

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

Before Commissioners:

Dan G. Blair, Chairman;
Nanci E. Langley, Vice Chairman;
Mark Acton;
Ruth Y. Goldway; and
Tony L. Hammond

Modification of Costing Methods 2009—
Postal Service Proposal Thirteen

Docket No. RM2009-2

NOTICE OF PROPOSED RULEMAKING ON COSTING
METHODS USED IN PERIODIC REPORTING
(PROPOSAL THIRTEEN)

(Issued November 21, 2008)

On November 19, 2008, the Postal Service filed a petition to initiate an informal rulemaking proceeding to change accepted costing methods for purposes of periodic reporting.¹ The informal rulemaking procedures proposed would be comparable to those followed in Docket Nos. RM2008-2 and RM2008-6, and RM2009-1. In Docket No. RM2008-2, nine numbered proposals were the subject of notice and comment rulemaking procedures. In Docket No. RM2008-6, the Postal Service proposed two additional proposals to change costing methods, numbered ten and eleven. The Postal Service offered an additional proposal (numbered twelve) in Docket No. RM2009-1. Proposals one through nine, and ten through eleven were evaluated in PRC Order No. 115, October 10, 2008 and PRC Order No. 118, October 22, 2008, respectively.

¹ Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Further Proposed Methodology Changes for the FY 2008 ACR (Proposal Thirteen), November 19, 2008 (Petition).

Proposal Twelve is pending. See PRC Order No. 130, November 7, 2008. The Postal Service refers to the change in accepted costing methods that it proposes in this docket as Proposal Thirteen. Labeling it Proposal Thirteen indicates that the proposal is sequential to, but distinguishable from, the proposals in Docket Nos. RM2008-2, RM2008-6, and RM2009-1. See Petition at 1.

Substance of the Postal Service's proposal. Single-piece Parcel Post was separated from competitive Parcel Post products in the FY 2007 Annual Compliance Report (FY 2007 ACR) without the benefit of input cost data that directly reflected the distinction. The FY 2007 ACR employed a cost model for single-piece Parcel Post that included mail processing and transportation cost avoidance estimates for Inter-BMC and Intra-BMC Parcel Post to support the discounts charged for those categories. See USPS-FY07-15 and USPS-FY07-16. In Docket No. RM2008-6, for FY 2008, the Commission approved the collection of "bottom up" costs separately for single-piece Parcel Post and for the various competitive Parcel Post products in the Postal Service's basic data collection systems (In-Office Cost System, Carrier Cost System, and Transportation Cost System). See Order No. 118, October 22, 2008, Proposal Ten. Because new input data will be used in the FY 2008 Annual Compliance Report (FY 2008 ACR) to obtain single-piece Parcel Post costs, adjustments need to be made to the models that estimate the costs associated with inter-BMC and intra-BMC single-piece parcels.

The Postal Service provides electronic spreadsheets showing where the FY 2008 data will go when it is received. *Id.* at 3. Those spreadsheets are briefly described below.

Parcel Post Single-Piece Trans.xls: Cost model showing transportation costs allocated to Inter- and Intra-BMC single-piece Parcel Post (replacing portions of USPS-FY07-16).

Parcel Post Single-Piece MP.xls: Cost model showing mail processing costs allocated to Inter- and Intra-BMC single-piece Parcel Post (replacing portions of USPS-FY07-15).

Parcel Post Cost Model Modifications.doc: Document describing modifications made to the Parcel Post mail processing and transportation cost models (formerly portions of USPS-FY07-15 and USPS-FY07-16) to accommodate new reporting methods in the [Cost and Revenue Analysis] CRA for single-piece Parcel Post.

The objective, background, rationale, and impact of Proposal Thirteen is described in an attachment to the Postal Service's Petition. It is reproduced below.

I. PROCEDURAL EXPEDITION

The same factors that led the Commission to expedite review of the 11 proposals disposed of in Docket Nos. RM2008-2, RM2008-6, and RM2009-1 apply here. Proposal Thirteen appears to be a relatively straightforward proposal to adapt the cost avoidance models for single-piece Parcel Post to use the new CRA inputs that will soon become available. The Postal Service states that compared to the models employed in its FY 2007 ACR, these models are essentially unchanged in their conceptual approach, the mechanical relationships of the data elements, the assumptions used, and the analytical techniques applied. *Id.* at 2. Accordingly, public comments, if any, will be due on December 5, 2008, and reply comments will be due on or before December 12, 2008.

II. SUBSTANCE OF POSTAL SERVICE PROPOSALS

The Postal Service proposal, see Petition at 3, is described below.

Proposal Thirteen. Development of Single-Piece Parcel Post Mail Processing and Transportation cost Models.

Objective: Develop single-piece Parcel Post mail processing and transportation cost models that contain cost estimates for the Inter-BMC and Intra-BMC price categories.

Background: Parcel Post mail processing (USPS-FY07-15) and transportation (USPS-FY07-16) cost models were filed in Docket No. ACR2007. These cost models were used to derive cost estimates for all the Parcel Post price categories using a single set of cost model parameters. This methodology was relied upon because some

parameters were only available in aggregate form. For example, an aggregate mail processing unit cost by shape estimate (USPS-FY07-26) was all that was available at that time.

Rationale: As the Commission discussed in Order No. 118, the Postal Service is now able to provide separate mail processing and transportation cost data for single-piece Parcel Post, Parcel Select, and Parcel Return Service for Fiscal Year 2008. It is therefore now possible to develop separate single-piece Parcel Post mail processing and transportation cost models. The document titled "Parcel Post Cost Model Modifications" lists the modifications required to develop single-piece Parcel Post mail processing and transportation cost models using the cost models that were filed in USPS-FY07-15 and USPS-FY07-16, respectively, as starting points.

Impact: In Docket No. ACR2007, single-piece Parcel Post mail processing and transportation cost estimates for the Inter-BMC and Intra-BMC price categories were not developed for the reasons described above. The fact that several cells on page 1 of the proposed mail processing model contain values of zero is not an indication that there is a problem with the model. These values merely indicate that the USPS-FY07-15 aggregate cost by shape estimate was removed from the model, given that it is not comparable to the single-piece estimate that should be used and is not yet available. The results that appear on page 1 of the proposed transportation cost model are also not meaningful as they were calculated using cost segment 8 and 14 data that represent all of Parcel Post, rather than the more narrowly defined category of single-piece Parcel Post. The single-piece transportation cost data are not yet available. Once all the Fiscal Year 2008 cost data are available and incorporated into the proposed cost models, it will only be possible to compare the single-piece Inter-BMC and Intra-BMC mail processing and transportation cost estimates to the aggregate (single-piece and bulk-entered) Inter-BMC and Intra-BMC cost estimates derived in USPS-FY07-15 and USPS-FY07-16, respectively.

It is Ordered:

1. The Commission establishes Docket No. RM2009-2 to consider the Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Further Proposed Methodology Changes for the FY 2008 ACR (Proposal Thirteen), filed November 19, 2008.
2. Interested persons may submit initial comments on or before December 5 2008.
3. Reply comments may be submitted on or before December 12, 2008.
4. William C. Miller is designated as the Public Representative representing the interests of the general public in this proceeding.
5. The Secretary shall arrange for publication of this Notice in the *Federal Register*.

By the Commission.

Steven W. Williams
Secretary