

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING
(PROPOSAL SIX)

Docket No. RM2022-13

PETITION OF THE UNITED STATES POSTAL SERVICE FOR THE
INITIATION OF A PROCEEDING TO CONSIDER PROPOSED CHANGES
IN ANALYTICAL PRINCIPLES (PROPOSAL SIX)
(August 26, 2022)

Pursuant to 39 C.F.R. § 3050.11, the Postal Service requests that the Commission initiate a rulemaking proceeding to consider a proposal to change analytical principles relating to the Postal Service's periodic reports. The proposal, to use additional sampling of peak season trips within the Transportation Cost System (TRACS) in order to develop a separate distribution key for the costs in peak season highway accounts, is labeled Proposal Six and is discussed in detail in the attached text.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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PROPOSAL SIX: Proposal to Sample Highway Contract Route Peak Trips to Develop Distribution Keys for Peak Costs

Objective

The purpose of this document is to propose a methodology change in the manner in which peak season highway transportation costs are distributed. Specifically, this proposal includes additional sampling of peak season trips within the Transportation Cost System (TRACS) in order to develop a separate distribution key for the costs in peak season highway accounts.

Background

Currently, the distribution keys associated with the costs of peak season highway contracts are based upon TRACS data for regular contracts (i.e., those contracts assigned to the accounts labeled “Regular” in the General Ledger, as opposed to “Emergency,” “Exceptional,” or “Christmas”) calculated by quarter. This calculation begins with the development of a sampling frame for each quarter. A snapshot of operations trip data is taken roughly one month before the start of the quarter and is linked to data from the Transportation Contract Support System (TCSS) to identify the associated contract account for each trip. This allows the sample to be drawn for use in scheduling a data collection technician (DCT) to conduct each test for the upcoming quarter.

For Quarter One, which includes the peak season, the sampling frame is designed in early September, using the most recent operations data which include the last few weeks of August.

Peak contract highway trips may not all be finalized until a few weeks before peak season begins, around mid-November. These peak trips would not be running in August and September and would not be found in the historical operations trip data used to develop the Quarter One sampling frame. Therefore, it was not possible to develop a sampling system and schedule tests for peak season using the current methodology.

In Docket No. RM2021-1, the Postal Service proposed and the Commission approved an update to the peak transportation variabilities. In that docket, many issues were raised regarding the seasonality of peak transportation, and the assumption that the distribution key would be similar to regular transportation was challenged. At the end of that proceeding, in Order No. 5999, the Commission concluded that the Postal Service should conduct research in the development of separate peak season distribution keys:

“[T]he Commission strongly encourages the Postal Service to expedite its efforts to include data on Christmas routes into the TRACS sampling frame”

Order No. 5999 (October 6, 2021) at 36. The current proposal is responsive to that recommendation.

Proposal

Currently, the distribution keys for peak season highway contracts are based upon TRACS data for regular contracts calculated by quarter. The approval of this proposal would replace the usage of regular contract data to determine the distribution of peak costs with a new system based on sampling peak season highway trucks. This proposal has two objectives:

- a) To supplement the current sampling of regular contracts with additional sampling of peak season contract routes.
- b) To separate peak season costs out of the regular cost pools and into a peak season cost pool, and provide a separate distribution key for this cost pool.

Initial efforts to conduct a pilot of a peak season sampling program occurred during peak season of FY 2021 (November and December 2020). A peak season frame was developed using a non-finalized list of peak trips from operations obtained in September. This list was then merged with actual trip data from the peak season of FY 2020. This pilot did not yield enough useful data to develop a distribution key. Since trip schedules were not finalized by September when the frame was developed, there were outdated trips in the frame and in the subsequent sample drawn of trips to be tested. As a result, 24 of the 48 scheduled tests were cancelled because the trips that were scheduled to be tested did not operate, and the frame was not effective for finding alternative trips to test as replacements.

A second study was conducted in peak season FY 2022 (November and December 2021). This study utilized a finalized list of peak trips received from Logistics in

November. These data were then merged with trip data from the previous peak season. Additionally, further instructions were provided to the DCTs, emphasizing the importance of finding replacement trips to test if the originally selected test did not operate as planned. A report was then continually updated and disseminated throughout peak season with the most recent peak trip schedules. The added instructions and continuously updated report allowed the DCTs to select suitable replacement tests throughout the peak season. This study yielded 38 tests out of 48 with meaningful data, allowing a distribution key to be developed.

The frame development and delayed scheduling of the peak TRACS tests (in November, rather than in September) are the only differences in the methodology, compared with the regular TRACS sampling. The applied testing procedures are identical to those employed during regular highway contract TRACS tests.

The resulting distribution keys and corresponding coefficients of variation for all products are included in USPS-RM2022-13-NP1, provided under seal. A public version omitting competitive product details is presented in USPS-RM2022-13-1.

After implementing the proposed distribution key, there is a small shift in costs towards competitive products compared to the Quarter One distribution keys prepared under the current methodology. However, there are still market dominant products found on peak transportation, putting to rest any potential suggestion that such transportation is utilized solely by competitive products.

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There remain additional opportunities for improvement to this peak sampling method. For instance, there were no international products sampled on these peak trips. International mail is more likely to appear on trips that connect to an International Service Center (ISC) rather than on trips that only connect to plants, post offices, and Network Distribution Centers (NDCs). An investigation of the peak frame found that the ISCs were possible trip origins and destinations for peak trips and were not excluded from sampling. However, the trucks sampled during the FY 2022 peak season happened to contain APO/FPO mail processed at ISCs. These trips therefore contained only domestic products, despite originating or destinating at an ISC. Due to its relatively low volume share, international mail is less likely to be sampled on regular highway trips that do not originate or destinate at an ISC, and thus it is not surprising that no international mail was sampled on the other peak trips that did not connect to an ISC.

In addition, the coefficients of variation (CVs) were higher than is often preferred for this estimated distribution key. This issue can be addressed with additional tests. An increase in the number of tests would lower the CVs to more acceptable levels. An increase in the number of tests would also increase the likelihood of capturing smaller-volume products, including international mail, to the extent that that mail does indeed travel on peak transportation. During the FY 2022 pilot of peak sampling, the Postal Service scheduled approximately 50 peak TRACS tests. Now that the methodology has been tested and deemed workable, the Postal Service proposes increasing the number of peak tests to 300 total. Because these tests would be systematically randomly

selected from the full list of peak trips, the 300 tests would be allocated proportionally among the relevant contract types (e.g., Inter-SCF).

Going forward, updates to the sampling program would, as previously mentioned, include more tests to lower CVs, as well as modifications to the frame design process. To ensure a fully representative frame, the design will include contracts not specifically included in the Logistics list of peak trips, but all trips that fall under the classification of peak/Christmas accounts within TCSS. Analysis of the best suitable frame design using various available trip data led to the use of late October and early November trip data to provide the initial peak frame. As was utilized in the FY 2022 peak season, specific instruction to the DCTs to help locate adequate replacements, as well as continuous updating of the report with the latest trip data, will help reinforce the collection of accurate and reliable peak trip data.

The Postal Service proposes to implement the FY 2022 peak distribution key for the FY 2022 Annual Compliance Report (ACR). Though the CVs are high, the cost shift is directionally appropriate toward the competitive products and results in a low impact to product unit costs. The Postal Service believes that application of the FY 2022 peak TRACS sample results would be a reasonable first step, representing an incremental improvement over the existing methodology, despite the limitations and plans for future improvements discussed above. Therefore, the Postal Service recommends that the Commission adopt the general approach being proposed as a foundation, allow application of FY 2022 peak TRACS sample results as an interim step for FY 2022, and

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further approve the planned improvements described herein to the frame development process and sample size expansion for application in future years.

This proposal would also create a separate peak season cost pool apart from the regular highway cost pools. Specifically, it would impact the following accounts and their associated costs:

Table 1: Highway Peak Contracts and Associated FY2022 Quarter One Costs

Contract Type	ACCOUNT DESCRIPTION	ACCT	Q1 (\$000)
Inter-SCF	TRNSP ML/EME-DOM-HS-INTER P&DC CHRISTMAS	53613	13,993
Inter-SCF	TRNSP ML/EME-DOM-HS-INTER CLUSTER CHRISTMAS	53617	7,923
Inter-SCF	TRNSP ML/EME-DOM-HS-INTER AREA CHRISTMAS	53622	223,857
Inter-SCF	TRNSP ML EQPT/EMPTY-DMSTC HWY SVC-INTER AREA	53626	4,274
Intra-SCF	TRNSP ML/EME-DOM-HS-INTRA P&DC CHRISTMAS	53604	9,755
Intra-SCF	TRNSP ML/EME-DOM-HS-INTRA CSD CHRISTMAS	53608	181
Intra-SCF	TRNSP ML EQPT-DMSTC-HWY SVC-INTRAAREA HQ XMAS	53625	73,152
Inter-NDC	TRNSP ML EQPT/EMPTY-DMSTC-HWYSVC-INTER BMC	53624	19,086
Intra-NDC	TRNSP ML EQPT-DMSTC-HWYSVC- INTRA BMC XMAS ML	53623	4,205
	Total Peak		356,426

The new peak season variabilities that were approved Docket RM2021-1 would be applied to these costs, and then they would be distributed based on the peak distribution key. There are slight amounts of additional peak transportation costs throughout the remainder of the year and the Postal Service does not propose a change to the distribution of these costs. In other words, the very small amount of costs accrued in peak highway accounts for Q2-Q4 would continue under the existing methodology to be distributed based on the TRACS sampling of regular highway contracts. Because the peak highway costs are so minimal throughout the remainder of the year, it would not be feasible to sample these trips, and thus the Postal Service has no evidence to

support an assertion that the Peak distribution key from Quarter One would be an improvement over the existing Q2-Q4 distribution keys. The proposed Cost Segment 14 workbook showing the new structure is included in USPS-RM2022-13-1, with a corresponding nonpublic version showing the competitive product detail filed under seal in USPS-RM2022-13-NP1.

Rationale

Historically, peak season costs were distributed similarly to the regular contract costs calculated by quarter. This treatment rests on the assumption that peak season trips have a similar mail mix to regular transportation for the same quarter. Since peak season transportation is used to supplement the regular transportation network during peak season, the mail mix would not necessarily be the same as regular transportation. In addition to supplementing regular routes with additional capacity, peak trips may be scheduled to run to or from temporary peak season annexes. These temporary peak annexes process mostly parcels. However, though the mail mix is not necessarily the same as regular contract transportation, it is likewise not accurate to assume the distribution of peak transportation should result in exclusive assignment to competitive products. As stated in the Postal Service's Reply Comments (March 12, 2021, at page 12) in Docket No. RM2021-1, "Seasonal transportation capacities are designed to handle all of the volume that occurs during the seasonal peak, not just competitive volumes." The sampling of peak season trips provides visibility into the peak season trip

mail mix, thus providing a more accurate estimation of the cost distribution of peak contract costs.

Impact

There are \$356 million of accrued costs relating to peak season highway contracts for Q1 of FY 2022, \$346 million of which are volume variable. If implemented, these costs would be shifted out of the regular transportation cost pools and into a separate peak season cost pool. The costs would mainly shift to competitive domestic products as shown in the unit cost changes below. A version of this table showing the competitive product detail is filed under seal in USPS-RM2022-13-NP1.

Table 2: Estimated CS/14 Unit Costs Current vs Proposed FY 2022 Quarter One

Product	Current Q1FY22 Unit Cost	Proposed Q1FY22 Unit Cost
First-Class Single Piece Letters and Cards	\$0.03	\$0.03
First-Class Presort Letters and Cards	\$0.02	\$0.02
First-Class Flats	\$0.24	\$0.20
High Density and Saturation Letters	\$0.00	\$0.00
High Density and Saturation Flats/Parcels	\$0.00	\$0.00
Carrier Route	\$0.01	\$0.01
Marketing Mail Letters	\$0.00	\$0.01
Marketing Mail Flats	\$0.08	\$0.06
Marketing Mail Parcels	\$0.14	\$0.12
Within County Periodicals	\$0.00	\$0.00
Outside County Periodicals	\$0.07	\$0.06
Bound Printed Matter Flats	\$0.07	\$0.06
Bound Printed Matter Parcels	\$0.08	\$0.07
Media/Library Mail	\$1.52	\$1.99
USPS Mail	\$0.13	\$0.15
Free Mail	\$0.14	\$0.12
Domestic Competitive Mail	\$0.84	\$0.87