

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

Annual Compliance Report, 2018

Docket No. ACR2018

CHAIRMAN'S INFORMATION REQUEST NO. 5

(Issued January 29, 2019)

To clarify the basis of information provided by the Postal Service in its FY 2018 Annual Compliance Report (ACR), filed December 28, 2018,¹ the Postal Service is requested to provide written responses to the following questions. Answers should be provided to the individual questions as soon as they are developed, but no later than February 5, 2019.

1. Please refer to Library Reference USPS–FY18–1, December 28, 2018.
 - a. Please confirm that, compared to FY 2017, the weight delivered by the USPS for competitive products increased from 9.842B to 10.986B pounds.
 - b. Please also confirm that 10.986B pounds corresponds to 44.7 percent of all weight delivered in FY 2018.
 - c. Please identify the cost segments most likely to be affected by this increase in competitive product weight.
 - d. Please provide an explanation of how weight is used, if at all, in attributing cost to the 18 cost segments.

¹ United States Postal Service FY 2018 Annual Compliance Report, December 28, 2018 (FY 2018 ACR).

2. Using Library Reference USPS–FY18–2, December 28, 2018, please confirm that domestic competitive products only represent 8.1 percent of total city carrier costs (C/S 6 + 7) and 10.0 percent of total rural carrier costs (C/S 10).
 - a. Does the Postal Service systematically collect data on or calculate total mail cubic footage (“cube data”), either in aggregate or by product? If answered in the affirmative, please describe any such data collection efforts in detail. Does the Postal Service use cube data to distribute cost? If so, please indicate which cost models rely on cube data to attribute costs.
 - b. How will the Postal Service begin reporting dimensional weight information in FY 2019 with the introduction of dimensional weight pricing in June 2019?
3. Please refer to both Library Reference USPS–FY18–2, December 28, 2018 and USPS MTAC October 2018 Mail, Prep & Entry Presentation.²
 - a. Please confirm that \$61.9M was attributed to competitive products for Equipment Depreciation (cost segment 20.1).
 - b. Slide 15 of the above-referenced presentation lists upgrades, expansions, or additions of 9 types of equipment in conjunction with “Processing Operations Peak Plan.”
 - i. Please confirm that the Postal Service used all listed equipment during the peak season in FY 2018.
 - ii. Please list any equipment from this list that was newly installed in FY 2018.

² See MTAC Mail Prep & Entry Focus Group Sessions Presentation, United States Postal Service, October 3, 2018, (October 2018 MTAC Presentation), available at: <https://postalpro.usps.com/node/5613>.

- iii. Please explain the depreciation methodology used for each such piece of processing equipment.
 - iv. For each listed equipment type, please provide the amount of depreciation cost attributed to domestic competitive products, to international products, and to inbound single piece international and international negotiated service agreements.
- 4. Please refer to slide 16 of the October 2018 MTAC Presentation, which references 76 “Peak Annexes Operations.”
 - a. Please define and describe peak annex operations.
 - b. For FY 2018, how many peak annexes were in operation?
 - c. For FY 2018, how many new peak annexes were established?
 - d. In what cost segments and components are the costs associated with these peak annexes captured?
 - e. How were these costs divided between institutional costs and attributable costs?
 - f. How were these attributable costs divided between competitive and market dominant products.
- 5. Please refer to slide 27 of the October 2018 MTAC Presentation:
 - a. Please clarify whether the 8,000 additional vehicles deployed as part of peak preparation refer to permanent vehicles that were deployed for the first time for the FY 2019 peak season, to vehicles that were deployed temporarily for the peak season, or some combination of the two. If neither description is applicable, please explain.
 - b. How many additional vehicles were deployed during the peak season in FY 2018?

- c. How are these costs captured and attributed to products?
 - d. Slide 27 also references roughly 45,000 “Additional Supplemental Workforce Hires,” also as part of peak preparation. Please clarify whether these are permanent workforce hires, temporary (seasonal) workforce hires, or some combination of the two. If it is a combination, please provide the approximate number of each.
 - e. How many supplemental workforce hires were hired for peak season FY 2018?
 - f. Please indicate whether those were temporary or permanent hires; also specify the number of temporary hires and the number of permanent hires for peak season 2018 in each of the three categories listed (“Delivery,” “Clerk,” and “Casuals”).
 - g. How were the additional labor costs associated with supplemental workforce hires for the purpose of peak preparation captured and attributed to products?
6. Please refer to slide 28 of the October 2018 MTAC Presentation.
- a. Please provide the number of parcel lockers added during FY 2018, by quarter.
 - b. Please describe how the costs associated with these lockers are attributed to products. In your answer, please include descriptions of the treatment of depreciation costs, of the labor costs associated with delivering products to the parcel lockers, and any other relevant costs associated with the parcel lockers.
7. Please refer to Library Reference USPS–FY18–37, December 28, 2018. According to Library Reference USPS–FY18–37, file “Preface.pdf”, the Postal Service implemented the approved version of Proposal Five from Docket No. RM2017-9, which “adjusts the IOCS tally weights associated with letter route

and Special Purpose Route (SPR) cost groups using TACS workhours.” Additionally, the Postal Service implemented “a component” of Proposal Two from Docket No. RM2018-5 prior to its approval in order to avoid applying CCCS distribution factors for weekdays to the year’s substantial Sunday costs.

- a. Please confirm these statements are accurate.
- b. Please describe any differences between the methodology applied in Docket No. ACR2018 and the methodology partially approved from Order No. 4972 in Docket No. RM2018-5.³ Please quantify the differences in FY 2018 cost attribution caused by any such methodological differences.
- c. Please confirm that the public IOCS dataset in Library Reference USPS–FY18–37, file folder “Data,” file “prcpub18.sas7bdat,” does not provide dates for entries associated with activity code 6720 (Sunday costs). If not confirmed, please indicate the field where the date can be found.
- d. Please indicate whether a non-public version of this database contains dates associated with the entries for activity code 6720.
- e. Do TACS workhour records provided in Library Reference USPS–FY18–37, file “ALB” contain specific dates for each observation? If not, please provide TACS workhour records with dates.
- f. In its response to Chairman’s Information Request No. 8 in ACR2017, the Postal Service stated that the “total annual cost for Sunday delivery is currently not available.”⁴ Does the cited statement still hold true following the partial implementation of Proposal Two as discussed here?

³ Docket No. RM2018-5, Order Approving in Part Proposal Two, January 8, 2019 (Order No. 4972).

⁴ See Docket No. ACR2017, Responses of the United States Postal Service to Questions 1-15 of Chairman’s Information Request No. 8, question 1.a., January 29, 2018 (Responses to Docket No. ACR2017 CHIR No. 8).

- b. Please confirm that the average revenue per piece for Domestic Single Piece Letters is \$0.499, for First-Class Package Service is \$3.037, for Ground packages is \$2.230, and for Priority Mail is \$8.472.
 - c. Please identify the international products that correspond most closely to these products in terms of size, weight and handling characteristics.
 - d. Please confirm that each of the four products listed in question 9.b. is equivalent to its corresponding international service offerings in terms of its domestic handling. If not, confirmed, please describe any differences in handling.
 - e. Please confirm that the average volume variable cost per piece for Inbound Single Piece First-Class Mail International and International Negotiated Service Agreements is \$1.223 per piece.
 - f. Please confirm that the average volume variable cost per piece for Domestic Single Piece Letters is \$0.298, for First-Class Package Service is \$2.112, for Ground packages is \$1.202, and for Priority Mail is \$6.499.
10. Please provide a revised version of Library Reference USPS–FY18–39, December 28, 2018, using the appropriate share formula recently approved in Order No. 4963.⁷
11. Please refer to Library Reference USPS–FY18–32, December 28, 2018.
- a. In file “I_Forms-Public-FY18.xlsm,” the tab “I-SEAM,” which contains inputs to files “CS12-Public-FY18.xlsx” and “CS20-Public-FY18.xlsx” in the same Library Reference, lists a series of function codes, including “PV” (PEAK VEHICLE). Confirm that function “PV” was not used in prior

⁷ Docket No. RM2017-1, Order Adopting Final Rules Relating to the Institutional Cost Contribution Requirement for Competitive Products, January 3, 2018 (Order No. 4963).

- compliance years. If not confirmed, please indicate where this code has been used before.
- b. Describe in detail the circumstances under which depreciation, labor, or parts costs would get attributed to the “PV” code.
 - c. Describe the differences between “PV” and other functions in the “CITY CARRIER SPR ROUTES” category.
 - d. How would those costs that were attributed to code “PV” in FY 2018 have been attributed in previous years?
 - e. Please confirm that “PV” costs account for approximately 37.9 percent of SPR maintenance (labor) costs, 26.5 percent of SPR parts costs (both C/S 12) and 1.7 percent of SPR depreciation costs. Please explain, from an operational standpoint, why the Peak Vehicle share of SPR vehicle costs differ across functions.
 - f. Please explain why there is no analogous “PV” code for city carrier letter routes.
 - g. Please indicate whether any public documentation of this apparent change to the SEAM methodology exists, and where it can be found.
12. On page 43 of its FY 2018 Form 10-K,⁸ the Postal Service states “[w]e purchased approximately 8,000 new vehicles to add to our fleet during the year ended September 30, 2018.”
- a. Please provide an inventory of the type, including cubic footage, and intended purpose, of the new vehicles purchased in FY 2018.

⁸ United States Postal Service Annual Report on Form 10-K, November 14, 2018, at 43 (FY 2018 Form 10-K).

- b. Please describe how the depreciation associated with these new vehicles (as opposed to the entire fleet, which is summarized in C/S 20.2 in the Cost Segments and Components report) is attributed to products. Specifically, what share is attributed to market dominant products, what share is attributed to competitive products, and what share is treated as institutional?

By the Chairman.

Robert G. Taub