

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

Before Commissioners: George A. Omas, Chairman;
Dana B. Covington, Sr., Vice Chairman;
Ruth Y. Goldway; and Tony Hammond

International Mail Report

Docket No. IM2003-1

FIFTH NOTICE OF INTERNATIONAL MAIL
DATA REQUIREMENTS FOR FY 2002

(Issued June 5, 2003)

In order to help the Commission prepare the report required by 39 U.S.C. § 3663, on the costs, volumes, and revenues of the Postal Service's international mail services, the Service is requested to provide the following information on or before June 11, 2003.

1. This question concerns the Postal Service's response to Question 10 of the Second Notice (Order No. 1369). The response provides data in WS 10.0.3 p.1 under the titles "FY 2000 2858R SURVEY DATA PQ1 – PQ3" and "FY 2000 NATIONAL MAIL COUNT." Please verify that this worksheet does, in fact, contain the FY2002 survey and FY 2002 national mail counts. Also, the data provided is for the first three quarters. No data are provided for PQ 4. As a result, subsequent mail shape adjustments in WS 10.0.3 P1 and WS 10.0.3 P2 are based on the first three quarters. Please update CS 10 spreadsheets if PQ 4 survey data are available. If the data are not available, please discuss the reasons for the lag in reporting.

2. The USPS version of the FY 2002 domestic CRA and the FY 2002 domestic Cost Segments and Components report was filed May 15, 2003. Please provide the equivalent electronic files used to produce these reports. Specifically, these electronic files include the manual input report matrix, matrices for the “A” report, the Factor Development Report, and the “C” report. Please also include the files that contain the operating control string commands that produce the C report from the manual input. These files are usually referred to as A, B, F, and “Master.” The latter file lists the titles of all the components in the CRA matrix.
3. In response to item 4 of the Fourth Notice, the Postal Service implied that the 33-cent First-Class rate had to be used in FY 2002 as the basis for calculating inbound terminal dues. The Postal Service added that it will use the 37 cent rate as the basis for 2004 because the UPU’s Postal Operations Council (POC) had “updated the rate reference period to take into account domestic rates in effect as of June 1, 2003.” Does this mean that the 33-cent rate must be used until FY 2004? [Note: The Commission understands that using the 37-cent rate in the current UPU methodology will yield a 20-gram letter rate less than the floor rate.] How often does the POC update the rate reference period? Does the year 2004 in the Postal Service’s response refer to fiscal year or calendar year?
4. Question No. 7 in Order No. 1369, the Commission’s Second Notice of International Mail Data Requirements, noted that unit attributable costs for eight listed international mail services had increased faster than the CPI-U between FY 2001 and FY 2002. With respect to each service, the Commission asked the Postal Service for an explanation of the underlying causes of these increases, and whether they were reasonable. Generalizing for all of the listed services, the Postal Service replied that “[t]he most important factor contributing to the change in unit cost was the decline in

International mail volume from FY 2001 to FY 2002. Generally, the decline in volume was accompanied by a decline in total volume variable cost, although costs declined slower than volume. Arithmetically, a greater decline in volume than in volume variable costs would yield a higher unit cost.” The response displayed a table showing that for most of these services, aggregate volume had declined faster, in percentage terms, than aggregate variable cost. The response cited this as a reasonable explanation for the rise in unit attributable costs for these services. Does the fact that aggregate volumes have declined faster than aggregate volume variable costs mean, in the Postal Service’s view, that marginal costs have changed, that volume variability has changed, that this reflects statistical variance, or that there is some other explanation?

5. In response to Question No. 7 in the Commission’s Second Notice of International Mail Data Requirements, the Postal Service observes that international mail has been assigned a higher proportion of total PESSA costs in FY 2002 than in FY 2001. The Postal Service offers this as a reasonable explanation for the rise in unit attributable costs for the listed services.
 - a. Are there operational reasons that the Postal Service can identify for believing that international mail actually incurred proportionally more space-related costs in FY 2002 than in FY 2001, even though the volume decline for international mail was roughly seven times greater, in percentage terms, than the volume decline experienced by domestic mail over that period?
 - b. Would the Postal Service agree that before PESSA costs are attributed to a particular mail service, all other costs that can be attributed to that service are identified, so that attributed PESSA costs are dependent upon what other costs have been directly attributed to that service? Are there changes in the costs that have been directly attributed to the listed

international services in FY 2002 that indicate why international mail's share of total space-related costs might have increased in FY 2002? In the Postal Service's view, which is the more likely source of the apparent increase in international mail's share of total PESSA costs: operational changes that occurred in 2002, changes in the cost characteristics of international mail that occurred in FY 2002, or statistical fluctuations in the data from year to year? Please explain.

It is ordered:

The Postal Service is directed to provide the items in the body of this order on or before June 11, 2003.

By the Commission.

(SEAL)

Steven W. Williams
Secretary