

BEFORE THE
POSTAL REGULATORY COMMISSION

Annual Compliance Report, 2016

:
: Docket No. ACR2016
:

**INITIAL COMMENTS OF UNITED PARCEL SERVICE, INC.
ON UNITED STATES POSTAL SERVICE'S ANNUAL
COMPLIANCE REPORT FOR FISCAL YEAR 2016
(February 2, 2017)**

United Parcel Service, Inc. ("UPS") respectfully submits these comments on the United States Postal Service's ("Postal Service") Annual Compliance Report ("ACR") for Fiscal Year ("FY") 2016 ("FY 2016 ACR").

As the Postal Service continues to make large investments in its competitive products business, it becomes increasingly important that the costs of these products are accounted for accurately and transparently. UPS sought and received access for its outside counsel and consultants to much of the non-public data regarding competitive products in this docket.¹ Even with access to this data, however, it is not possible to determine precisely how the Postal Service accounts for many investments in its competitive products business or costs that are incurred by the ongoing operations of that business. Many of the Postal Service's costing practices remain exceedingly complex and opaque, and questions persist.

¹ Order Granting Motion for Access, Order No. 3741, Dkt. No. ACR2016 (January 10, 2017).

These concerns are amplified given the Commission's recent Order on UPS's Proposals One, Two, and Three.² In that Order, the Commission ruled that "attributable costs" for individual products should include product incremental costs rather than product "volume variable" costs.³ As it acknowledges in the ACR, the Postal Service has been unable to comply with this new approach to date. It has struggled to develop appropriate models to meet this new standard, and many questions remain about how this Order should be implemented.⁴

The new approach to product attribution warrants a renewed focus on the Postal Service's cost attribution assumptions and practices. In some cases, the Postal Service must develop new models that estimate incremental cost directly, particularly in those cost segments and components where an extrapolation approach is likely to understate the actual incremental costs of providing a product or service. It is not always appropriate, for example, to limit modeling efforts to estimating marginal cost in one period of the year and then extrapolating from those limited results in order to calculate incremental costs for periods with substantially different volumes and network configurations.

As an example, it is increasingly clear that the Postal Service is not appropriately attributing increased peak season costs to packages. Costs associated with peak

² Order Concerning United Parcel Service, Inc.'s Proposed Changes to Postal Service Costing Methodologies (UPS Proposals One, Two, and Three), Order No. 3506, Dkt. No. RM2016-2 (September 9, 2016) at 105 ("Order No. 3506").

³ See *id.* at 125 ("The Commission directs the Postal Service to use incremental costs as the basis for class-level and product-level attributable costs").

⁴ See FY 16 ACR at 4-5 ("Unfortunately, in reality, there are several circumstances that complicate achievement of that theoretical congruence, and which have thus precluded incorporation of the new inframarginal cost component into the CRA Report this year").

season are massive — the Postal Service “surpassed its projections of delivering 750 million packages during peak season” and “on Dec. 19, one of the season’s *busiest days*, the Postal Service delivered more than 34 million packages.”⁵ The Postal Service hires thousands of additional employees to meet the demands of peak season and incurs a host of other additional costs, including those associated with Christmas Routes for highway transportation and Special Purpose Routes in City Carrier Delivery. Notwithstanding the magnitude of these costs, however, and their clear causal link to parcel products,⁶ UPS’s review of the ACR data indicates that few of these additional costs are attributed to parcels under current methodologies. Since the costs associated with one of the most rapidly growing categories of Special Purpose Routes were incurred *because* of parcels,⁷ they should be attributed to parcels as the incremental costs associated with parcels.

The Annual Compliance Review process was established by Congress under 39 U.S.C. § 3653 to ensure that the Commission, on an annual basis, confirms whether or not the Postal Service, a government monopoly, complies with certain financial requirements and service standards of U.S. law. UPS understands that the ACR process is a narrow proceeding with a limited time frame; hence, UPS is not asking the

⁵ “Peak Performance,” USPS NewsLink, <https://link.usps.com/2017/01/20/peak-performance/> (Jan. 20, 2017).

⁶ Parcels account for a disproportionate share of the increase in volume that occurs between the fourth and first postal quarter. See Second Motion of United Parcel Service, Inc. for Issuance of Information Request to the United States Postal Service, Dkt. No. ACR2016 (Jan. 26, 2017) (“UPS CHIR No. 2”). On a weight basis, competitive products accounted for 60 percent of the total increase in volume that occurred between the 4th quarter of FY 2015 and the 1st quarter of FY 2016. *Id.* at Q 1. Parcel Select alone accounted for 43 percent of the total increase. *Id.*

⁷ “Exclusive Parcel Routes” accounted in FY 2016 for 34.6 percent of total Special Purpose Route costs, up from 17.2 percent in FY 2013. See UPS CHIR No. 2 at Q 5(f).

Commission to resolve each issue flagged in these comments during this proceeding. Rather, UPS requests that the Commission require the Postal Service to thoroughly answer the questions that UPS has submitted and that the Commission establish a series of technical conferences, studies, and, if necessary, separate dockets to review the cost attribution trends and issues discussed below that call into question whether the Postal Service's current practices conform to the principles of the Postal Accountability and Enhancement Act of 2006. Alternatively, UPS welcomes any guidance from the Commission about the best way to address these issues.

First, UPS requests that the Commission require the Postal Service to explain financial inconsistencies and unexpected competitive product cost trends. UPS has submitted two sets of proposed Chairman's Information Requests to investigate and understand these trends.⁸ The Postal Service is to respond by February 3 to the first set of requests. If the Postal Service is unable to clarify the issues highlighted by UPS's Information Requests, UPS respectfully requests that the Commission itself take action to investigate further. UPS also respectfully requests that the Commission issue the second set of requests filed by UPS (UPS CHIR No. 2). As detailed below, the issues raised in these information requests are critical, especially given the Commission's ruling that the Postal Service must attribute to each product its full incremental cost.

Second, the Commission should follow up on past requests that the Postal Service has not fully addressed. At least three outstanding issues relating to cost

⁸ United Parcel Service, Inc.'s Motion for Issuance of Information Request to the United States Postal Service, Dkt. No. ACR2016 (Jan. 19, 2017) ("UPS CHIR No. 1"); UPS CHIR No. 2.

attribution and analytical principles have yet to be addressed by the Postal Service. *First*, as noted, in Order No. 3506, the Commission ordered that the Postal Service begin using a product's incremental costs for purposes of individual cost attribution. The Postal Service has stated that it faces difficulties which will delay compliance with this order. UPS respectfully requests that the Commission take action to investigate and resolve these difficulties. *Second*, also in Order 3506, the Commission directed the Postal Service to revise its annual Summary Cost Description Report to aid transparency in Postal Service costing. Order No. 3506 at 106. UPS requests that the Commission inquire into the progress the Postal Service has made towards satisfying these new transparency requirements and requests that the Commission require the Postal Service break down the costing data in the specified tables into separate columns for Competitive Products and Market-Dominant Products. *Third*, the Postal Service has yet to sufficiently address the Commission's request to provide data to determine whether UPS's model for city carrier street time is a viable alternative to the current model.⁹ The Postal Service continues to rely on insufficient data from samples taken during periods (March and April) that do not reflect the true annual costs of delivering parcels — especially under an incremental cost approach. UPS requests that the Commission initiate appropriate proceedings to resolve this issue.

⁹ Order Approving Analytical Principles Used in Periodic Reporting (Proposal Thirteen), Order No. 2792, Dkt. No. RM2015-7 (Oct. 29, 2015) at 64 ("Order No. 2792").

I. THE POSTAL SERVICE'S REPORTED COST DATA RAISES IMPORTANT QUESTIONS ABOUT THE TREATMENT OF COMPETITIVE PRODUCTS

A. Special Purpose Routes and Peak Season Operations

There appear to be three types of Special Purpose Routes described in the Postal Service's costing data: Exclusive Parcel Post, Collection, and Other.¹⁰ The costing spreadsheets provided by the Postal Service, however, provide only basic information about the way costs are assigned to these Special Purpose Routes. What little information is provided is needlessly opaque; substantially greater transparency is warranted. UPS has submitted proposed information requests relating to Special Purpose Routes to address these concerns. See UPS CHIR No. 2 at Q.4-5.

For example, the share of special purpose route costs that are associated with "Exclusive Parcel Post" routes has grown from approximately 17% in FY 2013 to 35% in FY 2016, but the costing methodology does not appear to reflect the changing composition of Special Purpose Routes.¹¹ It is also notable that more than 40% of Special Purpose Route costs are treated as network travel or support for network travel, while only 2% of letter route costs are treated as such.¹²

¹⁰ See CRA "B" Workpapers (Public Version), Library Reference USPS-FY16-32, Dkt. No. ACR2016 (Dec. 29, 2016); UPS CHIR No. 2 at Q.4-5.

¹¹ See UPS CHIR No. 2 at Q.5(e). In FY 2013, total accrued costs were \$80.3 million for Exclusive Parcel Post routes and \$466.9 million overall. "CS06&7.xlsx," FY2013 CRA "B" Workpapers (Public Version), Library Reference USPS-FY13-32, Dkt. No. ACR2013 (Dec. 27, 2013) ("Input IOCS" tab). In FY 2016, total accrued costs were \$186.9 million for Exclusive Parcel Post routes and \$540.3 million overall. "CS06&7-Public-FY16.xlsx," FY2016 CRA "B" Workpapers (Public Version), Library Reference USPS-FY16-32, Dkt. No. ACR2016 (Dec. 29, 2016) ("Input IOCS" tab).

¹² See "CS06&7-Public-FY16.xlsx," FY2016 CRA "B" Workpapers (Public Version), Library Reference USPS-FY16-32, Dkt. No. ACR2016 (Dec. 29, 2016). ("Input IOCS" and "7.0.6" tabs). \$216.3 million of the total \$540.3 million in SPR costs were assigned to "SPR – NETWORK TRAVEL," "SPR IN-OFFICE SUPPORT OTHER TO NETWORK TRAVEL," or "SPR NETWORK TRAVEL SUPPORT." *Id.* On the other hand, only \$377.2 million of the \$15.2 billion

The low level of attribution to competitive products that results from this and other assumptions raises significant questions about how costs associated with Special Purpose Routes, many of which are largely driven by parcel delivery, are attributed to products. It also raises questions about whether the decades-old variability assumptions used in allocating Special Purpose Route costs are still reliable. Indeed, many of the variabilities used in the costing methodology for Special Purpose Routes were developed in Docket No. R97-1, and at least one variability from Docket No. R87-1 is still used in the current methodology.¹³

The seasonality evident in the Postal Service's operational costs raises additional questions. The Postal Service reported 130,087 non-career employees in October of 2015, 154,231 non-career employees in December of 2015, and then 132,900 non-career employees in January of 2016.¹⁴ This indicates the Postal Service hired thousands of additional employees for the peak season. The Postal Service "surpassed its projections of delivering 750 million packages during peak season" and "on Dec. 19, one of the season's *busiest days*, the Postal Service delivered more than 34 million

in letter route costs were allocated to "LTR – NETWORK TRAVEL," "LTR IN-OFFICE SUPPORT TO NETWORK TRAVEL," or "LTR NETWORK TRAVEL SUPPORT." *Id.*

¹³ See, e.g., "CS06&7-Public-FY16.xlsx," FY2016 CRA "B" Workpapers (Public Version), Library Reference USPS-FY16-32, Dkt. No. ACR2016 (Dec. 29, 2016) ("7.0.5" tab). The Postal Service stated in last year's Roadmap to the FY 2015 ACR that it had "initiated an investigation into updating the 1997 Special Purpose Route study." Roadmap Document to FY 2015 Annual Compliance Report, Library Reference USPS-FY15-9 (12/29/2015) at 122. It is unclear what became of this investigation since the Roadmap for FY 2016 makes no mention of it or any subsequent study. Roadmap Document to FY 2016 Annual Compliance Report, Library Reference USPS-FY16-9 (12/29/2016) at 131-132 ("Special Purpose Route Studies" section).

¹⁴ See UPS CHIR No. 2 at Q.3(a).

packages.”¹⁵ The large number of packages delivered during the peak season indicates that much of this seasonal variation is caused by competitive products.¹⁶

It is unclear how these additional seasonal costs were attributed to products, if at all. The Postal Service generally produces only yearly cost data, so it is very difficult to evaluate how it treats seasonal variation in its operations. For that reason, UPS requests that the Commission direct the Postal Service to begin producing its cost segment and component cost data on a *quarterly* basis to help identify cost trends affected by peak season increases. The Postal Service routinely collects cost data on a quarterly basis, and this should not impose any significant burden.

Even if quarterly cost data were reported, however, there may be issues in the Postal Service approach. To date, the Postal Service has attributed costs to products by computing “volume variable” costs. In doing so, its costing models generally assume that the basic structure of the network remains fixed. Because of that assumption, the Postal Service computes the attributable costs of delivering products to be a small fraction of delivery costs, *e.g.*, the final few seconds of the delivery process.

This approach is incompatible with the Commission’s order to attribute costs to products using incremental costs.¹⁷ When a seasonal surge in mail volume forces the Postal Service to add additional temporary capacity, the Postal Service’s network structure can no longer be treated as fixed and an accurate calculation of incremental

¹⁵ “Peak Performance,” USPS NewsLink, <https://link.usps.com/2017/01/20/peak-performance/> (Jan. 20, 2017).

¹⁶ UPS has sought information on this topic. See UPS CHIR No. 2 at Q.4(c).

¹⁷ See Order 3506 at 125 (“The Commission directs the Postal Service to use incremental costs as the basis for class-level and product-level attributable costs”).

costs should include the cost of the added capacity. Those costs should be attributed to products based upon the extent to which those products caused the surge.

Moreover, it is very likely that such additional costs are caused by competitive products, either as individual products or as a group. On a weight basis, competitive products accounted for 60 percent of the total increase in volume that occurred between the 4th quarter of FY 2015 and the 1st quarter of FY 2016.¹⁸ Parcel Select alone accounted for 43 percent of the total increase.¹⁹ Further, many of the Postal Service's operational strategies during peak season are in large part driven by competitive products, including Christmas Highway Routes and, likely, Exclusive Parcel Post routes.²⁰ If these operational strategies would not have been used "but for" the need to deliver peak volumes of competitive products, the costs associated with these strategies are within the incremental cost of providing competitive products.

The Commission should freshly examine the cost models used for this important subset of Postal Service costs. UPS respectfully requests that the Commission initiate appropriate proceedings to analyze the costing of Special Purpose Routes, Christmas Routes, and other peak season costs and to determine whether the Postal Service is in compliance with the Commission's order to attribute the full incremental costs associated both with each product and with the group of competitive products.

¹⁸ See UPS CHIR No. 2 at Q 1.

¹⁹ *Id.*

²⁰ "The Postal Service acknowledges some validity to the notion that seasonal contracts, like exceptional service contracts, are likely to be more directly related to changes in volume, or the expectation of changes in volume, than are regular contracts. Accordingly, the costs of such contracts, like exception service contracts, could perhaps be treated as more or even fully attributable." Reply Comments of the United States Postal Service, Dkt. No. RM2016-12 (November 14, 2016) at 6.

It should also be noted that the Postal Service stated, almost a full year ago, that it was investigating the practicality of a special field study of Special Purpose Routes. The Postal Service stated that the investigation had “just begun” and would take “several months” to complete.²¹ UPS respectfully requests that the Commission direct the Postal Service to provide an update on its progress in this investigation, and initiate a special costing study during the next peak season.

B. Vehicle Costing Models

The Postal Service, in its FY 2016 Annual Report to Congress, discussed recent investments made in its delivery fleet:

In FY2016, the Postal Service invested \$221.7 million in our delivery fleet. This includes 3,339 RAM ProMaster extended capacity delivery vehicles, purchased for \$105.4 million to replace our aging fleet of 2006 minivans. We also purchased 2,446 service vehicles for \$76.9 million replacing our vehicle maintenance vehicles with a mean age of 15.7 years. In addition, 1,688 administrative vehicles will be purchased for \$39.4 million to replace administrative vehicles with a mean age of 12 years.²²

Many of these costs do not appear to be adequately attributed to competitive products. As flagged by UPS in its first set of proposed information requests, the cost segments report in the FY 2016 ACR shows that only 30.5% of all vehicle depreciation is attributed to products, with just 5.2% attributable to competitive products. See UPS CHIR No. 1 at Q.3.

This is a puzzling outcome considering that the Postal Service has repeatedly acknowledged that these vehicles are intended and designed to facilitate the delivery of

²¹ Response of the United Postal Service to Commission Order No. 2792, Dkt. No. RM2015-7 (February 16, 2016) at 19.

²² U.S. Postal Service 2016 Annual Report to Congress at 52.

packages.²³ It is difficult to accept that any costing methodology that attributes only 5.2% of these costs to competitive products is functioning properly, particularly when the Postal Service is required to attribute the incremental costs associated with each product. UPS respectfully requests that the Commission carefully review the Postal Service's cost models generating this low level of attribution, initiate a special study of this issue, and/or initiate any other appropriate proceedings.

C. Destination Delivery Unit Cost Models

An increasing share of competitive product volume is drop-shipped at Postal Service Destination Delivery Units ("DDUs"). This shipping option is increasingly selected by sophisticated mailers and is, in fact, even used by Postal Service rivals in the competitive products sector. Despite this increase in use and importance, the cost model for mail volume drop-shipped at DDUs remains a black box.

Many different mail and package streams are serviced at the DDUs. Delivery of drop-shipped products at DDUs follows an extended process. Postal Service workers first break down pallets, containers, and hampers. The incoming mail and parcels must then be sorted in a variety of ways depending on the carrier route. Incoming letter and flat mail from upstream operations or drop shipped to the DDU must be handled, sometimes cased and then organized for outgoing delivery. Finally, the mail and parcels are loaded onto Postal Service delivery trucks.

²³ Mike Colgan, *Familiar White Postal Service Trucks Too Small For Increasing Amount Of Parcels Being Mailed*, (Jan. 19, 2015), <http://sanfrancisco.cbslocal.com/2015/01/19/familiar-white-postal-service-trucks-too-small-for-increasing-amount-of-parcels-being-mailed/>; Anne Steele, *Postal Service Seeks to Retire the Old Mail Truck*, WALL ST. J. (Feb. 12, 2015), <http://www.wsj.com/articles/postal-service-seeks-to-retire-the-old-mail-truck-1423786375> ("The postal service is experiencing record growth in package delivery, and obtaining vehicles that are designed with the changing mail mix in mind will help improve efficiency of delivery operations,' [USPS spokeswoman] Ms. Ninivaggi said.").

It is unclear where the costs associated with these activities reside in the Postal Service's current cost accounting. The Postal Service must model and attribute the full incremental costs associated with each product. To do so properly, the Postal Service must carefully divide up DDU-related costs into various activities and model to what extent specific products are driving costs in each of the activities. Only then can the Commission have confidence that the Postal Service is fully attributing the incremental costs associated with each product within DDU-related costs.

UPS has submitted an information request to gain more clarity about how the Postal Service handles these costs. See UPS CHIR No. 2 at Q.7. To the extent the Postal Service's response is unclear or incomplete, UPS respectfully requests that the Commission initiate appropriate proceedings to review how the Postal Service accounts for costs in this increasingly important area.

D. Other Anomalous Trends in Cost Attribution

The Postal Service generally processes and handles all parcels — whether they are market dominant or competitive — using the same methods, on the same machines, and on the same vehicles for delivery. Parcels and other mail classes are also generally part of a joint production process using similar methods, machines, and delivery processes. One would expect, then, that changes in costs associated with these activities would affect attributable costs in a similar manner. The data provided by the Postal Service, however, in some cases departs from this expectation. Some of UPS's proposed information requests are directed at understanding the reasons for these apparent anomalies.

The cost data for Clerks and Mailhandlers (Cost Segment 3) is a good example.²⁴ Competitive mail experienced a *decrease* of 8.7% from FY 2015 to FY 2016 in per-piece attributable cost, while market-dominant package services *increased* by 3.7%. See UPS CHIR No. 2, Q.9. The cost data for City Delivery Carriers — Street Activity (Cost Segment 7) is similar. Competitive mail experienced a large decrease of 10.4% from FY 2015 to FY 2016 in per-piece attributable cost. See UPS CHIR No. 2, Q.11. At the same time, per-piece attributable costs increased for first-class mail, standard mail, and periodicals at rates between 2.9% and 5.0%. *Id.*

Overall, on a “per-piece” basis, market-dominant mail attributable costs are trending upwards while competitive mail attributable costs are trending downwards.²⁵ This trend is, at the very least, counterintuitive in light of the Postal Service’s declared increasing focus on competitive products and services over the last few years. To the extent the Postal Service’s responses to UPS proposed information requests do not fully explain these anomalies, UPS respectfully requests that the Commission utilize its authority under 39 U.S.C. § 3652(e)(2) to initiate appropriate proceedings “to improve the quality, accuracy, or completeness of Postal Service data[.]” UPS stands ready to assist the Commission in these efforts.

²⁴ See FY 2016 Public Cost Segments and Components Report, Library Reference USPS-FY16-2, Dkt. No. ACR2016 (Dec. 29, 2016) (“CS03” tab); FY 2015 Public Cost Segments and Components Report, Library Reference USPS-FY15-2, Dkt. No. ACR2015 (Dec. 29, 2015) (“CS03” tab).

²⁵ The trend is also true on a per-pound basis. See UPS CHIR No. 2, Q.13.

II. IMPORTANT POSTAL SERVICE COSTING ISSUES RAISED IN PRIOR DOCKETS REMAIN UNRESOLVED

As noted, three costing issues from past dockets remain unresolved. Each of these outstanding issues deserves the Commission's attention.

A. Order No. 3506

In Order No. 3506, the Commission ordered the Postal Service to begin using a product's incremental cost for purposes of individual cost attribution. Order No. 3506 at 105. In its report to the Commission, however, the Postal Service stated that it has been unable to comply with this directive. See FY 16 ACR at 4-5. The Postal Service explained that "to the extent that some may have hoped that the CRA Report for FY2016 could reflect a full transition to the costing scheme ultimately contemplated by Order No. 3506, that aspiration has not been fulfilled." *Id.* at 7.

The Postal Service cited several reasons why it could not compute product-level incremental costs this year. Many of these limitations, however, appear to be of the Postal Service's own creation. For example, the Postal Service cites "computational limitations" for international mail products. *Id.* at 5. It is not clear, however, why international mail products merit a separate costing regime from domestic mail products. If these international mail products were treated the same as domestic mail products, the same incremental model used for domestic products would be readily applicable to them.

The Postal Service also points to what it describes as a potentially "intractable problem" when it comes to costing models for Negotiated Service Agreements ("NSAs"). *Id.* at 6. But this "problem" only arises because the Postal Service is trying to treat NSAs as separate products for the incremental cost calculation. For purposes of

computing incremental costs, there is neither a need nor a justification for treating NSAs as separate products. Incremental cost could be computed on a “product type” basis and then distributed to the various NSAs according to each’s overall volume or weight contribution. This warrants further scrutiny to avoid distortions.²⁶

Finally, the Postal Service cites difficulties associated with certain “final adjustment[s]” it makes after calculating volume variable costs. *Id.* at 5. The existence of these “final adjustments,” and the problems they purportedly cause, are a sign of the unnecessary complexity of the Postal Service’s costing procedures and the manner in which they have been patched, modified, and retrofitted over the years. The Postal Service gives no reason why it could not make the final adjustments to incremental costs rather than attributable costs, or whether and to what extent these adjustments correspond to changes in a product’s share of attributable costs in constant elasticity cost pools or components.²⁷ Nor is it clear why the calculations in NP-10 are based on

²⁶ In FY 2015, there were 469 distinct NSAs for competitive products – 200 for domestic products and 269 for international. FY 2015 Annual Compliance Determination at 81, 88. If the Postal Service is permitted to interpret the Order 3506 in this artificially granular way, this introduces perverse incentives to siphon volume away from the generally applicable competitive products to NSAs, or to artificially splinter NSAs into a myriad of subagreements. The interpretation of incremental cost is also distorted, in that in most cases, it is likely that the but-for outcome of not providing an NSA would be higher volume and cost in the corresponding competitive mail product.

²⁷ The adjustments that are relative to competitive product costs (“NSA Adjustments” and “Special Services Adjustments”) were added in FY08 and FY09, respectively, with seemingly little explanation as to the nature and purpose of the adjustments. See “Preface.doc,” FY 2008 CRA Model (Model Files, Cost Matrices, and Reports) (Public Version), Library Reference USPS-FY08-31, Dkt. No. ACR2008 (Dec. 29, 2008) at 2; “Preface.doc,” FY 2009 CRA Model (Model Files, Cost Matrices, and Reports) (Public Version), Library Reference USPS-FY09-31, Dkt. No. ACR2009 (Dec. 29, 2009) at 2.

an intermediate pre-adjustment estimate of volume variable and product specific costs, instead of the final calculation.²⁸

In short, the difficulties the Postal Service is experiencing in its attempts to comply with Order No. 3506 appear to be largely the result of a series of ad hoc fixes and adjustments by the Postal Service. UPS respectfully requests that the Commission convene a technical conference to address these issues as soon as is practicable.

The Commission also directed the Postal Service to “include more specific and detailed information with its annual Summary Description of USPS Development of Costs by Segment and Components report.” Order No. 3506 at 106. The Commission explained that “[b]y requiring that the Postal Service provide the same level of detailed explanation of its costing methodology for each cost segment sub-report, the Commission seeks to improve the clarity of the reported information.” *Id.* at 107. The Commission provided a specific sample of the data it wanted reported by the Postal Service. See *id.* at Appendix B, Table B-1.

The Postal Service is to implement the new reports in connection with its annual Summary Description of Costs. *Id.* at 105. UPS respectfully requests that the Commission inquire whether the Postal Service is on track to deliver the newly requested reports by July of this year. To the extent there are any issues or concerns relating to the new reports, those issues could be addressed proactively through an appropriate proceeding. UPS also requests that the Commission require the Postal Service to publically report competitive products and market dominant cost data in

²⁸ See FY 2016 Competitive Product Incremental and Group Specific Costs (Under Seal), Library Reference USPS-FY16-NP10, Dkt. No ACR2016 (Dec. 29, 2016).

separate columns in the annual Segment and Component Group Costs tables. See *id.* at Appendix B, Table B-1. Such reporting will not burden the Postal Service, and will serve to make the data more accessible and transparent.

B. Order No. 2792

Finally, there is one unresolved issue from the City Carrier Street Time docket, RM2015-7. Although the Commission did not adopt the alternative proposed by UPS, the Commission found that UPS's alternative "warrant[ed] further consideration." Order No. 2792 at 2. The Commission noted that "even the Postal Service's expert observes UPS's approach has benefits and challenges[.]" *Id.* at 64.

The Commission directed the Postal Service to "examine the capabilities of its data systems" to evaluate whether they might be adapted to gather sufficient data to institute UPS's proposed methodology. *Id.* at 65. The Commission directed the Postal Service to file a report "describing the steps that would need to be taken to collect" such data. *Id.* at 66. The Postal Service filed the requested report on February 16, 2016.²⁹

UPS filed a response to the Postal Service's report in which UPS suggested that the Postal Service likely already had sufficient operational data for a unified "top-down" model.³⁰ UPS identified the operational data already available to the Postal Service that could be used in a potential "top-down" model, including Postal Service Delivery Operations Information System ("DOIS") data, Intelligent Mail Barcode ("IMb") data, and Product Tracking and Reporting ("PTR") data.³¹

²⁹ See Response of the United States Postal Service to Commission Order No. 2792, Dkt. No. RM2015-7 (February 16, 2016).

³⁰ See United Parcel Service, Inc.'s Reply to Response of the United States Postal Service to Commission Order No. 2792, Dkt. No. RM2015-7 (March 4, 2016).

³¹ See *id.* at 4.

The Postal Service responded to UPS on March 11, 2016.³² In that filing, the Postal Service claimed it would “continue to investigate” possible ways to implement the alternative model.³³ Almost one year later, however, the Postal Service has not reported any additional findings, and it is unclear whether it has continued to investigate UPS’s alternative model.

As a next step to resolve this issue, UPS respectfully requests that the Commission convene a technical conference to consider the availability of Postal Service data for use in the proposed top-down model.

CONCLUSION

For the foregoing reasons, UPS respectfully requests that the Commission initiate proceedings to investigate vehicle costing models, destination delivery unit costing models, and special purpose route costing models. UPS further requests that the Commission convene appropriate proceedings to resolve the issues discussed in Order No. 2792 and Order No. 3506. UPS welcomes any guidance from the Commission on how best to address any of the issues discussed above.

³² See Response of the United States Postal Service to UPS Pleading Regarding Commission Order No. 2792, Dkt. No. RM2015-7 (March 11, 2016).

³³ See *id.* at 13.

Respectfully submitted,

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