Postal Regulatory Commission
Submitted 6/29/2018 2:33:48 PM
Filing ID: 105651
Accepted 6/29/2018

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Periodic Reporting
(Proposal Three)

Docket No. RM2018-6

PUBLIC REPRESENTATIVE COMMENTS

(June 29, 2018)

I. INTRODUCTION

The Public Representative hereby provides comments in response to Commission Order No. 4635.[1] In that Order, the Commission established Docket No. RM2018-6 to receive comments from interested persons, including the undersigned Public Representative, that address the Postal Service's petition to change analytical principles related to periodic reporting.[2] The Postal Service filed the Petition pursuant to 39 C.F.R. § 3050.11. Petition at 1. It seeks review of two incremental costing procedures employed by the Postal Service in the preparation of the FY 2017 Annual Compliance Report (ACR). *Id.* If the proposed methodological changes are approved, the Postal Service intends to employ these procedures in future ACRs. Petition at 1. In addition to the Petition, the Postal Service provided additional information in its responses to Chairman Information Requests No. 1.[3]

---

[1] Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Three), June 7, 2018 (Order No. 4635).

[2] Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Three), June 1, 2018 (Petition).

[3] Responses of the United States Postal Service to Questions 1-3 of Chairman's Information Request No. 1, June 20, 2018.

II. SUMMARY OF PROPOSAL THREE

Proposal Three consists of two independent incremental costing procedures. The first procedure (Procedure 1) is used to estimate incremental cost for the group of all competitive products. It replaces the “hybrid” methodology that was developed in Proposal 22, Docket No. RM2010-4. The second procedure (Procedure 2) is used to estimate inframarginal costs for products that lack cost pool level data. The procedure applies primarily to NSA products.

III. COMMENTS

Procedure 1 is fairly straightforward. It is a clear improvement over the “hybrid” methodology. The “hybrid” methodology was necessitated solely by the fact that the structure of the ICRA precluded direct application of the incremental cost model to international products.

However, now that the Postal Service is able to split international cost information within cost pools between market dominant and competitive products, it can estimate the incremental costs for the group of all competitive products (domestic and international) directly.

With Procedure 1, incremental costs for all competitive products are based on actual estimates of incremental cost. Therefore, there’s no need to use a cost proxy for international incremental costs. The Commission should approve Procedure 1.

Procedure 2 seeks to addresses two issues that arise when calculating incremental costs for NSAs[4], the lack of cost pool level data for NSAs, and practical issues associated with products with extremely small volumes.

The Postal Services’ use of use of relative volume variable costs as a proxy for the ratio of the cost drivers is a reasonable way to compensate for the lack of data at

[4] The procedure also applies to a few non-NSA products.

the cost pool level. Because the calculated volume variable costs for NSA products reflect the amounts of the driver used by the product, the proxy is a reasonable representation of the missing information.

The Public Representative also agrees with the Postal Service that calculating incremental costs for the hundreds of domestic NSAs with minimal volumes is an unnecessary drain on resources. The Public Representative supports the use of the procedure as described in footnote 14 of the Petition. The procedure is designed in a way that no product's costs would be underreported.

IV. CONCLUSION

The Public Representative supports Proposal Three and recommends its approval. The Public Representative respectfully submits the foregoing comments for the Commission's consideration.

Katalin K. Clendenin
Public Representative

901 New York Ave., N.W. Suite 200
Washington, D.C. 20268-0001
(202) 789-6860; Fax (202) 789-6891
katalin.clendenin@prc.gov