

**POSTAL RATE COMMISSION****39 CFR Part 3001****[Docket No. RM2003-3; Order No. 1386]****Periodic Reporting Rule****AGENCY:** Postal Rate Commission.**ACTION:** Final rule.

**SUMMARY:** The Commission is adopting a final rule that updates the periodic reporting regulations. These regulations identify the data and information the Postal Service is to file with the Commission on a regular, ongoing basis. The final rule differs from the proposed rule in several important respects. The Commission has narrowed or eliminated some filing requirements and has incorporated some flexibility in meeting other requirements. Adoption of these changes should facilitate the public's ability to more readily grasp the quantitative basis and support for Postal Service proposals.

**DATES:** Effective December 19, 2003.**FOR FURTHER INFORMATION CONTACT:**

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**SUPPLEMENTARY INFORMATION:****Regulatory History**

68 FR 2272 (Thursday, January 16, 2003)

**Executive Summary**

When the Postal Service requests a general rate increase it supports the request with estimates of how much each of its products costs, and how much revenue it needs. The validity of these estimates are central issues in the hearings that the Commission holds to review the request. Tens of thousands of pages of economic testimony and documentation, most of it highly technical, are offered to support raising almost \$70 billion in annual revenue from over 200 postal products.

The Postal Service and interested members of the public have the right to present a case in support of the rates that they advocate, and the right to challenge the cases presented by others. The Commission must develop recommended rates based on the record within a ten-month statutory deadline. Most participants agree that this severely compressed process strains their resources to the limit. The Commission also reviews Postal Service requests for experimental rates or classifications in even more compressed time frames.

The Commission has a Periodic Reporting Rule to facilitate this process. It requires the Postal Service to provide

certain relevant financial and operating reports prepared for Postal Service management. The process will be further streamlined by promptly providing the Commission and the interested public with access to the standard, routinely prepared cost and revenue data that serve as the basis for rate and classification requests.

One of the key reports that the Postal Service currently submits each year is the Cost and Revenue Analysis (CRA). It contains the Postal Service's cost, volume, and revenue estimates for the most recently completed fiscal year, both in total, and by individual product. Because the postal system has a high proportion of shared costs, it is difficult to estimate the costs that each product causes. The CRA that the Postal Service submits under the current rule estimates unit costs caused by each product, but does not provide documentation showing how those estimates were derived. Consequently, it is of limited value in identifying trends in product costs, or in analyzing their causes, which are core issues in rate and classification cases.

Under the existing Periodic Reporting Rule, the Postal Service has been providing some information about how it derives unit product costs (primarily in the mail processing and transportation areas.) The updated Periodic Reporting Rule adopted in this order asks the Postal Service to do this for all of its 20 cost segments.

For each cost segment, the updated Periodic Reporting Rule asks the Postal Service to provide the basic datasets that it uses to estimate unit product costs, and identify any new estimating technique it applies to those data to derive the unit cost estimates in the CRA. Having this information filed each year, rather than waiting for the Postal Service to provide it in a general rate case, should produce the following benefits:

- When the Postal Service files a general rate case, litigants and the Commission will already be familiar with the standard cost and revenue reports on which much of the case is based. This should reduce the need for discovery, and make it possible to shorten hearings.

- When the Postal Service files requests for experimental classifications, market tests, or negotiated service agreements, litigants and the Commission should be able to evaluate them more quickly.

- Between general rate cases, the Commission and the public will be able to analyze the accuracy of the cost, volume, and revenue projections on which current rates are based.

- Between general rate cases, if the CRA shows that cross-subsidy or other rate inequity exists, affected parties will have a basis for asking the Commission to hold a hearing to investigate the matter and fashion a remedy under § 3662.

- Between general rate cases, if the CRA shows that costs are shifting in ways that call current classifications into question, the Commission will have a basis for initiating a classification hearing to investigate the matter and fashion a remedy under § 3623.

- Between general rate cases, parties looking to propose alternative models of postal cost behavior in future rate cases will be able to analyze data that reflects current postal operations.

Seven parties filed comments in response to the Commission's proposal to update the Periodic Reporting Rule. All but the Postal Service support the rule. They note that a general rate filing typically consists of thousands of pages of highly technical testimony and computer material. They complain that the Postal Service takes whatever "lead time" it needs to prepare such filings, whereas they have no lead time to react to it and prepare alternatives. They argue that this makes it extremely difficult for them to comprehend the Postal Service's case and to present alternatives in the brief hearing time available. They argue that having access to a more thoroughly documented CRA will help to "level the playing field" in rate litigation.

The Postal Service objects that by requiring it to provide some supporting documentation for the CRA reports that it issues between rate cases, the updated Periodic Reporting Rule would impose a burden equivalent to a rate case presentation every year. It also argues that by requiring it to disclose the costs of its various products each year, the updated Rule would jeopardize the competitiveness of its products.

The update is consistent with the main purpose of the current rule, which has always been to expedite the processing of general rate cases, and to allow research into postal cost, volume, and revenue behavior to continue between rate cases. The information required by the updated rule also will facilitate the Commission's statutory duties to hear complaint cases and to initiate classification cases, regardless of whether a Postal Service rate request is pending.

The Commission finds that complying with the updated rule should not add significantly to the Postal Service's regulatory burden, since the Postal Service annually prepares almost all of this material for its own purposes. The