

ORDER NO. 2915

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

Before Commissioners:

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

Periodic Reporting  
(Proposal Twelve)

Docket No. RM2016-3

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

(Issued December 22, 2015)

I. INTRODUCTION

The Postal Service filed a petition under 39 C.F.R. § 3050.11 proposing to change an analytical principle relating to the Postal Service's periodic reports.<sup>1</sup> For the reasons discussed below, the Commission approves Proposal Twelve. This Order

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<sup>1</sup> Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Twelve), November 20, 2015, at 1 (Petition). The Postal Service concurrently filed two library references, along with an application for non-public treatment for one. Notice of Filing of USPS–RM2016–3/1, USPS–RM2016–3/NP1, and Application for Nonpublic Treatment, November 20, 2015 (Notice). Library Reference USPS–RM2016–3/1 contains workbooks displaying the calculation and cost impacts of implementing the proposed methodology. Library Reference USPS–RM2016–3/NP1 contains supporting non-public material. The Notice incorporates by reference the Application for Non-Public Treatment of Materials contained in Attachment Two to the December 29, 2014, United States Postal Service Fiscal Year (FY) 2014 Annual Compliance Report (ACR). Notice at 1. See 39 C.F.R. part 3007 for information on access to non-public material.

provides background information, describes Proposal Twelve, addresses related filings, and presents the Commission's analysis and conclusion.

## II. BACKGROUND

On October 29, 2015, the Commission approved Proposal Thirteen, which updated and revised the cost model to develop estimates of city carrier street time costs.<sup>2</sup> On November 20, 2015, the Postal Service petitioned the Commission to consider Proposal Twelve, which seeks to align certain calculations within the Cost and Revenue Analysis (CRA) report<sup>3</sup> with the methodology approved by the Commission in Proposal Thirteen. Petition at 1. Acknowledging that the Postal Service will soon submit the FY 2015 ACR, the Postal Service sought immediate consideration of Proposal Twelve to avoid a mismatch between the current attributable cost methodology for vehicle costs and the framework approved in Proposal Thirteen. *Id.* at 1-2.

On November 24, 2015, the Commission issued Order No. 2836 establishing the instant docket for consideration of the Petition, designating a Public Representative to represent the interests of the general public, and establishing deadlines for filing comments and reply comments.<sup>4</sup> The Public Representative<sup>5</sup> and United Parcel

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<sup>2</sup> Docket No. RM2015-7, Order Approving Analytical Principles Used in Periodic Reporting (Proposal Thirteen), October 29, 2015 (Order No. 2792).

<sup>3</sup> The Postal Service files the CRA report concurrent with the ACR in the form of two library references—one public and one non-public—providing data to support the ACR. See *generally* Docket No. ACR2014, United States Postal Service FY 2014 Annual Compliance Report, December 29, 2014 (FY 2014 ACR). Library Reference USPS–FY14–1 summarizes the attributable costs for the Postal Service's main products: presenting product-specific costs, revenues, and volumes for Market Dominant products as well as summary information for Competitive products. FY 2014 ACR, Attachment Two. Library Reference USPS–FY14–NP11 contains supporting non-public material. *Id.*

<sup>4</sup> Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Twelve), November 24, 2015 (Order No. 2836).

<sup>5</sup> Initial Comments of the Public Representative, December 4, 2015 (PR Comments).

Service, Inc. (UPS)<sup>6</sup> filed comments on December 4, 2015. The Postal Service filed reply comments on December 9, 2015.<sup>7</sup> No additional comments were received.

### III. PROPOSAL TWELVE

The Postal Service proposes to change its treatment of costs for vehicles used on city carrier letter routes within various cost components of the CRA report. Petition at 1. Proposal Twelve contains two methodological changes: modifying the attribution of city carrier letter route vehicle costs, and changing the calculation of office and street proportions that are used to calculate costs relating to city carrier labor. Petition, Proposal Twelve at 1.

#### A. Attribution of City Carrier Letter Route Vehicle Costs

The Postal Service proposes to change 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.*

*Current methodology.* The Postal Service divides city carrier letter route vehicle costs into two pools: Delivery Activities and Network Travel for motorized letter routes. *Id.* at 2. The Postal Service multiplies each cost pool by the appropriate variability to determine attributable costs and assigns these attributable costs to products in the same proportions as Cost Segment 7 letter route Delivery Activities costs. *Id.*

*Proposed Methodology.* Building upon the methodology approved by the Commission in Proposal Thirteen regarding labor costs on city delivery letter routes, the Postal Service proposes to multiply the letter route vehicle costs by the new overall letter route street variability to calculate the attributable vehicle costs. *Id.* The Postal

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<sup>6</sup> Comments of United Parcel Service on Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Twelve), December 4, 2015 (UPS Comments).

<sup>7</sup> Reply Comments of the United States Postal Service Regarding Proposal Twelve, December 9, 2015 (Postal Service Reply Comments).

Service would assign those attributable vehicle costs to products using the proportions based on all letter route street costs. *Id.* The Postal Service represents that Proposal Twelve would also change the component structure of the CRA for Cost Segments 12 and 20. *Id.* at 4.

*Rationale.* The Postal Service represents that Proposal Twelve would align the calculation of vehicle use costs with the new street time methodology. *Id.* at 5. According to the Postal Service, linking the attribution of city carrier vehicle costs with the direct labor using these vehicles is a long-standing practice. *See id.* The Postal Service asserts that “[t]he proposed methodology for vehicle use cost[s] recognizes that letter route carriers use their vehicles throughout their time on the street, while delivering mail, traversing the route, and while traveling to and from the route.” *Id.*

*Impact.* The Postal Service anticipates that under Proposal Twelve higher proportions of MVS Labor, MVS Supplies, and Vehicle Depreciation costs for city carriers would be attributed to products. *Id.* The Postal Service states that Proposal Twelve would attribute the city carrier letter route costs for MVS Labor, MVS Supplies, and Vehicle Depreciation costs in the same proportion as all letter route street activities in Cost Segment 7, increasing the attribution level from 18 percent to 36 percent. *Id.* at 5-6. For FY 2014, the Postal Service estimates that Proposal Twelve would increase attributable costs by \$185 million. *Id.* at 6. The Postal Service illustrates the cost impact by product for Proposal Twelve in Table 1. *Id.* at 7.

#### B. Calculation of Office and Street Proportions

The Postal Service proposes a minor change to the methodology for calculating office and street proportions. *Id.* at 1. Specifically, this methodology calculates costs relating to city carrier labor for Vehicle Hire in Cost Segment 12.3 and Carfare and Driveout in Cost Segment 13.2. *Id.*

*Current methodology.* The Postal Service currently “develops office and street proportions for foot and motorized routes using [In-Office Cost System] office costs by route type and street costs by delivery mode.” *Id.* at 2.

*Proposed Methodology.* Building upon the methodology approved by the Commission in Proposal Thirteen, the Postal Service proposes to develop office and street proportions for foot and motorized routes using Delivery Operations Information System (DOIS) workhours.<sup>8</sup> Using city carrier costs for Delivery Activities and Network Travel, the Postal Service would further divide the street proportions among these components. *Id.* at 4.

*Rationale.* The Postal Service claims that Proposal Twelve would align its calculation of office and street proportions with the street time methodology approved by the Commission in Proposal Thirteen. *Id.* at 5.

*Impact.* The Postal Service illustrates Proposal Twelve's change to office and street proportions in Table 2. *Id.* at 8.

#### IV. COMMENTS AND REPLY COMMENTS

##### A. Public Representative Comments

The Public Representative supports Proposal Twelve. PR Comments at 5. She states that Proposal Twelve improves the current methodology for allocating ancillary city carrier vehicle services and labor costs. *Id.* The Public Representative agrees that Proposal Twelve would align the cost methodologies with the city carrier direct labor cost methodology approved by the Commission in Proposal Thirteen. *Id.*

The Public Representative does not believe that Proposal Twelve will significantly affect the cost per piece or cost coverage calculations for products. *Id.* at 4. By way of example, the Public Representative applies the methodology set forth in Proposal Twelve and explains that it would increase attributable costs for FY 2014 by less than 0.5 percent overall. *Id.* Specifically, the Public Representative calculates that attributable costs would increase for Market Dominant products by \$168 million, or 0.6

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<sup>8</sup> *Id.* The Postal Service observes that it incorporated this proposed change within Proposal Nine in Docket No. RM2015-2 and seeks independent approval of this proposed change under Proposal Twelve, if Proposal Nine remains pending. *Id.* at 2-3 n.4.

percent, of total FY 2014 costs, and for Competitive products by \$16 million, or 0.1 percent, of total FY 2014 costs. *Id.* The Public Representative observes that approving Proposal Twelve is necessary to maintain the same cost treatment between city carrier letter route vehicle costs and street time labor costs. *Id.* She elaborates that this treatment is consistent with both the strong relationship between the two types of costs and the last update to the street time letter route cost model in Docket No. R2005-1. *Id.*

The Public Representative also notes that the documentation filed under seal by the Postal Service supports the proposal to use DOIS workhours to develop the office and street proportions for foot and motorized routes in Cost Segments 13 and 12.3. *Id.* She concludes that the proposed cost distribution changes are consistent with Proposal Twelve's goal to align all ancillary city carrier cost methodologies with the direct labor cost methodology approved by the Commission in Proposal Thirteen. *Id.*

#### B. UPS Comments

Noting the expedited timeframe of this proceeding and three principal concerns with Proposal Twelve, UPS urges the Commission to adopt no more than temporary conclusions in this docket. UPS Comments at 1-2. UPS recommends that the Commission reconsider Proposal Twelve after receiving the Postal Service's February 2016 status report concerning Proposal Thirteen. *Id.* at 10.

First, UPS claims that the flaws that UPS identifies with Proposal Thirteen reoccur in Proposal Twelve. *Id.* at 3. Specifically, UPS contends that Proposal Thirteen artificially divides regular delivery and parcel delivery and fails to account for seasonal and other variation in mail and parcel volumes. *Id.* UPS asserts that these flaws reoccur in Proposal Twelve, causing attribution of only 36 percent of vehicle costs to products. *Id.* UPS comments that mailers of Market Dominant products would bear up to 91.7 percent of the vehicle costs at issue if Proposal Twelve were adopted. *Id.*

Second, UPS asserts that the long-standing assumption that vehicle costs piggyback city carrier labor costs is untested and increasingly untenable. *Id.* at 3-4. UPS contends that this assumption no longer applies to a mail stream that is less

uniform and includes an increasing share of parcels and parcel-dominant routes. *Id.* at 4. UPS claims that Proposal Twelve fails to adequately attribute vehicle use costs for Special Purpose Routes (SPR) to Competitive products. *Id.* UPS states that Proposal Twelve would attribute less than 25 percent of SPR-related vehicle costs to Competitive products and instead would treat 58 percent of those costs as institutional. *Id.* at 4-5.

Third, UPS claims that Proposal Twelve overstates the fixed costs of vehicles by failing to account for numerous vehicle cost drivers. *Id.* at 5. UPS characterizes the Postal Service's position in Proposal Thirteen as asserting that a portion of city carrier time devoted to traversing a letter carrier's route does not vary with volume. *Id.* UPS disputes this assertion and posits that the vehicle costs associated with traversing a route may depend on the distance traveled and the vehicle's fuel economy. *Id.* UPS also asserts that vehicle depreciation depends on the vehicle's acquisition cost. *Id.* Thus, UPS contends that Proposal Twelve ignores that the size, weight, and cubic volume of the vehicle as well as the volume and mix of mail transported inside affect vehicle costs. *Id.* Moreover, UPS asserts that the Postal Service is acquiring new vehicles specifically to deliver parcels. *Id.* at 5-7. UPS contends that Proposal Twelve would disproportionately allocate the costs associated with the Postal Service's parcel-oriented vehicle purchases to Market Dominant products. *Id.* at 7-8.

UPS offers two alternative methodologies to Proposal Twelve, noting that further evaluation may develop other alternatives. *Id.* at 9. First, UPS proposes that the Postal Service base cost attribution on cubic volume. *Id.* Referencing the Postal Service's planned acquisition of vehicles with larger interior volumes, UPS contends that cubic volume predicts vehicle cost better than city carrier labor costs. *Id.* Second, UPS suggests that the Postal Service calculate the difference in cost between mail delivery vehicles versus parcel delivery vehicles and attribute any additional incremental costs for parcel delivery vehicles directly to parcels. *Id.*

### C. Postal Service Reply Comments

The Postal Service's reply comments emphasize the limited scope of this proceeding: whether Proposal Twelve improves the established methodology. Postal Service Reply Comments at 1. The Postal Service responds that UPS' comments exceed the scope of this proceeding by criticizing the established methodology's underlying framework rather than the changes proposed by Proposal Twelve. *Id.* The Postal Service comments that the flaws identified by UPS replicate its criticisms of Proposal Thirteen, which is now part of the established methodology. *Id.* at 2-3. The Postal Service states that UPS does not opine on the fundamental issue in this proceeding: whether Proposal Twelve improves the established methodology. *Id.* at 3.

In response to UPS' request that any Commission approval of Proposal Twelve be temporary, the Postal Service points out that all conclusions regarding postal costing are inherently temporary because conclusions may be revisited in future proceedings as circumstances develop. *Id.* The Postal Service cautions that UPS' request to limit approval of Proposal Twelve to the FY 2015 ACR may cause the methodology to revert to the flawed *status quo* for the FY 2016 ACR. *Id.* at 3-4. For these reasons, the Postal Service urges the Commission to promptly approve Proposal Twelve. *Id.* at 4.

### V. COMMISSION ANALYSIS

Based upon a review of the Postal Service's filing, supporting workpapers, the Public Representative's and UPS' comments, the Commission finds that Proposal Twelve improves the quality of the Postal Service's analysis by aligning the approach to calculate vehicle use costs contained in the CRA report with the methodology approved by the Commission in Proposal Thirteen.

In this docket, UPS reiterates its primary concern expressed in Proposal Thirteen—that the current methodology does not apply to the current environment of declining letter mail volumes and increasing parcel volume.<sup>9</sup> UPS does not address the methodological changes proposed in this docket. Proposal Twelve deals specifically with correcting the current analytical principle for calculating vehicle costs because that analytical principle no longer aligns with Proposal Thirteen’s changes to the approach for calculating city carrier costs. The Commission accepts the Postal Service’s assertion that Proposal Thirteen’s changes to the methodology for calculating direct costs require changes to the methodology for calculating indirect costs. To avoid a mismatch between the treatment of city carrier vehicle use costs and the costs of the direct labor using those vehicles, the Commission approves Proposal Twelve.

The main theme of each of the conceptual problems with Proposal Twelve identified by UPS is the claim that the proposed methodology fails to account for increased parcel volume. See UPS Comments at 4. Given certain limitations in parcel and collection volume data, the Commission acknowledged, “questions remain as to whether [Proposal Thirteen] fully captures the effects of volume on street time costs.” Order 2792 at 43. Therefore, upon approving Proposal Thirteen, the Commission ordered the Postal Service to report by February 15, 2016, “the status of its investigation into the feasibility of updating the cost model used to assign the costs of Sunday delivery hours and parcel routes.” *Id.* at 66. Any new study that could be used to attribute costs for SPRs or Sunday routes may also affect Cost Segment 12 Motor Vehicle Service and Cost Segment 20 Vehicle Depreciation, both focal points of Proposal Twelve. Because of the potential effect upon Proposal Twelve, the Commission directs the Postal Service to file a narrative report in this docket no later

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<sup>9</sup> Compare UPS Comments at 3-5, with Docket No. RM2015-7, United Parcel Service Comments on Postal Service Proposal Thirteen Regarding City Carrier Street Time Costs, March 18, 2015, at 1-3.

than February 29, 2016, to explain how any of these new studies would affect Proposal Twelve.<sup>10</sup>

Any interested person may petition the Commission to initiate a proceeding to consider changes to accepted analytical principles. 39 C.F.R. § 3050.11(a). Accepted analytical principles may be changed to improve the quality, accuracy, or completeness of the Postal Service data or analysis underlying the ACR. See *id.* The proponent of the change must identify the accepted analytical principal for review, explain any perceived deficiencies, and suggest remedies. *Id.* § 3050.11(b). UPS has suggested two alternative methodologies to determine the attributable costs and allocation to products for motor vehicles. UPS Comments at 9-10. UPS may request that the Commission initiate a rulemaking addressing these proposed changes, but the current proposal before the Commission is not the appropriate vehicle.

In conclusion, the Commission accepts the Postal Service's proposal to align the methodology for treating ancillary vehicle cost matters with the methodology approved by the Commission in Proposal Thirteen.<sup>11</sup>

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<sup>10</sup> The Postal Service may elect to include this narrative in the Proposal Thirteen status report and file a notice in this docket specifying the page numbers explaining the effects on Proposal Twelve.

<sup>11</sup> One aspect of Proposal Twelve was incorporated into the pending Proposal Nine. Petition, Proposal Twelve at 2-3 n.4. This Order does not address any other aspect of Proposal Nine. The Commission will address those proposed changes in Docket No. RM2015-2.

## VI. ORDERING PARAGRAPHS

*It is ordered:*

1. For purposes of periodic reporting to the Commission, the changes in analytical principles proposed by the Postal Service in Proposal Twelve are approved.
2. The Commission directs the Postal Service to file in this docket, no later than February 29, 2016, a report addressing the matters identified in Part V of this Order.

By the Commission.

Stacy L. Ruble  
Secretary