

stakeholders in making their own financial plans. These factors help support stakeholders' need for timely, accurate, and complete financial information that is provided on a consistent basis.

At page 14, it continues:

We acknowledge that the Postal Service provides a significant amount of information in its rate case filings; however, this information is provided only for rate-setting purposes, and rate cases are not filed on a regular cycle. Thus, rate case information does not provide stakeholders timely information about the Service's current financial condition and changes to its expected outlook.

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As we noted, however, these periodic financial reports do not clearly explain changes in its financial condition, outlook, and results of operations, and have not always been readily available to the public.

Apart from the Postal Service, there appears to be a public consensus on the need for more complete periodic financial disclosure.

III. The Need for Updating the Periodic Reporting Rule

A. The History of the Rule

Historically, during omnibus rate cases, the Postal Service has attempted to support its rate requests with input data, spreadsheets, and documentation that is sufficiently detailed and complete to allow the behavior of postal costs, revenues, and volumes to be evaluated and understood by the interested public. Typically, several years elapse between rate cases. During those intervals, the Postal Service has provided the Commission and the public with summary financial reports that it generates at regular intervals for use by postal management. It has included documentation of significant portions of those reports in response to the Periodic Reporting Rule. The portion provided has been a small subset of the kind of documentation that the Postal Service provides during an omnibus rate case.

As noted, most of the Postal Service's objections to the updated rule are to the requirement that the Postal Service provide the input data and documentation that it uses to prepare its annual CRA report. Substantive Comments at 2. Each year this report summarizes, at the most general level, the results of the Postal Service's procedures that estimate the amount of costs caused by each subclass of mail, and the amount of revenue that each subclass earned. The process that produces the estimates in the CRA takes dollars from hundreds of subaccounts in the Postal Service's Books of Account and assigns them to one of hundreds of

"functional" cost components. (Functional costs are viewed as economic costs). Costs in the various functional components are analyzed to see how they vary with mail volume. The volume variable part is then distributed to subclasses according to piece counts or other "distribution keys" that imply subclass causation.

The Postal Service's estimates of the costs and revenues generated by each subclass of mail are derived from the intricate rules that it uses to convert its accounting costs to functional costs, apply variability percentages to functional costs, and distribute the variable portion to subclasses. When submitted in rate cases, these are the baseline estimates underlying the rate proposals made by the Postal Service. With some adjustments, CRA estimates also provide the basis of the rate proposals of the intervenors, and the rate recommendations of the Commission.

When the Postal Service files an omnibus rate request, it includes spreadsheets and computer programs that contain the CRA's conversion, attribution, and distribution rules. This is its "cost attribution engine" described earlier in this order. These rules and their interactions are exceedingly complex. The input data, and the processing programs and spreadsheets showing how such rules are applied to the data, occupy the equivalent of tens of thousands of printed pages. Documentation of the myriad component parts of the process by which the CRA is produced is fragmentary. There is no single, coherent narrative explanation of the process to which an outside analyst could turn to understand, evaluate, and offer alternatives to the Postal Service's CRA. An outside analyst must rely primarily on a detailed study of processing program code and spreadsheet algorithms in order to discover how the CRA is developed. The analyst must make test runs replicating this largely automated process to confirm that his or her preliminary understanding of it is correct. The expertise necessary to evaluate the methods by which the Postal Service produces the CRA, or to develop alternatives to it, must be accumulated over many years. Despite attempts over the more than 30 years that the Commission has been processing omnibus rate requests, no outside party has been able to replicate the full CRA upon which the Postal Service bases its rate requests, or develop a comprehensive alternative to it, within the 10-month window that the Act provides for litigating a rate case.

Under these circumstances, even with the voluminous documentation provided by the Postal Service during omnibus rate cases, much of the process by which it produces its CRA has, of necessity, been accepted on faith by intervenors and the Commission.

Since the methods that the Postal Service uses to produce the CRA continually evolve in minor, and sometimes major, ways, the CRA presents a "moving target" for outside analysts. Each time an omnibus rate request is filed, those on the outside of the CRA development process (the Commission and affected public) struggle to grasp these procedures and track their evolution. Even though this task can consume a majority of the 10-month period that the Act allots for processing a rate case, it must be completed before the intervenors and the Commission can effectively evaluate or respond to the Postal Service's rate proposals.

To mitigate this problem, the Commission implemented its Periodic Reporting Rule in 1976. At that time it explained the purposes of the rule and the policies underlying its decision about what the rule should contain as follows:

Currently, a majority of the data which the Commission receives from the United States Postal Service (Postal Service) is obtained only when a rate request is pending before the Commission. The present requirements of rule 54 (39 CFR 3001.54) and the Commission's regulations relating to interrogatory procedures and the discovery process have enabled the Commission and the participants in rate proceedings to obtain much of the data required to evaluate a request for increased postage rates and fees. However, the existing method of obtaining data, especially as regards discovery and the interrogatory process, is necessarily conducted on an ad hoc basis and is subject to all the pressures and exigencies of a rate case environment. If the Commission is to better fulfill its statutory responsibilities—particularly with respect to the Postal Reorganization Act's directive that we expedite our proceedings consistent with procedural fairness to the parties appearing in them [39 U.S.C. 3624(b)]—it must be continually and fully familiar with these data. To do this the Commission believes that it must improve the present method of obtaining data from the Service.

At the present time, the Commission is aware of the existence of a number of reports routinely compiled by the Postal Service. The Postal Service also compiles manuals and handbooks which are necessary to understanding and analyzing such reports. It would appear that these documents would be useful for the purpose of evaluating Postal Service operations which are the subject of cost analyses presented in proceedings before the Commission. If these documents were to be obtained by the Commission as they were