

BEFORE THE
POSTAL RATE COMMISSION
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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

INTERNATIONAL MAIL REPORT

Docket No. RM2000-1

INITIAL COMMENTS OF UNITED STATES POSTAL SERVICE

In Order No. 1270 (November 18, 1999), the Commission solicited comments on proposals to amend its Rules of Practice and Procedure in light of Commission's responsibility under 39 U.S.C. § 3663. Section 3663 requires the Commission to report to Congress each year on international mail costs, volumes, and revenues. Order No. 1270 proposes several specific additions to the Commission's rules in the form of a new Rule 103 (39 C.F.R. § 3001.103), which outlines materials that the Postal Service is expected to provide in connection with the annual report. Order No. 1270 also solicits comments on several other topics. For example, the Commission suggests that interested parties might want to comment on the appropriate scope and level of detail in the report, or the analytical methods to be employed by the Commission, including methods advocated by the Postal Service for the calculation of settlement differences and international air transportation costs. The Commission also invites comments on the implications of giving the public access to commercially sensitive information produced by the Postal Service, and whether particular procedures governing disclosure should be established.

By and large, the Postal Service believes that the Commission's first report to Congress in most respects struck appropriate balances with respect to scope and detail. Furthermore, while the procedures employed for identifying and producing data and information were largely ad hoc, the flexibility of the process seemed

advantageous overall to both the Postal Service and the Commission. In this respect, we appreciate the utility of rules that will clarify expectations for production of basic information and data, particularly in light of the statutory timetable for production of the report. Nevertheless, we believe that certain aspects of the proposed rules governing the timing Postal Service reports are unnecessary and in some respects inappropriate.

The following will address specific issues raised by the Commission's proposed rules and comment briefly on the general topics raised by Order No. 1270, including scope, detail, and public disclosure. We expect that we will file more extensive comments in direct response to comments by other parties.

RULE 103.

Proposed Rule 103 ("Filing of reports required by 39 U.S.C. § 3663") enumerates several categories of information deemed to be needed to prepare the Commission's annual report to Congress. For the most part, the material described for filing conforms to the categories of information that were provided by the Postal Service during preparation of the Commission's report for FY 1998.¹ In developing the FY 1998 Report, the Commission identified information by issuing an initial order and several subsequent orders characterized as "Notices of International Mail Data Requirements." During that development, furthermore, the Commission consulted informally with the Postal Service on several occasions to clarify particular matters or receive further explanations with respect to processes, information, or data. This general approach appeared to work well, and resulted in the timely filing of a comprehensive report. It was also consistent with the apparent status of the international mail report under the 39 U.S.C. § 3663, which does not incorporate the same procedural and hearing requirements that are applicable to Commission domestic rate and classification

¹Postal Rate Commission, *Report to the Congress, 1998 International Mail Volumes, Costs and Revenues* (June 30, 1999)("FY 1998 Report").

proceedings. See 39 U.S.C. § 3624.

In an important sense, the proposed rule's reference to "reports" mischaracterizes the exchange of information that took place prior to production of the FY 1998 Report. Admittedly, the reference to reports in the proposed rule parallels the language used in existing Rule 102 (39 C.F.R. § 3001.102), which pertains to periodic reporting. By contrast, however, most of the reports indicated in Rule 102 have status, internally or externally, as official Postal Service reports. Much of the information exchanged in connection with the international mail report to Congress, on the other hand, was developed or assembled specifically for that purpose, and was never intended to comprise, per se, a series of "reports."

Arguably, the exception to that is the International Cost and Revenue Analysis (ICRA) Report, which has been produced for several years internally, but not externally, as a tool to be used in formulating international rates, fees, and business policy. Early in the preparation of the FY 1998 Report, the Postal Service identified the ICRA as the fundamental resource for information that would be analyzed by the Commission in support of its report to Congress. In the past, however, the so-called USPS version of the ICRA Report was always the only version produced. The so-called PRC version of the ICRA was a modification of the ICRA that arose out of the Commission's use of different costing methodologies or approaches in Recommended Decisions in domestic rate cases. Prior to the FY 1998 Report, the PRC version of the ICRA had never been produced.

It is well-recognized that the Postal Service has the authority to develop its own systems of accounts and to determine the form and contents of its business documentation. 39 U.S.C. § 401(4). Nothing in 39 U.S.C. § 3663 derogates from this, or specifically alters postal management's prerogatives in that regard. Rather, section 3663 refers only to the provision of data that might be required to enable the

Commission to prepare the report to Congress. It was in furtherance of this principal objective that the Postal Service cooperated in providing information for the FY 1998 Report, even though that resulted not only in the development of documentation in forms that are not routinely produced as separate reports, but also in the alteration of the timing and sequence of certain internal reports. For example, the USPS version of the ICRA, which was the only version ever produced up until then, was substantially delayed in order to accommodate the Commission's stated needs pursuant to section 3663, as discussed further below.

The Postal Service strongly believes that rules adopted under the authority of section 3663 should interfere as little as practicable with the production and timing of the Postal Service's internal reports, or with its policies on public issuance and disclosure of externally available reports. To the extent that the proposed rules purport to dictate the timing or release of information in a manner not consistent with the exercise of the Postal Service's authority to determine its systems and documents, the rules would not be well-founded under section 3663. Having made that observation, however, the Postal Service must emphasize that it is firmly committed to fulfilling its responsibilities to provide necessary data by March 15 each year. As it did in the production of the FY 1998 Report, the Postal Service will cooperate in whatever ways are most appropriate to meet its own obligations under section 3663, and to assist the Commission in carrying out its responsibilities. Therefore, while the Postal Service disagrees with the particular way in which some of the proposed rules are stated, it believes that they can be modified consistent with the duties and objectives of both the Postal Service and the Commission.

The following will address the separate elements of the proposed Rule 103:

(a) The International Cost and Revenue Analysis—PRC and USPS Versions.

In providing information for the FY 1998 Report, resource constraints and data

availability impeded the Postal Service's ability to produce its own internal ICRA on time. As a practical matter, both the USPS version and the PRC version could not be produced simultaneously. Because of the timetable outlined in section 3663, the Postal Service subordinated production of the USPS version to production of the PRC version by March 15. Nothing material has changed in the situation underlying production of these versions. Accordingly, it is unlikely that the Postal Service will be able to produce both versions on March 15. Given the requirements of section 3663, it is reasonable for the rule to require production of the PRC version of the ICRA on March 15. The USPS version, however, should not be subjected to a specific deadline.

As a practical matter, it will usually be in the Postal Service's interests to produce the USPS version as soon as possible in the development of the report to Congress. By definition, the USPS version embodies the methodologies and approaches that the Postal Service would like the Commission to consider in analyzing international mail costs, volumes and revenues, as opposed to those methodological differences that the Commission has adopted in previous rate cases. This is especially true with regard to new approaches, such as those the Postal Service suggested for treating the FY 1998 allocation of air transportation and settlement costs. It, therefore, should not be a critical deficiency if the rule were not to specify production of the USPS version on March 15. The Postal Service will make the USPS version available as early as feasible. In this regard, since production of the FY 1998 Report, the Postal Service has taken measures with the objective of reducing the substantial gap that was experienced last year between production of the two ICRA versions.

(b) The Cost and Revenue Analysis Report–PRC Version. The proposed rule would require production of a domestic CRA–PRC version on March 15. Based on the wording of the rule and the commentary in Order No. 1270 (at 13), the rule would require an “unaudited” version of such a report on March 15, if it is not available in

audited form. An audited PRC version would be required no later than May 15.

Like the ICRA–PRC version, the PRC version of the domestic CRA has not had permanent status as a report produced by the Postal Service for internal or external use. In FY 1999, several events gave rise to requests for an alternative version of the FY 1998 CRA Report employing Commission methodologies, to the extent they differed from the Postal Service's. Circumstances in other contexts also made it appropriate for the Postal Service to provide this information separately. Finally, the Commission requested a PRC version of the CRA in connection with production of the Commission's FY 1998 Report, and the Postal Service provided it on June 7, 1999.

The Postal Service believes that it would be inappropriate for the Commission to attempt to dictate by regulation the timing of the domestic CRA Report, which is an official report that by policy and law is subject to a rigorous process of internal review and, ultimately, audit by an independent firm. By contrast, the Commission's existing periodic reporting rules do not establish a timetable for production of the CRA; rather it is to be provided "within two weeks" of internal presentation to Postal Service management. The same principle, furthermore, should apply to the PRC version, which is not an official report, and which is not published in an "audited" form. This conclusion follows from the integral relationship between the PRC and USPS versions, in which the PRC version is essentially a modification of the Postal Service official report.

The Postal Service regards development of the annual domestic CRA Report as an important, multi-staged process that should not be interrupted or prematurely made public. The culmination of this process is the issuance of an audited version, after the Report and underlying data systems have undergone review by an independent auditing firm. The timing of critical steps in the process is influenced by such factors as the terms of the contract with the auditors and review by the Board of Governors. Up

until release of the audited version of the domestic CRA (USPS version), the CRA is not official, and is subject to change. At early stages of the development of the CRA Report, furthermore, there could be significant risk that undetected errors or changes might result in unreliable information. As a matter of important policy, therefore, the Postal Service normally follows the practice of not making the CRA publicly available until all stages of the development process have been completed.

This does not mean that use of data and analysis derived from the domestic CRA Report at preliminary stages corrupts production of the ICRA. For the most part, data and information from the CRA process can be relied upon, and its use in the ICRA is independently evaluated. It bears noting, furthermore, that only a part of the domestic CRA is applied to development of the ICRA. The majority of the information in the CRA pertains to domestic services, rather than international.

In this respect, the Commission's statement that it needs a preliminary version of the CRA Report (PRC version) by March 15 (Order No. 1270 at 13) must be assessed in light of the partial use of the domestic CRA, as well as in light of the information and documentation the Postal Service will provide to enable production of the Commission's report to Congress. The Postal Service expects to provide those parts of the CRA and documentation directly supporting the development of the ICRA.

Furthermore, the Postal Service would be willing to supplement such documentation, if critical gaps were identified that seriously interfered with the Commission's ability to produce its report by July 1. In any event, the Postal Service expects that the audited CRA will be completed and available in adequate time to enable the Commission to use it to complete its report on schedule. Accordingly, the rule need not be written to direct production of the domestic CRA Report at all; rather it need only specify the production

of information needed to review the parts of the CRA used to create the ICRA.²

(c) *The Cost Segments and Components Report–PRC Version.* The proposed rule specifies the same production requirement and timetable for the Cost Segments and Components Report as subsection (b) would apply to the domestic CRA Report. Like the CRA, the Cost Segments and Components Report is an official Postal Service report governed by the same development process and disclosure policy as the CRA. Like the domestic CRA Report, furthermore, the “PRC version” of the Cost Segments and Components Report is a variant of the official report.

The comments addressing the domestic CRA Report, above, also apply to the Cost Segments and Components Report. The Postal Service strongly believes that rules directing the production of these reports on a specific schedule, or in preliminary form, would not be appropriate. In any event, as with the CRA Report, the Postal Service would be willing to provide relevant documentation based on the cost segments and components analysis to enable adequate review of the ICRA.

(d) *Documentation and workpapers for the ICRA.* The Postal Service does not oppose the enumeration of the items listed in the proposed rule, to be provided to the extent possible by March 15. It should be noted, however, that, in the development of the Commission’s FY 1998 Report, it was impractical to submit all of the voluminous backup documentation simultaneously with the ICRA Report on March 15. Much of this information was provided several days later, apparently without seriously impairing the production of the FY 1998 Report. In the abstract, it might be preferable to provide all of the backup documentation together with the report. In light of the practicalities

²Order No. 1270 indicates the Commission’s belief that it needs the domestic CRA Report by March 15, “in order to *verify the accuracy* of various aspects of the ICRA Report.” *Id.* (Emphasis supplied) In this respect, it is open to question whether 39 U.S.C. § 3663 was ever intended by Congress to authorize the Commission, in effect, to serve as a second auditor of the Postal Service’s international financial data.

involved with production of the ICRA internally, however, it might be acceptable and more prudent to create a more flexible rule. For example, the requirement could be stated in terms of providing as much as possible by March 15, but no later than a subsequent date.

Furthermore, as explained in the comments presented by the Postal Service in Docket No. IM99-1 and below, the Postal Service believes that much of the information encompassed by these categories is sensitive and should not be made publicly available. Accordingly, the rules should not provide for public disclosure.

(c) [should be e] Handbooks pertaining to the collection of volume and revenue data.

The Postal Service does not object to this proposed rule as stated.

(d) [should be f] International CRA manual input, A, B, C, and factor reports on a CD-ROM. The Postal Service does not object to this requirement. The comments noted above, however, in connection with proposed subsection (d), also apply here. It would be preferable to have a rule stated more flexibly with respect to the timing of filing, as long as the Commission's ability to complete its review were not materially compromised.

(e) [should be g] A hard copy of the international CRA manual input and the C report. The comments under subsection (d) [f] apply here as well.

(f) [should be h] Cost Segment 3 CRA Worksheets and all supporting files...–PRC version...., and (g) [should be i] Cost Segment 7 CRA Worksheets and all supporting files. The purpose of this requirement is undoubtedly linked to proposed subsections (b) and (c), above, pertaining to the domestic CRA Report and the Cost Segments and Components Report. Accordingly, just as it would be inappropriate for a rule pursuant to 39 U.S.C. § 3663 to dictate a timetable for production of the CRA and Cost Segments and Components Reports, or to dictate

provision of preliminary versions, it would be inappropriate for the rule to specify provision of the backup documentation for these reports. In any event, as noted above in connection with the CRA Report, the Postal Service will provide documentation for the domestic CRA that directly supports production of the ICRA. The rule, therefore, should be stated in terms of a functional requirement, rather than by identifying particular worksheets that are primarily associated with production of the entire domestic CRA Report.

(h) [should be j] The number of weighted tallies.... The Postal Service does not object to this proposed subsection.

(i) [should be k] Coefficients of variation. On the premise that provision of information comparable to that provided for the FY 1998 Report would constitute adequate compliance with the proposed rule, the Postal Service does not object to the enumeration of categories for which coefficients of variation will be expected. It suggests, however, that some flexibility could be incorporated by providing for an alternative explanation, in the event coefficients are not pertinent to a particular category. For example, an alternative or supplemental explanation might be provided where estimates are not statistically derived.

(j) [should be l] The percentage of household mail and the percentage of non-household mail for each outbound mail service. The Postal Service does not object to this requirement, insofar as it directs production of available information. The Commission should be aware, however, that the Postal Service does not routinely collect data that annually update these estimates. Consequently, there could be years in which the Postal Service would respond to this rule by resubmitting previous information as the best available estimates of the relevant percentages.

(k) [should be m] The percentage of single-piece mail and bulk mail for each outbound service. The Postal Service provided information deemed to satisfy

this requirement in connection with production of the FY 1998 Report. It does not object to providing these data for future reports.

SCOPE AND DETAIL.

As stated above, the Postal Service believes that the Commission struck the appropriate balances with respect to scope and detail in its FY 1998 Report to Congress. In particular, we agree with the Commission's determination to analyze inbound and outbound service categories separately, rather than as aggregates.

METHODOLOGIES.

The Postal Service has no specific comments at this time on the analytical methods employed by the Commission in the FY 1998 Report to Congress. It continues to advocate the treatment of international air transportation costs and the settlement difference as imputed amounts, as it proposed with respect to analysis of FY 1998 international costs. In this respect, the Postal Service agrees with the Commission's views in Order No. 1270 that it would be appropriate to incorporate the Postal Service revisions in the FY 1999 ICRA Report. The Postal Service has reviewed Appendix F of the FY 1998 Report, and has not identified any inaccuracies.

PUBLIC DISCLOSURE.

The Postal Service incorporates by reference, and will not repeat here, the comments it provided previously regarding the commercial sensitivity of information provided in connection with development of the Commission's first Report to Congress. In most material respects, the comments submitted by the Postal Service in Docket No. IM99-1 continue to apply. The Postal Service provided further views on specific documents and information in response to the Commission's invitation to consult on

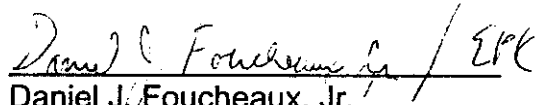
Freedom of Information Act (FOIA) requests for the FY 1998 Report and underlying documentation.

The Postal Service continues to believe that it would be inappropriate and unauthorized for the Commission to develop procedures under 39 U.S.C. § 3663 that would create public access to the Postal Service's internal international mail records. In this respect, the Postal Service agrees with the Commission's earlier determination in Docket No. IM99-1 not to provide access on this basis.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:


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CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in Docket No. IM99-1 in accordance with section 12 of the Rules of Practice.


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