

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

PERIODIC REPORTING

Docket No. RM2010-12

PETITION OF THE UNITED STATES POSTAL SERVICE REQUESTING INITIATION  
OF A PROCEEDING TO CONSIDER PROPOSED CHANGES IN ANALYTIC  
PRINCIPLES (Proposals Three - Eight)  
(September 8, 2010)

Pursuant to 39 C.F.R. § 3050.11, the Postal Service requests that the Commission initiate a proceeding to consider six proposals to change analytic principles relating to the Postal Service's periodic reports. The proposals, labeled as Proposals Three through Eight, are discussed below, and in greater detail in the attached text and documentation. (Proposal One was filed as Docket No. RM2010-8 on February 9, 2010, and Proposal Two was filed as Docket No. RM2010-10 on June 25, 2010. See Order No. 406, February 12, 2010, and Order No. 428, June 30, 2010.)

Two of the proposals (Three and Five) involve the proposed incorporation of new data being obtained from the data collection systems into cost attribution for products. Proposal Three relates to City Carrier costs, and would assign relevant costs for direct bundles to products that utilize them. The City Carrier Cost System is capturing more detailed information regarding direct bundles. The new information will result in the proper alignment of revenues and city delivery costs for direct bundles. Proposal Five relates to Rural Carriers, and would utilize more detailed information that the Rural Carrier Cost System is capturing regarding collected prepaid parcels. With this new

information, a distinction is made between collected prepaid parcels less than or equal to 2 lbs, and those greater than 2 lbs. This proposal aligns the collection costs for these prepaid parcels with the current rural carrier labor contract. Rural carriers receive letter/flat credit for collected prepaid parcels less than or equal to 2 lbs, and parcel credit for those greater than 2 lbs.

Proposal Four involves IOCS acceptance costs, and would assign those costs to the host mailpiece when a piece is accepted at the window, has non-retail indicia, and hosts an Extra Service (other than Registered Mail). Currently in IOCS, when a mailpiece is accepted at a retail window and includes an Extra Service, that acceptance cost is assigned to the Extra Service rather than to the host piece. This proposal aims to reassign the cost from the Extra Service to the host mailpiece, with the exception of Registered Mail, which must be accepted by a postal employee in person.

Proposal Six involves the ICRA and is essentially *not* an analytic methodological change, but rather a change in calculation procedures. It would separately incorporate the Inbound Processing and Carrier In-Office costs for Canada, Developing Countries and Industrialized Countries into the ICRA model using IOCS. The Postal Service traditionally supplies two items as part of the ACR: 1) the ICRA and, 2) an IOCS tally analysis that separates Processing and Carrier In-Office costs between Canada, Developing Countries and Industrialized Countries. The ICRA model does not develop separate Processing and Carrier In-Office costs, and the Commission utilizes the IOCS tally analysis in combination with the ICRA model to calculate the separate costs. The proposal incorporates the Commission's methodology for using the IOCS tally analysis into the ICRA model; thus, saving the Commission the steps required for the calculation

of the separate costs. Also, fewer inputs and a single model lessen the chance of error. The Postal Service perceives no harm and potential benefit from giving the Commission the opportunity to preview this change in calculation procedures.

Proposal Seven would introduce a mailflow-based model of mail processing costs for Standard Parcels and NFMs (Not Flat Machinables). The Postal Service has not previously had a cost model for mail processing for Standard parcels and NFMs. This new model, using methodological approaches similar to those embedded in the mail processing models for letters, flat and Parcel Post and Parcel Select parcels, disaggregates the CRA costs for Standard Parcels and NFMs, producing separate cost estimates for machinable, irregular and NFM price categories by presort and entry level. Until now, the rate differences for NFMs and Standard Parcels have been supported by a cost analysis that estimated the additional mail processing costs required to process parcels and NFMs in comparison to an average Standard Mail flat. In its 2008 Annual Compliance Determination (ACD) at page 70, the Commission directed the Postal Service to develop “reliable cost data for these categories and make the necessary adjustments to discounts to reflect 100 percent or less of the avoided costs,” and reiterated this request in the 2009 ACD. The model will not change the aggregate costs for Standard parcels and NFMs, but rather will just disaggregate by mail characteristic within those aggregate costs.

Proposal Eight involves an improved distribution key for empty equipment. Because the existing key in essence bases the distribution of the costs of transporting empty equipment on the relative costs of transporting the various mail products, rather than on the actual driver of empty equipment transportation costs, it has the potential to

overdistribute empty equipment transportation costs to products which utilize relatively more expensive modes of transportation. The proposed solution is to use a distribution key, pound miles, which recognizes that products which are transported more cause higher empty equipment costs, but does not distinguish between the underlying modes in which the mail products generate those pound miles, since those modes are not necessarily the modes used to transport the empty equipment.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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## **PROPOSAL THREE**

### **The Postal Service proposal to change the current methodology of distributing relevant city carrier street costs for 'direct bundles' to products.**

#### **OBJECTIVE:**

The purpose of this document is to propose a methodology change for distributing relevant costs to products within cost segment 7 (city carrier street activities) in FY2010. Specifically, this proposal seeks to utilize a new data element captured as part of the City Carrier Cost System (CCCS) to assign relevant costs to products in accordance with the revenue generated by the product. .

#### **BACKGROUND:**

Prior to FY09, data collectors were instructed to count direct bundles (bundled or containerized mail all for the same address) as parcels. It was impossible prior to FY09 to know from the CCCS data which parcels were direct bundles or the shape of the pieces that made up the bundles. Estimates for direct bundles were put in the parcel cost pools and distributed to the parcel products. Beginning with FY09 PQ1 data collection software, (see Statistical Programs Letter #1 FY09, dated September 15, 2008 and filed with the PRC on September 30, 2008) a choice was added to the 'shape' screen which allows for identification of direct bundles. Furthermore, for entries identified as direct bundles, a follow-up screen was added to record the shape of the top piece. As a result of this data collection change, the specific product that was being delivered by direct bundle is identifiable. (Note: Assigning costs of direct bundles is not an issue in cost segment 10 (rural carriers) because direct bundles are a separate compensation category and the Rural Carrier Cost System records the product being delivered by direct bundle using the shape of the top piece.)

#### **PROPOSAL:**

This proposal seeks to align the revenues and delivery costs for the products that use direct bundles. If adopted, this will be accomplished by assigning the costs of direct bundles to the products that utilize them for city delivery. Under this proposal, the costs for delivering a bundle of flat shaped Bound Printed Matter (BPM) pieces (e.g. phonebooks) as a single item, for example, would be assigned to BPM flats rather than BPM parcels.

#### **RATIONALE:**

This proposal follows the general principle that costs are assigned to products on a causal basis. Specifically, this proposal aligns the revenues and city delivery costs for direct bundles.

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### IMPACT:

The table below shows the impact on the cost segment 7 costs (including appropriate piggybacks) under the proposed methodology and its corresponding impact on total attributable costs. This proposal has no cost impact on competitive products nor market dominant products not displayed in the table.

<b>Product</b>	<b>FY09 Cost Impact (Proposed -Current) \$(000) (1)</b>	<b>FY09 Attributable Cost \$(000) (2)</b>	<b>Percent Change Attributable Costs (3)=(1)/(2)</b>
<b>First Class</b>			
Single-Piece Letters	\$391	\$7,902,016	0.005%
Presort Letters	\$195	\$5,366,241	0.004%
Flats	\$(116)	\$2,157,510	-0.005%
Parcels	\$(478)	\$1,095,175	-0.044%
<b>Standard Mail:</b>			
Letters	\$263	\$5,032,819	0.005%
Flats	\$147	\$3,488,254	0.004%
Not Flat-Machinables and Parcels	\$(411)	\$840,001	-0.049%
<b>Package Services:</b>			
Bound Printed Matter Flats	\$482	\$118,839	0.406%
Bound Printed Matter Parcels	\$(498)	\$371,150	-0.134%

## Proposal Four

**Assignment of costs for non-retail mailpieces with extra services that are accepted at the window.**

### **OBJECTIVE**

This is a proposal to change the way costs are attributed to non-retail mailpieces with Extra Services that are accepted at the retail window.

### **BACKGROUND**

Currently in IOCS, when a mailpiece is accepted at a retail window and includes any of the following Extra Services, the acceptance cost is assigned to the Extra Service rather than to the host piece.

Table 1: Extra Services Assigned Costs  
During Retail Window Acceptance

Certified
Insured
Return Receipt
Delivery Confirmation
Signature Confirmation
COD
Registered

Typically, these pieces have indicia associated with retail customers, such as Postal Validation Imprint (PVI), and the window transaction involves the purchase of Extra Services. However, occasionally a piece is accepted at the window that has non-retail indicia, such as electronic Information-Based Indicia (IBI), meter or permit, and it may already have Extra Services. This can occur if, for example, the customer is dropping off a pre-paid mailpiece that cannot be deposited in a mailbox due to weight or customs restrictions, or if the window unit also performs acceptance for bulk mail. In such cases the cost of the IOCS tally should be assigned to the host mailpiece rather than to the

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Extra Service. The one exception is Registered Mail, which must be accepted by a postal employee in person.

### PROPOSAL

For CRA2010, we propose that IOCS assign costs to the host mailpiece when the piece is accepted at the window, has non-retail indicia and hosts any of the Extra Services listed in Table 1 except for Registered Mail.

### IMPACT

The impact on market dominant product costs is shown in Table 2. For Priority Mail the impact is less than one tenth of one percent.

**Table 2: Impact on FY09 Window Service**

	<b>FY09 Cost Impact (Proposed – Current) \$(000)<sup>1</sup> (1)</b>	<b>FY09 Attributable Cost \$(000) (2)</b>	<b>Percent Change Attributable Costs (3)=(1)/(2)</b>
First-Class Single-Piece Letters	\$3,344	\$7,902,016	0.042%
First-Class Presort Letters	\$371	\$5,366,241	0.007%
First-Class Flats	\$985	\$2,157,510	0.046%
First-Class Parcels	\$1,232	\$1,095,175	0.112%
Single-Piece Parcel Post	\$429	\$761,308	0.056%
Media & Library	\$182	\$472,361	0.039%

## Proposal Five

**The Postal Service proposal to change the current methodology of distributing relevant rural carrier collection costs for prepaid parcels that are less than or equal to 2 pounds.**

### **OBJECTIVE:**

The purpose of this document is to propose a methodology change in cost segment 10 (rural carriers) for FY2010. Specifically, this proposal seeks to utilize new information from the Rural Carrier Cost System (RCCS) to assign relevant collection costs to products in accordance with the manner in which rural carriers are compensated.

### **BACKGROUND:**

Rural carrier attributable costs are distributed to products within each compensation category (i.e. cost pools) using respective factors estimated from the Rural Carrier Cost System (RCCS). The cost pools are based on the labor contract and the results of the Rural Mail Count (RMC). For mail collected on rural routes, separate distribution factors are applied to the Letters/Flats Collected and Parcels Accepted compensation categories respectively. The current labor contract dictates that for collecting prepaid parcels less than or equal to two pounds, rural carriers receive credit in the Letters/Flats Collected category, which results in a lower unit compensation as compared to collected Parcels. However, on PS Form 2848 Rural Carrier Route Mail Acceptance Data, there are no instructions for Postmasters or designees to count prepaid parcels less than 2 pounds as Letters/Flats Collected, likely resulting in overestimates of Parcels Accepted volume in previous years. Beginning PQ1 FY 2010, the PS Form 2848 was changed to provide a separate column titled *Prepaid Parcels <= 2 lbs* (Please see Statistical Programs Letter #1 FY 2010, dated September 15, 2009 and filed with PRC December 4, 2009.)

### **PROPOSAL:**

This proposal entails correcting the distribution factors for Letters/Flats Collected and Parcels Accepted to better align estimates from RCCS with the manner in which rural carriers get compensated based on the RMC. If adopted, mechanically, the estimates derived from the *Prepaid Parcels <= 2 lbs* category on PS Form 2848 would be added to the estimates derived from the *Letters, Cards, and Flats* category. No change is necessary to the method in which the respective collection estimates are entered in workbook I-Forms, worksheet I-CS10RCS columns 11 and 12, which flow through the model into the CS10 workbook. (Public version USPS-FY09-32).

### **RATIONALE:**

This proposal is consistent with the general principle that relevant rural carrier delivery costs are assigned to products in accordance with the manner in which rural carriers are compensated.

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**IMPACT:**

The table shows the impact on market dominant products under the proposed methodology based on FY10 Q1 and Q2 RCCS data applied to FY09 rural costs (multiplied by the appropriate piggyback factor) and its corresponding impact on total attributable costs. This proposal has no cost impact for market dominant products not displayed in the table. For Priority Mail, the impact is a decrease of less than one-tenth of one percent and for competitive ground products the impact is an increase of approximately five one-hundredths of a percent.

Product	FY09 Cost Impact (Proposed – Current) \$(000) (1)	FY09 Attributable Cost \$(000) (2)	Percent Change Attributable Costs (3)=(1)/(2)
<b>First Class</b>			
Single-Piece Letters	\$(300)	\$7,902,016	-0.004%
Single-Piece Cards	\$(16)	\$440,003	-0.004%
Flats	\$(21)	\$2,157,510	-0.001%
Parcels	\$(346)	\$1,095,175	-0.032%
<b>Package Services:</b>			
Single-Piece Parcel Post	\$2,344	\$761,308	0.308%
Bound Printed Matter Flats	\$ 3	\$118,839	0.003%
Bound Printed Matter Parcels	\$206	\$371,150	0.055%
Media and Library Mail	\$428	\$472,361	0.091%
<b>Free Mail - blind, handicapped &amp; servicemen</b>	\$(884)	\$54,158	-1.632%
<b>International<sup>1</sup></b>	\$868	\$1,790,563	0.048%

<sup>1</sup>International is not a product but it is displayed as one line in the public version of CS10. The impact reflects the change in total international costs in CS10 (including piggybacks). The total cost was computed by aggregating the attributable costs for international products (excluding services) in the public version of the CRA.

## **Proposal Six**

### **Proposed model change to International Cost and Revenue Analysis (ICRA) to incorporate PRC-LR-1 IOCS tally analysis**

#### **OBJECTIVE**

The objective of this proposal is to eliminate one step from the two-step process of: 1) producing an ICRA and 2) adjusting the ICRA results to reflect the IOCS tally analysis for inbound international contained in PRC-ACR2009-NP-LR3\_IOCS Analysis by incorporating the IOCS analysis into the ICRA model.

#### **BACKGROUND**

Traditionally, the Postal Service separately files the ICRA model (USPS-FY09-NP2) and a tally analysis isolating the inbound Processing costs and inbound City Carrier In-Office costs for Canada, Developing Countries and Industrialized Countries (USPS-FY09-NP9 <ICRA09\_ib\_bycgrp\_v>). The Commission combines results from both the ICRA model and the tally analysis in PRC-ACR-2009-NP-LR3\_IOCS Analysis to calculate separate inbound Processing and City Carrier In-Office unit costs by Canada, Developing Countries and Industrialized Countries. This proposal incorporates the IOCS tally analysis into the ICRA model.

#### **PROPOSAL**

Beginning in FY2010, we propose to incorporate the IOCS tally analysis into the ICRA model. The ICRA model adjustments used to accomplish this are shown (using the FY09 ICRA) in USPS-RM2010-x/NP1, filed under seal.

#### **IMPACT**

In FY2009 dollars, there is less than one-half of one percent unit cost difference on any individual inbound category, and the differences can be explained by rounding.

## **PROPOSAL SEVEN**

### **DEVELOPMENT OF STANDARD MAIL PARCEL / NOT FLAT-MACHINABLE (NFM) MAIL PROCESSING COST MODEL**

#### **OBJECTIVE:**

Develop a Standard Mail Parcel / not flat-machinable (NFM) mail processing cost model that contains cost estimates for the machinable, irregular, and NFM price categories.

#### **BACKGROUND:**

Prior to Docket No. R2006-1, the Postal Service did not develop and maintain a Standard Mail parcel mail processing cost model because there was no need to do so. Standard Mail flats and parcels were both assessed “nonletter” prices, with parcels also being assessed a residual shape surcharge. In Docket No. R2006-1, the Postal Service proposed separate and distinct prices for Standard Mail flats and parcels, and proposed a new classification for “not flat-machinable” (NFM) mail pieces. NFMs were classified to be mail pieces that were typically assessed flats prices, but were often processed as parcels.

In the absence of any formal Standard Mail parcel mail processing cost model, a cost analysis to support these proposals was provided in Docket No. R2006-1 as USPS-LR-L-45. This analysis estimated the additional mail processing costs required to process parcels and NFM mail pieces in comparison to an average Standard Mail flat.

The Postal Service’s classification changes were not opposed by any parties and were ultimately supported by the Commission. In its Opinion and Recommended

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Decision, however, the Commission stated, “Nonetheless, the NFM category is troublesome, given that there are no cost data for these pieces or reliable volume estimates broken down by mail mix. The reliability of the NFM data is a serious issue for several participants, but is used as the basis for arguments to mitigate NFM rates; not as a rationale for opposing classification changes.” PRC Op. 2006-1, paragraph [5419].

Since the passage of the Postal Accountability and Enhancement Act (PAEA) in 2006, the Postal Service has subsequently filed the USPS-LR-L-45 analysis in the 2007, 2008, and 2009 annual compliance reports (ACR) in documents USPS-FY07-12, USPS-FY08-12, and USPS-FY09-12, respectively. In its 2008 annual compliance determination (ACD), the Commission directed the Postal Service to develop “reliable cost data for these categories and make the necessary adjustments to discounts to reflect 100 percent or less of the avoided costs.” ACD2008, page 70.

### **RATIONALE:**

The Postal Service began conducting a field study during the summer of 2009 in which data were collected that could be used to develop a Standard Mail parcel / NFM mail processing cost model. These data were collected at three network distribution centers (NDC), as well as one processing and distribution center (P&DC) and two delivery units (DU) within the service area of each NDC. The development of this model is described in the attachment to this proposal description, and the cost model itself is located in the file Prop.7.STD PARCEL-NFM MP MODEL.xls. The data collected during the field study can be found in the file Prop.7.STD PARCEL-NFM DATA.xls.

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When this cost model is populated with 2009 cost data, however, the results may not necessarily be meaningful due to price list changes that took place during that fiscal year. The Standard Mail parcel / NFM price list structure was modified on May 11, 2009, such that the number of irregular and NFM price categories was reduced from twelve to eight, and the number of machinable price categories was reduced from seven to six. In total, nine price categories were eliminated and some of the remaining categories were modified. These changes occurred prior to the time that the data were collected. It was therefore not possible to develop a “hybrid” 2009 cost model that contained line items for both the old and new price lists, and the cost model presented in this proposal is based on the current price list only.

The 2009 price list changes will not have any effect on any 2010 cost model input data because the current price list will have been in place for the entire fiscal year. At this time, the Postal Service therefore asks for the Commission’s approval concerning the methodology used to develop the Standard Mail parcel / NFM mail processing cost model, and requests that the Postal Service be authorized to populate this version of the model with 2010 input data and file it in ACR document USPS-FY10-12, in lieu of the USPS-LR-L-45 analysis.

### **IMPACT:**

It is not possible to quantify the impact of this proposal because a standalone Standard Mail parcel / NFM mail processing cost model was not previously developed and maintained by the Postal Service.

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**STANDARD MAIL PARCEL / NOT FLAT-MACHINABLE (NFM)  
MAIL PROCESSING COST MODEL**

The Standard Mail parcel / not-flat machinable (NFM) mail processing cost model related to Proposal Seven is structured in a manner that is similar to the parcel mail processing cost models representing other subclasses of mail. Cost sheets that depict the mail processing operations required to process each parcel up to the point that the mail has been sorted to the carrier level at delivery units have been developed for each price category. These model cost estimates are then used to “de-average” a mail processing cost by shape estimate into price category cost estimates for machinable, irregular, and NFM parcels.

**Machinable Parcels:** The cost models for the machinable parcel price categories that require network distribution center (NDC) processing assume that the mail is sorted on the parcel sorting machines (PSM) at those facilities. Equipment reject rates have been incorporated into the number of handlings for the PSMs, as well as all other sorting equipment, and have been obtained from USPS-FY09-23. It is assumed that rejected mail pieces will be reprocessed through each piece of equipment once. The percentage of mail that is finalized to the 5-digit level on the primary PSM (PPSM) was estimated using 2009 webEOR data. The percentage of mail that is “transferred” from the PPSM to the secondary PSM (SPSM) was also derived using 2009 webEOR data. These figures can all be found in the “Other Inputs” tab on page 9 of the cost model. The percentage of mail that is sorted to a destinating NDC by the PPSM is equal to 100 percent minus the 5-digit percentage minus the transfer volume percentage.

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A certain percentage of parcels are not sorted to the 5-digit level on the PSMs. These mail pieces are transported to the auxiliary service facilities (ASF) where they are sorted to the 5-digit level. The percentage of mail pieces that require ASF processing, using the various sorting methods relied upon by the ASFs, has been estimated using 2009 originating destinating information system (ODIS) data. The eight ASFs are processing and distribution centers / facilities (P&DC/F) or satellite facilities within the P&DC / F service area. Some ASFs also have other plants within their service areas. The percentage of mail that would require dock transfers at a second facility before being transported to delivery units (DU) was also estimated using 2009 ODIS data. Both estimates can be found in the "Other Inputs" tab on page 9 of the model.

**Irregular Parcels:** Two cost models have been developed for each irregular price category. Model cost estimates for both irregular "roll" and irregular non-roll mail pieces have been incorporated into the cost model because rolls will virtually never be processed on automation at plants, even if there is equipment available. Furthermore, the cubic feet per piece estimate for rolls is substantially higher than the estimate for non-rolls. In order to estimate the roll and non-roll volumes for each price category, a rolls percentage was applied to the billing determinants volumes for irregular parcels. This percentage was estimated by dividing the number of mail pieces that were determined to be rolls by the total number of irregular mail pieces for which dimension data were collected in the "IPP" manual sorting operations at NDCs. This calculation was performed using data that were collected during the 2009 field study. The roll percentage can be found in the "Std Vol Data" tab on page 4 of the cost model.

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For those price categories that require NDC processing, it is assumed that all roll and non-roll parcels are processed manually in the IPP operation at the NDCs. For the mixed NDC (MNDC) price category, the percentage of mail pieces that are outside the service area of the NDC was estimated using a percentage that was obtained from direct observation in the 2009 field study. This percentage can be found in the “Other Inputs” tab on page 9 of the cost model.

The IPP operation at NDCs is used to sort mail to either the other NDCs or to the 3-digit level for plants. Consequently, the mail pieces are sorted to the 5-digit level at the P&DC/Fs. The roll parcels are assumed to be processed manually at plants. The non-roll parcels are processed using the various methods that are available at the plants. Coverage factors for the available equipment and manual methods were estimated using 2009 ODIS data. These factors can be found in the “Other Inputs” tab on page 9 of the cost model. After the parcels are processed to the 5-digit level, it is assumed that the mail will be transported in hampers to the delivery units. The conversion factors for hampers are therefore relied upon in the cost sheets.

**NFM Parcels:** Two models were also created for each NFM price category. NFM mail pieces that weigh over six ounces must contain a parcel barcode. For the NFM price categories that require NDC processing, the model assumes that these mail pieces would be processed with machinable parcels on the parcel sorting machines (PSM) at the NDCs. The mail pieces weighing less than six ounces were assumed to be processed with the irregular mail pieces in the IPP operation. Mail characteristics data were used to estimate the percent of mail pieces weighing over six ounces. This percentage was then applied to the billing determinants data by price category to

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estimate the pieces weighing six ounce or less and the pieces weighing over six ounces. The percentage can be found in the “Std Vol Data” tab on page 4 of the cost model.

Given these assumptions, the NFM (over six ounces) cost models for the non-dropship MNDC, non-dropship NDC, and DNDC dropship NDC price categories are the same cost models used for the corresponding machinable price categories, with the exception that NFM-specific conversion factors are used. The remaining NFM (over six ounces) cost models are the same cost models used for the corresponding irregular non-roll price categories, with the exception that NFM-specific conversion factors are used. All the NFM (six ounces or less) cost models are the same cost models used for the corresponding irregular non-roll price categories, with the exception that the NFM-specific conversion factors are used. In looking at page 2, there are not always significant model cost differences between the irregular non-roll and NFM (six ounce or less) price categories because the cubic feet per piece that was measured in the 2009 field study is virtually the same. Nonetheless, the model was set up to estimate separate costs in the event that any differences surface over time as additional data are collected.

The heart of the model can be found in the “MP Cost Adjustments” tab on page 2 of the cost model. This page is where the model costs are weighted together using volume data. The volume data can be found in the “Std Vol Data” tab on page 4 of the cost model and were obtained from USPS-FY09-4. In May of 2009 the Standard Mail price structure changed. The billing determinants data reflect the price structure before

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the change, while this model has been set up to estimate costs for the current price categories. Consequently, some adjustments had to be made.

For machinable parcels, the volume for the non-dropship NDC presort category was assumed to be the sum of the old non-dropship BMC presort and non-dropship 5-digit presort category volumes. For irregular parcels and NFMs, the non-dropship NDC presort category volumes were assumed to be the sum of the old non-dropship ADC presort, non-dropship 3-digit presort, and non-dropship 5-digit presort category volumes. In addition, the DNDC dropship NDC presort volumes were assumed to be the sum of the old DBMC dropship MADC presort, DBMC dropship ADC presort, and DSCF dropship ADC presort category volumes. At the end of the current fiscal year, these adjustments will no longer be necessary as the current price structure will have been in place for the entire year and will be reflected in the billing determinants.

After the weighted model cost estimate is calculated on page 2, it is compared to “proportional” cost pool data. A proportional adjustment factor and “fixed” adjustment factor are then used to estimate the total mail processing unit cost estimates for each line item. These factors are calculated using the cost by shape estimate data in the “Cost Pool Data” tab on page 3 of the cost model. This estimate was obtained from USPS-FY09-26. The “proportional” and “fixed” cost pool classifications are identical to those relied upon in other parcel cost models, with the exception that the classifications for the “SPBS OTH” and “SPBSPRIO” cost pools were changed from fixed to proportional to reflect the fact that some standard mail parcels are processed on the small parcel and bundle sorter (SPBS) and the automated package processing system

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(APPS). The costs incurred by mail pieces processed on these systems are “mapped” to these cost pools, as indicated in USPS-FY09-7.

Aggregate roll / non-roll and NFM (over six ounces) / NFM (six ounces or less) cost estimates are calculated in the “MP Summary” tab on page 1 of the model such that there is only one cost estimate for each machinable, irregular, and NFM parcel price category.

The model cost estimates for each price category are calculated in the cost sheets found on pages 11 through 48. Each cost sheet contains a list of operations through which the parcels are processed up to the point that they are sorted to the carrier level at delivery units. A “cost per operation” is calculated for each task as follows:

$(\text{Adjusted Wage rate}) * (\text{Piggyback Factor}) / (\text{Units Per Hour}) * (\text{Conversion Factor})$

The adjusted wage rate is calculated in the “Wage Data” tab on page 6 of the cost model. This rate is equal to the 2009 premium pay factor for the Standard Mail parcel / NFM cost and revenue analysis (CRA) line item multiplied by the 2009 aggregate clerk / mail handler wage rate that excludes remote encoding center (REC) employees. Both of these cost model inputs were obtained from USPS-FY09-7.

“Piggyback factors” are used to estimate indirect costs. These factors are contained in the “Cost Pool Data” tab on page 3 of the cost model. The piggyback factors were obtained from USPS-FY09-25.

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The productivity estimates are calculated in the “Productivity Data” tab on page 5 of the cost model. The management operating data system (MODS) derived productivity values were obtained from USPS-FY09-23. Marginal productivity estimates are calculated by dividing the MODS figures by the volume variability factors associated with each operation. The volume variability factors can be found in the “Cost Pool Data” tab on page 3 of the cost model. These factors were obtained from USPS-FY09-7. The MODS system cannot be used to derive productivities for some operations, especially those pertaining to container movements. The model therefore relies on productivity estimates that were obtained from the 2009 field study. These productivity values are first divided by “overhead factors” to account for break time, clocking time, and other activities. The overhead factors were obtained from USPS-FY09-7. The marginal productivities for these tasks are then calculated by dividing the adjusted productivity values by the volume variability factors.

The only cross docking productivity found in the model is for plants, because those are the only facilities where distinct cross docking activities were witnessed during the field study. The docks at delivery units are so small that there really is no discernable cross docking activities. The docks at NDCs are so large that mail is generally unloaded to staging areas and then loaded to other trucks later when required. Any cross docking activities would therefore be built into the NDC unload and load productivities.

Conversions factors are relied upon in the cost sheets because some operations are performed on more than one parcel at a time. The conversion factor for piece distribution operations is one. For sack handling, the conversion factors are the pieces

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per sack estimates. For container movements, the conversion factors are the pieces per container estimates.

The pieces per sack conversion factors can be found in the “Mailer Arrival Profile” tab on page 7 of the cost model. The arrival profile data were collected in the 2009 field study and were obtained from Postal Service (PS) forms 3602 (Standard Mail postage statements) and 8125 (plant verified dropship statements). The number of sacks on these forms were not always provided or, at times, appeared to be suspect. Consequently, some of the data that were collected were excluded from the calculations.

The container conversion factors are calculated in the “Conversion Factors” tab on page 10 of the cost model. For postal and mailer entered containers, the first step is to calculate the cubic volume for each container. For mailer entered pallets and pallet boxes, data related to the height of these containers was collected during the 2009 field study. The average height figures can be found in the “Mailer Arrival Profile” tab on page 7 of the cost model. Data pertaining to the fullness level of both mailer and postal containers were also collected during the 2009 field study. Fullness estimates can be found in the “Mailer Arrival Profile” tab on page 7 and the “Postal Arrival-Dispatch Profile” tab on page 8 of the cost model, respectively. (Pallets were assumed to be 100 percent full.)

The utilization of space was also taken into consideration. For mail entered “loose” in containers or in sacks, a space utilization percentage was estimated during the 2009 field study. This estimate can be found in the “Other Inputs” tab on page 9 of the cost model. This estimate was derived as follows. The fullness level for a given

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container of loose / sacked mail was measured. Each individual piece was then removed and measured. The total cubic volume of the pieces was then divided by the total cubic volume of the container space in which those pieces were held. (The space utilization percentage for palletized individual parcels was assumed to be 100 percent.)

The utilized interior volume for each container was then calculated by multiplying the interior volume for that container by the fullness percentage, which was then multiplied by the space utilization percentage. The pieces per container estimates for machinable parcels, irregular rolls, irregular non-rolls, and NFMs were calculated by dividing the utilized interior volume by the cubic feet per piece estimates for these four categories of mail. These estimates were collected during the 2009 field study and are contained in the "Conversion Factors" tab on page 10 of the cost model.

The cost per facility in each price category cost sheet is calculated by multiplying the cost per operation by the number of handlings for each operation. A great deal of the number of handlings data relates to the percentage of mail that arrives in the various containers or is dispatched in the various containers.

As stated above, mailer arrival profile data were collected during the 2009 field study from PS Forms 3602 and 8125. The price category percentages of mail entered loose in pallet boxes, as individual pieces on pallets, in sacks on pallets, or in individual sacks can be found in the "Mailer Arrival Profile" tab on page 7 of the cost model. Data for three price categories were not found in these documents. The estimates for the irregular non-dropship NDC presort category were assumed to be the same as the estimates for the irregular DNDC dropship NDC presort category. The estimates for the irregular DNDC dropship 5-digit presort category were assumed to be the same as the

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estimates for the DSCF dropship 5-digit presort category. The estimates for the NFM DDU dropship 5-digit presort category were assumed to be the same as the irregular DDU dropship 5-digit presort category. For mail entered in individual sacks, it is assumed that these sacks are placed in all purpose containers (APC). The conversion factors for APCs are therefore relied upon in the cost sheets.

For the non-dropship categories, the percentages of NFM and non-NFM parcels that are entered at DUs, P&DC/Fs, and NDCs have been estimated using PostalOne! mailing statement data. These estimates can be found in the “Mailer Arrival Profile” tab on page 7 of the cost model. The estimates are then applied to the arrival profile container percentages to estimate the percent of mail that is entered at the three facility types.

Postal arrival and dispatch profile data were also collected during the 2009 field study and can be found in the “Postal Arrival-Dispatch Profile” tab on page 8 of the cost model. These data pertain to the percentages of mail that arrived and are dispatched in the various types of postal containers. Mail that is dispatched from one NDC to another is assumed to be transported in Postal Pak containers.

As stated above, the number of handlings for mail processed on postal equipment is equal to the volume flowing to that operation multiplied by one plus the reject rate. Reject rates for postal equipment can be found in the “Other Inputs” tab on page 9 of the cost model.

The model cost estimate for each price category is equal to the sum of the cost per facility for each operation in a given cost sheet. The model cost estimates are then

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used to de-average the cost by shape estimate on page 2 of the cost model as described above.

**PROPOSAL EIGHT**

**Improved Distribution Key for Empty Equipment Costs**

**OBJECTIVE:**

The purpose of this document is to propose an improved methodology for FY 2010 for the distribution of empty equipment transportation costs to products. These costs are included in cost segment 14 (purchased transportation) Specifically, they are for incurred for highway and rail transportation of empty equipment and are included in general ledger accounts 53191 and 53192..

**BACKGROUND:**

Because an imbalance exists in the flows of volume of mail transported across geographic regions, surpluses and deficits of equipment (e.g. hampers, APCs, letter trays) regularly occur in mail processing facilities. These imbalances necessitate the transportation of empty equipment from surplus sites to deficit sites. Costs incurred in accounts 53191 and 53192 are generally for the transportation of empty equipment among processing facilities and Mail Transportation Equipment Centers (MTECs) via highway or between MTECs via rail.

Historically, the incurrence of empty equipment costs has not been studied and these costs have been attributed to products based upon the “burden” method. That is, highway and rail empty equipment costs are distributed to products in the same proportions as the aggregate of all other transportation costs.

This approach distributes the cost of empty equipment based upon not just the products’ use of transportation but also the cost of that transportation. Because air transportation costs, on a per pound basis, are generally higher than long-distance surface transportation costs, the current methodology assigns a higher proportion of relevant empty equipment costs to products that more commonly utilize air transportation.

However, the cost of returning empty equipment to deficit sites is same regardless of the nature and cost of the original transportation of the mail contained in the equipment. This means that the current methodology is potentially biased.

**PROPOSAL:**

This methodology presented in this proposal attributes the empty equipment costs to products using a distribution factor that is based on the aggregate pound miles traveled on modes of transportation sampled by the Transportation Cost System (TRACS). The total pound-miles for each product are computed using TRACS data and its share of the total determines the products’ share of the relevant empty equipment costs. As with the established methodology, the same distribution factor would be used for both highway

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and rail empty equipment costs and it would be computed quarterly along with other TRACS distribution factors. The proposal would also be applied to the ICRA.

### **RATIONALE:**

The current methodology is based on a distribution factor that is based, in part, on the cost of the outbound transportation which is not relevant for the incurrence of empty equipment transportation costs. The proposed method assigns these costs based on transportation cost driver – pound miles, which more accurately reflects the incurrence of the attributed cost. The more that a product makes use of the Postal Service's transportation network (as measured by pound-miles) the more it is likely to cause empty equipment transportation costs. Thus, pound-miles of transportation, is a more accurate distribution factor than total transportation costs.

An example might help to illustrate the bias in the current method. Suppose the same amount of cube of Product A and Product B are transported 1,000 miles in the same equipment. Because of equipment imbalances both Product A's and Product B's equipment must be transported, empty, back to the origin facility. The cost of returning the identical empty equipment is the same. However, Product A is transported by air and Product B is transported by surface. Because the current methodology uses the relative costs of the outbound transportation it assigns a higher amount of the incurred empty equipment costs to Product A despite the fact that the actual cost of transporting the empty equipment caused by each product to the origin facility is the same. The proposed methodology assigns an equal amount of empty equipment transportation costs to each product.

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### IMPACT:

The table below shows the impact on cost segment 14 costs under the proposed methodology and its corresponding impact on total attributable costs for market dominant products. The cost segment 14 impact is based on a distribution factor derived from PQ4FY09 TRACS data and applied to FY09 attributable empty equipment costs. For competitive products, the proposed change would reduce their attributable costs from approximately 0.1 percent to 0.5 percent, with the greater impact on those products with relatively higher transportation costs.

Product	FY09 Cost Impact (Proposed- Current) \$(000) (1)	FY09 Attributable Cost \$(000) (2)	Percent Change Attributable Costs (3)=(1)/(2)
<b>First Class</b>			
Single-Piece Letters	\$785	\$7,902,016	0.010%
Single-Piece Cards	\$(38)	\$ 440,003	-0.009%
Presort Letters	\$2,438	\$5,366,241	0.045%
Presort Cards	\$(25)	\$ 240,956	-0.010%
Flats	\$2,278	\$2,157,510	0.106%
Parcels	\$(1,590)	\$1,095,175	-0.145%
Outbound First Class Mail International	\$(861)	\$468,134	-0.184%
Inbound International Single-Piece Letter Post	\$(1,584)	\$266,624	-0.594%
<b>Standard Mail:</b>			
High Density and Saturation Letters	\$ 8	\$318,152	0.003%
High Density and Saturation Flats and Parcels	\$ 634	\$825,642	0.077%
Carrier Route	\$1,570	\$1,578,323	0.099%
Letters	\$3,903	\$5,032,819	0.078%
Flats	\$7,503	\$3,488,254	0.215%
Not Flat-Machinables and Parcels	\$(286)	\$ 840,001	-0.034%
<b>Periodicals:</b>			
In County	--	\$105,052	0.000%
Outside County	\$ 6,379	\$2,574,931	0.248%
<b>Package Services:</b>			
Single-Piece Parcel Post	\$(687)	\$761,308	-0.090%
Inbound Surface Parcel Post (at UPU Rates)	\$(1,653)	\$12,254	-13.489%
Bound Printed Matter Flats	\$ 485	\$118,839	0.408%
Bound Printed Matter Parcels	\$1,021	\$371,150	0.275%
Media and Library Mail	\$4,353	\$472,361	0.921%
<b>Free Mail – blind, handicapped &amp; servicemen</b>	\$15	\$54,158	0.029%

## **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.

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