

ORDER NO. 2825

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 Five)

Docket No. RM2015-13

ORDER APPROVING ANALYTICAL PRINCIPLES
USED IN PERIODIC REPORTING
(PROPOSAL FIVE)

(Issued November 19, 2015)

I. INTRODUCTION

In Order No. 203, the Commission adopted periodic reporting rules pursuant to 39 U.S.C. § 3652.¹ 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 its periodic reports to the Commission required by section 3652.

¹ Docket No. RM2008-4, Notice of Final Rule Prescribing Form and Content of Periodic Reports, April 16, 2009 (Order No. 203).

Pursuant to rule 39 CFR 3050.11 *et seq.*, the Commission established this docket to review a Postal Service proposal to change its methodology of distributing attributable costs to the International Money Transfer Service (IMTS)—Outbound and Inbound products (Proposal Five).² For the reasons discussed below, the Commission approves Proposal Five as modified by the Postal Service, and directs the Postal Service to report transaction volume associated with IMTS—Inbound product revenue in the Annual Compliance Report (ACR).

II. PROCEDURAL HISTORY

On March 27, 2015, the Commission issued its Fiscal Year (FY) 2014 Annual Compliance Determination (ACD).³ In the FY 2014 ACD, the Commission found that IMTS—Outbound and Inbound products did not comply with 39 U.S.C. 3633(a)(2), which requires that each competitive product covers its attributable costs. *Id.* at 75-76. As a result, the Commission directed the Postal Service to report within 90 days on the feasibility of developing attributable costs for the IMTS—Outbound and Inbound products based upon alternatives to the current methodology that uses data from the In-Office Cost System (IOCS).⁴

On June 30, 2015, the Postal Service filed its response to the Commission's directive.⁵ In Item No. 4 of the Response, the Postal Service proposed a new methodology for distributing attributable costs between the IMTS—Outbound and Inbound products. *Id.* at 2-7. As part of the Response, the Postal Service filed Library Reference USPS-FY14-NP43 (under seal). USPS-FY14-NP43 is an Excel file showing

² Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Five), July 20, 2015 (Order No. 2599).

³ See Docket No. ACR2014, Fiscal Year 2014 Annual Compliance Determination Report, March 27, 2015.

⁴ *Id.* at 76. The IOCS is one of several Postal Service statistical sampling systems used to develop product costs.

⁵ Docket No. ACR2014, Responses of the United States Postal Service to Commission Requests for Additional Information Regarding IMTS and EPG in the FY 2014 Annual Compliance Determination, June 30, 2015 (Response).

the calculation of attributable costs for the IMTS—Outbound and Inbound products using the current and proposed methodologies.⁶

On July 20, 2015, the Commission issued Order No. 2599 initiating this rulemaking proceeding, providing for the submission of comments and reply comments, and appointing a Public Representative. Order No. 2599 also designated Item No. 4 of the Response as Proposal Five to be reviewed in this docket as a petition pursuant to 39 C.F.R. 3050.11 *et seq.*⁷

To clarify the proposed methodology, the Chairman issued two information requests.⁸ The Postal Service responded to those information requests on September 14, 2015, and September 25, 2015, respectively.⁹ The Postal Service also filed a motion for late acceptance of, and an application for non-public treatment of a library reference included in, its Response to CHIR No. 1.¹⁰

The Public Representative filed comments on September 17, 2015.¹¹ The Postal Service filed reply comments on October 2, 2015.¹² In its Reply Comments, the Postal

⁶ Docket No. ACR2014, Notice of the United States Postal Service of Filing of USPS-FY14-NP43, June 30, 2015; *see also* Library Reference USPS-FY14-NP43, June 30, 2015.

⁷ Order No. 2599 at 3. Item No. 4 of the Response is hereby incorporated by reference in this docket.

⁸ *See* Chairman's Information Request No. 1, August 14, 2015 (CHIR No. 1); Chairman's Information Request No. 2, September 17, 2015 (CHIR No. 2).

⁹ Responses of the United States Postal Service to Questions 1-3 of Chairman's Information Request No. 1, September 14, 2015 (Response to CHIR No. 1); Responses of the United States Postal Service to Questions 1-2 of Chairman's Information Request No. 2, September 25, 2015 (Response to CHIR No. 2).

¹⁰ *See* Motion of the United States Postal Service for Late Acceptance of Its Responses to Chairman's Information Request No. 1, September 14, 2015 (Motion). The Motion is granted. *See also* Notice of Filing of USPS-RM2015-13/NP1 and Application for Nonpublic Treatment, September 14, 2015.

¹¹ Public Representative Comments in Response to Order No. 2599 Concerning Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Five), September 17, 2015 (PR Comments). The Public Representative also filed a motion to extend the deadline for comments and reply comments. *See* Public Representative Motion for Extension of Comment Deadline, August 31, 2015, at 1-2. The Commission subsequently granted the Public Representative's motion. *See* Order No. 2690, Order Extending Deadline for Comments, September 1, 2015.

¹² Reply Comments of the United States Postal Service Regarding Proposal Five, October 2, 2015 (Reply Comments).

Service modified the proposed methodology in response to the Public Representative's comments and CHIR Nos. 1 and 2. *Id.* at 3. The modification includes a revision to the estimate of IMTS—Inbound transaction volumes that is used in the distribution of attributable costs between the IMTS—Outbound and Inbound products. *Id.* at 3-4, 5.

III. BACKGROUND

The IMTS—Outbound product consists of both paper money orders sold by the Postal Service that are cashed in foreign countries and electronic money transfers called DineroSeguro ("Sure Money").¹³ DineroSeguro permits customers to send money through a secure, electronic wire transfer service between certain post offices in the United States and participating bank branch offices in 10 Central and South American countries.¹⁴

The IMTS—Inbound product is a service for cashing paper money orders issued by foreign postal operators. Response at 2. Such foreign-issued money orders may be cashed either at post offices or at non-Postal Service locations, such as commercial banks and other businesses offering cashing services.¹⁵ The IMTS—Inbound service is offered pursuant to bilateral agreements with foreign postal operators in 10 countries.¹⁶

¹³ Response at 2; International Mail Manual, section 372.1.

¹⁴ International Mail Manual, Section 372.5. The 10 countries are: Argentina (temporarily suspended), Colombia, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Peru.

¹⁵ Foreign-issued money orders are cashed by the Postal Service at no charge to the recipient.

¹⁶ International Mail Manual, section 371.5. Those countries are: the Bahamas, Barbados, Belize, British Virgin Islands, Dominica, Japan, Montserrat, Peru, St. Kitts, and St. Vincent. Docket No. ACR2014, Responses of the United States Postal Service to Questions 1-2, 3a-b, 3d, 4, 6, 7a-e, 8-9, and 11-21 of Chairman's Information Request No. 1, January 16, 2015, question 7a (Docket No. ACR2014 Response to CHIR No. 1).

Total attributable costs for the combined IMTS—Outbound and Inbound products are currently distributed between the two products using IOCS tallies.¹⁷ The resulting attributable costs by product are presented in the annual International Cost and Revenue Analysis (ICRA) report filed as part of the Postal Service’s ACR.

The Postal Service states that both the IMTS—Outbound and Inbound products are small products with relatively few transactions. Response at 4. As a result, it is difficult for tally takers to obtain a sufficient number of tallies to reliably estimate attributable costs for both the IMTS—Outbound and Inbound products. This results in relatively volatile unit costs year to year for both products. *Id.* Moreover, in most fiscal years, the Postal Service has been unable to distribute attributable costs to the IMTS—Inbound product because of an absence of IOCS tallies. Additionally, the Postal Service has been unable to estimate transaction volumes for the IMTS—Inbound product through special studies or the use of data from postal retail systems. *Id.* at 2-3.

IV. PROPOSAL FIVE: A NEW METHODOLOGY TO DEVELOP IMTS—OUTBOUND AND INBOUND PRODUCT COSTS

A. Postal Service Initial Proposal

In Proposal Five, as filed, the Postal Service develops transaction volume for the IMTS—Inbound product and uses that transaction volume to distribute attributable costs between the IMTS—Outbound and Inbound products. The Postal Service proposes to use data from a Federal Reserve Board (FRB) report on the number of foreign-issued money orders cashed on which a fee or commission is paid to the Postal Service as the transaction volume for the IMTS—Inbound product. *Id.* at 3.

¹⁷ See Docket No. RM2011-5, Order No. 724, Order Concerning Analytical Principles for Periodic Reporting (Proposals Ten through Twelve), May 4, 2011, at 6-8. IOCS tallies are gathered by individuals referred to as “tally takers” who observe and record time spent by employees in performing various functions on different mail products or services. The term “tally” is used to identify the source of the data. The measures of time recorded by the tally takers are used to estimate the costs of such products or services. An example might be the time spent by city carriers in a delivery post office casing (*i.e.*, sorting) mail. In this Order, the historic use of IOCS tallies to distribute total attributable costs to the IMTS—Outbound and Inbound products is referred to as the IOCS methodology.

The Postal Service also develops volume variable costs for DineroSeguro electronic wire transfers. *Id.* at 5. The Postal Service relies on 67 observations of DineroSeguro transactions to estimate an average transaction time of 4.494 minutes.¹⁸ The Postal Service converts this average transaction time into a unit transaction cost for a DineroSeguro electronic wire transfer using the Commission's approved costing methodology.¹⁹ The unit transaction cost is then multiplied by total number of DineroSeguro transfer transactions to produce volume variable costs for DineroSeguro. Response at 5.

Under the proposed methodology, DineroSeguro volume variable costs are subtracted from the total volume variable costs of the combined IMTS products. *Id.* The remaining volume variable costs are then apportioned, on the basis of transaction volume, between outbound paper money orders and foreign-issued money orders cashed. *Id.*

In Library Reference USPS-RM2015-13/NP1, the Postal Service provides a spreadsheet showing the kind of data presented in the FRB report.²⁰ The report includes the number and face value of all foreign-issued money orders cashed in FY 2014, disaggregated by country-of-origin. The total number of foreign-issued money orders cashed consists of money orders that are cashed at postal retail windows, as well as commercial banks and all other non-Postal Service locations providing cashing services. Response to CHIR No. 1, question 1a. The Postal Service can determine the number of foreign-issued money orders cashed on which a commission is paid by using the FRB data on the number of foreign-issued money orders cashed by country and the identity of countries that pay a commission.²¹

¹⁸ Docket No. ACR2012, Responses of the United States Postal Service to Commission Requests for Additional Information in FY 2012 Annual Compliance Determination, June 26, 2013, at 4, 6.

¹⁹ See USPS-FY14-NP43, Excel file "Item.4.ACD. IMTS Response.xls," worksheet tab "Unit Transaction Calculation."

²⁰ See Notice of Filing of USPS-RM2015-13/NP1 and Application for Nonpublic Treatment, September 14, 2015.

²¹ Docket No. ACR2014 Response to CHIR No. 1, question 7d.

USPS-FY14-NP43 contains three tables. The first table presents the FY 2014 financial results for the IMTS—Outbound and Inbound products using the proposed methodology. This table contains the calculation of outbound and inbound product costs using the total number of foreign-issued money orders cashed as the transaction volume for the IMTS—Inbound product. The second table shows the FY 2014 financial results for the IMTS—Outbound and Inbound products as presented in the FY 2014 ICRA, which reflects the IOCS methodology. The final table presents the differences between the FY 2014 financial results under the proposed methodology and the IOCS methodology.

As reported in the FY 2014 ICRA, attributable costs for both the IMTS—Outbound and Inbound products exceed revenues.²² Under the methodology initially proposed by the Postal Service, attributable costs for both products still exceed revenues. The attributable costs increase for the IMTS—Inbound product and decrease for the IMTS—Outbound product compared to the IOCS methodology.

B. Public Representative Comments

The Public Representative recommends approval of Proposal Five with an adjustment to the IMTS—Inbound transaction volume used in the Postal Service’s proposed methodology. PR Comments at 3. Citing the Postal Service, the Public Representative states that the FRB data do not distinguish between foreign-issued money orders cashed at postal retail windows and those cashed at other financial institutions. *Id.* at 3-4; see *also* Response to CHIR No. 1, questions 1a, 2a.

The Public Representative submits that the Postal Service could use its accounting data to distinguish between foreign-issued money orders cashed at postal retail windows and those cashed at other financial institutions. PR Comments at 4. The Public Representative also asserts that the Postal Service can distinguish between

²² Docket No. ACR2014, Library Reference USPS-FY14_NP2, Excel file “Reports (Booked).xls.”

foreign-issued money orders cashed at postal retail windows on which no commission is paid and those on which a commission is paid. *Id.*

The Public Representative therefore recommends that the Postal Service develop a more accurate measure of attributable costs for the IMTS—Inbound product.

Id. Specifically, the Public Representative recommends that the Postal Service should

estimate unit costs taking into account all foreign-origin money orders cashed at retail windows, including those from countries that do not pay a commission. Excluding the money orders from countries that do not pay a commission would be an inaccurate measure of actual postal activity for the IMTS – Inbound product.

Id.

C. Postal Service Reply Comments and Revised Methodology

In its Reply Comments, the Postal Service seeks to clarify several issues raised by the Public Representative. The Postal Service acknowledges that it is possible to use data from the FRB report to estimate the total number of foreign-issued money orders cashed, and determine how many of those cashed money orders originate in countries that pay a commission. Reply Comments at 2. However, it states such transaction information is not relevant to estimating postal costs. *Id.* The Postal Service also reiterates that it is not possible to determine from the FRB report the number of foreign-issued money orders cashed at postal retail windows from those cashed elsewhere, although it observes that such information would be relevant to estimating attributable costs for the IMTS—Inbound product. *Id.* The Postal Service therefore agrees with the Public Representative that a modification of the proposed methodology to distinguish between foreign-issued money orders cashed at postal retail windows and those cashed elsewhere is appropriate, “despite arriving at the same conclusion via vastly different routes.” *Id.* at 5.

As shown in USPS-FY14-NP43, the Postal Service originally relied on the total number of foreign-issued money orders cashed from all countries as the IMTS—Inbound transaction volume. Response to CHIR No. 1, question 2. In its Reply

Comments, however, the Postal Service states that reliance on that total, as an approximation of money orders cashed at postal retail windows, “is probably unwarranted.” Reply Comments at 3.

The Postal Service observes that the total number of foreign-issued money orders cashed overstates money orders cashed at postal retail windows given that some portion of the total will be cashed at non-Postal Service locations. *Id.* Moreover, the magnitude of the overstatement is unknown because the FRB report does not distinguish between foreign-issued money orders cashed at postal retail windows and those cashed at non-Postal Service locations. *Id.*; see also Response to CHIR No. 1, question 1a.

In direct response to the Public Representative, the Postal Service conducted a manual review of images of foreign-issued money orders being processed at the Accounting Service Center in St. Louis to determine whether such money orders were cashed at a postal retail window or a bank. Reply Comments at 3. Of the foreign-issued money orders in this “snapshot” review, only 15 percent were cashed at postal retail windows, and the remainder at other non-Postal Service institutions. *Id.*

Based upon this review, the Postal Service introduces a modification to the proposed methodology. That modification reduces the IMTS—Inbound transaction volume used in USPS-FY14-NP43 to 20 percent of the total number of foreign-issued money orders reported as cashed by the FRB. *Id.* The Postal Service views its revised estimate of 20 percent “to be prudent” as it creates “a small buffer to protect against [the] understatement” of IMTS—Inbound product costs, even though an adjustment of 15 percent would be “most directly congruent with the results” of the manual review. *Id.* at 4 n.1.

To calculate attributable costs based on the revised estimate, the Postal Service refers to USPS-FY14-NP43, and requests that the Commission reduce the IMTS—Inbound transaction volume, *i.e.*, the total number of foreign-issued money orders reported as cashed by the FRB appearing in cell I14 of the Excel file, by 80 percent. *Id.* at 5. After incorporating the revised estimate in the proposed methodology as

requested, USPS-FY14-NP43 shows that attributable costs for the IMTS—Inbound product decrease by a sizeable amount, resulting in inbound product revenues covering attributable costs. *Id.* at 3-4. By contrast, attributable costs increase for the IMTS—Outbound product, which in turn reduces the cost coverage for that product compared to the IOCS methodology. *Id.* at 4.

V. COMMISSION ANALYSIS

The Commission approves Proposal Five as modified by the Postal Service in its Reply Comments. The proposed methodology is a step forward in ensuring that the Postal Service is able to separately report attributable costs for the IMTS—Outbound and Inbound products on an annual basis.

The use of IOCS tallies is the preferred methodology to develop reliable estimates of attributable costs for the IMTS—Outbound and Inbound products, assuming a robust number of tallies can be obtained. In the absence of a sufficient number of tallies for this purpose, the Postal Service currently uses the ratio of IOCS tallies associated with outbound and inbound IMTS transactions to distribute total attributable costs between the IMTS—Outbound and Inbound products. However, in most fiscal years, the Postal Service is unable to obtain any IOCS tallies to distribute attributable costs to the IMTS—Inbound product. Requiring the Postal Service to obtain a sufficient number of IOCS tallies to distribute IMTS costs would require expanded IOCS sampling at increased costs to the Postal Service.

The Postal Service seeks to address this problem by estimating IMTS—Inbound transaction volume. To do so, the Postal Service relies on FRB data, as adjusted by Postal Service accounting data, to develop the revised estimate, *i.e.*, the number of foreign-issued money orders cashed by the Postal Service as the IMTS—Inbound transaction volume. Under the proposed methodology, the IMTS—Inbound transaction volume and the number (transaction volume) of outbound paper money orders sold is used to apportion volume variable costs between the two. The proposed methodology represents a reasonable trade-off between the increased cost of expanded IOCS

sampling to more reliably estimate attributable costs and the value of annual reporting of attributable costs for the IMTS—Outbound and Inbound products.

Nevertheless, the use of transaction volume to apportion costs assumes that outbound paper money orders and foreign-issued money orders cashed by the Postal Service have the same unit cost. The Postal Service provides no information in this docket to suggest that the unit costs are the same, or that they are different. In previous dockets, however, Postal Service field observations indicate that some transactions were discontinued prior to the purchase of outbound paper money orders (and DineroSeguro), and the Postal Service suspects such discontinued transactions may contribute to the relatively high unit costs developed using the IOCS.²³ The Postal Service's suspicions were based on very few observations, and have not been subsequently validated with a more extensive number of observations.

With respect to the FRB report, the Commission appreciates the Postal Service's initiative to undertake a manual review of its own accounting data to attempt to develop a more accurate estimate of the number of foreign-issued money orders cashed at postal retail windows, given the limitations of that report. The Postal Service provides no information on either the duration or scope of its snapshot review. The resulting revised estimate based upon that review is not likely to be representative of all money orders cashed at postal retail windows. That said, a more extensive manual review to develop a representative estimate would likely require considerable additional resources.

Under the circumstances, the Commission accepts the modification for the purpose of determining IMTS—Inbound transaction volumes to develop attributable costs. The Postal Service's revised estimate of 20 percent is conservative, since it reduces the likelihood of understating IMTS—Inbound attributable costs. Also, the revised estimate is derived from an easily implemented adjustment to the FRB data compared to the expanded use of IOCS tallies to develop attributable product costs.

²³ Docket No. ACR2009, Responses of United States Postal Service to Questions 1-25 of Chairman's Information Request No. 2, February 2, 2010, question 18.

Moreover, the Commission agrees with the Postal Service that the additional cost of expanded IOCS sampling must be balanced against the relatively small amount of revenue generated by the IMTS products. See Response at 5.

The Commission also accepts the Postal Service's use of the average transaction time of 4.494 minutes to develop a unit transaction cost for a DineroSeguro electronic wire transfer transaction. Although the estimated average transaction time is based on a small number of observations, the Commission considers the resulting unit transaction cost derived from that estimate reasonable to develop DineroSeguro costs.

The effect of the Postal Service's proposed methodology, as modified, will result in revenues exceeding the attributable costs of the IMTS—Inbound product. The proposed methodology will also have the effect of reducing the cost coverage for the IMTS—Outbound product relative to the IOCS methodology. The Postal Service has greater flexibility to adjust prices for the IMTS—Outbound product and therefore improve the cost coverage of this product in future price adjustments.

Reporting requirement. As discussed above, transaction costs at postal retail windows are incurred for only 20 percent of the total number of money orders reported as cashed by the FRB because the other 80 percent of foreign-issued money orders are cashed at non-Postal Service locations. By contrast, the Postal Service is paid a commission on 90.41 percent of all foreign-issued money orders reported as cashed by the FRB. See Response to CHIR No. 2, question 1c. For this reason, the number of money orders cashed on which a commission is paid to the Postal Service is the IMTS—Inbound transaction volume that should be reported by the Postal Service with the revenue of the IMTS—Inbound product.

In light of this analysis, the Commission directs that the Postal Service include the IMTS—Inbound transaction volume that is associated with revenue, *i.e.*, the number of money orders cashed on which a commission is paid, in the annual financial results reported for the IMTS—Inbound product in each subsequent ACR. The Postal Service

may report the IMTS—Inbound transaction volume in the annual ICRA report, or in the overview and technical description of the ICRA report.²⁴

VI. ORDERING PARAGRAPH

It is ordered:

For purposes of periodic reporting to the Commission, the Commission approves Proposal Five as described in the body of this Order.

By the Commission.

Stacy L. Ruble
Secretary

Commissioner Goldway, abstaining.

²⁴ For example, if the proposed methodology had been approved for use, the Postal Service could have reported the IMTS—Inbound transaction volume for revenue in Docket No. ACR2014, Library Reference USPS-FY14-NP2, December 29, 2014, Excel file “Reports (Booked).xls,” worksheet tab “A Pages (c).” Alternatively, the transaction volume could have been reported in Docket No. ACR2014, Library Reference USPS-FY14-NP5, December 29, 2014, Volume I, Part 2, Chapter 9, Figure 9.1.