

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 G. Blair; and
Nanci E. Langley

Modification of Analytical Principles in
Periodic Reporting
(Proposal Twenty-nine)

Docket No. RM2010-6

NOTICE OF PROPOSED RULEMAKING ON ANALYTICAL
PRINCIPLES USED IN PERIODIC REPORTING
(PROPOSAL TWENTY-NINE)

(Issued December 16, 2009)

On December 11, 2009, the Postal Service filed a petition to initiate an informal rulemaking proceeding to consider changes in the methods approved for use in periodic reporting.¹ Proposal Twenty-Nine is part of a developing methodology for estimating the ratio of machine-sorted flats (automated or mechanical) to total sorted flats in the Incoming Secondary operation. The Postal Service refers to this as the “In-Plant IS Coverage Factor.” It is a key element in the Postal Service’s Periodicals cost model. The In-Plant IS Coverage Factor is currently an input into the calculation of the Auto/Mech Factor. The Auto/Mech factor represents the percent of Periodicals that

¹ Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider a Proposed Change in Analytic Principles (Proposal Twenty-nine), December 11, 2009 (Petition).

arrive at plants with mechanized sorting equipment that receive a mechanized incoming secondary sort. The percentage of Periodicals that receive a mechanized incoming secondary sort (*i.e.* the In-Plant IS Coverage Factor) depends on two things: the percentage of Periodicals volume arriving at plants with mechanized flat sorting equipment (also referred to as the Mechanized Coverage Factor), and the percentage of Periodicals that receive a mechanized incoming secondary sort once they arrive at a plant with mechanized flat sorting equipment. (Some flats will be rejected by the flat sorting machine within the plant.) In mathematical terms, the In-Plant IS Coverage Factor is the product of the Auto/Mech Factor and the Mechanized Coverage Factor.

As part of the changes made prior to the FY 2008 Annual Compliance Report (ACR), the Commission approved the use of MODS and RPW data to directly calculate the In-Plant IS Coverage Factor.² The previous method assumed that the Auto/Mech factor was 85 percent. The Mechanized Coverage Factor had previously been updated in Docket No. R2006-1. In Docket No. RM2009-1, the Commission considered the Postal Service's proposal to directly calculate the In-Plant IS Coverage Factor as the ratio of non-carrier route flats sorted on mechanized sorting equipment and recorded in MODS reports and the volume of non-carrier route flats recorded in the RPW. The Commission approved the modification, but noted that the directly measured In-Plant IS Factor "is an imperfect proxy for the mechanization rate for the incoming secondary flat bundle sorting operation."³

In its FY 2008 ACR, the Postal Service estimated the In-Plant IS Coverage Factor using the newly approved method, and also re-ordered the mathematical relation between the In-Plant IS Coverage Factor, the Mechanized Coverage Factor, and the Auto/Mech Factor. Doing this resulted in a value for the Auto/Mech Factor of approximately 99 percent. The Commission rejected this derived Auto/Mech Factor. It

² See Docket No. RM2009-1, Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Further Proposed Methodology Changes for the FY 2008 ACR, Proposal Twelve, November 4, 2008.

³ See Docket No. RM2009-1, PRC Order No. 170, Order Concerning Costing Methods Used in Periodic Reporting (Proposal Twelve), January 12, 2009, at 14.

viewed the formula revision which produced this result as an unapproved methodology change. It was also concerned that the very high derived value of the Auto/Mech Factor indicated that the use of this revised formula could easily produce the illogical conclusion that more than 100 percent of flats arrived at plants with mechanized sorting equipment. See FY2008 Annual Compliance Determination, at 55-56.

This year, in anticipation of the FY 2009 ACR, the Postal Service proposed to again calculate the In-Plant IS Coverage Factor using MODS and RPW data, but promised to take remedial steps if the resulting Auto/Mech Coverage Factor was too close to 100 percent.⁴ The Commission approved that modification but recommended that the Postal Service consider revising it in certain respects to avoid an estimate that is unrealistically high.⁵ Meanwhile, the Postal Service filed a proposal to use data from somewhat different sources to calculate the Mechanized Coverage Factor.⁶ That proposal is still pending Commission approval.

In Proposal Twenty-Nine in the instant docket, the Postal Service recognizes that its current method for calculating an Auto/Mech factor for sorting flats when applied to FY 2009 data produces results that are unreasonably close to 100 percent. It ascribes this, in large part, to the growing volume of “fletters,” *i.e.*, “slim-jim” sized letters. These are designed to take advantage of favorable letter rates. The Postal Service says that they are difficult to process on letter-sorting equipment, and, therefore, end up with increasing frequency being diverted to flat sorting equipment. It asserts that fletters raise the Total Piece Handling (TPH) counts of mail representing incoming secondary sorts on automated or mechanized machines, as reflected in the MODS data reporting system, but they are not counted as flats in the RPW data reporting system. The Postal

⁴ Docket No. RM2009-10, Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes in Analytic Principles (Proposals Three – Nineteen), July 28, 2009, Proposal Twelve, at 3.

⁵ See Docket No. RM2009-10, PRC Order No. 339, Order on Analytical Principles Used in Periodic Reporting (Proposals Three Through Nineteen), November 13, 2009, at 35.

⁶ See Docket No. RM2010-4, Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes in Analytic Principles (Proposals Twenty-Two – Twenty-Five), October 23, 2009, Proposal Twenty Five, Modification 1.

Service asserts that the absence of fletters in the RPW estimate of flat volume and the presence of fletters in the machine piece-handling counts leads to an inflated In-Plant Coverage Factor which inflates the Auto/Mech factor.

Proposal Twenty-Nine proposes adjustments to the Periodicals cost model that would reduce the Auto/Mech factor to a more realistic level. Adopting suggestions made by the Commission in Docket No. RM2009-10, the Postal Service proposes to remove the number of carrier route flats from broken bundles from the MODS volume of flats that receive a mechanized incoming secondary sort.⁷ It also proposes to use mail processing costs to estimate the proportion of letter-sized pieces that are worked on those machines. This too would reduce the volume of mail that receive a mechanized incoming secondary sort on flat sorting equipment (recorded in MODS reports, but not the RPW) and thus reduce upward bias in the measurement of the Auto/Mech Factor. See Proposal Twenty-Nine supporting material accompanying the Petition, at 3.

The hard-copy attachment to the Postal Service's Petition explains the proposal's background, objective and rationale. In the electronic attachment, the Postal Service provides a means for estimating the impact of adopting Proposal Twenty-Nine by itself, and for estimating its impact in conjunction with Proposal Twenty-Five in Docket No. RM2010-4, in the event that Proposal Twenty-Five is adopted.

Comments on Proposal Twenty-Nine are due no later than December 29, 2009. Pursuant to 39 U.S.C. 505, John Klingenberg is appointed to serve as the officer of the Commission (Public Representative) to represent the interests of the general public in this docket.

⁷ The In-Plant IS Coverage Factor is based upon the ratio of non-carrier route flats that receive a mechanized incoming secondary sort (in MODS data) and the volume of non-carrier route flats (in the RPW). Broken carrier route flats that receive a mechanized sort would be recorded in MODS volumes, but not RPW volumes, thereby producing an upward bias in the measurement of the In-Plant IS Coverage Factor unless these broken carrier route flats are removed from the MODS measurement of the number of flats that receive a mechanized incoming secondary sort.

It is ordered:

1. The Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider a Proposed Change in Analytic Principles (Proposal Twenty-Nine), filed December 11, 2009, is granted.
2. The Commission establishes Docket No. RM2010-6 to consider the matters raised in the Postal Service's Petition.
3. Interested persons may submit comments on Proposal Twenty-Nine no later than December 29, 2009.
4. The Commission will determine the need for reply comments after review of the initial comments.
5. John Klingenberg is designated to serve as the Public Representative representing the interests of the general public.
6. The Secretary shall arrange for publication of this Notice in the *Federal Register*.

By the Commission.

Shoshana M. Grove
Secretary