

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 Seven)

Docket No. RM2021-1

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

(Issued November 18, 2020)

I. INTRODUCTION

On November 9, 2020, 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 Seven.

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Seven), November 9, 2020 (Petition). The Postal Service also filed a notice of non-public materials relating to Proposal Seven. Notice of Filing of USPS-RM2021-1-1 and RM2021-1-NP1 and Application for Nonpublic Treatment, November 9, 2020.

II. PROPOSAL SEVEN

Background. Proposal Seven relates to updating the variabilities for certain types of purchased highway transportation contracts. Petition at 1. In recent years, the Postal Service has made two major operational changes to its highway transportation network: increased reliance on additional highway transportation during the seasonal volume peak, and the introduction of Dynamic Route Optimization (DRO) contracts. *Id.* The Postal Service characterizes both operational changes as large enough to qualify as major structural reorganizations which, in keeping with Commission guidance, require updating its variabilities. *Id.* Along with the Petition, the Postal Service filed a report by Professor Michael D. Bradley supporting the proposal.² The Postal Service additionally filed operational data, econometric programs and results, and additional under-seal materials providing detail on competitive products.³

Proposal. The Postal Service's proposal seeks to update its cost-to-capacity variability estimates for Christmas routes based on data from the Transportation Contract Support System, the same data source that was used to estimate the established cost-to-capacity variabilities for regular transportation. Petition at 2. The Postal Service has provided estimates for four variability equations relating to the seasonal peak: Christmas Intra sectional center facility (SCF) van transportation, Christmas Intra SCF tractor trailer transportation, Christmas Inter SCF transportation, and Christmas network distribution center transportation. *Id.* The Postal Service states that the provided variability estimates follow established methodology, and that in all four instances, estimated variability has increased over the current estimates. *Id.* at 2-3.

With regards to the DRO contracts, the Postal Service notes differences from traditional purchased highway transportation: they do not have fixed routes and are

² Professor Michael D. Bradley (Department of Economics, George Washington University), Research on Updating Purchased Highway Transportation Variabilities to Account for Structural Changes (Bradley Study).

³ See Library Reference USPS-RM2021-1-1 (showing operational data, programs, and results); Library Reference USPS-RM2021-1-NP1 (showing detail for competitive products).

paid at a per-mile rate in lieu of annual contract awards. *Id.* at 3. Noting a substantial increase in DRO transportation costs from FY 2018 to FY 2019, the Postal Service states that the differences between DRO and traditional purchased highway transportation have become material, making it appropriate to investigate whether DRO contracts have a different variability than traditional contracts. *Id.* at 3-4. The Postal Service provided estimates of three DRO variabilities: van, tractor-trailer, and both. *Id.* at 4. The Postal Service additionally reestimated variabilities for traditional van, tractor-trailer, and intra-city transportation. *Id.* at 4-5. The Postal Service states that all variabilities were estimated using established methodology. *Id.* at 4-5.

Rationale and impact. The Postal Service notes that the new variability estimates are all higher than the existing estimates. *Id.* at 6. It notes that the absolute dollar increase in competitive attributable cost is larger than the same increase in market dominant attributable cost, but that the percentage increases are about the same. *Id.* The Postal Service states that the impact on the attributable costs of each product will vary based on the proportion of the costs of each product that are highway costs. *Id.* at 7. The Postal Service provides a table that shows the change in unit transportation cost for different products. *Id.* at 8.

III. NOTICE AND COMMENT

The Commission establishes Docket No. RM2021-1 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 Seven no later than February 26, 2021. 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. RM2021-1 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 Seven), filed November 9, 2020.
2. Comments by interested persons in this proceeding are due no later than February 26, 2021.⁴
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.

Erica A. Barker
Secretary

⁴ The Commission reminds interested persons that its revised and reorganized Rules of Practice and Procedure became effective April 20, 2020, and should be used in filings with the Commission after April 20, 2020. The new rules are available on the Commission's website and can be found in Order No. 5407. Docket No. RM2019-13, Order Reorganizing Commission Regulations and Amending Rules of Practice, January 16, 2020 (Order No. 5407).