

Docket No. RM2010-9

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;
Tony L. Hammond, Vice Chairman;
Mark Acton;
Dan G. Blair;
Nanci E. Langley

Estimating Volume Changes from
Pricing Incentive Programs

Docket No. RM2010-9

PUBLIC REPRESENTATIVE MOTION FOR ISSUANCE OF INFORMATION
REQUEST AND ADJUSTMENT TO PROCEDURAL SCHEDULE

(July 23, 2010)

Pursuant to Commission rules 3007.3 and 3001.21, the Public Representative respectfully requests the Commission to issue an information request, as set forth in Attachment A to this motion, for the purpose of establishing a robust record as the basis for a reasoned decision in this rulemaking. Further, the Public Representative requests that the deadline for reply comments in this docket be postponed as explained in the body of this motion.

I. BACKGROUND

The Commission initiated this rulemaking to “investigate methodologies for estimating volume changes due to pricing incentive programs.”¹ On June 11, 2010, the Public Representative filed a motion to allow discovery in this docket.² The Public Representative argued that discovery was essential for developing clear proposals and an evidentiary record. On June 18, 2010, the Postal Service filed a response in opposition to the Public Representative Motion, stating it would be more appropriate to “allow the Postal Service to present its proposed methodology during the comment period and then allow the Public Representative to comment on the methodology or request permission to conduct discovery, if necessary.”³ The Commission denied the Public Representative Motion, stating “the initial comment period may generate proposals which, on reflection, necessitate modification of the procedural schedule to accommodate meaningful reply comments.”⁴ The Postal Service, as well as other interested parties, filed initial comments on July 16, 2010.

II. THE POSTAL SERVICE INITIAL COMMENTS DO NOT DEVELOP A METHOD

The Postal Service describes its proposed methodology on pages 7 to 9 of its Initial Comments.⁵ The description of the proposal does not contain any formulas or mathematical analysis, and does not resolve any outstanding issues with a precise

¹ Notice of Proposed Rulemaking Concerning Methods to Estimate Volume Changes Caused By Pricing Incentive Programs, June 8, 2010. (Order No. 469).

² Motion Requesting an Adjustment to Procedural Schedule, June 11, 2010 (Public Representative Motion)

³ Response of the United States Postal Service in Opposition to Motion of the Public Representative Requesting Adjustment to Procedural Schedule, June 18, 2010 at 2.

⁴ Order No. 478 Order Denying Motion for Adjustment to Procedural Schedule. June 24, 2010

⁵ Initial Comments of the United States Postal Service Concerning Methods to Estimate Volume Changes Caused by Pricing Incentive Programs. July 16, 2010. (Postal Service Initial Comments) at 7-9.

mathematical interpretation of its methodology. The Postal Service does not provide any empirical demonstration of its method or an accompanying rationale.

The Postal Service has utilized inconsistent methodologies for the evaluation of pricing incentive programs, such as those filed in Docket No. R2009-3 and Docket No. R2010-3 (the Postal Service has not filed a proposed methodology for the incentive program filed in Docket No. R2009-5). Order No. 469 at 6. The Initial Comments of the Postal Service do not clarify how it proposes volume growth before the incentive period should be calculated, just that it should be calculated.

The Postal Service proposes that volume growth should be estimated using “the dispersion of customer growth rates around the market average,” and by “assuming there would have been a similar pattern of growth rates in the absence of the incentive program.” Postal Service Initial Comments at 7-8. This method may be mathematically restated as follows:

$$\text{PROFIT} = \text{CONTRIBUTION AFTER DISCOUNT} * \text{INCREMENTAL VOLUME} - \text{DISCOUNT} * \text{LEAKAGE VOLUME}$$

$$\text{INCREMENTAL VOLUME} = (\text{VOLUME GROWTH DURING INCENTIVE} - \text{VOLUME GROWTH BEFORE INCENTIVE})$$

$$\text{LEAKAGE VOLUME} = \text{VOLUME GROWTH BEFORE INCENTIVE}$$

The Postal Service does not specify what inputs should be used for these variables. The “dispersion of customer growth rates around the market average” can be calculated using many methods. The variety of potential inputs leads to a large variation in potential outcomes, many with questionable accuracy. In Docket No. R200903 (and in Attachment A to this motion) the Public Representative explained that using the pre-implementation volume data from each mailer that participated in the Summer Sale yields significantly higher pre-implementation growth rates.⁶ The Postal Service has not provided any guidance with respect to what costs should be used in its proposed methods.

⁶ Docket No. R2009-3 Comments of the Public Representatives, March 22, 2010 at 9.

The incentive pricing proposals filed with the Commission have, thus far, included estimates of short-run attributable costs. The Postal Service does not provide any empirical method to estimate these costs. The Public Representative, as well as other interested participants, require the Postal Service to provide information on the inputs to be used in its proposed model in order to perform analysis of the model with any rigor and accuracy. Without parties' ability to perform such analysis, comments on pricing incentive programs will be markedly less useful to the Commission.

III. WHAT INPUTS, AND WHY?

The Postal Service proposes that the most appropriate method to use is an unidentified adjustment for growth outside of the incentive period. It is unclear if this adjustment will use the same method for all incentives, or even the time period (before or after implementation) that the method will be developed. The lack of specific details concerning the Postal Service proposal has created a need for additional information if reply comments are to focus on any epistemological issues related to the evaluation of incentive pricing programs. The attached questions would clarify these issues.

Further, the Postal Service has not yet provided the data collection report for the pricing incentive program presented in Docket No. R2009-5. Commission Order No. 299 required that information be provided "within 15 days after crediting rebates to qualifying mailers."⁷ That pricing incentive program concluded January 1, 2010, which is, as of the filing of this motion, 204 days ago. Because the Postal Service has proposed a different method for the contribution analysis of each pricing incentive program to date, it would be premature to issue a ruling in this docket before the Postal Service analysis of the Docket No. R2009-5 pricing incentive program is available.

⁷ Order Approving First-Class Mail Incentive Pricing Program, September 16, 2009 (Order No. 299) at 21.

The Public Representative respectfully requests that the Commission direct the Postal Service to answer the attached questions, and that the deadline for reply comments in this docket be postponed until at least 14 days after the Postal Service files the Docket No. R2009-5 pricing incentive program data collection report with contribution analysis.

Respectfully Submitted

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1. The Postal Service's non-empirical proposal mentions the importance of customer growth rates outside of the incentive period to estimate leakage volume. To estimate additional contribution from the pricing incentive in Docket No. R2009-3, the Postal Service provided the following formula:

Theoretical Spring Sale			
1	Spring 2008 (Apr-Jun) Volume	8,075,371,963	Actual Apr 08 - Jun 08 volume of 923 rebate eligible mailers
2	Spring 2009 (Apr-Jun) Threshold	6,451,844,292	Aggregate Apr 09 - Jun 09 thresholds of these 923 accounts
3	Spring 2009 (Apr-Jun) Volume	6,158,630,167	Actual Apr 09 - Jun 09 volumes of these 923 accounts
4	Loyalty Volume (Growth Above Threshold)	570,815,567	Total rebate eligible volume when Summer Sale 2009 rules are applied
5	As Percentage (high est)	7.07%	Row 4/ Row 1

The method is then applied to the 2009 Summer Volume (July-August) to estimate the volume resulting from growth before the implementation of R2009-3, as follows:

Actual Summer Sale Data			
6	Summer 2009 (Jul-Sep) Volume	6,795,063,650	As reported in Docket No. R2009-3
7	Total October Adjustment	96,134,934	As reported in Docket No. R2009-3
8	Summer Sale Incremental Volume (as of Feb, 2010)	995,265,167	As reported in Docket No. R2009-3
9	Additional Incremental Volume from Accounts Still Being Processed	10,000,000	Estimated
10	Estimated Summer Sale Incremental Volume at End of Program	1,005,265,167	
11	Incremental Volume Due to Loyalty	384,180,788	Line 6 * Line 5 - Line 7
12	Incremental Volume Due to New Growth	621,084,380	Line 10- Line 11
13	Percentage of Incremental Volume Due to New Growth	61.8%	Line 12 / Line 10

- a. Does the Postal Service propose to use this methodology to estimate growth before the incentive period for future incentives?
- b. Line 4, "Loyalty Volume", is calculated as an aggregate for all mailers participating in Summer Sale.
 - i. How many mailers with "Loyalty Volume" did not receive a rebate?

- ii. Of the 570,815,567 pieces in “Loyalty Volume” how much volume was sent by mailers that did not receive a rebate?
 - c. Why does the volume growth of mailers that experience volume growth before the incentive period but not during the incentive period effect the amount of leakage volume?
 - d. In line 11, why is the October Adjustment Volume (line 7) variable subtracted from the product of Summer Sale 2009 Volume and Loyalty volume as a percentage of Spring 2009 Volume (Line 6 x Line 5)?
2. The following table uses the same method as question 1, but only uses data from mailers that received rebates.

Theoretical Spring Sale		
1 Spring 2008 (Apr-Jun) Volume	4,382,104,164	Actual Apr 08 - Jun 08 volume of mailers with rebate
2 Loyalty Volume (Growth Above Threshold)	413,118,365	
3 As Percentage (high est)	9.43%	Percent of volume that is "Loyalty"
Actual Summer Sale Data		
4 Summer 2009 (Jul-Sep) Volume	4,548,126,736	As reported in Docket No. R2009-3
5 Total October Adjustment	96,134,934	As reported in Docket No. R2009-3
6 Summer Sale Incremental Volume (as of Feb, 2010)	995,265,167	As reported in Docket No. R2009-3
7 Additional Incremental Volume from Accounts Still Being Processed	10,000,000	Estimated
8 Estimated Summer Sale Incremental Volume at End of Program	1,005,265,167	
9 Incremental Volume Due to Loyalty	428,769,972	Line 6 * Line 5
10 Incremental Volume Due to New Growth	576,495,195	Line 10- Line 11
11 Percentage of Incremental Volume Due to New Growth	57.3%	Line 12 / Line 10

- a. Please describe the advantages of the method proposed in the Docket No. R2009-3 Pricing Incentive Program data collection report, using “Loyalty Growth” information from mailers that did not receive discounts.
- b. This method does not include the “October Adjustment” volume in the calculation of “Incremental Volume Due to Loyalty.” Please explain how the inclusion of that variable would improve the accuracy.

3. The following table contains a Same Period Last Year (SPLY) analysis, similar to the method proposed for Docket No. R2010-3, for using the Docket No. R2009-3 analysis.

Theoretical Spring Sale		
1 Spring 2008 (Apr-Jun) Volume	4,382,104,164	Actual Apr 08 - Jun 08 volume of mailers w ith rebate
2 Growth above SPLY	147,918,630	
3 As Percentage (high est)	3.38%	Percent of volume that is "Loyalty"
Actual Summer Sale Data		
4 Summer 2009 (Jul-Sep) Volume	4,548,126,736	As reported in Docket No. R2009-3
5 Summer 2008 (Jul-Sep) Volume	4,349,019,918	As reported in Docket No. R2009-3
6 Volume growth above SPLY	199,106,818	Line 4 - Line 1
7 Incremental Volume Due to Loyalty	153,522,749	Line 3 * Line4
8 Incremental Volume Due to New Growth	45,584,069	Line 6- Line 7
9 Percentage of Incremental Volume Due to New Growth	21.8%	Line 8 / Line 9
rebate vol	1,005,265,167	
line 9 x rebate vol	219,141,956	
elasticity incremental vol	217,493,471	

- a. The data contained in the file "Summer Sale 2 –Loyalty Analysis_Redacted.xls" does not contain mailer identification for 33 mailers (such as "800072B") when compared to "PRC Report V1.xls." The above table does not include information on 33 mailers. Please provide a table with the above information for all mailers who earned rebates in Docket No. R2009-3.
- b. Please discuss the benefits of the Postal Service proposed methodology as compared to a method using growth over SPLY volumes.
- c. The "Percentage of Incremental Volume Due to New Growth" using this method is 21.8%. Assuming that the mailers who mailed less than SPLY volumes can attribute that same Percentage (21.8%) of their incremental volumes above Threshold, the estimate of incremental volume attributable to the discount closely matches the elasticity estimate yielded by the current methodology of the Commission. Please discuss the benefits of

this version of the Postal Service proposed methodology as compared to the Commissions accepted methodology.

4. Has the Postal Service used the market segment data to evaluate market segment specific elasticity? If so, please provide such analysis.
5. Has the Postal Service developed an analysis of the Docket No. R2009-3 Pricing Incentive Program response with regards to prospecting volume? If so, please provide such analysis.
6. Does the Postal Service intend to offer more targeted Pricing Incentive Programs in the future, such as initiatives aimed at prospecting volume?
7. Does the Postal Service intend to use the “Loyalty Growth” method for initiatives that may involve only new volumes, *i.e.* prospecting initiatives?
8. In Docket No. R2009-3, R2009-4, R2009-5 and R2010-3, the Postal Service stated that Short-Run Attributable costs were lower than the Long-Run Attributable Costs estimated in the ACR docket.
 - a. Does the Postal Service believe that incremental mail from mailers eligible for these programs have lower attributable costs? If so, please provide all studies estimating this effect.
 - b. Does the Postal Service believe that this phenomenon will continue?
 - c. Has the Postal Service measured the effect of the decreased attributable cost of incremental pieces on the attributable costs of the products with volumes incentivized by these programs? If so, please provide all studies estimating this effect.