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

MODIFICATION OF MAIL CLASSIFICATION SCHEDULE REGARDING BOUND PRINTED MATTER	Docket No. MC2008–3

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO COMMISSION INFORMATION REQUEST NO. 2

The United States Postal Service hereby provides its response to Commission Information Request No. 2, issued on April 18, 2008. Each question is stated verbatim and is followed by the response.

Respectfully submitted,

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1. To ensure that these single-piece BPM volume shifts do not cause the Package Services class to exceed the 2.9 percent price cap established in Docket No.R2008-1, please: (a) provide workpapers which calculate the shifts in volume resulting from the classification change for each product in the Package Services class, and (b) explain the basis, including all assumptions used, on how the volumes were redistributed within the Package Services class.

RESPONSE:

Assuming that it were appropriate to try to estimate volume and revenue shifting involving pieces potentially affected by this classification change, several observations are in order. First, this is not a situation in which the effects of the classification change can be easily separated from a distinct *status quo ante*. The intent of the change is to eliminate the entry of nonpresorted Bound Printed Matter (BPM) at retail windows. It is not, however, the first step taken by the Postal Service in seeking to minimize BPM transactions at retail windows. In conjunction with the implementation of the Docket No. R2006-1 rates in May of 2007, the Postal Service made certain administrative changes regarding nonpresorted BPM. The most important of these changes was that BPM no longer came up as an option on the POS terminals used by window clerks to explore mailing options with customers mailing parcels. The apparent effect of this change was a substantial reduction in the number of BPM pieces entered using non-permit forms of postage, consistent with the Postal Service's expectations that the change would reduce the number of pieces entered at retail windows. Comparing RPW data for Quarter 4 of FY 2007 (after the administrative changes) with Quarter 4 of FY 2006 (before the administrative changes), the effect was a reduction in non-permit indicia single-piece BPM of at least 15 percent, from 4.96 million in FY 2006 Quarter 4 to 4.19 million in FY 2007 Quarter 4. These data represent all entry points, not just retail window transactions. More relevantly, data from POS terminals, which record retail transactions, show an even starker decline: The volume of BPM pieces with postage affixed entered at the retail window fell by nearly 60 percent (from 881 thousand to 373 thousand) when these same two quarters are compared. The Postal Service believes that the evidence is clear that the administrative changes implemented in May 2007 had a substantial impact, greatly reducing the volumes of BPM entered at retail windows in the latter part of FY 2007.

Unfortunately, the FY 2007 billing determinants used for cap compliance[1] calculations in the market dominant rate changes announced in February 2008 reflect a mix of a time period before the above-described administrative changes (i.e., pre-May 14, 2007), and a time period after those changes (i.e., post-May 14, 2007). As a result, one cannot seek to determine the total number of BPM pieces in FY 2007 that were entered at the window, and merely assume that all such pieces are candidates to be shifted to other rate categories by virtue of this classification change. Based on the FY06Q4 to FY07Q4 comparisons, it seems evident that many of those pieces have already shifted somewhere, and thus no longer remain in the pool of candidates likely to be affected by this classification change. Using unadjusted FY 2007 billing determinants as the measure of before-change volumes, therefore, would confound instances of potential shifting caused by the new classification change with instances of potential shifting caused by the previous administrative changes.

[1] Assuming that calculating cap compliance were appropriate, it is not clear that the 2.9 percent cap (based on the January 16, 2008 CPI release) is the correct benchmark to use given that this change was filed with the Commission on March 20, 2008. *See* 39 U.S.C. § 3622(d)(1)(A).

Even the assumption that an appropriate set of before-change volumes could be identified, however, would still not be sufficient to ensure that volume and revenue shifts could be satisfactorily resolved. No price schedule is changed by the BPM classification change and, more importantly, the change would not necessarily cause any given piece to shift from BPM to another postal product with a higher price for that piece. Mailers will retain the option of paying for nonpresorted BPM using a permit imprint. As demonstrated by the APWU comments filed in this docket on April 9, 2008, some mailers currently entering BPM at the window already have the ability to pay for their mail using a permit imprint. While it might seem puzzling, at first, that mailers with permits might pay for their nonpresorted BPM using meter strips, stamps, PVI strips or other forms of non-permit indicia, current mailing standards (DMM 604.5.1.2) do not allow for payment of postage using permit imprints for mailings of fewer than 200 pieces or 50 pounds. Therefore, one would expect that APWU's situation is common, if not the norm, and that much of the non-permit imprint nonpresorted BPM is, in fact, entered by mailers who already have permits. Because the change in mailing standards underlying the instant classification change eliminates the minimum volume requirement for using permit imprints for nonpresorted BPM mailings,[2] mailers who are able to use permit imprints would not need to shift to a higher priced product.[3]

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[2] Response of United States Postal Service to Commission Information Request No. 1, question 1 (April 7, 2008).

[3] RPW data for FY 2006 help to illuminate this point. During FY 2006, one-fourth of single-piece BPM *paid for using non-permit indicia* (5.1 million out of 20.6 million pieces) received a barcode discount. Since BPM pieces must be in mailings of at least 50 pieces to qualify for the barcode discount, it is clear that it would be grossly incorrect to take the volume of non-permit indicia single piece BPM pieces and assume that it was a reasonable representation of retail volumes, either before or after the change. RPW

Consequently, to estimate with confidence potential shifts from before-change volumes and revenues to after-change volumes and revenues, it would be necessary to split existing retail BPM mailers into those with actual or feasible access to using a permit imprint, and those without. It seems reasonable to suggest substantial overlap between the set of mailers without such access, and the set of mailers who previously entered retail BPM volume that evaporated after the previous administrative changes. With respect to the volume which is left, however, there simply is no basis to draw any such conclusion. In fact, to engage in speculation as to what proportion of such mailers would find it economical to obtain authorization to use a permit imprint would be, in many respects, similar to attempting to adjust billing determinants based on forecasts of mailers' responses to price changes.

On balance, therefore, the Postal Service finds itself unable to provide meaningful estimates of potential volume shifts in response to the instant classification change. Many of the previous BPM retail mailers likely to switch to a more expensive service were probably among the group who appear to have switched already. It is reasonable to suggest that most, if not all, remaining retail BPM mailers are familiar with the product and mail it with sufficiently regularity or in sufficient volume that they might find it appropriate to obtain or use a permit imprint. If a substantial majority of them switch from being retail customers to permit mailers in response to the instant classification change, the effect on price cap compliance, even assuming such an inquiry were appropriate in this context, would be negligible.

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data for FY 2007 consolidate barcoded and non-barcoded volumes for non-permit single piece BPM, so the same breakdown is not available, but there is no reason to believe that the barcoded share would be any lower than in FY 2006.

2. If volumes are expected to decrease as a result of this change, please describe how the policies of 39 U.S.C. §§ 3622(c)(4), (8), and (11) were taken into account in determining to make this change.

RESPONSE:

The Postal Service believes that the concerns addressed in factors 4, 8, and 11, considered in the context of the minimal additional decrease in nonpresorted BPM volume discussed in response to question 1, would not outweigh the advantages of developing a more simple and targeted pricing schedule (factor 6) for BPM and Package Services.

3. Is the distribution of volumes in No. 1 above influenced by method of postage payment, *e.g.*, stamps or Postage Validation Imprint? If so, please elaborate and show the distribution by method of payment. If not, please explain.

RESPONSE:

Please see the response to question 1. The Postal Service cannot estimate with any reliability how many post-May 14, 2007 retail single piece BPM customers remain, or what options they might choose. Clearly, those customers who already can use permit imprint will likely pay nonpresorted BPM postage in that way following implementation of the classification and DMM changes. How much of the non-permit indicia nonpresorted BPM is currently entered by such customers, or by other such mailers who will find it feasible to acquire authorization to use permit imprint is not known, but believed to be large. The RPW data that the Postal Service has do not further separate the volumes by indicia into retail vs. other mailers. Therefore, we do not know the shares of retail and non-retail customers using each type of non-permit imprint indicia.

4. Based on the shift in volumes reported in No. 1 above, please recalculate: (a) the percentage change in rates by product, (b) the average percentage change in rates for the Package Services class, and (c) the unused rate adjustment authority associated with rates to be effective May 12, 2008 [footnote omitted].

RESPONSE:

As explained in the response to question 1, the Postal Service is unable to perform these calculations.

5. Please explain the rationale for not including: (a) postage meters, and (b) information-based indicia as authorized payment options for single-piece BPM.

RESPONSE:

The intention of the change is to eliminate the retail window as an acceptance point for BPM. Since mail paid with postage meters or with information-based indicia can be entered at retail (within the ZIP Code shown on the indicia), these postage payment methods were not included. The Postal Service will, however, give further consideration to whether the instant classification change should be modified to allow for alternative entry of nonpresorted BPM using these postage payment methods.

6. Please identify: (a) all other indicia (excluding stamps, metered mail, Postage Validation Imprints, information-based indicia, and permit imprints) that currently may be used to mail single-piece BPM; and (b) each indicia identified in response to subpart (a) which, under the planned classification change, would no longer be an authorized payment option for single-piece BPM.

RESPONSE:

(a) None.

(b) Not applicable.

7. For each indicia identified in response to 6(b) above, please explain the rationale for not including that indicia as an authorized payment option for single-piece BPM.

RESPONSE:

Not applicable.