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Office of the Secretary

June 22, 2004

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking
United States Postal Service
425 L'Enfant Plaza, SW
Room 6536
Washington, D.C. 20260

Dear Mr. Foucheaux:

The Commission is in receipt of the Postal Service's May 25, 2004, submission responding to the requirements of the Commission's Periodic Reporting Rule, 39 CFR § 3001.102, as revised November 3, 2003. As you are aware, the two main purposes of rule 102 are to allow members of the public to be able to review and evaluate the basic, routine, financial and operating reports produced by the Postal Service, so that interested persons can respond to Postal Service requests for new rates more quickly and effectively, and to facilitate the independent study of postal cost behavior between rate cases.

The Postal Service's submission of May 25, 2004 included a substantial amount of information not previously required by the Periodic Reporting Rule. Nonetheless, having evaluated the submission, the Commission has determined that some items that are required by the rule still have not been provided.

In particular, rule 102(a)(1) requires the Postal Service to provide "[a]ll input data and all processing programs that have changed since the most recently completed general rate proceeding, if they are used to produce the Cost and Revenue Analysis Report (CRA)." The CRA is the primary report on the cost and revenue of each postal product. It is used for such fundamental purposes as checking for cross subsidies and identifying product attributable cost and contribution to overhead. Items involved in the development of the CRA that the Commission finds still outstanding include the following.

1. In-Office Cost System data for FY 2003;

2. City Carrier Cost System (CCCS), Rural Carrier Cost System (RCCS) National Mail Count data for FY 2003;

3. City carrier street time study input data and processing programs; and

4. Mail processing variabilities by cost pool and certain computer programs used to distribute Segment 3 costs.

To clarify why rule 102 as revised requires the submission of this additional material, these items are discussed in greater detail in the Attachment to this letter.

In addition to these CRA-related materials, the Commission has determined that two other items are outstanding.

1. Cost segments and components reconciliation to financial statements and account reallocations as required by rule 102(a)(2)(i), and

2. Quarterly Revenue, Pieces and Weight (RPW) reports at the rate category level of detail as required by Rule 102(b)(1).

The Commission requests that the Postal Service complete submission under rule 102 by filing the materials identified above within two weeks of the date of this letter. If more time is required with respect to providing any particular item, please respond with a status report with respect to that item.

Sincerely,

Steven W. Williams
Secretary

Attachment

Rule 102(a)(1) requires the Postal Service to provide "[a]ll input data and all processing programs that have changed since the most recently completed general rate proceeding, if they are used to produce the Cost and Revenue Analysis Report (CRA)." In Docket No. R2001-1, the most recently completed general rate proceeding, the Postal Service submitted and documented a CRA for FY 2000. Therefore, input data and processing programs that were used to produce the FY 2003 CRA that have changed since the production of the FY 2000 CRA must be submitted under the Periodic Reporting Rule.

Input data. With respect to input data, the IOCS dataset is used in the CRA to distribute attributable costs in Segments 3 and 6. It is routinely collected each year. Because it has changed since the Postal Service submitted its FY 2000 CRA in Docket No. R2001-1, it is covered by the rule and should be provided.

The City Carrier Cost System (CCCS) and the Rural Carrier Cost System (RCCS) datasets are used in the CRA to distribute attributable costs in Segments 7 and 10. They are routinely collected each year. Because they have changed since the Postal Service submitted its FY 2000 CRA in Docket No. R2001-1, they are covered by the rule and should be provided.

Rural carrier costs in the FY 2003 CRA also depend on the National Mail Count, which is routinely updated each year. Because it has changed since FY 2000, it is covered by the rule and should be provided.

Mail processing variabilities. Your letter of May 25, 2004, is accompanied by a description of changes made in the FY 2003 CRA to the Postal Service's method of calculating attributable costs in Segment 3. The changes described are the elimination of seven MODS 1 & 2 "Function 4" cost pools, whose accrued costs are now aggregated with non-MODS costs. According to this description, "volume-variability is not affected since all MODS 'Function 4' and non-MODS cost pools use the same volume-variability based on the average econometric distribution volume-variability in the MODS office (i.e. 82%)."

The variability of 82% quoted in this description, however, has changed from the 78% overall average Segment 3 variability estimated in the FY 2000 CRA. The source of this change in overall average Segment 3 variability is not clear from the materials that the Postal Service submitted on May 25. The Postal Service's March 15 submission responding to rule 103 indicates that some changes have been made that affect the variability of individual, econometrically-analyzed MODS cost pools. Logically, changes in the variability estimated for individual MODS pools must be the result of either changes in the MODS input data used or changes in the processing

programs applied to those data. Whichever is the source, the changed input data and/or processing programs are covered by the rule, and should be provided.

Processing programs. The processing programs that implement the methodological changes described with respect to Out-of-Office Delivery in the Express Mail cost pool at non-MODS facilities are covered by the rule, and should be provided.

Other processing programs that almost certainly have changed since the FY 2000 CRA was submitted in Docket No. R2001 include several SAS programs used to distribute attributable mail processing costs. The Postal Service's accounting system continues to evolve, and within it finance numbers frequently change. For that reason, the output of the SAS program "modfin00" that was essential to replicating the FY 2000 CRA is not adequate to replicate the Postal Service's FY 2003 results. The equivalent output based on FY 2003 finance numbers ("modfin03") is needed to replicate the FY 2003 CRA. Because it has changed since FY 2000, it is covered by the rule, and should be provided.

Similarly, the definition of MODS cost pools in terms of the three-digit operations codes that they include, continues to evolve. Because the assignment of operation codes and the dollars associated with them to various MODS cost pools is an essential step in various SAS programs that distribute MODS dollars, those programs, updated for FY 2003, should be provided.

Hard-coded MODS dollar amounts are incorporated into various SAS programs that distribute attributable mail processing costs in the FY 2003 CRA. Because the MODS dollar amounts change each year when new MODS data is collected, the SAS programs that incorporate hard-coded MODS and IOCS dollar amounts must be updated to be consistent with FY 2003 MODS data. Examples of SAS programs that require such updating to reflect FY 2003 data are "DOLWGT" and "PIGGYF00" in the FY 2000 CRA.

IOCS activity codes also evolve. These changes require updating of certain SAS programs that distribute attributable mail processing costs that are affected by IOCS activity codes that have been added or deleted. Examples of SAS programs that were used to produce the FY 2000 CRA that need to be updated for this reason are "MAPITEMC" and "MAPCLASS." Such processing programs are covered by the rule and should be provided.

A description of changes that the Postal Service has made in its FY 2003 CRA to estimating costs in Cost Segment 7 accompanies your letter of May 25. The description says that variabilities were updated using a

data set for estimation. The results of this refinement were two-fold. Some additional data were entered into the data set and a few data records were revised. The identical econometric models that were used in FY 2002 were estimated on the refined data set. This produced the new variabilities.

With respect to input data and processing programs used to produce the Postal Service's Segment 7 cost estimates in its FY 2003 CRA, the relevant base of reference is not FY 2002, but FY 2000. The FY 2000 CRA was the one submitted in the most recently completed general rate proceeding, Docket No. R2001-1. See 39 CFR § 3001.102(a)(1).

Since the FY 2003 estimate of attributable city carrier street time costs is based on a special study that was not documented in the most recently completed general rate proceeding, it also falls under 39 CFR § 3001.102(a)(1)(ii). That section also imposes the obligation on the Postal Service of providing input data and processing programs that were used to obtain the results of the special study. See subparagraph "(A)". Subparagraph "(B)"gives the Postal Service the option of providing a written or oral presentation describing the data and the estimating techniques used, and to apply for a waiver of the requirement of subparagraph "(A)." The Postal Service has not applied for such a waiver.

While the Commission found the oral presentation that the Postal Service provided on December 3, 2003, to be helpful, the special study constitutes a fundamental departure from the historic approach to estimating city delivery carrier costs. Basic questions remain that can only be satisfactorily answered by access to the input data and processing programs, as required by 39 CFR § 3001.102(a)(1)(ii)(A). Accordingly, the Postal Service should provide the input and the data processing programs used to produce the study results, including the "refinements" that are described in the Postal Service's May 25 submission. The input data and processing programs used to apply the new "large parcel" and "small parcel" distribution keys introduced in FY 2003 should be included.

Your letter of May 25 mentions your letter of February 20, 2004, in which the Postal Service states its preference from retaining custody and control of the documentation of its new carrier cost study, but is willing to respond to requests for specific items from specific interested parties. Your letter notes that no one has made requests of that kind.

The Commission has not made a request for specific portions of the documentation under the terms that they remain non-public because the non-public procedures contemplated by the Postal Service are inconsistent with the basic goals of the Periodic Reporting Rule. That goal is to allow the public to review and evaluate the basic, routine, financial and operating reports produced by the Postal Service, so that it can respond to Postal Service requests for new rates more quickly and effectively. For that reason, the Commission prefers to adhere to the standard procedures of rule 102.