

ORDER NO. 6224

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

Before Commissioners:

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

Periodic Reporting
(Proposal Two)

Docket No. RM2022-8

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

(Issued July 12, 2022)

I. INTRODUCTION

On July 7, 2022, 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 Two.

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Two), July 7, 2022 (Petition). The Petition was accompanied by a study supporting its proposal. See Michael D. Bradley, *Calculating Variabilities for Postmaster Costs*, July 7, 2022. The Postal Service also filed a notice of filing of public and non-public materials relating to Proposal Two. Notice of Filing of USPS-RM2022-8-1 and USPS-RM2022-8-NP1 and Application for Nonpublic Treatment, July 7, 2022.

II. PROPOSAL TWO

Background. In Docket No. RM2020-2 (Proposal Ten), the Postal Service proposed revisions aimed at updating and improving the attribution of Postmaster costs.² The Commission raised four main issues with Proposal Ten and ultimately rejected it because the Postal Service did not show that its proposed revisions to Postmaster cost variability and attribution would result in a significant improvement in the attribution of costs nor were necessitated by the public interest. See Order No. 5932 at 9-46. The Commission offered two alternative methods that would remedy the deficiencies in Proposal Ten, and encouraged the Postal Service to resubmit an updated Postmaster variability analysis. See *id.* at 47. Following the Commission's guidance in Order No. 5932, the Postal Service now submits Proposal Two to address and improve the Postmaster variability analysis. See Petition at 2.

Proposal. The first of the two variability calculation methods offered by the Commission in Order No. 5932 was termed the "Large Sample Version of Proposal Ten Variability" (LSVPTV) method.³ The LSVPTV method addresses the Postmaster variability discontinuity issue through analyzing the variability calculation under the assumption that there is an infinite number of Post Offices in the two grades for which the variability is calculated. See *id.* at 3. However, the Postal Service states that under this method, the Work Service Credit (WSC) probability distribution is unknown and must be estimated in an additional analysis before the variability can be calculated. See *id.*

The second variability calculation method offered by the Commission in Order No. 5932 was termed the "Minimization of Error Distance Between Predicted and Actual Cost" (MEDBPAC) method, which was also referred to as a "geometrical" approach. See *id.* at 3-4 (citing File A5 at 12). To calculate a variability for a given Executive

² See Petition at 1 (citing Docket No. RM2020-2, Order on Analytical Principles Used in Periodic Reporting (Proposal Ten), July 8, 2021 (Order No. 5932)).

³ See *id.* at 3 (citing Docket No. RM2020-2, Library Reference PRC-LR-RM2020-2/5, July 8, 2021, at 1 (File A5)).

Administrative Schedule (EAS) grade pair, the algorithm modifies the total Postmaster cost equation by replacing the counts of the numbers of offices in the higher and lower EAS grades with the sums of the probabilities of an office being in either the higher or lower EAS grade, as determined by the logit model. *See id.* at 4.

The Postal Service considered and evaluated the two methods and determined that the MEDBPAC method provides a stronger foundation than the LSVPTV method for calculating Postmaster attributable costs. *See id.* The Postal Service asserts that the LSVPTV method has several disadvantages. First, it involves calculating the limit of the variability function, not calculating the variability directly from the variability function itself. *See id.* Second, it requires assuming that there is an infinite number of Post Offices, which may present issues for pairs of EAS grades with relatively few Post Offices. *See id.* at 4-5. Third, it requires non-parametric estimation of the continuous probability distribution of the WSCs for each pair of Post Offices, which imparts arbitrariness to the estimation and adds another step of complexity to the calculation. *See id.* at 5. Fourth, the calculated LSVPTV variability turns out to be the variability of cost with respect to the threshold WSC level, not WSCs directly, which may cause issues for the calculation of incremental costs. *See id.*

The Postal Service contends that in comparison, the MEDBPAC method has several advantages. First, it is much closer in form to established methods of variability calculation. *See id.* Second, it is transparent and does not require another layer of assumptions and estimations. *See id.* Third, it makes use of the actual distribution of WSCs across Post Offices, ensuring that the variabilities reflect the underlying cost surface. *See id.* Fourth, it is consistent with the economic theory underlying attributable cost calculation. *See id.* Therefore, the Postal Service proposes to use the MEDBPAC method to calculate the Postmaster variability.

The Postal Service also determined to extract Form 150 WSC data from 2022 to update the logit models used in Docket No. RM2022-2, as those logit models were estimated from older Form 150 WSC data from 2019. *See id.* The Postal Service

states that doing so updates the variability analysis to the most recent data available and demonstrates the stability of the logit models. *See id.*

As the 2022 Postmaster variabilities depend not only on the logit models estimated on the 2022 WSC data, but also on the EAS salary schedule for 2022, the Postal Service summarized the changes in EAS salary schedule for 2022 in comparison with the EAS salary schedule for 2019. *See id.* at 7-8.

Based on the logit models estimated on the 2022 WSC data and the 2022 EAS salary schedule, the Postal Service calculated the 2022 Postmaster variabilities. *See id.* at 8, Table 1. The Postal Service also included the 2019 Postmaster variabilities for comparison and found that three of the estimated variabilities were very stable, one showed modest change, and two showed substantial change due to EAS salary schedule change from 2019 to 2022. *See id.* at 8-9.

Impact. In the Postmaster cost model used currently, a single variability is applied against the costs for EAS grades 18 through 22, and grades 24 and above receive a zero variability by assumption. *See id.* at 10. In contrast, the variability calculation using the MEDBPAC method as proposed by the Postal Service calculates variability for each of the EAS grades below EAS-26, including EAS-24. *See id.* The Postal Service states that doing so results in an overall variability of 3.03 percent, calculated by first calculating the total volume variable costs implied by the individual EAS grade variabilities and then dividing that sum by total accrued costs. *See id.*

The Postal Service states that under the proposed approach the new overall variability is lower than the existing variability for three reasons. First, the Postal Service observes that current variability calculation method is overstated due to a computational error. *See id.*

Second, the Postal Service notes that the Post Office Structure Plan (POStPlan) eliminated the lower EAS grades. *See id.* In lower EAS grades, Postmaster could move relatively rapidly through WSCs to a higher salary. *See id.* In higher EAS grades, Postmaster would need much larger increases in WSCs in order to move to a higher salary. *See id.* Therefore, the Postal Service contends that eliminating the lower EAS

grades results in the less likelihood of Postmaster cost increase for a given percentage increase in volume, which in turn results in the lower overall variability. *See id.*

Third, the Postal Service states that the current variability calculation method measures only the potential increase in cost from an increase in WSCs, not the actual increase captured by the distribution of offices, by WSCs, and within each grade. *See id.* at 10-11. Thus, the Postal Service notes that the current methodology tends to overstate the variability because it assumes that all offices would change grades when WSC changes. *See id.* at 11. In contrast, the Postal Service observes that its proposed MEDBPAC method averages the variabilities calculated at each Post Office used to estimate the logit models, and reflects the actual changes in cost associated with a given change in WSCs. *See id.* The Postal Service states that since most Post Offices have WSC levels that are unlikely to change EAS grades in response to a WSC change, the actual overall variability should be lower. *See id.*

The Postal Service calculated the impact of new Postmaster variabilities on costs of domestic Market Dominant products in Table 2.⁴ The Postal Service asserts that lower new variabilities do not have a large impact on those costs, as unit Postmaster costs are low to begin with. *See id.* at 11.

III. NOTICE AND COMMENT

The Commission establishes Docket No. RM2022-8 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 Two no later than August 26, 2022. Pursuant to 39 U.S.C. 505, Madison Lichtenstein is designated as an officer of the Commission (Public Representative) to represent the interests of the general public in this proceeding.

⁴ *See id.* at 12, Table 2. The impact of the new variabilities on Competitive products are presented in the non-public materials submitted by the Postal Service, Excel file "Non Public Impact.xlsx" in Library Reference USPS-RM2022-8/NP1.

IV. ORDERING PARAGRAPHS

It is ordered:

1. The Commission establishes Docket No. RM2022-8 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 Two), filed July 7, 2022.
2. Comments by interested persons in this proceeding are due no later than August 26, 2022.
3. Pursuant to 39 U.S.C. 505, the Commission appoints Madison Lichtenstein 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