

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

ALLOCATION OF ASSETS AND LIABILITIES TO
THE COMPETITIVE PRODUCTS ENTERPRISE

Docket No. RM2009-9

REPLY COMMENTS OF THE UNITED STATES POSTAL REGARDING
PROPOSED METHODOLOGY FOR THE ALLOCATION OF ASSETS
AND LIABILITIES TO COMPETITIVE PRODUCTS
(November 24, 2009)

On December 18, 2008, in Docket No. RM2008-5, the Commission issued Order No. 151, establishing final rules to govern accounting practices and tax rules for competitive products. 73 Fed.Reg. 79256-65 (Dec. 24, 2008). One aspect of the new rules relates to a Statement of Allocated Assets and Liabilities for Competitive Products. Pursuant to section 3060.31, the due date for the initial filing of the Statement of Allocated Assets and Liabilities for Competitive Products is 90 days after the close of FY 2010. The new rules, however, also required the Postal Service to submit to the Commission for approval a proposed methodology for the allocation of assets and liabilities to the theoretical competitive enterprise. Sections 3060.12(d), 3060.13(d). The Postal Service submitted its proposal on July 23, 2009. In response, the Commission established this docket and set dates for initial and reply comments. Order No. 287 (August 24, 2009), 74 Fed.Reg. 46044 (Sept. 8, 2009). The Public Representative submitted initial comments on October 23, 2009, and the Postal Service hereby submits its reply comments.

The comments of the Public Representative (at page 4) seek further input on two matters. The first is a topic that arises in the context of the row in the Non-Current Liabilities portion of Table 4 entitled “Deferred Gains on Sales of Property.” The potential ramifications of the issue, however, extend more broadly. As suggested on page 3 of the Postal Service’s Notice of Proposed Methodology (July 23, 2009), the Postal Service questions allocating to competitive products gains (either immediate or deferred) on the sales of properties, unless the specific property or properties in question were used exclusively to support competitive products. According to the Public Representative, however, this creates some tension within a framework in which a mathematical portion of the underlying property assets of the Postal Service are allocated by formula to competitive products, without any consideration of how individual properties are actually used:

As Table 4 shows, both the Postal Service and Commission agree that major property assets, *i.e.*, Buildings, Leasehold Improvements, Equipment, and Land, are to be allocated to the theoretical CPE, and on the method of allocation: the ratio of depreciated cost for such major assets attributed to competitive products to total depreciation costs. The resulting allocation is reported under *Property and Equipment* in Statement of Allocated Assets and Liabilities for Competitive Products. *Id.* However, a question that does not appear to have been addressed, in the context of PAEA implementation, is the possibility of reporting gains or losses on the sale of competitive product assets as income on the proposed Income Statement. . . .

In recent years, the Postal Service has sold major property assets, and reported a gain or loss on such sales. For FY 2007 and FY 2008, the Postal Service reported gains of major property assets of \$48.84 million and \$74.36 million, respectively. The sale of major property assets by the Postal Service each year and the allocation of major property assets to the theoretical CPE suggests means [sic] that a portion of the proceeds from the sale of such assets by the Postal Service each year be reported as gains or losses on the proposed Income Statement.

Public Representative's Comments (Oct. 23, 2009), Appendix A, page 2. As this passage makes clear, therefore, the fundamental issue is not really the appropriate treatment of *deferred* gains, but rather the appropriate treatment of *any* gains. Moreover, resolution of this issue could affect the net income reported for competitive products.

The implicit position of the Public Representative seems to be that, if a proportion of the underlying asset is allocated to competitive products, then there is a logical inconsistency if none of the gains are allocated to competitive products if and when the asset is sold. As a matter of abstract logic, there is some basis for this view. Unfortunately, however, the logic of the entire allocation exercise has never been clear to the Postal Service. The Postal Service first expressed reservation in its Initial Comments in Response to Order No. 54 (April 1, 2008) at pages 42-43, and expanded on its concerns in its Initial Comments to Order No. 106 (Oct. 20, 2008) at pages 4-5.

As a practical matter, it seems more beneficial to focus on getting the Income Statement "right" than becoming unduly concerned over potential theoretical inconsistencies in the Statement of Allocated Assets and Liabilities. To the Postal Service, an Income Statement which has competitive products revenue rising in one year in which a major postal facility is sold, and then falling in another year in which no major facility sales occur, would not be an accurate reflection of the true value to the organization arising from competitive product offerings in those years. It would seem much more useful to limit any impact on competitive product revenue to gains (or losses) associated with the sale of facilities used specifically for competitive products. On that basis, the Postal Service would not advocate allocating gains (either immediate

or deferred) from the sale of general use property using either the Building Depreciation Expense distribution key or revenue share. That is why the Postal Service instead proposed the approach set forth in its July 23 filing – do not allocate the Deferred Gains liability on Building Depreciation, but instead allocate it on the same basis as that which should be used to allocate immediate gains, the question of whether the sold building had been used strictly with respect to competitive products. As the Public Representative correctly observes (Comments at 12), the result of this approach would be only the rare occurrence of transactions that give rise to deferred gains allocated to competitive products.

The second topic upon which the Public Representative seeks further discussion is the Postal Service's intentions with respect to the public versus nonpublic status of some of the finer details of the asset and liability identification. Public Representative Comments at 4, 14. In its July 23 public filing, the Postal Service redacted a substantial portion of the FY08 data, while filing an unredacted version under seal. In light of the new standards for confidential treatment of data implemented since that time, however, the Postal Service has reevaluated its intentions. At this time, the Postal Service no longer anticipates seeking protection for the broad range of data shielded in its July filing. Of course, since it is still over a year until the Postal Service will be making its first filing under the new methodology, circumstances could change. To protect against that contingency, the Postal Service reserves the right to file an application for non-

public treatment at that time, subject, of course, to the justification showing required by the new confidentiality rules.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

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