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

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

Proposed Changes to Analytic Principles Used in Periodic Reporting (Proposals Three – Nineteen) Docket No. RM2009-10

Initial Comments of the Public Representative in Response to Order No. 269

August 20, 2009

The Postal Service filed, on July 28, 2009, a petition to initiate a proceeding to consider seventeen proposals to change analytic principles relating to the Postal

Service's periodic reports.[1] The proposals are labeled as Proposals Three through Nineteen.[2] Commission Order No. 269[3] describes the proposals as falling into several groups:

- Proposals Three though Seven are characterized as correcting errors detected in some of the programs and spreadsheets used to prepare the ACR filing;[4]
- Proposals Eight through Ten and Eighteen are described as "updates based on operational changes or data system improvements";[5]

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[1] Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes in Analytic Principles (Proposals Three-Nineteen), June 28,2009.

[2] Proposal One was filed as Docket No. RM2009-5 on June 22, 2009 and Proposal Two was filed as Docket No. RM2009-7 on July 7, 2009.

[3] PRC Order No. 269, July 31, 2009 (Order No. 269).

[4] Proposal Three involves corrections to IOCS treatment of UAA Parcel Select; Proposal Four involves distribution of Motor Vehicle Service Costs; Proposal Five involves non-saturation DALs; Proposal Six involves distribution of delivery costs for Insured pieces; and Proposal Seven involves activity codes for Loading/Unloading Vehicles.

[5] Proposal Eight involves new distribution factors for Special Purpose Routes; Proposal Nine involves new items in Rural Evaluation Factors; and Proposal Ten involves a new rural Distribution for DPS/Sector Segment Letters. Proposal Eighteen involves a disaggregation of TRACS data to distribute Surface CP costs between Canada and the rest of the world.

- Proposals Twelve through Fourteen concern special studies for Periodicals, Standard Mail, and Parcels, respectively;[6]
- Proposals Fifteen through Seventeen involve making refinements to volume and revenue reporting;[7]
- Proposal Nineteen concerns the calculation of bundle costs in the Periodicals "Bundle Passthrough" worksheet.[8]

Each of the proposals is supported by accompanying documentation, including various spreadsheets to further explain the proposals and their projected impacts.

Position of the Public Representative

The Public Representative has reviewed the proposals and the supporting documentation provided by the Postal Service and does not object at this time to the proposals cited above. The Public Representative would, however, like to comment further on two of the proposals and on the issue of transparency in general.

Proposal Number Eleven

The Public Representative would like to comment specifically on Proposal Eleven which the Postal Service feels is "more substantive" than the other proposals. USPS Petition at 2. Proposal Eleven which concerns the ICRA is being submitted in response

[6] Proposal Twelve focuses on the Periodicals Cost Model; Proposal Thirteen focuses on Standard Mail; and Proposal Fourteen concerns Parcels.

[7] Proposal Fifteen would expand the use of POS data from Retail terminals; Proposal Sixteen involves allocation of Certificate of Mailing fee revenue; and Proposal Seventeen concerns Free Military Mail.

[8] Proposal Nineteen also involves the development of price-to-cost ratios for Periodicals.

to the Commission's instruction to the Postal Service in ACD (2008) to report all revenues and expenses using accrued (booked) amounts as reported in the audited financial reports. The Commission sought to rectify this situation by tying cost and revenue totals back to the booked amounts. However, the Commission ultimately utilized booked revenue, but did not use booked costs. The Postal Service explains that their proposed alternative methodology "not only substitutes booked for imputed revenues at the product level…but also substitutes booked for imputed for attributable costs at the product level, which the FY08 ACD did not."[9] The difference between the accounting accrual amounts and the imputed amounts is primarily due to timing. The accrual amounts rely on volumes and weights from the same period as last year, while the imputed amounts rely on volumes and weights from the fiscal year being reported.

The Postal Service shows that the Commission's methodology employed in the ACD (2008) significantly understates the contribution made by Inbound Single-Piece FCMI and by extension to competitive products as a whole since the target of contributing 5.5 percent of institutional costs must be met on an aggregated basis. The implication present here is that if volumes and thus revenues decline even further, the possibility exists that certain products could be mistakenly found to be not in compliance with the statutory factors in the FY09 ACD, due to a mismatch of costs and revenues. The Postal Service's alternate proposal appears to mitigate this possibility and thus should be accepted by the Commission.

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[9] Postal Service Petition, Proposal 11, at 1.

The Postal Service is also seeking authorization in FY09 to present an alternative version of the ICRA, based on imputed values rather than booked values so as to allow for comparisons over time in terms of the pre-PAEA environment and the post-PAEA environment and in terms of the new Foreign Payment System that the Postal Service will institute in 2010.

The Postal Service sees at least three potential benefits from including such an alternative ICRA format. The first is for purposes of compliance evaluation with the statutory factors in FY09. As noted above, an adverse conclusion based exclusively on booked values might be tempered by contrary results from an analysis based on imputed values.

Second, because of changes to its cost accounting systems, the Postal Service hopes at the end of FY10 to be reporting booked settlement costs which more closely resemble the imputed settlement costs reported in previous years rather than the booked settlement costs for those years. Thus, the series of ICRA Reports beginning in FY10 and continuing into the future will be generally consistent with the ICRA Reports from 2008 and prior years.

A third potential benefit could arise because the Postal Service is likely to be negotiating and proposing to implement numerous ICMs[10] over the course of FY10. According to the Postal Service, normally ICMs prepared during one year are based on the costs from the previous year, and ICMs prepared during FY10 would thus normally

[10] International Customized Mail Agreements.

be based on FY09 costs. At the end of FY10, however, the performance of those ICM's would be evaluated on the basis of FY10 costs. If the accounting system is changed in FY10 to be more in accord with costs previously labeled as imputed, while the FY09 costs are still old-style booked costs, basing FY10 ICMs on those FY09 costs could cause problems in some instances if the shift from booked costs to imputed costs in FY10 is likely to be dramatic for a particular product.[11]

The Public Representative supports this request by the Postal Service and in addition the inclusion of an alternative ICRA format with the FY09 ACR in the interest of promoting greater transparency, provided the documentation is clear so as to not simply create further confusion.

UPS has requested that the Commission require disclosure of the estimated percentage impact of certain cost methodology proposals on individual competitive products.[12] Their request states that "the Postal Service does not provide the estimated percentage impact of each proposal on all affected products. For example, it does not do so for Proposal 14, which would modify the Parcel Select and Parcel Return Service Cost models. For other proposals that would also affect competitive products, the Petition discloses the estimated impact on costs in dollars for domestic competitive products as a whole, but it does not provide the anticipated percentage impact on individual competitive products (as it does for Proposal 3). Likewise, the Petition reports

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[11] *See* Postal Petition at 7.

[12] *See* Request of United Parcel Service that the Commission Require disclosure of the Estimated Percentage Impact of Certain Cost Methodology Proposals on Individual Competitive Product Costs, August 14, 2009.

the estimated impact in dollars on all international mail product costs – both competitive and market-dominant grouped together – as one aggregated line item; it does not provide the percentage change in costs for individual international products." *Id*. at 2.

UPS further asserts that members of the public could use this information to assess whether any proposal's impact on an individual competitive product is significant or insignificant, and whether it warrants the party's further evaluation. UPS Request at 3. However, due to the competition between UPS and the Postal Service, the Public Representative believes filing this type of information under seal to the Commission is acceptable.

Proposal Number Twelve

Proposal Twelve, which concerns analytic changes to USPS's Periodicals Costing Model, states that "The Postal service is seeking acceptance of the method proposed for calculation of the 'Auto/Mech' factor used in the Periodicals cost model (USPS-FY08-11) filed in Docket No ACR2008. Consequently, in terms of evaluating the impact using FY08 data, the FY08 impact would have been the results presented in USPS-FY08-11 (as opposed the results shown in PRC – ACR2008-LR5, which used a previous 'Auto/Mech' factor). Of course, if the proposed calculation method is adopted, the calculation would be updated with FY09 data as part of the Annual Compliance Report, so the exact FY09 impact is yet unknown." Postal Service Petition, Proposal 12, at 3. Considering the almost legendary complexity of its Periodicals Costing model, the impact assessment of Proposal Twelve provided by the Postal Service and cited

above is somewhat opaque and does not represent a step forward in the quest for transparency.

Conclusion

For the reasons set forth above, the Public Representative recommends that the proposed changes in analytical principles proposed in this docket be accepted by the Commission. The Commission should require the Postal Service to report in percentage terms or in any other terms the Commission may determine is appropriate, the estimated impacts of cost methodology Proposals 4, 6, 7, 8, 9, 11 and 14 on individual competitive products as requested by UPS. However, the Public Representative does not believe that public disclosure is appropriate. Finally, the Postal Service should be encouraged by the Commission to enhance where necessary, its impact assessments, with spreadsheet documentation including live formulae and cell references.

Respectfully Submitted,

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