

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Dan G. Blair, Chairman;
Nanci E. Langley, Vice Chairman;
Mark Acton
Ruth Y. Goldway; and
Tony L. Hammond

Annual Compliance Report, 2008

Docket No. ACR2008

NOTICE OF FILING OF ANNUAL COMPLIANCE REPORT
BY THE POSTAL SERVICE AND SOLICITATION OF PUBLIC COMMENT

(Issued December 31, 2008)

Section 3652 of title 39 of the United States Code requires the Postal Service to file a report with the Postal Regulatory Commission on the costs, revenues, rates, and quality of service associated with its products within 90 days after the close of each fiscal year. That section requires that the Postal Service's annual report be sufficiently detailed to allow the Commission and the public to determine whether the rates charged and the service provided comply with all of the requirements of title 39. See 39 U.S.C. 3652(a)(1) and (e)(1)(A). The Postal Service filed its annual compliance report for FY 2008 with the Commission on December 29, 2008. Appended to it are four major sets of data: (1) the Cost and Revenue Analysis (CRA); (2) the International Cost and

Revenue Analysis (ICRA); (3) the models of costs avoided by worksharing; and (4) billing determinant information.¹

After receiving the FY 2008 ACR, the Commission is required under 39 U.S.C. 3653 to provide an opportunity to comment to the interested public and an officer of the Commission to represent the interests of the general public. A public representative (officer of the Commission) will be designated in a subsequent notice to be issued in the near future. The Commission hereby solicits public comment on the degree to which the Postal Service's operations and financial results comply with the policies of title 39. Comments by interested persons are due on or before January 30, 2009. Reply comments are due on or before February 13, 2009. After completing its review of the FY 2008 ACR, public comments, and any other information submitted in this proceeding, the Commission will issue an Annual Compliance Determination (ACD).

The Commission is aware that the comment periods in annual compliance report proceedings are brief when one considers the complexity of the issues involved. However, the statute affords the Commission 90 days to digest the report filed by the Postal Service and evaluate the Postal Service's compliance with the broad range of policies articulated in title 39. Expediting public comment is essential if the Commission is to have sufficient time to take the public's concerns into account in making its evaluation.

This is the second compliance report filed by the Postal Service since passage of the Postal Accountability and Enhancement Act (PAEA) of 2006. The first compliance report was filed on December 28, 2007, and covered FY 2007. FY 2007 was a transitional period during which the rate-setting criteria of the former Postal Reorganization Act (PRA) remained in force. The fact that FY 2007 was a transitional

¹ United States Postal Service FY 2008 Annual Compliance Report, December 29, 2008 (FY 2008 ACR). Public portions of the Postal Service's filing are available at the Commission's website, www.prc.gov.

period presented the Postal Service with a difficult task.² The Commission therefore reviewed the Postal Service's rates and service under the standards of the PAEA with due regard for the "unique and non-recurring factors" confronted by the Postal Service and with appreciation for "the good faith effort of the Postal Service to provide useful available information...." *Id.* The Commission stated that "[i]n future years, when the Postal Service has the benefit of...rules [keyed to the evaluation of the PAEA's standards], a more rigorous level of scrutiny will be more justifiable." *Id.*

The Postal Service states that although the transition issues are "less acute" this year, some still remain. As an example, the Postal Service points to the fact that the lists of market dominant and competitive products in the Mail Classification Schedule were not finalized until after the start of FY 2008. Moreover, the Postal Service notes that final rules governing the form and content of the annual compliance report have not yet been issued.³

Among the materials submitted by the Postal Service as part of its filing is a document identified as USPS-FY08-9 which serves as a roadmap summarizing other materials submitted as part of the FY 2008 ACR and discussing changes in methodologies from the Commission's methodologies in the FY 2007 ACD.

The Postal Service states that the major sets of materials and the formats in which they are presented should be familiar to the Commission and those persons who have participated in earlier postal rate proceedings. The one significant change is that certain materials previously presented in one version containing both market dominant

² Included among the difficulties faced by the Postal Service was the fact that it "[did] not have experience producing annual cost, revenue, and volume figures so quickly after the close of the fiscal year." FY 2007 ACD at 9. In addition, many of the Postal Service's products "did not have service standards and service measurement procedures in effect during FY 2007." *Id.* at 8. The rates that were charged during FY 2007 were also established under similar, but different, policies of the PRA. *Id.*

³ On August 28, 2008, the Commission instituted a rulemaking proceeding in which it proposed periodic reporting rules to implement all of the PAEA's provisions intended to make the Postal Service's operations and finances transparent and accountable. Docket No. RM2008-4, Notice of Proposed Rulemaking Prescribing Form and Content of Periodic Reports, August 22, 2008. The Commission is reviewing the initial and reply comments submitted in that proceeding.

and competitive product information have been split into public and non-public versions.⁴

In general, most of the analytical methods employed in producing the FY 2008 ACR appear to be consistent with established precedent or have been approved by the Commission.⁵ A discussion of methodology changes can be found in Section Two of the roadmap document, USPS-FY08-9, and in the preface that accompanies each of the FY 2008 ACR's appended materials.

Section 3652(g) of title 39 requires that the Comprehensive Statement of Postal Operations (Comprehensive Statement) mandated by 39 U.S.C. 2401(e) be included in the Postal Service's annual compliance report. The Postal Service indicates that its FY 2008 Comprehensive Statement is currently available on the Postal Service's website at <http://www.usps.com/strategicplanning/cs08/cs2008.pdf>.⁶

By the Commission.

Steven W. Williams
Secretary

⁴ Part V of the FY 2008 ACR identifies the materials that it has included in the non-public annex to its filing and the rationale for its actions.

⁵ Subsequent to the issuance of the Commission's FY 2007 ACD, the Postal Service submitted 13 proposals for change to the costing methodologies for the FY 2008 ACR. Twelve of these 13 proposals have been addressed by the Commission in the following orders: Order No. 115, Order Accepting Certain Analytical Principles For Use in the Postal Service's Periodic Reports, October 18, 2008 (addressing Proposals One through Ten); Order No. 118, Order Concerning Costing Methods Used in Periodic Reporting (Proposals Ten And Eleven), October 22, 2008; and Order No. 156, Order Concerning Costing Methods Used in Periodic Reporting (Proposal Thirteen), December 23, 2008. Proposal Twelve is still being considered by the Commission in Docket No. RM2009-1.

⁶ Notice of the United States Postal Service Regarding the FY 2008 Comprehensive Statement, December 30, 2008.

It is Ordered:

1. The Commission establishes Docket No. ACR2008 to consider matters raised by the Postal Service's FY 2008 Annual Compliance Report.
2. Public comments on the United States Postal Service FY 2008 Annual Compliance Report are due on or before January 30, 2009.
3. Reply comments on the United States Postal Service FY 2008 Annual Compliance Report are due on or before February 13, 2009.
4. The Secretary shall arrange for publication of this Order in the *Federal Register*.

By the Commission.

Steven W. Williams
Secretary