

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Rate Adjustment Due to Extraordinary or
Exceptional Circumstances

Docket No. R2010-4

PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

(Issued July 20, 2010)

The Postal Service is requested to respond to the following questions to clarify the record on its proposed rate adjustments under 39 U.S.C. 3622(d)(1)(E) and 39 CFR 3010.60 of the Commission's rules for rate adjustments in exigent circumstances, filed July 6, 2010. To facilitate inclusion of the required material in the evidentiary record, the Postal Service is to have a witness attest to the accuracy of the answers and be prepared to explain, to the extent necessary, the basis for the answers at hearings. Responses should be provided no later than July 28, 2010.

1. Refer to USPS-R2010-4/1, "FirstClassMail_Worksheets_R2010-4.xls" tab 'Single-Piece'. Please confirm that the 0.917 value entered as the new price for Flats First-Ounces (cell G22) should be 0.92 instead. Please revise the worksheet and all other materials that reference the resulting calculated percentage change in rates.
2. In the calculation of the percentage changes in rates for each class, the Postal Service indicates that it uses billing determinants for a hybrid year consisting of the last two quarters of FY 2009 and the first two quarters of FY 2010.
 - a. For each class of mail, please provide spreadsheets containing the hybrid year billing determinants. The spreadsheets should show the quarterly billing determinants used as inputs and the calculation of the total volumes for the hybrid year as the sum of the inputs. The inputs should refer to

(and be consistent with) documents previously filed with the Commission. If adjustments are made, please explain them fully.

- b. Please also provide the source (*e.g.*, Mail Characteristics Study) of the data underlying the First-Class Mail parcel volumes by presort level, ounce increment and indicia (“Retail” vs. “Commercial” single-piece) presented in USPS-R2010-4/1, “FirstClassMail_Worksheets_R2010-4.xls” tab ‘Hybrid Billing Determinants’ rows 53-96.
 - c. Please confirm that the volume of QBRM letters first ounces used in the percentage change calculations reflects the revised FY2010 Quarter 2 Billing Determinants filed by the Postal Service on July 16, 2010. If not, please incorporate the revision into the responses.
3. Refer to USPS-R2010-4/1, “First-Class Mail Preface R2010-4.doc” at pages 2-3, “Standard Mail Preface R2010-4.doc” and “Periodicals Preface R2010-4.doc” at pages 2-3, which state that the percentage usage of Full-Service IMb for March 2010 is used as a proxy for the annual percentage. The rationale given is that the upward trend in the percentage usage would cause the actual average percentage usage to underestimate the full-year percentage. Please define the conditions (*e.g.*, the length of time after implementation and/or the slowing of initial growth) that will determine when the Postal Service believes it will be appropriate to use the actual previous four quarters of billing Determinants Volume for Full-Service IMb to calculate percentage changes in rates.

4. Refer to USPS-R2010-4/1, "First-Class Mail Preface R2010-4.doc" at page 3 and "FirstClassMail_Worksheets_R2010-4.xls" tab 'Move Update Adjustment'. The number of First-Class mailings paying the Move Update Assessment Charge in FY 2010 Q2 is divided by the Presort First-Class Mail (letters and cards) volume for the same period, producing a ratio of mailings to volume. This percentage is then multiplied by the hybrid year Presort First-Class Mail volume (letters, flats, and cards) "to estimate total First-Class Mail volume that would pay the assessment charge for the full-year period."
 - a. Multiplying the quarterly ratio of mailings to volume (cell C7) by annual volume (cell C8) produces an estimate of the annual number of mailings subject to the Move Update Assessment Charge, not the number of pieces. Please revise the calculations to incorporate the factor (assessed pieces per assessed mailing) necessary to estimate the volume of assessed pieces, as opposed to the volume of assessed mailings.
 - b. Please provide the source data for the Q2 First-Class mailings that were tested for PBV Move Update Compliance Assessment. The data should provide sufficient details about each PBV-tested mailing to enable the reproduction of the number of assessed pieces given the current (30 percent) and proposed (25 percent) tolerance levels. At the minimum, for each tested mailing, the data should include the number of pieces, the number of pieces sampled, the number of addresses in the sample with address changes on file, and the number of such addresses in the sample that were not updated. Please also provide the same data for Standard Mail.
 - c. Using the actual volumes and failure rates of Move Update PBV Assessments, please revise the calculation of percentage changes in rates for First-Class Mail and Standard Mail. The calculations should reflect two categories of volumes for Move Update Assessment Charges,

(1) pieces subject to the charge at the current tolerance level; and (2) the pieces that are not subject to the charge at the current tolerance level, but are subject to the charge at the proposed tolerance level. As with other rate change calculations (e.g., parcel classification changes), no assumptions should be made about changes in mailer behavior in response to the proposed classification changes.

5. Refer to the Statement of James M. Kiefer at 22-23, where he states that First-Class Mail single-piece parcels that are the residual of a presorted mailing or that use permit imprint, IBI meter, or PC Postage would be eligible for the proposed commercial single-piece prices.
 - a. Please confirm that the use of one of the three named payment methods is the only requirement for eligibility for commercial single-piece rates (assuming the parcel in question would otherwise qualify for retail single-piece parcel rates). If not, please explain.
 - b. Please describe the market differences and similarities between the parcels that would qualify for (1) retail single-piece parcel rates; (2) commercial single-piece parcel rates; and (3) presorted parcel rates. Please provide citations to qualitative and quantitative support, where available.
 - c. Please describe the cost differences and similarities between the parcels that would qualify for (1) retail single-piece parcel rates; (2) commercial single-piece parcel rates; and (3) presorted parcel rates. Please provide citations to qualitative and quantitative support, where available.
 - d. Please provide a discussion of how the proposed classification change helps to achieve the Objectives of § 3622(b) and properly takes into consideration the Factors of § 3622(c).

6. In explaining its proposal for above average increases in First-Class Mail presort flats rates, the Postal Service cites the October 2008 correction of an error in the flats model. It asserts that the correction “caused the Postal Service and the Commission to realize that presort flats were underpriced compared to single-piece flats. Since that time, the Postal Service has been raising the presort flats prices at above average rates to restore the appropriate pricing relationship. This price adjustment continues that practice.” Statement of James M. Kiefer at 21. The table below presents information about single-piece flats, nonautomation presort flats, and automation Mixed ADC flats. As the two least-workshared categories of presort flats, each represents the closest presorted rate to the single-piece rate. The table presents the changes in avoidable unit costs for these categories that resulted from the correction in question (Docket No. RM2008-2, Proposal 8), and the effects of both the Docket No. R2009-2 and instant rate adjustments on the differences between the single-piece flats rate and the first tier of presort flats rates.

	Effect of Correction on Unit Cost	R2008-1 Price	R2009-2 Price	Proposed Price
	(1)	(2)	(3)	(4)
Single-Piece	0.00	83.0	88.0	92.0
Nonauto Presort	-7.38	72.7	75.7	86.6
Difference from SP	7.38	10.3	12.3	5.4
Mixed ADC Auto Presort	-3.26	70.2	72.5	80.0
Difference from SP	3.26	12.8	15.5	12.0

Sources: Docket No. RM2008-2 Order No. 115 at 41 (Table IX-1), PRC-R2009-2-LR1, and USPS-R2010-4/1.

The Docket No. RM2008-2 correction altered the modeled unit costs of presort flats resulting in changes to the intra-presort cost differences. However, it did not affect the overall cost difference between total single-piece flats and total presort

flats. The effect that the correction did have on the relationship between presort and single-piece flats was to increase the cost differences between single-piece flats and the least-workshared categories of presort flats.

Given the absence of a change in the average costs and the increase in cost differences at the margin between single-piece and presort flats, the supposition that presort flats are underpriced compared to single-piece flats may be problematic. In the only price adjustment that occurred after the correction (Docket No. R2009-2), the Postal Service reflected the increased cost difference by increasing the discount (from the single-piece flats rate) for each of the two least-workshared categories of presort flats. The current proposal to reduce each of these discounts below pre-correction levels reverses, rather than continues, this practice. The Postal Service identifies the effects of the correction as “one contributing factor” in the decision to propose above average increases for presort flats. Please describe all other contributing factors.

7. Refer to Attachment A to the Postal Service Request at 14 of 84, where the proposed rates for First-Class Mail Keys and Identification Devices are listed. Please provide a discussion of the proposed changes to these rates, including how the proposed changes relate to the Objectives and Factors of § 3622(b) and (c). Please also revise the calculation of percentage changes in rates to incorporate the effect of the proposed changes.

8. The Postal Service states that the First-Class Mail workpapers report the expected revenue impacts of the “Reply Rides Free” initiative as a separate line item. Statement of James M. Kiefer at 27, n.23.
 - a. Please identify where this is presented.
 - b. Please also provide an estimate of the effect of the proposed initiative on Postal Service contribution, showing all calculations and explaining all assumptions.
 - c. Please discuss the expected impact of the initiative on the relevant marketplace.

9. Refer to the Statement of James M. Kiefer, Appendix A, at 1-3. Please provide additional details about the implementation of the proposed “Reply Rides Free” initiative.
 - a. Please confirm that the initiative is not a one-year program, but will continue indefinitely. If confirmed, please identify any changes necessary to volume threshold calculations for use in subsequent years. Please also describe the data that the Postal Service plans to collect to measure the performance of the program and how that data will be utilized to evaluate its success.
 - b. The scenarios presented in the description refer to a “program year.” Will program years align with calendar years? If not, will all participating mailers have concurrent program years, or will each have its own unique program year?
 - c. For mailers that may not immediately qualify for the initiative (*e.g.*, they do not use Full-Service IMb), what will be the process for subsequent enrollment? Will the beginning of a mailer’s enrollment be timed to coincide with a fiscal year, calendar year, or other common program year?

10. Refer to Attachment A to the Postal Service Request at 10 of 84. The proposed MCS language for the First-Class Parcel Nonmachinable surcharge deletes the phrase "Weighs less than 2 ounces" from the description of the price category.
 - a. Please provide the rationale for this apparent proposed classification change.
 - b. Please provide an estimate of the portion of nonmachinable parcel surcharge volumes that are due to the 2 ounce requirement, as opposed to the remainder that are due to the lack of a barcode or noncompliance with machinability requirements.
 - c. Please revise the calculation of the percentage changes in rates for First-Class Mail to reflect the two categories of nonmachinable parcel surcharge volume: (1) those subject to the surcharge under the current classification that will remain so; and (2) those currently subject to the surcharge that are not subject to the redefined surcharge.

11. Please refer to Library Reference USPS-R2010-4/1, Excel file "FirstClasMailIntl Worksheets R2010-4.xls," and worksheet tab "FY 2009 Q3 - FY 2010 Q2 FCMI."
 - a. Please show the quarterly volumes by Rate Group and Ounce increment used to derive the "FCMI Letter Volume" shown in Table 1. Please show all calculations in electronic form and provide citations to sources used.
 - b. Please show the quarterly volumes by Rate Group and Ounce increment used to derive the "FCMI Flats Volume" shown in Table 2. Please show all calculations in electronic form and provide citations to sources used.
 - c. Please show the quarterly volumes by Rate Group and Ounce increment used to derive the "FCMI Parcels Volume" shown in Table 5. Please show all calculations in electronic form and provide citations to sources used.

12. Please refer to Library Reference USPS-R2010-4/1, Excel file "FirstClasMailIntl Worksheets R2010-4.xls," and worksheet tab "FY 2009 Q3 - FY 2010 Q2 CARDS." Please show the quarterly volumes by Rate Group used to derive the "FCMI Cards Volume." Please show all calculations in electronic form and provide citations to sources used.

13. Please provide the rationale for the following rate decreases.
 - a. The per pound rate for High Density and Saturation letters and flats (Commercial and Nonprofit).
 - b. The DDU per pound rate for Carrier Route, High Density, and Saturation parcels (Commercial and Nonprofit).
 - c. The price per piece for pound-rated 3-digit presort flats.
 - d. The per piece rates for pound-rated Nonprofit automation letters.
 - e. The per piece rates for piece-rated and pound-rated 5-digit Nonprofit nonmachinable parcels.
 - f. the DDU per pound rate for Nonprofit 5-digit machinable parcels.

14. Please refer to the Statement of James M. Kiefer at 51, which states the following:

Stamped Cards in actuality did cover its costs. The FY 2009 ACR included an error in the volume reported in the Revenue Pieces Weight (RPW) report. The reported volume was 22 million, while the actual volume was 85 million. Correcting this error raises the revenue to well above costs.

With the corrected volume, for FY 2009, Stamped Cards cost coverage would be 238.3 percent. Also, please refer to the Statement of Stephen J. Masse, Attachments 9-11, which show the projected contribution for Stamped Cards for FY 2010, FY 2011 Before Rates, and FY 2011 After Rates. For the Stamped

Cards service, the attachments project a cost coverage of 22.36 percent, 22.58 percent, and 21.87 percent, respectively. Please explain the significant decrease in cost coverage.

- 15 Please refer to the FY 2009 ACD, Table VII-20 at 103, which shows a FY 2009 negative contribution for Registered Mail of \$679,702. Also, please refer to the Statement of Stephen J. Masse, Attachment 10, which shows a FY 2011 before-rates contribution for Registered Mail as \$6,058,375. Please explain the significant increase in contribution from FY 2009 to FY 2011 Before Rates. See the table below.

Comparison of Registered Mail's Contribution			
FY 2009 versus FY 2011 Before Rates			
	FY 2009	FY 2011	
	Contribution	Before Rates	Contribution
	Contribution	Contribution	Improvement
	[1]	[2]	[3] = [2]-[1]
Domestic Registered Mail	-\$679,702	\$6,058,375	\$6,738,077
Sources:			
	[1] FY 2009 ACD, Table VII-20 at 103		
	[2] R2010-4, Masse's Statement, Attachment 10		

Ruth Y. Goldway
 Presiding Officer