

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

PERIODIC REPORTING
(PROPOSALS SIX AND SEVEN)

Docket No. RM2012-7

PETITION OF THE UNITED STATES POSTAL SERVICE
FOR THE INITIATION OF A PROCEEDING TO CONSIDER PROPOSED
CHANGES IN ANALYTICAL PRINCIPLES (PROPOSALS SIX AND SEVEN)

Pursuant to 39 C.F.R. § 3050.11, the Postal Service requests that the Commission initiate a rulemaking proceeding to consider two proposals to change analytical principles relating to the Postal Service's periodic reports. The proposals, labeled Proposal Six and Seven, are discussed in the attached text.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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PROPOSAL SIX

Use of Foreign Postal Settlement System Data for Reporting of Inbound International Revenue, Pieces, and Weights in the ICRA

Proposal:

The Postal Service proposes to use the Foreign Postal Settlement (FPS) system as the sole source for the International Cost and Revenue Analysis's (ICRA) reporting of Inbound International revenue, pieces, and weights. The mechanics of implementing the change to the ICRA model are as follows:

In the Annual Compliance Report's nonpublic folder 2 (e.g., for FY 2011, folder USPS-FY11-NP2), a new FPS workbook titled "FPS_Inbound_Inputs.xls" will be added to the Supporting Files directory under the sub-folder FPS Inbound Data (a version of USPS-FY11-NP2 revised to incorporate this proposal is being filed as library reference USPS-LR-RM2012-7-NP1). The file Inputs.xls will be modified to accept FPS data as the source, rather than the previous set of Processed IAB files. The following tabs of Inputs.xls will have FPS sources and will have green tabs for highlighting them:

CP Inbound Air
CP Inbound Surface
EMS Inbound Volume PQ1
EMS Inbound Volume PQ2
EMS Inbound Volume PQ3
EMS Inbound Volume PQ4
Inbound Air KG CY1
Inbound Air KG CY2
Inbound SAL KG CY1
Inbound SAL KG CY2
Inbound Surf KG CY1
Inbound Surf KG CY2
Inbound Canada CY1
Inbound Canada CY2
Inbound Netherlands CY1

Inbound Netherlands CY2
Special Services

With the use of FPS, there will no longer be a need for sheets for Air Transit Revenues and Inbound IPK. The following tabs will therefore be deleted (in the attached model they have been marked as red, for illustration purposes):

Air Transit Revenues
Inbound IPK

Following from the changes in Input.xls, the following tabs in Inbound Calcs.xls will be eliminated (in the attached model they have been marked as red, for illustration purposes):

IPK1
IPK2
IPK
Transit

A second terminal dues sheet, TD Booked, will be added to Inbound Calcs.xls to pick up booked revenues by country from FPS directly. The sheet TD will continue to supply imputed terminal dues, as it has done in past editions of the ICRA, with the only difference being that volumes and weights used in this imputation will now be supplied by FPS.

Rationale:

In Order No. 920, the Commission approved the Postal Service's FY 2011 Proposal Four to use the FPS system to estimate Inbound International revenue, pieces and weight for the RPW report.¹ Beginning with FY 2012, this change has allowed RPW to include Inbound International pieces and weights for the first time and to more accurately report Inbound International revenues.

¹ Order No. 920, Docket No. RM2011-12 (Oct. 21, 2011).

The ICRA has traditionally reported Inbound International revenue, pieces and weights using accounting data from the St. Louis ASC, but this has led to variances between the ICRA and the Postal Service's financial statements' reporting of Inbound International revenues. As a result, the Commission directed the Postal Service to produce two versions of the ICRA, an Imputed version that relies on ICRA model calculations and a Booked version that forces the ICRA model calculations to agree with the financial statements.

Using the FPS data source for the ICRA's reporting of Inbound International revenue, pieces, and weights would improve the consistency among the ICRA, RPW, and financial statements, and it would eliminate the need to make separate Booked Inbound International revenue calculations in the ICRA. Using FPS would also eliminate the need for the ICRA to calculate inbound volumes based on weight data from the St. Louis ASC coupled with estimated items per kilogram data from Sirvi sampling system.

Note that this proposal does not entirely eliminate the need for both the Booked and Imputed versions because it does not address the Outbound International calculations.

Impact:

The non-public Attachment 1 filed under seal in USPS-LR-RM2012-7-NP1 displays two impacts: 1) a comparison between the FY 2011 Imputed version as filed in USPS-FY11-NP2 and the proposed methodology; and 2) a comparison between the FY 2011 Booked version as filed in USPS-FY11-NP2 and the proposed methodology. In both comparisons, pieces and weight based on FPS increase 2.9 percent and 2.0

percent, respectively, over the USPS-FY11-NP2 amounts. In the Imputed versus proposed comparison, revenue decreases 0.3 percent and volume variable costs decrease 1.2 percent due to changes in the distribution of volumes and weights by country under FPS. In the Booked versus proposed comparison, revenue decreases 0.8 percent and volume variable costs are essentially unchanged.

PROPOSAL SEVEN

TRACS Change to Parcel Density Process

Proposal:

The Postal Service proposes a methodology change to replace the parcel densities in the Transportation Cost System (TRACS) Highway Subsystem, which are used to develop distribution keys to assign volume-variable costs in Cost Segment 8 (Vehicle Service Driver costs) and Cost Segment 14 (purchased transportation costs) to postal products. Currently, separate study-based estimates of mail piece densities by mail category and shape for letters, flats and parcels, are required to convert sampled weight information to cubic feet. Under the proposed methodology, the study-based parcel densities would be replaced with parcel dimensional data now regularly captured in TRACS-Highway tests.

Rationale:

The Postal Service recently initiated and implemented changes to the TRACS Highway Subsystem allowing data collectors to capture and record length, width and height information for sampled parcels during live TRACS sampling. Developing cubic-foot estimates directly from these dimensional data without the interim density-study conversion process required to convert weight measures to cubic feet improves the reliability of the cubic-foot component of the distribution key by utilizing continuously updated cubic feet information across sampling periods.

More information on the changes to the TRACS Highway Subsystem is provided in the appendix to this document.

Impact:

The table below compares the Fiscal Year (FY) 2011 Cost Segment 8 and Cost Segment 14 applicable costs calculated using the current and proposed methodologies. The analysis is based on preliminary year-to-date TRACS distribution keys applied to FY 2011 costs. Media and Library Mail is the product group most affected by the proposed methodology change showing a change in cost per piece of – \$0.021, a relative change of – 2%. Parcel Post has the next largest change in cost per piece at – \$ 0.010, with a relative change of 0%. All other product groups have changes in cost per piece less than \$0.010.

TRACS With Existing Method¹ TRACS Parcel Density Methodology Change

Class, or Sub-class	TOTAL CS14 & CS8		Net Changes \$(000)	FY11 Volume (000)	Change in Cost per Piece \$
	(000)	(000)			
UNITS					
FIRST-CLASS MAIL					
SINGLE-PIECE LETTERS	249,950	249,625	-\$325	24,550,824	\$0.000
SINGLE-PIECE CARDS	5,426	5,437	\$11	1,295,941	\$0.000
PRESORT LETTERS	270,205	269,933	-\$272	41,740,735	\$0.000
PRESORT CARDS	8,710	8,716	\$6	2,753,763	\$0.000
FLATS	175,137	174,880	-\$257	2,230,920	\$0.000
PARCELS	74,336	78,180	\$3,845	637,982	\$0.006
TOTAL FIRST-CLASS	783,764	786,771	\$3,007	73,210,165	\$0.000
STANDARD MAIL					
HIGH DENSITY & SATURATION LETTERS	6,854	6,854	\$0	5,653,875	\$0.000
HIGH DENSITY & SATURATION FLATS & PARCELS	14,322	14,377	\$55	11,424,568	\$0.000
CARRIER ROUTE LETTERS	82,145	82,875	\$730	9,335,928	\$0.000
LETTERS	209,236	209,014	-\$222	50,584,189	\$0.000
FLATS	179,189	178,693	-\$496	6,783,186	\$0.000
NOT FLAT-MACHINABLES & PARCELS	27,268	30,514	\$3,245	733,770	\$0.004
TOTAL STANDARD MAIL	519,014	522,327	\$3,313	84,515,517	\$0.000
PERIODICALS					
IN-COUNTY	109	108	-\$1	661,561	\$0.000
OUTSIDE COUNTY	260,680	260,117	-\$563	6,415,178	\$0.000
TOTAL PERIODICALS	260,789	260,225	-\$564	7,076,739	\$0.000
PACKAGE SERVICES					
SINGLE-PIECE PARCEL POST	386,130	385,445	-\$685	70,218	-\$0.010
BOUND PRINTED MATTER FLATS	25,118	24,831	-\$286	251,831	-\$0.001
BOUND PRINTED MATTER PARCELS	34,944	34,694	-\$249	245,282	-\$0.001
MEDIA AND LIBRARY MAIL	98,147	95,931	-\$2,216	107,829	-\$0.021
TOTAL PACKAGE SERVICES	544,338	540,902	-\$3,436	675,160	-\$0.005
US POSTAL SERVICE	26,367	26,125	-\$241	434,596	-\$0.001
FREE MAIL	6,036	5,902	-\$133	61,854	-\$0.002
TOTAL MARKET DOMINANT	2,140,308	2,142,253	\$1,945	165,298,872	\$0.000
COMPETITIVE MAIL	826,667	823,290	-\$3,377	1,213,166	-\$0.003
INTERNATIONAL MAIL	133,321	134,753	\$1,432	959,826	\$0.001
TOTAL MAIL	3,100,296	3,100,296			

¹ TRACS preliminary PQ1-3 FY12 estimates applied to FY11 CS14 and CS8 (w/piggyback) dollars. Assumed PRC approval of VSD pending methodology. CS14 dollars only include purchased highway transportation costs.

Revision to TRACS Highway Subsystem Documentation

Under the Transportation Cost System (TRACS) Highway Subsystem, the Postal Service distributes certain purchased surface transportation costs to mail categories based on estimates of cubic-foot-mile proportions. Currently, for sampled letters, flats and parcels, the cubic-foot component of the cubic-foot-mile distribution key is developed from periodically updated Density-Study information obtained by major mail category. (See Appendix C, Table 1, of the TRACS Highway Subsystem documentation, USPS-FY11-36.) Under this methodology, the cubic-foot measure for a piece is estimated from the product of the piece weight (lbs.) and the applicable mail category reciprocal density ($1/(\text{lbs/cuft})$). Effective Q1 FY12, the TRACS-Highway Subsystem began utilizing captured length, width and height dimensional information for parcel-shaped pieces. As a result, the cubic-foot component of the cubic-foot-mile distribution key for parcels is readily determined directly from the product of the three dimensions; thereby, obviating the need for Density-Study information and periodic study updates for parcels. This methodology is believed more reliable since cubic feet information is continuously updated automatically across sampling periods.

In the TRACS-Highway Subsystem, at the final stage of sampling, mail characteristics for all pieces obtained from selected items (trays, sacks, etc.) are recorded. For parcels, dimensional characteristics are also recorded, including the parcel shape type (regular or irregular). For sampled parcels under the new methodology, cubic-feet are obtained directly from the product of the three sampled dimensions ($\text{cuft}=\text{cubic inches}/1728 \text{ inches/cuft}$). For the subset of parcels identified as irregular in shape, the Origin-Destination System and Revenue, Pieces, and Weight

(ODIS-RPW) based factor of 0.785 is applied. For all mail shapes, no other changes are required or made to the current TRACS-Highway processing system and methodology, including the development of the *miles* component of the cubic-foot-mile distribution key.

For the small proportion of sampled parcels for which useable dimensional information is unavailable (approximately 5% of sampled parcels), a smoothed composite 4-quarter density ratio is developed by major mail category to convert sampled weight (lbs.) measures for these parcels to cubic feet measures. For a current quarter's system processing, the smoothed density measure for a mail category is formulated as the ratio of summed weight (lbs.) to summed cubic-feet, where the sums are obtained across all parcels having dimensional information, across the current and previous three quarters. A smoothed ratio-based density measure helps to adjust for seasonality swings as well as reduce sampling variation associated with the smaller mail categories.

For letters and flats, the density factor (d_r) in USPS-FY11-36 Appendix C, Formulas (2), (4) and (6), converts the net weight of the mail to cubic-feet. Table 1 in USPS-FY11-36 Appendix C provides a complete list of the density factors by mail category for letters and flats.

For sampled parcels with dimensional length, width and height information, cubic feet are calculated from the product of these dimensions.

For all other sampled parcels, the (d_r) factor is the composite (smoothed 4-quarter) density estimate for the current quarter (q) representing all sampled parcels with non-empty dimensional information in the current and previous three quarters. The

density factor (d_r) for a rate category (r) for the current quarter (q) is an estimated ratio, formulated as follows:

$$d_r = \frac{\sum_{q_t, i, parc} w_{r, q_t, i, parc}}{\sum_{q_t, i, parc} cuft_{r, q_t, i, parc}}, \text{ for rate category } (r) \text{ and } q_t \in \{1..4\}.$$

In the above formula, ($parc$) designates a sampled parcel with non-empty dimensional length, width and height information, and (q_t) is the index for the current and previous three quarters. To obtain the cubic-feet for a sampled parcel with no dimensional information, the reciprocal of the above density ratio is multiplied by the sampled parcel weight.

The following table shows estimated parcel composite densities for Fiscal Year 2012 Year-to-date through Quarter 3:

**Estimated Surface Composite Density Factors for Parcels
Q3 FY12 (YTD)**

Description	Density (lbs/cu ft)
First-Class	3.97
Periodicals	24.18
Standard	3.25
Package Services Parcel Post	7.00
Package Services Bound Printed Matter Parcels	21.44
Package Services Media Mail or Library Mail	17.43
USPS Mail	11.60
Free Mail	14.28