

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING

Docket No. RM2008-2

NOTICE OF THE UNITED STATES POSTAL SERVICE REGARDING
EXPANDED SCOPE FOR PROPOSAL ONE OF THE REQUESTED
METHODOLOGICAL CHANGES FOR THE FY08 ACR -- ERRATA
(September 5, 2008)

On August 11, 2008, the Postal Service filed a motion regarding eight proposed changes in costing methodology for the FY08 ACR. That pleading resulted in the initiation of this docket, and the establishment of procedures to consider the Postal Service's proposals. Order No. 99 (August 18, 2008). In the course of further staff discussions regarding preparation of the FY08 ACR, however, it has become apparent that there was some internal miscommunication regarding the intended scope of Proposal One. That proposal involves, first, a survey to examine activities conducted under the auspices of headquarters finance numbers, and, second, based on the survey results, the potential assignment of non-volume variable costs associated with some of those finance numbers to group-specific costs as either Market Dominant or Competitive. The Postal Service's August 11 pleading, unfortunately, indicated at several places that the costs in question would be Cost Segment 18 costs (Administration and Area Operations). While Cost Segment 18 costs are certainly intended to be covered by the proposal, similar costs in other cost segments were intended to be covered as well. Thus, once the activities associated with a finance

number are appropriately determined to be categorized as group specific (either Market Dominant or Competitive), it is just as reasonable to apply that determination to, for example, the (otherwise institutional) costs of contractors hired under that finance number (Cost Segment 16), or to the research and development costs (Cost Segment 17) or equipment depreciation costs (Cost Segment 20) associated with that finance number, as to Headquarters postal labor costs (Cost Segment 18) incurred under that finance number.

Therefore, the August 11 pleading misstated the intended scope of the proposal by limiting it to otherwise institutional costs in Cost Segment 18. The intended scope is actually any material amount of otherwise institutional costs in any Cost Segment, if incurred under a Headquarters finance number the functions of which have been determined by the survey to be group specific. The substantial preponderance (if not the entirety) of such costs, however, will occur in Costs Segments 16, 17, 18, and 20. In all other respects, previous descriptions of the Proposal One methodology, including the process by which the group-specific determination will be made for individual finance numbers, remain unchanged. The impact described in the August 11 pleading, ranging from tens of millions to several hundreds of millions of dollars, still remains the best available estimate, as it was originally formulated with the extended scope of the proposal in mind. While the Postal Service regrets both the confusion and the fact that it was not discovered earlier, it would appear that participants' ability to comment either favorably or unfavorably on Proposal One on September 8 should not be materially affected, as the conceptual thrust of the proposal remains unchanged. If, however, participants need to defer comments on this portion of the proposal until the reply

comment date of September 15, the Postal Service would have no objection.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

R. Andrew German
Managing Counsel, Legal Policy &
Ratemaking

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

Eric P. Koetting

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992, FAX: -5402
September 5, 2008