

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 Twelve)

Docket No. RM2015-5

FINAL ORDER ON ANALYTICAL PRINCIPLES USED IN PERIODIC REPORTING
(PROPOSAL TWELVE)

(Issued November 19, 2015)

I. INTRODUCTION

On November 7, 2014, the Postal Service filed a petition pursuant to 39 C.F.R. § 3050.11, requesting that the Commission initiate a rulemaking proceeding to consider a proposal to change an analytical method approved for use in periodic reporting (Proposal Twelve).¹ Proposal Twelve seeks to attribute Customer Care Center costs by classifying 21 different call types as being attributable or institutional. Petition, Attachment 1 at 4. Proposal Twelve stems from a fundamental change in the operations of the Postal Service's Customer Care Centers, which necessitated the development of a new cost attribution methodology. *Id.* at 1.

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Twelve), November 7, 2014 (Petition).

In Order No. 2462, the Commission conditionally approved Proposal Twelve.² In that order, the Commission determined that Proposal Twelve represented a “reasonable approach” to attributing Customer Care Center costs, but also found that the proposal lacked “a sufficient variability analysis for certain call types.” Order No. 2642 at 10. Accordingly, the Commission directed the Postal Service to “provide a more thorough analysis of the variability of the attributable call types.” *Id.* at 11. The Commission noted that it would “address final approval of Proposal Twelve” once the requested analysis had been filed and reviewed. *Id.*

On August 28, 2015, the Postal Service submitted the requested variability analysis.³ On September 1, 2015, the Commission issued Order No. 2689, which established deadlines for the submission of comments on the Postal Service’s Status Report.⁴ To clarify certain portions of that report, the Chairman issued an information request on October 8, 2015.⁵ The Postal Service responded to the information request on October 20, 2015.⁶ No party filed comments. For the reasons discussed below, the Commission approves Proposal Twelve.

² Order Conditionally Approving Analytical Principles used in Periodic Reporting (Proposal Twelve), May 1, 2015, at 11 (Order No. 2462).

³ Status Report of the United States Postal Service Regarding Order No. 2462, August 28, 2015 (Status Report).

⁴ Notice and Order Establishing Comment Deadlines Concerning Postal Service Status Report, September 1, 2015 (Order No. 2689).

⁵ Chairman's Information Request No. 2, October 8, 2015 (CHIR No. 2).

⁶ Responses of the United States Postal Service to Questions 1-4 of Chairman's Information Request No. 2, October 20, 2015 (Response to CHIR No. 2).

II. BACKGROUND

The Status Report filed by the Postal Service presents a methodology for estimating variability equations for those Customer Care Center call types that have been classified as volume variable, product specific, or institutional.⁷ The Postal Service explains that the Status Report is designed to test the validity of two assumptions: (1) that call types classified as volume variable are 100 percent variable with mail volume; and (2) that call types classified as institutional are invariable with mail volume (Variability Assumptions). Status Report at 1-2. The Postal Service explains that the Status Report is not designed to test the variability of product specific call types, as the costs associated with these calls are attributed “on a non-variability basis.” *Id.* at 2.

Given that the Customer Care Center structure recently changed, and that the data needed to estimate variabilities are limited, the Postal Service states the empirical results presented in the Status Report are “not robust.” *Id.* at 20. Consequently, the Postal Service concludes that the results are “broadly supportive” of maintaining its initial Variability Assumptions. *Id.* In response to CHIR No. 2, the Postal Service confirmed that the volume data are only available on a quarterly basis, and so the number of observations cannot be increased by further disaggregation of the data. Response to CHIR No. 2, question 1. The Postal Service notes, however, that approval of Proposal Twelve need not “equate to a determination that the [Variability Assumptions] should not be revisited...” Status Report at 2.

⁷ Status Report, Attachment 1 at 1. In its Petition, the Postal Service categorizes Customer Care Center call types as being attributable or institutional. Petition, Attachment 1 at 4. To better distinguish between those attributable costs that vary with volume and those that are fixed, the Postal Service’s Status Report describes attributable costs as being volume variable or product specific.

III. COMMISSION ANALYSIS

As the Commission has previously concluded, Proposal Twelve “is a reasonable approach” to attributing Customer Care Center costs. Order No. 2642 at 10. Based on its review of the Status Report, and of the Postal Service’s responses to CHIR No. 2, the Commission agrees that the Postal Service’s initial Variability Assumptions should be maintained. In the absence of a more robust methodology for attributing Customer Care Center costs, the Commission finds that the adoption of Proposal Twelve will improve the quality, accuracy, and completeness of the data reported to the Commission and therefore satisfies the requirements of 39 U.S.C. § 3652.

However, as the Postal Service acknowledged, the Variability Assumptions may be revisited in the future as sufficient data becomes available. Status Report at 2. Accordingly, to ensure that the Variability Assumptions are revisited, the Commission directs the Postal Service to re-estimate the variability equations presented in the Status Report at the close of each fiscal year. The results of this analysis shall be included in the Postal Service’s Annual Compliance Report, beginning with the report for Fiscal Year 2016, and must include an explanation of whether the then available data are sufficient to overturn Proposal Twelve’s Variability Assumptions.

IV. ORDERING PARAGRAPHS

It is ordered:

1. For purposes of periodic reporting to the Commission, the Commission approves the change in analytical principles proposed by the Postal Service in Proposal Twelve as set forth in the body of this Order.

2. The Commission further directs the Postal Service to re-estimate the variability equations included in its Status Report at the close of each fiscal year. The results of this analysis shall be included in the Annual Compliance Report filing, beginning with the report for Fiscal Year 2016, and must include an explanation of whether the then available data are sufficient to overturn Proposal Twelve's Variability Assumptions.

By the Commission.

Stacy L. Ruble
Secretary

Commissioner Goldway, abstaining.