

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 Ten)

Docket No. RM2020-2

NOTICE OF PROPOSED RULEMAKING ON ANALYTICAL PRINCIPLES
USED IN PERIODIC REPORTING (PROPOSAL TEN)

(Issued December 4, 2019)

I. INTRODUCTION

On November 29, 2019, the Postal Service filed a petition pursuant to 39 CFR 3050.11 requesting that the Commission initiate a rulemaking proceeding to consider changes to analytical principles relating to periodic reports.¹ The Petition identifies the proposed analytical changes filed in this docket as Proposal Ten.

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Ten), November 29, 2019 (Petition). The Postal Service filed a notice of filing of non-public materials relating to Proposal Ten. Notice of Filing of USPS-RM2020-2/1 and USPS-RM2020-2/NP1 and Application for Nonpublic Treatment, November 29, 2019.

II. PROPOSAL TEN

Background. Postmasters are compensated through the Workload Service Credit (WSC) system where pay grade is determined by credits earned. Petition, Proposal Ten at 1. These credits are earned in various ways, such as the amount of revenue flowing through a post office and for performing non-revenue activities like serving post office boxes and performing administrative functions. *Id.* Currently, the costs of Postmaster compensation are attributed to products based on the regression analysis presented in Docket No. R84-1, which measures the variability between WSCs and Postmaster costs. *Id.* The Postal Service indicates that, given the time that has passed since Docket No. R84-1, investigation into the Postmaster compensation costs was necessary. *Id.* at 1-2.

Proposal. The current methodology relies upon a regression using only ten data points because, at the time the model was developed in Docket No. R84-1, the Postal Service lacked data on WSCs for individual post offices. *Id.* at 3. However, the Postal Service now routinely collects data on Postmaster workload for operational purposes. *Id.* Proposal Ten seeks to update and improve the variabilities for calculating attributable Postmaster costs based on a new study of Postmaster costs “that relies upon operational Postmaster data and reflects the current structure of Postmaster activities and compensation.”² The methodology proposed by the Postal Service for the computation of Postmaster compensation volume-variability combines the shift in the number of Postmasters from one EAS grade to the next with changes in the resulting salary. Petition, Proposal Ten at 3-5. Thus, the value for Postmaster compensation volume-variability comes from two sources: (1) the percentage change in the number of Postmasters moving from one grade to the next; and (2) the percentage increase in the minimum salary across the two EAS grades. *Id.* at 5; see also *id.* at Table 1.

² *Id.* at 1. The Postal Service’s Petition was accompanied by a study supporting its proposal. See Michael D. Bradley, *Investigating the Variability of Postmaster Costs*, *November 29, 2019.

Impact. Currently, a single variability is applied to accrued Postmaster compensation costs. *Id.* at 6. Under the Postal Service’s proposed methodology, different variabilities are estimated for each EAS grade. *Id.* The accrued cost for each grade is multiplied by its estimated variability, resulting in volume-variable costs for each grade. *Id.* Those grade-level volume-variable costs are summed to get the total volume-variable costs for Postmaster compensation. *Id.* The total volume-variable cost is then divided by total accrued cost to obtain the overall volume-variability. *Id.*

The Postal Service states that the proposed approach results in lower volume-variability for Postmaster compensation costs for three reasons. *Id.* First, the volume-variability of Docket No. R84-1 was “overstated due to a computational error” and correcting the error reduces the volume-variability to 13 percent. *Id.*

Second, the Postal Services notes that Post Office Structure Plan (POStPlan) eliminated lower EAS grades, where movement to the next grade-level and salary increases occurred more rapidly, resulting in higher volume-variability.³ This is significant because, as mail volume increases, WSCs are earned resulting in EAS grade changes and salary increases that, in turn, increase Postmaster compensation costs. In the higher EAS grades, moving to the next grade-level requires much larger increases in WSCs. Thus, more typical increases in WSCs for these higher EAS grades are less likely to cause Postmasters to move up to a higher minimum salary and increase Postmaster compensation costs. *Id.* at 6. Accordingly, a given percentage increase in volume is, under the current structure, less likely to induce an increase in Postmaster compensation cost, which in turn has the effect of creating a lower volume-variability. *Id.* at 6-7.

Third, the Postal Services notes that the current approach measures how quickly salaries would rise from an overall increase in WSCs. *Id.* at 7. This is suboptimal because “each EAS grade has a wide band of WSCs associated with it, and most post

³ *Id.* The POStPlan changed the hours at smaller post offices and changed the Postmaster compensation structure. *Id.* at 2. Following the implementation of POStPlan, post offices that were in the EAS grades below EAS-18 are no longer in the EAS system. *Id.*

offices have a level of WSCs such that typical increases in their WSCs will keep the Postmaster in the same [EAS] grade.” *Id.* The Postal Service states that the proposed approach would account for the amount of WSCs Postmasters actually earn and how quickly the existing complement of Postmasters would move up a grade if WSCs were increased, neither of which are currently measured. *Id.*

The Postal Service acknowledges that reduced volume-variability causes a reduction in total volume-variable costs for Postmaster compensation and proportional reductions “per piece by product.” *Id.* However, the Postal Service notes that “Postmaster costs per piece are typically quite small” thus “the overall impacts on volume[-]variable costs per piece are generally quite small.” *Id.*

III. NOTICE AND COMMENT

The Commission establishes Docket No. RM2020-2 for consideration of matters raised by the Petition. More information on the Petition may be accessed via the Commission’s website at <http://www.prc.gov>. Interested persons may submit comments on the Petition and Proposal Ten no later than February 28, 2020. Pursuant to 39 U.S.C. 505, Lawrence Fenster is designated as an officer of the Commission (Public Representative) to represent the interests of the general public in this proceeding.

IV. ORDERING PARAGRAPHS

It is ordered:

1. The Commission establishes Docket No. RM2020-2 for consideration of the matters raised by the Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Ten), filed November 29, 2019.
2. Comments by interested persons in this proceeding are due no later than February 28, 2020.

3. Pursuant to 39 U.S.C. 505, the Commission appoints Lawrence Fenster to serve as an officer of the Commission (Public Representative) to represent the interests of the general public in this docket.
4. The Secretary shall arrange for publication of this Order in the *Federal Register*.

By the Commission.

Darcie S. Tokioka
Acting Secretary