

BEFORE THE POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268

Review of Treasury Report

Docket No. PI2008-2

REPLY COMMENTS OF THE PARCEL SHIPPERS ASSOCIATION
ON
TREASURY REPORT

Pursuant to Postal Regulatory Commission (PRC or Commission) Order No. 56¹ and Commission Rules of Practice, the Parcel Shippers Association (PSA) submits these reply comments to the initial comments of others filed on April 1, 2008 in this docket. The comments pertain to the Treasury Report submitted on December 19, 2007.²

¹ Notice and Order Providing an Opportunity to Comment on Treasury Report (Docket No. PI2008-2).

² See *Report of the U.S. Department of the Treasury on Accounting Principles and Practices for the Operation of the United States Postal Service's Competitive Products Fund*, December 19, 2007 (Report). The Report may be accessed from the Commission's website, <http://www.prc.gov>.

Six parties – including the U. S. Postal Service, a Postal Service competitor, the Public Representative, a mail service provider, a mailer of market-dominant products, and the Parcel Shippers Association – representing diverse interests – filed Initial comments.³ What is most striking about the comments is the unanimous agreement among the parties that the economic, causality-based principles currently used to account for Postal Service costs should form the foundation of accounting principles under the Postal Accountability and Enhancement Act (PAEA)⁴. The consistency of opinion on this important issue is testament to the substantial efforts made by the Postal Service, Postal Regulatory Commission, and other interested parties inside and outside of regulatory proceedings over the last four decades to assure that costs are accurately estimated, attributed, and distributed to classes and subclasses of mail. These efforts have made Postal Service accounting and costing systems the envy of postal administrators around the world. The PRC and Postal Service, in particular, should be commended.

Further, all parties agree with the steps previously outlined by the Postal Service and Commission for tailoring existing systems to implement PAEA requirements. Other than adjusting systems to account for costs and revenues by product (rather than

³ Comments of the Parcel shippers Association of Treasury Report (April 1, 2008); Comments of United Parcel Service on the Treasury Report (April 1, 2008); Comments of Pitney Bowes, inc. in Response to Notice and Order Providing an Opportunity to Comment on Treasury Report (April 1, 2008); Public Representative's Comments in Response to Commission Order No. 56 (April 1, 2008); Valpak Direct Marketing Systems and Valpak Dealers' Association Initial Comments on Report of the U.S. Department of the Treasury on Accounting Principles and Practices for the Operations of the United States Postal Service's Competitive Products Fund (April 1, 2008); Initial Comments of the United States Postal Service in Response to Order No. 56 and the Treasury Report (April 1, 2008).

⁴ Pub. Law No. 109-435, 120 Stat. 3198 (Dec. 20, 2006). The PAEA amends various sections of title 39 of the United States Code. Unless otherwise noted, section references in these comments are to sections of title 39.

subclass of mail), the major change suggested for existing systems is to modify them to identify “line of business” or “group-specific” fixed costs that pertain solely to either market-dominant or competitive products and distribute these costs to the responsible line of business as a whole. This change is appropriate because it will ensure that market-dominant products do not bear any costs that are caused exclusively by competitive products and likewise competitive products will not bear costs that are caused solely by market-dominant products.⁵

While our Initial Comments did not address the appropriate approach for calculating competitive products’ assumed Federal income tax, the consensus of other parties addressing this point is that using a simplified approach (as recommended by Treasury) is appropriate because it will both increase transparency and reduce administrative burden. PSA agrees.

Since the assumed Federal income tax simply represents an internal transfer payment within the Postal Service (rather than a payment to an external party), the amount of this payment does not affect the overall financial position of the Postal Service.⁶ Thus, any expenditure required to estimate or reduce the income tax paid would represent a net loss to the Postal Service and thus to mailers generally. Such expenses should be minimized. Further, using a simplified method (i.e., calculating the

⁵ The United Parcel Service (UPS) appears to suggest that fixed costs that are caused primarily (but not exclusively) by one line of business should potentially be attributed. UPS Initial Comments at 3. UPS intends this, we respectfully disagree. Treating these costs as “group-specific” would be inappropriate because they are not incremental to the provision of one line of business.

⁶ Furthermore, the method for determining (or amount of) the tax will have no effect on whether competitive products meet the requirements of section 3633(a), relating to an appropriate share of institutional costs, because tax will only be paid on “profits” in excess of the required 5.5 percent share.

assumed income tax for a competitive product enterprise by applying an average effective tax rate to competitive product net income), rather than applying esoteric tax calculations, can only serve to increase transparency.

While PSA is persuaded that calculating the assumed income tax using an average tax rate is reasonable, the Commission should take great care in choosing an appropriate average tax rate that does not unduly burden competitive products relative to the taxes paid by Postal Service competitors. The goal at the end of this process is “a level playing field.”

Respectfully submitted,

Timothy J. May
Patton Boggs
2550 M Street, NW
Washington DC
Telephone: (202) 457 6050
Facsimile: (202) 457 6315
Email: tmay@pattonboggs.com

James Pierce Myers
Attorney at Law
1617 Courtland Road
Alexandria, VA 22306
Telephone: (571) 257 7622
Facsimile (571) 257 7623
Email: jpm@piercemyers.com

Counsel for Parcel Shippers Association

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