

**BEFORE THE POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001**

Periodic Reporting

Docket No. RM2008-2

REPLY COMMENTS OF PITNEY BOWES INC.

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I. INTRODUCTION

Pitney Bowes Inc. (Pitney Bowes) submits these comments in response to Order No. 99, the Postal Regulatory Commission's (Commission) Notice of Proposed Rulemaking on Costing Methods Used in Periodic Reporting, issued August 18, 2008.

On August 11, 2008, the United States Postal Service filed a Request for Commission Order Amending the Established Costing Methodologies for Purposes of Preparing the FY 2008 Annual Compliance Report (Request). The Request sought Commission approval of eight proposed cost methodology changes in advance of the 2008 Annual Compliance Report (ACR). On August 18, 2008, the Postal Service moved to supplement the list of proposed changes with the addition of a ninth proposed methodological change. By Order No. 99 the Commission converted the Postal Service's Request into a petition to initiate an informal rulemaking, granted the petition, scheduled a technical conference, and invited interested parties to submit comments on the proposed costing methodologies changes.

After reviewing the initial comments filed in this proceeding, Pitney Bowes offers the following comments.

II. DISCUSSION

The initial comments in response to Order No. 99 may be divided into two groups: technical and theoretical.

The technical comments focus primarily on the suitability of the distribution keys and proxies selected and the sufficiency of the information provided by the Postal Service in support of the proposed changes in costing methodologies. *See* APWU Comments at

2-4; MMA Comments; Public Representative Comments at 9-11; Time Warner Comments at 6-10; ValPak Comments at 15-17. Pitney Bowes concurs with the comments of several parties that while the use of proxies may be reasonable and necessary in certain circumstances, the Commission ought to require the Postal Service to use actual data, not a proxy, whenever actual data is reasonably available. *See* APWU Comments at 4; MMA Comments at 4.

With respect to the sufficiency of information supporting the proposed changes in cost methodology, Pitney Bowes anticipates that the Commission will adopt clear guidelines as to the data and analysis required to support a proposed change in costing methodology in connection with the parallel proceeding initiated by Order No. 104, Notice of Proposed Rulemaking Prescribing Form and Content of Periodic Reports (PRC Docket No. RM2008-4), dated August 22, 2008.

Numerous other commenters raised important theoretical concerns. Notwithstanding the Postal Service's characterization of the proposed changes in costing methodologies as "relatively minor," it is clear from the initial comments that the proposed changes implicate complex issues regarding the identification and allocation of incremental and group-specific costs. *See* Mitchell Comments; PSA Comments at 3-5; Public Representative Comments at 2-5; ValPak Comments at 2-13. Several commenters appropriately recognize that these issues bear directly on compliance issues for competitive products and on the operational freedom and efficiency of the Postal Service. *See* Mitchell Comments at 4; PSA Comments at 10-11.

Moreover, many of the issues raised with respect to the identification and allocation of incremental and group-specific costs are issues that were raised in the

Report of the U.S. Department of the Treasury on Accounting Principles and Practices for the Operation of the United States Postal Service's Competitive Products Fund, December 19, 2007 (Report). These issues will also be addressed in the proceeding initiated by Order No. 106, Order Proposing Accounting Practices and Tax Rules for Competitive Products (PRC Docket No. RM2008-5), issued September 11, 2008. Given the condensed procedural schedule of the instant proceeding, Pitney Bowes anticipates that a further discussion of these important issues will be deferred to Docket No. RM2008-5.

As to the procedural issues raised in the Postal Service's Request and Order No. 99, Pitney Bowes commends the Postal Service for initiating a process to review proposed changes in costing methodologies in advance of the ACR. However, because the Commission has yet to establish the procedures that should be followed for making changes in analytical methods, the nine proposed changes at issue here may not follow the protocol that the Commission will ultimately settle upon for vetting changes in analytical methods before they may be relied on in producing the standard periodic reports that will be required by the Commission. Accordingly, Pitney Bowes concurs with the comments of PSA that these nine proposed changes in costing methodologies, if accepted, should not be given precedential effect by the Commission. *See* PSA Comments at 11.

Last, the Postal Service Request notes that the eight (nine) proposed changes in costing methodologies "constitute all of those currently ready for review" and that it will file "comparable motions for any additional proposed changes as soon as sufficient information becomes available to permit meaningful review." Request at 3. Time

Warner has likewise submitted its own selection of proposed changes for consideration. *See* Addendum to Time Warner Comments. For purposes of the 2008 ACR, this piecemeal approach may be necessary to allow the Postal Service to make changes that reflect a more accurate assignment of costs.

On a going forward basis, however, Pitney Bowes supports the Commission's recommended approach as set forth in the 2007 ACD in which the Commission stated it:

envisions a process that begins with a systematic inventory of research areas in which data samples or collection systems need to be updated or improved, or analysis of the data needs an overhaul, followed by a series of informal rulemakings designed to address these areas in sequence, according to an agreed-upon timetable.

2007 ACD at 10. A more structured process would minimize the administrative burden on the Postal Service, allow for a prioritization of proposed changes in costing methodologies, and provide interested parties with the opportunity to conduct a timely and meaningful review of proposed changes in costing methodologies.

