

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

PERIODIC REPORTING

Docket No. RM2009-10

PETITION OF THE UNITED STATES POSTAL SERVICE REQUESTING INITIATION
OF A PROCEEDING TO CONSIDER PROPOSED CHANGES IN ANALYTIC
PRINCIPLES (Proposals Three - Nineteen)
(July 28, 2009)

Pursuant to 39 C.F.R. § 3050.11, the Postal Service requests that the Commission initiate a proceeding to consider seventeen proposals to change analytic principles relating to the Postal Service's periodic reports. The proposals, labeled as Proposals Three through Nineteen, are discussed below, and in greater detail in the attached text and documentation. (Proposal One was filed as Docket No. RM2009-5 on June 22, 2009, and Proposal Two was filed as Docket No. RM2009-7 on July 7, 2009. See Order No. 229, June 24, 2009, and Order No. 245, July 10, 2009.)

A number of these proposals are intended merely to correct errors detected in some of the programs and spreadsheets used to prepare the ACR filing, and thus probably do not require advance review under Rule 3050.11. Nevertheless, no harm seems likely to result from including notice and review of such corrections in this filing. In the view of the Postal Service, such corrections include Proposal Three (IOCS treatment of UAA Parcel Select), Proposal Four (distribution of Motor Vehicle Service costs), Proposal Five (non-Saturation DALs), Proposal Six (distribution of delivery costs for Insured pieces), and Proposal Seven (activity code for Loading/Unloading Vehicles).

With respect to each of these proposals, some element of the current methodology has been detected which causes the methodology to fail to reflect the analytic principles upon which it is premised. The proposed corrections would restore the intent of the underlying analytic principles.

Another group of proposals involve the incorporation of updates based on operational changes or data system improvements. These include Proposal Eight (new distribution factors for Special Purpose Routes), Proposal Nine (new items in Rural Evaluation Factors), and Proposal Ten (new Rural distribution for DPS/Sector Segment). Proposal Eighteen suggests a further disaggregation of TRACS data to distribute Surface CP costs between Canada and the Rest of the World. Such updates have been routine over the years.

Proposal Eleven is potentially more substantive. It involves an issue which was the focus of significant attention in the FY08 ACD – utilization of booked versus imputed values for certain International Mail costs and revenues in developing the ICRA and the CRA. In the FY08 ACD, to prevent an apparent discrepancy between the total costs and revenues reported in the Annual Report and those in the ACD, the Commission made material adjustments in the ICRA presented by the Postal Service in the FY08 ACR. As detailed in the attached discussion regarding Proposal Eleven, however, if the intent is to consistently use booked values in place of imputed values, the methodology underlying the FY08 ACD needs to be improved. The Postal Service presents such an improved ICRA methodology as part of Proposal Eleven. In addition to proposing reliance on that improved methodology for purposes of preparing the primary FY09 ICRA, the Postal Service also seeks authorization in Proposal Eleven to file an

alternative version of the FY09 ICRA, using the same “imputed values” methodology employed in previous years. The rationales for both aspects of Proposal Eleven are fully explained in the attachment.

Yet another group of proposals relate to the special studies cost models. Proposal Twelve focuses on one aspect of the Periodicals model which was previously the subject of some discussion in a rulemaking last year, and subsequently in the ACR process. Proposals Thirteen (Standard Mail) and Fourteen (Parcels) both involve structural changes to the models to accommodate the new product structure of the PAEA. None of these three proposals is exactly what one might call “plowing new ground,” as they all build on previous work shared in some form last year as part of the FY08 ACR.

Revenue and volume reporting is the subject of another group of proposals. Proposal Fifteen would expand the use of POS data from retail terminals to report revenue and associated attributes from pieces to which a PVS strip has been applied at the window. Proposal Sixteen would establish a new set of distribution factors for allocating Certificate of Mailing (COM) fee revenue back to products. Proposal Seventeen seeks to improve revenue, piece, and weight reporting for Free Military Mail.

Finally, Proposal Twenty is an attempt to determine whether the Commission, for purposes of developing price-to-cost ratios for Periodicals, made an inadvertent change in its FY08 ACD (relative to its FY07 ACD) in the derivation of costs savings associated with bundles. The view of the Postal Service is that the approach used in the FY07 ACD is superior, and should be employed for the FY09 ACR and ACD.

The Postal Service requests that the Commission initiate a rulemaking proceeding pursuant to 39 C.F.R. § 3050.11 to consider each of these proposals.

Respectfully submitted,

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PROPOSAL THREE

PROPOSED CHANGE FOR UNDELIVERABLE PARCEL SELECT IN THE IN-OFFICE COST SYSTEM (IOCS)

OBJECTIVE

A change is proposed to correct the treatment of Undeliverable-As-Addressed (UAA) Parcel Select in the In-Office Cost System (IOCS).

BACKGROUND

Pieces that originate as Parcel Select pieces, but are UAA, are charged additional Single Piece Parcel Post rates when forwarded or returned. The associated revenue is reported as Single Piece Parcel Post revenue. Therefore, the costs associated with such treatment should be assigned to Single Piece Parcel Post. The proposed change will bring IOCS in alignment with the Mail Classification Schedule.

PROPOSAL

Beginning in FY2009, we propose that IOCS assign the costs associated with UAA Parcel Select pieces being forwarded or returned to Single Piece Parcel Post. This would correct a mistreatment that existed in the IOCS for previous years.

IMPACT

If this correction had been made in FY08, total FY08 IOCS dollar-weighted tallies for Parcel Select would have decreased by approximately 7 percent, and for Single Piece Parcel Post would have increased by approximately 4 percent.

Proposal Four

Proposed Change in the Distribution of Motor Vehicle Maintenance and Related Costs (Cost Segment 12)

OBJECTIVE

This proposal involves a methodology change for FY2009 in the manner in which relevant Motor Vehicle Maintenance and Related Costs (CS12) are distributed to products.

BACKGROUND

The established methodology, based on the testimony of witness Stevens, USPS-T-20 in Docket No. R2000-1, has been in effect since that docket. The established methodology first disaggregates total accrued costs for CS 12 into subcomponent costs (separate costs for city letter routes, city special purpose routes, rural routes, vehicle service drivers, and other) based on usage as compiled in the Vehicle Maintenance Accounting System (VMAS). Then, since vehicle maintenance labor and other expenses vary in proportion to miles driven and hours of operation to the same degree as the street time of the carriers or drivers using the vehicles, the methodology first computes the volume variable costs for each subcomponent by multiplying each subcomponent's costs by its associated street time variability, and then distributes the volume variable costs to product, based on the subcomponent's associated distribution factors.

Currently, however, the cost segment 12 worksheets are not utilizing the established methodology in one respect. They are incorrectly computing and distributing the relevant costs for vehicles used on city *letter* routes using the aggregate variability and distribution factors derived from combining city letter *and city special purpose routes*, when the correct procedure would be to compute and distribute those costs using factors based exclusively on city letter route data.

PROPOSAL

This proposal seeks to correct the inadvertent deviation from the established methodology by computing and distributing relevant costs for city letter routes based on the variability and distribution factors for city letter routes (and thus excluding the data for city special purpose routes which previously were erroneously included in these calculations).

RATIONALE

The Postal Service wants to correct this spreadsheet error so that the cost segment 12 workpapers reflect the established methodology instituted since Docket No. R2000-1.

IMPACT

The attached table shows the FY08 impacts on the products. Because the street time variability factor for city special purpose routes is more than for city letter routes, excluding the effects of the special purpose route variability caused the total FY08 attributable costs to drop by three million dollars.

Proposal Four - Motor Vehicle Service Driver Costs

**Fiscal Year 2008 - PRC Version
C/S 12 MOTOR VEHICLE MAINTENANCE
DISTRIBUTED OUTPUTS**

LINE NO.	CLASS, SUBCLASS, OR SPECIAL SERVICE	MVS LABOR FOR CITY DELIVERY, As Filed	MVS LABOR FOR CITY DELIVERY WITH PROPOSED CHANGE	Difference with New City Carrier Distributions in C/S 12.1	MVS SUPL & MATL FOR CITY DELIVERY, As Filed	MVS SUPL & MATL FOR CITY DELIVERY WITH PROPOSED CHANGE	Difference with New City Carrier Distributions in C/S 12.2	TOTAL DIFFERENCE C/S 12
	COLUMN NUMBER							
	UNITS							
	COLUMN SOURCE/NOTES							
	MODEL COMPONENT							
	Market Dominant Products							
1	FIRST-CLASS MAIL							
2	SINGLE-PIECE LETTERS	15,636	15,345	(291)	29,772	29,219	(554)	(845)
3	SINGLE-PIECE CARDS	962	949	(14)	1,832	1,806	(26)	(40)
4	PRESORT LETTERS	9,043	9,200	157	17,230	17,529	299	456
5	PRESORT CARDS	561	570	9	1,069	1,087	17	26
	FLATS	1,518	1,502	(16)	2,892	2,861	(31)	(47)
	PARCELS	798	813	15	1,521	1,549	28	43
10	TOTAL FIRST-CLASS	28,519	28,379	(140)	54,317	54,051	(266)	(406)
11	STANDARD MAIL							
12	HIGH DENSITY & SATURATION LETTERS	1,104	1,125	21	2,103	2,143	39	60
13	HIGH DENSITY & SATURATION FLATS & PARCELS	2,513	2,559	46	4,787	4,876	88	135
14	CARRIER ROUTE	2,791	2,846	54	5,318	5,422	104	158
15	LETTERS	10,520	10,713	194	20,043	20,412	369	562
16	FLATS	2,325	2,370	45	4,430	4,516	86	132
17	NOT FLAT-MACHINABLES & PARCELS	961	983	22	1,830	1,873	42	64
18	TOTAL STANDARD MAIL	20,213	20,595	382	38,512	39,241	729	1,111
19	PERIODICALS							
20	IN COUNTY	189	187	(2)	359	356	(3)	(5)
21	OUTSIDE COUNTY	1,766	1,750	(16)	3,364	3,334	(30)	(46)
22	TOTAL PERIODICALS	1,955	1,937	(18)	3,723	3,690	(33)	(51)
23	PACKAGE SERVICES							
24	SINGLE-PIECE PARCEL POST	473	429	(44)	899	816	(83)	(127)
25	BOUND PRINTED MATTER FLATS	835	682	(154)	1,586	1,293	(293)	(446)
26	BOUND PRINTED MATTER PARCELS	1,297	1,143	(154)	2,466	2,172	(293)	(447)
27	MEDIA AND LIBRARY MAIL	662	583	(79)	1,258	1,107	(151)	(230)
28	TOTAL PACKAGE SERVICES	3,267	2,837	(430)	6,209	5,389	(820)	(1,250)
29	US POSTAL SERVICE	170	174	4	323	331	8	12
30	FREE MAIL	39	40	1	75	77	2	3
31	Total Domestic Market Dominant Mail	54,163	53,963	(200)	103,160	102,778	(381)	(581)
32	Ancillary Services							
33	CERTIFIED	1,023	1,047	24	1,949	1,995	46	71
34	COD	12	11	(1)	22	20	(2)	(3)
35	INSURANCE	124	127	3	237	243	6	9
36	REGISTRY	45	40	(5)	85	76	(10)	(15)
37	SPECIAL HANDLING	-	-	-	-	-	-	-
38	STAMPED ENVELOPES	-	-	-	-	-	-	-
39	STAMPED CARDS	-	-	-	-	-	-	-
40	OTHER ANCILLARY SERVICES	1,179	1,197	18	2,247	2,280	33	51
41	Special Services	-	-	-	-	-	-	-
42	MONEY ORDERS	-	-	-	-	-	-	-
43	POST OFFICE BOX	-	-	-	-	-	-	-
44	OTHER SPECIAL SERVICES	-	-	-	-	-	-	-
45	Total Domestic Market Dominant Services	2,383	2,422	39	4,540	4,614	74	113
46	Total Domestic Market Dominant Costs	56,546	56,385	(161)	107,700	107,393	(307)	(469)
47	Total Domestic Competitive Costs	5,776	4,952	(824)	10,977	9,407	(1,570)	(2,394)
48	INTERNATIONAL MAIL	536	474	(62)	1,020	901	(119)	(181)
49	TOTAL VOLUME VARIABLE COSTS	62,858	61,811	(1,047)	119,697	117,701	(1,996)	(3,043)
50	OTHER	261,062	262,109	1,047	497,340	499,336	1,996	3,043
51	GRAND TOTAL	323,920	323,920	-	617,037	617,037	-	-

PROPOSAL FIVE

PROPOSAL TO EXPAND THE “DAL” ADJUSTMENT TO INCLUDE ECR HIGH DENSITY AND CARRIER ROUTE DALs

OBJECTIVE:

This proposal involves a methodology change in the manner in which Detached Address Labels (DALs) are treated for city street and rural delivery in the “B Workpapers” (Cost Segments 7 and 10) and the Delivery Cost Model (PRC-ACR2008-LR7-2008) for FY09. Specifically, this proposal seeks to expand the “DAL” adjustment to include all ECR DALs. It would compute the delivery costs for ECR High Density and Carrier Route letters and flats using the same methodology that is currently used for ECR Saturation letters and flats. That is, where appropriate city-street and rural DAL costs are shifted from letters to flats.

BACKGROUND:

The established methodology as defined in Commission’s Opinion and Recommended Decision in Docket R2005-1 is for relevant city-street and rural DAL costs to be shifted from ECR Saturation Letters to ECR Saturation Flats & Parcels. DALs are recorded as letters in the carrier cost systems and the DAL costs are derived by taking their share of the appropriate letter cost pool and then shifting those costs to flats (separately for city-street and rural). Mechanically, this process has been done in the delivery model in Dockets R2005-1, R2006-1, and ACR2007 (i.e. for FY2007 it was done in PRC-ACR2007-LR7-FY2007). However the new reporting requirements that resulted from the Postal Accountability and Enhancement Act (PAEA) of 2006 necessitated that the DAL costs now be shifted in the nonpublic version of the “B Workpapers” (PRC-ACR2008-NP-LR2), as well as in the delivery model (PRC-ACR2008-LR7-FY2008). For a more detailed discussion about the reasons for the change in the location of the DAL adjustment, please refer to the Postal Service’s response to Order No. 169, item four, dated January 21, 2009.

In its comments regarding the FY2008 Annual Compliance Report (ACR), Valpak had concerns with the DAL volume discrepancy between RPW and the aggregate DAL estimate from the Carrier Cost Systems (CCS – City and Rural). Valpak Comments (January 30, 2009), at 33. In their comments, Table 5 shows that in FY08, RPW recorded revenue for approximately 902 million DALs, while the combined estimates from the carrier cost systems were approximately 601 million DALs. Valpak said that this was too large of a discrepancy between RPW and the carrier systems and as a result, the Postal Service was undercounting DALs delivered on city and rural routes, and thus understating city-street and rural DAL costs that are shifted to ECR Saturation flats (Valpak Comments at 36).

In contrast, Valassis, in its comments (dated January 30, 2009) regarding the FY2008 ACR, indicated that the volume discrepancy between RPW and the carrier systems was

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not due to an undercount of delivered DALs but due to a shift in delivery characteristics that resulted from the DAL surcharge from Docket No. R2006-1. Valassis Comments at 2).

In the Annual Compliance Determination (ACD) for FY2008, the Commission stated that “the Postal Service should look to improve the accuracy of DAL costing and volume measurement in the future.” (FY2008 ACD, page 64 column 1).

This proposal seeks to address the DAL volume discrepancy between RPW and the carrier cost systems. The established methodology considers only ECR Saturation DALs, but starting in FY2009, both carrier cost systems started recording information about all ECR DALs (Carrier Route, High Density, and Saturation). The data collection systems currently record whether a letter shaped piece is a DAL as well as its rate category as defined by its marking (ECRLOT for Basic, ECRWSH for High Density, and ECRWSS for Saturation). Thus far in FY09, the data from the carrier system is showing that approximately twelve percent of delivered DALs are from either the ECR Basic or ECR High Density rate categories. Table 1 compares the PQ1 and PQ2 FY09 DAL estimates from the carrier systems with RPW as well as with the corresponding FY08 figures. The table shows that the city and rural delivered percentage of DALs is 94 percent through PQ2 in FY09, as compared with 67 percent in FY08. The change in the DAL delivered percentage is explained by the inclusion of DALs from other ECR rate categories, as well as by renewed focus on the DAL data being received on CCS sampled routes.

Table 1

DAL Volume	FY08 (000)	PQ1+PQ2 FY09 (000)
CCCS+RCCS	601,482	334,383 ¹
RPW	901,549	357,238
Carriers/RPW	67%	94%

¹The carrier total includes 29.6 million ECR High Density and 6.0 million ECR Basic DALs which were not included as part of the FY08 carrier estimate as it only counted ECR Saturation DALs.

PROPOSAL:

This proposal expands the “DAL adjustment” from ECR Saturation DALs to include both ECR High Density and Carrier Route DALs. The derivation of the amount to be shifted would use the established methodology, which is to first compute the cost of DALs by determining their share of the appropriate letter cost pool and then shifting those costs to flats. The process is done separately for city and rural carriers.

Mechanically, this proposal requires no changes to the “B Workpapers” or the delivery model. The relevant worksheets in PRC-ACR2008-NP-LR2 which are I-CS07DALs and

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I-CS10DALs would include the aggregate ECR High Density and Saturation DAL carrier volume estimate, rather than just ECR Saturation DAL carrier volume estimate. The Carrier Route adjustment has no impact on the “B Workpapers” because that product does not distinguish by shape. Those aggregate volume figures would flow through the CS06&7 and CS10 workbooks. In the delivery model, however, worksheets that presently display DAL cost or volume information will contain that same information by ECR rate category.

RATIONALE:

The rationale for this proposal is twofold, and it is the same as the justification for the current “DAL Adjustment” for ECR Saturation DALs. One, RPW counts an ECR unaddressed flat with an accompanying DAL as only one piece – a flat. Therefore, computing accurate unit costs requires including all of the relevant costs in the numerator which includes the costs associated with DALs. Two, the In-Office Cost System (IOCS) already associates DAL costs with their host pieces. Therefore, city-street and rural delivery DAL costs should also be shifted, regardless of ECR rate category, in order to compute consistent and accurate delivery costs.

IMPACT:

Assuming the same proportions of DALs by rate category by letter cost pool in FY08 as the carrier systems have estimated through two quarters in FY09, the total estimated impact including piggybacks would be a decrease in FY08 ECR High Density and Carrier Route letter delivery costs of \$2.1 M (-3.8 percent) and \$412 K (-0.4 percent) and a corresponding increase in the same amount for ECR High Density and Carrier Route Flats. These would translate into an increase in FY08 unit costs for flats of 1.6 percent and 0.04 percent for those two categories, respectively.

PROPOSAL SIX

Proposal to Change the Distribution Factors Utilized to Distribute Accountable Pieces for Relevant Costs in Cost Segments 7 (City Street) and 10 (Rural Delivery)

OBJECTIVE:

This proposal seeks a methodology change in the computation of the distribution factors used to allocate relevant costs within the Accountables cost pools in Cost Segments 7 (City Street) and 10 (Rural Delivery). Specifically, this proposal would remedy an inconsistency in the use of Carrier Cost System (CCS) Insurance volume data for FY 2009, and outlines a more accurate plan of how this issue can be handled in future years.

BACKGROUND:

Currently, delivery costs are distributed to Insurance based on its respective share of volume estimated from the city and rural carrier cost systems. The current costs, however, are derived under the assumption that all Insured pieces estimated from CCS require signatures and thus are treated as accountables. This assumption is incorrect, as only pieces insured in excess of \$200 require a scan and a signature from the recipient (DMM Section 503.4.5). Mail pieces insured for less than \$200 are scanned by the carrier, akin to pieces with Delivery Confirmation. However, until mid PQ3 FY 2009, the carrier systems did not distinguish between Insured pieces that required a signature and those that only required a scan. As a result, the estimated volume from the carrier systems is for all Insured pieces delivered on city and rural routes, rather than just those that require a signature. However, the costs are computed assuming that all Insured pieces found on city and rural routes require a customer signature.

PROPOSAL:

This proposal seeks to derive the delivery costs for Insurance using the following methodology: 1) estimating the proportion of CCS Insured pieces that require a signature, 2) using the volume from step 1) to compute appropriate portions of respective Accountable cost pools to account for Insured pieces that require signatures; 3) computing (using the established methodology) the scan costs to deliver Insured pieces that do not require signatures; and 4) summing costs from steps 2) and 3).

For FY 2009, this proposal seeks to use the proportion of RPW Insurance volume (excluding volume destined to AFO/FPO) that has a value over \$200 as a proxy for the proportion of delivered volume that should be treated as accountables. In FY 2008, eighteen percent (9.0 M/50.4 M) of originating Insured volume had a value in excess of \$200. This proposal would adjust the city and rural estimated accountable Insured volumes by multiplying the CCS volume by the RPW share. In FY 2008, the resulting respective city and rural volumes would be 3.6 M and 1.4 M pieces (as compared with 20.1 M and 8.0 M, which were the volumes derived under the erroneous assumption

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that all Insured pieces required signatures). After the Insured CCS volumes are adjusted, the accountable costs will be distributed to products based on their respective share. Secondly, the remaining CCS Insured volume will receive scan costs, using the same methodology that is currently used for Delivery Confirmation. The scan costs will be derived by taking 6.23 and 18 seconds for city and rural pieces, respectively, multiplied by the appropriate wage rate. The final delivery costs for 'Insured' pieces are the sum of the costs for Insured pieces that required signatures, and the costs for those that only required scans. For future years, this proposal seeks to use the respective volumes from the carrier systems to compute appropriate distribution factors, as the CCS now (since May, 2009) distinguishes between Insured pieces that require a signature, and those that do not.

Mechanically, this proposal involves dividing the respective Insurance volumes estimated from the carrier systems into those that require signatures and those that do not. This will be done for FY09 using the RPW share and will be shown in the appropriate worksheet in workbook I-Forms (PRC-ACR2008-NP-LR2). These changes will flow through the relevant "B" Workpapers (CS06&7 and CS10).

RATIONALE:

The current methodology contains a clear inconsistency between the data being collected by CCS and the manner in which it is used within the "B" Workpapers. For FY 2009, the suggested fix is to use a RPW proxy. However, once appropriate data are available from CCS in FY 2010, the Postal Service seeks to revert back to the established distribution method for city-street and rural costs – distribution proportions derived from a product's respective CCS volume share.

IMPACT:

The attached table provides the cost impacts of this proposal. Insurance delivery costs drop by \$23.3 M and relevant Certified costs rise by \$18.6 M. Changing the distribution factors, of course, does not change total volume-variable costs, but the small observed increase in total volume-variable costs comes, rather, from the new scanning costs associated with the Insured pieces that do not require a signature.

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Fiscal Year 2008 - PRC Version
 C/S 6&7 + CS10
 OUTPUTS TO CRA MODEL

LINE NO.	CLASS, SUBCLASS, OR SPECIAL SERVICE	CRA CLASS	Total C/S 6 & 7, as Filed	C/S 6 & 7 with Insurance Adjustment, Including Scan Cost	Insurance Adj., Difference from Filed	Total C/S 10 Labor As Filed	C/S 10 with Insurance Adj. Including Scans	Insurance Adj., Difference from Filed	Total CS6/7 and CS10 Impact
	COLUMN NUMBER		(1)	(2)	(3)=(2)-(1)	(4)	(5)	(6)=(5)-(4)	(7)=(3)+(6)
	UNITS		\$(000)	\$(000)	\$(000)	\$(000)	\$(000)	\$(000)	\$(000)
	COLUMN SOURCE/NOTES								
	MODEL COMPONENT								
	Market Dominant Products								
1	FIRST-CLASS MAIL								
2	SINGLE-PIECE LETTERS	3	1,883,443	1,883,885	442	228,396	228,396	-	442
3	SINGLE-PIECE CARDS	4	126,598	126,635	37	21,769	21,769	-	37
4	PRESORT LETTERS	8	1,197,081	1,196,984	(97)	324,736	324,736	-	(97)
5	PRESORT CARDS	9	70,514	70,508	(6)	25,328	25,328	-	(6)
6	SINGLE PIECE FLATS	16	267,965	268,008	44	38,049	38,049	-	44
7	PRESORT FLATS	17	69,459	69,457	(2)	13,401	13,401	-	(2)
8	SINGLE PIECE PARCELS	19	92,792	92,797	5	60,706	60,706	-	5
9	PRESORT PARCELS	20	1,397	1,397	(0)	738	738	-	(0)
10	TOTAL FIRST-CLASS MAIL		3,709,249	3,709,672	423	713,123	713,123	-	423
11	STANDARD MAIL								
12	HIGH DENSITY & SATURATION LETTERS	21	116,685	116,673	(12)	63,443	63,443	-	(12)
13	HIGH DENSITY & SATURATION FLATS & PARCELS	22	278,432	278,405	(27)	213,932	213,932	-	(27)
14	CARRIER ROUTE	23	564,042	564,012	(30)	276,973	276,973	-	(30)
15	LETTERS	25	1,310,710	1,310,596	(114)	422,063	422,063	-	(114)
16	FLATS	26	766,266	766,241	(25)	211,847	211,847	-	(25)
17	NOT FLAT-MACHINABLES & PARCELS	27	107,441	107,433	(7)	63,847	63,847	-	(7)
18	TOTAL STANDARD MAIL		3,143,575	3,143,360	(215)	1,252,105	1,252,105	-	(215)
19	PERIODICALS								
20	IN COUNTY	31	28,189	28,187	(2)	18,180	18,180	-	(2)
21	OUTSIDE COUNTY	32	456,838	456,821	(17)	170,107	170,107	-	(17)
22	TOTAL PERIODICALS		485,027	485,008	(18)	188,287	188,287	-	(18)
23	PACKAGE SERVICES								
24	SINGLE-PIECE PARCEL POST	41	29,051	29,051	0	10,821	10,821	-	0
25	BOUND PRINTED MATTER FLATS	42	29,802	29,809	6	7,386	7,386	-	6
26	BOUND PRINTED MATTER PARCELS	43	62,992	62,994	2	24,484	24,484	-	2
27	MEDIA AND LIBRARY MAIL	44	35,404	35,403	(1)	12,892	12,892	-	(1)
28	TOTAL PACKAGE SERVICES		157,249	157,257	7	55,583	55,583	-	7
29	US POSTAL SERVICE	125	87,069	87,067	(2)	7,451	7,454	2	1
30	FREE MAIL	130	6,105	6,105	(0)	2,556	2,556	-	(0)
31	Total Domestic Market Dominant Mail		7,588,274	7,588,468	194	2,219,105	2,219,108	2	197
32	Ancillary Services								
33	CERTIFIED	51	120,328	124,296	3,967	123,677	138,308	14,632	18,599
34	COD	52	1,103	1,128	25	1,640	1,640	-	25
35	INSURANCE	54	12,707	6,074	(6,633)	22,142	5,477	(16,664)	(23,298)
36	REGISTRY	55	2,344	2,411	67	1,616	1,805	189	257
37	SPECIAL HANDLING		-	-	-	-	-	-	-
38	STAMPED ENVELOPES	56	-	-	-	-	-	-	-
39	STAMPED CARDS	57	-	-	-	-	-	-	-
40	OTHER ANCILLARY SERVICES	58	112,370	114,819	2,449	57,344	58,339	995	3,444
41	Special Services								
42	MONEY ORDERS	73	-	-	-	1,157	1,157	-	-
43	POST OFFICE BOX	74	-	-	-	-	-	-	-
44	OTHER SPECIAL SERVICES	76	-	-	-	-	-	-	-
45	Total Domestic Market Dominant Services		248,852	248,727	(124)	207,574	206,726	(848)	(973)
46	Total Domestic Market Dominant Costs		7,837,126	7,837,196	70	2,426,680	2,425,834	(846)	(776)
47	Total Domestic Competitive Costs		289,528	289,895	367	95,379	96,795	1,416	1,783
48	INTERNATIONAL MAIL	185	37,478	37,778	300	17,216	18,722	1,506	1,806
49	TOTAL VOLUME VARIABLE COSTS		8,164,132	8,164,869	737	2,539,275	2,540,313	1,038	1,775
50	OTHER	199	7,785,473	7,784,736	(737)	3,954,448	3,953,410	(1,038)	(1,775)
51	GRAND TOTAL		15,949,605	15,949,605	-	6,493,724	6,493,724	-	-

PROPOSAL SEVEN

Proposal to Change the Treatment of Accrued Costs Pertaining to Activities Related to Loading/Unloading the Vehicle in Cost Segment 6 (City In-Office)

OBJECTIVE:

This proposal seeks changes that will affect volume variable costs in Cost segment 6 city carrier in-office activity. Specifically, costs currently considered institutional, costs for “leaving or preparing to leave for route and returning from route or activities related to return” will be shifted to a new activity code and treated as volume variable to the same extent as all of CS 6 and CS 7 combined.

BACKGROUND:

Currently, Activity Code 6420 is a composite of various city carrier activities that are treated as institutional costs. Included in this group are activities related to loading and unloading a city carrier’s vehicle in conjunction with making deliveries on the route. Prior to the City Carrier Street Time Study (CCSTS), this activity was considered fixed as a share of the route, and as volume for the route increased, this time would remain the same. Since the 2002 study, however, costs are also considered volume variable to the degree that routes increase or decrease in a delivery unit to reflect changes in mail volume. The change in the theoretical underpinnings of CS 7 costs has necessitated this review of all city carrier cost segment 6 costs.

This review discovered an inconsistency in the current treatment of some costs associated with city carrier ‘in-office’ activities and the current cost model used for city street activities. Costs associated with the activities of ‘Leaving or Preparing to Leave for Route’ as well as costs related to ‘Return or Returning from Route,’ should no longer be treated as institutional, because aggregate costs will increase or decrease as the number of routes changes. Moreover, these activities are directly related to mail that is to be delivered or collected on the route. In FY2008, these costs numbered \$219 million and are included in activity code 6420. In addition to those costs, however, Activity code 6420 also includes an additional \$244 million in costs that are for “other” activities and “routine office work,” and those types of costs should remain institutional, as they do not vary with the number of routes. Table 1 outlines the current and proposed treatment of costs now included in Activity Code 6420.

Table 1

Established Methodology	Accrued (000)	Treatment
Activity Code 6420 Leaving for or Returning from a Route, or Other.	\$463,000	Institutional
Proposed Methodology		
Activity Code 6420 Other, and Routine Office Work	\$244,000	Institutional
Activity Code 6422 Leaving for / or Returning from Route	\$219,000	Volume variable – all office and street time direct volume variable

PROPOSAL:

To bring the treatment of activity code 6420 in alignment with the new costing of CS 6 and 7 given the 2002 study, costs for 6420 will be split into two pools. The pool of “other” costs will retain the 6420 label and remain institutional. A new activity code will record the in-office costs associated with leaving for or returning from a route, with its costs volume variable to the same degree as all CS 6 and 7.

RATIONALE:

The new proposal reconciles the treatment of all components of (current) Activity Code 6420 costs with the current city carrier methodology.

IMPACT:

In FY08, the costs of the activities related to returning and preparing to leave for route were \$219 million. The costs were institutional. The proposal would have had the effect of shifting \$162.2 million to volume variable cost. In addition to the \$124.6 million in In-Office Support Overhead directly resulting from the loading and unloading activities, there is also \$37.6 million in volume variable cost in In-Office Support Other, resulting from piggybacks. All products to which CS 6 and CS 7 costs are currently distributed would, under this proposal, receive a proportionate share of these costs.

Proposal Seven

Fiscal Year 2008 - PRC Version C/S 6&7 CITY CARRIERS OUTPUTS TO CRA MODEL

LINE NO.	CLASS, SUBCLASS, OR SPECIAL SERVICE	CRA CLASS	Total C/S 6 & 7, as Filed	Distribution of Loading Costs on Office/Street	Loading Costs, Difference from Filed
	COLUMN NUMBER		(1)	(2)	(3)=(2)-(1)
	UNITS				
	COLUMN SOURCE/NOTES				
	MODEL COMPONENT				
	Market Dominant Products				
1	FIRST-CLASS MAIL				
2	SINGLE-PIECE LETTERS	3	1,883,443	1,919,961	36,518
3	SINGLE-PIECE CARDS	4	126,598	129,124	2,525
4	PRESORT LETTERS	8	1,197,081	1,220,354	23,273
5	PRESORT CARDS	9	70,514	71,858	1,344
6	SINGLE PIECE FLATS	16	267,965	273,951	5,986
7	PRESORT FLATS	17	69,459	71,148	1,689
8	SINGLE PIECE PARCELS	19	92,792	94,510	1,717
9	PRESORT PARCELS	20	1,397	1,428	31
10	TOTAL FIRST-CLASS		3,709,249	3,782,334	73,085
11	STANDARD MAIL				
12	HIGH DENSITY & SATURATION LETTERS	21	116,685	118,729	2,044
13	HIGH DENSITY & SATURATION FLATS & PARCELS	22	278,432	283,433	5,001
14	CARRIER ROUTE	23	564,042	576,453	12,410
15	LETTERS	25	1,310,710	1,335,554	24,845
16	FLATS	26	766,266	784,589	18,323
17	NOT FLAT-MACHINABLES & PARCELS	27	107,441	109,369	1,929
18	TOTAL STANDARD MAIL		3,143,575	3,208,127	64,552
19	PERIODICALS				
20	IN COUNTY	31	28,189	28,772	583
21	OUTSIDE COUNTY	32	456,838	467,498	10,661
22	TOTAL PERIODICALS		485,027	496,271	11,244
23	PACKAGE SERVICES				
24	SINGLE-PIECE PARCEL POST	41	29,051	29,484	433
25	BOUND PRINTED MATTER FLATS	42	29,802	30,164	362
26	BOUND PRINTED MATTER PARCELS	43	62,992	63,809	817
27	MEDIA AND LIBRARY MAIL	44	35,404	35,910	506
28	TOTAL PACKAGE SERVICES		157,249	159,368	2,118
29	US POSTAL SERVICE	125	87,069	89,243	2,174
30	FREE MAIL	130	6,105	6,230	125
31	Total Domestic Market Dominant Mail		7,588,274	7,741,573	153,298
32	Ancillary Services				
33	CERTIFIED	51	120,328	122,539	2,211
34	COD	52	1,103	1,124	21
35	INSURANCE	54	12,707	12,924	217
36	REGISTRY	55	2,344	2,376	32
37	SPECIAL HANDLING		-	-	-
38	STAMPED ENVELOPES	56	-	-	-
39	STAMPED CARDS	57	-	-	-
40	OTHER ANCILLARY SERVICES	58	112,370	114,233	1,864
41	Special Services				
42	MONEY ORDERS	73	-	-	-
43	POST OFFICE BOX	74	-	-	-
44	OTHER SPECIAL SERVICES	76	-	-	-
45	Total Domestic Market Dominant Services		248,852	253,197	4,345
46	Total Domestic Market Dominant Costs		7,837,126	7,994,769	157,643
47	Total Domestic Competitive Costs		289,528	293,492	3,964
48	INTERNATIONAL MAIL	185	37,478	38,120	642
49	TOTAL VOLUME VARIABLE COSTS		8,164,132	8,326,381	162,250
50	OTHER	199	7,785,473	7,623,224	(162,250)
51	GRAND TOTAL		15,949,605	15,949,605	-

PROPOSAL EIGHT

Proposal to Change the Current Methodology of Distributing a Portion of Costs Incurred by SPR Carriers (Cost Segment 7)

OBJECTIVE:

This proposal involves a methodology change in cost segment 7 for FY2009. Specifically, this proposal seeks to replace the distribution factors used to distribute relevant costs to four Special Purpose Route (SPR) cost pools in the cost segment 7 worksheets with updated distribution factors estimated from the newly designed City Carrier Cost System – Special Purpose Routes (CCCS-SPR). The four affected SPR cost pools would be: 1) LOAD SPR NON-ACCT DELIVERY; 2) LOAD SPR ACCT DELIVERY; 3) TIME AT STOP SPR DELIVERIES, and 4) DELIVERY ACCESS SPR.

BACKGROUND:

The factors currently used to distribute relevant costs in these four cost pools are based on the results of a special study sponsored by witness Michael Nelson (USPS-T-19) in Docket No. R97-1. Witness Nelson estimated separate distribution factors for pieces delivered by SPR carriers for the following: 1) non-accountable parcels (LOAD SPR NON-ACCT DELIVERY); 2) accountable (definition being requiring customer contact) parcels (LOAD ACCT SPR DELIVERY), and 3) the sum of the two, using the parent piece for accountable parcels rather than the accompanying special service(s) (TIME AT STOP SPR DELIVERIES and ADJ SPR DELIVERY ACCESS).

These distribution factors have not been updated largely because the Postal Service did not have a dependable frame from which reliable annual estimates could be computed. However, in FY2009, the Postal Service believes it has developed a reliable frame, which led to the genesis of a new on-going statistical system named CCCS-SPR, to collect data on SPRs in a similar fashion as CCCS does on city letter routes. For more information about the frame creation, sample design, data collection procedures, or estimation techniques, refer to the CCCS-SPR statistical documentation which is attached as an electronic Appendix to this proposal.

PROPOSAL:

This proposal entails replacing the distribution factors computed by witness Nelson with updated corresponding ones from CCCS-SPR. Specifically, there are three new sets of factors for pieces delivered by SPR carriers, 1) non-accountable parcel shaped pieces (apply to LOAD NON-ACCT DELIVERY), 2) accountable parcel shaped pieces (apply to LOAD ACCT SPR DELIVERY), and 3) the aggregate of 1) and 2) using the parent piece for the pieces contained in 2) (apply to TIME AT STOP SPR DELIVERIES and ADJ SPR DELIVERY ACCESS). The updated respective factors contain the same types of mail pieces (non-accountable parcels and accountable parcels) as witness Nelson used to develop the established distribution factors. Therefore, this proposal consists of three

Proposal Eight

new distribution factors, updated annually, to be applied to the four cost pools. This proposal does not involve a change to the cost pools or the established variabilities for any of the SPR cost pools.

Mechanically, these updated respective distribution factors are placed in workbook I-Forms, worksheet I-CS07DK. These factors flow through the model into the CS06&7 workbook, worksheet 7.0.9, which ultimately distributes the relevant costs in worksheet 7.0.6 columns (3), (4), (5), and (8). In FY08, the total cost of the four relevant SPR cost pools subject to redistribution under this proposal was approximately \$106 million.

RATIONALE:

The Postal Service believes that distribution factors based on an on-going statistical system are superior to ones based on a study more than a decade old. This proposal, if accepted, would result in the same type of annually updated distribution factors for SPR carriers as are currently produced for city regular letter carriers.

In addition, the new reporting requirements that resulted from the Postal Accountability and Enhancement Act (PAEA) have caused additional difficulties in using the Nelson distribution factors to distribute these SPR costs. The established methodology uses RPW to disaggregate the Nelson factors into the smaller categories within the broad categories which witness Nelson estimated. RPW is used to disaggregate the Nelson Package Services factor into all of the current products within Package Services (i.e. Single Piece Parcel Post, Parcel Select, Bound Printed Matter Flats, Bound Printed Matter Parcels), for example. The impact of this is that Bound Printed Matter Flats receives one-third of the relevant Package Services costs. This appears to be a disproportionate share when compared with the proposal based on current data, which results in zero Package Services costs being distributed to Bound Printed Matter Flats for these particular SPR costs (see attached worksheet). This dramatic cost shift between incomplete decade-old distribution factors and current factors that capture data for all the reported products separately, suggests that the old factors should be discarded for new ones based on current data that can be updated annually.

IMPACT:

The attached table compares the FY08 relevant costs, by each affected cost pool, using the established and proposed methodologies. The proposed methodology is based on respective preliminary FY09 YTD (PQ1 and PQ2) distribution factors. Due to seasonality, the final impacts may differ from those displayed in the worksheet.

PROPOSAL EIGHT

**Fiscal Year 2008 - PRC Version
C/S 6&7 CITY CARRIERS
OUTPUTS TO CRA MODEL**

LINE NO.	CLASS, SUBCLASS, OR SPECIAL SERVICE	CRA CLASS	Total C/S 6 & 7, as Filed	SPR Distribution Keys	SPR Distribution Keys, Difference from Filed
	COLUMN NUMBER				
	UNITS				
	COLUMN SOURCE/NOTES				
	MODEL COMPONENT				
	Market Dominant Products				
1	FIRST-CLASS MAIL				
2	SINGLE-PIECE LETTERS	3	1,883,443	1,880,108	(3,336)
3	SINGLE-PIECE CARDS	4	126,598	126,496	(102)
4	PRESORT LETTERS	8	1,197,081	1,192,265	(4,816)
5	PRESORT CARDS	9	70,514	70,195	(319)
6	SINGLE PIECE FLATS	16	267,965	267,705	(260)
7	PRESORT FLATS	17	69,459	69,382	(77)
8	SINGLE PIECE PARCELS	19	92,792	104,820	12,028
9	PRESORT PARCELS	20	1,397	2,521	1,125
10	TOTAL FIRST-CLASS		3,709,249	3,713,493	4,244
11	STANDARD MAIL				
12	HIGH DENSITY & SATURATION LETTERS	21	116,685	116,225	(460)
13	HIGH DENSITY & SATURATION FLATS & PAR	22	278,432	277,316	(1,116)
14	CARRIER ROUTE	23	564,042	563,077	(965)
15	LETTERS	25	1,310,710	1,306,020	(4,690)
16	FLATS	26	766,266	765,443	(822)
17	NOT FLAT-MACHINABLES & PARCELS	27	107,441	114,360	6,919
18	TOTAL STANDARD MAIL		3,143,575	3,142,440	(1,135)
19	PERIODICALS				
20	IN COUNTY	31	28,189	27,868	(321)
21	OUTSIDE COUNTY	32	456,838	453,831	(3,007)
22	TOTAL PERIODICALS		485,027	481,699	(3,328)
23	PACKAGE SERVICES				
24	SINGLE-PIECE PARCEL POST	41	29,051	34,012	4,961
25	BOUND PRINTED MATTER FLATS	42	29,802	15,561	(14,241)
26	BOUND PRINTED MATTER PARCELS	43	62,992	67,448	4,455
27	MEDIA AND LIBRARY MAIL	44	35,404	35,023	(381)
28	TOTAL PACKAGE SERVICES		157,249	152,043	(5,206)
29	US POSTAL SERVICE	125	87,069	88,101	1,032
30	FREE MAIL	130	6,105	6,220	115
31	Total Domestic Market Dominant Mail		7,588,274	7,583,996	(4,279)
32	Ancillary Services				
33	CERTIFIED	51	120,328	120,465	137
34	COD	52	1,103	1,022	(81)
35	INSURANCE	54	12,707	13,579	872
36	REGISTRY	55	2,344	2,132	(212)
37	SPECIAL HANDLING		-	-	-
38	STAMPED ENVELOPES	56	-	-	-
39	STAMPED CARDS	57	-	-	-
40	OTHER ANCILLARY SERVICES	58	112,370	111,911	(459)
41	Special Services				
42	MONEY ORDERS	73	-	-	-
43	POST OFFICE BOX	74	-	-	-
44	OTHER SPECIAL SERVICES	76	-	-	-
45	Total Domestic Market Dominant Services		248,852	249,110	258
46	Total Domestic Market Dominant Costs		7,837,126	7,833,106	(4,021)
53	Total Domestic Competitive Costs		289,528	290,614	1,087
54	INTERNATIONAL MAIL	185	37,478	40,412	2,935
55	TOTAL VOLUME VARIABLE COSTS		8,164,132	8,164,132	1
56	OTHER	199	7,785,473	7,785,473	-
57	GRAND TOTAL		15,949,605	15,949,605	-

PROPOSAL NINE

Proposal to Add New Rural Mail Count Evaluation Items to the Costing Methodology in Cost Segment 10

OBJECTIVE:

This proposal involves a methodology change in cost segment 10 (rural carriers) for FY2009. Specifically, this proposal seeks to treat the new Rural Mail Count (RMC) evaluation items for carrier pickup, scanner set-up, non-signature scan items, DPS flats, and PARS forms.

BACKGROUND:

Rural carrier costs are distributed to cost pools using the RMC average weekly values per route. In addition, the variability for Evaluated and Other routes is based on the ratio of variable evaluation items to total volume variable and fixed evaluation items.

The RMC for FY 2009 includes six new evaluation items. These include

1. Carrier Pickup Requests
2. Carrier Pickup Items
3. Non-Signature Scan Items
4. DPS Flats
5. Scanner Setup/Retrieval/Return
6. PARS forms

PROPOSAL:

The following treatment is proposed for each new evaluation item:

1. Carrier Pickup Requests
2. Carrier Pickup Items
The proposed treatment is to combine the time for Carrier Pickup Requests and Carrier Pickup Items into one volume variable cost pool. Carriers get 90 seconds for each request, and then 9 seconds for each item. Items are Priority, Express, or International. The new RCCS distribution key for Carrier Pickup will be used to distribute the cost pool.
3. Non-Signature Scan Items
Carriers get 18 seconds per scan. This includes Delivery Confirmation, Shipment Confirmation Acceptance Notices (SCAN) and Delivery Unit Saturation and Bundle Scanning. The proposed treatment is to include Non-Signature Scan Items as a fixed cost pool for variability analysis. The time for Delivery Confirmation scans will be pulled out in the in the same method as currently used.
4. DPS Flats
DPS Flats is currently in limited use. The proposed treatment is as a volume variable cost pool distributed with an RCCS distribution key when available.
5. Scanner Retrieval/Setup/Return
The proposal is to include the time for this cost pool with fixed time for the variability analysis.

Proposal Nine

6. PARS forms.

The proposal is to include the time for this cost pool with fixed time for the variability analysis.

RATIONALE:

The carrier receives a time allowance for each evaluation item, which goes into the total evaluated time for the route. The pay the carrier receives is based on the evaluated time for the route. Therefore, it is important that these new evaluation items be given a treatment in rural carrier costing.

IMPACT:

The impact to rural carrier costing due to these new evaluation items is estimated using the FY 2009 RMC and FY 2009 PQ1 and PQ2 RCCS data, applied to FY 2008 rural carrier costs and is quantified on the attached table.

PROPOSAL NINE

Fiscal Year 2008 - PRC Version
C/S 10 Rural Carriers
OUTPUTS TO CRA MODEL

LINE NO.	CLASS, SUBCLASS, OR SPECIAL SERVICE	CRA CLASS	Total C/S 10 Labor As Filed	C/S 10 Usng FY 2009 RMC in PQ 3 & 4, FY 2008 RMC in PQ 1 & 2	Difference
	COLUMN NUMBER				
	UNITS				
	COLUMN SOURCE/NOTES				
	MODEL COMPONENT				
	Market Dominant Products				
1	FIRST-CLASS MAIL				
2	SINGLE-PIECE LETTERS	3	228,396	216,287	(12,109)
3	SINGLE-PIECE CARDS	4	21,769	20,144	(1,624)
4	PRESORT LETTERS	8	324,736	314,089	(10,647)
5	PRESORT CARDS	9	25,328	23,906	(1,423)
6	SINGLE PIECE FLATS	16	38,049	34,799	(3,249)
7	PRESORT FLATS	17	13,401	12,141	(1,260)
8	SINGLE PIECE PARCELS	19	60,706	62,128	1,421
9	PRESORT PARCELS	20	738	728	(10)
10	TOTAL FIRST-CLASS		713,123	684,222	(28,901)
11	STANDARD MAIL				
12	HIGH DENSITY & SATURATION LETTERS	21	63,443	57,156	(6,287)
13	HIGH DENSITY & SATURATION FLATS & PAR	22	213,932	191,180	(22,752)
14	CARRIER ROUTE	23	276,973	250,368	(26,605)
15	LETTERS	25	422,063	402,137	(19,927)
16	FLATS	26	211,847	191,699	(20,148)
17	NOT FLAT-MACHINABLES & PARCELS	27	63,847	62,880	(967)
18	TOTAL STANDARD MAIL		1,252,105	1,155,419	(96,686)
19	PERIODICALS				
20	IN COUNTY	31	18,180	16,437	(1,743)
21	OUTSIDE COUNTY	32	170,107	153,797	(16,309)
22	TOTAL PERIODICALS		188,287	170,235	(18,053)
23	PACKAGE SERVICES				
24	SINGLE-PIECE PARCEL POST	41	10,821	11,118	297
25	BOUND PRINTED MATTER FLATS	42	7,386	6,701	(685)
26	BOUND PRINTED MATTER PARCELS	43	24,484	24,118	(366)
27	MEDIA AND LIBRARY MAIL	44	12,892	13,001	109
28	TOTAL PACKAGE SERVICES		55,583	54,939	(644)
29	US POSTAL SERVICE	125	7,451	6,836	(615)
30	FREE MAIL	130	2,556	2,601	45
31	Total Domestic Market Dominant Mail		2,219,105	2,074,251	(144,854)
32	Ancillary Services				
33	CERTIFIED	51	123,677	133,748	10,071
34	COD	52	1,640	1,569	(71)
35	INSURANCE	54	22,142	23,976	1,834
36	REGISTRY	55	1,616	1,746	130
37	SPECIAL HANDLING		-	-	-
38	STAMPED ENVELOPES	56	-	-	-
39	STAMPED CARDS	57	-	-	-
40	OTHER ANCILLARY SERVICES	58	57,344	59,968	2,624
41	Special Services		-	-	-
42	MONEY ORDERS	73	1,157	873	(284)
43	POST OFFICE BOX	74	-	-	-
44	OTHER SPECIAL SERVICES	76	-	-	-
45	Total Domestic Market Dominant Services		207,574	221,880	14,305
46	Total Domestic Market Dominant Costs		2,426,680	2,296,131	(130,549)
47	Total Domestic Competitive Costs		95,379	98,355	2,975
48	INTERNATIONAL MAIL	185	17,216	18,123	906
49	TOTAL VOLUME VARIABLE COSTS		2,539,275	2,412,642	(126,633)
50	OTHER	199	3,954,448	4,081,081	126,633
51	GRAND TOTAL		6,493,724	6,493,724	-

PROPOSAL TEN

Proposal to Change the Current Methodology of Distributing DPS and Sector Segment Letter Relevant Costs to Products in Cost Segment 10

OBJECTIVE:

This proposal involves a methodology change in cost segment 10 (rural carriers) for FY2009. Specifically, this proposal seeks to replace the separate factors used to distribute attributable costs within the Delivery Point Sequenced (DPS) and Sector Segment letters compensation categories with one set of factors derived based on the aggregate of DPS and Sector Segment letters.

BACKGROUND:

Rural carrier attributable costs are distributed to products within each letter compensation category (i.e. cost pools) using respective factors estimated from the Rural Carrier Cost System (RCCS). Currently, separate distribution factors are applied to the DPS and Sector Segment letters compensation categories respectively. Both DPS and Sector Segment letters are sorted in walk sequence (sector segment for a portion of the route and DPS for the entire route) and thus have similar cost characteristics. Also, DPS and Sector Segment letters can arrive at the carrier case co-mingled, which results in identification issues in distinguishing between the two types of letters for data collectors recording these volumes on RCCS tests. In addition, the current labor agreement contributes to the difficulty of distinguishing DPS from Sector Segment letters. A rural route that averages less than 400 daily pieces of DPS letters during the Rural Mail Count (evaluation period) receives Sector Segment letter credit (which is higher than DPS) for those DPS pieces, for example. Therefore, to accurately distinguish between DPS and Sector Segment letters, a data collector would need to have access to the results of the Rural Mail Count for each route sampled in RCCS. A more straightforward approach is for data collectors to record both DPS and Sector Segment letters as DPS letters.

PROPOSAL:

This proposal entails replacing the separate distribution factors for DPS and Sector Segment letters with distribution factors based on the aggregate of DPS and Sector Segment letters. If adopted, mechanically, the updated aggregate distribution factors would be placed in workbook I-Forms, worksheet I-CS10RCS column (1), while column (2) would be deleted. These factors flow through the model into the CS10 workbook.

RATIONALE:

Due to the difficulty in distinguishing between DPS and Sector Segment letters, the Postal Service believes that factors based on the aggregate of DPS and Sector

Proposal Ten

Segment letters are more accurate than the current approach, which uses separate factors for the two compensation categories.

IMPACT:

The attached table compares the FY08 attributable costs for DPS and Sector Segment Letters using the established methodology to the FY08 attributable costs using the proposed methodology. The impact of the proposal is minimal, as First Class Single Piece Letters costs rise by 456 thousand dollars and Standard Regular Letters cost decrease by 696 thousand dollars.

PROPOSAL TEN

Fiscal Year 2008 - PRC Version
 C/S 10 Rural Carriers
 OUTPUTS TO CRA MODEL

LINE NO.	CLASS, SUBCLASS, OR SPECIAL SERVICE	CRA CLASS	Total C/S 10 Labor As Filed	DPS / SS Key	DPS / SS Difference
	COLUMN NUMBER				
	UNITS				
	COLUMN SOURCE/NOTES				
	MODEL COMPONENT				
	Market Dominant Products				
1	FIRST-CLASS MAIL				
2	SINGLE-PIECE LETTERS	3	228,396	227,939	(456)
3	SINGLE-PIECE CARDS	4	21,769	21,741	(28)
4	PRESORT LETTERS	8	324,736	325,029	294
5	PRESORT CARDS	9	25,328	25,307	(21)
6	SINGLE PIECE FLATS	16	38,049	38,049	-
7	PRESORT FLATS	17	13,401	13,401	-
8	SINGLE PIECE PARCELS	19	60,706	60,706	-
9	PRESORT PARCELS	20	738	738	-
10	TOTAL FIRST-CLASS		713,123	712,911	(212)
11	STANDARD MAIL				
12	HIGH DENSITY & SATURATION LETTERS	21	63,443	63,168	(275)
13	HIGH DENSITY & SATURATION FLATS & PARCELS	22	213,932	213,932	-
14	CARRIER ROUTE	23	276,973	276,776	(197)
15	LETTERS	25	422,063	422,759	696
16	FLATS	26	211,847	211,847	-
17	NOT FLAT-MACHINABLES & PARCELS	27	63,847	63,847	0
18	TOTAL STANDARD MAIL		1,252,105	1,252,329	224
19	PERIODICALS				
20	IN COUNTY	31	18,180	18,178	(3)
21	OUTSIDE COUNTY	32	170,107	170,082	(25)
22	TOTAL PERIODICALS		188,287	188,260	(28)
23	PACKAGE SERVICES				
24	SINGLE-PIECE PARCEL POST	41	10,821	10,821	-
25	BOUND PRINTED MATTER FLATS	42	7,386	7,386	-
26	BOUND PRINTED MATTER PARCELS	43	24,484	24,484	-
27	MEDIA AND LIBRARY MAIL	44	12,892	12,892	-
28	TOTAL PACKAGE SERVICES		55,583	55,583	-
29	US POSTAL SERVICE	125	7,451	7,464	13
30	FREE MAIL	130	2,556	2,557	1
31	Total Domestic Market Dominant Mail		2,219,105	2,219,104	(2)
32	Ancillary Services				
33	CERTIFIED	51	123,677	123,677	-
34	COD	52	1,640	1,640	-
35	INSURANCE	54	22,142	22,142	-
36	REGISTRY	55	1,616	1,616	-
37	SPECIAL HANDLING		-	-	-
38	STAMPED ENVELOPES	56	-	-	-
39	STAMPED CARDS	57	-	-	-
40	OTHER ANCILLARY SERVICES	58	57,344	57,344	-
41	Special Services		-	-	-
42	MONEY ORDERS	73	1,157	1,157	-
43	POST OFFICE BOX	74	-	-	-
44	OTHER SPECIAL SERVICES	76	-	-	-
45	Total Domestic Market Dominant Services		207,574	207,574	-
46	Total Domestic Market Dominant Costs		2,426,680	2,426,678	(2)
47	Total Domestic Competitive Costs		95,379	95,377	(3)
48	INTERNATIONAL MAIL	185	17,216	17,220	4
49	TOTAL VOLUME VARIABLE COSTS		2,539,275	2,539,275	-
50	OTHER	199	3,954,448	3,954,448	-
51	GRAND TOTAL		6,493,724	6,493,724	-

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PROPOSED METHODOLOGY FOR INTERNATIONAL COST AND REVENUE ANALYSIS (ICRA) REPORTING USING AUDITED ACCOUNTING REVENUES AND EXPENSES

OBJECTIVE

The objective is to produce for FY09 appropriate CRA and ICRA Reports that present revenues and expenses that agree with the audited financial reports of the Postal Service. An additional objective is to allow for availability in FY09 of an alternative ICRA based on imputed values for international mail settlement accounts, consistent with historical practice.

BACKGROUND

In its FY08 Annual Compliance Determination (ACD), the Commission instructed the Postal Service to report all revenues and expenses using accrued (also referred to as booked) amounts as reported in the audited financial reports. See FY 2008 ACD (March 30, 2009) at 13. This requires a change to the ICRA, because it has traditionally relied upon imputed amounts that differ from the accrual amounts. The difference between the accounting accrual amounts and the imputed amounts is primarily due to timing. The accrual amounts rely on volumes and weights from the same period last year, while the imputed amounts rely on volumes and weights from the fiscal year being reported.

PROPOSAL

In accordance with the instructions in the FY08 ACD, the Postal Service proposes to base its FY09 Annual Compliance Report (ACR) on CRA and ICRA reports which tie to accrued revenues and expenses. To achieve that objective, however, rather than rely on the procedures used by the Commission for purposes of the FY08 ACD, the Postal Service proposes to use alternative procedures developed to prepare an alternative version of the Commission's relevant ACD workpapers, which is submitted with this petition as USPS-RM2009-10/NP1. This proposed alternative methodology not only substitutes booked for imputed *revenues* at the product level, as did the FY08 ACD, but also substitutes booked for imputed *attributable costs* at the product level, which the FY08 ACD did not.

Simultaneously, however, the Postal Service seeks authorization in FY09 also to present an alternative version of the ICRA, based on imputed values rather than booked values. Providing this alternative imputed version of the FY09 ICRA model will allow for time comparisons in terms of the pre-PAEA environment and the post-PAEA environment, and in terms of new Foreign Payment System (FPS) that the Postal Service will be instituting beginning in FY 2010. As part of FPS, the current accrual

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methodology will be replaced by an accrual methodology that is more similar to the imputed methodology, in that the replacement methodology will rely on volumes and weights recorded during a particular fiscal year. Reporting the ICRA in both the imputed and accrual format for FY09 will provide a comparison as the implementation of the new accrual process proceeds.¹

IMPACT

Full details of the impact of using the proposed alternative booked version of the ICRA, as illustrated by the effects in FY08, is provided in USPS-RM2009-10/NP1 that accompanies this proposal. The files in that folder contain the FY08 ICRA that was filed as part of the ACR and used in the Commission's ACD, with the addition of the accrual amounts in the Reports (Booked) file. Additionally, crosswalks are provided for revenues, expenses and settlement calculations to explain how the ICRA developed using imputed amounts was adjusted to reflect accrual amounts. The proposal is to perform the same types of adjustments to produce the FY09 ICRA.

An extensive summary of the impact is also presented in the next section of this document, and the accompanying Tables One and Two.

FURTHER BACKGROUND AND RATIONALE

In the years prior to FY 2008, the Postal Service maintained (and submitted to the Commission) the CRA and the ICRA as two somewhat independent reports. Obviously, they both used much of the same accounting data and data collection systems outputs, so there was always a very substantial relationship between the two. But the relationship was not complete, as the ICRA included a variety of disaggregated information on international mail, and the CRA encapsulated all of the information on international mail into one row. More importantly, the data in the one row for international mail in the CRA did not match the aggregation of international mail data presented in the ICRA. Fundamentally, this was because the CRA was tied to the books of account for revenues and costs, and the ICRA to some extent used imputed revenues and costs. The details of the costs differences between the CRA international mail row and the ICRA were explained, for example, in Docket No. ACR2007 in response to CIR No. 2, Question 17 (response filed on Feb. 14, 2008). In general, however, while the differences between the international mail data in the CRA and the ICRA garnered some attention before FY 2008, they did not appear to generate any real problems.

¹ In FY08, both the Postal Service and the Commission also presented versions of the ICRA based on the pre-PAEA (i.e., PRA) classification structure. This proposal is not intended to have any effect on the Postal Service's presentation in that regard, which will also continue to include a version in the pre-PAEA format.

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The situation changed in FY08, as the Postal Service attempted to produce a public CRA, with full detail on Market Dominant products, and a non-public CRA, with full detail on both Market Dominant and Competitive products. Since international mail products were included in both categories, and since it was deemed necessary for the international product information in the CRA to match the corresponding information for the same products in the ICRA, the decision was made to terminate the previous “mismatch” between the CRA and the ICRA. For better or worse, this was accomplished by using the imputed information in the ICRA for the CRA as well. The result was FY08 CRA and ICRA reports that matched (in terms of total international mail figures), but CRA reports (public and non-public) that no longer tied out to the books of account (as reflected, for example in PGM’s Annual Report).

In the FY08 ACD, the Commission was concerned by the discrepancies between total costs and revenues reported in the CRA, and total costs and revenues reported in the PMG’s Annual Report. See FY08 ACD (March 30, 2009) at 10-13, 80-81. For purposes of fulfilling its obligations with respect to the FY08 ACD, the Commission sought to rectify the situation by tying cost and revenue totals back to the booked amounts. The results are presented in Table III-2 on pages 11-12 of the FY08 ACD. Compared with the Postal Service’s CRA (USPS-FY08-1), that table in the ACD shows materially different revenues for, and materially different contributions from, the Market Dominant international products, and the aggregate Competitive products.² The total Postal Service costs and revenues reported in Table III-2 of the ACD met the Commission’s objective of matching the total costs and revenues reported in the PMG’s Annual Report. Therefore, the Commission used the product costs and revenues reported in that Table for purposes of determining compliance with all of the relevant provisions of the PAEA.

There is, however, a problem with the methodology used by the Commission to generate Table III-2 of the FY08 ACD. In the short amount of time available to the Commission to address the matter, the Commission located booked *revenues* which could be substituted, for relevant international mail products, for the imputed revenues shown in the Postal Service’s CRA reports. The Commission, however, did not identify (and hence did not use) comparable booked *cost* information for the same products. This can be seen by examining **Table One** attached to this document. Section 1 of that table presents the five rows containing international mail data from Table III-2 of the ACD, and Section 2 presents the comparable data from the CRA (USPS-FY08-1). Section 2 also calculates the differences between the ACD and the CRA. As can be seen, the aggregate revenue change is approximately \$101 million, while the aggregate

² Although it is not apparent from the public CRA and the public ADC, it is clear from the corresponding non-public materials that the differences reported in aggregate Competitive products are, in fact, directly rooted in differences in the *international* Competitive products. Moreover, because of the inherent nature of the settlement process, which is where the booked/imputed differences arise, within international products, the material differences occur with inbound revenues and outbound costs, with virtually no changes in inbound costs or outbound revenues.

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attributable cost change for these products is negligible. Table III-2 of the FY08 ACD, therefore, essentially presents booked revenues for the international mail products, but continues to rely on imputed attributable costs. Unfortunately, this constitutes something of the proverbial apples-to-oranges situation.

The substitution by the Commission of booked revenues for imputed revenues had material consequences for international mail products. As shown in Section 2 of the attached Table One, compared with the CRA, for example, the reported ACD contribution for Inbound Single-Piece FCMI dropped by over \$49 million. Moreover, reflecting changes in International competitive products, the aggregate contribution from Competitive Products dropped by over \$50 million. The total change in contribution from international products, moving from the CRA to the ACD, was slightly over \$100 million. Part of these changes in contribution, however, reflect the apples-to-oranges comparison of booked revenues and imputed costs.

Therefore, if the primary objective is to maintain the link between total booked costs and revenues, the Postal Service believes it is necessary to improve the methodology reflected in Table III-2 of the FY08 ACD. The Postal Service is proposing an alternative methodology, which results in reliance on both booked revenues *and* booked costs, by product. In terms of the five comparison rows of international mail discussed above, the results of the proposed alternative methodology are shown in Section 3 of attached Table One. As can be seen in the table, whereas the effects of moving from the CRA format to the ACD format were overwhelming focused on revenue, the effects of moving from the ACD format to the proposed alternative format would overwhelming be on attributable costs.

The strong need for use of the proposed alternative is best illustrated by Competitive Products. Moving from the CRA methodology (imputed revenues, imputed costs) to the ACD methodology (booked revenues, imputed costs) suggests a decline in FY08 contribution from Competitive Products of nearly \$51 million, as shown in the attached Table One. Although this effect occurs only with respect to international mail competitive products, the consequences reach to all Competitive Products, because the target of contributing 5.5 percent of institutional costs must be met on an aggregate basis. The "cushion" of approximately \$60 million over the 5.5 percent target contribution reported in the CRA declined to approximately \$14 million in the ACD. But moving from the ACD methodology (booked revenues, imputed costs) to the proposed alternative methodology (booked revenues, booked costs) would increase the reported contribution for international competitive products by \$64 million. Thus, not only is the Competitive Products aggregate contribution higher in the proposed alternative than in the ACD, but it is actually higher than in the CRA as well. (The "cushion" in the proposed alternative is \$74 million.) The apples-to-oranges ACD methodology thus appears to have led to a misstatement of the FY08 net income of Competitive Products, before the required contribution to institutional costs. And while the direction of the misstatement might change year to year, the clearly preferable option is to avoid the apples-to-oranges conundrum by adopting the proposed alternative.

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To illustrate how the effects of the misstatement can vary, we can look at the Market Dominant international products in the attached Table One. Moving from the CRA to the ACD, the contribution reported for Outbound Single-Piece FCM and Inbound Surface Parcel Post increases slightly, while the contribution reported for Inbound Single-Piece FCM declines substantially. Comparing the ACD with the proposed alternative, contributions for all Market Dominant product rows would either improve, or remain unchanged. Yet overall, for all five rows (including Competitive Products), the increase in contribution moving from the ACD to the proposed alternative (\$82 million) is less than the decline in contribution moving from the CRA to the ACD (\$101 million), and thus the aggregate contribution from international mail would be higher in the proposed alternative than in the ACD, but still lower than reported in the CRA (by \$19 million).

While attached Table One hopefully demonstrates how the proposed alternative methodology, using booked revenues and costs, generates more consistent estimates at the international product level than does the ACD methodology using booked revenues and imputed costs, it does not show the tie to the booked amounts for total costs and revenues. **Table Two** is attached for that purpose. A comparison of the respective rows of the Total Revenue column and the Total Costs column in attached Table Two shows that there are not material differences in either column between the ACD and the proposed alternative methodology. The proposed alternative thus equally meets the objective of tying to booked total costs and revenues. Table Two also illustrates how the ACD methodology could continue to rely on imputed attributable costs by product, and yet still tie out to booked costs in total. That result was achieved because, moving from the CRA to the ACD, if total costs (the sum of attributable and institutional) had to decline by \$82 million to equal booked costs, and if attributable costs did not change, then institutional costs necessarily had to decline by \$82 million. As shown in Table Two, that is exactly what occurred. Conversely, moving from the ACD to the proposed alternative, if total costs had to remain the same, and if booked attributable costs (in the proposed alternative) were less than imputed attributable costs (in the ACD) by \$82 million, then institutional costs would have to go up by \$82 million. Once again, attached Table Two confirms those relationships.

Table Two underscores the shortcomings of the FY08 ACD methodology. The stated intent with regard to the adjustments made in the ACD to the CRA was to move from imputed settlement amounts to booked settlement amounts. There would be no reason to expect such adjustments in settlement costs, which are attributable, to cause a material change in *institutional* costs. Yet Table Two clearly shows that the adjustments made in the ACD on the expense side fell entirely on institutional costs, and not on attributable costs. This, of course, is understandable, to the extent that the Commission was seeking to tie total costs in the ACD to total booked costs, but was unaware of how to identify the appropriate adjustments in the attributable costs for each international product to achieve that result. What the Postal Service's proposed alternative does is show how the attributable costs for each international product should be adjusted to tie back to booked costs, while properly leaving institutional costs unaffected (relative to what was reported in the CRA).

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The Postal Service has two objectives with respect to this proposal. First, the Postal Service seeks to have the methodology by which it produces its proposed alternative format for FY08 (presented in full in USPS-RM2009-10/NP1) be declared the established methodology to be incorporated into the FY09 CRA and ICRA filed with the FY09 ACR. The FY09 CRA would thus tie to both booked revenues and booked expenses. It would also be internally consistent, however, in that booked product revenues would be evaluated against booked product attributable costs. The FY08 ACD inconsistency of comparing booked product revenues with imputed product attributable costs would be avoided. The Postal Service sees no benefits to be gained by attempting to replicate that apples-to-oranges methodology.

In contrast, however, the Postal Service submits that there is still utility in continuing to produce an alternative version of the FY09 ICRA which relies on imputed revenues and imputed costs – just as the ICRA has customarily done for many years. Therefore, the Postal Service's second request is that it be authorized to prepare and present as part of its FY09 ACR filing an alternative version of the ICRA using imputed values, in addition to the primary ICRA prepared using booked values. Only the data from the primary ICRA would be incorporated into the CRA, and since it is only the CRA that purports to present total postal service costs and revenues, there would be no inconsistency between the FY09 ACR filing and the FY09 PMG's Annual Report of the type criticized in the FY08 ACD.

The Postal Service perceives at least three potential benefits from including such an alternative ICRA format with the FY09 ACR. One is for purposes of evaluating compliance with the statutory factors in the FY09 ACD. For example, as the above discussion shows, there can be discernible differences in the amount of contribution from products (or sets of products) between an analysis based on imputed values, and one based on booked values.³ Comparing Sections 2 and 3 in Table One, moving between an imputed value analysis and a booked value analysis in FY08 caused shifts in contribution of approximately \$14 million in aggregate Competitive Products, another approximately \$14 million in Outbound Single-Piece FCMI, and approximately \$49 million in Inbound Single-Piece FCMI. While none of these shifts in FY08 caused any positive contributions to go negative, or vice versa, neither outcome can be ruled as out a possibility in FY09. An adverse conclusion based exclusively on a booked values analysis might be tempered by contrary results from an imputed values analysis. (Or, conversely, confirmation of an adverse conclusion from a booked value analysis by further examination of an imputed value analysis would bolster confidence in that

³ To understand this portion of the discussion better, it may be useful to point out that what the Postal Service is proposing be filed as the outputs of its secondary ICRA in FY09 would be comparable to Section 2 of Table One, which is labeled there as the CRA methodology. That label refers to what was actually incorporated into the FY08 CRA. Section 3 of Table One, labeled as the proposed alternative, is what the Postal Service is proposing be adopted as the primary FY09 ICRA, and it would be those outputs which would be incorporated into the FY09 CRA.

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adverse conclusion.) Having the imputed value FY09 ICRA analysis available as an alternative, therefore, would seem potentially useful for addressing compliance issues in the FY09 ACD.

Second, as discussed above in the Proposal section, because of changes to its cost accounting systems, the Postal Service hopes at the end of FY10 to be reporting booked settlement costs which much more closely resemble the imputed settlement costs reported in previous years, rather than the booked settlement costs for those years. If so, the series of ICRA reports beginning in FY10 and continuing in future years will, as a practical matter, be generally consistent with the ICRA reports produced for 2008 and years prior, all of which were based on imputed costs. If the only available version of the FY09 ICRA is based exclusively on booked costs (as booked costs have been measured up to now, rather than as booked costs will be measured in 2010 and onward), then FY09 will stand out as a particular anomaly in the overall time series of ICRA data. On the other hand, if an alternative version of the FY09 ICRA is available based on imputed values, that gap in the time series can be plugged.

A third potential benefit also relates to the planned improvements in the accounting systems in FY10. Based on experience to date, the Postal Service is likely to be negotiating and proposing to implement numerous ICMs over the course of FY10. Normally, ICMs prepared during one year are based on the costs from the previous year, and ICMs prepared during FY10 would thus normally be based on FY09 costs. At the end of FY10, however, the performance of those ICMs would be evaluated on the basis of FY10 costs. If the accounting system is changed in FY10 to be more in accord with costs previously labeled as imputed, while the FY09 costs are still old-style booked costs, basing FY10 ICMs on those FY09 costs could perhaps cause problems in some instances. If the shift from booked costs to imputed costs in FY10 is likely to be dramatic for a particular product, it could be helpful to know that when ICMs involving that product are being developed. Have both versions of the FY09 ICRA available could be of substantial benefit for that purpose. It is conceivable, moreover, that the Postal Service may wish to base a particular ICM on the alternative, imputed, FY09 ICRA costs in some instances. Any such requests, however, could be evaluated when proposed, on a case-by-case basis. If the differences between booked and imputed FY09 costs are not material, it is also quite possible that a perceived need to rely on the alternative ICRA would never arise.

TABLE ONE

	Revenue (000)	Attributable Cost (000)	Contribution to Institutional Cost (\$ 000)	Rev Change	Cost Change	Cont Change
#1 ACD Booked Revenues, Imputed Costs						
COMPETITIVE MAIL						
Total Competitive Mail and Services	8,381,705	6,599,814	1,781,891			
MARKET DOMINANT MAIL						
Outbound Single-Piece FCM Intl	747,228	525,097	222,131			
Inbound Single-Piece FCM Intl	156,089	257,896	(101,807)			
Inbound Surface Parcel Post (at UPU Rates)	12,435	8,504	3,931			
International Services	26,652	62,728	(36,076)			
Sources:						
Sum of Above Rows	9,324,109	7,454,039	1,870,071			
Source: FY08 ACD, Table III-2, pgs. 11-12 (March 30, 2009)						
#2 CRA Imputed Revenues, Imputed Costs						
COMPETITIVE MAIL						
Total Competitive Mail and Services	8,434,500	6,602,100	1,832,400	(52,795)	(2,286)	(50,509)
MARKET DOMINANT MAIL						
Outbound Single-Piece FCM Intl	746,900	525,100	221,800	328	(3)	331
Inbound Single-Piece FCM Intl	205,300	257,900	(52,600)	(49,211)	(4)	(49,207)
Inbound Surface Parcel Post (at UPU Rates)	9,000	5,700	3,300	3,435	2,804	631
International Services	29,100	62,700	(33,600)	(2,448)	28	(2,476)
Sum of Above Rows	9,424,800	7,453,500	1,971,300	(100,691)	539	(101,229)
Source: FY08 Public CRA, USPS-FY08-1						
#3 Proposed Alternative Format Booked Revenues, Booked Costs						
COMPETITIVE MAIL						
Total Competitive Mail and Services	8,381,751	6,535,657	1,846,093	(46)	64,157	(64,202)
MARKET DOMINANT MAIL						
Outbound Single-Piece FCM Intl	747,228	511,464	235,764	0	13,633	(13,633)
Inbound Single-Piece FCM Intl	156,089	257,896	(101,807)	0	0	0
Inbound Surface Parcel Post (at UPU Rates)	12,435	5,691	6,744	0	2,813	(2,813)
International Services	26,652	61,469	(34,817)	0	1,259	(1,259)
Sum of Above Rows	9,324,155	7,372,177	1,951,978	(46)	81,862	(81,907)

Source: USPS-RM2009-10/NP1, 08Summary_NPLR1_REV_Booked.xls, Tab "Table_Current_V3 Booked"

TABLE TWO

	Total Revenue	Total Attributable Costs	Institutional Costs	Total Costs	Net Income
#1 ACD	74,968,220	45,637,420	32,136,447	77,773,867	(2,805,647)
#2 CRA	75,070,500	45,637,600	32,218,800	77,856,400	(2,785,900)
Change from #1	(102,280)	(180)	(82,353)	(82,533)	(19,747)
#3 Proposed Alternative	74,968,265	45,555,105	32,218,768	77,773,873	(2,805,607)
Change from #1	(46)	82,315	(82,321)	(6)	(39)

Sources:

- #1 FY08 ACD, Table III-2, pgs. 11-12 (March 30, 2009)
- #2 FY08 Public CRA, USPS-FY08-1
- #3 USPS-RM2009-10/NP1, 08Summary_NPLR1_REV_Booked.xls, Tab "Table_Current_V3 Booked"

PROPOSAL TWELVE

CLARIFICATION IN PERIODICALS MODELS

OBJECTIVE:

Provide clarification on implicit calculation of the 'Auto/Mech' factor from the In-Plant Incoming Secondary (IS) coverage factors in the 'Coverage Factors' sheet of the Periodicals cost models, filed as part of USPS-FY08-11 in the FY08 ACR .

BACKGROUND:

On Nov 4, 2008, the Postal Service filed thirteen modifications in Proposal Twelve in Docket No. RM2009-1, in which several updates and improvements were proposed for the flats cost models, including replacement of some unsupported assumptions with data collected in postal facilities. Modification Eight of Proposal Twelve proposed using In-Plant IS coverage factors derived from available data.

On December 29, 2008, the Postal Service filed Periodicals cost model spreadsheets (USPS-FY08-11) in Docket No. ACR2008, incorporating the changes from Proposal Twelve that were pending Commission approval. On January 12, 2009, the Commission issued Order No. 170, approving Modification Eight on page 13 of that Order.

On March 30, 2009, the Commission filed its version of the Periodicals cost model (PRC-ACR2008-LR5), in which the Commission included the In-Plant IS Coverage factor change, but rejected the calculation of the 'Auto/Mech' factor, and reverted back to part of the undocumented assumption from TW-LR-L-2. The complex inter-dependencies in the spreadsheet should lead to the implicit recalculation of the 'Auto/Mech' factor (cell D71) in sheet 'Coverage Factors' when the In-Plant IS Coverage factor was changed. Although USPS-FY08-11 allowed the 'Auto/Mech' factor to change as a result of the new In-Plant IS Coverage factor, PRC-ACR2008-LR5 did not allow the 'Auto/Mech' factor to change, and this caused a discrepancy for the processing of 40,000 pieces in model spreadsheet '5D'.

The Postal Service acknowledges the complex nature of the modifications proposed last year, and now provides clarification on the implicit changes it made in USPS-FY08-11.

RATIONALE:

The changes proposed by the Postal Service last year in Docket No. RM2009-1 were intended to replace the old input data in the cost models, or introduce new parameters

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for more accurate cost estimation, based on models of current operations that could be updated annually. In the FY08 ACD, the Commission rejected the Postal Service's calculation of the probability that Incoming Secondary (IS) sorts will be mechanized, even though it accepted Modification Eight from Proposal 12 filed in Docket No. RM2009-1, which calculates the proportion of flats that receive mechanized IS from MODS and RPW data. One cannot accept Modification Eight without accepting the logical (and necessary) calculation of the CONDITIONAL probability that appears in cell D71.

From MODS and RPW, the Postal Service calculated that 86.84 percent of the flats requiring IS get a mechanized IS sort. From the coverage factors, the Postal Service determined that 87.88 percent of the pieces destinate at a facility with mechanized equipment. Mechanized IS sorts are possible only at facilities with mechanized equipment. Therefore, for the two numbers to be consistent, it must be the case that 98.8 (86.84/87.88) percent of IS sorts at plants with mechanized equipment are done using the mechanized equipment.

In the ACD, the Commission apparently tried to revert back to the undocumented assumption that 85 percent of pieces at mechanized facilities receive a mechanized IS sort, from library reference TW-LR-L-2 in Docket No. R2006-1. To revert back to the 85 percent probability means that one has to reject the Modification Eight calculation and instead calculate the probability that a piece receives a mechanized IS sort as the probability that a piece lands at a mechanized facility (87.88) times the probability that the facility will process the piece on mechanized equipment (85), resulting in a mechanized IS percentage of 74.70. In doing so, one has to reject the MODS/RPW calculation of an 86.84 percent probability of mechanized IS sort. Otherwise, there would be an internal inconsistency in the model. For pieces in 5D bundles, the pieces that flow to manual are calculated as the total minus the proportions that are worked on mechanized equipment. If the totality of the calculation is not internally consistent, the model fails, as is evident in the '5D' spreadsheet of PRC-ACR2008-LR5, in which 40,000 pieces flow into the '5D' spreadsheet, but only 37,571 pieces flow out of the model.

Model Mechanism

Here is how the model should work:

40,000 5-digit pieces flow into the model in the '5D' spreadsheet. Using the coverage factors, 87.88 percent of these pieces are processed at a facility with mechanized equipment and 12.12 percent end up at a 'manual only' facility.

The mechanized facility doesn't work all zones on mechanized equipment. Some proportion is processed on mechanized equipment and some proportion is not. The proportion that is processed on mechanized equipment is the 'Auto/Mech' proportion in cell D71 of the "Coverage Factor" sheet. D71 is a conditional proportion. That is to say, it is the probability that a piece is worked on mechanized equipment CONDITIONAL on

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its arrival at a facility that has mechanized equipment. Cell D74 is an UNCONDITIONAL proportion. The value in D74 is meant to be the probability that a piece receives a mechanized IS sort regardless of the destination. Thus, the proportion of all mail that is worked on mechanized equipment will be the probability that a piece lands at an automated office (87.88) times the CONDITIONAL probability that the office works the mail on mechanized equipment (cell D71).

The proportion of pieces in 5D bundles worked manually is the sum of the pieces that land at 'manual only' sites (12.12), plus the pieces that land at mechanized sites that are not worked on mechanized equipment ($87.88 * (1-D71)$).

In the end, everything adds up: $87.88 * D71 + 87.88 * (1-D71) + 12.12 = 100$ percent, and 40,000 pieces flow out of the model.

If one accepts the MODS/RPW calculation of 86.84, one has to accept the implied conditional probability of 98.88; otherwise the model does not work. In this case, a discrepancy in the processing of the 'pieces in' and 'pieces out' will occur.

To fully accept Modification Eight, one has to also accept the implied (and necessary) calculation of the CONDITIONAL mechanized IS probability.

Regarding the PRC's concern that the 'Auto/Mech' factor could exceed 100 percent, there are several reasons (e.g., equipment downtime, or letter mail processed on flat sorting equipment) that might contribute to the 'Auto/Mech' factor reaching or exceeding 100 percent. In such a case, the Postal Service would investigate and perhaps adjust the coverage factors and other model components.

IMPACT:

The Postal Service is seeking acceptance of the method proposed for calculation of the 'Auto/Mech' factor used in the Periodicals cost model (USPS-FY08-11) filed in Docket No. ACR2008. Consequently, in terms of evaluating the impact using FY08 data, the FY08 impact would have been the results presented in USPS-FY08-11 (as opposed to the results shown in PRC-ACR2008-LR5, which used a previous 'Auto/Mech' factor). Of course, if the proposed calculation method is adopted, the calculation would be updated with FY09 data as part of the FY 2009 Annual Compliance Report, so the exact FY09 impact is as yet unknown.

PROPOSAL THIRTEEN

DEVELOPMENT OF STANDARD MAIL DESTINATION ENTRY COST AVOIDANCE ESTIMATES BY SHAPE

OBJECTIVE:

To develop separate destination entry cost avoidance estimates for Standard Mail letters, flats, and non-flat machinable (NFM) mail pieces / parcels.

BACKGROUND:

The 2007 Cost and Revenue Analysis (CRA) report included two Standard Mail line items: enhanced carrier route and regular. The 2008 CRA report was expanded to include several additional Standard Mail line items, including letters, flats, and NFMs / parcels. It is therefore now possible to develop separate destination entry cost avoidance estimates for Standard Mail letters, flats, and NFMs / parcels.

RATIONALE:

Three models are provided, and are attached to this filing as the contents of a ZIP file labeled as Prop.13.Models.zip. The first model ('STD DEST ENT TOTAL.XLS') calculates the aggregate "total" cost avoidance estimates using the same methodology relied upon in USPS-FY07-13. Some worksheets have been added to the model in order to separate the cost segment 8 and 14 costs by shape. The 'FY08 CS Data' worksheet (page 40) contains the CRA cost segment 8 and 14 data using the new Standard Mail line items presented in the CRA. The 'CR Dist Key' worksheet (page 39) contains pound distribution percentages by shape for the carrier route category, which includes costs for all shapes. The 'FY08 CS Data By Shape' worksheet (page 38) applies those distribution percentages to the carrier route line item in the 'FY08 CS Data' worksheet and adds those costs to the other shape-specific line items in order to estimate the cost segment 8 and 14 costs by shape. In this first model, the aggregate "total" costs are relied upon in the analysis; the results are therefore comparable to those calculated in USPS-FY07-13. The 'Summary' worksheet (page 1) has also been modified to include the estimates from the other two models.

A second model ('STD DEST ENT LETTERS.XLS') has been created in order to estimate the destination entry cost avoidances for letter-shaped mail. In the letters model, the cost segment 8 and 14 costs for letter-shaped mail are relied upon to estimate the cost avoidances. Furthermore, the 'Entry Profile Inputs' worksheet (page 70) has been modified to remove the volumes for flat-shaped mail. Given that letter-shaped mail is entered only in loose trays and in trays contained on pallets, some sack-specific worksheets and line items have been deleted from this model. The letters cost avoidance estimates are calculated on page 43 of USPS-FY08-13 and are also shown in the 'Summary' worksheet (page 1) of the 'STD DEST ENT TOTAL.XLS' model.

Proposal Thirteen

Using the same methodology, a third model has been created ('STD DEST ENT FLATS.XLS') in order to estimate the destination entry cost avoidances for flat-shaped mail. In the flats model, the cost segment 8 and 14 costs for flat-shaped mail are relied upon to estimate the cost avoidances. Furthermore, the 'Entry Profile Inputs' worksheet (page 70) has been modified to remove the volumes for letter-shaped mail. Given that flat-shaped mail is only entered in loose sacks, bundles, or sacks on pallets, some tray-specific worksheets and line items have been deleted from this model. The flats cost avoidance estimates are calculated on page 78 of USPS-FY08-13 and are also shown in the 'Summary' worksheet (page 1) of the 'STD DEST ENT TOTAL.XLS' model.

The NFMs/parcels cost avoidance estimates are calculated in the 'Summary' worksheet (page 1) of the 'STD DEST ENT TOTAL.XLS' model by applying pound distribution percentages to the cost avoidances for the other two shapes, subtracting them from the total cost avoidance estimates, and dividing that difference by the NFMs/parcels pound distribution percentage.

IMPACT:

The results from this analysis are shown in Table 1 below. The Standard Mail destination entry cost avoidance estimates by shape are shown in the letters, flats, and NFMs / Parcels columns and can be compared to the aggregate cost avoidance estimates in the total column.

**Table 1:
FY08 Standard Mail Destination Entry
Cost Avoidance Summary**

Cost Element	Letters Cost Per Pound	Flats Cost Per Pound	NFMs / Parcels Cost Per Pound	Total Cost Per Pound
Transportation				
DDU	\$0.1901	\$0.2453	\$1.0152	\$0.2527
DSCF	\$0.1649	\$0.2170	\$0.9493	\$0.2241
DBMC	\$0.1442	\$0.1951	\$0.7693	\$0.1978
Non-Transportation				
DDU	\$0.1140	\$0.0263	\$0.3024	\$0.0598
DSCF	\$0.0679	\$0.0179	\$0.3589	\$0.0425
DBMC	\$0.0361	\$0.0103	\$0.1830	\$0.0229
Total				
DDU	\$0.3041	\$0.2716	\$1.3175	\$0.3124
DSCF	\$0.2327	\$0.2349	\$1.3082	\$0.2666
DBMC	\$0.1802	\$0.2053	\$0.9524	\$0.2206

Proposal Fourteen

DEVELOPMENT OF PARCEL SELECT AND PARCEL RETURN SERVICE (PRS) PARCEL POST MAIL PROCESSING AND TRANSPORTATION COST MODELS

OBJECTIVE:

To develop Parcel Select and Parcel Return Service (PRS) Parcel Post mail processing and transportation cost models that contain cost estimates for the bulk-entered Inter-BMC, bulk-entered Intra-BMC, destination Bulk Mail Center (DBMC), destination Sectional Center Facility (DSCF), destination Delivery Unit (DDU), return Bulk Mail Center (RBMC), and return Delivery Unit (RDU) 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 (Oct. 22, 2008) and Order No. 156 (Dec. 23, 2008), 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 Parcel Select / PRS Parcel Post mail processing and transportation cost models. Those models, as they would appear using FY08 data, are presented in a ZIP file, Proposal.Fourteen.zip, which is being separately filed in this proceeding, under seal, as part of USPS-RM2009-10/NP2.

Within that ZIP file, the document titled "Parcel Post Cost Model Modifications.doc" lists the modifications required to develop Parcel Select / PRS 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. The mail processing cost model is contained in the file "PARCEL POST PS-PRS MP.xls." This model relies on destination delivery unit (DDU) arrival profile data and an incoming secondary parcel sorting estimate that were developed during a delivery unit field study conducted over the summer of 2008. The results from this field study are contained in the file "DU Field Study Results.xls." The mail processing cost model also relies on productivity estimates that were developed using Methods Time Measurement (MTM) data and the MTM-4M software. These estimates are contained in the file "MTM DATA.pdf."

Proposal Fourteen

The transportation cost model is contained in the file "PARCEL POST PS-PRS TRANS.xls." This model relies on a regression equation that was developed using version 9.1 of SAS. The SAS program is contained in the file "PP08DATAPSPRS.sas" and the FY08 cubic feet and volume data are contained in the file "PP08DATAPSPRS.xls."

IMPACT:

Summaries of the impact of the new models on the mail processing and transportations costs are presented in Tables 1 and 2, respectively, which are presented in the document "Parcel Post Cost Model Modifications.doc," included in the ZIP file associated with this Proposal that is being filed under seal.

Proposal Fifteen

PROPOSED CHANGE IN DATA SYSTEM FOR SINGLE-PIECE DOMESTIC MAIL PAID AT A RETAIL UNIT USING POS

OBJECTIVE:

The Postal Service proposes to change the data source used to report revenue, volume, and weight for the portion of domestic mailpieces (First-Class Mail, Priority Mail, Parcel Post, Media Mail, and Library Mail) paid by application of a PVI label at a retail counter using a Point-of-Service (POS) ONE system. For such pieces, the new method will replace ODIS-RPW sample data with data collected in a census system.

BACKGROUND:

The Origin-Destination Information System - Revenue, Pieces and Weight (ODIS-RPW) is a probability-based destinating mail sampling system used to support the Postal Service's many varied business needs for mail revenue and volume. ODIS-RPW primarily supplies official RPW estimates of revenue, volume and weight for single-piece stamped and metered indicia mail.

ODIS-RPW employs a multi-stage stratified sample design for sampling the universe of mail delivered or 'exiting' the Postal Service. All mail is partitioned into frame units, as part of a sampling frame. The frame unit is the Mail Exit Point or MEP. MEPs are stratified prior to sampling as a means to improve the precision of estimates of mail revenue, volume and weight. The sampling unit is a MEP-day; a randomly selected 24-hour period for 'testing' the mail that will exit the Postal Service through this MEP. Each quarter the sampling frame is constructed and stratified, and random samples of MEP-days are drawn within strata. Statistical Programs data collectors visit the facility for the randomly selected MEP-day and conduct a statistical programs 'test'. The test encompasses isolating, sampling, and recording the mail characteristics of a portion of the mailpieces on the sampled MEP-day.

One of the ODIS-RPW mail characteristics recorded by Statistical Programs data collectors is the indicia, or source payment. Indicia's include, but are not limited to, stamps, meter, permit imprint and Postal Validation Imprint (PVI).¹

Beginning in May 2009, a new code printed on the PVI label allowed Postal Service data collectors to determine at destination if the label was generated by a POS or a non-POS system, and record it accordingly. Now that we can separate sample data for

¹ Postage paid through a POS terminal is affixed to each mailpiece using a Postage Validation Imprint (PVI) label. A small percentage of PVI labels are generated by other systems, such as the Integrated Retail Terminal (IRT).

Proposal Fifteen

mailpieces paid through POS from other sample data, we can substitute the actual revenue, pieces, and weight recorded in POS for the ODIS-RPW estimates.

We are currently using POS data for registered, insured, and collect on delivery (COD) services, and Certificates of Mailing, sampled in an originating ODIS-RPW test at POS offices. Our proposal would expand our use of POS census data.

PROPOSAL:

The Postal Service is proposing to replace a portion of ODIS-RPW sample data with POS census data in FY 2010 for First-Class Mail, Priority Mail, Parcel Post, Media Mail, and Library Mail to which postage has been affixed with a PVI label applied at a retail unit using the POS system. We will use the POS data to report revenue, volume, weight, and any extra services associated with these pieces.

We can isolate ODIS-RPW data for mailpieces paid through POS by sorting on the new "PVI – POS" indicia field. We can then remove the associated data for revenue, pieces, and weight and replace it with the census data recorded in POS.

IMPACT:

The impact on revenue and volume reporting is expected to be neutral. This proposal will extend the use of census data to domestic First-Class Mail, Priority Mail, Parcel Post, Media Mail, and Library Mail (and associated extra services) entered at a retail counter using the POS system.

Proposal Sixteen

PROPOSED CHANGE IN ALLOCATING CERTIFICATE OF MAILING MAIL FEES REVENUE

OBJECTIVE:

Changes are proposed for the methodology of reporting Certificates of Mailing (COM) product mail fees. Plans are to use historic Point of Service (POS) distribution key percentages to make this separation for POS office entered mail.

BACKGROUND:

COM revenue is reported as mailing fees associated with the product category.¹ The source of these data include 1) the POS System data for POS office entered COM transactions, and 2) a small probability sample of non-POS offices to capture COMs not entered through POS terminals.

Prior to December 2008, the rules used by the POS system to assign COMs to a parent record were, to some degree, arbitrary.² The POS System a) assumed Certificate of Mailings were purchased for the parent piece in the same transaction and b) assigned COMs of multiple piece transactions.

Citing problems with reliably connecting COMs to parent pieces, the POS (Point of Sale) management team removed Certificates of Mailing from mailing tables beginning December 2008. As a result, Certificates of Mailing product level detail data appearing in the December 2008 Revenue, Pieces and Weight (RPW) data were not obtained directly from POS. Instead, November 2008 product distribution key percentages were

¹ The product mail fees section of the Revenue, Pieces and Weight (RPW) Report include the associated COM revenue. For example, COMs sold with Priority Mail are reported as Priority Mail Fees.

² Certificates of Mailing show evidence of mailing and can be purchased only at the time of mailing. However, *postage* for the item for which a customer wants a certificate mailing may or may not be purchased at the same time. For example, suppose a customer puts a stamp on a bill payment letter at home, takes the letter and a Priority Mail package to the post office, pays postage on the Priority Mail piece, and, handing the clerk the pre-stamped letter, purchases a COM for the letter. Because the only postage payment in the window transaction was for the Priority Mail piece, POS would have assigned the COM fee to Priority Mail, even though the COM was actually purchased for a First-Class Mail letter. Because of these types of circumstances, based on the data available to POS, there is no definitive way to relate the certificate of mailing to a specific mailpiece.

Proposal Sixteen

developed and used to split total December 2008 COM revenue and transactions to products. This practice (using the November 2008 distributions) has continued for the months and quarters since December 2008 RPW.

PROPOSAL:

Since it is impossible to reliably capture the relationship between a single COM parent mailpiece in the case of multiple pieces mailed or in case of the postage affixed mailpiece in POS, we propose to use a 13-month average of the distribution key percentages to report COM revenue by product for mail entered through POS offices.

RATIONALE:

The following table provides the November 2008 COM to product distribution key that has been used since December 2008 and the 13-month average distribution key developed from November 2007 through November 2008 (March 2008 POS COM data were not available). Also provided is the 95 percent Confidence Interval on the 13-month average.

Percentage of Total Certificate of Mailing Revenue by Product Category

	November 2008	13-Month Average (Nov. 2007 – Nov. 2008)	Lower 95% Confidence Interval	Upper 95% Confidence Interval
First-Class Mail (Domestic)	90.71%	89.00%	86.05%	91.95%
International (Competitive)	0.48%	0.65%	0.37%	0.92%
International (Market Dominant)	4.55%	5.77%	3.65%	7.69%
Package Services Mail	1.75%	2.18%	1.55%	2.81%
Priority Mail (Domestic)	2.98%	2.40%	1.94%	2.85%
Total	100.00%	100.00%		

These data show that the 13-month average percent distribution of COM mail fees between products is relatively stable, and can be used to replace the distribution key currently in place (November 2008 distribution key).

Proposal Sixteen

Also, while not shown, the percentage distribution of COM revenue between Market Dominant and Competitive Product groupings is the same between the two methodologies: 97 percent Market Dominant; 3 percent Competitive.

IMPACT:

The impact on mail fees and product revenue reporting both within and between Market Dominant and Competitive Product categories will be negligible. COM revenue represents only a fraction of a percent of Postal Service product and total revenue.

Proposal Seventeen

PROPOSED CHANGE IN DATA SYSTEM FOR FREE MILITARY MAIL

OBJECTIVE:

The Postal Service proposes to change the data source used to report revenue, volume, and weight for Free Military Mail from our Origin Destination Information System-Revenue, Pieces, and Weight (ODIS-RPW) to a census data source, our General Ledger (GL).

BACKGROUND:

Free Military Mail is “[m]atter that may be mailed free of postage by certain military personnel is restricted to letters, postcards, and recorded communications (whether sound or video) with the character of personal correspondence.” DMM 703, 4.2. To be eligible, mailpieces must be used by members of the military on active duty and assigned to certain designated overseas military areas. DMM 703.4.2.

RPW reports Free Military Mail volume and weight through the Origin-Destination Information System - Revenue, Pieces and Weight (ODIS-RPW). ODIS-RPW employs a multi-stage stratified probability sample design for sampling the universe of mail delivered or ‘exiting’ the Postal Service. All mail is partitioned into frame units, as part of a sampling frame. The frame unit is the Mail Exit Point or MEP.¹ MEPs are stratified prior to sampling as a means to improve the precision of estimates of mail revenue, volume and weight. The sampling unit is a MEP-day; a randomly selected 24-hour period for ‘testing’ the mail that will exit the Postal Service through this MEP. Each quarter the sampling frame is constructed, stratified, and random samples of MEP-days drawn within strata. Statistical Programs data collectors visit the facility for the randomly selected MEP-day and conduct a statistical programs ‘test’. The test encompasses isolating, sampling, and recording the mail characteristics of a portion of the mailpieces on the sampled MEP-day. The collected sample data is aggregated and weighted to produce ODIS-RPW monthly and quarterly sample statistics. Free Military Mail estimates are then adjusted to book revenue.² Free Military Mail is reported in the Free Mail line item of the Revenue, Pieces and Weight (RPW) Report.

The International Revenues & Volume, Inbound (SIRVI) is our data collection system for estimating inbound international letter-post and Free Military Mail. SIRVI samples inbound mail at concentrated centers of mail entry called international exchange offices

¹ A Mail Exit Point (MEP) is typically either a letter, flat, or parcel mail stream in a postal facility.

² See the Adjustment Revenue, Pieces and Weight (ARPW) system documentation (USPS-LR-L-20-R2006-1) for an explanation of the adjustment of residual trial balance revenue process.

Proposal Seventeen

or international processing centers. In these centers, Free Military mail is isolated to a small area of the facilities where SIRVI sampling is conducted. SIRVI estimates revenue per pound and pieces per pound, which is then multiplied by known or census dispatch weight obtained from military's Automated Military Postal System (AMPS) system to estimate the revenue and piece data used to invoice the Department of Defense. The invoice revenue appears in our General Ledger account 41422, always with a one quarter time lag. That is, revenue for the prior quarter appears in the current quarter GL account.

PROPOSAL:

The Postal Service is proposing to 1) use AMPS weight directly in RPW, 2) report RPW pieces as SIRVI sample estimated pieces per pound times AMPS weight, and 3) accrue revenue in GL 41422 based on the current period billing. This proposed change would go into effect in FY 2010.

RATIONALE:

Under the current ODIS-RPW sampling plan, the probability of sampling a piece of Free Military Mail is 'microscopic'.³ The sampling of Free Military Mail through SIRVI is a much richer sample as the mail enters the United States at less than ten international exchange offices. Specific SIRVI tests are scheduled just for Free Military Mail within the exchange offices.

Accrued revenue is a more accurate approach to reporting. By accruing revenue, the revenue is aligned to mail processed in the time period of activity.

IMPACT:

The impact on the revenue reporting is expected to be approximately neutral for FY reporting. FY2008 Free Military Mail revenue as reported in RPW totaled \$3,639,092, the sum of the months with the one-month time lag in revenue reporting. Using the accrued methodology FY2008 RPW revenue would have totaled \$3,535,588; a difference of -2.8 percent. After FY2010, revenues billed will equal revenues in the General Ledger through the accrual process.

The impact on volume and weight reporting is expected to be substantial. FY2008 DOD billed amounts were 8,163,062 pieces and 123,151 kilos (271,499 pounds) for an average weight per piece of 0.532 ounces. FY2008 RPW reported 2,509,601 pieces and 123,106 pounds for an average weight per piece of 0.785 ounces. Therefore, the analysis of FY2008 RPW estimates shows an undercounting of Free Military Mail pieces and weight. FY2010 pieces and weight are expected to decline by this amount under the proposed methodological approach.

³ A rough estimate of the probability of sampling a Free Military Mail piece is the ratio of the FY2008 RPW reported mail volume of approximately 10 million pieces divided by the total FY2008 mail volume of approximately 203 billion pieces; or .005 percent.

PROPOSAL EIGHTEEN

Proposal to Change the Methodology to Distribute Foreign Origin Surface CP Domestic Transportation Costs within the ICRA

OBJECTIVE

The purpose of this document is to propose a methodology change in the manner in which purchased domestic transportation costs are distributed within the International Cost and Revenue Analysis (ICRA) report to Foreign Origin Surface CP. Specifically, this proposal would use different distribution factors for purchased domestic transportation costs for Foreign Origin Canadian (CA) Surface CP, and Foreign Origin Rest of the World (ROW) Surface CP. The new distribution factors would be derived from data collected as part of the Transportation Cost System (TRACS).

BACKGROUND

Currently, an aggregate distribution factor is used for all Foreign Origin Surface CP. As a result, Foreign Origin CA and Foreign Origin ROW Surface CP have the same domestic transportation unit costs.

PROPOSAL

This proposal computes different distribution factors for Foreign Origin CA and Foreign Origin ROW Surface CP based on data collected from TRACS.

RATIONALE:

The Postal Service believes that Foreign Origin CA and ROW Surface CP have different domestic transportation cost characteristics. In FY08, CA Surface CP pounds per piece were on average substantially less than the ROW Surface CP pounds per piece. In addition, CA Surface CP enters the United States via Seattle, Chicago, or New Jersey. ROW Surface CP only enters the United States through New Jersey. In sum, there are operational reasons and empirical data which indicate that the two have different cost characteristics which result in different domestic unit transportation costs.

IMPACT:

In FY08 dollars, application of this proposal would have resulted in a decrease in the total CA Surface CP domestic transportation costs, and a corresponding increase in ROW Surface CP domestic transportation costs. More details on the impact are shown in a Word document (Prop.18.Impact.doc) filed under seal as part of USPS-RM2009-10/NP2.

PROPOSAL NINETEEN

Calculation of Appropriate Periodicals Bundle Savings Estimates

OBJECTIVE

To use the appropriate bundle costs in the Periodicals “Bundle Passthrough” worksheet for the calculation of price as percent of cost.

BACKGROUND

In the 2008 ACD, PRC_Periodicals_WS_ACR08.xlsx, worksheet “Bundle Passthrough”, Column D, rows 7 through 27 uses costs for bundles in sacks. In the 2007 ACD (page 85, Table VII-6, titled “Bundle Pricing by Container Level,”), the Commission used bundle costs by container (a weighted average of bundle costs for bundles in sacks and bundle costs for bundles on pallets).

RATIONALE

The Commission makes no mention of a desire to switch from the average bundle costs used in ACD 2007 to the sack bundle cost used in ACD 2008. We believe that the methodology should use average bundle costs, rather than the bundle cost for bundles in sacks used in ACD 2008. Therefore, the Postal Service proposes to use the average bundle costs (as in the FY07 ACD) in its preparation of the FY09 ACR and subsequent ACRs.

IMPACT

This change would have affected the ratios of price-to-cost for Periodicals reported in the FY08 ACD by small amounts, ranging from no change to a change of 6.7 percent of the original ratio.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

Eric P. Koetting

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