

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Public Inquiry on the
Universal Service Obligation
Valuation Methodology

Docket No. PI2021-1

CHAIRMAN'S INFORMATION REQUEST NO. 1

(Issued September 16, 2021)

The Commission updates its estimate of the cost of the Postal Service's universal service obligation (USO) each year in the Commission's Annual Report to the President and Congress, based on the methodological approach adopted in the Commission's 2008 USO Report.¹ The following questions and data requests seek to update or potentially improve selected inputs to those calculations.² The Postal Service

¹ 39 U.S.C. § 3651(b). See, e.g., Postal Regulatory Commission, Annual Report to the President and Congress, FY 2020, January 26, 2021, at 47-53 (FY 2020 Annual Report). See also Postal Regulatory Commission, Report on Universal Postal Service and the Postal Monopoly, December 19, 2008 (2008 USO Report). Over time, the Commission has refined its method of calculating the cost of the USO, and the Commission has highlighted these changes in annual reports. For example, in its FY 2011 Annual Report to the President and Congress, the Commission accepted the basic features of the Postal Service's proposed method from Docket No. N2010-1 of estimating the rural carrier costs of delivering 6 days per week rather than 5 days per week. See Postal Regulatory Commission, Annual Report to the President and Congress, Fiscal Year 2011, December 21, 2011, at 41; see also Docket No. N2010-1, Advisory Opinion on Elimination of Saturday Delivery, March 24, 2011, at 60-63.

² The Commission began including the net cost of the Postal Inspection Service in its USO valuation in FY 2019. See Postal Regulatory Commission, Annual Report to the President and Congress, Fiscal Year 2019, January 21, 2020, at 49 (FY 2019 Annual Report). The Commission initiated the instant docket in December 2020 in order to consider whether any other aspects of its USO valuation methodology warrant updating. See Notice and Order Providing an Opportunity to Comment with Respect to Universal Service Obligation Valuation Methodology, December 10, 2020 (Order No. 5777). In January 2021, the Commission granted a motion by the Postal Service requesting that the Commission provide a detailed explanation of its current USO methodology, including workpapers showing the calculations underlying the Commission's most recent USO valuation. See Order Granting Motion to Disclose Methodological Information and to Adjust Procedural Schedule, January 21, 2021 (Order No. 5821). The Commission is currently preparing the requested explanation, including workpapers, and will issue it as soon as practicable.

is requested to provide written responses to the following questions. The responses and data requests should be provided as soon as possible, but no later than September 24, 2021.

1. In Docket No. PI2014-1, the Commission included as an attachment to its notice initiating the docket an analysis by the Postal Service of activities that could qualify for reporting under 39 U.S.C. § 3651(b)(1)(C).³ The Postal Service's analysis identified the activities of the United States Postal Inspection Service as qualifying for reporting under 39 U.S.C. § 3651(b)(1)(C) and, for FY 2013, estimated the net cost of the United States Postal Inspection Service to be \$410.7 million.⁴ The United States Postal Inspection Service net cost was included as part of the USO cost in the FY 2019 Annual Report. FY 2019 Annual Report at 49.
 - a. Please provide the United States Postal Inspection Service's FY 2020 estimated net cost, comparable to the figure provided for FY 2013 in the Order No. 2163 Attachment.
 - b. Please describe the methodology and provide workpapers showing the development and calculation of the FY 2020 United States Postal Inspection Service net cost estimate.
2. The Commission determines the costs of maintaining small post offices by estimating the amount the Postal Service would save if rural carriers provided the same services as those provided at small post offices, as well as the amount of revenue that would be lost from existing Post Office Box (PO Box) rentals if small

³ See Docket No. PI2014-1, Notice Establishing Docket Concerning the Scope of Public Service or Activity Cost Reporting Under 39 U.S.C. 3651(B)(1)(C), August 20, 2014, Attachment (Order No. 2163 Attachment).

⁴ Order No. 2163 Attachment at 10-11. The Postal Service in an internal email provided FY 2018 and FY 2019 estimated United States Postal Inspection Service net costs that were comparable to the FY 2013 figure provided in the Order No. 2163 Attachment. See FY 2020 Annual Report at 52.

post offices were to close.⁵ The Commission defines small post offices as those post offices in cost ascertainment groups (CAGs) K and L.⁶ Under the current methodology, the Commission calculates the cost of maintaining small post offices as the potential estimated operating costs saved less cost savings adjustments. See FY 2020 Annual Report at 48-49, Table IV-3. The cost savings adjustments include: (1) costs that would be incurred by rural carriers providing retail services;⁷ (2) an increase in rural carrier delivery costs due to customers who formerly had their mail delivered to a PO Box at a small post office needing to receive delivery of their mail by a rural carrier;⁸ and (3) lost revenue from the PO Boxes formerly rented at small post offices. 2008 USO Report at 138-39. The following questions relate to the potentially available inputs and their calculations for these cost adjustments to small post offices' costs.

- a. In its response to an information request in Docket No. ACR2017, the Postal Service stated that "information regarding the actual number of retail transactions at CAG K and L offices does not exist."⁹ The Postal

⁵ Some post office activities can be provided by a rural carrier while they are completing their assigned route. For example, rural carrier parcel acceptance is considered a post office activity because it can substitute for a customer dropping a parcel at a post office window. See 2008 USO Report, App'x F, Sec. 3, at 26.

⁶ See 2008 USO Report at 136. "Cost ascertainment group" is a method used by the Postal Service that classifies post offices based on volume of revenue generated. CAG K offices have 36-189 revenue units, and CAG L offices have fewer than 36 revenue units. See United States Postal Service, Glossary of Postal Terms (Publication 32), July 2013, available at https://about.usps.com/publications/pub32/pub32_terms.htm.

⁷ In this analysis, the Commission assumes that rural carriers will provide all retail transactions that were formerly performed at CAG K and L post offices. See 2008 USO Report at 137-39, App'x F, Sec. 3, at 27.

⁸ The analysis assumes that PO Box services at these small post offices would be replaced by rural carrier delivery to neighborhood delivery and collection box units ("NDCBUs," or "cluster boxes"). 2008 USO Report, App'x F, Sec. 3 at 27.

⁹ See Docket No. ACR2017, Responses of the United States Postal Service to Questions 1-16 of Chairman's Information Request No. 21, March 5, 2018, question 10.

Service explained that “[d]ue to the low revenue in CAG K and L offices, over 95 percent of these offices are not included within [Retail Systems Software Point of Service (RSS POS)] reporting.”¹⁰ Please specify whether the actual number of retail transactions at CAG K and L post offices currently exists.

- i. Please provide the FY 2019 and FY 2020 actual number of retail transactions at CAG K and L Post Offices (if such numbers exist), and describe the sources and methodology used.
 - ii. If the actual number of retail transactions at CAG K and L post offices currently does not exist, please explain the reason/s why.
- b. In the 2008 USO Report, cost estimates were developed based on data provided by the Postal Service that estimated FY 2007 retail revenue for CAG K and L post offices to be \$280 million and estimated the number of retail transactions to be 0.552 per retail revenue dollar at small post offices. 2008 USO Report, App’x F, Sec. 3, at 27 nn.39-40. From these two Postal Service-provided measures, the Commission then derived algebraically the estimated number of FY 2007 retail transactions at CAG K and L post offices as 154.5 million (0.552 retail transactions per retail revenue dollar times 280 million retail revenue dollars equals 154.5 million retail transactions). *Id.* at 27.
- i. Please provide the FY 2019 and FY 2020 number of retail transactions per revenue dollar at those CAG K and L post offices that do electronically record retail transactions.

¹⁰ *Id.* RSS POS is retail point-of-service software that captures retail business transactions as they take place at the retail unit. See United States Postal Service Office of Inspector General, Retail Systems Software – Business Process Controls, Report No. FT-AR-15-008, July 21, 2015, at 5 n.1, available at <https://www.uspsoidg.gov/document/retail-systems-software-business-process-controls>.

- ii. Please explain and show the figures used to develop the FY 2019 and FY 2020 number of retail transactions per revenue dollar at the CAG K and L post offices that do electronically record retail transactions.
- iii. If the FY 2019 and FY 2020 number of retail transactions per revenue dollar at those CAG K and L post offices that do electronically record retail transactions is materially different than the value developed in FY 2007, please explain the reasons why.
- iv. Please specify the total number of CAG K and L post offices that currently do electronically record all retail transactions.
- v. The In-Office Cost System (IOCS) appears to have two data collection questions related to RSS and POS.¹¹ IOCS question “Q18G15,” labeled “Logged into RSS,” asks “Is the employee logged into RSS?” *Id.* Possible responses are “Y” - yes or “N” - no. *Id.* Question “Q18G12,” labeled “Retail Equipment Type,” asks “What type of equipment is used to sell postage at this facility?” *Id.* One possible response shown to question “Q18G12” in the data entry flow chart is “A. POS / RSS.” *Id.* Please specify the differences (if any) between “POS” and “RSS.”
- vi. Please explain the overall question sequence, order, and logic for the questions leading up to the RSS and POS-related IOCS questions “Q18G15” and “Q18G12.”
- vii. In Docket No. ACR2018, Library Reference USPS-FY18-45, the Postal Service provided updated material for Handbook F-45 (IOCS).¹²

¹¹ See Docket No. ACR2020, Library Reference USPS-FY20-37, December 29, 2020, Excel file “IOCSDataEntryFlowchartFY20.xlsx,” tab “Q18,” cells AF153:AG171.

¹² See Docket No. ACR2018, Library Reference USPS-FY18-45, February 8, 2019, file “ACR 2018 ChIR 6.Public Files.zip,” folder “ChIR.6.Q.26_Approved Handbooks,” file “Handbook F-45_MAY_2018.pdf.”

However, it did not include the IOCS data collection questions or instructions for each question. *Id.* Please provide a more current document that shows the complete IOCS questions with any associated instructions (or illustrative data collector computer screens) for both the cluster and non-cluster IOCS samples similar in format and detail as that provided in the version of Handbook F-45 submitted to the Commission on July 21, 2009.¹³

- viii. Please provide the most current IOCS statistical and computer documentation for the cluster and non-cluster IOCS samples similar in format and detail as that provided in Docket No. R2006-1.¹⁴
 - c. Please provide the most current volume of CAG K and L PO Boxes shown by fee group and PO Box type.
3. Under the current methodology to estimate CAG K and L post offices' operating costs, the Commission includes an estimate of the CAG K and L post offices' postmaster salaries (including a postmaster piggyback factor from the most recent Postal Service Annual Compliance Report), CAG K Clerks' costs, and CAG L Leave Replacement employee costs. See FY 2020 Annual Report at 49, Table IV-3. In Docket No. RM2015-19, the Postal Service suggested aggregating CAG K-L post office costs reported by finance number on the trial balance as an alternative to the piggyback method of calculating the non-labor costs of maintaining small post offices.¹⁵ The Postal Service stated that “[a]n advantage of this approach over the piggyback method is that the piggyback

¹³ United States Postal Service, Data Collection User's Guide for In-Office Cost System (Handbook F-45), October 2004, available at <https://www.prc.gov/dockets/document/63811>.

¹⁴ See Docket No. R2006-1, Library Reference USPS-LR-L-9, May 3, 2006, folder “LR9Document,” file “USPS-LR-L-9_R2006-1_IOCS.pdf.”

¹⁵ See Docket No. RM2015-19, Responses of the United States Postal Service to Questions 1-6 of Chairman's Information Request No. 3, October 22, 2015, question 5 (Docket No. RM2015-19 Response to CHIR No. 3).

ratios (including the Cost Segment 1 piggyback currently used by the Commission) will reflect cost structures of larger offices that comprise the bulk of the piggybacking cost segments, and thus may not accurately measure relative non-labor costs at CAG K-L offices.” *Id.* Piggyback ratios calculated specific to CAG K and L post offices costs may be more accurate measures.

- a. Please provide the CAG K and L post offices’ postmaster piggyback ratio for FY 2019 and FY 2020, including workpapers showing the calculations and cost sub-segment components used.
- b. Please provide the CAG K and L post offices’ clerk costs and piggyback ratios by function for FY 2019 and FY 2020, using the methodology and format suggested in Docket No. RM2015-19 Response to CHIR No. 3, question 4. *See id.* question 5 n.10. Please include with your response workpapers showing the calculations and cost sub-segment components used for the FY 2019 and FY 2020 piggyback ratios.

By the Chairman.

Michael Kubayanda