

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 Six)

Docket No. RM2022-13

ORDER ON ANALYTICAL PRINCIPLES USED IN PERIODIC REPORTING
(PROPOSAL SIX)

(Issued November 3, 2022)

I. INTRODUCTION

On August 26, 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 changes to analytical principles relating to periodic reports.¹ The Petition identifies the proposed analytical changes filed in this docket as Proposal Six. For the reasons set

¹ 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 (Petition). The Postal Service also filed a notice of filing of non-public material relating to Proposal Six, as well as public and non-public materials supporting the proposal. See Notice of Filing of USPS-RM2022-13-1 and USPS-RM2022-13-NP1 and Application for Nonpublic Treatment, August 26, 2022; Library Reference USPS-RM2022-13-NP1, August 26, 2022; Library Reference USPS-RM2022-13-1, August 26, 2022.

forth below, the Commission approves the proposed changes in analytical principles as modified herein.

II. PROCEDURAL HISTORY

On August 30, 2022, the Commission issued a notice initiating this proceeding, soliciting public comment, and appointing a Public Representative.² On September 7, 2022, Chairman's Information Request (CHIR) No. 1 was issued.³ On September 14, 2022, the Postal Service provided its response to CHIR No. 1.⁴ On September 28, 2022, CHIR No. 2 was issued.⁵ On October 4, 2022, the Postal Service provided its response to CHIR No. 2.⁶ The Commission received comments from the Public Representative on October 7, 2022.⁷ No other party submitted comments in response to Order No. 6262; however, on October 14, 2022, the Postal Service filed a motion for leave to file reply comments in response to the PR Comments⁸ and such reply comments.⁹ The Commission finds that accepting and considering the Postal Service Reply Comments would not prejudice any party and therefore grants the Motion.

² Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Six) and Order Initiating Docket, August 30, 2022 (Order No. 6262).

³ Chairman's Information Request No. 1 and Notice of Filing Under Seal, September 7, 2022 (CHIR No. 1).

⁴ Responses of the United States Postal Service to Questions 1-7 of Chairman's Information Request No. 1, September 14, 2022 (Response to CHIR No. 1); Notice of Filing of USPS-RM2022-13-NP2 and Application for Nonpublic Treatment, September 14, 2022; Library Reference USPS-RM2022-13/NP2, September 14, 2022.

⁵ Chairman's Information Request No. 2 and Notice of Filing Under Seal, September 28, 2022 (CHIR No. 2).

⁶ Responses of the United States Postal Service to Questions 1-2 of Chairman's Information Request No. 2, October 4, 2022 (Response to CHIR No. 2); Notice of Filing of USPS-RM2022-13-NP3 and Application for Nonpublic Treatment, October 4, 2022; Library Reference USPS-RM2022-13/NP3, October 4, 2022.

⁷ Comments of the Public Representative, October 7, 2022 (PR Comments).

⁸ Motion of the United States Postal Service for Leave to File Reply Comments Regarding Proposal Six, October 14, 2022 (Motion).

⁹ Reply Comments of the United States Postal Service Regarding Proposal Six, October 14, 2022 (Postal Service Reply Comments).

III. BACKGROUND

The Postal Service experiences increased volume during the winter holiday (i.e., peak or Christmas) season.¹⁰ The Postal Service makes use of peak highway trips to address this increase in volume. See, e.g., Order No. 5999 at 5; Petition, Proposal Six at 8. According to the Postal Service, “[i]n addition to supplementing regular routes with additional capacity, peak trips may be scheduled to run to or from temporary peak season annexes.” Petition, Proposal Six at 8.

The Postal Service currently includes peak season highway contracts’ costs in the regular contract cost pool, under the assumption that “peak season trips have a similar mail mix to regular transportation for the same quarter.” *Id.*; see *id.* at 3. As a result, the Postal Service applies the regular contract cost distribution key to peak season highway contract costs.¹¹ The Postal Service describes its current methodology in detail as follows:

Currently, the distribution keys associated with the costs of peak season highway contracts are based upon [Transportation Cost System (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.

¹⁰ See, e.g., Docket No. RM2021-1, Order on Analytical Principles Used in Periodic Reporting (Proposal Seven), October 6, 2021, at 5 (Order No. 5999).

¹¹ See *id.* at 3. “Distribution keys are used to distribute volume-variable costs to products and are ‘based on characteristics of the mail that reflect the cost drivers of the variable costs’” Order No. 5999 at 38 (quoting United States Postal Service, Office of Inspector General, A Primer on Postal Costing Issues, Report No. RARC-WP-12-008, March 20, 2012, at 17).

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.

Petition, Proposal Six at 1-2.

The prospect of improving the current methodology was raised in Docket No. RM2021-1. In that docket, in which “the Postal Service proposed and the Commission approved an update to the peak transportation variabilities” (*id.* at 2), various commenters took issue with assuming that the regular transportation distribution key accurately distributes peak transportation costs.¹² Ultimately, the Commission concluded “that the Postal Service should conduct research regarding distribution keys for Christmas contracts” and “[f]ound] it important to include data on Christmas contracts in the TRACS sampling frame[.]” Order No. 5999 at 38. The Postal Service intends Proposal Six as a response to the Commission’s recommendation in Docket No. RM2021-1 for “the Postal Service to expedite its efforts to include data on Christmas routes into the TRACS sampling frame.” Petition, Proposal Six at 2 (quoting Order No. 5999 at 36).

According to the Postal Service, the current methodology, whose sampling frame for the first quarter of the fiscal year¹³ is designed in early September using the then-most recent operations data, does not facilitate sufficient sampling of peak contract highway trips as they “may not all be finalized until a few weeks before peak season begins, around mid-November[.]” after the sampling frame is developed. *Id.* This makes it “not possible to develop a sampling system and schedule tests for peak

¹² See, e.g., *id.*; Docket No. RM2021-1, Public Representative Comments on Proposal Seven, March 5, 2021, at 14-15; Docket No. RM2021-1, Initial Comments of United Parcel Service, Inc. on Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Seven), February 26, 2021, at 12-13.

¹³ According to the Postal Service, the peak season occurs within the first quarter of the fiscal year. See Petition, Proposal Six at 2.

season using the current methodology[,]" and keeps the resulting associated distribution keys from reflecting the increased volume during the peak season. *Id.*

Thus, the Postal Service reports that, as part of an effort to develop an updated methodology, it studied peak season sampling in the peak seasons of Fiscal Year (FY) 2021 and FY 2022. *Id.* at 3-4. For FY 2021, although the Postal Service developed a peak season frame "using a non-finalized list of peak trips from operations obtained in September" and merging this list with actual trip data from the peak season of FY 2020, the Postal Service did not obtain "enough useful data to develop a distribution key." *Id.* at 3. For FY 2022, the Postal Service reports that it conducted a study in November and December 2021 that produced "meaningful data, allowing a distribution key to be developed."¹⁴ According to the Postal Service, "the only differences in the methodology, compared with the regular TRACS sampling[,]" were in developing the frame and in scheduling the peak TRACS tests in November instead of September. *Id.*

IV. PROPOSAL SIX

Proposal Six seeks to update the Postal Service's methodology for distributing peak season highway transportation costs to products. *See id.* at 1. In particular, the Postal Service proposes to include additional sampling of peak season trips within TRACS "to develop a separate distribution key for the costs in peak season highway accounts." *Id.* The Postal Service would use its new peak distribution key (instead of the regular contract distribution key) to distribute the costs from the peak season highway accounts. *See id.* at 3, 7.

More specifically, for the FY 2022 *Annual Compliance Report (ACR)*, the Postal Service proposes to use the FY 2022 peak distribution key described in Proposal Six. *See id.* at 6. Further, for subsequent reporting, the Postal Service recommends adopting the following changes: "increasing the number of peak tests to 300" from 48

¹⁴ *Id.* at 3-4. In particular, the study involved 48 tests, of which 38 yielded meaningful data. *See id.* at 4.

(*id.* at 5; *see id.* at 4); modifying the frame design to include “all trips that fall under the classification of peak/Christmas accounts within TCSS”; and using “late October and early November trip data to provide the initial peak frame.” *Id.* at 6.

Further, the Postal Service proposes to “create a separate peak season cost pool apart from the regular highway cost pools.” *Id.* at 7. Under this aspect of Proposal Six, “[t]he new peak season variabilities that were approved [in] Docket [No.] RM2021-1 would be applied to these costs, and then they would be distributed based on the peak distribution key.” *Id.* However, the Postal Service does not propose changing the distribution of such costs outside of the peak period. *See id.*

The Postal Service asserts that adopting Proposal Six would allow peak contract cost distribution keys to be estimated more accurately. *See id.* at 8-9. As noted, according to the Postal Service, the current approach of relying on regular contract cost distribution keys calculated by quarter is founded on “the assumption that peak season trips have a similar mail mix to regular transportation for the same quarter.” *Id.* at 8. However, the Postal Service advises that this is not necessarily so because “peak season transportation is used to supplement the regular transportation network during peak season[.]” *Id.* Thus, the Postal Service asserts that “sampling of peak season trips provides visibility into the peak season trip mail mix” and offers “a more accurate estimation of the cost distribution of peak contract costs.” *Id.* at 8-9.

According to the Postal Service, for FY 2022 Quarter 1, there were \$356 million of accrued costs relating to peak season highway contracts, of which \$346 million were volume variable. *Id.* at 9. If Proposal Six is implemented, the Postal Service advises that “these costs would be shifted out of the regular transportation cost pools and into a separate peak season cost pool.” *Id.* Further, the Postal Service states that “[t]he costs would mainly shift to competitive domestic products” as detailed in table 2 (in public and non-public versions). *Id.*; *see* Library Reference USPS-RM2022-13-NP1.

V. COMMENTS

The Public Representative comments that “Proposal Six represents an incremental improvement over the current methodology.” PR Comments at 3. However, the Public Representative states that out of the 38 tests on which the proposed FY 2022 peak season distribution key is based:

[O]nly one Christmas/peak season highway contract general ledger account is associated with all the tests (account number 53622-“...INTER AREA CHRISTMAS) in the SAS dataset “sample,” and there do not appear to be any tests for a relatively large portion of peak highway contract costs (account number 53625 “...INTRAAREA HQ XMAS”) in the other SAS peak sample datasets[.]

Id. at 3-4 (footnotes omitted). Consequently, the Public Representative questions the extent to which the current sample is representative of all peak season highway contract routes. See *id.* at 4. As a result, the Public Representative recommends that “in future ACR filings there is some verification that other types of peak highway contract routes (other than those in account 53622) increase in the number of sampled tests with meaningful data.” *Id.*

According to the Postal Service, “the Public Representative’s assertion that all the sampled test data provided are of a singular peak ledger account is incorrect.”¹⁵ In particular, the Postal Service states that “there are 3 tests that relate to account numbers other than account 53622. Test IDs 11301KQ and 12081KK are sampled from trips in the highway general ledger account 53624, while Test ID 11281PT is sampled from a trip in the account 53626.” Postal Service Reply Comments at 2. Nevertheless, the Postal Service acknowledges that “there were no tests conducted on trips within account 53625, which contains a material portion of the peak highway costs[.]” because

¹⁵ Postal Service Reply Comments at 2. The Postal Service also states that 11 of the 38 tests “did not display account information” because “they were recorded as zero-volume tests” (i.e., “no mail [was] unloaded at the test site for these trips”), rather than 8 of the 38 tests as the Public Representative states. Compare *id.*, with PR Comments at 3 n.7.

“the FY 2022 pilot . . . relied on a list of peak trips from Logistics that did not include trips from this account.” *Id.* Further, the Postal Service states that “the proposed modifications to the frame design process will draw from all peak/Christmas accounts, as well as increase the number of tests to be conducted in order to ensure a fully representative frame that includes all trips that are classified as peak accounts[.]” although it comments that it “cannot confirm in advance the extent to which specific accounts will be used or appear in the randomly selected list of trips for testing[.]” *Id.* at 2-3.

VI. COMMISSION ANALYSIS

The Commission evaluates proposed changes to analytical principles to ensure that they “improve the quality, accuracy, or completeness of the data or analysis of data” contained in the Postal Service’s periodic reports. 39 C.F.R. § 3050.11(a). The Commission has reviewed the materials filed in this docket, including the Petition, associated library references, responses to Chairman’s Information Requests, PR Comments, and Postal Service Reply Comments. Based on that review, as discussed further below, the Commission finds that the proposed analytical methodology, including the recommended application of the resulting peak distribution key in the FY 2022 ACR and the proposed future modifications, improves the quality, accuracy, and completeness of sampling of peak season highway routes in the first quarter of the fiscal year and of developing a separate distribution key for peak season highway costs in the first quarter of the fiscal year. As a result, the Commission approves Proposal Six as modified herein.

In general, under the current methodology, peak season highway contract costs are distributed to products pursuant to distribution keys based upon TRACS data for regular contracts. See Petition, Proposal Six at 1. However, as the Postal Service states, “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,” which would then be used, under the current methodology, to develop these

distribution keys. See *id.* at 2. Proposal Six proposes obtaining peak season highway contract samples to distribute peak season highway contract costs. Consequently, the resulting peak distribution keys will be more accurate than the peak distribution keys derived under the current methodology as they will reflect more representative samples.

FY 2022 peak distribution key. The Postal Service proposes to use the FY 2022 peak distribution key for the FY 2022 ACR. See *id.* at 6. According to the Postal Service, “application of the FY 2022 peak TRACS sample results [in the FY 2022 ACR] would be a reasonable first step, representing an incremental improvement over the existing methodology[.]” *Id.* The Postal Service further supports this proposal by stating that “[t]hrough the [coefficients of variation (CVs)] are high, the cost shift is directionally appropriate toward the competitive products and results in a low impact to product unit costs.” *Id.* The Commission finds that the resulting peak distribution key is an improvement because it will produce more accurate reporting in the FY 2022 ACR. The Commission concludes that FY 2022 CVs are acceptable because, notwithstanding the CV levels, the FY 2022 peak distribution key will be more accurate than the FY 2022 distribution key produced using the existing methodology and, as discussed below, the Commission anticipates that CV levels will be reduced subsequently.

Subsequent distribution keys. The Postal Service states that there are “additional opportunities for improvement” to the FY 2022 peak sampling method. *Id.* at 5. Thus, the Postal Service proposes future improvements to the proposed methodology to take place for FY 2023 and thereafter, specifically: (1) “increasing the number of peak tests to 300” to “lower CVs” and to “increase the likelihood of capturing smaller-volume products, including international mail, to the extent that that mail does indeed travel on peak transportation”; (2) modifying “the frame design process . . . [to include] all trips that fall under the classification of peak/Christmas accounts within TCSS” “[t]o ensure a fully representative frame”; and (3) using “late October and early November trip data to provide the initial peak frame.” *Id.* at 5-6; Response to CHIR No. 1, question 2. The Commission finds that these modifications will improve the quality and completeness of future samples; however, because the Postal Service has not yet

developed a distribution key under the proposed methodology (e.g., with 300 tests), it is not possible to assess how much improvement (in terms of sample representativeness and CV levels) over the FY 2022 methodology may result. Consequently, in ACR filings, the Postal Service is required to provide peak season CVs.¹⁶ If the changes approved in this Order do not produce a consistent material improvement over FY 2022 results over the next 3 fiscal years (i.e., through FY 2025), the Commission expects the Postal Service to propose further methodological enhancements.

Consideration of PR Comments. The Public Representative states that “only one Christmas/peak season highway contract general ledger account is associated with all the tests (account number 53622-‘...INTER AREA CHRISTMAS) in the SAS dataset ‘sample,’ and there do not appear to be any tests for a relatively large portion of peak highway contract costs (account number 53625 ‘...INTRAAREA HQ XMAS’) in the other SAS peak sample datasets[.]” PR Comments at 3-4 (footnotes omitted). Thus, in the Public Representative’s view, the current sample is not fully representative of all peak highway accounts. See *id.* at 4. As a result, the Public Representative recommends that “in future ACR filings there is some verification that other types of peak highway contract routes (other than those in account 53622) increase in the number of sampled tests with meaningful data.” *Id.*

The Postal Service disagrees and replies that “there are 3 tests that relate to account numbers other than account 53622.” Postal Service Reply Comments at 2. The Postal Service further states that “the proposed modifications to the frame design process will draw from all peak/Christmas accounts, as well as increase the number of tests to be conducted in order to ensure a fully representative frame that includes all trips that are classified as peak accounts.” *Id.* at 3.

The Commission finds that three peak highway accounts (see Petition, Proposal Six at 7, table 1) are associated with 27 of the 38 tests in the “sample” data set, with

¹⁶ In doing so, the Postal Service may replicate the formatting in Library Reference USPS-RM2022-13-1, Excel file “Peak Distribution Key and CVs – Public.xlsx,” tab “Peak Highway.”

account number 53622 being associated with 24 of the 27 tests.¹⁷ Nevertheless, the Commission finds that the “sample” data set is not representative of every account indicated in table 1 of the Petition.¹⁸ Although the Commission acknowledges the Public Representative’s conclusion that “[i]t may be that the Postal Service’s planned further sample modifications will result in a more representative sample of all peak season highway contract routes[,]”¹⁹ it is important to track whether the proposed increased sample size results in increased variation in the accounts analyzed when determining future peak distribution keys. Thus, beginning with the FY 2023 ACR, and in subsequent ACR filings, the Postal Service shall be required to identify the total number of accounts associated with peak season TRACS tests and to provide an explanation if the number of accounts is fewer than four. Further, as discussed above, if the CVs are not reduced or the samples are not more representative for future fiscal years, the Commission expects the Postal Service to propose new methodological enhancements.

VII. CONCLUSION

Pursuant to 39 C.F.R. § 3050.11 and based upon a review of the Postal Service’s filings, the supporting workpapers, the Response to CHIR No. 1, the Response to CHIR No. 2, the PR Comments, and the Postal Service Reply Comments, the Commission finds that the proposed analytical methodology improves the quality, accuracy, and completeness of the Postal Service’s periodic reporting. Therefore, the Commission approves Proposal Six subject to the requirements that (1) the Postal

¹⁷ The other two accounts are 53624 and 53626. The Commission did not find associated accounts for the remaining 11 tests. *Cf.* Postal Service Reply Comments at 2 (“[T]he number of tests that did not display account information is 11.”).

¹⁸ See, e.g., Postal Service Reply Comments at 2 (“[T]here were no tests conducted on trips within account 53625, which contains a material portion of the peak highway costs.”).

¹⁹ PR Comments at 4 (footnotes omitted); *cf.* Petition, Proposal Six at 6 (“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.”); Postal Service Reply Comments at 3 (“[T]he proposed modifications to the frame design process will draw from all peak/Christmas accounts, as well as increase the number of tests to be conducted in order to ensure a fully representative frame that includes all trips that are classified as peak accounts.”).

Service provide peak season CVs in ACR filings; and (2) beginning with the FY 2023 ACR, the Postal Service identify the total number of accounts associated with peak season TRACS tests and provide an explanation if the number of accounts is fewer than four.

VIII. ORDERING PARAGRAPHS

It is ordered:

1. The Motion of the United States Postal Service for Leave to File Reply Comments Regarding Proposal Six, filed October 14, 2022, is granted.
2. For purposes of periodic reporting to the Commission, the changes in analytical principles proposed by the Postal Service in Proposal Six are approved with modifications as discussed in the body of this Order.

By the Commission.

Erica A. Barker
Secretary