

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

ORDER ACCEPTING CHANGE IN ANALYTICAL PRINCIPLE
PROPOSED IN PERIODIC REPORTING
(PROPOSAL TWENTY-NINE)

(January 28, 2010)

I. INTRODUCTION

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 December 11, 2009, the Postal Service filed a petition to initiate an informal rulemaking to consider a change in an analytical method approved for use in its periodic

reports to the Commission.¹ More specifically, it proposes to change the manner in which it calculates the In-Plant Incoming Secondary (IS) Coverage Factor. The Commission accepts the proposed change.

II. PROPOSAL TWENTY-NINE—TO SUPPLEMENT THE METHOD OF CALCULATING THE IN-PLANT INCOMING SECONDARY (IS) COVERAGE FACTOR

Background. The In-Plant IS Coverage Factor is an estimate of the percent of Periodical flats that receive a mechanized incoming secondary sort. In preparing the FY 2008 Annual Compliance Report, the Postal Service filed Modification Eight, requesting approval to calculate the In-Plant IS Coverage Factor as the ratio of total piece handlings (TPH) in mechanized incoming secondary flat sorting operations to the volume of total non-carrier route flats reported in the Revenue, Pieces, and Weight System (RPW).² The Commission approved Modification Eight in Order No. 170.³

This year, in preparing the FY 2009 Annual Compliance Report, the Postal Service filed Proposal Twelve, requesting approval to calculate the “Auto/Mech Factor” (the percentage of flats that arrive at plants with the ability to provide a mechanized incoming secondary sort), as the ratio of the In-Plant IS Coverage Factor to the percent of flats arriving at facilities capable of providing a mechanized incoming sort.⁴ The Postal Service stated that if the Auto/Mech Factor estimated by using this method were to reach or exceed 100 percent, it would investigate and adjust coverage factors and

¹ See 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).

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, Order Concerning Costing Methods Used in Periodic Reporting (Proposal Twelve), January 12, 2009 (Order No. 170).

⁴ See 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, at 3. The change proposed in Modification Twelve is a mathematical requirement for the mail flow models used to estimate the unit costs to be internally consistent.

other model components so that the Auto/Mech Factor remained below 100 percent. *Id.* at 3. The Commission approved Modification Twelve in Order No. 339, and suggested several steps the Postal Service could take to improve the accuracy of the In-Plant IS Coverage Factor.⁵

Proposal. The Postal Service explains it is making this proposal because it became evident during the preparation of the FY 2009 ACR that the Auto/Mech Factor would be high enough to concern the Commission. It concluded that one likely cause of the high In-Plant IS Coverage Factor is that some pieces from broken carrier-route bundles receive a mechanized incoming secondary sort (the numerator of the In-Plant IS Coverage Factor), but are not counted in the RPW volume of flats that can potentially receive an incoming secondary sort (the denominator of the In-Plant IS Coverage Factor). To remove this cause of upward bias in the estimate of the In-Plant IS Coverage Factor, the Postal Service proposes to estimate the volume of carrier route flats that are broken, and therefore capable of receiving an incoming secondary sort, by multiplying the percent of broken bundles on pallets by the volume of carrier route Periodicals on non-destination containers.⁶ *Id.* at 2.

The Postal Service also explains that the primary cause of the inflated Auto/Mech Factor is the presence of a significant volume of letters and parcels that receive a mechanized incoming secondary sort. *Id.* at 3. The Postal Service proposes to reduce the volume of mail that is assumed to receive a mechanized incoming secondary sort in flat sorting operations by the estimated volume of letters and parcels that receive an incoming secondary sort in those operations. It proposes to estimate the volume of these letters and parcels by multiplying the percentage of IOCS tallies (and therefore costs) recorded in mechanized flat sorting operations that are associated with either

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

⁶ The proposed method would add approximately 65 million pieces, or 0.36 percent to the total number of flats capable of receiving an incoming secondary sort. See File: Prop.29.Per.Model.xls, Sheet: ACR 2008 MODIFICATIONS.

letters or parcels by MODS Total Piece Handlings recorded in incoming secondary mechanized flat sorting operations.⁷ *Id.* at 2.

III. COMMENTS

Although noting that Proposal Twenty-Nine is not without flaws, the Public Representative recommends that the Commission accept it. The Public Representative believes the proposal would improve the accuracy of the estimate of the percent of Periodicals that receive a mechanized incoming secondary sort.⁸ The Public Representative notes that the Postal Service's proposal to reduce the In-Plant IS Coverage Factor by the percentage of letters and parcels processed on mechanized sorting equipment could be improved if the Postal Service were able to use Periodical-specific data to make this calculation, as well as the base calculation of the In-Plant IS Coverage Factor.⁹

Time Warner also recommends the Commission adopt Proposal Twenty-Nine, noting that failure to do so would lead to a nonsensical value for the Auto/Mech Factor, and alternative corrections do not appear to exist.¹⁰ Time Warner notes, as did the Public Representative, that the In-Plant IS Coverage Factor is based on the MODS volume of all flat products that receive a mechanized incoming secondary sort, not only Periodicals.¹¹ Time Warner contends that Periodicals receive more manual sorting than

⁷ The proposed method would reduce the number of mechanized incoming secondary piece handlings in flat sorting operations by approximately 1.5 billion, or 9.7 percent of the total. See File: Prop.29.Per.Model.xls, Sheet: ACR 2008 MODIFICATIONS.

⁸ Comments of the Public Representative in Response to Order No. 363, January 11, 2010, at 2.

⁹ See *e.g., id.*, where he notes that the unit costs of letters and parcels processed in mechanized flat sorting operations are unlikely to equal the unit cost of flats processed in those operations. He recommends that the Postal Service investigate methods to control for this cost disparity between sorting letters and parcels on the one hand and flats on the other.

¹⁰ Comments of Time Warner Inc., In Response to Order No. 363, January 11, 2010, at 2 (Time Warner Comments).

¹¹ Time Warner Comments, Appendix, at 3.

other flat products. *Id.* at 2. If correct the base value of the In-Plant IS Coverage Factor upon which the proposed corrections would be made, would be over stated.

Time Warner also notes that the method the Postal Service proposes to eliminate the volume of letters and parcels that receive a mechanized *incoming secondary* sort in flat sorting operations is based on the cost of letters and parcels in *incoming, outgoing, primary, and secondary* mechanized sorting operations, not only mechanized incoming secondary operations. *Id.* at 4.

IV. COMMISSION ANALYSIS

The Commission accepts proposal Twenty-Nine because it reduces two sources of the upward bias in the estimated Auto/Mech Factor that the Commission addressed previously. See Order No. 339 at 30. The Commission concurs with the Public Representative and Time Warner that failure to adopt this proposal would lead to a nonsensical value for the Auto/Mech Factor, and alternative corrections have not been proposed.

The Commission continues to urge the Postal Service to investigate the availability of data sources that would allow it to obtain reliable estimates of the percentage of *Periodical-only* flats that receive a mechanized incoming secondary sort. The Commission also urges the Postal Service to investigate whether the IOCS could provide reliable estimates of the percent of letters and parcels processed in incoming secondary mechanized sorting operations.

V. ORDERING PARAGRAPH

It is Ordered:

For purposes of periodic reporting to the Commission, the Commission accepts the change in analytical principles proposed in the Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Change in Analytic Principles (Proposal Twenty-Nine).

By the Commission.

Shoshana M. Grove
Secretary