

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 Analytic Principles
Used in Periodic Reporting
(Proposal Three through Eight)

Docket No. RM2010-12

Public Representatives Comments in Response to Order No. 534

October 8, 2010

The Public Representatives provide comments pursuant to Commission Order No. 534.¹ In that Order, the Commission established Docket No. RM2010-12 to receive comments from interested persons, including the undersigned Public Representatives, addressing the Postal Service's request for changes to analytical principles used in Postal Service's periodic reporting to the Commission on postal products and services.²

The Postal Service's request is made pursuant to Commission Order No. 203, which established final rules governing the form and content of periodic reports.³ 39 C.F.R. § 3050.11 of the final rules permits the Postal Service to petition the Commission to request "changes (in) accepted analytical principles under the informal rulemaking procedures in 5 U.S.C. 553".

PROPOSAL THREE – *Changes to the current methodology of distributing relevant city carrier street costs for "direct bundles" to products.*

A bundle is a group of packages secured together into a single piece or unit in conformance with the standards for the rate claimed. Direct bundles addressed to the same address are currently counted as parcels.

The Postal Service proposes a change in the recording of direct bundles based on shape of the top mail piece⁴. Direct Bundles can now be recorded as Flats or Parcels.

¹ See Notice of Proposed Rulemaking on Analytic Principles used in Periodic Reporting (Proposals Three through Eight), September 13, 2010 (herein "Order No. 534").

² See Petition of the United States Postal Service Requesting Initiation of a Proceeding to consider proposed changes in Analytical Principles (Proposals Three – Eight), September 8, 2010.

³ See Order Establishing Final Rules Prescribing Form and Content of Periodic Reports, April 16, 2009 (herein "Final Rule").

⁴ Statistical Programs Letter #1 FY09, September 30, 2008.

Analysis

The Commission in its FY2009 ACD found a few products underwater including the products highlighted in red in Table 1. It appears that cost coverage for the products under water either improve or remain the same with this proposal.

Table 1

(in '000)	Volume	Revenue	Attributable Cost	Contribution to Institutional Cost	Revenue /Piece (Cents)	Cost/Piece (Cents)	Contribution to Institutional Cost/Piece (Cents)	Cost Coverage After Proposal	Cost Coverage Before Proposal
First Class									
Single Piece Letters	30,016,465	13,362,722	7,902,407	5,460,315	44.518	26.327	18.191	169.1%	169.1%
Presort Letters	45,109,177	15,801,339	5,404,721	10,396,618	35.029	11.981	23.048	292.4%	292.4%
Flats	2,864,496	3,545,827	2,157,394	1,388,433	123.785	75.315	48.470	164.4%	164.3%
Parcels	580,826	1,114,988	1,094,697	20,291	191.966	188.472	3.493	101.9%	101.8%
Standard Mail									
Letters	46,867,847	8,889,801	5,105,746	3,784,055	18.968	10.894	8.074	174.1%	174.1%
Flats	7,814,466	2,881,538	3,497,257	(615,719)	36.874	44.754	-7.879	82.4%	82.4%
Not Flat Machinables and Parcels	679,041	635,196	839,590	(204,394)	93.543	123.643	-30.100	75.7%	75.6%
Package Services									
Bound Printed Matter Flats	238,799	207,588	119,321	88,267	86.930	49.967	36.963	174.0%	174.7%
Bound Printed Matter Parcels	270,623	363,909	370,652	(6,743)	134.471	136.962	-2.492	98.2%	98.0%

Source: FY 2009 ACD Table VII-1 and Table IV-5 adjusted for cost impact of proposal.

The proposal's impact on the cause and effect principle in matching revenue and cost may be need to be considered as the costs are re-allocated to Letters/Flats category with no information provided by the Postal Service regarding the product the related revenue was assigned to.

As reflected in Table 1, the impact of the proposal on most of the affected products is minimal being in the range of .1% to .2% with the greatest impact in increase in cost coverage for BPM Flats which was the only domestic Package Services product to produce sufficient revenues to cover attributable costs in FY 2009.

It appears that historically parcels were overly burdened by costs due to inaccurate allocation given the limitations of the recording systems and now this proposal corrects this error. With this proposal the shape of the top piece will determine how the bundle will be recorded and since the DMM has specified that all pieces in a bundle be of similar products and weight the issue of mixed piece bundles and subsequent inaccurate recording of the pieces to the wrong product do not arise.

Recommendation

The RCCS for compensation purposes already records the direct bundles based on the shape of the top piece. This proposal would make recording of costs of direct bundles in CCCS and RCCS consistent. The Commission should consider the unanswered question in this proposal that if the costs of products that were previously recorded as parcels are now being recorded as Flats would the revenue of such products also be re-categorized accordingly?

The Postal Service with this proposal is moving in the right direction by attributing costs to products that cause the costs and benefitting from the improvement in the margin of its underwater products. The proposal should be accepted.

PROPOSAL FOUR – *Assignment of costs for non-retail mail pieces with extra services that are accepted at the window.*

The acceptance cost at the retail window of a mail piece with certain extra services⁵ attached to it is currently allocated to Special Services rather than the host mail piece.

The Postal Service proposes that the acceptance cost of a mail piece bearing non-retail indicia and any of the specified extra services of certified, insured, return receipt, delivery confirmation, signature confirmation or COD already attached to it should be allocated to the host mail piece.

Analysis

The Extra Services for which costs would be reallocated to the host mail piece consists of individual services that may only be used when there is a mail piece to attach it to.

When a non-retail mail piece is affixed with prepaid postage it is assumed that the revenue for such a mail piece attaches to the product. Additionally, when this prepaid postage non-retail mail piece is affixed with a special service such as certified mail it is assumed that the revenue for such special service is assigned to the Special Services and not the host mail piece. But with this proposal when the prepaid postage product with an extra service already attached to it is brought to the window the acceptance cost for the product attaches to the host mail piece. Several questions arise

⁵ Extra Services accepted at the window for which related costs are assigned to Special Services are Certified, Insured, Return Receipt, Delivery Confirmation, Signature Confirmation, COD.

that are left unanswered in the Postal Service filing but should be considered by the Commission when forming its decision –

1. What was the reason that brought the customer to the window for the special service? If the underlying reason for depositing the mail piece at the window was because of the product – customs restrictions/weight restrictions - then the window service cost to process the product and already attached extra service should be attached to the host mail piece as the proposal rightly suggests.

However, if the reason for the customer to bring the prepaid postage and prepaid extra service mail piece to the window was due to a misconstrued notion that the product should be taken to the window as it has an extra service attached to it, then the window processing cost for the extra service should be allocated to special services.

2. There is also a question that is left unaddressed in this proposal as to how the costs and revenue of an additional extra service purchased on a piece that has nonretail indicia and an already purchased extra service attached to it that is not Registered. How would the IOCS tally taker record this extra service? Would the IOCS tally taker wait till the end of the transaction to record the tally or would he/she record the transaction at the beginning of the transaction missing out in a later addition of an Extra Service?

3. The costs of three special services are not reported separately by the Postal Service in the CRA. Return Receipt, Delivery Confirmation and Signature Confirmation are reported as a single line titled “Other Ancillary Services” in the CRA. In this proposal the Postal Service proposes to assign costs from these

three services to the host mail piece for pieces bearing non-retail indicia. No details of the methodology that will be used to separately state the three costs currently reported as a single item by the Postal Service in their ACR filings with the Commission.

4. There is also a question that is left unanswered in the proposal if revenue that is associated with the services would be transferred with the costs.

As a result the reassignment of costs but not the revenues to host mail pieces would result in the changes to cost coverage of the effected products as calculated in Table 2.

Table 2

(in '000)	Volume	Revenue	Cost	Attributable to Institutional Cost	Revenue /Piece (Cents)	Cost/Piece (Cents)	Contribution to Institutional Cost/Piece (Cents)	Cost Coverage After Proposal	Cost Coverage Before Proposal
First Class Single Piece Letters	30,016,465	13,362,722	7,905,360	5,457,362	44.518	26.337	18.181	169.0%	169.1%
First Class Presort Letters	45,109,177	15,801,339	5,404,897	10,396,442	35.029	11.982	23.047	292.4%	292.4%
First Class Flats	2,864,496	3,545,827	2,158,495	1,387,332	123.785	75.353	48.432	164.3%	164.3%
First Class Parcels	580,826	1,114,988	1,096,407	18,581	191.966	188.767	3.199	101.7%	101.8%
Package Services									
<i>Single Piece Parcel Post</i>	<i>80,716</i>	<i>699,847</i>	<i>761,308</i>	<i>(61,461)</i>	<i>867.049</i>	<i>943.193</i>	<i>-76.145</i>	<i>91.9%</i>	<i>91.9%</i>
<i>Media & Library</i>	<i>140,139</i>	<i>398,354</i>	<i>472,361</i>	<i>(74,007)</i>	<i>284.256</i>	<i>337.066</i>	<i>-52.810</i>	<i>84.3%</i>	<i>84.3%</i>

Source: FY 2009 ACD Table VII-1 and Table IV-5 adjusted for cost impact of proposal.

Recommendation

The proposal seems reasonable and a move in the right direction as the costs of other services such as certificates of mailing, business reply mail etc have been reassigned to the mail pieces by the Postal Service. The justification provided by the Postal Service in the proposal also appears to be logical given that non-retail indicia with the exception of Registered Mail would not require additional processing time at the window by the acceptance clerk and should not be assigned to window services. The Commission should evaluate the proposal giving consideration to the unanswered questions before making its decision.

PROPOSAL FIVE – Changes to the current methodology of distributing relevant rural carrier collection costs for prepaid parcels that are less than or equal to 2 pounds.

The Rural Carrier contract stipulates that the Postal Service can compensate the rural carriers at the lower Letters/Flats accepted rate for parcels accepted that are 2 lbs and less. The Postal Service currently records parcels that are 2 lbs and less in the higher parcels accepted category thus providing the rural carriers with a higher credit for accepting these lower weight parcels.

The Postal Service proposes to credit the rural carriers at the lower Letter/Flats Collected compensation rate for parcels that accepted that are 2 lbs or less.

Analysis

This proposal effects the compensation paid to the Rural Carriers and reduces the costs of the Postal Service. The Postal Service in its Rationale for the proposal

indicates that the proposal follows the general principle that the costs assigned to products are in accordance with the manner in which the rural carriers are compensated. Among other things, the rural carriers' compensation is based on time spent on route (route evaluation) thus the difference in time spent and method used in acceptance of parcels over 2 lbs and less than 2 lbs is important. The Postal Service in its proposal does not provide any details regarding this issue.

Are the parcels that are 2 lbs and less similar in shape to the parcels that are greater than 2 lbs? Is there a difference in the method the rural carrier uses to carry the parcels less than 2 lbs and the parcels greater than 2 lbs to the vehicle and subsequently to the postal facility? If the method and time spent in acceptance of parcels greater than and less than 2 lbs have similar characteristics, then it can be argued that the rural carriers may not be appropriately compensated for the time that it takes to accept the parcels less than 2 lbs.

Recommendation

The costs of the Postal Service are reduced as the rural carriers would receive a lower credit for delivering parcels less than 2 lbs which is in accordance with the current rural carrier contract. The proposal should be accepted.

PROPOSAL SIX – Changes to International Cost and Revenue Analysis (ICRA) to incorporate PRC-LR-1 IOCS tally analysis.

As part of its ACR filing with the Commission, the Postal Service currently submits the ICRA model and the IOCS tallies for inbound international mail. The

Commission uses the IOCS tallies to calculate inbound Processing and City Carrier In-Office unit costs by Canada, Developing Countries including Mexico and Industrialized Countries excluding Canada.

The Postal Service proposes to use the IOCS tally to calculate the inbound Processing and City Carrier In-Office unit costs by Canada, Developing Countries including Mexico and Industrialized Countries excluding Canada and eliminate the additional step taken by the Commission.

Analysis

By eliminating the two step process the proposal will shorten the time spent by the Commission in its calculation of the ICRA. However, the elimination of the submission of the IOCS tallies would prevent the Commission from checking the accuracy of the calculation performed by the Postal Service.

Recommendation

While the Postal Service is eliminating a step in the Commission's analysis by performing it themselves they should also retain the IOCS tally files to honor requests from the Commission when it is necessary to confirm the calculation of the allocated costs.

PROPOSAL SEVEN – Development of Standard Mail Parcel Mail Processing Cost Model

Overview

In Proposal 7, the Postal Service provides a Standard Mail Mail Processing Cost Model, which estimates de-averaged mail processing costs for Machinable, Irregular, and NFM Parcels by rate category. This model replaces and advances the Mail Processing Cost Model provided in USPS-FY09-12. The model previously provided in

the ACR was linked to the CRA Mail Processing unit cost of Standard Flats, and relied on productivities estimated in 1997.⁶ The Mail Processing cost estimates in the proposed model are linked to the costs attributed to Parcels by the CRA, provided in USPS-FY09-LR26. As such, the current proposal represents a significant improvement.

For the proposed model, a special study was performed to update the productivities of Parcel related activities in DDUs, NDCs, and P&DCs. The conceptual framework of the model, the mailflow model, is simplified and appears to recognize the current processing procedures. However, the model is not without its flaws. The CRA adjustment factor of the proposed model is 1.65, which suggests that the accuracy of the model can be improved. The model defines MODS costs pools as either proportional or fixed; it defines many cost pools as fixed that could be considered “unexpected.”⁷ The special study collected data from a limited number of facilities, “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.”⁸ Analysis of the data used to develop operation-specific productivities reveals that the standard deviation of the estimated productivities is large. Further, productivity estimates are developed using as few as two tallies. The Postal Service has not provided any further analysis of the APPS productivity relevant to the sorting of Parcels

⁶ See USPS-FY09-LR12 worksheet “STD_NFM_PARCEL.xls” tab “Parcel Productivites”

⁷ See USPS-FY09-LR11 worksheet “STD_Reg_flt.xls” tab “CRA Flats” cell J12

⁸ 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, Proposal Seven Page Two

only, instead relying on the MODS estimate of using data based on both bundle and parcel sorting.

Given the current (limited) state of Parcel costing data, the germane model represents an improvement, and the Public Representative endorses the use of this model in the FY2010 ACR. The following observations highlight areas that might warrant consideration for study and review in future dockets.

Unexpected MODS Cost Pools

The following cost pools are defined as “fixed” in the proposed parcel model, but may reflect processing dependent, at least in some instances, in the level of mailer presorting: MODS Manual Flat, NonMODS Manual Flat, MODS Priority, MODS AFSM, and MODS LD44. It is reasonable that some parcels appear to be machinable flats, and are processed on the AFSM or in the manual flat operation (as compared to the manual parcel operation). DDU entry, for example, would avoid this cost. Priority Distribution is an example of an “unexpected” cost pool, in that standard mail is not expected in the Priority processing mailflow. However, this is unlikely to be “fixed” cost for Parcels. Without supplemental information provided by a question and answer opportunity through discovery of the Postal Service, drawing a hard conclusion (or an alternate proposal) would be based on conjecture at this juncture.

Productivities Estimated using Special Study Data

For operations where MODS productivities are unavailable, the proposed model relies on productivity estimates obtained from a 2009 field study. For select activities, the field study provided thin data with wide standard deviations. The following table

(Table 3) contains the Productivities estimated using the field study, as well as the maximum productivity tally, minimum productivity tally, and the standard deviation.

Table 3: Standard Deviation of Special Study

Productivity

Facility	Task	Measured Productivity	Minimum	Maximum	Count	Standard Deviation
DU	Load Rolling Stock	62.799	222.22	24.00	54	46.44
DU	Load Pallet / Pallet Box	35.629	49.59	26.79	5	9.32
DU	Unload Rolling Stock	62.799	222.22	24.00	54	46.44
DU	Unload Pallet / Pallet Box	35.629	49.59	26.79	5	9.32
DU	Incoming Secondary Parcel Sort	413.432	1472.73	229.57	27	232.44
P&DC	Unload Rolling Stock	52.348	240.00	22.86	28	57.56
P&DC	Unload Pallet / Pallet Box	45.056	72.00	29.03	5	16.43
P&DC	Crossdock Rolling Stock	64.532	90.68	16.13	11	24.82
P&DC	Crossdock Pallet / Pallet box	36.000	44.44	25.21	6	6.52
P&DC	Load Rolling Stock	52.348	240.00	22.86	28	57.56
P&DC	Load Pallet / Pallet Box	45.056	72.00	29.03	5	16.43
NDC	Unload Rolling Stock	35.698	206.90	15.23	68	40.38
NDC	Unload Pallet / Pallet Box	41.379	240.00	8.53	50	39.84
NDC	Unload Postal Pak	48.130	189.47	18.85	26	33.87
NDC	Induct Bedloaded Parcels	748.683	891.35	655.56	2	118.76
NDC	Induct Rolling Stock	38.179	50.97	13.22	11	10.85
NDC	Induct Pallet / Pallet Box	19.209	53.73	9.09	18	13.31
NDC	Induct Postal Pak	26.297	57.14	10.93	20	14.12
NDC	IPP Manual Sort	896.780	1123.10	503.34	2	438.24
NDC	Dump Sacks	137.698	176.84	114.80	3	35.24
NDC	Load Rolling Stock	56.653	130.43	23.90	130	24.26
NDC	Load Pallet / Pallet Box	52.348	240.00	22.86	28	57.56
NDC	Load Postal Pak	21.346	65.22	11.26	34	10.93

The activity with the fewest tallies, and highest productivity, “NDC IPP Manual Sort,” does not appear to be used in the proposed model. That productivity, and the “NDC Induct Bedloaded Parcels” productivity do not appear on the tab “Productivity Data” in the file “Prop.7.STD Parcel-NFM Model.xls” provided with the petition. Since the data file “Prop.7.STD Parcel-NFM Data.xls” is not linked to the proposed model “Prop.7.STD Parcel-NFM Model.xls,” the issue of use of this productivity is ultimately unclear. What is clear, however, is that the field study surveyed two NDCs, and found a wide range of productivities for activities such as “Crossdock Rolling Stock,” which relate to the size and design of the facility. These productivities may not accurately represent the cost of moving the mail, on average, through a wide variety of plant sizes and layouts. It is

unclear how the sampled NDCs related to the system at large. Further, The cost of moving the mail, and the associated loading, is dependent on the number of pieces in an average container for that operation. A fuller explanation of how the sample data relates to the universe of parcel data would clarify the usefulness and accuracy of the estimated productivities.

Sorting Productivity

The APPS and SPBS Productivity used in the parcel model is taken from the USPS-FY09-LR23 file “YRScrub.” That productivity is calculated from (scrubbed) Total Hours and Total Pieces fed logged on those machines, a function of Priority Mail Processing, Parcel Processing, and Bundle Processing (such as Carrier Route Flats). Given the processing requirements of some Standard Mail Parcels, such as medicine shipments, that require multiple refeeds due to mailpiece design, the proposed model could be improved by more specific APPS and SPBS productivities. Further, the following chart contains the Parcel Sorting Methods Marginal Productivity from the tab “Productivity Data” in the file “Prop.7.STD Parcel-NFM Model.xls”:

Table 4: Productivity Estimates Used in the Parcel Model

	Facility Type	Marginal Productivity
APPS incoming primary sort	P&DC/F	464.8
SPBS / LIPS incoming primary sort	P&DC/F	234.6
Primary Parcel Sorting Machine (PPSM)	P&DC/F	404.1
Secondary Parcel Sorting Machine (SPSM)	P&DC/F	328.1
IPP Manual Sort	P&DC/F	340.7
IPP Manual Sort	NDC	452.8
Incoming Secondary Parcel Sort	DU	347.3

The IPP Manual sort at the NDC is nearly as productive as the APPS machine, and the Delivery Unit Parcel Sort (an estimate based on 27 tallies, as shown in Table 3) is significantly more productive than the SPBS. The Delivery Unit Parcel Sort is a required

operation for all Standard Mail Parcels, and thus a key factor in how accurate the model is. The estimated cost of a DDU sort is 16.7 cents using this productivity, compared to the USPS-FY09-LR26 estimated NonMods Manual Parcel sorting cost of 12.5 cents. This suggests the model may overstate the NonMods cost, and given the 1.65 CRA adjustment, understate the MODS costs. The net effect of these productivities is minimal differences in cost between machinable and non-machinable mail, when requiring the same number of sorts.

Conclusion

While significant questions concerning Parcel cost remain, the proposed model is an improvement. The model improves the mailflow model to incorporate the NDC redesign and appears to incorporate the process currently used to move Parcels. Questions regarding productivity, volume, and cost are difficult to answer given the relative size of Parcels to Standard Mail and the USPS operation. The de-averaged costs suggest that discounts within Standard mail Parcels should focus on encouraging Dropshipping, a logical conclusion that is in line with the current operational reality.

PROPOSAL EIGHT – *Improved Distribution Key for Empty Equipment Costs.*

The Postal Service currently distributes costs incurred for the transportation of empty equipment proportionately to products based on the aggregate costs incurred for All Other Transportation.

The Postal Service proposes to distribute costs incurred for the transportation of empty equipment on pounds per mile obtained from data sampled in TRACS. The advantage stated in this change in method of cost distribution is that it includes a proportional usage of the distance and frequency in transporting the products Along

with the actual costs of transporting the empty equipment from surplus to deficit facilities.

Analysis

To sustain the business, the Postal Service has to reposition empty equipment from a surplus location to a shortage location and incur repositioning cost if the realized demands are unbalanced. Empty equipment needs to be relocated to places where it is needed. The inclusion of transportation of empty equipment in the calculation of the cost of products for cost cause and effect purposes should be considered separately and not be aggregated as it is done currently with costs for all other transportation.

The Transportation Cost System (TRACS) statistically samples and stores data relating to the products purchased transportation costs. Purchased transportation costs for products are recorded as a total amount in the accounting records. These total costs are subsequently distributed to the products based on each products usage of the various modes of transportation sampled by TRACS: Highway, Commercial Air, Network Air and Rail.

An evaluation of the products impacted by the implementation of this proposal cannot be performed as the Postal Service has not provided the distribution factor used in the Table included in the proposal recalculating FY 2009 data.

Recommendation

The proposal uses the cost driver responsible for the transportation of empty equipment to distribute the related costs to products in conformance with the Activity Based Costing approach. It is an improvement over the current method of distribution of the transportation cost of empty equipment. The Commission should consider

approving the proposal only after evaluating its impact on the products with the new distribution factor.

CONCLUSION

The Public Representative respectfully submits the foregoing Comments for the Commission's consideration.

Respectfully submitted,

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