

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
(Proposals Twenty-Six through Twenty-Eight)

Docket No. RM2010-5

ORDER ON ANALYTICAL PRINCIPLES
USED IN PERIODIC REPORTING
(PROPOSALS TWENTY-SIX THROUGH TWENTY-EIGHT)

(Issued January 21, 2010)

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.

On December 1, 2009, the Postal Service filed a petition pursuant to 39 CFR 3050.11 to initiate an informal rulemaking proceeding to consider changes in the

analytical methods approved for use in periodic reporting.¹ Three proposals, outlined below, are the subject of this docket.

Proposal Twenty-Six would change the methods used to estimate the Revenue, Pieces, and Weight (RPW) values for Alaska Bypass mail and does not affect the FY 2009 Annual Compliance Report (ACR). The Postal Service explains this modification as necessary due to a shift in the pricing methodology for Alaska Bypass mail. Petition, Proposal Twenty-Six. Previously, Alaska Bypass mail was billed on a piece system, whereas since May 11, 2009, it has been billed on a palletized system. *Id.* The palletized system calculates the number of pieces by assuming the maximum number of 70 pound pieces on a pallet of a given weight and adding one for any remainder. *Id.*

Proposal Twenty-Seven is triggered by a data collection change and would change the methodology used to estimate Carrier Sequence Barcode Sorter (CSBCS) productivity and affects the FY 2009 ACR. Proposal Twenty-Seven is a result of the discontinuation of Management Operating Data System (MODS) operation numbers. *Id.*, Proposal Twenty-Seven. The Postal Service proposed to replace the MODS productivity data with adjusted throughput data from machine utilization reports. *Id.*, Proposal Twenty-Seven.

Proposal Twenty-Eight would remove all single-piece Parcel Post models from the FY 2009 ACR because the models are no longer required to support the price structure, tied to the calculation of workshare cost avoidances, or supported by data from existing systems. *Id.*, Proposal Twenty-Eight.

Order No. 352 initiated the proceeding, appointed an officer of the Commission to represent the interests of the general public, and provided an opportunity to comment

¹ 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 (Petition).

on the proposals.² The Public Representatives submitted comments.³ No other interested person submitted comments.

For the reasons discussed below, the Commission accepts all of the changes as proposed by the Postal Service.

II. DISCUSSION

A. Proposal Twenty-Six—change in RPW estimates for Alaska Bypass mail

Proposal Twenty-Six seeks to change the calculation for reporting Postal Service revenue and pieces for the Alaska Bypass mail program beginning in quarter one of FY 2010. Currently, the Postal Service reports such revenue and pieces based on a statistical sampling system that uses survey data from Alaska Bypass mail shippers and the available census weight data. The Postal Service billed for each parcel on a piece basis. After May 11, 2009, the Postal Service bills for each pallet, and for the number of pieces assumes the maximum number of 70 pound parcels per pallet plus one for any remainder.

Due to this change in billing structure, the Postal Service no longer collects data on the census number of pieces using the Alaska Bypass mail system. Rather, it creates the assumption of the maximum number of 70 pound pieces with a remainder on each pallet—and each pallet is billed accordingly. The change allows the Postal Service to end its reliance on survey data from Alaska Bypass mail shippers to determine revenue and number of pieces for Alaska Bypass mail.

Comments. The Public Representatives note that the new pricing methodology is, in part, an effort to reduce the impact of a rate increase for Alaska Bypass mail. *Id.* at 2. The Public Representatives state that Proposal Twenty-Six is necessary due to a change in revenue collection that was required to provide relief from rate shock for

² PRC Order No. 352, Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposals Twenty-Six through Twenty-Eight), December 3, 2009.

³ Public Representative Comments in Response to Order No. 352, December 17, 2009 (Public Representatives Comments).

Alaska Bypass mail users. *Id.* at 3. The Public Representatives also claim that the data will be more robust because the data will no longer rely on surveying mailers. *Id.*

Commission analysis. The Commission agrees that the change in calculation for revenue and pieces is more robust because it need not rely on surveying individual mailers to estimate the general number of pieces and revenue for Alaska Bypass mail. The Commission also recognizes that due to the shift in revenue calculation, the method of calculating the number of pieces for Alaska Bypass mail must also change; therefore, the Commission accepts Proposal Twenty-Six.

B. Proposal Twenty-Seven—CSBCS productivity estimate methodology

Proposal Twenty-Seven replaces a MODS productivity that is no longer available due to the reassignment of the relevant operation number. The productivity is used as an input to letter cost models for estimating worksharing cost avoidances, which are included in library references most recently filed as PRC-ACR2008-LR3 and PRC-ACR2008-LR4. The Postal Service proposes to replace the MODS productivity with throughput data available from CSBCS machine utilization reports, adjusted for paid work time in the operation that is not reflected in the machine throughput. The new productivity would be calculated as the product of the throughput rate (pieces per hour) multiplied by the machine runtime as a share of total work time.

Supplemental Information. On December 4, 2009, the Commission requested additional information regarding the elimination of the MODS operation number for CSBCS and a presentation of the calculation of the adjustment factor.⁴ In the Postal Service response, it states the MODS workhours in the CSBCS operation have declined rapidly in recent years, from over 6,000 in FY 2007 to 31 in FY 2009, and that the data are now insufficient to reliably measure productivity.⁵ The response also provided the inputs to and calculation of the adjustment factor for FY 2009, explained that single-

⁴ Chairman's Information Request No. 1, December 4, 2009 (CHIR No. 1).

⁵ Responses of the United States Postal Service to Chairman's Information Request No. 1, December 10, 2009 at 2 (Response to CHIR No. 1).

clerk staffing of the operation allows for the equivalent treatment of machine hours and work hours, and asserted that the treatment of setup, takedown, clocking in and out, and break time in the adjustment factor is consistent with MODS productivities. See *id.* at 2-6.

Comments. The Public Representatives believe that the data used to develop the new productivity are reasonable, and that most of the remaining CSBCS operations occur in non-MODS offices. See Public Representatives Comments at 2-4.

Commission analysis. The Commission agrees that the proposed new methodology for estimating CSBCS productivity is reasonable given the absence of reliable MODS data. It notes that, consistent with the reduction in the use of CSBCS machines, the downward trend in the percentage of letters that are finalized in the 3-pass DPS operation continued in the FY 2009 ACR data. The Commission accepts Proposal Twenty-Seven.

C. Proposal Twenty-Eight—removal of single-piece Parcel Post models

The Postal Service proposes to eliminate the single-piece Parcel Post mail processing and transportation costs in three library references most recently filed as USPS-FY08-15, USPS-FY08-16 and USPS-FY08-17 in the FY 2008 ACR. The Postal Service claims that because the price structure for single-piece Parcel Post was altered to remove the price distinction between inter-BMC and intra-BMC mail in Docket No. R2009-2, the mail processing and transportation cost models provided in these library references are no longer relevant to the Annual Compliance Determination proceeding.

Supplemental Information. In CHIR No. 1, the Commission requested additional information regarding the elimination of all single-piece Parcel Post data within the library reference most recently filed as USPS-FY08-17. CHIR No. 1 at 2-3. The data contained in USPS-FY08-17 include a regression analysis which establishes a relationship between cube and weight. Proposal Fourteen, which was recently approved by the Commission in Order No. 339, sources USPS-FY08-17 as an input for the Parcel Select and Parcel Return Service mail processing and transportation cost

models.⁶ In response to CHIR No. 1, the Postal Service states that the inputs relevant to Proposal Fourteen will be filed in the FY 2009 Annual Compliance Report. See Response to CHIR No. 1 at 7.

Comments. The Public Representatives believe Proposal Twenty-Eight is a rational response to reflect the new rate structure. See Public Representatives Comments at 2-4.

Commission analysis. The Commission agrees that the restructuring of the single-piece Parcel Post rate schedule in Docket No. R2009-2 eliminates the need to distinguish cost differences within the single-piece Parcel Post product. Accordingly, the mail processing and transportation cost models are no longer needed to distribute Cost and Revenue Analysis single-piece Parcel Post costs between inter-BMC and intra-BMC. The Commission, therefore, accepts Proposal Twenty-Eight.

III. ORDERING PARAGRAPH

It is Ordered:

For purposes of periodic reporting to the Commission, the Commission accepts the changes in analytical principles proposed in the Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes in Analytic Principles (Proposals Twenty-Six–Twenty-Eight).

By the Commission.

Shoshana M. Grove
Secretary

⁶ Docket No. RM2009-10, Order on Analytical Principles Used in Periodic Reporting (Proposals Three through Nineteen), November 13, 2009 (Order No. 339).