

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

NOTICE OF MARKET-DOMINANT  
PRICE ADJUSTMENT

Docket No. R2015-4

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
CHAIRMAN'S INFORMATION REQUEST NO. 13  
(February 23, 2015)

The United States Postal Service hereby provides its response to Chairman's Information Request No. 13, issued on February 20, 2015. Each question is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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1. The discounts proposed in Docket No. R2015-4 for the following Parcels workshare categories reflect an increase compared with the corresponding discounts in Docket No. R2013-10 and exceed avoided costs.
  - NDC Irregular Parcels pound-rated piece (\$0.367 versus \$0.334)
  - NDC Irregular Parcels piece-rated piece (\$0.344 versus \$0.334)
  - NDC Marketing Parcels pound-rate piece (\$0.442 versus \$0.401)

The Postal Service states that these proposed discounts are justified pursuant to the rate shock exception (39 U.S.C. § 3622(e)(2)(B)) because it has already increased Parcels prices by approximately 10.0 percent and that increasing Parcels prices further to align these discounts with their avoided costs would cause rate shock. Response to CHIR No. 2, question 8. Please confirm that keeping the discounts at their Docket No. R2013-10 amounts will allow the Postal Service to comply with 39 U.S.C. § 3622(d)(1)(A). If not confirmed, please explain why increasing these three workshare discounts (compared to their Docket No. R2013-10 discounts) is necessary to mitigate rate shock.

**RESPONSE:**

Confirmed. However, the Postal Service is concerned because accomplishing this would push the increase for some price cells to over 10 percent.

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2. The Postal Service proposes to increase the discount for Nonautomation AADC Machinable Letters from \$0.018 (Docket No. R2013-10) to \$0.020 (Docket No. R2015-4), increasing the passthrough from 112.5 percent (Docket No. R2013-10) to 125.0 percent (Docket No. R2015-4). The Postal Service states that the increase in the passthrough percentage is justified by 39 U.S.C. § 3622(e)(2)(B) (rate shock) because it would cause significant price increases to other downstream price categories. Notice at 47; Response to CHIR No. 2, question 4.
- a. Please explain why increasing the Nonautomation AADC Machinable Letters discount from \$0.018 to \$0.020 is necessary in order to prevent price increases to the downstream Nonautomation price categories.
  - b. Please confirm that the Postal Service could set its proposed Nonautomation Mixed AADC Machinable origin entry at the Docket No. R2013-10 level without affecting the proposed prices for the remaining Nonautomation Machinable category and the Nonautomation Nonmachinable categories. If not confirmed, please explain.

**RESPONSE:**

- a. In a vacuum, increasing the Nonautomation AADC Machinable letters discount from \$0.018 to \$0.020 is not necessary in order to prevent price increases that are larger than acceptable to the downstream Nonautomation prices. There are other ways to prevent such price increases. For example the Postal Service could propose a price decrease for Mixed Nonautomation AADC Machinable letters, and keep the passthrough for Nonautomation AADC Machinable letters at \$0.018, and still have the same acceptable levels of price increases downstream. But the Postal Service weighed the unfairness of giving one presort level a price decrease against giving other presort levels increasingly large price

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increases, and decided that the best solution was to increase the discount for Nonautomation AADC from \$0.018 to \$0.020.

Another way the Postal Service could avoid increasing this discount, but keep the downstream price increases at acceptable levels, would be to give a lower price increase for all Nonautomation letter cells, and either take a lower overall percentage price increase for all of Standard Mail, or increase the prices of other cells by more than the current proposal. Again, the Postal Service does not want to go in this direction. It wants to give Letters a slightly lower than cap price increase. Because of the relatively high volumes of Letters compared to other Standard Mail products, the Letters increases have to be kept relatively close to the cap number in order to keep the overall price increase close to the cap numbers. If we had kept the Letters increases much lower than the cap, it would have been difficult to raise the lower volumes cells of other products by enough to get back to being close to the cap.

These are just two examples of how preserving the workshare discounts creates negative consequences in other areas. There are many competing interests, among which the Postal Service seeks to strike the appropriate balance.

- b. Confirmed.

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3. 39 C.F.R. § 3010.12(b)(4) states “[i]f new unused rate adjustment authority will be generated for a class of mail that is not expected to cover its attributable costs, the Postal Service must provide the rationale underlying this rate adjustment.” The Commission adopted this language in Order No. 43.<sup>1</sup> In that order, the Commission stated it “anticipates that the Postal Service will make every effort to ensure that classes of mail recover their attributable costs including, if necessary, using its full authority to increase rates under the cap. The final rule allows the Postal Service to provide an explanation should it somehow not be possible to do so.” *Id.* at 43-44.
- a. Please confirm that the Periodicals class is not expected to cover its attributable cost in FY 2015. If not confirmed, please explain.
  - b. Please confirm that 0.626 percent of unused Periodicals class pricing authority will be generated by the price adjustment proposed by the Postal Service in Docket No. R2015-4.
  - c. Please explain why the Postal Service does not plan to use its full pricing authority for Periodicals in Docket No. R2015-4.
  - d. Please provide the rationale for generating unused pricing authority for the Periodicals class in Docket No. R2015-4, in accordance with 39 C.F.R. § 3010.12(b)(4).

**RESPONSE:**

- a. Confirmed.
- b. Confirmed.
- c-d . As explained in ChIR No. 11, question 4, and the Postal Service’s response to that question, failure to utilize full cap authority in this instance is the unintended consequence of estimating incorrectly the price increase resulting from the rates noticed in the original filing. In these circumstances, the Postal Service proposes banking the difference between the cap amount and the actual price increase, and utilizing it when rates are increased during the next general price change. In

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<sup>1</sup> Docket No. RM2007-1, Order Establishing Ratemaking Regulations for Market Dominant and Competitive Products, October 29, 2007 (Order No. 43).

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this regard, the Postal Service is concerned about delay that might be caused, if it were to amend the rates prior to the Commission's initial decision in this docket. Such delay might interfere with the expected implementation date for all of the rate changes. Alternatively, if the Commission were to remand any rates in its initial decision, the Postal Service could amend the rates at that time, in accordance with the procedural schedule outlined in 39 CFR 3010.