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

NOTICE OF PRICE ADJUSTMENT (TECHNOLOGY CREDIT PROMOTION)	Docket No. R2013–6

RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1
(May 7, 2013)

The United States Postal Service hereby provides its responses to Questions 1 through 11 of Chairman's Information Request No. 1, issued on May 1, 2013. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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Question 1

Please confirm that the proposed Mail Classification Schedule (MCS) language appearing below accurately describes the Technology Credit Promotion. Please propose any modifications necessary to provide a more accurate description. Note that the proposed language attempts to clarify the terms "Full-Service IMb eligible pieces" appearing in the Postal Service's Notice. It describes qualifying mail using terms currently appearing in the MCS. It states that any combination of eligible mail may be aggregated to achieve the more than 125,000 piece threshold to qualify for the Technology Credit Promotion.

Full-service Intelligent Mail barcode Technology Credit Promotion (June 1, 2013 to May 31, 2014)

a. To be eligible for the Technology Credit Promotion, a mailer must have mailed more than 125,000 pieces in any combination of automation-compatible First-Class Mail Presorted Letters/Postcards, First-Class Mail Flats, Standard Mail Carrier Route, Standard Mail Flats, In-County Periodicals, Outside County Periodicals, or Package Services Bound Printed Matter Flats between October 1, 2011 and September 30, 2012 (FY 2012).

b. A mailer is evaluated for Technology Credit Program eligibility by Customer Registration ID (CRID) at each business location. Each CRID is eligible for one (1) Technology Credit.

c. The available amount of a Technology Credit is based on a mailer's eligible FY 2012 volume by CRID as follows:

- 125,001-500,000 FY 2012 volume: $2,000
- 500,001-2,000,000 FY 2012 volume: $3,000
- More than 2,000,000 FY 2012 volume: $5,000

d. The Technology Credit is automatically applied as a credit to postage for future mailings of First-Class Mail Presorted Letters/Postcards, First-Class Mail Flats, Standard Mail Carrier Route, Standard Mail Flats, In-County Periodicals, Outside County Periodicals, and/or Package Services Bound Printed Matter Flats where at least 90 percent of mailpieces within a mailing comply with Full-service Intelligent Mail requirements.

e. The Technology Credit is applied up to the full amount of the postage shown on a mailing statement. Any remaining Technology Credit may be applied to future mailing statements.

RESPONSE:

The Postal Service would modify subsections (c) and (e) as follows:

c. The available amount of a Technology Credit is based on a ~~mailer's~~ CRID's eligible FY 2012 volume~~, by CRID~~ as follows:

- 125,001-500,000 FY 2012 volume: $2,000
- 500,001-2,000,000 FY 2012 volume: $3,000
- More than 2,000,000 FY 2012 volume: $5,000

e. The Technology Credit is applied up to the full amount of the postage shown on a mailing statement. Any remaining Technology Credit may be applied to future mailing statements within the Promotion period.

The Postal Service confirms that the other MCS language proposed in the question is correct.

Question 2

Please provide the following information in an Excel file for each eligible Technology Credit Program Customer ID (CRID): (a) CRID, (b) business location, (c) business identity, (d) amount of potential credit, and (e) FY 2012 eligibility volume. If the FY 2012 eligibility volume is available disaggregated by class of mail, please also provide that information.

RESPONSE:

Please see ChIR1.Q2.Nonpublic.xls, filed under seal in USPS-R2013-6/NP1. As shown in the Excel file, the Postal Service has revised the original aggregate estimate from $65,729,000 to $61,609,000, by working with customers to correct the data reported for them. This workbook will likely change slightly over the next few weeks, as any remaining data issues are resolved.

Question 3

The Postal Service states that it will pay out approximately $66 million in postage credit resulting from the Technology Credit Promotion. Notice at 1. Please provide the derivation of this figure.

RESPONSE:

Please see the response to Question 2 above.

Question 4

Please estimate the administrative cost of implementing the Technology Credit Promotion.

RESPONSE:

The estimated cost of implementing software changes in the *PostalOne!* system to support the Technology Credit Promotion is about $346,000. Additionally, there are customer support costs and Headquarters administrative costs, but the Postal Service is not able to isolate such costs for the Technology Credit Promotion.

Question 5

Please confirm that the Technology Credit Promotion has rate cap implications due to changes in prices.

RESPONSE:

As is the case with all promotions, the Technology Credit Promotion effectively results in a price decrease, thus implicating the Commission's price cap rules.

Question 6

Commission rule 3010.2 identifies four types of rate adjustments for market dominant products. These include: Type 1-A rate adjustments, authorized under 39 U.S.C. 3622(d)(1)(D), based on the statutory annual limitation; Type 1-B rate adjustments, authorized under 39 U.S.C. 3622(d)(2)(C), based on an exception to the annual limitation and referred to as unused rate adjustment authority; Type 2 rate adjustments, authorized under 39 U.S.C. 3622(c)(10), based on a negotiated service agreement; and Type 3 rate adjustments, authorized under 39 U.S.C. 3622(d)(1)(E), based on exigent circumstances. The Postal Service indicates that it provides the information required by Rule 3010.14, which appears in Part 3010, Subpart B – Rules for Rate Adjustments for Rates of General Applicability (Type 1–A and 1–B Rate Adjustments). Notice at 1.

a. Please confirm that the Technology Credit Promotion is a Type 1-A rate adjustment. If not confirmed, please indicate the type of rate adjustment the Postal Service is proposing and provide an explanation.

b. Rule 3010.14(b)(1) requires the Postal Service to provide "[t]he amount of the applicable change in CPI-U calculated as required by § 3010.21 or § 3010.22, as appropriate." If less than 12 months have passed since the previous notice of Type 1-A or 1-B rate adjustment for First-Class Mail, Periodicals, Standard Mail and Package Services, rule 3010.22 (Calculation of less than annual limitation) applies. Please provide the data required by rule 3010.14(b)(1), including the calculation of the limitation as defined in rule 3010.22.

c. Rule 3010.14(b)(4) requires presentation of "[t]he amount of new unused rate authority, if any, that will be generated by the rate adjustment calculated as required by § 3010.26."

   Rule 3010.26 states that the less than annual limitation (from rule 3010.22) is to be used to determine the new unused rate authority. Because less than 12 months have passed since the previous notice of Type 1 rate adjustment, the new unused rate authority for each class is equal to the difference between the less than annual limitation and the actual percentage change in rates for the class. *See* rule 3010.26(b).

   Please provide the calculation of new unused rate adjustment authority generated by the proposal as defined by rule 3010.26.

d. The Postal Service states that it should be "permitted to treat the Technology Credit Promotion as a decrease in rates, resulting in price authority, and delay the use of that price authority until its next market-dominant price change." Notice at 5. Please describe how this treatment is consistent with applicable Commission rules. If this treatment is inconsistent with any specific rule, please provide a justification for allowing the inconsistency.

RESPONSE:

a-d.

As the Postal Service stated in its Notice, at page 4, the Technology Credit Promotion does not fit squarely within any of the Commission's existing rules. It is neither a Type 1-A rate adjustment nor a Type 1-B rate adjustment. Both of those rate adjustment types presuppose price increases, whereas here the Postal Service is not proposing price increases. The Postal Service has therefore offered a reasonable suggestion as to how the Commission should treat the promotion's price cap implications, in a manner that is consistent with the Postal Accountability and Enhancement Act (PAEA).

It is not a new matter for the Commission to consider and approve price changes that do not fit squarely within its rules. Every promotion is a price change, and under the Commission's rules, every price change results in the calculation of price cap authority, and such authority must either be used or banked. Nonetheless, the Commission has previously exercised regulatory discretion in departing from those outcomes where warranted by special circumstances not contemplated in the Commission's rules.[1]

In the present docket, the Postal Service has proposed a temporary, mid-year promotion. Under the Commission's rules, a promotion is a price change. Strict adherence to those rules would necessitate that the Postal Service calculate the current

[1] *See*, *e.g.*, Order No. 731, Docket No. R2011-5 (May 17, 2011); Order No. 1296, Docket No. R2012-6 (Mar. 26, 2012). Under strict adherence to the Commission's rules, both of the promotions approved in the cited orders should have resulted in the calculation and use or banking of price cap authority, but the Commission chose to depart from those outcomes. Importantly, while the Commission analogized the promotion in Docket No. R2012-6 to an NSA, it was indisputably not an NSA. It plainly did not fit the definition of an NSA. Rather, it was merely analogized to an NSA.

CPI-U authority and any price cap authority created by the promotion now, and either use that authority now or bank it.[2] However, as the Commission has recognized, the PAEA allows for promotions, and it allows the Postal Service to recover the amount expended in promotions through new price cap authority. Unfortunately, the Commission's rules presuppose that all promotions will occur as part of larger price changes, rather than on their own between annual price changes.

The Postal Service has therefore asked the Commission to recognize that the circumstances presented in this docket are not contemplated in the existing rules, and to address the apparent gap in the rules by allowing the Postal Service to implement a mid-year promotion and then recover the price cap authority created by the promotion in the Postal Service's next annual price change. This would be both reasonable and fully consistent with the PAEA.

[2] Strict adherence to the rules would bar the Postal Service from even forgoing the price cap authority.

Question 7

The Postal Service appears to propose the creation of permanent price cap authority. Notice at 6. However, the Technology Credit Promotion is proposed as a temporary, one-time offer. How does the Postal Service intend to reflect the expiration of the Technology Credit Promotion in subsequent Type 1-A or 1-B rate adjustments?

RESPONSE:

The price cap authority created by the Technology Credit Promotion will automatically reverse in the first annual price change subsequent to the expiration of the Promotion, consistent with the Commission's rules and methodologies for calculating price cap authority. In brief, revenue forgone from the Technology Credit Promotion for each class of mail will be subtracted from revenue in calculating price cap authority in the upcoming annual price change, and then the same amount will be added back to revenue in calculating price cap authority in the subsequent annual price change. The Postal Service assures the Commission that these calculations will be clear and transparent.

Question 8

In an Excel file accompanying its Notice, the Postal Service provided the table replicated below which contains the "projected" Technology Credits by class of mail and resulting price cap authority. The Postal Service states "[t]he calculation is preliminary because, at the time of the next market-dominant price change filing, there will be new billing determinants available for conducting the calculation. At that time, a final calculation can be made." Notice at 6.

[Table omitted.]

a. When does the Postal Service intend to provide a final calculation of price cap authority?

b. Please provide a description of the data the Postal Service intends to use to update line 1 of this table including the time period covered by the data.

c. Please provide a description of the data the Postal Service intends to use to update line 2 of this table including the time period covered by the data.

RESPONSE:

a. A final calculation of price cap authority will be included as part of the Postal Service's upcoming annual price change filing, presently scheduled for October 2013.

b. As stated on page 6 of the Postal Service's Notice, the Postal Service will use the most up to date billing determinants available at the time of the upcoming annual price change filing. Assuming that the filing is made in October 2013, this would mean billing determinants from Quarter 4 of Fiscal Year 2012 and Quarters 1 through 3 of Fiscal Year 2013.

c. To update line 2, the Postal Service will use the data provided in response to Question 2 above, as further corrected to resolve any remaining data issues.

Question 9

Please explain the rationale for offering different levels of postage credit based on volume.

RESPONSE:

The Postal Service has found that the cost of software changes to implement Full-Service IMb technology typically varies somewhat based on how much mail volume a party prepares. While the Postal Service does not intend for the Technology Credit to cover all of the costs of implementing Full-Service IMb technology, its goal is to offset a significant portion of those costs, in order to induce mailers to adopt the technology. In developing the Technology Credit Promotion, the Postal Service collected information on how much Full-Service IMb software typically costs. While the costs varied, there were certain patterns – as mail volume rises, costs increase somewhat, and at high volumes (i.e., over 2,000,000), customers often require customized software, which further increases costs. Based on these findings, the Postal Service settled on the $2000, $3000, and $5000 tiers as reasonable, though necessarily imprecise, reflections of the varying costs of implementing Full-Service IMb technology.

Question 10

Please provide the rationale for excluding CRIDs with less than 125,001 pieces in FY 2012.

RESPONSE:

Customers that mail less than 125,000 pieces (or roughly 10,000 pieces per month) typically cannot justify making their own software upgrade investments. To assist these mailers in upgrading to Full-Service IMb technology, the Postal Service has developed the Intelligent Mail for Small Business tool, which is being provided for free.

Question 11

Please provide the rationale for including Periodicals, Package Service, and Standard Mail Flats in the Technology Credit Promotion in light of the Commission's finding in the FY 2012 ACD that the aforementioned categories failed to cover their attributable costs in FY 2012.

RESPONSE:

The Postal Service believes that the use of Full-Service IMb provides it with significant operational benefits, and it is therefore moving to convert its automation mailstream to Full-Service IMb. Those benefits are unrelated to the finances of individual products, and cannot be fully realized if certain products in the mailstream require Full-Service IMb while others do not. Therefore, in designing the Technology Credit Promotion, the Postal Service did not differentiate between products that cover their attributable costs and products that do not. Furthermore, if the promotion creates price cap authority by class, as requested, the promotion should not result in lower cost coverages.