

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

Before Commissioners:

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

Modification of Analytical Principles in Periodic
Reporting (Proposals Three through Nineteen)

Docket No. RM2009-10

ORDER ON ANALYTICAL PRINCIPLES
USED IN PERIODIC REPORTING
(PROPOSALS THREE THROUGH NINETEEN)

(Issued November 13, 2009)

I. BACKGROUND

The Commission has adopted periodic reporting rules under the authority of section 204(b) of the Postal Accountability and Enhancement Act (PAEA). See 39 U.S.C. 3652(a)(1) and (e). Those rules require the Postal Service to obtain advance approval in a notice and comment proceeding under 5 U.S.C. 553 whenever it seeks to change the analytical principles that it applies in preparing the periodic reports to the Commission required by section 3652 of the PAEA.

On July 28, 2009, the Postal Service filed a petition to initiate an informal rulemaking proceeding to consider changes in the analytical methods approved for use in its periodic reports to the Commission.¹

The Postal Service's proposals fall into several groups. Proposals Three through Seven and Nineteen correct errors that the Postal Service has detected in some of the programs and spreadsheets underlying its annual compliance report (ACR). Advance notice of corrections of this kind is not mandatory under the Commission's rules, but the Postal Service recognizes the value of providing advance notice voluntarily, and the Commission commends it for doing so. *Id.* at 1.

Proposals Eight through Ten, and Eighteen are updates that reflect operational changes or data system improvements. *Id.* at 2. Proposal Eleven would employ audited accounting revenues and expenses to prepare the International Cost and Revenue Report (ICRA). Proposals Twelve through Fourteen are designed to make use of data that are newly available through special studies for Periodicals, Standard Mail, and Parcels, respectively. Proposals Fifteen through Seventeen make refinements to volume and revenue reporting.

The Commission accepts all of the changes as proposed by the Postal Service, except an element of Proposal Nine concerning the treatment of Non-Signature Scan Items. The comments of the participants on each proposal are summarized, and the Commission's analysis of each proposal is provided below.

¹ 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 (Petition).

II. DISCUSSION

A. Proposal Three—Assignment of Costs for Forwarded or Returned Undeliverable-as-Addressed Parcel Select Pieces to Single-Piece Parcel Post

Proposal Three is designed to correct a mismatch of the cost and revenue related to Undeliverable-as-Addressed (UAA) Parcel Select. Currently, parcel pieces that originate as Parcel Select pieces, but are UAA, are charged additional Single-Piece Parcel Post rates when the pieces are either forwarded or returned. The revenue from these additional Single-Piece Parcel Post charges is currently reported as Single-Piece Parcel Post revenue; however, the costs are not currently assigned to Single-Piece Parcel Post. In FY 2009, the Postal Service proposes to assign In-Office Cost System (IOCS) tallies, and thus costs, associated with UAA Parcel Select pieces that are either forwarded or returned, to Single-Piece Parcel Post. Because this proposed change will align costs with the current product list, it will make the IOCS more representative of the current Mail Classification Schedule.

The Postal Service estimates that if the proposed changes had been implemented in FY 2008, the total IOCS dollar-weighted tallies for Parcel Select would have decreased by approximately 7 percent, while Single-Piece Parcel Post dollar-weighted tallies would have increased by about 4 percent. See Proposal Three, attached to the Petition.

Participants' comments. No comments were submitted in response to Proposal Three.

Commission analysis. The Commission notes that from FY 2007 to FY 2008, IOCS Parcel Select tallies increased by 33.4 percent while parcel tallies as a whole increased by 14.6 percent. For the same time period, IOCS Parcel Select tallies as a portion of all parcel tallies increased by 16.24 percent. It is reasonable to assume that the number of UAA Parcel Select pieces will increase as the volume of Parcel Select increases, exacerbating the misallocation of revenue and cost. Proposal Three corrects an existing misallocation of UAA Parcel Select costs within IOCS. It also brings IOCS in

line with the Mail Classification Schedule. For these reasons, the Commission accepts this proposed change to the analytical principles used in the Postal Service's periodic reports.

B. Proposal Four—Distribution Key for Motor Vehicle Maintenance and Related Costs (Cost Segment 12)

The Postal Service proposes to correct an error in the worksheets for Cost Segment 12 Motor Vehicle Service. These worksheets erroneously compute attributable city carrier letter route vehicle costs. Currently, these attributable vehicle costs are distributed in proportion to the aggregate variability and distribution to products of city letter routes and special purpose routes combined. The correct methodology would use only city carrier letter route costs to compute the variability and distribution of vehicle service costs that are related to city letter routes.

The methodology proposed by the Postal Service and approved by the Commission in Docket No. R2000-1 develops the accrued costs by various functions using data from the Vehicle Maintenance Accounting System. Vehicle maintenance expenses for labor, supplies and materials, and vehicle hire are based on function. These expenses vary in proportion to the number of miles driven and hours of operation to the same degree as the underlying functions for which the vehicles are used. Thus, the costs of maintaining vehicles used by city carriers on letter routes vary to the same degree as the underlying function, and are distributed to products in the same proportion as products delivered on city carrier letter routes. The same method applies to City Carrier Special Purpose routes, rural carriers who use vehicles owned by the Postal Service, and vehicle service drivers.

In FY 2008, the attribution of Motor Vehicle Service costs did not follow the methodology approved by the Commission. As noted above, attributable city carrier motor vehicle service costs were "piggybacked" on the aggregate variability of both letter route and special purpose route costs and distributed to the products based on a distribution key of both city carrier letter routes and special purpose routes combined.

The Postal Service proposes to remedy this situation by developing another distribution key consisting only of the attributable costs of city carrier letter routes and using this key to determine the variability and distribution of motor vehicle city delivery personnel, supplies and services, and vehicle hire costs. The specific method is detailed in the response to Chairman's Information Request No. 1, Question 1.²

Participants' comments. No comments were submitted in response to Proposal Four.

Commission analysis. The Commission agrees with the Postal Service that the error exists and approves of the Postal Service's proposed method for correcting this error. The impact on total attributable costs for Motor Vehicle Service is minimal, reducing these costs by slightly more than \$3 million, based on the FY 2008 data. Among the products most affected by the correction are Standard Mail, whose attributable costs would increase by \$1.1 million, and Package Services, whose attributable costs would be reduced by \$1.2 million.

C. Proposal Five—Expanding the Detached Address Label Adjustment to Include Enhanced Carrier Route High Density and Carrier Route Detached Address Labels

In Docket No. R2005-1, the Commission accepted an adjustment to the attribution of the city carrier costs associated with Detached Address Labels (DALs). DALs serve as the address for flats that they are mailed with, and their costs should be assigned to the host piece, *i.e.*, the flat-shaped piece. Because DALs are letter shaped, the carrier costing systems assign their cost to ECR letters rather than ECR flats. Thus, to develop accurate costs, it is necessary to isolate and shift the street time costs of DALs from letters to the host pieces.

In the methodology approved in Docket No. R2005-1, street costs of DALs are isolated by multiplying the unit cost of ECR Saturation Letters by the volume of DALs. The DAL costs are then subtracted from ECR Saturation Letters and added to ECR

² Chairman's Information Request No. 1, September 17, 2009 (CHIR No. 1).

Saturation Flats. When this adjustment was developed, no data system produced a volume of DALs.³ When the DAL surcharge was implemented in May 2007, the Revenue, Pieces, and Weight System (RPW) and Carrier Cost Systems (CCS) (composed of the Rural Carrier Cost System (RCCS) and City Carrier Cost System (CCCS)) began collecting information on the volume and revenue of these pieces. The newly available volume data was used to increase the accuracy of the DAL adjustment by using delivered volumes. However, the delivered volume used in FY 2008 does not account for a significant percent of DAL volume. The following table shows the difference between the DAL volume as measured by the RPW and the CCS.

Table 1
FY 2008 DAL Volume

FY 2008 DAL Volume	
RPW	901,549
RCC+CCCS	601,482
Difference	(300,067)
Source: Petition, Proposal Five, at 2.	

The difference between the volume of DALs as measured by the RPW and the CCS has certain identifiable causes. In FY 2008, the CCS produced the volume of DALs associated with only delivered ECR Saturation host pieces. The DAL volume produced by the RPW captures all DALs. In the FY 2008 ACD, the Commission recommended that the Postal Service improve DAL costing and volume measurement. FY 2008 ACD at 64.

The Postal Service's proposed methodology would expand the DAL adjustment to include both ECR High Density and Carrier Route DALs. Petition, Proposal Five, at 2. In FY 2009, the CCS began recording data on DAL volumes for Carrier Route, High

³ Previous to the FY 2008 ACR, DAL volume was estimated. See Docket No. R2006-1, library reference PRC-LR-7.

Density, and Saturation mail. The volume of delivered DALs by rate category would be used to estimate the street costs of DALs by rate category. The proposed adjustment will apply the Docket No. R2005-1 methodology to the volume and cost of the DALs in each of these rate categories, shifting street costs from letters to the associated host piece.

Participants' comments. Valpak commented in the FY 2008 ACR that DAL costing needed to be re-examined.⁴ In this proceeding, Valpak states that this change should “help account for most of the volume of DALs recorded in the RPW, [and] represents a significant improvement over the procedure used in the last ACR....”⁵

Commission analysis. The Commission accepts Proposal Five. It finds that expanding the DAL adjustment to include additional rate categories with DAL volume is an improvement over the current method. The Commission will continue to monitor the percent of DALs delivered.

D. Proposal Six—Distributing the Costs of Accountable, Insured Pieces in Cost Segments 7 (City Street) and 10 (Rural Delivery)

In Proposal Six, the Postal Service seeks to correct a misallocation of accountable delivery costs to insured mail. Under current procedure, all insured pieces are assumed to require signatures and are, therefore, treated as accountable mail pieces. The Postal Service states that this assumption is incorrect; a signature is required only for pieces that are insured for over \$200. Petition, Proposal Six, at 1. Under current methods, there is an over-allocation of accountable volume variable costs to insured pieces, largely because only the accountable portion of this total volume

⁴ Docket No. ACR2008, Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. Initial Comments on the United States Postal Service FY 2008 Annual Compliance Report, January 30, 2009, at 31-36.

⁵ Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. Initial Comments on Analytic Principles Used in Periodic Reporting (Proposals Three through Nineteen), August 20, 2009, at 2.

causes customer contact time. Proposal Six would correct for this overstatement as follows.

Under the proposal, the Postal Service would estimate the portion of insured mail that is accountable by applying the proportion of RPW volume of insured pieces valued at greater than \$200 as a proxy. Accountable delivery costs would be assigned to insured mail based on this estimated volume alone. This revision has the effect of reducing volume variable delivery costs for insured pieces requiring signatures and redistributing these costs to the other accountable products by the same amount. The remaining insured pieces, not requiring a scan, would then be assigned a per-piece scan cost obtained from engineering studies. The Postal Service would subtract the scan-related costs proportionately from accrued delivery costs by mode and treat them as 100 percent volume variable.

Under the proposed method, total delivery costs for insured pieces would be the sum of all volume-variable delivery costs for insured pieces that require signatures (*i.e.*, time related to scans, signatures and all other volume-variable delivery activities for accountable pieces), and the scan costs for those insured pieces that do not require signatures. All other volume-variable delivery costs associated with insured, non-accountable volume would continue to be assigned to the host, non-accountable pieces. The net effect on insured pieces from these adjustments (the added scan costs and the reduced volume-variable delivery costs for insured accountables) is to reduce total insured volume-variable costs by \$23.3 million. Petition, Proposal Six, at 3.

Participants' comments. There were no comments filed in response to Proposal Six.

Commission analysis. The Commission accepts Proposal Six. The over-allocation of accountable costs to insured mail should be corrected to more accurately reflect volume-variable delivery costs. However, the Commission notes that the Postal Service's treatment of these scan-related costs may overstate total volume-variable delivery costs to some degree.

In Docket No. R2005-1, witness Bradley developed separate cost models for regular delivery time, and for large parcel and accountable delivery time, to determine overall city carrier street variabilities by mail shape. Scan-related costs were included in the total costs used to develop these models. Thus, the resulting volume variabilities accounted for the effect of delivery scans on volume-variable costs. Removing scan-related costs from accrued costs after the variability analysis has been performed and treating them as a separate 100 percent variable cost pool may artificially inflate system-wide volume-variable costs. A better alternative may be to remove the scan-related costs from regular delivery accrued costs before the volume variability is calculated. This is true for all scan-related delivery costs, not just those associated with insured mail. The Postal Service is encouraged to review the treatment of scan-related delivery costs for all products prior to filing the FY 2010 ACR.

E. Proposal Seven—Treatment of Accrued Costs Pertaining to Loading/Unloading the Vehicle in Cost Segment 6 (City In-Office)

In Proposal Seven, the Postal Service reclassifies costs incurred for city carrier vehicle loading and unloading that are now part of In-Office Direct Labor (6.1) to In-Office Other Expenses (6.2). These vehicle-related costs, totaling \$219 million in FY 2008, are currently considered part of an institutional cost pool. The Postal Service states that vehicle loading and unloading “should no longer be treated as institutional, because aggregate costs will increase or decrease as the number of routes changes.” *Id.*, Proposal Seven, at 1. The transferred costs would now be included with city carrier training, and clocking in and out activities, all under In-Office Other Expenses (6.2).

Under this proposal, in FY 2008, these latter costs would have increased from \$459.9 million (\$130.1 million for clocking in and out, and \$329.8 million for training) to \$678.9 million after the transfer. Costs in the institutional pool, where vehicle loading and unloading are currently found, totaled \$463 million in FY 2008. The transfer of the \$219 million would have left \$244 million in the pool. These costs are related to city carrier in-office other activities and routine in-office work. *Id.*

Under current methods, In-Office Other Expenses are considered to vary in aggregate to the same extent as city carrier delivery costs, city carrier network costs, and city carrier in-office direct costs. Thus, under the Postal Service's proposed method, total city carrier variability costs would be higher. The Postal Service indicates that the revised \$678.9 million in In-Office Other Expenses would be distributed to the three supported activities as follows: (a) delivery activities—\$416.5 million; (b) network activities—\$60.6 million; and (c) In-Office direct—\$201.7 million. Postal Service Reply Comments at 6. Each of these amounts would be partitioned into institutional and volume variable costs in proportion to the institutional and volume-variable expenses related to these three activities.

The Postal Service states that transfer of \$219 million in vehicle loading and unloading expenses would yield \$162.2 million in new volume-variable expenses. The volume-variable portion consists of \$124.6 million in In-Office Support Overhead, directly resulting from the loading and unloading activities, and \$37.6 million in volume-variable costs in In-Office Support Other, resulting from piggybacks. Petition, Proposal Seven, at 2.

Participants' comments. No comments were submitted in response to Proposal Seven.

Commission analysis. The Commission accepts the Postal Service's rationale for transferring \$219 million in city carrier vehicle loading and unloading expenses from In-Office institutional costs to an overhead account where these costs would be treated as system volume variable. As the Postal Service acknowledges, these costs clearly vary with the number of routes, and therefore also vary to the same extent as total carrier costs. Accordingly, the Commission accepts Proposal Seven.

The Commission encourages the Postal Service to re-examine whether other components of the \$244 million that are still treated as institutional within In-Office Direct Labor should be treated as system volume variable using the same rationale.

The Postal Service states that the remaining costs would consist largely of carrier route maintenance activities, administrative tasks, waiting for mail, communicating with

supervisors or other employees, union activity, assisting customers, and transiting to or from their work area.⁶ Response to CHIR No. 1, Question 4, at 7. Clearly, these costs are administrative in nature and can be expected to be fixed with respect to each carrier, just as vehicle loading and unloading costs are. However, as the number of carriers changes in response to volume changes, these administrative costs in total would tend to vary in rough proportion to the number of carriers as well.

The rationale for treating loading and unloading costs as system volume variable would appear to apply to these administrative costs as well. They tend to be fixed with respect to each carrier only. The Commission, therefore, encourages the Postal Service to review each of the types of administrative costs that remain in the In-Office Direct Labor Other category to determine whether further shifts out of institutional costs can be justified.

F. Proposal Eight—Redistributing a Portion of the Costs Incurred by SPR Carriers (Cost Segment 7)

The Postal Service proposes a methodology change in Cost Segment 7 for Special Purpose Route (SPR) cost pools. Specifically, it intends to replace distribution factors originally developed in Docket No. R97-1 with new factors from a new subsystem of the CCCS.

There are currently three factors used to distribute costs in four SPR cost pools. These factors are for (1) non-accountable parcels (LOAD SPR NON-ACCT DELIVERY); (2) accountable parcels (LOAD ACCT SPR DELIVERY); and (3) the sum of (1) and (2) where the parent mailpiece is used rather than the accompanying special service (TIME AT STOP SPR DELIVERIES and ADJ SPR DELIVERY ACCESS). These factors were originally developed by the Postal Service, and approved by the Commission, in Docket No. R97-1. They have not been updated because the Postal Service was not able to develop reliable annual estimates.

⁶ Responses of the United States Postal Service to Chairman's Information Request No. 1, September 29, 2009 (Response to CHIR No. 1).

The Postal Service proposes to replace the existing stale distribution factors with factors developed from sample frames from the newly developed CCCS-SPR statistical system.⁷ These new factors will distribute the four SPR cost pool costs using the same types of mailpieces as the Docket No. R97-1 methodology. The advantage is that the distribution factors can now be updated every year for SPR carrier costs much the same way the distribution factors for city letter routes are updated annually using the CCCS-SPR.

Additionally, the Postal Service notes that reporting requirements resulting from enactment of the PAEA have caused problems with the original Docket No. R97-1 analysis. The original factors only distributed the cost pools to total classes, such as total First-Class and total Standard Mail. RPW volumes were then used to further disaggregate the broad measures to individual products. This resulted in several flat-shaped products being assigned a disproportionate share of the costs. Citing the Postal Service example in its proposal, Bound Printed Matter Flats used to receive a share of the costs using RPW to disaggregate Package Service's costs. Under the new CCCS-SPR system, the data show that no costs are being distributed to Bound Printed Matter Flats, a reduction of over \$14 million.⁸ This appears to be true for all flat-shaped products. The table accompanying Proposal Eight shows that under the proposed method there is a reduction in Cost Segment 7 costs for every flat-shaped piece with all of the costs being redistributed to parcels within each class of mail.

Participants' comments. No comments were submitted in response to Proposal Eight.

Commission analysis. The Commission asked several questions of the Postal Service relating to the new CCCS-SPR sample design and estimation techniques. Response to CHIR No. 1, Questions 5-8. The explanations satisfy the Commission that the new subsystem is appropriately designed for its intended use and produces results

⁷ The Postal Service included an electronic appendix to the proposal which describes the frame creation, sample design, data collection procedures and estimation techniques for the new CCCS-SPR.

⁸ Petition, table attached to Proposal Eight.

that are likely to be more accurate than the stale data that is currently relied on. Accordingly, the Commission accepts Proposal Eight.

G. Proposal Nine—Using New Rural Mail Count Evaluation Items in Cost Segment 10

Rural routes are broadly classified as evaluated and other routes.⁹ Evaluated routes are those routes for which the rural carrier's annual salary is calculated using a set of standard time allowances. Time standards are applied to workload or mail count elements of each route (e.g., mileage, delivery boxes, number of mailpieces delivered by shape, etc.) to calculate (1) the evaluated time for each mail count element of the route; and (2) the total evaluated time required to serve the rural route, and thus the salary of the carrier serving that route. To measure the mail count elements needed to calculate the evaluated times, a National Mail Count (NMC) for most rural routes is conducted periodically in accordance with the labor agreement between the Postal Service and the National Rural Letter Carrier's Association. Most rural routes are evaluated routes.

Rural carrier costs in Cost Segment 10 are distributed to cost pools using the average weekly evaluated times of mail count elements per route. Additionally, the evaluated time for each mail count element of the route is classified into a variable or a fixed evaluation time, according to whether or not the associated mail count element varies with volume. The total variable evaluated time is calculated as the sum of evaluated times of the mail count elements that vary with volume. Likewise, total

⁹ The classification of rural routes is as follows:

H routes are carried all 6 days a week by a regular carrier.

J routes are carried 11 out of 12 days by a regular carrier, 1 day every other week by a replacement carrier.

K routes are carried 5 out of 6 days by a regular carrier, 1 day a week by a replacement carrier.

M routes or Mileage routes are served by carriers who are paid based on miles because mileage-based payment is greater than compensation based on evaluated schedule.

A routes or Auxiliary routes are served by auxiliary carriers because they are evaluated at less than 35 hours per week.

H, J and K routes are called "evaluated" routes; M and A routes are referred to as "other" routes.

In the 2008 National Mail Count, about 89 percent of the all rural routes were "evaluated" routes and 11 percent were classified as "other" routes.

evaluated time is calculated as the sum of evaluated times of all mail count elements. The variability ratio is then computed as total variable evaluation time divided by total evaluation time.

The NMC for FY 2009 includes the following five new mail count elements: (1) Carrier Pickup Requests and Carrier Pickup Items; (2) Delivery Point Sequencing (DPS) Flats; (3) Scanner Setup/Retrieval/Return; (4) PARS¹⁰ yellow labels; and (5) Non-Signature Scan Items.

Participants' comments. No comments were submitted in response to Proposal Nine.

With Proposal Nine, the Postal Service asks the Commission to approve a suggested treatment of the above five new mail count elements for costing purposes. More specifically, the Postal Service asks the following treatment for the new mail count elements:

1. *Carrier Pickup Requests and Carrier Pickup Items:*¹¹ The Postal Service proposes to (a) classify the evaluated time of both mail count elements as volume variable; (b) combine them into one cost pool; and (c) prorate the cost of the pool to mail categories by using the new RCCS distribution key for carrier pickup.

Commission analysis. The Commission accepts the proposed treatment of evaluated time of Carrier Pickup Requests and Carrier Pickup Items. Both new elements are variable with respect to the volume of Priority Mail, Express Mail, and International Mail. Additionally, the proposed treatment

¹⁰ The Postal Automated Redirection System (PARS) identifies and redirects forwardable mail during processing, a significant advance over legacy systems that required forwardable mail to be taken "off line" to have new addresses applied. PARS deployment was completed in September 2007 to 283 sites. Given the reduced workload, 16 Computerized Forwarding System (CFS) sites were consolidated in FY 2008, reducing the total number of sites from a high of 215 to 96. The volume of mail processed on PARS increased 26 percent, and now stands at more than 2.5 billion pieces each year. The annual savings from PARS reached \$270 million in FY 2008.

¹¹ Carrier Pickup Items are Priority Mail, Express Mail, or International mail. Rural carriers currently get 90 seconds for each request, and then 9 seconds for each item.

of their evaluated times is consistent with the current treatment of the evaluated times on the route by the rural carriers.

2. *DPS flats.* The Postal Service proposes to (a) classify the rural carrier's evaluated time for delivering DPS flats as volume variable; and (b) prorate the cost of this mail count element to mail categories by using a newly developed RCCS distribution key for DPS flats.

Commission analysis. The Commission approves the proposed treatment of evaluated time for delivering DPS flats. The rural carrier's evaluated time for delivering DPS flats varies directly with the volume of DPS flats delivered. Additionally, the proposed treatment of the evaluated time for delivering DPS flats is consistent with the current cost treatment of the evaluated time for delivering DPS letters.

3. *Scanner Retrieval/Setup/Return.* The Postal Service proposes to classify the rural carrier's evaluated time for retrieving, setting-up, and returning the scanner as fixed with respect to changes in volume.

Commission analysis. The Commission approves the proposed treatment of evaluated time for the Scanner Retrieval/Setup/Return. This mail count element does not vary with volume, and the proposed treatment of its evaluated time is the same as the current treatment of the evaluated times of similar mail count elements such as loading and unloading the vehicle and buying stamps for the route.

4. *PARS yellow labels.* PS Form 3982 (PARS yellow label) is the modern version of the change-of-address form used by carriers and other Postal Service employees to record a change in address for mail forwarding or return. The yellow label (sticker) is part of the PARS mail forwarding program. It is generated electronically and then printed.

During the 2009 NMC, for the first time, the Postal Service credited rural carriers a time allowance of 15 seconds for each PARS yellow label that they received during the mail count. The Postal Service proposes to classify the rural carrier's evaluated time for handling PARS yellow labels as fixed with respect to changes in volume.

Commission analysis. The Commission approves the proposed treatment of evaluated time for handling PARS yellow labels as fixed. The labels are computerized forms designed to record change-of-address information, and their production and distribution to carriers during any given time period is entirely independent of the changes in mail volume during that period. Additionally, the proposed treatment of their evaluated time is the same as the current treatment of the evaluated times of other change-of-address forms such as PS Form 3575Z and PS Form 3546.

5. *Non-Signature Scan Items.*¹² Non-Signature Scan Items include Delivery Confirmation, Shipment Confirmation Acceptance Notices (SCAN) PS Form 5630,¹³ Delivery Unit Saturation and Bundle Scanning, barcode scans for Insured mail not requiring a signature, and “any other scan the carrier makes except when a mail piece also requires a signature.” See Response to CHIR No. 1, Question 10. In its Petition, the Postal Service says that “[t]he proposed treatment is to include Non-Signature Scan Items as a fixed cost pool for variability analysis.” Petition, Proposal Nine, at 1. In its response to CIR No. 1, the Postal Service, however, explains that the cost for scanning Delivery Confirmation and Insured Mail is pulled out of fixed cost and treated as attributable cost. Response to CHIR No.

¹² Currently, the standard time allowance is 18 seconds per scan of non-signature items.

¹³ PS Form 5630 (SCAN form) serves as a mailing manifest for customers who use Click-N-Ship or other online PC Postage/label printing solutions to buy postage. The SCAN form contains a master barcode that represents all the packages in a shipment with postage paid online. The customer is instructed to bring the form to the post office or leave it for the carrier in the case of a Carrier Pickup with his/her paid online packages. A Postal Service employee (who can be a rural carrier) (1) verifies that the volume listed on the form matches the volume presented by the customer; (2) scans the barcode on the SCAN Form; and (3) returns it to the customer for the customer's records. When the form is scanned, all the packages with postage paid online that are also listed on the form will instantly appear in the Postal Service's Track and Confirm database as “Shipment Accepted.”

1, Question 10. The Postal Service further explains that the remaining costs in the Non-Signature Scan Items are treated as fixed because the costs do not vary due to small changes in volume. *Id.*

Commission analysis. The Commission does not agree with the proposed treatment of Non-Signature Scan Items other than Delivery Confirmation and Insured Mail. The Commission finds that the scans of all non-signature items are causally related to changes in mail volume. Thus, the evaluated time and rural carrier costs associated with all scans should be attributed and then distributed to the mail categories that caused them. The accepted analytical principle is to (a) classify the evaluated time of the scans for all Non-Signature Scan Items as volume variable and use this classification for calculating the variability of Cost Segment 10; (b) create a separate cost pool for each item; and (c) assign (as is the case with Delivery Confirmation and Insured Mail) or prorate the cost of each pool to mail categories by using newly developed distribution keys, as appropriate.

H. Proposal Ten—Combining DPS and Sector Segment Letter Volumes into a Single Key to Distribute Carrier Costs (Cost Segment 10)

The Postal Service proposes to replace the separate distribution keys used to distribute the attributable costs associated with rural DPS Letters and Sector Segment Letters with a single key based on the sum of DPS and Sector Segment letters. It makes this proposal for two reasons. First, union contracts specify that a rural route that averages less than 400 pieces of DPS Letters a day during the Rural Mail Count will apply the Sector Segment Letter evaluation to DPS Letters. Second, DPS and Sector Segment Letters may arrive at the carrier case commingled, and impede a RCCS data collector's ability to distinguish a DPS from a Sector Segment Letter. For these reasons, the Postal Service contends that developing a combined key to

distribute attributable costs to DPS and Sector Segment Letters would be more accurate than using separate distribution keys.

Participants' comments. No comments were submitted in response to Proposal Ten.

Commission analysis. The Commission asked several questions pertaining to this proposal. See Response to CHIR No. 1, Questions 11-15. The Postal Service's Response to CHIR No. 1, Questions 1-3, confirms that the effect of this proposal is limited to the shift of attributable costs shown in the table presented in Proposal 10, and that the impact of this distribution change would be minimal.

CHIR No. 1, Question 14, solicits information on the effect of not treating DPS Letters and Sector Segment Letters differently on routes that average less than 400 DPS letters per day during the Rural Mail Count. The Postal Service's response that at most "one-half of one-percent of the letters recorded as Sector Segment Letters were DPS Letters" leads the Commission to conclude that the current combination of DPS and these Sector Segment Letter volumes within the DPS Letter distribution key has a very minimal impact on the distribution of attributable rural delivery costs.

CHIR No. 1, Question 15, was meant to ascertain whether a RCCS data collector could accurately distinguish DPS Letters from Sector Segment Letters that arrived at the delivery unit intermingled with the DPS dispatch. The Postal Service response appears to imply that Sector Segment Letters that are banded and in the same tray as DPS Letters, plus those that arrive in separate trays could be counted separately, but those that arrive unbanded in the same tray as DPS Letters could not be counted separately. Because it would not be possible to fully and accurately identify Sector Segment Letters that arrive with the DPS dispatch, and because the use of a distribution key that combines DPS and Sector Segment volumes only marginally changes the distribution of rural delivery costs, the Commission accepts this proposal.

I. Proposal Eleven—Using Audited Accounting Revenues and Expenses in the ICRA

Proposal Eleven responds to the recommendations and findings reported in the Commission's FY 2008 ACD at 12-13. There, the Commission instructed the Postal Service to report FY 2009 revenues and expenses for all mail that reflect accounting methods consistent with those used in the Postal Service's audited financial statements. To achieve this result, the Postal Service proposes to change its methodology for developing revenues and costs by product reported in the ICRA report.

The ICRA relies in part on imputed revenues and expenses when reporting selected results for international mail products. The Postal Service receives revenues for delivering inbound (foreign-origin) International Mail, which are imputed for reporting purposes in the ICRA. Similarly, Postal Service payments to foreign postal administrations for the delivery of outbound (U.S.-origin) mail are also imputed for reporting purposes in the ICRA. The imputed amounts for both revenues received and expenses paid are based upon known rates of reimbursement for outbound and inbound mail that vary by country, and the corresponding outbound and inbound volumes. Multiplying the applicable rates by the relevant volumes produces the imputed revenues or expenses, respectively. However, actual payments between postal administrations often occur after the close of the fiscal year. As a result, such settlement payments may differ from imputed revenues and expenses because of discrepancies in volumes, and changes in foreign exchange rates prior to the final settlement. For these reasons, the Postal Service uses the accrual accounting method to estimate the final settlement payments. The resulting estimated amounts are referred to as "booked" amounts for financial reporting purposes. Historically, these booked amounts have also been reported in the CRA.

In the FY 2008 ACD, the Commission determined that the Postal Service's FY 2008 CRA relied upon imputed revenues and expenses for various International Mail products derived from the ICRA. *Id.* at 10. This reflected the Postal Service's decision to eliminate the historical "mismatch" between amounts in the ICRA and CRA. Petition,

Proposal Eleven, at 3. Consequently, the total revenues and expenses reported in the FY 2008 CRA did “not comport with the same items reported in the audited financial statements published in the Postal Service Annual Report.” FY 2008 ACD at 13.

To reconcile the identified discrepancy, the Commission adjusted the FY 2008 CRA when reporting the Postal Service’s financial results in the FY 2008 ACD. The Commission’s adjustment reduced international product revenues reported in the CRA by the amount of revenues imputed to those products, or approximately \$100 million, thereby reconciling CRA total revenues to total booked revenues presented in the Postal Service’s FY 2008 ACR. With respect to costs, the Commission relied on the product level attributable (*i.e.*, volume variable plus product specific) costs reported in the FY 2008 CRA.

The Commission’s adjustment also reduced the contribution for market dominant products and for competitive products reported by the Postal Service for FY 2008. The Commission reported that competitive product revenues exceeded the required 5.5 percent minimum contribution to institutional costs by \$14 million. *Id.* at 6. This compares to the \$60.4 million in contribution above the 5.5 percent minimum for competitive products reported in the FY 2008 CRA. See FY 2008 ACR at 66.

The Commission has determined that all revenues and expenses by product, when totaled and reported in the CRA, should match the revenues and expenses reported in the Postal Service’s audited financial statements. In Proposal Eleven, the Postal Service proposes to use booked revenues and expenses in its FY 2009 ICRA and CRA reports, thereby making both reports consistent with its audited financial statements. Petition, Proposal Eleven, at 1. The Postal Service intends to adopt this new methodology, if approved by the Commission, for use as the “primary” FY 2009 ICRA. *Id.*, Proposal Eleven, at 6, n.3. It also proposes to use this new methodology to revise the FY 2008 ICRA shown in library reference RM2009-10/NP1.

Table 2 presents changes to FY 2008 revenues, attributable costs, and contribution that would result from adopting the Postal Service’s proposed new methodology. The changes are identified as “Proposal 11: Primary” in Section 2,

compared to the Commission's FY 2008 ACD. As Section 2 shows, the new methodology, if implemented in FY 2008, would have produced revenues, costs, and contribution for International Mail that differ from the revenues, costs, and contribution reported by the Commission. Moreover, as compared to results reported in the Commission's FY 2008 ACD, the principal effect of the new methodology would be an increase in contribution for International Mail products of \$82 million based upon an \$82 million decrease in attributable costs and no change in revenues, as shown in columns [6], [5], and [4], respectively.

Table 2
Product Level Impact of Using Audited Accounting Revenues
and Expenses in the ICRA

	FY 2008			Change In Revenues, Costs, and Contribution		
	Revenues (\$millions)	Attributable Costs (\$millions)	Institutional Contribution (\$millions)	Revenues (\$millions)	Attributable Costs (\$millions)	Institutional Contribution (\$millions)
	[1]	[2]	[3]	[4]	[5]	[6]
SECTION 1						
FY 2008 ACD						
COMPETITIVE MAIL						
Total Competitive Mail Services	8,382	6,600	1,782			
MARKET DOMINANT MAIL						
Outbound Single-Piece Intl Mail	747	525	222			
Inbound Single-Piece Intl Mail	156	258	(102)			
Inbound Surface Parcel Post (at UPU Rates)	12	9	4			
International Services	27	63	(36)			
Total Competitive & MD International Mail	9,324	7,454	1,870			
SECTION 2						
Proposal 11: Primary				Proposal 11 Relative to FY 2008 ACD		
COMPETITIVE MAIL						
Total Competitive Mail and Services	8,382	6,536	1,846	-	(64)	64
MARKET DOMINANT MAIL						
Outbound Single-Piece Intl Mail	747	511	236	-	(14)	14
Inbound Single-Piece Intl Mail	156	258	(102)	-	-	-
Inbound Surface Parcel Post (at UPU Rates)	12	6	7	-	(3)	3
International Services	27	61	(35)	-	(2)	1
Total Competitive & MD International Mail	9,324	7,372	1,952	-	(82)	82
Sources:						
Docket No. ACR 2008, PRC-LR-ACR2008-LR1, Excel file 08_Summary_LR1.xls.						
Petition, Proposal Eleven, Table One; see also USPS-RM2009-10/NP1, Excel file 08_Summary_NPLR1_REV-Booked.xls, worksheet "Table_Current_V3 Booked"						

Table 3 compares the effects on the contribution of competitive products shown in the Commission’s FY 2008 ACD and under Proposal Eleven methodology. As shown in Section 2, the new methodology generates a competitive products’ contribution of \$74.1 million in excess of the *minimum*, which is higher than the \$14 million reported in the FY 2008 ACD.

Table 3
Impact on Competitive Products Overall of Using
Audited Accounting Estimates of Revenues and Expenses
in the ICRA

	Institutional Costs (\$millions)	5.5 % Minimum Contribution (\$millions)	Competitive Product Contribution (\$millions)	CP Contribution Exceeding Minimum (\$millions)	Competitive Product Contribution %
SECTION 1 FY 2008 ACD	32,136	1,768	1,782	14	5.55
SECTION 2 Proposal 11: Primary	32,219	1,772	1,846	74	5.73

Table 4 shows the effect that Proposal Eleven methodology would have on revenues, costs, and net income to the Postal Service if it were applied to the estimates in the Commission’s FY 2008 ACD.

Table 4
Impact on Postal Service of Using Audited
Accounting Revenues and Expenses in the ICRA

	Revenues (\$millions)	Attributable Costs (\$millions)	Institutional Costs (\$millions)	Total Costs (\$millions)	Net Income (\$millions)
SECTION 1 FY 2008 ACD	74,968	45,637	32,136	77,774	(2,806)
SECTION 2 Proposal 11: Primary	74,968	45,555	32,219	77,774	(2,806)
Change: Proposal 11 relative to FY 2008 ACD	-	(82)	82	-	-

Under Proposal Eleven, the Postal Service also proposes to present an “alternative version” of the ICRA for FY 2009. This “alternative version” would use imputed amounts, and therefore would provide continuity in the reporting of the ICRA compared to previous years. It would also provide continuity with respect to future years.

Beginning with FY 2010, the Postal Service intends to implement its new Foreign Payment System (FPS). According to the Postal Service, “[a]s part of FPS, the current accrual methodology will be replaced by an accrual methodology that is more similar to the imputed methodology....” *Id.*, Proposal Eleven, at 1-2. The Postal Service considers continuity to be one important benefit of presenting the alternative version of the FY 2009 ICRA. It also discusses two other benefits it perceives from presenting an alternative version.

The alternative version would facilitate development and analysis of International Customized Mail (ICM) agreements during FY 2010. ICMs negotiated and implemented during FY 2010 are based upon FY 2009 costs, while evaluation of those ICMs after FY 2010 would be based upon the FPS. Consequently, the FY 2010 implementation of the FPS “could perhaps cause problems in some instances...if [cost changes are] likely to be dramatic for a particular product....” *Id.* at 7. Thus, having both versions of the ICRA (*i.e.*, the primary and alternative versions) “could be helpful...when ICMs involving that product are being developed.” *Id.*

Finally, the Postal Service believes availability of the alternative version of the FY 2009 ICRA “would seem potentially useful for addressing compliance issues in the FY09 ACD.” *Id.* The Postal Service considers “shifts in contribution” between FY 2008 and FY 2009 a possibility for certain products because contribution will be calculated using imputed amounts in FY 2008 and booked amounts in FY 2009. In this regard, the possibility of an adverse conclusion based exclusively on the FY 2009 booked ICRA “might be tempered by contrary results from an imputed values analysis” based upon the alternative version of the FY 2009 ICRA. *Id.* at 6.

Participants' comments. Two parties submitted comments in response to Proposal Eleven. The Parcel Shippers Association (PSA) supports Proposal Eleven because it would correct the “mismatch” in the use of imputed and booked revenues and expenses “by consistently using accrued amounts for both International Mail revenues and expenses” in preparation of the Commission’s FY 2009 ACD.¹⁴ PSA recommends Commission acceptance of Proposal Eleven.

PSA further requests that the Commission direct the Postal Service “to recalculate the FY 2008 competitive product net income based upon the Proposal 11 methodology and credit the Competitive Product Fund with the resulting additional net income.” *Id.* at 2. According to PSA, such a recalculation would correct the misstatement of competitive product net income and the \$64 million understatement in contribution by competitive products shown in the FY 2008 year-end balance of the Competitive Product Fund, even though the misstatement did not result in a Commission finding of noncompliance in the ACD. *Id.*

The Public Representative also recommends that the Commission accept the Postal Service’s “alternative proposal.”¹⁵ As described by the Public Representative, the alternative proposal would, for purposes of the Postal Service’s FY 2009 ACR, conform the CRA and ICRA with the Postal Service’s published financial statements, which differs from the results reported by the Commission in its FY 2009 ACD. The Public Representative maintains that the alternative proposal “appears to mitigate [the] possibility” that competitive products as a whole might not generate contribution in excess of 5.5 percent of institutional costs, and therefore mistakenly be found not to be in noncompliance with the statutory factors of the PAEA. *Id.* at 4. The Public Representative also supports the “alternative version” of the ICRA, which would

¹⁴ Comments of the Parcel Shippers Association, August 20, 2009, at 1 (PSA Comments).

¹⁵ Initial Comments of the Public Representative in Response to Order No. 269, August 20, 2009, at 4 (Public Representative Comments). The Public Representative’s reference to the “alternative proposal” is in fact what the Postal Service proposes to adopt as the “primary” methodology for use in the FY 2009 ICRA. The Public Representative’s reference to “alternative proposal” stands in contrast to the phrase “alternative version” of the ICRA. *Id.* at 5-6.

represent a continuation of reporting the ICRA based upon imputed amounts. The Public Representative believes this would serve “the interest of promoting greater transparency....” *Id.* at 6.

Commission analysis. The Commission accepts Proposal Eleven. It satisfies the Commission’s directive that revenues and expenses reported in the FY 2009 CRA and ICRA conform to the Postal Service’s audited financial statements. The Commission also agrees that presentation of the “alternative version” of the FY 2009 ICRA would be beneficial.

The Commission does not adopt PSA’s recommendation to require the Postal Service to recalculate the FY 2008 competitive product net income using the proposed new methodology, and credit the resulting additional net income to the Competitive Product Fund. Such a requirement if applied broadly to all proposals in this docket—not just Proposal Eleven as requested by PSA—would involve considerable effort on the part of the Postal Service and has not been shown to be warranted. As PSA correctly observes, recalculating the net income would not change the Commission’s determination in the FY 2008 ACD as to the compliance of competitive products. Furthermore, Commission rules do not provide for the retroactive recalculation or restatement of financial results reported in the ACD based upon subsequent methodological changes. Moreover, the need for doing so is not clear.

J. Proposal Twelve—Calculating the Auto/Mech Factor Used in Determining the Sorting Costs of Outside County Periodicals

The Postal Service proposes to calculate the percentage of Outside County Periodical flats that receive a mechanized incoming secondary sort (the “In-plant IS Coverage Factor”) as equal to the ratio of the volume of flats processed in mechanized incoming secondary MODS flat sorting operations, divided by the volume of non-carrier

route flats recorded in the RPW.¹⁶ This method will be referred to as the MODS/RPW IS Method.

Currently, the In-plant IS Coverage Factor is calculated as the product of

1. The percentage of flats that originate/destinate at plants with mechanized flat sorting equipment (Coverage Factor or Mechanized Coverage Factor),¹⁷ and
2. The percentage of flats that arrive at plants with mechanized incoming sorting capability and are not rejected from the machine sorting process before being finalized to carrier route (Auto/Mech Factor).

Thus, if 87.88 percent of flats arrive at plants providing a mechanized incoming sort, and if 85 percent of flats that arrive at these plants receive a final mechanized sort to carrier route, then the overall percent of flats that are finalized in a mechanized incoming secondary sort would be equal to 87.88 percent x 85 percent, or 74.7 percent.

The Mechanized Coverage Factor was most recently determined in a special study undertaken by the Postal Service in Docket No. R2005-1.¹⁸ In addition, the Commission has utilized the value of the Auto/Mech Factor developed by Time Warner witness Halstein Stralberg in Docket No. R2006-1.¹⁹ Another term relevant to the evaluation of this proposal is the Manual Coverage Factor. It is equal to the overall percent of flats that are finalized in a manual incoming secondary sort, the manual

¹⁶ Docket No. in RM2009-10, Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Further Proposed Methodology Changes for the FY 2008 ACR (Proposal 8), November 14, 2008.

¹⁷ The Coverage Factor has been set at 87.88 percent since Docket No. R2005-1.

¹⁸ See Docket No. R2005-1, USPS-LR-K-44, Flats Coverage Factors.

¹⁹ See Docket No. R2006-1, Direct Testimony of Halstein Stralberg on Behalf of Time Warner Inc., TW-T-2, at 13. Witness Stralberg's Auto/Mech Factor was based on his judgment that 40 percent of non-carrier-route flats would be finalized to carrier route in a manual incoming secondary sort by 2008. He then tested various values of the Auto/Mech Factor in the Postal Service's Periodical Mail-Flow Model, and chose the value that yielded the result that 40 percent of non-carrier-route flats would be manually sorted to carrier route. This turned out to be 85 percent.

complement to the In-plant IS Coverage Factor.²⁰ Table 5 below shows the relationships just discussed using the values from the FY 2007 ACD.²¹

Table 5
Manual and Mechanized Sorting Probabilities
FY 2007 ACD

Type and Capability of Mechanized Sortation	Percent	Notes
Auto/Mech Factor	85.00	From witness Stralberg
Mechanized Coverage Factor	87.88	% of flats arriving at plants that can provide a mechanized sort
Manual Coverage Factor	25.30	$1 - (L_1 * L_2) = 1 - L_4$
In-plant IS Coverage Factor	74.70	$L_4 = L_1 * L_2$

Despite concerns about the accuracy of the proposed MODS/RPW IS Method expressed by parties and the Commission, the Commission accepted it because it could be annually updated. However, the Commission also urged the Postal Service to take steps to verify the accuracy of the MODS/RPW IS Method. Using FY 2007 data, the MODS/RPW IS Method produced an In-plant IS Coverage Factor equal to 74.28 percent, nearly identical to 74.70 percent. Because the Auto/Mech Factor, the In-plant IS Factor and the Mechanized Coverage Factor are mathematically linked, using the updated MODS/RPW IS figure produced an Auto/Mech Factor of 84.52 percent, which when rounded equals witness Stralberg's 85 percent factor. Rather than using the

²⁰ Using the values prior to the FY 2008 ACD, the In-Plant Manual Coverage Factor is the summation of the percent of flats that arrive at plants capable of providing a mechanized incoming sort, but which receive an incoming manual secondary sort (87.88 percent x 15 percent = 13.18 percent), plus the percent of plants that do not have incoming mechanized sorting equipment (12.12 percent). 13.18 percent + 12.12 percent = 25.30 percent. Table 2 shows that the percent of flats arriving at facilities capable of receiving a mechanized incoming sort, but which receive a manual incoming secondary sort is $(1 - L_1) * L_2$, and the percent of flats that arrive at plants without mechanized incoming sorting equipment is $(1 - L_2)$. Multiplying through the first term by L_2 and adding the second term gives $(-L_1 * L_2 + L_2) + (1 - L_2) = 1 - L_1 * L_2$.

²¹ See PRC-ACR2007-LR4 - FY 2007 Periodicals, File: ACR2007_Periodicals_OC_Flats_Model.xls, Sheet: Coverage Factors, Cells: D71:D74.

84.52 percent figure, the Postal service continued to use the 85 percent factor for Proposal Twelve, Modification Eight, in Docket No. RM2009-1.²² Table 6 reproduces Modification Eight in Docket No. RM2009-1.²³

Table 6
Manual and Mechanized Sorting Probabilities
Postal Service Modification Eight, Docket No. RM2009-1

Type and Capability of Mechanized Sortation	Percent	Notes
Auto/Mech Factor	85.00	From witness Stralberg
Mechanized Coverage Factor	87.88	% of flats arriving at plants that can provide a mechanized sort
Manual Coverage Factor	25.30	$1-(L_1 * L_2) \neq 1-L_4$
In-plant IS Coverage Factor	74.28	(MODS TPH IS)/(Non-CR RPW)

When the Postal Service used the MODS/RPW IS Method with FY 2008 data, it discovered that the In-plant IS Coverage Factor had grown from 74.28 percent to 86.84 percent. It also replaced the 85 percent Auto/Mech Factor with a value obtained by dividing the In-plant IS Coverage Factor by the Mechanized Coverage Factor, as shown in Table 7.²⁴ The Auto/Mech Factor (98.82 percent) was no longer consistent with the assumed 85 percent value of the FY 2007 Auto/Mech Factor.

²² Table 6 and footnote 9 show that if the In-plant IS Coverage Factor is calculated using the MODS/RPW IS Method, one may derive the Auto/Mech Factor by dividing the In-Plant IS Coverage Factor by the Mechanized Coverage Factor.

²³ Docket No. RM2009-1, File: ACR2007_Periodicals_OC_Flats_Model Modified SP mod.xls, filed November 4, 2008, Sheet: Coverage, Cell: D71.

²⁴ $L_4 = (L_1 * L_2)$ is restated as $L_1 = L_4 / L_2$.

Table 7
Manual and Mechanized Sorting Probabilities
FY 2008 ACR

Type and Capability of Mechanized Sortation	Percent	Notes
Auto/Mech Factor	98.82	$L_1=L_4/L_2$
Mechanized Coverage Factor	87.88	% of flats arriving at plants that can provide a mechanized sort
Manual Coverage Factor	13.16	$1-(L_1 * L_2) \neq 1-L_4$
In-plant IS Coverage Factor	86.84	(MODS TPH IS)/(Non-CR RPW)

In its FY 2008 ACD, the Commission did not accept the method of calculating the Auto/Mech Factor shown in Table 7 because it was based upon a calculation that had not been included in Modification Eight in Docket No. RM2009-1. As mentioned above, the Postal Service had retained the 85 percent Auto/Mech Factor in Modification Eight in Docket No. RM2009-1.²⁵ The Commission also became concerned about the reliability of a method that could produce an Auto/Mech Factor nearly equal to 100 percent, since the record showed this new measure was probably biased upward.²⁶ Consequently, the Commission retained the 85 percent figure for the Auto/Mech Factor, accepted the directly calculated In-Plant IS Coverage Factor equal to 86.84 percent, and calculated the Manual Coverage Factor so that the sum of this figure and the In-Plant IS Coverage Factor would be equal to 100 percent of flats.

In Proposal Twelve, the Postal Service requests the Commission to clarify that the new formula calculating the Auto/ Mech Factor was both implied and required once

²⁵ See Docket No. RM2009-1, File: ACR2007_Periodicals_OC_Flats_Model Modified SP mod.xls, Sheet: Coverage Factors, Cell: D71.

²⁶ See PRC Order No. 170, Order Concerning Costing Methods Used in Periodic Reporting (Proposal Twelve), January 12, 2009, at 12-13 (Order No. 170).

the Commission accepted the MODS/RPW IS Method in RM2009-1.²⁷ The Postal Service supports its characterization of the issue by showing that the totality of non-carrier route flats that receive incoming secondary sorting is comprised of three components:

1. The percentage of total flats that arrive at plants with mechanized flat sorting equipment and receive a mechanized incoming secondary sort;
2. The percentage of total flats that arrive at plants with mechanized flat sorting equipment and receive a manual incoming secondary sort; and
3. The percentage of total flats that do not arrive at plants with mechanized sorting capability, all of which receive a manual incoming secondary sort.

The Postal Service shows that these components sum to 100 percent only if its proposed formula for the Auto/Mech Factor is accepted.²⁸

With regard to the Commission's concern that the new MODS/RPW IS Method used to directly calculate the In-Plant IS Factor is biased upward and could produce an Auto/Mech Factor exceeding 100 percent,²⁹ the Postal Service explains that "equipment downtime or letter mail processed on flat sorting equipment...might contribute to the 'Auto/Mech' Factor reaching or exceeding 100 percent." *Id.* at 3. In this case, the Postal Service "would investigate and perhaps adjust the coverage factors and other model components." *Id.*

²⁷ See Petition, Proposal Twelve, at 1. It states that the objective of its proposal is to "[p]rovide clarification on implicit calculation of the 'Auto/Mech' factor from the In-Plant Incoming Secondary (IS) Coverage Factor, and that "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." *Id.* at 2.

²⁸ *Id.* at 3. The need for mathematical consistency among the various formulas is echoed in the Postal Service's demonstration that this consistency is required in order for the mail-flow model to finalize to carrier route the same number of flats that receive an incoming sort.

²⁹ This would mean that more than 100 percent of flats that arrive at plants with mechanized incoming sorting equipment receive an incoming mechanized secondary sort.

Participants' comments. The Public Representative and Time Warner³⁰ commented on this proposed clarification. The Public Representative is critical of the lack of concrete data estimating the impact of this proposal, citing the Postal Service's statement that the "impact would have been the results presented in USPS-FY08-11 (as opposed [to] the results shown in PRC-ACR2008-LR5....)" Public Representative Comments at 7.

Time Warner compares the high value of the Auto/Mech Factor under Proposal Twelve to much lower mechanization rates it calculates using recent Postal Service data.³¹ It also identifies several reasons the Auto/Mech Factor is biased upward. *Id.* at 5-10. Based on these arguments, Time Warner recommends that the Commission reject Proposal Twelve and continue to use the current method. This would mean retaining the 85 percent Auto/Mech Factor as well as the MODS/RPW IS Method of calculating the In-plant IS Coverage Factor. Moreover, even though it recognizes that "the precise value of this factor is after all a fairly minor issue[,]" *Id.* at 12, Time Warner contends that the apparent inconsistency of using a model that produces a very high percent of mechanically sorted Periodicals on the one hand, and data that shows increasing unit manual sorting costs on the other, requires a "thorough examination of the IOCS/CRA methodology...in order to determine exactly how these [excessive] costs came to be attributed to Periodicals and what corrections need to be made." *Id.*

Commission analysis. The primary issue here concerns the percentage of Periodicals flats that receive a mechanized incoming secondary sort in plants with mechanized equipment, *i.e.*, the Auto/Mech Factor. As described above, this factor is logically and mathematically linked to the Mechanized Coverage Factor and the In-plant IS Coverage Factor. Given that the Mechanized Coverage Factor is 87.88 percent and

³⁰ Initial Comments of Time Warner Inc. to Response to Order No. 269, August 20, 2009 (TW Comments).

³¹ See TW Comments at 6 where it states that 36.4 percent of all non-carrier route Periodical flats in the NonMods MANF cost pool were manually sorted. See *also id.* at 11, where it states that "in the manual cost pools, Periodicals costs far exceed those attributed to Standard flats, indicating that Periodicals flats are much more likely than Standard flats to be processed manually."

the Auto/Mech Factor is 85 percent, then the In-plant IS Coverage Factor is 74.70 percent (85 percent x 87.88 percent). Similarly, if the In-plant IS Coverage Factor is 74.70 percent and the Mechanized Coverage Factor is 87.88 percent, then the Auto/Mech Factor is 85 percent (74.70 percent / 87.88 percent).

Beginning with Docket No. R2006-1, the accepted methodology has used 85 percent for the Auto/Mech Factor based on witness Stralberg's educated assumption, and accordingly has used the formulas shown in Table 5 above to calculate the In-plant IS Coverage Factor. Using FY 2007 data in Docket No. RM2009-1, the Postal Service gave credence to witness Stralberg's 85 percent figure for the Auto/Mech Factor when it produced a direct estimate of the In-plant IS Coverage Factor equal to 74.28 percent. This was almost identical to the 74.70 percent figure mathematically derived using witness Stralberg's Auto/Mech Factor of 85 percent.

However, using FY 2008 data, the Postal Service directly estimated that the In-plant IS Coverage Factor had increased from 74.28 percent in FY 2007 to 86.84 percent in FY 2008. The updated In-plant IS Coverage Factor, divided by the Mechanized Coverage Factor, produces an Auto/Mech Factor of 98.82 percent. Whereas the accepted methodology assumes that 85 percent of the automatable flats arriving at a plant with mechanized sorting equipment would receive a mechanized IS sort, the Postal Service's directly calculated In-plant IS Coverage Factor of 86.84 percent implies that 98.82 percent of the automatable flats that arrive at a plant with mechanized sorting equipment would now receive a mechanized IS sort. Witness

Stralberg does not believe that this latter number is credible and provides data that tend to support his conclusion.³²

Despite witness Stralberg's analysis, the Commission believes that the direct and annual calculation of the In-plant IS Coverage Factor, represented by the MODS/RPW Method, is superior to an educated assumption.

The Commission recognizes that the three factors (Auto/Mech, Mechanized Coverage, and In-plant IS Coverage) must be mathematically and internally consistent. However, given witness Stralberg's analysis and the Commission's own concerns about problematic outcomes in a future calculation, the Commission believes there may be some data problems underlying the three factors.

In its FY 2008 ACD, the Commission expressed concern that using the mathematical formula to calculate the Auto/Mech Factor could lead to an Auto/Mech Factor exceeding 100 percent due to the upward bias of the MODS/RPW IS Method. FY 2008 ACD at 55-56. Another way this could happen would be if the direct measurement of the In-plant IS Coverage Factor (formerly estimated as 74.28 percent and currently estimated as 86.84 percent) exceeded the Mechanized Coverage Factor (currently estimated as 87.88 percent) because it would mean that the number of automatable flats that received an IS sort on mechanized equipment exceeded the number of automatable flats that arrived at plants with mechanized sorting equipment. Although this would seem to be an implausible outcome, it could occur if more than 87.88 percent of automatable flats arrive at plants with mechanized sorting equipment. This would mean that the Mechanized Coverage factor used to calculate the Auto/Mech

³² See TW Comments at 8-10. For example, witness Stralberg contends that the In-plant IS Coverage Factor is probably biased upward because the numerator of this measurement (Total Pieces Handled in mechanized MODS incoming secondary flat sorting operations) includes carrier route flats from broken bundles that are not counted in the denominator (the sum of non-carrier route First-Class, Standard, Priority, Periodicals, and Package Services RPW flats). He contends that if 5 percent of carrier route flats were broken and mechanically sorted, the In-plant IS Coverage Factor would be overstated by more than 6 percent. It could also be overstated because it is based on all flats, not just Periodical flats, which probably have an IS mechanization rate below the measured rate, since the measured rate is largely based on Standard flats, which are believed to have a higher IS mechanization rate than Periodical flats. Moreover, the measure does not control for the number of incoming international flats or for letters that may have been sorted on flat sorting machines.

Factor was smaller than was actually the case, which would cause the calculated Auto/Mech Factor to be overstated. In either of these cases, the Postal Service would have to adjust the factors at issue to reflect a different reality. There are other possible outcomes that could be equally problematic.

In the eventuality of problematical outcomes, the Postal Service assures the Commission that it will review and adjust factors as appropriate to avoid implausible results. Nevertheless, it would be beneficial to all parties if the Postal Service would preemptively investigate the data underlying these interlinked factors to avoid inconsistent outcomes. In particular, given recent development of the direct calculation of the In-plant IS Coverage Factor, coupled with the controversy it has generated, it would be preferable if the Postal Service were to devote its initial efforts towards improving the accuracy of the MODS/RPW IS Method. This effort could be relatively inexpensive. For example, the Postal Service could use the already estimated bundle breakage factor and the number of carrier route flats per bundle estimated each year, to control for the volume of carrier route flats that receive a mechanized incoming secondary sort. The Postal Service should also evaluate the feasibility of developing annual estimates of the volume of letters and incoming international flats that receive a mechanized incoming secondary sort and removing their estimated volumes from total pieces handled in MODS mechanized flat sorting operations.

In response to the directive in section 708(a) of the PAEA, the Commission and the Postal Service are currently studying, among other things, the quality, accuracy, and completeness of the information used in determining the direct and indirect costs of Periodicals. The study may help clarify some of the data issues discussed above.

K. Proposal Thirteen—Development of Standard Mail Destination Entry Cost Avoidance Estimates by Shape

Proposal Thirteen refers to a study the Commission identified as needing public review in the FY 2008 ACD. FY 2008 ACD at 71. It develops separate destination

entry cost avoidance estimates for Standard Mail letters, flats, and non-flat machinable (NFM) mailpieces/parcels.

Previously, the Postal Service was unable to produce these estimates because the 2007 CRA report only provided information separately for Enhanced Carrier Route and Regular Rate Standard mail. With the expansion of the 2008 CRA report to include letters, flats, and NFMs/parcels, the Postal Service is capable of developing separate destination entry cost avoidance estimates for Standard Mail letters, flats, and NFMs/parcels.

In general, the effect of this proposal is the development of more disaggregated destination entry cost avoidance estimates for Standard Mail which will serve as an improved basis for dropship discounts.

Participants' comments. No comments were submitted in response to Proposal Thirteen.

Commission analysis. The Commission finds that the availability of more disaggregated CRA data improves the modeling results. Accordingly, the Commission accepts Proposal Thirteen.

- L. Proposal Fourteen—Disaggregating the Former Parcel Post Subclass Mail Processing and Transportation Cost Models for Parcel Select and Parcel Return Service

This proposal is an extension of Docket No. RM2008-6 Proposal Ten and Docket No. RM2009-2 Proposal Thirteen that disaggregated part of the former Parcel Post subclass.³³ Both proposals were approved by the Commission prior to the Postal Service's 2008 ACR. The approval of Proposal Fourteen will continue the reconfiguration of the models that were first used in Docket No. ACR2007 and partially

³³ In accepting Proposal Ten, the Commission authorized the development of separate costs for Single-Piece Parcel Post, Parcel Select, and Parcel Return Service using IOCS, CCS, and Transportation Cost System (TRACS) data, and reporting them separately at the product level in the CRA. Previously approved Proposal Thirteen disaggregated the Single-Piece Parcel Post portion from the previous subclass mail processing and transportation cost models.

updated models filed in Docket No. ACR2008 to distribute mail processing and transportation costs to the three Parcel Post products (library reference USPS-FY08-15, USPS-FY08-16, and their nonpublic counterparts). The instant proposal would isolate transportation and mail processing costs specifically for Parcel Select and Parcel Return Service products.

In Order No. 156, the Commission noted that disaggregated Parcel Select and Parcel Return Service costs were needed, and noted its expectation that they soon would be developed.³⁴ *Id.* at 3. Proposal Fourteen responds to the Commission's prompting.

Participants' comments. United Parcel Service (UPS) filed comments regarding Proposal Fourteen on August 14, 2009.³⁵ UPS requested that data that it was led to believe had been filed under seal regarding Proposal Fourteen be made public. The Postal Service responded on August 21, 2009 reporting that there was no such data.³⁶ UPS withdrew its request on August 27, 2009.³⁷

Commission analysis. All worksheets and impact tables regarding this proposal were filed under seal. Generally, under Proposal Fourteen, the Postal Service will remove data from the former Parcel Post cost models that are relevant to Single-Piece Parcel Post, and update the cost figures that are relevant to Parcel Select and Parcel Return Service. It will also update relevant data with data from a 2008 Destination

³⁴ Docket No. RM2009-2, Order Concerning Costing Methods Used in Periodic Reporting (Proposal Thirteen), December 23, 2008 (Order No. 156).

³⁵ Request of United Parcel Service that the Commission Require Disclosure of the Estimated Percentage Impact on Certain Cost Methodology Proposals on Individual Competitive Product Costs, August 14, 2009.

³⁶ Response of the United States Postal Service to Request of UPS Regarding Impact of Certain Proposed Methodologies on Individual Competitive Products, August 21, 2009.

³⁷ Withdrawal by United Parcel Service of Request that the Commission Require Disclosure of the Estimated Percentage Impact of Certain Cost Methodology Proposals on Individual Competitive Product Costs, August 27, 2009.

Delivery Unit (DDU) Study,³⁸ and uses updated productivity estimates. The models are relatively unchanged from those filed in Docket No. ACR2008 in conceptual approach, the mechanical relationships of the data elements, assumptions, and analytical techniques.

The Commission agrees with the methodology used by the Postal Service to disaggregate the mail processing and transportation cost models for Parcel Select and Parcel Return Service from the former Parcel Post subclass. It, therefore, accepts Proposal Fourteen. The Commission anticipates that these updated cost models will aid in the preparation of future Parcel Select and Parcel Return Service competitive negotiated service agreements.

M. Proposal Fifteen—Proposed Collection of Census Data from Point-of-Service Payment System for Domestic Single-Piece Mail

The Origin-Destination Information System—Revenue, Pieces and Weight (ODIS-RPW) is a probability-based mail sampling subsystem of the RPW system used to generate estimates of revenue, volume, and weight for single-piece stamped and metered indicia mail. One of the mailpiece characteristics recorded by ODIS-RPW data collectors is the indicia, or source of payment. Indicia include, but are not limited to, stamps, meter, permit imprint and Postage Validation Imprint (PVI) labels.³⁹ Postage could be affixed on First-Class Mail, Priority Mail, Parcel Post, Media Mail, and Library Mail with a PVI label which is applied at a retail unit using the POS system. Beginning in May 2009, a new code has been printed on the PVI label which has allowed ODIS-RPW data collectors to determine at Mail Exit Points if the label was generated by a POS or a non-POS system, and to record it accordingly. The Postal Service can now separate ODIS-RPW sample data for mailpieces paid through POS from other sample

³⁸ The 2008 DDU study was a field study conducted during the summer of 2008. The Postal Service collected arrival profile data and developed an estimate of incoming secondary parcel sorting. See Petition, Proposal Fourteen. The results from this study have been filed under seal.

³⁹ Postage paid through a POS terminal is affixed to each mailpiece using a PVI label. A small percentage of PVI labels is generated by other systems, such as the Integrated Retail Terminal.

data and can substitute the actual revenue, pieces, and weight recorded in POS for the ODIS-RPW sample data.

In Proposal Fifteen, the Postal Service proposes to replace the ODIS-RPW sample data with POS census data in FY 2010 for mailpieces of domestic 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. The Postal Service will use the POS data to report revenue, volume, weight, and any extra services associated with these mailpieces. First, it will isolate ODIS-RPW sample data for mailpieces of domestic First-Class Mail, Priority Mail, Parcel Post, Media Mail, and Library Mail paid through POS by sorting on the new “PVI—POS” indicia field. Then it will remove the ODIS-RPW data associated with revenue, pieces, and weight for the above mail categories and replace them with the census data recorded in POS.

Participants’ comments. No comments were submitted in response to Proposal Fifteen.

Commission analysis. The Commission accepts this proposal. The substitution of census information for sample data should reduce the uncertainty and improve the precision of the RPW volume, revenue, and weight estimates for single-piece mail. According to the Postal Service, the impact of this proposal on revenue, volume, and weight reporting is expected to be neutral. The Commission encourages the Postal Service to continue to expand the use of the census information on single-piece mail collected at the retail facilities.

N. Proposal Sixteen—Proposed Change in Allocating Certificate of Mailing Fees

A Certificate of Mailing (COM) shows evidence of mailing and can be purchased only at the time of mailing. However, postage for the mailpiece for which a customer wants a COM may or may not be purchased at the same time. For example, suppose a customer puts a stamp on a First-Class bill payment letter at home and the customer takes the pre-stamped letter and a Priority Mail package to the post office. At the retail

window, the customer hands the clerk the pre-stamped First-Class letter, purchases a COM for the letter and pays postage on the Priority Mail piece. Because the only postage payment in the window transaction was for the Priority Mail piece, the POS system 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 circumstances, the data available from POS do not provide a definitive way of relating a COM to the parent mailpiece. In the case of a multiple piece mailing or a pre-stamped mailpiece, the POS system cannot reliably capture the relationship of a COM and the parent mailpiece.

In Proposal Sixteen, the Postal Service proposes to change the method of allocating COM fees to parent mail services. Currently, the Postal Service uses the month of November 2008 allocation of COM fees to parent mail services recorded by the POS system as a key for distributing COM fees for the subsequent months and quarters. The Postal Service proposes to replace the current COM fee distribution key, which is based on only one month (November 2008) of POS information, with a historic 13-month average (e.g., from November 2007 through November 2008) POS distribution key to allocate monthly, quarterly, and annual COM fees to parent mail services entered through POS terminals. The Postal Service lists the following as COM parent services entered through POS terminals: First-Class Mail (Domestic), International (Competitive), International (Market Dominant), Package Services, and Mail Priority Mail (Domestic).

Participants' comments. No comments were submitted in response to Proposal Sixteen.

Commission analysis. The Commission accepts this proposal. The Commission expects the 13-month average COM fee distribution key to be relatively stable. Additionally, the Postal Service says that it has tested the two methods by comparing the November 2008 distribution key with a 13-month average key derived from November 2007 to November 2008 POS data and found that the percentage distribution of COM fees between market dominant and competitive product groupings is the same between the two methods: 97 percent market dominant; 3 percent competitive. Finally,

the Postal Service points out that the impact on RPW mail fees and product revenue both within and between market dominant and competitive product categories will be negligible. COM fees represent only a fraction of a percent of Postal Service product and total revenues.

O. Proposal Seventeen—Change in Data System for Free Military Mail

Free Military Mail is “[m]atter that may be mailed free of postage by certain military personnel 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, 4.2.2.

The ODIS-RPW is currently used to generate estimates of volume and weight for Free Military Mail. ODIS-RPW samples Free Military Mail at Mail Exit Points.⁴⁰ The collected Free Military Mail sample data are aggregated and weighted to produce ODIS-RPW monthly and quarterly sample statistics. Free Military Mail estimates are then adjusted to book revenue.⁴¹ Free Military Mail is reported in the Free Mail line item of the RPW report.

The System for International Revenues and Volume, Inbound (SIRVI) is the Postal Service’s 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 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. These are then multiplied by known or census dispatch weight obtained from military’s Automated Military Postal System (AMPS) to estimate the revenue and piece data used

⁴⁰ A Mail Exit Point is typically a letter, flat, or parcel mailstream in a postal facility.

⁴¹ See the Adjustment Revenue, Pieces and Weight system documentation (library reference USPS-LR-L-20-R2006-1) for an explanation of the adjustment of the residual trial balance revenue process.

to prepare an invoice to the Department of Defense (DOD). The invoice revenue appears in the Postal Service's General Ledger account 41422, always with a one quarter time lag; that is, revenue for the prior quarter appears in the current quarter General Ledger account.

In Proposal Seventeen, the Postal Service proposes to change the RPW data sources used to estimate revenue, volume, and weight for Free Military Mail. More specifically, the Postal Service seeks to (1) replace the ODIS-RPW estimated volume with the volume figure calculated as the product of SIRVI sample estimated pieces per pound times AMPS census weight; (2) replace the ODIS-RPW estimated weight with AMPS census weight; and (3) replace the ODIS-RPW estimated revenue with the accrued revenue in General Ledger 41422 based on the current period billing. This proposed change would go into effect in FY 2010.

Participants' comments. No comments were submitted in response to Proposal Seventeen.

Commission analysis. The Commission accepts this proposal. According to the Postal Service, the probability that ODIS-RPW will sample a piece of Free Military Mail is microscopic.⁴² The SIRVI sample of Free Military Mail is a much richer sample as the mail enters the United States at less than 10 international exchange offices. Specific SIRVI tests are scheduled specifically for Free Military Mail within the exchange offices. Furthermore, accrued revenue is a more accurate approach to reporting, and the revenue is aligned to mail processed in the same time period.

The Postal Service points out that the impact on revenue reported for the fiscal year is expected to be almost neutral. FY 2008 RPW Free Military Mail revenue totaled \$3,639,092. This is the sum of the months with the one-month time lag in revenue reporting. Using the accrual methodology, FY 2008 RPW revenue would have totaled

⁴² A rough estimate of the probability of sampling a Free Military Mail mailpiece is the ratio of the FY2008 RPW reported mail volume of approximately 10 million pieces divided by the total FY 2008 mail volume of approximately 203 billion pieces; or .005 percent.

\$3,535,588, a difference of -2.8 percent. After FY 2010, revenues billed will equal revenues recorded in the General Ledger using the accrual process.

The impact on volume and weight reporting is expected to be substantial. FY 2008 DOD billed amounts were 8,163,062 pieces and 123,151 kilograms (271,499 pounds) yielding an average weight per piece of 0.532 ounces. FY 2008 RPW reported 2,509,601 pieces and 123,106 pounds yielding an average weight per piece of 0.785 ounces. Therefore, the analysis of FY 2008 RPW estimates shows an undercounting of Free Military Mail pieces and weight. FY 2010 pieces and weight are expected to decline by this amount under the proposed methodological approach.

P. Proposal Eighteen—Tracking Domestic Transportation Costs of Foreign-Origin Surface CP

Inbound (foreign-origin) Surface Parcel Post incurs domestic transportation costs related to transportation from International Service Centers (ISCs) to carrier post offices that provide final delivery in the U.S. Estimates of domestic transportation costs incurred are based upon data derived from TRACS. These cost estimates are then distributed to Inbound Surface Parcel Post and reported in the ICRA report.

Most Inbound Surface Parcel Post originates from Canada. Currently, however, a single aggregate distribution factor is used to distribute estimated domestic transportation costs for all Inbound Surface Parcel Post without regard to country of origin. As reported in the ICRA, the use of a single distribution factor results in Inbound Surface Parcel Post from Canada having the same unit domestic transportation cost as all other countries in the rest of the world (ROW).

Beginning in Quarter 2 of FY 2008, TRACS began collecting country of origin data for all Inbound Surface Parcel Post.⁴³ Data collected during FY 2008 revealed that Inbound Surface Parcel Post from Canada weighed “substantially less” on average in

⁴³ Response of the United States Postal Service to Chairman's Information Request No. 2, Questions 1-8, September 28, 2009, Question 8.

terms of pounds per piece than Inbound Surface Parcel Post from the ROW. Petition, Proposal Eighteen. Moreover, domestic transportation differs for Inbound Surface Parcel Post from Canada and the ROW based on point of entry. Canada-origin Inbound Surface Parcel Post enters the U.S. through Seattle, Chicago, or New Jersey, while ROW Inbound Surface Parcel Post enters the U.S. only through New Jersey. *Id.* According to the Postal Service, these differing transportation patterns and the empirical data collected from TRACS suggest that Inbound Surface Parcel Post from Canada and the ROW “have different cost characteristics which result in different domestic unit transportation costs.” *Id.*

Under Proposal Eighteen, for FY 2009, the Postal Service proposes to use TRACS data to compute different distribution factors to distribute domestic transportation costs to Inbound Surface Parcel Post from Canada separately from the ROW. This proposal, if applied to FY 2008 cost data, would have produced a large percentage decrease in the unit domestic transportation cost for Canada-origin Inbound Surface Parcel Post, and an even larger percentage increase in the unit domestic transportation cost for ROW Inbound Surface Parcel Post.

Participants’ comments. No comments were submitted in response to Proposal Eighteen.

Commission analysis. The Commission accepts Proposal Eighteen. It represents a significant improvement over the current use of a single aggregate distribution factor, and, therefore, should provide a more accurate distribution of domestic transportation costs between Inbound Surface Parcel Post from Canada and the ROW.

- Q. Proposal Nineteen—Calculating the Unit Cost of Periodicals Bundles in Containers as the Weighted Average of the Cost of Bundles in Sacks and Pallets

The Postal Service requests the Commission to clarify whether it intended to calculate the costs of bundles in containers by linking them to the costs of bundles in

sacks rather than to the weighted average of the costs of bundles in sacks and the costs of bundles on pallets.⁴⁴

Participants' comments. No comments were submitted in response to Proposal Nineteen.

Commission analysis. The Commission inadvertently linked to incorrect cells in the Bundle Passthrough Worksheet. It did not intend to alter the method of calculating the bundle price as a percent of cost. The Postal Service should continue to calculate the price as a percent of cost column in worksheet: Bundle Passthrough, as it did in the FY 2007 ACR.⁴⁵

III. ORDERING PARAGRAPHS

It is Ordered:

For purposes of periodic reporting to the Commission, the Commission accepts the changes in analytical principles proposed by the Postal Service in its Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes in Analytic Principles (Proposals Three-Nineteen), filed July 28, 2009, except for Proposal Nine, as noted in the body of this Order.

By the Commission.

Shoshana M. Grove
Secretary

⁴⁴ See FY 2008 ACD, File: PRC_Periodicals_WS_ACR08.xlsx, Sheet: "Bundle Passthrough."

⁴⁵ See library reference PRC-ACR2007-LR4-FY 2007 Periodicals, File: ACR2007_Periodicals_OC_Flats_Model.xls, Worksheet: Bundle Passthrough.