

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

COMPETITIVE PRODUCT PRICES
INBOUND E-FORMAT LETTER POST

Docket No. CP2019-155

**RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-2 OF CHAIRMAN'S INFORMATION REQUEST NO. 2**
(November 8, 2019)

The United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 2, issued on November 5, 2019. Each question is stated verbatim and followed by the response.

Respectfully submitted,

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November 8, 2019

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1. In Docket No. CP2019-155, the Postal Service indicates that the self-declared rates “will not apply to inbound E format items originating in the exception countries that are below applicable thresholds.” Notice at 6.
 - a. Please confirm that the applicable thresholds referenced above are 25 tonnes for Group II and Group III countries, and 100 tonnes for Group IV countries. If not confirmed, please explain.
 - b. Please confirm that the Postal Service intends to sample Inbound Letter Post Small Packet and Bulky Letters from Group II and Group III countries with flows greater than 25 tonnes and Group IV countries with flows greater than 100 tonnes. If not confirmed, please explain.
 - c. Please explain how the Postal Service will identify Group II and Group III countries with flows greater than 25 tonnes that had flows less than 25 tonnes in the previous year for purposes of sampling and application of self-declared per-item and per-kilogram prices. Please also explain how the Postal Service will identify Group IV countries with flows greater than 100 tonnes that had flows less than 100 tonnes in the previous year for purposes of sampling and application of self-declared per-item and per-kilogram prices.

RESPONSE:

- a. Confirmed. As noted in the Notice that the Postal Service filed in this docket on October 29, 2019 (at 3 n.7, 6-7), and as reflected in the workpapers that accompanied the Notice, because of the very small proportion of volume dispatched by the countries below such thresholds, the impact of this exceptional treatment on the product's cost coverage is also very small.
- b. Confirmed in part, to the extent this question is seeking confirmation that sampling will be conducted for the purpose of exchanging country-specific estimates for settlement purposes. The Postal Service will sample and exchange country-specific estimates with Group I through III operators whose volumes exceed 50 tonnes, and Group IV operators whose volumes exceed 100 tonnes. Sampling would, however, also continue to be conducted for reporting and monitoring inbound volumes as part of country group estimates. If volume from a

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specific country in that country group increases, the Postal Service could potentially create country-specific estimates for future settlement (if the applicable threshold is exceeded) or to invoke other adjustments for payment in accord with the Universal Postal Convention and its Regulations (such as the bulk option, revision mechanism, or remail provisions).

- c. The Postal Service will determine the initial thresholds based on FY2019 weights. The Postal Service intends to correspond with designated operators in the next few months to clarify our settlement relationship with them in both directions in 2020 and subsequent years. Depending upon the threshold level and UPU country group, the Postal Service also intends to indicate that our E-format rate is subject to an undifferentiated rate using the self-declared E-format rate element, or subject to self-declared E-format rates based on format-separated volumes. For operators that achieve the higher threshold in CY2020, the Postal Service will adjust settlement amounts accordingly, based on the weight of actual flows.

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2. The Postal Service explains that blended rates for Group I countries with mail flows below 50 tonnes and for Group II and Group III countries with mail flows between 25 and 50 tonnes combine self-declared prices for Inbound Letter Post Small Packets and Bulky Letters with “[Universal Postal] Convention set P and G format rates.” Notice at 5.
- a. Please confirm that the proposed prices for Inbound Letter Post Small Packets and Bulky Letters for Group I countries with mail flows below 50 tonnes and for Group II and Group III countries with mail flows between 25 and 50 tonnes are based, in part, on prices for market dominant Inbound Letter Post letters and flats. If not confirmed, please explain.
 - b. If confirmed, please provide the Postal Service’s rationale for blending competitive product and market dominant product prices to calculate a competitive product price.
 - c. If confirmed, please discuss whether there are alternative approaches to record the price for Inbound Letter Post Small Packets and Bulky Letters from these Group I, Group II, and Group III countries, so that the prices are not based, in part, on prices for market dominant Inbound Letter Post letters and flats. For example, please explain whether it is possible to apply the worldwide average composition of one kilogram of mail¹ to separate prices for Inbound Letter Post letters and flats and Inbound Letter Post Small Packets and Bulky Letters.

RESPONSE:

- a. Confirmed. The use of undifferentiated rates for low volume letter post flows will continue as provided and permitted by the Universal Postal Convention and its Regulations, and the self-declared E-format item rates will be integrated with the applicable rates for formats P and G to formulate blended rates for low volume flows. Blended rates combining self-declared E-format rates with Convention-set P- and G- format rates will apply to Group I countries with flows below 50 tonnes,

¹ See Universal Postal Convention (2018), Article 29.16, available at: http://www.upu.int/uploads/tx_sbdownloader/actInThreeVolumesManualOfConventionEn.pdf.

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and to Group II and III countries for flows below the 50 tonne threshold but above the 25 tonne threshold.

- b. Use of blended, undifferentiated rates is required for Groups II and III by UPU Convention Articles 29.16 and 29.17, avoids costs associated with sampling, and simplifies transactions. In addition, designated operators in Groups I through III are not obligated operationally to separate by format below a 50 tonne threshold established in UPU Convention Regulation Article 17-116, paragraphs 2 through 4;² consequently, the application of separate P/G- and E-format rates cannot be applied directly unless the dispatching operator is willing to separate by format. Considering the volumes involved and expense needed to sample these volumes, the use of undifferentiated rates simplifies these transactions. Nothing in Title 39 of the U.S. Code precludes the application of such blended rates that are calculated using the prices for the market dominant P/G-format products and the prices for the competitive E-format product. Notwithstanding the application of such blended rates, the prices for Inbound Letter Post Small Packets and Bulky Letters cover their attributable costs, avoid cross-subsidization of competitive products by market dominant products, do not impede competitive products' collective ability to cover their appropriate share of institutional costs, and comply with the requirements of 39 U.S.C. § 3633 and 39 C.F.R. part 3015.
- c. As suggested in this question, an approach to avoid E-format prices that are based, in part, on prices for market dominant inbound letter post letters and flats would be to apply the worldwide average composition of one kilogram of mail to

² These thresholds are similar to the thresholds used for settlement purposes in Convention Article 29, paragraphs 16 and 17.

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establish separate rates per kilogram specific to the self-declared E-format rate and Convention-set P/G- format rate portions of the blended rate per kilogram. However, in order to ensure that the overall revenue per kilogram (P/G and E revenue) received from sending designated operators equals the blended, undifferentiated rate per kilogram for settlement purposes, the reporting would need to maintain the weight and volume proportions reflected in the worldwide average composition instead of the actual weight and volume proportions from sampling. As the blended rates per kilogram are applied to the weight regardless of the contents inside, and the actual weight and volume proportions should be used to reflect the received and processed mail, the Postal Service does not recommend separating the undifferentiated rates into their format components.