

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

PERIODIC REPORTING

Docket No. RM2010-5

PETITION OF THE UNITED STATES POSTAL SERVICE REQUESTING INITIATION
OF A PROCEEDING TO CONSIDER PROPOSED CHANGES IN ANALYTIC
PRINCIPLES (Proposals Twenty-six – Twenty-eight)
(December 1, 2009)

Pursuant to 39 C.F.R. § 3050.11, the Postal Service requests that the Commission initiate a proceeding to consider three proposals to improve analytic principles relating to the Postal Service's periodic reports. The proposals, labeled as Proposals Twenty-six through Twenty-eight, are discussed below, and in greater detail in the attached text and documentation.¹

Proposal Twenty-six involves a change in the methodology used by the RPW system to generate estimates for Alaska Bypass mail. It is proposed to be implemented for Quarter One of FY 2010, so this proposal would not affect the FY09 ACR. Proposal Twenty-seven, on the other hand, involves a change to the methodology used for estimation of the CSBCS productivity, and it would affect the FY09 ACR. While the time is short between this filing and the filing of the ACR, the Postal Service infers from Order No. 169 (Jan. 12, 2009) that the Commission would nonetheless prefer that such

¹ Proposal One was filed as Docket No. RM2009-5 on June 22, 2009; Proposal Two was filed as Docket No. RM2009-7 on July 7, 2009; Proposals Three through Nineteen were filed as Docket No. RM2009-10 on July 28, 2009; Proposal Twenty was filed as Docket No. RM2010-1 on October 6, 2009; Proposal Twenty-One was filed as Docket No. RM2010-3 on October 20, 2009, and Proposals Twenty-two through Twenty-five were filed as Docket No. RM2010-4 on October 23, 2009.

a proposal still be submitted in advance of the ACR filing, if possible. Moreover, Proposal Twenty-seven is triggered by an operational change, and is relatively straightforward. Proposal Twenty-eight is less of a proposal and more advance notification that the FY09 ACR will not include any Single-Piece Parcel Post models, because they are no longer required to support the existing price structure, are no longer tied to the calculation of workshare cost avoidances, and cannot be supported by data from existing data systems.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Pricing and Product Support

Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992, FAX: -5402
December 1, 2009

PROPOSAL TWENTY-SIX

PROPOSED CHANGE IN CALCULATING REVENUE AND PIECES FOR THE ALASKA BYPASS MAIL PROGRAM

OBJECTIVE:

Changes are proposed for calculating and reporting Postal Service revenue and pieces for the Alaska ‘Bypass Mail’ program, beginning in Quarter One of FY 2010.

BACKGROUND:

The Alaska ‘Bypass Mail’ program, in effect since the early 1970s, is a program initiated for the mutual benefit of mailers, air carriers, Alaskan residents and the Postal Service. Bypass mail are parcels paid at Parcel Post rates (usually by meter), destined for remote parts of Alaska, and that do not pass through the usual post offices. Alaska Bypass ‘shippers’ prepare these parcels on pallets originating either in Fairbanks or Anchorage for transport by intra-Alaskan carriers (usually small planes). The Postal Service pays the carriers.

The Postal Service reporting of Alaska Bypass revenue and pieces for such reports as the Revenue, Pieces and Weight (RPW) Report and the Annual Compliance Report (ACR) relies on a statistical sampling system. This statistical sampling system estimates revenue and pieces (number of parcels) using stratification techniques based on sampling survey data provided by Alaska Bypass ‘shippers’ and available total census weight data.¹ This technique is

¹ The statistical sampling system has been in place for many years and reported through the Postal Regulatory Commission (PRC) rate cases in the 1990s and 2000s. It has remained

PROPOSAL TWENTY-SIX

utilized since there is no census system that would capture revenue and pieces for these single parcels. Shipper records contain weight and the Postal Service dispatching system called Surface-Air Management System Alaska, or S-AMS Alaska² allows for aggregated weight to be obtained for reporting. Therefore, weight is based on census information.

Prior to May 11, 2009, each parcel was individually rated and payment was for the piece. Effective May 11, 2009, the Postal Service changed the pricing methodology to the Bypass Palletized Rate Application (BPRA).³ As a result of this change, the applicable Parcel Post rate is determined based on the weight of the pallet (not the mailpieces on the pallet) and zone. This allows for revenue and pieces to be determined with certainty as explained in the proposal.

PROPOSAL:

Detailed census information about every single Bypass pallet will be extracted from S-AMS Alaska. This detailed information includes origination, destination, shipping data and net weight. Collected revenue for each pallet will be precisely calculated by applying the BPRA methodology and summed across all pallets for national revenue totals. The number of parcels in each pallet will be determined as the maximum possible whole number of parcels weighting 70

unchanged except for yearly updates of the shipper list and consequent refreshment of the sample based on the shipper list.

² S-AMS Alaska is a transportation and dispatching system of Alaska Bypass receptacles. Every bypass pallet is accepted, assigned to carriers and dispatched. Information about the origination, destination, shipping date, and weight are available.

³ Revenue is calculated by the following formula : $((\text{Pallet Weight}) - (\text{Pallet Tare Weight})) / 70 = (x)$, Remainder $(y)^*$

$((x) * \text{Zone Applicable Rate}) + (y) = \text{Rate of Bypass Palletized Rate (BPR)}$

**Note: Remainder (y): The weight < 70 lbs is assessed as the actual zone applicable rate.*

PROPOSAL TWENTY-SIX

lbs, given the exact pallet weight, plus one for the remainder.⁴ These parcel counts will then be summed for national totals. Complete, or ‘census’, data will be available for revenue and pieces in addition to the existing known weight.

IMPACT:

The Postal Service will be able to report census revenue and pieces for the Alaska Bypass program. No statistical estimation for revenue and number of pieces will be necessary. The results will not depend on surveys provided by shippers. Survey reports from shippers will be eliminated.

Data Comparison:

A summary of results derived from using the old statistical sampling based methodology and the proposed new census based process is presented in the table below. Quarter 4 of FY 2009 is the first available complete quarter for comparison.

**ALASKA BYPASS REVENUE, PIECES, AND WEIGHT
COMPARISON OF OLD ESTIMATED VS. NEW CENSUS DATA FOR Q4, 2009**

REVENUE				PIECES				WEIGHT (Pounds)			
Old Est.	New Census	Change		Old Est.	New Calc.	Change		Old Census	New Census	Change	
		Amount	Percent			Amount	Percent			Amount	Percent
7,863,038	7,720,783	(142,255)	(1.8)	335,432	333,217	(2,215)	(0.7)	22,479,400	22,479,400	-	0.0

⁴ Example: A pallet weighs 1,200 pounds (excluding tare). The number of ‘parcels’ equals 1,200 lbs divided by the 70 lbs (17 parcels); plus one for the remainder, or 18 total parcels. Assuming Zone 1, and using the current Parcel Post rates, the postage for the pallet equals 17 parcels times the \$22.39 seventy pound Zone 1 rate, plus the 10-pound Zone 1 rate of the remaining 10 pounds, or \$9.18. The total postage for the 18 parcels is \$389.81.

PROPOSAL TWENTY-SEVEN

Proposal to Update Productivity Calculation for CSBCS Equipment (3-Pass DPS) for Use in Letter Cost Models

OBJECTIVE:

A methodology change is proposed to incorporate into letter cost models an updated CSBCS productivity rate (pieces per workhour), replacing a MODS (Management Operating Data System) productivity that is no longer available due to discontinuation of the relevant MODS operations.

BACKGROUND:

Mailflow models for letter-shape mail employ a variety of productivity inputs from MODS to develop model costs used to deaverage CRA-level mail processing costs. The productivities are updated annually to reflect current operating conditions and other relevant changes. Because MODS focuses on Function 1 mail processing operations, it provides extremely limited information on primarily Function 4 CSBCS operations. The CSBCS data used to develop the 3-pass DPS productivity became unavailable with the termination of the relevant MODS operation numbers.

PROPOSAL:

This proposal seeks to replace the 3-pass DPS (CSBCS) productivity formerly obtained from MODS with adjusted throughput data available from CSBCS machine utilization reports. Adjustment of the throughput data is necessary because the machine runtime used in the throughput calculation does

PROPOSAL TWENTY-SEVEN

not include the totality of paid work time. Other paid work time may include productive activities such as setting up machines and obtaining/disposing of empty equipment, and overhead-type activities such as paid break time and clocking in or out. The runtime proportion of total paid work time may be estimated using In-Office Cost System data. The MODS-equivalent productivity may be calculated as:

$$\text{Productivity} = \text{throughput rate} \times \text{runtime share of total work time}$$

IMPACT:

Using FY 2009 data, the CSBCS adjusted productivity is:

$$24,239 \text{ pieces/hour throughput} \times 0.6871 = 16,654 \text{ pieces/hour adjusted productivity.}$$

For comparison, the MODS productivity for 3-pass DPS/CSBCS from the FY 2007 ACR was 16,542 pieces/hour.

PROPOSAL TWENTY-EIGHT

**PROPOSAL TO CEASE FILING OF COST MODELS FOR SINGLE-PIECE
PARCEL POST AS PARTS OF THE ANNUAL COMPLIANCE REPORT**

OBJECTIVE:

To provide notice to the Postal Regulatory Commission and others that the cost models for single-piece Parcel Post (including the regression analysis establishing the relationship between cube and weight, most recently filed as USPS-FY08-17, the Parcel Post portions of the mail processing cost models in USPS-FY08-15, and the transportation cost models in USPS-FY08-16) cannot be filed as part of the FY09 Annual Compliance Report (ACR).

BACKGROUND:

Prior to the passage of the Postal Accountability Enhancement Act (PAEA) and the adoption of the Commission's rules for the production of the Annual Compliance Report, the Postal Service provided Parcel Post costs and the accompanying cost models as an integrated whole, with the data encompassing Market Dominant Single-Piece Parcel Post, as well as the Competitive Parcel Select and Parcel Return Service products. As the Cost and Revenue Analysis Report (CRA) began reporting the costs and revenues separately for the Market Dominant and Competitive products, the Postal Service filed proposed changes with the Commission requesting that the cost models be bifurcated, such that the transportation and mail processing cost analyses were performed separately for the Market Dominant and Competitive products, with the data inputs for each tied to their CRA-based data. Thus, the cost models for

PROPOSAL TWENTY-EIGHT

Single-Piece Parcel Post were completely severed from those for the Competitive parcel products, and the models for the Single-Piece Parcel Post product no longer contained any analysis that could be construed to support “worksharing” price differences.

In the rate design introduced in FY 2009 for the Single-Piece Parcel Post product, the rate distinctions between intra-BMC and inter-BMC rates were eliminated, as was the nonmachinable surcharge. The sole purpose of the cost models for the Single-Piece Parcel Post in a regulatory environment was to support the price difference between inter-BMC and intra-BMC service and to provide the basis for the nonmachinable surcharge. These are no longer required in the current price structure. In addition, because there are no longer price differences requiring reporting to differentiate between machinable and nonmachinable items, and there are no longer requirements for mailers to differentiate between inter-BMC and intra-BMC pieces, the data inputs required to populate the Single-Piece Parcel Post models are no longer available from existing data systems..

PROPOSAL:

Because the Single-Piece Parcel Post models previously filed as USPS-FY08-17 and parts of USPS-FY08-15 and USPS-FY08-16 are no longer required to support the existing price structure, are no longer tied to the calculation of workshare cost avoidances, and cannot be supported by data from existing data systems, the Postal Service provides notice that the ACR for FY 2009 and future years will not contain these cost models.

PROPOSAL TWENTY-EIGHT

IMPACT:

The costs for Single-Piece Parcel Post will continue to be provided in an aggregate form as part of the CRA and its associated Cost Segments and Components Reports. There will be no impact on any other document in the ACR.

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

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992, FAX: -5402
December 1, 2009