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

COSTING TREATMENT OF RETIREMENT DEBT RELIEF	Docket No. RM2023-1
PERIODIC REPORTING (NPPC ET AL. PROPOSAL ONE)	Docket No. RM2023-3

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO MAILERS' MOTION FOR RECONSIDERATION AND PETITION
(January 4, 2023)

On December 19, 2022, a consortium of mailer representatives (Mailers) filed a pleading styled as "Motion For Reconsideration or, in the Alternative, Petition to Initiate a Proceeding Regarding the Appropriate Analytical Principle for Retiree Health Benefit Normal Costs." This pleading (Mailers' Motion and Petition, or MM&P) sought reconsideration of Order No. 6363 (December 9, 2022), or, in the alternative, initiation of a rulemaking proceeding to consider Mailers' proposal to achieve the same substantive result. The Postal Service on December 20th moved for an extension of time, to the extent necessary, to allow concurrent response to both aspects of this pleading. In Order No. 6382 (December 21, 2022), the Commission granted that motion and established January 4, 2023, as the deadline for responsive pleadings by any party. The Postal Service hereby responds, opposing both the request for reconsideration of Order No. 6363 and the alternative request to adopt the regulatory costing procedures outlined in the Mailers' proposal.

I. MAILERS' MOTION FOR RECONSIDERATION AND SUMMARY REVERSAL OF THE NORMAL COSTS FINDINGS OF ORDER NO. 6363 SHOULD BE DENIED

The Mailers' initial argument, upon which their motion for reconsideration is based, is that *they* should not be required to launch the debate over the merits of their preferred approach to the FY 2022 costing treatment for current year Retiree Health Benefit (RHB) expenses because, they claim, that treatment is actually the established methodology. MM&P at 2-15. Yet they acknowledge, as they must, that the Commission in Order No. 6363 identified a costing procedure other than the one they favor as the established methodology. *Id.* at 10. Consequently, the arguments Mailers make to support reconsideration of Order No. 6363 inevitably merge with the alternative arguments they subsequently make to support their Proposal One and what they believe the appropriate procedures *should* be. Correspondingly, the Postal Service will respond to most of those arguments more fully in the section below in the context of addressing the Mailers' Proposal One.

In terms of the motion for reconsideration, however, the Mailers fail to demonstrate that the motion is justified under Rule 3010.165. As discussed below, the Commission committed no material errors of fact or law in identifying the established analytical principle. Nor can the mailers claim that they lacked the prior opportunity to submit arguments on this issue. Rather, the Mailers are quite candid in admitting that their objective in seeking partial reconsideration of Order No. 6363 is to simply shift the burden of proof regarding the normal cost issue away from them and to the Postal Service. *Id.* at 10-11. The Commission should deny the motion, and proceed with the true purpose of this proceeding, which is to affirmatively resolve what procedures

should be applied this year and in future years regarding RHB normal costs, following the enactment of the PSRA. The broader debate is underway, and the Mailers should not succeed in filing a motion for reconsideration merely seeking to inappropriately win back for themselves the best possible *starting* position in that debate.

Mailers' attempts to identify material errors of fact or law fall well short of the standard necessary to justify reconsideration and summary reversal of Order No. 6363. Mailers endeavor to paint a black and white picture in which costs labelled as normal costs appeared last year in component 202 and were subsequently treated as variable to the same extent as other personnel-related costs. *Id.* at 3-6. Thus, in their view, the unambiguous established methodology is to similarly identify normal costs this year and treat them the same way. *Id.* at 5-6. Based on this premise, Mailers apparently believe they are entitled to summary reversal of the determination in Order No. 6363 finding the status quo to be something different.

Yet the Commission in Order No. 6363 correctly focused on a more fundamental established principle – the accepted methodologies "dictate the treatment of the costs incurred by the Postal Service, and do not require inclusion of costs that are not incurred." Order No. 6363 at 10. In the Commission's view, as a result of the PSRA, "there are no amortization or normal costs to account for in the Postal Service's financial reporting for FY 2022." *Id.* The Commission further concluded that "[i]ncluding such [amortization and normal costs] not incurred by the Postal Service would require a change in the accepted methodology." *Id.*

Put another way, an insurmountable impediment to achieving the partially variable treatment of normal costs that Mailers seek from direct application of their

version of the established methodology is the fact that the actual entry in component 202 this year is zero. With zero as the normal costs recorded in component 202, there are no costs to apportion between attributable and institutional. The very language from the FY 2021 Summary Description regarding component 202 upon which Mailers rely and which they quote in their pleading make this clear – "Costs in this component are obtained from accounts in component 202 of USPS-FY21-5, tab 'seg 18.'" *See* MM&P at 5.

The Postal Service fully appreciates, of course, that the Mailers vehemently wish to dispute whether or not the entry in component 202 should be zero in FY 2022. But that is an issue much more properly addressed in the evaluation of Mailers' Proposal One regarding FY 2022, rather than in the context of a motion for reconsideration of what established procedures reasonably emerge from review of what was done in FY 2021. Summary reversal of the findings of Order No. 6363 regarding the applicable established analytical principles from the past to guide the treatment of normal costs this year is completely unwarranted. Order No. 6363 reasonably and correctly focused on what the Commission viewed as the most salient facts for identification of the pertinent accepted analytical principles, and articulated why the result sought by Mailers would violate those principles. Order at 10. The motion for reconsideration should be denied, and the factual claims and arguments that Mailers have advanced should instead be considered as part of the evaluation of Mailers' Proposal One, for which they properly bear the burden of proof. The Postal Service's views on the merits of Mailers' Proposal One are addressed in the next section.

II. THE MAILERS' PROPOSAL ONE SHOULD BE REJECTED

While insisting that the passage of the PSRA should have no effect on the calculation or accrual or attribution of RHB normal costs under established analytical procedures (see especially MM&P at 11-15), the Mailers (in accordance with instructions in Order No. 6363) have alternatively submitted their Proposal One. Simply stated, Proposal One is intended, to whatever extent is deemed by the Commission to be necessary, to reset the established principles to require a return to the procedures as they operated (at least in the view of the Mailers) prior to passage of the PSRA. Mailers are contending, in essence, that whatever Congress was intending to do with RHB funding in the PSRA, it should not be interpreted to have any effect on normal costs accruals or attribution in FY 2022. That position is incorrect, and Mailers Proposal One should be rejected on that basis. Moreover, not only would Proposal One run afoul of the intent of Congress, but the specific procedures Mailers appear to outline would also violate another bedrock principle of postal costing

Before discussing these issues in more detail, however, some clarity in terminology for purposes of this discussion may be in order. Mailers, presumably in an attempt to simplify things to keep presentation of these complex issues as manageable as possible, have neglected to make certain distinctions which are, in fact, necessary. Specifically, on pages 3-4, Mailers present a table of what they describe as the "accrued" normal costs each year (which appear in the "Total" column in that table). In fact, as confirmed by the source materials noted in Attachment 1 to the MM&P, those "accrued" costs are actually entries in the Reallocated Trial Balances (RTBs) for the various years. In almost all other contexts, to refer to the amounts in the RTBs as the

“accrued” costs is perfectly valid, and thus, for example, the Summary Description routinely uses that terminology, as shown in the extract reproduced on page 5 of the MM&P. In this particular context, however, that practice glosses over a very relevant distinction.

The need for a distinction arises because of a limited number of differences between what can be referred to as the accounting books (the general ledger) and the regulatory books (the reallocated trial balances). The general ledger is a generic term for the National Trial Balance and (more relevantly) the Statement of Revenue and Expenses (SRE). Those general ledger accounting reports are routinely filed with the Commission on a monthly basis, and the September versions of each constitute the end of year (EOY) general ledger for each year. The general ledgers are the fundamental basis for the costs in the RTBs, but the RTBs can also break out cost component expenses “not available directly from a general ledger account but obtained from another source such as a unique finance number or a subsidiary reporting system.” Preface to USPS-FY21-5 (Public FY21 RTB). Ultimately, the RTB always ties out in total to the general ledger, but not all entries in the RTBs completely coincide with entries in the SREs.

As it happens, normal costs represent one instance in which, for some but not all of the years covered by the Table on page 4 of the MM&P, the accounting amounts and the regulatory amounts are not aligned. Specifically, in some years, the amounts from the RTBs that Mailers are referring to as the “accrued” normal costs will not be found in the EOY Statement of Revenue and Expenses for those years. In the Postal Service’s view, particularly in the instances in which such a discrepancy exists, at least for

purposes of this discussion, the term "accrued" is best reserved for reference to the amounts that appear in the accounting books, the SRE, and instead the term "reallocated" should be used to refer to the amounts that appear in the regulatory books, the RTB. Hopefully, the nomenclature will make some of the discussion below more coherent.

A. Mailers are In Error to Suggest that Passage of the PSRA Should Have No Effect on the Regulatory Treatment of Normal Costs

Mailers surprisingly reject the contention that the PSRA "changed postal accounting." MM&P at 11. In their view, everything should be business as usual with respect to normal cost in FY 2022, despite passage of the PSRA:

> The notion that RHB normal costs that have been accrued, and attributed, every year consistently since FY 2008 should somehow not be treated as such in FY 2022 due to a statutory provision that addresses funding, not causality or the incurrence of economic cost, is meritless and inconsistent with past practice. In contrast, the longstanding approach of accruing and attributing RHB normal costs simultaneously complies with both the accounting rules and the statutory causation-based costing requirements.

Id. at 15.[1]

Mailers are simply wrong, however, to claim that the legislative provisions that absolved the Postal Service of any obligations to make any payments this year have no bearing on how RHB costs should be recorded and (potentially) attributed this year. The PSRA changes in fact bear directly on how RHB costs must be treated, by reversing key RHB provisions enacted in the PAEA in 2006. Mailers, of course, are

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[1] To read this, one might almost think that Mailers believe that the Postal Service, if it had the funds to do so, should have just sent the normal cost payment for FY 2022 over to OPM. Probably not, since they do admit (page 14) that no RHB payment is due this year. On the other hand, perhaps if Mailers suspected that the normal costs they wish to see "accrued" really would be paid by the Postal Service any time soon and would eventually lead to the need for higher rates to cover such costs, they might not be so eager to advocate for such procedures.

correct (page 7) that the PAEA replaced a previous pay-as-you-go system with a regime intended to require prefunding of future RHB costs. As such, the PAEA constituted a sea change in the treatment of RHB costs, as discussed at the time in the Postal Service's initial comments (in Docket No. RM2007-1 from June of 2007) cited on page 6-7 of the MM&P.[2] But the switch back to pay-as-you-go in the PSRA is every bit as much of a sea change. The Postal Service's FY 2022 Form 10-K described the regime-changing nature of the PSRA:

> The PSRA eliminated the unique obligation to prefund the retiree health benefit program and canceled all past due prefunding obligations. The PSRHBF will continue to pay annuitant premiums for the Postal Service's annuitants until the fund is exhausted. Once exhausted, we will return to a pay-as-you-go methodology, similar to most other federal agencies and private-sector businesses.

FY 2022 Form-10-K (November 10, 2022) at 32.

The broad scope and the intent of the PSRA changes in this regard are confirmed by the House Report on the bill that became the PSRA. House Report 117-89, Postal Service Reform Act of 2021 (July 16, 2021), Part 1 at 18-19. The Report noted that before 2006, "the Postal Service maintained a pay-as-you-go system for retiree health benefits, under which it paid its annual share of premiums for employees participating in the FEHB Program." *Id.* at 18. This changed under the PAEA:

> In 2006, Congress enacted the Postal Accountability and Enhancement Act (PAEA) (P.L. 109–435). The PAEA required the Postal Service ''to start fully 'prefunding' retiree health benefits'' by making ''annual

[2] Mailers, however, are incorrect to further suggest on page 12 that those Postal Service 2007 initial comments primarily attributed the severance "of any perceived link between the payment schedule and how the costs are incurred" to "the PAEA's enshrinement of causality as the basis for cost attribution." Rather, those initial comments, while noting as an aside the PAEA's reaffirmation of causality as the basis for attribution, squarely indicated that the root of the noted severance was the PAEA's putting "a new payment system in place" by replacing pay-as-you-go with prefunding.

> prefunding payments to a newly established fund to build up funds to cover the Postal Service's share of future retiree health benefit costs'' for all employees—not just those who are eligible to retire. No other federal agency is required to pre-fund retiree health benefits, and it is not a normal practice in the private sector.

Id. (footnote omitted). The Report confirmed that the PSRA legislation "eliminates the prefunding requirement put in place by the PAEA" and instead merely "requires the Postal Service to pay a single yearly 'top-up' amount to account for the costs incurred by actual usage by Postal Service annuitants." *Id.* at 19.

Mailers' arguments focus intently on the undisputed facts that postal employees provide the labor necessary to deliver the mail, and expect that the costs of their health benefits will be covered when they retire. MM&P at 2-3, 11-12, 14. Mailers thus refer to RHB costs as part of the ongoing "economic costs" of operating the Postal Service. *Id.* at 7-9, 15-16. The Postal Service has no quarrel with the principle that an economic approach to postal costing provides a solid and appropriate foundation for postal ratemaking. But it is also important not to lose sight of the fact that a cost at its essence consists of an amount someone is <u>required</u> to pay. Mailers may blithely prefer to ignore the fact that the PAEA required RHB prefunding and the PSRA abandoned that requirement, but the Commission cannot adopt such a cavalier attitude. The Commission has previously addressed at some length the limitations of a strictly "economic" approach to costing in the context of these types of potential disparities between theoretical "economic" costs and booked "accounting" costs. *See*, Commission Op & RecDec, Docket No. R90-1, Vol 1 (January 4, 1991) at III-102 – III-134. Those limitations clearly apply in this instance as well.

Therefore, Mailers are fundamentally off-base in grounding their arguments on the assertion that:

> Costs that are incurred annually in the normal course of operations do not flip from accrued to non-accrued and back, like a traffic signal switching from red to green, depending on whether OPM deems an invoice necessary.

MM&P at 13. While it may be true that the format in which OPM conveys payment information is not necessarily dispositive, that is beside the point. "Economic" costs can indeed flip back and forth from accrued to non-accrued depending on whether Congress through legislation deems payment to be required or not (which, in turn, is what will determine whether OPM issues an invoice or not). With respect to RHB costs, such flipping has occurred several times in the past. Prior to FY 1987, it appears that the Postal Service was not required to make any payments towards retiree RHB costs. See Burditt Testimony (Revenue Requirement), USPS-T-14, Docket No. R87-1 (May 7, 1987) at 11. That changed for FY 1987 with Consolidated Omnibus Budget Reconciliation Act of 1985 (P.L. 99-272), but even then, however, the requirement only applied to former employees who had retired after September 30, 1986. *Id.*[3] Later, in the Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508), another switch was flipped and the requirement was extended to all postal employees who had retired after June 30, 1971. Later came the above-described sequence of PAEA provisions

[3] The observation that apparently no RHB costs were being incurred prior to 1987 is confirmed by examination of the Base Year 1986 Cost Segments and Components Exhibit attached to the Docket No. R87-1 Base Year testimony of witness Barker (USPS-T-13). In the Cost Segment 18 portion of that Exhibit (pages 69-70 and 77-78), there is a column included for Retiree Health Benefits, but the column is empty. (The Base Year 1986 Exhibit was presumably formatted with those columns in recognition of the fact that, because of the law change, the RHB columns would be populated with actual RHB costs when the same format was extended to the FY 1989 Test Year by other witnesses.)

requiring RHB prefunding and PSRA provisions reversing that approach, and the combined effect of those changes has flipped the light back again to the color it was prior to the PAEA. Each of these changes directly affected cost accruals by virtue of changing the nature or scope of the obligations that Congress was imposing on the Postal Service, and the PSRA is no exception, regardless of how adamantly Mailers insists that it is.

Mailers summarize their Proposal One as follows:

> However, to the extent the Order No. 6363 interprets the principle as not requiring attribution of accrued RHB normal costs when the Postal Service is under no immediate obligation to pay, the mailers hereby would petition, pursuant to 39 C.F.R. §3050.11, to change that principle.

MM&P at 16. The fatal flaw in the Mailers' characterization of the PSRA is that it is not only that the Postal Service is under "no *immediate* obligation to pay" normal costs, but now the Postal Service, unlike under the PAEA, is at this time under *no* type of obligation to make prefunding payments reflecting those normal costs. Mailers' Proposal One thus suffers the same deficiency identified by the Commission in Order No. 6363:

> Accepted analytical principles dictate the treatment of the costs incurred by the Postal Service, and do not require inclusion of costs that are not incurred. Applying the accepted principles to the costs incurred under the new requirements of PSRA does not require the Commission to accept a change in analytical principles. As a result, under the accepted methodology, there are no amortization and normal costs to account for in the Postal Service's financial reporting for FY 2022. Including such costs not incurred by the Postal Service would require a change in accepted methodology.

Order No. 6363 at 10. Mailers' Proposal One in no way justifies a change in the analytic principle that costs that simply are not incurred cannot appropriately be included in either the financial or regulatory reporting for FY 2022. To adopt Mailers' Proposal One

would fly in the face of the Congressional decision to eliminate prefunding requirements and specify another RHB funding processes.

B. Mailers' Attempt to Invoke Practices from the Earlier Phase of PAEA RHB Funding Procedures Cannot Salvage Proposal One

As just explained, the fundamental flaw running through all of Mailers' arguments is the erroneous premise that the deliberate abandonment by Congress in the PSRA of the prefunding requirement should have no effect on the continued application of the "normal cost" procedures employed in recent years precisely to reflect the prefunding requirement. Mailers' Proposal One fails on that basis. Even putting that insurmountable deficiency aside for purposes of argument, however, Mailers fail to articulate exactly how their Proposal One would operate in any way that could possibly meet rational regulatory guidelines. The ultimate result Mailers seek to achieve is perhaps clear enough, but how they would propose to get there is distinctly unclear. To the extent that a potential pathway can be surmised, it has additional unacceptable shortcomings.

At this point, though, it first may be useful to comprehensively go through each of the steps last year that constituted what Mailers (page 15) refer to as the consistent procedures for "accruing and attributing RHB normal costs," and which they ostensibly seek to maintain. The steps from last year were:

1) The Postal Service receives an invoice from OPM (a copy of which was included in USPS-FY21-17) stating:

> OPM has determined the amount payable by USPS to the PSRHBF by September 30, 2021, to be $5,110,102,175. This amount consists of the normal payment $4,203,123,558 and the

amortization of the unfunded liabilities $906,978,617, which are due and payable by September 30, 2021.

2) In accordance with GAAP, the normal cost amount of $4,203,123,558 is reported in the National Trial Balance (posted November 5, 2021) in Account 51204.000 (cell F1537), and in the SRE (posted the same day) is also reported in Account 51204.000 as part of Component 208 (cell F1950) in Cost Segment 18.

3) The normal cost amount of $4,203,123,558 then flows from the SRE to tab "seg 18" of the FY 2021 RTB in USPS-FY21-5, and is reported both in Component 208 (cell K1098) and again after reallocation to Component 202 (cell K1095).

4) Finally, the normal cost amount of $4,203,123,558 then appears in the "CS18" tab of the Cost Segments and Components Report (USPS-FY21-2) as the Total Costs for Component 202 (cell AC60), which in the rows above are partially attributed to products, with the remaining institutional costs appearing in the Other Costs row.

Each of these four steps are necessary components of the procedures by which the results that mailers wish to maintain were achieved.

Mailers plainly seek in their Proposal One to get to Step 4, but given that Step 1 never occurred in FY 2022, the intermediate steps are murky. The insistence by the Mailers (page 15) that, according to the Postal Service's FY 2022 Form 10-K Report, the Postal Service actually "accrued $4.4 billion in FY2022 RHB normal costs" further obscures their intent. Obviously, Mailers believe these costs were incurred, yet they seem fully aware that the costs were not "accrued" in the sense of being entered into

the Postal Service's accounting records.[4] So they think that these costs *should* have been recorded, but offer no clear explanation of at which point they believe that should have occurred.

On the one hand, by virtue of their repetitive use of the word "accrued," Mailers perhaps take the view that the insertion should have come in Step 2 above, when costs are recorded in the general ledger. To be sure, under what Mailers consider to be the established procedures, Step 2 was the point in FY 2021 at which the normal costs were recorded in Account 51204.000. But to do that this year would require a determination that accruing normal costs without a legislative directive to pay them (and without a tangible invoice specifying amount and due date) is nonetheless consistent with GAAP. And since the Postal Service's financial statements show zero FY 2022 RHB Operating Expenses (i.e., do not include the normal costs under discussion), and since those financial statements have been independently audited by a registered public accounting firm and found to be in accordance with GAAP (s*ee* Form 10-K Report, November 10, 2022, at 43-45), there is no basis for Mailers to assert that "accruing" normal costs in the general ledger in Step 2 must be done in order to be consistent with GAAP. Certainly, Mailers make no attempt in their pleading to develop a position that the Postal Service must change its general ledger accounting practices.[5]

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[4] The only purpose of the chart in the Form 10-K Report is simply to show OPM's calculation of the RHB actuarial liability. This information does not affect actual costs, however, because as noted in the text immediately below the chart, '[n]ormal costs were eliminated by the PSRA." FY 2022 Form 10-K Report at 32.

[5] Moreover, to whatever extent an eye to the future is in order, once the Postal Service begins to make required top-up payments (which, according to page 34 of the FY 2022 Form 10-K Report, is estimated to occur in FY 2026 in the amount of approximately $1.0 billion), it presumably will receive an invoice each year from OPM for the amount of the required payment. To suggest that those invoiced amounts should in Step 2 be

On the other hand, it seems much more plausible that Mailers are intending to suggest (contrary to what was done in FY 2021) that an adjustment be made in Step 3, such that the zero amount accrued in Account 51204.000 not flow into Component 202, but instead be replaced by the normal cost amount provided by OPM. In other words, implement a regulatory adjustment during the reallocation process, not an accounting adjustment within the general ledger. Mailers very strongly hint at that possibility in their discussion on pages 13-14 of what happened in two prior years (FY 2009 and FY 2011), in which what they (erroneously) assert were comparable regulatory adjustments were made in the reallocation process.

In that discussion, unfortunately, Mailers entirely gloss over the fact that what they refer to as the "consistent" established methodology under the PAEA regime was, in fact, bifurcated into two distinct subregimes, or, if you will, phases. Therefore, it is necessary to digress slightly to explain the two phases and how they differed in terms of accounting and regulatory procedures. The second phase began in FY 2017 and operated in each of the years 2017-2021 with respect to the normal costs (also known as the current year costs) as outlined above in Steps 1-4. To understand the phases, however, it is necessary to broaden the discussion to include the other type of RHB costs, the prior year or amortization costs. Reference to the OPM invoice for FY 2021 quoted in the above Step 1 presentation shows that, in addition to normal costs, OPM also specified an amount due for amortization costs (e.g., $907 million in FY 2021). Starting with the same Step 1, therefore, amortization cost followed virtually the same

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replaced in the general ledger accounts with estimated normal cost amounts would raise very serious further GAAP concerns, and yet Mailers offer nothing in regard to their Proposal One that would even attempt to sort out any of that if they indeed contemplate a Step 2 adjustment.

Steps 2 and 3 as normal costs, except in Step 2 they were accrued in Account 51265.000 as the other part of Component 208, and in Step 3 were reallocated to Component 203. Finally, in Step 4, in the Cost Segments and Components Report, all of the prior year costs in Component 203 were treated as institutional. To summarize the salient feature of this second phase from 2017 to 2021, however, both the normal/current year costs and the amortization/prior year costs were equivalent in the general ledger and the RTB, although in the RTB they were reallocated from Component 208 into separate Components 202 and 203.

In the first phase prior to 2017, in contrast, Components 202 and 203 in the RTB were not equivalent to their respective current year and prior year accounts in the general ledger. This was due to the fact that the PAEA directly specified payment amounts into the RHB Fund for each year from 2007 to 2016, but thereafter directed OPM to calculate amortization amounts. In the years between 2007 and 2016, though, OPM also calculated what were called “retired annuitant” amounts, but those were not the same as the normal costs also calculated by OPM each year. In the phase one years from 2007 through 2016, general ledger account 51265.000 reflected the amount for payment into the RHB Fund specified by Congress and account 51204.000 reflected the “retired annuitant” amount specified by OPM, and the sum of the two accounts constituted Component 208. The RTB, however, only took the amount in Component 208 as a control total, and reallocated that amount to Component 202 (the normal costs as separately calculated and provided to the Postal Service by OPM), and Component 203, which was treated as the prior year amount, and was merely the residual created as the difference between Component 208 and the normal costs in Component 202.

(Attached at the end of this pleading is a table that starts with the Attachment to the MM&P and expands that to reflect all of these various amounts for each of the years between FY2007 and FY2021, and hopefully will make this discussion clearer.)

In the first phase years of the PAEA, therefore, the comparable four Steps to those shown above for the second phase (albeit now generalized and expanded to cover amortization/prior year costs as well as normal/current year costs) are as follows:

1) The Postal Service receives monthly invoices from OPM regarding the "retired annuitant" payments due over the course of the year, and is directed by Congress with respect to the prior year payments required.

2) In accordance with GAAP, the "retired annuitant" amounts specified by OPM are cumulatively reported in the National Trial Balance in Account 51204.000, and in the SRE are also reported in Account 51204.000 as part of Component 208 in Cost Segment 18. Likewise, the RHB Fund payment is reported in the National Trial Balance in Account 51265.000, and in the SRE is also reported in Account 51265.000 as the other part of Component 208 in Cost Segment 18.

3) The Component 208 total then flows from the SRE to tab "seg 18" of the RTB in ACR folder 5, and is subsequently reallocated to Components 202 and 203. Component 202, labelled as "Earned (Current)," reflects the RHB normal costs for the year, separately reported by OPM. Component 203, labelled as "Pre-Funded (Prior)," is calculated as the difference between Component 208 and Component 202. By design, therefore, Components 202 and 203 of the RTB must sum to Component 208 from the SRE.

4) Finally, in the “CS18” tab of the Cost Segments and Components Report in ACR folder 2, the normal cost amounts in Component 202 and the prior year amounts in Component 203 are aggregated in a column for Component 208, and what the column displays are the results of treating Component 203 costs entirely institutional, while treating Component 202 costs as partially attributed to products.

Therefore, as can be seen by comparing the individual four steps summarized above for the phase one years of the PAEA with the same four steps for the phase two years, the specific procedures employed had to be tailored to meet the circumstances presented by each phase. And while Mailers neglect to specify which of these procedure they deem to be the current established methodology, it is nonetheless correct that the tailored procedures employed over the two phases consistently achieved essentially the same regulatory results in terms of attributable and institutional costs.

Based on statements made on page 14 of the MM&P, as well as the fact that it would be impossible to literally follow the second phase procedures in FY 2022 because there is no invoice from OPM demanding payment of normal costs, it seems reasonable to surmise that what Mailers are seeking is a variant of the phase one procedures.[6] They seem to suggest taking the negative $57 billion amount in SRE and RTB component 208 and merely using that as control total in the RTB to derive a positive Component 202 amount reflecting the FY 2022 normal costs, along with a negative

[6] To the extent that is true, that also seems to confirm that Mailers contemplate their desired adjustment happening in the Step 3 RTB process, rather than the Step 2 general ledger process, because even in the phase one years, general ledger Account 51204.000 never reflected the normal costs, but rather the distinct “retired annuitant” costs.

amount in Component 203 that is even larger than the $57 billion, but which exactly offsets the positive normal costs such that Components 202 and 203 still sum to Component 208 (i.e., negative $57 billion). This seems to be the contemplated mechanism by which they would achieve their objective to arrive at a positive normal cost amount in Component 202 that in the Cost Segments and Components report can then be routinely split between attributable and institutional.

Of course, as Mailers admit on page 14, this procedure would require -- not only in FY 2022 but also likely in any year in which it was applied -- a negative plug number in the entry for Component 203, otherwise intended to reflect prior year/amortization payments. Mailers try to justify the occurrence of such negative plug numbers by citing two prior instances in FY 2009 and FY2011 in which Congress made *ad hoc* adjustments in the required prior year payments, which indeed under the phase one procedures did cause negative amounts to appear in Component 203. In the table attached at the end of this pleading, those negative amounts can be seen in the rows for FY 2009 and FY 2011, and those negative entries did reduce overall institutional costs by those amounts in those two years.

Mailers are in error, however, to suggest that the negative plugs numbers they seek to impose in FY 2022 would be comparable, either in purpose or in effect on the regulatory process, to the plug numbers employed in FY 2009 and FY 2011. One fundamental difference is that the legislative changes in those years were transitory adjustments to or deferrals of payment amounts previously specified by Congress. But critically, in allowing those adjustments, Congress was in no way relenting on the broader PAEA requirement that RHB expenses be prefunded. Under those

circumstances, it was reasonable to continue to treat normal costs for regulatory purposes under the procedures that had been applied in previous years and that were also expected to be the procedures that would be applied in following years. For example, applying the routine procedures for normal costs in FY 2011 and FY 2012 smoothed out what otherwise would have been the even more disruptive effects of Congress pushing the FY 2011 prepayment over into FY 2012, zeroing out one year and doubling the next. In contrast, Congress in the PSRA once again changed RHB funding regimes and affirmatively did abandon the prefunding concept, and now for Mailers in response to attempt to seek authorization from the Commission to employ negative plug numbers merely to keep the concept in place would contravene the legislative intent. Proposal One is thus defective in that respect.

Mailers also fail to recognize another disqualifying reason why the consequences of the negative numbers that their Proposal One would apparently create are qualitatively different from the consequences of the procedures as applied in FY 2009 and FY 2011. Mailers repeatedly (MM&P at 6-8, 12) invoke comments filed by the Postal Service in Docket No. RM2007-1 as supporting the concept of "economic" costs embodied in normal costs. They omit, however, a critical caveat stated on one of the very same pages of those comments they have cited:

> On a final note, it will be necessary to reconcile the economic and accounting costs reported in the Postal Service statements, with the primary concern being that the attributed "economic" costs not exceed the accounting costs. This can be addressed by setting the accounting costs as a ceiling that the attributed costs may not exceed. The difference between the accounting costs and attributable costs are institutional costs.

Postal Service Initial Comments On Second Advanced Notice, Docket No. RM2007-1 (June 18, 2007) at 30. In context, this constraint would require that the attributable

portion of the normal costs in Component 202 not be allowed to exceed the accrued RHB accounting costs in Component 208. Examination of the attached table shows that even in FY 2009 and FY 2011, despite the negative plug numbers, the attributed portion of the normal cost in the first column (replicated from Mailers' Attachment) did not exceed the SRE Component 208 accrued total costs in the third column. The underlying principle of attributable costs being less than accrued costs was maintained in both FY 2009 and FY 2011 when Congress diminished or altered the prefunding amounts established by PAEA. That condition applied equally as well in every other year when the phase one procedures were in effect.

In FY 2022, however, and any other year in which there were no accrued costs in Component 208 because the Postal Service is not required to make any RHB payments in that year, Mailers' efforts to attribute a portion of normal costs would necessarily violate this constraint.[7] Moreover, this would not be just a minor or trivial violation of some obscure regulatory policy. The unabashed effect of what Mailers seek in this regard – in the face of absolutely no accrued costs, simply insert a desired positive amount and then offset that positive entry with an equivalent amount of negative institutional costs – would open the door for the complete untethering of regulatory costs from booked accounting costs. Even in situations in which no costs have been accrued, mail products could be burdened with some amount of attributable costs. *See* the table on MM&P page 18. The Commission expressed misgivings about the validity of these types of possibilities in its discussion of economic costs cited above. *See*, Commission

[7] Literally speaking, in FY 2022 there were accrued costs in Component 208 in the amount of negative $57 billion, but that can be of no consolation to Mailers in the instant context, because if any positive amount of attributable costs exceeds zero accrued costs, it will certainly exceed a negative amount of accrued costs as well.

Op & RecDec, Docket No. R90-1, Vol 1 (January 4, 1991) at III-102 – III-134. Those concerns provide yet another basis to reject Mailers' Proposal One.

Conclusion

For the above detailed reasons, the Postal Service respectfully requests that the Commission both deny the Motion for Reconsideration of Order No. 6363, and reject Mailers' Proposal One. In contrast with sustaining the determination in Order No. 6363 to retain the established methodology of rationally aligning regulatory RHB costs with accrued accounting costs, and in light of the PSRA's deliberate removal of any required RHB prefunding payments in FY 2022 and future years, Mailers' Proposal One would represent an inappropriate and unlawful step backward.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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ATTACHMENT

	Attachment 1 to Mailers' Motion and Petition			Statement of Revenue and Expense (SRE)				Reallocated Trial Balance (RTB)		
				Comp 208				Comp 202	Comp 203	Comp 202 & 203
	Attributable Cost	Normal Cost		Total	Retired Annuitant	Fund Expense		Current Year	Prior Year	Sum
					Normal Cost	Amortization				
					51204.000	51265.000				
	(Data in Thousands)			(Data in Thousands)				(Data in Thousands)		
FY07	$2,743,644	$4,499,712		$7,125,775	$1,725,775	$5,400,000		$4,499,712	$2,626,064	$7,125,775
FY08	$2,893,912	$4,789,923		$7,406,583	$1,806,583	$5,600,000		$4,789,923	$2,616,660	$7,406,583
FY09	$2,508,684	$4,190,487		$3,390,333	$1,990,333	$1,400,000		$4,190,487	-$800,154	$3,390,333
FY10	$2,405,455	$4,095,064		$7,747,411	$2,247,411	$5,500,000		$4,095,064	$3,652,346	$7,747,411
FY11	$2,208,733	$3,804,822		$2,440,704	$2,440,704	$0		$3,804,822	-$1,364,118	$2,440,704
FY12	$2,025,233	$3,534,097		$13,729,081	$2,629,081	$11,100,000		$3,534,097	$10,194,984	$13,729,081
FY13	$1,870,005	$3,318,883		$8,449,798	$2,849,798	$5,600,000		$3,318,883	$5,130,915	$8,449,798
FY14	$1,772,889	$3,153,037		$8,685,419	$2,985,419	$5,700,000		$3,153,037	$5,532,383	$8,685,419
FY15	$1,870,872	$3,333,811		$8,811,140	$3,111,140	$5,700,000		$3,333,811	$5,477,329	$8,811,140
FY16	$1,775,528	$3,177,847		$9,104,702	$3,304,702	$5,800,000		$3,177,847	$5,926,856	$9,104,702
FY17	$1,921,565	$3,305,155		$4,260,221	$3,305,155	$955,066		$3,305,155	$955,066	$4,260,221
FY18	$2,133,963	$3,666,008		$4,480,704	$3,666,008	$814,696		$3,666,008	$814,696	$4,480,704
FY19	$2,212,535	$3,775,270		$4,564,409	$3,775,270	$789,139		$3,775,270	$789,139	$4,564,409
FY20	$2,246,423	$3,849,643		$4,659,658	$3,849,643	$810,015		$3,849,643	$810,015	$4,659,658
FY21	$2,456,203	$4,203,124		$5,110,102	$4,203,124	$906,979		$4,203,124	$906,979	$5,110,102
FY22				-$56,975,094	$0	-$56,975,094		$0	-$56,975,094	-$56,975,094