

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

MARKET-DOMINANT PRICE CHANGE

Docket No. R2020-1

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO  
CHAIRMAN'S INFORMATION REQUEST NO. 4**

(October 23, 2019)

The Postal Service hereby responds to Chairman's Information Request No. 4, issued on October 17, 2019. Each question is stated verbatim and is followed by the response. The Postal Service intends to file one set of revised Inbound Letter Post workpapers on October 25, in response to Chairman's Information Request Nos. 4 (Question 2), 6 (Question 1), and 7 (Questions 2–4).<sup>1</sup>

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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<sup>1</sup> October 25 is the date on which its responses to ChIR Nos. 6 and 7 are due in this docket.

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1. As required by the Commission in the FY 2010 Annual Compliance Determination,<sup>2</sup> please provide:
  - a. a schedule of future above-consumer price index price increases for USPS Marketing Mail Flats (Flats);
  - b. an explanation of how the proposed prices will move the Flats cost coverage toward 100 percent; and
  - c. a statement estimating the effect that the proposed prices will have in reducing the subsidy of the Flats product.

**RESPONSE:**

- a. Until the issuance of the FY 2018 Annual Compliance Determination, the Postal Service had planned to increase Flats by at least 1.05 times CPI in its upcoming price cases.<sup>3</sup> With imposition of the Commission's directive to increase Flats prices 2 percentage points above the class average in this price case, the Postal Service is not in a position to commit to a specific schedule of future increases. Rather, the Postal Service will first have to evaluate the impact of the substantial Flats increase planned in this docket, particularly its effects on Flats-only customers, before determining whether to change course from the previous 1.05 times CPI plan. As the Postal Service has stated previously, it must be cautious in how it prices Flats, given the product's volume decline relative to the volume trends of other USPS Marketing Mail products.<sup>4</sup>

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<sup>2</sup> See Docket No. ACR2010, Annual Compliance Determination Report, March 29, 2011, at 107 (FY 2010 ACD).

<sup>3</sup> United States Postal Service FY 2018 Annual Compliance Report, Docket No. ACR2018 (Dec. 28, 2018), at 25.

<sup>4</sup> See, e.g., Responses of the United States Postal Service to Chairman's Information Request No. 1, Docket No. ACR2018 (Jan. 11, 2019), at Response to Question 14 ("Further, as the Postal Service has

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- b. The 2 percentage point requirement for this year's price increase for Flats was imposed by the Commission. The Postal Service assumes that the Commission determined that the increase will move Flats cost coverage toward 100 percent.
- c. Given that the planned price increase for Flats is materially larger than the planned price increase for the class as a whole, it should reduce the subsidy of the Flats product, relative to a smaller price increase.

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stated before, the Postal Service must be cautious about giving too much price-cap authority to Flats, when that product's volume is declining faster than the volumes of other products in the class.").

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2. Please refer to Library Reference USPS-LR-R2020-1/NP1, October 9, 2019, Excel file "Inbound CAPCALC-R2020-1.xlsx."
- a. Please refer to tab "Terminal Dues." Please confirm that all estimated prices for calendar year (CY) 2020 are identical to the terminal dues provided in Universal Postal Union (UPU) International Bureau (IB) Circular 113.<sup>5</sup> If not confirmed, please provide revised financial workpapers as needed.
  - b. Please refer to tab "Terminal Dues." Please provide the annual tonnage thresholds for each country group in CY 2019 under which blended per kilogram prices are applied. Please provide the annual tonnage threshold for country group IV for CY 2019 and CY 2020 under which per kilogram prices apply or will apply.
  - c. Please refer to tab "FCMI Price Change," cell C27. Please confirm that the Postal Service did not calculate revenue for country groups I to III with blended prices for CY 2019. If confirmed, please explain why the Postal Service did not calculate such revenue. Please provide revised workpapers as needed.
  - d. Please refer to tab "FCMI Price Change," cell C27, and tab "Terminal Dues," cell C82. Please confirm that the Postal Service used the blended flat rate in cell C82 to calculate revenue from all group IV countries. If confirmed, please explain why this revenue is not included in cell C27.
  - e. Please refer to tab "Terminal Dues," cells A15 and A16. Please confirm that an annual tonnage threshold applies to country group I. If confirmed, please also confirm that the threshold in the referenced cells are correct. If not confirmed, please refile workpapers as needed.
  - f. Please refer to tab "Terminal Dues," cells A15, A16, A39, A40, A41, A66, A67, and A68. Please confirm that the per kilogram blended prices will apply to countries with flows weighing less than the identified annual tonnage threshold in CY 2020 and not to flows weighing greater than the identified annual tonnage thresholds.
  - g. Please refer to tab "Terminal Dues," cells D16, D40, and D67. Please identify the source of these prices.

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<sup>5</sup> UPU IB Circular 113, July 1, 2019 (revised October 9, 2019).

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- h. Please refer to tab "Terminal Dues," cell J9. Please reconcile the CY 2019 air conveyance rates provided in cell J9 and in UPU IB Circular 167.<sup>6</sup>
- i. Please refer to tab "Air Conveyance Revenue." Please confirm that the total adjusted weight in column Q does not include weight for E format items. If confirmed, please explain why E format weight was not included. Please file revised financial workpapers as needed.
- j. Please refer to tabs "IB PG Revenue Calculation" and "IB E Revenue Calculation." Please confirm that the Postal Service applied blended per kilogram rates for group IV countries with mail flows greater than the applicable annual tonnage threshold in CY 2019 and CY 2020. For example, please refer to tab "IB PG Revenue Calculation" cell G78 and tab "IB E Revenue Calculation" cell G78. If confirmed, please explain why the Postal Service did not apply per item and per kilogram rates to these mail flows. Please file revised financial workpapers as needed.
- k. Please refer to tabs "IB PG Revenue Calculation," "IB E Revenue Calculation," and "IB Blended RC (Jan-June) <50." For the group IV countries voluntarily applying the quality of service link to terminal dues in CY 2020 that are identified in UPU IB Circular 113, Tables IV.1, IV.2, and IV.3, please confirm that the Postal Service did not use the prices provided in Tables IV.4, IV.5, and IV.6. If confirmed, please explain why the Postal Service did not use these prices. Please file revised financial workpapers as needed.
- l. Please refer to tabs "IB BLENDED RC (Jan-Jun)<50" and "IB BLENDED RC (Jul-Dec)."
  - i. Please confirm that the weight found in column G of each tab is calculated as one half of the fiscal year (FY) 2018 inbound E format weight plus total FY 2018 inbound P/G format weight.
  - ii. If part i. of this question is not confirmed, please explain how the weight in column G of each tab is calculated.
  - iii. If part i. of this question is confirmed, please refer to tab "IB BLENDED RC (Jan-Jun)<50," column L. Please confirm that the weight in column G is used to determine whether blended flat rates will apply to flows from countries in groups I, II, and III below the annual weight threshold of 50 tonnes for the period January to June 2020. If confirmed, please explain why the 50-tonne threshold is

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<sup>6</sup> UPU IB Circular 167, November 19, 2018 (revised November 19, 2018).

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applied to group I countries. Please also explain why the Postal Service used total annual P/G format weight plus half of annual E format weight to determine whether a country's annual tonnage is below or above the applicable annual tonnage threshold. If not confirmed, please explain the values in column L.

- iv. If part i. of this question is confirmed, please also refer to tab "IB BLENDED RC (Jul-Dec)," column L. Please confirm that the values entered in column L are blended flat rates applicable for the period July to December 2020 to flows below 50 tonnes for group I countries and to flows below 25 tonnes, as well as between 25 and 50 tonnes, for group II and group III countries, and that they are based on the weight in column G. If confirmed, please explain the use of total annual P/G format weight plus half of the annual E format weight to determine whether a country's annual tonnage is within the applicable annual tonnage threshold range. If not confirmed, please explain the values in column L.
- m. Please refer to tab "IB PG Revenue Calculation," cells P14, P27, P43, P50, P68, P83, P96, P100, P104, P126, P127, P143, P150, P155, P157, P237. Please confirm that the values these cells represent the revenue from inbound P/G format items during CY 2020. If confirmed, please explain why these revenues are zero. If not confirmed, please explain the values in these cells.
- n. Please refer to tabs "IB PG Revenue Calculation," "IB BLENDED RC (Jan-Jun)<50," and "IB BLENDED RC (Jul-Dec)."
  - i. Please confirm that CY 2020 revenue from inbound format P/G items from country codes 856 and 936 in tab "IB PG Revenue Calculation," cells P154 and P217, respectively, are included in tab "FCMI Price Change," cell E23. If confirmed, please refer to part iv. of this question.
  - ii. Please confirm that the revenues from January through June 2020 for undifferentiated format items from country codes 856 and 936 found in tab "IB BLENDED RC (Jan-Jun)<50," cells P154 and P217, respectively, are included in tab "FCMI Price Change," cell E27. If confirmed, please refer to part iv. of this question.
  - iii. Please confirm that the revenues from July through December 2020 for undifferentiated format items from country codes 856 and 936 found in tab "IB BLENDED RC (Jul-Dec)," cells P154 and P217, respectively, are included in tab "FCMI Price Change," cell E27. If confirmed, please refer to part iv. of this question.

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- iv. If questions n.1. – n.3. are confirmed, please identify the amount of double counted CY 2020 revenue from country codes 856 and 936. Please file revised financial workpapers as needed.

**RESPONSE:**

- a. Not confirmed. The rates do match those appearing in Universal Postal Union (UPU) International Bureau (IB) Circular 113 (2019), except the blended rates that incorporate the Postal Service's self-declared rates for E-format items. See also the forthcoming revised workpapers being filed in this docket.
- b. The annual tonnage thresholds in CY 2019 below which blended per kilogram prices are applied are 50 tons for country Groups I and II and 75 tons for country Group III. Blended per kilogram prices apply or will apply for country Group IV in CY 2019 and CY 2020 regardless of annual tonnage, unless the origin or destination operator requests revision on the basis of actual number of items per kilogram for flows above 75 tons in CY 2019 or above 100 tons in CY 2020 (for rates that are not self-declared), or unless the Postal Service samples inbound mail for flows above 100 tons for which self-declared rates apply effective July through December 2020.
- c. Not confirmed. Revenue with blended prices was calculated and was included within cells C23 & C25. See forthcoming revised workpapers being filed in this docket.

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- d. Confirmed. Revenue with blended prices was calculated and was included within cells C23 & C25. See forthcoming revised workpapers being filed in this docket
- e. [i.] Confirmed. An annual tonnage threshold is applied to country Group I.  
[ii.] Not confirmed; the “greater than” symbols inadvertently appeared in the original workpapers, rather than the “less than” symbols. See forthcoming revised workpapers being filed in this docket.
- f. Confirmed; see also the forthcoming revised workpapers being filed in this docket.
- g. The sources of these three prices are the Universal Postal Convention P- and G-format rates (Articles 29.8.3, 29.12.3, & 29.14.3) and the Postal Service's self-declared E-format rates filed in Docket No. CP2019-155. These blended, undifferentiated rates per kilogram are calculated using the worldwide composition of one kilogram of mail in accordance with the Convention (Article 29.16). See also the forthcoming revised workpapers being filed in this docket (with revised figures).
- h. See forthcoming revised workpapers being filed in this docket.
- i. Confirmed. E-format weight should be included; see forthcoming revised workpapers being filed in this docket.
- j. Confirmed. See response to Question 2(b), above; see also forthcoming revised workpapers being filed in this docket.



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- k. Confirmed. The prices provided in the Circular Tables should be used; see forthcoming revised workpapers being filed in this docket.
  
- l.
  - i. Confirmed.
  - ii. Not applicable.
  - iii. Confirmed. The 50-ton threshold is applied to Group I countries because the Postal Service seeks to avoid operational format separation and sampling costs related to low volume originating countries; this is consistent with the approach that the Postal Service has applied for years. Only half of the annual E-format weight was used to compare to the annual threshold; see forthcoming revised workpapers being filed in this docket.
  - iv. Confirmed. The annual E-format weight should be used to compare to the annual threshold; see forthcoming revised workpapers being filed in this docket.
  
- m. Not confirmed. Those revenues, which are not zero, are included within the forthcoming revised workpapers being filed in this docket.
  
- n.
  - i. Confirmed.
  - ii. Confirmed.
  - iii. Confirmed.

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- iv. The amounts of double-counted CY 2020 revenue from country codes 856 and 936 were specifically the amounts shown in the originally-filed workpapers in tab "IB BLENDED RC (Jan-Jun)<50," cells P154 and P217, and in tab "IB BLENDED RC (Jul-Dec)," cells P154 and P217. See the forthcoming revised workpapers being filed in this docket.