

detailed, are the Postal Service's cost avoidance estimates upon which hundreds of worksharing discounts are based. The Commission's Periodic Reporting Rule does not require any reports or documentation that relate to this half of the Postal Service's cost presentation in an omnibus rate case.

Focusing on the various levels of inputs into the CRA model, as the Postal Service has done, helps demonstrate how it has exaggerated the scope of the proposed rule compared to the costing documentation provided in omnibus rate cases. To organize the discussion, the Commission will characterize the Postal Service's CRA documentation as consisting of the following six layers, or levels:

Level One—the programs that derive distribution keys for indirectly attributable costs and distributes them to subclasses

Level Two—the spreadsheets that calculate directly attributable costs and distributes them to subclasses

Level Three—cost attribution models

Level Four—input datasets

Level Five—data assembling, editing, and structuring techniques

Level Six—raw data

Omnibus rate cases involve formal hearings governed by the rules of evidence. Under those rules, the Postal Service is required to “lay a foundation” for the results of statistical or scientific studies that it wants to use to support its proposed rates. To lay the required foundation, it must start with the raw data it used and describe how that information was collected, edited, and structured before an estimating technique was applied to it.

For sake of discussion, the Commission will label raw data as Level Six documentation and the various manipulations that convert raw data into input data as Level Five documentation. The Commission will label “input data” as Level Four documentation. Input data are generally understood to mean data to which an estimating technique or model has been applied, which is its intended definition in the Periodic Reporting Rule. By specifying “input data,” the rule eliminates foundational information of the kind described above (Level Six and Level Five documentation) from its scope. The final rule is further narrowed to input data that have changed since the most recent omnibus rate case was completed. This eliminates input data collected as part of special studies that have already been reviewed in an omnibus rate case.

Because Level Five and Level Six documentation are not required by the rule, it is substantially narrower in

scope than full rate case CRA documentation. Level Five and Six documentation can make up a large part of the burden of documenting the CRA in an omnibus case.<sup>6</sup>

In the development of the CRA, input data are fed into spreadsheet, statistical, or econometric models of postal cost behavior to identify costs that are caused by particular classes of mail. The models themselves, including the theories upon which they are based, the definitions of the variables, the equations or other analytical techniques used, and the results, may be labeled Level Three documentation for purposes of this discussion. Typically, these models attempt to find the degree to which particular segment or component costs vary with volume, estimating a volume variability percentage or “factor” for those costs. Variable costs are distributed to subclasses of mail in proportion to their relative piece volume, cubic volume, or other cost-driving characteristic. The Postal Service calls the relative subclass shares of a given cost characteristic a “distribution key.” Level Three documentation sometimes shows how distribution keys were applied to volume variable costs to distribute them to subclasses. The updated rule requires the Postal Service to provide only a small subset of the Level Three documentation that it would provide in an omnibus rate case, *i.e.*, the processing programs that have changed since the last general rate case.

In an omnibus rate case, Level Three documentation is by far the most burdensome and time-consuming kind to produce. It usually requires a narrative explanation and defense of the theory, the variables, the equation specification, the research of alternative estimation procedures and the reasons for rejecting them, and the validity of the results. The fact that the Periodic Reporting Rule requires only input data and processing programs means that it altogether avoids the need to justify and defend any aspect of the CRA development process. Furthermore, because the final rule applies only to processing programs that have changed since the most recently completed general rate case, most Level Three documentation is eliminated from the scope of the rule. This is because most attribution models and distribution techniques do not change from one rate

case to the next. These two considerations are the most important reasons that, with respect to documenting the CRA, the burden of complying with the rule is a small fraction of the burden that the Postal Service bears in an omnibus rate case.<sup>7</sup>

Level Two documentation consists of a workbook called “I-Forms” and Excel spreadsheets called the “B workpapers.” In Level Three documentation, component costs are modeled to see what portion varies directly with volume.<sup>8</sup> The Postal Service typically collects these variability factors in a workbook known as “I-Forms.” Excel spreadsheets known as the “B workpapers” take variability factors from the “I-Forms” and apply them, in proper sequence, to the accrued costs of the appropriate components to obtain attributable costs for those components. Typically, the B workpapers also distribute a component's attributable costs to subclasses of mail, according to subclass shares of piece volume or some other cost-causing factor.

The development steps documented in Level Two are key steps in producing the CRA. The rules that the B workpaper spreadsheets apply summarize the Postal Service's cost attribution methods, and provide insight into the causes of trends in postal cost behavior. These rules are exceedingly intricate, and are continuing to evolve. This makes it difficult for an outside analyst to remain expert on this phase of the production of the CRA without current Level Two documentation. The Postal Service prepares Level Two CRA documentation each year when it produces the CRA-USPS Version. It

<sup>7</sup> Historically, the Postal Service has rarely incorporated major new attribution models or distribution techniques into its interim-year CRAs, because they have not been scrutinized in an omnibus rate case. In its FY 2002 CRA, the Postal Service apparently has departed from this traditional practice by incorporating major new attribution models in the areas of carrier street time labor and in facilities costs in the FY 2002 CRA before they have been presented in an omnibus rate case. This coincides with significant shifts in subclass attributable cost shares of the effected cost components. There is no way for the outside world to interpret these shifts, however, because the undocumented FY 2002 CRA provides no way of distinguishing between shifts in attributable costs, and shifts in the techniques that the Postal Service uses to measure attributable costs. If the outside world had the ability to replicate the Postal Service's cost attribution model, it could run the model with FY 2002 data using the established method, and again using the new method. This would provide a reasonable basis for separating changes in underlying economic activity from changes in the methods by which they are measured.

<sup>8</sup> Sometimes this is a two-step process where component costs are modeled to see what portion varies with an intermediate cost driver, then that portion is modeled to see how much of it varies with volume.

<sup>6</sup> For example, the Postal Service spent a major portion of the most recent fully-litigated omnibus rate case (Docket No. R2000-1) producing and defending Level Five and Level Six documentation for the Engineered Standards data on which the Postal Service based its attribution of carrier street time labor costs.