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POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

ANNUAL COMPLIANCE REVIEW, 2018

Docket No. ACR2018

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO QUESTIONS 1-12 OF CHAIRMAN'S INFORMATION REQUEST NO. 5

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 5, issued on January 29, 2019. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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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.

RESPONSE:

a. Confirmed.

b. Confirmed.

c. Cost segment 14 (CS14, purchased transportation) would be the cost segment most likely to be directly affected by increases in weight for competitive products, specifically the Domestic Air Transportation component. The total weight of competitive products, however, is not necessarily the relevant cost driver insofar as it includes substantial weight for products that would normally bypass air transportation. Note the weight of mail flown is the cost driver for the UPS, FedEx Night Turn, and Commercial Air cost pools within the Domestic Air Transportation component of CS14. See the Summary Description of USPS Development of Costs by Segments and Components, Fiscal Year 2017 (July 2, 2018).

d. As stated in the response to part c., the cost driver for several air transportation cost pools is weight, so a change in the amount of weight transported under those contracts would be expected to result in a corresponding change to both accrued

and attributable costs, and the costs are distributed to products using data on the weight of mail flown by product.

Weight is not directly used in cost attribution for other cost components. However, weight will tend to be correlated with other volumetric cost drivers—e.g., cubic foot-miles for purchased highway transportation—such that costs and weight will tend to vary in the same direction.

Additionally, weight may have independent effects on costs in cost segments where other workload measures are the primary cost drivers. For example, changes in weight per piece may affect mail processing costs, in addition to the effects of changes in mail processing workload measures such as counts of total pieces handled. Mail processing distribution keys, based on IOCS labor sampling, allow distribution key shares for products to vary based on cost-causing characteristics (potentially including weight) even though weight is not an explicit cost driver. This would also be the case for all cost segments that involve direct labor such as (but not limited to) postmasters, city carriers in-office and street activities, vehicle service drivers, and rural carriers. Moreover, because of the proportionality between direct and indirect (i.e. piggybacked) costs, weight-related effects on direct labor in a functional area will also result in corresponding effects on indirect costs associated with that functional area. In sum, a consequence of the positive correlations that exist between weight, volume, and cost is that changes in

weight are associated with in corresponding changes in the same direction to volume and cost.

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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?

RESPONSE:

Confirmed. It should be noted that the ratios cited involve incongruous numerators and denominators. The numerator is the volume variable and product specific costs for domestic competitive products whereas the denominator is the accrued labor costs. In fact, domestic competitive products represent 21.2 and 28.6 percent of volume variable and product specific direct labor costs for city and rural carriers respectively.

a. Yes, cube data are used in combination with mileage traveled to distribute costs in the purchased transportation (cost segment 14) for highway modes (Intra-SCF, Inter-SCF, Intra-NDC, and Inter-NDC cost pools) and vehicle service driver labor (cost segment 8) cost models. To support these efforts, cube data are collected by product for parcel mailpieces during Transportation Cost System (TRACS) Highway tests (USPS-FY18-36 at 4). It is important to note that these data reflect only pieces appearing on surface transportation, so they do not provide information on cube by product across the entire population of mailpieces (i.e.

these data exclude pieces that never appear on surface transportation, such as those entered at the delivery unit). Cubic feet are also the cost driver for the FedEx Day Turn (air transportation) cost pool. However, cube data are not collected on TRACS Air tests, and an average density factor is used to convert estimated weight to estimated cubic feet for FedEx Day Turn (USPS-FY18-36 at 28).

b. The reporting of new dimensional weight pricing that will be implemented in June 2019 will follow the same reporting process as existing dimensional weighting reporting. The additional categories subject to dimensional weighting will be implemented on June 23, 2019, which is Quarter 3 of FY 2019, and so will be contained in FY 2019 Q3 reporting.

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3. Please refer to both Library Reference USPS–FY18–2, December 28, 2018 and USPS MTAC October 2018 Mail, Prep & Entry Presentation.[1]

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.

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.

RESPONSE:

a. Not confirmed. The figure cited in the question applies to domestic competitive products, not all competitive products.

b. i. Not confirmed. The Enhanced Package Processing System (EPPS) was only operational for the last week of FY 2018 (see response to ChIR No 3, Q 3a). Thus, the EPPS was not used during peak season in FY 2018.

ii. All of the equipment types were installed in FY 2018.

[1] *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. The following narrative is from the FY 2017 Summary Description, Chapter 20, which describes the treatment of equipment depreciation costs. The Summary Description was filed with the Commission on July 2, 2018.

FY 2017 Summary Description Chapter 20

Description

This component contains equipment depreciation costs for mail processing equipment, including delivery barcode sorters, facer/cancelers, flat sorting machines, and other equipment used in distribution. The component also includes depreciation costs for customer service and postal support equipment, such as window service equipment and computers. This includes Point of Service (POS ONE) retail equipment depreciation, Intelligent Mail Devices (IMDs) and Mobile Delivery Devices (MDDs) depreciation.[2]

Accrued Costs

Accrued costs for equipment depreciation are obtained from accounts in component 232 of USPS-FY17-5, tab "seg 20". Equipment depreciation, like other equipment-related costs is divided into 26 cost pools (or activities) listed in Appendix F, Table F-1. Separate variabilities and distribution keys are applied to each of these cost pools. Depreciation is determined for the 26 equipment categories using more detailed accounting information. The

[2] IMDs and MDDs are scanners.

fiscal year depreciation by category is provided in Appendix F, Table F-2. Twenty-two of the equipment categories are for mail processing equipment. The four remaining categories are the following: 1) POS ONE, 2) IMDs, 3) MDDs, and 4) Other Equipment. The Other Equipment category represents the balance of costs in component 232.

Volume Variable Costs

Mail Processing Equipment - Mail processing equipment depreciation costs are variable to the same degree as the costs for the personnel that operate the equipment. As a result, the variabilities for each processing equipment type listed in Appendix F, Table F-1, are based on the variabilities for the mail processing labor cost pools from Cost Segment 3. For some equipment categories the variability is a weighted average of two or more of the labor category variabilities, as shown in Docket No. ACR2017, USPS FY17-7.

Distribution of Costs

Mail Processing Equipment - Volume variable costs are distributed to products based on IOCS tallies for the operation of 15 of the 22 types of equipment. The distributions for the depreciation costs for the remaining seven types of equipment are described as follows.

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1) PASS/DSS depreciation costs are distributed using RPW parcel volumes by product.[3]

2) RBCS depreciation costs are distributed based on the mail processing labor costs distribution for LDC 15.

3) General and Logistics: NDC depreciation costs include conveyors and other general use equipment at NDCs. These costs are distributed in the same proportions as all NDC mail processing labor.

4) General and Logistics: non-NDC depreciation costs include conveyors and other general use equipment at non-NDC facilities. These costs are distributed in the same proportions as all non-NDC mail processing labor.

5) Mail Transport Equipment depreciation costs are distributed in the same proportion as mail processing labor costs.

6) Tray Transport System depreciation costs are distributed to products using a two-step process. One, the costs are divided into DBCS and FSM related amounts based on the relative number of each type of equipment. Two, the costs are distributed to products in the same proportions for each respective category.

7) PARS depreciation costs are distributed in the same proportions as IOCS tallies for CIOSS operations, since PARS letter mail is processed in the CIOSS operations. The CIOSS distribution key is a portion of the LDC

[3] For Priority Mail Express and Priority Mail, RPW parcel volumes are used.

15 distribution key discussed above. PARS is used in forwarding mail and returning mail to sender.

iv. Mail processing equipment types are classified into 22 categories. The relevant four equipment categories for the equipment identified in the question are the following: APPS, Sack Sorting Machine (SSM), Culling, and Strapping and Sleeving. The table below contains the depreciation costs for the requested mail categories.

Equipment Depreciation Costs by Equipment Group for Types of Equipment Installed During FY 2018

Equipment Type - Cost Pool	**APPS**	**Sack Sorting Machine (SSM)**	**Culling**	**Strapping/Sleeving**	**Total**
Equipment from Slide Included	APBS, APPS[1]	Universal Sack Sorter	Flats Culling Systems	Automatic Tray Unsleevers	
Units	**($000)**	**($000)**	**($000)**	**($000)**	**($000)**
Domestic Competitive	27,748	2,569	18	-	30,334
International	7,643	517	4	65	8,229
Inbound Single Piece International	3,393	117	2	-	3,512
Inbound International Non-NSAs	2,321	80	1	-	2,402
International NSAs	1,072	37	1	-	1,110
Total Volume Variable & Product Specific	**43,193**	**3,888**	**44**	**2,881**	**50,007**
Total Accrued	**44,044**	**4,055**	**45**	**3,075**	**51,219**

[1]In FY2018, the $303,000 in depreciation expenses associated with the 4 ADUS machines were erroneously treated as institutional costs. The remaining 11 ADUS machines were not capitalized until FY 2019. A correction will be made to include them in the APPS equipment pool for their depreciation expenses in FY 2019.

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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.

RESPONSE:

a. Peak annexes are short-term leased facilities used to sort and stage increased peak season volume. Typically, these leases last for two months, but some locations require additional months.

b. In FY 2018, 67 peak annexes were in operation.

c. Because peak annexes are short-term leased facilities, all 67 peak annexes were newly established in FY 2018.

d. Peak annexes are mail processing operations. Accordingly, the direct labor costs are included in component 35 (CS 3.1). The indirect costs (e.g. supervision, depreciation, maintenance, etc.) are spread through various components and cost segments. A comprehensive list of components included with indirect costs is contained in USPS-FY18-24, tab 'Mail Proc'.

e. Approximately 94 percent of mail processing costs are treated as attributable, leaving 6 percent of the costs treated as institutional.

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f. Approximately one-third of mail processing attributable costs are assigned to competitive products, and the remaining two-thirds are assigned to market dominant products.

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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?

RESPONSE:

a. A total of 8,000 new vehicles were deployed in 2018 to replace high maintenance vehicles, vacant routes, and leased vehicles. These vehicles were deployed in a timely manner to also aid in the peak season. Of all the new vehicles deployed, 264 were utilized as a designated peak season vehicle for FY2018. The peak season designation may not remain, however, as the new vehicles are intended to replace the aging fleet across all routes.

b. A total of 3,942 vehicles were deployed as peak season vehicles for FY2018.

c. Vehicle maintenance, fuel, and depreciation are all captured in the Solutions for Enterprise and Asset Management (SEAM) system and separated out by

function code and distributed to CS12 and CS20 in accordance with the outlined methodology.

d. The figures presented on slide 27 of the October 2018 MTAC Presentation do not indicate roughly 45,000 "Additional Supplemental Workforce Hires." There were 54,366 Additional Supplemental Workforce Hires employed as a part of peak preparation in FY 2019. Of those workers, 30,524 were temporary (seasonal) employees and 23,842 were permanent hires. In this context, a permanent hire is defined as an employee hired during peak who was still employed in January of the following calendar year. See below chart detailing breakdown of FY 2019 peak supplemental workforce hires.

FY 2019 PEAK SUPPLEMENTAL WORKFORCE HIRES				
HIRE TYPE	**CLERK**	**DELIVERY**	**MAILHANDLER**	**TOTAL**
TEMPORARY	16,428	4,939	9,157	30,524
PERMANENT	5,858	15,582	2,402	23,842
TOTAL	22,286	20,521	11,559	54,366

e. In FY 2018, 43,684 supplemental workforce hires were hired for peak season.

f. See below chart detailing breakdown of FY 2018 peak supplemental workforce hires

FY 2018 PEAK SUPPLEMENTAL WORKFORCE HIRES				
HIRE TYPE	**CLERK**	**DELIVERY**	**MAILHANDLER**	**TOTAL**
TEMPORARY	11,121	10,864	7,836	29,821
PERMANENT	4,118	8,161	1,584	13,863
TOTAL	15,239	19,025	9,420	43,684

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g. The labor costs associated with supplemental workforce hires for the purpose of peak preparation are captured in the general ledger and are attributed and distributed to products in accordance with the established costing methods.

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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.

RESPONSE:

a. The table below has the number of parcel lockers installed by quarter in FY 2018.

FY 2018	Parcel Lockers Installed
Q1	934
Q2	296
Q3	2,324
Q4	1,975
Total	**5,529**

b. The direct labor costs incurred by carriers delivering the various products to the parcel lockers receive the same variability and distribution as other parcels that are delivered by city and rural carriers. It should be noted that there are different variabilities and distribution keys used to attribute and distribute city and rural carrier costs. The materials, installation, and maintenance costs associated with parcel lockers similar to the ones shown on slide 28 are part of components 184 (Equipment - CS 16.3.2) and 75 (Operating Equipment Maintenance – CS 11.2), respectively, and are treated as institutional costs. The cost of parcel lockers does not meet the threshold for depreciation so there are no depreciation expenses associated with outside parcel lockers. The explanation for the current treatment of these costs is that normally parcel

lockers were included as part of the Cluster Box Unit (CBU) and the number of CBUs was a function of delivery points rather than volume. Accordingly, the equipment, installation and maintenance costs associated with CBUs were treated as institutional costs. Nevertheless, now that the Postal Service is separately installing parcel lockers adjacent to existing CBUs, the relationship between changes in parcel volume and changes in equipment costs for parcel lockers may be shifting. The Postal Service intends to investigate this issue further.

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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.[4] 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."[5] Does the cited statement still hold true following the partial implementation of Proposal Two as discussed here?

g. Will the statement cited in part (f) of this question still hold true in light of the partial approval of Proposal Two, as specified in Order No. 4972.[6]

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

[5] *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).

[6] *See* Order No. 4972.

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RESPONSE:

a. Confirmed.

b. Order No. 4972 approved two methodological elements not applied in Docket No. ACR2018: i) city carrier costs for holidays are included with Sundays, and ii) delivery scans from Product Tracking and Reporting (PTR) are used to distribute costs to products. Differences in resulting costs are quantified in the attached file ChIR5.Q7.Response.xlsx, sheet "ChIR5.Q7b Order4972".

c. Confirmed.

d. The non-public version does not contain costs for activity code 6720 by date, only by quarter.

e. The TACS workhour records provided USPS-FY18-37 summarize workhours by quarter, not by specific date. A summary of Sunday workhours by date, craft group and route group is provided in the attached file, ChIR5.Q7.Response.xlsx, sheet "ChIR5.Q7e HoursByDate".

f.-g. The annual cost for Sunday delivery is available for FY2018.

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8. In several recent filings, the Postal Service 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.[7]

a. Does the Postal Service currently 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. If a Form 3999 route evaluation is conducted on a day on which a supplemental run is required, do the times recorded in the Form 3999 database for that day include the time required to conduct that supplemental run?

c. Does the Postal Service currently 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?

RESPONSE:

a. No.

b. Yes, all hours and volumes pertaining to the route would be recorded as one. Additional comments may be recorded on a Form 3999 route evaluation, however such an annotation is not required and no variable to denote such exists.

c. No.

[7] *See, e.g.*, Docket No. RM2017-9, Responses of the United States Postal Service to Questions 1-15, 19-20, and 23 of Chairman's Information Request No. 1, questions 15.a., 15.b., August 9, 2017.

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9. Please refer to Library Reference USPS–FY18–1:

a. Please confirm that the average revenue per piece for Inbound Single Piece First-Class Mail International and International Negotiated Service Agreements is $1.353 per piece.

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.

RESPONSE:

a. Confirmed that the sum of the revenue for Inbound Single-Piece First-Class Mail International and Market Dominant Inbound International Service Agreements divided by the sum of the volume for Inbound Single-Piece First-Class Mail International and Market Dominant International Service Agreements equals $1.353.

b. Confirmed.

c. The Postal Service is unable to offer a definitive opinion at this time. There are similarities and differences between the domestic products listed in Question 9.b. and various international products. The Postal Service expects to offer more

definitive perspectives on the issues raised in this question in the near future, as it expects to file self-declared rates for "E" format items in the near term. Any such self-declared rates will need to be presented to, and approved by, the Postal Service Governors, and no such rates have been presented to the Governors for their approval to date.

d. See response to subpart (c).

e. Confirmed that the sum of the cost for Inbound Single-Piece First-Class Mail International and Market Dominant International Service Agreements divided by the sum of the volume for Inbound Single-Piece First-Class Mail International and Market Dominant International Service Agreements equals $1.223.

f. Confirmed for Domestic Single Piece Letters. Not confirmed for First-Class Package Service, Ground packages and Priority Mail. The average volume variable cost per piece is: $2.099 for First-Class Package Service, $1.180 for Ground packages, and $6.348 for Priority Mail.

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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.[8]

RESPONSE:

Issuance of Order No. 4963 on January 3, 2019, created no occasion to revise folder USPS-FY18-39, or any other part of the FY 2018 ACR submission. The FY 2018 ACR, obviously, relates to FY 2018. In Docket No. RM2012-3, the Commission decided that the appropriate share should remain at 5.5 percent.[9] Its next review of the appropriate share, which would determine whether the 5.5 percent requirement "should be retained in its current form, modified, or eliminated," began in Docket No. RM2017-1. Order No. 4963 in Docket No. RM2017-1 was not issued until after FY 2018 was entirely complete, and over one-quarter of FY 2019 was complete as well. Page 95 of Order No. 4963 affirmed the observation from pages 42-43 of Order No. 4742 (August 7, 2018) that adoption of the formula-based approach was not intended to change the appropriate share value for any prior fiscal year. Instead, the operation of the formula-based approach established in Order No. 4963 requires the Commission to calculate and report the appropriate share for the "upcoming" fiscal year in its Annual Compliance Determination. Since that could not and did not occur with respect to FY 2018, the

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

[9] Docket No. RM2012-3, Order Reviewing Competitive Products' Appropriate Share Contribution to Institutional Costs, August 3, 2012 (Order No. 1449), at 26-27.

appropriate share applicable for FY 2018 remains at 5.5 percent. And because the FY 2018 ACR (including Form CP-01 in USPS-FY18-39) was properly prepared using the 5.5 percent value, no cause for revision arises from Order No. 4963.

Nevertheless, it may be observed that anyone interested in exploring what the effects might have been of an appropriate share other than 5.5 percent in FY 2018 can easily replace 5.5 percent in USPS-FY18-39 with a percentage amount of their own choosing and observe the resulting changes in the subsequent rows of Form CP-01. There is nothing involved in that exercise that would require the Postal Service's participation. As noted above, however, notwithstanding the ease with which such an arithmetic exercise can be conducted, what remains absolutely clear is that 5.5 percent is the only "actual appropriate share" for FY 2018, consistent with pages 42-43 of Order No. 4742. The FY 2018 ACR submitted on December 28, 2018, is fully consistent with that premise.

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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 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.

RESPONSE:

a. Confirmed.

b. In the transition period during which the Postal Service was deploying new vehicles, an operations strategy was adopted to delay disposal of the older vehicles they were replacing until after the peak season, in order to have a larger inventory of vehicles available during the peak. Vehicles were temporarily assigned to the PV code when they were utilized in an effort to minimize the use of leased vehicles. Older, high maintenance vehicles which would normally be

retired were assigned a PV function code, as were several newer replacement vehicles where the route could continue to accommodate an older vehicle. The use of this function code allowed Fleet Management to easily identify, remove, and/or reassign these vehicles once peak season came to a close. Vehicles began being assigned the PV function code at the end of July 2018. At the end of the fiscal year, all costs throughout the year that were associated with the vehicles then classified with the PV function code were assigned the PV code. Because the earliest a vehicle could have been assigned the PV code was the end of July, it is apparent that many of the costs assigned to that code would have been incurred during the ten months of the year prior to the time that any vehicles were so designated. During those ten months, many of these vehicles would have been deployed on P&L routes. Nevertheless, to avoid a time-consuming vehicle by vehicle assessment of how individual vehicles were treated over the course of the year, the much more feasible procedure of making assignments based on a year-end snapshot was employed.

c. Once vehicles were designated with the PV function code, there were no discernable differences between the PV function code and the other functions in the City Carrier SPR Route category.

d. Much of the costs likely would have been spread amongst the other function codes in years past, while some of the costs may not have been incurred at all.

e. While the percentages presented are correct, they may create the misimpression of an anomaly, when in context these percentages are quite understandable. As

described above, many of the specific vehicles designated with the PV code were the ones deemed most suitable for retirement. Vehicles often achieved that status by needing the most maintenance (labor and parts). Consequently, those vehicles over the course of the year (both before and after assignment of the PV code) incurred a disproportionate share of those types of expenses. In contrast, the distribution of depreciation expenses would be uninfluenced by the potential deficiencies of the individual vehicles in question. Rather, because these vehicles are older, more of them would already have been fully depreciated, thus allowing the category as a whole to bear below average depreciation costs.

f. Additional Peak Vehicle usage typically occurs across all routes within a ZIP code and cannot be attributed to one specific letter route much in the same way that Special Purpose Routes (SPR) cannot be attributed to one specific letter route. As such, the treatment of Peak Vehicles should be much the same as the treatment of SPR vehicles.

g. No. No documentation exists for this transitional operations procedure. The PV function code is new this year and is meant to only appear in the FY 2018 and FY 2019 Peak Seasons. The Postal Service has no plans for its continued usage beyond the transition period.

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO CHAIRMAN'S INFORMATION REQUEST NO. 5

12. On page 43 of its FY 2018 Form 10-K,[10] 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.

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?

RESPONSE:

a. 8,000 one ton 2018 ProMasters with a cargo area of 352.9 cubic feet for delivery use.

b. These left-hand drive vehicles will be used to replace a variety of older high maintenance vehicles and vacant routes across all route types, focusing on Park and Loop routes. The attribution will be distributed amongst the products by the same methodology currently provided in CS20.

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