

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

Before Commissioners:

Robert G. Taub, Acting Chairman;
Tony Hammond, Vice Chairman;
Mark Acton;
Ruth Y. Goldway; and
Nanci E. Langley

Periodic Reporting
(Proposal Ten)

Docket No. RM2015-19

NOTICE OF PROPOSED RULEMAKING ON
ANALYTICAL PRINCIPLES USED IN PERIODIC REPORTING
(PROPOSAL TEN)

(Issued August 17, 2015)

I. INTRODUCTION

On August 12, 2015, the Postal Service filed a petition pursuant to 39 CFR 3050.11 requesting that the Commission initiate an informal rulemaking proceeding in order to consider changes in analytical principles relating to periodic reports.¹ Proposal Ten is attached to the Petition and proposes an analytical method change related to the proposed merger of Cost Segments 3 and 4 for purposes of constructing the Cost and Revenue Analysis (CRA) Report. Petition at 1.

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Ten), August 12, 2015 (Petition).

II. PROPOSAL TEN

A. Background

As background, the Postal Service explains that the historical reason for separation of Cost Segment 4, which requires costs for small post offices to be isolated and transparent, occurred when decisions to close some small post offices were under consideration. *Id.* Proposal Ten at 1. However, where postmasters (whose costs are reflected in Cost Segment 1) in small post offices (identified by the Postal Service as “CAG K” and “CAG L” offices)² may be doing all of the tasks with no clerks, it is difficult to use Cost Segment 4 to adequately measure labor costs at these post offices. Proposal Ten at 1.

The In-Office Cost System (IOCS) maintains a separate panel for CAG K finance numbers that generally have one clerk. When the clerk is no longer there, no IOCS readings can be obtained and, as the number of IOCS reading of CAG K offices declines, the sampling variation increases until the sample is refreshed. Data suggest product costs in Cost Segment 4 are not statistically different from other small offices. *Id.* at 2.

The Postal Service further explains that the POSTPlan had potentially confusing impacts in Cost Segments 3 and 4. The Postal Service indicates that Postmaster Reliefs working at POSTPlan³ post offices were subject to reductions in force as a result of a September 5, 2014, ruling on an American Postal Workers Union arbitration that required four-hour and six-hour post offices to be assigned to clerks. According to the Postal Service, the effect of the ruling is that clerk costs in Cost Segments 3 and 4 may complicate the analysis of the effects of POSTPlan. Furthermore, the Postal Service

² “CAG” refers to “cost ascertainment group” and is a method used by the Postal Service that classifies post offices based on volume of revenue generated. CAG K offices have 36-189 revenue units, and CAG L offices have less than 36. See Glossary of Postal Terms available at <https://usps.com/publications/pub32>.

³ The POSTPlan is a Postal Service initiative to match post office retail hours with workload, and represents an alternative, namely reducing retail window hours, in lieu of closing a post office. See Docket No. N2012-2, Advisory Opinion on Post Office Structure Plan, August 23, 2012.

explains that recent cost increases in Cost Segment 4 are the result of reclassifying postmaster positions and shifting these positions from Cost Segment 1 to clerks in Cost Segments 3 and 4. *Id.* at 3.

B. Proposal

Under the proposal, for Fiscal Year 2015, the IOCS would include data from CAG K and L post offices with data from CAG H and J post offices, and their trial balance amounts used as control totals for full-time and part-time clerks would be merged and treated as one stratum when refreshed. *Id.* at 3-4.

Cost Segment 4 Trial Balance Accounts would be merged into the corresponding 5-digit accounts in Cost Segment 3, creating a revised “Cost Segment 3 & 4” worksheet. The Cost Segment 3 account numbers and titles would be retained and the CRA Component would be expanded to “253 & 42.” Other conforming Trial Balance worksheet changes would be made, but the merger will not affect the “Outputs to CRA” and “Product specific” tabs in the Trial Balance. *Id.* at 4.

In the Cost Segment 3 B workpapers, CAG K and L clerk costs would be incorporated into the Trial Balance control for Cost Segment 3. These changes would combine former Cost Segment 4 with the non-MODS office group in Cost Segment 3, and subject the mail processing, window service, and administrative activities at CAG K and L offices to the accepted cost methodology for each component. *Id.* Cost Segment 3 output spreadsheets and other reports would be unchanged. *Id.* The only change to the CRA Cost Model is to remove lines in the control table on sheets “Comp Master” and “DK Addends” relating to Cost Segment 4. *Id.*

C. Rationale

The Postal Service’s rationale for Proposal Ten is that clerk costs in Cost Segment 4 have increased recently as clerks are appointed or assigned to former postmaster positions. *Id.* at 5. Moreover, because the CAG criterion using revenue amount to define Cost Segment 4 is sufficiently different from the transaction volumes

used in POSTPlan to designate post offices for reduction in hours, CAG K costs are not a valid proxy for POSTPlan office costs. *Id.* The Postal Service further says the cost classification rationale for Cost Segment 4 is similar to Cost Segment 3 cost components because CAG K and L clerks perform a corresponding mix of activities such as mail processing, window service, and administrative components. However, Cost Segment 4 has limited IOCS sample data and some products have no Cost Segment 4 tallies, which results in zero measured costs in a given year.

The Postal Service concludes that incorporating Cost Segment 4 costs with other post office costs would be a more reliable analysis for cost attribution and in line with Cost Segment 3 methodology. It would result in a better assessment of clerk costs and avoid distortions from analyzing Cost Segment 4 separately. *Id.*

Proposal Ten includes a table demonstrating the impact of merging Cost Segment 4 costs with Cost Segment 3 costs by product. It shows a cost difference from a merger of \$1,412,000 out of \$12,945,185,000 or a 0.01 percent difference.⁴ *Id.* at 6.

III. INITIAL COMMISSION ACTION

The Commission establishes Docket No. RM2015-19 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 Proposal Ten no later than September 17, 2015. Reply comments are due no later than September 28, 2015. Pursuant to 39 U.S.C. 505, the Commission designates Kenneth R. Moeller to serve as an officer of the Commission (Public Representative) representing the interests of the general public in this proceeding.

⁴ The Postal Service references files from FY 2014 Annual Compliance Report, USPS-FY14-32 and two additional files attached electronically.

IV. ORDERING PARAGRAPHS

It is ordered:

1. The Commission establishes Docket No. RM2015-19 for consideration of the matters raised by the Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider a Proposed Change in Analytical Principles (Proposal Ten), filed August 12, 2015.
2. Comments are due no later than September 17, 2015. Reply comments are due no later than September 28, 2015.
3. Pursuant to 39 U.S.C. 505, the Commission appoints Kenneth R. Moeller 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