

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 Four)

Docket No. RM2022-10

ORDER APPROVING ANALYTICAL PRINCIPLES
USED IN PERIODIC REPORTING (PROPOSAL FOUR)

(Issued September 23, 2022)

I. INTRODUCTION

On July 11, 2022, the Postal Service filed a petition pursuant to 39 C.F.R. § 3050.11 requesting that the Commission initiate a rulemaking proceeding to consider a proposal (Proposal Four) to change analytical principles relating to the Postal Service's periodic reports.¹ The Postal Service also filed supporting material as part of the Non-Public Annex in this proceeding comprising commercially-sensitive information regarding international mail products of the type provided under seal within Library

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Four), July 11, 2022 (Petition).

References USPS-FY21-NP2 and -NP5 in the FY 2021 ACR and further analysis of that material.² For reasons discussed below, the Commission approves Proposal Four.

II. PROCEDURAL HISTORY

On July 13, 2022, the Commission issued a notice establishing this proceeding, inviting comments on Proposal Four, and appointed a Public Representative.³ On August 31, 2022, the Public Representative filed comments.⁴ No additional comments were received.

III. BACKGROUND

The Postal Service files the International Cost and Revenue Analysis (ICRA) Report with the Commission with supporting workpapers as part of its Annual Compliance Report (ACR). The ICRA Report contains revenue, cost, contribution, volume, and weight data for Market Dominant and Competitive international products.

In its Petition, the Postal Service proposes five changes to analytical principles that it asserts will “improve and streamline” the ICRA methodology. Petition at 1. The Postal Service details a list of changes, adjustments, and eliminations that would be made to various files if the Commission approves Proposal Four. Petition, Proposal Four at 5-14.

The Postal Service also filed two non-public attachments that show the financial impact of the proposal.⁵ Excel file “Attachment 1.xlsx” compares the Summary, Market

² See Notice of Filing of USPS-RM2022-10-NP1 and Application for Nonpublic Treatment, July 11, 2022. The Postal Service’s application for non-public treatment incorporates by reference its Application for Non-Public Treatment of Materials contained in Attachment Two of its Docket No. ACR2021, United States Postal Service FY 2021 *Annual Compliance Report*, December 29, 2021 (FY 2021 ACR).

³ Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Four), July 13, 2022 (Order No. 6225).

⁴ Comments of the Public Representative, August 31, 2022 (PR Comments).

⁵ Library Reference USPS-RM2022-10-NP1, Excel files “Attachment 1.xlsx” and “Attachment 2.xlsx,” July 11, 2022.

Dominant and Competitive pages filed as part of Library Reference USPS-FY21-NP2⁶ with the Summary, Market Dominant and Competitive pages that would have been generated for FY 2021 under Proposal Four. Petition, Proposal Four at 4-5. Excel file “Attachment 2.xlsx” compares negotiated service agreement (NSA) summary results filed as part of the NSA Summary (Unified) workbook under Library Reference USPS-FY21-NP2 ICM Costing⁷ with the NSA summary results for FY 2021 that would have been generated under Proposal Four. Petition, Proposal Four at 5.

IV. PROPOSAL FOUR

Proposed methodology. Proposal Four consists of five changes to the ICRA.

First proposed change (description). Currently, the Postal Service uses NSA SIRVO⁸ data to weight flows of various international product rate groups for all products. *Id.* at 1. The first proposed change would add a “second step and a new workbook to weight the various NSA product rate groups using NSA-specific SIRVO data, including the calculations of conveyance and international transportation expenses.” *Id.* The Postal Service states that this change would simplify “competitive B-Pages of Reports (Unified)⁹ by condensing or eliminating portions of the staging area and by applying similarly weighted NSA-specific groups directly to international transportation cost and settlement calculations.” *Id.* The Postal Service states that the proposal would also eliminate the International Surface Airlift (ISAL) and International Priority Airmail (IPA) table by rate group on the competitive B-pages tab as this table only applies to NSA

⁶ Docket No. ACR2021, Library Reference USPS-FY21-NP2, December 29, 2021.

⁷ Docket No. ACR2021, Library Reference USPS-FY21-NP2, Excel file “NSA Summary (Unified).xlsx,” December 29, 2021.

⁸ The System for International Revenue and Volume/Outbound (SIRVO) system provides revenues, volumes, and weights that are used to calculate settlement costs by destination country for most U.S. origin international mail.

⁹ The Postal Service states that it is dropping “(Unified)” from the Reports and NSA Summary files because the identifier is no longer needed. *Id.*, n.1.

flows, thereby eliminating the rate group calculations on the competitive B-pages, as well as the need for staging costs on the tab Pivot4. *Id.* at 1-2.

First proposed change (rationale). According to the Postal Service, adding a second aggregation step solely for settlement costs of NSA products would improve ICRA cost estimates by using actual NSA activity to weight the product rate groups for NSA attribution, thereby refining the cost estimates for both NSA and non-NSA products. *Id.* at 3. The Postal Service states that basing unit cost development directly on SIRVO data for NSAs will increase the accuracy in developing Pricing Group averages for the International Customized Mail (ICM) Costing Modules “by weighting the actual NSA product flows by country within each Pricing Group, thus resulting in more targeted calculations of NSA costs.” *Id.* at 11.

Second proposed change (description). The second proposed change would add all countries to the outbound portions of the ICRA database. *Id.* at 2. Previously, data for countries listed as “999X” were unavailable as they are not sampled in SIRVO. *Id.* at 4. However, individual country data would now be included as it is available in the Foreign Payment System (FPS) for use in the ICRA, thereby refining the group of “999X” countries to individual countries. *Id.*

Second proposed change (rationale). According to the Postal Service, this change “would involve changes to the Outbound Calcs file and the Reports (Unified) ICRA [d]atabase ... which [would] simplify many of the later calculations.” *Id.* at 2. In addition, the Postal Services states that numerous calculations, which are currently needed to develop average costs for these groups, would be eliminated. *Id.* at 6.

Third proposed change (description). The third proposed change would be to replace the current practice of manually entering the rates into the Library Reference USPS-FY21-NP 2 file with an automated process by using the Settlement Workbooks file as the source for outbound settlement calculations. *Id.* at 2.

Third proposed change (rationale). The Postal Service explains that settlement workbooks are routinely filed with International NSA financial workpapers. *Id.* at 4. According to the Postal Service, automating the inputs from the settlement workbooks

would replace the current method of manual inputs that risk data entry errors and minimize possible inconsistencies between the financial workpapers and the ICRA. *Id.* The Postal Service also asserts that the proposed change would eliminate additional tracking calculations in the ICRA as tracking rates are included in the settlement workbooks. *Id.* at 2.

Fourth proposed change (description). The fourth proposed change is aimed at eliminating cells and calculations that are no longer used. *Id.* These eliminations would include obsolete sections of the ICRA model identified in Docket No. ACR2021 Response to CHIR No. 14.¹⁰ The Postal Service explained in its response that the cells and calculations referenced in the questions were no longer used. Petition, Proposal Four at 2.

Fourth proposed change (rationale). The Postal Service explains that the deletion of unused cells and calculations streamlines the ICRA model, allowing preparers to focus only on what is currently used in the model and minimizing the time reviewers might spend with irrelevant sections. *Id.* at 4.

Fifth proposed change (description). The fifth proposed change would be to replace International Accounting Branch (IAB) codes in the ICRA workbooks with International Standards Organization (ISO) codes. *Id.* at 3.

Fifth proposed change (rationale). The Postal Service asserts that ISO codes are the standard identification used in the Universal Postal Union. *Id.* at 4. According to the Postal Service, the use of ISO codes is more consistent and allows for streamlining the ICRA model. *Id.*

Impact of Proposal Four. The Postal Service states that these five changes are all relatively minor in terms of their percentage impacts (generally less than 2 percent). *Id.* at 1. The Postal Service asserts that Proposal Four would have a net impact of zero

¹⁰ *Id.* Docket No. ACR2021, Responses of the United States Postal Service to Questions 1-6 of Chairman's Information Request No. 14, questions 3, 4, February 18, 2022 (Docket No. ACR2021 Response to CHIR No. 14). As part of its response, the Postal Service also filed Library Reference USPS-FY1-NP41.

on costs for Market Dominant and Competitive products. *Id.* at 5. The Postal Service maintains that, if applied in FY 2021, Proposal Four would not have caused any products with a positive contribution to turn negative or any products with a negative contribution to turn positive. *Id.* In addition, the Postal Services states that there “would have been no impact on Inbound NSAs, and all Outbound NSAs would have remained positive.” *Id.* The Postal Service adds that the second, third, fourth, and fifth proposed changes described above “are more along the lines of housekeeping and maintenance improvement” as they “take advantage of additional data sources available to the ICRA and eliminate sections that are no longer used or serve no purpose.” *Id.* at 3-4.

V. COMMENTS

The Public Representative filed comments on August 31, 2022. Based on a review of the filing and workpapers filed under seal, the Public Representative states that Proposal Four “improves and streamlines” the ICRA model and recommends its approval. PR Comments at 4-5. With respect to the first proposed change, he asserts that “the inclusion of a second aggregation step to the settlement process would improve ICRA cost estimates by using actual NSA activity to weight the product rate groups for NSA attribution, [thereby] refining the cost estimate for both NSA and non-NSA products.” *Id.* at 4. With respect to the third proposed change, he asserts that replacing the current method of manually inputting data with automating the input from the settlement workbooks would eliminate the risk of data entry errors and make the process more efficient. *Id.* at 5. With respect to the fourth proposed change, he states that the Postal Service’s responsiveness to Chairman’s Information Request No. 14 in Docket No. ACR2021 would make the model more transparent by allowing preparers to focus only on what is currently used and minimize the time reviewers might spend with irrelevant sections. *Id.* at 4. He adds that “eliminating sections, cells, calculations, and pivot tables that are no longer used or serve no purpose” would streamline the ICRA model by eliminating redundancies. *Id.* Further, he asserts that Proposal Four overall

would yield a net impact of zero on total costs and that the percentage impact would be materially insignificant (generally less than 2 percent). *Id.* at 5.

VI. COMMISSION ANALYSIS

The Commission finds that adopting the proposed changes in Proposal Four would streamline the ICRA model and supporting documentation, facilitate their preparation and review, and improve the accuracy of the data and calculations. The Commission also agrees with the Public Representative that the percentage impact on any product would be materially insignificant and would result in a net impact of zero on total costs.

With respect to the first proposed change, the Commission finds that using NSA-specific cost data to weight the product rate groups for NSAs will improve the accuracy of ICRA cost estimates for NSA and non-NSA products. The proposed methodological change will also simplify related workpapers and eliminate unnecessary ones, thereby streamlining the ICRA model.

With respect to the second proposed change, the Commission also finds that refining the data for “999X” countries in the ICRA database to reflect individual countries will only improve the accuracy of the data.

With respect to the third proposed change, the Commission further finds that linking International NSA financial workpapers to settlement workbooks with settlement costs is a positive step towards avoiding human error that can readily occur with the manual entry of data and in ensuring the accuracy of cost data.

With respect to the fourth proposed change, the Commission finds that the elimination of redundant data and calculations throughout Docket No. ACR2021, Library Reference USPS-FY21-NP2 would streamline both the preparation and review of workbooks, which will facilitate the Commission’s overall review of the ICRA as part of the Annual Compliance Determination process.

With respect to the fifth proposed change, the Commission finds that replacement of IAB codes with ISO codes is logical and would maintain consistent, standardized country references throughout the Postal Service's international filings.

As noted by the Postal Service, some of the changes included in Proposal Four do not alter the economic, mathematical, or statistical theories, precepts, or assumptions applied in the production of the ICRA, and could be characterized as changes in quantification techniques as opposed to analytical principles. Nevertheless, considering the extent and variety of changes being proposed, the Commission appreciates the inclusion of these changes in the proposal. Receiving the explanation of each of the changes in advance of their implementation in the ACR will facilitate the review of that material by the Commission and other interested parties.

VII. CONCLUSION

Pursuant to 39 C.F.R. § 3050.11 and based upon a review of the Postal Service's filings, supporting workpapers, and the Public Representative's comments, the Commission finds that the proposed analytical methodology significantly improves the quality and accuracy of the Postal Service's ICRA reporting. Therefore, the Commission approves Proposal Four.

VIII. ORDERING PARAGRAPH

It is ordered:

For purposes of periodic reporting to the Commission, the changes in analytical principles proposed by the Postal Service in Proposal Four are approved.

By the Commission.

Erica A. Barker
Secretary