-FY17-32, and specifically to the “Input DK” tab of the CS06&7-Public-FY17.xlsx file.
- a) What is the relationship, if any, between columns (2)-(8) and column (1), which represents RPW volume?
 - b) Are the volumes reported in columns (2)-(8) directly comparable to one another?

⁵ See the “Program Documentation” section of the IOCS documentation provided in Docket No. ACR2016, USPS-FY16-37, PDF file “USPS-FY16-37.pdf,” at 9-12.

⁶ These validated monthly files are in the format ALDRAN.SHAPE.CCS16mm. See Section III.E of the CCCS Documentation provided in ACR2016, USPS-FY16-34, PDF file “USPS-FY17-34_CCCS_Preface.pdf,” at 9.

⁷ See Section III.E of the CCCS Documentation provided in ACR2016, USPS-FY16-34, PDF file “USPS-FY17-34_CCCS_Preface.pdf,” at 12-13.

- c) Is it possible to calculate or estimate the share of the volume of an individual product (e.g. Single-Piece Letters) delivered on city carrier letter routes that is comprised of individual mail streams (e.g. DPS letters)?
- 15) Please refer to USPS-FY17-32, and specifically to the “Inputs DK” tab of the CS10-Public-FY17.xlsx file.
 - a) What is the relationship, if any, between columns (2)-(8) and column (1), which represents RPW volume?
 - b) Are the volumes reported in columns (2)-(8) directly comparable to one another?
 - c) Is it possible to calculate or estimate the share of the volume of an individual product (e.g. Single-Piece Letters) delivered on rural carrier routes that is comprised of individual mail streams (e.g. DPS/SS)?
- 16) Is it possible using Postal Service data to estimate the share of volume of a given product that is delivered via city carrier delivery, as opposed to rural carrier delivery? If so, please provide those proportions for each product for each quarter in FY17 and provide documentation of the calculation of those proportions.
- 17) For each product that is delivered by city carriers, is it possible using Postal Service data to calculate or estimate the share of the volume of that product that is delivered via special purpose routes? If so, please provide the share of city carrier-delivered volume for each product that is delivered on a) regular letter routes and b) special purpose routes, and explain how this is calculated.
- 18) In several recent filings, the Postal Service has stated that carrier time needed to perform second runs, where a city carrier’s route must be traversed a second time in order to deliver overflow volume, is typically

clocked to letter routes (as opposed to special purpose routes), as long as the second run is confined to the carrier's regular route.⁸

- a) Does the Postal Service maintain any data regarding the share of time or costs clocked to letter routes that is spent on such supplemental runs? If so, please describe and produce those data.
- b) Please describe any seasonal variation in the relative prevalence of these supplemental runs over the course of the year.
- c) Does Form 3999 record whether on the route-day on which a route evaluation was conducted a supplemental run was required? If a supplemental run is required, is the time required to conduct that run included in the times reported for the evaluation?
- d) Please confirm that on the ZIP Code days used in the City Carrier special study in RM2015-7 no second runs were necessary. If not confirmed, please indicate how many ZIP Code days necessitated additional runs, and describe how the time associated with those second runs was handled in the study. If unknown, please so state.
- e) Does the Postal Service maintain any data that provide some indication of how the mix of mailstreams (shapes) or products delivered on route-days requiring such second runs varies from the mix of mailstreams (shapes) or products delivered on route-days not requiring a second run?

⁸ See, e.g., Postal Service responses to Questions 15(a) and (b) in Responses of the United States Postal Service to Questions 1-15, 19-20, and 23 of Chairman's Information Request No. 1, Dkt. No. RM2017-9 (Aug. 9, 2017).