

ORDER NO. 2103

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 Three Through Eight)

Docket No. RM2014-6

NOTICE OF PROPOSED RULEMAKING ON ANALYTICAL PRINCIPLES
USED IN PERIODIC REPORTING
(PROPOSALS THREE THROUGH EIGHT)

(Issued June 26, 2014)

I. INTRODUCTION

On June 20, 2014, the Postal Service filed a petition pursuant to 39 CFR 3050.11 requesting that the Commission initiate an informal rulemaking proceeding to consider changes to six analytical methods for use in periodic reporting.¹ The Petition identifies the proposed analytical method changes filed in this docket as Proposals Three through Eight. Petition at 1.

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposals Three Through Eight), June 20, 2014 (Petition). The Petition was accompanied by public and nonpublic Excel files. With respect to Proposal Six; see *also* Docket No. RM2011-3, Notice of the United States Postal Service of Filing Proposal to Update Highway Variabilities, June 20, 2014.

II. SUMMARY OF PROPOSALS

A. Proposal Three: Revision to Parcel Return Service Full Network Cost Model

The Postal Service proposes a change in modeling transportation costs for Parcel Return Service (PRS) Contract 4. Petition, Proposal Three at 1. The model currently uses Parcel Select non-presort model transportation costs as a proxy. The Postal Service states that this was deemed appropriate since, at the time the PRS Contract 4 was filed, the average size and cube of Parcel Select Non-presort was approximately equivalent to the partner pieces. *Id.* However, the Postal Service asserts that the characteristics of the Parcel Select Non-presort pieces have changed substantially since the cost model was developed. *Id.* In particular, it states that the average weight of a Parcel Select Non-presort piece has increased, whereas the average PRS contract piece remained much lighter. The Postal Service therefore proposes an adjustment to the transportation cost for the contract pieces to account for the difference in their size vis-à-vis FY2013 Parcel Select Non-presort pieces. *Id.* It states that if this proposal were adopted, the FY 2013 cost coverage for PRS Contract 4 would increase from below 100 percent (as reported in the FY2013 ACR) to above 100 percent. *Id.* at 2.

B. Proposal Four: Proposed Change in International Mail Costing Methodology

The Postal Service proposes to revise the costing methodology of the non-Negotiated Service Agreement (NSA) portion of International Priority Mail (IPA) and International Surface Airlift (ISAL) (the IPA and ISAL published rates). Petition, Proposal Four at 1. The proposal stems from cost coverage and costing concerns raised in the FY 2013 ACD. *Id.* The Postal Service's proposed solution to these concerns is to adjust how NSA costs are developed for application to the NSA data in the "ICM Costing Module." *Id.* at 4. The Postal Service explains that pricing group costs by product are developed in the reporting section of the ICRA and then staged for

use in the ICM Costing Module. *Id.* It states that this staging has been based on unitizing settlement and transportation costs by gross weight (as that is the basis for costing in the ICRA), but describes how procedures using net weight can be employed. *Id.* at 4-5. For consistency, the Postal Service proposes that the same type of staging based on net weights be applied to ePackets, PMI parcels and PMI envelopes, which also have differences in the costing system between gross and net weight.² *Id.* at 5. The Postal Service further proposes that the allocation of NSA data to the four country groupings (Canada, Mexico, Universal Postal Union (UPU) Target countries and UPU Transition countries) be discontinued and that competitive pages A-3, A-4, B-3 and B-4 be discontinued from the ICRA reporting. *Id.*

C. Proposal Five: Proposed Change in PRIME Express Costing Methodology

The Postal Service proposes to revise the costing methodology underlying its response to USPS-ACR-FY13, Chairman's Information Request No. 3, question 8 and implemented by the Commission in PRC-ACR2013-NP-LR1_Imputed ICRA and PRC-ACR2013-NP-LR1_Booked files. Petition, Proposal Five at 1. The Postal Service states that this revision affects both the Booked and Imputed version of Postal Service's Reports files. *Id.* The proposal is based on the Postal Service's conclusion that the PRIME adjustment incorporated in the referenced Excel files is not correct. *Id.* at 2. The proposed remedy is to subtract the Express amounts, except volume, from the appropriate Target or Transition Countries. *Id.*

The Postal Service further observes that two separate products are associated with each PRIME mailpiece: the Express product and the Inbound Single-Piece First-Class Mail product. *Id.* at 3. Its proposal includes reporting the two products separately by using a methodology similar to treating the Express product as if it were a special service. *Id.* To avoid double counting, the reporting totals would not include the special

² The reference costing system is System for International Revenue and Volume Outbound.

service volumes because those pieces are included with the mail-piece (also called the host mail-piece or parent product). *Id.* at 3-4.

D. Proposal Six: Updating the Highway Transportation Variabilities

The Postal Service proposes to update the variabilites used to determine the levels of attribution for purchased highway transportation expenses in Cost Segment 14.³ *Id.* It states that the unit of analysis is the contract cost segment, not the contract. *Id.* It also states that as in previous analyses of purchased highway transportation, a translog functional form was used to estimate the relevant equations; describes other steps; and presents several supporting tables. *Id.* at 2-5.

E. Proposal Seven: Modification of the Standard Mail Destination Entry Cost Model and the Standard Mail Parcel Mail Processing Cost Model

The Postal Service proposes to modify the Standard Mail destination entry cost model and the Standard Mail parcel mail processing cost model. Petition, Proposal Seven at 1.

Standard Mail destination entry cost model (USPS-FY13-13). For this model, the Postal Service proposes: (1) consolidating three EXCEL workbooks (letters, flats, and parcels/total) into one workbook; (2) correcting two errors;⁴ (3) removing obsolete operations and input data; (4) incorporating more recent productivity data; and (5) adding a new parcel mail characteristics profile to the model to separately estimate parcel cost avoidance values.⁵ *Id.* at 1-2.

³ The Postal Service states that it provides a more complete discussion in public folder USPS-RM2014-6/1, along with the complete data set and econometric results, plus all necessary documentation. Petition, Proposal Six at 1.

⁴ One error concerns certain entries for Basic Carrier Route volume and weight data by shape in USPS-FY13-13. *Id.* at 3. The other concerns the input value representing the number of letters (in trays) that a pallet contains. The Postal Service states that the average pallet contained 6,653 letters in FY 2013. *Id.* It proposes incorporating this statistic into the mail characteristics file (USPS-FY13-14) in the future and relying upon it to estimate the letters non-transportation costs. *Id.*

⁵ The proposed Standard Mail destination entry cost model is contained in the file PROP.7.USPS-FY13-13.xlsx. *Id.* at 2.

Standard Mail parcel mail processing cost model (USPS-FY13-12). The Postal Service proposes to add a worksheet to the Standard Mail parcel mail processing cost model. It states that this would allow the Standard Mail parcel arrival profile and volume data to be presented in a format similar to the mail characteristics profiles for Standard Mail letters and flats.⁶ *Id.* The Postal Service states that this modification does not affect the USPS-FY13-12 price category cost estimates in any way. *Id.* The parcel mail characteristics profile will then be used each fiscal year to estimate the non-transportation costs for Standard Mail parcels in the USPS-FY13-13 Standard Mail destination entry cost model (discussed above). *Id.*

F. Proposal Eight: Changes in Attributable Costs Related to USPS Tracking

The Postal Service proposes changes in the methodology for attributing costs related to Other Ancillary Services, such as USPS Tracking (formerly Delivery Confirmation), which are provided for certain shipping products at no extra charge. Petition, Proposal Eight at 1. The Postal Service also proposes additional changes to the methodology for attributing costs for paid USPS Tracking. It asserts these changes reflect the evolution of postal operations and take advantage of the availability of census data. *Id.*

Specifically, the Postal Service proposes using data from the Point of Service (POS) to assign window acceptance costs appropriately between the paid USPS Tracking Service and the host pieces. This entails attributing costs related to final, en-route and non-window acceptance scans to the host product, not to the USPS Tracking Service, and performing the calculations in the B workpapers rather than making a D report adjustment. This means the cost model for USPS Tracking in NP26 will no longer be needed for the D report adjustment. *Id.* at 2. In addition, in the In-Office Cost System, the percentage of volume from the POS retail system that was paid for the

⁶ The proposed Standard Mail parcels mail processing cost model is contained in the file PROP.7.USPS-FY13-12.xlsx. *Id.*

extra service to attribute costs to USPS Tracking will be used for window-related acceptance costs. *Id.*

III. NOTICE AND OPPORTUNITY FOR COMMENT

The Commission establishes Docket No. RM2014-6 for consideration of matters raised by the Petition. Additional information concerning the Petition may be accessed via the Commission's website at <http://www.prc.gov>. Interested persons may submit comments on the Petition and Proposals Three through Eight no later than July 28, 2014. Reply comments are due no later than August 12, 2014. Pursuant to 39 U.S.C. 505, Tracy N. Ferguson is designated as officer of the Commission (Public Representative) to represent the interests of the general public in this proceeding.

IV. ORDERING PARAGRAPHS

It is ordered:

1. The Commission establishes Docket No. RM2014-6 for consideration of the matters raised by the Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposals Three Through Eight), filed June 20, 2014.
2. Comments by interested persons in this proceeding are due no later than July 28, 2014. Reply comments are due no later than August 12, 2014.
3. Pursuant to 39 U.S.C. 505, the Commission appoints Tracy N. Ferguson to serve as an officer of the Commission (Public Representative) to represent the interests of the general public in this docket.

4. The Secretary shall arrange for publication of this Order in the *Federal Register*.

By the Commission.

Shoshana M. Grove
Secretary