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

RATE ADJUSTMENT DUE TO EXTRAORDINARY OR EXCEPTIONAL CIRCUMSTANCES	Docket No. R2013-11

MOTION OF THE NATIONAL POSTAL POLICY COUNCIL, MAJOR MAILERS ASSOCIATION, NATIONAL ASSOCIATION OF PRESORT MAILERS, AND THE ASSOCIATION FOR MAIL ELECTRONIC ENHANCEMENT FOR ISSUANCE OF A PRESIDING OFFICER INFORMATION REQUEST
(October 28, 2013)

The National Postal Policy Council, the Major Mailers Association**,** the National Association of Presort Mailers**,** and the Association for Mail Electronic Enhancement respectfully moves for issuance of a Presiding Officer Information Request asking the questions below. In the alternative, NPPC suggests that these questions could be asked of Mr. Thress and Mr. Taufique when they appear before the Commission during the public hearing in this proceeding. The questions are set forth below, and are followed by a brief explanation as to why the question is appropriate and would help the Commission's deliberations in this proceeding.

Question

1. Please explain how the volume forecasting methodology described in your Statement takes into account volume declines attributable to Network Rationalization?

Explanation:

In Docket No. N2012-1 (Mail processing network rationalization), the Postal Service projected that the changes to its mail processing network contemplated in that proceeding would reduce mail volumes by approximately 2.88 billion pieces. It projected a 1.4 percent decline in First-Class Presort volume alone. *See* Docket No. N2012-1, USPS-T12-22 & Tr. 3/772 (Whiteman). It is not evident how, or where, the volume forecasting methodology in this proceeding reflects those mail volume reductions.

Question

2. The Statement of Stephen J. Nickerson asserts that the "contribution loss due to volume declines caused by the recession during the 2008-2012 period is over $6.6 billion. This represents a continuing loss of annual volume, revenue and contribution." (at 2, footnote omitted). The Postal Service proposes to increase rates to recover a net $2.36 billion in contribution.

a. What does "continuing loss of annual volume, revenue and contribution" mean?

b. Does the Postal Service intend to "bank" the $3.64 billion in contribution not requested in this case, possibly to be requested in a future request? Or is the net $2.36 billion the full and final amount of net contribution that it will ever seek to obtain in an exigency case from volume losses over the 2008-2012 period due to the recession of 2008-2009?

c. Does the Postal Service anticipate that it would be able to seek exigent rate increases in the future if it concludes that mail volumes in 2013 were continue to be reduced due to the recession?

Explanation:

The Postal Service in this proceeding is requesting rate increases to recover only a portion of the net contribution that it claims has been lost due to the recession of 2008-2009. This question asks whether the Postal Service believes that it would have a right to request, in the future, the balance (approximately $3.64 billion or more) of the monies to which it believes it is entitled due to the recession.

In addition, the question asks whether, after this case, the Postal Service believes that it be legally entitled to seek another exigent rate request in the future if it concludes that mail volumes in 2013 were reduced due to the recession of 2008-2012.

If the Postal Service believes that it is entitled to return to the Commission for a further exigency increase in the future due to the recession – either for contribution not requested in this case or for contribution from future years -- then the price cap regime established by Congress would become essentially meaningless. On the other hand, if the Postal Service believes that this case will terminate any “claim” it may have to losses that it can attribute to the recession, this is something that the Commission and mailers should know.

Question

3. In preparing the volume forecasts presented by the Statement of Mr. Thress, did the Postal Service obtain input from mailers regarding their mailing decisions and the effect of various factors on their mail volumes through any surveys, focus groups, mailer interviews, or similar structure research? If so, please provide copies of any such interview scripts and aggregated responses from mailers on an aggregated basis. If not, please explain why not.

Explanation:

The Postal Service in this proceeding has presented a volume forecasting methodology based on econometric analyses of historical volumes and, based on that methodology, a volume forecast for the next year. This question asks whether the Postal Service conducted any research with mailers to develop or to test its volume forecasting model based on real-world information, or whether the volume forecasting methodology is entirely based upon econometric analysis.

Question

4. Library Reference USPS-LR-R2010-4R, "Sources of Change' Tab Volumes shows "Starting Volume" of First-Class workshared letters of 41,516.422 billion (Cell B54). Please reconcile that figure with the FY2011 volume for First-Class Presort Letters of 41,740.735 as reported in Table VII-1 of the Commission's Annual Compliance Determination for FY2011.

Explanation:

This question seeks to confirm the historical volume figures used by the Postal Service in its volume forecasting methodology in this proceeding.

Question

5. The Postal Service is contending that the recession of 2008-2009 had a dramatic effect on mail volumes that dwarfs all other factors that affect mail volumes. Library Reference USPS-R2010-4R-10 attributes volume losses in First-Class workshared letters in 2008, 2009, and 2010, to (among other factors) diversion and the recession as follows (in 000,000s):

	Diversion	Rec/Diversion (Col. W)
2008	818.171	1,459.318
2009	787.172	2,131.748
2010	742.751	2,131.748

Tab Volume, Sources of Change by Year, 2001 - 2012, at Forecast Level. These numbers imply that the recession had a much larger effect on First-Class workshared letter volumes than did diversion.

a. Please confirm that the column labeled "Rec/Diversion" is intended to refer to volume changes that the Postal Service attributes to diversion that were accelerated by the recession. If not, please explain what the term "Rec/Diversion" means.

b. Please reconcile Library Reference R2010-4R, which attributes the lion's share of volume declines to the recession, to the following statements issued in March 2010 and February 2012 by the Postal Service that attributed volume declines primarily to diversion and changes in mailer behavior and not to the recession:

   On March 10, 2010, the Postal Service released a document entitled "Ensuring a Viable Postal Service for America: An Action Plan for the Future." On page 4, in a discussion of its volume declines, the Postal Service stated:

> While the recession accelerated the volume decline, its primary cause is a fundamental and permanent change in mail use by households and businesses. Hardcopy communication of all types continues to shift to digital alternatives. More people are paying bills and transacting business online."

On February 16, 2012, the Postal Service released a document entitled "Plan To Profitability: 5 Year Business Plan." On page 5 of that document, the Postal Service stated in the heading to that page:

> "Electronic Diversion is the Primary Driver of First-Class Mail Volume Decline"

Underneath on the same page, the Postal Service further said:

> "Diversion of communication and commerce to electronic channels is a principal contributor to declining First-Class Mail volumes"; and
>
> "Diversion reflects a permanent secular shift in customer behavior and is more pronounced during periods of economic weakness."

c. Please reconcile Library Reference R2010-4R with the analysis conducted by Boston Consulting Group, released by the Postal Service on March 2, 2010, which at page 9 (of BCG's detailed analysis) identified a number of drivers of mail volumes over the following ten years. The effect of the recession was not listed among the 7 factors affecting First-Class Mail volume or the 7 factors affecting Standard Mail. With respect to First-Class Mail, the BCG analysis cited the following factors as drivers that would negatively affect volume:

- Increase in online presentment and bill pay
- Increased usage of autopay
- Increase in mobile presentment
- Diversion to emerging hybrid mail options.

Explanation:

On different occasions in recent years, the Postal Service has attributed the bulk of its volume losses on different factors. In March 2010, it attributed the longterm volume decline of First-Class Mail primarily to diversion, based on extensive research and analysis by Boston Consulting Group. It essentially reiterated that view in its "Plan to Profitability" issued in February 2012. In this proceeding, in which it must show that volume declines are "due to" the recession, it now claims that the recession is responsible for the largest share of First-Class mail volume declines during the same years.

By attributing the same volume declines to different factors in different fora, the Postal Service's volume forecasting credibility is undermined. The Postal Service should be required to reconcile its seemingly conflicting statements.

Questions

6. Did the Postal Service conduct any empirical research or data-driven analysis of the effect on mail volume of the cumulative rate increases proposed in the index and exigency cases? In particular, what was the basis for selecting an average exigency increase of about 4.3 percent? Please provide any such research or analyses.

7. Did the Postal Service use estimates of price elasticity of demand in selecting the rates proposed in the exigency case? If so, please explain how price elasticities were used in determining what rates to propose. If not, please explain why not.

Explanation:

These questions are intended to identify the extent (if any) to which the Postal Service relied upon either empirical research involving mailers, or estimates of the price elasticity of demand, in proposing exigent rates. NPPC submits that these questions are relevant to whether the proposed rates are reasonable and equitable and necessary under best practices of honest, efficient, and economical management.

Respectfully submitted,

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