

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

Before Commissioners:

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

Periodic Reporting  
(Proposal Nine)

Docket No. RM2015-2

ORDER DENYING CHANGES IN ANALYTICAL PRINCIPLES  
USED IN PERIODIC REPORTING  
(PROPOSAL NINE)

(Issued September 22, 2016)

I. INTRODUCTION

In Order No. 203, the Commission adopted periodic reporting rules pursuant to 39 U.S.C. § 3652.<sup>1</sup> 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. The rules state that the Commission will review whether the proposal “improve[s] the quality, accuracy, or completeness of the data or analysis of data contained in the Postal Service’s annual periodic reports to the

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

Commission.” 39 C.F.R. § 3050.11(a). Additionally, the standard for the filing requires that “the notice of proceeding or petition proposes that a specific alternative analytical principle be followed, it should include the data, analysis, and documentation on which the proposal is based, and where feasible, include an estimate of the impact of the proposed change on the relevant characteristics of affected postal products.” 39 C.F.R. § 3050.11(b)(1).

In a petition filed pursuant to 39 C.F.R. § 3050.11,<sup>2</sup> the Postal Service proposes to change the methodology for splitting city carrier costs into Office costs and Street costs components. With Proposal Nine, the Postal Service seeks to utilize the Time and Attendance Collection System (TACS) to split city carrier costs into Office and Street, replacing the current methodology that uses the In-Office Cost System (IOCS). To determine the proportion of Street costs incurred due to loading and unloading the vehicle, it also proposes to use the City Carrier Street Route Inspections data (Form 3999). The initial Proposal Nine had seven main components.<sup>3</sup> Two of the original seven components, Components Five and Six, were refiled as Docket No. RM2016-3, Periodic Reporting (Proposal Twelve), and approved in Order No. 2915.<sup>4</sup> The remaining components are:

- Component One proposes to use TACS data instead of IOCS data to determine the proportion of time city carriers spent on activities related to being in the office (Office) and time spent on activities related to being on the street (Street).

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<sup>2</sup> Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Nine), October 31, 2014 (Petition).

<sup>3</sup> Following a technical meeting held on April 14, 2015, the Postal Service made revisions to the initial materials and procedures relating to Components One, Three, Four, and Seven of Proposal Nine. See Report of the United States Postal Service Regarding Matters Raised at the Proposal Nine Technical Meeting, May 8, 2015 (Report).

<sup>4</sup> Docket No. RM2016-3, Periodic Reporting (Proposal Twelve), Order Approving Analytical Principles Used in Periodic Reporting (Proposal Twelve), December 22, 2015 (Order No. 2915).

- Component Two proposes to use the City Carrier Street Route Inspections data (Form 3999) to determine all city carrier time related to loading and unloading the vehicle. It also proposes to reclassify these costs as Street rather than Office.
- Component Three proposes a number of changes to Office Support costs.
- Component Four proposes to change the control totals for city carriers to conform to the changes in Component One.
- Component Seven proposes to change the calculation of city carrier costs by using data by route group instead of data by route type to conform to the changes in Component One.

See Petition at 2-4.

For the reasons discussed below, the Commission does not approve revised Components One, Three, Four, and Seven. Component Two cannot be implemented until additional information is provided. Specifically, the Postal Service must reconcile the costs related to loading/unloading the vehicle at the station, and leaving/returning from the route.

Pursuant to 39 C.F.R. § 3050.11(b), a petition to change an analytical principle must identify the accepted analytical principle proposed for review, and explain the perceived deficiencies and how those deficiencies will be remedied. Further, the notice of proceeding or petition should include the data, analysis, and documentation on which the proposal is based. Where feasible, it should also include an estimate of the impact of the proposed change on the relevant characteristics of affected postal products. 39 C.F.R. § 3050.11(b)(1).

The Commission finds that the Postal Service's documentation included with its Petition is incomplete, conflicts with other information on record, and contains unexplained procedures. Additionally, the Postal Service has not explained the deficiencies with the data generated by the current system. The Commission attempted to clarify Proposal Nine by issuing five information requests and holding a technical

meeting. However, as detailed throughout this order, the Postal Service's rationale, documentation, and procedures used have not been sufficiently supported.<sup>5</sup> As a result, the Commission cannot make a determination that Proposal Nine improves the quality, accuracy, or completeness of the city carrier costing methodology. See 39 C.F.R. § 3050.11(a).

The Commission directs the Postal Service to provide specific data and documentation with future notices or petitions filed pursuant to 39 C.F.R. § 3050.11 regarding potential changes to the city carrier costing methodology. The Postal Service is also directed to provide unedited IOCS data and other related documentation in the Annual Compliance Report (ACR) as further detailed at the end of section II.

The components of Proposal Nine are complex and interwoven. As the Postal Service attempted to improve the proposal through revisions, interaction between the various components became increasingly unclear and unsupported. Because of the potential impact of Revised Proposal Nine on the Cost and Revenue Analysis (CRA) and delivery cost models, the Postal Service should provide a complete filing if it wishes to revisit Proposal Nine. In such a future filing, the Postal Service must clearly identify all associated impacts, provide all affected Statistical Analysis System (SAS) programs and workbooks, and provide the data files used within the SAS code.

The remainder of this order proceeds as follows. Section II summarizes the reasons why the Commission cannot approve Proposal Nine, section III contains the procedural history, section IV provides a brief description of the proposal as a whole

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<sup>5</sup> For example, it was not until three months after the initial filing, along with its Responses to CHIR No. 3, question 4 that the Postal Service provided the SAS programming methodology used to create the estimates provided initially with the Petition. See Responses of the United States Postal Service to Questions 1-19 of Chairman's Information Request No. 3, February 23, 2015, question 4 (Responses to CHIR No. 3). "The SAS code in the..., 'ChIR3.Q4.TACSReplacelOCS.SAS.rtf' was used to re-weight the IOCS tallies and aggregate the dollar-weights for the workbook[s]" included with its Petition. *Id.* Further, no TACS data files used in any of its initial or revised programs were included with any of the programs filed. This documentation should be provided initially with the Petition and with any revisions to the Proposal.

and the estimated cost impacts, section V summarizes the comments received on the proposal, section VI discusses each component of the proposal in detail.

## II. SUMMARY OF COMMISSION FINDINGS IN DETERMINING THAT PROPOSAL NINE CANNOT BE APPROVED

The purpose of Proposal Nine is to change the city carrier costing methodology as it relates to the distribution of costs between Office and Street activities. Attributable and variable city carrier cost is split between cost segment 6 for Office activity and cost segment 7 for Street activity.

The current methodology uses IOCS data to determine the proportion of time that carriers spend performing Office activities and Street activities. The proposed methodology would eliminate the use of IOCS data to split Office and Street costs. Instead, with Proposal Nine, data from the IOCS is replaced with data from TACS; Delivery Operations Information System (DOIS); Management Operating Data Systems (MODS); and Form 3999 data. Currently, the IOCS identifies carrier time in both cost segment 6 and cost segment 7 and the information from the IOCS is used to distribute costs for specific activities between and within cost segments 6 and 7. As the IOCS would no longer collect the same level of data for activities within cost segments 6 and 7 under Proposal Nine, methodologies for distributing costs within cost segments 6 and 7 are also modified by Proposal Nine.

*Summary of Relevant Systems.* The IOCS “is a continuous ongoing probability sample of work time to estimate costs of various activities performed by clerks, mail handlers, city carriers, and supervisors.”<sup>6</sup> “The IOCS is designed to supplement the accounting system data by sampling employees at randomly selected points in time throughout the year. When an employee is sampled, the activity of the employee at the point in time of the sample is recorded... .” *Id.* These sample data are used in

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<sup>6</sup> Docket No. ACR2015, Library Reference USPS-FY15-37, December 29, 2015, file “USPS-FY15-37.pdf,” at 2.

conjunction with accounting system data to produce estimates of costs for various activities. *Id.*

The TACS system uses timeclocks to track and summarize the actual payroll hours worked by city carriers. The primary function of this system is to collect and calculate time and attendance information so city carrier employees are paid correctly. This system does not collect data on specific activities the employees are engaged in.

The Postal Service's Form 3999 is used to determine the time value of territory transferred from one city carrier route to another.<sup>7</sup> This data set contains information on time spent by the city carrier on various tasks, for example: loading and unloading the vehicle, traveling to and from the route, and delivery time.

MODS is an operations coding system used to gather, store, and report workhours. Employees are assigned a Labor Distribution Code (LDC) depending on the activity they are clocked into.

*Summary of Issues.* The Postal Service contends that replacing the IOCS sampling system with census data from these other systems will increase the overall precision of the city carrier cost estimates. IOCS captures the actual activity that the carrier is performing at the time of the sample, regardless of whether the carrier is in the Office, on the Street, or in the parking lot, and IOCS sampling is conducted continuously throughout the year. The other data systems do not share all of these characteristics. TACS records whether the carrier is clocked into the Office or on the Street but does not distinguish between activities being performed. Form 3999 only captures workhours for Street activities and the underlying review is only conducted on each route a maximum of once a year. MODS is used to assign an activity code but does not record what the carrier is actually doing.

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<sup>7</sup> See Docket No. RM2011-3, Order No. 964, Order Scheduling Technical Conference, November 10, 2011; file "RM2011-3 Guidelines\_for\_3999\_01 08 2010.pdf," [http://www.prc.gov/docs/77/77671/RM2011-3%20Guidelines\\_for\\_3999\\_01%2008%202010.pdf](http://www.prc.gov/docs/77/77671/RM2011-3%20Guidelines_for_3999_01%2008%202010.pdf).

The Postal Service's initial proposal treated workhours from TACS when the carrier is clocked to Street as Street time, and workhours when the carrier is clocked to Office as Office time. The initial proposal highlighted several important issues regarding the difficulty of identifying and distributing costs using accounting data. City carrier activities that are difficult to identify and distribute include the following: loading/unloading the vehicle when the carrier is clocked to Office or Street; leaving/returning from the route when the carrier is clocked to Office or Street; obtaining mail or keys; checking a vehicle; attending a safety meeting; training; personal time; clocking in/clocking out; and moving empty equipment. The initial proposal also highlighted the difficulty of identifying route type and roster designation without sampling data. In its revised proposal, the Postal Service states it will consider the activity the carrier is actually performing in making the final determination of Office and Street time. Report at 6. However, the Postal Service has stated that it plans on removing the Training and Street activities from IOCS sampling estimation currently used to determine the activities that city carriers are engaged in, therefore, these tallies will no longer be available to determine the activity the carrier is actually performing. The Postal Service has not explained, in either its discussion of Proposal Nine or the underlying workpapers and SAS programs, how that identification will be accomplished.

*Reasons Commission Cannot Accept Proposal Nine.* As a starting point for estimating Office and Street city carrier workhours, replacing IOCS with the proposed data sources seems reasonable. However, there are some activities, such as those discussed above, that cannot be neatly categorized into Office and Street time. There are also situations, such as when the carrier is preparing to leave for the route, when the carrier is moving back and forth between the Office and the Street. The IOCS captures the time spent in these situations and makes cost adjustments as necessary. The TACS/MODS data does not.

The TACS/MODS data contain workhours when the carrier is clocked to Street that are currently considered Office time.<sup>8</sup> The TACS/MODS data also contain workhours where the carrier is clocked to the Office but performing Street activities. See CHIR No. 3, question 2. The Postal Service has not adequately explained how these situations will be handled under the proposed methodology, or alternatively, provided a complete or persuasive rationale for no longer accounting for these situations. The Postal Service has also not provided sufficient justification for eliminating Training and Street time activities entirely from the IOCS sampling estimation.<sup>9</sup>

In addition, several modifications appear to change the established volume variability relationships of cost categories without any discussion or explanation. The Postal Service proposes to shift mixed mail and other Office tallies from segment 6 costs to segment 7 costs, but has not adequately explained why this is appropriate.

*Deficiencies in Filing.* The Postal Service may have filed this request for changes in proposed methodology prematurely. The Commission asked the Postal Service to indicate which source SAS programs and calculations changed as a result of Proposal Nine and to file the SAS programs and identify the changes.<sup>10</sup> The Postal Service stated that: “[t]he production SAS programs have not yet been modified.”<sup>11</sup> It did not provide the SAS program and input files it used to create its workbook impact estimates filed initially with the Petition. The Postal Service was asked to describe and provide a comprehensive list of the related IOCS data processing changes associated

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<sup>8</sup> See Chairman’s Information Request No. 3, February 13, 2015, question 1 (CHIR No. 3).

<sup>9</sup> The Postal Service did not provide an explanation as to why it had included a TACS Training adjustment factor in its control program filed after the technical meeting, and yet decided to eliminate both Training and Street from the IOCS sampling estimation process. Response of the United States Postal Service to Question 1 of Chairman’s Information Request No. 4, February 1, 2016 (Response to CHIR No. 4).

<sup>10</sup> Chairman’s Information Request No. 1, November 14, 2014, question 11 (CHIR No. 1).

<sup>11</sup> Responses of the United States Postal Service to Questions 1-14 and 17-18 of Chairman’s Information Request No. 1, and Status Report on Questions 15-16, November 21, 2014, question 11 (Responses to CHIR No. 1)

with Proposal Nine. CHIR No. 1, question 12. However, the Postal Service did not do so. Rather than provide a list or identify which IOCS data processing changes were associated with Proposal Nine as requested, the Postal Service contemplated a number of different possibilities as to how it could be implemented. Responses to CHIR No. 1, question 12.

Modifications to the initial proposal filed in the Postal Service's Responses to CHIR No. 3, question 1 and the calculation error unresolved in question 14 led to a technical meeting at which the Postal Service agreed to file a revised proposal. The SAS programs provided with the revised proposal revealed methodological changes that were not explained or justified in the initial proposal, in responses to CHIRs, or at the technical meeting. Furthermore, in the Postal Service's Response to CHIR No. 4, the Postal Service filed revised SAS programs which had been significantly rewritten and raised additional questions about the procedures employed, the rationale for the adjustments used, and the comparability of the output.

The number of revisions, clarifications, and supplementation in this case points to a clear need for the Postal Service to present section 3050.11 petitions that are complete, well-explained and well-documented at the time of filing. While efficient and effective administration of section 3050.11 may justify the inclusion of more than one methodology change in a petition in some instances, this approach unduly complicated consideration of this case. In addition, the Postal Service made several workpaper changes that differed from or were not described completely in its Petition. In some instances, the responses to CHIRs and information presented in its Petition and Report appeared to contradict responses to CHIRs in Docket No. ACR2015,<sup>12</sup> and with information in the IOCS documentation filed with the Commission in the past.<sup>13</sup> The

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<sup>12</sup> Compare Responses to CHIR No. 3, question 13 with Docket No. ACR2015, Responses of the United States Postal Service to Questions 1-4 of Chairman's Information Request No. 19, March 14, 2016, questions 1, 4 (Docket No. ACR2015, Responses to CHIR No. 19).

<sup>13</sup> See Docket No. R2006-1, Direct Testimony of A. Thomas Bozzo on Behalf of the United States Postal Service, May 3, 2006, at 29-30 (Docket No. R2006-1, USPS-T-46).

Commission expects the Postal Service to address the problems that arose in this filing and adjust its policies and practices so that similar complications do not arise in the future.

If the Postal Service decides to initiate a new proceeding related to Proposal Nine, it should identify and complete all changes it intends to make to the related SAS programs, provide all input files used in these programs, complete any other associated workbook changes, and include all supporting materials and updated documentation where applicable. Any other intended or associated changes in other cost segment workbooks or SAS programs as a result of the new proceeding should be identified in advance. As outlined in the separate discussion of each component, the Commission also requests that the Postal Service provide certain information and materials at the time it files any future notice or petitions related to Proposal Nine.

*Deficiencies in Related ACR Filing.* The Commission compared the documentation submitted with Proposal Nine to the SAS data set provided to the Commission in the Postal Service's IOCS ACR filing to better understand the proposal and its impacts. Specifically, the Commission reviewed the consistency between the proposal and the ACR concerning the application of the accepted volume variability methodology. The Commission also reviewed the changes for leaving and preparing to leave for route (handling versus not handling mail) costs and loading the vehicle distinctions the Postal Service appeared to be making in Proposal Nine with the ACR filing. During this comparison, it became clear that IOCS variables that are listed in the IOCS data dictionary<sup>14</sup> were used to edit and develop the CRA costs, but were not included in the SAS data set in the Postal Service's ACR filing. If all the IOCS variables had been available to the Commission, the impacts of the IOCS editing and cost development process would have been more apparent. Additionally, in its review of the materials related to route type (under Component Seven in this proceeding) and other

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<sup>14</sup> Docket No. ACR2015, Library Reference USPS-FY15-37, excel file "IOCSDataDictionaryFY15.xls."

ACR workbooks or folders that use route type, the Commission discovered that only the SAS logs had been provided in the ACR filing, rather than the SAS programs and mixed-mail data file used in those programs.<sup>15</sup>

Consequently, the Commission directs the Postal Service to include the complete set of IOCS variables listed in its data dictionary in its ACR filings and provide the SAS programs, and the updated mixed-mail data file used in those programs in its ACR delivery cost model filing.<sup>16</sup>

### III. POSTAL SERVICE PROPOSAL

*Summary of Initial Proposal.* The existing costing methodology for city carriers requires data on the percentage of time spent in the Office versus on the Street. Petition at 1. Currently, IOCS data is used to separate city carrier accrued costs into Office costs (cost segment 6) and Street costs (cost segment 7). *Id.* The Postal Service proposes replacing this IOCS methodology with a TACS methodology, and making related changes within cost segments 6 and 7. *Id.* One proposal is the use of Form 3999, rather than IOCS, to determine the proportion of Street costs incurred due to loading or unloading the vehicle. *Id.* Another proposal is an update to the methodology for attributing and distributing certain related costs that are currently part of the combined Office/Street Burdens, with assignment depending on whether the carrier is clocked to the Office or to the Street. *Id.* The proposed changes are based on the Postal Service's assertion that its operational systems have matured to the point where they can now provide the necessary data, so the percentage estimated by IOCS can be replaced with census data from TACS. *Id.*

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<sup>15</sup> This is inconsistent with 39 C.F.R. § 3050.2(b)(3), “[i]f workpapers are required to support a periodic report, they shall [b]e submitted in a form, and be accompanied by sufficient explanation and documentation, to allow them to be replicated using a publicly available PC application.”

<sup>16</sup> Docket No. ACR2015, Library Reference USPS-FY15-19, December 29, 2015, at 3, file “USPS-FY15-19 Preface.pdf,” refers to these five SAS log files.

*Summary of Revised Proposal.* The change from the original Proposal is to treat IOCS readings as Office when the carriers are performing Office activities related to Office work even when clocked to Street, and to treat IOCS readings as Street when the carriers are performing Street activities even when clocked to Office.<sup>17</sup> TACS LDC 92 Training workhours are incorporated as a third category of control total carrier hours (Training). June 10, 2015, USPS Reply Comments at 2.

*Cost Impact (Initial).* Proposal Nine, as filed, increases the total distributed Office costs from \$3.1 billion to \$3.2 billion and directly impacts both Office and Street city carrier costs in cost segments 6 and 7.<sup>18</sup> In cost segments 6 and 7, total distributed Street costs are reduced from \$10.8 billion to \$10.7 billion. Petition at 6. Overhead Office Support costs increase from \$539 million to \$771 million and other Office Support costs decrease from \$646 million to \$291 million.<sup>19</sup> Overall total Support costs increase from \$1.9 billion to \$2.7 billion (primarily due to the increase in loading/unloading the vehicle Street Support costs using Form 3999).<sup>20</sup>

*Cost Impact (As modified).* Proposal Nine, as modified, primarily increases Office Support costs: other Office Support costs increase from \$291 million, as originally proposed, to \$366 million; overhead Office Support costs increase from \$771 million, as originally proposed, to \$832 million.<sup>21</sup>

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<sup>17</sup> Reply Comments of the United States Postal Service Regarding Revised Proposal Nine June 10, 2015, at 2 (June 10, 2015, USPS Reply Comments). However, there will be no IOCS Training or Street tallies as the Postal Service later informed the Commission that it is removing both Training and Street time from IOCS sampling estimation. See Response to CHIR No. 4.

<sup>18</sup> See "Table 1-Impact of Proposal Nine on Cost Segments Six and Seven," Petition at 5-6.

<sup>19</sup> See tab "6.0.4" (column (1), lines 4 and 5) in the excel file "Chir1.Q3b.xls" workbook provided in Library Reference USPS-RM2015-2/1, October 31, 2014; see also tab "6.0.4" (column (1), lines 4 and 5) in Docket No. ACR2013, Library Reference USPS-FY13-32, December 27, 2013, excel file "CS06&7.xls" workbook (FY2013 CS06&7.xls).

<sup>20</sup> See "Table 1-Impact of Proposal Nine on Cost Segments Six and Seven" Petition at 5-6.

<sup>21</sup> See Report at 13; "CS06&7\_TACS" workbook, "6.0.4" tab provided in Library Reference USPS-RM2015-2/3, May 8, 2015.

#### IV. PROCEDURAL HISTORY

*Postal Service Filing.* On October 31, 2014, the Postal Service filed its Petition that included: "Proposal Nine: Refine Split of City Carrier Costs into Office and Street Components."<sup>22</sup> The Postal Service also filed one public and one non-public supporting library reference, along with an application for non-public treatment of the material filed under seal.<sup>23</sup>

On November 4, 2014, the Commission provided notice of the Postal Service's Petition and established the instant docket for consideration of Proposal Nine, appointed a Public Representative, and provided the public with an opportunity to comment.<sup>24</sup>

On November 10, 2014, the Public Representative submitted a motion for issuance of an information request to the Commission.<sup>25</sup> In the PR Motion for Information Request, the Public Representative asked several questions related to the

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<sup>22</sup> Petition at 1.

<sup>23</sup> Notice of Filing of USPS-RM2015-2/1, USPS-RM2015-2/NP1, and Application for Nonpublic Treatment, October 31, 2014 (Notice). One Library Reference is USPS-RM2015-2/1, Public Material Relating to Proposal Nine; the other is USPS-RM2015-2/NP1, Nonpublic Material Relating to Proposal Nine. The Notice incorporates by reference the Application for Non-Public Treatment of Materials contained in Attachment Two to the December 27, 2013, United States Postal Service Fiscal Year 2013 Annual Compliance Report. Notice at 1. See 39 C.F.R. part 3007 for information on access to non-public material.

<sup>24</sup> Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Nine), November 4, 2014 (Order No. 2238).

<sup>25</sup> Public Representative Motion for Issuance of Information Request, November 10, 2014 (PR Motion for Information Request). The Public Representative filed a Public Representative Notice of Errata, November 13, 2014, correcting the statute and regulations cited in its PR Motion for Information Request.

TACS operational system and the relationship between the research issues and reporting requirements identified by the Commission in Order No. 1626 and Proposal Nine.<sup>26</sup>

To clarify the initial proposed methodology, three Chairman information requests were issued. Two Chairman information requests were issued on the revised methodology.

*CHIR No. 1.* CHIR No. 1 sought clarification on the suitability of the TACS data and the relationship of Proposal Nine to research priorities for city carrier Street time costs identified by the Commission in Order No. 1626. Additional information on the overall IOCS data processing and SAS program changes associated with Proposal Nine, as well as impact estimates on the CRA model (question 15) and the delivery costs Office model (question 16) were also requested. To clarify the Postal Service's proposed route group and craft control totals methodology, documentation related to the TACS and MODS codes was also requested. Questions related to the Form 3999 data set were also asked.<sup>27</sup>

On November 17, 2014, the Public Representative asked the Commission to extend the original date for comments by three additional business days (to November 26, 2014) to allow interested persons adequate time to consider the Postal Service's responses to CHIR No. 1.<sup>28</sup>

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<sup>26</sup> See Docket No. RM2011-3, Order Setting Near-Term Priorities and Requesting Related Reports, January 18, 2013 (Order No. 1626). In Order No. 1626, the Commission identified a study on city delivery carrier Street time costs to be a near-term research priority for the Postal Service. On April 18, 2013, the Postal Service provided the report on "the research issues and reporting requirements related to city carrier street time costs." See Docket No. RM2011-3, Postal Service Report Regarding Cost Studies: Response to PRC Order No. 1626, April 18, 2013, at 1-19.

<sup>27</sup> See Library Reference USPS-RM2015-2/1, tab "FORM\_3999\_LOAD\_UNLOAD." workbook "FORM\_3999\_DATA.xlsx".

<sup>28</sup> Public Representative Motion for Extension of Comment Deadline, November 17, 2014, at 1. In the event the Postal Service did not file a response by November 21, 2014, or does not file a complete response, the Public Representative asked that the Commission grant a further extension to three business days after a complete response is filed. *Id.*

In response to the Public Representative's request, the Commission issued Order No. 2253 on November 19, 2014, extending the date to file comments three business days after the date the Postal Service submitted a complete response to CHIR No. 1.<sup>29</sup>

*Postal Service Response to CHIR No. 1.* The Postal Service filed its responses to CHIR No. 1 on November 21, 2014, for questions 1-14 and 17-18 and a status report on questions 15-16 (CRA and delivery cost models, respectively).<sup>30</sup> Along with its Response to CHIR No. 1, the Postal Service included a Notice of Filing of USPS-RM2015-2/2.<sup>31</sup> The Notice lists the folder as Public Material Related to Chairman's Information Request No. 1 (Questions 3b, 6a, and 10).<sup>32</sup>

In its Responses to CHIR No. 1, the Postal Service explains that it considers TACS currently mature because almost all carriers have electronic clock rings in TACS, and because the percentage of time on the Street recorded in TACS is consistent with the percentage of time that carriers are recorded as clocked to Street in IOCS. Responses to CHIR No. 1, question 1. The Postal Service also explained that Proposal Nine is not related to the city carrier Street time costs identified by the Commission in Order No. 1626 and that the two proposals to change analytical principles are not related, one proposal can be implemented without the other. *Id.* question 2.

In response to the Commission's request that the Postal Service identify the IOCS data processing changes and provide the affected SAS programs, the Postal Service stated that: "[t]he production SAS programs have not yet been modified" and referred to its response to the following question for a description of the anticipated changes. *Id.* question 11. In its description of possible SAS programs it could modify, it

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<sup>29</sup> Order Extending Deadline for Comments, November 19, 2014 (Order No. 2253).

<sup>30</sup> Responses to CHIR No. 1. The Postal Service also filed a library reference with its Response to CHIR No. 1, questions 3b, 6a, and 10. Notice of Filing of USPS-RM2015-2/2, November 21, 2014.

<sup>31</sup> Notice of Filing of USPS-RM2015-2/2 November 21, 2014.

<sup>32</sup> USPS-RM2015-2/2 Public Material Related to Chairman's Information Request No. 1 (Questions 3b, 6a, and 10), November 21, 2014.

contemplated several SAS programs where changes could possibly be made for eliminating the individual route type related to Component Seven. *Id.*, question 12. In its description of how Component Seven could be implemented, it states that “[e]limination of reporting by individual route type can be accomplished by changes in ALBCARMM.”<sup>33</sup> Responses to CHIR No.1, question 12. The Postal Service describes several other possible related programming changes in other IOCS data processing programs that may need to be made, depending on how the proposal was implemented. *Id.* However, it asserts that none of the possible program changes it is considering involving reporting by route type [under Component Seven] would affect the cost impacts from Proposal Nine. *Id.*

In the Postal Service’s status report on questions 15-16, for the outstanding responses to questions 15 (CRA model) and 16 (the delivery cost model), the Postal Service states that in its view, the material filed with its Responses to CHIR No. 1 could “reasonably be interpreted to represent a ‘complete’ response” and that going back to provide the additional documentation requested in questions 15 (CRA model) and 16 (costs by shape in the delivery cost model) would interfere with its FY 2014 ACR preparation activities. Responses to CHIR No. 1 at 2-3. Further, it asserts that rerunning the FY 13 IOCS to obtain FY 13 IOCS costs by shape (in the delivery cost model for question 16) “would not be an insignificant undertaking” and that it “does not view that material [requested in questions 15 and 16] as essential to the task at hand.” *Id.*

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<sup>33</sup> The ALBCARMM Program documentation states that: “The function of the City Carrier Mixed Mail (CARMM) Cost Distribution System is to distribute mixed mail costs to direct mail activity codes and to produce a variety of summary reports as outputs.” See Docket No. ACR2015, Library Reference USPS-FY15-37, file “USPS-FY15-37.pdf,” at 13. The inputs are: (1) cost data summarized by ALB106; and (2) a table mapping direct mail activity codes to mixed mail codes. *Id.*

The Commission considered the Postal Service's concerns on balance and issued Order No. 2261<sup>34</sup> addressing the status report on questions 15-16, finding the Responses to CHIR No. 1 complete. To address potential due process concerns, Order No. 2261 also extended the date for filing comments to three business days after the Postal Service files responses to CHIR No. 2 which was issued contemporaneous with Order No. 2261.

*CHIR No. 2.* Because the Petition had not included any estimates of the impact on the cost segments (CS) related to Components Five (motor vehicle service CS-12) and Six (drive out agreements and carfare costs CS-13), CHIR No. 2 was issued requesting impact cost estimates, as well as an explanation of why the methodologies used in Components Five and Six would be an improvement over the current methodologies.<sup>35</sup>

*Postal Service Responses to CHIR No. 2.* The Postal Service filed its Responses to CHIR No. 2 on November 28, 2014. With its Responses to CHIR No. 2, question 1, the Postal Service attached two Excel workbooks showing the impact on cost segments 12 and 13 with Components Five and Six methodologies implemented.<sup>36</sup> It asserts that utilizing DOIS rather than IOCS for the Office/Street split for foot and motorized routes has two advantages: (1) census data will improve the precision of the product cost estimates; and (2) using DOIS enables IOCS to focus its sampling effort on carriers while in the Office rather than on the Street. Response to CHIR No. 2, question 2.

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<sup>34</sup> Order Addressing Status Report and Extending Date for Filing Comments, November 26, 2014 (Order No. 2261). On balance, the Commission noted that it appeared that the public interest in assessing the fundamental merits of Proposal Nine outweighed the public interest in obtaining more comprehensive data and information on extended implications. At that time, the Commission, therefore, concluded that it was appropriate to relieve the Postal Service of responsibility for filing responses to questions 15 and 16, and to deem the responses filed on November 21, 2014, a complete response to CHIR No. 1.

<sup>35</sup> Chairman's Information Request No. 2, November 26, 2014 (CHIR No. 2).

<sup>36</sup> See Responses to CHIR No. 2, question 1; file "CS12\_TACS" and "ChiR2.CS13\_TACS".

Following the Response to CHIR No. 2, the Public Representative filed initial comments pursuant to Order No. 2238 on December 3, 2014.<sup>37</sup> The Postal Service filed reply comments to the PR Comments on December 5, 2014.<sup>38</sup> The Public Representative filed a response to the Postal Service's December 5, 2014, USPS Reply comments on December 12, 2014.<sup>39</sup>

*CHIR No. 3.* To address certain inconsistencies in the documentation, a calculation error found by the Commission, and the Public Representative's concern over limited information on several components (see December 3, 2014, PR Comments at 8), CHIR No. 3 was issued on February 13, 2015. CHIR No. 3 sought clarification related to the Postal Service's IOCS data processing change that would "zero out" IOCS tallies where the carrier is clocked to Street, yet engaged in Office activities on the premises, and on how activities such as Training, clocking in/clocking out, loading/unloading the vehicle and Route 99 costs would be identified in TACS/MODS, as the documentation provided in CHIR No. 1 did not include any MODS or LDC codes specific for Training workhours or for other Office Support cost workhours or Route 99 costs.<sup>40</sup> The basis for the Postal Service's assertion that the impacts of the new methodology on city carrier costs would be small was also sought. Responses to CHIR No. 1 at 2.

*Postal Service Responses to CHIR No. 3.* The Postal Service's Responses to CHIR No. 3, question 1, would modify its initial proposed approach for tallies that would be used for Office costs where the carrier appears to be performing an Office function, even though they are clocked to Street, and that activities where the carrier may be out

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<sup>37</sup> Initial Comments of the Public Representative, December 3, 2014 (December 3, 2014, PR Comments).

<sup>38</sup> Reply Comments of the United States Postal Service, December 5, 2014 (December 5, 2014, USPS Reply Comments).

<sup>39</sup> Public Representative Response to Reply Comments of the United States Postal Service, December 12, 2014 (PR Reply Comments).

<sup>40</sup> See the MODS and LDC codes provided in the Postal Service's Responses to CHIR No. 1, question 10; Library Reference USPS-RM2015-2/2, excel file "Chir1.Q10.MODS.xlsx."

of the facility, in the parking area or loading dock, would not be used as a basis for distributing Office costs to products. However, it explains, one exception to this modification would be “[c]hecking the [v]ehicle” activities, because it asserts that although that activity does occur in the parking area, the carrier is generally clocked to the Office. The Postal Service asserts that in practice, the difference in mixed mail costs between the current methodology and the Component Seven methodology is not statistically significant. Responses to CHIR No. 3, question 17. The Postal Service reasons that since the direct impacts on unit costs in cost segments 6 and 7 are relatively small, it does not expect much of an indirect impact on the results in the cost by shape model in folder 19 of its ACR filing. Responses to CHIR No. 3, question 18.

Along with the Postal Service’s Responses to CHIR No. 3, the Postal Service provided the SAS code that produced the cost impact estimates it included with its Petition.<sup>41</sup> To address the Postal Service’s proposed modifications to Proposal Nine discussed in the Postal Service’s Responses to CHIR No. 3, question 1, the Commission scheduled a technical meeting to be held in this docket on April 14, 2015.<sup>42</sup> On April 16, 2015, the Commission filed a public library reference of the materials it distributed at the technical meeting held on April 14, 2015.<sup>43</sup> The Postal Service filed a status report on April 17, 2015, for the planned completion of remaining tasks it identified regarding refinements raised at the technical meeting.<sup>44</sup>

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<sup>41</sup> See Responses to CHIR No. 3, question 4, file “ChIR3.Q4.TACSReplaceIOCS.SAS.rtf.”

<sup>42</sup> Order No. 2425, Notice and Order Concerning Technical Meeting, April 6, 2015. The stated purpose of this meeting was to allow the Commission staff to review modifications to Proposal Nine and their impact on supporting financial workpapers with the United States Postal Service personnel. See Responses to CHIR No. 3, question 1, where the Postal Service states “[h]owever, upon review generated by the need to respond to this question, the Postal Service would like to modify the proposal... .”

<sup>43</sup> Notice of Filing Library Reference PRC-LR-RM2015-2/1, April 16, 2015. The PRC Library Reference gave notice that the materials distributed at the technical meeting had been placed in the Docket section for public use.

<sup>44</sup> Status Report of the United States Postal Service Regarding Matters Raised at the Recent Proposal Nine Technical Meeting, April 17, 2015 (Status Report Technical Meeting).

On May 8, 2015, the Postal Service filed its Report regarding matters raised at the technical meeting. Along with its Report, the Postal Service filed Library References USPS-RM2015-2/3, USPS-RM2015-2/NP2, and an application of non-public treatment.<sup>45</sup>

As a result of the Postal Service initiated modifications made to Proposal Nine following the technical meeting, the Commission issued notice of revisions and Order No. 2496 on May 20, 2015, requesting for comments on matters raised in the Postal Service's Report filing.<sup>46</sup>

In response to Order No. 2496, the Public Representative filed initial comments on June 3, 2015, regarding the revisions to Proposal Nine.<sup>47</sup> The Postal Service filed reply comments to the June 3, 2015, PR Comments on June 10, 2015. See June 10, 2015, USPS Reply Comments.

The Postal Service also included the revised mixed mail CARMM program used to develop costs by route group rather than by route type in the Report in response to the Public Representative pointing out a lack of documentation regarding changes to the revised CARMM program.<sup>48</sup> June 3, 2015, PR Comments at 5.

*CHIR No. 4.* After careful review and testing of the revised CARMM program, the Commission identified a calculation change within the programming steps that was not

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<sup>45</sup> Notice of Filing of USPS-RM2015-2/3, USPS-RM2015-2/NP2 and Application for Nonpublic Treatment, May 8, 2015.

<sup>46</sup> Notice of Revisions to Proposal Nine and Request for Comments, May 20, 2015 (Order No. 2496).

<sup>47</sup> Public Representative Initial Comments on Revisions to Proposal Nine, June 3, 2015 (June 3, 2015, PR Comments).

<sup>48</sup> The mixed mail methodology program referenced is filed as: file "ACARMMRG.rtf" (revised CARMM program).

discussed or explained at the technical meeting or in its filings after.<sup>49</sup> As a result, Chairman's Information Request No. 4 was issued on January 19, 2016.<sup>50</sup>

*Postal Service Response to CHIR No. 4.* In its Response to CHIR No. 4, the Postal Service asserts that: “[t]he intent of the programming change to CARMM was to remove training from sampling estimation, since costs for training would be obtained from TACS control total hours. However, while training is recorded with route type 99, it is also used for carriers doing work where the route type is unknown.” Response to CHIR No. 4, question 1. Additionally, the Postal Service also notified the Commission that the program that applies the TACS control totals had been significantly rewritten, adding new variables and new data records for the costs associated for activities, such as Training and Street time, now determined from TACS data. *Id.* It also again revised the CARMM program it had submitted following the technical meeting to reflect the rewritten control totals program and included both programs, “ALB102” and “ACARMMRG” electronically attached to its response. *Id.* It asserts that “Proposal Nine will be consistent with the Summary Description of USPS Development of Costs by Segments and Components, sections 6.2.1 and 6.2.3.<sup>51</sup> However, the costs for the ‘overhead’ category, where the route type is not known, will be automatically split between the known route groups.” *Id.* question 1.d.

*CHIR No. 5.* After an extensive review of the series of revised programs, and the development of the TACS workhours control groups, concerns related to the use of electronically recorded time clock data instead of the IOCS data to split Office and

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<sup>49</sup> See Report; see also Library Reference USPS-RM2015-2/3, June 10, 2015, USPS Reply Comments.

<sup>50</sup> Chairman's Information Request No. 4, January 19, 2016 (CHIR No. 4).

<sup>51</sup> Summary Description of USPS Development of Costs by Segment and Components, Fiscal Year 2015, July 6, 2016 (FY 2015 Summary Description of Development of Costs).

Street costs for city carrier costs<sup>52</sup> in light of other information<sup>53</sup> were intensified. As a result, Chairman's Information Request No. 5 was issued on April 18, 2016.<sup>54</sup>

*Postal Service Response to CHIR No. 5.* The Postal Service provided its response to CHIR No. 5 on April 27, 2016.<sup>55</sup> The Postal Service asserts that “[t]echnological advancements since 1999 have removed the conflicting performance issues cited in the Data Quality Summary Report.” The Postal Service explains that the National Workhour Reporting System (NWRS) reports workhour by LDC and that at the time of the Data Quality Summary Report, the Postal Service was transitioning from having three different workhour systems reporting city carrier workhours into the NWRS, to one uniform system. *Id.* The Postal Service reports that currently, TACS is the uniform system for capturing city carrier activities as it captures the time and corresponding operation number of each city carrier clock ring, and that information is directly fed into NWRS. *Id.* Further, any manual adjustment to clock rings by management is flagged and can easily be audited. *Id.* The Postal Service explains that NWRS aggregates the TACS data by LDC, which can be used to determine the proportion of carrier time spent in Office and Street activities. *Id.* The Postal Service asserts that the standardization of the process for capturing city carrier activities has led to TACS providing accurate proportions of city carrier Office and Street activities. *Id.*

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<sup>52</sup> A.T. Kearney, Inc. Data Quality Study, *Data Quality Study Summary Report*, April 16, 1999, at 44 (Data Quality Summary Report).

<sup>53</sup> See Docket No. ACR2015, Responses to CHIR No. 19). The Postal Service stated “[s]upervisors edit the operation code for TACS clock rings and/or aggregated workhours... .” Docket No. ACR2015, Responses to CHIR No. 19, question 4. Additionally, nearly 50 percent of CAG G Offices, 85 percent of CAG H/J Offices and 96 percent of CAG K/L do not report operation codes in TACS. Docket No. ACR2015, Responses to CHIR No. 19, question 1.

<sup>54</sup> Chairman's Information Request No. 5, April 18, 2016 (CHIR No.5).

<sup>55</sup> Response of the United States Postal Service to Question 1 of Chairman's Information Request No. 5, April 27, 2016 (Response to CHIR No. 5).

## V. COMMENTS

The Commission received comments from the Public Representative on both the initial and revised proposal. The Commission received reply comments from the Postal Service. In addition, the Public Representative filed comments in reply to the Postal Service's reply comments.

*Public Representative Comments on Initial Proposal.* The Public Representative agrees that in general, replacing sampling data with census data should increase the level of accuracy for cost estimates and concludes that the proposed utilization of TACS would be an improvement over the current methodology. December 3, 2014, PR Comments at 4. She reasons that the percentages of time on the Street recorded in TACS and those clocked to Street in IOCS are consistent with the observed difference within 5 percent.<sup>56</sup> She concludes that the Petition in general, satisfies the requirements of 39 C.F.R. § 3050.11 and recommends Proposal Nine for approval. However, she notes that several Proposal Nine components are still not fully fleshed out and recommends that before practical implementation, the Postal Service first clarify the methodology for allocating and distributing loading/unloading costs and, second, provide all relevant documentation illustrating the results of the methodological updates required by Proposal Nine. December 3, 2014, PR Comments at 8.

The Public Representative supports the proposed use of Form 3999 data to estimate the proportion of vehicle loading/unloading time. *Id.* at 6. This is based on her conclusion that the underlying methodology for estimating Street associated with loading/unloading the vehicle appears to be reasonable. *Id.* However, she is concerned about the overall accuracy of calculations and the consistency of different datasets in terms of the split of loading/unloading activity into "clocked to Street" and "clocked to Office." *Id.* She suggests the Postal Service provide a clear and detailed description of the methodology for the split within loading/unloading activity as well as

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<sup>56</sup> *Id.* The Public Representative notes that this percent was calculated using the data provided from Library Reference USPS-RM2015-2/1, file "I\_Forms\_TACS" Excel file "TACS Ofc\_Str." *Id.* n.12.

the further attribution and distribution of costs currently classified as loading/unloading activity in Office Support, cost segment 6. *Id.* at 7. She asserts this will increase the transparency of the proposed changes and allow the Commission to ensure the accuracy of the proposed modifications. *Id.*

The Public Representative notes that the table the Postal Service provided with its Responses to CHIR No. 1, question 5.b., includes additional Office support cost changes (other than loading/unloading the vehicle) that impact multiple tabs in the cost segments 6 and 7 workbook. December 3, 2014, PR Comments at 6. However, she concludes the changes made are consistent with the Postal Service's stated intent to reallocate these costs from cost segment 6, to cost segment 7. *Id.*

The Public Representative also suggests that before practical implementation, in the ACR, the Postal Service provide additional documentation illustrating the results of the methodological updates required by Proposal Nine. By doing so, the Commission can adequately ensure that the Petition meets all statutory and regulatory requirements. *Id.* at 8.

The Public Representative notes that according to the Postal Service, expanding the IOCS cost model would require re-running not only the overall CRA model, but also a separate delivery model, as well as modifying the IOCS tallies and multiple SAS programs. *Id.* She observes that the Postal Service intends to accomplish such tasks "in the extended lead time prior to implementation [in the ACR] of any approved change... ." *Id.* However, she states that "39 C.F.R. § 3050.11 provides that if the petition 'proposes that a specific alternative analytical principle be followed' the Postal Service 'should...where feasible, include an estimate of the impact of the proposed change on the relevant characteristics of affected postal products, including their attributable cost, avoided cost, average revenue, or service attainment.'" *Id.* She concludes that the Petition, in general, satisfies the requirements of 39 C.F.R. § 3050.11. However, she suggests that before practical implementation of Proposal Nine, the Postal Service provide the Commission with the additional documentation that becomes available after making necessary modifications. *Id.*

*Postal Service Reply Comments to Comments on Initial Proposal.* In response to the Public Representative's recommendation that the Postal Service first clarify the methodology for allocating and distributing loading/unloading costs, the Postal Service believes "[p]art of the confusion regarding loading/unloading costs might have been avoided if the proposal description had instead distinguished between 'leaving/returning from route,' with or without mailpieces." December 5, 2014, USPS Reply Comments at 1. Clarifying that leaving/returning, with a mailpiece currently clocked to Office is a direct mailpiece tally (no change), while tallies clocked to Street handling a mailpiece would be eliminated and those costs distributed based on cost segment 7 only. *Id.* at 2. For leaving/returning with no mailpiece tallies, "the tally is eliminated and these costs are distributed based on C/S 7 only." *Id.*

As to the Public Representative's second suggestion that the Postal Service provide all relevant documentation illustrating the results of the methodological updates required by Proposal Nine, the Postal Service considers those details appropriately deferred until presentation in the ACR. *Id.* The Postal Service states that it "places a low priority on completion of this docket, as compared with other pending rulemakings," it hoped to incorporate into the FY ACR. *Id.* at 1. Additionally, it asserts that "[t]he details will reflect nothing more than the simple update of inputs which result from the current methodology to inputs which result from the proposed methodology. These updates are routinely done at the time of proposal implementation in an actual ACR." *Id.* at 2.

*Public Representative Response to Postal Service Reply Comments on Initial Proposal.* The Public Representative states she feels "obliged to reply to the Postal Service comments since they raise[d] issues worth further clarification on the record." PR Reply Comments at 1. She does not agree with the Postal Service's position that it is appropriate to defer the details of the indirect effects of Proposal Nine until presentation in the ACR. *Id.* She highlights the fact that the Postal Service has not rerun the overall CRA model or separate delivery model, nor modified the IOCS tallies and multiple SAS programs associated with Proposal Nine. *Id.* at 2. She believes that

because Proposal Nine has such a broad impact on multiple Postal Service models, the estimated impact should be presented to the Commission prior to presentation in the FY 2015 ACR. *Id.* She reiterates her recommendation “that the Postal Service provide the Commission with all the documentation updated as a result of Proposal Nine as soon as it becomes available.” *Id.*

*Public Representative Comments on Revised Proposal.* The Public Representative notes that the revised Proposal contains multiple micro-changes to the original Proposal that are not always adequately justified. June 3, 2015, PR Comments at 3-4. To ensure transparency and before the Commission approves revised Proposal Nine, she recommends that the Postal Service should provide additional information on numerous parts of the revised Proposal. *Id.* at 4. Her assessment of the revised components descriptions in the Report, is that except for Component One, the descriptions for the revised components are either identical to that in the original filing, or does not result in any actual methodology change. *Id.*

She states that the Postal Service needs to further classify the corresponding Training costs as related to either Office or Street because the Postal Service’s filings do not provide any step-by-step explanation or justification regarding distribution of Training costs between cost segments 6 and 7. *Id.* at 4-5. She states that the revised Proposal does not provide much clarity regarding the actual changes made and the depicted refinements are in no way linked to the components or to any worksheet filed with the revised Proposal. *Id.* at 5. Her recommendation is that before approval, due to the broad impact of Proposal Nine on multiple Postal Service cost models, the Postal Service should provide all the updated documentation to the Commission. *Id.* She asserts that without such information, the Commission cannot ascertain that the revised Proposal meets all statutory and regulatory requirements. *Id.* at 6. The Public Representative notes a lack of documentation regarding changes to the CARMM program used to distribute costs of handling mixed mail back to Products. *Id.* at 5.

*Postal Service Reply Comments to Comments on Revised Proposal.* The Postal Service asserts that the Public Representative’s expressed concerns are about

documentation rather than challenging the substance of the proposed changes. June 10, 2015, USPS Reply Comments at 1. It states that “[t]raining costs...are part of the Office/Street Burdens that are all distributed the same way” and that compared to the current methodology, no change in this allocation is proposed. *Id.*

In response to the Public Representative pointing out a lack of documentation regarding changes to the CARMM program, the Postal Service attached the revised CARMM program to its reply comments. *Id.* at 1-2. In response to the Public Representative’s request, it also linked the changes described in its Report, to the components described in its Petition. *Id.* at 2-3. The Postal Service “submits that the impediments to evaluation of Proposal Nine alleged by the Public Representative... either lack substance, or are sufficiently addressed in these reply comments”. *Id.* at 3.

## VI. DISCUSSION OF PROPOSAL NINE BY COMPONENT

### A. Component One — Use TACS Data instead of IOCS Data to Determine the City Carrier Office/Street Time Split

*Current methodology.* The IOCS is used to disaggregate Office, Street, and Training time by city carrier crafts and Cost Ascertainment Group (CAG).<sup>57</sup> Cost weight factors are assigned to each sample observation, reflecting both the sample design and accrued costs for the CAG and craft group. *Id.* at 7-8. The IOCS cost weighting factor is derived from standard design based weights and national level accrued quarterly cost data for the crafts eligible for IOCS sampling. *Id.* The cost weighting factor is constructed so that weighted sums of IOCS data produce cost estimates consistent with national trial balance accrued costs totals by quarter. *Id.*

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<sup>57</sup> The IOCS CAG is a measure of size for each Office based on its total revenue receipts two years prior. See Docket No. ACR2015, Library Reference USPS-FY15-37, file “USPS-FY15-37.pdf,” at 3. The city carrier crafts are identified as: City Delivery Carriers-Full-Time; City Delivery Carriers-Part-Time Regular; City Delivery Carriers-Part-Time Flex; City Delivery Carriers-Casual; City Delivery Carriers-Transitional; City Delivery Carrier-Assistants. See Docket No. ACR2015, Library Reference USPS-FY15-37, excel file “IOCSDataDictionary15.xls,” at 1 under the “Roster Designation” section.

Currently, the Postal Service's Accounting System is used to develop city carrier accrued cost control totals for each CAG Level Facility Group (A-H). The city carrier accrued costs are disaggregated between the city carrier regular and other city carrier craft group for each quarter of the fiscal year.<sup>58</sup> These total accrued costs are used to develop the IOCS cost weighting factors. Specifically, the cost of each craft/CAG group for the quarter is distributed to each IOCS sampled employee in proportion to the employee's design weight relative to the total design weight for the stratum.<sup>59</sup> The IOCS is stratified by CAG level and craft to improve the precision of the estimates and ensure adequate representation of city carrier activities that may differ by CAG level and craft.

Because there are 8 CAG levels and 2 employee groups, there are 16 accrued cost totals. The 16 accrued accounting system cost control totals by CAG and craft for the FY 2015 quarter, are shown in Table VI-1 below. These are the accrued costs for the facilities in that CAG with those crafts.<sup>60</sup>

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<sup>58</sup> See Docket No. ACR2015, Library Reference USPS-FY15-37, ALB directory, the "HQ624D01" folder contains quarterly accrued total expense data by craft and CAG. The two city carrier craft groups are listed in the last two columns of these quarterly files.

<sup>59</sup> Docket No. ACR2015, Library Reference, USPS-FY15-37, file "USPS-FY15-37.pdf," at 7.

<sup>60</sup> See Docket No. R2006-1, Library Reference USPS-LR-L-9, May 3, 2006, file "USPS-LR-L-9\_R2006-1\_IOCS.pdf," at 48, description of the ALB.HQ624D01 file, Post Office expense data by craft and CAG.

**Table VI-1**  
**FY 2015 Quarter 1, Cost Control Totals, Accrued Costs by CAG and Craft<sup>61</sup>**

<b>Pay Data Systems (TACS/LDC) Post Offices Total Accrued Costs by CAG Level and Craft Group</b>		
<b>CAG Level Facility Group</b>	<b>City Carrier Regular (\$)</b>	<b>City Carrier Other (\$)</b>
A	\$673,337,426	\$73,326,876
B	\$836,721,058	\$93,077,388
C	\$903,443,903	\$95,116,223
D	\$433,122,845	\$45,458,239
E	\$471,993,197	\$55,134,140
F	\$215,342,545	\$34,199,521
G	\$76,333,056	\$24,583,481
H	\$15,250,102	\$9,240,043
<b>Total</b>	<b>\$3,625,544,132</b>	<b>\$430,135,911</b>
Source: Docket No. ACR2015, Library Reference USPS-FY15-37, ALB/HQ624D01 folder, file "FY151".		

Once the accrued cost control totals are developed using the Accounting Systems data, the IOCS is used to distribute costs into cost segments, cost pools, and subsequently products. The current methodology allocates Office, Street, and Training costs by route group and route type. One of the data points recorded by IOCS tallies is the TACS category that the carrier is clocked into, such as Office or Street. However, the IOCS also records the actual activity the employee is performing.

Another significant component of the current methodology is the ability to assign costs when the employee is not clocked into a route group, or not clocked into the correct route group. The two route groups are regular letter routes and special purpose

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<sup>61</sup> The sum of all the sampled employee's cost weight (IOCS tally) from that facility group CAG-level and craft group, and quarter equal the total city carrier cost for that craft group (city carrier regular or city carrier other), facility group-CAG-level and quarter accrued from the Postal Service's accounting system. These accounting system cost totals are shown and included ...reference.

routes. Route group related costs are determined by the route type or group the carrier is assigned to or assisting.<sup>62</sup> The following are examples of adjustments to Office, Street, and Training costs performed by the IOCS. The IOCS “unassigned route” code (Route 99) is for Office activities where the carrier is not assigned a route and not assisting another carrier assigned to a route. Street time for a carrier unassigned to a route or route group is recoded in the IOCS data processing steps as a special purpose route code and distributed to the special purpose route group Street costs.<sup>63</sup> For those carriers handling mail that are not assigned to the route (Route 99) Office direct labor costs are included with the Office direct labor costs for letter routes,<sup>64</sup> and costs related to clocking in/clocking out/leaving/returning are included with the overhead Office Support costs.<sup>65</sup>

The IOCS activity code for receiving or giving training not handling mail, forms or equipment is 6519. IOCS data collection procedures identify training that is route type or group specific, and training that is not route type or group specific. Costs for receiving or giving training that are route group specific are distributed directly to

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<sup>62</sup> Docket No. ACR2015, Library Reference USPS-FY15-37, file “IOCSDataEntryFlowchartFY15” “Q16” tab, see questions “Q16B1a,” “Q16B2,” “Q16B1b”. For the letter route group, the route types are business-foot, business-motorized, residential-foot, residential-curb, residential-park and loop, mixed (residential and business)-foot, and mixed (residential and business)-motorized. For the special purpose route group, the route types are exclusive parcel post, collection, relay, and other.

<sup>63</sup> See Docket No. ACR2015, Library Reference USPS-FY15-37, folder “SASPrograms,” file “ALB078.” City carriers unassigned to a route type and not on the premises are coded to Street time and the costs are assigned to the “Other” special purpose route type. F242='98' is the assignment to the special purpose route group, error code=\$\$BA is assigned to the sampled employees' record in the 'ALB040' file in this same ACR folder.

<sup>64</sup> See Docket No. ACR2015, Library Reference USPS-FY15-32, December 29, 2015, workbook “I\_FORMS-Public-FY15” “I-CS06.0.2.2” tab, column B.

<sup>65</sup> See Docket No. ACR2015, Library Reference USPS-FY15-32, workbook “CS06&7-Public-FY15” lines 12-17 column E.

products in either the letter or special purpose route group tab in the cost segment 6 and 7 workbook.<sup>66</sup> Costs training activities that are not route type or group specific are considered overhead Office Support costs because the training cost is not specific to a route type or group. Overhead Office Support costs are not distributed to products within the cost segment 6 and 7 workbook, but rather, output directly to the CRA model.

*Proposed methodology (as filed).* Component One uses TACS and MODS workhours data instead of IOCS data to obtain the percentages of Office city carrier time and Street city carrier time.<sup>67</sup> Petition at 2. Office and Street data will no longer be collected by route type, but rather will be aggregated into two route groups; letter routes and special purpose routes. Because route type data are not collected in TACS, MODS LDC workhours, entered by the carrier either manually or through badge swiping, will be used to determine if the carrier is on a letter or special purpose route group. Roster designations identify whether a city carrier is full-time or part-time. Under the proposed methodology the roster designations will be used to create cost pools within four categories: (1) Full-Time Regular City Carriers, letter route group; (2) Full-Time Regular City Carriers, special purpose route group; (3) Part-Time/Non-Regular City Carriers, letter route group; and (4) Part-Time/Non-Regular City Carriers, special purpose route group.<sup>68</sup> *Id.*

*Proposed methodology (as revised):* Component One as revised, identifies Training time (LDC 92), in addition to Office and Street time, as a category of carrier hours obtained from TACS and corrects the initial assignment of certain MODS codes

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<sup>66</sup> Based on IOCS question Q16A03A: Is the employee giving or receiving Training? Based on IOCS question Q16A03B: Is this Training route specific? See Docket No. ACR2015, Library Reference USPS-FY15-32, "CS06&7-Public-FY15," "7.0.4.1" tab, "Office/Street Burdens" section and "7.0.6" tab columns "AC" "AD" "AE" (letter routes) and columns "Q", "R", "S" (SPRs).

<sup>67</sup> TACS is an automated system (used by all installations) for the collection of employee time and attendance delivery costs, city carrier network costs, and city carrier Office costs.

<sup>68</sup> LDC is a two-digit number that describes the major work assignments within a postal facility. The first digit represents the functional area (e.g., mail processing); the second digit identifies the type of activity (e.g., supervision). Roster designation refers to a carrier's employment status (either Full-Time Regular or Part-Time/Casual/Transitional).

(to identify Office or Street activity). Report at 3. TACS will also be used to identify the percentage of Office, Street, and Training workhours within each of the roster designation and route groups. *Id.* at 3. This workhour information will be used to create cost pools within the four cost control totals. *Id.* at 4.

The Postal Service summarized the steps in its Report following the technical meeting as:

- a. Identify the working status (in-office, on-street or training) based on Labor Distribution Code (LDCs 21, 26, 28 and 29 are in-office; LDC 22 is on-street; LDC 92 is training) or by the office or street MODS operation codes within LDCs 23 and 27.
- b. Identify the appropriate roster designation group (full time regular or part time / casual / transitional) by the employee's roster designation. For hours where the roster designation is not known (LDC 92), allocate the hours to the roster designation group in proportion to hours where roster designation is known.<sup>69</sup>
- c. Identify the appropriate route group as letter routes (LDCs 21, 22, 26 and 28) or special purpose routes (LDCs 23 and 27). For hours where route group is not known (LDCs 29, 92), allocate the hours to the route group in proportion to hours where the route group is known.
- d. This information will be used to create cost pools by splitting costs within four categories:
  - i. Full-Time Regular Carriers, Letter routes
  - ii. Full-Time Regular Carriers, SPR
  - iii. Part-Time/Casual/Transitional, Letter routes
  - iv. Part-Time/Casual/Transitional, SPR

Report at 3-4.

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<sup>69</sup> "Roster designation" is not known for the LDC 92 Training workhours because both supervisors and non-supervisors of delivery services log workhours in this same LDC. The Management Operating System (MODS) Handbook M-32, March 2009, at 254 (Handbook M-32), states that LDC 92, (MODS code 782) contains both "[s]upervisor and non-supervisor work hours."

The Postal Service also revised the “assignment of workstatus category” for the IOCS tallies to use carrier activity, *i.e.*, “carriers performing activities that are typically office activities are assigned to in-office, while carriers performing activities that are typically street activity are assigned on-street.” *Id.* at 6. Further, “IOCS data collection procedures would be modified to perform active readings on carriers only while they are within the facility.”<sup>70</sup> *Id.*

*Rationale for Proposed Methodology (as filed).* The Postal Service states that “replacement of the current sampling estimate of the office/street split with census data will increase the overall precision of the product cost estimates. This will also enable a redesign of the approach used by IOCS for sampling city carriers. If IOCS no longer has to estimate the office/street split, it can focus its sampling effort on carriers while they are in the office rather than on the street.” Responses to CHIR No. 1, question 5.a. The Postal Service asserts that “[t]he standardization of the process for capturing city carrier activities has led to TACS providing accurate proportions of city carrier office and street activities.” Response to CHIR No. 5. The Postal Service further states that “there are three reasons why electronic recorded time clock data can now be reliably used, as a substitute for IOCS, to establish the office and street split for city carrier activities. One, TACS becoming the uniform system to record city carrier clock rings resulted in management developing procedures that ensure that carriers are measuring their office and street activities in a consistent and reliable fashion. Two, TACS information is automatically captured by NWRS, which obviates the need for daily manual entries by carrier supervisors. Three, all manual adjustments to clock rings in TACS are flagged and can easily be traced for justification as needed.” *Id.*

*Commission Analysis.* The Commission cannot approve Component One; because the Postal Service’s contention that the precision of overall city carrier cost

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<sup>70</sup> “One exception is carriers checking their vehicle; typically carriers engaged in this activity are still clocked to office even though they are in the parking area outside of the facility, and in such instances, IOCS readings will continue to be performed and assigned to in-office. *Id.* n.4.

estimates will be enhanced is not adequately supported on this record. The Postal Service has not shown that total city carrier time and costs developed across four different data systems will accurately capture total time. The Postal Service also has not explained the deficiencies in the current IOCS methodology or demonstrated that the 12 cost pools<sup>71</sup> will be more precise than those developed through use of the IOCS. Consequently, the Commission cannot determine that Component One of Proposal Nine improves the quality, accuracy, or completeness of the data or analysis of the data contained in the Postal Service's annual periodic reports to the Commission. The primary issues of concern for Component One are: (1) it is not clear how anomalies in the TACS/MODS workhours will be corrected and how the related cost estimates will be accurately adjusted; (2) there is inadequate explanation of workhours adjustment factor(s) and shifting of certain costs; and (3) there is a lack of clarity on the distribution of unknown or unassigned (Route 99) route costs.

Also of ongoing concern, the Postal Service's control totals program filed after the technical meeting (intended to take into account activity rather than just clocking status for the IOCS sampled employee) shifts costs from the IOCS developed Office cost pools. The Postal Service has not explained why that is appropriate nor does it explain how total time and associated costs have been accurately captured in its revised proposal.<sup>72</sup> This issue is discussed further under Component Two.

The Commission also finds the Postal Service's additional revisions to the revised Proposal, made after the technical meeting and the comment period problematic as these additional revisions were not available for timely public review.<sup>73</sup> It

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<sup>71</sup> An Office, Street, and Training cost pool would be developed with each of the four cost control totals: Full-Time Regular Carriers-Letter Routes, Full-Time Carriers-SPRs, Other Carrier-Letter Routes, and Other Carrier-SPRs.

<sup>72</sup> The SAS program code "Reweight.IOCS.Tallies.Agg.Doll.Wgts" shifts the costs of "leaving/returning from the route" when clocked to the street from Office to Street. *Id.* at lines 74 to 77. It is not clear how material handling mail tallies would be accounted for elsewhere with the information as presented in this proceeding.

<sup>73</sup> See Response to CHIR No. 4.

is also problematic that the Postal Service did not include the data files used with its newly revised programs along with its Response to CHIR No. 4 because the Commission could not test and evaluate the processing procedures and cost impacts.<sup>74</sup> As a result, the actual impact of these changes is unknown. In future rulemaking proceedings, the Commission directs the Postal Service to provide its complete documentation that includes the programs and data files it used to create the cost impacts presented in its Petition initially, as well as provide the data and programs for its proposed revisions such that participants can participate in a timely manner.

*It is Not Clear How Anomalies in the TACS/MODS Workhours Will be Corrected and Costs Accurately Adjusted.* The Postal Service contends that replacing the IOCS sampling system with census data from these other systems will increase the overall precision of the city carrier cost estimates. However, IOCS captures the actual activity that the carrier is performing at the time of the sample regardless of whether the carrier is in the Office, on the Street, or in the parking lot or loading dock. There are two major areas where the available data from the current methodology highlight a major issue with the proposed method. The available data show that there are instances where carriers are mis-clocked into Office or Street. The TACS/MODS workhours record instances where the carrier is clocked to Street that in the current methodology, based on the activity being performed, would be considered Office or Training costs. TACS/MODS also contains workhours when the carrier is clocked to Office that would be considered Street time under the current methodology. The current methodology assigns such Office, Street, and Training workhours to cost pools, and thus products, based on the actual activities. The Postal Service has not adequately explained how these situations will be handled under the proposal, particularly given the additional

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<sup>74</sup> The Postal Service did not include any of the data files used within the programs code with which it could test and evaluate the results and methodology.

revision the Postal Service provided in its Response to CHIR No. 4,<sup>75</sup> or alternatively, provided a persuasive rationale for why it is no longer accounting or adjusting for these situations.<sup>76</sup> Currently, the city carrier IOCS sample cost weights sum to the total costs for that craft and CAG group. This allows for unassigned and mis-clocked Office, Street, and Training time to be identified and moved into the correct cost categories and route groups by the IOCS data collector and editing process. It is not clear from the steps proposed in Component One how unassigned, mis-assigned and mis-clocked time will be identified and what procedure and data will be used to correct the costs. In any future related filings, the Postal Service must show, by providing the technical detail, and explain how the correction of mis-assigned and mis-clocked data and associated costs will be achieved.

In addition, IOCS data collectors obtain additional information and correct or refine TACS workhours and account for work time where the city carrier with a city carrier roster designation is temporarily acting in a supervisory role.<sup>77</sup> Further, the IOCS also accounts for pay locations with higher wages that would result in higher costs due to the higher wages associated with the work time.<sup>78</sup> It is not clear how or whether the methodology as described in this proceeding would account for these types of higher-related costs for the time associated with those activities.

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<sup>75</sup> In its Response to CHIR No. 4, the Postal Service states it will be removing Training and Street from IOCS sampling estimation.

<sup>76</sup> The Postal Service currently adjusts its mail processing TACS/MODS workhours developed costs using additional information obtained by the IOCS data collector. See Docket No. ACR2015, Responses to CHIR No. 19, question 4. "IOCS does not systematically overstate or understate costs for all cost pools. Overall, the current methodology reflects a judgment that the census-based pool costs are reliable for determining the levels of costs whereas the IOCS data are valid for estimating activity proportions..." *Id.*

<sup>77</sup> In FY 2013, the IOCS data collector and editing procedures corrected for nearly half a billion dollars of city carrier costs for those employees having a city carrier roster designation that were temporarily assigned to a supervisory role. See Docket No. ACR2014, Responses of the United States Postal Service to Questions 1-8, 10-11, and 14-15 of Chairman's Information Request No. 7, February 19, 2015, question 6; Library Reference PRC-LR-RM2015-2/1, at 15.

<sup>78</sup> See Docket No. ACR2015, Library Reference USPS-FY15-37, file "USPS-FY15-37.pdf," at 8 n.4.

The Commission also finds that the specific change described in its Response to CHIR No. 4, *i.e.*, to entirely eliminate Training and Street time from the IOCS sampling estimation is problematic because the IOCS identifies employees clearly engaged in an Office or Training activity, yet clocked to Street. The current methodology allows for the cost allocation to be corrected accordingly. As a result of additional information obtained by the IOCS data collector, a correction is made so that the time and costs can accurately be included in the Office, Street, or Training activity cost pools. The elimination of Street and Training time from IOCS sampling estimation, and relying on the TACS/MODS/FORM 3999 workhours to develop costs, could potentially understate or misallocate time and associated costs to cost pools.

It would seem that by using the IOCS collected information to account for, adjust and classify Street and Training time correctly could be retained and may be warranted under modified Proposal Nine. However, the Postal Service does not discuss this approach in this proceeding nor explain how TACS/MODS workhours that represent the same activity yet are clocked into different workhour pools, will be used to correctly estimate and allocate costs.<sup>79</sup>

Overall, the proposed adjustments to account for possible differences between the use of three or four data systems to approximate total city carrier time and costs have only been applied to the IOCS cost-weighted tallies to approximate the impact of Proposal Nine and would not directly impact the actual TACS/MODS or Form 3999 workhours themselves.<sup>80</sup>

The proposed elimination of Training activity from the IOCS sampling estimation is also problematic because of the different types of Training activity costs recognized under the current methodology. The Postal Service's current worksheets and

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<sup>79</sup> The Postal Service states that the: "IOCS does not systematically overstate or understate costs for all cost pools. Overall, the current methodology reflects a judgment that the census-based pool costs are reliable for determining the levels of costs whereas the IOCS data are valid for estimating activity proportions...." Docket No. ACR2015, Responses to CHIR No. 19, question 4.

<sup>80</sup> See CHIR No. 3, question 1, Tables 1-4.

documentation contain different types of costs depicted as Training. One IOCS group of costs labeled "Training" is an aggregate of Office support costs that include some Training costs, but are primarily costs related to preparing and checking the vehicle, obtaining or returning accountables or keys, and participating in a safety talk/meeting.<sup>81</sup> In FY 2015, these costs labeled "Training" that are primarily related to activities other than Training activities costs were over \$400 million. The additional modification made to the revised proposal does not specify which current Training costs will be included in the new Training category developed from TACS clocking workhours.

The Postal Service makes no distinction between Route 99 (unassigned to a route group) Office direct labor costs and TACS Training workhours. Response to CHIR No.4. The Postal Service responds to the Public Representative's request that it explain how Training costs are allocated to Office and Street, by asserting that no change in allocation is proposed and "Training costs (IOCS activity code 6519) are part of the Office/Street Burdens that are all distributed the same way." June 10, 2015, USPS Reply Comments at 1. However, it neglects to mention or acknowledge the other larger portion of costs included in this Training group, it points to in workbook "CS06&7\_TACS" cell I35 in the "7.0.4.2" tab, *i.e.*, IOCS activity code 6430-checking the vehicle, keys, accountables or attending a safety meeting.<sup>82</sup> June 10, 2015, USPS Reply Comments at 1.

While the Route 99 group currently includes workhours for receiving or giving Training if the Training is not specific to a route or route group, it also includes workhours for carriers unassigned to a route that are handling mail. Route 99 Office direct labor costs vary with volume, whereas Training specific to the route group varies

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<sup>81</sup> Two indirect volume variable (cost driver is the number of routes, rather than volume) activity codes (not handling mail, forms, or equipment with mail in it) are used for this cost pool, IOCS activity code 6519 for Training and activity code 6430-preparing and checking the vehicle, obtaining or returning accountables or keys, participating in a safety meeting or talk. See file "MASTER.CODES" in Docket ACR2015, Library Reference USPS-FY15-37.

<sup>82</sup> The excel file "CS06&7\_TACS.xlsx" workbook was filed in Library Reference USPS-RM2015-2/3. See "Input IOCS" tab, cell C10 for the activity codes 6519 and 6430 used for the group costs labeled "Training."

indirectly with volume. Because of the differences in costs between Training and other unassigned route costs, it is difficult to discern how Component One can produce comparable cost pool groups that align with the accepted volume variability relationships and distribution.

*Inadequate Explanation of Workhours Adjustment Factor(s) and Shifting of Costs.*<sup>83</sup> The control totals program filed in Response to CHIR No. 4, question 1 also creates a TACS/MODS workhours adjustment factor to weigh the Office tallies costs across all CAGs. It is not clear how the Postal Service's methodology for creating the TACS workhours adjustment factor(s), takes into account what would be expected to be proportional workhour differences (given cost differences) for Office, Street, and Training workhours by CAG level and craft group for the workhour percentages it develops for its Office, Street, and Training control totals. Because activities, products, workhours, and costs may differ at the CAG-level, it is not clear how the correct CAG-level proportion of costs will be distributed from the control totals as described in the revised proposal. The Postal Service should provide the technical details in any future proceedings related to this Proposal. By doing so, transparency around these issues will be increased.

Because the Postal Service has not filed the corresponding data files used in the three versions of its control totals programs, it is not clear how workhour differences by CAG level are accounted for in the development of its city carrier cost control totals. Combining across CAGS for its TACS workhours adjustment factors in its control totals programs would appear to result in a less CAG specific cost control total. It is not clear how this adjustment improves the quality, accuracy or completeness of the city carrier cost

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<sup>83</sup> In its Response to CHIR No. 4, the control totals program the Postal Service appears to have eliminated the TACS Training factor it introduced in the control totals program in response to the technical meeting discussion in the Library Reference USPS-RM2015-2/3, file "Reweight.IOCS.Tallies.Agg.Doll.Wgts," at 5, the code: "when 'TRAIN' then x9250b\*TACSFactor;" adjusts the IOCS tally weight (x9250) by multiplying(\*) by the TACSFactor workhours.

pools over those developed using the current methodology. Table VI-2 illustrates some of these workhours and costs differences at the CAG level.

Using the special purpose route group and IOCS costs in this example, Table VI-3 suggests that the percentages obtained for Office, Street, and Training time using TACS workhours may differ depending on whether they are combined to calculate the percentage or developed at the CAG level. It is not clear how the Postal Service has taken this into account for its workhour percentages applied to its control group costs in this proceeding. In the tables below, the column header “Overall CAGs” is developed using the proposed methodology and the column headers “CAG-Level Proportion of SPR Route Group Costs” and “CAG-Level SPR Route Group Costs” are developed using the current accepted methodology.

**Table VI-2  
FY 2015 SPR Group: Differences in Cost Proportions for Costs Developed at the CAG Level vs. Cost Proportions Developed Overall CAGs**

	Overall CAGs	CAG Level Proportion of SPR Route Group Costs <sup>a</sup>							
		A	B	C	D	E	F	G	H
IOCS-Identified Activity	Proportion of Total SPR Route Group Costs								
Office <sup>a</sup>	8.66%	9.91%	9.53%	5.96%	6.44%	7.83%	16.43%	3.06%	0.00%
Training <sup>b</sup>	0.25%	0.29%	0.18%	0.19%	0.14%	0.55%	0.00%	0.00%	0.00%
Street	91.09%	89.80%	90.29%	93.85%	93.42%	91.62%	83.57%	96.94%	100.00%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

<sup>a</sup> As estimated by the IOCS tallies costs, city carrier non-supervisory crafts combined.

<sup>b</sup> Training is giving/receiving Training specific to the SPR route group and not handling mail, forms or equipment (IOCS activity code 6519).

Source: Commission-generated estimates from IOCS dataset, see Docket No.ACR2015, Library Reference USPS-FY15-37.

**Table VI-3  
FY 2015 SPR Group: CAG Level Costs and  
Overall City Carrier Costs**

Overall CAGs		CAG Level SPR Route Group Costs <sup>a</sup>							
IOCS-Identified Activity <sup>a</sup>	Total SPR Route Group Costs	A	B	C	D	E	F	G	H
Office	\$45,983,660	\$20,968,970	\$11,447,070	\$6,110,313	\$2,588,108	\$3,412,356	\$1,331,565	\$125,272	\$0
Training <sup>b</sup>	\$1,328,149	\$617,166	\$214,624	\$199,111	\$56,223	\$241,025	\$0	\$0	\$0
Street	\$483,449,100	\$190,073,100	\$108,385,700	\$96,224,830	\$37,535,540	\$39,925,980	\$6,773,065	\$3,969,170	\$561,741
Total	\$530,760,900	\$211,659,300	\$120,047,400	\$102,534,300	\$40,179,870	\$43,579,360	\$8,104,631	\$4,094,442	\$561,741

<sup>a</sup> As estimated by the IOCS tallies costs, city carrier non-supervisory crafts combined.  
<sup>b</sup> Training is giving/receiving Training specific to the SPR route group and not handling mail, forms or equipment (IOCS activity code 6519).  
 Source: Commission-generated estimates from IOCS dataset, Docket No.ACR2015, Library Reference USPS-FY15-37.

In any future filings related to Proposal Nine, the Postal Service should provide its rationale for why an overall CAGs TACS/MODS workhours adjustment factor (by craft and route group) or costs developed from workhour percentages that don't take into account CAG level differences, would result in more complete or improved Office, Street, and Training city carrier cost pools.

*Lack of Clarity on the Distribution of Unknown or Unassigned Route or Roster Costs.* In its proposed methodology for the distribution of unknown roster designation/route group and unassigned to a route (Route 99) costs, labeled as the "mixed" route group in its revised programs, it appears that the Postal Service may be combining different types of Office costs that currently exhibit different volume variability, and are of a different proportional time (workhours) and cost magnitude between the IOCS and TACS/MODS.<sup>84</sup> As a result of combining these cost groups, the

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<sup>84</sup> The SAS code in file "Reweight.IOCS.Tallies.Agg.Doll.Wgts" included in Library Reference USPS-RM2015-2/3, in the "\*\*Assign route group and craft group for TACS hours;" section uses the LDC code 9200 (Training TACS workhours) for the RouteGrp="MIX" on page 2 and on page one, the code to define the IOCS tallies (unassigned to a route) under the "define route group;" section, "if F260='99' then routeGrp='MIX';" appears to link these records that are later used in the code to create a Training adjustment factor.

proposed TACS workhours adjustments and the methodology for distributing unknown or “mixed” route group costs, may not accurately capture year-to-year volume variable cost changes.

The Postal Service proposes to distribute cost incurred by carriers when the route is unknown or unassigned in the same proportion as costs for the letter and special purpose routes. However, the specific procedures used and the associated SAS programming changes appear to conflict with accepted analytical principles. The Postal Service has not presented any evidence that workhours for city carriers unassigned to a route group in TACS are incurred in the same proportion as workhours for routes where the route group is assigned. Using the proportion of known letter routes and special purpose routes as proposed to classify unknown or unassigned routes could lead to underreporting the costs related to special purpose routes. IOCS identifies over 97 percent of known routes as letter routes.<sup>85</sup> Under the proposal, therefore, about 97 percent of unknown routes may be classified as letter routes and less than 3 percent may be classified as special purpose routes.

The Commission examined the FY 2015 IOCS data related to route type and found that nearly all letter routes city carrier IOCS readings were assigned a route and the route number and ZIP Code did match the Address Management System (AMS) information. However, for the SPR route IOCS readings, about 30 percent were not assigned to the route. For those that were assigned to the SPR route, none matched the AMS route information.<sup>86</sup>

In the TACS/MODS, for LDC 23 special purpose route workhours, the employee must also enter the route number for the workhours to be identified as special purpose route related workhours. It is not clear from the documentation whether those routes

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<sup>85</sup> This is based on the FY 2015 IOCS data to “Q16B01A: Is the carrier assigned to the route?”

<sup>86</sup> The Postal Service has stated that SPRs may be underreported in the AMS. See Docket No. RM2009-10, Proposal Eight, July 28, 2009, at 2, (Docket No. RM2009-10, Proposal Eight), file “Prop.8.Appendix.CCCS\_SPR\_Documntatn.pdf.”

that do not match the AMS (as identified by the IOCS data collector) or workhours for an employee not assigned to a route in TACS/MODS are unknown because of mismatches with AMS that require updated or additional information, or because of incomplete data being entered by employees, or because the employee is unassigned to a specific route or route group. In addition, because a number of facilities do not report or use TACS/MODS codes,<sup>87</sup> it is unclear to the Commission if in those cases, special purpose route group control costs would be improved under the Postal Service's proposal. Because many special purpose routes are used for parcel delivery, if the workhours related to special purpose routes are underreported the costs allocated to competitive products will be understated.

Similarly, the Postal Service proposes that for workhours where the roster designation is not known it will allocate the workhours to the roster designation group in proportion to workhours where roster designation is known. Report at 3. It is not clear from the information filed in this docket that workhours for unknown roster designations will vary in proportion to workhours in known roster designations. This is particularly true for carriers who are temporarily performing supervisor duties. It is also unclear to the Commission why city carrier supervisor workhours are also included in the city carrier regular workhours group in the recently revised control total program filed with its Response to CHIR No. 4.

*Analysis of Public Representative Comments.* The Public Representative is correct in her assessment that the percentages of time on the Street recorded in TACS and those clocked to Street in IOCS are within 5 percent of each other. However, by not providing the SAS program with which it developed the Petition estimates initially, the Postal Service did not allow for the Public Representative's review of the calculation methodology or its TACS adjustment factors. In its future rulemaking filings, the Commission directs the Postal Service to file all documentation for its estimates with its

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<sup>87</sup> See Docket No. ACR2015, Responses to CHIR No. 19, question 1.

initial Petition. Further, the Postal Service significantly revised its control totals program, included workhours other than city carriers in its programming code, and eliminated “Training” from IOCS sampling estimation without explanation or justification after the technical meeting. As a result, the actual impact of its revised proposal on letter routes and special purpose route group Office, Street, and Training costs is unknown. Because the Postal Service provided three different programs for developing control totals, each of which contained different assumptions and methodologies, the Commission cannot determine the appropriate method, rationale and impact of including workhours other than city carrier workhours in the programming steps and/or eliminating both Street and Training from IOCS sampling estimation.<sup>88</sup> For the reasons discussed above, the Commission cannot accept Component One. In future filings related to Component One, the Postal Service should complete all related changes to its SAS data processing programs and include the data files with its initial Petition. Additionally, for city carrier costs the Postal Service proposes to modify, shift in or out of the IOCS methodology, replace, or eliminate, it should explain and provide its rationale for each and all changes. The Postal Service should also ensure that the filing and associated documentation explains and accounts for total city carrier costs given the city carrier cost pools affected.

The Commission reviewed the SAS programming code in the revised controls totals program filed after the technical meeting, and this review raised concerns that material handling mail Office costs and not handling mail Office support costs are

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<sup>88</sup> The Postal Service is using the TACS adjustment factor to change the Office cost weights associated with the sampled IOCS tallies without proper documentation or explanation. The SAS control program code includes workhours from LDC 20-city carrier supervisors, LDC 25-rural carriers in the “CHIR3.Q4.TACSReplacelOCS.SAS” program at 1-2 and the code immediately after:

“If CraftGrp = 1 then CraftGrp = 5; \*convert supervisors to fulltime carriers;” filed with its Responses to CHIR No. 3, question 4 and in the “ALB102” control totals program filed with its Response to CHIR No. 4.

shifted out of Office costs in the SAS processing steps.<sup>89</sup> Given that the overall goals of the IOCS redesign in 2005 were in response to the Data Quality Summary Report recommendations that the Postal Service improve IOCS by including additional sub-sampling of mixed mail observations and reducing not-handling observations,<sup>90</sup> it is not clear why the Postal Service now considers these “Street time activities” and the current IOCS Office should be shifted to Street in its control totals programs. It is also not clear how the Street workhours developed using TACS/MODS data would be adjusted or account for total costs related to these activities. The Postal Service should address this issue and explain how total costs for these activities would be accounted for in any future rulemakings related to Proposal Nine.

B. Component Two — Use Form 3999 to Determine All City Carrier Street Time Loading/Unloading Vehicle Costs

*Current Methodology.* In the methodology at the time of filing, a special study was used to capture the Street time used to prepare for delivery (loading/unloading the vehicle). This time is separately identified for letter and special purpose routes.<sup>91</sup> The Postal Service implies that the costs related to the time spent on loading/unloading the vehicle (handling mail, forms or equipment with mail in it) are transferred from Street cost segment 7 to Office cost segment 6. Petition at 2-3. However, based on the IOCS documentation, editing and resulting data file, it appears that both Street and Office include costs related to loading/unloading the vehicle and handling mail on the

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<sup>89</sup> The Commission could not directly test the primary program code filed with the Postal Service’s Response to CHIR No. 4 due to the structural changes in the code itself and the lack of provision of the data files used within the programs code.

<sup>90</sup> Docket No. R2006-1, USPS-T-46 at 4.

<sup>91</sup> Letter routes Street time delivery prep in Docket No. R2005-1 (at the time of the Petition filing) and Special Purpose Routes Street support in Docket No. R97-1.

premises/at the station under the methodology at the time of its filing.<sup>92</sup> The IOCS also identifies “leaving or preparing to leave for route [including loading the vehicle] and returning from route...” as another activity code 6422 support cost group related to not handling mail that varies indirectly with volume (costs vary based on the number of routes).<sup>93</sup> Because the cost-to-cost driver relationship is not directly volume variable (when it can be assigned to a route group), the IOCS activity code 6422 costs are currently grouped with other costs with the same cost-to-cost driver relationship (clocking in/clocking out and Training-IOCS activity code 6519 not handling mail, forms, or equipment with mail in it) and distributed within the cost segments 6 and 7 workbook in a manner that reflects this cost relationship.<sup>94</sup> This group of costs is referred to as the “Office/Street Burdens.” Petition at 1.

*Proposed methodology.* The Postal Service proposes to use Form 3999 data to determine loading/unloading time. These costs will be considered Street costs rather than Office costs, as is currently done. The Postal Service asserts that using the Form 3999 data set to develop loading/unloading vehicle costs results in higher and more accurate costs than prior costs estimated by the IOCS. Petition at 4-5. The Postal Service asserts that “[t]his is analogous to the current treatment of rural carrier costs

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<sup>92</sup> See Docket No. R2005-1, Testimony of Dennis P. Stevens on Behalf of the United States Postal Service, April 8, 2005 (Docket No. R2005-1, USPS-T-15), at 27-30, Attachments 1-3. The prep time (including loading/unloading the vehicle at the station) was distributed across all other Street time activities in Attachment 2 (which were the same percentages used to develop Street at the time of the Petition filing in Docket No. ACR2013, Library Reference USPS-FY13-32, excel file “CS6&7.xls,” tab “7.0.4.2”).

<sup>93</sup> See Docket No. RM2009-10, Petition of the United States Postal Service Requesting Initiation of a Proceeding To Consider Proposed Changes in Analytic Principles (Proposals Three – Nineteen), July 28, 2009 (Docket No. RM2009-10, Proposal Seven at 1). “Since the 2002 [Street time city carrier] study, however, costs are also considered volume variable to the degree that routes increase or decrease in a delivery unit to reflect changes in mail volume.” *Id.* “A new activity code will record the in-office costs associated with leaving for or returning from a route, with its costs volume variable to the **same degree as all CS 6 and 7**” (emphasis added, this term is synonymous with indirectly volume variable and the current distribution of the costs within the workbooks, aligns with the cost-to-cost driver relationship). *Id.* at 2.

<sup>94</sup> If these costs are assignable to a route type or route group, they currently are distributed in either the letter route or special purpose route group worksheets.

(cost segment 10) where the cost pools are based on the latest rural mail count for each active route.” Responses to CHIR No. 1, question 8.

*Rationale.* The Postal Service claims one of the benefits of this proposal is to align the city carrier cost model with delivery operations treatment of carrier activities. Responses to CHIR No. 1, question 5. The Postal Service states: “[i]n the administration of delivery operations, loading and unloading vehicles are considered to be street functions. Carriers are trained to be ‘clocked to street’ whenever they are loading or unloading mail from their vehicle.” Petition at 2. Further, the Postal Service asserts that Component Two will “replace the difficult and time-consuming IOCS loading/unloading readings with the relevant proportions computed from the Form 3999 data set.” Petition at 4. It asserts, “[d]elivery operations experts believe that the times calculated from the Form 3999 data set are more accurate than prior estimates using IOCS.” Petition Attachment at 4-5. The Postal Service describes the Form 3999 database as an approximation, in lieu of an available census across all route types. It asserts that “it is appropriate to use a recent one day figure from all *active* letter routes to estimate the *proportion* of time carriers spend loading and unloading the vehicle. Since all active city letter routes are included, this method takes into account the different route types and delivery modes that currently exist as part of the city letter route network.” Responses to CHIR No. 1, question 13.c. The Postal Service states that because the new city Street model will use the route evaluation data to form cost pools for all other Street activities it is appropriate to utilize the loading and unloading time from the route evaluation data as well. *Id.* question 2. Further, it states that “[t]he only ‘street’ activity captured by the In-Office Cost System (IOCS) is loading and unloading the vehicle. Since the new city Street model plans to use the route evaluation data for all other Street activities to form cost pools, it seems appropriate and

straightforward to utilize the loading and unloading time from the route evaluation data as well.” *Id.*<sup>95</sup>

*Commission Analysis.* The Commission cannot accept Component Two because the information on this record does not adequately support the use of Form 3999 data in lieu of IOCS data. The main concerns associated with using the Form 3999 data to approximate **all** loading and unloading the vehicle costs are: (1) it is not clear that Form 3999 data are complete, current or representative of all loading/unloading the vehicle activities; (2) the changes made in the established variabilities and cost distribution allocation process are not adequately explained; and, (3) no justification for shifting mixed mail costs from Office to Street is provided in the Postal Service’s filing. As a result, Component Two is denied.

The Postal Service must reconcile the collective information on record, and reconcile the loading/unloading the vehicle and the leaving/returning from route costs between those captured by the Form 3999 data and those captured by the IOCS.

The Commission shares the Public Representative’s concern about the accuracy of the calculations. In the past, the Postal Service has described two types of loading/unloading the vehicle related activities: handling mail at the station on the premises, which varies directly with volume;<sup>96</sup> not handling mail on the premises, which varies with the total number of routes.<sup>97</sup> It is not clear why a change that appears to ignore a situation that is currently accounted for improves the quality, accuracy, or completeness of the data or analysis of the data contained in the Postal Service’s

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<sup>95</sup> The Postal Service states that “[d]elivery Operations considers loading and unloading the vehicle a street activity. However, the Cost and Revenue (CRA) Report currently considers loading and unloading the vehicle an in-office activity since it is captured by IOCS. One of the benefits of this proposal is to align the city carrier cost model with delivery operations treatment of carrier activities.” Responses to CHIR No. 1, question 2 n.4.

<sup>96</sup> See Docket No. R2000-1, Response of the United States Postal Service Interrogatory of the Magazine Publishers of America (MPA/USPS-65), May 19, 2000.

<sup>97</sup> See Docket No. RM2009-10, Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Three – Nineteen), Proposal Seven, July 28, 2009.

annual periodic reports to the Commission. 39 C.F.R. § 3050.11(a). The Postal Service should provide further documentation and any updates to the IOCS Handbook or policy memos clarifying the classification of and differences in costs captured by the Form 3999 database and those captured by the IOCS.

*Not Clear that Form 3999 Data are Complete, Current or Represent ALL Loading/Unloading the Vehicle Activities.* The Postal Service characterizes the Form 3999 database filed in this proceeding as the latest Street route evaluation for all active city regular letter routes. It contends that the current standard procedure is that each route is evaluated annually and states that it has “no plans to stop the current practice of evaluating routes on an annual basis”. Responses to CHIR No. 1, question 8. The Postal Service contends that the proposed method takes into account the different route types and delivery modes that currently exist as part of the city letter route network.

The Commission is concerned that the percentage of time developed from the Form 3999 data, does not completely reflect or currently represent **all** (emphasis added) time related to loading/unloading the vehicle activities. Based on the IOCS documentation, editing procedures and the assigned activity codes, there appears to be more than one type of loading/unloading the vehicle activity reflected in IOCS activity codes other than IOCS activity code 6422. These different types of costs have differing levels of volume variability, *i.e.*, handling mail, forms, or equipment with mail in it is directly volume variable and not handling mail, forms, or equipment with mail in it is indirectly volume variable. The current IOCS editing and coding procedures are based on volume variability relationships so that particular costs can be grouped and distributed in a manner such that the costs distributed and allocated align with this relationship.

The Commission reviewed and replicated the Office direct labor cost estimates for those IOCS readings and activity codes assigned to records leaving or preparing to leave for route (including preparing to load or loading the vehicle). The IOCS

processing and assigned codes are for those activities and costs that are directly volume variable (handling mail, forms or equipment with mail in it).<sup>98</sup> Because the Postal Service's control totals SAS programming code filed after the technical meeting,<sup>99</sup> did not appear to explicitly take this into account, the code shifted mixed mail and direct labor costs from the Office group and assigned the IOCS tallies costs to the Street group. This also appears to be the case for the IOCS tallies related to leaving/returning from route not handling mail, clocked to Street.<sup>100</sup>

The Postal Service should clarify what including preparing to load or loading the vehicle activities are (if not handling mail, forms, or equipment with mail in it) and where these loading activities are included in the Form 3999 data. If they are not included in the Form 3999 data, the Postal Service should explain how these costs would be accounted for given they are related to workhours when the carrier is clocked to Street.

Currently the costs in activity code 6422 include those for leaving or preparing to leave for route (including preparing to load or loading the vehicle) where the carrier is

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<sup>98</sup> The current IOCS data collection and editing procedures distinguishes between "leaving or preparing to leave for the route **NOT handling mail, forms or equipment** activities and leaving or preparing to leave for the route **handling mail, forms or equipment** activities (**including loading the vehicle**) (emphasis added)." See Docket No. ACR2015, Library Reference USPS-FY15-37, IOCS data collector flow chart instructions for "Q16F3b Activities Away from Carrier Case", Option "E Leaving or Preparing to Leave for Route (Including loading the vehicle)" in the "IOCSDataEntryFlowchartFY15.xlsx" workbook tab "Q16;" Docket No. ACR2013, Library Reference USPS-FY13-37, December 27, 2013, "Q16F3b Activities Away from Carrier Case", Option "F Leaving or Preparing to Leave for Route (Including loading the vehicle)" in the "IOCSDataEntryFlowchartFY13.xls" workbook tab "Q16." See also Docket No. R2006-1, Library Reference USPS-LR-L-23, May 3, 2006, Supplemental Statistical Programs and Data Collection Instructions file "Sp2\_05.pdf" file at 5, note in Figure 5.9.5-1, "Preparing to leave includes moving mail to truck, loading truck etc." and "Activities related to return include moving mail back to case."

<sup>99</sup> Library Reference USPS-RM2015-2/3, "Reweight.IOCS.Tallies.Agg.Doll.Wgts," at 2, the associated codes that assign both leaving/returning activities clocked to Street, handling mail and not handling mail to "STREET" and would remove material Office costs clocked to Street (the first line of code on page two) and Q16A01='A' is for the clocked to Office tallies, and the else if (the "else if" here means not Q16A01='A", which would be Q16A01='B' clocked to Street).

<sup>100</sup> Time in the TACS/MODS/Form 3999 time data is represented by workhours and in the IOCS, time is accounted for and tied to the frequency of its sampling selection and sampling methodology.

not handling mail, forms or equipment with mail in it.<sup>101</sup> Carriers away from the carrier case that are leaving or preparing to leave for route (including preparing to load or loading the vehicle) and handling mail, forms, or equipment with mail in it, are assigned a separate IOCS activity code depending on the type of mail, form, or equipment they are handling. These codes are currently considered part of the Office direct labor costs group.

Based on the workbooks filed after the technical meeting, it appears that the leaving/returning not handling mail IOCS activity code 6422 clocked to Street was “zeroed out”, presumably because the time may have been included in the Form 3999 data workhours percentage calculation. No explanation other than a note in the SAS code that says “mostly street activities” was provided for the shifting of the direct mail and mixed mail IOCS handling tallies (leaving/returning) currently from the Office to the Street group.<sup>102</sup> The Postal Service should explain why it would be appropriate to remove or shift these costs from Office (when clocked to street on the premises), and explain how they would be accurately reflected using the Form 3999 data.

*Reasons for Changes Made in the Established Variabilities Cost Distribution Allocation Process in Workbooks are Not Adequately Explained.* In the Postal Service’s workbook filed after the technical meeting, for IOCS activity code 6422 leaving/returning, not handling mail appears to have been unintentionally left in the overhead Office group of costs. Because letter-group and SPR group assignments and distribution can be made to these route groups costs, it is not clear why it would be

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<sup>101</sup> See Docket No. RM2009-10, Proposal Seven at 2, Table 1, IOCS activity code 6422-Leaving for / or Returning from Route. Note: the Postal Service describes that for IOCS activity code 6422, in the “Treatment” column of Table 1 as “Volume variable – all Office and Street time direct volume variable” is synonymous in this discussion with indirectly volume variable and is described as such in the reference above due to how these costs are distributed between Office and Street. The FY 2015 Summary Description of Development of Costs for this type of cost is: “Volume variable other Office support costs are distributed to products in the same proportions as the aggregate of component groups 6.1 Office Direct Labor, 7.1 Network Travel, and 7.2 Delivery Activities.” See FY 2015 Summary Description of Development of Costs, section 6.2.4 at 6-3.

<sup>102</sup> Library Reference USPS-RM2015-2/3, file “Reweight.IOCS.Tallies.Agg.Doll.Wgts.rtf.”

appropriate to include the IOCS activity code 6422 costs for carriers clocked to Office as an overhead Office Support cost.

The Postal Service does not explain why handling mail, forms or equipment with mixed mail, and direct mail costs were eliminated from the Office group and shifted to the Street group but rather simply states they are now “mostly Street activities” (given the note provided in the SAS program itself).

If the Postal Service decides to file a new proposal incorporating Component Two before it eliminates or shifts costs from Office it must ensure that IOCS tallies with activity code 6422 reflect carrier time engaged in Street activities rather than administrative tasks. How the Postal Service will ensure this without the IOCS tallies estimating total costs has not been clearly explained. The Postal Service should also update and ensure the completeness and accuracy of its descriptions of cost allocation and distribution in its next CRA documentation (Summary Description of Development of Costs, LR-1).

*No Adequate Justification Provided for Shifting Some Direct and Mixed Mail Costs Out of Office.* The Postal Service asserts that confusion could have been avoided if it had distinguished between leaving/returning with a mailpiece and without. December 5, 2014, USPS Reply Comments at 2. Under the current IOCS methodology, leaving/returning and handling mail, forms or equipment would be coded as an Office direct labor cost activity and considered directly volume variable. Leaving/returning not handling mail, forms or equipment (if the city carrier is assigned a route group/type) is not considered directly volume variable.

Under the revised proposal control totals program filed with its Report after the technical meeting, mixed and direct mail costs (clocked to Street) are eliminated from Office and shifted to Street. The elimination or shifting of direct and mixed mail costs clocked to Street from Office costs should be clearly justified in light of the increase in total mixed mail costs between FY 2013 and FY 2015 and the revisions made to the IOCS in response to data quality concerns.

### C. Component Three — Office Support Costs Group Changes

*Current methodology.* The current city carrier costing methodology treats the following activities as “other Office Support activities: leaving or preparing to leave for route (including preparing to load or loading the vehicle)<sup>103</sup> or returning from route or activities related to return,” Training specific to route or route group, and clocking in/clocking out.<sup>104</sup> For the letter route group, the costs related to these “other” Office Support activities are distributed to products in the same proportions as the aggregate of component groups 6.1, 7.1, and 7.2.<sup>105</sup> This aggregation and distribution methodology reflects the established volume-variable cost relationship that “other” Office Support costs vary indirectly with volume. These costs are considered to vary based on the number of routes, *i.e.*, aggregate costs will increase or decrease as the number of routes changes.<sup>106</sup> The Postal Service’s FY 2015 Summary Description of Development of Costs describes Office time spent in preparing mail for delivery as directly related to the number of pieces handled and is fully variable with volume. “Other carrier Office activities, such as obtaining keys, clocking in and out [and Training

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<sup>103</sup> Not handling mail, forms, or equipment with mail in it, IOCS activity code-6422. Also handling mail, forms, or equipment with mail in it are not included in the Office Support costs group, rather they are included in the Office direct labor costs group of Office .

<sup>104</sup> Those IOCS Office Support costs associated with a route type (or group) are aggregated as “other” Office Support costs and those Office Support costs not associated/not specific to the route type or group are included in the “overhead” Office Support costs total.

<sup>105</sup> See Docket No. ACR2013, Library Reference USPS-FY13-32, file FY2013 “CS06&7.xls,” tab “7.0.4.1,” column (7) line items 48-51 “OFFICE/STREET BURDENS” aggregation and distribution on tab “7.0.4.2” in column (8) lines 21-23 (letter routes) and special purpose routes mirror this same process in tab “7.0.5” column (6) lines 8-10 are proportionally distributed on Office, load, access and institutional in column (6), lines 59-62 of this same worksheet. See Docket No. ACR2013, Library Reference USPS-FY13-32, file “CS06-15.” These types of “other” Office Support costs are distributed to products in the “7.0.6” tab of this same file. Costs for these same activities that were not assignable to a route group are left in the “overhead” Office Support cost group and output to the CRA model on the “Output to CRA” tab of this same file.

<sup>106</sup> See Docket No. RM2009-10, Proposal Seven; Docket No. RM2009-10, Order No. 339, Order on Analytical Principles Used in Periodic Reporting (Proposals Three-Nineteen), November 13, 2009, at 9.

specific to the route] are unrelated to mail volume on any one route but are considered indirectly volume variable.”<sup>107</sup>

*Proposed Methodology(as filed):*<sup>108</sup> Component Three, as initially filed, assigns the IOCS tallies for these “other” clocked to Office activities (excluding the Training specific to route or route group) to cost segment 6 based on direct Office costs rather than aggregate Office and Street costs. Petition at 4-5. Training activities, however, will continue to be attributed and distributed on aggregate Office and Street costs. *Id.* As depicted by the Postal Service, IOCS tallies related to loading/unloading when the carrier is clocked to Street will be eliminated and these costs are distributed based on C/S 7 only. December 5, 2014, USPS Reply Comments at 2.

*Proposed Methodology (as revised):* Component Three, as revised, is described in the Postal Service’s Report after the technical meeting generally as treating IOCS tallies associated with a carrier performing typical Office activities as Office time, even when the carrier is clocked to the Street, and tallies when carriers are performing Street activities, even when clocked to Office, are treated as Street time. Report at 2. The Postal Service states that “if this Proposal Nine is accepted, then IOCS data collection procedures will be modified to only perform readings on carriers while they are within the facility and typically clocked to the office, and will exclude readings where carriers typically have already clocked to the street.”<sup>109</sup> Report at 5.

The “Changes” tab in the “CS06&7\_TACS” workbook filed in Library Reference USPS-RM2015-2/3, describes the support costs changes as follows. For the revised

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<sup>107</sup> FY 2015 Summary Description of Development of Costs, sections 6.1.1 and 6.2.2 at 6-3.

<sup>108</sup> Apparently as an approximation or simulation of IOCS not estimating Street, it appears that IOCS tallies clocked to Street were eliminated or “zeroed” out in the initial proposal and in the revised proposal from the Office group for IOCS activity codes 6422 (leaving/returning) and 6522 (clocking in/clocking out) costs that were clocked to Street.

<sup>109</sup> However, the Postal Service states there would be an exception: “One exception is carriers checking their vehicle; typically carriers engaged in this activity are still clocked to office even though they are in the parking area outside of the facility, and in such instances, IOCS readings will continue to be performed and assigned to in-office.” Report at 6 n.4.

assignment of Support costs in worksheet “6.0.3” it states “[l]oading costs go to C/S 7 Street, Clocking In/Clocking Out goes to 6.2 Overhead, which is distributed on Office only.” In the “7.0.4.1” tab (revised assignment of Support costs) it states “Clock In/Out and Loading Vehicle removed from Office/Street Burdens.”

*Rationale.* The Postal Service asserts that the changes associated with Component Three better reflect the manner in which the activities are managed and cost models should reflect operational reality. Responses to CHIR No. 1, question 5.a.

*Commission Analysis.* The Commission cannot approve Component Three. The primary issues of concern are: (1) it is not clear that control totals, or cost pools will be more precise; (2) there appear to be anomalous results for training upon implementation of Proposal Nine CARMM revisions; and (3) the reasons for changes made in the established variabilities and cost distribution allocation process in workbooks are not adequately explained.

*Unclear if All Proposed Cost Control Totals and Cost Pools Developed Within for Office, Street, and Training Will be More Precise.* The Postal Service contends that replacing the IOCS sampling system with census data from these other systems will increase the overall precision of the city carrier cost estimates. Petition at 4. The Postal Service also states “[i]f IOCS no longer has to estimate the office/street split, it can focus its sampling effort on carriers while they are in the office rather than on the street.” *Id.* While that goal seems reasonable, the Commission is left with too many unknowns as to whether and how multiple data systems can correctly capture all of the related costs and activities as a whole.

*Unexplained Results in the Training Group Costs upon Implementation of Proposal Nine CARMM Revisions.* In response to the Public Representative’s assessment of the revisions made to the revised Proposal after the technical meeting and in light of the Postal Service’s Response to CHIR No. 4 related to specific CARMM

program revisions, the Commission further analyzed the Office Support costs<sup>110</sup> presented by the Postal Service, both before and after the technical meeting and implementation of the revised CARMM program.<sup>111</sup>

Table VI-4 shows selected Office Support costs results by route group taken from the workbooks filed before,<sup>112</sup> and after the technical meeting,<sup>113</sup> as well as the Commission's replication of the current methodology for the same costs provided in the Postal Service's ACR filing of Office Support costs (without any changes or revisions related to the revised Proposal Nine methodology).<sup>114</sup>

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<sup>110</sup> The current CARMM program methodology, in addition to distributing mixed mail costs to direct mail costs codes, also does the processing, aggregating, and outputting of the Office Support activity codes costs for these IOCS activity codes: 6519 (training, not handling mail, forms, or equipment with mail in it), 6522 (clocking in and out), 6422 (leaving/returning, not handling mail, forms, or equipment with mail in it), and 6430 (checking the vehicle, in keys, accountables and attending a safety meeting).

<sup>111</sup> The Postal Service contends that the revised CARMM program was not complete at the time of the original filing. June 10, 2015, USPS Reply Comments at 2.

<sup>112</sup> Library Reference USPS-RM2015-2/2, excel file "Chir1.Q3b.xls" workbook, "Input IOCS" tab.

<sup>113</sup> Library Reference USPS-RM2015-2/3, excel file "CS06&7\_TACS.xlsx" workbook, "Input IOCS" tab.

<sup>114</sup> See Docket No. ACR2013, Library Reference USPS-FY13-32, excel file "CS06&7.xls" workbook, "Input IOCS" tab.

**Table VI-4  
Commission's Analysis of Selected Office Support Costs Impacts**

Office Support Costs (IOCS Code) <sup>115</sup> by Route Group	FY 2013 ACR Filing	Commission Generated FY 2013 ACR IOCS tallies costs clocked to Street eliminated	Proposal Nine Initial Results <b>Without</b> Revised CARMM Methodology	Proposal Nine Revised Results <b>With</b> Revised CARMM PGM Implemented
<b>Letter Routes</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
"Training" (6519+6430)	317,161,000	286,619,000	285,610,000	354,134,000
Leaving/Returning (6422)	219,532,000	162,799,400	162,183,000	164,316,000
Clocking In/Clocking Out (6522)	94,421,000	91,192,660	90,820,000	93,435,000
<b>SPR Routes</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
"Training" (6519+6430)	7,845,000	6,768,199	5,429,000	11,389,000
Leaving/Returning (6422)	4,862,407	3,561,681	2,967,000	4,813,000
Clocking In/Clocking Out (6522)	2,593,407	2,371,332	1,972,000	3,503,000
<b>Unassigned to a Route Group (Route 99)</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
"Training" (6519+6430)	36,943,000	29,464,430	29,246,000	76,813,000
Leaving/Returning (6422)	3,695,390	2,317,788	2,296,000	3,279,000
Clocking In/Clocking Out (6522)	6,690,256	6,588,438	6,541,000	6,656,000

<sup>a</sup> The IOCS tallies are "zeroed" out in this Commission analysis column to assess: "IOCS tallies where the carrier is clocked to street would be assigned zero cost." Responses to CHIR No. 1, question 12.

Source: FY 2013 ACR Filing column: Docket No. ACR2013, Library Reference 32, excel file "CS06&7.xls," tab "Input IOCS"; Commission generated IOCS estimates (to zero out Street tallies costs) column: Docket No. ACR2013, Library Reference, USPS-FY-37/Data folder, SAS data set; Without revised CARMM program implemented column: Library Reference USPS-RM2015-2/2, excel file "Chir1.Q3b.xls," tab "Input IOCS"; With revised CARMM program implemented: Library Reference USPS-RM2015-2/3, excel file "CS06&7\_TACS.xlsx," tab "Input IOCS."

<sup>115</sup> The "Training" group of costs is presented here by the Commission so that a direct comparison with the Postal Service's "Training" group can be made as it did not present the IOCS costs for IOCS activity code 6519 Training and activity code 6430 separately.

The Commission replicated the Postal Service's IOCS costs from the FY 2013 ACR and then removed the IOCs tallies clocked to Street. The results are shown in the third column of Table VI-4 above. These results are almost identical to the initial results before the CARMM revisions, provided by the Postal Service in Proposal Nine (shown in the fourth column of Table VI-4). This indicates that the Postal Service appears to initially have "zeroed out" IOCS tallies clocked to Street time. As discussed under Component Two, it is not clear why eliminating or shifting these out of the IOCS Office (clocked to street) is appropriate. In future proceedings related to Component Three, the Postal Service should include its rationale, assumptions and justifications for eliminating or shifting these costs out of the Office costs.

The Proposal Nine costs after the revision to the CARMM program are significantly different than the results before the revision, particularly for Training. The Postal Service states that "[t]he impacts provided in USPS-FY15-RM2/3 [RM2015-2/3] included the impact of using the modified CARMM program." June 10, 2015, USPS Reply Comments at 2. The Postal Service has not explained these significant differences. One possible interpretation after reviewing the revised CARMM program is that more costs, such as all Route 99 costs, that had been adjusted based on actual activity using the IOCS procedures, are now being classified as Training.

To better understand the changes that appear to be proposed for other Training costs, the Commission reviewed the actual TACS Training workhours and costs for the two proposed city carrier craft groupings in the USPS Periodic Reports Payroll Workhours Summary, Pay Period 20, FY 2015 filed with the Commission.<sup>116</sup> For the city carriers full-time/regular group, using TACS Training workhours alone, without IOCS adjustment based on observed activity, results in overall lower Training cost total for this craft group. The Commission's analysis of why the city carriers full-time craft group would be underreported in the TACS workhours, given the IOCS data collected

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<sup>116</sup> See USPS *National Payroll Hours Summary Reports*, Pay Period 20, FY 2015, October 2, 2015 (USPS *National Payroll Summary Reports*).

information for the activity code 6519 Training costs for this craft group, showed that it is because the carriers are clocked to Street rather than Office. The total Training (not handling mail) costs developed between TACS and those estimated by the IOCS are very close, however, the pattern between the two proposed craft groups using IOCS or TACS differs by craft group. Because the total Training (not handling mail) costs are nearly identical, the Commission believes that it appears to be a comparable cost activity comparison for this discussion between TACS and IOCS. For the Other city carrier group, it appears that either the IOCS sample underestimates this type of training (not handling mail) costs, or the other city carriers are clocked to the wrong type of workhour. The Postal Service should provide the technical detail and explanation for these differences between the IOCS and the TACS/MODS developed costs.

**Table VI-5**  
**FY 2015 Comparison of Payroll Costs and IOCS-Estimated City Carrier Costs**  
**by City Carrier Craft Group**

Craft Group				City Carrier Clocked to Street Rather Than Training <sup>b</sup> (IOCS Identified)
	Payroll Pay Period 20, FY 2015	IOCS-Estimated FY 2015 <sup>a</sup>	Difference Between Payroll Costs and IOCS-Estimated Costs	
<b>Full-Time City Carrier</b>				
Training	\$27,446,828	\$62,241,730	\$34,794,902	\$25,374,180
<b>Other City Carrier</b>				
Training	\$49,576,269	\$12,457,530	\$37,118,739	\$5,158,320
Total <sup>c</sup>	\$77,023,097	\$74,699,260 <sup>b</sup>		
<p>Note: The relatively small difference in total training costs between the Payroll and IOCS estimated (activity code 6519) costs may be due to the slightly different dates used for Calendar Year 2015 Pay Period 20 and IOCS FY 2015.</p> <p><sup>a</sup> Pay Period 20 is for the time period beginning September 20, 2014, through September 18, 2015. See Postal Bulletin Issue 22376, November 14, 2013, <a href="http://about.usps.com/postal-bulletin/2013/pb22376/pdf/pb22376.pdf">http://about.usps.com/postal-bulletin/2013/pb22376/pdf/pb22376.pdf</a> and Postal Bulletin Issue 22403, November 27, 2014, <a href="http://about.usps.com/postal-bulletin/2014/pb22403/pdf/pb22403.pdf">http://about.usps.com/postal-bulletin/2014/pb22403/pdf/pb22403.pdf</a>. IOCS estimated FY 2015 is for the time period beginning October 1, 2015, through September 30, 2015.</p> <p><sup>b</sup> IOCS clocked to Street does not include city carriers clocked to MODS code 782-Training Delivery Services. See Handbook M32 at 254, file "IOCSDataEntryFlowchartFY15," tab "Q16," data collector instructions for question Q16A01-clocking status determination for Street time in Docket No. ACR2015, Library Reference USPS-FY15-37.</p> <p><sup>c</sup> The FY 2015 Reallocated Trial Balance cost segment 6 and 7 Training costs are shown as one total, \$77,361,583 for city carriers. See Docket No. ACR2015, Library Reference USPS-FY15-5, December 29, 2015, "FY15.5.RealTB15 Redacted.xlsm," workbook, "seg 6 &amp; 7" tab.</p> <p>Sources: See USPS <i>National Payroll Hours Summary Reports</i>; the Commission generated IOCS estimates from Docket No. ACR2015, Library Reference USPS-FY15-37, file "prcpub15.sas."</p>				

*No Explanation for Changes to the Distribution of Costs Related to Activities that Support both Office and Street.* The Postal Service's workbook appears to have changed the designation of clocking in/clocking out (when clocked to Office) and leaving/returning from route (when clocked to Office) from other Office Support (where the costs can be assigned to a route group), to overhead Office Support costs. There is an important distinction between the two office support categories. Overhead Office

Support costs are those that are not assigned to a route type or group and are volume variable to the same extent as the related direct tallies, whereas other Office Support costs are those that are assigned to a route type or group and are considered indirectly volume variable to the same degree and in the same proportion as the aggregate of costs in components 6.1 Office Direct Labor, 7.1 Network Travel, and 7.2 Delivery Activities (for letter routes). See FY 2015 Summary Description of Development of Costs at 6-2, section 6.2.1.

The Postal Service stated, “costs associated with the activities of ‘Leaving or Preparing to Leave for Route’ as well as costs related to ‘Return or Returning from Route,’...increase or decrease as the number of routes changes.”<sup>117</sup> Docket No. RM2009-10, Proposal Seven at 1. Because clocking in/clocking out, leaving/returning from route costs can be associated with the route group, the cost driver for these costs would seem to be number of routes in the proposed route groups. The current methodology recognizes this cost driver while the proposed methodology does not appear to do so. The methodology imbedded in the Postal Service’s revised workbook calculations appear inconsistent with the Postal Service’s CRA methodology used to determine which Office Support costs are other and which are overhead.

The Postal Service provided a table illustrating how Proposal Nine should impact the location, attribution, and distribution of costs for Office Support work **not** (emphasis added) associated with a route type and stated “[f]or those activities remaining in in-office support, the determination whether the activity can be associated with a particular route type will continue to be based on IOCS observations, not DOIS.” Responses to CHIR No. 1, question 5.b.

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<sup>117</sup> The Postal Service also describes this as activities related to loading/unloading the vehicle.

**Table VI-6  
Postal Service’s Illustration of Proposal Nine Impact on Location, Attribution and  
Distribution of Office Support Costs  
Unassigned with a Route Type or Group (emphasis added)**

Office Support Activity	Current Cost Segment	Proposed Cost Segment	Current Attribution/Distribution Method	Proposed Attribution/Distribution Method
Loading/ Unloading While Clocked to Street	6	7	Office and Street Costs (“Office/Street Burdens”)	Street Costs
Loading/ Unloading While Clocked to Office (Activity Code 6422)	6	6	Office and Street Costs (“Office/Street Burdens”)	Office Costs
Clocking In/Clocking Out	6	6	Office and Street Costs (“Office/Street Burdens”)	Office Costs
Note: CHIR No. 1 asked about unassigned routes. Source: Responses to CHIR No. 1, question 5.b.				

For the unassignable to a route group costs, the “Office Costs” proposed attribution/distribution method shown above, the Office cost is an overhead Office and output directly to the CRA model (and not distributed to products within the cost segment 6 and 7 workbook). However, the Postal Service also left those costs assignable to a route group in the overhead Office in the workbooks filed after the technical meeting. Clocking in/clocking out and leaving/returning have been left in the overhead Office Support costs total in the “6.0.3” tab and are included in the overhead Office Support costs in the “Outputs to CRA” model tab in the cost segment 6 and 7 workbook. In future proceedings related to this docket, the Postal Service should either provide its rationale and justification for doing so, or correct this assignment to the overhead Office group.

A number of United States Postal Service Office of Inspector General (USPS OIG) Reports have consistently found that about half of city carriers are clocked to

Office while loading and unloading the vehicle despite instructions to clock into Street for loading/unloading the vehicle.<sup>118</sup> In addition, the USPS OIG “observed carriers at 15 of the 30 units (50 percent) making multiple trips away from cases to withdraw or return mail at distribution cases.” *Id.* It is not clear from the information presented in this docket whether carriers clocked to Street outside of the building, at the loading dock or in the parking lot are engaged in Street or Office activities. In the Postal Service’s documentation it states “[m]ixed mail codes represent the handling of mail in bulk quantities or the performance of a mail-related (i.e., volume variable) activity where no mail is actually being handled at the instant of observation.”<sup>119</sup>

The Postal Service states that no change in Training allocation is proposed. “Training costs (IOCS activity code 6519) are part of the Office/Street Burdens that are all distributed the same way.” June 10, 2015, USPS Reply Comments at 1. However, there appears to be a change in the Postal Service’s recently revised control total program in the distribution and attribution for Training that is not specific to the route type or group and to costs for the Route 99 route type.<sup>120</sup> The Postal Service links Route 99 route type with TACS LDC 9200 workhours. TACS LDC 9200 workhours include supervisors, city carriers and rural carriers workhours. Because there are different cost drivers and costs for total Training and total Route 99 costs, the Postal Service’s rationale for this process is not adequately explained.

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<sup>118</sup> In a recent report, the USPS OIG “observed city carriers at 19 of the 30 delivery units (63 percent) loading mail into vehicles on Office time rather than clocking to Street time[.]” See United States Postal Service Office of the Inspector General (USPS OIG) Report, *City Delivery Office Efficiency – Colorado/Wyoming District*, Report Number DR-AR-16-002, January 20, 2016, at 6. See other USPS OIG city delivery efficiency reports, DR-AR-15-011 (San Francisco District), DR-AR-15-010 (Sierra Coastal District), DR-AR-15-008 (Connecticut Valley District), DR-AR-15-007 (Greater Boston District), and DR-AR-14-004 (South Florida District).

<sup>119</sup> Docket No. R2006-1, USPS-LR-L-1, May 3, 2006, at 6-3 n.3, file “CS06-05.”

<sup>120</sup> On page 3 of the “ALB102.rtf” program the route type variable F260=’99’ is assigned to the routeGRP=’MIX’ and on page 4 of the “ALB102.rtf” program, the TACS LDC 9200 workhours are assigned the RouteGrp=’MIX’. It is unclear if LDC 9200 workhours would be equivalent to total costs for IOCS Activity 6519 and total costs for F260=’99’ because Route 99 also contains Office direct labor costs, other Office Support costs and Street time costs (IOCS edits assign off premise “unassignable to route” to the special purpose route code ‘98’-Other).

The information provided in this proceeding does not contain an explanation of how changing the aggregation/distribution method for clocking in and out (clocked to Office and Street), leaving/returning from route (clocked to Office and Street), training, or loading/unloading the vehicle clocked to Office will yield more accurate or improved overall estimated costs. The Postal Service does not present a clear basis for its proposed cost aggregation and distribution changes related to leaving/returning from route (clocked to Office or Street) and clocking in/clocking out or explain why the Office/Street burdens distribution method is retained for Training but not for other support activities.

Before the Postal Service modifies the IOCS data collection procedures such that it would only perform readings on carriers while they are within the facility and typically clocked to the Office, and will exclude readings where carriers typically have already clocked to the Street, it needs to ensure that Street and Office activities will be properly identified. The Postal Service is already making an exception for carriers checking their vehicle, whereby IOCS readings will continue to be performed and assigned to Office. It could extend this exception to all carriers that are clocked to Office but on the premises outside the Office until it has studied the activities these carriers are actually involved in and determined what should properly be called a Street activity, Training activity, an Office activity, or a shared activity.

If there are distinctions between costs related to the same support activities occurring when the carrier is clocked to Street versus clocked to Office, the Postal Service should review the theoretical basis for distributing them. If the Postal Service files a new proposal related to Proposal Nine it must explain and justify any changes in the volume variability and distribution of these support costs. As a result of Proposal Nine, overhead Office Support costs increase from \$539 million to \$832 million.<sup>121</sup> In its

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<sup>121</sup> Compare "Outputs to CRA" tab in excel file "CS06&7.xlsx" workbook in Docket No. ACR2013, Library Reference UPSP-FY13-32 with "Outputs to CRA" tab in excel file "CS06&7\_TACS.xlsx" workbook in Library Reference USPS-RM2015-2/3.

review, the Postal Service should explain how accuracy and/or completeness of the city carrier financial data is improved by overhead costs which are output to the CRA model rather than distributed back to products in the cost segment 6.<sup>122</sup>

Further, it should reconcile its proposed methodologies with the information presented in the USPS Handbook F-45, Data Collection User's Guide for In-Office Cost System.<sup>123</sup> Modifications to its data collection procedures and IOCS data collector instructions should also be filed.

In the revised workbook filed after the technical conference, the Postal Service aggregates Office Support costs into one "Total Routes" column rather than reporting by route group.<sup>124</sup> To increase transparency, the Commission recommends that the Postal Service retain the original structure in the workbook tabs that currently presents costs disaggregated by route group. The Commission also recommends that the costs developed separately for IOCS activity code 6519 Training, not handling mail, forms, or equipment with mail in it and the activity code 6430 checking the vehicle, in keys, accountables for the labeled "Training" group costs are clearly shown in the workbook tabs.

D. Component Four — IOCS Cost Model will be Expanded to Use the Control Totals for the Four Categories Calculated in Component One

*Current methodology.* Currently, the Postal Service's Pay Data System (TACS/LDC) total accrued costs for Post Offices in each CAG and craft group are

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<sup>122</sup> Other Office Support costs are distributed to products in the "7.0.6" tab in excel file "CS06&7.xlsx" workbook whereas overhead Office Support costs are output directly to the CRA model in the "Outputs to CRA" tab.

<sup>123</sup> The note in Figures 5.9.4-1 and 5.9.5-1 in the IOCS Handbook states: "Preparing to leave includes moving mail to truck, loading truck, etc." and "Activities related to return include moving mail back to case, etc." See USPS Handbook F-45 Data Collection User's Guide for In-Office Cost System (July 2004 edition), July 21, 2009, at 5-31, 5-33, [http://www.prc.gov/docs/63/63811/F45\\_Handbook.pdf](http://www.prc.gov/docs/63/63811/F45_Handbook.pdf).

<sup>124</sup> Compare Library Reference USPS-RM2015-2/3, excel file "CS06&7\_TACS.xlsx" workbook, "Input CS6" tab, column G with Docket No. ACR2013, Library Reference USPS-FY13-32, excel file "CS06&7.xls" workbook and "Input CS6" tab, columns F (letter routes including Route 99) and G (SPRs).

proportionally distributed across the IOCS sample readings specific to that CAG level and craft type according to the sample design methodology.<sup>125</sup> These CAG level and craft type total accrued costs come directly from the Postal Service's accounting systems and are thus developed outside of the IOCS. The cost weight of each IOCS tally is based on the employees CAG-Level and craft group. The sum of the cost weights for all IOCS tallies equals the total city carrier costs for each CAG-Level and craft group. As shown below, currently, there are 16 different CAG level and craft group accrued costs control totals (derived independently from the IOCS) from the Postal Service's accounting systems.

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<sup>125</sup> See Docket No. ACR2015, Library Reference USPS-FY-15-37, file "USPS-FY15-37.pdf" at 7-8 describes and illustrates the process in more detail.

**Table VI-7**  
**FY 2015, Cost Control Totals, Accrued Costs by CAG and Craft Group**

FY 2015, Pay Data System (TACS/LDC) Post Offices Total Accrued Costs for that CAG Level and Craft Group		
CAG Level Facility Group	City Carrier Regular (\$ in thousands)	City Carrier Other (\$ in thousands)
A	\$2,595,047	\$288,497
B	\$3,222,049	\$355,299
C	\$3,439,058	\$361,468
D	\$1,660,391	\$173,756
E	\$1,816,585	\$208,118
F	\$833,021	\$130,255
G	\$298,577	\$93,479
H	\$60,169	\$34,875
<b>Total</b>	<b>\$13,924,896</b>	<b>\$1,645,746</b>
Source: Docket No. ACR2015, Library Reference USPS-FY15-37, ALB/HQ624D01 folder, "FY151", "FY152", "FY153", "FY154" files. City carrier groups are listed in the two right columns of the files. Commission summarized and verified for the IOCS tally cost weighting factor. See Docket No. ACR2015, Library Reference USPS-FY15-37, file "USPS-FY15-37.pdf" at 7 for the "COST-BASED Weight" dollar value for the IOCS readings, <i>i.e.</i> , Pay Data System accrued costs totals distributed among sampled employees (working in a paid status at the time of the reading) for that finance group CAG-level and craft group.		

*Proposed methodology (as filed).* Component Four uses the four total control cost categories developed in Component One: Full-Time Regular Carriers-Letter routes and SPR; and Part-Time/Casual/Transitional, Letter routes and SPR, rather than the current 16 craft and CAG level cost control totals shown in Table VI-7. Petition at 3; Report at 4.

*Proposed methodology (as revised).*<sup>126</sup> No specific revision was proposed directly for Component Four in the Postal Service's Report. However, it would appear that a revision would have to be made to include the new Training workhours percentage, in addition to the Office and Street workhour percentages developed within the four cost control totals groups, from revised Component One.

*Rationale for Component Four.* The cost control totals need to be change to align with Component One cost categories. Cost pools for Office, Street, and Training cost would be developed within the four cost control totals based on TACS/MODS workhours.

*Commission analysis.* Because Component Four is an extension of Component One, the Commission cannot approve Component Four based on the Postal Service's explanations in this docket. In addition, the Commission has identified issues with the Postal Service's proposed development of cost pools. These are discussed in more detail below.

For illustration in this discussion, the Commission modified the table the Postal Service included with its Responses to CHIR No. 1, question 10, Library Reference USPS-RM2015-2/2. The modified Table shown below includes nearly all of the original LDCs to MODS codes the Postal Service initially proposed for the development of the Letter Route and Special Purpose Route Group TACS/MODS workhours. As seen in Table VI-8, for the Letter Route Group there is a specific LDC for Office workhours (LDC 21) and a specific LDC for Street workhours (LDC 22). However, for the Special Purpose Route group workhours (LDCs 23 and 27), the LDC code itself contains both Office and Street workhours. Presumably, a MODS Operations Code would need to be entered by the city carrier for the workhours to be identified as Office or Street. It is not

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<sup>126</sup> The Commission identified as a result of revised Component One to add the "training" group in addition to the Office and Street groups. The Postal Service's Report did not explicitly mention Component Four, but this would change. No specific revision was proposed directly for Component Four in the Postal Service's Report for the revised proposal.

clear how this will be accomplished for the large number of offices in CAGs G, H/J and K/L, which do not record operation codes in TACS.<sup>127</sup>

**Table VI-8  
LDCs Letter Route Group Workhours and Special Purpose Route Group  
Workhours Illustration**

LDC	Operation Name	MODS Operation Code
	<b>Letter Route Group Workhours</b>	
21	OPERATIONAL STANDBY - DELIVERY	354
21	STEWARDS - CARRIERS	613
21	TRAVEL - DELIVERY SERVICES	622
21	MEETING TIME-DELIVERY SERVICES	632
21	VIM ROUTE - OFFICE	714
21	2-TRIP BUSINESS - OFFICE	716
21	BUSINESS - OFFICE	718
21	RESIDENTIAL FOOT-OFFICE	720
21	RESIDENTIAL MOTOR-OFFICE	722
21	MIXED FOOT - OFFICE	728
21	MIXED MOTOR - OFFICE	730
21	CARRIER PM OFFICE TIME	744
22	VIM ROUTE - STREET	713
22	2-TRIP BUSINESS - STREET	715
22	BUSINESS - STREET	717
22	RESIDENTIAL FOOT-STREET	719
22	RESIDENTIAL MOTOR-STREET	721
22	MIXED FOOT - STREET	727
22	MIXED MOTOR - STREET	729
	<b>Special Purpose Route Group Workhours Below</b>	
23	SUNDAY PARCEL STREET	723
23	SUNDAY PARCEL OFFICE	724
23	CUSTOMIZED DELIVERY STREET	725
23	CUSTOMIZED DELIVERY OFFICE	726
23	PARCEL-POST-STREET	733
23	PARCEL-POST-OFFICE	734
23	RELAY-STREET	735
23	RELAY-OFFICE	736
23	COMBINATION-STREET	737

<sup>127</sup> See Docket No. ACR2015, Responses to CHIR No. 19, question 1.

23	COMBINATION-OFFICE	738
23	CARRIER DRIVERS-STREET	739
23	CARRIER DRIVERS-OFFICE	740
23	EXPRESS MAIL DELIVERY	767
27	COLLECTIONS STREET	731
27	COLLECTIONS OFFICE	732

Source: Library Reference USPS-RM2015-2/2, Commission modified Postal excel file "Chir1.Q10MODS.xlsx" for illustration in this discussion related to LDCs and MODS codes.

The Postal Service identified the following limitation to the use of MODS workhour data, stating that it does “not identify workhours by craft.” Docket No. ACR2015, Responses to CHIR No. 19, question 4. It is unclear how this limitation will impact the proposed craft group and SPR route group cost control totals or result in the type of unknown workhours referred to under Component One for unknown roster designations.

In future proceedings related to Components One or Four, the Postal Service should address issues related to its cost pools development and any related adjustments. In addition, the Postal Service should also address why it proposes that its cost pools be developed across all CAGs workhours or costs and how that would be an improvement over those currently developed at the CAG level.<sup>128</sup> It should also provide the technical detail as to how and whether the IOCS sample design would change as a result, or alternatively provide the technical explanation as it relates and compares to the current IOCS sampling methodology and cost weighting factor procedures.

E. Component Seven — Report Data by Route Group Instead of Route Type

*Current methodology.* The current city carrier costing methodology uses data by route types and/or route groups on a number of worksheets in cost segments 6 and 7.

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<sup>128</sup> For example, currently city carrier costs are developed at the CAG level and for the mail processing cost pools, both the IOCS tallies cost pools and the MODS cost pools are developed at the CAG level to account for wage rate differences. See Docket No. ACR2015, Responses to CHIR No. 19, question 4.

There are two route groups, regular letter and special purpose. Within the regular letter group there are seven route types. Within the special purpose route group there are four route types. To develop in-office direct labor (handling mail, forms or equipment with mail in it) costs, the Postal Service uses route type in its calculation methodology (in the CARMM program) to distribute mixed mail costs back to direct-mail products.<sup>129</sup> The CARMM program currently produces in-office direct mail labor costs by two groups. One group includes all the letter routes, training routes, and express parcel routes.<sup>130</sup> The other group is the remaining special purpose route (collection - foot and motorized), relay routes and other.

Currently, Route 99 (city carrier does not have an assigned route or the activity is not specific to or assignable to a route type or group) Office direct mail labor costs are included along with route groups in the CARMM program. The CARMM program produces the Office Direct Labor Distribution Key shown in tab “6.0.2.1” of the cost segment 6 and 7 workbook.<sup>131</sup> The CARMM program also produces and processes the support costs (discussed in more detail under Component Three) for the letter route group and SPR route group.

*Proposed methodology (as filed).* The Petition description under Component Seven included one sentence: “data will be reported by route groups (letter and special purpose) rather than by route type.” Petition at 4.

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<sup>129</sup> See Appendix E-Mixed Mail Distribution in the FY 2015 Summary Description of Development of Costs, file “APPE-15”.

<sup>130</sup> The current mixed mail “ALBCARMM” program filed in the ACR folder 37 (e.g., Library Reference USPS-FY13-37, SAS Programs) currently outputs the data by route groups in the code below (out=rpt15 contains the distribution key data shown in the “I\_FORMS” and “CS06&7” workbooks filed in the ACR folder 32). The code “by rgroup” shown in bold below, combined the route types in the earlier SAS programming steps above this-if '71' <= route <= '86' or route='99' then rgroup=1;\*these are the IOCS route type codes in variable f260-IOCSDataDictionary (letter routes+ unassigned to a route-Route 99).

<sup>131</sup> See the “Doc” tab description for “WS 6.0.2.1” in Docket No. ACR2013, Library Reference USPS-FY13-32, excel file “CS06&7.xls.” workbook.

*Proposed methodology (as revised).* The Postal Service later revised the current CARMM calculation program to distribute mixed mail by route groups rather than by route type. The column labels/output from the new “ACARMMRG” program<sup>132</sup> have been relabeled in the worksheets as: “LETTER ROUTES” and “SPR”.<sup>133</sup> In addition, the Postal Service proposed another methodological route type change in response to a question that was raised during the technical meeting related to its methodology in the SAS programs that calculate delivery costs by shape in the ACR Folder 19 (e.g., Docket No. ACR2014, Library Reference USPS-FY14-19, December 29, 2014).<sup>134</sup> Further, the Postal Service will eliminate several programming steps that use several pieces of the IOCS route type (collection routes) information to distribute collection mail costs.<sup>135</sup> For ACR Folder 19 (e.g., Docket No. ACR2014, Library Reference USPS-FY14-19), it explains “analysis of the indicia of First-Class letters will be based only on [IOCS] tallies where the carrier is returning from their route, and no longer include tallies for carriers assigned to a collection route.” Report at 6.

*Rationale.* The Postal Service states that while data by route type have continued to be collected by IOCS, they are not used in the ACR. Responses to CHIR No. 1, question 7.c. It asserts that while TACS data can be used to separate time spent on letter routes versus special purpose routes, it cannot be used directly to identify

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<sup>132</sup> This was used to update the cost impacts on cost segment 6 and 7 for the modified Proposal Nine. The “ACARMMRG” program was filed with the June 10, 2015, USPS Reply Comments.

<sup>133</sup> Compare worksheet “I-CS06.0.2.2” in the file “I\_FORMS\_TACS” with the same worksheet in the file “I\_FORMS” and worksheets “6.0.2.1” in the “CS06&7\_TACS” workbook and the FY2013 ACR “CS06&7” workbooks.

<sup>134</sup> In the Report, the Postal Service referred to this change as number 8 in its summary of the Petition modifications.

<sup>135</sup> Docket No. ACR2015, Library Reference USPS-FY15-19.

specific route types.<sup>136</sup> *Id.* It says that “since the data are not used, there is no loss in reporting only by route group, and there is a benefit in the potential to reduce the data collection burden.” Response to CHIR No. 1, question 7.c.

The Postal Service asserts that although the IOCS contains data by route type, these data are not used in the ACR. *Id.* The Postal Service also states that TACS can be used to separate time spent on letter routes versus special purpose routes (LDCs 23 and 27), but it cannot be used directly to identify specific route types. *Id.*

*Commission analysis.* The Commission does not approve Component Seven because it is unclear whether unassigned routes will be accurately distributed under the proposal. The primary issues in Component Seven are: (1) the adjustment factors employed for the known/unknown route distribution process, implemented in the revised CARMM program,<sup>137</sup> may not be appropriate; and (2) the eventual elimination of route type entirely in either the inputs or the revised CARMM program<sup>138</sup> may change the mixed mail and direct mail tallies distribution ratios.

Given the recent increases in mixed mail costs by route type, the Postal Service’s significant revisions to its control totals programs and the revised CARMM program modified again to incorporate those revisions, the entire Component Seven methodology should be reconsidered in another rulemaking well in advance of the ACR

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<sup>136</sup> It appears that because the DOIS has an interface between the TACS and the AMS (for route type), the Postal Service believes DOIS produced letter routes Office and Street workhours are accurate enough to produce the foot route and motorized route Office and Street percentages in Components Six and Seven of this Petition. However, the Postal Service states that special purpose routes may be underreported in the AMS which may be why it proposed using the TACS in Component One. See Docket No. RM2009-10, Proposal Eight, at 2, file “Prop.8.Appendix.CCCS\_SPR\_Documntatn.pdf;” Docket No. R2005-1, Testimony of Jeffrey W. Lewis on Behalf of United States Postal Service, April 8, 2005, at 6 related to the DOIS interface (Docket No. R2005-1, USPS-T-30).

<sup>137</sup> Some of the resulting support cost changes to the Training labeled support costs are discussed in Component Three.

<sup>138</sup> Although the Postal Service asserts that the IOCS data by route type are not used in the ACR, the route type variable is still included and appears to be used in a number of different areas within the revised CARMM program code. More specifically, the revised CARMM program currently continues to use the route type in its summary cost steps of the programming code and route type is also used in the SAS programs in other ACR financial data (e.g., Library Reference USPS-FY15-19).

with the impacts of implementation detailed prior to presentation in the ACR. The removal of route 86 (exclusive parcel post) from the letter route group should also be explained.

*Another Analytical Principle Change Was Made Consistent for the Unknown Route (99) to Known Route Group Distribution Process.* Although the Postal Service asserts that there is no change in the allocation of training costs in its Response to CHIR No. 4, there has been a change in the removal of the Route 99 from the letter route grouping in the revised CARMM program.<sup>139</sup>

The current methodology for including Route 99 (unassigned to a route) **within** the letter route group of the CARMM program, given the functional form and calculations, is intended to reflect and account for related mail volume changes and the associated support costs within the letter routes group.<sup>140</sup> The current functional form of the CARMM program grouping is necessary so that the other (Route 99)-Basic Function calculation methodology can be achieved for both Route 99 direct labor costs and for the Office Support costs used as inputs into the cost segment 6 and 7 workbook. *Id.* The Postal Service informed the Commission it would also be taking Training out of the IOCS sampling estimation and offered this explanation as its reason for the elimination of the Route 99 code from the letter route grouping processing within its revised CARMM program filed after the technical meeting. Response to CHIR No. 4. However, the

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<sup>139</sup> In Library Reference USPS-RM2015-2/3, file "Reweight.IOCS.Tallies.Agg.Doll.Wgts," the Route 99 (unassigned to route group costs) are allocated between the REG and SPR route group. \*if F260 = '99' then routeGrp = 'MIX';

- "use new tally weights, x9250b, that have split MIX routes to SPR and REG route pool"

In the subsequent revised CARMM program, removing the Route 99 from the letter route group would be necessary because you have already distributed between LTR group and SPR route group (distributing the routeGrp='Mix').

<sup>140</sup> For unassigned to a route (Route 99) in-office direct labor costs, the direct mail activity code costs used to develop each direct mail activity code cost ratio are the sum of the outgoing, incoming, transit and other basic function costs of each direct mail activity code. See file "APPE-15," "Distribution of Mixed Mail Costs to Direct Activity Codes at E-3."

Postal Service did not address all the other costs associated with Route 99 in its response.

Additional Route 99 costs not addressed in the Postal Service's Response to CHIR No. 4 include both other Office Support costs, and Office direct labor costs.<sup>141</sup> The elimination of the Route 99 costs in the letter route grouping in the Postal Service's revised CARMM program code is a functional change to the current CARMM program and as a result appears inconsistent with the concept as to why it is grouped, *i.e.*, Route 99 costs are intended to reflect costs changes across the letter routes, not the special purpose routes. The Postal Service should provide its rationale and justification for this change in any future rulemaking related to this proceeding.

*Route Type and Mixed Mail Considerations.* Based on the Commission's review, mixed mail and direct mail costs vary by route type as does their distribution of mixed mail costs to direct mail activity codes within those routes. As shown in Table VI-9, year-to-year route type cost changes differ depending on route type.

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<sup>141</sup> See Docket No. ACR2015, Library Reference USPS-FY15-32, "I\_FORMS\_Public\_FY15" workbook, "I-CS06.1 Input" tab, Column C contains the other support costs associated with Route 99 included with the letter route group and "I-CS06.0.2.2 Input" tab, Column B shows the Route 99 direct labor costs included with the letter route group.

**Table VI-9**  
**FY 2013 and FY 2015, Mixed Mail Costs by Letter Route Type**

Total Mixed Mail In-Office Direct Labor Costs-Letter Routes			
Letter Route Type	FY 2013	FY 2015	Percent Change
Residential Park & Loop	\$271,795,900	\$318,500,600	+17.18%
Residential Curb	\$107,539,600	\$137,925,400	+28.26%
Residential Foot	\$42,375,070	\$49,194,070	+16.09%
Mixed <sup>a</sup> Park & Loop	\$24,226,530	\$30,925,530	+27.65%
Mixed <sup>a</sup> Curb	\$5,568,116	\$6,565,908	+17.92%
Business Motorized	\$5,359,909	\$5,114,089	-4.59%
Mixed <sup>a</sup> Foot	\$4,905,536	\$5,222,180	+6.45%
Business Foot	\$4,300,322	\$3,489,946	-18.84%
<b>Total Letter Route Group</b>	<b>\$466,071,000</b>	<b>\$556,937,700</b>	<b>+19.50%</b>
<sup>a</sup> Mixed Residential and Business Deliveries. The Commission generated IOCS estimates, Docket No. ACR2013, Library Reference USPS-FY13-37, file "prcpub13" SAS, Docket No. ACR2015, Library Reference USPS-FY15-37, file "prcpub15."			

As Table VI-9 also shows, shape differences are related to route type. Shape and route type in-office direct labor costs are developed and used in the Postal Service's Docket No. ACR2015, Library Reference USPS-FY15-19 filing.<sup>142</sup>

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<sup>142</sup> In-office direct labor costs by shape and route type are developed as inputs to the delivery cost model in Docket No. ACR2015, Library Reference USPS-FY15-19, December 29, 2015.

**Table VI-10**  
**Selected Residential Routes Comparison, Domestic Mail Identification**  
**(IOCS Question 23A01), Shapes Differ by Route Type**

Shape	Residential Route-FY 2015			
	<i>Foot</i> Route		<i>Curb</i> Route	
	Costs	Percent	Costs	Percent
Card	\$1,685,450	1.52%	\$6,684,106	1.73%
Oversize Card	\$383,842	0.35%	\$1,491,742	0.39%
Letter	\$69,464,210	62.50%	\$146,126,300	37.80%
Flat	\$34,106,000	30.69%	\$193,715,300	50.11%
IPP/Parcel	\$5,500,814	4.95%	\$38,594,640	9.98%
<b>Total</b>	<b>\$111,140,300</b>	<b>100.00%</b>	<b>\$386,612,100</b>	<b>100.00%</b>
Source: The Commission generated IOCS estimates (for those city carrier tallies handling loose mailpieces) from "prcpub15" SAS data set in Docket No. ACR2015, Library Reference USPS-FY15-37.				

The Postal Service has not explained how these differences will be accounted for given the proposed reporting changes. If the Postal Service refiles Component Seven, it must clearly demonstrate how the removal of route type does not impact cost attribution.

#### VII. ORDERING PARAGRAPHS

*It is ordered:*

For purposes of periodic reporting, the Commission denies the changes in analytical principles proposed by the Postal Service in Proposal Nine.

By the Commission.

Stacy L. Ruble  
Secretary