

Postal Service's own estimates indicate that under normal circumstances complying with the updated rule would involve only a tiny fraction of the resources that it devotes to preparing a general rate filing.

With respect to potential competitive harm, the Commission believes that history shows that there is little cause for concern. The Postal Service annually disclosed the information required by the updated rule for six years (FY 1995 through FY 2000) with no indication that competitive harm resulted.

The revised rule also is consistent with recent reports by the President's Commission on the Postal Service and the General Accounting Office that conclude that greater Postal Service financial transparency is necessary.

I. Introduction

On January 8, 2003, the Commission issued a notice of proposed rulemaking (NPR) in this docket proposing to update its Periodic Reporting Rule (39 CFR § 3001.102). PRC Order No. 1358; 68 FR 2272–2275, Thursday, January 16, 2003. Rule 102 contains a list of reports and documentation that the Postal Service is required to provide on an ongoing basis to the Commission on its financial condition and operating results. Since its inception in 1976, the objective of the Periodic Reporting Rule has been to ensure that the Commission and the interested public have access to current financial data and operating results that are routinely reported to Postal Service management. This brings a number of important benefits to the ratemaking process. These benefits were mentioned briefly in the NPR, and are discussed in more depth in this notice.

The NPR observed that the list of financial reports covered by the Periodic Reporting Rule has not changed since the mid-1980s, even though the nature of the reports that the Postal Service routinely produces to inform management of its financial and operating results have evolved substantially over that time. This final rule updates the list of required periodic reports and documentation to reflect the increasingly sophisticated financial information¹ regularly produced by the Postal Service and the improved ability of the Commission and the public to understand and benefit from such reporting. The final rule is consistent with the goal of greater financial transparency for the Postal Service that has recently been recommended by the

General Accounting Office and the President's Commission on the Postal Service.

Joint comments on the NPR were received from the American Bankers Association and the National Association of Presort Mailers (ABA/NAPM). Comments were also received from American Business Media (ABM), the Greeting Card Association (GCA), the Office of the Consumer Advocate (OCA), United Parcel Service (UPS) and the Postal Service. The OCA and UPS proposed additional changes that the Commission has decided not to include in the final rule.

The Purposes of the Final Rule

The final rule calls for the periodic submission of financial information that is routinely prepared for postal management between omnibus rate cases. This information does not relate directly to a particular revenue requirement or set of proposed rates, and none of the information that it seeks about the Postal Service's financial estimation process relates to the justification for or merits of that process. The data and the estimation-process information that the rule requires shed light on the ratemaking process in a generic sense, and will improve the ability of the Commission to process future rate, classification, and complaint cases within the tight deadlines imposed by the Postal Reorganization Act and the Commission's own administrative rules. The information sought will also help the affected public to participate more meaningfully in such cases. The rule seeks routinely generated reports that disclose the Postal Service's current financial condition, allow operating and financial trends to be identified as they unfold, and allow the Commission and the public to test the validity of methods by which the Commission estimated the costs, volumes, and revenues upon which current rates are based. If the Commission and the affected public have evaluated this financial background information prior to the filing of a case, it is likely that they will not have to spend a substantial part of the brief time allotted for litigating the case trying to "get up to speed" on the issues related to the Postal Service's routine financial reports.

The rule also seeks to permit the Commission to stay informed on the "state of the art" procedures by which the Postal Service currently attributes costs. Under the current regulatory scheme, the Commission is the expert body with the ultimate say on what methods should be used to attribute postal costs to classes of mail. See

National Association of Greeting Card Publishers v. USPS (NAGCP IV), 462 U.S. 810, 833 (1983). As a practical matter, however, most of the methods used to attribute postal costs to the classes of mail originate with the Postal Service. This is because it controls the cost, volume, and revenue data and determines for itself what estimating techniques it will use to compile its periodic financial reports. It also controls almost all of the data that will be used in rate, classification, and complaint cases. Between cases it decides for itself what techniques will be applied to the data and incorporated into its Cost and Revenue Analysis (CRA) report. Its CRA has become a massively intricate, partially documented, automated cost attribution engine that most interested participants cannot fathom, duplicate, or develop realistic alternatives to, in the narrow litigation window available to them. The difficulty in deciphering the CRA in the time allotted has profound due process implications, since the CRA inevitably provides the methodological baseline for Postal Service rate and classification requests.

Because the data sources and estimating techniques that the Postal Service incorporates into its CRA change unpredictably, the "state of the art" is a moving target to the outside world. Neither the Commission nor the interested public can competently interpret the results presented in the Postal Service's routine financial reports, because they have no way to distinguish between what appear to be changes in cost, volume, and revenue behavior, from changes in the methods that the Postal Service uses to measure that behavior. Changes in data sources, or changes in estimation technique can have large impacts on the attributable cost estimates in the CRA, as the recent history of carrier street time attribution demonstrates. The Commission's rules require the Postal Service to provide detailed documentation in rate cases of the changes that it proposes in cost estimating procedures, and allows for discovery. Between rate cases, however, there is no way for the outside world to know what the state of the art in cost attribution is.

To overcome this problem, the Periodic Reporting Rule will now require the Postal Service to identify all changes made since its most recent omnibus rate request to the data sources and estimation techniques used to produce the CRA, and to provide enough supporting material to allow the Commission and the affected public to understand these changes. This provides at least some basis for

¹ Throughout this order references to "financial information" include cost, volume, and revenue information in aggregate, and for individual products, unless a narrower meaning is indicated.