

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;  
Mark Acton, Vice Chairman;  
Dan G. Blair;  
Tony L. Hammond; and  
Nanci E. Langley

Modification of Analytical Principles  
in Periodic Reporting  
(Proposals Three through Eight)

Docket No. RM2010-12

ORDER ON ANALYTICAL PRINCIPLES USED IN PERIODIC REPORTING  
(PROPOSALS THREE THROUGH EIGHT)

(Issued January 28, 2011)

I. BACKGROUND

In Order No. 203, the Commission adopted periodic reporting rules pursuant to 39 U.S.C. 3652.<sup>1</sup> 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 September 8, 2010, the Postal Service filed a petition to initiate an informal rulemaking proceeding to consider changes in the analytical methods approved for use

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<sup>1</sup> Docket No. RM2008-4, Order No. 203, Notice of Final Rule Prescribing Form and Content of Periodic Reports, April 16, 2009.

in its periodic reports to the Commission.<sup>2</sup> Proposals Three and Five propose to incorporate new data being obtained from the City Carrier Cost System (CCCS) and the Rural Carrier Cost System (RCCS) into the cost attribution calculation for products.

Proposal Four would change the way acceptance costs are assigned. Currently when a product for which an extra service has been purchased generates an In-Office Cost System (IOCS) tally showing that it was accepted at a retail window, the Postal Service assigns the associated acceptance cost to the extra service. Proposal Four would assign it, instead, to the host piece under certain circumstances.

Proposal Six relates to international mail. Currently, the Postal Service produces an International Cost and Revenue Analysis (ICRA) and supplements it with an IOCS tally analysis that allows the Commission to separate Inbound Processing and Carrier In-Office costs for international mail arriving from Canada, Target System Countries, and Transition System Countries. Proposal Six would incorporate the IOCS tally analysis directly into the ICRA, eliminating the need to calculate the Inbound Processing and the Carrier In-Office costs for each country group in an extra step.

Proposal Seven proposes that the Commission adopt a mailflow-based model of mail processing costs for Standard Parcels and Not-Flat-Machinables (NFM) that disaggregates the cost of Standard Parcels into machinable, irregular, and NFM categories. This proposal responds to recent Annual Compliance Determinations in which the Commission identified a need to develop such costs.

Proposal Eight would use a new distribution key (pound miles) to distribute empty equipment costs to products.

There were two Public Representatives appointed in this docket. Cassie D'Sousa addressed proposals Three through Six, and Proposal Eight. John P. Klingenberg addressed Proposal Seven.

With one exception, the Commission approves each of the changes in the analytical methods as proposed. The one exception, Proposal Seven, is approved,

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<sup>2</sup> 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 (Petition).

subject to modification. The Commission modifies the proposed model's treatment of non-modeled costs to make it consistent with the way such costs are treated in the letter and flat cost models.

## II. DISCUSSION

### A. Proposal Three—Proposal to Incorporate New CCCS Data into the Cost Attribution Calculation for Products

Proposal Three seeks to align revenues and delivery costs by assigning the cost of direct bundles to the products that utilize them for city delivery. A new data element, captured as part of the CCCS, will distinguish direct bundles from other parcels. A separate screen will be used to record the shape of the top piece.

As explained by the Postal Service, prior to FY 2009, data collectors were instructed to count direct bundles (bundles or containerized mail all for the same address) as Parcels. It was impossible prior to FY 2009 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. Petition, Proposal Three at 1. The Postal Service, in response to Chairman's Information Request No. 2<sup>3</sup> notes, for example, that a parcel-shaped direct bundle of First-Class Presort Letters delivered by a city carrier is currently recorded as a First-Class Presort Parcel. However, the revenue from that direct bundle goes to the product First-Class Presort Letters, which results in a mismatch between product revenues and costs.

Proposal Three would still record the parcel-shaped direct bundle as a "parcel," but within the First-Class Presort Letter product, so that the revenues and delivery costs align. For rural carriers (Cost Segment 10), direct bundles are already recorded as a

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<sup>3</sup> Responses of the United States Postal Service to Chairman's Information Request No. 2, December 22, 2010, question 2 (Response to CHIR No. 2).

separate compensation category, and the RCCS records the product being delivered by direct bundle based on the shape of the top piece.

## 1. Participant's Comments

Comments were received on Proposal Three from the Public Representative.<sup>4</sup> No other interested person filed comments. The Public Representative recommends that the Commission approve this proposal. She believes that this proposal moves cost analysis in the right direction because it attributes costs to the products that cause them, which has the added benefit of improving the margin of its underwater products. The Public Representative's analysis shows that the impact of the proposal on most of the affected products is minimal—ranging from 0.1 percent to 0.2 percent. The greatest impact is an increase in the cost coverage for BPM Flats, the only domestic Package Services product to produce sufficient revenues to cover attributable costs in FY 2009. PR Comments at 4.

The Public Representative further observes that for compensation purposes, the RCCS already records direct bundles based on the shape of the top piece, and that the Domestic Mail Manual has specified that all pieces in a bundle be of similar products and weight. Thus, the issue of mixed bundle pieces and subsequent inaccurate recording of the pieces to the wrong product should not arise.

## 2. Commission Analysis

The Commission agrees with the Public Representative that this proposal will be an improvement in cost analysis. This proposal will improve the Postal Service's costing by correctly assigning the costs of direct bundles to the product that incurs them. The proposal will make the treatment of city delivery and rural delivery costs

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<sup>4</sup> Public Representatives Comments in Response to Order No. 534, October 8, 2010 (PR Comments).

consistent in this respect. For these reasons, the Commission accepts this proposed change in analytical principles.

B. Proposal Four—Proposal to Change How Retail Window Acceptance Costs are Assigned

The Postal Service proposes to change how retail window acceptance costs are attributed to non-retail pieces that already have certain extra services attached to the host mailpiece. The extra services include Certified, Insurance, Return Receipt, Delivery Confirmation, Signature Confirmation, COD, and Registry.

When mail is accepted at a retail window and includes an extra service, the cost of accepting the mail is assigned to the extra service and not the host mailpiece. When the window transaction involves the purchase of an extra service, whether or not the host piece is prepaid, the primary driver of the window transaction cost is the purchase of the extra service. Therefore, it is reasonable to assign the cost of the transaction to the extra service. However, there are times when prepaid mail is accepted at the window and the host piece already has the extra service attached. There is no retail transaction involved, only the acceptance of the mail at the window. The IOCS treats this acceptance as if a retail transaction had taken place and assigns the cost of acceptance to the extra service and not the host piece, even though the actual driver of the cost of acceptance is the host piece, not the extra service.

The Postal Service proposes to assign the costs to the host piece instead of the extra service if the mail is accepted at the retail counter, has non-retail indicia, and already has the extra service attached to the piece. Petition, Proposal Four at 2. The Postal Service intends to implement this reassignment of costs by adjusting the IOCS computer program that assigns the tally costs to extra services.<sup>5</sup> No change to the Segment 3 “B” workpapers or the IOCS questionnaire is proposed. *Id.* at 4-5.

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<sup>5</sup> Responses of the United States Postal Service to Questions 1-9 of Chairman’s Information Request No. 1, October 25, 2010, question 3 at 4 (Response to CHIR No. 1).

## 1. Participant's Comments

The Public Representative endorses the proposal as a step in the right direction in the assignment of costs. She comments that it seems reasonable, although it is not clear what specific procedures would be used to reassign the costs.

## 2. Commission Analysis

The Commission accepts this proposal. The proposed change properly allocates the costs of acceptance to the prepaid non-retail mailpiece, which is the primary driver of the cost of acceptance, rather than the extra service attached to the host piece.

### C. Proposal Five—Proposal to Incorporate New RCCS Data into the Cost Attribution Calculation for Products

Under Proposal Five, the Postal Service proposes to change the current method of distributing relevant rural carrier collection costs for prepaid Parcels that weigh less than or equal to two pounds. It would use new information from the RCCS to assign relevant collection costs to products in accordance with the manner in which rural carriers are compensated. Petition, Proposal Five at 1.

Currently, attributable rural carrier costs within each compensation category (cost pool) are distributed to products using factors estimated from the 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 requires that for collecting prepaid Parcels that weigh two pounds or less, rural carriers receive credit in the Letters/Flats Collected Category. The per-unit compensation for this is less than it is for collecting Parcels. However, the Rural Carrier Route Mail Acceptance portion of PS Form 2848 does not include instructions for postmasters or designees to count prepaid Parcels weighing less than two pounds as Letters/Flats Collected. This, the Postal Service asserts, likely resulted in overestimates of Parcels Accepted volume in previous years. Beginning with Postal

Quarter 1 in 2010, PS Form 2848 was changed to provide a separate column for prepaid Parcels less than or equal to two pounds.

This proposal would base the distribution factors for Letters/Flats Collected and Parcels Accepted on the manner in which rural carriers are compensated. The data processing procedure is to add the amounts recorded under the newly-established prepaid Parcels less than or equal to two pounds category on the form would be added to the estimates for the Letters, Cards, and Flats category. The Postal Service asserts that 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 and into the CS10 workbook. See USPS-FY09-32 Public Version.

#### 1. Participant's Comments

The Public Representative recommends that the Commission accept Proposal Five. She notes that it would appear to reduce rural carrier costs to the Postal Service since, under the current rural carrier contract, rural carriers receive a lower credit for delivering Parcels weighing less than two pounds. PR Comments at 9.

#### 2. Commission Analysis

The Commission does not believe that rural carrier costs to the Postal Service will not be reduced due to this proposal since the level of attributable costs is largely determined based on the interaction between the RMC and contractually negotiated evaluation factors in the rural carriers contract. However, Proposal Five will make the cost distribution method utilized in Cost Segment 10 based on the RCCS data consistent with the manner in which rural carriers are compensated for collected pieces. It will result in a more accurate allocation of rural carrier costs to products and a more accurate count of Parcels Accepted. Therefore, the Commission accepts this proposed change in costing methodology.

D. Proposal Six—Proposal to Incorporate Certain IOCS Tally Analysis Directly into the ICRA

Beginning with FY 2010, the Postal Service proposes to calculate inbound mail costs according to a methodology developed by the Commission that uses an analysis of IOCS tallies and to incorporate that methodology into the ICRA. Petition at 2. The Commission’s methodology was most recently presented in Library Reference PRC-ACR2009-NP-LR3.<sup>6</sup>

The Postal Service files the ICRA as part of its Annual Compliance Report.<sup>7</sup> In the ICRA, the Postal Service calculates the system average attributable cost for each of the five categories of inbound mail: Surface Letters-Cards/All Other (LC/AO), Air LC/AO; Surface Parcels (CP); Air Parcels (CP); and Express. The Postal Service also files a separate analysis of IOCS tallies.<sup>8</sup> That analysis segregates Cost Segment 2 (Supervision), Cost Segment 3 (Mail Processing), and Cost Segment 6 (City Delivery Carriers-Office) costs by three terminal dues regimes,<sup>9</sup> *i.e.*, Canada; Target System Countries, excluding Canada; and Transition System Countries, including Mexico.<sup>10</sup> In combination with volume data from the ICRA, the Commission uses the IOCS tally analysis to calculate separate Mail Processing (*i.e.*, Cost Segments 2 and 3) and

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<sup>6</sup> See Docket No. ACR2009, Library Reference PRC-ACR2009-NP-LR3, Excel file PRC-ACR2009-NP-LR3\_IOCS Analysis.xls (Library Reference PRC-ACR2009-NP-LR3).

<sup>7</sup> See, *e.g.*, United States Postal Service FY 2010 Annual Compliance Report, December 29, 2010, USPS-FY10-NP2.

<sup>8</sup> Docket No. ACR2009, Library Reference USPS-FY09-NP9, Excel file, ICRA09\_ib\_bycgrp\_v.xls. The IOCS takes tallies (*i.e.*, statistical samples) of the proportion of employee work time spent performing various functions on different types of mail. These proportions of time are used to estimate the costs of the mail. An example might be the time spent by city carriers in a delivery post office casing mail. If mail sorting tallies reveal 48 percent of carriers’ time (in the aggregate) is spent sorting First-Class Mail, 48 percent of casing costs could be attributed to First-Class Mail.

<sup>9</sup> Terminal dues regimes are groups of countries having the same (or similar) terminal dues rates that are used to calculate payments to the Postal Service for the delivery of inbound letter post.

<sup>10</sup> The phrase “target” system refers generally to industrialized countries participating in the Quality Linked Measurement System (QLMS) established by the Universal Postal Union. Under the QLMS, terminal dues payments are adjusted for the quality of delivery service provided in the country of destination for inbound letter post from other countries that participate in the QLMS. The phrase “transition” system refers generally to developing countries that do not participate in the QLMS.

In-Office Delivery (*i.e.*, Cost Segment 6) unit costs for each category of inbound mail by terminal dues regime. Both the Commission and the Postal Service utilize the resulting costs to analyze the financial performance of inbound mail categories by terminal dues regime.<sup>11</sup>

The Postal Service states that the objective of Proposal Six is to eliminate “adjusting the ICRA results to reflect the IOCS tally analysis for inbound international [mail] now contained in PRC-ACR2009-NP-LR3—IOCS Analysis by incorporating the IOCS analysis into the ICRA model.” Petition, Proposal Six. As a result, the Commission would no longer need to separately calculate the Mail Processing and In-Office Delivery costs used to adjust the ICRA results. Petition at 2-3. Accordingly, the Postal Service maintains that Proposal Six is “essentially *not* an analytic methodological change, but rather a change in calculation procedures.” *Id.* at 2 (emphasis in original). Nevertheless, the Postal Service “perceives no harm and potential benefit from giving the Commission the opportunity to preview this change in calculation procedures.” *Id.* at 3.

Accompanying its Petition, the Postal Service filed (under seal) Library Reference USPS-RM2010-12/NP1, which presents the adjusted inbound mail costs in the FY 2009 ICRA based upon the IOCS tally analysis.<sup>12</sup> The Postal Service asserts that in FY 2009 dollars, the unit cost difference for any individual inbound category of mail would be “less than one-half of one percent...and the differences can be explained by rounding.” Petition, Proposal Six. In response to CHIR No. 1, the Postal Service filed additional information explaining the development of international mail costs and making minor revisions to USPS-RM2010-12/NP1.<sup>13</sup>

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<sup>11</sup> See Docket No. ACR2009, Responses of the United States Postal Service to Questions 1-25 of Chairman’s Information Request No. 2, February 2, 2010, question 17; see *also* Docket No. ACR2009, FY 2009 Annual Compliance Determination, March 29, 2010, at 121.

<sup>12</sup> Library Reference USPS-RM2010-12/NP1, Excel file, Reports (Booked).xls, worksheet tab Pivot1b.

<sup>13</sup> Response to CHIR No. 1, question 6 (revising Library Reference USPS-RM2010-12/NP1).

## 1. Participant's Comments

The Public Representative observes that Proposal Six would eliminate the step now performed by the Commission of adjusting the ICRA costs to reflect the IOCS tally analysis by performing the calculations necessary to adjust the ICRA itself.

PR Comments at 10. However, the Public Representative claims that the proposal would also eliminate Postal Service submission of the IOCS tally analysis. *Id.* As a result, the Public Representative suggests that the Postal Service continue to provide the IOCS tally analysis so as to permit the Commission to “confirm the calculation of the allocated costs” presented therein. *Id.*

## 2. Commission Analysis

The Commission approves the methodological change described in Proposal Six. For purposes of analyzing the financial performance of inbound international mail categories, the Commission considers the development of inbound mail costs by terminal dues group to be a more accurate estimate of inbound costs than the system average reported in the ICRA.

The Commission agrees with the Public Representative, however, that the Postal Service should continue to accompany the ICRA with a separate IOCS tally analysis through the filing of the FY 2011 ACR, to facilitate review of the Postal Service's calculations.

### E. Proposal Seven—Proposal to Develop Standard Mail Parcel/NFM Mail Processing Cost Model

Proposal Seven seeks adoption of a Standard Mail NFM mail processing cost model that contains separate cost estimates for the machinable, irregular, and NFM price categories. The model is similar in structure 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” an overall mail processing cost estimate by shape into price category cost estimates for machinable, irregular, and NFM parcels. Petition, Proposal Seven at 4. The mail processing cost estimates in the model are linked to the costs attributed to Parcels by the CRA provided in Library Reference USPS-FY09-LR26. This model replaces the Mail Processing Cost Model provided in Library Reference USPS-FY09-12.

### 1. Participant’s Comments

The Public Representative supports adoption of Proposal Seven. He finds that the model is a significant improvement over the previous model. He comments that while the model is simple, it recognizes the current processing procedures. PR Comments at 11. However, the Public Representative notes that the CRA adjustment factor of the proposed model is 1.65, and thus the accuracy of the model can be improved. *Id.* Additionally, the Public Representative questions the classification of some MODS costs pools as “fixed” noting that some of these could be considered “unexpected” and therefore receive piggyback treatment. *Id.* at 12.

The Public Representative suggests that certain features of the model be improved in subsequent iterations. For example, she believes the Postal Service should obtain more accurate productivity estimates for some operations. 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. *Id.* at 11-12.

### 2. Commission Analysis

The Commission concurs with the Postal Service and the Public Representative that Proposal Seven is an improvement over the current parcel model. However, the Commission finds that the classification of the cost pools can be improved by adhering to the principles outlined in Docket No. R2006-1.

In Docket No. R2006-1, the Commission instituted a revised cost pool classification methodology for the letter mail processing cost models, based on the testimony presented by intervenor witnesses. In discussing the letter model in Docket No. R2006-1, the Commission said:

The Commission finds the Postal Service's assumption that the cost of non-modeled operations [is] not affected by worksharing to be insufficiently supported. The majority of the costs that MMA and Pitney Bowes claim are inappropriately treated as fixed are in mail processing activities that support other mail processing activities, including piece sortation. It is reasonable to assume that these supporting costs are at least indirectly affected by worksharing.

In the letter mail processing cost model, the Commission assigns the letter sorting cost pools as proportional, consistent with the Postal Service and intervenors. The pools that witness Buc assigns as fixed are assigned as either worksharing-related fixed or non-worksharing related, as appropriate. The remaining costs, which are largely allied and support costs, are distributed to the three groups in the same proportions as the directly assigned pools. The allied and support pools support all mail processing operations, and so it is reasonable to assume that they are affected by worksharing to the same extent as the proportional and fixed operations they support.

PRC Op. R2006-1, ¶¶ 5160 and 5161 (internal citations omitted).

The Postal Service does not agree with the cost pool classification applied by the Commission to the letter and flats models and thus does not believe it should be applied to the parcel model. In particular, it does not agree with the Commission's approach that distributes ("piggybacks") non-modeled costs for a particular shape according to the ratio of proportional and fixed costs for that shape. For the Postal Service, the issue seems to be primarily one of determining whether a particular kind of "unexpected" cost is appropriate to "piggyback." "Unexpected" costs are those appearing in cost pools where costs would not be expected to be incurred by a particular category of mail.

The Postal Service discusses the situation where IOCS data indicate that mail of a particular shape is sorted while in a mailstream designed to sort mail of a different

shape. By objecting to the piggybacking of this kind of unexpected cost, the Postal Service seems to assume that the IOCS data that report letter or flat processing occurring outside the intended mailstream is erroneous and, therefore, should not be considered worksharing related.

Currently, under the Commission's treatment of non-modeled costs in the letter and flat models, letters processed in the flat mailstream are piggybacked on letter mail costs, and flats processed in the letter mailstream are piggybacked on flat costs. While disagreeing with this treatment in the letter and flat cost models, the Postal Service believes that treating "unexpected" costs as worksharing related is less appropriately applied to parcel sorting that IOCS data indicate are sorted in a non-parcel mailstream. It argues that it is less likely that parcels are actually sorted outside the parcel mailstream less than letters and flats would be sorted outside their intended mailstreams. It asserts that parcels are "typically" sorted in a mailstream that is housed in a building where letters and flats are not sorted, making the blurring of the parcel mailstream with a letter and flat mailstream particularly unlikely. Response to CHIR No. 2, Proposal Seven, question 1.

The Commission finds that the Postal Service's rationale is not persuasive for disregarding sorting costs for parcels that are reported to have occurred in a mailstream meant to process a different shape. There are several reasons for speculating that it is less likely that parcels would occasionally be sorted in a mailstream designed for a different shape than a letter or flat would be sorted in a mailstream of a different shape. The parcel shape is generally more distinct than a letter or flat shape and, as the Postal Service asserts, parcels may be typically sorted in a building separate from letter and flat mail.

There are, however, some light and thin parcels that could be miscategorized as flats by a mailer and entered into the flat mailstream by the Postal Service. There are also instances in which letter, flat, and parcel sorting equipment are co-located in the same building (e.g., where a P&DC is co-located with an NDC). Therefore, even though the processing of parcels outside their intended mailstream may be less frequent than

for letters or flats, it cannot be ruled out. If the frequency is relatively lower, that should be reflected in the cost data. The unit cost data indicate that the costs for parcels sorted in letter and flat operations are relatively low when compared with other operations, which is consistent with the assumption that they occur infrequently. Therefore, the Commission concludes that it is more reasonable to piggyback non-modeled costs consistently in letter, flat, and parcel cost models.

The Commission approves Proposal Seven with the following modification of the cost pool allocation. The Commission assigns parcel sorting cost pools as proportional, a group of cost pools is treated as fixed, and allied, support, and unexpected costs are piggybacked.<sup>14</sup> The Commission notes that there will be an opportunity to examine the issue of the appropriate treatment of non-modeled costs in greater depth in Docket No. RM2010-13, Consideration of Technical Methods to Be Applied in Workshare Discount Design, which is pending.

F. Proposal Eight—Proposal to Use Pound Miles to Distribute Empty Equipment Costs to Products

The Postal Service proposes to change the methodology for the distribution of Cost Segment 14 empty equipment transportation costs to products. These costs are incurred for highway and rail transportation and are included in the general ledger accounts 53191 and 53192.

Surpluses and deficits of mail equipment occur in postal installations, and the Postal Service needs to transport empty equipment from surplus sites to deficit sites.<sup>15</sup> The costs incurred for the transportation of this empty equipment is generally between processing facilities and Mail Transportation Equipment Centers using highway or rail transportation. In the past, the cost of transport has been treated as a burden to total

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<sup>14</sup> See PRC-LR-1 which is an illustration of how the application of the accepted methodology in the letter and flat cost models would be applied to the Standard parcel cost model.

<sup>15</sup> The equipment includes hampers, letter trays, and all purpose containers (APCs).

transportation costs and distributed to products based on the overall distribution of transportation costs in Cost Segment 14.

Because air transportation costs are generally higher than surface transportation, on a per-pound basis, the current methodology assigns a higher proportion of empty equipment costs to products that use more air transportation. The cost of transporting the empty equipment is the same regardless of the cost of transporting the mail that used the equipment. Therefore, the Postal Service argues, the current system is potentially biased. Petition, Proposal Eight at 12.

The Transportation Cost System records total pound miles for each product. The Postal Service proposes to allocate empty equipment costs in proportion to each product's share of total pound miles. The Postal Service argues that the number of pound miles indicates the level of use a product makes of transportation equipment, and that this drives the cost of transporting that equipment once it is empty. Therefore, the use of pound miles is a more accurate factor to use than total transportation costs. *Id.*

The effect of the proposal is to increase attribution of empty equipment transportation costs to market dominant products by \$24.4 million and reduce the empty equipment costs for competitive products by \$24.4 million. The bulk of the cost increase for market dominant products are in Standard Mail (\$13.3 million), with Standard Regular Flats and Letters and Carrier Route mail receiving the majority of the costs. Additionally, Outside County Periodicals (\$6.4 million) and Package Services Media and Library Mail (\$4.4 million) empty equipment costs are increased. Domestic competitive product costs are reduced by \$19.1 million and competitive international products are also reduced by \$5.3 million. Response to CHIR No. 1, question 8.

#### 1. Participant's Comments

The Public Representative asserts that the proposed change in the distribution of empty equipment costs uses the cost driver responsible for the transportation of empty equipment, which is consistent with an Activity Based Costing approach. She, therefore, endorses it as an improvement over the current methodology.

## 2. Commission Analysis

The Commission agrees with the Postal Service and the Public Representative that use of transportation equipment is the most direct driver of empty equipment transportation costs, and that relative use of pound miles is an appropriate measure of a product's share of that cost driver. Therefore, the Commission accepts Proposal Eight.

*It is ordered:*

1. For purposes of periodic reporting to the Commission, the Commission accepts the changes in analytical principles proposed by the Postal Service in its Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes in Analytic Principles (Proposals Three - Eight), filed September 8, 2010, with the modification to Proposal Seven as described in the body of this Order.
2. As discussed in connection with Proposal Six, the Postal Service shall file a separate IOCS tally analysis through the filing of its FY 2011 Annual Compliance Report.

By the Commission.

Ruth Ann Abrams  
Acting Secretary