ORDER NO. 6501

UNITED STATES OF AMERICA

POSTAL REGULATORY COMMISSION

WASHINGTON, DC 20268-0001

Before Commissioners: Michael Kubayanda, Chairman;
Mark Acton, Vice Chairman;
Ann C. Fisher;
Ashley E. Poling; and
Robert G. Taub

Priorities for Future Data Collection Docket No. RM2022-1

and Analytical Work Relating to

Periodic Reporting

ORDER REQUIRING postal service progress UPDATE

(Issued May 8, 2023)

# introduction

On October 8, 2021, pursuant to 39 U.S.C. 3652(e), the Commission established this docket to consider possible improvements to the quality, accuracy, or completeness of data provided by the Postal Service in its *Annual Compliance Reports*.[[1]](#footnote-2) This docket is designed to involve the Postal Service, its stakeholders, and the public in this process. The objective is to arrive at a consensus as to the priorities that should be assigned to various areas of future research and the nature of the data and analytical methods that future research should employ. Order No. 6004 set March 25, 2022 as the deadline for initial comments. Order No. 6004 at 11.

On March 10, 2022, United Parcel Service, Inc. (UPS) filed a motion to request that the Commission issue an information request to the Postal Service to obtain answers to a set of proposed questions.[[2]](#footnote-3) On the same day, the Postal Service filed a response in opposition to the UPS Motion.[[3]](#footnote-4) On March 11, 2022, the Commission denied the UPS Motion without prejudice, and set April 29, 2022 as the deadline for reply comments so that parties may have an opportunity to address any matters raised by the initial comments.[[4]](#footnote-5)

Parties timely filed initial and reply comments, as discussed below.

# PARTIES’ INITIAL COMMENTS

The Postal Service,[[5]](#footnote-6) UPS,[[6]](#footnote-7) the National Postal Policy Council (NPPC),[[7]](#footnote-8) the Association for Postal Commerce (PostCom),[[8]](#footnote-9) and the Public Representative filed initial comments in this docket.[[9]](#footnote-10)

## Postal Service Initial Comments

In its initial comments, the Postal Service provided a list of what it characterized as “near-term,” “medium-term,” and “long-term” research topics, distinguishing between the groups based on how much agreement there seems to be on the basic analytical approach to take, and on the scale of any special data collection efforts that is likely to be required. Postal Service Initial Comments at 6. In reviewing possible areas of study, the Postal Service indicates that it considered the potential benefits to improve the accuracy of product costs, including the degree to which the existing study is inaccurate or obsolete. *Id.* The Postal Service states that it also contemplated the feasibility and practicality of implementing the study, on both direct and indirect cost components, and its likelihood of success. *Id.*

The Postal Service proposes the following taxonomy of possible studies and includes a tentative schedule for filing a rulemaking petition to present the proposed changes in analytical principles or provide a formal update through another channel (*e.g.*, an *Annual Compliance Report* (ACR) preface) if a rulemaking docket is not warranted. *Id.* at 5. The Postal Service states that the tentative schedule is supplied to enlighten the Commission and other participants as to the resources required for these efforts, but it should not be considered as anything but preliminary. *Id.* The Postal Service emphasizes that the dates supplied with its comments are provisional because many of these efforts require extensive resources and analyses that make it very difficult to forecast when these studies would be ready to be presented in a rulemaking docket or provide a status report through another channel. *Id.* In addition, it notes, it is also difficult to predict what other initiatives may arise over the next few years that may supersede one or more of these efforts*. Id.*

**The Postal Service’s Summary of Priorities, Study Areas, Tentative Schedules,**

**and Action Plans**

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| --- | --- | --- | --- |
| Priority | Study Area | Timing | Action Plan |
| Near-Term | Postmaster Costs\* | FY 2022 | Initiate new rulemaking docket that incorporates Commission's suggestions |
| Facility Rental Value Analysis | FY 2022 | Initiate new rulemaking docket that incorporates updated rental data |
| Capturing Additional Barcode Data During IOCS Measurements | FY 2022 | Obtain barcode scan data on larger proportion of IOCS readings and investigate whether additional scans could be used to enhance existing data quality |
| Rural Carrier Labor Costs | FY 2023 | Review and incorporate the new evaluation standards in the model |
| Medium-Term | TRACS Peak Season Sampling of Purchased Highway Transportation Costs\*\* | FY 2023 | Process and evaluate results of peak season trips sample data to determine whether distribution keys should be replaced |
| Delivery Vehicle Costs | FY 2023 | Review and consider alternatives to the established treatment of vehicle depreciation and maintenance costs |
| Headquarters Personnel Costs | FY 2023 | Investigate administrative headquarters' expenses and whether alternative criteria could be considered to identify competitive group-specific costs |
| Supervisor and Technician Costs | FY 2023 | Explore the use of clock rings to improve the current treatment of supervisor costs |
| Long-Term | Vehicle Service Drivers Costs | FY 2024 | Investigate whether a reliable and accurate database exists to update current variabilities |
| Letter, Flat, and Parcel Mail Processing Cost Models | FY 2024 | Explore the use of IMb data as an alternative to some existing mail processing cost model input |
| Window Service Costs | FY 2025 | Explore the use of a top-down approach and investigate refinements to current methodology |

Notes: Two matters were subsequently initiated by the Postal Service and approved by the Commission. \* Docket No. RM2022-8, Order on Analytical Principles Used in Periodic Reporting (Proposal Two), September 23, 2022 (Order No. 6280) (updating variability analysis used to attribute Postmaster costs); \*\* Docket No. RM2022-13, Order on Analytical Principles Used in Periodic Reporting (Proposal Six), November 3, 2022 (Order No. 6322) (updating methodology used for distributing peak season highway transportation costs to products).

Source: Postal Service Initial Comments at 38.

The Commission notes that the Postal Service subsequently filed a petition to initiate a rulemaking docket concerning Postmaster cost variability,[[10]](#footnote-11) which the Commission approved.[[11]](#footnote-12) The Postal Service also filed a petition to initiate a rulemaking docket concerning Transportation Cost System (TRACS) peak season sampling of purchased highway transportation costs,[[12]](#footnote-13) which the Commission approved.[[13]](#footnote-14) Therefore, this obviates the need to address these research topics in the instant docket.

## PR Initial Comments

The Public Representative states that the workshare cost avoidance estimates from Postal Service cost models must be accurate under the Commission’s new workshare rules. PR Initial Comments at 2. She recommends three suggested priorities to improve the accuracy of cost avoidance estimates: the collection of allied labor volume and productivity data; an update of inputs in the worksharing cost avoidance models; and a temporary increase in the number of In-Office Cost System (IOCS) tallies. *See id.* at 2-4.

## UPS Initial Comments

In its initial comments, UPS identifies several research topics and suggests several principles that it believes should guide future data collection and analytical work. First, UPS suggests that the Commission should designate rural carrier costing as a priority area for analysis and data collection. UPS Initial Comments at 1-5. Second, UPS expresses concern about possible inaccuracies associated with “dated” variabilities and requests that the Commission prioritize what it calls “flexible methodologies.” *Id.* at 5. Third, UPS encourages the Commission and the Postal Service to focus on what it terms the longer-term volume changes’ impacts on costs and cost structure and proposes that the Postal Service collect data over multiple years. *Id.* at 6-9. Fourth, UPS suggests that the timing of data collection should correspond to the timing of when the modeled costs are incurred. *Id.* at 9-10. Fifth, UPS urges investigation into combining analysis of city carrier letter route street time costs and Special Purpose Route (SPR) costs into a single integrated approach, basing this recommendation on what it perceives as an error in the established SPR costing. *Id.* at 10-12. Sixth, UPS suggests that the Postal Service consider augmenting its long-standing Revenue, Pieces, and Weight (RPW) system to include data on the volume, or cubic footage, of its mail mix. *Id.* at 12-13. Seventh, UPS argues that the Commission should require the Postal Service to calculate stand-alone costs for Market Dominant mail, claiming that the established measures of incremental costs for Competitive products understate their true incremental costs. *Id.* at 13-14.

## NPPC and PostCom Initial Comments

Both NPPC and PostCom suggest expanding the scope of this docket to include issues of demand analysis and volume forecasting. NPPC suggests that a desirable area of research would be the effects of nominal (not inflation-adjusted) price changes on postal demand. NPPC Initial Comments at 1; PostCom Initial Comments at 6. PostCom also believes that the changes planned for the Postal Service’s network create a new opportunity to reset and reconsider how costs for Market Dominant products are defined and measured. PostCom Initial Comments at 4. In addition, PostCom suggests that short-term analytical efforts should focus on ensuring that the Postal Service’s existing systems are used optimally and recommends that the Postal Service expand efforts to measure costs directly. *Id.* at 2-3.

# PARTIES’ REPLY COMMENTS

The Postal Service,[[14]](#footnote-15) UPS,[[15]](#footnote-16) and Pitney Bowes filed reply comments in this docket.[[16]](#footnote-17)

## Postal Service Reply Comments

The Postal Service’s reply comments address issues the Postal Service finds with the initial comments filed by the Public Representative, UPS, NPPC, and PostCom.

### Reply Comments in Response to the Public Representative’s Comments

The Postal Service does not support the Public Representative’s three suggested priorities to improve the accuracy of the cost avoidance estimates. Postal Service Reply Comments at 2.

With regard to the collection of allied labor volume and productivity data, the Postal Service notes that the Public Representative agrees with the Commission that allied labor cost pool classifications should only be changed if supported by “robust data or new studies.” *Id.* at 3 (quoting PR Comments at 3). However, the Postal Service states that it “does not plan on relitigating the cost pool topic in the near future and … does not believe an investigation of allied labor costs would be an efficient use of its limited resources at this time.” Postal Service Reply Comments at 3. The Postal Service also points out other various issues related to allied labor data collection. *See id.* at 3-6.

With regard to updating the inputs in the worksharing cost models, the Postal Service states that the Public Representative’s recommendation lacks specificity, and the example she highlighted, the manual density study, “involves one of the most difficult types of data to obtain and has limited impact on the results.” *Id.* at 6. The Postal Service claims the limited use, time constraints, and work disruptions make manual density data collection inconsistent and recommends that “the letter, flat, and parcel cost models be included as a long-term study area in its Initial Comments” as an alternative. *Id*. at 7 (citing Postal Service Initial Comments at 28).

With regard to temporarily increasing the number of IOCS tallies, the Postal Service does not believe there to be “sufficient value” in doing so “to reduce [coefficients of variation] and increase the accuracy of cost estimates for small products” as the corresponding cost “could easily exceed the total contribution of such small products.” Postal Service Reply Comments at 8. Additionally, the Postal Service does not support the Public Representative’s statement that increasing the number of IOCS tallies “would allow direct estimation of mail processing costs for rate categories.” *Id*. at 9 (quoting PR Initial Comments at 3).

### Reply Comments in Response to UPS’s Comments

In its reply comments, the Postal Service addresses UPS’s suggestions to include cubic footage data “of its mail mix” in its RPW system, focus on rural carrier costing data collection and analysis, incorporate flexible methodologies, “focus on … longer-term costs,” “calculate stand-alone costs,” and develop “an integrated city carrier network cost.” *Id*. at 9, 11, 12, 17, 21, 27.

In response to the suggestion to include cubic footage data “of its mail mix” in its RPW system, the Postal Service claims that, although “convenient[,] … the costs associated with populating such additional data fields would likely outweigh the benefits to a subset of stakeholders.” *Id*. at 9. Consequently, the Postal Service disagrees with UPS in this regard. In response to the suggestion to focus on rural carrier costing data collection and analysis, the Postal Service states that the evaluation factors are appropriate as they “determine rural carrier compensation” and attests that as they change, it will “continue to use ‘method of payment’ analysis to update the rural carrier cost model” and will present “the updated rural carrier cost model in a rulemaking docket.” *Id*. at 12. In response to the suggestion to incorporate flexible methodologies, the Postal Service does not support this as “the established methodologies do a good job accommodating relative volume changes.” *Id*. at 12, 16. In response to the suggestion to focus on “longer-term” costs, the Postal Service claims this “is based on a misconception of cost concepts and a misunderstanding of how data are used in estimation.” *Id*. at 17. In response to the suggestion to calculate stand-alone costs, the Postal Service disagrees with UPS as it “fails to provide an accurate method that improves upon the established method” and “is unnecessary, theoretically flawed, and computationally impractical.” *Id*. at 26. Lastly, in response to the suggestion to develop an integrated city carrier network cost, the Postal Service does not support it because it is based upon “a misunderstanding of how Special Purpose Route costs are developed and ignores the impracticality of an integrated estimation.” *Id*. at 27.

### Reply Comments in Response to NPPC’s and PostCom’s Comments

In its reply comments, the Postal Service addresses NPPC’s and PostCom’s suggestion to expand “the scope of this docket to include issues of demand analysis and volume forecasting.” *Id*. at 29. The Postal Service recommends the Commission rejects these issues as they fall outside the current scope of the docket. *Id.* at 29-30, 37. Additionally, the Postal Service claims their justification consists of “factual errors and flawed reasoning.” *Id*. at 30.

## UPS Reply Comments

UPS’s reply comments address agreements and issues UPS finds with the initial comments filed by the Postal Service along with reiterating “its support for technical conferences.” UPS Reply Comments at 1-6.

UPS agrees with many of the study areas proposed by the Postal Service. Specifically, UPS supports the proposition “to update the rural carrier cost model with a new set of evaluation factors” in the “near-term,” “to ‘review and consider alternatives to the established treatment of vehicle depreciation and maintenance costs[,]’ and to ‘revisit the criterion … for the treatment of [headquarters] costs as group-specific to competitive products.’” *Id*. at 2 (citations omitted).

UPS expresses concern about some of the issues discussed in the Postal Service’s comments, including the caution towards using operational data in costing models, the plan to solely consider vehicle size when examining vehicle costs, and the focus on group-specific costs in its planned examination of “headquarters and similar management costs.” *Id*. at 2, 5, 6. With regard to the Postal Service’s caution towards using operational data, UPS supports “expand[ing] the use of current operational data in costing” models to avoid “‘lock[ing] in’ costing relationships that guarantee persistent errors in costing results.” *Id*. at 3. With regard to examining vehicle costs, UPS suggests considering the effects of fleet size in addition to vehicle size (as the Postal Service had suggested). *Id*. at 5. With regard to examining “headquarters and similar management costs,” UPS claims consideration of other costs in addition to group-specific costs would provide “a more complete view of how the Postal Service’s costs would change in the absence of competitive products.” *Id*. at 6.

UPS supports “using technical conferences in this docket as a means to provide additional transparency and a greater understanding of the intended approaches of the Postal Service’s ongoing studies as well as their practical limitations.” *Id*. at 7. Additionally, UPS believes these may, “in the future, facilitate timely and efficient updates to analytical costing principles.” *Id*. at 8.

## Pitney Bowes Reply Comments

Pitney Bowes’ reply comments address UPS’ proposed stand-alone costs for Market Dominant products and the Postal Service’s proposed enhancement of IOCS data collection. Pitney Bowes Reply Comments at 1, 4. With regard to UPS’ proposition for stand-alone costs, Pitney Bowes claims it is “unnecessary and, at best, redundant for regulatory costing purposes” and it is also based “on several false premises.” *Id*. at 2, 4. With regard to the Postal Service’s proposal to enhance IOCS data collection, Pitney Bowes states that it “supports initiatives to use additional barcode scanning data to augment and improve IOCS data,” but it is “skeptical, however, of the Postal Service’s suggestion that undertaking this initiative will address the ‘gaps’ the Commission identified in Docket No. RM2021-4.” *Id*. at 5.

# postcom’s motion for leave to file surreply comments

On May 10, 2022, PostCom filed a motion for leave to submit surreply comments to the Postal Service’s reply comments,[[17]](#footnote-18) and filed its surreply comments concurrently.[[18]](#footnote-19) PostCom argues that good cause exists to grant its motion for leave to file surreply comments, because the Postal Service allegedly raised issues regarding the scope of this docket that require clarification before the docket could proceed, and the Postal Service allegedly presented “misleading factual information” in its reply comments. PostCom Motion at 1. In its surreply comments, PostCom argues that the Postal Service proposes to unreasonably narrow the scope of this docket to data provided in the Postal Service’s *Annual Compliance Reports*, while PostCom believes this docket should be broader in scope to include issues of revenue forecasting and demand analysis. PostCom Surreply Comments at 1-3. In addition, PostCom argues that the Postal Service fails to recognize the magnitude of its revenue forecasting errors and there is potentially systemic forecast bias warranting the Commission’s investigation. *Id*. at 4-5.

On May 17, 2022, the Postal Service filed its opposition to the PostCom Motion.[[19]](#footnote-20) The Postal Service argues that PostCom explained why it believes the scope of this docket to be broader in its initial comments, and the Postal Service explained why it believes the scope to be narrower in its reply comments. Postal Service Opposition at 1. The Postal Service claims that PostCom Surreply Comments do not shed any new light on this issue and should not be accepted by the Commission. *Id*. The Postal Service also disputes that it presented “misleading factual information” in its reply comments and states that PostCom does not identify any such information in its surreply comments. *Id*. at 1-2. Therefore, the Postal Service requests that the Commission deny the PostCom Motion. *Id*. at 2.

Surreply comments are not permitted under the established procedural schedule in this docket. *See* Order No. 6004 at 11 (setting deadline for initial comments); Order No. 6120 at 2 (setting deadline for reply comments). After reviewing parties’ filings, the Commission finds that PostCom’s proposed surreply comments do not further develop the factual record of this docket. Instead, they contain only legal arguments already presented by PostCom in its initial comments, and further elaboration of those arguments in response to the Postal Service’s reply comments and different interpretations of facts (in other words, arguments) presented in the Postal Service’s reply comments. As such, PostCom’s proposed surreply comments do not aid the Commission’s decision-making process and the PostCom Motion is hereby denied. The Commission has denied motions for surreply comments under similar circumstances in the past and continues to do so here.[[20]](#footnote-21) To grant PostCom’s motion here would create a slippery slope of allowing parties to submit successive comments, render the procedural schedule established in this docket meaningless, and frustrate the Commission’s administrative process.

# Postal Service Progress update ON rESEARCH tOPICS

Given that parties submitted their initial comments and reply comments about a year ago, and that the Commission has since then approved the Postal Service’s petitions for proposed changes in analytical principles concerning Postmaster cost variability and TRACS peak season sampling of purchased highway transportation costs,[[21]](#footnote-22) the Commission orders the Postal Service to file no later than June 16, 2023 an update of developments and progress since the Postal Service Reply Comments were submitted on April 29, 2022. In its update, the Postal Service shall describe progress it has made on each of the research topics listed in its initial comments,[[22]](#footnote-23) identify and describe any new research topics it proposes to include in this docket, describe the tentative schedule and action plan for each research topic, and include any other information it proposes for the Commission’s consideration. After reviewing the Postal Service’s update, the Commission intends to provide future procedural guidance and opportunities for interested persons to participate in this docket, which may include additional period(s) for public comment and/or technical conference(s) concerning particular research topic(s).

# ORDERING PARAGRAPHS

*It is ordered:*

1. The Postal Service shall submit a progress update, as described in the body of this Order, by June 16, 2023.
2. The Motion for Leave to Reply of the Association for Postal Commerce to United States Postal Service Reply Comments, filed May 10, 2022, is denied.

By the Commission.

Erica A. Barker
Secretary

1. Notice and Order of Proposed Rulemaking on Periodic Reporting, October 8, 2021, at 1 (Order No. 6004). [↑](#footnote-ref-2)
2. Motion of United Parcel Service, Inc. for Issuance of Information Request to the United States Postal Service, March 10, 2022 (UPS Motion). [↑](#footnote-ref-3)
3. Response of the United States Postal Service in Opposition to UPS Motion for Issuance of an Information Request, March 10, 2022. [↑](#footnote-ref-4)
4. Order Denying Motion and Establishing Deadline for Reply Comments, March 11, 2022, at 2 (Order No. 6120). [↑](#footnote-ref-5)
5. Initial Comments of the United States Postal Service, March 25, 2022 (Postal Service Initial Comments). [↑](#footnote-ref-6)
6. Initial Comments of United Parcel Service, Inc. on Notice and Order of Proposed Rulemaking on Periodic Reporting, March 25, 2022 (UPS Initial Comments). [↑](#footnote-ref-7)
7. Comments of the National Postal Policy Council, March 25, 2022 (NPPC Initial Comments). [↑](#footnote-ref-8)
8. Initial Comments of the Association for Postal Commerce, March 25, 2022 (PostCom Initial Comments). [↑](#footnote-ref-9)
9. Public Representative Comments on Proposed Rulemaking on Periodic Reporting, March 25, 2022 (PR Initial Comments). [↑](#footnote-ref-10)
10. Docket No. RM2022-8, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Two), July 7, 2022. [↑](#footnote-ref-11)
11. Docket No. RM2022-8, Order on Analytical Principles Used in Periodic Reporting (Proposal Two), September 23, 2022 (Order No. 6280). [↑](#footnote-ref-12)
12. Docket No. RM2022-13, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Six), August 26, 2022. [↑](#footnote-ref-13)
13. Docket No. RM2022-13, Order on Analytical Principles Used in Periodic Reporting (Proposal Six), November 3, 2022 (Order No. 6322). [↑](#footnote-ref-14)
14. Reply Comments of the United States Postal Service, April 29, 2022 (Postal Service Reply Comments). [↑](#footnote-ref-15)
15. Reply Comments of United Parcel Service, Inc. on Notice and Order of Proposed Rulemaking on Periodic Reporting, April 29, 2022 (UPS Reply Comments). [↑](#footnote-ref-16)
16. Reply Comments of Pitney Bowes Inc., April 29, 2022 (Pitney Bowes Reply Comments). [↑](#footnote-ref-17)
17. Motion for Leave to Reply of the Association for Postal Commerce to United States Postal Service Reply Comments, May 10, 2022 (PostCom Motion). [↑](#footnote-ref-18)
18. Reply of the Association for Postal Commerce to United States Postal Service Reply Comments, May 10, 2022 (PostCom Surreply Comments). [↑](#footnote-ref-19)
19. Opposition of the United States Postal Service to PostCom’s Motion for Leave to Respond to the Postal Service’s Reply Comments, May 17, 2022 (Postal Service Opposition). [↑](#footnote-ref-20)
20. *See*, *e.g.*, Docket No. MC2021-78, Order Denying Request to Transfer Bound Printed Matter Parcels to the Competitive Product List, February 10, 2022, at 9-10 (Order No. 6105) (finding that the significant volume of reply comments and surreply comments, which were not allowed on the original procedural schedule, did not further develop the factual record and parties’ continued legal arguments and disputes in successive filings did not aid the Commission’s decision-making process, and, thus, denying parties’ motions to file such reply and surreply comments). [↑](#footnote-ref-21)
21. *See* Order No. 6280; Order No. 6322. [↑](#footnote-ref-22)
22. *See* Postal Service Initial Comments at 38. [↑](#footnote-ref-23)