

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 Five)

Docket No. RM2022-11

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

(Issued August 2, 2022)

I. INTRODUCTION

On July 29, 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 Five.

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Five), July 29, 2022 (Petition). The Petition was accompanied by a report supporting its proposal. See Report on Contract Delivery Service Cost Attribution Accrued Cost and Distribution Key, July 29, 2022. The Postal Service also filed a notice of filing of public and non-public materials relating to Proposal Five. Notice of Filing of USPS-RM2022-11-1 and USPS-RM2022-11-NP1 and Application for Nonpublic Treatment, July 29, 2022.

II. PROPOSAL FIVE

Background. Contract Delivery Services (CDS) suppliers are independent contractors who provide delivery on specific routes that are not serviced by city or rural carriers. Petition, Proposal Five at 1. The Postal Service initiated research into the estimation of accrued costs and product costs of CDS in response to USPS Office of Inspector General (OIG) Report No. 20-313-R21. *Id.* That report recommended that the Postal Service: (1) reevaluate the cost proportion percentages used to estimate accrued CDS costs and assess the possibility of using actual CDS payment data to calculate product costs; and (2) conduct a study to whether the mail volumes delivered on CDS and rural routes are similar and consider an update to the distribution keys used to attribute CDS costs. *Id.* at 1-2.

CDS costs are not separately identified in the Postal Service's general ledger (GL). *Id.* at 2. Instead, CDS accrued costs are included as a portion of different GL expense accounts contained in cost segment 14 (purchased transportation), components 143 (Highway) and 145 (Domestic Water) and reported in GL Account No. 53605 – Intra-CSD Regular (Intra-District) – and Account No. 53601 – Intra-processing & distribution center (P&DC) Regular. *Id.* The Postal Service states that costs in these two accounts “comprise the overwhelming majority of all CDS costs and have a distinct treatment.” *Id.*

Currently, the Postal Service calculates the CDS volume variability by developing a cost-to-capacity variability and a capacity-to-volume variability and then multiplying these variabilities together to produce an overall volume variability for the contract costs. *Id.* at 2-3. The calculation of volume variable Intra-sectional center facility (SCF) costs relies upon two econometric analyses, approved in Docket Nos. RM2016-12 and RM2021-1, which updated the capacity-to-volume and cost-to-capacity variabilities, respectively. *Id.* at 3.

The Intra-P&DC and Intra-District account categories are made up of four transportation technologies and route types, including box, city, van, and tractor trailer. *Id.* Within each type, the costs are summed to form the account category's cost

proportions. *Id.* The Postal Service individually estimates the cost-to-capacity volume variabilities for the Intra-District and the Intra-P&DC accounts as the cost-weighted averages of the variabilities of the four transportation/route types. *Id.*

The CDS costs in Intra-SCF accounts are distributed based on the Intra-SCF distribution factors estimated by the Transportation Cost System (TRACS) on a quarterly basis as a proxy because CDS routes are not sampled in TRACS. *Id.*

Proposal. The Postal Service proposes two revisions to analytical principles related to CDS costs based on its investigation into the OIG's recommendations.

First, the Postal Service proposes to update the Intra-P&DC and Intra-District cost proportions annually using Transportation Contract Support System (TCSS) data. More specifically, to update the cost proportions used for the GL accounts that it states comprise the majority of CDS costs, GL Account Nos. 53605 and 53601, using TCSS data. *Id.* at 4.

The Postal Service states that it assessed the feasibility of using CDS payment data from the Accounts Payable Excellence System (APEX) to form the cost proportions for the Intra-P&DC and Intra-District account categories, as the OIG recommended, but determined that APEX data does not contain the information necessary on vehicle capacity necessary to apportion payments between the four transportation/route types. *Id.*

Second, the Postal Service proposes using the rural cost distribution key (CS10, component 260) to attribute CDS costs to products. *Id.* at 6. The Postal Service states "that both operational protocols and field observations support the hypothesis that similar mail volumes are delivered on CDS routes and rural routes." *Id.* Furthermore, the Postal Service contends that "support for the similarities between CDS contractors and rural carriers is found in the process that exists for the conversion of CDS routes to rural routes in comparable offices." *Id.* at 7.

Impact. The Postal Service states that applying an initial update to the Intra-P&DC and Intra-District cost proportions, the first proposed revision, would result in an increase in volume variable highway costs by 0.03 percent. *Id.* at 9. The Postal Service

reports that applying the rural cost distribution key to CDS costs, the second proposed change, would result in an increase “by \$33.7 M, or 0.9 percent” in volume variable highway costs. *Id.*

The Postal Service states that implementing both of the proposed revisions would have resulted “in a shift of \$42.6 M, or 1.2 percent, in highway costs from institutional to volume variable costs” using FY 2021 data. *Id.* at 11. The Postal Service reports that Competitive highway costs would decrease by 0.02 percent under this proposal while Market Dominant costs would increase by 2.5 percent. *Id.* The Postal Service acknowledges that highway costs for High Density and Saturation Flats/Parcels increase “significantly” on a percentage basis but states that the proposed changes result in less than a \$0.01 increase on a unit cost basis. *Id.* The Postal Service states that the proposed methodology would result in approximately 0.2 percent of the volume variable costs for highway transportation being attributed to Total Domestic Market Dominant Services. *Id.*

III. NOTICE AND COMMENT

The Commission establishes Docket No. RM2022-11 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 Five no later than September 20, 2022. Pursuant to 39 U.S.C. 505, Almaroof Agoro 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. RM2022-11 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 Five), filed July 29, 2022.

2. Comments by interested persons in this proceeding are due no later than September 20, 2022.
3. Pursuant to 39 U.S.C. 505, the Commission appoints Almaroof Agoro 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.

Jennie L. Jbara
Alternate Certifying Officer