

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

Before Commissioners:

Robert G. Taub, Chairman;
Michael Kubayanda, Vice Chairman;
Mark Acton;
Ann C. Fisher; and
Ashley E. Poling

Periodic Reporting
(Proposal Five)

Docket No. RM2019-10

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

(Issued August 29, 2019)

I. INTRODUCTION

On July 12, 2019, the Postal Service filed a petition pursuant to 39 C.F.R. § 3050.11, requesting that the Commission initiate a rulemaking proceeding to consider changes to analytical principles relating to the Postal Service's periodic reports.¹ Proposal Five introduces modifications to the methodology for Domestic and International Indemnities cost calculations. Petition, Proposal Five at 1-2. For the reasons discussed below, the Commission approves Proposal Five.

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Five), July 12, 2019 (Petition). The Postal Service also filed a notice of filing non-public material relating to Proposal Five. Notice of Filing of USPS-RM2019-10/NP1 and Application for Nonpublic Treatment, July 12, 2019.

II. PROCEDURAL HISTORY

The Postal Service previously submitted a proposal to change the treatment of International Indemnities in response to the Commission's FY 2017 Annual Compliance Determination (ACD).² In the FY 2018 ACD, the Commission found that, despite the change in the treatment of International Indemnities, Outbound International Insurance costs exceeded revenue during FY 2018.³ The Commission noted that "[w]hen additional insurance is purchased for a mailpiece, all of the associated indemnity is assigned to the Outbound International Insurance product, rather than the amount of the indemnity greater than the value of the built-in insurance." FY 2018 ACD at 108. The Commission also found that "the data the Postal Service provided concerning Outbound International Insurance raises concerns about the accuracy of the revenue data, as discrepancies exist between published rates and reported revenue per piece." *Id.* Accordingly, the Commission directed the Postal Service to investigate the discrepancies between "published rates and reported revenue per piece[]" and file a report within 120 days of issuance of the ACD "on the results of this investigation and on the feasibility of disaggregating indemnities between insurance included in the product and additional insurance purchased for the mailpiece." *Id.*

In response, the Postal Service indicated that it "investigated the feasibility of disaggregating indemnities between insurance included in the product and additional insurance purchased for the mailpiece, and has developed the methodology presented in this proposal" for both Domestic and International Indemnities. Petition, Proposal Five at 2.

On July 15, 2019, the Commission issued a notice establishing this proceeding, inviting comments on Proposal Five, and appointing a Public Representative.⁴ Chairman's

² *Id.*; see 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; Docket No. RM2018-9, Order on Analytical Principles Used in Periodic Reporting (Proposal Six), August 28, 2018 (Order No. 4798).

³ Docket No. ACD2018, Annual Compliance Determination, April 12, 2019, at 108 (FY 2018 ACD).

⁴ Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Five), July 15, 2019 (Order No. 5153).

Information Request No. 1 was issued on July 26, 2019.⁵ The Postal Service responded to CHIR No. 1 on August 2, 2019.⁶ Chairman's Information Request No. 2 was issued on August 9, 2019.⁷ The Postal Service responded to CHIR No. 2 on August 9, 2019.⁸

On August 26, 2019, the Commission received comments from the Public Representative.⁹ No other interested party filed comments.

III. PROPOSAL FIVE

Proposal Five modifies the methodology used to calculate indemnity costs for both Domestic and International Indemnities. Petition, Proposal Five at 1-2. Proposal Five revises the methodology used to calculate costs for both Domestic and International Indemnities "to more accurately account for indemnity coverage that is included in the base price of a product, versus indemnity coverage that is purchased in addition to the base price." *Id.* at 1. The proposal modifies the decision rule that currently "ignores the insurance included with the product when the indemnity exceeds the predetermined amount (\$50, \$100, or \$200, depending on the product)." *Id.* at 2. Under the existing methodology, "any additional insurance purchased beyond that included with the product was responsible for the incurrence of the entire insurance indemnity." *Id.* The proposal revises the costing of indemnities by attributing the portion of an indemnity up to the predetermined base amount to the product. *Id.*

The Proposal Five decision rules for separating base product costs and insurance costs are: "1) if included insurance was not indicated in the data set, then a base included insurance amount is assigned to every product where applicable, 2) if the amount paid for

⁵ Chairman's Information Request No. 1 and Notice of Filing under Seal, July 26, 2019 (CHIR No. 1).

⁶ Responses of the United States Postal Service to Questions 1-2 of Chairman's Information Request No. 1, August 2, 2019 (Responses to CHIR No. 1).

⁷ Chairman's Information Request No. 2, August 9, 2019 (CHIR No. 2).

⁸ Response of the United States Postal Service to Question 1 of Chairman's Information Request No. 2, August 9, 2019 (Response to CHIR No. 2).

⁹ Public Representative Comments, August 26, 2019 (PR Comments).

the indemnity is less than the included amount, then the total amount is allocated to the product, and 3) if the indemnity is greater than the included amount, then the predetermined insurance amount is allocated to the base product, and the remainder is allocated to insurance.” *Id.* at 7. The Postal Service explains that for Priority Mail Domestic, “the minimum of \$50 is used because the data available for this exercise do not indicate which of the two possible Priority mail included-amounts [\$50 or \$100] applied.” *Id.*

Specifically, Proposal Five changes indemnity costs in Cost Segment 20 of the Cost and Revenue Analysis (CRA) and the International Cost and Revenue Analysis (ICRA). *Id.* In Response to CHIR No. 1, the Postal Service provided a revised worksheet tab “20.5.1”¹⁰ showing the new distribution key developed under the Proposal Five methodology. Responses to CHIR No. 1, question 1. In Response to CHIR No. 2, the Postal Service confirmed that it “would incorporate the results of the Proposal Five methodology directly into worksheet tab 20.5.1.” Response to CHIR No. 2, question 1. In Response to CHIR No. 1, the Postal Service also clarified that the “value of \$50 was chosen to populate those Priority Mail records where no value existed in the ‘Baked In Insurance Amount’ field for simplicity and convenience.” Responses to CHIR No. 1, question 2.

The Postal Service reports that the domestic impact of Proposal Five on every mail class would be less than 1 percent and the “biggest impact is to shift 26 percent of Indemnities costs from Insurance to the other products and mail classes.” Petition, Proposal Five at 3. The Postal Service states that only two domestic competitive product-types (Priority Mail Express and Priority Mail) would have received “additional indemnity costs in FY 2018” under Proposal Five. *Id.* at 3-4. The Postal Service states that the “most extreme possible impacts of the proposal would be immaterial changes affecting either the non-[negotiated service agreement] NSA portion or the NSA portion of these product types.” *Id.* at 4.

¹⁰ Docket No. ACR2018, Library Reference USPS-FY18-NP14, December 28, 2018, folder “B Workpapers,” Excel file “CS20-NP-FY18.xlsx,” tab “20.5.1.”

The Postal Service reports that the international impact of Proposal Five “shifts costs from Outbound Insurance to Priority Mail International, Global Express Guaranteed and Priority Mail Express International.” *Id.* at 5. The Postal Service claims that “Outbound insurance would have had positive contribution in FY 2018” under Proposal Five and that “contribution from each of the three affected international mail categories would have remained positive.” *Id.*

IV. COMMENTS

The Commission received comments from the Public Representative. The Public Representative supports the approval of Proposal Five. PR Comments at 3. She concludes that Proposal Five “reduces the costs of insurance products, while increasing the cost of products that include insurance.” *Id.* She indicates that the proposed decision rules are “reasonable and accurately reflect how the indemnity costs should be attributed for both international and domestic products.” *Id.* In addition, she finds that Proposal Five “results in the Outbound Insurance product having a positive contribution in FY 2018, while only minimally impacting other products.” *Id.*

The Public Representative also notes that, although Proposal Five improves the existing methodology, there is room for additional improvement. *Id.* She states that “the Postal Service could more accurately identify the amount of included insurance within the Priority Mail product (\$50 or \$100)” and “work to identify mailpieces that are NSA pieces and mailpieces that are non-NSA pieces.” *Id.* (citing Responses to CHIR No. 1, question 2; Petition, Proposal Five at 4-5).

V. COMMISSION ANALYSIS

Based on a review of the Postal Service’s filing, supporting workpapers, responses to CHIRs, and the Public Representative’s comments, the Commission approves Proposal Five

because it finds that the proposal would improve the quality, accuracy, and completeness of the data contained in the Postal Service's periodic reports.¹¹

Proposal Five modifies the original indemnity decision rule, which ignored the insurance included with the base product when the indemnity exceeded the included insurance amount. Additional insurance purchased beyond the insurance amount included with the base product was responsible for the entire insurance indemnity and all indemnity costs were attributed to the insurance product. The Commission concludes that Proposal Five improves upon the original indemnity decision rule by attributing a portion of an indemnity up to the predetermined amount (\$50, \$100, or \$200) to the base product.

For example, under the current methodology, an indemnity cost of \$300 for Priority Mail Express International would result in \$300 being attributed to Outbound Insurance. Under the Proposal Five methodology, an indemnity cost of \$300 for Priority Mail Express International would result in \$200 being attributed to Priority Mail Express International (because the base product includes \$200 of insurance) and the remaining \$100 would be attributed to Outbound Insurance.

Proposal Five changes indemnity costs in Cost Segment 20 of the CRA and ICRA and more accurately accounts for indemnity coverage that is included in the base price of the product. Since Cost Segment 20 does not involve piggybacks, indemnities costs can be shifted from one product to another without additional effects. Under Proposal Five, there would be a new Cost Segment 20 distribution key for indemnities costs. The new distribution key would be directly included in worksheet tab "20.5.1"¹² without the need for further adjustments. Response to CHIR No. 2, question 1.

The Postal Service provides a Summary Impact Table for Proposal Five. Petition, Proposal Five at 9. The Commission's analysis confirms that the table accurately reflects the

¹¹ See 39 C.F.R. § 3050.11(a).

¹² Docket No. ACR2018, Library Reference USPS-FY18-NP14, folder "B Workpapers," Excel file "CS20-NP-FY18.xlsx," tab "20.5.1."

estimated changes in attributable costs for domestic and international insurance and the associated base products that have predetermined insurance amounts.

Proposal Five shifts costs from Outbound Insurance to Priority Mail Express International, Priority Mail International, and Global Express Guaranteed. With this modification, Outbound Insurance would have achieved positive contribution in FY 2018 and Priority Mail Express International, Priority Mail International, and Global Express Guaranteed would have maintained positive contribution.

Proposal Five shifts costs from Domestic Insurance to Priority Mail Express and Priority Mail. With this modification, Domestic Insurance would have maintained positive contribution in FY 2018 and Priority Mail Express and Priority Mail would also have been able to maintain positive contribution.

The Public Representative asserts that the indemnity data could be further improved if the Postal Service could more accurately identify the amount (\$50 or \$100) of included insurance within the Priority Mail product. PR Comments at 3. In addition, she asserts that the Postal Service could identify whether mailpieces are NSA pieces or non-NSA pieces. *Id.* The Commission agrees that the Postal Service should make an effort to improve the data by identifying the actual amount of included insurance and distinguishing between NSA and non-NSA pieces if possible. However, the Proposal Five decision rules are reasonable based on currently provided data.

VI. 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 Five are approved.

By the Commission.

Darcie S. Tokioka
Acting Secretary