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Part II

Postal Regulatory Commission

39 CFR Parts 3001 and 3050
Periodic Reporting Rules; Proposed Rule

POSTAL REGULATORY COMMISSION

39 CFR Parts 3001 and 3050

[Docket No. RM2008–4; Order No. 104]

Periodic Reporting Rules

AGENCY: Postal Regulatory Commission.

ACTION: Proposed rule.

SUMMARY: The Commission is proposing a set of rules to address a continuing and expanded need, under a new law, for periodic reports from the Postal Service. The proposal describes the scope of reporting and the level of detail the Commission believes is needed to provide accountability and transparency with respect to Postal Service operations. Comments will assist the Commission in developing a final set of reporting rules.

DATES: Initial comments due October 16, 2008. Reply comments due November 14, 2008.

ADDRESSES: Submit comments electronically via the Commission's Filing Online system at *http://www.prc.gov.*

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SUPPLEMENTARY INFORMATION:

I. Introduction

The Postal Accountability and Enhancement Act (PAEA), Public Law 109–435, 120 Stat. 3198 (2006), calls for a fundamental shift of responsibilities between the Postal Service and the Postal Regulatory Commission (Commission) from those established in the Postal Reorganization Act (PRA). Under the PAEA, the Postal Service has acquired considerable autonomy and flexibility in determining what specific rates and discounts will be charged for mail products. Concurrently, the Commission's information gathering and reporting responsibilities have been greatly enhanced. This is consistent with a dominant theme in the PAEA that increasing the transparency of the Postal Service's pricing, classification, and service policies will reduce the need to actively regulate the Postal Service in these areas.

II. Statutory Duties That Shape the Proposed Periodic Reporting Requirements

Perhaps the most important tools provided by the PAEA for achieving the transparency on which the new statutory scheme relies are the annual report that 39 U.S.C. 3652 requires the Postal Service to provide to the Commission (which this Notice will refer to as the ''Annual Report''); the annual evaluation of the regulatory system that 39 U.S.C. 3651 requires the Commission to provide to Congress and the President; and the requirement of 39 U.S.C. 3653 that the Commission determine whether the Postal Service has met the rate setting, service, and other goals of the PAEA during the preceding fiscal year (which this Notice will refer to as the ''Annual Compliance Determination''). In addition, the PAEA requires the Commission to prepare longer-term reports and assessments such as those required by sections 701 and 702 of the PAEA, to elicit various managerial reports such as those required by 39 U.S.C. 2803 and 2804, and to oversee specialized financial reporting such as that required by 39 U.S.C. 3654. The periodic reporting rules proposed in this Notice are designed to implement all of the PAEA's provisions that make the Postal Service's operations and finances transparent and accountable. Accordingly, the general terms ''periodic reports'' and ''annual reports'' are used in this Notice unless the information elicited serves only the purposes of the Annual Compliance Determination that the Commission must make under 39 U.S.C. 3653.

A. Statutory Standards Guiding the Annual Review Cycle

The annual compliance report that 39 U.S.C. 3652 requires the Postal Service to provide to the Commission is intended to contain the source material for the Commission's annual compliance determination of the degree to which postal rates and service comply with he requirements, objectives, and factors of the PAEA. The Postal Service's compliance report is to include an analysis of the costs, revenues, rates, and quality of service ''in sufficient detail to demonstrate that all products during such year complied with all applicable requirements of this title[.]'' 39 U.S.C. 3652(a)(1). The Postal Service's compliance report to the Commission is required to demonstrate the extent to which both market dominant and competitive products recover their attributable costs and contribute to institutional costs. *See* 39 U.S.C. 3622(b)(9), 3622(c)(2), 3633(a)(2), and 3633(a)(3). The Postal Service's annual compliance report must also allow the service quality of market dominant products to be identified and evaluated. *See* 39 U.S.C. 3622(b)(3), 3622(c)(9), and 3691.

Similar information is needed with regard to the Postal Service's competitive products. 39 U.S.C. 3622(b)(9) and 3633(a)(3) require the Commission to determine an appropriate contribution for the competitive classes as a whole to the Postal Service's institutional costs. This determination is applied to future years. Such determinations must take into account ''all relevant circumstances, including the prevailing competitive conditions in the market.'' *See* 39 U.S.C. 3633(b).

There are additional reasons that the Commission needs to be able to evaluate the present and the future as well as the past. 39 U.S.C. 3651 requires the Commission each year to evaluate the effectiveness of the regulatory system that it has constructed to implement the PAEA. This report is to include an evaluation of ''the extent to which regulations are achieving the objectives under sections 3622 and 3633, respectively.'' Thus, the Commission is required to assess the degree to which the Postal Service's management of both market dominant and competitive products is consistent with the objectives of the new statutory scheme. The Commission notes that 39 U.S.C. 3651 asks the Commission to evaluate the extent to which its regulations ''are achieving'' their statutory objectives, rather than the extent to which they ''have achieved'' them. This implies that the Commission is expected to base its evaluation on current as well as historical conditions. The Commission must also estimate the costs that the Postal Service is incurring to comply with its public service mandate and the statutory preferences that are preserved in the PAEA. *See* 39 U.S.C. 3651(b)(1)(A) and (B).

39 U.S.C. 3654 requires the Postal Service to submit quarterly and annual financial reports to the Commission that meet the requirements that corporations issuing publicly registered securities must meet in their financial reporting to the Securities Exchange Commission, including the requirements of the Sarbanes-Oxley Act of 2002. The Commission proposes to incorporate the reporting requirements of 39 U.S.C. 3654 into the periodic reporting rules under consideration in this docket. *See* proposed §§ 39 CFR 3050.40 through 3050.42.

B. Longer-Term Evaluation Responsibilities

In addition to annual reporting obligations, the Commission is required to undertake evaluations of the functioning of the regulatory system it has implemented under the PAEA on longer-than-annual cycles. 39 U.S.C. 3633(b), already mentioned, requires the Commission every 5 years to re-evaluate

the need for the requirement that the Postal Service's competitive products make an institutional cost contribution determined by the Commission. Section 701 of the PAEA requires the Commission, at least every 5 years, to re-evaluate the appropriateness of its regulatory framework, and recommend any needed modifications to the President and Congress. Section 702 requires the Commission, within 2 years of enactment of the PAEA, to report to the President and Congress on the scope and standards of universal service and the postal monopoly likely to be required in the future. To adequately prepare for these longer-cycle reviews, the Commission will need forward looking as well as historical information to stay abreast of developments in the Postal Service's finances and operations. The Commission needs a sound knowledge base from which it can evaluate the Postal Service's commercial and financial prospects.

Under the PAEA, the Commission has a continuing obligation to advise the Department of State on international mail matters. The Department of State has the lead responsibility for negotiating treaties that affect rates charged for market dominant international mail. 39 U.S.C. 407(c) assigns to the Commission an ongoing responsibility to provide the Secretary of State with its views on whether rates and classifications in an international treaty are consistent with the standards and criteria established by the Commission under the PAEA. This new statutory role affirms the Commission's need for current, detailed information concerning international mail. Accordingly, under the proposed rules, the Postal Service would provide the cost, volume, revenue, and weight of outbound and inbound international market dominant products, disaggregated by rate regime and country. It would also provide as yet unspecified service performance data in proposed 39 CFR 3050.52.

III. Comparing the Periodic Reporting Required Under the PAEA With That Required Under the PRA

A. The Impact of Changes in Commission Responsibilities

Under the PRA, the most burdensome filing requirements were those associated with specific rate requests. These requirements, contained in 39 CFR 3001 Subparts B and C are no longer applicable and have been replaced by far more spare requirements. *See* 39 CFR 3010.14 and 3015.5, adopted in Order No. 43, October 29, 2007 [See 72 FR 63662, November 9, 20007].

In contrast, the evaluation and reporting duties given the Commission by the PAEA require periodic reports from the Postal Service that are broader in scope than the Commission's current periodic reporting rules, which were designed to support the Commission's functions under the PRA. Currently, the form and content of information that the Postal Service must report periodically to the Commission is governed by 39 CFR 3001.102. Rule 102 requires that the Postal Service provide the Commission with financial accounting data by year and by accounting period, data on volumes and revenues by year and by quarter, and annual cost estimates by function (segment and component) and by subclass of mail. Rule 102 requires the Postal Service to provide the Commission with its annual Cost and Revenue Analysis (CRA) Report and its Cost Segments and Components (CSC) Report. Rule 103 requires the equivalent reports with respect to international mail.

Rule 102 reports were needed to enable the former Postal Rate Commission to perform its duties defined by the PRA. Chief among them was its duty to process the Postal Service's omnibus rate requests in an expedited manner while still satisfying the formal ''on the record'' hearing requirements of sections 556 and 557 of the Administrative Procedure Act (APA). This required the former Postal Rate Commission to have an ongoing familiarity with the financial condition of the Postal Service, its cost, volume, and revenue trends, and the evolving methods by which the Postal Service gathered and analyzed cost data and attributed costs to subclasses.

Under the PAEA, the need for the Commission to stay abreast of such developments is even greater. While it no longer has to use cumbersome trial-type procedures to evaluate proposed rate changes, the scope of its various review functions is comprehensive, and many must be completed in a very short time frame.

B. Scope of Periodic Reports Under Current and Former Law

1. Worksharing

An important difference between the periodic reporting required of the Postal Service under the PRA and that which will be required under the PAEA relates to the costs and revenues associated with worksharing. For example, under the PRA, rule 102 did not require the Postal Service to annually report the costs avoided by worksharing for the relevant rate categories. The Commission required such information only in conjunction with omnibus requests to change rates and discounts. The PAEA, however, expressly requires the Commission to ''ensure that [workshare] discounts do not exceed the cost that the Postal Service avoids as a result of workshare activity'' unless justified on the basis of other identified benefits of worksharing activity. *See* 39 U.S.C. 3622(e). The information necessary to make this determination must be included in the Postal Service's annual compliance report.

Proposed rule 3050.21(e)(4) directs the Postal Service to provide and explain the statutory justification for worksharing discounts that exceed 100 percent of the associated cost avoidance. The intent of this rule is to provide the Commission and interested parties with the information necessary to determine, for each such discount, exactly which statutory exemption the Postal Service is invoking and the basis for the claim that the exemption applies to it.

Rule 3010.14(b)(6) serves a similar function for market dominant rate adjustment filings. In the first filing of this type (Docket No. R2008–1), the Commission found it necessary to issue a Commission Information Request seeking clarification to ''allow assessment of conformity of the discounted rates with the criteria in the Postal Accountability and Enhancement Act[.]'' Commission Information Request No. 1, February 26, 2008 at 1 (CIR No. 1). In response, the Postal Service identified the exemption it was claiming for each discount and elaborated upon its reasons for concluding that each discount satisfied the requirements of the exemption. Response of the United States Postal Service to Commission Information Request No. 1, March 4, 2008 (Response to CIR No. 1). The experience in that case should help provide guidance as to the extent of explanation and support that is anticipated to be provided to satisfy rules 3010.14(b)(6) and 3050.21(e)(4).

2. Negotiated Service Agreements

Under the PRA, the Commission did not have standing rules requiring the periodic reporting of information specific to negotiated service agreements (NSAs). The PAEA requires an annual Commission determination as to whether NSAs ''improve the net financial position of the Postal Service.'' *See* 39 U.S.C. 3622(c)(10). 39 U.S.C. 3633(a)(2) requires that each competitive product cover its attributable costs. Since the Commission views NSAs as distinct products, a

contribution analysis is required of competitive NSAs as well. Accordingly, the Postal Service's Annual Report should provide an estimate of the impact that each NSA had on total contribution for the fiscal year covered by its annual report. Under the proposed rules, therefore, the Annual Report should include sufficient information about the costs, volumes, and revenues associated with such agreements to enable the Commission to verify the Postal Service's estimate.

Proposed rule 3050.21(f)(4) directs the Postal Service to provide an analysis of each market dominant NSA that shows the effect of the agreement on the net financial position of the Postal Service. As with other quantitative estimates, rule 3050.21(f)(4) requires that the estimates be developed using accepted analytical principles.

For most areas of analysis, the current methodological baseline is the set of analytical principles applied by the Commission in Docket No. R2006–1 and affirmed in the Commission's FY 2007 Annual Compliance Determination (2007 ACD). The financial effects of NSAs, however, were not litigated in Docket No. R2006–1. The Commission did not formulate generally applicable principles for determining their net financial effect until its 2007 ACD, which established the analytical principle that the financial impact of price incentives to increase mail volume or to shift mail volume between products should be based on the Postal Service's best estimate of the price elasticity of the discounted product. 2007 ACD at 127.

The application of this principle will vary based on the specific terms and characteristics of each NSA, but its essence is the use of price elasticities to isolate the effect of rate incentives from other factors that affect volume. This analytical principle was first articulated by the Commission in its Opinion and Further Recommended Decision in Docket No. MC2004–3 at paras. 5011–38. Its purpose is to apply the terms of an agreement to the specific characteristics of the NSA partner's eligible mail (*e.g.*, unit revenues, unit costs, and price elasticities). The Commission recognizes that econometrically modeling the price elasticity of volumes sent by an individual mailer might not always be feasible. Accordingly, with the appropriate justification and explanation, reasonable proxies may be used for this and other mailer-specific traits that are not otherwise obtainable.[1]

The characteristics of the NSAs filed with the Commission to date make them impractical to analyze for their impact on contribution for the fiscal year. This is because each NSA so far has included discount incentives that are awarded based on their performance during each 12-month period that the agreement is in effect. Therefore, unless an NSA's implementation date coincides with the beginning of the fiscal year, it is impractical to evaluate the effect of the discounts for that fiscal year.

The Commission's proposed rules recognize this difficulty. Accordingly, they would require the Postal Service to select the anniversary of an NSA's operation that falls within the fiscal year covered by the Postal Service's annual compliance report, look back 12 months from that point, and estimate the NSA's contribution to the Postal Service's total institutional costs. *See* proposed rule 3050.21(f)(4).

3. The General Role of Elasticity of Demand

Under the PRA, rule 102 did not require the Postal Service to provide information about the price elasticity of demand for postal products. The PAEA, however, requires that ''information'' on mail volumes be provided for market dominant products. *See* 39 U.S.C. 3652(2)(A). Further, many of the objectives and factors that the PAEA directs the Commission to consider in establishing a regulatory system for market dominant products involve value of service considerations, either explicitly (*see* 39 U.S.C. 3622(c)(1) and 39 U.S.C. 3622(c)(8)), or implicitly (*see* 39 U.S.C. 3622(c)(3) and 39 U.S.C. 3622(c)(4)). The most objective evidence of a product's value of service is its price elasticity of demand. Accordingly, demand elasticities provide useful guides for evaluating how well these factors have been recognized in rates. Knowledge of price elasticities of demand is also essential for evaluating the impact of rates on allocative efficiency. Allocative efficiency is a goal embodied in 39 U.S.C. 3622(b)(1) and 39 U.S.C. 3622(b)(5).

The PAEA requires the Commission to ensure that the institutional costs of the Postal Service are allocated appropriately between market dominant and competitive products. *See* 39 U.S.C. 3622(b)(9) and 39 U.S.C. 3633(a)(3). Doing so in a way that takes allocative efficiency into account requires the Commission to have knowledge of the relative price elasticities of both market dominant and competitive products.[2] Elasticities of demand are also needed to evaluate volume forecasts for new products or new rate structures in connection with section 3622(d)(1)(C) proceedings, including a determination of whether NSAs ''improve the net financial position of the Postal Service.'' *See* 39 U.S.C. 3622(c)(10).

Accordingly, proposed rule 3050.26 would require the Postal Service to provide estimates of the elasticity of demand for all postal products for which adequate data can be obtained. The underlying econometric model of demand elasticity and input dataset are to be provided as well. The Postal Service would be required to update the model annually.

4. Appropriate Share of Attributable and Institutional Costs

The PAEA requires that the Commission determine whether a competitive product covers its attributable costs. This requirement extends to NSAs that involve competitive products, both domestic and international. *See* 39 U.S.C. 3633(a)(2). In addition, 39 U.S.C. 3622(b)(9) and 39 U.S.C. 3633(a)(3) require that the Commission determine whether competitive products collectively bear a minimum share of institutional costs that the Commission determines to be appropriate. To make an informed determination for competitive products as a group, it would be necessary to analyze factors that affect the institutional cost contributions of individual products.[3] This requires knowledge of the attributable costs, volumes, and revenues associated with competitive

[1] For example, the lack of available mailer-specific elasticities led the Commission to use subclass-average elasticities for Standard Mail to generate its estimates in the 2007 ACD. *See* 2007 ACD at 127–30.

[2] The Postal Service and Parcel Shippers Association (PSA) have urged the Commission to consider the market positions of the Postal Service's various competitive products when it determines what a reasonable institutional cost contribution for those products would be under section 3633(a). *See* Docket No. RM2007–1, Reply Comments of the United States Postal Service, May 7, 2007, at 27–28. PSA agrees that important evidence of the market position of competitive products is provided by their price elasticities of demand, citing the Postal Service's estimates of the own-price elasticity and the cross-price elasticity of Priority Mail and Parcel Post. Docket No. RM2007–1, Comments of Parcel Shippers Association in Response to Commission Order Proposing Regulations, September 24, 2007, at 3–4.

[3] PSA contended in a previous docket that if the Commission is to determine an appropriate contribution for competitive products as a whole, it must understand the role played by individual competitive products. It points out that over 80 percent of the total contribution of competitive products comes from just two products—Priority Mail and Express Mail. Docket No. RM2007–1, Comments of the Parcel Shippers Association in Response to the Commission's Order Proposing Regulations, September 24, 2007, at 3–4.

products, including the portion associated with NSAs.

5. Service Performance

Section 3691 of the PAEA requires the Postal Service, in consultation with the Commission, to establish and maintain a set of service standards for market dominant products. The section provides explicit statutory objectives for the service standards adopted, and requires a service performance measurement system in which the Commission plays a role. It also authorizes complaints under 39 U.S.C. 3662 and 39 U.S.C. 3663 for violations of the regulations that implement these service standards and performance measurement systems.

The Commission is deferring consideration of data reporting on service quality. Proposed rules 3050.50 through 3050.53 are ultimately intended to describe the service performance information that would be required to implement the relevant provisions of the PAEA. When evaluation of the service performance measurement system currently under review in Docket No. PI2008–1 is complete, the Commission intends to solicit public comment on what data concerning levels of achievement of relevant service standards should be incorporated in rules 3050.50 through 3050.53.

6. Incremental Costs

39 U.S.C. 3633(a)(1) prohibits the subsidy of competitive products by market dominant products. In Docket No. RM2007–1, the Commission addressed this issue and determined that incremental costs would be used to test for cross-subsidies of competitive products by market dominant products. *See* 39 CFR 3015.7(a). Accordingly, proposed rule 3050.23 would require the Postal Service to provide estimates of incremental costs. The underlying incremental cost model, the input dataset, and processing programs would be required as well. At a minimum, the Postal Service must provide a model of the incremental costs of competitive products as a group. The Postal Service should have as a goal the development of a model of incremental costs for individual market dominant products to help identify cross-subsidy of one market dominant product by another.

7. Universal Service Obligation

Under 39 U.S.C. 3651, the Commission must annually report to the President and Congress assessing the performance of the regulatory system that it has implemented under the PAEA. The Commission is required to include in that report an estimate of the costs incurred by the Postal Service in meeting its legally mandated public service obligations. The Commission is specifically required to estimate the cost of the geographic dimension of universal service and the cost of preferred rates. *See* 39 U.S.C. 3651(b)(1)(A) and (B). Under 39 U.S.C. 3651(c), the Postal Service is obligated to provide such information as the Commission, in its judgment, considers necessary to prepare its report.

The Commission is currently developing analyses to inform its estimate of the costs incurred by the Postal Service in meeting its legally mandated public service obligation. 39 U.S.C. 3651(b)(1)(A) identifies a potential geographic component to that obligations. It directs the Commission to estimate the costs that the Postal Service incurs serving the ''rural areas, communities, and small towns where post offices are not self-sustaining'' referenced in 39 U.S.C. 101(b). Accordingly, the Commission needs to be able to analyze whether the geographic distribution of the Postal Service's delivery offices, delivery routes, and retail counter facilities incurs costs that would not be incurred by a private provider without public service obligations.

To provide the Commission with data from which the geographic variance in delivery costs and customer access costs could be estimated, the proposed rules would require that the Postal Service's Annual Report provide data sufficient to calculate the costs incurred and the revenue derived from each route sampled by the City Carrier Cost System (CCCS) and the Rural Carrier Cost System (RCCS). The identity of the carrier route, type, its associated processing facility, and ZIP Code should be provided. At present, such information would include, for each sampled route, the carrier costs and the volume of mail delivered, by product (or ''bucket'' of products). The ultimate objective would be to identify the actual direct and indirect costs associated with each route in the sample.[4] Rule 3050.30 also proposes that the Postal Service provide revenues generated and the costs incurred by each retail counter facility in a representative sample of such facilities. The applicable ZIP Code should be included. These information requirements will be re-evaluated in light of the results of the currently ongoing universal service obligation studies required by section 702 of the PAEA.

[4] Developing these data might be most efficiently achieved by linking the relevant databases, or by modifying the CCCS data collection protocol.

IV. Confidential Treatment of Periodic Reports

39 CFR Part 3007, proposed in Docket No. RM2008–1, would implement the provisions of the PAEA that generally authorize the Postal Service to designate information in the periodic reports that it provides to the Commission as confidential within the meaning of 5 U.S.C. 552(b) or as commercially sensitive within the meaning of 39 U.S.C. 410(c). *See* 39 U.S.C. 3654(f). Proposed part 3007 [in Docket No. RM2008–1] would resolve the issue of what information so designated, if any, would be made public.

Consistent with section 504(g) of the PAEA, under that rule, the issue of public disclosure would be addressed by a process analogous to the process prescribed in rule 26(c) of the Federal Rules of Civil Procedure. Rather than treat any category of information as commercially sensitive *per se,* the Commission would balance the potential harm to the Postal Service's commercial interests against the need of stakeholders and the public to know how the Postal Service is discharging its duties as a monopoly imbued with a public trust. It is also anticipated that flexible remedies provided for by rule 26(c), such as the imposition of protective conditions or selective redaction of documents, would be available under the Commission's confidentiality rules.

V. Content of the Postal Service's Periodic Data Reports Under the PAEA

A. The Cost and Revenue Report and the Cost Segments and Components Report

The Commission's proposed rules would require the Postal Service to provide summaries of cost, volume, and revenue data in its annual report, primarily to comply with 39 U.S.C. 3652. These would consist of the CRA and the CSC reports, presenting costs, volumes, and revenues by market dominant product and by competitive product. They would include a separate line item for each market dominant international product and each competitive international product in the Mail Classification Schedule.

B. Format of Documentation Supporting the CRA and CSC Reports

Supporting documentation for the CRA and the CSC reports should present costs, volumes, and revenues as defined in the current Mail Classification Schedule, and by each product's

constituent rate categories. At least for the first several years under the PAEA, the Commission proposes that the Postal Service's annual report present this information in an alternative format as well. This format would present costs, volumes, and revenues by product and rate category, reflecting the classification structure that was in effect immediately prior to the implementation of the PAEA. *See* proposed rule 3050.14. This is illustrated by the appendix appendix to this Notice [and Order] labeled ''Products and Categories.'' This disaggregated format would provide the Commission and the interested public with ''building blocks'' that are suitable for multiple purposes. The alternative format would allow the CRA data to be configured to coincide with the current Mail Classification Schedule, and, with modest effort, almost any foreseeable future modification of that schedule. At the same time, it would allow the CRA data to be configured to coincide with the historical classification structure. This should help ensure analytical consistency over time and across categories. It would facilitate historical continuity in financial reporting, and give the Commission and the interested public the ability to track trends in the financial data and make it easier to identify and analyze anomalies, should they appear. Presenting disaggregated data in this historical format will provide a particularly helpful reference point if the product lists under the PAEA undergo frequent refinement in the first few years of the new regulatory regime. The Commission recognizes that there may be obstacles, such as inadequate volume, that make it impractical to separately estimate attributable costs for some rate categories. For such rate categories, the Postal Service should include volume and revenue figures, where available, and provide a footnote in the attributable cost column explaining the reasons that separate attributable costs could not be estimated, or a suitable proxy could not be found.

C. Information Required for International Mail

1. Level of Disaggregation

Since disaggregated cost, volume, and revenue data on international mail would be integrated into the CRA and CSC reports for the first time under the proposed reporting rule, a discussion of the information required for international products will be helpful.

The proposed rules would require the Postal Service to provide volumes, revenues, costs, weight, and data on outbound and inbound international mail. *See* proposed rules 3050.22(d)(8) through (11). Cost, volume, and revenue data would be broken out by product, as defined in the current Mail Classification Schedule, and by each product's constituent rate categories. Supporting documentation should also present costs, volumes, and revenues in the alternative, more disaggregated format illustrated in the appendix to this Notice labeled ''Products and Categories.'' [5] For outbound and inbound international First-Class Mail, data would be reported separately by terminal dues regime (''target countries,'' ''transition countries,'' and bi-lateral agreements). The underlying country-specific data are to be provided in back-up documentation. This will allow the Commission to determine whether revenues cover costs at this level of disaggregation.

The required reporting on international products will be more complex under the PAEA than it was under the PRA, due primarily to the need to identify all international services as either market dominant or competitive. Some international services will have both market dominant and competitive components, depending upon whether they are outbound or inbound, surface or air, single-piece or bulk, and whether the rates charged are UPU rates or non-UPU rates. Inbound Parcel Post data, for example, should be shown separately for the category subject to UPU rates, and for those categories whose rates were negotiated bilaterally.

2. Ancillary International Services

The current draft Mail Classification Schedule treats Ancillary Services for international mail categories as a single product. The Commission notes that defining these services in aggregate as a ''product'' is a decision that might warrant further examination. Its component services are so heterogeneous as to raise questions about the validity of treating them as a coherent product with common cost or demand characteristics. The regulatory scheme that the Commission has implemented under the PAEA will work best if each defined product has cost or demand characteristics that can be meaningfully quantified. In pursuit of this goal, International Ancillary Services might need to be organized into smaller, more homogenous groupings. In the alternative format required by proposed rule 3050.14, these Ancillary Services would be disaggregated. One of the benefits of the alternative format is that it would facilitate analysis of alternative treatments of Ancillary Services.

3. Treatment of Fees Associated With International Mail

The treatment of fees associated with international mail categories in the current draft Mail Classification Schedule might warrant further examination as well. The current draft Mail Classification Schedule treats them as free-standing products. Where no identifiable attributable cost is associated with a fee-based service feature, its costs are likely to be reflected in the host product's attributable costs. To balance revenues with costs, it may be more appropriate to group such fees with their host product than to treat them as free-standing products. The disaggregated format illustrated in the appendix to this Notice would facilitate analysis of alternative treatments of fees associated with international products.

The current draft Mail Classification Schedule separates international Special Services into market dominant and competitive categories, but it associates all domestic Special Services with the market dominant group, even though some domestic Special Services are purchased and used in conjunction with competitive products.[6] It may be more appropriate to separate domestic Special Services into competitive and market dominant categories. Although there may be more rational ways to group data for Ancillary Services and for Special Services, doing so is likely to require changes to the Mail Classification Schedule.[7]

D. Preferred Rate Mail

The Commission proposes that the CRA and the CSC reports filed annually by the Postal Service show separate volumes and revenues for each category of preferred-rate mail (*e.g.*, Standard Regular Nonprofit, Standard ECR Nonprofit, Outside County Nonprofit, Outside County Classroom, Library), even if that category is not defined as a separate ''product.'' *See* 39 U.S.C. 3626. This would allow the Commission to

[5] Most of these data are to be developed quarterly, but provided annually. This will enable the Commission to analyze data by fiscal year for the purpose of the annual compliance report, and by calendar year, which aligns with Universal Postal Union (UPU) rate cycles.

[6] In Docket No. R2008–1, the first rate adjustment under price cap regulation, the Postal Service treated all special services and fees (domestic and international, market dominant and competitive) as one market dominant class of mail called ''Special Services.''

[7] If these classification refinements were made, they would have to be accomplished through amendments to the Mail Classification Schedule.

comply with the requirement in section 3651(b)(1)(B) of the PAEA that it estimate the ''cost'' (which the Commission interprets to mean the revenue foregone by) of offering preferred rates as a component of the cost of the universal service obligation.

E. Brief Narrative Explanation

The Commission proposes that the Postal Service provide, by July 1 of each year, a succinct description of the analytical principles that have been used to arrive at the estimates in the most recent ACD and the reasons that those principles have been accepted. The summary level of description and explanation would be equivalent to that which the Postal Service traditionally provided with respect to attributable costs in Library Reference 1 in the final omnibus rate case processed under the PRA, Docket No. R2006–1. These short descriptions of principles and reasons should be provided for all areas of analysis, including cost attribution, cost avoidance, demand analysis, and service performance measurement. This requirement is found in proposed rule 3050.60(f). Proposed rule 3050.13 would require the Postal Service, at the time that it files its Annual Report, to identify and describe any changes in the analytical principles that have been accepted since the most recent ACD, and the rationale supporting each change.

F. Supporting Documentation Required When Analytical Principles or Quantification Techniques Have Changed

Beyond the basic data summaries and the brief explanation of methods required by proposed rules 3050.22 through 3050.26, no supporting documentation in the Postal Service's Annual Report would be required unless the input data, quantification techniques, or analytical principles applied have changed since the most recent ACD was issued.[8] If input data, quantification techniques, or analytical principles have changed, the new data and a description of the changes to quantification techniques must accompany the report. *See* proposed rules 3050.2 and 3050.13. As will be described in more detail below, changed analytical principles will have to have been approved in advance by the Commission in a rulemaking proceeding designed for that purpose and documented as part of that rulemaking.

Proposed rules 3050.22 through 3050.26 list the information items that would be required to be included in the annual report if all of the items listed were to have changed since the relevant baseline. As noted above, under normal circumstances, the relevant methodological baseline would be the methods accepted by the Commission in its most recent ACD.

Because the proposed periodic reporting rules are designed to require the Postal Service to provide supporting detail only where quantification techniques or analytical principles have changed with respect to the baseline, they would eliminate the redundant documentation that was often presented in an omnibus rate case under the procedures of the PRA.[9]

G. More Frequent Periodic Reports

As with current rule 102, the proposed periodic reporting rule requires the Postal Service to provide certain reports on a more frequent than annual basis. Most of the more frequently reported items support the Postal Service's Annual Report. They would assist the Commission in performing its duty under 39 U.S.C. 3653 to annually produce a determination on the extent to which the rates and fees charged and the service provided by the Postal Service in the reporting year complied with the provisions of chapter 36 of title 39 [of the U.S. Code]. Due to the short time 39 U.S.C. 3653 allows the Commission to produce its compliance determination, it is necessary for the Commission to stay as current as possible on the financial and operating performance of the Postal Service as the reporting year unfolds. More frequent reporting of some items will also enhance transparency and accountability by helping mailers determine whether there are likely to be grounds for filing a complaint under 39 U.S.C. 3662. Accordingly, under the proposed rules, items such as the Postal Service's Revenue and Expense Summaries Report and the National Consolidated Trial Balances will be required after the close of each fiscal month.

Revenue Pieces and Weight (RPW) reports, Quarterly Statistics Reports, and billing determinants would be required after the close of each fiscal quarter. *See* proposed rule 3050.25. These quarterly reports are needed to help the Commission prepare its annual report under 39 U.S.C. 3651 which evaluates how the system embodied in its regulations is working. In particular, quarterly volume and revenue data would help the Commission evaluate how well its price cap regulations are working by allowing it to construct hybrid evaluation years that better align price and classification changes with their volume and revenue effects. Quarterly data on volumes and revenues also will be needed if the Postal Service files a request for rate or classification changes outside the normal annual cycle.

H. Postal Service Compliance Analysis

39 U.S.C. 3652(a)(1) states that the Postal Service shall provide the Commission with a report

> which shall analyze costs, revenues, rates, and quality of service, * * * in sufficient detail to demonstrate that all products during such year complied with all applicable requirements of this title[.]

This language requires the Postal Service's report to *analyze* the data it provides in sufficient detail to demonstrate that all of its products (market dominant and competitive) complied with all of the requirements of title 39 [of the U.S. Code]. The Postal Service, therefore, is to provide a compliance analysis with its Annual Report that is both broad in scope—covering all requirements of title 39—and specific to each product. Proposed rule 3050.20 implements the analysis requirement of 39 U.S.C. 3652(a)(1).

VI. Level of Detail Required in the Postal Service's Annual Report

In most instances where the PAEA requires the Commission to produce reports or evaluations, the PAEA directs the Postal Service to provide the Commission with the information that the Commission considers necessary to prepare the reports required. *See* 39 U.S.C. 3651(c), 3652(d), 3651(e)(2), and 3654(e). In order to determine whether the rates and service that the Postal Service implements complied with the standards of the PAEA, the Commission believes that the information that the Postal Service includes in its Annual Report must be supported by workpapers at a level of detail that is comparable to the documentation that existing rule 54 would have required to support the initial filing in an omnibus rate case under the PRA. The proposed rules would require, for example, that the Postal Service provide the ''B'' workpapers, which show the

[8] These terms are defined in proposed rule 3050.1.

[9] Under the formal hearing procedures of the PRA, an omnibus rate case would typically be treated as a trial *de novo,* in which the Postal Service would present witnesses supporting all essential aspects of its case—even those that had not changed since they were last litigated—and intervenors would challenge elements of the Postal Service case, even where the Commission had approved them in previous litigation. The result was that a good deal of documentation provided in omnibus rate hearings was redundant of prior omnibus rate hearings.

distribution of directly attributable costs by cost segment and component.[10]

The proposed rule would require that estimates that were developed using electronic spreadsheets be supported with those spreadsheets, and that those spreadsheets display the formulas used and their links to related spreadsheets. As in current rule 54, the proposed rule would require that documentation be provided in a form that can be read by publicly available PC software. It would also require that if a processing program were developed specifically to produce an accompanying workpaper, it would have to be provided in a form that could be executed by publicly available PC software. *See* proposed rule 3050.2.

Unlike an omnibus rate case, the Postal Service would not have to document analytical principles used in its annual compliance report to the Commission with testimony. If the Postal Service seeks to change the analytical principles that it used in its most recent annual report provided under the PAEA, the proposed rules would require it to justify the change in an informal rulemaking prior to filing its annual report.

VII. Analytical Principles To Be Applied in the Postal Service's Annual Report

39 U.S.C. 3652(e) requires the Commission to ''prescribe the content and form of the public reports * * * to be provided by the Postal Service under this section.'' The proposed rules would distinguish between data entry and manipulation techniques whose validity depends on specific ''analytical principles'' and those that do not. An analytical principle is a conceptual or theoretical approach approved by the Commission for collecting data, attributing costs to subclasses, or estimating a product's avoided cost, elasticity of demand, or average revenue.[11] Under the proposed rule, the Postal Service's Annual Reports would employ ''accepted analytical principles''—principles that the Commission applied in its most recent ACD, to estimate volumes, revenues, attributable costs, and avoided costs.[12] The most recently completed ACD would serve as the methodological baseline for the subsequent Annual Report unless the Postal Service had obtained prior approval from the Commission to change the analytical principles that it employs.

A proposal to change an accepted analytical principle would require an informal rulemaking to evaluate the proposal, and an acceptance of the proposal by the Commission. *See* proposed rule 3050.11. Under normal circumstances, this process would have to be completed and a final rule published in the **Federal Register** at least 30 days in advance of the filing of the Annual Report. *See* 5 U.S.C. 553(d). If the Postal Service's Annual Report corrects calculations in the most recent ACD, or changes the quantification techniques used to make those calculations, the Postal Service must accompany its compliance report with a list of such changes and a brief explanation of each. *See* proposed rule 3050.2.

A. The Distinction Between ''Analytical Principles'' and Other Elements of Analyses Supporting the Annual Compliance Report

Under the proposed rules, changes in accepted analytical principles must be reviewed and accepted by the Commission in advance. In contrast, correcting an error or changing a quantification technique used in the baseline methodology would only require notice and a brief explanation at the time that an annual compliance report is filed with the Commission. *See* proposed rule 3050.2. Updating data used in a baseline methodology would require no justification, if done in a neutral and balanced way.

The following guidelines illustrate the distinction between a change in an accepted analytical principle and less significant changes requiring simpler procedures, such as an update of input data, a correction, or a change in quantification technique.

1. Updates

Plugging more recently collected data into an otherwise unchanged model or analysis is neither a change in quantification technique nor a change in the analytical principles applied.

2. Corrections

Correcting a spreadsheet that misidentifies a row or column, or applies a formula to the wrong cell, would not be a change in quantification technique nor a change in the analytical principle applied.

3. Quantification Techniques

Examples of changes to quantification techniques include consolidating multiple spreadsheets into one, using spreadsheet figures that are linked rather than hardcoded, changing mainframe SAS to PC SAS, and changing from database management software from Access to Oracle. Such changes should not change the concept, theory, assumptions, or results of an analysis.

4. Data Collection

Changing the sample frame, sample size, sampling technique, or definition of a data element used as input data in an analysis would constitute a change to an analytical principle. For example, the changes made by the Postal Service in its Management Operating Data System (MODS) by discontinuing weighing of mail to obtain an estimate of First Handled Pieces, and changes made after FY 2007 in the City Carrier Cost System discontinuing the collection of stop- and route-type information would constitute changes in baseline analytical principles. Each of these changes have potentially major impacts on any analysis of mail processing or carrier street time cost causation.

Changing the definition of a data element to reflect changes in operations, however, would not constitute a change to an analytical principle. For example, if the Postal Service were to forbid mailers to enter mail in sacks for operational reasons, it could discontinue collecting data on the use of sacks as a container type for purposes of determining the subclass distribution of variable mail processing costs for mixed mail without review of the change in an informal rulemaking.

5. Analysis

Changing a data editing technique, economic assumption, functional form, model specification, or regression evaluation technique would constitute a change in an analytical principle. Similarly, changing a formula used in a spreadsheet analysis would constitute a

[10] It is important to distinguish the range of information items that would be required in the annual report from the level of detail that would be required in those various items. The range of items that the Postal Service would have to document in its annual report under the proposed rules is likely to be considerably more narrow than if it were filing an omnibus rate request under the PRA, since it would be limited to data and analyses that have changed relative to the baseline.

[11] The technical definition of ''analytical principle'' is found in proposed rule 3050.1(b): ''a particular economic, mathematical, or statistical theory, precept, or assumption applied by the Postal Service in producing a periodic report to the Commission.'' Any data entry or manipulation technique whose validity does not depend on the acceptance of a particular economic, mathematical, or statistical theory, precept, or assumption is a mere ''quantification technique.'' *See* proposed rule 3050.1.

[12] The technical definition of ''accepted analytical principle'' is an ''analytical principle applied by the Commission in its most recent Annual Compliance Determination, unless different analytical principles have been accepted by the Commission in a final rule that becomes effective prior to the filing of the Postal Service's Annual Report.'' *See* proposed rule 3050.1.

change in an analytical principle. Using a more recent measure of an input used in a volume variability model (such as an updated deliveries-per-stop or deliveries-per-square mile in a street time variability model) would not.

Similarly, if the Postal Service wanted to update its purchased transportation cost variability study by updating its calculation of average cubic foot miles or average length of haul for various transportation segments without changing the form or specification of the underlying econometric model, it would not constitute a change in an established analytical principle, and would not require review in a rulemaking.

Updating an estimated price elasticity for a given mail product by using (in a consistent manner) more recent DRI forecasts for various macroeconomic control variables already present in an accepted econometric model of demand would not constitute a change in an accepted analytical principle, and would not require review in a rulemaking.

6. Cost Avoidance

Changing the classification of cost pools, or the rate categories used as benchmarks or proxies, would constitute a change in accepted analytical principles.

7. Special Studies

A special study that follows a reviewed and approved design would not constitute a change in analytical principles if it were used to update such things as:

- MODS machine productivities;
- Accept rates;
- Productive hourly wage rates;
- Premium pay factors;
- Operation-specific piggyback factors;
- Entry profiles; and
- Shape breakouts of unit attributable costs.

However, special studies must be reviewed and accepted in an informal rulemaking if they use data collection or analytical methods that were not accepted by the Commission in its most recent Annual Compliance Determination.

B. Procedures for Changing Analytical Principles Used To Collect and Analyze Data in the Postal Service's Annual Report

The PAEA lodges with the Commission ultimate responsibility for selecting appropriate input data and analytical methods to be used in the Postal Service's Annual Report. *See* 39 U.S.C. 3652(e). Accordingly, the Commission's proposed reporting rules would be more prescriptive than the current rules with respect to the data and methods that underlie the Postal Service's Annual Report. 39 U.S.C. 3652(e)(2) provides that the Commission may ''on its own motion or on request of an interested party, initiate proceedings * * * to improve the quality, accuracy, or completeness of Postal Service data required by the Commission under this subsection * * * .'' Selecting the analytical principles to be used in accounting for costs, revenues, or volumes falls within the definition of a ''rule'' for purposes of the APA. *See* 5 U.S.C. 551(4). Therefore, the procedures that the Commission proposes for changing Commission-approved methods for collecting and analyzing data of this kind are those of an informal rulemaking under section 553 of the APA.

The Commission believes that one of the important benefits of the PAEA is the freedom that it gives the postal community to decide analytical issues in a non-adversarial context. Under the PRA, analytical issues were decided employing a litigation model. Under that model, the Commission was required to resolve an analytical issue by accepting or rejecting competing analyses submitted by opposing witnesses. In some instances, the Commission would cobble together a solution from analytical elements proffered by rival witnesses. In almost all cases, analyses were presented as *faits accomplis*, with no opportunity for input or feedback from either the Commission or interested third parties. The process was cumbersome and the results were often less than satisfactory.

Under the PAEA, the Commission expects that the Postal Service will continue to take the lead in deciding how data about its finances, operations, and performance will be collected and analyzed. But because analytical issues can be addressed in the context of informal rulemakings under the PAEA, an opportunity for input and feedback from other stakeholders and the Commission can be provided. The Commission proposes to take advantage of that opportunity by approaching analytical issues through a process that promotes cooperation and facilitates consensus.

39 U.S.C. 3652(e)(2) authorizes the Commission to initiate proceedings designed to improve the data in the Postal Service's annual reports ''on its own motion or at the request of an interested party.'' In keeping with the intent of 39 U.S.C. 3652(e)(2), a proposal to change accepted analytical principles may be submitted by the Commission, the Postal Service, or other interested parties.

The Commission will exercise its discretion in deciding whether a proposal to change accepted analytical principles justifies the initiation of a rulemaking, based on a consideration of the potential benefits to the quality of the information available to the postal community and the time and resources likely to be expended in the inquiry. If the proposal presents a persuasive argument that a change in accepted analytical principles is needed, the Commission will initiate a docket by publishing a notice of proceeding in the **Federal Register** and on the Commission's Web site.

The procedures proposed are highly flexible, and would vary according to the complexity of the proposed change and the level of documentation supporting it. The Commission expects that, for the most part, proposals to change established analytical principles will be data intensive and technically oriented. It believes that review of such proposals can be done more quickly and efficiently if they emphasize informal ''discovery'' procedures at the initial stages, where clarification of technical issues is often needed, and reserve more formal written commentary for later stages.

C. Nature of Rulemakings That Review Analytical Principles Used To Prepare Periodic Reports

The metrics by which the Postal Service's compliance with the PAEA is determined depend, importantly, on the analytical principles that the Postal Service uses to prepare its periodic reports to the Commission. As noted, the analytical principles used in the Commission's most recent ACD would serve as the methodological baseline.[13] These would be changed through the informal rulemaking procedures prescribed by section 553 of the APA. Such rulemakings are likely to take different forms, as circumstances require. Examples of the forms they could take are discussed below. All of these forms could be accommodated by the generic procedures provided for in proposed rule 3050.11.

1. Strategic Rulemakings

A strategic rulemaking would be designed to make the ongoing development of analysis in cost causation or other areas of analysis as orderly and efficient as possible. It would take an inventory of longer-term

[13] Currently, in most respects, these coincide with the set of analytical principles used in the most recent omnibus rate case brought under the PRA (Docket No. R2006–1).

data collection and analysis needs. It is likely to involve plans to meet those needs over a horizon longer than a year. It might focus on existing data collection systems that need to be improved or new data collection programs that need to be established. It might list existing analytical studies that need to be updated, or new analytical studies that need to be undertaken. The scope of a strategic rulemaking would be broad, since one of its purposes would be to compare the likely cost and benefits of improved data or analysis in different areas of research, and the lead time required to conduct the research. The purpose would be to prioritize research projects and draw up a tentative schedule for conducting them.

A strategic rulemaking is likely to be general in focus and exploratory in nature in its early stages. Accordingly, the procedures followed would be quite flexible. They might begin with the equivalent of a prehearing conference in which interested parties identify areas in which research is most needed and most likely to bear fruit. Once a strategic rulemaking has identified and prioritized areas of needed research, it would then narrow its focus to specific data to be gathered or studies to be performed. The Notice of Proposed Rulemaking would be expected to culminate in Commission approval of a list of research projects to be undertaken and a preliminary projected time table for their completion.

2. Discrete Issue Rulemakings

Discrete issue rulemakings would address the data requirements, analytical methods, and timetable to be followed in researching a single analytical issue or closely-related set of issues. At this stage, specific research projects are likely to be proposed in the form of specific tasks, and the merits of the projects discussed. Initially, this discussion is likely to take place in the context of informal technical conferences. When the goals and methods to be employed by proposed research projects have been well-defined, their merits may be discussed in written comments in response to a notice of proposed rulemaking. An example would be a rulemaking addressing needed corrections and improvements to the Commission's Docket No. R2006–1 Periodicals cost model, which were examined in a preliminary way in Docket No. ACR 2007. In the system being proposed, the need for a study of these issues, its feasibility, and its priority, would ordinarily have been identified in an earlier strategic rulemaking.

The timetable for the study would be determined by its scope and complexity. The process might begin with a written proposal by the proponent of the study to focus evaluation of the study by others. The Commission might then give its preliminary approval of the study plan, and keep the rulemaking docket open to receive progress reports, and evaluate interim results. A final rule would issue when the Commission accepts one or more new analytical principles.

3. Expedited Rulemakings

Expedited rulemakings would be designed to identify and make needed improvements in the data and methods that the Postal Service uses to produce its most recent Annual Report. Although they could be initiated by the Commission or an interested person, in most instances, it is anticipated that the Postal Service would take the initiative to harmonize its methods and analysis with those approved in the Commission's most recent annual compliance determination. This kind of rulemaking would focus on near-term improvements to data and analysis that could be made in time to be incorporated in the Postal Service's next Annual Report. The relatively narrow window of time available for completing a compliance-oriented rulemaking is likely to limit such rulemakings to studies that are modest in scope and straightforward to implement. Where expedition requires it, discovery may take the form primarily of oral questions answered in real time, such as informal technical conferences.

D. Form and Content of a Proposal To Change an Analytical Principle

At a minimum, a proposal should identify the established principle that needs to be reviewed, explain its perceived deficiencies, and suggest how those deficiencies might be remedied. If a proposal offers a specific alternative method of collecting or analyzing data, it should include the data, analysis, and documentation on which it is based. While an estimate of the impact of the proposed change on the estimated attributable cost, avoided cost, elasticity of demand, average revenue, or service attainment of affected postal products would not be mandatory, such an estimate would improve the likelihood that the Commission will treat the proposal as ready for a final round of comment and possible adoption.

The Commission's response to a proposal would depend on the circumstances—for example, how specific and concrete the proposed alternative principle is, and the level of documentation accompanying it. If the Commission concludes that the proposal makes a persuasive argument that a change in an accepted analytical principle would be beneficial and therefore is suitable for review, it would establish a review docket. Having opened a review docket, the Commission could ask the proponent to provide additional clarification of its criticism of the established principle, or to provide supporting documentation for its proposed alternative. The Commission could also ask for a written response from the Postal Service or the interested public.

If the Commission considered such preliminary steps unnecessary but perceived a need to clarify the basis for the proponent's criticism of the accepted principle, to clarify the basis of its proposed alternative, or to clarify what relevant data are available, the Commission could ask the proponent of the change to provide one or more sponsoring analysts to respond to questions from the Commission's technical staff, the Public Representative, and interested parties in a technical conference format.

Depending on the circumstance, the format of a technical conference may be informal, where no transcript would be kept, or formal, where a detailed agenda would be followed and a transcript kept. The former might be more suitable where the focus is on the availability of relevant data. The latter might be more suitable where expert opinion is sought as well. Even where the Postal Service is not the proponent of a change in an accepted analytical principle, the Commission might ask it to provide one or more experts on the subject matter of a proposal in a technical conference format concerning the merits of the proposal or to explain what data and analyses are available or could be made available to investigate the proposed alternative. The Commission may also arrange for a panel of outside experts to provide written statements, participate in a technical conference, or give depositions, at any stage of discovery where such assistance would be helpful.

If the Commission were to determine that a proposal is well defined, adequately documented, and ready for final evaluation, it would publish a notice of proposed rulemaking and seek final written comments from interested parties. Until such a notice is issued, the proposed rules allow the Commission broad discretion in selecting appropriate procedures to follow on a case-by-case basis.

The intent of proposed rule 3050.11 is to resolve all issues raised by proposed changes in analytical principles

efficiently, well in advance of the filing of the Postal Service's Annual Report. This should streamline the processing of the Postal Service's report when it is received. Proposed rule 3050.11 does not impose a particular lead time on the petitioning for or completing a proceeding to change an accepted analytical proceeding. As a practical matter, however, if complex or controversial changes to established analytical principles are proposed, they would need to be started well in advance of the due date of the Annual Report if the goal is to use them in the report.

VIII. Section-by-Section Analysis of Proposed Rules

Proposed rule 3050.1 provides definitions for key terms used in the proposed regulations.

Proposed rule 3050.2 sets forth general standards for documenting the Postal Service's periodic reports to the Commission.

Proposed rule 3050.3 defines the scope and terms of Commission access to information in the custody of the Postal Service and its Inspector General.

Proposed rule 3050.10 requires the Postal Service to use analytical principles that are accepted by the Commission to prepare an annual report to the Commission.

Proposed rule 3050.11 sets forth the procedures by which changes to accepted analytical principles may be adopted.

Proposed rule 3050.12 requires the Postal Service to indicate whether each special study relied on in its annual report to the Commission is current and valid, is in the process of being updated, or should be excused from the requirement that it be current and valid.

Proposed rule 3050.13 requires the Postal Service to include in its annual report to the Commission a brief narrative that describes any changes that have been made to accepted analytical principles since the Commission's most recent Annual Compliance Determination was issued, and the rationale for making the change.

Proposed rule 3050.14 requires the Postal Service to present its Cost and Revenue Analysis report in a format that corresponds to the classification structure in the current Mail Classification Schedule, and in an alternative, more disaggregated format that can be used to reformat the results to match the classification structure that was in effect immediately prior to the adoption of the Postal Accountability and Enhancement Act.

Proposed rule 3050.20 requires the Postal Service's annual report to the Commission to analyze the degree to which its products met the policies of title 39 of the United States Code.

Proposed rule 3050.21 prescribes specific categories of data to be included in (the content of) the Postal Service's annual report to the Commission.

Proposed rule 3050.22 prescribes the documentation required to support the attributable cost estimates in the Postal Service's annual report.

Proposed rule 3050.23 requires the Postal Service to accompany its annual report with a documented model of incremental costs.

Proposed rule 3050.24 prescribes the documentation required to support the avoidable cost estimates in the Postal Service's annual report.

Proposed rule 3050.25 requires the Postal Service, each quarter, to provide the Commission with its RPW report, its Quarterly Statistics Report and billing determinants. It also requires the Postal Service to accompany its annual report with the annual version of the RPW report.

Proposed rule 3050.26 requires the Postal Service, by January 20 of each year, to provide the Commission with econometric estimates of elasticity of demand for all postal products and to document the econometric models that were used to produce them.

Proposed rule 3050.27 requires the Postal Service to file its Workers' Compensation Report and summary workpapers by March 1 of each year.

Proposed rule 3050.28 requires the Postal Service to provide the National Consolidated Trial Balances, National Payroll Hours Summary, the OPRES report, and the HAT report, within 15 days of the close of the relevant period (month or pay period).

Proposed rule 3050.30 requires the Postal Service to provide, by March 31 of each year, information from which the geographic dimension of the universal service obligation in the processing, delivery, and retail functions can be measured.

Proposed rule 3050.31 requires the Postal Service to provide the Commission with its Annual Report of the Postmaster General, Congressional Budget Submission, and Integrated Financial Plan within specified intervals after their approval or release.

Proposed rule 3050.40 requires the Postal Service to provide the Commission with various financial reports corresponding in content and timing to those that public corporations provide to the Securities and Exchange Commission.

Proposed rule 3050.41 requires the Postal Service to provide the Commission with an independent audit of the reports required by proposed rule 3050.40, and supporting documentation.

Proposed rule 3050.42 authorizes the Commission, on its own or at the request of interested persons, to initiate proceedings to improve the quality of the financial information provided under proposed rule 3050.40.

Proposed rule 3050.43 requires the Postal Service to accompany its annual report to the Commission with the comprehensive statement, the performance plan, and the program performance reports required by 39 U.S.C. 2401(e), 2803, and 2804, respectively.

Proposed rules 3050.50 through 3050.53 are reserved.

Proposed rule 3050.60 lists miscellaneous reports that the Postal Service is to provide to the Commission. These include a succinct description of the methods used, and the reasons for selecting the methods used, to produce the most recent Annual Compliance Determination. This is to be provided by July 1 of each year. Also to be provided by July 1 of each year is an update of the history of changes in postal volumes, revenues, and rates that the Postal Service provided in Docket No. R2006–1. In addition, the Postal Service is to provide a master list and electronic copies of publications, handbooks, and data collection forms both at the beginning of each year and when changed; the Household Diary Study when it is completed; and Total Factor Productivity estimates and documentation, by March 1 of each year.

Appendix [Illustrative list referred to in part V.B. of Supplementary Information]

PRODUCTS AND CATEGORIES

Market Dominant Products

Domestic First-Class Mail:
Single-Piece:
Letters

PRODUCTS AND CATEGORIES—Continued

- Flats
- Parcels
  - Total Single-Piece Letters, Flats & Parcels
- Presort:
  - Letters
  - Flats
  - Parcels
    - Total Presort Letters, Flats & Parcels
- Automation:
  - Letters
  - Flats
  - Parcels
    - Total Automation Letters, Flats & Parcels
      - Total Letters, Flats & Parcels

Single-Piece Cards:
- Presort Cards
- Automation Cards
  - Total Cards
  - Total Domestic First-Class Mail

International First-Class Mail:
- Outbound Single-Piece Letters, Flats, International Parcel Post, and Parcels:
- Air:
  - UPU Target System Countries
  - UPU Transition System Countries
  - Subject to bi-lateral agreement
    - Canada
    - Other
- Surface:
  - UPU Target System Countries
  - UPU Transition System Countries
  - Subject to Bi-lateral Agreement
    - Canada
    - Other

Outbound Single-Piece Cards:
- Air:
  - UPU Target System Countries
  - UPU Transition System Countries
  - Subject to Bi-lateral Agreement
    - Canada
    - Other
- Surface:
  - UPU Target System Countries
  - UPU Transition System Countries
  - Subject to Bi-lateral Agreement
    - Canada
    - Other
      - Total Outbound Single-Piece Mail

Inbound Single-Piece Mail:
- Air:
  - UPU Target System Countries Using UPU Rates
  - UPU Target System Countries Using Negotiated Rates
    - Canada
    - Other
  - UPU Transition System Countries Using UPU rates
  - UPU Transition System Countries Using Negotiated Rates
- Surface:
  - UPU Target System Countries Using UPU Rates
  - UPU Target System Countries Using Negotiated Rates
    - Canada
    - Other
  - UPU Transition System Countries Using UPU Rates
  - UPU Transition System Countries Using Negotiated Rates
    - Total Inbound Single-Piece Mail
    - Total International First-Class Mail
      - Total First-Class Mail

Periodicals:
- Within County
- Outside County:
  - Regular Rate
  - Nonprofit
  - Classroom
    - Total Outside County
    - Total Periodicals

Standard Mail:

PRODUCTS AND CATEGORIES—Continued

- Regular Presort Mail:
  - Letters
  - Flats
  - Parcels
  - Not Flat-Machinables
    - Total Regular Presort Mail
- Regular Automation Mail:
  - Letters
  - Flats
    - Total Regular Automation Mail
      - Total Regular Mail
- Nonprofit Presort Mail:
  - Letters
  - Flats
  - Parcels
  - Not Flat-Machinables
    - Total Nonprofit Presort Mail
- Regular Automation Mail:
  - Letters
  - Flats
    - Total Nonprofit Automation Mail
      - Total Nonprofit Mail
        - Total Regular and Nonprofit Mail
- Enhanced Carrier Route Mail:
  - Basic Presort Letters
  - High Density Letters
  - Saturation Letters
    - Total Enhanced Carrier Route Letters
  - Basic Presort Flats
  - High Density Flats
  - Saturation Flats
    - Total Enhanced Carrier Route Flats
  - Basic Presort Parcels
  - High Density Parcels
  - Saturation Parcels
    - Total Enhanced Carrier Route Parcels
      - Total Enhanced Carrier Route Mail
- Nonprofit Enhanced Carrier Route Mail:
  - Basic Presort Letters
  - High Density Letters
  - Saturation Letters
    - Total Non-enhanced Carrier Route Letters
  - Basic Presort Flats
  - High Density Flats
  - Saturation Flats
    - Total Non-enhanced Carrier Route Flats
  - Basic Presort Parcels
  - High Density Parcels
  - Saturation Parcels
    - Total Non-enhanced Carrier Route Parcels
      - Total Nonprofit Enhanced Carrier Route Mail
        - Total Enhanced Carrier Route and Non-enhanced Carrier
  - Route Mail
    - Total Standard Mail

Package Services:

- Single-Piece Parcel Post:
  - Intra-Bulk Mail Center
  - Inter-Bulk Mail Center
    - Total Single-Piece Domestic Parcel Post
  - Inbound Surface Parcel Post (at UPU Rates)
    - Total Single-Piece Parcel Post

Bound Printed Matter:

- Bound Printed Matter Flats:
  - Nonpresorted
  - Presorted
  - Carrier Route
    - Total Bound Printed Matter Flats
- Bound Printed Matter Parcels:
  - Nonpresorted
  - Presorted
  - Carrier Route
    - Total Bound Printed Matter Parcels
      - Total Bound Printed Matter

Media Mail:

PRODUCTS AND CATEGORIES—Continued

- Single Piece
- Presorted
- Total Media Mail

Library Rate:
- Single Piece
- Presorted
  - Total Library Mail
    - Total Media and Library Mail
      - Total Package Services

USPS Penalty Mail
Free-for-the-Blind Mail
Negotiated Service Agreements (NSAs) (list each separately):
- Total Negotiated Service Agreement Mail
  - Total Market Dominant Mail

Special Services:
- Ancillary Services:
  - Address Correction
  - Applications and Mailing Permits:
    - First-Class Mail Presort Fee
    - Standard Mail Mailing Fee
      - Total Applications and Mailing Permits
  - Package Services Mailing Fees:
    - Bound Printed Matter Destination Entry Mailing Fee
    - Library Mail Presort Mailing Fee
    - Media Mail Presort Mailing Fee
      - Total Package Service Fees
  - Parcel Return Service Fees:
    - Account Maintenance Fee
    - Permit Fee
      - Total Parcel Return Service Fees
  - Parcel Select Destination Entry Mailing Fee
  - Periodicals Mailing Fees:
    - Original Entry Fee
    - Reentry Fee
    - Additional Entry Fee
    - News Agent Registry Fee
      - Total Periodicals Mailing Fees
  - Permit Imprint Fee
  - Business Reply Mail:
    - Per-Piece Fee
    - Permit/Account Maintenance Fees
      - Total Business Reply Mail
  - Bulk Parcel Return Service:
    - Per-Piece Fee
    - Account Maintenance Fee
    - Permit Fee
      - Total Bulk Parcel Return Service
  - Certified Mail
  - Certificate of Mailing
  - Collect-on-Delivery
  - Delivery Confirmation
  - Insurance
  - Merchandise Return Service:
    - Per-Piece Fee
    - Account Maintenance Fee
    - Permit Fee
      - Total Merchandise Return Service
  - Parcel Airlift
  - Registered Mail
  - Return Receipt
  - Return Receipt for Merchandise
  - Restricted Delivery
  - Shipper Paid Forwarding
  - Signature Confirmation
  - Special Handling
  - Stamped Envelopes
  - Stamped Cards
  - Premium Stamped Envelopes
  - Premium Stamped Cards
    - Total Ancillary Services

International Ancillary Services:
- International Certificate of Mailing
- International Registered Mail:
  - Outbound International Registered Mail

PRODUCTS AND CATEGORIES—Continued

- Inbound International Registered Mail
  - Total International Registered Mail
- International Return Receipt:
  - Outbound International Return Receipt
  - Inbound International Return Receipt
    - Total International Return Receipt
- International Restricted Delivery:
  - Outbound International Restricted Delivery
  - Inbound International Restricted Delivery
    - Total International Restricted Delivery
- Inbound International Insurance
- Customs Clearance and Delivery Fee
  - Total International Ancillary Services

Address List Services:
- ZIP Coding of Mailing Lists
- Correction of Mailing Lists
- Address Changes for Election Boards
- Carrier Sequencing of Address Cards
  - Total Address List Services
- Caller Service/Reserve Numbers
- Change-of-Address Credit Card Authentication
- Confirm
- International Reply Coupon Services:
  - Outbound International Reply Coupon Service
  - Inbound International Reply Coupon Service
    - Total International Reply Services

International Business Reply Mail Services:
- Outbound Business Reply Mail Service
- Inbound International Business Reply Mail Service
  - Total International Business Reply Service
- Money Orders
- Post Office Boxes
- Other Special Services:
  - Standard Mail Forwarding/Return:
  - Forwarding/Return Fee
  - Weighted Factor Forwarding/Return Fee
    - Total Standard Mail Forwarding/Return
      - Total Market Dominant Special Services
        - Total Market Dominant Mail and Services

Competitive Products

Priority Mail:
- Domestic Priority Mail
- International Priority Mail:
  - Outbound Priority Mail International:
    - Subject to Inward Land Rates
    - Subject to Terminal Dues
      - UPU Target System Countries
      - UPU Transition System Countries
      - Subject to Non-UPU Rates
    - Total Outbound Priority Mail International
- Inbound Air Parcel Post:
  - At UPU Rates
  - At Non-UPU Rates:
    - Canada
    - Other
  - Total Inbound Air Parcel Post
    - Total International Priority Mail
      - Total Priority Mail

Express Mail:
- Domestic Express Mail:
  - Custom Designed
  - Next Day and Second Day Post Office-to-Post Office
  - Next Day and Second Day Post Office-to-Addressee
    - Total Domestic Express Mail

International Express Mail:
- Outbound International Expedited Services
- Inbound International Expedited Services:
  - At UPU Rates
  - At Non-UPU Rates:
    - Total Inbound International Expedited Services
      - Total International Express Mail:
        - Total Express Mail

Package Services:
- Bulk Parcel Post:

PRODUCTS AND CATEGORIES—Continued

- Inter-Bulk Mail Center:
  - Barcoded
  - Origin Bulk Mail Center Presort
  - Bulk Mail Center Presort
    - Total Inter-Bulk Mail Center
- Intra-Bulk Mail Center Barcoded
- Parcel Select:
  - Destination Bulk Mail Center
  - Destination Sectional Center Facility
  - Destination Delivery Unit
    - Total Parcel Select
- Parcel Return Service:
  - Return Bulk Mail Center
  - Return Destination Units
    - Total Parcel Return Service
      - Total Bulk Parcel Post

International Mail:
- International Priority Airlift
- International Surface Airlift
- International Direct Sacks-M-Bags
  - Outbound International Direct Sacks-M-Bags
  - Inbound International Direct Sacks-M-Bags
    - Total International Direct Sacks-M-Bags
  - Global Customized Shipping Services
  - Inbound Surface Parcel Post (at Non-UPU Rates):
    - Canada
    - Other
      - Total Inbound Surface Parcel Post (at Non-UPU Rates)
        - Total International Mail

International Special Services:
- International Money Transfer Service:
  - Outbound International Money Transfer Service
  - Inbound International Money Transfer Service
    - Total International Money Transfer Service
- International Ancillary Services:
  - International Certificate of Mailing
  - International Registered Mail
  - International Return Receipt:
    - Outbound International Return Receipt
    - Inbound International Return Receipt
      - Total International Return Receipt
  - International Restricted Delivery
  - International Insurance:
    - Outbound International Insurance
    - Inbound International Insurance
      - Total International Insurance
  - Custom Clearance and Delivery Fee
    - Total International Ancillary Services
      - Total International Special Services

Negotiated Service Agreements (list each separately):
- Domestic
  - Outbound International:
    - Global Package Discount Contracts
    - Global Expedited Package Services Contracts
    - Global Direct Contracts
    - Global Bulk Economy Contracts
    - Global Plus Contracts
      - Total Outbound International
  - Inbound International:
    - International Business Reply Service Contracts
    - Inbound Direct Entry Contracts with Customers
    - Inbound Direct Entry Contracts with Foreign Postal Administrations
      - Total Inbound International
        - Total Negotiated Service Agreements
  - Premium Forwarding Service:
    - Enrollment Fee
    - Weekly Reshipment Fee
      - Total Premium Forwarding Service

It Is Ordered:

1. The Commission proposes to amend its rules of practice and procedure by deleting rules 3001.102 and 103 [in Subpart G of 39 CFR part

3001] and adding new part 3050—Periodic Reporting as set forth below.

2. Interested persons may submit comments by October 16, 2008.

3. Interested persons may submit reply comments by November 14, 2008.

4. Robert Sidman is designated as the Public Representative representing the interests of the general public in this proceeding.

5. The Secretary shall arrange for publication of this Order in the **Federal Register**.

List of Subjects

39 CFR Part 3001

Admininstrative practice and procedure, Confidential business information, Freedom of information, Sunshine Act.

39 CFR Part 3050

Administrative practice and procedure, Postal Service, Recordkeeping and reporting requirements.

By the Commission.

Issued August 22, 2008.

Judith M. Grady,

Acting Secretary.

For the reasons stated in the preamble, under the authority at 39 U.S.C. 503, the Postal Regulatory Commission proposes to amend 39 CFR chapter III as follows:

PART 3001—RULES OF PRACTICE AND PROCEDURE

1. The authority citation for part 3001 continues to read as follows:

Authority: 39 U.S.C. 404(d); 503; 3622; 3633; 3652; 3661.

§ 3001.102 [Removed]

2. Remove and reserve § 3001.102 in subpart G.

§ 3001.103 [Removed]

3. Remove and reserve § 3001.103 in subpart G.

4. Add part 3050—Periodic Reporting, to read as follows:

PART 3050—PERIODIC REPORTING

Sec.

3050.1 Definitions.
3050.2 Documentation of periodic reports.
3050.3 Access to information supporting Commission reports or evaluations.
3050.10 Analytical principles to be applied in the Postal Service's Annual Report.
3050.11 Proposals to change an accepted analytical principle applied in the Postal Service's Annual Report.
3050.12 Obsolescence of special studies relied on to produce the Postal Service's Annual Report.
3050.13 Additional documentation required in the Postal service's Annual Report.
3050.14 Format of the Postal Service's Annual Report.
3050.20 Compliance analysis in the Postal Service's Annual Report.
3050.21 Content of Annual Report.
3050.22 Documentation supporting attributable cost estimates in the Postal Service's Annual Report.
3050.23 Documentation supporting incremental cost estimates in the Postal Service's Annual Report.
3050.24 Documentation supporting estimates of costs avoided by worksharing in the Postal Service's Annual Report.
3050.25 Documentation supporting estimates of volumes and revenues in the Postal Service's Annual Report.
3050.26 Documentation of demand elasticities.
3050.27 Workers' Compensation Report.
3050.28 Monthly and pay period reports.
3050.30 Information needed to estimate the cost of the universal service obligation.
3050.31 Financial reports.
3050.40 Additional financial reporting.
3050.41 Treatment of additional financial reports.
3050.42 Proceedings to improve the quality of financial data.
3050.43 Information on program performance.
3050.50 Information on service performance for domestic products. [Reserved]
3050.51 Information on service performance for Special Services. [Reserved]
3050.52 Information on service performance for international products. [Reserved]
3050.53 Information on customer satisfaction and retail access. [Reserved]
3050.60 Miscellaneous reports and documents.

Authority: 39 U.S.C. 503, 3651, 3652, 3653.

§ 3050.1 Definitions.

For purposes of this part:

(a) *Accepted analytical principle* refers to an analytical principle that was applied by the Commission in its most recent Annual Compliance Determination, unless a different analytical principle subsequently was accepted by the Commission in a final rule.

(b) *Accepted quantification* technique refers to a quantification technique that was applied in the most recent iteration of the periodic report applying that quantification technique or was used to support a new analytical principle adopted in a subsequent proceeding under § 3050.11.

(c) *Analytical principle* refers to a particular economic, mathematical, or statistical theory, precept, or assumption applied by the Postal Service in producing a periodic report to the Commission.

(d) *Annual Compliance Determination* refers to the report that 39 U.S.C. 3653 requires the Commission to issue each year evaluating the compliance of the Postal Service with the requirements of that Act.

(e) *Annual Report* refers to the report that 39 U.S.C. 3652 requires the Postal Service to provide to the Commission each year.

(f) *Product* means a postal service listed as a market dominant or a competitive product in the Mail Classification Schedule.

(g) *Quantification technique* refers to any data entry or manipulation technique whose validity does not require the acceptance of a particular economic, mathematical, or statistical theory, precept, or assumption. A change in quantification technique should not change the output of the analysis in which it is employed.

§ 3050.2 Documentation of periodic reports.

(a) At the time that it submits any periodic report to the Commission, the Postal Service shall identify any input data that has changed, list any quantification techniques that it has changed, and list any corrections that it has made, since that report was last submitted to and accepted by the Commission. It shall provide a brief narrative explanation of each listed change.

(b) If workpapers are required to support a periodic report, they shall:

(1) Show all calculations employed in producing each estimate;

(2) Be sufficiently detailed to allow all numbers used in such calculations to be traced back to public documents or to primary data sources; and

(3) Be submitted in a form, and be accompanied by sufficient explanation and documentation, to allow them to be replicated using a publicly available PC application.

(c) Spreadsheets used in preparing periodic reports shall be submitted in electronic form. They shall display the formulas used, their links to related spreadsheets, and shall not be password protected.

(d) Filing of portions of the documentation required by this section that are not time critical may be delayed up to 2 weeks if the Postal Service obtains permission from the Commission to defer filing of such portions at least 30 days prior to the date on which the periodic report is due.

§ 3050.3 Access to information supporting Commission reports or evaluations.

(a) The Commission shall have access to the following material if, in its judgment, the information supports any

report, assessment, or evaluation required by title 39 of the United States Code, including:

(1) The working papers and supporting matter of the Postal Service or the Postal Service Inspector General in connection with any information submitted under 39 U.S.C. 3652; and

(2) Information that supports the Commission's annual assessment under 39 U.S.C. 3651.

(b) If the Postal Service or the Postal Service Inspector General believes that any document or portion of a document or other matter that it has provided to the Commission in a periodic report or to supplement a periodic report contains information exempt from disclosure under 39 U.S.C. 410(c) or 5 U.S.C. 552(b), that matter shall be treated in accordance with [proposed] part 3007 of this chapter.

§ 3050.10 Analytical principles to be applied in the Postal Service's Annual Report.

In its Annual Report, the Postal Service shall use only accepted analytical principles as defined in § 3050.1.

§ 3050.11 Proposals to change an accepted analytical principle applied in the Postal Service's Annual Report.

To improve the quality, accuracy, or completeness of the data or analysis of data contained in the Postal Service's Annual Report, the Commission, acting on its own behalf, may institute a proceeding to change an accepted analytical principle. In addition, any interested person, including the Postal Service or a Public Representative, may submit a petition to the Commission to initiate such a proceeding.

(a) *Form and content of petition.* The petition shall identify the accepted analytical principle proposed for review, explain its perceived deficiencies, and suggest how those deficiencies should be remedied.

(1) If the petition proposes that a specific alternative analytical principle be followed, it should include the data, analysis, and documentation on which the proposal is based, and, where feasible, include an estimate of the impact of the proposed change on the relevant characteristics of affected postal products, including their attributable cost, avoided cost, elasticity of demand, average revenue, or service attainment.

(2) If the petitioner requests access to data from the Postal Service to support the assertions or conclusions in its petition, and such data are not otherwise available, it shall accompany the petition with a request to gain access to such data. The petitioner's request should identify the data sought, and include the reasons for believing that the data will support its petition. To expedite its evaluation of the data request, the Commission may, after reasonable public notice, order that answers or objections be presented orally or in writing.

(b) *Procedures for processing petition.* To better evaluate a petition to change an accepted analytical principle, the Commission may order that it be made the subject of discovery. By request of any interested person, or on its own behalf, the Commission may order that the petitioner and/or the Postal Service provide experts on the subject matter of the proposal to participate in technical conferences, prepare statements clarifying or supplementing their views, or be deposed by officers of the Commission.

(c) *Action on the petition.*

(1) After the conclusion of any discovery procedures, the Commission shall determine whether to issue a notice of proposed rulemaking based on the petition and the supporting material received. Such notice shall be evaluated by procedures that are consistent with 5 U.S.C. 553. Interested parties will be afforded an opportunity to present comments and reply comments, either orally or in writing, at the Commission's discretion.

(2) If accepted by the Commission, the change proposed in the notice of proposed rulemaking shall be published in a notice of final rule in the **Federal Register** (and on the Commission Web site).

§ 3050.12 Obsolescence of special studies relied on to produce the Postal Service's Annual Report.

(a) For each special study whose results are used to produce the estimates in its Annual Report, the Postal Service shall indicate the date the study was completed and certify that the study reflects current operating conditions and procedures. If the Postal Service cannot certify that a study reasonably reflects current operating conditions or procedures, it must provide a timetable for updating the study.

(b) A presumption of obsolescence shall attach to any special study that is more than 5 years old at the time that the annual compliance report is due.

(c) To obtain a waiver of the requirements of this section, the Postal Service must file a petition at least 60 days before the date upon which its Annual Report is due. The petition and supplemental materials must demonstrate to the Commission's satisfaction that any of the following criteria is met:

(1) The operating conditions reflected in the special study have not changed;

(2) Updating the results of the special study would not have a significant effect on the costs, volumes, or revenues estimated for any postal product;

(3) The cost of updating the special study would outweigh the resulting benefits; or

(4) An appropriate update or replacement of the special study is underway.

§ 3050.13 Additional documentation required in the Postal Service's Annual Report.

(a) At the time the Postal Service files its Annual Report, it shall include a brief narrative explanation of any changes to accepted analytical principles that have been made since the most recent Annual Compliance Determination was issued, and the reasons that those changes were accepted.

(b) The Annual Report is subject to the requirements of § 3050.2.

§ 3050.14 Format of the Postal Service's Annual Report.

The Postal Service's Cost and Revenue Analysis Report shall be presented in a format reflecting the classification structure in the current Mail Classification Schedule. It shall also be presented in an alternative, more disaggregated format capable of reflecting the classification structure in effect prior to the adoption of the Postal Accountability and Enhancement Act.

§ 3050.20 Compliance analysis in the Postal Service's Annual Report.

The Postal Service's Annual Report shall include an analysis of the information that it contains in sufficient detail to demonstrate that, in the fiscal year covered by its report, all of its products (market dominant and competitive) comply with all of the applicable provisions of chapter 36 of title 39 of the U.S. Code and the regulations promulgated thereunder, meet the goals established under 39 U.S.C. 2803 and 2804, and promote the public policy objectives set out in title 39 of the U.S. Code.

§ 3050.21 Content of Annual Report.

No later than 90 days after the close of each fiscal year, the Postal Service shall submit a report to the Commission analyzing its cost, volume, revenue, rate, and service information in sufficient detail to demonstrate that all products during such year comply with all applicable provisions of title 39 of

the United States Code. The report shall provide:

(a) The volume and revenue generated by each product;

(b) The attributable costs caused by, and the contribution to institutional costs provided by, each product;

(c) The quality of service received by each market dominant product, including the speed of delivery and the reliability of delivery;

(d) The price elasticity of demand for each product;

(e) For each market dominant workshare discount offered during the reporting year:

(1) The per-item cost avoided by the Postal Service by virtue of such discount;

(2) The percentage of such per-item cost avoided that the per-item workshare discount represents;

(3) The per-item contribution made to institutional costs; and

(4) When the Postal Service invokes the exception provisions of 39 U.S.C. 3622(e)(2)(A) through (D), specify the factual and analytical bases for its conclusion that those exceptions apply.

(f) For each market dominant negotiated service agreement:

(1) Identify its rates and service features;

(2) Estimate its costs, volumes, revenues, and elasticity of demand;

(3) Analyze its effect on the operational performance of the Postal Service, specifying the affected operations and, to the extent possible, quantifying the effect;

(4) Analyze the contribution of the agreement to institutional costs for its most recent year of operation. The year analyzed shall end on the anniversary of the negotiated service agreement that falls within the fiscal year covered by the Postal Service's Annual Report and include the 12 preceding months. The analysis shall show all calculations and fully identify all inputs. Inputs used to estimate the effect on total contribution to the Postal Service, such as unit costs and price elasticities, shall be updated using fiscal year values; and

(5) Analyze the effect of the negotiated service agreement (and other functionally equivalent negotiated service agreements) on the marketplace. If there were harmful effects, explain why those effects were not unreasonable.

(g) For each competitive negotiated service agreement:

(1) Identify its rates and service features; and

(2) Estimate its costs, volumes, revenues, and its elasticity of demand;

(h) For market tests of experimental products:

(1) Estimate their costs, volumes, and revenues in aggregate by market dominant and by competitive product group;

(2) Estimate the quality of service of each individual experimental product; and

(3) Indicate whether offering the experimental product has created an inappropriate competitive advantage for the Postal Service or any mailer.

(i) For each non-postal service, estimate its costs, volumes, and revenues; and

(j) Provide any other information that the Postal Service believes will help the Commission evaluate the Postal Service's compliance with the Postal Accountability and Enhancement Act.

§ 3050.22 Documentation supporting attributable cost estimates in the Postal Service's Annual Report.

The following items shall be reported when they have changed from those used in the most recent Annual Compliance Determination:

(a) The Cost and Revenue Analysis Report (CRA), including relevant data on international mail services;

(b) The Cost Segments and Components Report (CSC);

(c) All input data and processing programs used to produce the CRA report, to include:

(1) CSC Reconciliation to Financial Statement and Account Reallocations;

(2) Manual Input Requirement (reflecting direct accounting or modeled costs);

(3) The CSC ''A'' report (showing how indirect costs are distributed to products based on the distribution of direct costs);

(4) The CSC ''B'' report (showing how indirect Property Equipment Supplies Services and Administrative (PESSA) costs are distributed to products;

(5) The CSC ''D'' report (showing final adjustments to total attributable and product-specific costs);

(6) The CSC ''F'' report (containing distribution keys for indirect labor components);

(7) The control file that includes the CRA program control string commands used to produce the CRA and the above-described CSC reports; and

(8) The master list of cost segment components, including all of the components used as distribution keys in the development of the CSC report and its accompanying reports.

(d) Spreadsheet workpapers underlying development of the CSC report by component. These workpapers shall include the updated factors and input datasets from the supporting data systems used, including:

(1) The In-Office Cost System (IOCS);

(2) The Management Operating Data System (MODS);

(3) The City Carrier Cost System (CCCS);

(4) The City Carrier Street Time Sampling System (CCSTS);

(5) The Rural Carrier Cost System (RCCS);

(6) The National Mail Count;

(7) The Transportation Cost System (TRACS);

(8) System for International Revenues and Volumes/Outbound (SIRV/O);

(9) System for International Revenues and Volumes/Inbound (SIRV/I);

(10) Military and International Dispatch and Accountability System; and

(11) Inbound International Revenue Accounting Systems (IAB data).

(e) The econometric analysis of carrier street time, including input data, processing programs, and output;

(f) The Window Service Supply Side Variability, Demand Side Variability, and Network Variability studies, including input data, processing programs, and output;

(g) The econometric analysis of purchased highway transportation cost variability, including input data, processing programs, and output;

(h) The econometric analysis of freight rail cost variability, including input data, processing programs, and output;

(i) A list and summary description of any transportation contracts whose unit rates vary according to the level of postal volume carried. The description should include the product or product groups carried under each listed contract;

(j) Spreadsheets and processing programs distributing attributable mail processing costs;

(k) The Vehicle Service Driver Data Collection System (VSD);

(l) Input data, processing programs, and output of the Vehicle Service Driver Cost Variability Study;

(m) Econometric analysis of postmaster cost variability;

(n) Floor Space Survey; and

(o) Density studies used to convert weight to cubic feet of mail.

§ 3050.23 Documentation supporting incremental cost estimates in the Postal Service's Annual Report.

Input data, processing programs, and output of an incremental cost model shall be reported.

§ 3050.24 Documentation supporting estimates of costs avoided by worksharing in the Postal Service's Annual Report.

The following items shall be reported, including supporting calculations and derivations:

(a) Letter, card, flat, parcel and non-flat machinable mail processing cost models with Delivery Point Sequence percentages calculated, which shall include:

(1) Coverage factors for any equipment where coverage is less than 100 percent;

(2) MODS productivities;

(3) Piggyback factors and supporting data;

(4) Entry profiles, bundle sorts, and pieces per bundle;

(5) Bundle breakage, handlings, and density;

(6) Mail flow density and accept rates;

(7) Remote Computer Reader finalization costs, cost per image, and Remote Bar Code Sorter leakage;

(8) Percentage of mail finalized to carrier route;

(9) Percentage of mail destinating at post office boxes; and

(10) Wage rates and premium pay factors.

(b) Pallet cost models for Periodicals;

(c) Sack cost models for Periodicals;

(d) Bundle cost models for Periodicals:

(e) Other container cost models for Periodicals;

(f) Analysis of Periodicals container costs;

(g) Business Reply Mail cost supporting material;

(h) Enhanced Carrier Route mail processing saturation savings;

(i) Mail processing unit costs by shape and cost pool for each product and benchmark category;

(j) Delivery costs by product, shape, presort level, automation compatibility, and machinability, including Detached Address Label cost calculations; and

(k) Dropship cost avoidance models.

§ 3050.25 Documentation supporting estimates of volumes and revenues in the Postal Service's Annual Report.

The following items shall be provided:

(a) The Revenue, Pieces, and Weight (RPW) report, including estimates by shape, weight, and indicia, and the underlying billing determinants within 90 days of the close of each fiscal year;

(b) Revenue, Pieces, and Weight by rate category and special service by quarter (within 30 days of the close of the quarter);

(c) Quarterly Statistics Report, including estimates by shape, weight, and indicia (within 30 days of the close of the quarter); and

(d) Billing determinants (within 40 days of the close of the quarter).

§ 3050.26 Documentation of demand elasticities.

By January 20 of each year, the Postal Service shall provide econometric estimates of demand elasticity for all postal products accompanied by the underlying econometric models and the input datasets used.

§ 3050.27 Workers' Compensation Report.

The Workers' Compensation Report, including summary workpapers, shall be provided by March 1 of each year.

§ 3050.28 Monthly and pay period reports.

The following reports shall be provided within 15 days of the close of the relevant period:

(a) National Consolidated Trial Balances and the Revenue and Expense Summary (monthly);

(b) National Payroll Hours Summary in electronic form (pay period);

(c) On-roll and Paid Employee Statistics (ORPES) (pay period); and

(d) Postal Service Active Employee Statistical Summary (HAT report) (pay period).

§ 3050.30 Information needed to estimate the cost of the universal service obligation.

The following reports shall be provided by March 31 of each year:

(a) Mail flow volumes by product (or product group) between each pair of mail processing facilities, including local turnaround mail for each facility.

(b) Direct and indirect costs, workhours, and CCCS/RCCS volumes by sampled product (or product group), carrier route, facility, and ZIP Code;

(c) For sampled city routes:

(1) Actual and possible deliveries by type;

(2) Actual and possible stops by type:

(3) Collection boxes;

(4) Number of businesses served; and

(5) Miles identified by processing facility, route type, and ZIP Code;

(d) For sampled rural routes:

(1) Stops;

(2) Boxes served, and

(3) Mailpieces identified by carrier route, route type, facility, and ZIP Code;

(e) For each retail facility in a representative sample:

(1) Revenues generated; and

(2) Costs incurred identified by ZIP Code.

§ 3050.31 Financial reports.

The following reports shall be provided annually at the time noted:

(a) Annual Report of the Postmaster General (when released to the public);

(b) Congressional Budget Submission and supporting workpapers, including Summary Tables SE 1, 2, and 6 (within 7 days of the submission of the Federal Budget by the President to the Congress); and

(c) Integrated Financial Plan (within 7 days of approval by the Board of Governors).

§ 3050.40 Additional financial reporting.

The Postal Service shall file the following financial reports with the Commission. These reports shall include the information required by sections 13 and 15(d) of the Securities and Exchange Act of 1934 (15 U.S.C. 78m, 78o(d)).

(a) *Quarterly report.* Within 40 days after the end of each fiscal quarter, the Postal Service shall file a report containing the information required by Form 10–Q or any successor form as it may be revised.

(b) *Annual report.* Within 60 days after the end of each fiscal year, the Postal Service shall file a report containing the information required by Form 10–K or any successor form as it may be revised. That report shall:

(1) Comply with section 404 (Management Assessment of Internal Controls) of the Sarbanes-Oxley Act of 2002 (15 U.S.C. 7262) beginning with the annual report for FY 2010;

(2) Include with respect to the Postal Service's pension and post-retirement health obligations:

(i) The funded status of the Postal Service's pension and post-retirement health obligations;

(ii) Components of the net change in the fund balances and obligations and the nature and cause of any significant changes;

(iii) Components of net periodic costs;

(iv) Cost methods and assumptions underlying the relevant actuarial valuations;

(v) The effect of a 1 percent increase in the assumed health care cost trend rate for each future year on the service and interest costs and the accumulated obligations;

(vi) Actual contributions to and payments from the funds for the years presented and the estimated future contributions and payments for each of the following 5 years;

(vii) The composition of plan assets reflected in the fund balances; and

(viii) The assumed rate of return fund balances and the actual rate of returns for the years presented.

(3) The Postal Service shall obtain the information listed in paragraph (b)(2) of this section from the Office of Personnel Management no later than 30 days after the end of each fiscal year.

(c) *Current report.* Within 4 days after the occurrence of any one or more events specified in the items in sections 1–6 and 9 of Form 8–K or any successor form as it may be revised, the Postal Service shall file a report containing the information required by Form 8–K.

(d) *Segment reporting.* For purposes of Form 10–Q and Form 10–K, the Postal Service shall include segment

reporting, beginning with reports for fiscal year 2010. The Postal Service shall determine the appropriate segment reporting under paragraph (a) of this section after consultation with the Postal Regulatory Commission.

§ 3050.41 Treatment of additional financial reports.

(a) The Postal Service shall obtain an opinion from an independent auditor on whether the information listed in § 3050.40(b) is fairly stated in all material respects, either in relation to:

(1) The basic financial statements as a whole; or

(2) On a stand-alone basis.

(b) The Postal Service and its independent auditor shall provide the Commission with the audit documentation and any other matter that supports the information submitted under § 3050.40.

§ 3050.42 Proceedings to improve the quality of financial data.

The Commission may on its own motion, or at the request of an interested person, initiate proceedings to improve the quality, accuracy, or completeness of Postal Service data required under § 3050.40 whenever it appears that:

(a) The data have become significantly inaccurate or can be significantly improved; or

(b) Those revisions are, in the judgment of the Commission, otherwise necessitated by the public interest.

§ 3050.43 Information on program performance.

The Postal Service shall accompany its Annual Report with the following items:

(a) The comprehensive statement required by 39 U.S.C. 2401(e);

(b) The performance plan required by 39 U.S.C. 2803; and

(c) The program performance reports required by 39 U.S.C. 2804.

§ 3050.50 Information on service performance for domestic products.

[Reserved]

§ 3050.51 Information on service performance for Special Services.

[Reserved]

§ 3050.52 Information on service performance for international products.

[Reserved]

§ 3050.53 Information on customer satisfaction and retail access.

[Reserved]

§ 3050.60 Miscellaneous reports and documents.

The following reports shall be provided at the times indicated:

(a) A master list of publications and handbooks, including those related to internal information procedures, at the beginning of each fiscal year;

(b) An electronic copy of each publication, handbook, and data collection form, at the beginning of each fiscal year;

(c) Data collection forms, and corresponding training handbooks (when changed);

(d) Household Diary Study (when completed);

(e) Input data and calculations used to produce the annual Total Factor Productivity estimates (by March 1 of each year); and

(f) Succinct narrative explanations of how the estimates in the most recent Annual Compliance Determination were calculated and the reasons that particular analytical principles were followed. The narrative explanations shall be comparable in detail to that which had been provided in Library Reference 1 in omnibus rate cases processed under the Postal Reorganization Act (by July 1 of each year).

(g) An update of the history of changes in postal volumes, revenues, rates, and fees that appears in Library References USPS–LR–L–73 through 76 in Docket No. R2006–1 (by July 1 of each year).

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