

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 One)

Docket No. RM2010-8

ORDER ACCEPTING ANALYTICAL PRINCIPLE  
FOR USE IN PERIODIC REPORTING  
(PROPOSAL ONE)

(Issued March 17, 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. 503 and 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 February 9, 2010, the Postal Service filed a petition to initiate an informal rulemaking proceeding to consider a change in the analytical methods approved for use

in its periodic reports to the Commission.<sup>1</sup> Proposal One seeks to eliminate immediately the rail portion of the Transportation Cost System (TRACS) sampling system and the use of the Freight Rail distribution key that it is designed to produce. Instead, it proposes to distribute freight rail transportation costs to products using the TRACS Inter-BMC highway distribution factors.

## II. DISCUSSION

To reduce costs, increase efficiency, and still meet service commitments, the Postal Service has been realigning its transportation and distribution network, including the implementation of the Network Distribution Centers (NDCs). As a result, mail historically transported by rail is now being trucked. As a consequence of this shift, the Postal Service expects a reduction of freight rail expense of approximately 75 percent from FY 2009 to FY 2010. The Postal Service seeks to immediately eliminate freight rail sampling within the TRACS sampling system. In place of the Freight Rail distribution key that is currently used to distribute the Freight Rail and Rail Plant Load cost pools within cost segment 14 to products, the Postal Service proposes to use the TRACS Inter-BMC highway distribution key. *Id.* at 1, Proposal One at 1.

The Postal Service states that had Proposal One been in effect in FY 2009, the changes in transportation costs would have been *de minimis*. It expects the impact on FY 2010 transportation costs to be even less because of the continued reduction in freight rail costs. The Postal Service asserts that eliminating TRACS freight rail sampling and substituting the TRACS Inter-BMC distribution key will not have a material impact on the costs attributed to any product, and will allow the Postal Service to make more efficient use of its data collection resources. Petition at 1-2.

*Comments.* The Public Representative supports adoption of Proposal One, agreeing with the Postal Service that it will make better use of the Postal Service's data

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<sup>1</sup> Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider a Proposed Change in Analytic Principles (Proposal One), February 9, 2010 (Petition).

collection resources.<sup>2</sup> He notes that the effect of substituting the Inter-BMC highway distribution key for the Freight Rail distribution key on the cost segment 14 costs attributed to individual products would generally have been less than 1 percent in FY 2009. *Id.* at 1-2. He notes the effect would be even less in the future if freight rail expenses continue to decrease on the order of 75 percent per year, as shown in Table 2 of the Postal Service's Petition. *Id.* at 2.

*Commission analysis.* The Postal Service's Petition presents two tables in support of Proposal One. Table 1 shows that cost segment 14 Freight Rail and Rail Plant Load volume-variable costs have dramatically decreased for the last five quarters. Table 2 estimates that if the TRACS highway distribution key had been used instead of Freight Rail distribution key in FY 2009, the changes in cost segment 14 costs attributed to individual products would have been minuscule.

Commission staff compared the FY 2009 TRACS Inter-BMC highway key with the TRACS Freight Rail distribution key. It found differences in the attributable share of some classes of mail, particularly First-Class Mail. These differences were highlighted in Chairman's Information Request No. 1, which solicited alternative distribution keys for consideration.<sup>3</sup> The Postal Service's response suggested that continued use of the TRACS Freight Rail distribution key developed for FY 2009 is a plausible alternative to using the FY 2010 Inter-BMC highway distribution key that the Postal Service initially proposed.<sup>4</sup>

Since FY 2010 freight rail costs are expected to be less than \$15 million, the use of either distribution key should have little impact on the distribution of attributable costs to products. The FY 2009 Freight Rail distribution key is preferable because it does not cause freight rail costs to be attributed to classes of mail that are not transported by

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<sup>2</sup> Comments of the Public Representative in Response to Proposed Rulemaking on Analytical Principles Used in Periodic Reporting - Order No. 406 (Proposal One FY 2010), February 24, 2010, at 2.

<sup>3</sup> Chairman's Information Request No. 1, March 4, 2010.

<sup>4</sup> Response of the United States Postal Service to Questions 1-2 of Chairman's Information Request No. 1, March 9, 2010.

freight rail. The Commission concurs with the Postal Service and the Public Representative that the immediate elimination of TRACS rail sampling will result in a more efficient use of resources. However, the Commission finds that the FY 2009 Freight Rail distribution key is a more representative distribution key. If, in the future, freight rail transportation costs increase significantly, and operational changes provide grounds for concluding that the mix of mail transported by freight rail has changed substantially, the Postal Service may propose the use of a distribution key that would better reflect the changed circumstances.

*It is Ordered:*

Proposal One contained in the Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider a Proposed Change in Analytic Principles (Proposal One), filed February 9, 2010, is accepted as modified in the body of this Order. The Postal Service shall use the FY 2009 Freight Rail distribution key to distribute the costs of freight rail to products in FY 2010 and in subsequent reporting years.

By the Commission.

Shoshana M. Grove  
Secretary