

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 G. Taub

Priorities for Future Data Collection
and Analytical Work Relating to
Periodic Reporting

Docket No. RM2022-1

NOTICE AND ORDER OF PROPOSED RULEMAKING ON PERIODIC REPORTING

(Issued October 8, 2021)

Pursuant to 39 U.S.C. 3652(e), the Commission is establishing this proceeding to consider possible improvements to the quality, accuracy, or completeness of data provided by the Postal Service in its annual compliance reports.¹

¹ Sections 3652 (a) through (c) of title 39 of the United States Code describes reports that the Postal Service is required to provide to the Commission to enable the evaluation of Postal Service compliance with the requirements and standards of the Postal Accountability and Enhancement Act (PAEA). Section 3652(e) authorizes the Commission to prescribe the form and content of the Postal Service's reports and to initiate proceedings to improve the quality, accuracy and completeness of the data provided.

I. BACKGROUND

This is the second such proceeding initiated by the Commission.² In the first proceeding, the Commission identified four study areas as near-term priorities for further research.³ Those four study areas were: the reestimation of volume variability of city carrier street time; the recalculation of the cost elasticity of purchased highway transportation capacity; the recalculation of postmaster cost variability; and the reestimation of product shares of window service costs.⁴

Two of the four study areas produced changes to the analytical principles being used by the Postal Service. The first of those changes involved city carrier street time and consisted of an update of the city carrier letter route street time model.⁵ The second change involved purchased highway transportation and consisted of an update of the estimated variabilities of purchased highway transportation costs.⁶ By the time Docket No. RM2011-3 was closed, two of the study areas (those involving postmaster cost variabilities and window service costs) had produced no changes to existing analytical principles.⁷

² See Docket No. RM2011-3, Notice and Order of Proposed Rulemaking on Periodic Reporting, November 18, 2010 (Order No. 589).

³ See Docket No. RM2011-3, Order Setting Near-Term Priorities and Requesting Related Reports, January 18, 2013 (Order No. 1626).

⁴ Order No. 1626 at 3. Within those four study areas, the Commission identified specific issues that were more appropriately considered in the medium-term or long-term. See, e.g., *id.* at 7 (whether the regression model of purchased transportation cost variability would benefit from further refinement).

⁵ See Docket No. RM2015-7, Order Approving Analytical Principles Used in Periodic Reporting (Proposal Thirteen), October 29, 2015 (Order No. 2792). A second proposed change to city carrier street time analytical principles was rejected. See Docket No. RM2015-2, Order Denying Changes in Analytical Principles Used in Periodic Reporting (Proposal Nine), September 22, 2016 (Order No. 3526).

⁶ See Docket No. RM2014-6, Order on Analytical Principles Used in Periodic Reporting (Proposals Three through Eight), September 10, 2014, at 15, 27 (Order No. 2180).

⁷ See Docket No. RM2011-3, Order Closing Docket, November 3, 2015, at 5 (Order No. 2798). At the time it closed the docket, the Commission stated its anticipation that studies of cost attribution of postmaster and window service time might be revisited in future dockets after full implementation of the Postal Service's POSTPlan. Order No. 2798 at 5. POSTPlan was an initiative by the Postal Service "to match post office retail hours with workload." Docket No. N2012-2, Advisory Opinion on Post Office Structure Plan, August 23, 2012. The Postal Service subsequently submitted a proposal to change the analytical principles involving postmaster cost variabilities. See Docket No. RM2020-2, 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. That proposal is discussed *infra*.

II. DEVELOPMENTS SINCE THE CONCLUSION OF THE DOCKET NO. RM2011-3 RULEMAKING

A. City Carrier Street Time

On May 31, 2017, the Commission established Docket No. PI2017-1 to evaluate the Postal Service's progress in its ongoing efforts to update its city carrier cost models and data collection capabilities.⁸ The proceedings in this docket focused on the feasibility of a top-down, single-equation model to improve the Postal Service's variability estimates of city carrier cost drivers. On November 2, 2018, the Commission issued an interim order directing the Postal Service to provide an expanded dataset of city carrier delivery data and to report quarterly on the status of developing the expanded dataset.⁹ On February 27, 2020, the Postal Service filed its fifth and final report on the status of its efforts to develop an expanded data set.¹⁰ On March 1, 2021, Docket No. PI2017-1 was closed.¹¹

While Docket No. PI2017-1 was pending, the Commission considered several Postal Service proposals to change various accepted analytical principles related to city carrier costing:

⁸ See Docket No. PI2017-1, Notice and Order Establishing Docket Concerning City Carrier Special Purpose and Letter Route Costs and to Seek Public Comment, May 31, 2017, at 65-66 (Order No. 3926).

⁹ Docket No. PI2017-1, Interim Order, November 2, 2018 (Order No. 4869).

¹⁰ Docket No. PI2017-1, Fifth Status Report of the United States Postal Service in Response to Order No. 4869, February 27, 2020.

¹¹ See Dockets Subject to Automatic Closure in October 2021, available at <https://www.prc.gov/sites/default/files/DocketsPAC/AutoclosurePlaceholder.pdf>.

Docket No. RM2017-8. On December 1, 2017, the Commission approved a Postal Service proposal to establish a procedure for annually updating the estimated proportion of city carrier letter route time spent delivering parcels.¹²

Docket No. RM2017-9. On February 6, 2018, the Commission approved a modified version of a Postal Service proposal to update the methodology for dividing accrued city carrier costs between the letter route and special purpose route groups in the In-Office Cost System (IOCS).¹³

Docket No. RM2017-13. On December 15, 2017, the Commission approved a Postal Service proposal to change the current City Carrier Cost System methodology for estimating Delivery Point Sequence volume proportions.¹⁴

Docket No. RM2018-5. On January 8, 2019, the Commission approved the use of workhours from the Postal Service's Time and Attendance Collection System (TACS) to develop Sunday and holiday city carrier costs and the use of the Postal Service's Product Tracking and Reporting scan data as a distribution key for Sunday/holiday city carrier costs and the city carrier sampling mode 2 (morning readings in small zones).¹⁵ However, the Commission denied the proposed city carrier supervisor methodology component of Proposal Two because the completeness of the overall city carrier supervisor data would likely not be improved. Order No. 4972 at 26-29. The Commission also denied the city carrier afternoon readings and morning readings in large zones because it was unable to determine the impact of these changes. *Id.* at 18-23.

¹² Docket No. RM2017-8, Order on Analytical Principles Used in Periodic Reporting (Proposal Four), December 1, 2017 (Order No. 4259). In this connection, the Commission directed the Postal Service to provide supporting materials in its Annual Compliance Report to help ensure that the Postal Service reports accurate data concerning city carrier letter route street time evaluations. Order No. 4259 at 21-22.

¹³ Docket No. RM2017-9, Order on Analytical Principles Used in Periodic Reporting (Proposal Five), February 6, 2018 (Order No. 4399).

¹⁴ Docket No. RM2017-13, Order on Analytical Principles Used in Periodic Reporting (Proposal Nine), December 15, 2017 (Order No. 4278).

¹⁵ Docket No. RM2018-5, Order Approving in Part Proposal Two, January 8, 2019 (Order No. 4972).

Docket No. RM2019-6. On January 14, 2020, the Commission approved, with modifications, a Postal Service proposal to update and improve the methodology for calculating attributable Special Purpose Route (SPR) city carrier costs.¹⁶ This was to be accomplished through “a new study of SPR costs that uses operational carrier data to reflect the current structure of SPR activities.” *Id.* at 1-2 (footnote omitted).

Docket No. RM2020-7. On July 9, 2020, the Commission approved a Postal Service proposal for updating city carrier regular letter and flat street delivery time variabilities annually to reflect changes in the relative volumes of letter and flat mail.¹⁷

Docket No. RM2020-9. On May 29, 2020, United Parcel Service, Inc. (UPS) filed a petition requesting 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.¹⁸ UPS alleges that the Postal Service’s current costing models for City Carrier Street Time, SPRs, and Highway Transportation do not fully account for the increase in peak-season costs driven by package shipments.¹⁹ On July 13, 2020, the Commission instituted a proceeding to consider UPS’s allegations.²⁰ That proceeding is pending before the Commission.

Docket No. RM2021-7. On September 30, 2021, the Commission approved a Postal Service proposal to replace the system used to distribute delivery costs for SPRs with a revised system, the Special Purpose Carrier Cost System (SPCCS), which

¹⁶ Docket No. RM2019-6, Order on Analytical Principles Used in Periodic Reporting (Proposal One), January 14, 2020 (Order No. 5405).

¹⁷ Docket No. RM2020-7, Order on Analytical Principles Used in Periodic Reporting (Proposal Two), July 9, 2020 (Order No. 5583); Docket No. RM2020-7, Notice of Errata, July 14, 2020.

¹⁸ Docket No. RM2020-9, Petition of United Parcel Service, Inc. for the Initiation of Proceedings to Make Changes to Postal Service Costing Methodologies, May 29, 2020 (Docket No. RM2020-9 Petition). UPS also filed a library reference in support of the Petition. See Docket No. RM2020-9, Notice of Filing of Library Reference UPS-LR-RM2020-9/1, May 29, 2020.

¹⁹ Docket No. RM2020-9 Petition at 29-35. To avoid duplication, this docket is not included in the discussion of purchased highway transportation costs below.

²⁰ See Docket No. RM2020-9, Notice and Order Establishing Docket to Obtain Information Regarding Proposed Changes to Cost Methodologies and Scheduling Technical Conference, July 13, 2020 (Order No. 5586).

replaces manual sampling with Product Tracking and Reporting (PTR) scan data.²¹ The Commission found that the proposal would improve the accuracy of data, reduce data collection costs, and allow the Postal Service to develop separate distribution factors for peak and non-peak periods and to separate estimates by carrier subcategory. Order No. 5991 at 15.

B. Purchased Highway Transportation

Since the conclusion of Docket No. RM2011-3, the Commission has considered several proposals for changes to the methodology for calculating purchased highway transportation costs:

Docket No. RM2016-12. On June 22, 2017 the Commission accepted, in part, a Postal Service proposal that uses a newly developed econometric model to calculate the variability of purchased highway transportation capacity with respect to volume.²² The Commission found that, in general, the Transportation Cost System (TRACS) database provides a reliable source for estimating capacity-to-volume variabilities of purchased highway transportation. Order No. 3973 at 12-15. However, the Commission concluded that the TRACS database is not suitable for the proposed variability analysis for Christmas and emergency routes and therefore instructed the Postal Service to continue applying the current assumption regarding proportionality between capacity and volume pending further research. *Id.* at 16-19.

Docket No. RM2021-1. Subject to a minor modification, the Commission on October 6, 2021, approved the Postal Service's proposed update of econometric estimates of variabilities for specific types of purchased highway transportation as an improvement over estimated variabilities produced by the current methodology.²³ The

²¹ See Docket No. RM2021-7, Order on Analytical Principles Used in Periodic Reporting (Proposal Four), September 30, 2021 (Order No. 5991).

²² Docket No. RM2016-12, Order on Analytical Principles Used in Periodic Reporting (Proposal Four), June 22, 2017 (Order No. 3973).

²³ Docket No. RM2021-1, Order on Analytical Principles Used in Periodic Reporting (Proposal Seven), October 6, 2021 (Order No. 5999).

Commission also urged the Postal Service to econometrically estimate peak-season capacity-to-volume variabilities;²⁴ to conduct research on distribution keys for peak-season costs;²⁵ and to address certain mistakes and discrepancies in the Postal Service's initial data analysis. *Id.* at 39-40.

C. Postmaster Cost Variability

Docket No. RM2020-2. In this proceeding, the Commission denied a Postal Service request to implement a new model to calculate Postmaster cost variability.²⁶ The Commission made suggestions as to how this proposal could be improved and possibly accepted in the future. Order No. 5932 at 47-49.

D. Window Service Costs

Docket No. RM2011-3. In closing this docket, the Commission determined that it was prudent to delay consideration of this study area until the Postal Service's POSTPlan had been fully implemented because it might materially impact the volume variability of window costs. See Order No. 2798. Although POSTPlan has been implemented, the Postal Service has taken no further action to investigate Window Service Time or Window Service Costs.

E. Space-Related Costs

Docket No. RM2020-1. On August 17, 2020, the Commission approved a Postal Service proposal to update inputs into the analysis used for the allocation of facility-related costs to products.²⁷ Proposal Nine was based on a new Facility Space Usage Study (FSUS) conducted in 2018 and 2019. The prior methodology had relied upon

²⁴ Order No. 5999 at 36.

²⁵ *Id.* at 37-38.

²⁶ Docket No. RM2020-2, Order on Analytical Principles Used in Periodic Reporting (Proposal Ten), July 8, 2021 (Order No. 5932).

²⁷ Docket No. RM2020-1, Order on Analytical Principles Used in Periodic Reporting (Proposal Nine), August 17, 2020 (Order No. 5637).

data from a FSUS conducted in 1999 and presented in Docket No. R2005-1. Order No. 5637 at 2.

F. Supervisor Costs

Docket No. RM2019-12. In this proceeding, the Commission approved a Postal Service proposal to use TACS data to determine the share of costs for supervisors at delivery units on Sundays and holidays and then distribute those costs using the same distribution key used for city carriers delivering packages on Sundays and holidays.²⁸

G. Mail Processing Time

Docket No. RM2020-13. In this docket, the Postal Service proposes to establish a new methodology to determine the volume variability factors for the mail processing cost pools representing automated letter and flat sorting operations.²⁹ This proceeding is currently pending before the Commission.

III. PROCEDURES TO BE FOLLOWED IN THIS PROCEEDING

In Order No. 589, the Commission adopted the approach described in Docket No. RM2008-4 for assuring that appropriate changes or additions would be made to the methods for collecting and reporting data and for analyzing or modeling data to develop the estimates reported to the Commission under section 3652.³⁰ Under that approach,

[a] strategic rulemaking would be designed to make the ongoing development of analysis in cost causation or other areas of analysis as orderly and efficient as possible. It would take an inventory of longer-term data collection and analysis needs. It is likely to involve plans to meet those needs over a horizon longer

²⁸ Docket No. RM2019-12, Order on Analytical Principles Used in Periodic Reporting (Proposal Seven), January 6, 2020 (Order No. 5395).

²⁹ Docket No. RM2020-13, Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Six), September 23, 2020 (Order No. 5694).

³⁰ Docket No. RM2008-4, Notice of Proposed Rulemaking Prescribing Form and Content of Periodic Reports, August 22, 2008 (Order No. 104).

than a year. It might focus on existing data collection systems that need to be improved or new data collection programs that need to be established. It might list existing analytical studies that need to be updated, or new analytical studies that need to be undertaken. The scope of a strategic rulemaking would be broad, since one of its purposes would be to compare the likely cost and benefits of improved data or analysis in different areas of research, and the lead time required to conduct the research. The purpose would be to prioritize research projects and draw up a tentative schedule for conducting them.

A strategic rulemaking is likely to be general in focus and exploratory in nature in its early stages. Accordingly, the procedures followed would be quite flexible. They might begin with the equivalent of a prehearing conference in which interested parties identify areas in which research is most needed and most likely to bear fruit. Once a strategic rulemaking has identified and prioritized areas of needed research, it would then narrow its focus to specific data to be gathered or studies to be performed. The Notice of Proposed Rulemaking would be expected to culminate in Commission approval of a list of research projects to be undertaken and a preliminary projected time table for their completion.

Order No. 104 at 32-33.

In this proceeding, the Commission will once again develop an inventory of data collection and analysis needs, comprehensively evaluate these needs, and devise a plan for meeting these needs, with input from mailers, the interested public, the Postal Service and Commission staff. *Id.* At a time when the Postal Service remains under considerable financial pressure, it continues to be important to have accurate estimates of product costs in order to understand the net revenue consequences of the rates and discounts that the Postal Service selects.

For a publicly-owned entity like the Postal Service, changes to the level and quality of the business information that guides its operations should be based on understanding among the Postal Service, its stakeholders, and the regulator, about the need for, and the value of the changes. The Commission hopes that the postal community will weigh both the costs and benefits of any proposed changes and provide input on what improvements in data collection and analysis warrant attention in the near

term and what improvements would be warranted over a longer time horizon. Of those that are considered to be warranted over the near term, comments are requested concerning which research topics should be given priority, and what time frame should be considered feasible for completing the research.

Interested persons may propose areas of research that they think are needed, and may use the list of possible candidates in this Order as a starting point. In doing so, they should consider the magnitude of the candidate's potential impact on estimated volumes, costs or revenues; the time and expense likely to be required to resolve it; and its potential relevance to determining compliance with the standards of the PAEA or supporting the various studies and reports that the PAEA requires the Commission to prepare.

Following the submission of initial comments, the Commission will select an appropriate time to host a public forum. The public forum will function as a technical conference. Subject matter experts from the Postal Service, interested participants, and Commission staff will have an opportunity to interactively discuss matters, such as feasibility and cost, which would bear on the priority that should be assigned to the various research topics that are in need of further study. Proposed modifications to the list of topics and tentative prioritization of them will be addressed at the forum. Participants at the public forum may also discuss a protocol whereby the Postal Service or outside contractor conducting a study growing out of this proceeding would afford an opportunity for outside review and input at interim stages. Additional technical conferences may be scheduled to discuss a particular research item or set of items in greater depth. The Commission intends to permit interested persons to participate in any technical conference held in this proceeding using a virtual meeting platform.

The Commission will balance the urgency and importance of resolving each issue with the practical considerations of time, cost, and other resource limitations. A schedule with target dates for beginning data collection efforts or completing an initial group of analytical studies will be developed. Formal proposals to change or supplement current analytical principles are expected to grow out of the research

completed in response to this proceeding. Such proposals will be vetted as they are now in informal rulemakings devoted to specific detailed changes.

IV. ORDERING PARAGRAPHS

It is ordered:

1. Initial comments are due on or before March 25, 2022.
2. Pursuant to 39 U.S.C. 505, Katalin K. Clendenin is designated as the Public Representative in this proceeding to represent the interests of the general public.
3. The Secretary shall arrange for publication of this Order in the *Federal Register*.

By the Commission.

Erica A. Barker
Secretary