

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

Before Commissioners:

Dan G. Blair, Chairman;
Mark Acton, Vice Chairman;
Ruth Y. Goldway;
Tony L. Hammond; and
Nanci E. Langley

Modification of Costing Methods 2008—
Postal Service Proposals Ten and Eleven

Docket No. RM2008-6

NOTICE OF PROPOSED RULEMAKING ON COSTING
METHODS USED IN PERIODIC REPORTING
(PROPOSALS TEN AND ELEVEN)

(Issued September 18, 2008)

On September 12, 2008, the Postal Service filed a petition to initiate an informal rulemaking proceeding comparable to Docket No. RM2008-2 to consider two more proposed changes to the costing methods approved for periodic reporting.¹ In Docket No. RM2008-2, nine numbered proposals are the subject of notice and comment rulemaking procedures. The Postal Service proposes that the two additional proposed changes be referred to as Proposal Ten and Proposal Eleven to avoid confusion with the nine proposals already under review. The Postal Service's petition describes its two additional proposals, explains their background, objectives, rationale, and, to the extent possible, their likely impact in FY 2008.

¹ Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Further Proposed Methodology Changes for the FY 2008 ACR (Proposals Ten-Eleven), September 12, 2008 (Petition).

I. PROCEDURAL EXPEDITION

The same factors that led the Commission to expedite review of the nine proposals in Docket No. RM2008-2 apply here. There are fewer proposals and they appear to be simpler and potentially less controversial than there were in Docket No. RM2008-2. Accordingly, the Commission will set a shorter period for comments and reply comments for these two additional proposals, and will not schedule a technical conference ahead of time, as it did in Docket No. RM2008-2.

II. SUBSTANCE OF POSTAL SERVICE PROPOSALS

The Postal Service proposals, see Petition at 3 *et seq.*, are described below.

Proposal Ten

PROPOSED CHANGE IN COSTING OF PARCEL POST PRODUCTS

OBJECTIVE:

Changes are proposed for the development of costs for products within the old Parcel Post subclass: market dominant product Parcel Post Single-Piece, and competitive products Parcel Select and Parcel Return Service (PRS).

BACKGROUND:

In FY2007, costs from the data systems were only available for the Parcel Post subclass as a whole. In the Annual Compliance Report, ACR2007, costs for the market-dominant product Parcel Post Single-Piece and competitive products Parcel Select and Parcel Return Service (PRS) were developed using methodologies previously accepted for the purposes of estimating cost differences deemed to be relevant to worksharing.² In other words, the estimates presented were primarily topdown. In the Annual Compliance Determination report, the Postal Regulatory Commission concluded that Parcel Return Service may have had an FY07 cost coverage of only 97.7 percent, which would have been insufficient to meet the requirements of the PAEA. The Commission acknowledged that the PRS FY07 cost coverage might have been higher if

² In Docket No. ACR2007, these estimates were presented in USPS-FT07-9 and USPS-FY07-15.

there were cost savings, such as reduced carrier costs, but noted that dispositive data on that issue were not provided.³

The Postal Service has taken the initiative to obtain data for the Parcel Post products directly from the cost data systems. The In-Office Cost System (IOCS) and Carrier Cost Systems (CCS) can identify each of the three products separately for all of FY08. The Transportation Cost System (TRACS) can separate Parcel Post Single-Piece from Bulk Parcel Post for all of FY08, but can only separate Parcel Select from PRS starting quarter 2 of FY08.

PROPOSAL:

For FY2008, we propose to develop mail processing and delivery costs for Parcel Post Single-Piece, Parcel Select and PRS using IOCS and CCS data. For transportation costs, we propose to use TRACS data to develop separate Parcel Post Single-Piece and Bulk Parcel Post, and to use the accepted methodology to split costs for Bulk Parcel Post into Parcel Select and PRS. These inputs would then be used in the CRA Model to develop a bottom-up cost estimate for each product (i.e., displaying each product as a separate row in the CRA).

IMPACT:

The impact on costs will be unknown until the completion of the FY08 ACR. To the extent that the FY07 procedure implicitly focused only on cost differences deemed relevant for worksharing, and thus may have tended to overstate PRS costs, and to the extent that the proposed bottom-up FY08 procedures develop cost estimates intended to reflect all cost differences, and thus hopefully should neither overstate or understate PRS costs, the new methodology perhaps may reduce PRS costs relative to the FY07 methodology.

³ Postal Regulatory Commission Annual Compliance Determination, FY 2007, p. 24.

Proposal Eleven

PROPOSED CHANGE IN DISTRIBUTION KEY FOR VOLUME-VARIABLE CARRIER COSTS RELATING TO BLUE COLLECTION BOXES

OBJECTIVE:

The purpose of this document is to propose a methodology change, for FY2008, in the manner in which cost segment 7 (city street activity) volume variable costs incurred by blue collection boxes are distributed to products.

BACKGROUND:

Cost Segment 7 blue collection box costs are incurred on both special purpose routes and letter routes. For special purpose routes, the accrued and volume variable costs are derived from the study of special purpose routes submitted in Docket No. R97-1. For letter routes, the accrued and volume variable costs are derived from the 2002 City Carrier Street Time Study (CCSTS), which was submitted in Docket No. R2005-1. In FY2007, the volume variable costs resulting from blue collection boxes were \$46.7 million and \$9.4 million from special purpose routes and letter routes, respectively. Currently, the same distribution factors are applied to attribute the volume variable costs from special purpose routes and letter routes to products. The existing factors are primarily derived from a special study submitted in Docket No. R84-1, but are adjusted annually based on current Revenue Pieces and Weight (RPW) data.

PROPOSAL:

The Postal Service is proposing to distribute the volume variable costs incurred by blue collection boxes to products based on updated distribution factors from current data collected on City Carrier Cost System (CCCS) tests.

RATIONALE:

Collection mail volumes from customer delivery points have been captured by CCCS for several years. In FY2008, CCCS augmented the type of collection volume data recorded. On letter routes, CCCS now records, separately, the same information about blue collection box contents as it does for collection mail from customer delivery points. Utilizing updated distribution factors based on the current mail contents in blue boxes collected on letter routes signifies a methodology improvement for two reasons. First, the existing factors are largely derived from a study conducted approximately 25 years ago, whereas the new factors estimate the current mail contents of blue collection boxes. Second, the proposed approach would directly assign costs to Priority Mail, Express Mail, Free mail, USPS mail, and International mail based on the actual frequency of each within the sampled data from collection boxes, rather than the current

two-step process of first assigning a fixed proportion of collection costs to 'Other', and then further distributing the "Other" costs to those products based on RPW volume. The current process is described in detail at pages 6-7 of the copies of materials provided at the technical conference with NOTICE OF THE UNITED STATES POSTAL SERVICE REGARDING MATERIALS DISTRIBUTED OR REQUESTED AT THE AUGUST 27, 2008 TECHNICAL CONFERENCE, Docket No. RM2008-2 (August 29, 2008).

IMPACT:

A preliminary review of partial-year new distribution data indicates First-Class Mail constituting a higher percentage (i.e., in excess of 99 percent) of mail in blue collection boxes, as compared with the study submitted in Docket No. R84-1. If this result holds, then First Class Mail will receive a higher percentage of volume variable costs incurred as a result of blue collection boxes than in previous years. In FY07, \$53.8 million in volume variable costs from blue collection boxes was distributed to First Class Mail. Given that there was only \$56.1 million in such costs to distribute to the products, the dollar impact on products due to this methodology proposal will be small. However, considering the numerous changes since 1984, such as a more complicated rate structure, Carrier Pickup, and rigid security regulations, the primary result of the preliminary review (i.e., that less than one percent of mail in the collection boxes is other than First-Class Mail) seems reasonable.

It is Ordered:

1. The Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Further Proposed Methodology Changes for the FY 2008 ACR (Proposals Ten and Eleven), filed September 12, 2008, is granted.
2. Interested persons may submit initial comments on or before September 26, 2008. The proposals described in this Order will be considered under the current procedural schedule in Docket No. RM2008-2.
3. Reply comments may be submitted on or before October 3, 2008.
4. William C. Miller is designated as the Public Representative representing the interests of the general public in this proceeding.

5. The Secretary shall arrange for publication of this Notice in the *Federal Register*.

By the Commission.

Steven W. Williams
Secretary