

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

Before Commissioners:

Ruth Y. Goldway, Chairman;
Mark Acton, Vice Chairman; and
Robert G. Taub

Periodic Reporting
(Proposals One Through Two)

Docket No. RM2014-4

ORDER ON ANALYTICAL PRINCIPLES USED IN PERIODIC REPORTING
(PROPOSALS ONE THROUGH TWO)

(Issued June 25, 2014)

I. INTRODUCTION

The Postal Service's petition, filed pursuant to 39 C.F.R. § 3050.11, requests that the Commission initiate a rulemaking proceeding to consider two proposals (Proposals One through Two) to change the analytical methods approved for use in periodic reporting.¹

In Order No. 2035, the Commission initiated this rulemaking proceeding, provided for the submission of comments and reply comments, and appointed a Public Representative.²

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposals One Through Two), March 27, 2014 (Petition).

² Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposals One Through Two), March 28, 2014 (Order No. 2035).

The Public Representative filed comments in response to Order No. 2035.³ The Postal Service filed reply comments on May 12, 2014.⁴ No other comments were filed. A Chairman's Information Request No. 1 was issued on April 25, 2014.⁵ The Postal Service filed timely responses to the information request.⁶

Proposal One seeks to amend the methodology by which the Postal Service measures national revenue, pieces, and weight for Business Reply Mail (BRM), International Business Reply Services (IBRS), and Merchandise Return Mail (MRS). The Commission approves this proposal.

Proposal Two seeks to modify the underlying data used by the Postal Service to develop the FedEx Night Turn Distribution Key in the Transportation Cost System (TRACS). The Commission approves this proposal.

II. PROPOSAL ONE

A. Postal Service Proposal

The Postal Service proposes to change its methodology for measuring revenues, pieces, and weight for the quarterly Revenue, Pieces, and Weight System (RPW) reports by using additional census source data from PostalOne! and information from Self Service Kiosks (SSKs).⁷ The RPW reports currently use almost all PostalOne! data except for BRM, MRS, and IBRS. The proposed methodology will incorporate census data into the RPW estimates. In instances where no PostalOne! data is available, as in non-automated offices, the Postal Service intends to use a ratio adjustment process

³ Public Representative Comments in Response to Order No. 2035 Concerning Rulemaking on Analytical Principles Used in Periodic Reporting (Proposals One Through Two), April 28, 2014 (Public Representative Comments).

⁴ Reply Comments of the United States Postal Service, May 12, 2014 (Postal Service Reply Comments).

⁵ Chairman's Information Request No. 1, April 25, 2014 (CHIR No. 1).

⁶ Responses of the United States Postal Service to Questions 1-3 of Chairman's Information Request No. 1, May 2, 2014 (Response to CHIR No. 1).

⁷ Self Service Kiosks or SSKs were formerly called Automated Postal Centers or APCs and are available for non-window service transactions.

based on the BRM, MRS, and IBRS mail recorded in the non-automated offices and the trial balance general ledger accounts for the reply mail and MRS relative to the totals in the PostalOne! data. *Id.* at 2.

The RPW currently uses SSKs data for insurance-related extra service for First-Class single piece, Priority Mail, and Standard Post. The proposed methodology will include the remaining SSKs transactional data for non-insurance-related extra services instead of relying on the Origin Destination Information System (ODIS)-RPW statistical sampling. *Id.* at 3.

Under the current system, revenue, volume, and weight are estimated for single piece stamped and metered indicia mail by the probability sampling system of the ODIS-RPW. Data collectors can record information on mail characteristics such as mail class, product, mail markings, and payment indicia. The types of payment indicia include stamp, meter, permit imprint and Information Based Indicia (IBI), and Postal Validation Imprint (PVI). When a data collector samples a BRM, IBRS, or MRS mailpiece, it is not readily apparent whether the piece is a particular service category or has any extra service attached to it, so additional inquiries have to be made to determine the indicia and other mail characteristics required to be recorded. *Id.* at 5. Additionally, the Postal Service asserts that SSKs indicia markings have a small typeface and are difficult for the data collector to detect. Since the ODIS-RPW methodology is a sampling system there could be significant sampling errors in a small sample size. *Id.* at 6.

The Postal Service contends that switching from the probability based ODIS-RPW sampling system to the census data provided by the PostalOne! system and the SSKs will mitigate problems inherent in a statistical sampling system such as sampling error and misreads by data collectors. The Postal Service also notes that the SSKs system data are a complete source for revenue and volume characteristic data and provide the most accurate measure of the associated extra services. *Id.* at 8.

The Postal Service provides an impact analysis comparing the revenue, volume, and weight results using the established ODIS-RPW statistical sampling system and the

census data from PostalOne! and the SSKs. The comparison is based on quarters one through three of FY 2013. The impact analysis shows that revenues for First-Class single-piece letters and cards are almost \$16.5 million higher using the census data, with increases in reported revenues for IBRS, Parcel Post/Standard Post and mailing fees. Reported volumes for those categories also increased. The revenues and volumes for Priority Mail are lower using the census data. Overall, the census data indicate that an additional \$7.9 million in revenues is attributable to those products.⁸ *Id.* at 8-9.

B. Comments

The Public Representative was the only party to file comments on this proposal. She agreed with the Postal Service that the use of census data from the PostalOne! system would produce a greater degree of accuracy in the RPW report than the statistical sample currently in use, and thus she supports the adoption of this proposal. Public Representative Comments at 2. She noted, however, that the use of the general ledger accounts to allocate financial information from non-automated offices, particularly for BRM and IBRS service is unclear. She states that the BRM general ledger account only reflects BRM services and recommends the Postal Service provide more information as to how data for BRM and IBRS will be separated using the general ledger data. *Id.* at 2-3.

In its reply, the Postal Service indicates that the separation of revenues between BRM and IBRS is a 3-step process. See Postal Service Reply Comments at 1-2. In the first step, the Postal Service identifies the applicable revenues in the general ledger account. The Postal Service explains that the general ledger account contains revenues for both BRM and IBRS, except it is represented as a lump sum amount. This revenue figure is the correct total revenue figure for BRM and IBRS combined. In the

⁸ Total revenues do not change because of this proposal. Total RPW revenue is controlled from the trial balance revenue accounts and the higher revenue amounts would be redistributed within the RPW report. See Response to CHIR No. 1, question 2.

second step, the Postal Service identifies the applicable PostalOne! revenues. PostalOne! data contains separate revenues for BRM and IBRS. The total revenue for BRM and IBRS reported in PostalOne!, however, is less than the combined revenues shown in the general ledger account because not all post offices have PostalOne! In the third step, the Postal Service uses a ratio of the general ledger revenues to the total PostalOne! revenues for BRM and IBRS to separately adjust the reported revenues for BRM and IBRS in PostalOne!. According to the Postal Service, in this three-step process, it assumes that the distribution of revenues between BRM and IBRS for non-PostalOne! reporting systems is the same as for PostalOne! *Id.*

C. Commission Analysis

The Commission approves this proposal with the recommendations for improvement of data collection, discussed below. The Commission notes that this proposal consists of two separate components. First, there is the substitution of census type revenue data for sampling data. Second, there is an adjustment process to ensure that the revenue from PostalOne! census type data for BRM and IBRS matches the revenue reported in the general ledger.

The Commission has previously approved the substitution of census data for statistical sampling data, while urging the Postal Service to improve the precision of RPW reporting of volumes, revenues, and weight of single-piece mail. The Commission also encouraged the Postal Service to expand the use of census data for single-piece mail.⁹ As in previous proposals, the Commission finds that census data should improve precision in the reporting of revenues, volumes, and weights for single-piece mail.

To ensure that the BRM and IBRS revenues from PostalOne! match the general ledger revenues, the Postal Service uses a ratio adjustment process. The Postal Service explains that it assumes that the distribution of revenue between BRM and IBRS is the same for both PostalOne! reporting and non-PostalOne! reporting. There is

⁹ Docket No. RM2009-10, Order on Analytical Principles Used in Periodic Reporting (Proposals Three Through Nineteen), November 13, 2009, Proposal Fifteen, at 38-39 (Order No. 339).

no evidence on the record that suggests that this assumption is unreasonable; and the Commission finds the adjustment process is acceptable.

The changes in revenues and volumes in this proposal were provided by the Postal Service, however, these changes were hard-coded into the document and no workpapers were provided to show the calculations used to develop the proposal. Commission rule 3050.11(b)(1) requires the Postal Service to show the calculations used to develop the proposed changes and the impact of the changes on individual products. In the future, the Postal Service must provide a worksheet that can be filed as a library reference to the docket, which includes the required information.

III. PROPOSAL TWO

A. Postal Service Proposal

The Postal Service proposes to change the methodology for developing the distribution key used to assign volume-variable costs to products for the FedEx Night Turn cost pool in Cost Segment 14 (CS 14). Petition at 11.

The Postal Service currently assigns volume-variable costs to products for the FedEx Night Turn cost pool in CS 14 based on a distribution key developed through quarterly statistical sampling in the TRACS Air Subsystem. The proposed distribution key will be based on census data from the Surface Air Management System (SAMS), the Product Tracking System (PTS), and the Foreign Postal Settlement (FPS) system.

The Postal Service notes that the census data from these systems have matured enough that a reliable distribution key can be developed from these data and that a separate statistical sampling system to collect data for the FedEx Night Turn air carrier is no longer necessary. *Id.* Because the cost distribution to products is based on gross weight, tare weight will continue to be collected through TRACS.¹⁰ *Id.* at 15. The census systems do not collect tare weight.

¹⁰ Tare weight is defined as the weight of an empty container or vehicle. Subtracting this tare weight from the gross weight provides the weight of the goods carried.

Development of the proposed distribution key. The proposed distribution key will be developed quarterly and will utilize information from the SAMS dispatch and routing (D&R) which contains specific information on the air carrier, origin and destination airport item weight and primary mail class. *Id.* at 13. The predominant class of the mail item's contents is reflected on the the Air Contract Transportation (ACT) tag code. The class codes are: First-Class (F), Priority Mail (P), Priority Mail Express (E), International (I), and all other mail classes (O). The ACT tag codes are separated into two groups: (1) Priority Mail Express, which comprised 94.5 percent of the total Night Turn pounds in FY 2013; and (2) the remaining ACT tag classes in the other group. The Priority Mail Express group (ACT tag E) receives a different treatment from the other groups. *Id.*

The ACT tag E consists of five products: (1) Priority Mail Express; (2) Express Mail International; (3) Inbound Express Mail Service (EMS); (4) Canada EMS; and (5) USPS Priority Mail Express. Data for these products are derived from the PTS, except for Inbound EMS and Canada EMS where weight per piece data by origin country is collected from FPS and merged with the PTS data. This data is then merged with an air mapping matrix by ZIP code, sectional center facility, and servicing air routing facility. The Postal Service then merges this matrix with SAMS data by ZIP code for the four major air modes, including FedEx Night Turn, and spreads them between the air modes using SAMS weight data. The data are also split between air and ground components. PTS control totals are used for expansion factors for each product. *Id.* at 14.

Tare weight factors from the TRACS sampling data are applied to Priority Mail Express, Express Mail International, and USPS Priority Mail Express.¹¹ The Postal Service then applies several equations to transform the PTS product pounds with the air mode pounds based on the SAMS proportions. It subsequently develops a distribution key allocating the Night Turn pounds for the ACT tag E products. *Id.* at 15.

For the other remaining ACT groups the distribution key is developed using available TRACS sampling air data. The distribution key by ACT tag is developed for

¹¹ FPS weight data for Inbound EMS and Canada EMS are already in the gross pounds data. *Id.* at 15.

each air mode and weighted by the SAMS control ACT tag weight. The final Night Turn distribution key is created by combining the five ACT tag keys weighted by the corresponding frame weight. *Id.* at 19.

Impact. Proposal Two will not result in any impact on overall attributable costs. Market Dominant products' attributable costs for the FedEx Night Turn cost pool will decline by \$4.2 million while Competitive products attributable costs and International attributable costs for the FedEx Night Turn cost pool will increase by \$4.2 million. *Id.* at 12.

B. Comments

The Public Representative was the only party to comment on this proposal. She cites an audit report on transportation cost system inputs by the USPS Office of Inspector General (OIG), which noted that Express Mail weight, except for inbound international, could be obtained through the PTS data.¹² She asserts that the Postal Service has found a workable solution to issues raised in the OIG report. Public Representative Comments at 3. The issue of obtaining weight data for Inbound International Express Mail also appears to have been resolved. *Id.*

The Public Representative states that the availability of reliable census data could improve the quality of information available and reduce the Postal Service's costs of data collection. She recommends that the Commission approve the proposal. *Id.*

C. Commission Analysis

The Commission approves the proposal. The Postal Service has noted that the census data developed in the SAMS, PTS, and FPS systems have matured enough to produce a reliable cost allocation methodology for the FedEx Night Turn cost pool in conjunction with statistical sampling data from TRACS. The Commission has previously

¹² U. S. Postal Service Office of the Inspector General, Audit Report CRR-AR-11-004, September 19, 2011, at 10-11.

encouraged the Postal Service to use more census type data for developing volume and revenue information for the sake of accuracy.¹³ However, this proposal does not specifically use census data as a distribution key. Several iterations of data manipulation using specific formulae, as delineated in the proposal, are required to merge data from three different data systems (SAMS, PTS, and FPS) and then separate the weight data into air modes and products. Also, information from the TRACS sampling system is still being used to develop a tare weight factor. Although census data provides the primary weight frames for the calculations, the Postal Service continues to use a factor developed by the sampling system.

The formulae, as delineated in the proposal, are not fully explained. The Postal Service is required by Commission rule 3050.11(b)(1) to show the calculations used to develop the proposed changes and the impact of the changes on individual products. The Postal Service should also explain how its proposed methodology, including formulae, is used. In the next Annual Compliance Report (ACR), the Postal Service must provide a detailed worksheet showing the derivation of the distribution key for all ACT tag distribution keys and how these keys are weighted to produce the final Night Turn distribution key.

Although the details of the formulae were not provided, a review of the methodology for the development of the ACT tag E distribution key, to which most of the formulae pertain, verified the logic and methodology of the proposal. Thus, the Commission determines that the new distribution key should provide more accurate product costs. As such, the Commission approves this proposal.

Under the proposed methodology, TRACS sampling data are used to develop tare weight factors that are applied to the ACT tag E products. Tare weight is needed to develop product cost, but it is unclear how these tare weight factors are applied. Since a tare weight is essentially the weight of an empty container, it can be assumed that TRACS samples include this information for several types of containers used to

¹³ See Order No. 339, Proposal Fifteen, at 38-39. See also section II C. of this Order, at 5.

transport the mail and that the factors are used to isolate the weight of the mail for attribution purposes. But the Postal Service does not explain this in its proposal. The Postal Service should demonstrate how the tare weight factors are applied when it files the next ACR.

The proposal impacts almost all categories of market dominant and competitive products' attributable costs, as shown in the following table. The largest impact appears to be in international products, specifically inbound expedited mail products. There is also a large cost increase impact on domestic competitive Priority Express Mail, while domestic Priority Mail attributable costs decline by almost the same amount. First-Class Mail shows the largest cost impact of all the market dominant products, increasing costs for Presort First-Class while the costs for Single-Piece First-Class declines by almost the same amount. The largest impact is in competitive international Inbound Express. The estimated cost impact from this proposal will not create a negative cost coverage situation; however it significantly erodes the contribution estimated for FY 2013.¹⁴

¹⁴ See Docket No. ACR2013, Notice of the United States Postal Service of Revisions to Multiple Annual Compliance Report Folders – Errata (February 6, 2014), Library Reference USPS-FY2013-NP2, Revised, Filename Reports(Booked).xls.

	<u>FedEx Night Turn Attrib. Costs</u>		
	<u>Current</u>	<u>Proposed</u>	<u>Difference</u>
MARKET DOMINANT PRODUCTS			
FIRST CLASS MAIL			
SINGLE PIECE LETTERS	1,854	656	(1,198)
SINGLE PIECE CARDS	120	7	(113)
PRESORT LETTERS	1,240	2757	1,517
PRESORT CARDS	4	72	68
FLATS	1,113	757	(356)
PARCELS	60	40	(20)
TOTAL FIRST CLASS	4,392	4287	(105)
STANDARD MAIL			
HIGH DENSITY AND SATURATION LETTERS	0	0	0
HIGH DENSITY AND SATURATION FLATS & PARCELS	1	0	(1)
EVERY DOOR DIRECT MAIL - RETAIL	0	0	0
CARRIER ROUTE	15	4	(11)
LETTERS	408	31	(377)
FLATS	431	33	(398)
PARCELS	1	0	(1)
TOTAL STANDARD MAIL	856	68	(788)
TOTAL PERIODICALS	616	79	(537)
PACKAGE SERVICES			
ALASKA BYPASS	0	0	0
SINGLE PIECE PARCEL POST	0	12	12
BOUND PRINTED MATTER FLATS	22	6	(16)
BOUND PRINTED MATTER PARCELS	5	2	(3)
MEDIA AND LIBRARY MAIL	7	10	3
TOTAL PACKAGE SERVICES	34	30	(4)
USPS MAIL	7,318	4513	(2,805)
FREE MAIL -BLIND HANDICAPPED & SERVICEMEN	14	3	(11)
TOTAL DOMESTIC MARKET DOMINANT	13,231	8,980	(4,251)
DOMESTIC COMPETITIVE PRODUCTS	79,602	79,744	142
INTERNATIONAL MAIL	95,560	99,667	4,107
TOTAL ATTRIBUTABLE	188,392	188,391	(1)

It is ordered:

For purposes of periodic reporting to the Commission, the Commission accepts the changes in analytical principles proposed by the Postal Service in Proposals One Through Two as set forth in the body of this Order.

By the Commission.

Shoshana M. Grove
Secretary