

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

PERIODIC REPORTING
(PROPOSAL SIX)

Docket No. RM2018-9

PETITION OF THE UNITED STATES POSTAL SERVICE FOR THE
INITIATION OF A PROCEEDING TO CONSIDER PROPOSED CHANGES
IN ANALYTICAL PRINCIPLES (PROPOSAL SIX)
(June 26, 2018)

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 changing the costing methodology for the treatment of International Indemnity expenses, is labeled Proposal Six and is discussed in detail in the attached text.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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Proposal Six: Changes to the Reporting Methodology for International Indemnity Payments

OBJECTIVE:

The Postal Service proposes to change the costing methodology for the treatment of International Indemnity payments to include Inbound International Indemnities with Outbound International Insurance Indemnities in the distribution of costs.

BACKGROUND:

This proposal addresses the issue of assigning claims for Priority Mail International (PMI) service to Outbound International Insurance, rather than to the PMI product.¹ The Postal Service explained that it would continue to explore this issue to determine if a change in the reporting is in order.

Additionally, this proposal responds to the Postal Regulatory Commission's directive concerning Outbound International Insurance on page 87 of its Annual Compliance Determination, as quoted below:

The Commission finds that International Ancillary Services was not in compliance with 39 U.S.C. § 3633(a)(2) in FY 2017. The Commission directs the Postal Service to report within 90 days of issuance of this ACD on its evaluation of Outbound International Insurance cost reporting and whether a change in analytical principles is warranted. If the Postal Service does not determine that a change in analytical principles is warranted, the Commission directs the Postal Service to increase the prices for Outbound International Insurance in order to bring the product into compliance. FY 2017 ACD, Chapter 4 at 87.

¹ United States Postal Service FY 2017 Annual Compliance Report, Docket No. ACR 2017 (December 29, 2017) at page 71.

PROPOSAL:

Proposal Six would expand the distribution of the attributable costs for International Indemnity payments to include International Inbound Indemnity payments.

RATIONALE:

The Postal Service investigated the currently available data concerning Outbound International Insurance cost reporting and determined that refinements using the currently available data are needed, even if they may not rise to the level of a change in analytical principles.

In FY 2017, the entirety of expenses associated with Outbound International Indemnity payments and Inbound International Indemnity payments were distributed solely to Outbound International products and services. That was incorrect and, certain Inbound International products and services should have been included in the distribution of costs. To correct this error, the first refinement is to separate Outbound International Insurance indemnities from Inbound International Insurance indemnities. The second refinement is to develop separate decision rules for treating the costs relating to Outbound International indemnities and Inbound International indemnities.

IMPACT:

The impact is shown on the Compare A Pages and Compare B Pages tabs of the Excel filed labeled as NP1.Indemenities, filed under seal as part of USPS-RM2018-9/NP1. For each of the impacted products, the original FY17 ICRA lines are not

highlighted and the proposed FY17 lines are highlighted in tan. The cells in the tan lines that change from the original are shown in green.

The Compare A Pages format is the familiar ICRA format for the A Pages, although only the impacted product lines are shown. Similarly, the Compare B Pages uses the familiar B Pages format, which displays unit costs for all of the products, except special services. Also, two additional columns are added to the right side of Compare B Pages to show the change in contribution and cost coverage.

The net impact shifts costs from Outbound products to Inbound products. As a result, the impact on contribution improves for Outbound products and declines for Inbound products. Nonetheless, products that previously had positive contribution in the FY17 ICRA would continue to have positive contribution under the proposal, and products that previously had negative contribution in the FY17 ICRA would likewise continue to have negative contribution under the proposal.

MECHANICS:

Outbound International Insurance

Priority Mail Express International (merchandise) service, and Priority Mail International (merchandise) service offer \$200 of included insurance. Global Express Guaranteed service (documents and non-documents), and Priority Mail Express International (documents) service offer \$100 of included insurance. As set forth in Mail Classification Schedule (MCS) §2615.5 Outbound International Insurance, customers also have the option to buy additional insurance for a fee, including Global Express Guaranteed (GXG) (documents and non-documents) service, Priority Mail Express

International (PMEI) (merchandise) service, and Priority Mail International (PMI) service. As previously discussed, the Postal Service has studied the ability to separate the product cost from the insurance cost for GXG, PMEI, and PMI services.² The Postal Service determined that the detailed data are reliable and accurate. Thus, the Postal Service will continue to use the data to separate product costs and insurance fee costs. The decision rules for separating costs are: 1) when additional insurance is not purchased, the indemnity cost will be assigned to the base parent product, and 2) when additional insurance is purchased, the indemnity cost will be assigned to the Outbound International Insurance product.

Inbound International Indemnities

The documentation and data detail available for inbound products for which indemnity is available are not as consistent as that available for outbound products. However, by using Universal Postal Union (UPU) barcoding guidelines for allowable service indicators, the Postal Service is able to assign costs associated with the Inbound International Registered Mail service, as described in MCS §1510.2. Inbound International Registered Mail service indemnities in FY 2017 accounted for approximately 56 percent of the total reported Inbound International indemnities. The residual Inbound International indemnities are paid to the origin country postal operator. Service indicators for the remaining pieces do provide the origin country, but are not specific enough for reporting purposes. Additionally, these pieces also lack adequate IOCS tallies. As a result, external data from the Product Tracking System (PTS) were

² See, Docket No. ACR2016, CHIR No. 8, Response to Question 2 (February 6, 2017).

collected to supplement the existing information provided by the origin administration. The Inbound non-Registered indemnity expenses can be identified first by country of origin through the origin administration barcode, and then by transportation mode identified by PTS. Using these two data systems together, the Postal Service divided most of the remaining Inbound International indemnities among the corresponding proportion of products. Any indemnities that cannot be assigned using these data are assigned to products in the same proportion as the indemnities for which actual data are available.

Modifications to the “B Workpapers” and the Domestic Processing Model

The distribution key appearing in the I-CS20 tab of I_Forms-NP-FY17 in the B Workpapers directory of USPS-FY17-NP14 is expanded to include the International Inbound categories. The C Report Comparison tab of NP1.Indemnities shows the results of the proposal compared to the FY17 ICRA results. These results are the basis for the changes to Other Costs in the tabs that follow.

The Reports CRA Staging tab is taken from the Reports (Unified) workbook in USPS-FY17-NP2 and additional calculations are developed in columns AX to BF for use later in the workbook. The FY17 Proposal Staging tab is the FY17 ICRA Staging tab incorporating the Other Costs changes that result from this proposal.

Tabs Reports Pivot1, Reports Pivot3 and Reports Pivot5 are from the Reports (Unified) workbook and they are used to develop Outbound non-NSA results, Inbound results and Outbound NSA results, respectively.

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The ICM Costing ROW PSDS Adj and the ICM Costing Canada PSDS Adj tabs adjust the Presort Dropship NSA costs to reflect cost savings due to different entry points to the mail stream.

The development in NP1.Indemnities was done to show the impact of the proposed changes without producing a complete set of USPS-FY17 NP2 files. One reason this approach is possible is that the Indemnity expenses in Cost Segment 20 do not involve piggybacks. Hence, simple arithmetic and ratios can be developed to show the impact. The proposal does not introduce any new mail categories; therefore, once the modifications described at the beginning of this section are implemented, the changes would flow through the International Domestic Processing model in the equivalent of USPS-FY17-NP4 and USPS-FY17-NP2.