

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

Before Commissioners:

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

Public Inquiry on the Methodology to
Estimate the Value of the Postal Service
Letter and Mailbox Monopolies

Docket No. PI2020-1

NOTICE OF FILING LIBRARY REFERENCE PRC-LR-PI2020-1-NP1
AND ORDER SETTING COMMENT DEADLINE

(Issued February 10, 2021)

In Docket No. PI2021-1 and in response to a motion by the Postal Service, the Commission notices its filing of a detailed explanation of its current Universal Service Obligation (USO) valuation methodology, including workpapers showing the calculations underlying the Commission's most recent USO valuation.¹ The Commission has determined that providing the documentation of its current monopoly valuation methodology, including supporting workpapers, would be equally valuable to interested persons seeking to comment in this docket. Library Reference PRC-LR-PI2020-1-NP1 (filed under seal) consists of the SAS programs, datasets, input workbooks and output files used to develop the FY 2018 and FY 2019 postal and mailbox monopolies

¹ Docket No. PI2021-1, Order Granting Motion to Disclose Methodological Information and to Adjust Procedural Schedule, January 21, 2021 (Order No. 5821).

estimates.² In addition, the Library Reference includes a Word document describing these files, processing instructions and their use, as well as the various output files produced.

As such, the Commission is providing public notice of filing its Analysis of the Value of the Postal and Mailbox Monopolies (Library Reference PRC-LR-PI2020-1-NP1).

Overview of Current Changes to Original Monopolies Methodology

SAS Programs Changes, Input Workbooks Changes and Other Material Methodological Changes (FY 2018 and FY 2019 Monopolies Estimates)

To the extent possible, the Commission attempted to update and replicate nearly all aspects of the original methodology.³ Out of necessity, the original SAS programming code was modified to accommodate or incorporate changes in the data sources such as new product codes or other time or mail volume changes.⁴

² The mailbox monopoly is the Postal Service's exclusive right to deliver to and collect from mailboxes. The letter monopoly is the Postal Service's exclusive right to carry and deliver most addressed, paper-based correspondence. The combined letter and mailbox monopolies are together referred to as the postal monopoly. Subtracting the value of the mailbox monopoly from the value of the postal monopoly does not yield the value of the letter monopoly because there is overlap in the contestable mail and a different frequency of delivery by the competitor. Without access to mailboxes, it is unlikely that the competitor could successfully capture mail directed to a specific person or address because those pieces are delivered to and collected from mailboxes. Therefore, a separate estimate of the value of the letter monopoly alone (retaining the mailbox monopoly) is not calculated.

³ See Report on Universal Postal Service and the Postal Monopoly, December 19, 2008 (2008 USO Report). Additionally, the Commission filed Appendices and Workpapers attached as zip files. See folder "Appendices," folder "USO Appendices," PDF file "Appendix F Section 4.pdf" (Quantitative Analysis of the Value of the Postal and Mailbox Monopolies, Robert H. Cohen) and folder "Workpapers and Data Files Appendix F4.zip." The files included with the FY 2018 and FY 2019 PRC-LR-PI2020-1-NP1 Library Reference mimic the same structure (where applicable) and purpose of the SAS programs and datasets as well as the input and output workbooks provided in the 2008 USO Report "Workpapers and Data Files Appendix F4.zip" folder "Workpapers and Data Files Appendix F4."

⁴ For example, the City Carrier Cost System (CCCS) sampling design change described in Docket No. ACR2008, Library Reference USPS-FY08-34, December 30, 2008, PDF file "USPS-FY08-34_CCCS_Final.pdf," at 1. Additionally, to improve efficiency, the rural product distribution keys development was automated in the methodology after the 2008 Report.

The original monopoly methodology had “Parcel Post” as the only mail in the category that the SAS programs and processing refer to as “d23” volume.⁵ In the 2008 USO Report methodology, contestable mail included “Parcel Post” dropshipped at the destination delivery unit (DDU).⁶ Because “Parcel Post” evolved⁷ since then, in the FY 2018 and FY 2019 methodology, the “d23” volume includes Parcel Select/Parcel Select Lightweight, Retail Ground/Standard Post and First-Class Packages in the input workbooks and volume groupings of the overarching structure of the SAS processing programs code.⁸

The FY 2018 and FY 2019 data source mail volume inputs to the models also differ from previous years. The volume inputs are adjusted (weighted) to the national fiscal year annual estimates of mail volume delivered by city carriers (on letter routes) and rural carriers. The Commission’s Sensitivity Analysis section that follows includes the results of those changes for FY 2019.

⁵ The FY 2007 CCCS data set had bucket number 23 mail volume as “Parcel Post.” See Docket No. ACR2007, Library Reference USPS-FY07-28, December 28, 2007, file “USPS_FY07_28_CCCS_Final.doc, at 12; Workpapers and Data Files Appendix F4, file “SAS program “CCS07_newwts1.sas.”

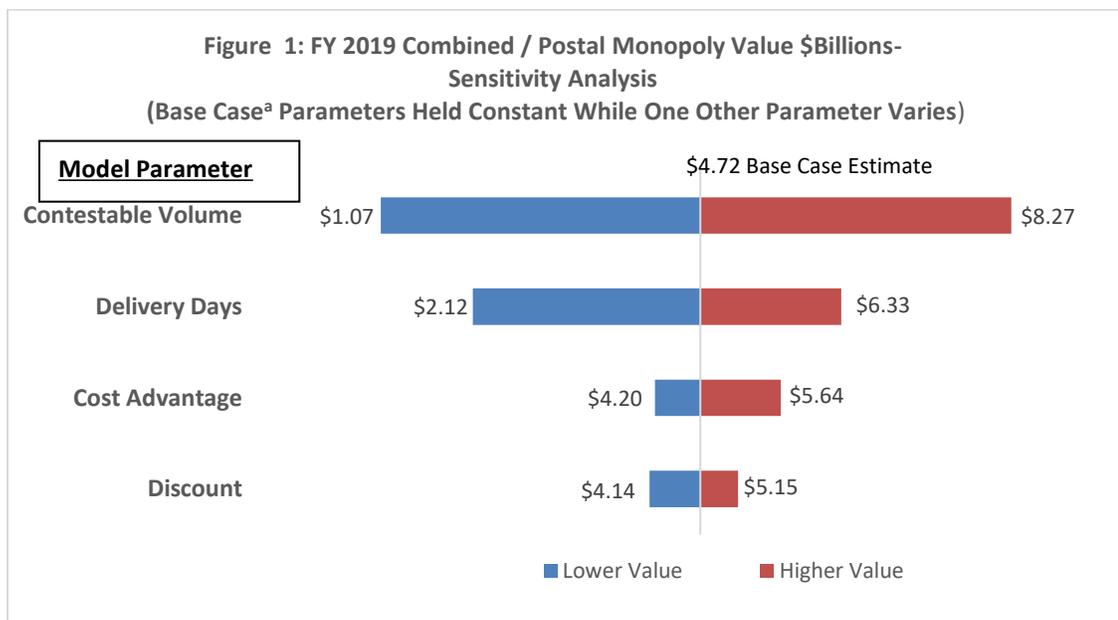
⁶ See 2008 USO Report, Workpapers and Data Files Appendix F4, Excel file “contestable_vol_est_120708.xls,” tab “FY07.” A note is included in tab “FY07,” line 11, “Note: used .523 (ratio of DDU/Tot PP in R2006-1) x 349 mil (FY07 Tot PP RPW).”

⁷ The United States Postal Service Office of Inspector General states that “Parcel Post has evolved into a diverse set of package delivery services that are integral to the Nation’s lifestyle and commerce, including Priority Mail, Parcel Select, which allows mailers to enter discounted packages deep within the U.S. Postal Service’s network, and Standard Post, Parcel Post’s direct descendant.” See United States Postal Service Office of Inspector General White Paper, Report No. RARC-WP-14-004, 100 Years of Parcel Post, December 20, 2013, at ii, available at: https://www.uspsoidg.gov/sites/default/files/document-library-files/2015/rarc-wp-14-004_0.pdf.

⁸ See Docket No. ACR2019, Library Reference USPS-FY19-NP22, December 27, 2019, PDF file “USPS-FY19_NP22_CCCS_Preface.pdf,” at 37-38; Library Reference USPS-FY19-NP23, December 27, 2019, PDF file “USPS-FY19-NP23_RCCS_Preface.pdf,” at 22-23: bucket numbers 123 (First-Class Package), 420 (Parcel Select), 430 (Parcel Select Lightweight), 460 (Retail Ground/Standard Post). The “d23” percentage of contestable mail is based on the number of Parcel Select and Parcel Select Lightweight packages dropshipped (data source from the billing determinants) at the DDU. See Library Reference PRC-LR-PI2020-1-NP1, Excel file “Contestable_2019.xlsx,” tabs “FY 19,” “FY 19 Contestable,” and “19Parcel Select.”

Commission’s Sensitivity Analysis

The Commission’s models allow for the selection of different values for certain key parameters that affect the estimated value of the monopolies. In addition to the base case values that reflect the assumptions that the Commission selected as the most likely, “low” and “high” values are evaluated to demonstrate the sensitivity of the results to each parameter and to help conceptualize the lower and upper bounds of reasonable estimates. Figure 1 shows that the combined monopoly value estimate is most sensitive to the contestable volume with a range from low to high of about \$7.2 billion. The results are less sensitive to the discount or to the cost advantage variables.



^a The base case parameters for the combined (letter and mailbox)/postal monopoly estimate are the entrant offers a 10 percent discount, has a 10 percent cost advantage, delivers 3 days a week, and potentially skims 100 percent of the eligible contestable mail on profitable routes. Source: Commission analysis, Library Reference PRC-LR-PI2020-1-NP1.

To test the sensitivity of the FY 2019 base case combined monopoly estimate, the value of the combined monopoly estimate is shown below in Table 1 for the full range of each parameter while holding the other variables to their base case values.

Table 1
FY 2019 Values of the Combined (Letter and Mailbox)/Postal Monopoly-
Sensitivity Analysis
(Base Case⁹-Parameters Held Constant While One Other Parameter Varies)

Discount	0 percent	5 percent	10 percent	15 percent	20 percent
Value	\$5.15 billion	\$4.95 billion	\$4.72 billion	\$4.43 billion	\$4.14 billion
Skimmed routes	68 percent	64 percent	60 percent	55 percent	50 percent

Days/week	1	2	3	4	5	6
Value	\$6.33 billion	\$5.77 billion	\$4.72 billion	\$3.72 billion	\$2.86 billion	\$2.12 billion
Skimmed routes	97 percent	81 percent	60 percent	43 percent	31 percent	21 percent

Cost Advantage	0 percent	10 percent	20 percent	30 percent
Value	\$4.20 billion	\$4.72 billion	\$5.20 billion	\$5.64 billion
Skimmed routes	51 percent	60 percent	69 percent	78 percent

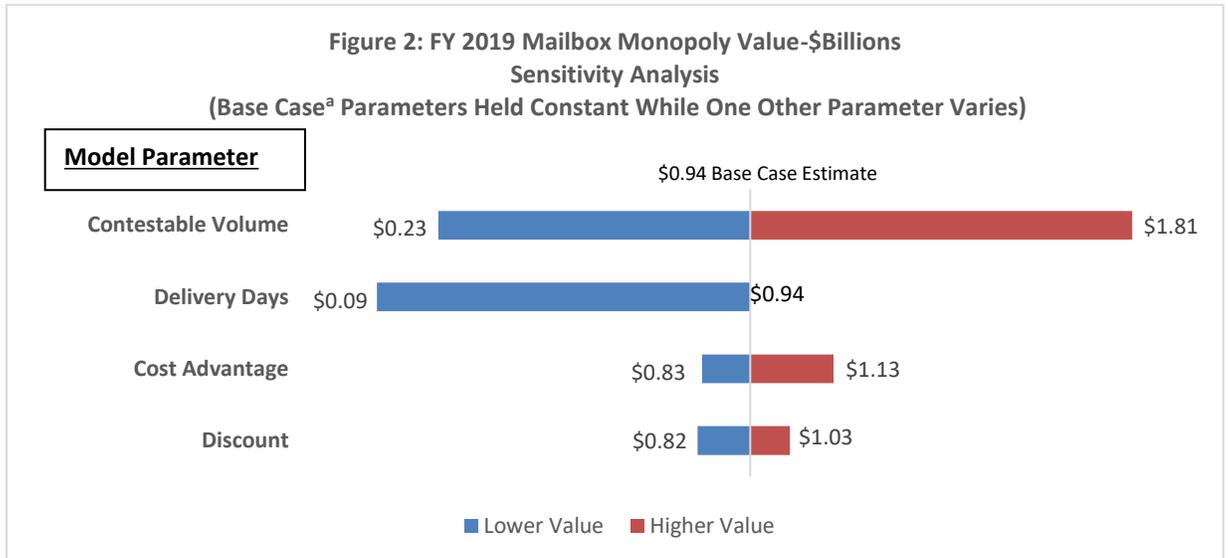
Contestable Volume	50 percent	100 percent	150 percent
Value	\$1.07 billion	\$4.72 billion	\$8.27 billion
Skimmed routes	21 percent	60 percent	79 percent

Denotes base case parameter value for the combined/postal monopoly estimate.

Source: Commission analysis, Library Reference PRC-LR-PI2020-1-NP1.

Figure 2 shows that the mailbox monopoly value estimate is most sensitive to the contestable volume with a range from low to high of about \$1.6 billion. The mailbox monopoly value estimate is also sensitive to the number of delivery days. The results are less sensitive to the discount or to the cost advantage variables.

⁹ The base case combined monopoly model parameters (discount, delivery days/week, cost advantage and percentage of contestable mail potentially skimmed on profitable routes) are shaded in Table 1. The base case parameters for the combined (letter and mailbox)/postal monopoly estimate are the entrant offers a 10 percent discount, has a 10 percent cost advantage, delivers 3 days a week and potentially skims 100 percent of the eligible contestable mail on profitable routes.



^a The base case parameters for the mailbox monopoly estimate are the entrant offers a 10 percent discount, has a 10 percent cost advantage, delivers 1 day a week, and potentially skims 100 percent of the eligible contestable mail on profitable routes.
 Source: Commission analysis, Library Reference PRC-LR-PI2020-1-NP1.

To test the sensitivity of the FY 2019 base case combined monopoly estimate, the value of the combined monopoly estimate is shown below in Table 2 for the full range of each parameter while holding the other variables to their base case values.

Table 2
FY 2019 Values of the Mailbox Monopoly-Sensitivity Analysis
(Base Case¹⁰-Parameters Held Constant While One Other Parameter Varies)

Discount	0 percent	5 percent	10 percent	15 percent	20 percent
Value	\$1.03 billion	\$0.99 billion	\$0.94 billion	\$0.89 billion	\$0.82 billion
Skimmed routes	62 percent	58 percent	53 percent	48 percent	43 percent

Days/week	1	2	3	4	5	6
Value	\$0.94 billion	\$0.44 billion	\$0.19 billion	\$0.12 billion	\$0.10 billion	\$0.09 billion
Skimmed routes	53 percent	19 percent	6 percent	3 percent	2 percent	2 percent

Cost Advantage	0 percent	10 percent	20 percent	30 percent
Value	\$0.83 billion	\$0.94 billion	\$1.04 billion	\$1.13 billion
Skimmed routes	44 percent	53 percent	63 percent	73 percent

Contestable Volume	50 percent	100 percent	150 percent
Value	\$0.23 billion	\$0.94 billion	\$1.81 billion
Skimmed routes	19 percent	53 percent	73 percent

Denotes base case parameter value for the mailbox monopoly estimate.

Source: Commission analysis, Library Reference PRC-LR-PI2020-1-NP1.

To the extent that the Commission's additional analysis and this information may affect comments already filed in this docket or create new areas of interest for parties, the Commission is opening up a second comment period. Interested persons are invited to comment on any or all aspects of existing and potential methodology changes. Comments are due March 26, 2021.

¹⁰ The parameters for the base case of the mailbox monopoly model are that the entrant offers a 10 percent discount, has a 10 percent cost advantage, delivers 1 day a week, and potentially skims 100 percent of the eligible contestable mail on profitable routes.

It is ordered:

1. The Commission provides notice of filing its Analysis of the Value of the Postal and Mailbox Monopolies in Library Reference PRC-LR-PI2020-1-NP1.
2. Interested persons may submit written comments on any or all aspects of the Commission's estimation methodology no later than March 26, 2021.
3. The Secretary shall arrange for publication of this Order in the *Federal Register*.

By the Commission.

Erica A. Barker
Secretary