

ORDER NO. 169

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

Before Commissioners:

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

Annual Compliance Report, 2008

Docket No. ACR2008

ORDER ON APPARENT METHODOLOGICAL CHANGES AND
SETTING DATE FOR TECHNICAL CONFERENCE

(Issued January 12, 2009)

In its FY 2008 Annual Compliance Report,¹ the Postal Service made changes in several areas that appear to be methodological changes, *i.e.*, changes in analytical principles. These changes go beyond a simple updating of input data and were not considered in any of the rulemakings initiated in the interim period between the Commission issuing its most recent Annual Compliance Determination (ACD) and the Postal Service's filing of its ACR filed in Docket No. ACR2008. Thus, the ACR

¹ See United States Postal Service FY 2008 Annual Compliance Report, December 29, 2008 (ACR).

represents the first opportunity for the Commission, the public, and the postal community to review them.

Generally, the changes fall into two areas. The first includes changes affecting the attributable costs, revenues, and volumes of postal products. These changes affect figures reported in the Cost and Revenue Analysis (CRA) (or cost attribution below the level of detail presented in the CRA). The second involves changes affecting worksharing costs. The Commission has identified four changes that fall into the first category and five changes that fall into the latter category. Each is discussed below.

To enable the Commission (and interested persons) to assess the impact of these changes, the Postal Service is directed to file revised versions of all affected materials (including those which use the results of the identified calculations as inputs) utilizing the previously accepted methodology and to provide an explanation justifying each proposed change.² In addition, if there are other changes, not identified in this Order, that are not simple updates of input data from existing systems and that result in a change in accrued, attributable, or avoided costs, volumes, or revenues, the Postal Service shall identify and describe each change, provide a revised version of the associated materials utilizing the accepted methodology, and provide justification for the proposed change. The methodological changes identified to date are discussed below.

Postal Service filings in response to this Order are due no later than January 21, 2009. The Postal Service is requested to file its responses, if possible, as they become available.

A technical conference is scheduled for January 26, 2009 to afford interested persons an opportunity to gain a better understanding of the methodological changes and to seek clarification of the Postal Service responses. The technical conference will convene at 9:30 a.m. in the Commission's hearing room.

Interested persons have an opportunity to reply to the Postal Service's responses in their comments due January 30, 2009. See Order No. 161, December 31, 2008, at 5.

² If there is a corresponding non-public version of an affected item, it should also be revised.

I. CHANGES THAT AFFECT THE CRA

1. The development of CRA costs for (1) Standard High Density and Saturation Letters and (2) Standard High Density and Saturation Flats and Parcels incorporates a new adjustment to account for High Density and Saturation Letters that fail to meet machinability and barcoding requirements and are consequently rated for postage as Flats. The adjustment shifts some costs identified as Letter costs to Flats and Parcels. See USPS-FY08-1.doc. The accepted method used in Docket No. ACR2007-1 kept the volumes, attributable costs, and revenues of all letter-shaped ECR High Density and Saturation mail together whether or not the letters were ineligible for the letter rate. Because letter-shaped mail generally incurs lower per-piece costs than flat-shaped mail, the accepted approach may be seen as preferable to the proposed method which adds the cost of these letter-shaped mailpieces to the cost of flat-shaped mail, and thus may not reflect the per-piece cost of flats. In addition to justifying the proposed modification, please include a discussion of why the proposed approach is preferable to the method accepted in Docket No. ACR2007-1.
2. In USPS-FY08-16, the calculation of Intra-BMC transportation legs is modified to “de-link the market dominant analysis from the competitive analysis.” This change was not included in Proposal 13 (approved by the Commission on December 23, 2008), which isolated mail processing and transportation costs for single-piece Parcel Post.
3. An adjustment has been added to the CRA Model that reallocates the costs of Special Handling, a subset of the Ancillary Services product, to the products of the host pieces. See USPS-FY08-31 Preface.doc at 2. In addition to justifying the proposed modification, please include a discussion of why the proposed approach is preferable to an alternate approach of shifting Special Handling revenues from the host pieces to the Ancillary Services product.

4. The Detached Address Label (DAL) adjustment, performed in PRC-LR-11 in the 2007 ACD, is modified and relocated to the "B workpapers" in LR-FY08-31 and LR-FY08-NP-14. The old DAL adjustment (workbook UDCmodel07 tab 10.DALs) moved costs from ECR Saturation Letters to ECR Saturation Flats. The new DAL adjustment in workbook "CS6&7" tab"7.0.10" shifts both ECR High Density and Saturation Letter costs to both ECR High Density and Saturation Flats. See USPS-FY08-19.

II. CHANGES THAT AFFECT COST AVOIDANCES

5. The First-Class and Standard letter and card presort cost models incorporate the results of a new special study of density. The study introduces three changes to the accepted methodology. First, density percentages for the outgoing primary, outgoing secondary, and incoming Managed Mail Program (MMP) operations are measured separately for First-Class and Standard Mail, instead of the combined density percentages developed in the accepted approach. Second, percentages for outgoing and incoming "ISS refeeds" are added. Finally, the assumption that the next operation was an MMP operation for any sort plan label denoting an automated area distribution center (AADC) finalization level is modified based on a review of Area Summary Listing reports for each AADC. See USPS-FY08-10.doc at 1-6. Note that the use of electronic end-of-run (EOR) reports instead of manual EOR reports is not considered a deviation from the accepted methodology, assuming the only difference with respect to the needed data is format or medium.
6. The Postal Service's analysis of First-Class Mail worksharing discounts does not follow the established method of using a bulk metered mail (BMM) benchmark for automation Mixed AADC and nonautomation presort letters. See USPS-FY08-3

and ACR at 50-51. The accepted method appears in Tables VII-B-2 and VII-B-3 in the 2007 ACD.

7. The Postal Service employs two new field analyses to calculate worksharing cost avoidances for Media and Library Mail and Bound Printed Matter. See USPS-FY08-15, methodology section. First, a productivity estimate for manually moving containers from the dock to the parcel sorting area was developed. Second, the time required for a Primary Parcel Sorting Machine clerk to key a 5-digit ZIP Code was estimated. These estimates are then used to calculate the manual sorting productivity and barcode savings, respectively.
8. USPS-FY08-11 Preface.doc states that the "Outside County Model of Periodical Costs" includes a modification that was not included in Proposal Twelve (filed November 4, 2008), which dealt with Periodicals costing. This proposed modification replaces the assumption that 40 percent of mixed area distribution center (MADC) sacks are L201 sacks, with a 39 percent figure cited to USPS-FY08-14 (the mail characteristics study).
9. The Postal Service's analysis of Standard Mail worksharing discounts does not present the established method of estimating cost avoidances between (1) Basic and High Density, and (2) High Density and Saturation for letters, flats, and parcels. See USPS-FY08-3 and ACR at 50-51. The accepted method appears in Table VII-D-4 in the 2007 ACD.

It is Ordered:

1. As set forth in the body of this Order, the Postal Service shall file revised versions of all affected materials (including those which use the results of the identified calculations as inputs) utilizing the accepted methodology and provide an explanation justifying each proposed methodological change.
2. If there is any methodological change not identified in this Order that causes a change in accrued, attributable, or avoided costs, volumes, or revenues reported in the ACR, the Postal Service shall identify and describe each change, provide a revised version of the associated materials utilizing the accepted methodology, and provide justification for the proposed change.
3. Postal Service responses to this Order are due no later than January 21, 2009.
4. Reply comments by interested persons to the Postal Service responses to this Order are due no later than January 30, 2009.
5. A technical conference will be held January 26, 2009, at 9:30 a.m. in the Commission's hearing room to address issues related to this matter.

By the Commission.

Steven W. Williams
Secretary