

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 Two)

Docket No. RM2019-7

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

(Issued October 1, 2019)

I. INTRODUCTION

On July 9, 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 periodic reports.¹ Proposal Two seeks to

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Two), July 9, 2019 (Petition). The Postal Service filed a non-public library reference with Proposal Two. Library Reference USPS-RM2019-7/NP1, Nonpublic Material Relating to Proposal Two, July 9, 2019; Notice of Filing of USPS-RM2019-7/NP1 and Application for Nonpublic Treatment, July 9, 2019.

revise the revenue distribution methodology for inbound LC/AO mailpieces.² For the reasons discussed below, the Commission approves Proposal Two.

II. PROCEDURAL HISTORY

On July 11, 2019, the Commission issued a notice establishing this proceeding, inviting comments on Proposal Two, and appointing a Public Representative.³ Chairman's Information Request No. 1 and Chairman's Information Request No. 2 were issued on July 22, 2019, and July 31, 2019, respectively.⁴ The Postal Service responded to CHIR No. 1 and CHIR No. 2 on July 29, 2019, and August 7, 2019, respectively.⁵ On August 12, 2019, the Commission received comments from the Public Representative.⁶

III. BACKGROUND

In Docket No. RM2018-8, the Postal Service proposed to develop shape-based revenue data by mapping dispatch format (Letters and Flats (P and G), Packets (E), and Mixed (X)) data it receives to item formats (letter, flat, or small packet/bulky letter).⁷

² Petition, Proposal Two at 2-3. "LC/AO" is an abbreviation for "lettres et cartes" and "autres objets," and is French for "letters and cards" and "other objects." LC/AO refers to international letters, cards, flats, bulky letters, and small packets, whether under the Universal Postal Union (UPU) terminal dues system or bilateral or multilateral agreements. Inbound LC/AO contrasts with Inbound Letter Post, which refers to the Postal Service product consisting of letters, cards, flats, bulky letters, and small packets received under the terminal dues system. See Mail Classification Schedule (MCS), section 1130.

³ Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Two), July 11, 2019 (Order No. 5146).

⁴ Chairman's Information Request No. 1, July 22, 2019 (CHIR No. 1); Chairman's Information Request No. 2, July 31, 2019 (CHIR No. 2).

⁵ Response of the United States Postal Service to Question 1 of Chairman's Information Request No. 1, July 29, 2019 (Response to CHIR No. 1); Responses of the United States Postal Service to Questions 1-2 of Chairman's Information Request No. 2, August 7, 2019 (Response to CHIR No. 2).

⁶ Public Representative Comments, August 12, 2019 (PR Comments).

⁷ Docket No. RM2018-8, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Five), June 26, 2018, at 8-9 (Docket No. RM2018-8 Petition).

The Postal Service explained that, beginning January 1, 2018, designated operators would assign dispatch formats to inbound LC/AO mailpieces that they tender to the Postal Service. Docket No. RM2018-8 Petition, Proposal Five at 8-9. However, the Postal Service stated it cannot use the dispatch format data to develop item format revenue in the International Costs and Revenue Analysis (ICRA) report because there are slight differences between the dispatch formats used by designated operators and the item formats used in the ICRA reports. *Id.* For example, LC/AO letters can be smaller and LC/AO flats can be heavier than the Postal Service's standards for letters and flats. *Id.* at 9. To control for those differences, the Postal Service proposed to use System for International Revenue and Volume, Inbound (SIRVI) estimates of dispatch format weight to distribute dispatch format revenue to item formats.⁸

The Commission approved the Postal Service's methodology to distribute inbound LC/AO revenue by mapping dispatch format revenue to item formats.⁹ However, the Commission noted that it was possible to refine the Postal Service's methodology to distribute inbound LC/AO revenue and that "distributing dispatch format revenue to item formats based on the revenue per piece and revenue per pound for those mail flows where terminal dues are calculated on a per-item and per-kilogram basis [is] worthy of further evaluation." Order No. 4827 at 18. The Postal Service incorporated such a revenue distribution methodology in its Fiscal Year (FY) 2018 Annual Compliance Report (ACR). The Postal Service asserts that there was "no prior opportunity . . . to seek Commission review of the new procedure incorporated into the ACR." Petition, Proposal Two at 2. In the FY 2018 Annual Compliance Determination (ACD) Report, the Commission accepted the Postal Service's revenue distribution for inbound LC/AO mail for purposes of the compliance review, but directed the Postal

⁸ *Id.* SIRVI is the Postal Service's sampling system for inbound international mail. For further details, see Docket No. ACR2018, Library Reference USPS-FY18-NP5, December 28, 2018.

⁹ See *generally* Docket No. RM2018-8, Order On Analytical Principles Used in Periodic Reporting (Proposal Five), September 21, 2018 (Order No. 4827).

Service to “file a petition for the initiation of a proceeding to consider this proposed change in analytical principles[.]”¹⁰

IV. PROPOSAL TWO

The Postal Service requests Commission approval for the revenue distribution methodology it used to prepare the FY 2018 ICRA. Petition, Proposal Two at 2-3. The Postal Service states the refined methodology would improve revenue estimates for certain inbound LC/AO streams by distributing dispatch format revenue to item formats based upon inbound LC/AO weight-based revenue and item-based revenue for those mail flows that have per-item and per-kilogram terminal dues. *Id.* For the proposed revenue distribution methodology, the weight-based revenue is calculated by multiplying the per-kilogram terminal dues by the dispatch weight. *Id.* at 5. Then, the item-based revenue is calculated by subtracting weight-based revenue from total revenue.¹¹ The weight-based revenue is distributed to item formats based on percentages of item format weights, and the item-based revenue is distributed to item formats based on percentages of item format pieces traveling in specific dispatch streams. Petition, Proposal Two at 5-6. Lastly, the weight-based and item-based revenues for each item format are combined to calculate the total item format revenue. *Id.* at 6.

The Postal Service identifies two inbound letter post streams for which dispatch format revenue based on per-item and per-kilogram terminal dues are calculated: census and non-census inbound letter post streams. *Id.* at 3. The Postal Service asserts that Proposal Two will only impact distribution of LC/AO dispatch format revenue from the non-census stream, calculated from sample piece estimates for each dispatch format. *Id.* The Postal Service observes that the refined revenue distribution methodology results in a 4 percent decrease in revenue for item format E mailpieces, an 11 percent increase in revenue for item format P mailpieces, and a 10 percent increase

¹⁰ Docket No. ACR2018, Annual Compliance Determination, April 12, 2019, at 81.

¹¹ *Id.*; Response to CHIR No. 1, question 1.b.

in revenue for item format G mailpieces.¹² The Postal Service states that it expected these results because the previous method, which distributed revenues based solely on weight, distributed more revenue to the heavier format E mailpieces. Petition, Proposal Two at 3.

V. COMMENTS

The Commission received comments from the Public Representative.¹³ No other interested party filed comments. The Public Representative supports the approval of Proposal Two. PR Comments at 3. She finds that Proposal Two improves the accuracy of the revenue estimate for inbound LC/AO streams that pay both a per-item and a per-kilogram rate. *Id.* at 2. Additionally, she comments that the Postal Service's proposed approach to calculate volume-based revenue by subtracting weight-based revenue from total revenue is reasonable. *Id.* at 2-3.

VI. COMMISSION ANALYSIS

The Commission has reviewed the Petition, Proposal Two, the supporting documents, the responses to CHIR No. 1 and CHIR No. 2, and the Public Representative's comments. Based on this review, the Commission finds that Proposal Two would improve the accuracy of the data contained in the Postal Service's periodic reports because it improves the current method for calculating item format revenue for certain inbound LC/AO streams. Accordingly, the Commission approves Proposal Two.

Proposal Two would improve the accuracy of the revenue estimates for non-census inbound LC/AO streams subject to terminal dues calculated on a per-item and per-kilogram basis by taking into account item format weight proportions as well as item format piece proportions in the dispatch data. Under Proposal Two, dispatch

¹² *Id.*; see Library Reference USPS-RM2019-7/NP1, Excel file "Prop.2.NP1.Inbound.Rev.Comparison.xlsx," tab "Pivot-Comparisons."

¹³ Public Representative Comments, August 12, 2019 (PR Comments).

format revenue is initially split into two components – a weight-based and an item-based component. Petition, Proposal Two at 5. The weight-based revenue component is calculated by multiplying weight of the dispatch in kilograms by the applicable per-kilogram terminal dues. *Id.* The item-based revenue component is calculated by subtracting weight-based revenue component from total revenue of the dispatch stream. *Id.* Such calculated weight-based revenue is distributed to item formats based on percentages of item formats P, G, and E weights travelling in the dispatch stream. *Id.* Item-based revenue is similarly distributed to item formats based on percentages of item formats P, G, and E volumes travelling in the dispatch stream. *Id.* at 5-6. This change improves accuracy over the current methodology that distributes dispatch format revenue for those mail flows that have per-item and per-kilogram terminal dues components based solely on item format weight.

VII. 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 Two are approved.

By the Commission.

Darcie S. Tokioka
Acting Secretary