

ORDER NO. 5586

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
(UPS Proposal One)

Docket No. RM2020-9

NOTICE AND ORDER ESTABLISHING DOCKET TO OBTAIN INFORMATION
REGARDING PROPOSED CHANGES TO COST METHODOLOGIES AND
SCHEDULING TECHNICAL CONFERENCE

(Issued July 13, 2020)

I. INTRODUCTION

On May 29, 2020, United Parcel Service, Inc. (UPS) filed a petition pursuant to 39 CFR 3050.11.¹ UPS requests the Commission to initiate a proceeding to change how the Postal Service determines incremental costs and how it accounts for peak-season costs in its periodic reports. Petition at 1. UPS contends that pursuant to 39 U.S.C. 3652(a), these periodic reports apply the Postal Service's costing methodologies to determine, among other things, "whether the Postal Service's 'costs, revenues, rates,

¹ Petition of United Parcel Service, Inc. for the Initiation of Proceedings to Make Changes to Postal Service Costing Methodologies, May 29, 2020 (Petition). UPS also filed a library reference in support of the Petition. See Notice of Filing of Library Reference UPS-LR-RM2020-9/1, May 29, 2020.

and quality of service' comply with Title 39, including [section] 3633, which applies to competitive products." *Id.*

II. SUMMARY OF THE PETITION

UPS alleges that the Postal Service's current costing models do not fully account for the increase in peak-season costs driven by package shipments. *Id.* UPS asserts that these shipments "take on sharply different seasonal patterns than letters," which causes a "disconnect between costing models and package delivery." *Id.* at 1-2. UPS asserts further that peak-season costs incurred in December and caused by competitive products would not exist if the Postal Service did not deliver packages and that, therefore, these costs are incremental costs, which should be attributed to competitive products. *Id.* at 2-3. Based on its analysis, UPS alleges that the current costing models fail to attribute approximately \$500 million of the "additional peak-season costs" annually, thereby "effectively ignoring them" under 39 U.S.C. 3633(a). *Id.* at 3. According to UPS, this alleged failure may be contributing to the Postal Service's growing losses. *Id.* at 4.

UPS requests the Commission to address the alleged failure of existing cost models by directing the Postal Service to:

- (1) Attribute what UPS characterizes as "unexplained peak-season costs" to competitive products as a group under the incremental cost test utilized for 39 U.S.C. 3633(a)(1)
- (2) Properly analyze the seasonality effects and revise the cost models to accurately account for such effects, with respect to 39 U.S.C. 3633(a)(2)
- (3) Produce additional data regarding peak-season operations, which would lead to an improved costing methodology
- (4) Develop a new methodological approach for 39 U.S.C. 3633(a)(1) and (a)(2) that addresses more generally peak-season costs and the deficiencies in allocating incremental costs

See *id.* at 39-41. UPS also suggests that “a comprehensive technical conference would be an appropriate next step....” *Id.* at 41.

III. COMMISSION ANALYSIS

The Commission established periodic reporting rules in 39 CFR part 3050 on April 16, 2009.² In Order No. 3506, the Commission directed the Postal Service “to use incremental costs as the basis for class-level and product-level attributable costs” in accounting for costs in its periodic reports.³ UPS asserts that peak-season costs “are caused by competitive products” and “*would not exist* if the Postal Service did not deliver packages.” Petition at 2-3 (emphasis in original). UPS therefore concludes that “[p]eak-season costs plainly qualify as incremental costs” and that “the current costing models approved by the Commission fail to account for peak-season cost increases, effectively ignoring them under 39 U.S.C. 3633(a).” *Id.* at 3. To remedy these alleged shortcomings, UPS proposes changes which, if approved, would constitute changes in analytical principles relating to the Postal Service’s periodic reports. As such, the proposed changes are properly presented under 39 CFR 3050.11.

IV. VIDEO TECHNICAL CONFERENCE

Procedures for considering proposals to change accepted analytical principles are provided in section 3050.11(c). 39 CFR 3050.11(c). That section authorizes the Commission to order “the petitioner and/or the Postal Service...to participate in

² Docket No. RM2008-4, Notice of Final Rule Prescribing Form and Content of Periodic Reports, April 16, 2009 (Order No. 203). Section 3050.60(f) of the periodic reporting rules requires the Postal Service to file periodic reports with an explanation of its costing methodologies, which describe the Postal Service’s current methodologies and recent changes. 39 CFR 3050.60(f). For the most recent report, see Rule 39 C.F.R. Section 3050.60(f) Report for FY 2019 (Summary Descriptions), July 1, 2020, subfolders “Rule 39 CFR Sec 3050.60f_Report FY19,” “SummaryDescriptionsFY2019.” A non-public version of the Summary Descriptions is filed under seal. See PDF file Letter_FY 2019_3050_60f.pdf.

³ Docket No. RM2016-2, Order Concerning United Parcel Service, Inc.’s Proposed Changes to Postal Service Costing Methodologies (UPS Proposals One, Two, and Three), September 9, 2016, at 125 (Order No. 3506); Notice of Errata, October 19, 2016. Incremental costs are also used for other purposes, such as for testing for cross-subsidy of competitive products. See Order No. 3506 at 13.

technical conferences, prepare statements clarifying or supplementing their views, or answer questions posed by the Commission or its representatives.” *Id.*

Based upon allegations in the Petition, the Commission believes it would be appropriate to consider areas of possible improvement in costing methodology related to peak-season costs. As a preliminary step, the Commission intends to explore the ability of current costing models to identify and attribute additional peak-season costs. Accordingly, the Commission is establishing Docket No. RM2020-9 and scheduling a video technical conference to consider the alleged shortcomings of the Postal Service’s costing methodologies and potential improvements. The Commission directs both UPS and the Postal Service to make presentations and participate in a discussion of relevant issues in that technical conference. The technical conference will be held online via WebEx on September 29, 2020 at 11:00 a.m. EST. Interested persons who wish to participate must file a notice of intent to participate (Notice) no later than September 14, 2020.

The Notice shall provide the name and email address for each individual who will participate at the WebEx conference using an individual device (*e.g.*, a desktop computer, laptop, tablet or smart phone). Entities, such as corporations, associations, or government agencies that identify more than one individual wishing to participate in the conference shall provide the names of interested persons with their email addresses and designate the individual who will serve as the primary point of contact for the entity.

Prior to the conference, the Commission will provide participants with a WebEx link and a guide explaining how to connect to the conference, and detailing its schedule and procedures to be followed.

At the conference, UPS shall present the analysis underlying its Petition and discuss its proposed modifications to the Postal Service’s costing methodologies. UPS should specifically clarify:

- (1) How the attribution methodology, if modified, would ensure that the costs are attributed to products (or groups of products) through reliably identified causal relationships, as required by 39 U.S.C. 3622(c)(2)

- (2) How the variability costing models, if modified, would be used consistently during both peak- and off-peak time periods

The Postal Service shall discuss how the current costing methodologies account for the peak-season costs. The Postal Service's presentation should address:

- (1) How the Postal Service's costing models (including, but not limited to, the city carrier street time regular delivery letter routes, city carrier street time Special Purpose Routes, and highway transportation models) account for seasonal volume spikes and peak-season costs
- (2) The extent to which the seasonal volume spikes are caused by competitive products and whether and how the current cost attribution methodology accounts for these volume spikes and any associated cost increases
- (3) Whether and, if so, how the Postal Service's recently adopted changes to the methodology of incremental cost attribution allow for accounting for the peak-season cost increases in general and those caused by delivery of competitive products⁴

Pursuant to 39 U.S.C. 505, Lawrence Fenster is designated as officer of the Commission (Public Representative) to represent the interests of the general public in this proceeding.

The Commission will establish additional procedures, as necessary, by further orders.

⁴ See, e.g., Order No. 3506 at 60; Docket No. RM2016-13, Order Adopting Final Rules on Changes Concerning Attributable Costing, December 1, 2016, at 1, 13-15 (Order No. 3641); Docket No. RM2018-6, Order on Analytical Principles Used in Periodic Reporting (Proposal Three), July 19, 2018, at 1-2, 7-10 (Order No. 4719).

V. ORDERING PARAGRAPHS

It is ordered:

1. The Commission establishes Docket No. RM2020-9 for consideration of the matters raised by the Petition, filed May 29, 2020.
2. A video technical conference is scheduled on September 29, 2020, at 11:00 a.m. EST and will be held online via WebEx to address issues identified in this Order and related to this matter.
3. Interested persons who wish to participate in the technical conference shall file a notice of intent to participate on or before September 14, 2020.
4. After the technical conference, the Commission shall post a recording of the conference on its website, which will be available to the general public.
5. Additional procedures, including procedures following conclusion of the technical conference, will be established by further orders of the Commission.
6. 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.
7. The Secretary shall arrange for publication of this Order in the *Federal Register*.

By the Commission.

Erica A. Barker
Secretary