

Before the  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Periodic Reporting  
(Proposal Twelve)

Docket No. RM2016-3

INITIAL COMMENTS OF THE PUBLIC REPRESENTATIVE

(December 4, 2015)

I. INTRODUCTION

The Public Representative hereby provides comments pursuant to Commission Order No. 2836.<sup>1</sup> In that Order, the Commission established the above-referenced docket to receive comments from interested persons addressing the Postal Service's proposal to change analytical principles related to periodic reporting.<sup>2</sup> The Postal Service filed the Petition pursuant to 39 C.F.R. § 3050.11. Petition at 1. The Postal Service has requested immediate consideration of Proposal Twelve as it is necessary to re-align the treatment of vehicle costs with the new city carrier direct labor cost methodology approved by the Commission in Proposal Thirteen for the upcoming FY 2015 CRA Report. *Id.*

II. SUMMARY OF PROPOSAL TWELVE

Proposal Twelve seeks a change in the methodology for attributing costs relating to vehicles used on city carrier letter routes, including Motor Vehicle Service (MVS) Labor in Cost Segment 12.1, MVS Supplies and Materials in Cost Segment 12.2, and Vehicle Depreciation in Cost Segment 20. *Id.* at 3. According to the Postal Service, "the consistency in treatment between direct labor and vehicle costs is appropriate because

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<sup>1</sup> Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Twelve), November 24, 2015 (Order No. 2836).

<sup>2</sup> Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider a Proposed Change in Analytical Principles (Proposal Twelve), November 20, 2015 (Petition). The Petition was accompanied by Appendix A: Technical Notes (Appendix A).

a strong association exists between the two.” *Id.* The proposed change would apply the new methodology approved in Proposal Thirteen City Carrier Labor, to the calculation of other costs associated with the use of vehicles on city carrier letter routes. The Postal Service also asserts that if Proposal Twelve is not approved there would be a misalignment between the current methodologies for the treatment of these miscellaneous vehicle costs. *Id.* at 2. The Postal Service requests a second minor change to the calculation of office and street proportions that are used in the calculation of costs relating to city carrier labor (Cost Segments 6 and 7). *Id.* at 3. Proposal Twelve intends to incorporate these two changes in the current cost calculation for the FY 2015 CRA Report.

### III. COMMENTS

Currently, city carrier letter route vehicle costs are divided into two cost pools; Delivery Activities and Network Travel with a variability of 42 percent and 58 percent respectively. The variability is used to determine the total attributable cost for each cost pool. Attributable costs are then assigned to products using the same proportions as Cost Segment 7 Letter Route Delivery Activity costs. The current calculation of office and street ratios in Cost Segments 6 and 7 develops office and street proportions using IOCS office costs by route type and street costs by delivery mode. *Id.* at 4.

Proposal Twelve proposes a new methodology for vehicle costs on letter routes, including MVS Maintenance Labor in Cost Segment 12.1, MVS Supplies and Materials in Cost Segment 12.2, and Vehicle Depreciation in Cost Segment 20. The new methodology would align the cost treatment with that of the city carrier street time labor costs. *Id.* at 5. It would attribute letter route vehicle costs based on all city carrier street time labor and would also modify the distribution key for cost component number 579 to include all letter route street costs. *Id.* Under the proposal, the Postal Service would continue calculating letter route costs but would no longer split those costs between Delivery Activities and Network Travel. *Id.* These cost components (86 and 95) would

be removed and cost components 83 and 92, would be renamed City Delivery Letter Routes. *Id.* Similarly, for Cost Segment 20, cost components 222 and 225 for Delivery Activities and Network Travel would be removed. Under the new methodology, cost component 223 would be created for City Delivery Special Purpose Routes (SPR) to assign SPR vehicle depreciation costs. And, cost Component 221 would be reactivated and named City Delivery Letter Routes. *Id.* Doing so will separate special purpose route costs from letter route costs in the same manner as Cost Segment 12. All letter route vehicle costs would then be distributed using the letter route distribution key from cost component 579; special purpose vehicle costs would use distribution key 579. *Id.* at 4.

The Postal Service also requests a change from using the In-Office Cost System (IOCS) office costs to the Delivery Operations Information System (DOIS) workhours in order to develop the office and street proportions for foot and motorized routes. The Postal Service would use city carrier costs for Delivery Activities and Network Travel to further divide the street proportions among these components. *Id.*

*Rationale:* The Postal Service has a long-standing practice of aligning the cost treatment of direct labor and vehicle costs. This proposal seeks to realign treatment of vehicle costs with the cost methodology approved in Proposal Thirteen. According to the Postal Service, “updating the treatment of letter route vehicle costs to align with the new letter route street cost model logically follows this practice.” *Id.* at 5. The new methodology recognizes that letter route carriers use their vehicles throughout their time on the street, including delivering mail and traveling to and from their route. *Id.*

*Impact:* This proposed change in methodology will result in higher attributable costs to products for MVS Labor, MVS Supplies, and Vehicle Depreciation. The current methodology has a combined variability of 18 percent between vehicle use, network travel and delivery activities. Under the new methodology, the combined variability would increase to 36 percent. *Id.* at 5. For FY 2014, this would have increased

attributable costs by \$185 million. *Id.* at 6. Table 1 summarizes the FY 2014 attributable cost increases by mail class resulting from Proposal Twelve.

**Table 1**  
**Changes in Attributable Costs**  
**(\$ In Thousands)**

	<b>MVS Personnel City Delivery</b>	<b>MVS Supplies &amp; Materials</b>	<b>Vehicle Depreciation</b>	<b>Total Change</b>	<b>Percent Change</b>
First Class Mail	\$ 17,794	\$ 37,711	\$ 3,171	\$ 58,676	0.45%
Standard Mail	\$ 29,239	\$ 61,964	\$ 4,057	\$ 95,260	0.90%
Periodicals	\$ 2,886	\$ 6,117	\$ 425	\$ 9,428	0.42%
Package Services	\$ 508	\$ 1,077	\$ 258	\$ 1,843	0.27%
Other & Special Services	\$ 740	\$ 1,568	\$ 104	\$ 2,412	0.15%
Competitive Products	\$ 4,170	\$ 8,857	\$ 2,546	\$ 15,573	0.15%
International	\$ 379	\$ 804	\$ 174	\$ 1,357	0.06%
<b>Total Change</b>	<b>\$ 55,716</b>	<b>\$ 118,098</b>	<b>\$ 10,735</b>	<b>\$ 184,549</b>	<b>0.47%</b>

Source: Library Reference USPS-RM2016-3/1

Total Market Dominant mail will increase by \$168 million or .6 percent of total FY 2014 costs. Competitive product costs will increase by \$16 million or .1 percent. Based on these findings, the Public Representative does not believe that Proposal Twelve will significantly affect the cost per piece or cost coverage calculations. Furthermore, Docket No. R2005-1 adopted the cost treatment of city carrier letter route vehicle costs in line with street time labor costs because of the strong relationship that exists between the two. (*Id.* at 2). The approval of Proposal Twelve would be necessary to maintain the same cost treatment.

The Public Representative has also reviewed the documentation filed in the supporting library references under seal regarding the second part of this proposal. The documentation supports the Postal Service's request to move from IOCS to DOIS workhours in order to develop the office and street proportions for foot and motorized routes in Cost Segments 13 and 12.3. This change to cost distribution appears in line with the overall intent of this proposal to align all ancillary city carrier cost methodologies with the direct labor cost methodology approved in Proposal Thirteen.

#### IV. CONCLUSION

The Public Representative recommends that the Commission approve Proposal Twelve. Proposal Twelve is an improvement over the current methodology for allocating ancillary city carrier vehicle services and labor costs. The Public Representative agrees with the Postal Service's rationale that the approval of Proposal Twelve aligns the current cost methodologies with the city carrier direct labor methodologies already approved in Proposal Thirteen.

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